

Note on Pakistan National Trade Corridor Program March 2007

In 2005, the Government of Pakistan launched major initiatives around the National Trade Corridor (NTC) to reduce the cost of trade by improving transport logistics infrastructure and services. The Government aims to bring the quality of transport services to international standards. This will reduce the cost of doing business in Pakistan and enhance export competitiveness, accelerate industrialization and sustain the high economic growth achieved in recent years.

The National Trade Corridor Improvement Program (NTCIP) hinges on a consensus building process with all stakeholders through informed consultation that focuses on: (i) quick results through policy interventions, systematic and procedural improvements, and cutting administrative red-tape involving small investments; (ii) longer term higher cost investments (with pragmatic investment assessment from the private sector); and (iii) deep rooted institutional reforms to ensure sustainability. Since the program concept was approved by the Prime Minister in August 2005, committees have been created for each of the six sectors involved in NTC with representatives from both the public and private sectors. The six sector committees are under the umbrella of the NTC Task Force which is chaired by the Planning Commission and reports directly to the Prime Minister. The Task Force meets quarterly to review progress in implementation of the NTCIP against agreed targets and performance benchmarks.

In essence, the NTCIP represents a medium term transport master plan for the country and systematically covers all infrastructure and services that support trade logistics. The Government has adopted a holistic and integrated approach which encompasses the public and the private sector, services and infrastructure, reforms and investments, and the various sectors which are responsible for the level of performance of the corridor (highways, road transport, ports and shipping, civil aviation, railways, customs and trade logistics). The period covered is slightly beyond the period of the Medium Term Development Framework (2005-2010) that was approved in May 2005.

NTC links the entire trade logistics network of services and infrastructure in Pakistan. Utilization of the key parts of this corridor is already more than 80% of existing capacity. It is projected that demand will double by 2015. It is estimated that inadequate performance of the transport sector costs the economy 4 to 6 percent of GDP each year. In 2006, domestic transport represented (on average for 18 products) 1.29 percent of the final value of the commodities against a targeted value of 0.80 percent to be competitive at global level. Improved external (as opposed to in-house) logistics would generate savings in costs of non-factor services estimated at US\$ 525 million annually. Specifically, the key outcomes to be achieved under the program include:

- Reduced share of cost of domestic transport and non-factor services in the total value of commodities;
- Overall reduction of transport and transit costs and times for goods using the National Trade Corridor;

- Increase rail share of long distance traffic of freight;
- Reduction in the operating deficit of railways, with objectively determined and targeted subsidies;
- Better corridor user satisfaction;
- Improved safety and reliability of transport operations;
- Improved governance and enhanced accountability of participating entities in the program.

Since the launch of the NTCIP, some early gains of the program have already been achieved: (i) reduction of port entry charges by 15 percent; (ii) reduction of port dwell times to four day and reduction of customs clearance times to less than one day for containers; and (iii) increase in daily freight express trains in the main north-south part of the corridor from 1 to 5 reducing up-country container travel times by 10-20 percent.

During 2004/2005, the Bank undertook a series of transport modal studies with the aim to provide advice on enhancing the performance of the transport sector and its contribution to the country's growth agenda. The studies provided the opportunity to develop a dialogue among stakeholders which contributed to laying the foundations and setting targets for the NTC program. The report "Transport Competitiveness in Pakistan: Analytical Underpinning for National Trade Corridor Improvement Program" forms the analytical basis for the Bank's support to the NTC Program. Based on these analytical works, a joint Government/private sector/World Bank team presented the NTC concept to the Prime Minister and other senior officials in the GOP in August 2005 and the Prime Minister endorsed the concept and launched the NTCIP.

The Bank intends to respond to the GOP request to support the NTCIP through a mix of budgetary support and investment operations. The Bank's financing program as envisaged comprises: a series of three Development Policy Loans (DPLs); specific sub-sector investment lending; and a technical assistance (TA) loan to assist with the implementation and monitoring/evaluation of the NTCIP over the next 5 to 6 years. Investment lending is being prepared in the highway and port sectors and additional lending is being identified in the highway, railway and port sectors. The first highway operation would support modernization of one section of the road corridor linking Karachi to Lahore. The first port operation supports the retrenchment of dock workers that are registered with the Karachi Dock Labor Board (KDLB).

A Bank mission was fielded in Pakistan in November 2006 to pre-appraise the first of the series of three DPLs, the KDLB port project and the TA project. The mission and the Government agreed to a policy matrix which includes a number of prior actions and milestones that reflect key decisions/achievements in the implementation of NTCIP. The Government is committed to progress quickly on the execution of these actions. The KDLB project is expected to be presented to the Board in June 2007. The Government is reviewing the steps necessary to implement the prior actions of the policy matrix with the objective of presenting the first DPL to the Board before end of FY07.