1. Key development issues and rationale for Bank involvement

1.1 Background and context. The Dhaka – Chittagong (DC) economic corridor is vital for the Bangladeshi economy since it contains about 30 percent of its population, generates almost 50 percent of its Gross Domestic Product (GDP) and about 85 percent of its international trade. The DC transport corridor connects Dhaka, the largest population, manufacturing, consumption and distribution center, with Chittagong, the second largest city and home to the Port of Chittagong, which handles about 85 percent of Bangladesh’s international maritime trade.

1.2 Despite the economic importance of the DC corridor, most of the freight and passenger traffic plying in the corridor moves on a congested two lane highway or on a capacity and equipment constrained railway line. As a result of the infrastructure, capacity and service constraints on the DC corridor to transport and handle containers, only about 20 percent of the over 600 thousand twenty-foot equivalent unit (TEU) containers handled by Port of Chittagong in 2004 moved inland (primarily to Dhaka) by containers. The rest are stuffed and unstuffed at the port and the contents transported in break bulk (loose boxes) in overloaded, unsafe trucks. This contributes to high cost, significant delays, damages, loss and uncertainty in the delivery of shipped goods.

1.3 The number of containers handled by the Port of Chittagong has increased by over 10 percent a year over the last decade and a similar growth rate is projected for the foreseeable future. This means that improvements to the existing railway, port and dry port infrastructure in the DC transport corridor will be fundamental to even maintain, or let alone improve, the international competitiveness of the tradable sectors (import/export) of the Bangladeshi economy. Without targeted railway/port investments supported by railway/port service level improvements, the DC corridor will not be able to cope with the increased levels of traffic and will surely become a major transport bottleneck. This could further erode the global competitiveness of the Bangladeshi economy as a whole and of the ready-made garment (RMG) in particular.
1.4 The Government of Bangladesh (GOB) has already made some improvements to trade logistics through the modernization of custom clearance procedures, especially for exports and temporary imports. However, it has failed to improve the performance of its transport system as rapidly as its neighbors. Furthermore, the cargo handling technology and operations of the Port of Chittagong are outdated affecting its productivity. This means that the benefits of multimodal transport have not been fully realized due to the low utilization of containers. Finally, inland customs and dry port facilities are limited and the available facilities are not located in a way that will minimize transport and logistics costs especially for the RMG industry.

1.5 Government strategy. The GOB has recognized the need to rebalance its investments in the transport sector away from the road sub-sector to be able to provide more resources for critical investments in the port and railway sub-sectors. This has resulted in increased allocations for Bangladesh Railways (BR) over the last two fiscal years and in the procurement of container handling equipment to improve the efficiency and handling capacity of the Port of Chittagong. Furthermore, the construction of the New Mooring Container Terminal (NMCT) inside the Port of Chittagong has started and, when completed in 2006, will have a capacity to handle about 500 thousand TEUs per year. The GOB plans to concession out the operation of the NMCT to the private sector to ensure it is operated efficiently and effectively. Furthermore, GOB plans to develop a modern Inland Container Depot (ICD) in the Dhaka region which should reduce the time spent in port by containers, the informal payments to port workers, the cost for road haulage (by reducing empty backhauls) and cargo clearance times. It will also reduce the losses of cargo in transit and due to multiple handlings.

1.6 The GOB has also prepared a National Shipping Policy (NSP) and National Land Transport Policy (NLTP) to support its policy objectives in the surface transport sub-sector, particularly to: (a) expand the transport sector to meet the needs of an expanding economy; (b) reduce the transport cost of goods for export; and (c) introduce integrated transport systems. Finally, GOB is also finalizing a comprehensive Integrated Multimodal Transport Policy (IMTP).

1.7 Rationale for IDA involvement. The proposed project supports GOB’s export-led growth strategy and transport sector policy objectives as reflected in the NSP, NLTP and IMTP. In addition, the proposed project will support complementary investments in the DC transport corridor that the Asian Development Bank (ADB) has already put in place for the port sub-sector (Chittagong Port Trade Facilitation Project – US$41.3 million) and is planning for the railway sub-sector (Proposed Bangladesh Railway Sector Development Project – about US$277 million). The proposed ADB railway project has developed a comprehensive BR focused organizational reform program, which will be supported by the proposed project.

1.8 CAS objective. The proposed project supports the CAS Progress Report (dated June 30, 2003) objectives of supporting accelerated private sector led growth through the development of modern multimodal transport infrastructure and operations. Furthermore, it is also consistent with the CAS Progress Report objective of fostering better donor coordination and partnerships.

1.9 Lessons from previous projects. The last IDA project in the port sub-sector closed in 1992 while the last railway project closed in 1970. This means that IDA has provided only
limited support to the rail and port sub-sectors. Nevertheless, World Bank-wide lessons from other countries and regions will be applicable, particularly the appropriate sequencing of physical investments with policy reforms in the project design.

2. Proposed objective(s)

2.1 The project development objective (PDO) is to enhance the competitiveness of the tradable sectors of the economy.

2.2 The achievement of the PDO will be measured against the following outcome indicator: Regionally competitive transport costs and more reliable movement of import and export cargo in the DC transport corridor. The intermediate outcome indicators include: (a) increase in the number of containers moving by rail in that corridor; (b) modal shift for import/export cargo from break bulk movement by truck to container movement by rail; (c) development of modern and seamless intermodal transport; (d) higher quality freight and passenger train services; and (e) private sector development through commercialization of the planned ICD operations.

3. Preliminary description

3.1 The proposed project would include the following four major components:

- **Construction of a modern ICD near Dhaka.** Fund the construction of a new ICD near Dhirasram to meet the burgeoning demand for container services on the DC transport corridor, with a planned capacity of about 200 thousand TEUs/year. To ensure that the new ICD is operated efficiently, it will be operated commercially via either a leasehold or concession contract. The estimated cost of this component is about US$70 million, which includes land acquisition and the construction of a BR rail network spur.

- **Rehabilitation of existing railway track infrastructure on the DC corridor.** Complement already planned port and railway infrastructure planned by ADB, BR and CPA on the critical DC transport corridor. The planned investments would be limited to the re-construction of existing lines/sidings between Port of Chittagong and Fauzdarhat station which would provide additional reliable train paths to handle projected increasing container/freight traffic. The estimated cost of this component is about US$25 million.

- **Procurement of dedicated locomotives and specialized wagons.** Assist in the procurement of about 10 dedicated locomotives and about 200 container flat wagons and/or other specialized wagons to be used by BR exclusively on the DC transport corridor. The estimated cost of this component is about US$20 million.

- **Technical Assistance (TA) and consultant services.** Assist BR in implementing part of the organizational reform program which consists of: (a) reorganizing BR along lines of business; (b) transforming BR into a corporate entity; (c) upgrading BR’s financial management and accounting systems; and (d) improving BR’s operational effectiveness. Furthermore, assist BR/CPA in concessioning/leasing out the new ICD near Dhirasram and in preparing the requisite detailed engineering/specifications for the planned project.
investments. Finally provide funding for the supervision of the planned infrastructure civil works. **The estimated cost of this component is about US$10 million.**

3.2 **Total estimated project cost.** The total estimated cost of the proposed project is about **US$125 million.** The proposed project investments would leverage about **US$400 million** of complementary investments from GOB and ADB.

3.3 **Lending instrument.** A Sector Investment Loan (SIL) is probably the most appropriate funding instrument for the proposed project, as it will allow IDA to remain flexible at this stage of our dialogue and re-engagement in the sub-sectors. The lending operation will be supported on a project-approach, rather than a Sector-wide Approach (SWAP). This is because there are significant differences between the country-based fiduciary and safeguard systems and those of the Bank’s policies, and harmonizing them is just beginning.

4. **Safeguard policies that might apply**

4.1 Two major safeguard policies will be triggered: (a) Environmental Assessment (OP/BP 4.01); and (b) Involuntary Resettlement (OP/BP4.12). This is because the construction of the proposed new ICD near Dhirasram and associated rail spur will require the preparation of social and environmental screening reports to assess their temporary and permanent social and environmental impacts. This will lead to the preparation of a Resettlement Action Plans and Environmental Management Plans to mitigate the social and environmental impacts of the proposed project.

5. **Tentative financing**

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<td>INTERNATIONAL DEVELOPMENT ASSOCIATION</td>
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<td><strong>Total</strong></td>
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6. **Contact point**

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