

**PROJECT INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No.: AB2616

<b>Project Name</b>	KARACHI DOCKERS LABOR BOARD RESTRUCTURING PROJECT
<b>Region</b>	SOUTH ASIA
<b>Sector</b>	Ports, waterways and shipping (100%)
<b>Project ID</b>	P103080
<b>Borrower(s)</b>	GOVERNMENT OF PAKISTAN
<b>Implementing Agency</b>	
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	September 22, 2006
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<b>Estimated Date of Board Approval</b>	March 22, 2007

**1. Key Development Issues and Rationale for Bank Involvement**

1. *Context.* The Government of Pakistan (GOP) wants to sustain the current economic growth of 7 to 8 percent by improving the country's competitiveness and capturing an increased share of regional and global markets. The Poverty Reduction Strategy Paper (PRSP) adopted by the Government in December 2003 identified substantially improved transport infrastructure and reduced trade-logistics bottlenecks as requirements to achieve this objective of growth while maintaining macro-economic stability. To address key constraints faced by the transport and trade logistics sectors, the Government has decided to launch major initiatives, targeted particularly on the National Trade Corridor.

2. The National Trade Corridor links Pakistan's major ports in the South with the country's major cities and trade corridors to the North. Together the ports, road and railways along this corridor handle 95 percent of the country's external trade and 65 percent of total land freight. The corridor serves an area, which contributes to 80-85% of GDP. Corridor utilization exceeds 80% of existing capacity and projected growth will double demand by 2015. In order to meet increased demand, a growth in capacity must be achieved along with improved service levels and decreasing costs. This will entail higher levels of investment in transport and reforms aimed at improved sector efficiency and enhanced private sector participation in the provision of transport infrastructure and services. The GOP has launched the National Trade Corridor Improvement Program (NTCIP), which is aligned with the goals and objectives outlined in the transport development section of Pakistan's Medium Term Development Framework (MTDF: 2005-2010).

3. The World Bank intends to respond to the GOP request to support these initiatives through a mix of budgetary support and investment operations. The Bank' financing program comprises of: a series of DPLs; specific sub-sector investment lending, including the proposed operation; and a technical assistance loan (specifically to assist with the implementation and monitoring/evaluation of the NTCIP over the next 5 to 6 years).

4. The proposed NTCIP's objectives are consistent with the CAS for FY'06-09 adopted on April 4, 2006, which reflects the high priority assigned to sustaining growth and improving competitiveness. The CAS estimates that modernization of the National Trade Corridor alone will require investment of about US\$1.0 billion per year over the next 5 to 6 years. In addition, the repair of critical road links, destroyed or damaged in the October 2005 earthquake, is an urgent priority. There is strong demand for increased

lending in the transport sector during the coming CAS period. The CAS proposes follow-on investment lending for highways and trade facilitation along the National Trade Corridor with an increasing emphasis on private sector participation in operation and management. On railways, the CAS envisages a combination of development policy lending and investment projects should the government commit to a medium term reform program to corporatize and commercialize Pakistan Railways. In the port sector the CAS proposes Bank support for the move towards landlord ports and professional management, combined with a modern institutional and legal framework for port operations which would open the way for investment lending to upgrade port infrastructure.

5. Other development partners are also actively supporting NTCIP:

- ③ In the port sector, the Asian Development Bank (ADB) is funding the Port Management Unit in the Ministry of Ports and Shipping. The objective of the unit is to establish and monitor benchmarks, prepare and help implement plans to corporatize the ports and assist the ports in achieving the status of landlord ports.
- ③ In other sectors, ADB will be a strong partner for the implementation of NTCIP. The financing plan for the highway component of NTCIP envisages that ADB's contribution will amount to US\$1.1 billion, about 30 percent of the total cost of the component. ADB is also presently funding: (a) technical assistance to prepare a framework for Public Private Partnership (PPP) in infrastructure, and (b) technical assistance to prepare a trucking strategy which will become integral part of the overall strategy for NTCIP.
- ③ The Japan Bank for International Cooperation (JBIC) is expected to cofinance with ADB one road section of the highway component of NTCIP. The exact contribution for each donor to the financing of that section has not been defined yet.

6. *Transport Sector Issues.* Poor performance of the trade and transport logistics sector significantly reduces the competitiveness of the actual and potential export industries and ultimately hurts the country's overall economic growth. The transport system in Pakistan generates high economic losses due to congested and poor quality roads and to a mismatch between supply and demand for transport services and supporting infrastructure. It is estimated that the inadequate and inefficient transport system is imposing a cost to the economy equivalent to 4 to 6 percent of the GDP, constraining economic growth, reducing export competitiveness and hindering social development. An efficient transport system is a pre-requisite for Pakistan to become globally competitive.

7. The main weaknesses of the transport system can be summarized as follows:

- (a) High port costs, resulting in higher charges to users than might be considered desirable in terms of overall economic policy, increasing openness to the world economy and stimulating trade and allowing Pakistan to capture a share of the regional and global market share.
- (b) Long dwell times for inbound containers due to low productivity and undue delays at customs (100 percent of containers are examined physically). The result is congested terminals and the need to construct additional facilities.
- (c) Ports have relatively shallow depth, which will increasingly limit shipping connections as the size of container vessels on direct services increase. Calls from smaller vessels providing feeder services would result in higher shipping costs compared to other ports in the region which have more depth.
- (d) The main road infrastructure does not provide the required level of service because of poor highway conditions and weak highway management. 44 percent of the road on the National Trade Corridor is in fair or poor condition. As a result road services are generally slow and unreliable. Exporters and importers have set up special and more costly arrangements for high value freight under time constraints.

- (e) High truck overloading, which leads to road damage, high accident rates, slow speeds and congestion. Fatalities/100 million vehicle kilometers are 10 – 20 times higher in Pakistan than in Europe, North America or Australia. As a result, while the trucking industry in Pakistan has low direct costs, its external societal costs are high.
- (f) The rail system carries insignificant levels of freight traffic and has been largely abandoned by the private sector. This does not reflect the potential for rail to take substantial share of the freight market in view of the competitiveness of rail on long distances (about 800 km).
- (g) Pakistan Railways is not profitable and could be considered technically insolvent. It is unable to service its debts and has been often unable to fully fund its operating costs and pension payments. To continue to operate, Pakistan Railways has received significant subsidies from the Government (US\$133 million in 2004 and US\$65 million in 2005). The 2005 financial statements show an improvement of the operating account with a slight profit of about US\$4.6 million, before depreciation and interests. This profit is generated by non-railway activities however. Excluding these activities, the deficit on the operating account would have been US\$41.7 million and the need for subsidies of about US\$106.6 million.
- (h) Incomplete implementation of the customs reform agenda. The simplification, modernization and harmonization of procedures and documents are at the heart of the trade facilitation agenda with customs clearance being the main focus. Substantial progress has been made already with the average customs clearance time being reduced from seven to less than one day comparable with international standards. Full implementation of the new system will allow clearance procedures to be moved away from the border while, at the same time, reducing opportunities for informal payments and providing incentives for importers and exporters to obey existing regulations.
- (i) Weak, fragmented and relatively under-developed freight forwarding/logistics sector. It has yet to transform to provide the breadth of services and levels of vertical integration, which are increasingly found elsewhere and are necessary for the export-oriented manufacturing sectors, particularly in textile and clothing.

## **2. Proposed Objective(s)**

- 8. The proposed operation will help the Borrower to achieve the objective of reducing the cost of trade and transport logistics and bringing services' quality to international standards in order to reduce the cost of doing business in Pakistan and ultimately enhance export competitiveness and the country's industrialization.
- 9. At the end of the program, the following outcomes are expected:
  - (a) Overall reduction of transport and transit costs and times for goods using the National Trade Corridor; and
  - (b) Reduced share of domestic transport costs and cost of non-factor services in the total value of commodities.

## **3. Preliminary Description**

- 10. The project will include three components:
  - (a) Severance: The objective of this component is to reduce the cost of Pakistan ports for port users by reducing related labor costs. This component will finance severance and related payments to management and workers retrenched due to closure of KDLB
  - (c) Labor Redeployment Services: The objective of this component is to provide labor redeployment services, to KDLB management and workers who have been displaced by

closure of KDLB, to assist them in reentering the labor force. This component will finance: (i) technical assistance and minor goods to develop and maintain administrative procedures between KDLB and other agencies (to be identified during project preparation) facilitating the assessment and planning for delivery of services to KDLB workers, and (ii) the actual cost of delivering labor redeployment services for up to 4,000 displaced staff. Labor redeployment services will be demand driven and will include, but not be limited, to those addressing: frictional unemployment (i.e., social and career/counseling, job placement), structural unemployment (i.e., institutional and on-job training), and lack of demand for labor (i.e., temporary community employment, small/micro business assistance).

- (d) Project Management and Evaluation: The objective of this component is to: (i) ensure effective administration and coordination of the overall project including financial management and accounts, procurement, and reporting; (ii) ensure effective communication related to the decision to close down KDLB and to the implementation of the retrenchment plan; and (iii) to monitor the social impact of the closure of KDLB. The component will finance technical assistance and minor goods to ensure coordination of project management activities and monitoring of the impact of KDLB in displaced workers, their families, the community, and the net impact of labor redeployment services provided to retrenched KDLB staff.

#### 4. Safeguard policies that might apply

*[Guideline: Refer to section 5 of the PCN. Which safeguard policies might apply to the project and in what ways? What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?]*

11. No safeguard policy will apply.

12. A poverty and social impact assessment will be carried out as part of the preparation of the first DPL. The PSIA will:

- address analytical gaps through additional work;
- assess the Government systems and capacity to reduce the adverse effects and enhance the positive effects; and
- ensure that the results of the two previous steps are fed into the policy dialogue, operation design and monitoring system as appropriate.

13. A social assessment (SA) will be carried out to better characterize the population affected by the retrenchment. This includes not only the workers themselves but their families as well as possibly the surrounding community. The SA should identify the most vulnerable groups. The SA will also provide the information useful to guide in the provision of support after retrenchment.

14. A continuous social impact assessment (CSIA) will be conducted on semi-annual basis to provide an independent assessment of the social mitigation measures in place, their equitable distribution and the targeting of vulnerable groups. It will help monitor the social dimensions of the proposed project and highlight the risks, challenges, opportunities and problems in the project.

## 5. Tentative Financing

Source:	(\$m.)
BORROWER/RECEIPIENT	10
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	70
Total	80

## 6. Contact Points

Contact	: Jean-Noel Guillosoou	Amer Zafar Durrani
Title	: Senior Transport Economist, co-TTL	Senior Transport Specialist, co-TTL
Tel	: (202) 473-4943	(92-51) 9090211
Fax	: (202) 522-2427	(92-51) 9090250
Email	: <a href="mailto:jguillosoou@worldbank.org">jguillosoou@worldbank.org</a>	<a href="mailto:adurrani@worldbank.org">adurrani@worldbank.org</a>