



Report and Recommendation of the President to the Board of Directors

Project Number: 40540
October 2012

Proposed Loan and Administration of Loan and Technical Assistance Grant People's Republic of Bangladesh: South Asia Subregional Economic Cooperation Road Connectivity Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 4 October 2012)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.0127
\$1.00	=	Tk81.5250

ABBREVIATIONS

ADB	–	Asian Development Bank
ADFD	–	Abu Dhabi Fund for Development
BLPA	–	Bangladesh Land Port Authority
DFID	–	Department for International Development of the United Kingdom
IEE	–	initial environmental examination
JICA	–	Japan International Cooperation Agency
km	–	kilometer
OFID	–	OPEC Fund for International Development
OPEC	–	Organization of the Petroleum Exporting Countries
PIC	–	project implementation consultant
PPP	–	public–private partnership
RHD	–	Roads and Highways Department
SAARC	–	South Asian Association for Regional Cooperation
SASEC	–	South Asia Subregional Economic Cooperation
SDR	–	special drawing rights
SHC	–	SAARC Highway Corridor
TA	–	technical assistance

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., FY2012 ends on 30 June 2012.
- (ii) In this report, “\$” refers to US dollars.

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CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	3
C. Outputs	4
D. Investment and Financing Plans	4
E. Implementation Arrangements	5
III. TECHNICAL ASSISTANCE	6
IV. DUE DILIGENCE	6
A. Technical	6
B. Economic and Financial	7
C. Governance	7
D. Poverty and Social	8
E. Safeguards	9
F. Risks and Mitigating Measures	9
V. ASSURANCES	10
VI. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14

PROJECT AT A GLANCE

1. Project Name: SASEC Road Connectivity Project		2. Project Number: 40540-014	
3. Country: Bangladesh		4. Department/Division: South Asia Department/Transport and Communications Division	
5. Sector Classification:			
Sectors		Primary	Subsectors
Transport, and information and communication technology		√	Road transport
6. Thematic Classification:			
Themes		Primary	Subthemes
Economic growth		√	Promoting economic efficiency and enabling business environment
Environmental sustainability			Global and regional transboundary environmental concerns
Regional cooperation and integration			Cross-border infrastructure
Capacity development			Organizational development
6a. Climate Change Impact		6b. Gender Mainstreaming	
Adaptation	Low	Gender equity theme (GEN)	
Mitigation	Low	Effective gender mainstreaming (EGM)	
		Some gender elements (SGE)	√
		No gender elements (NGE)	
7. Targeting Classification:		8. Location Impact:	
General Intervention	Targeted Intervention		
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level
√			
9. Project Risk Categorization: Complex			
10. Safeguards Categorization:			
	Environment	B	
	Involuntary resettlement	A	
	Indigenous peoples	C	
11. ADB Financing:			
	Sovereign/Nonsovereign	Modality	Source
	Sovereign	Project loan	Asian Development Fund
	Total		198.0
			198.0
12. Cofinancing:			
	Financier	Category	Amount (\$ Million)
	Abu Dhabi Fund	Official-Loan	30.0
	OPEC Fund for International Development	Official-Loan	30.0
	Japan Fund for Poverty Reduction	Official-Grant	1.5
	Total		60.0
13. Counterpart Financing:			
	Source	Amount (\$ Million)	
	Government	86.7	
	Total	86.7	
14. Aid Effectiveness:			
	Parallel project implementation unit	No	
	Program-based approach	No	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan and (ii) proposed administration of a loan to be provided by the OPEC Fund for International Development (OFID), both to the People's Republic of Bangladesh for the South Asia Subregional Economic Cooperation (SASEC) Road Connectivity Project.¹ The report also describes proposed administration of technical assistance (TA) for the Institutional Development of the Roads and Highways Department, and if the Board approves the proposed loan and administration of loan, I, acting under the authority delegated to me by the Board, will approve the TA.

2. The project will, together with parallel cofinancing, support the Government of Bangladesh to upgrade about 70 kilometers (km) of the Dhaka–Northwest corridor to four lanes (Joydeypur–Chandra–Tangail–Elenga Road, which is part of a major subregional artery). The project will also (i) improve two land ports at Benapole and Burimari, and (ii) strengthen the capacity of the road sector and the land port operations. By increasing the road capacity of a major international trade corridor and enhancing land port capacity, the project will not only boost the national economy but also facilitate subregional cooperation and increase trade.² The project has been endorsed by the SASEC trade facilitation and transport working group meeting held in Kolkata on 5 March 2012.

II. THE PROJECT

A. Rationale

3. The South Asian Association for Regional Cooperation (SAARC) Summit in 2010 recognized the importance of transport connectivity, especially for landlocked countries. Agreements between Bangladesh and India in 2010 for regional connectivity were a critical stepping stone for opening connectivity, not only between the two countries but also with Bhutan and Nepal, in diversifying international transport routes. This trend is expected to enhance subregional markets and opportunities in South Asia, leading to balanced regional growth and poverty reduction.

4. Bangladesh has the potential to become a transport and transshipment center for the subregion. It borders India and Myanmar and is close to the landlocked countries of Bhutan and Nepal, and Kunming—the southwestern hub of the People's Republic of China. With the Bhangabandhu Bridge over River Jamuna (the Jamuna Multipurpose Bridge) and the provision of access to ports (i.e., Chittagong and Mongla), the Northwest–Dhaka–Chittagong corridor can facilitate trade between Bangladesh and the northeastern states of India, the Indian state of West Bengal, Bhutan, and Nepal and thereby have the potential to attract more foreign and domestic investment to the country. Bangladesh has major international trade corridors, as identified in the SAARC Regional Multimodal Transport Study³ and the Asian Highway Network. A study estimates that the improvement of priority regional transport corridors in Bangladesh

¹ The design and monitoring framework is in Appendix 1.

² The Asian Development Bank (ADB) provided project preparatory technical assistance. ADB. 2008. *Technical Assistance to the People's Republic of Bangladesh for Preparing the Priority Roads Project*. Manila; ADB. 2009. *Technical Assistance to the People's Republic of Bangladesh for the Port and Logistics Efficiency Improvement*. Manila; ADB. 2010. *Technical Assistance for Regional Transport Development in South Asia*. Manila.

³ SAARC Secretariat. 2007. *Regional Multimodal Transport Study*. Kathmandu. Prepared under ADB. 2004. *Technical Assistance for Promoting South Asian Regional Economic Cooperation*. Manila (TA 6187-REG). Among SAARC priority corridors, Bangladesh has six out of 10 road corridors, two out of five rail corridors, and two principal ports (Chittagong and Mongla) for SAARC trade.

could facilitate the movement of about 18 million tons of freight in Bhutan, India, and Nepal.⁴ A study shows that the impact of raising South Asia's trade facilitation performance to international levels would result in large gains, i.e., intra-regional trade within South Asia would increase by almost 60% and trade with the rest of the world would increase by over 30%.⁵

5. Throughout South Asia, trucks carry a substantial majority of inland freight. Road transport is central to the competitiveness of supply chains. An expansion in rail freight is both desirable and possible, but the absolute importance of road transport is unlikely to diminish, especially as the markets for higher value and higher volume goods increase with per capita incomes.⁶ Therefore, among these international trade corridors, the highest priority is SAARC Highway Corridors (SHCs) 4 and 8, which provide Bhutan and Nepal with access to Bangladesh ports (Chittagong and Mongla), including land ports. For trade between Bangladesh and India, Benapole Land Port is the priority to be improved as it is the busiest crossing, providing transshipment services for about 80% of the annual trade between Bangladesh and India.

6. The road network in Bangladesh is very poor in terms of capacity and conditions, and the demand for road transport is rapidly increasing. Inefficient implementation of road maintenance has increased both the number of roads that are beyond maintainable condition and the backlog of deferred maintenance. A mix of motorized and nonmotorized traffic, and encroachment onto roads, results in higher accident rates. To address these constraints, the government has been implementing the Road Master Plan, 2007–2026. The road sector development strategy under Bangladesh's 6th Five-Year Plan, 2011–2015 highlights the improvement of connectivity by upgrading the Asian Highway Network to four lanes to boost trade and commerce, with emphasis on three arterial corridors: Dhaka–Chittagong, Dhaka–Northwest, and Khulna–Northwest. The road sector strategy in the 6th Five-Year Plan includes institutional changes and capacity development in maintaining the existing road network, addressing road safety issues, improving land port connectivity, and controlling overload.

7. ADB financed the Road Network Improvement and Maintenance Project II⁷ and, together with the Department for International Development of the United Kingdom (DFID) and the World Bank, has suggested a reform agenda for road in Bangladesh covering (i) a long-term and integrated transport policy, (ii) modernization of road sector institutions, (iii) road maintenance financing, and (iv) private sector participation. The national land transport policy (supported by DFID) and the road master plan (supported by ADB) have been approved in 2004 and 2009, respectively. The Ministry of Communications and the Roads and Highways Department (RHD) have been restructured for focused operations. RHD, supported by DFID, has computerized its financial management and asset management systems. The central management system is being used in RHD divisions, resulting in expeditious and transparent payment processing, e.g., the backlog of major unpaid contracts has been eliminated. The procurement capacity is being strengthened under the World Bank's Public Procurement Reform II Project, utilizing the central management system and introducing e-procurement. Maintenance financing has substantially increased—the latest approved budget for FY2013 demonstrated the government's policy emphasis on maintenance and rationalization of development work (i.e., increased by 37% from FY2012). A public–private partnership (PPP) unit was established in RHD and pilot PPP road

⁴ ADB. Bangladesh: Preliminary Draft Report on Estimate of Gains from developing Functional Corridors for Transit Traffic through Bangladesh. Unpublished.

⁵ World Bank. 2004. *Trade Facilitation and Regional Integration in South Asia: Accelerating the Gains to Trade with Capacity Building*. Washington, DC.

⁶ World Bank. 2008. *Trade and Transport in South Asia: Systems in Transition*. Washington, DC.

⁷ ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of Bangladesh for the Road Network Improvement and Maintenance Project II*. Manila.

projects have been identified. The overall productivity of RHD has improved.⁸ The project will continue to support the reform agenda as agreed in the institutional development action plan⁹ and the maintenance financing strategy.¹⁰

8. The Bangladesh Land Port Authority (BLPA) administers 16 land ports. It is a lean organization and financially self-sustained for the current level of operational efficiency and volumes, mainly by outsourcing development and operations to the private sector. However, taking into account the expected increase in trade among SASEC countries through land ports, it is urgently required to improve facilities to realize operational efficiency.

9. The project road is the common section of SHCs 4 and 8, and Asian Highway 2, carrying about 15,000 vehicles per day, excluding two- and three-wheelers, making it the second busiest artery in Bangladesh after the Dhaka–Chittagong road. However, this road section has substantial bottlenecks because of limited capacity, pavement deterioration, and mixed traffic of slow-moving vehicles, resulting in many traffic accidents in accident-prone areas. Burimari Land Port is a northwestern end point of the Dhaka–Northwest corridor, providing a gateway to Bhutan through India via SHC 8. Benapole Land Port is the busiest land port at the west end point of the Asian Highway 1 and SHC 1 in Bangladesh. Burimari and Benapole land ports are complemented by India's Integrated Customs Posts Program at Changrabandha and Petrapole.

10. In parallel with the project, ADB is preparing (i) a SASEC Road Connectivity Project to improve two priority subregional roads in India¹¹ and develop land customs stations; and (ii) a SASEC Trade Facilitation Program to strengthen the soft side of customs and cross-border transport. For the Dhaka–Chittagong corridor, the government will undertake capacity expansion projects, e.g., four-laning, bridge expansion by Japan International Cooperation Agency (JICA), railway doubling by ADB and JICA, and a possible expressway using PPP with ADB support. ADB provided support to Chittagong Port efficiency improvement.¹² ADB's Dhaka Urban Transport Project¹³ and other government projects such as the Dhaka expressway project will also help reduce the bottleneck in Dhaka. The proposed project, therefore, is part of the critical development of physical infrastructure for connectivity in South Asia.

11. The project has been designed in coordination with JICA to ensure development synergy. The project takes into account lessons from past projects,¹⁴ mainly start-up delays, delayed release of the counterpart funds, and limited capacity of contractors.

B. Impact and Outcome

12. The impact will be increased domestic and regional trade through Bangladesh. The outcome will be the improvement to road connectivity and efficiency of the Dhaka–Northwest

⁸ Total kilometers completed under the development and maintenance budget per engineer have increased from 4.5 km/engineer in 2004 to 7.9 in 2010.

⁹ Institutional Development Action Plan (accessible from the list of linked documents in Appendix 2).

¹⁰ Maintenance Financing Strategy (accessible from the list of linked documents in Appendix 2).

¹¹ Kakarvitta–Panitanki–Fulbari–Banglabandha road (40 km) for Nepal–India–Bangladesh connectivity (Asian Highway 2 and SHC 4); and (ii) Phuentsholing–Jaigaon–Hasimara–Changrabandha–Burimari road (120 km) for Bhutan–India–Bangladesh connectivity (SHC 8).

¹² ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance to the People's Republic of Bangladesh for the Chittagong Port Trade Facilitation Project*. Manila.

¹³ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant and Administration of Loan and Grant to the People's Republic of Bangladesh for the Greater Dhaka Sustainable Urban Transport*. Manila.

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

international trade corridor, in conjunction with land port development. It will enable efficient and safe transport within the country and with India and, through India, with Bhutan and Nepal.

C. Outputs

13. **Road improvement.** The government will upgrade about 70 km of the Joydeypur–Chandra–Tangail–Elenga Road, which is part of Asian Highway 2 and SHC 4 and 8, to a four-lane highway with safety features including a separate lane for slow-moving traffic and construction of flyovers at the busiest junctions. Civil works will be financed by ADB jointly with OFID for about 60 km and in parallel by the Abu Dhabi Fund for International Development (ADFD) for about 10 km. The project implementation consultant (PIC) will be financed by ADB to support implementation of the entire 70 km road works.

14. **Roads and Highways Department (RHD) institutional development.** The project will modernize RHD headquarters and provide equipment and consulting services in line with the institutional development action plan. A technical assistance grant attached to the project for institutional development in RHD will be provided to support implementation of the action plan (para. 21). The TA consultants will identify the timing and details of equipment and services to be procured under the loan. Equipment to be procured will include weighbridges and laboratory equipment.

15. **Land port improvement.** The project will improve two land ports at Benapole and Burimari. For Benapole Land Port, which has a larger master plan comprising several modules, the project will focus on those that will cater for the increasing trade volumes: (i) redevelopment of old sheds including road access and drainage; (ii) redevelopment of the old truck terminal yard, and (iii) construction of shelter in the transshipment area. For Burimari Land Port, the project will focus on more effective reconfiguration of traffic flows, and provision of covered shipment yards for perishable goods. The PIC will undertake detailed design, procurement assistance, construction supervision, and capacity development for operational efficiency.

D. Investment and Financing Plans

16. The outputs under the project and the parallel financing are estimated together to cost \$344.7 million (Table 1). The detailed cost estimates by expenditure category and by financier are in the project administration manual.¹⁵

17. The government has requested a loan (the ADB Loan) in various currencies equivalent to SDR128,114,000 (\$198 million equivalent) from ADB's Special Funds resources¹⁶ to help finance the project. The loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan and project agreements.¹⁷ OFID will provide a loan of \$30 million to help finance the project (the OFID Loan). Administered by ADB on a partial administration basis,¹⁸ the OFID loan will have a 20-year term, including a grace period of 5 years, and an annual interest rate of 2.25% (inclusive of a 1.0% service charge). The OFID loan will partially finance the works. The government has also requested cofinancing (the ADFD Loan) of \$30 million from ADFD, which has provided firm commitments for parallel cofinancing, with its board approval expected in December 2012. The ADFD Loan will have a

¹⁵ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹⁶ Inclusive of \$40 million equivalent from the subregional pool of the Asian Development Fund.

¹⁷ Loan Agreement; Project Agreement (accessible from the list of linked documents in Appendix 2).

¹⁸ Partial services by ADB limited to procurement and disbursement supervision.

20-year term, including a grace period of 5 years, an interest rate of 2%. The ADFD Loan will partially finance the works and the contingencies. In the event that cofinancing from OFID is not signed within 6 months following the effectiveness of the ADB loan, the government will take all necessary and appropriate steps to make available all counterpart funds required for timely and effective completion of the project whether through budget allocations or other arrangements acceptable to ADB. In the absence of which, the government and ADB will scale down the scope of the project and if applicable to adjust the relevant financing arrangement. In the event that the cofinancing from ADFD is not signed within 6 months following the effectiveness of the ADB loan, the government and ADB will discuss what steps are to be taken.

Table 1: Investment Plan

Item	Amount (\$ million)
A. Base Cost^a	
1 Road improvement ^b	227.7
2 Roads and Highways Department institutional development	18.0
3 Land port improvement	14.4
4 Tax and duties ^c	23.3
Subtotal (A)	283.4
B. Recurrent Costs	2.7
C. Contingencies^d	57.5
D. Financing Charges During Implementation^e	1.1
Total (A+B+C+D)	344.7

ADFD = Abu Dhabi Fund for International Development.

^a In mid-2012 prices.

^b Includes \$24.0 million for the 10-kilometer road section to be financed in parallel by ADFD.

^c To be financed from government resources.

^d Includes \$6.0 million to be financed in parallel by ADFD. Physical contingencies computed at 10% for roads and 15% for land ports. Price contingencies computed at 9% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^e Interest on the Asian Development Bank loan has been computed at 1% during construction.

Sources: Asian Development Bank; Roads and Highways Department.

18. The government will finance the remaining local cost of \$86.7 million equivalent, or 25.1% of the total cost, including taxes and duties, land acquisition and resettlement, and other miscellaneous costs (Table 2). The government will provide a portion of the ADB Loan, and all of the ADFD Loan and OFID Loan, to RHD through the budgetary allocation in the form of a grant. The government will relend the remaining portion of the ADB Loan to BLPA, pursuant to a subsidiary loan agreement with terms and conditions acceptable to ADB.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
ADB Special Funds resources	198.0	57.4
OPEC Fund for International Development	30.0	8.7
Abu Dhabi Fund for Development	30.0	8.7
Government of Bangladesh	86.7	25.1
Total	344.7	100.0

ADB = Asian Development Bank, OPEC = Organization of the Petroleum Exporting Countries.

Source: Asian Development Bank.

E. Implementation Arrangements

19. Arrangements are summarized in Table 3 and described in detail in the project administration manual (footnote 15).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2013 to December 2017		
Estimated completion date	June 2018		
Management			
(i) Oversight bodies	SASEC Transport Working Group standing member for Bangladesh Roads Division, Ministry of Communications for RHD; Ministry of Shipping for BLPA		
(ii) Executing agencies	RHD (for road improvement and institution development) BLPA (for land port improvement)		
(iii) Implementation units	RHD head office in Dhaka, and three RHD project site offices with 45 staff proposed BLPA head office in Dhaka, and two BLPA project site offices with 10 staff proposed		
Procurement	International competitive bidding	7 works contracts ^a	\$229 million
	National competitive bidding; shopping	TBD (equipment)	\$3 million
Consulting services	Project implementation consultants (QCBS)	233 international and 2,417 national person-months	\$13 million
	BLPA operational efficiency improvement (QCBS)	16 international and 44 national person-months	\$1 million
Advance contracting	Advance action for procurement of goods, works, and consulting services.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, BLPA = Bangladesh Land Port Authority, QCBS = quality- and cost-based selection, RHD = Roads and Highways Department, SASEC = South Asia Subregional Economic Cooperation.

^a Includes one works contract for \$24.0 million to be financed in parallel by the Abu Dhabi Fund for Development.

Sources: Asian Development Bank; Government of Bangladesh.

20. The works contract will incorporate performance-based maintenance contracts for 5 years as part of PPP initiatives. The implementation period will include pre-construction activities, the construction period, and the initial 1-year execution of the performance-based contract. To engage quality consultants in a timely manner, ADB and the government have agreed that ADB will carry out consultant selection on behalf of the government. The government will retain its authority for contract negotiation and contract signing.

III. TECHNICAL ASSISTANCE

21. TA for the institutional strengthening of RHD will support some of the government's institutional development initiatives set out in the action plan (footnote 9). The TA will have three major components: (i) maintenance scheme for roads and bridges; (ii) an overloading control scheme; and (iii) RHD modernization, covering institutional changes and streamlining business processes.¹⁹ As part of the capacity development for procurement processes, the TA will also support a procurement review to be undertaken for the project. The TA will be financed on a grant basis by the Japan Fund for Poverty Reduction in the amount of \$1,500,000 and administered by ADB.

IV. DUE DILIGENCE

A. Technical

22. The road design incorporates recommendations of the road safety audit, including a separate slow-moving vehicular traffic lane, flyovers at busy intersections, overpasses and queuing lanes at intersections, and other traffic measures for vulnerable road users. Engineering design measures minimize the land acquisition by using retaining walls. Climate

¹⁹ Technical Assistance: Institutional Development of the Roads and Highways Department (accessible from the list of linked documents in Appendix 2).

resilient design standards²⁰ will be adopted following ADB's *Guidelines for Climate Proofing Investment in the Transport Sector: Road Infrastructure Projects*.²¹ A specific climate change study was carried out to be reflected in the final design (e.g., embankment level, bridge height, and drainage structures). Tolling has been discussed but not yet imposed because of the unavailability of alternate roads.²² The possibility of tolling will be further explored during project implementation with support of the TA consultant.

B. Economic and Financial

23. The project is expected to (i) facilitate economic development of northwestern Bangladesh and subregional trade with Bhutan, India, and Nepal while reducing road accidents; and (ii) improve the transaction efficiency at the land ports to facilitate increased import and export trade and reduce damage to goods through warehousing facilities. The project is economically viable, with economic internal rates of return of 27.2% for the road and 32.8% for the land ports. Sensitivity analysis indicates the project's economic viability would remain satisfactory even under several adverse scenarios. Incremental recurrent costs associated with the road are estimated at about 5% of the current RHD maintenance budget and less than 1.5% of the overall RHD budget on an annual basis, which will be required after project completion on 2016. The government has assured that the road network will be maintained and reduced the backlog maintenance in line with the maintenance financing strategy.

24. The financial analysis in real terms indicates a financial internal rate of return of 5.1% for the land port improvement. The project is financially viable based on the estimated weighted average cost of capital of 1.9%. The sensitivity analysis indicates that even with adverse variations in costs and benefits, the project remains financially viable. Improved port facilities, investment in subregional connectivity, and changes in government policies to facilitate subregional trade are likely to achieve higher growth than the medium-growth scenario assumed in this analysis and thus have the potential to generate more surplus in the long term.

C. Governance

25. **Institutional and financial management.** RHD has the experience and sufficient capacity to implement externally funded projects. BLPA is new to externally funded projects. The consultant will support both RHD and BLPA. On financial management, RHD has experience of ADB disbursement procedures while BLPA does not. The project will also provide support to BLPA for training in ADB procedures and for computerization and training in financial management systems. One accountant will be assigned to each project manager. All recommendations of ADB as to financial management assessment (such as computerization of the systems (including fixed asset register), strengthening internal control mechanism and expediting external audit, and monitoring the mechanism of budget and actual expenditure for better budgeting and control) will be implemented during the project.

26. **Procurement and anticorruption.** Recruitment of consultants will be carried out in accordance with ADB's Guidelines on the Use of Consultants (2010, as amended from time to time), with ADB selecting and the executing agencies negotiating and signing (para. 20). National procurement regulation has also improved through the Public Procurement Act, 2006 and the related Public Procurement Rules, 2008 (with subsequent amendments). The World Bank also supports capacity development in procurement under the Public Procurement Reform

²⁰ Summary of Design Standards (accessible from the list of linked documents in Appendix 2).

²¹ ADB. 2011. *Guidelines for Climate Proofing Investment in the Transport Sector: Road Infrastructure Projects*. Manila.

²² Tolling Opportunities (accessible from the list of linked documents in Appendix 2).

Project II to enhance transparency and streamline the procurement process. Contracts financed jointly by ADB and OFID will follow ADB's Procurement Guidelines (2010, as amended from time to time) and use bidding documents that are in line with ADB's policies and will include a policy statement on avoiding corrupt practices. Bidding packages procured using national competitive bidding will follow the government's Public Procurement Act and Public Procurement Rules, with modifications agreed between the government and ADB, as set out in the procurement plan. RHD and BLPA will publish on their websites (i) procurement information relating to the project, including business opportunities; and (ii) the track record of project implementation. To enhance good governance in connection with the ADB and OFID loans, (i) design consultants under the ADB TA loan will provide procurement assistance;²³ (ii) RHD and BLPA will involve in their procurement processes a procurement advisor to be engaged by ADB;²⁴ (iii) ADB will monitor procurement activities on a regular basis; and (iv) the consultant under the TA grant associated with the project will undertake a procurement review of the project. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and executing agencies. The specific policy requirements and supplementary measures are in the project administration manual (footnote 15).

D. Poverty and Social

27. The project road passes through two districts where an estimated 6.9 million people reside. The social and poverty analysis found that project-affected persons were in favor of the project and believed the road will contribute to regional economic and social development by providing better and uninterrupted transport to and from commercial centers. Immediate benefits include employment generation in construction and associated activities. Long-term benefits include reduced transport costs and increased mobility, increased scope for higher education, diversification in agriculture for access to wider markets, lower prices of farm and commercial inputs and less spoilage of agricultural produce, and improved access to specialized medical services. The land ports are located in Benapole (49,000 population) and Burimari (25,000 population). The project will increase the efficiency of transshipment practices and potentially contribute to increased revenue of the land ports and a growing demand for local commercial services, leading to an improved economic situation of the surrounding area.

28. **Gender.** Women will be encouraged to participate in civil works for the road component during the construction phase. RHD will aim to employ women for 50% of labor (about 350 person-years) for road maintenance. For the RHD building, the RHD Gender and Development Forum will be involved in the design to ensure a gender-friendly working environment.

29. **Sexually transmitted infections and human trafficking.** Bangladesh is a low-prevalence country for HIV/AIDS, with the incidence rate estimated to be less than 0.1% among the general population. The *3rd National Strategic Plan for HIV and AIDS Response (2011–2015)*²⁵ formulated by the National AIDS/STD Programme continues to build on the achievements of the previous plans. A survey conducted in the project-affected area revealed that 96% of households are aware of HIV/AIDS. RHD and BLPA will conduct awareness programs for workers on the health risks of sexually transmitted diseases and the detrimental social and health impacts on women and children by disseminating information at worksites.

²³ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of Bangladesh for the Subregional Transport Project Preparatory Facility*. Manila.

²⁴ Terms of Reference for Procurement Advisor (accessible from the list of linked documents in Appendix 2).

²⁵ National AIDS/STD Programme. 2011. *3rd National Strategic Plan for HIV and AIDS Response 2011–2015*. Dhaka.

Subproject contracts will include specific clauses on these issues, and compliance will be strictly monitored by RHD and BLPA with the support of the PIC. Within the land port compound, awareness posters will be posted in areas frequented by truck drivers and day laborers. In project-affected communities, awareness programs will be conducted semiannually for men and women in separate groups to address specific needs from each group.

E. Safeguards

30. **Environmental impact.** Environment-related activities include enhancement of hygienic conditions in the land ports, construction of an environment-friendly office building for RHD, and expansion of the Joydeypur–Chandra–Tangail–Elenga Road. All three components fall under environment category B. Environmental impacts in the land ports and RHD office building are largely positive and include establishment of structures and mechanisms for managing waste, drainage, and occupational health and safety. Negative impacts related to construction waste; air, noise, and water pollution; occupational health and safety; tree removal; and erosion are expected for all project components. However, these are mainly confined to the construction period and mitigation measures have been proposed in the environmental management plan, which will be included in the agreement with the contractor. Initial environmental examination (IEE) reports have been prepared for each component and are disclosed on the ADB website as required by ADB’s Safeguard Policy Statement (2009). Local communities were consulted while preparing the IEE reports. Details of consultations, feedback received, and grievance redress mechanisms are included in the IEE reports.

31. While RHD has a social and environmental unit to address safeguard concerns, the BLPA does not have such a unit. Safeguard focal persons will be appointed in BLPA headquarters and at sites. They will be supported by the PIC’s environmental specialist. Safeguard training workshops will be conducted during pre-construction and construction, as necessary. Capacity development for BLPA will also be provided under the loan. Annual environmental monitoring reports will be submitted by the respective executing agencies to ADB.

32. **Involuntary resettlement and indigenous peoples.** The project is classified under resettlement category A. Two resettlement plans have been prepared based on ADB’s Safeguard Policy Statement and the Acquisition and Requisition of Immovable Property Ordinance II of Bangladesh, 1982. Affected communities were extensively consulted to understand their views. The impact will be significant, with about 18.9 hectares of land acquired, with commercial tenants experiencing the main impact. The project will affect 2,394 households (9,885 persons). The resettlement plans will be updated based on detailed design and will be implemented by an experienced nongovernment organization, with the PIC providing external monitoring. For the RHD institutional development component, 11 non-titleholder households (38 persons) will be affected. RHD has over 18 years of experience in managing social safeguard risks, including in projects funded by development partners. The land port component will not require land acquisition and resettlement. The project will comply with ADB’s information disclosure requirements. No impact on indigenous people is envisaged.

F. Risks and Mitigating Measures

33. Key risks are delays in implementation (Table 4). Other risks and mitigating measures are summarized in the risk assessment and risk management plan.²⁶ Integrated benefits and impacts are expected to outweigh costs.

²⁶ Risk Assessment and Risk Management Plan; Operational Risks and Measures (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Governance	Procurement risks are mitigated by several measures as provided in para. 26.
Project implementation delay	The start-up delay has substantially reduced by 2 years, i.e., the design to be completed by 2012. Recruitment of nongovernment organizations for supporting land acquisition and resettlement activities will be initiated immediately after loan negotiations. Contract packaging was made large enough to attract qualified contractors.
Safeguard compliance	Land acquisition, social, and environmental impacts have been minimized through engineering and institutional measures. Works contracts will be awarded only after completing safeguard requirements. Before construction, a due diligence mission will be fielded to create awareness among the project authorities about ADB's safeguard requirements.
Institutional development actions delay	The institutional development action plan has been agreed with ADB and is built on ongoing government efforts. A financier's committee is set up with a major development partner in the road sector (JICA) to monitor the progress closely. JICA has provided an in-house advisor to RHD to provide hands-on support in implementing the action plan, especially on bridge management.

JICA = Japan International Cooperation Agency, RHD = Roads and Highways Department.

Source: Asian Development Bank.

V. ASSURANCES

34. The government and BLPA 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. The government and BLPA have agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements.

VI. RECOMMENDATION

35. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve:

- (i) the loan in various currencies equivalent to SDR128,114,000 to the People's Republic of Bangladesh for the South Asia Subregional Economic Cooperation Road Connectivity Project from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board; and
- (ii) the administration by ADB of the loan not exceeding the equivalent of \$30,000,000 to the People's Republic of Bangladesh for the South Asia Subregional Economic Cooperation Road Connectivity Project, to be provided by the OPEC Fund for International Development.

Bindu N. Lohani
Vice-President

30 October 2012

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Increased domestic and regional trade through Bangladesh</p>	<p>By 2020 Increase in traffic volume along the project corridor sustained at the current level of 7% per annum^a</p> <p>Volume of cross-border traffic increased by 10% more than the country's average traffic growth rate</p> <p>Cross-border freight traffic increased by 20% (2009 baseline: \$5 billion in value)</p>	<p>Annual HDM report of RHD</p> <p>Border post statistics of customs and the Bangladesh Land Port Authority</p> <p>Border post statistics of customs and the Bangladesh Land Port Authority</p>	<p>Assumptions Various government development activities effectively coordinated with road sector investment</p> <p>Cross-border transport procedures are streamlined.</p> <p>The government provides routine and periodic maintenance throughout the project life.</p>
<p>Outcome Improved road connectivity and efficiency of the Dhaka–Northwest international trade corridor</p>	<p>By 2016 Average travel time along project major trade roads reduced by 40% (2012 baseline: 4.2 hours)</p> <p>Waiting time for border crossing reduced by 10 hours (2012 baseline: 6.5 days)</p> <p>Fatality rate along the project corridor reduced to 10% of the current level (2009 baseline: 160 fatal accidents)</p> <p>Backlog of maintenance eliminated for national and regional roads, and to 30% for <i>zilla</i> (district) roads</p> <p>Annual length of roads developed and maintained per RHD engineer increased by 50% (2010 baseline: 7.9 km/engineer)</p>	<p>Post-implementation measurement by consultants and RHD</p> <p>Border post statistics of customs and the Bangladesh Land Port Authority</p> <p>Accident data collected by RHD and police</p> <p>Annual HDM report of RHD</p> <p>Annual HDM report of RHD</p>	<p>Assumptions The government provides adequate funds for operation and maintenance expenses on time.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks																						
<p>Outputs</p> <p>1. Increased capacity of key section of an international trade corridor: Joydeypur–Chandra–Tangail–Elenga section</p> <p>2. Improved operational efficiency of land ports (Benapole and Burimari)</p> <p>3. Enhanced institutional capacity of RHD in developing and maintaining roads and bridges</p>	<p>By 2016</p> <p>70 km of roads upgraded with climate resilient design and performance-based routine maintenance (60 km for ADB and OFID and 10 km for ADFD)</p> <p>Performance-based routine maintenance undertaken targeting women's participation at 50%, about 350 person-years</p> <p>Two land ports upgraded, e.g., redevelopment of old sheds and the truck terminal yard in Benapole, and provide covered shipment yards in Burimari.</p> <p>An operations manual of material handling developed</p> <p>Institutional development action plan fully implemented</p> <p>BLPA social, gender, and health risks mitigation programs implemented</p>	<p>For all indicators: Monitoring reports of the RHD and Ministry of Communications</p> <p>Monitoring reports of the RHD and Ministry of Communications</p> <p>Border post statistics of customs and the Bangladesh Land Port Authority</p> <p>Monitoring reports of LPA and Ministry of Shipping</p> <p>Monitoring reports of the RHD and Ministry of Communications</p> <p>Monitoring reports of LPA and Ministry of Shipping</p>	<p>Assumptions</p> <p>Availability of key construction materials and equipment is stable.</p> <p>The approved counterpart funding is released on time.</p>																						
<p>Activities with Milestones</p> <p>1. Road improvement</p> <p>1.1 Engagement of construction supervision consultants by June 2013</p> <p>1.2 Bidding process for civil works completed by July 2013</p> <p>1.3 Construction of all civil works completed by end of 2016</p> <p>2. Land port improvement</p> <p>2.1 Engagement of construction supervision consultants by June 2013</p> <p>2.2 Bidding process for civil works completed by July 2013</p> <p>2.3 Training to improve BLPA operational efficiency completed by end of 2014</p> <p>2.4 Procurement of equipment and services by 2016</p> <p>2.5 Construction of all civil works completed by end of 2016</p>	<p>Inputs</p> <p>ADB loan: \$198.0 million</p> <table border="1" data-bbox="816 1325 1442 1539"> <thead> <tr> <th>Item</th> <th>Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td>Road improvement</td> <td>124.9</td> </tr> <tr> <td>Institutional development</td> <td>18.0</td> </tr> <tr> <td>Land port development</td> <td>14.4</td> </tr> <tr> <td>Contingencies</td> <td>39.7</td> </tr> <tr> <td>Interest during construction</td> <td>1.1</td> </tr> </tbody> </table> <p>OFID loan: \$30.0 million</p> <table border="1" data-bbox="816 1570 1442 1675"> <thead> <tr> <th>Item</th> <th>Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td>Road improvement</td> <td>30.0</td> </tr> <tr> <td>Interest during construction</td> <td>0.0</td> </tr> </tbody> </table> <p>ADFD loan: \$30.0 million</p> <table border="1" data-bbox="816 1707 1442 1812"> <thead> <tr> <th>Item</th> <th>Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td>Road improvement</td> <td>30.0</td> </tr> <tr> <td>Interest during construction</td> <td>0.0</td> </tr> </tbody> </table>	Item	Amount (\$ million)	Road improvement	124.9	Institutional development	18.0	Land port development	14.4	Contingencies	39.7	Interest during construction	1.1	Item	Amount (\$ million)	Road improvement	30.0	Interest during construction	0.0	Item	Amount (\$ million)	Road improvement	30.0	Interest during construction	0.0
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Activities with Milestones	Inputs	
3. Institutional development of RHD 3.1 Procurement of equipment by end of 2013 3.2 Bidding process for RHD office by March 2013 3.3 New RHD office established by end of 2015 3.4 Training to enhance RHD capacity completed by end of 2013 through TA	Government of Bangladesh: \$86.7 million	
	Item	Amount (\$ million)
	Land acquisition and resettlement and utility shifting	42.8
	Recurrent Costs	2.7
	Tax and Duties	23.3
	Contingencies	17.8
	Technical Assistance (Japan Fund for Poverty Reduction): \$1.5 million^b	
	Item	Amount^c (\$'000)
	Consultants	
	Remuneration and per diem	
	International ^d	1,012.0
	National ^e	261.0
	International and local travel	45.0
Reports and communications	20.0	
Equipment and technology	20.0	
Workshops and training	30.0	
Survey	20.0	
Representative for contract negotiations	6.0	
Contingencies	86.0	

^a Excluding two- and three- wheelers.

^b Administered by the Asian Development Bank.

^c Does not include government in-kind counterpart support.

^d 46 person-months.

^e 58 person-months.

ADB = Asian Development Bank, ADFD = Abu Dhabi Fund for Development, HDM = highway development and management, km = kilometer, BLPA = Bangladesh Land Port Authority, OFID = OPEC Fund for International Development, RHD = Roads and Highways Department, TA = technical assistance.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=40540-014-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Road Transport
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Initial Environmental Examination: Joydeypur–Chandra–Tangail–Elenga Road
11. Initial Environmental Examination: Roads and Highways Department Office Building
12. Initial Environmental Examination: Benapole Land Port
13. Initial Environmental Examination: Burimari Land Port
14. Resettlement Plan: Joydeypur–Chandra–Tangail–Elenga Road
15. Resettlement Plan: Roads and Highways Department Office Building
16. Risk Assessment and Risk Management Plan

Supplementary Documents

17. Due Diligence Report: Benapole Land Port
18. Due Diligence Report: Burimari Land Port
19. Institutional Development Action Plan
20. Maintenance Financing Strategy
21. Summary of Design Standards
22. Operational Risks and Measures
23. Terms of Reference for Procurement Advisor
24. Outline Terms of Reference for Consultants for Institutional Development of the Roads and Highways Department
25. Tolling Opportunities