I. Project Context

Country Context

1. Reflecting a long history of political tensions and conflict, South Asia is the world’s least economically integrated region. Intra-regional trade currently accounts for just 5 percent of total trade (versus, e.g., 25% for ASEAN countries and 60% for the EU). Cross-border investment is also very low and there has been little cooperation to date on urgent, shared issues such as river and disaster risk management, which are more amenable to regional rather than national solutions. Removing obstacles to trade – inter alia through improved transport connectivity, logistics facilitation measures and lowering tariffs and other trade barriers – is a high priority for South Asia (and especially for its poorest land-locked regions) as a key element of the effort to build shared prosperity and improve people’s welfare. Available estimates suggest that annual intra-regional trade in the region could increase from the current US$5 billion to US$20 billion if barriers to trading with neighbors were removed, and that a 10 percent reduction in transaction costs at the
border could increase a country’s exports by about 3 percent.

2. The high cost of limited regional integration and trade in the Northeastern part of South Asia is clearly illustrated by the case of Mizoram. Despite its potentially advantageous geographic location between Myanmar and Bangladesh, Mizoram state in India’s Northeastern Region (NER) is one of the poorest in the country, ranking 26th out of 28 states in terms of per capita income. Mizoram and the six other states that comprise the NER – collectively known as the “seven sisters” – were among the most prosperous areas of India prior to independence and Partition of the Indian subcontinent (1947). However, 60 years on, economic activity in the seven sisters has not kept pace with development in India’s “mainland” states, in large part due to their landlocked location, poor infrastructure, isolation from the rest of India and, equally importantly, limited linkages with the markets and ports of neighboring countries including Bangladesh, Nepal, Bhutan, China and Myanmar. The latter are physically closer to the seven sisters than the rest of India and could offer opportunities for productive commerce and connection to world markets, but the lack of infrastructure connectivity coupled with continued political and tariff barriers to the movement of goods and people means that the potential for expanded trade is severely circumscribed.

3. As the preceding suggests, goods produced in NER are generally not competitive once transport costs are factored in, and the population living in NER faces much higher costs for non-local consumer and capital goods. Transport/travel from Aizawl, the capital of Mizoram, the state farthest away from mainland India, involves an approximately 2,400 km journey via the congested, 11 km-wide Siliguri corridor (termed the “Chicken Neck”) to Delhi or 1547 km to the nearest Indian port of Kolkata, impacting connectivity to larger markets. As a result, prices for basic staples (e.g., rice, sugar, tea and tomatoes) can cost as much as three times more in Mizoram and the NER states compared with most cities in mainland India. Price differences with neighboring countries (e.g., Bangladesh) are similarly large. The nearest major Indian city from Aizawl is Guwahati (Assam State, NER), about 500 km away, and it takes about two days to cover this distance because of the under-developed and poor condition of the road network. Improving transport links within the NER and with Bangladesh – and, especially its Chittagong Port (only about 100km away from the borders of Tripura and Mizoram states and not much more from Assam and Manipur) – would therefore make a very significant impact, both by lowering prices for Mizoram’s consumers and businesses and by giving it (and through Mizoram other NER states) access to the wider markets accessible via Bangladesh.

4. Difficult trade logistics and absence of transport connectivity for cross-border trade has been costly not only for NER but also for the closest neighboring countries – principally Bangladesh and Nepal. For Bangladesh the NER is a natural market given its proximity to the country’s eastern border, but lack of infrastructure within the NER and transport connectivity between NER and Bangladesh, seriously limit the development of trade and investment links. For landlocked Nepal, as well, improved connectivity within NER and between NER and Bangladesh would be beneficial from two standpoints: (i) Nepal’s exports of daily consumption products (e.g., lentils) to the NER could be significantly increased if transportation links within NER were improved; and (ii) improved direct connectivity between NER, Bangladesh and mainland India could significantly reduce congestion on the narrow Siliguri corridor through which the bulk of goods going in and out of both Nepal and NER must now pass. For Nepal (and Bhutan), transit through the 54km stretch of Indian Territory at the Siliguri Corridor is key to enabling trade with Bangladesh and to accessing the seaports of Mongla and Chittagong in Bangladesh, as alternatives to the congested Kolkata Port in West Bengal, India. In turn, all three South Asian countries – Bangladesh, India (NER) and
Nepal – would undoubtedly benefit from improved transport connectivity with Myanmar, and through Myanmar to points further east, an opportunity that has now become available given the recent economic opening of Myanmar.

South Asian Regional Connectivity Initiatives
5. Recognizing the potential for growth presented through intra-regional trade, and the special impediments to growth that landlocked countries/states face, the South Asia Association for Regional Cooperation (SAARC) – South Asia’s official organization for facilitating regional cooperation – has declared the present decade to be “the Decade for Intra-Regional Connectivity in SAARC”. This initiative is based on the recommendations of a major SAARC study on regional connectivity, which was formally endorsed by the Transport Ministers of all eight SAARC member countries. The SAARC Declaration and study defined key multi-modal transport and economic corridors that would facilitate intra-regional trade. These have in common the objective of unblocking regional trade for landlocked countries or states, including Afghanistan, Nepal, Bhutan and NE India. The transport initiative is complemented by a series of associated programs aimed at enhancing trade through Integrated Check Posts (ICPs), reducing onerous documentation requirements and addressing other tariff and logistical barriers.

6. Complementing the SAARC multi-modal transport initiative, the three governments of Bangladesh, India and Nepal agreed in 2011 to facilitate trade through the Siliguri Corridor for Bangladesh and Nepal, including allowing Nepal access to the Bangladeshi ports of Mongla and Chittagong, and to enhance connectivity through Bangladesh for NE India to facilitate bilateral trade as well as trade with third countries. All three governments committed to addressing missing links in physical infrastructure, as well as to addressing policy and institutional barriers to trade. Meanwhile, India and Myanmar are building connectivity through a multi-modal transport plan that will involve sea links between India’s eastern ports and Sittwe Port in Myanmar and further linkage to Mizoram and the rest of NER through riverine transport on the Kaladan River and road connectivity thereafter. The agreement between the two countries extends beyond transport per se to other trade facilitation initiatives including improvements to cargo handling and the establishment of ICPs. India's efforts to better integrate its North East are also encouraged by the 'BIMSTEC' initiative, a grouping of seven countries, including Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal.

The Northeastern Regional Transport Connectivity Program
7. Within the frameworks of the SAARC Multi-modal Transport Initiative and the Bangladesh-India-Nepal trilateral agreement, the Governments of Bangladesh, India and Nepal have each identified a series of priority investments for intra-regional connectivity that will address gaps in physical infrastructure for trade and transit. While each country is principally focused on projects within its own territory, the projects have been prioritized on the basis of their relevance for intra-regional connectivity. These transport projects – most within national borders but with vital relevance for regional (cross-border) connectivity – are now in varying stages of development and implementation including:

- Bangladeshi initiatives to strengthen railway connections between Khulna and Mongla (currently underway) and plans to upgrade railway and road links along the Siliguri Corridor – to help facilitate railway and road transport for transit goods from Nepal and Bhutan
- Construction by India of national highways in NER including Assam (East-West Corridor), Meghalaya and Mizoram, the India-Myanmar Kaladan project mentioned above which will benefit
the NER, Bangladesh and Myanmar and building of ICPs on the borders with Nepal, Bangladesh (Tlabung) and Myanmar (Champhai).

• Efforts by the Government of Nepal to facilitate transit and address bottlenecks at the Siliguri Corridor (partly financed through the Bank-financed Nepal-India Regional Trade and Transport Project).

8. A number of external development partners (including the Bank – see section below) are financing critical activities/projects to facilitate intra-regional along the SAARC Priority Corridors. A key partner is the Asian Development Bank, which is rehabilitating a section of road in Mizoram that will complement the IDA-financed project proposed in this document. It is also exploring the provision of support for the rehabilitation and expansion of another key road corridor in the Northeastern Indian state of Manipur. ADB also provides budget support and technical assistance through its SASEC program on trade facilitation activities to Bangladesh, Bhutan, India and Nepal.

Sectoral and institutional Context

9. The Government of India’s 12th Five-Year Plan aims to develop a more balanced multimodal transport network to link the northeast and special-category states to the rest of the country. The strategy also emphasizes safety—especially for women—energy efficiency, environmental conservation, and social impact. By the end of the Plan, it is envisaged that all villages will be connected to an all-weather road, most national and state highways will be upgraded to a two-lane standard or better, and flagship projects—the eastern and western freight corridors—will have been completed. The Plan also prioritizes institutional strengthening, enhanced accountability, and capacity building among the various state and national highways agencies; and this strategic priority is supported by the World Bank.

10. Mizoram’s road network is poor in quality and under-developed, and has among the lowest density in all of India. Key issues and challenges in the road sector include: inadequate sector funding, inadequate maintenance, weak planning for investments, outdated road engineering practices and business procedures, limited capacity of road agency staff, low capacity of the local construction industry, and poor road safety management.

II. Proposed Development Objectives

The proposed Project Development Objective is to increase transport connectivity along regional trade corridors in Mizoram.

III. Project Description

Component Name

Component A: Improvement of Priority Cross-border Roads and Trade-Related Infrastructure

Comments (optional)

i) Widening and strengthening of 94km of road and preparation studies for 350km of road (US$99m); ii) Construction or improvement of trade-related infrastructure along project roads (US$3m).

Component Name

Component B: Road Sector Modernization and Performance Enhancement through Institutional Strengthening

Comments (optional)
This component will support gradual transformation of PWD into a modern road agency through implementation of a Road Sector Modernization Plan (RSMP).

IV. Financing *(in USD Million)*

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V. Implementation

11. The Public Works Department (PWD) will be the implementing agency for Components A and B of the project. It has already set up a Project Implementation Unit (PIU) at Aizawl headed by a Project Director reporting to the Chief Engineer of Roads. Each road contract is assigned an Executive Engineer to monitor the design and implementation of the works. GoM has agreed to set up a Road Sector Modernization Group headed by the Engineer-in-Chief of PWD with topical sub-groups to implement the RSMP. GoM has also set-up a High Level Project Steering Committee to monitor project preparation and implementation progress and to resolve issues as they emerge. The Steering Committee includes representation from PWD, Finance, Revenue, Planning, Forests, Rural Development and Trade Departments. Staffing for procurement, financial management, environmental and social safeguards and land acquisition have been mobilized as described below. A Procurement and Contracts Management (PCM) Cell headed by an Executive Engineer and supported by two Assistant Engineers has been created in the PIU, reporting to the Project Director. For financial management, a divisional accountant has been deputed from PWD and a financial management consultant will be additionally hired on a contract basis for providing support on financial management functions. One Executive Engineer (EE) for Environment (Env) has been assigned to the PIU for overseeing effective implementation of the EMP, with three Assistant Engineers and three Junior Engineers to monitor the implementation of the EMPs. In addition to the Special Land Acquisition Officer, three Assistant Engineers have been designated as R&R Managers (RRMs), one for each road, with the assistance of three Junior Engineers.

VI. Safeguard Policies *(including public consultation)*

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Comments (optional)

VII. Contact point

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