



Periodic Financing Request Report

Project Number: 32234-063
MFF Number: 0004-BAN
March 2016

People's Republic of Bangladesh: Railway Sector Investment Program (Tranche 4)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 March 2016)

Currency Unit – taka (Tk)

Tk1.00 = \$0.0128

\$1.00 = Tk78.425

ABBREVIATIONS

ADB	–	Asian Development Bank
EMP	–	environmental management plan
ERP	–	enterprise resource planning
FFA	–	framework financing agreement
IT	–	information technology
JICA	–	Japan International Cooperation Agency
MFF	–	multitranche financing facility
OCR	–	ordinary capital resources
PFR	–	periodic financing request
PIU	–	project implementation unit
SPS	–	Safeguards Policy Statement

NOTES

- (i) The fiscal year (FY) of the Government of Bangladesh and its agencies ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2015 ends on 30 June 2015.
- (ii) In this report, "\$" refers to US dollars.

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TRANCHE AT A GLANCE

1. Basic Data		Project Number: 32234-063	
Project Name	Railway Sector Investment Program - Tranche 4	Department /Division	SARD/SATC
Country Borrower	Bangladesh People's Republic of Bangladesh	Executing Agency	Bangladesh Railway (BR)
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Rail transport (non-urban)		50.00
		Total	50.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 1: Cross-border infrastructure		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Private sector development (PSD)	Public sector goods and services essential for private sector development	No gender elements (NGE)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization: Low			
7. Safeguard Categorization Environment: C Involuntary Resettlement: C Indigenous Peoples: C			
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		50.00	
Sovereign MFF-Tranche (Loan): Ordinary capital resources		50.00	
Cofinancing		0.00	
None		0.00	
Counterpart		2.47	
Government		2.47	
Total		52.47	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

TRANCHE AT A GLANCE

Date of Receipt by ADB of PFR: 17 February 2015		Tranche Number: 4
10. Country Operations Business Plan		
CPS	http://www.adb.org/documents/bangladesh-country-partnership-strategy-2011-2015	
COBP	http://www.adb.org/documents/bangladesh-country-operations-business-plan-2016-2018	
11. Tranche Summary		
<p>The fourth PFR was received on 17 February 2015 and was updated from time to time with the last update received on 8 February 2016. The government requested a loan of \$50 million from ADB's ordinary capital resources (OCR) to finance completion of works for subprojects financed under tranches 1 and 2. Additional financing for these subprojects is required because of (i) the application of the price escalation clause in the contracts, which results in a funding gap; and (ii) adjustment in quantities of bill-of-quantities items based on site conditions.</p> <p>Impact: Efficiency and safety of railway transport in Bangladesh improved</p> <p>Outcome: Railway transport capacity in the Dhaka-Chittagong and Dhaka-Ishurdi-Darsana-Khulna corridors improved</p> <p>Outputs: (i) infrastructure improvements commissioned, and (ii) equipment commissioned.</p> <p>Implementation Arrangements: Bangladesh Railway (BR) will be the executing agency.</p> <p>Project Readiness: Project readiness is high since all contracts to be financed under tranche 4 have been awarded under previous tranches and no additional contract awards are planned.</p>		
12. Significant Developments in the MFF and Previous Tranches		
<p>The MFF. A framework financing agreement (FFA) for the Railway Sector Investment Program was signed on 7 September 2006 between Bangladesh and the Asian Development Bank (ADB). The program was approved on 10 October 2006 by ADB's Board of Directors as a multitranche financing facility (MFF) for \$430 million. The program is based on the government's Sector Roadmap and Investment Plan for 2007-2013, which has since been superseded by the Railway Master Plan 2010-2030. The program will improve the performance of the railway sector by implementing (i) a reform project of sector policy, organizational, and capacity building reforms to make Bangladesh Railway more commercially focused, and improve governance and accountability; and (ii) an investment project of infrastructure and rolling stock capacity improvement investments to overcome capacity bottlenecks in sectors where such investments are both economically and financially viable, e.g., the Dhaka-Chittagong and the Dhaka-Darsana-Khulna corridors.</p> <p>The MFF is structured such that the reform project will provide continuous support to implement the agreed reform agenda, whilst the investment program will be supported by a series of four tranches. The reform and the investment projects are integrated, as approval of subsequent tranches for investment subprojects is dependent on the implementation of specific reform actions agreed upon in the railway reform action plan in the FFA.</p> <p>Loan 2316 (Tranche 1: Investment project for \$100 million ordinary capital resources). The loan was approved on 13 February 2007 and became effective on 24 April 2007. Bangladesh Railway is the executing agency and the project is being implemented by the investment project implementation unit (PIU). The design and construction supervision consultant contract was awarded on 9 August 2007. The consultant prepared the detailed design for the Tongi-Bhairab Bazar Double Track project (subproject 1) and appraisal reports for future subprojects. The civil works contract for the Tongi-Bhairab Bazar Double Track project was awarded on 27 July 2011 and the contract is under implementation. The contract for subproject 1 is performing well and the physical progress was about 99% on 31 December 2015. Of the total loan amount of \$100.0 million, \$91.9 million, or 92%, has been committed. The cumulative amount for disbursement was \$96.0 million, or 96% of the loan amount.</p> <p>Loan 2317 (Tranche 1: Reform project for \$30 million special fund resources). The loan was approved on 13 February 2007 and became effective on 24 April 2007. The reform project will improve the performance of the Bangladesh railway sector by implementing a series of sector policy, organizational, and capacity building reforms to make Bangladesh Railway more commercially focused, and improve accountability. The original loan closing date was on 30 June 2011, but has been extended to 9 October 2016. Loan 2317 also includes the procurement of an enterprise resource planning (ERP) information technology (IT) system to implement Bangladesh Railway's management information system, asset registry, new accounting structure and financial management systems, and human resource database system. The amount of \$4.1 million equivalent was committed as of 5 February 2011 for the procurement of the ERP IT system along with its customization, implementation, and commissioning. Out of the total loan amount of currently \$29.4 million equivalent, \$27.1 million equivalent or 92% has been committed. The cumulative disbursement is \$17.8 million equivalent, or 61% of the loan amount, as of 31 December 2015.</p> <p>Loan 2845 (Tranche 2 for \$150 million ordinary capital resources). The loan was approved on 22 December 2011 and became effective on 5 November 2012. The loan finances the following investment subprojects: (i) the funding gap resulting from cost overruns in subproject 1, (ii) rehabilitation of yards and extension of loops at different stations in the Darsana-Ishurdi-Sirajganj Bazar section (subproject 2), (iii) improvement of signaling in the 78-km Darsana-Ishurdi section (subproject 3), and (iv) construction supervision consulting services for subprojects 2 and 3. Bangladesh Railway is the executing agency and subprojects 1-3 are implemented by the investment project PIU. The loan closing date is 30 June 2016. As of 31 December 2015, physical completion of subproject 2 is 80% and physical completion of subproject 3 is 20%. Of the total loan amount of \$150.0 million, \$147.8 million, or 99%, has been committed. The cumulative disbursement is \$148.5 million, or 99% of the loan amount.</p>		

TRANCHE AT A GLANCE

Loan 3097 (Tranche 3 for \$100 million ordinary capital resources). The loan was approved on 9 December 2013 and became effective on 27 September 2014. The loan financed the procurement of the following rolling stock: (i) under subproject 4, 50 broad-gauge passenger carriages; and (ii) under subproject 5, 100 meter-gauge passenger carriages. The goods contracts for subprojects 4 and 5 were awarded on 27 November 2014 and the passenger carriages will be delivered in 2016. Disbursements will therefore start in the first quarter of 2016. Inspection of the first carriages in the manufacturer's plant started on 15 February 2016. Bangladesh Railway is the executing agency and tranche 3 is implemented by the investment project PIU. The loan closing date is 9 October 2016 and no further contract awards are planned. Of the loan amount of \$100.0 million, \$72.4 million, or 72%, has been committed. The cumulative disbursement is \$0.2 million, or 0.2% of the loan amount, as of 31 December 2015.

Completion of all subprojects remains a high priority of the government and the projects have a high degree of project readiness with all contracts awarded and under implementation. All tranches are rated on track and are performing well. Implementation and monitoring of social and environment safeguards required for tranche 1 and 2 have been found to be satisfactory. FFA undertakings and covenants are being complied with.

13. Milestones

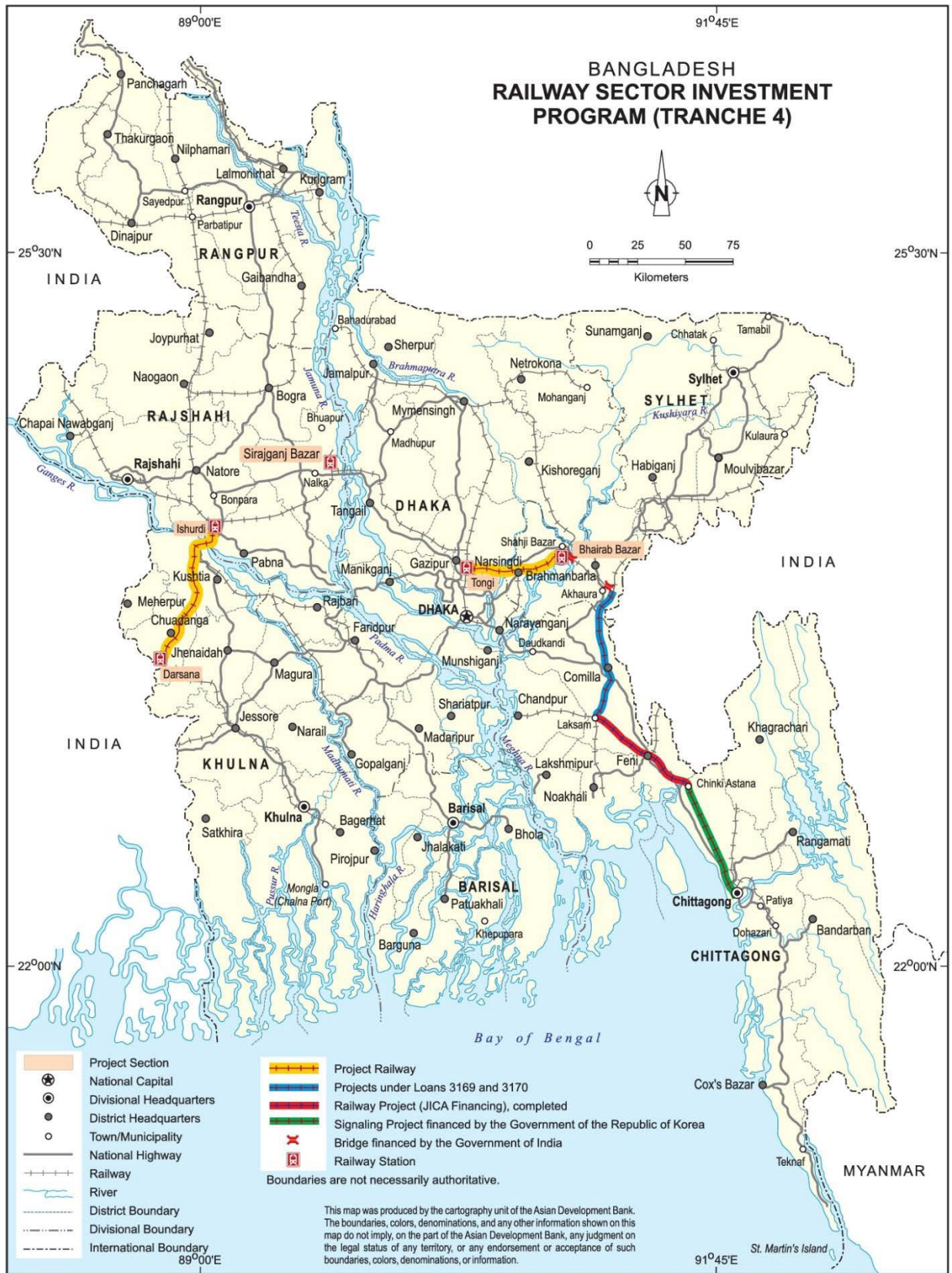
Estimated Approval	Estimated Effectiveness	Estimated Completion ^a
31 March 2016	30 April 2016	9 October 2016

14. Linked Documents

	Required Document	Disclosure Date
(i) Environment	IEE - Initial Environment Examination	25 October 2011
Weblink:	http://www.adb.org/projects/documents/railway-sector-investment-program-4	
	IEE - Initial Environment Examination	16 November 2011
	http://www.adb.org/projects/documents/railway-sector-investment-program-pfr2	
(ii) Involuntary resettlement	IR - Involuntary Resettlement	3 September 2012
Weblink:	http://www.adb.org/projects/documents/railway-sector-investment-program-tongi-bhairab-bazar-double-line-subproject-rp	
(iii) Indigenous peoples		
Weblink:		

^a For Tranches, this refers to the financial closing date.

MAP



I. BACKGROUND

1. A framework financing agreement (FFA) for the Railway Sector Investment Program was signed on 7 September 2006 between Bangladesh and the Asian Development Bank (ADB). The program was approved on 10 October 2006 by ADB's Board of Directors as a multitranche financing facility (MFF) for \$430 million. The program is based on the government's Sector Roadmap and Investment Plan for 2007–2013, which has since been superseded by the Railway Master Plan 2010–2030. The program will improve the performance of the railway sector by implementing (i) a reform project of sector policy, organizational, and capacity building reforms to make Bangladesh Railway more commercially focused, and improve governance and accountability; and (ii) an investment project of infrastructure and rolling stock capacity improvement investments to overcome capacity bottlenecks in sectors where such investments are both economically and financially viable, e.g., the Dhaka–Chittagong and the Dhaka–Darsana–Khulna corridors.

2. The MFF is structured such that the reform project will provide continuous support to implement the agreed reform agenda, while the investment program will be supported by a series of four tranches. The reform and the investment projects are integrated, as approval of subsequent tranches for investment subprojects is dependent on the implementation of specific reform actions agreed upon in the railway reform action plan in the FFA.

3. The FFA originally provided for an availability period for submission of periodic financing requests (PFR) under the MFF until 1 December 2011 and for the last disbursement under the MFF until 31 December 2013. In a letter dated 25 July 2011, the government requested ADB to extend this availability period until 2017. Because of the limited availability period of MFFs for in general, 10 years, on 9 September 2011 ADB approved an extension of the availability period for the submission of PFRs until 10 October 2015 and for disbursements until 9 October 2016.

4. The fourth PFR was received on 17 February 2015 and was updated from time to time with the last update received on 8 February 2016. The government requested a loan of \$50 million from ADB's ordinary capital resources (OCR) to finance completion of works for subprojects financed under tranches 1 and 2. Additional financing for these subprojects is required because of (i) the application of the price escalation clause in the contracts, which results in a funding gap; and (ii) adjustment in quantities of bill-of-quantities items based on site conditions. This PFR report for tranche 4 summarizes the contents of the documents submitted together with the government's PFR, and explains the steps followed to comply with tranche review, due diligence, and the approval process.

II. ASSESSMENT OF IMPLEMENTATION

5. The first tranche under the MFF was approved on 13 February 2007 and comprised two loans: (i) a loan of \$100 million from OCR to finance investment subprojects (Loan 2316), and (ii) a loan of \$30 million equivalent from ADB's special fund resources to finance the reform project (Loan 2317).

6. **Loan 2316 (Tranche 1: Investment project for \$100 million ordinary capital resources).** The loan was approved on 13 February 2007 and became effective on 24 April 2007. Bangladesh Railway is the executing agency and the project is being implemented by the investment project implementation unit (PIU). The design and construction supervision consultant contract was awarded on 9 August 2007. The consultant prepared the detailed design for the Tongi–Bhairab Bazar Double Track project (subproject 1) and appraisal reports

for future subprojects. The civil works contract for the Tongi–Bhairab Bazar Double Track project was awarded on 27 July 2011 and the contract is under implementation. The contract for subproject 1 is performing well and the physical progress was about 99% as of 31 December 2015. Of the total loan amount of \$100.0 million, \$91.9 million, or 92%, has been committed. The cumulative amount for disbursement was \$96.0 million, or 96% of the loan amount.

7. **Loan 2317 (Tranche 1: Reform project for \$30 million special fund resources).** The loan was approved on 13 February 2007 and became effective on 24 April 2007. Bangladesh Railway is the executing agency and the project is being implemented by the reform PIU. The reform project will improve the performance of the Bangladesh railway sector by implementing a series of sector policy, organizational, and capacity building reforms to make Bangladesh Railway more commercially focused, and improve accountability. The original loan closing date was 30 June 2011 but has been extended to 9 October 2016. Implementation of the reform project faced delays and the reform schedule set out in the FFA was amended on 9 August 2012 as a result. Since approval of subsequent tranches is dependent on implementation of specific reform actions, this resulted in delays in processing tranches 2, 3, and 4. Under Loan 2317, \$5.1 million equivalent was committed as of 8 September 2007 for the engagement of a consulting firm to draft a restructuring plan for Bangladesh Railway. The consultants continue to support Bangladesh Railway in implementing the agreed reform agenda. Loan 2317 also includes the procurement of an enterprise resource planning (ERP) information technology (IT) system to implement Bangladesh Railway's management information system, asset registry, new accounting structure and financial management systems, and human resource database system. The amount of \$4.1 million equivalent was committed as of 5 February 2011 for the procurement of the ERP IT system along with its customization, implementation, and commissioning. The full implementation period of this ERP IT system is 2 years plus 2 years of support in the start-up phase of the system. The contract was signed on 25 January 2011. Two contract packages for the procurement of IT hardware required for the full implementation of the ERP IT system were awarded on 27 May 2013 for \$6.4 million. Out of the total loan amount of currently \$29.4 million equivalent, \$27.1 million equivalent or 92% has been committed.¹ The cumulative disbursement is \$17.8 million equivalent, or 61% of the loan amount, as of 31 December 2015.

8. **Loan 2845 (Tranche 2 for \$150 million ordinary capital resources).** The loan was approved on 22 December 2011 and became effective on 5 November 2012. The loan finances the following investment subprojects: (i) the funding gap resulting from cost overruns in subproject 1, (ii) rehabilitation of yards and extension of loops at different stations in the Darsana–Ishurdi–Sirajganj Bazar section (subproject 2), (iii) improvement of signaling in the 78-km Darsana–Ishurdi section (subproject 3), and (iv) construction supervision consulting services for subprojects 2 and 3. Bangladesh Railway is the executing agency and subprojects 1–3 are implemented by the investment project PIU. The loan closing date is 30 June 2016. As of 31 December 2015, physical completion of subproject 2 is 80% and physical completion of subproject 3 is 20%. Of the total loan amount of \$150.0 million, \$147.8 million, or 99%, has been committed. The cumulative disbursement is \$148.5 million, or 99% of the loan amount.

9. **Loan 3097 (Tranche 3 for \$100 million ordinary capital resources).** The loan was approved on 9 December 2013 and became effective on 27 September 2014. The loan financed the procurement of the following rolling stock: (i) under subproject 4, 50 broad-gauge passenger

¹ Loan 2317 is partially financing one contract for the procurement of safety equipment for subproject 3, which has been awarded under loan 2845 and was transferred to loan 2317, because loan 2845 is facing a shortage of funds for the investment projects, i.e., subproject 1. The contract is within the scope of loan 2317.

carriages; and (ii) under subproject 5, 100 meter-gauge passenger carriages. The goods contracts for subprojects 4 and 5 were awarded on 27 November 2014 and the passenger carriages will be delivered in 2016. Disbursements will therefore start in the first quarter of 2016. Inspection of the first carriages in the manufacturer's plant started on 15 February 2016. Bangladesh Railway is the executing agency and tranche 3 is implemented by the investment project PIU. The loan closing date is 9 October 2016 and no further contract awards are planned.² Of the loan amount of \$100.0 million, \$72.4 million, or 72%, has been committed. The cumulative disbursement is \$0.2 million, or 0.2% of the loan amount, as of 31 December 2015.

10. Eligibility for additional financing to subprojects 1, 2, and 3 under Tranche 4. Tranche 4 will provide additional financing for subprojects 1, 2 and 3 under tranche 1 and 2. Bangladesh Railway has submitted project progress reports and an updated economic and financial analysis for subproject 1. Based on the documents and review on site, the mission has assessed that all subprojects remain technically feasible, economically viable, and financially sound. A revised economic and financial analysis has been prepared for subproject 1, as the estimated cost has increased from the amount appraised prior to approval of tranche 2. For subprojects 2 and 3, the cost is expected to remain within the appraised amounts. Completion of all subprojects remains a high priority of the government and the projects have a high degree of project readiness with all contracts awarded and under implementation. All tranches are rated *on track*³ and are *performing well*.⁴

11. Achievement of railway reform targets. Since approval of the third tranche of the MFF, Bangladesh Railway has continued the implementation of the reform agenda by (i) establishing an asset registry for Bangladesh Railway based on the new Lines of Business (LOB) organization structure, (ii) reviewing the performance of the LOBs, and (iii) starting to prepare financial statements through the new accounting and financial management system (ERP IT system financed by Loan 2317) in accordance with international accounting standards. Bangladesh Railway is in the process of obtaining final approvals for corporatizing the container business. It has been agreed in the policy dialogue that focus will be on corporatization of the container business as a pilot case, as corporatization of Bangladesh Railway as a whole is currently not implementable in Bangladesh. The tariff reform has been implemented on 20 February 2016 and the container company will be established in March 2016.

12. Sector road map. Implementation of the sector road map has progressed and Bangladesh Railway is carrying more passenger and freight traffic. The total number of passengers increased from 40 million annually in fiscal year (FY) 2005 to 65 million in FY2014, and Bangladesh Railway increased the number of containers carried annually from around

² The uncommitted loan amount is expected to be cancelled after loan closing.

³ Tranches 1 and 2 have been rated *on track* since 2012, and tranche 3 has been rated *on track* since 2014.

⁴ The project is performing well in accordance with para 3 of: ADB. 2011. *Additional Financing. Operations Manual. OM H5/OP*. Manila.

- (i) Delivery of expected outputs. It was assessed that by providing additional financing through tranche 4, delivery of expected outputs under the MFF for reform and investment projects will be achieved.
- (ii) Satisfactory implementation progress. As mentioned in paras. 6–9, implementation is well advanced and is expected to be completed within the availability period of the MFF.
- (iii) Satisfactory compliance with safeguard policy requirements. The project is complying with the safeguards policy requirements (paras. 33–35).
- (iv) Successful management of risks. The major risks identified have been mitigated as follows: (a) delays in the reform progress were addressed by intensive and continuous policy dialogue, and completion of the remaining reform actions are loan effectiveness conditions; and (b) the risk of further delays in investment project implementation is minimal as all contracts are awarded and project implementation is well advanced.
- (v) *On track* rating. All tranches are rated *on track* in the project performance rating (footnote 3).

45,000 twenty-foot equivalent container units (TEU) in FY2005 to 60,406 TEU in FY2014. The number of accidents and derailments declined, while the number of carriages and wagons available for revenue operation has increased recently, despite the continuously aging fleet. These are clear indicators that maintenance standards have improved in recent years and overall efficiency in Bangladesh Railway's operation has increased. At the same time, the total number of staff decreased from around 35,000 in FY2005 to 25,646 in FY2014. The working ratio (operation expenses divided by operation revenues) has not improved in parallel, mainly because the passenger and freight tariff was frozen by the government for years and Bangladesh Railway has been operating for years beyond the theoretical operating capacity, especially in the Dhaka–Chittagong corridor, where additional revenue-generating freight traffic could be originated. The working ratio with subsidy was 174% in FY2014 after peaking at 216% in FY2012, compared with 161% in FY2008. The improvement in FY2014 was caused by an increase in the tariff approved by the government in October 2012. The adjustment of passenger and freight tariffs was the first since 1992. As no further adjustments of the tariff have been introduced since 2012, the working ratio dropped from FY2013 to FY2014. The ongoing tariff reform however will ensure that the operation ratio will improve and remain at an acceptable level. Annual adjustments of the tariff will compensate for increased costs, such as fuel prices and staff expenses.

13. **Lessons learned.** Reviewing the progress of the MFF, it is observed that delays were mainly caused by a lack of project readiness at the time of approval of the MFF. Award of the contract for subproject 1 took nearly 5 years, as the detailed design and bid documents had to be prepared by consultants recruited under tranche 1. This resulted in cost increases due to the delay in project implementation. Hence, these days feasibility studies and detailed design and bid documents for Bangladesh transport sector projects are prepared using technical assistance loans well in advance of approval of an investment loan to avoid such delays.

14. **Compliance with framework financing agreement undertakings and loan covenants.** Review missions confirmed that all undertakings as set forth in schedules 1, 3, and 5 of the FFA and loan covenants attached to these tranches are being complied with. However, processing of tranche 4 is delayed because of delays in achieving the reform targets (para. 11).

III. PERIODIC FINANCING REQUEST

A. Impact and Outcome

15. The impact will be improved efficiency and safety of railway transport in Bangladesh, aligned with the government's Sixth Five-Year Plan.⁵ The outcome will be improved railway transport capacity in the Dhaka–Chittagong and Dhaka–Ishurdi–Darsana–Khulna corridors.

B. Outputs

16. The outputs of tranche 4 are the following: (i) infrastructure improvements commissioned and (ii) equipment commissioned. The first output includes completion of 64 kilometers (km) of Tongi–Bhairab Bazar double track and rehabilitation of yards and extension of loops at 11 stations in the Darsana–Ishurdi–Sirajganj Bazar section. The second output will improve signaling system in the 78 km Darsana–Ishurdi section.

⁵ Government of Bangladesh, Planning Commission, Ministry of Planning. 2011. *Sixth Five-Year Plan: 2011–2015*. Dhaka.

C. Investment and Financing Plans

17. The tranche is estimated to cost \$52.47 million (Table 1).

Table 1: Tranche Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Works	44.10
2. Goods and services	1.00
3. Consulting services	4.00
Subtotal (A)	49.10
B. Contingencies^c	1.37
C. Financing Charges During Implementation^d	2.00
Total (A+B+C)	52.47

^a Includes taxes and duties of \$5 million to be partially financed from Asian Development Bank loan resources.

^b In mid-2015 prices.

^c There are no physical contingencies as this final tranche is financing contracts already awarded. Contingencies computed at an average of 1.5% on foreign exchange costs and 6.0% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for Asian Development Bank loans has been computed at the 5-year fixed swap rate for London interbank offered rate plus a spread of 0.5% and a maturity premium of 0.1%. Commitment charges for the Asian Development Bank loans are 0.15% per year to be charged on the undisbursed loan amount.

Sources: Asian Development Bank and Bangladesh Railway estimates.

18. The government has requested a loan of \$50 million from ADB's ordinary capital resources to help finance the project.⁶ The loan will have a 25-year term, including a grace period of 5 years, straight-line repayment method, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan), and such other terms and conditions set forth in the draft loan agreement. Based on this, the average loan maturity is 15.25 years and the maturity premium payable to ADB is 0.10% per annum.

19. The financing plan is in Table 2. The government will finance the remaining local cost of \$2.47 million equivalent, or 4.71% of the total cost, including project management, partial taxes and duties, and other miscellaneous costs such as cash contributions. The government will provide the ADB loans to Bangladesh Railway through budgetary allocation.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	50.00	95.29
Government	2.47	4.71
Total	52.47	100.00

Sources: Asian Development Bank and Bangladesh Railway estimates.

⁶ Financing includes part of taxes and duties amounting to about \$2.53 million. The estimated expenditure is not excessive (5% of ADB loan resources) and will apply only with respect to ADB-financed expenditures. The amount of taxes and duties in Bangladesh has been assessed as reasonable and nondiscriminatory during the Country Partnership Strategy preparation process. The ADB loan may finance local transportation, insurance costs, and late payment charges imposed by suppliers and contractors, if any. Financing of the taxes and duties, local transportation, insurance costs and late payment charges imposed by suppliers and contractors is material and relevant to the timely and successful completion of the project.

20. The Railway Sector Investment Program is coordinated and integrated with investments by development partners in the Bangladesh railway sector, especially cofinancing projects in the Dhaka–Chittagong corridor.⁷ In addition, ADB and the European Investment Bank are jointly financing double tracking of the 72 km Akhaura–Laksam section, the last remaining single-track section in the Dhaka–Chittagong corridor. Cofinancing agreements have been signed during project processing, with the European Investment Bank financing \$175 million as joint cofinancing not administered by ADB. At the time of processing the Akhaura–Laksam project, the Export-Import Bank of Korea indicated its interest to contribute \$50 million equivalent of loan to finance the rolling stock for the Dhaka–Chittagong corridor. If such cofinancing becomes available, it will be on a parallel basis not administered by ADB.

D. Implementation Arrangements

21. The implementation arrangements are summarized in Table 3 and described in detail in the updated project administration manual (Appendix 3).

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	April 2016–9 October 2016
Estimated completion date	9 October 2016
Management	
(i) Executing agency	Bangladesh Railway
(ii) Implementation unit	Dhaka, one project director and five staff
Procurement	No additional contract awards are expected under this loan.
Consulting services	No additional consultant recruitments are expected under this loan.
Retroactive financing and advance contracting	Expenditure for ongoing works contracts is being proposed for retroactive financing and advance contracting.
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.

Sources: Asia Development Bank and Bangladesh Railway's estimates.

E. Project Readiness

22. Project readiness is high since all contracts to be financed under tranche 4 have been awarded under previous tranches and no additional contract awards are planned.

⁷ ADB provided support for project preparation for the 327 km Dhaka–Chittagong corridor and for the preparation of institutional reforms under ADB. 2000. *Technical Assistance for Preparing the Regional Rail Traffic Enhancement Project*. Manila (TA 3490-BAN). These projects were then jointly financed by ADB and development partners and development partner finance was provided as follows:

- (i) The Japan International Cooperation Agency (JICA) financed \$129 million equivalent of loan for the double tracking of the Laksam–Chinki Astana section of the Dhaka–Chittagong corridor. The interventions were coordinated between JICA and ADB, regular joint meetings were held and the railway reform was pursued jointly, although it was led by ADB's reform project. JICA cofinancing was provided on a parallel basis not administered by ADB.
- (ii) The Government of India is financing \$106 million equivalent of loan for the construction of the second Bhairab bridge and second Titas bridge of the Dhaka–Chittagong corridor. This cofinancing is on a parallel basis not administered by ADB.
- (iii) The Export-Import Bank of Korea has indicated its interest to contribute \$23 million equivalent of loan to finance the improvement of the signaling system in the Chinki Astana–Chittagong Section of the Dhaka–Chittagong corridor. If such cofinancing becomes available, it will be on a parallel basis not administered by ADB.

F. Advance Contracting and Retroactive Financing

23. In the PFR request, the government has requested for advance contracting and retroactive financing. All contracts to be financed under tranche 4 have been awarded under tranches 1 and 2. ADB may finance up to 20% of the loan amount, provided that eligible expenditures are incurred on works, equipment, and consulting services for the overall facility in accordance with agreed procedures and before the effective date but no earlier than 12 months before the date of the loan agreement. The government has been informed that approval of advance contracting and retroactive financing does not in any way commit ADB to finance the subprojects.

IV. DUE DILIGENCE

A. Technical

24. Design, procurement, and consultant recruitment for all subprojects has been completed; all contractors and consultants are mobilized; and implementation of projects is, in general, satisfactory. The project implementation capacity of the PIUs established by Bangladesh Railway is also satisfactory. No additional contract awards are planned under tranche 4, which provides additional financing to complete subprojects appraised under tranches 1 and 2.

B. Economic and Financial

25. Economic and financial analyses for subproject 1 have been updated based on the revised project cost, and these concluded that the project's lending decision is based more on the economic viability than the financial viability. The project economic internal rate of return is 20.5% and the economic net present value discounted at 12% is Tk24.55 billion. The economic analysis compared the benefits and costs of with-project and without-project situations. The main benefits are savings in road vehicle operating costs and time savings for road passengers by modal shift from road to rail. A sensitivity analysis tested the effects of possible negative changes in the key parameters that determine the project's costs and benefits. The analysis indicates that the project's economic viability would remain satisfactory (EIRR of at least 18.2%) even under adverse scenarios. The financial evaluation of the project was undertaken in real terms using constant 2015 prices, based on the incremental earnings and operational cost savings that would accrue to Bangladesh Railway as a result of the implementation of the project. Despite the overall dependence of Bangladesh Railway on annual government budget to remain sustainable, significant incremental revenue resulting from the doubling of the lines and with the assumption of a one-time 100% freight rate increase and 20% passenger fare increase before project opening will improve project operations. With these operational improvements, and after subsidy, the project will have a financial internal rate of return of 8.5% against a weighted average cost of capital computed at 2.8%. The sensitivity analysis indicates that the financial internal rate of return is robust under adverse conditions (FIRR of at least 6.3%). As a public utility service provider, Bangladesh Railway remains an item on the government's budget, and is compensated by the government under the public service obligation system to cover its operating expenses. Through the tariff reform under the railway reform project, Bangladesh Railway aims to establish a mechanism which will adjust the tariff annually based on a formula comprising the main costs for operation and maintenance of Bangladesh Railway. The tariff reform will ensure the working ratio is maintained at an acceptable level. Contracts for subprojects 2 and 3 were approved at costs below the engineer's estimate at the time of appraisal and it is expected that the actual costs will not exceed the engineer's estimate; hence, no update of the economic and financial analysis is required.

C. Governance

26. **Financial management.** The financial management assessment was conducted in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects⁸ and Financial Due Diligence: a Methodology Note, and Technical Guidance Notes.⁹ The financial management assessment assessed that the capacity is adequate and the overall risk is assessed *moderate*. Bangladesh Railway has prior and ongoing experience in implementing ADB-funded projects with understanding of ADB's procurement and disbursement procedures. Capacity is being further strengthened through the railway reform project by strengthening the financial accounting and reporting system. Details of risks and key mitigating measures are given in the project administration manual (Appendix 3).

27. **Procurement and anticorruption.** All procurement has been carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time).¹⁰ No additional contract awards are expected under this tranche.

28. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and Bangladesh Railway. The specific policy requirements and supplementary measures are described in the project administration manual (Appendix 3).

29. In October 2012, the National Integrity Strategy was approved by the government and the National Integrity Advisory Committee was formed with the prime minister as the chair to steer the anticorruption movement and implement the strategy. The strategy includes a plan for strengthening both the state and nonstate accountability institutions to fight corruption and improve governance. Under the strategy, all line ministries and key watch-dog institutions have formed an ethics committee and appointed a focal point to implement corruption prevention programs and actions in the respective ministry or agency.

D. Poverty, Social, and Gender Dimensions

30. **Poverty and social.** The project will contribute to greater capacity for freight as well as more reliable, frequent, and comfortable transport conditions for passengers. This will translate into better access to economic opportunities; goods; and administrative, health, and educational facilities, and will support poverty reduction. Key beneficiaries are train passengers, freight shippers, and communities in the project corridor. Women and poor people will also benefit from the project as they are prominent railway users.

31. **Gender.** A range of actions aimed at promoting gender equality were conducted during the implementation of the project, and in particular during the implementation of the resettlement plan for subproject 1. These include proactively consulting women, providing additional assistance measures to 111 households headed by women, and ensuring a high representation of women (40%) in the income and livelihood restoration program. Women did not show an interest in participating in civil works construction activities. For tranche 4, no gender-specific actions are envisaged given that the resettlement plan implementation and most of the civil work activities have been completed.

⁸ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

⁹ ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

¹⁰ Procurement of subproject 1 was completed in July 2011. A full procurement audit is ongoing and is expected to be completed in 2016.

32. **Public health and other social considerations.** Tranche 4 will not contribute to any increase in the incidence of HIV/AIDS or trafficking as it is only designed to bridge the financing gap. HIV/AIDS awareness activities were conducted during the implementation of other subprojects however, reaching out to more than 400 participants. In addition, there are provisions in the bidding documents to ensure that all remaining civil works comply with core labor standards and applicable labor laws.

E. Safeguards

33. **Environmental Impact.** Tranche 4 is categorized C for environment safeguards under the ADB Safeguard Policy Statement (SPS), 2009 as the scope of tranche 4 entails only additional financing to finance the funding gap of subprojects appraised under tranches 1 and 2.¹¹ There will be no new scope or additional physical works under tranche 4. A total of 27 environmental impacts and mitigation measures were identified for subproject 1 (Tongi–Bhairab Bazar double line) and 29 for subproject 2 (rehabilitation of yards and extension of loops at different stations in the Darsana–Ishurdi–Sirajganj Bazar section). An environmental management plan (EMP) to address the issues identified was included in the contractor's agreement for subproject 1 and 2. While incidents of noncompliance with the EMP were initially experienced under subproject 1, substantial corrective actions were taken, as a result of which the EMP full and partial compliance rate became 95% by January 2016. The EMP full and partial compliance rate for subproject 2 as of December 2015 was 65%. Monitoring implementation of environment safeguards is being carried out regularly for tranche 1 and 2 and monitoring reports are being disclosed on the ADB website.¹² A due diligence report on environment safeguards implementation under tranches 1, 2, and 3 has been prepared and is provided in Appendix 7.

34. **Land acquisition and resettlement.** Tranche 4 is categorized C for involuntary resettlement impacts under the ADB SPS as the scope of tranche 4 entails additional financing to finance the funding gap of subprojects appraised under tranches 1 and 2 within their existing scope and scale. Of all the civil works financed by the project, only those related to the doubling of the rail track from Tongi to Bhairab Bazar led to resettlement impacts, with a total of 2,914 households affected. A resettlement plan was prepared to address these impacts, and this was fully implemented by December 2015.¹³ Overall, 96% of affected households have been compensated and provided with relocation assistance. The remaining cases are at the deputy commissioners' level and mostly concern people who are either waiting to receive their final payment, have failed to manifest themselves or provide legitimate documentation to claim their compensation, or are not interested in claiming their payment. Bangladesh Railway continues to monitor the status of these pending cases and updates ADB upon request. The livelihood restoration program was completed with a total of 278 participants. Resettlement due diligence was undertaken during the preparation of tranche 4, which confirmed the compliance of the Resettlement Plan implementation with ADB's SPS. The report is disclosed on ADB's website.¹⁴

35. **Indigenous peoples.** As for earlier tranches, tranche 4 is categorized C for indigenous peoples safeguard under the ADB SPS. The resettlement plan implementation confirmed that no indigenous people were impacted by the project.

¹¹ This refers to para. 35 of: ADB. 2009. *Safeguard Policy Statement. Operations Manual. OM F1/OP*. Manila.

¹² <http://www.adb.org/projects/32234-043/main?page-2=1&page-3=1#tabs-0-2>

¹³ Link to the resettlement plan: <http://www.adb.org/sites/default/files/project-document/73659/32234-ban-rp.pdf>

¹⁴ Link to the resettlement due diligence report:

<http://www.adb.org/sites/default/files/project-document/180389/32234-063-rpddr-01.pdf>

F. Risks and Mitigating Measures

36. Key risks for the implementation of the subprojects are (i) implementation delays, (ii) procurement capacity, and (iii) delays in government approvals. As the implementation of the subprojects is well advanced and the executing agency has developed sufficient project management capacity, these risks are minimal. The integrated benefits and impacts are expected to outweigh the costs. The risk of further delays in the reform process is minimal, as the reforms are expected to be implemented by March 2016 (para. 13). The updated risk assessment and risk management plan is in Appendix 9.

G. Risk Categorization

37. The fourth tranche is categorized as low risk as it has all of the following features: (i) a loan amount of \$50 million, i.e., not exceeding \$200 million for projects; (ii) a sound record of previous experience with ADB projects in the Bangladesh transport sector; (iii) reasonable executing agency capacity in terms of externally financed project administration under the ongoing MFF; and (iv) safeguard categorization C.

V. ASSURANCES AND CONDITIONS

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

39. The government and Bangladesh Railway have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

40. The government and Bangladesh Railway have agreed with ADB on the following conditions for loan effectiveness:

- (i) the Borrower has given formal approval to Bangladesh Railway to incorporate the container company to operate Bangladesh Railway's container services;
- (ii) the container company has been incorporated and key management staff for the container company, whose qualifications and experience are acceptable to ADB, including the chairman, managing director and all other directors have been appointed in accordance with the issued articles of association of the container company; and
- (iii) the Borrower has approved a new passenger and freight tariff structure which includes the provision for annual tariff adjustments; and applied the first passenger and freight tariff adjustment to the satisfaction of ADB.

VI. RECOMMENDATION

41. On the basis of the approval by ADB's Board of Directors for the provision of loans under the multitranche financing facility in an aggregate principal amount not exceeding \$430,000,000 to the People's Republic of Bangladesh for the Railway Sector Investment Program, it is recommended that the President approve the proposed tranche as described in para. 18 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement for the proposed tranche.