



# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 25-Apr-2022 | Report No: PIDA33065



**BASIC INFORMATION**

**A. Basic Project Data**

Country Nepal	Project ID P177902	Project Name BBIN Regional Transport and Trade Facilitation Program - Nepal Phase 1	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 25-Apr-2022	Estimated Board Date 16-Jun-2022	Practice Area (Lead) Transport
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Industry, Commerce and Supplies, Ministry of Physical Infrastructure and Transport, Ministry of Forests and Environment	

Proposed Development Objective(s)

To increase the efficiency and resilience of trade and transport along selected corridors in Nepal.

Components

- Digital Systems for Trade
- Green and Resilient Transport and Trade Infrastructure
- Institutional and Policy Strengthening for Transport and Trade
- Contingency Emergency Response

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	305.00
<b>Total Financing</b>	305.00
<b>of which IBRD/IDA</b>	260.00
<b>Financing Gap</b>	0.00

**DETAILS**



**World Bank Group Financing**

International Development Association (IDA)	260.00
IDA Credit	260.00

**Non-World Bank Group Financing**

Counterpart Funding	45.00
Borrower/Recipient	45.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

1. **The BBIN Regional Transport and Trade Facilitation Program is proposed to address the current regional and national transport and trade bottlenecks to unlock trade potential in the region.** It is designed using the Multiphase Programmatic Approach (MPA). The proposed Regional Program will be implemented in a phased manner over a period of 7 years. Phase 1 includes projects in Bangladesh and Nepal.

Country Context

2. **Over the period FY2012-19, Nepal’s economy performed reasonably well despite being hit by three large exogenous shocks in 2015 (earthquake), 2016 (trade disruptions), and 2017 (floods).** A fourth shock, the COVID-19 pandemic, derailed the strong growth trajectory established over the previous three years. Economic growth contracted by 2.1 percent in FY20, the first contraction since FY1983, as a nation-wide lockdown from March to July 2020 imposed to curtail the spread of the virus significantly impacted all sectors of the economy. Following the contraction in FY20, the economy is estimated to have grown by 1.8 percent in FY21 even though renewed containment measures were imposed in the fourth quarter of the fiscal year. Agriculture, contributing over one-fifth of nominal GDP, has been a bright spot registering 2.2 and 2.7 percent growth in FY20 and FY21, respectively, on the back of favorable summer monsoons. Industry and the services sectors were more severely impacted by the renewed containment measures. After contracting during FY20, the industry and service sectors are estimated to have grown by only 0.9 and 1.6 percent in FY21, respectively. The World Bank’s 2020 SAR COVID-19 phone monitoring survey shows that 45 percent of those who recovered from a job loss have switched sectors and taken jobs with lower earnings and skill requirements, indicating that many households have been pushed to marginally above or below the poverty line. The COVID-19 pandemic derailed the strong growth trajectory established over the past three years.

3. **Consumer price inflation fell significantly, reaching a record low in FY21, but has since increased.** Average inflation decreased to 3.4 percent in FY21, considerably below FY20 inflation of 6.3 percent and the central bank’s FY21 ceiling of 7 percent. The low inflation rate was driven by a decline in both food and non-food price increases. Average food inflation fell to 4.6 percent in FY21 from 8.6 percent the year before reflecting slower increases in vegetable prices due to the easing of pandemic-induced supply disruptions. Non-food



inflation also decreased to 2.5 percent from 4.6 percent in FY20, chiefly due to a significant fall in housing and utilities inflation. In the first half of FY22, average inflation accelerated to 5 percent, reflecting higher transportation prices associated with global fuel price hikes and increased educational fees and housing prices.

4. **Starting in FY21, Nepal turned a corner, and the fiscal deficit began to narrow on the back of a strong post-COVID recovery of import-based taxes.** The fiscal deficit of the central government narrowed to 4.6 percent of GDP in FY21. A strong rebound in revenues supported the consolidation, with revenues increasing from 22.1 to 24.2 percent of GDP in FY21 driven by a recovery in trade-related taxes. In contrast, non-tax revenues declined, owing mainly to lower dividends and tourism-related royalties and visa fee collections. As observed in previous years, a fiscal surplus was recorded in Q1 FY22 as revenue outstripped expenditure growth; budget execution tends to accelerate in the last quarter of the fiscal year. While public debt has risen from 22.7 percent to 41.8 percent of GDP from FY17 to FY21, the risk of debt distress is currently assessed as low as per the Joint Bank-Fund Debt Sustainability Analysis of December 2021. The current account deficit is estimated to have widened to 8.1 percent of GDP in FY21 and is expected to increase further in FY22. Drivers include a surge in imports and a drop in official remittance inflows, which in absolute terms far outpaced an increase in exports. In the absence of significant FDI inflows, the current account deficit was financed by trade credits, external concessional borrowing, and reserve drawdowns. Official gross foreign exchange reserves fell to USD 9.9 billion in mid-January 2022 (6.6 months of imports coverage) from USD 11.8 billion in mid-July 2021. In response, the central bank adopted measures to mitigate pressure on reserves, including limiting imports of luxury goods.

5. **Economic growth is projected to recover gradually to 4.1 percent by FY23. The baseline forecast projects a gradual medium-term recovery, with growth accelerating from 3.7 percent in FY22 to 5.8 percent by FY24.** The baseline assumes: (i) no new nationwide strict containment measures are imposed; (ii) a near complete vaccination of the eligible population by the end of FY22 (81.7 percent of the population aged 18 and higher have received full doses of vaccine by March 25, 2022); and (iii) a gradual increase in international migration and tourist arrivals, reaching pre-pandemic levels by FY24. Vaccination deployment is expected to unleash pent-up demand for most service sub-sectors. Industry sector growth is projected to be supported by increased hydropower production including from the recently completed Upper Tamakoshi plant. Agricultural growth is projected to decelerate in FY22, reflecting a decline in paddy production and the rise of global fertilizer prices earlier in the fiscal year. Increasing fuel prices are expected to weigh on aggregate demand.

#### Sectoral and Institutional Context

6. **Increasing regional connectivity and improving trade facilitation is critical for Nepal to build back better.** Gradual economic recovery is underway in Nepal after suffering economic contraction from the COVID-19 pandemic. However, additional measures are needed to rebuild its economic resilience in the medium- and long-term. To build back stronger, Nepal has prioritized regional connectivity and trade facilitation to unlock its economic potential while strengthening its institutions in ways that recalibrate its development towards a Green, Resilient and Inclusive Development (GRID) approach. According to a recent UN-sponsored study, a 40 percent reduction in trade costs in Nepal could yield welfare gains of 56 percent to its GDP and intra-regional export gains of 106 percent to its total exports<sup>1</sup>. The main drivers of high cost and inefficiencies in trade and transport in Nepal are: (i) low levels of technology adoption in trade facilitation; (ii) inadequate transport and logistics infrastructure; and (iii) policy, regulatory, and procedural impediments that have constrained cross-border movement. Solving these challenges in line with Nepal's GRID agenda is thus critical to unlock growth

<sup>1</sup>United Nations. 2016. Unlocking the Potential of Regional Economic Cooperation and Integration in South Asia, UNESCAP. New Delhi.



potential through connectivity and trade in a way that provides resilience against climate change risks, natural disasters, and human and biodiversity loss

7. **Addressing Nepal's low level of technology adoption in trade facilitation:**

- a) **Paperless trade.** Opportunities exist for Nepal to reduce trade costs and improve competitiveness by accelerating efforts to facilitate and digitalize trade procedures. Cross-border paperless trade could result in savings over US\$ 140 million in annual trade transaction costs. By 2019, Nepal had implemented only 2.1 percent of all measures included in the WTO Trade Facilitation Agreement and ranked fourth from the bottom of 116 countries for implemented measures<sup>2</sup>. A lack of trade digitization not only runs against the need for reducing face-to-face interaction in the context of the COVID-19 pandemic, but also adds complexity, delays border clearance, provides opportunities for corruption, and hinders private sector participation. Costs associated with obtaining, submitting, and checking documents by different jurisdictions can account for as much as three percent of the total costs of trade.

8. **Building Nepal's sustainable, green, inclusive, and climate-resilient transport and trade infrastructure:**

- a) **Opening Nepal's connectivity.** More than 95 percent of Nepal's trade is via land, and 60 percent of trade is either with India or is routed through India, passing through three cross-border locations<sup>3</sup> and two regional corridors.<sup>4</sup> Trade in goods accounts for 40 percent of Nepal's GDP. Inefficiencies in connectivity and delays have directly impacted the competitiveness of Nepal's exports and economy.
- b) **Upgrading Nepal's longest trade corridor – the East-West Highway (EWH) – is a priority.** With 95 percent of the land-traded goods passing through the EWH and the Kathmandu-Birgunj-Kolkata corridor, the South Asia Sub-regional Economic Cooperation (SASEC) Operational Plan identified the upgrading of the EWH as a priority project to enhance regional connectivity.<sup>5</sup> ADB and WB are upgrading the eastern side of the EWH, and the WB has committed to support the upgrading of the western part between Butwal and Gaddachauki. The road is part of Asian Highway 2, which connects Nepal to India through Dodhara Chandani border point on the western border of Nepal. Through link roads, the EWH also connects to India via its main cross-border points in Biratnagar, Birgunj, Bhairahawa and Nepalgunj. More efficient highway corridor development for seamless vehicle movement and congestion reduction is critical to help significantly reduce GHG<sup>6</sup> emissions. Inclusive development as well as regeneration of the particularly dense and unplanned urban areas crossed along the project highway section from Butwal to Chanauta is also needed to provide communities with economic opportunities, safer infrastructure that is inclusive of non-motorized transport.
- c) **Providing climate-resilient transport and logistics infrastructure and services.** The Intergovernmental Panel on Climate Change (IPCC) suggests that Himalayan regions like Nepal will continue to experience significant changes in weather patterns due to climate change. Historical and recent data collected via the Association's Climate and Disaster Risk Screening tool further confirm the high level of risk for transport and trade infrastructure, pertaining to extreme precipitation, flooding, landslides, wildfires and increasing temperature. Increase in temperature escalates the

<sup>2</sup> Readiness Assessment for Cross-Border Paperless Trade: Nepal. United Nations ESCAP.

<sup>3</sup> viz., Birgunj (50 percent), Bhairahawa (20 percent) and Biratnagar (15 percent).

<sup>4</sup> India accounts for 60 percent of Nepal's trade and, for India, trade across borders with its neighbors constitutes less than 2 percent of its overall trade, but within that, trade with Nepal accounts for 55 percent, followed by Bangladesh (33 percent) and Bhutan (6 percent).

<sup>5</sup> Nepal Foreign Trade Statistics: Fiscal Year 2017/18. Source: <https://www.customs.gov.np/en/statisticsmonthly.html>

<sup>6</sup> Transport sector is responsible for 1739.51 Gg CO<sub>2</sub>-eq of GHG emission in Nepal (Source: Third national Communication to UNFCCC)



instances of cracks on roads due to increased fatigue to the pavement. Major highways get blocked for weeks at a time<sup>7</sup> or destroyed by landslides, mudslides, debris flow, and floods, including the section from Butwal to Chanauta of the EWH, which lies in the geologically fragile and climate-sensitive regions of Nepal-the Siwalik. Climate-related impacts and damages to transport infrastructure along the EWH thus severely disrupt transport flows and services, resulting in increased cost of trading and lack of access to jobs, schools, hospitals, etc. The productivity of key economic sectors, such as agriculture, is compromised by limited access to all-weather roads and information on transboundary and local weather by sectors and communities.

9. **Improving Nepal’s policy and regulatory framework for effective freight and people movement:**

- a) **Simplifying border processes and the excessive documentary compliance requirements.** In Nepal, around 30 percent of consignments are processed through “green lane” facilitation. However, risk management is not improving clearance times for low-risk traders, given the minimal differentiation between green and yellow lanes as both require documents to be submitted and endorsed. Border delays continue outside regulatory processes, such as in cargo handling, movement, and storage. Complicated and non-transparent tariff and/or nontariff measures also affect the free flow of goods and services across borders.

10. **Regional to national level benefits and poverty reduction.** The overall program is expected to enhance trade between Nepal, India, as well as Bangladesh by removing bottlenecks and strengthening weak links at selected border points and along the main identified trade corridors. This project thus focuses on the EWH corridor (with an overall focus on the western section from Butwal to Gaddachauki at the western border with India), which interconnects with regional transport routes integral to freight traffic, and key border points between Nepal and India. The proposed activities will help reduce the cost of trade, considering in particular an important reduction of climate-related disruption costs along the EWH. The project is designed to support economic growth and alleviate poverty, by: (i) supporting innovative measures in line with the GRID objective; and (ii) ensuring that increased cross-border trade and overall benefits generated from regional transport infrastructure and trade development benefit the country and Nepali communities, as poor people in BBIN countries are often disconnected from global and regional – or even local – value chains and markets.

**C. Proposed Development Objective(s)**

Development Objective(s) (From PAD)

To increase the efficiency and resilience of trade and transport along selected corridors in Nepal.

Key Results

11. The progress against the PDO will be measured through the following outcome-level indicators:
- a) Increased freight throughput at select border points [Percentage]
  - b) Reduction in travel time [Percentage]
  - c) Reduction in vehicle operating costs [Percentage]
  - d) Reduction in annual fatalities on the project targeted corridor [Percentage]

<sup>7</sup> <https://kathmandupost.com/national/2021/10/05/rain-damage-to-roads-bridges-estimated-at-rs3-billion>



- e) People provided with improved climate resilient road access along the project corridor [Number]

#### D. Project Description

12. The Project has three components that are within the scope of the Program components described in the parent program. The following describes the activities for Nepal.

13. **Component 1: Digital Systems for Trade** (*US\$5 million, IDA financing of US\$3 million*) will support the adoption and implementation of IT-enabled services for trade. The digital solutions will reduce touch points and human interaction, enhance transparency, reduce congestion, and truck idling – resulting in faster border clearance time and greater cargo throughput. It will finance:

- *Sub-component 1(a)* – Design, supply, development, installation, configuration, and testing of an Electronic Automated Border Management System, including an electronic cargo tracking system.
- *Sub-component 1(b)* – Design, supply, development, installation, configuration, and testing of a Statistical Management Software System to improve statistical monitoring and reporting of trade data and a Risk Engine for risk-based valuation and risk-based selectivity for Post-Clearance Audit.
- *Sub-component 1(c)* – Design, supply, development, installation, configuration, and testing of a web-based supply Management Information System for the automation of registration processes and permits.

14. **Component 2: Green and Resilient Transport and Trade Infrastructure** (*US\$290 million; IDA financing of US\$250 million*) will support the development of green, climate-resilient and inclusive transport and trade-enabling infrastructure along Nepal’s primary trade corridor connecting Nepal with the other BBIN countries, i.e., the EWH. It will finance:

- *Sub-component 2(a)* – Upgrading works and construction supervision of Butwal – Goringhe – Chanauta (BGC) Road Section (69km). This section will be upgraded from a two-lane single carriageway to a climate-resilient four-lane dual carriageway, with new market areas. Safety features, including service lanes for lower speed vehicles, will be constructed along this road section that is running through dense urban settlements, rural and forest zones to significantly improve road safety, promote the use of non-motorized transport (NMT), and protect wildlife where needed.
- *Sub-component 2(b)* – Detailed design, construction and construction supervision of a Green Resilient Urban Bridge. It will finance the construction of a green climate-resilient four-lane bridge (on the EWH) and redevelopment of its surrounding urban environment through green climate-resilient urban design. It will thus support low-carbon urban development, enhanced mobility of NMT, and enhance the economic potential of the area.
- *Sub-component 2(c)* – Development and Implementation of a Green Resilient Highway Concept and Strategy (GRHCC) to support the development, approval and implementation (of priority civil works) of an integrated strategy and action plan that balance equitable transportation functionality and climate resilience/sustainability at the landscape level for the entire EWH.



15. **Component 3: Institutional and Policy Strengthening for Transport and Trade** (US\$10 million, IDA financing of US\$7 million) will support the strengthening of policies, institutions, and technical capacities, including:

- *Sub-component 3(a)* – Providing technical assistance to advance Nepal’s preparedness and subsequent implementation of the Bangladesh-India-Nepal MVA.
- *Sub-component 3(b)* – Supporting customs reforms by (i) implementing priority actions under the WTO Trade Facilitation Agreement and under the Customs Reform and Modernization Strategy and Action Plan, (ii) developing risk management approaches for a more efficient customs clearance process (“green lane” facilitation), and (iii) strengthening Nepal’s SPS agencies for more effective plant pest surveillance and food safety testing procedures.
- *Sub-component 3(c)* – Supporting implementation of private sector support initiatives by (i) conducting a contractor market assessment, (ii) providing accredited entrepreneurship training for women, and (iii) supporting the establishment of new women-owned businesses.
- *Sub-component 3(d)* – Providing training, hiring the required consultants, and supporting capacity strengthening activities for the Implementing Agencies, other relevant agencies at the central, provincial and local levels, and the private sector, on critical issues such as: green, resilient, inclusive development; climate-resilient transport and trade infrastructure development; project management; supervision; quality management; customs and border management practices; trade negotiations; GBV.
- *Sub-component 3(e)* – Providing support for the preparation of future projects through relevant preparatory studies, including but not limited to, master plans, feasibility and design studies, and environmental and social safeguards studies.

16. **Component 4: Contingency Emergency Response** (CERC, US\$0 Million) will provide immediate response to an Eligible Crisis or Emergency, as needed.

Legal Operational Policies	
	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

17. **The environmental and social risks and impacts are rated Substantial.** The upgrading works on the BGC road section, and green, resilient urban bridge construction will have the following environmental impacts: (i) degradation of the remaining forests resulting from tree clearance within the RoW; (ii) increase in road kills and traffic congestion; (iii) increase in air and noise pollution; (iv) degradation of river ecosystems from quarrying and bridge construction; and (v) potential increase in wildlife poaching. Based on the Environmental and Social



Impact Assessment (ESIA), BG road will require the clearing of 28 hectares of forest areas within the RoW, which are dominated by community forests that are already disturbed and degraded. A critical habitat assessment carried out as part of the BG Road ESIA revealed three faunal species that qualify as critical habitats. However, it was assessed that these species are not common in the project area and the impacts are expected to be low. Mitigation measures, such as appropriate fencing and safe underpass crossing, are included in the ESMP. The potential social impacts along the BG Road RoW are largely economic displacement, involving patches of agricultural land, pedestrian sheds, movable table-top businesses (e.g., fruit and vegetable vendors, tea shops), and religious structures. The detailed design and location of the green resilient urban bridge have not yet been determined, thus there is only limited information available to determine the scale and impact of land acquisition and resettlement related to those investments. However, the construction of such infrastructure would occasion additional land-take and displacement that DoR and relevant municipalities have assessed, costed and are willing to manage. Other social concerns include: (i) concerns on workers and community health and safety during construction and operation; (ii) labor influx in local environments with its impacts on SEA/SH; and (iii) potential exposure of workers and communities to communicable diseases such as COVID-19.

## E. Implementation

### Institutional and Implementation Arrangements

18. **The project will be implemented by the Development Cooperation Implementation Division (DCID) [under the Department of Roads (DoR), Ministry of Physical Infrastructure and Transport (MoPIT)], MoICS, and MoFE.** DoR is responsible for the development and management of Nepal's strategic road network. The Ministry of Industries, Commerce and Supplies (MoICS), which is responsible for facilitating domestic, bilateral, and regional trade. DoR and MoICS are long-time clients and partners of the WB, who implemented two Bank-financed projects, the NIRTTP (recently closed) and SRCTIP (ongoing), both focusing on regional/national trade and transport. These agencies have a respected implementation track record and experience with the Bank's financial management, procurement, and safeguards standards and procedures, including the ESF. MoFE will be the third implementing agency (IA) involved in this project with prior experience in Bank funded projects. A Project Steering Committee (PSC) will be established to provide strategic direction, review implementation progress, and facilitate the coordination among the three IAs.

19. **The Project Coordination Units (PCU) at MoICS and DCID, DoR that are currently implementing SRCTIP will be retained and strengthened to oversee the day-to-day implementation of this Project.** Both PCUs will be headed by a full-time Project Director and staffed with full-time technical specialists from both ministries with prior experience in working on Bank-financed projects. The PCUs will hire project management and supervision consultants as well as experts on specific areas, such as community mobilization and climate-resilience, as required. Roles and responsibilities as well as specific fiduciary, safeguards, technical and monitoring guidelines will be detailed in the Project Implementation Manual (PIM).

20. **The Project Coordination Units (PCU) at DCID, DoR and MoICS that are currently implementing the SRCTIP will be retained and strengthened to oversee this Project implementation, and a new PCU will be established within MoFE.** Component 1 will exclusively be implemented by MoICS' PCU. Sub-components 2(a) and 2(b) will be implemented by DCID's PCU. Sub-component 2(c) will be jointly implemented by MoFE and DCID's PCU. Sub-component 3(a) will be implemented by DCID's PCU. Sub-component 3(b) will be implemented by MoICS' PCU. Sub-component 3(c) will be implemented by DCID's PCU. Sub-component 3(d) will be jointly implemented by the PCUs in DCID, MoICS and MoFE. Sub-component 3(e) will be jointly implemented by DCID



and MoICS' PCU. Roles and responsibilities as well as specific fiduciary, safeguards, technical and monitoring guidelines will be detailed in the Project Implementation Manual (PIM). For the CERC, GoN will prepare an "Emergency Response Operations Manual" (EROM) acceptable to the Bank, which will constitute a disbursement condition for the CERC.

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**APPROVAL**

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