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# PROJECT PERFORMANCE ASSESSMENT REPORT

## NEPAL

## MULTIMODAL TRANSIT PROJECT (Cr. 3008-NEP)

**July 10, 2007**

*Sector, Thematic and Global Evaluations*
*Independent Evaluation Group*

## Currency Equivalents (annual averages)

*Currency Unit = Nepalese Rupees (NRs.)*

| Year | US$ | NRs. | | Year | US$ | NRs. |
|---|---|---|---|---|---|---|
| 1996 | 1.00 | 54.25 | | 2002 | 1.00 | 80.04 |
| 1997 | 1.00 | 56.78 | | 2003 | 1.00 | 79.19 |
| 1998 | 1.00 | 56.95 | | 2004 | 1.00 | 75.28 |
| 1999 | 1.00 | 68.10 | | 2005 | 1.00 | 74.30 |
| 2000 | 1.00 | 68.73 | | 2006 | 1.00 | 74.67 |
| 2001 | 1.00 | 74.65 | | | | |

## Abbreviations and Acronyms

| | |
|---|---|
| ACIS | Advanced Cargo Information System |
| ASYCUDA | Automated Systems for Customs Data |
| CAS | Country Assistance Strategy |
| ERR | Economic Rate of Return |
| GDP | Gross Domestic Product |
| GOI | Government of India |
| GON | Government of Nepal |
| ICB | International Competitive Bidding |
| ICD | Inland Container Depot |
| ICR | Implementation Completion Report |
| IRs | Indian Rupees |
| MOICS | Ministry of Industry, Commerce and Supplies |
| MTTFP | Multimodal Transit and Trade Facilitation Project |
| NITDB | Nepal Intermodal Transport Development Board |
| NRs | Nepalese Rupees |
| PAD | Project Appraisal Document |
| PIU | Project Implementation Unit |
| PPAR | Project Performance Assessment Report |
| RSA | Rail Service Agreement |
| TEU | Twenty Foot Equivalent Units |
| TMC | Terminal Management Company |
| UNCTAD | United Nations Conference on Trade and Development |
| WAN | Wide Area Network |

## Fiscal Year

Government: July 16 – July 15

| | | |
|---|---|---|
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The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEGWB annually assesses about 25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. IEGWB incorporates the comments as relevant. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

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***Outcome:*** The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

***Risk to Development Outcome:*** The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

***Bank Performance:*** The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

***Borrower Performance:*** The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

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This report was prepared by Thomas Kennedy, consultant, who assessed the project in February - March 2007. Peter Freeman was task manager and Romayne Pereira provided administrative support.

# Principal Ratings

| | *ICR** | *ICR Review** | *PPAR* |
|---|---|---|---|
| Outcome | Unsatisfactory | Moderately Unsatisfactory | Moderately Unsatisfactory |
| Institutional Development Impact** | Substantial | Substantial | - |
| Risk to Development Outcome | - | - | Significant |
| Sustainability*** | Likely | Likely | - |
| Bank Performance | Satisfactory | Satisfactory | Moderately Satisfactory |
| Borrower Performance | Satisfactory | Satisfactory | Moderately Satisfactory |

# Key Staff Responsible

| *Project* | *Task Manager /Leader* | *Division Chief/ Sector Director* | *Country Director* |
|---|---|---|---|
| Appraisal | Harald Hansen | Jean Francois Baeur | Hans Rothenbuhler |
| Completion | Fabio Galli | Guang Zhe Chen | Kenichi Ohashi |

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.
**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.
***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

# Preface

This is the Project Performance Assessment Report (PPAR) for the Multimodal Transit and Trade Facilitation Project in Nepal (Cr.3008). The World Bank approved a credit in the amount of US$ 23.50 million on November 25, 1997; the credit was closed on September 30, 2003, nearly two years later than planned (original closing date was December 31, 2001). The actual amount disbursed against the credit was US$ 18.24 million, as US$ 2.10 million was cancelled; the cancellation followed lower than expected bid prices for the construction of the facilities.

The project was selected for assessment because of a growing interest in multimodal facilities in developing countries and to confirm the ratings for this project which was subject to delays before it could become operational.

The report is based on a review of project documents, including Implementation Completion Report, Staff Appraisal Report, Memoranda to the President, legal documents and project files, and discussions held with Bank staff involved in the projects. An IEG mission visited Nepal in February 2007 to review project results and met with individuals including national officials and experts, transporters, forwarders, importers/exports, local officials and project staff.

Meetings were arranged in Kathmandu with the kind assistance of the World Bank Resident Mission and the Nepal Intermodal Transport Development Board (NITDB). The program for the IEG mission included meetings with operators of the three Inland Container Depots (ICDs), the Ministry of Industry, Commerce and Supplies, the Ministry of Finance including the Department of Customs, importers, exporters, freight forwarders, the Federation of Nepalese Chambers of Commerce and Industry, the Trade and Export Promotion Centre as well as local Bank staff knowledgeable about the project design and the circumstances surrounding its implementation.

Following standard IEG procedures, copies of the draft PPAR was sent to government officials and agencies for their review. Comments received are attached as Annex C.

# Summary

This is the Project Performance Assessment Report (PPAR) of the **Multimodal Transit and Trade Facilitation Project** (Cr 3008 – NEP), approved on November 25, 1997.

Nearly 90 percent of Nepal's foreign trade depends on access to India's transport network, especially the port of Kolkata, 1,056 km from Nepal. This lengthy transit route adds significantly to the cost of the country's foreign trade, constraining the competitiveness of its exports and making its imports among the most expensive in the region. Economic growth and poverty alleviation programs have consequently been constrained. Reducing the transport cost of country's foreign trade has long been an objective of the Government of Nepal (GON). The Nepal Multimodal Transit and Trade Facilitation Project (NMTTFP) was designed to support the GON's efforts to reduce transport costs and to introduce trade facilitation measures for third country trade.

The project included improvements to Inland Container Depots (ICDs) at three locations along the Indian border: a rail-based ICD at Sirsiya where rail traffic from India is transshipped to road trucks in Nepal; and road-based ICDs at Biratnagar in the eastern part of Nepal and Bhairahwa to the west of Kathmandu. Separate from this project, the Government of India (GoI) constructed a 5.4 km rail spur from the existing rail terminal at Raxaul to Sirsiya, 0.4 km inside Nepal territory.

The primary objectives of the project were (i) to reduce the transport costs of Nepal's foreign trade; and (ii) to streamline trade and transit procedures and to improve the efficiency and organization of transit trade documentation and data exchange. Transport costs would be reduced primarily through providing direct rail access to Nepal at the Sirsiya ICD, permitting a shift away from road to rail transport, resulting in savings in overall transport costs. The road-based ICDs would also result in transport cost savings due to increased usage of containers, more efficient operations and streamlined transit procedures.

The overall outcome of the Project is rated **moderately unsatisfactory**, since the project made little impact on the objective of reducing the cost of Nepal's foreign trade and only modest benefits were achieved in streamlining trade and transit procedures by implementing the Automated Systems for Customs Data package (ASYCUDA). The critical issues that contributed to the above outcome rating of the project were:

- Over-optimistic traffic forecasts for the Sirsiya rail-road ICD;
- A protracted period of negotiation between Nepal and India to finalize the Rail Service Agreement (RSA);
- Restrictive provisions included in the RSA contrary to normal Bank practices and that further restrict the potential traffic that could be handled by the ICD; and
- Failure to implement the full ASYCUDA package.

Although the ICD led to lower rail transport costs, many potential users perceived road transport to be quicker, more flexible and more reliable, offering a superior quality of service.

The risk to development outcome is rated **significant**. While the project design did highlight the considerable risk that traffic diversion from road to rail may not meet the forecasts, the projections were erroneous and should have been revised with much more stringent oversight of the original feasibility study in 1996.

The GoI could have been involved earlier and more directly in project discussions – this could have partially reduced the delay of several years in finalizing the RSA, despite the sensitive relations between the two countries. There were also flaws in preparation and in the selection and monitoring of suitable performance indicators. The flawed traffic projections gave rise to unrealistic expectations of the project's results for the GoN, the Bank and the private sector operator of the rail based ICD at Sirsiya. Bank and borrower performance was rated **moderately satisfactory** overall. Both teams were committed and succeeded in establishing an appropriate framework on which to build, but short-term they failed to fully achieve the key development objectives. It is suggested that the following actions be considered by the Bank and the GoN:

- That a user conference be held to improve utilization of Sirsiya ICD and establish a user group to identify steps to take to improve the service offered by the Sirsiya ICD and to maximize traffic throughput in the future.

- That further customs reform should if possible be accompanied by civil service reform of compensation for customs officers.

Experience with this project suggests four lessons:

- *The Bank should more critically review feasibility studies that include diversion of traffic from road to rail.*

- *Projects that depend on formal international cooperation agreements should not commence until such agreements are formalized, or there is at least a strong possibility of such agreements being brought to a timely conclusion.*

- *For projects that require cooperation from organizations within more than one country, all relevant stakeholders including potential users should be thoroughly consulted.*

- *Implementation of customs reforms should if possible be coupled with a civil service compensation review to reduce the likelihood of corruption.*

Vinod Thomas
Director-General
Evaluation

# 1. Background and Context

1.1 Nearly 90 percent of Nepal's foreign trade depends on access to India's transport network, especially the port of Kolkata 1,056 km from Nepal. This lengthy transit route adds significantly to the cost of the country's foreign trade, constraining the competitiveness of its exports and making imports among the most expensive in the region. Economic growth and poverty alleviation programs are similarly constrained. Reducing the transport cost of Nepal's foreign trade has long been an objective of the Government of Nepal (GON). The Nepal Multimodal Transit and Trade Facilitation Project (NMTTFP) was designed to support the GON efforts to reduce such costs and to introduce trade facilitation measures for third country trade.

1.2 The objectives of the project were (i) to reduce the transport costs of Nepal's foreign trade; and (ii) to streamline trade and transit procedures and to improve the efficiency and organization of transit trade documentation and data exchange. Transport costs would be reduced primarily through providing direct rail access to Nepal territory at the Sirsiya Inland Container Depot (ICD), located close to the Birgunj border with India, permitting a modal shift away from road to rail transport, and resulting in savings in overall transport costs. Greater use of road-based ICDs would also result in transport cost savings due to the shifting of goods from break-bulk to containers enabling more efficient operations and streamlined transit procedures.

1.3 The project was closed at the end of September 2003, but at that time, the Sirsiya rail-road ICD had not yet opened on account of prolonged negotiations over the Rail Service Agreement (RSA) between India and Nepal, which had not been finalized. Although the facility had been completed in December 2000 it remained unused for a period of 3.5 years. The Terminal Management Company (TMC) consequently also had not been appointed.

1.4 The political instability that has troubled Nepal during the past several years, as well as the worldwide economic downturn following the events of September 11, adversely affected the country's economic performance and it was feared that this would also have a negative effect on the outcome of this project. In addition, the bilateral trade with India has become a much more dominant portion of Nepal's total foreign trade during recent years. As third country transit traffic has the greatest potential to move through the Sirsiya ICD, this trend in trade patterns somewhat diminishes the potential traffic "base" for the rail/road ICD.

1.5 The traffic forecast that underpinned the project's relatively high expected economic benefits [1] was developed during the mid 1990's when Nepal's GDP was exhibiting rapid growth[2]. GDP growth has since moderated with negative growth during

[1] The Sirsiya ICD, which comprised the majority of the project's funds, had an Economic Rate of Return (ERR) of 45% as shown in the Staff Appraisal Report.

[2] During 1994 Nepal had a reported 9.9% GDP growth; 3.5% in 1995 and 5.3% in 1996; Asian Development Bank, Key Indicators of Developing Asian and Pacific Countries; www. Adb.org

2002 (-0.6 percent), recovering to over 3 percent for the following two years, before falling to 1.9 percent in 2006[3]. Traffic growth will therefore likely be lower than projected throughout the evaluation period.

1.6 In addition, several modules of the Automated Systems for Customs Data (ASYCUDA) have not yet been implemented severely limiting the achievement of the second objective of streamlining of trade and transit procedures.

# 2. The Project

2.1 The project included improvements to ICDs at three primary locations: a rail-based ICD at Sirsiya (close to the Birgunj border), where rail traffic from India is transshipped to road trucks in Nepal; and road-based ICDs at Biratnagar in the eastern part of Nepal and Bhairahwa, in the west. While there are 22 border crossings in Nepal, approximately 65 percent of foreign trade moves through Birgunj, 15 percent through Biratnagar, 10 percent through Bhairhwa with the remaining 10 percent moving through the other 19 crossings. Separately from this project, the Government of India (GoI) undertook to construct a 5 km rail spur from the existing rail terminal at Raxaul to Sirsiya, about 400 meters inside Nepal territory. Table 1 summarizes the costs, projected and actual, for each of the project components. The projected costs are consistent with the PAD, and actual costs were drawn from Annex 2 of the ICR. Some of these actual costs differ slightly from costs shown in the text of the ICR.

2.2 As about 80 percent of project benefits were projected for the rail/road ICD at Sirsiya, and the majority of the problems during implementation directly influenced Sirsiya, much of the discussion in this PPAR focuses on this facility. Project objectives (Box 1) sought to improve infrastructure at major ICDs and streamline procedures for transit trade, resulting in reduced transport costs. Reduction of transport costs has been a long-term goal of the GoN and the project was designed to permit increased foreign trade to use cheaper rail transport between the port of Kolkata and the Nepal border.

**Table 1: Project Cost by Component (US$ millions)**

| Component | Appraisal Estimate | Actual Cost | Percentage of Appraisal |
|---|---|---|---|
| Road and Rail Sirsiya (Birgunj) ICD | 18.0 | 12.57 | 69.8% |
| Road only Biratnagar ICD | 2.0 | 1.23 | 61.5% |
| Road only Bhairhwa ICD | 1.9 | 1.38 | 72.6% |
| Equipment for three ICD's | 2.0 | 1.19 | 59.5% |
| Supervision Consultants | 0.8 | 0.98 | 122.5% |
| TA for Trade Facilitation | 1.1 | 1.24 | 112.7% |
| Introduction of ASYCUDA | 1.1 | 1.83 | 166.4% |
| Introduction of ACIS | 1.1 | 0.58 | 52.7% |
| Project Preparation | 0.5 | 0.4 | 80.0% |
| **Total** | **28.5** | **21.40** | **75.1%** |

[3] IDA, Interim Strategy Note for Nepal; January 22, 2007

## OBJECTIVES

### Box 1. Summary of Project Objectives and Components

| Nepal Multimodal Transit and Trade Facilitation Project (Cr. 3008) | |
|---|---|
| **Objectives** | **Components *(with projected costs in US million)*** |
| To reduce transport costs associated with moving Nepal's imports and exports.<br><br>To streamline trade and transit procedures and to improve the efficiency and organization of transit trade documentation and data exchange. | *A. Inland Container Depot (ICD) Improvements. Civil Works and Equipment*<br><br>Construction of rail-based ICD at Sirsiya (Birgunj) with supporting rail/road links, storage, and customs facilities US$ 18.0 million. In addition, this component included activities related to the Resettlement Action Plan (RAP), excluding land acquisition. In parallel, though not included in the Bank project, the Government of India constructed a 5 km rail connection between the Sirsiya ICD and the existing rail terminus of Raxaul in India.<br><br>Improvements to the road ICD's at Biratnagar (US$ 2.0 million) and Bhairahwa (US$1.9 million). Included were civil works for improvements to existing road – based ICD's at these two locations.<br><br>Equipment Procurement. This component included the purchase of four reach stackers – two for the rail – based ICD at Sirsiya and one each at Biratnagar and Bhairahwa ICD's (US$2.0 million).<br><br>Supervision consultants (US$ 0.8 million). This component included financing supervision consultants to supervise the construction and improvement of the three ICD's.<br><br>*B. Trade and Transit Facilitation*<br><br>Technical Assistance for trade facilitation (US$ 1.1 million). This component included (a) simplification of documents; (b) modernization of carrier's liability, multimodal transport and insurance provisions; (c) modernization of customs administration policies and operational procedures; (d) strengthening of freight forwarding and customs clearing agency standards and capacity; and (e) updating of foreign – currency regulations relating to transit trade.<br><br>Installation of Automated Systems for Customs Data (ASYCUDA) (US$ 1.1 million). By introducing ASYCUDA along with greater selectivity in customs examination, the incidence of fraud is reduced and clearance of freight is expedited.<br>Installation of Advance Cargo Information Systems (ACIS) (US$ 1.1 million) This component included the implementation of ACIS as a freight tracking information system.<br><br>Repayment of Project Preparation Facilities (US$ 0.5 million) |

Source: Project Appraisal Document; Nepal Multimodal Transit and Trade Facilitation Project, October 29, 1997

## COSTS

2.3 The appraisal cost was US$28.50 million (including contingencies), comprising a credit of US$23.5 million and the balance of counterpart funding of US$5.0 million from the GoN. At project completion the final cost was US$21.4 million (25 percent below the appraisal estimate) with US$18.3 million from the credit. US$ 3.16 was contributed by the GoN and US$2.1 cancelled.

## IMPLEMENTATION ISSUES

2.4 Global practice usually involves a through bill of lading to be issued by the shipping company directly to the ICD, but this does not apply to the ICD at Sirsiya. Indian customs clearance for imports still takes place in Kolkata, as well as at Raxaul for

goods destined for the Sirsiya ICD. Some of the advantages of seamless transit usually associated with establishing an ICD thus do not exist for the Sirsiya facility. The possibility of shipping companies issuing through bills of lading to Sirsiya is, however, currently being discussed.

2.5 In retrospect, it might have been prudent to more extensively involve representatives of importers, exporters and freight forwarders in Nepal in the design of the components of the project and their likely impact on diversion of traffic from road to rail. With stakeholders directly involved in the project definition, essential components of the project that may have led to maximizing traffic moving through the facility would have been identified during the project preparation stage. For example, a more frequent and reliable rail service has been highlighted by potential users, as the most serious shortfall of the ICD.

2.6 Implementation was seriously delayed due to exogenous factors not under the control of the project. While the construction of the Sirsiya ICD was completed in December 2000, including construction of the rail spur financed by the GoI, there were long delays in finalizing the RSA between India and Nepal as well as in selecting the TMC to operate the Sirsiya facility. Operation of the facility began in July 2004. With hindsight, the RSA should have been concluded prior to the start of the Project.

2.7 A Project Implementation Unit (PIU) was established at the Ministry of Industry, Commerce and Supplies (MOICS); an international supervision consultant was retained to monitor construction work at the ICDs and the United Nations Conference on trade and Development (UNCTAD) supported the implementation of trade and transit facilitation components of the project.

2.8 The Sirsiya ICD is operated by the Himalayan Terminal Pvt. Ltd., a consortium of four companies, two from Nepal (40 percent) and two from India (60 percent); the lead firm in this consortium is CONCOR (Container Corporation of India Ltd.). Other members of the consortium include Transworld Group (India); Interstate Multi Modal Transport (Pvt.) Ltd and Nepal Transit Warehousing Corporation.

2.9 Traffic moving through the facility, however, has been far lower than projections. During the fiscal year 2004/5, the facility handled 5,651 TEUs; during 2005/6 throughput was 9,629 TEUs and during the 5 month period July-November 2006 5,244 TEUs. In the original traffic forecasts prepared by RITES, the consultant responsible for the feasibility study, during the first year of operation there was in excess of 800,000 tons projected to move through the facility (the equivalent of more than 50,000 TEUs). Projections were modified in the ICR where it was projected that by 2005 more than 38,000 TEUs would be handled. Actual traffic through the facility is still far short of even these revised projections.

2.10 The ERR for the Sirsiya facility was estimated to be 45 percent, as shown in the Project Appraisal Document (PAD) of October 29, 1997. Underlying this benefit calculation was the assumption as stated in the PAD "....that existing traffic (using road transport) will be diverted gradually to rail following the opening of the new facility (50

percent for the first year, 75 percent for the second year and 100 percent for the third year and onward)". The IEG mission considers these diversion assumptions to be unrealistic and as part of its review of the feasibility study, the Bank should have highlighted these very optimistic forecasts and asked the consultant to reevaluate/justify the assumptions underlying their traffic forecasts.

2.11 The basis for the estimated traffic diversion to the ICD and calculation of benefits was the difference between road and rail transport costs. This ignored the impact of time costs, and the high value the transport users, especially exporters, place on time and reliability. The longer and unreliable transit times by rail have been cited as the prime reasons why more traffic does not pass through the ICD, The very high traffic forecasts were pursued through both the PAD, the ICR, and are still being used by the current TMC of the ICD as a basis for comparing actual traffic.

2.12 Other contributing factors for the shortfall in traffic include the restrictive provisions in the RSA, which limits the type of cargo that can be handled at the Sirsiya ICD. Initially, the Agreement stipulated that only one third of country transit traffic was permitted to move through the facility; subsequently, the RSA was amended to permit the movement of bilateral trade with India. The Agreement provides for a periodic review and modification of technical and operational aspects in coordination meetings between representatives of the two governments held at least once every six months.

2.13 Moreover, only traffic in closed wagons was originally allowed to move through the ICD. While break-bulk traffic is now permitted, the facility has to date, not moved any significant amounts of this traffic (only 32,000 tons during 2005/6). Most break-bulk traffic moves either by rail from India consigned to Raxaul, then moved to Nepal by road, or is moved by road over the entire distance. There is little incentive to the shipper to move bilateral trade (Indian imports/exports) through the ICD. The IEG mission revealed during discussions with importers that one possible reason for the preference for road transport is the lax customs procedures at the Birgunj road border, where only cursory customs inspections are performed. Some importers are said to under declare volumes in road vehicles and are able to import these larger volumes without paying additional duties. Customs inspections at the Sirsiya ICD are said to be more thorough. The mission could not independently verify this assertion.

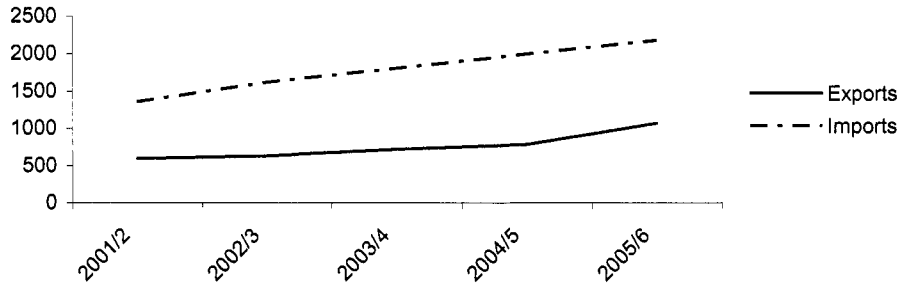
2.14 Another alleged reason for the traffic shortfall was the political unrest that gripped Nepal during implementation of the project, but this is not substantially borne out by the foreign trade statistics. While GDP growth in Nepal has moderated since the mid 1990s, there has not been a significant impact on foreign trade, as shown in Figure 1. The figure summarizes Nepal's foreign trade since 2001/2, in terms of value, in US$ millions[4]. The table indicates a constant growth in both imports and exports during the period. Limited information was available from the Customs department for specific border crossings; this is shown in Annex B, Table B5. The only apparent decrease in foreign trade during this period was the volume of exports moving through Birgunj; during 2005/6 traffic decreased by nearly 20 percent from the previous year. During the same period, the value

[4] The US$/NRs mid-year exchange rate

of exports through Biratnagar also decreased by about 5 percent.

2.15 One important change in the pattern of Nepal's foreign trade has been the relative importance of the Indian component. During the decade of the 1990's about 19 percent of Nepal's exports and 35 percent of imports were accounted for by India. By 2005, both directions of trade were about 68 percent dependent on India (see Annex B, Figure B1). As trade with India is considered by the mission to be less likely to use the Sirsiya ICD, the potential traffic base for the ICD has actually decreased during the past 10 years.

**Figure 1: Nepal's Foreign Trade ($ millions)**




Source: Nepal Ministry of Industry, Commerce and Supplies; Trade Promotion Centre; exchange rates as per www.xe.com

2.16 As for the goal of streamlining trade and transit procedures, implementation of the Automated Systems for Customs Data (ASYCUDA) [5] was part of the project. Anticipated projected benefits included an increase in the efficiency of processing goods at customs clearance locations. As noted in the ICR, for ASYCUDA to generate the full benefits of reducing the time to clear customs and associated transaction costs, the second stage reforms (not part of the original project design) had to be implemented; (a) different modules of ASYCUDA had first to be introduced; (b) risk management and selectivity had to be adopted; and (c) the existing manual system (determining customs duty rates and valuation) needed to be phased out. Without these improvements, ASYCUDA's impact on customs clearance would remain marginal.

2.17 The PAD specifies "the full implementation of ASYCUDA" with no elaboration as to the specific modules that were to be implemented. Projected benefits were described in the PAD as "improved data availability, streamlined procedures, enhanced human capital, etc." This description is quite vague and difficult to evaluate ex post. The first stage of ASYCUDA (implemented during the project) provided for the means to develop a customs data base; the second stage would have involved implementing the selectivity criteria and risk assessment to search commodity flows, and to select those that require closer attention. These critical second stage modules were only added to the project in December 2001 (the original closing date of the Project). As of early 2007, these second stage ASYCUDA modules have yet to be implemented through an Asian Development

[5] As per the SAR, the project is to include "...a full implementation of ASYCUDA"

Bank (ADB) assistance package. They include the risk management and selectivity modules, as well as the Wide Area Network (WAN) that would link the computerized offices with a central server in Kathmandu.

2.18 Only the declaration and accounting modules of ASYCUDA were implemented under the project and the time-consuming manual procedures remained in effect. The primary utilization of computers in the process of clearing of goods is for automated checking of the internal consistency of the declaration, application of the duty and tax rates corresponding to the declared code of the commodity, and verification of the correctness of the calculation. As all other steps are still being performed manually, there has been little impact on improving revenue or speeding-up customs clearance.

### OPERATIONS AND MAINTENANCE

2.19 All project components constructed under the project have been fully completed. There were no apparent maintenance issues with the facilities or equipment acquired under the project. The only issue raised during discussions with the terminal operators was the rehabilitation of an access road that was damaged during construction; this problem had already been satisfactorily resolved using funds under the project.

### MONITORING AND EVALUATION (M&E)

2.20 There are four assessments for rating the project's M & E quality: design, implementation, utilization and overall rating. Key Indicators were given in the PAD in support of the Country Assistance Strategy, the project development objectives and project outputs. Most of these key indicators were not achieved, either because they set unattainable targets or due to delays in the utilization of the facilities.

2.21 **M & E Design**. With regard to the design, the rating is *Negligible*. Several of the key indicators contained goals that the IEG mission considered unreasonable. The PAD included a project design summary listing several critical monitoring indicators that reflected the project's goals to reduce transit times from the port so as to lower transport costs by 15 percent after the first year of ICD operation and a further 10 percent after two years; to increase the percentage of the GDP generated by private sector economic activity; to increase the market share of containerized freight (third country) from 5 to 25 percent after the first year of operation; and to decrease transit cycle times from ship to ICD and back from 20 days to 15 days. These monitoring indicators were not only difficult to measure, but in the view of IEG were unachievable, because of the redundant traffic forecasts. For example, in the PAD the basis for the 15 percent transport cost reduction was not specified – whether this meant 15 percent reduction in the cost of all of Nepal's foreign trade, only that portion of Nepal's foreign trade that passed through the Birgunj customs depot or only of that portion of traffic diverted to the Sirsiya ICD is unclear. The PAD was weak, in that it did not fully describe all project components nor did it include any indication of the traffic that was forecasted to be moved through the ICD; only the economic rate of return (ERR) was shown, with some sensitivity analysis.

2.22 In order to properly compare flows through the Sirsiya ICD with total flows

through the Birgunj customs post, the IEG mission estimated the total volume of foreign trade moving through the Birgunj customs facility by comparing the value of imports with tonnage of imports moving through the Sirsiya ICD during 2005/6[6]. Applying the average value per ton to the customs data shows that imports through Birgunj totaled 2.75 million tons and exports, 0.779 million tons. As Indian bilateral trade is approximately 68 percent of the total, for both imports and exports,[7] the estimated tonnage of Indian bilateral trade crossing the Birgunj border was 1.87 million tons of imports and 0.53 million tons of imports[8]. The Sirsiya ICD moves only about 6 percent of Nepal's imports that pass through Birgunj, and about 19 percent of third country imports moving through Birgunj. Clearly, the goal of reducing transport costs of Nepal's import/export goods after the first year of commencement of ICD operation was not met, nor is it likely to be reached in the foreseeable future.

2.23 While transport costs are lower by rail than road, it is unrealistic to expect dramatic shifts in traffic when the quality of service is not the same. Transit times between the port (Kolkata) and Nepal by road are quite consistent according to users—between 3 and 4 days. By rail, transit times can be up to 8 days or more. [9] These longer transit times are primarily due to infrequent train services. Users are willing to pay a premium for service reliability, particularly for exports which need to meet ship sailing dates.

2.24 Another of the key indicators chosen was the increase in the percentage of GDP generated by project-induced private sector economic activity; this was an unrealistic indicator. The ICD handles only a portion of total imports and virtually no exports. There has been no measurable growth in foreign trade on account of this small shift in transport mode. The IEG mission held discussions with importers, exporters and freight forwarders, and there was little enthusiasm expressed for the rail-road ICD and the rail service between Kolkuta and Sirsiya. Of the importers that utilize the ICD approximately 40 percent of users are government entities, and most shippers cited the long and unpredictable transit times as the primary reason for continuing to utilize road transport. [10]

2.25 **M & E Implementation**. Only a limited amount of information regarding the achievement of key indicators was available. The Sirsiya ICD operator has calculated transit time cycles for containers from Kolkata, but only for rail traffic. There was no

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[6] During this period a total of 9,629 TEUs (134,806 tons @ 14 tons/TEU) moved through the Sirsiya ICD, in addition to 31,399 tons of break – bulk goods for a total of 166,205 tons of imports. According to customs data (Annex B, Table B-5), the value of these goods was IRs 4,602,639,000, for an average value of IRs 27,692 per ton. The total value of goods moving through the Birgunj customs office during the same period was IRs 76,066 million of imports and IRs 21,567 million of exports.

[7] Trade and Export Promotion Centre of Nepal; www.tpcnepal.org.np

[8] The value for exports is probably somewhat overstated, as the value per ton for exports is likely higher than for imports.

[9] This is disputed by MOICS/NITDB.

[10] A website has been created to track transit times which may become more predictable over time.

comparison with cycle times using road transport, which was the transport mode used by containers prior to the ICD opening in 2004. There was also no comparison of the transport cost of Nepal's tradable goods before and after the project, as proposed at appraisal and no evaluation of the market share of containerized truck/rail freight vs. break-bulk freight. Finally, there was no indication of the percentage of GDP generated by private sector economic activity.

2.26 The IEG mission did, however, attempt to evaluate transit times based on information obtained from interviews in Kathmandu. According to these interviews it was found that by road, current one-way transit times are between 3 and 4 days. During the first year of the Sirsiya ICD operation, a container made the round trip from Kolkata to Nepal by rail in 19 days; the next year, as train frequency increased, turn-around times decreased to 8.5 days. This is not a transport time saving attributable to the ICD; all this shows is that rail transport improved on its previous transit times, through increased frequency of train service. The IEG mission considers that most of the key indicators were not met.

2.27 Some modules of ASYCUDA have been implemented, but, these have not been sufficient to achieve any significant benefits for movements of goods through customs or an increase in receipts of duties. Key indicators as shown in the SAR were in some cases unspecific, others were unrealistic and in general inappropriate to properly measure the success of the project. The mission therefore rates the M & E Implementation as *Modest*.

2.28 **M & E Utilization**, There was no evidence that the M & E findings were communicated to stakeholders. For example, some statistics was obtained from Customs by the IEG mission, which showed the value of foreign trade moving through each of the three border crossings (Birgunj, Biratnagar and Bhairhwa), but this information is incomplete and was available only from 2001; a comparison with the period prior to the project implementation was not possible. In the project design summary of the PAD, the Department of Customs was supposed to monitor growth in traffic volume; the PIU was to monitor cycle times and MOICS was to collect data on transportation costs and transportation market share. IEG could find no evidence of this information having been collected. In the ICR, only one of the six key indicators was shown as not achieved; this was the "15 percent reduction in transport costs of tradable goods..." There was, moreover, no evaluation of the Project's M & E. The mission therefore rates the M & E Utilization as *Negligible*.

2.29 **Overall M & E Rating.** Two of the three M & E elements were ranked as Negligible, and one ranked Modest. The overall rating is therefore rated as ***Negligible.*** The M & E indicators included in the PAD had many weaknesses and had little impact on the successful monitoring of the project. Many were found to be unrealistic and most were not achieved.

### SUMMARY OF OVERALL RESULTS

2.30 All physical and institutional elements of the project were completed within budget and the quality of the works was considered to be good. The primary negative

issues were the serious shortfall in actual traffic moving through the facility compared with forecasts, and the long delay in commencement of operations at the Sirsiya rail ICD; construction was complete in December 2000 but operations only began more than three and a half years later.

***Delay in Finalizing the Rail Service Agreement***

2.31 The primary reasons for the long delay in opening the Sirsiya facility were the finalization of the RSA between India and Nepal (the agreement was signed on May 1, 2004 after a three – year period of negotiation) and the subsequent selection of the TMC to operate the facility. Key issues that proved to be stumbling blocks to a quick resolution of these negotiations were related to national sovereignty and security.

2.32 The final Agreement contained several provisions restricting the traffic that would be moved through the ICD which may have compromised the efficient operation of the facility. The RSA stipulated that the TMC to be appointed to operate the facility should either be an Indian company, a Nepalese company or a joint Indo-Nepal Joint Venture (Section 4.2) and included a restriction concerning types of rail wagon allowed in interchange between India and Nepal so that only container wagons and covered goods wagons would be permitted (Section 10.2). The Bank usually requires that the selection of a TMC be as a result of international competitive bidding (ICB)[11]. While not known for certain, there may have been a more efficient and effective operator selected, had the bid been open to ICB in accordance with normal practice. The restrictive provision that excluded open wagons, as well as refrigerated wagons/containers undoubtedly had a negative impact on potential future traffic levels moving through the facility.

2.33 Another point of contention during the negotiations was the issue of the Indian customs facility which was to be located inside Nepal at the ICD; (India cited security reasons for this location, but the GoN opposed this provision). Indian customs inspection for ICD-bound traffic now takes place outside the ICD at Raxaul. However, a jointly operated ICD with customs for both countries at the same location would have resulted in a much more efficient one-stop facility.

2.34 The period during which the RSA with India was being discussed, came at the time of increased tension between the two countries. The hijacking of an Indian Airlines aircraft at Kathmandu airport on March 13, 2000 strained relations further and resolution of this incident took precedence over consideration of the RSA. While this was not the only reason for the delay, it certainly was a contributing factor and it emphasized the importance of security, as perceived by the GoI.

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[11] This was apparently not what was envisaged by the Bank in this instance as expressed in the Field Mission Report of May 7, 1996: "During the mission it was agreed that one experienced private terminal management company (TMC) selected on a transparent and competitive basis, will manage the day to day operations and serve as the primary tenant in each terminal...The Birgunj terminal will require "world class" management expertise in order to realize its full economic benefit for the Nepalese economy. Moreover, it is sufficiently large to attract world class terminal operating companies. Hence, international companies who have successful track records in intermodal terminal operations are expected to respond to an invitation to bid on the Birgunj operation.

*Over-optimistic Traffic Forecasts*

2.35 Economic benefits from the Project were far below the projections set out in the PAD. However, the mission considers that even if the rail-based ICD had opened on schedule, project benefits would still likely have been well below projections on account of the reluctance of shippers to change their mode of transport. The PAD had projected that 50 percent of foreign trade for Nepal crossing the border at Birganj would move to rail in the first year after opening of the Sirsiya ICD, with 70 percent in the second year and 100 percent after the third year. In fact, the facility opened in mid 2004, and traffic recorded during the early years of operation was far below projections. Table 2 summarizes traffic moving through the ICD since opening. Traffic consists of imported container traffic as well as some break-bulk; all of this traffic is from third countries transiting India destined for Nepal. Export traffic from Nepal is negligible. Only 6 percent of Nepal's foreign trade passing through the Birgunj border is moving through the ICD.

**Table 2: Actual Traffic Moving through Sirsiya ICD**

| Traffic Type | 2004 – 2005 | 2005 – 2006 | July 2006 – Nov 2006 |
|---|---|---|---|
| Containers (TEU) | 5,651 | 9,629 | 5,244 |
| Break Bulk (tons) | 2,300 | 31,399 | 32,163 |

Source: Interstate Multi Modal Transport (Pvt) Ltd.; Kathmandu Note: date is for Nepal fiscal year from July 16 – July 15 of each year

2.36 Traffic projections as developed in the feasibility study report [12] are summarized in Table 3. It can be seen that projections are high, when compared with actual traffic now moving through the ICD. Figure 2 shows the actual tonnage moving through the facility (revised projections by the mission, based on actual throughput during two years of operation) with the original forecasts [13] The actual facility throughput has been converted to tons, using an average net weight of 14 tons/TEU. Based on this comparison, the extent of the difference between the original forecast and actual traffic is dramatic.

2.37 Projections for third country containerized imports were, however, closer to existing traffic. During 2005/6 a total of 9,629 TEUs were moved, compared with the projection of 14,916 for the first year of operation. But only 32,000 tons of third country break-bulk imports were moved through the ICD, less than one third of projections. Essentially no export traffic has been moved through the ICD. If total traffic projected for the first year of operation (887,415 tons), is compared with actual traffic (166,205 tons), the actual traffic is less than 20 percent of projections. The most striking shortfall compared with projections is the absence of any bilateral Indian traffic and export third country traffic. Export container traffic does not feature on account of the unreliable

[12] Nepal Multimodal Transit and Trade Facilitation Project; Project Preparation Services; RITES, January 1996

[13] As the facility opened five year later than the first year of the original traffic forecast, the forecast tonnages as shown for "2000-01" in the original traffic forecast are shown as "2005" when compared with actual traffic.

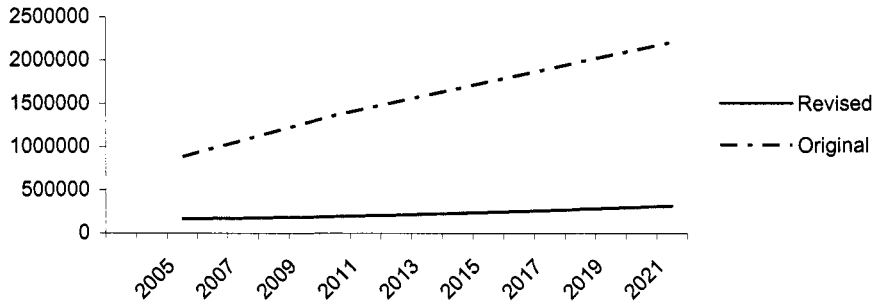
transit times by rail, according to exporters and freight forwarders in Nepal. The IEG mission considers the forecasts in the feasibility study presented a misleading impression of the economic and financial viability of the project.

**Table 3: Sirsiya ICD Traffic Forecasts (tons)**

| | 2000-01 | 2005-06 | 2011-12 | 2016-17 |
|---|---|---|---|---|
| *Imports:* | | | | |
| Third country containerized (tons) (TEU) | 237,407 | 377,726 | 489,165 | 567,370 |
| | (14,916) | (21,763) | (27,952) | (31,850) |
| Third country break-bulk (third country) | | | | |
| Bilateral trade | 117,980 | 168,512 | 237,652 | 317,027 |
| Total Imports | | | | |
| | 471,001 | 720,327 | 963,618 | 1,169,556 |
| | 826,388 | 1,266,525 | 1,690,435 | 2,043,953 |
| *Exports:* | | | | |
| Third country containerized (tons) | 61,027 | 99,122 | 136,063 | 165,541 |
| (TEU) | (4,359) | (7,081) | (9,719) | (11,824) |
| Bilateral | - | - | - | - |
| Total Exports | 61,027 | 99,122 | 136,063 | 165,541 |

Source: Nepal Multimodal Transit and Trade Facilitation Project; Project Preparation Services; RITES, January 1996

**Figure 2: Sirsiya ICD Original Forecasts and Revised Forecasts (tons)**




### *Revised Economic and Financial Evaluation*

2.38 Despite the fact that actual traffic through the Sirsiya ICD was far below projections, the ERR for the project (using the original assumptions and excluding quality of service costs) was still found to be positive. The mission revised the economic evaluation of the Sirsiya ICD incorporating actual traffic; the revised economic calculation is shown in Annex B, Table B-1. Based on 4.5 month's of traffic data during 2006-2007 some 5,244 TEUs were moved, which annualized would be about 13,000 TEU. However, due to the internal security problems in the Terai region of Nepal during early 2007, when the ICD and the border were closed for several weeks, it is doubtful that more than 10,000 TEUs would have moved. The mission calculated an updated comparison of transport cost savings for rail compared with road between Kolkata and

the Birgunj border. Information provided by one of the consortium partners operating the Sirsiya ICD (Interstate Multi-Modal Transport) indicates the cost for rail movement of a 20′ container is Indian Rupees (IRs) 31,435 and for road 45,000. As these were 2006 calculations, using the June 15 2006 conversion rate of $1 = IRs 45.9 (www.xe.com) the cost comparison is for road $980/TEU [14] and for rail $685/TEU, or a saving of $295/TEU (IRs 13,500). IEG included the actual capital cost of the Sirsiya ICD of $12 million in addition to actual operating costs [15]. It was assumed that benefits of the break-bulk traffic moving would be similar to those of containerized goods. The benefit of $295/TEU was divided by 14 tons/TEU to derive a benefit of $21.07/ton for break-bulk traffic. Applying a projected traffic growth factor of 3 percent per year to 2010, and 5 percent thereafter, the ERR was found to be over 17 percent and NPV of $11.41 million, after adjusting all costs by the standard conversion factor of 0.9 [16]. This calculation does not include the annual lease cost that the operator pays to the GoN for use of the infrastructure provided under the project, as it would double count the capital costs.

2.39 The financial evaluation of the project, given in the feasibility study that underpinned the PAD, showed a rate of return of 19 percent. In the section of the feasibility study describing financial results it was stated that the need to carry out sensitivity analysis would not be necessary: "once the economies of scale start operating, the profits will be very high". While the ICR contained a revised economic evaluation based on delayed opening of the facility and for lower traffic projections, there was no recalculation of the financial analysis for the Sirsiya ICD, which was a serious shortcoming given the financial difficulties of the TMC.

2.40 The TMC of the Sirsiya ICD provided IEG with existing and projected revenues and operating costs of the facility. The mission used these figures, after some revision, to develop a revised financial evaluation for the facility, shown in Annex B Table B-2. Existing container and break-bulk traffic has been used, projected to increase at an annual rate of 3 percent/year to 2010; 5 percent/year thereafter. Operating costs are assumed to be 20 percent variable with traffic growth, while revenues increase directly with traffic. The lease cost of the facility is taken as NRs 52 million per year to 2007 and NRs 115.20 million per year thereafter, as per the existing contract provisions. The losses each year are shown to decrease slightly over the 10 year lease period from $1.30 million in 2007 to about $1.18 million in 2013. Two factors could lead to a positive operating profit: an increase in traffic or a reduction in lease payments. The mission finds that if traffic from 2007 increases 2.75 times the revised forecast (see Annex B Table B-3), or if the lease payment was reduced to 20 percent (see Annex B Table B-4), the cash flow position turns positive for the operator from 2009. The TMC should have conducted its own due diligence prior to entering into this lease agreement and should not have relied only upon

[14] The mission confirmed this figure by comparing existing road transport costs (February 2007) between Kathmandu and Kolkata by interviewing existing road transport users and freight forwarding companies. The current cost is about $950.

[15] Operating costs of the ICD (excluding lease) during 2005/6 were NER 27.92 million; dividing by 9,629 TEU and applying an exchange rate of US$1 – NER 70, the operating cost is $0.000042 million per TEU

[16] In the ICR the standard conversion factor of 0.9 was applied to financial costs; this was determined to be appropriate by the mission.

results of the feasibility study of RITES; there was no guarantee on the part of the GoN with regard to traffic moving through the facility; the results of the RITES study were included as information only to potential bidders.

2.41 Based on the existing financial performance of the facility, it is doubtful whether the existing operator will be able to survive without government intervention, given the serious financial losses being incurred; the mission does not foresee a likely future scenario that will result in sufficient traffic to reverse this trend. The GoN may wish to revisit the lease cost issue with the existing operator, if only to keep the operation of the facility in the private sector.

2.42 The mission interviewed existing users and freight forwarding agents to determine why more traffic diversion to rail had not taken place. The primary issue was reliability, while transport cost was a secondary concern. One importer of fabric and an exporter of clothing expressed the concern that the production line in Kathmandu was dependent on the regular arrival of raw materials in order to minimize stockholding. Movement of exports of finished products had to be carefully timed to meet the sailing dates of ships at Kolkata port. Road transport, while more expensive than rail, provided better reliability. Rail transit times, though often similar, could on occasion be longer, as the train service is not, at present, operated daily.[17] From 2006, the trains operated into the ICD on an average of 2 to 3 times per week. A train is dispatched from Kolkata (35 flat wagons) when a full train load of containers is available (between 60 and 70 TEUs). This means that in many cases, containers bound for Nepal have to wait two to three days for the next train departure.

2.43 There is scarcely any export traffic moving through the Sirsiya ICD. Interviews with exporters and several freight forwarders in Kathmandu consistently pointed to the unreliability of the road/rail service through the ICD to Kolkuta. Exports from Nepal typically are clothing destined for North America and carpets, bound primarily for Europe. It is critical for such shipments to arrive in Kolkata port on time. It has been the experience of these exporters that using the rail route, transit times are unreliable—if the vessel sailing is missed, exporters face either at least a one week delay waiting for the next sailing, or the shipment must be sent by air freight at a considerable cost to the exporter. For this reason, more predictable road transport conveyance is preferable to rail transport, even with higher transport costs. A factor that tends to reduce road transport costs to Kolkata is the large number of available vehicles in Nepal that have brought imports from Kolkata, whose operators are anxious to find return loads and willing to convey goods at a discounted price.

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[17] Based on the mission's discussion with importers and exporters in Nepal, the rail option has been used in the past (prior to the construction of the ICD) but service proved to be unreliable. Freight forwarders in Kathmandu also advise against using rail transport due to the unreliable service, even with the ICD now operational. Rail service frequency was only about 3 trains per week from Sirsiya ICD during 2005/6; this increased to about 6 trains per week during the period July-November 2006. Road transport users also expressed concern over diverting traffic to rail, even with cost savings, as long-standing relationships have been developed with the road transporters and forwarders and there was a perceived risk in breaking these relationships.

2.44 Based on the perceived unreliability of rail transport, exports from Nepal cannot be considered to be potential traffic for the Sirsiya ICD, based on current operations. In addition, of the total foreign trade crossing the border at Birgunj, approximately 68 percent represents bilateral trade with India, most of which is break bulk traffic. While the ICD does move some break-bulk commodities, the RSA at present restricts the type of rail wagons permitted, thus restricting the future traffic potential. Nepal's imports tend to be lower in value and less time sensitive than its exports. This situation favors rail transport for some imports, and road for nearly all exports. Unless the rail option (through the Sirsiya ICD) can provide consistently reliable transit times from locations within Nepal and the port of Kolkata, road transport will likely continue to move nearly all of Nepal's exports.

2.45 Container traffic for Nepal arrives at two ports in the vicinity of Kolkata—Kolkata Port and Haldia Port (120 km east of Kolkata). During 2005/6 there were 23,860 TEUs arriving at both Kolkata and Haldia destined for Nepal (approximately 80 percent from Kolkata; the remainder from Haldia). At present there is no direct rail service from Haldia to Birgunj; so all Haldia port traffic destined for Nepal is moved by road. During the same year, 40 percent of all containers arriving at both Kolkata and Haldia destined for Nepal from Kolkata were moved by rail; the remainder by road. Therefore, the only potential additional import traffic for Nepal amounted to no more than 6,900 TEUs during 2005/6.

***Failure to Implement ASYCUDA in Full***

2.46 The two critical ASYCUDA modules that were not implemented were the risk management and selective checking modules. These modules would have provided complete information regarding shipments to shippers and freight forwarders, as well as developed a risk assessment mechanism enabling customs authorities to select only the high risk shipments for scrutiny. Without these modules in place, the benefits anticipated in the PAD could not be fully realized.

2.47 In the ICR it was stated that these risk management and selectivity modules were not part of the original design of the project; the additional modules were added to the project during the Tri Partite Review Meeting in December 2001. In addition, the introduction of the WAN for the system that would provide information linkages between customs locations at borders with Kathmandu, was also not implemented. With only partial implementation, any benefits expected from this component of the project were marginal. During the IEG mission, discussions were held with Bank staff as well as representatives of the Ministry of Finance regarding this issue. There was, it appears, a long delay in making operational the IT division of the Department of Customs; this was given as one reason for the failure to implement the WAN. In addition, there were several pieces of key legislation (such as the Carriage of Goods by Road and the Multimodal Transport Act) required to assist in achieving improvements in trade facilitation and customs modernization. The Nepal parliament was suspended during the latter stages of the project and the lack of this legislation constrained the project in achieving all its goals.

2.48 It is generally acknowledged that some customs officials at Nepal's border posts are susceptible to corruption. Successful implementation of any type of major customs reform should preferably have been coupled with civil service reforms addressing compensation and other issues to reduce the likelihood of corruption on the part of customs officers. The mission therefore suggests this to be taken into consideration with any further implementation of ASYCUDA modules.

2.49 Another issue that affected the implementation of ASYCUDA was the requirement of the GON that the Nepali language be used in all official customs documents. A print filter program was required to print in English on a preformatted Nepali form. As of project closure, UNCTAD was unable to find a developer that would develop Nepali fonts for ASYCUDA.

### PERFORMANCE RATINGS

**Table 4: Performance Ratings by Objective**

| Objective | Relevance | Efficacy | Efficiency | Outcome |
|---|---|---|---|---|
| Reduce transport costs for Nepal's foreign trade | Substantial | Modest | Modest | Moderately Unsatisfactory |
| Streamline trade and transit procedures and improve efficiency and organization of transit trade documentation and data exchange | Substantial | Modest | Negligible | Moderately Unsatisfactory |
| **Overall Outcome Rating** | **Substantial** | **Modest** | **Modest** | **Moderately Unsatisfactory** |

2.50 **Outcome of First Objective:** ***Reduce Transport Costs for Nepal's Imports and Exports***. The needed infrastructure was completed successfully albeit three and a half years before the primary Sirsiya ICD could be put into operation. Based on the original assumptions, the ERR exceeded 17 percent for Sirsiya despite the delay. However, what was calculated as the main benefit was the difference between the price of rail and road transport. This does not reflect the real cost as perceived by the shippers which includes quality of service aspects such as transit times, flexibility and uncertainty in delivery dates. Such hidden cost factors resulted in only the less time sensitive traffic diverting from road to rail and calls into question the ability to sustain this growth into the future. Had the contribution by the GoI to finance the 5 km connection linking Raxaul with Birgunj been factored into the project and not treated as a sunk cost the ERR would probably have been negative. The PAD projections were unrealistic and unachievable. Currently the actual traffic moving through the ICD is only 3 percent of Nepal's foreign trade (and includes virtually no export traffic), which is extremely modest. Financial viability has also not been achieved and M&E was negligible. Taking into account that some institutional progress was made mainly with the setting-up of the regulatory framework and introduction of private sector participation was effected the outcome of this first objective is rated ***Moderately Unsatisfactory***.

2.51 **Outcome of the Second Objective**: ***Streamline Trade and Transit Procedures.*** Some of the trade and transit procedures were introduced, but most of the inefficient manual procedures are still being used because two critical ASYCUDA modules still remain outstanding. The project has, however, provided a basis for the remaining modules when implemented, and this should eventually result in the benefits of faster processing time of goods as well as increased revenue collections from customs duties. The outcome of this second objective is rated by the IEG mission as ***Moderately Unsatisfactory.***

2.52 **Outcome of the Overall Project**. Most of the project financing (and the source of about 80 percent of benefits) was attributed to the first objective, to reduce transport costs. Some transport costs were reduced though only about 3 percent of foreign trade (the focus of the main development objective) passes through Sirsiya; no exports use the facility on account of the poor service perception of the users. As the first and second objectives were partially achieved, the overall outcome of the project has been rated as ***Moderately Unsatisfactory.***

2.53 **Relevance**. The Project's objectives are relevant to the needs of Nepal as well as the Bank's strategy. It has long been a goal of the GoN to reduce the country's transport costs for foreign trade to enable Nepal to better compete in world markets. Simplification of customs procedures and documentation will improve the efficiency and organization of transit trade documentation and data exchange. The need for streamlining of customs procedures is highlighted in the Bank's latest Nepal Country Assistance Strategy of 2003. **Relevance of the objectives** is considered ***Substantial.*** With regard to relevance of the Project's design, while there was a clear statement of objectives, the targets identified and the causal chain between the Bank's funding and the intended outcomes is far from clear. The performance monitoring and evaluation system shown in the project design summary included key indicators that were difficult to measure and in general, too ambitious. Simply establishing an ICD at Sirsiya was not sufficient to result in the large modal shifts in traffic reflected in the key indicators for the project; there should have been a greater involvement of importers, exporters and freight forwarders in the project design so as to maximize the traffic diversion potential.

2.54 **Efficacy**. The first objective, to reduce the transport costs of Nepal's foreign trade, was only partially achieved. Transport costs for traffic that was diverted to rail and moved through the Sirsiya ICD were reduced, but this traffic was far less than projected in the project's feasibility study. In the feasibility study it was projected that 826,388 tons would move through the Sirsiya ICD; in practice, during the first full year of operation, only 166,205 tons were handled. The second project objective, to streamline trade and transit procedures and improve efficiency and organization of transit trade documentation and data exchange, was only partially achieved. Inefficient manual procedures remain in place; in fact the limited computerized procedures have been imposed on top of the manual procedures and ASYCUDA has only been partially implemented. The **overall efficacy rating** is ***Modest.***

2.55 **Efficiency**. The ERR for the Sirsiya ICD facility given in the PAD (45 percent) could not possibly have been achieved primarily due to the over-ambitious traffic

forecasts and the long delay in opening the Sirsiya rail-based ICD. In spite of the lower traffic, however, the mission recalculated the ERR for the Sirsiya facility to be 17.4 percent[18] but this does not take into account the hidden costs explained in paragraph 2.50. Moreover, the private operator is in a negative financial position. While this is strictly not the direct concern of the project, and the operator should have performed his own due diligence with regard to projected revenues and costs, the over-optimistic traffic forecasts have been used by the operator in representations to the GoN for financial relief from the lease costs for the facility, as well as a request (not supported by IEG) for the "directing" of traffic to the ICD. **Efficiency in achieving the first objective** is rated ***Modest***.

2.56 Although there was modest progress towards achieving the second objective, to streamline trade and transit procedures and to improve the efficiency and organization of transit trade documentation and data exchange, some critical ASYCUDA modules were not implemented. ***Efficiency*** in achieving the second objective is rated ***Negligible.*** With regard to the overall efficiency of the project, there were significant weaknesses in the feasibility study that underpinned the financial and economic justification of the project. The **overall efficiency** rating of the project is considered to be ***Modest***.

2.57 **Risk to Development Outcome**. The risk at the time of this evaluation, that development outcome will not be realized is rated **significant**. One of the expected outcomes of the project was that extensive private sector involvement in the long term operation of the ICD's. While private sector organizations are in charge of each of the ICD's, there are serious financial problems with the operation of the Sirsiya ICD which put the sustained financial viability of the facility in doubt. The risk of lower than expected traffic to be diverted from road to rail should have been more carefully assessed. Project benefits for the Sirsiya rail-based ICD were based solely on the difference in transport costs between road and rail between Kolkata and the Nepal border; Transport modal choice decisions are often made on other factors (reliability, time value, long-standing relationships with carriers, etc.) and the impact of the cost difference for the land leg of the total journey may often not be sufficient to warrant changing mode of transport. Based on discussions with potential users in Kathmandu, the importance of time and reliability are paramount.

2.58 **Bank Performance: Quality at Entry**. Although some aspects such as technical design, poverty, gender, environmental and social issues were prepared well, the Bank failed to properly appraise the project's feasibility study which underpinned both the projected high traffic volumes, and the economic and financial results. Not only were the percentages of traffic diversion too high, but the basis on which they were applied was inappropriate. Most of the traffic forecasted for the ICD was bilateral trade with India. This traffic is virtually all break-bulk with little incentive to use the ICD. The traffic base for forecasting ICD traffic should be primarily third country transit traffic, with more moderate diversion expectations; if some bilateral trade could be attracted to the facility, then this would be a small bonus. The PAD, which relied heavily on the feasibility study, accepted the overly-optimistic and unrealistic projections; these assumptions continued to

[18] It should be noted that the ERR was recalculated in the ICR and shown to be 14.5 percent. The mission reviewed this calculation and found that it should have been much higher, approximately 28 percent.

be used throughout the project's implementation.

2.59 The definition of the specific modules of ASUYCUDA to be implemented under the project was another serious issue. There are only broad general statements in the PAD relating to this matter. It should have clearly identified each component of the project; this was not done. However, several of the ASYCUDA modules were implemented, although the critical modules still outstanding include the selectivity module that is critical to the achievement of the projected benefits. These important remaining modules are planned for implementation under an ongoing ADB project. Because of these oversights, the Bank's performance with respect to **Quality at Entry** is rated ***Moderately Unsatisfactory.***

2.60 **Bank Performance: Quality of Supervision**. Bank supervision of the works and related issues was satisfactory. The Bank did make several efforts to assist in expediting the negotiations between India and Nepal for the RSA, but delays in finalizing this agreement caused the facility (Sirsiya ICD) to lie idle for more than 3.5 years. With hindsight, the negotiations should have begun before the commencement of the project. However, it is unlikely that any additional efforts by the Bank would have resulted in a much quicker resolution of this protracted and complex negotiation. The difficult process of implementing ASYCUDA was also complicated by the addition, during the Tri Partite Review Meeting in December 2001, of the missing modules of ASYCUDA (identified as the Selectivity module, and the Statistical module), but just one year before the original completion date, and with no functioning IT Division within the Department of Customs. However, these additional modules were critical to the success of the ASYCUDA implementation and the achievement of some of the project benefits. The complete ASYCUDA package is now expected to be implemented under an ongoing ADB project. The mission considers, however, that the Bank's Quality of Supervision was by and large S***atisfactory.***

2.61 **Overall Bank Performance** is rated ***Moderately Satisfactory.*** The mission considered that although the project's Quality at Entry was weak the Quality of Supervision was good and the physical works were implemented effectively and below budget.

2.62 **Borrower Performance: Government Performance**. A shortcoming with the performance of the Government was the protracted negotiations with India over the RSA. These negotiations should have begun well before commencement of the project. As stated in the Project's Aide Memoire of April 4, 2003, the suspension of Parliament during the part of the project's implementation period also meant that key pieces of transport legislation could not be enacted. The GoN could have acted more quickly in considering these matters earlier, which would have established a better legal framework within which to achieve the second objective of the project. There was also a long delay in making the Information Technology Division of the Department of Customs operational; this factor contributed to the delayed implementation of all remaining ASYCUDA activities. By the end of the project, as shown in the NMTTFP Progress Report of September 2003, an IT division at the Customs department still had not been created. Government performance is rated as ***Moderately Unsatisfactory***.

2.63 **Borrower Performance: Implementing Agency Performance**. The rating of the implementing agency, the National Intermodal Transport Development Board (NITDB) is rated ***Moderately Satisfactory***. There were some shortcomings, such as having to re-bid for the TMC of the ICDs, though this was related to the long delay in finalizing the Rail Service Agreement, and not under the direct control of the NITDB. There were also some regulatory issues that required arbitration to resolve, particularly relating to the agreements between the TMC and the Government. However, like the Bank the implementing agency failed to do due diligence on the serious flaws in the feasibility study. Overall government performance is rated ***Moderately Satisfactory***; despite clear commitment to the project it bore the ultimate responsibility for the outcome and follow up.

# 3. Lessons Learned from the Project

3.1 In addition to the identification of lessons learned the mission has suggested a possible future strategy that could be adopted; an approach that could lead to increased traffic through the facility and an improved financial position for the operator.

## *Suggested Future Actions to Assist Transport in Nepal*

3.2 It is recommended that a user conference be held to improve the utilization of Sirsiya ICD and that a user group be established. The GoN now has an ICD that is underutilized with a fraction of the imports and none of exports moving through the facility; the country is not achieving the benefits projected. The best course of action now is to undertake specific steps that should have been taken during the conception of the project. The IEG mission suggests that the GoN (through NITDB) hold a conference in Kathmandu, inviting major stakeholders in Nepal's transport industry, including major importers, exporters, freight forwarders and representatives of the Indian Railways and the TMC of the Sirsiya ICD. The focus of the conference would be to actively promote the use of the facility and to identify specific actions to be taken that would increase the ICDs usefulness in serving the foreign trade of Nepal. One of the initial target markets for this conference would be exporters, who now do not currently use the ICD.

3.3 One result of the conference should be the formation of a Transport Working Group that would monitor service quality on the rail route between Nepal and Kolkata, and the ICD, and continue to respond to problems encountered by existing users and to promote the route to non users. Some suggested agenda items at the conference include the introduction of definition of a trial period of improved service on the rail route, via the ICD, to encourage more exports as well as imports, to use the facility.

3.4 Specific improvement suggestions during this trial period would come primarily from existing and potential users, but some suggestions include the operation of a daily train service between Kolkata port and the ICD, regardless of the number of wagons loaded; this might decrease transit times and increase the service reliability, which have been common complaints among many users and potential users. Indian Railways now operates only full 35 wagon trains; it might be worthwhile for the GoN to offer to subsidize the Indian Railways (during this trail period) for the initial losses incurred in

operating shorter rakes, for a limited period of time while reaction to the new service is evaluated. It has also been alleged by some ex-users that not all shipments receive equal treatment within the ICD; i.e., some shipments are expedited while others are delayed unnecessarily. Fears of such concerns inside the ICD need to be eliminated with a clear and transparent description of the organization and demonstration of procedures followed within the ICD. Many non users of the facility have such negative perceptions (real or imagined) of the ICD and only through open dialogue can these perceptions be alleviated. In addition to discussions, trips to the ICD to demonstrate the procedures might prove to be helpful in generating user confidence.

3.5 It is possible to develop a smooth-running road and rail multimodal service for the benefit of importers, exporters and the operators, while minimizing the risk of transport delay. However, this does not happen automatically by opening the doors of the ICD; it must be actively promoted by assembling all stakeholders, engaging in frank discussions, and responding to the concerns of potential users. It is important that this kind of direct involvement of potential users of a new service be included in the formulation of similar projects in the future.

3.6 It is generally acknowledged that customs officials at many of Nepal's borders are susceptible to corruption. Successful implementation of new procedures and systems should be reinforced with civil service reform of compensation to reduce the likelihood of corruption on the part of customs officers. IEG recommends this course of action for consideration to accompany any further implementation of ASYCUDA modules. A critical part of the customs reform should be the elimination of manual procedures, which put the customs officer personally in the clearance procedure, increasing the potential for corruption.

## *Lessons*

- *The Bank should more critically review feasibility studies that include diversion of traffic from road to rail.*

- *Projects that depend on formal international cooperation agreements should not commence until such agreements are formalized, or there is at least a strong possibility of such agreements being brought to a timely conclusion.*

- *For projects that require cooperation from organizations within more than one country, all relevant stakeholders including potential users should be thoroughly consulted.*

- *Implementation of customs reforms should if possible be coupled with a civil service compensation review to reduce the likelihood of corruption.*

# Annex A. Basic Data Sheet

## MULTIMODAL TRANSIT AND TRADE FACILITATION PROJECT (CREDIT 3008-NEP)

### Key Project Data *(amounts in US$ million)*

| | *Appraisal estimate* | *Actual or current estimate* | *Actual as % of appraisal estimate* |
|---|---|---|---|
| Total project cost | 28.5 | 21.4 | 75.1% |
| Loan amount | 23.50 | 18.24 | 77.6% |
| Cofinancing | - | | |
| Total cancellation | | 2.10 | |

### Project Dates

| | *Original* | *Actual* |
|---|---|---|
| Appraisal | 06/06/1996 | 06/06/1996 |
| Negotiations | 03/03/1997 | 03/03/1997 |
| Board approval | 11/25/1997 | 11/25/1997 |
| Signing | 12/18/1997 | 12/18/1997 |
| Effectiveness | 01/31/1998 | 02/04/1998 |
| Closing date | 12/31/2001 | 09/30/2003 |

### Staff Inputs *(staff weeks)*

| *Stage of Cycle* | *Actual/Latest Estimate* | |
|---|---|---|
| | *No. Staff weeks* | *US$ (000)* |
| Identification/Preappraisal | 155 | 453 |
| Appraisal/Negotiation | 92 | 290 |
| Supervision | 177 | 602 |
| ICR | | |
| Total | 424 | 1345 |

(1) Latest estimate figures include travel expenses as well.
(2) Trust Fund use of about US$276,410.0
(3) Actual expenditure on ICR is included in Supervision

## Mission Data

| | Date (month/year) | No.of persons | Specializations represented | Performance Rating Imple.Prog. | Dev.Object. |
|---|---|---|---|---|---|
| Identification/ Preparation | 11/22/1992 | 5 | Transport Specialist, Transport Economist, Highway Engineer (2), Environmental Specialist | | |
| | 3/20/1993 | 2 | Transport Specialist, Transport Economist | | |
| | 03/10/1994 | 1 | Transport Specialist | | |
| | 06/20/1994 | 3 | Transport Specialist, Transport and Trade Facilitation Specialist, Transport Economist | | |
| | 12/05/1994 | 1 | Transport Specialist | | |
| | 04/04/1995 | 5 | Transport Specialist, Transport Economist, Privatization Specialist, Trade Facilitation Specialist, Procurement Specialist | | |
| | 06/09/1995 | 2 | Transport Specialist, Privatization Specialist | | |
| | 11/15/1995 | 7 | Transport Economist, Financial Analyst, Urban Redevelopment Specialist, Privatization Specialist, Transport and Trade Facilitation Specialist, Port Specialist, Procurement Specialist | | |
| | 4/16/1996 | 9 | Transport Economist, Financial Analyst, Urban Development Specialist, Privatization Specialist, Transport and Trade Facilitation Specialist, Port Specialist, Procurement Specialist, Railway Specialist, Transport Specialist | | |
| | 10/18/1996 | 1 | Transport Economist | | |
| Appraisal/ Negotiation | 07/11/1996 | 7 | Transport Economist, Financial Analyst, Urban Redevelopment Specialist, Privatization Specialist, Transport and Trade Facilitation specialist, Transport Specialist | | |

| | | | | | |
|---|---|---|---|---|---|
| Supervision | 02/07/1998 | 7 | Transport Economist. Financial Analyst (2), Private Sector Specialist, Highways Engineer, Procurement, Trade Facilitation Expert | S | S |
| | 06/07/1998 | 5 | Transport Economist, Financial, Private Sector Specialist, Highways Engineers, Operations Officer | S | S |
| | 10/07/1998 | 4 | Financial Analyst. Transport Economist, Highway Engineer, Transport and Trade Facilitation Specialist | S | S |
| | 02/17/1999 | 6 | Financial Analyst, Transport Economist, Transport Specialist, Transport and Trade Facilitation Specialist, Private Sector Specialist, Port Specialist | S | S |
| | 07/01/1999 | 3 | Financial Analyst, Transport Specialist (2) | S | U |
| | 11/04/1999 | 5 | Financial Analyst, Transport Economist, Port Specialist, Private Sector Specialist, Transport Specialist | S | S |
| | 04/21/2000 | 4 | Financial Analyst, Private Sector Specialist, Infrastructure Specialist, Port Specialist | S | U |
| | 12/05/2000 | 2 | Financial Analyst, Transport Specialist | S | S |
| | 09/11/2001 | 3 | Financial Analyst, Infrastructure Specialist, Social Development Specialist | S | S |
| | 03/31/2002 | 3 | Financial Analyst, Transport Specialist, Operations Advisor | S | S |
| | 09/13/2002 | 4 | Financial Analyst, Transport Specialist, Transport Economist, Team Assistant | S | U |
| | 03/31/2003 | 3 | Financial Analyst, Transport Economist, Program Assistant | S | U |
| ICR | 09/07/2003 | 5 | Financial Analyst, Transport Specialist, Transport Economist, Social Development Specialist, Team | S | U |

Note: September 13, 2002 mission also initiated discussions on preparation for ICR.

# Annex B.

**Table B1 Economic Evaluation of the Sirsiya Terminal Operator ($ millions[19])**

| Year | Costs | Traffic Diversion Benefits | | Net Benefits |
|---|---|---|---|---|
| | | Container | Break-bulk | |
| 2000 | 10.8 | | | -10.8 |
| 2001 | | | | 0 |
| 2002 | | | | 0 |
| 2003 | | | | 0 |
| 2004 | 0.21 | 1.5 | 0.044 | 1.33 |
| 2005 | 0.36 | 2.6 | 0.595 | 2.79 |
| 2006 | 0.38 | 2.7 | 0.626 | 2.90 |
| 2007 | 0.39 | 2.7 | 0.645 | 2.99 |
| 2008 | 0.40 | 2.8 | 0.664 | 3.08 |
| 2009 | 0.41 | 2.9 | 0.684 | 3.17 |
| 2010 | 0.43 | 3.0 | 0.704 | 3.27 |
| 2011 | 0.45 | 3.1 | 0.725 | 3.42 |
| 2012 | 0.47 | 3.3 | 0.747 | 3.57 |
| 2013 | 0.49 | 3.5 | 0.770 | 3.74 |
| 2014 | 0.52 | 3.6 | 0.793 | 3.91 |
| 2015 | 0.54 | 3.8 | 0.817 | 4.09 |
| 2016 | 0.57 | 4.0 | 0.841 | 4.28 |
| 2017 | 0.60 | 4.2 | 0.866 | 4.47 |
| 2018 | 0.63 | 4.4 | 0.892 | 4.68 |
| 2019 | 0.66 | 4.6 | 0.919 | 4.89 |
| 2020 | 0.69 | 4.9 | 0.947 | 5.12 |
| 2021 | 0.73 | 5.1 | 0.975 | 5.36 |
| 2022 | 0.76 | 5.4 | 1.004 | 5.61 |
| 2023 | 0.80 | 5.6 | 1.034 | 5.87 |
| 2024 | 0.84 | 5.9 | 1.065 | 6.14 |
| 2025 | 0.88 | 6.2 | 1.097 | 6.43 |
| 2026 | 0.93 | 6.5 | 1.130 | 6.72 |
| | | | ERR | 17.4% |
| | | | NPV | 11.41 |

[19] Note throughout this annex all references to dollars are US dollars.

Table B-2 Financial Evaluation of the Sirsiya Terminal
$ millions

| Year | Projected Traffic Moving through ICD (TEU) | Break bulk (tons) | Revenue Stream TEU | break-bulk | Total Revenue | Operating Cost | Net Income (before fixed costs) | Fixed Costs (lease) | Net Profit |
|---|---|---|---|---|---|---|---|---|---|
| 2000 | | | | | | | | | |
| 2001 | | | | | | | | | |
| 2002 | | | | | | | | | |
| 2003 | | | | | | | | | |
| 2004 | 5,651 | 2,300 | 0.379 | 0.002 | 0.381 | 0.412 | -0.032 | 0.743 | -0.775 |
| 2005 | 9,629 | 31,399 | 0.645 | 0.031 | 0.676 | 0.415 | 0.262 | 0.743 | -0.481 |
| 2006 | 10,000 | 33,000 | 0.670 | 0.033 | 0.703 | 0.417 | 0.286 | 0.743 | -0.457 |
| 2007 | 10,300 | 33,990 | 0.690 | 0.034 | 0.724 | 0.420 | 0.304 | 1.65 | -1.346 |
| 2008 | 10,609 | 35,010 | 0.711 | 0.035 | 0.746 | 0.422 | 0.323 | 1.65 | -1.327 |
| 2009 | 10,927 | 36,060 | 0.732 | 0.036 | 0.768 | 0.425 | 0.343 | 1.65 | -1.307 |
| 2010 | 11,255 | 37,142 | 0.754 | 0.037 | 0.791 | 0.427 | 0.364 | 1.65 | -1.286 |
| 2011 | 11,818 | 38,256 | 0.792 | 0.038 | 0.830 | 0.432 | 0.398 | 1.65 | -1.252 |
| 2012 | 12,409 | 39,404 | 0.831 | 0.039 | 0.871 | 0.436 | 0.435 | 1.65 | -1.215 |
| 2013 | 13,029 | 40,586 | 0.873 | 0.041 | 0.913 | 0.440 | 0.473 | 1.65 | -1.177 |
| 2014 | 13,681 | 41,803 | 0.916 | 0.042 | 0.958 | 0.445 | 0.513 | | |
| 2015 | 14,365 | 43,058 | 0.962 | 0.043 | 1.005 | 0.449 | 0.556 | | |
| 2016 | 15,083 | 44,349 | 1.010 | 0.044 | 1.055 | 0.454 | 0.601 | | |
| 2017 | 15,837 | 45,680 | 1.061 | 0.046 | 1.107 | 0.458 | 0.648 | | |
| 2018 | 16,629 | 47,050 | 1.114 | 0.047 | 1.161 | 0.463 | 0.698 | | |
| 2019 | 17,460 | 48,462 | 1.170 | 0.048 | 1.218 | 0.468 | 0.751 | | |
| 2020 | 18,333 | 49,915 | 1.228 | 0.050 | 1.278 | 0.472 | 0.806 | | |
| 2021 | 19,250 | 51,413 | 1.290 | 0.051 | 1.341 | 0.477 | 0.864 | | |
| 2022 | 20,213 | 52,955 | 1.354 | 0.053 | 1.407 | 0.482 | 0.925 | | |
| 2023 | 21,223 | 54,544 | 1.422 | 0.055 | 1.476 | 0.487 | 0.990 | | |
| 2024 | 22,284 | 56,180 | 1.493 | 0.056 | 1.549 | 0.491 | 1.058 | | |
| 2025 | 23,399 | 57,866 | 1.567 | 0.058 | 1.625 | 0.496 | 1.129 | | |
| 2026 | 24,568 | 59,602 | 1.646 | 0.060 | 1.705 | 0.501 | 1.204 | | |

*Assumptions:*
opr cost increase %/yr
0.2 opr cost variability with traffic
0.00600 up to 2010
0.01000 from 2010

1.65 annual lease cost from 2007
1 lease cost factor

TMC revenue:
1 $ per ton break bulk
66.99 $/TEU

operating cost
0.4124

1 traffic factor

Table B-3 Financial Evaluation of the Sirsiya Terminal (increased traffic factor)
$ millions

| Year | Projected Traffic Moving through ICD (TEU) | Break bulk (tons) | Revenue Stream TEU | break-bulk | Total Revenue | Operating Cost | Net Income (before fixed costs) | Fixed Costs (lease) | Net Profit |
|---|---|---|---|---|---|---|---|---|---|
| 2000 | | | | | | | | | |
| 2001 | | | | | | | | | |
| 2002 | | | | | | | | | |
| 2003 | | | | | | | | | |
| 2004 | 5,651 | 2,300 | 0.379 | 0.002 | 0.381 | 0.412 | -0.032 | 0.743 | -0.775 |
| 2005 | 9,629 | 31,399 | 0.645 | 0.031 | 0.676 | 0.415 | 0.262 | 0.743 | -0.481 |
| 2006 | 10,000 | 33,000 | 0.670 | 0.033 | 0.703 | 0.417 | 0.286 | 0.743 | -0.457 |
| 2007 | 28,325 | 93,473 | 1.897 | 0.093 | 1.991 | 0.420 | 1.571 | 1.65 | -0.079 |
| 2008 | 29,175 | 96,277 | 1.954 | 0.096 | 2.051 | 0.422 | 1.628 | 1.65 | -0.022 |
| 2009 | 30,050 | 99,165 | 2.013 | 0.099 | 2.112 | 0.425 | 1.687 | 1.65 | 0.037 |
| 2010 | 30,951 | 102,140 | 2.073 | 0.102 | 2.176 | 0.427 | 1.748 | 1.65 | 0.098 |
| 2011 | 32,499 | 105,204 | 2.177 | 0.105 | 2.282 | 0.432 | 1.851 | 1.65 | 0.201 |
| 2012 | 34,124 | 108,360 | 2.286 | 0.108 | 2.394 | 0.436 | 1.958 | 1.65 | 0.308 |
| 2013 | 35,830 | 111,611 | 2.400 | 0.112 | 2.512 | 0.440 | 2.071 | 1.65 | 0.421 |
| 2014 | 37,622 | 114,959 | 2.520 | 0.115 | 2.635 | 0.445 | 2.190 | | |
| 2015 | 39,503 | 118,408 | 2.646 | 0.118 | 2.765 | 0.449 | 2.315 | | |
| 2016 | 41,478 | 121,960 | 2.779 | 0.122 | 2.901 | 0.454 | 2.447 | | |
| 2017 | 43,552 | 125,619 | 2.918 | 0.126 | 3.043 | 0.458 | 2.585 | | |
| 2018 | 45,729 | 129,388 | 3.063 | 0.129 | 3.193 | 0.463 | 2.730 | | |
| 2019 | 48,016 | 133,269 | 3.217 | 0.133 | 3.350 | 0.468 | 2.882 | | |
| 2020 | 50,417 | 137,268 | 3.377 | 0.137 | 3.515 | 0.472 | 3.042 | | |
| 2021 | 52,938 | 141,386 | 3.546 | 0.141 | 3.688 | 0.477 | 3.211 | | |
| 2022 | 55,584 | 145,627 | 3.724 | 0.146 | 3.869 | 0.482 | 3.388 | | |
| 2023 | 58,364 | 149,996 | 3.910 | 0.150 | 4.060 | 0.487 | 3.573 | | |
| 2024 | 61,282 | 154,496 | 4.105 | 0.154 | 4.260 | 0.491 | 3.768 | | |
| 2025 | 64,346 | 159,131 | 4.311 | 0.159 | 4.470 | 0.496 | 3.973 | | |
| 2026 | 67,563 | 163,905 | 4.526 | 0.164 | 4.690 | 0.501 | 4.189 | | |

*Assumptions:*
opr cost increase %/yr
0.2 opr cost variability with traffic
0.00600 up to 2010
0.01000 from 2010

1.65 annual lease cost from 2007
1 lease cost factor

TMC revenue:
1 $ per ton break bulk
66.99 $/TEU

operating cost
0.4124

2.75 traffic factor

Table B-4 Financial Evaluation of the Sirsiya Terminal (lease cost adjustment)
$ millions

| Year | Projected Traffic Moving through ICD (TEU) | Break bulk (tons) | Revenue Stream TEU | break-bulk | Total Revenue | Operating Cost | Net Income (before fixed costs) | Fixed Costs (lease) | Net Profit |
|---|---|---|---|---|---|---|---|---|---|
| 2000 | | | | | | | | | |
| 2001 | | | | | | | | | |
| 2002 | | | | | | | | | |
| 2003 | | | | | | | | | |
| 2004 | 5,651 | 2,300 | 0.379 | 0.002 | 0.381 | 0.412 | -0.032 | 0.743 | -0.775 |
| 2005 | 9,629 | 31,399 | 0.645 | 0.031 | 0.676 | 0.415 | 0.262 | 0.743 | -0.481 |
| 2006 | 10,000 | 33,000 | 0.670 | 0.033 | 0.703 | 0.417 | 0.286 | 0.743 | -0.457 |
| 2007 | 10,300 | 33,990 | 0.690 | 0.034 | 0.724 | 0.420 | 0.304 | 0.33 | -0.026 |
| 2008 | 10,609 | 35,010 | 0.711 | 0.035 | 0.746 | 0.422 | 0.323 | 0.33 | -0.007 |
| 2009 | 10,927 | 36,060 | 0.732 | 0.036 | 0.768 | 0.425 | 0.343 | 0.33 | 0.013 |
| 2010 | 11,255 | 37,142 | 0.754 | 0.037 | 0.791 | 0.427 | 0.364 | 0.33 | 0.034 |
| 2011 | 11,818 | 38,256 | 0.792 | 0.038 | 0.830 | 0.432 | 0.398 | 0.33 | 0.068 |
| 2012 | 12,409 | 39,404 | 0.831 | 0.039 | 0.871 | 0.436 | 0.435 | 0.33 | 0.105 |
| 2013 | 13,029 | 40,586 | 0.873 | 0.041 | 0.913 | 0.440 | 0.473 | 0.33 | 0.143 |
| 2014 | 13,681 | 41,803 | 0.916 | 0.042 | 0.958 | 0.445 | 0.513 | | |
| 2015 | 14,365 | 43,058 | 0.962 | 0.043 | 1.005 | 0.449 | 0.556 | | |
| 2016 | 15,083 | 44,349 | 1.010 | 0.044 | 1.055 | 0.454 | 0.601 | | |
| 2017 | 15,837 | 45,680 | 1.061 | 0.046 | 1.107 | 0.458 | 0.648 | | |
| 2018 | 16,629 | 47,050 | 1.114 | 0.047 | 1.161 | 0.463 | 0.698 | | |
| 2019 | 17,460 | 48,462 | 1.170 | 0.048 | 1.218 | 0.468 | 0.751 | | |
| 2020 | 18,333 | 49,915 | 1.228 | 0.050 | 1.278 | 0.472 | 0.806 | | |
| 2021 | 19,250 | 51,413 | 1.290 | 0.051 | 1.341 | 0.477 | 0.864 | | |
| 2022 | 20,213 | 52,955 | 1.354 | 0.053 | 1.407 | 0.482 | 0.925 | | |
| 2023 | 21,223 | 54,544 | 1.422 | 0.055 | 1.476 | 0.487 | 0.990 | | |
| 2024 | 22,284 | 56,180 | 1.493 | 0.056 | 1.549 | 0.491 | 1.058 | | |
| 2025 | 23,399 | 57,866 | 1.567 | 0.058 | 1.625 | 0.496 | 1.129 | | |
| 2026 | 24,568 | 59,602 | 1.646 | 0.060 | 1.705 | 0.501 | 1.204 | | |

*Assumptions:*
opr cost increase %/yr
0.2 opr cost variability with traffic
0.00600 up to 2010
0.01000 from 2010

1.65 annual lease cost from 2007
0.2 lease cost factor

TMC revenue:
1 $ per ton break bulk
66.99 $/TEU

operating cost
0.4124

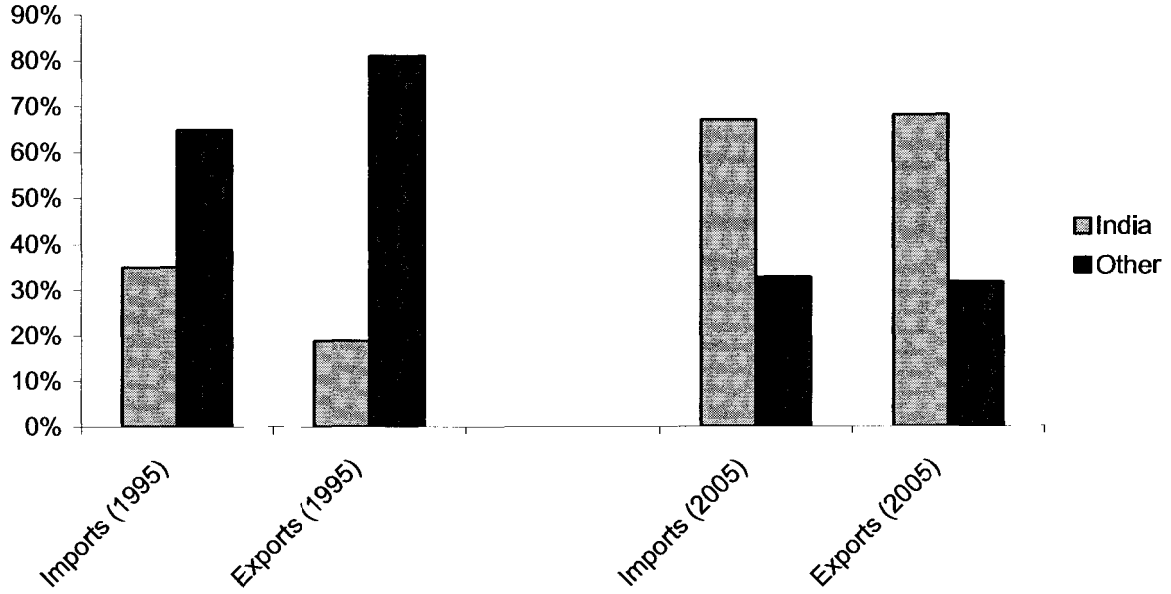
1 traffic factor

## Table B-5: Customs Data at Four Locations

| | 2004/5 | | | | 2005/6 | | | | 2006/7 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Import | | Export | | Import | | Export | | Import | | Export | |
| | Value | Revenue | Value | Revenue | Value | Revenue | Value | Revenue | Value | Revenue | Value | Revenue |
| Birgunj | 61,929,919 | 6,561,935 | 26,044,813 | 258,436 | 76,066,448 | 6,731,298 | 21,566,752 | 364,433 | n/a | 6,190,473 | 21,480,949 | 314,136 |
| Biratnagar | 20,435,658 | 105,816 | 14,283,340 | 266,262 | 23,083,193 | 1,318,592 | 13,524,881 | 180,686 | n/a | 1,455,516 | n/a | 131,037 |
| Bhairhawa | 16,091,678 | 1,318,424 | 2,436,288 | 64,965 | 18,817,291 | 1,841,782 | 2,711,441 | 85,294 | 20,820,639 | 1,837,535 | 2,401,271 | 85,008 |
| Dry Port | | | | | 4,602,639 | 486,331 | 120,073 | n/a | n/a | 791,837 | n/a | 166 |

Source: Nepal Department of Customs

**Figure B1: Importance of India to Nepal's Foreign Trade (Nep. Rupees)**




Source: Nepal – India Bilateral Trade Relations; Ministry of Finance, Nepal; June 2003; A Glimpse of Nepal's Foreign Trade, Trade & Export Promotion Centre; November 2006

# Annex C. Borrower Comments

| | | |
|---|---|---|
| **"Info, MOICS, Nepal" <info@moics.gov.np>** | To | <Abarbu@worldbank.org> |
| | cc | |
| 06/25/2007 03:19 AM | Subject | Re: Draft Project Performance Assessment Report (PPAR) |

Dear Mr. Barbu,

Please find the attached document regarding the comments on draft performance Assessment Report.

Thank you,

Yours' Sincerely,

Himal Thapa
Under Secretary
Ministry of Industry, Commerce & Supplies
Singhadurbar, Kathmandu
Nepal

# PROJECT PERFORMANCE ASSESSMENT REPORT NEPAL
# MULTIMODAL TRANSIT PROJECT (Cr. 3008-NEP)

## Title: Preface

| Page | Paragraph | Concerned Org. | Observation |
|---|---|---|---|
| v | Meetings were arranged in Kathmandu with the kind assistance of the World Bank Resident Mission and the Nepal Intermodal Transport Development Board (NITDB). The program for the IEG mission included meetings with operators of the three Inland Container Depots (ICDs), the Ministry of Industry, Commerce and Supplies, the Ministry of Finance including the Department of Customs, importers, exporters, freight forwarders, the Federation of Nepalese Chambers of Commerce and Industry, the Trade and Export Promotion Centre as well as local Bank staff knowledgeable about the project design and the circumstances surrounding its implementation. | MOICS/NITDB | Due to Terai band the field visit of IEG expert had to be cancelled (i.e. Birgunj, Bhairahawa & Biratnagar) |

**Title: Background and Context**

| Page | Paragraph | Concerned Org. | Observation |
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| 1 | 1.3 The project was closed at the end of September 2003, but at that time, the Sirsiya rail-road ICD had not yet opened on account of prolonged negotiations over the Rail Service Agreement (RSA) between India and Nepal, which had not been finalized. Although the facility had been completed in December 2000 it remained unused for a period of 3.5 years. The Terminal Management Company (TMC) consequently also had not been appointed. | MOICS/NITDB | It is due to exogenous factor. |

**Title: The Project**

<table>
<tr><th>Page</th><th>Paragraph</th><th>Concerned Org.</th><th>Observation</th></tr>
<tr><td>3</td><td>Box 1<br><table>
<tr><th colspan="2">Nepal Multimodal Transit and Trade Facilitation Project (Cr. 3008)</th></tr>
<tr><th>Objectives</th><th>Components (with projected costs in US million)</th></tr>
<tr><td>To reduce transport costs associated with moving Nepal's imports and exports.<br><br>To streamline trade and transit procedures and to improve the efficiency and organization of transit trade documentation and data exchange.</td><td>A. Inland Container Depot (ICD) Improvements. Civil Works and Equipment<br><br>Construction of rail-based ICD at Sirsiya (Birgunj) with supporting rail/road links, storage, and customs facilities US$ 18.0 million. In addition, this component included activities related to the Resettlement Action Plan (RAP), excluding land acquisition. In parallel, though not included in the Bank project, the Government of India constructed a 5 km rail connection between the Sirsiya ICD and the existing rail terminus of Raxaul in India.<br><br>Improvements to the road ICD's at Biratnagar (US$ 2.0 million) and Bhairahwa (US$1.9 million). Included were civil works for improvements to existing road – based ICD's at these two locations.<br><br>Equipment Procurement. This component included the purchase of four reach stackers – two for the rail – based ICD at Sirsiya and one each at Biratnagar and Bhairahwa ICD's (US$2.0 million).<br><br>Supervision consultants (US$ 0.8 million). This component included financing supervision consultants to supervise the construction and improvement of the three ICD's.<br><br>B. Trade and Transit Facilitation<br><br>Technical Assistance for trade facilitation (US$ 1.1</td></tr>
</table></td><td>MOICS/NITDB</td><td><u>Originally Planned</u><br>a) 4 Reach Stackers for BRJ<br>b) 1 Reach Stackers for BRT<br>Out of a) & b) mentioned above, activity a) have only been carried out.</td></tr>
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| | | million). This component included (a) simplification of documents; (b) modernization of carrier's liability, multimodal transport and insurance provisions; (c) modernization of customs administration policies and operational procedures; (d) strengthening of freight forwarding and customs clearing agency standards and capacity; and (e) updating of foreign – currency regulations relating to transit trade.<br><br>Installation of Automated Systems for Customs Data (ASYCUDA) (US$ 1.1 million). By introducing ASYCUDA along with greater selectivity in customs examination, the incidence of fraud is reduced and clearance of freight is expedited.<br>Installation of Advance Cargo Information Systems (ACIS) (US$ 1.1 million) This component included the implementation of ACIS as a freight tracking information system.<br><br>Repayment of Project Preparation Facilities (US$ 0.5 million) | | |
| 4 | 2.5 In retrospect, it might have been prudent to directly involve representatives of importers, exporters and freight forwarders in Nepal in the design of the components of the project and their likely impact on diversion of traffic from road to rail. With stakeholders directly involved in the project definition, essential components of the project that may have led to maximizing traffic moving through the facility would have been identified during the project preparation stage. For example, a more frequent and reliable rail service has been highlighted by potential users, as the most serious shortfall of the ICD. | MOICS/NITDB | Initially, the project was taken up under the guidance of a steering committee comprised of a high level government officials and private sector representatives.<br><br>Several meetings were conducted with different stakeholders. Therefore the question of non-involvement is wrong. Similarly the composition of NITDB board comprise of 3 members representing high level government officials (except Chairman) and rest 3 members representing from FNCCI (Chairman), Nepal Chamber of Commerce (Chairman), Nepal Freight Forward Association (Chairman). The problem is rather associated with delay in Railway Service Agreement. There was need of formulating separate railway procedure for open wagon and bilateral cargo as because this is the first railway |

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| | | | linked ICD of Nepal which was to be operated first time. |
| 4 | 2.6 Implementation was seriously delayed due to exogenous factors not under the control of the project. While the construction of the Sirsiya ICD was completed in December 2000, including construction of the rail spur financed by the GoI, there were long delays in finalizing the RSA between India and Nepal as well as in selecting the TMC to operate the Sirsiya facility. Operation of the facility began in July 2004. With hindsight, the RSA should have been concluded prior to the start of the Project. | MOICS/NITDB | Understanding was searched between GON and GOI in 1996 in respect of development of Rail Spur for connecting ICD and streamlining of railway procedure. This was prior to the start of the project. RSA would not be required concluded earlier if this provisions were adhered. |
| 5 | 2.14 Another alleged reason for the traffic shortfall was the political unrest that gripped Nepal during implementation of the Project, but this is not borne out by the foreign trade statistics. While GDP growth in Nepal has moderated since the mid 1990s, there has not been a significant impact on foreign trade, as shown in Figure 1. The figure summarizes Nepal's foreign trade since 2001/2, in terms of value, in US$ millions[1]. The table indicates a constant growth in both imports and exports during the period. Limited information was available from the Customs department for specific border crossings; this is shown in Annex B, Table B5. The only apparent decrease in foreign trade during this period was the volume of exports moving through Birgunj; during 2005/6 traffic decreased by nearly 20 percent from the previous year. During the same period, the value of exports through Biratnagar also decreased by about 5 percent. | MOICS/NITDB | |
| 8 | 2.23 While transport costs are lower by rail than road, it is unrealistic to expect dramatic shifts in traffic when the quality of service is not the same. Transit times between the port (Kolkata) and Nepal by road are quite consistent according to users, between 3 and 4 days. By rail, transit times can be up to 8 days or more. These longer transit times are primarily due to infrequent train service. Users are willing to pay a premium for | MOICS/NITDB | During the year 2007 ICD have received 152 i.e. 12.66 trains a month i.e. every 2.3 days there is a train. Transit time as stated 8 days or more is not correct.<br>The real transit time in moving traffic by rail is approximately 2 days. |

[1] The US$/NRs mid-year exchange rate

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| | service reliability, particularly for exports which need to meet ship sailing dates. | | |
| 8 | 2.24 Another of the key indicators chosen was the increase in the percentage of GDP generated by project induced private sector economic activity; this was quite an unrealistic indicator. The ICD handles only a portion of imports and virtually no exports. There has been no measurable growth in foreign trade on account of this small shift in transport mode. The IEG mission held discussions with importers, exporters and freight forwarders, and there was little enthusiasm expressed for the rail-road ICD and the rail service between Kolkota and the ICD. Of the importers that utilize the ICD approximately 40 percent of users are government entities, and most cited the long and unpredictable transit times as the primary reason for continuing to utilize road transport. | MOICS/NITDB | • The imports percentage through ICD in last 3 years operation is 30.38%, 65.74% and 54.66% through rail against overall arrivals for Nepal in Kolkata Port. However the rail share through RXL border is 72%. It is also stated that most of the ICD customers are Private rather than government institutions.<br>• The movement of trains between Kolkata Port and Birgunj is daily updated in the Website of HTPL and transit times are becoming more predictable over the time. |
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| 9 | 2.26 The IEG mission did, however, attempt to evaluate transit times based on information obtained from interviews in Kathmandu. According to these interviews it was found that by road, current one-way transit times are between 3 and 4 days. During the first year of the Sirsiya ICD operation, a container made the round trip from Kolkata to Nepal by rail in 19 days; the next year, as train frequency increased, turn-around times decreased to 8.5 days. This is very similar to road transport, and therefore not a transport time saving attributable to the ICD; all this shows is that rail transport improved on its own transit times, with increased frequency of train service. | MOICS/NITDB | The transit times between Kolkata and ICD Birgunj will be reduced along with the increment tin the frequency of train movement in this corridor. |
| 9 | 2.30 All physical and institutional elements of the project were completed within budget and the quality of the works was considered to be good. The primary negative issues with this project were the serious shortfall in actual traffic moving through the facility compared with forecasts and the long delay in commencement of operations at the Sirsiya rail ICD; construction was complete in December 2000 but operations only began more than three years later. | MOICS/NITDB | No comments |
| 10 | 2.33 Another point of contention during the negotiations was the issue of the Indian customs facility being located inside Nepal at the ICD; citing | MOICS/NITDB | Neither GOI officially requested for Indian customs facility to be located inside Nepal |

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| | security reasons, the GoN did not wish to agree to this provision. Indian customs inspection for ICD-bound traffic now takes place outside the ICD at Raxaul. A jointly operated ICD with customs of both countries at the same location would have resulted in a much more efficient one stop facility. | | at the ICD nor GON had to take any initiative on this issue. |
| 16 | 2.50 **Outcome of First Objective:** ***Reduce Transport Costs for Nepal's Imports and Exports***. The needed infrastructure was completed successfully albeit three and a half years before the primary Sirsiya ICD could be put into operation. Based on the original assumptions, the ERR exceeded 17 percent for Sirsiya despite the delay. However, what was calculated as the main benefit was the difference between the price of rail and road transport. This does not reflect the real cost as perceived by the shippers which includes quality of service aspects such as transit times, flexibility and uncertainty in delivery dates. Such hidden cost factors resulted in only the less time sensitive traffic diverting from road to rail and calls into question the ability to sustain this growth into the future. Had the contribution by the GoI to finance the 5 km connection linking Raxaul with Birgunj been factored into the project and not treated as a sunk cost the ERR would probably have been negative. The PAD projections were unrealistic and unachievable. Currently the actual traffic moving through the ICD is only 3 percent of Nepal's foreign trade (and includes virtually no export traffic), which is extremely modest. Financial viability has also not been achieved and M&E was negligible. Taking into account that some institutional progress was made mainly with the setting-up of the regulatory framework and introduction of private sector participation was effected the outcome of this first objective is rated ***Moderately Unsatisfactory***. | MOICS/NITDB | It is likely that forecasted traffic level may be achieved in coming years particularly due to<br>(a) Nepal is moving ahead in the peace process, within likely to attract more foreign investment<br>(b) Nepalese trade may grow further due to increased market access available under various trading arrangements. and<br>(c) Traffic volume will be substantially increased with the opening of bilateral trade. |
| 16 | 2.51 **Outcome of the Second Objective**: ***Streamline Trade and Transit Procedures***. Some of the trade and transit procedures were introduced, but most of the inefficient manual procedures are still being used because two critical ASYCUDA modules still remain outstanding. The project has, however, provided a basis for the remaining modules when implemented, and this should eventually result in the benefits of faster processing time of goods as well as increased revenue collections from customs duties. The outcome of this second objective is rated by the IEG mission as ***Moderately Unsatisfactory.*** | MOICS/NITDB/DOC | The following outcomes were achieved from implementation of second objective.<br>a. Nepalese freight forwarders were trained in the technical aspects of freight forwarding, particularly the use of INCOTERMS/UCP 500, Multimodal & Intermodal transport, logistics management operation of ports, use of EDI in freight forwarding.<br>b. Four basic legislations were drafted |

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| | | | under the project. There were (i) MTACT (ii) Carriage of Goods by Road Act (iii) Railways Act & (iv)Insurance Act. The project also identified the measures for simplification and standardization of trade and transport documents in line with UNLK.<br>c. Single administration Document (SAD) is the outcome of project interventions. SAD has framed in line with the international standards. Similarly, one stop service for export processing was stated under the initiatives of NMTTFP. |
| 17 | 2.53 **Relevance**. The Project's two objectives are relevant to the needs of Nepal as well as the Bank's strategy. It has long been an objective of the GoN to reduce the country's transport costs for foreign trade; the long distance to Kolkata port makes it difficult for Nepal to compete in world markets. Simplification of customs procedures and documentation should certainly improve the efficiency and organization of transit trade documentation and data exchange. The need for streamlining of customs procedures is highlighted in the Bank's latest Nepal Country Assistance Strategy of 2003. **Relevance of the objectives** is considered ***Substantial***. With regard to relevance of the Project's design, while there was a clear statement of objectives, the targets identified and the causal chain between the Bank's funding and the intended outcomes is not so clear. The performance monitoring and evaluation system shown in the project design summary included key indicators that were difficult to measure and in general, too ambitious. Simply establishing an ICD at Sirsiya was not sufficient to result in the big modal shifts in traffic reflected in the key indicators for the project; there should have been a greater involvement of importers, exporters and freight forwarders in the project design so as to maximize the traffic diversion potential. The **relevance of the project's design** is, therefore, rated as ***Negligible***. The overall rating of relevance is ***Modest***. | MOICS/NITDB | There has been substantial collaboration with the stakeholders while designing and implementing the project. The institutional mechanism has also been formed accordingly. |
| 19 | 2.63 **Borrower Performance: Implementing Agency Performance**. The rating of the implementing agency, the National Intermodal Transport Development Board (NITDB) is rated ***Moderately Satisfactory***. There | | Delay in achieving benefits of the project is mainly due to external factors (Risk associated with Project outcomes). Hence |

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| | were some shortcomings, such as having to re-bid for the TMC of the ICDs, though this was related to the long delay in finalizing the Rail Service Agreement. There were also some regulatory issues that required arbitration to resolve, particularly relating to the agreements between the TMC and the Government. However, like the Bank the implementing agency failed to see the serious flaws in the feasibility study. Overall government performance is rated ***Moderately Satisfactory*** given that it bore the ultimate responsibility for the outcome and follow up. | | the government performance should not be rated unsatisfactory as GoN Left no stone unturned in order to bring the ICD to operation at the earliest.<br>*Note government performance was revised to **Moderately Satisfactory.** |

**Title: Lessons Learned from the Project**

| Page | Paragraph | Concerned Org. | Observation |
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| 20 | 3.2 *Hold a user conference to improve utilization of Sirsiya ICD and establish a user group in order to maximize the use of the Sirsiya ICD.* The GON now has an ICD that is underutilized with a fraction of the imports and none of exports moving through the facility; the country is not achieving the benefits projected. The best course of action now is to undertake specific steps that should have been taken during the conception of the project. The IEG mission suggests that the GoN (through NITDB) hold a conference in Kathmandu, inviting major stakeholders in Nepal's transport industry, including major importers, exporters, freight forwarders and representatives of the Indian Railways and the TMC of the Sirsiya ICD. The focus of the conference would be to actively promote the use of the facility and to identify specific actions to be taken that would increase the ICDs usefulness in serving the foreign trade of Nepal. One of the initial target markets for this conference would be exporters, who now do not currently use the ICD. | | Agreed. GoN shall take this initiatives under the banner of National Transport and Trade Facilitation Committee (NTTFC). |
| 20 | 3.3 One result of the conference should be the formation of a Transport Working Group that would monitor service quality on the rail route between Nepal and Kolkata, and the ICD, and continue to respond to problems encountered by existing users and to promote the route to non users. Some suggested agenda items at the conference include the introduction of definition of a trial period of improved service on the rail route, via the ICD, to encourage more exports as well as imports, to use the facility. | | Do |
| 20 | 3.4 Specific improvement suggestions during this trial period would come primarily from existing and potential users, but some suggestions include | | The suggestions need further discussions among stakeholder, particularly in |

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| | the operation of a daily train service between Kolkata port and the ICD, regardless of the number of wagons loaded; this might decrease transit times and increase the service reliability, which have been common complaints among many users and potential users. Indian Railways now operates only full 35 wagon trains; it might be worthwhile for the GoN to offer to subsidize the Indian Railways (during this trail period) for the initial losses incurred in operating shorter rakes, for a limited period of time while reaction to the new service is evaluated. It has also been alleged by some ex-users that not all shipments receive equal treatment within the ICD; i.e., some shipments are expedited while others are delayed unnecessarily. Fears of such concerns inside the ICD need to be eliminated with a clear and transparent description of the organization and demonstration of procedures followed within the ICD. Many non users of the facility have such negative perceptions (real or imagined) of the ICD and only through open dialogue can these perceptions be alleviated. In addition to discussions, trips to the ICD to demonstrate the procedures might prove to be helpful in generating user confidence. | | subsidizing the rail freight in the initial period. |
| 21 | 3.5 It is possible to develop a smooth-running road and rail multimodal service to be benefit of importers, exporters and the operators, while minimizing the risk of transport delay. However, this does not happen automatically by opening the doors of the ICD; it must be actively promoted by assembling all stakeholders, engaging in frank discussions, and responding to the concerns of potential users. It is important that this kind of direct involvement of potential users of a new service be included in the formulation of similar projects in the future. | | The suggestion is well appreciated. But the apprehension that the under performance of Birgunj ICD is associated with the lack of engaging stakeholders in the project development process, does not hold true. There were other exogenous factors that hindered the operation. those factors being out of the hand of project or government entities in Nepal. |