Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 26-Oct-2021 | Report No: PIDC33029

Public Disclosure Authorized

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Nepal	P177902		BBIN Regional Transport and Trade Facilitation Program - Nepal Phase 1 (P177902)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
SOUTH ASIA	Apr 04, 2022	May 26, 2022	Transport
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing			

Proposed Development Objective(s)

To develop cost-efficient and resilient trade and transport in Nepal along main selected corridors

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	250.00
Total Financing	250.00
of which IBRD/IDA	250.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	250.00
IDA Credit	250.00

Environmental and Social Risk Classification	Concept Review Decision

High	Track II-The review did authorize the preparation to continue

B. Introduction and Context

Regional Context

1. **Regional trade in South Asia continues to lag.** The deepening of the relationship between Bangladesh, Bhutan, India, and Nepal (BBIN countries), as reflected by an increasing number of sub-regional and bilateral connectivity agreements[1], suggests there is momentum to advance the regional transport and trade facilitation agenda. While intra-BBIN trade has increased from US$3bn in 2005 to over US$18bn in 2019, opportunities for growth through regional trade remains largely untapped. The unexploited trade potential of the countries in the region is estimated at 93 percent for Bangladesh, 50 percent for India and 76 percent for Nepal.[2] Intra-BBIN trade is only 4.3 percent of its total trade and compares poorly with East Asian and Sub-Saharan African economies, where intraregional trade accounts for 50 percent and 22 percent of total trade, respectively[3].

2. **The gaps between actual and potential trade reflect the disproportionately high costs of transport and trade within the region**. Many countries in the region trade on better terms with distant economies than with their neighbors. It is about 15–20 percent less expensive for a company in India to trade with a company in Brazil or Germany than with a company in Bangladesh[4]. Several factors account for the high cost of trade. They include inadequate transport and trade-enabling infrastructure, lack of transport integration, protective tariffs and nontariff barriers, and a broad trust deficit throughout the region. The trade restrictiveness index, which captures the trade policy distortions that each country imposes on its import bundle, shows South Asia with the greatest effective protection compared to any other region.

3. **Removing these constraints and integrating BBIN countries have the potential of delivering significant economic gains.** World Bank estimates suggest that Bangladesh's exports to India could increase by 182 percent and India's exports to Bangladesh by 126 percent if the countries signed a free trade agreement[5]. Improving transport connectivity between the two countries could increase exports even further, yielding a 297 percent increase in Bangladesh's exports to India and a 172 percent increase in India's exports to Bangladesh[6]. Regional connectivity and trade facilitation also hold utmost significance for Nepal. Trade in goods account for 40 percent of its GDP, and, according to one estimate, a 40 percent reduction in trade costs in Nepal could yield welfare gains of 56 percent of GDP and intra-regional export gains of 106 percent of GDP[7].

4. **Graduation from Least Developed Country (LDC) status will pose significant challenges for export sectors**. LDC graduation for Bangladesh, Bhutan, and Nepal – which is expected within the next 5-10 years - will mean exporters will no longer have access to duty-free regimes in key global markets. For Bangladesh, the loss of preferences in key markets

[1] Such as BBIN Motor Vehicles Agreement (MVA), BD-IN Protocol on Inland Water Transit and Trade, BD-IN coastal shipping agreement, amended NP-IN Treaty of Transit, etc.
2 United Nations. 2016. Unlocking the Potential of Regional Economic Cooperation and Integration in South Asia, United National Economic and Social Commission for Asia and the Pacific (UNESCAP). New Delhi.
3 Herrera Dappe, M., Kunaka, C. 2021. Connecting to Thrive. World Bank.
4 Ibid
5 De, P., S. Raihan, and S. Kathuria. 2012. Unlocking Bangladesh-India Trade: Emerging Potential and the Way Forward. World Bank.
6 Herrera Dappe, M., Kunaka, C. 2021. Connecting to Thrive. World Bank.
7 United Nations. 2016. Unlocking the Potential of Regional Economic Cooperation and Integration in South Asia, UNESCAP. New Delhi.

could lead to an annual reduction in exports by as much as 11 percent, or around US$6 billion[8]. The above challenges may fundamentally challenge BBIN countries' position in global markets - requiring concerted efforts to develop a contemporary trade facilitation system, underpinned by a conducive policy environment for international and regional trade.

5. **The COVID-19 pandemic highlighted the need to modernize trade facilitation**. The unprecedented crisis posed by the pandemic will mean that South Asia might experience its worst economic performance in 40 years. In BBIN countries, the outbreak led to uncoordinated border closures, and restrictions on freight transport operations. Supply chains were disrupted, and demand weakened, resulting in large contractions in trade. For example, trade disruptions in Nepal led to a 19.7 percent drop in imports during FY2020[9] whereas Bangladesh's exports declined by 18.5 percent. Globally the pandemic has highlighted the benefits of technological progress, with evidence suggesting that sectors with a higher degree of digitalization and automation adapted more effectively to social distancing and lockdown requirements. Intensifying these structural changes in BBIN countries can be the basis of robust, resilient, and sustainable economic recovery[10].

Sectoral and Institutional Context

6. **This document describes a programmatic framework responding to the multifaceted regional transport and trade facilitation challenges in the sub-region.** The proposed program, which utilizes the Multiphase Programmatic Approach (MPA), will seek to address the main drivers of high cost of trade and transport, namely low levels of technology adoption in trade facilitation, inadequate transport and logistics infrastructure, and policy, regulatory, and procedural impediments that constrain the cross-border movement of freight. The economic implications from reductions in transport and trade cost would be significant. Estimates suggest a 10 percent drop in transport costs could increase trade by 25 percent,[11] and a one-day reduction in travel time is equivalent to an ad-valorem tariff of 0.6 to 2.1 percent, which could lead to a 2.8 to 9.8 percent increase in export[12].

Technology adoption

7. **Trade in the sub-region is paper-heavy.** Trade often requires physical submission of paper documents that fall within and outside of the regulatory requirements. This runs counter to the need to reduce face-to-face interactions which has become imperative in the context of the COVID-19 pandemic. It also adds complexity, delay border clearance, provide opportunities for rent seeking, and act as a costly impediment to the private sector. Estimates suggest that the costs associated with obtaining, submitting, and having documents checked or processed by different jurisdictions accounts for as much as 3 percent of the total costs of trade[13][14]. While many countries in South Asia are moving towards digitization of trade processes, large gaps remain. For example, Bhutan has implemented only 28 percent of measures from a set of 31 key trade facilitation and paperless/digital trade measures identified by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).[15] Estimates suggest that if Bhutan implements the trade facilitation measures included in the World Trade Organization Trade Facilitation Agreement (WTO TFA) along with paperless trade,

8 Government of Bangladesh, General Economic Division (GED) of the Planning Commission, Impact Assessment and Coping up Strategies of Graduation from LDC Status for Bangladesh, 2020
9 World Bank, South Asia Economic Focus Fall 2020; Beaten or broken: informality and COVID-19, 2020
10 Asian Development Bank, Asian Economic Integration Report, Making Digital Platforms Work for Asia and the Pacific, 2021
11 Limão, N.; Venables, A. 2001. Infrastructure, Geographical Disadvantage, Transport Costs, and Trade. World Bank
12 Hummels, D. and Schaur, G. 2013. Time as a Trade Barrier. The American Economic Review.
13 Organization for Economic Co-operation and Development (OECD), 2015
14 Freund,C and Rocha, N. 2010. What Constrains Africa's Exports? World Bank
15 UNESCAP, 2017, Trade Facilitation and Paperless Trade Implementation in Asia and the Pacific: Regional Report 2017.

it could achieve trade cost reductions of around 30 percent - compared to 10 percent if the country aims for basic compliance with the TFA alone.[16]

Transport and logistics infrastructure

8. **Seamless regional connectivity requires an integrated transport network capable of handling demand efficiently**. It requires road, rail, and inland water corridors and land, river, and seaports that can handle current and future freight volumes in a timely and cost-effective manner. However, despite the region's large road, rail, and waterways network, the degree of multimodal freight movement is limited at a national level, and even less for cross border freight traffic. With the exception of India's Sagarmala Program which seeks to develop multimodal hubs, connecting the ocean and river ports with road and railway corridors, each of the modes of transport in the sub-region has evolved separately with only nascent efforts to facilitate multimodal transport operations. An effort will therefore be required to strengthen the road, waterways and railways network and develop freight markets that allow more efficient co-existence and interfaces between the transport modes. This will also entail providing last-mile connectivity by improving congested and less developed road sections towards ports, rail, inland water terminals, and international borders.

9. **Trade gateways lack adequate infrastructure capacity for the traffic and freight volumes they handle**. On average, crossing the India–Bangladesh border at Petrapole–Benapole, the most important border post between the two countries, takes 138 hours, including 28 hours spent transloading cargo. In contrast, the time to cross borders handling similar volumes of traffic in other regions of the world, including East Africa, is less than six hours. Long and unpredictable border transit times, which is observed at most of land ports in the sub-region, is often caused by a mismatch in handling capacity. For example, the Petrapole Integrated Check Post (ICP) in India has the capacity to handle up to 750 export trucks but clears only 370 trucks which is the maximum handling capacity of the Benapole Land Port in Bangladesh. Bhutan is overly reliant on the Phuentsholing border crossing for trade with India and third country trade. However, there is a move to develop additional crossing points for trade, notably Gelephu which has been identified as a trade gateway for Bhutan. Similarly, most of Nepal's land-based freight are routed through three border points, namely Birgunj (50 percent), Bhairahawa (20 percent) and Biratnagar (15 percent).

10. **As transport demand increases in the BBIN countries that are highly vulnerable to climate change, including increased likelihood of extreme weather events, the need to provide sustainable, green, and resilient transport services is critical.** Providing sustainable transport and logistics infrastructure and services will become an even bigger challenge if the adverse impact of climate change is not properly addressed. On one hand, considering the current high level of emissions and pollution that is expected to grow rapidly in the BBIN countries, relevant strategies when developing regional road corridors will help reduce GHG emissions. On the other hand, transport and trade disruptions due to climate change impacts such as intense rainfall and subsequent flooding, slope failures or landslides in particular, represent a major hurdle for the provision of sustainable and resilient systems, services and access to social and economic facilities.

Policy, regulatory, and procedural impediments

11. **The return on investments in infrastructure and systems could be undermined by policy, regulatory, and procedural impediments that constrain freight movement**. High tariffs, paratariffs, and nontariff barriers are part of the problem. Simple average tariffs in Bangladesh and India are more than twice the world average. Complicated and nontransparent nontariff measures—that is, policy measures other than tariffs that affect the free flow of goods and services across borders—add to the high trade costs.

16 UNDP, 2021. Diagnostic Trade Integration Strategy Update (DTISU)

12. **Inefficient border processes and excessive documentary compliance requirements also severely impact trade facilitation**. For example, it is commonly practiced in the sub-region that 100 percent of goods are selected for customs examination. Bangladesh currently do not practice 'green lane' facilitation (no customs intervention); around 20 percent are selected for inspection ('Red lane') and 80 percent are selected for documentary checks ('yellow lane'). In Nepal, around 30 percent of consignments are processes through 'green lane' facilitation. However, risk management is not improving clearance times for low-risk traders as there is little difference between green and yellow lanes as both require documents to be submitted and endorsed. Border delays also occur outside of the regulatory processes, such as cargo handling, movement, and storage.

Relationship to CPF

13. **The Program is aligned with the Country Partnership Frameworks for BBIN countries.** The program will contribute towards the (i) Bangladesh CPF 2018-2022, Focus Area 1 (Growth and Competitiveness) by upgrading infrastructure, systems, and processes at key trade gateways; (ii) Bhutan CPF 2021-2024, Focus Area 2 (Resilience) by building climate resilience into the design of roads and enhancing trade resilience through investments in trade-enabling infrastructure, systems and processes; (iii) India CPF 2018-2022 Focus Area 2 (enhancing competitiveness and enabling job creation) by supporting multi-modal transport, including shifts from highways to waterways; and (iv) Nepal CPF (2019-2023) Focus Area 2 (Private Sector-Led Jobs and Growth) by supporting improved transport connectivity and trade competitiveness. The Program is also aligned with the WBG's strategy for South Asia Regional Integration, Cooperation, and Engagement (RICE), which places priority on transport connectivity and trade facilitation.

C. Proposed Development Objective(s)

The development objective is to improve the conditions for trade in Bangladesh and Nepal by augmenting infrastructure, technology and processes for regional transport and trade facilitation.

Key Results

1. Reduced transit times at priority border points [Percentage change]
2. Increased efficiency of transport mobility for passengers and goods on sections of the BBIN regional road network [Percentage change]
3. Reduced variability in transport costs due to extreme climate events [Percentage change]

14. Intermediate Results Indicators for country projects

1. Reduced transport time on sections of the BBIN regional road network [hours]
2. Reduced documentary compliance requirements and manual processes at select border posts [number]
3. Share of infrastructure assets under the MPA built to climate resilient standards [percentage]

D. Concept Description

Component 1: Supporting the adoption and Implementation of Digital and Automated Systems to Facilitate Trade

15. **This Component will support the transformation of the cross-border clearance ecosystem in Bangladesh through the provision of digital and automated systems**. The digital solutions would enhance cross-border data-sharing, reduce

touch points and human interaction, enhance transparency, resulting in faster border clearance times. This will reduce the use of paper, truck idling, and travelling of government officials and traders, contributing to the reduction of GHG emissions.

Component 2: Enhancing Regional Transport and Trade Enabling Infrastructure

16. **This Component will support resilient infrastructure development along regional corridors and associated border points that serve as the backbone for the physical and economic integration in the BBIN sub-region.** The project will contribute to strengthening weak links in the road network of the BBIN countries, and through network effects, enhance the integration of landlocked Nepal with the gateway countries (Bangladesh and India). Trade-infrastructure modernization will be premised on digitalization, contact-free and paper-free processing, and revised workflows and patterns of interaction between trade agencies and traders (supported under Components 1 and 3). The project will adopt green and climate resilient construction, incorporating resilient norms for cyclones/flooding risks, and adopting energy and water efficient building standards.

17. **In Bangladesh,** the project will support the modernization of **Benapole, Bhomra, and Burimari land ports, and Chattogram, Benapole and Dhaka Customs Houses** into green[17] and climate resilient facilities. These are Bangladesh's most important gateways for regional and global trade, measured by volume and value of trade, and truck volumes (see annex 2 for additional information).

18. **In Nepal,** the project will finance the **first 67km (Butwal – Gorusinghe) of a phased construction of the 438km western section (Butwal to Gaddachowki) of the East-West Highway**, a key corridor for Nepal's connectivity and trade with India and other countries. It will improve efficiency, climate resilience and safety of movement of goods and people. The project would adopt a green and resilient highway concept, integrating transportation functionality and ecological sustainability. It will particularly explore opportunities to improve infrastructure development planning processes and policies at the landscape level, by enhancing environmental risk management, protecting biodiversity, supporting initiatives for carbon sequestration, and disaster risk financing. These activities will support the critical objectives of increasing the adaptive capacity of communities and businesses/supply chains by (a) reducing transport and trade costs to road users, (b) providing sustainable access to critical services, and (c) supporting job creation and green growth.

Pillar 3: Streamlining the policy environment for regional trade and cross-border movement of goods

19. **This pillar will support procedural, regulatory, legislative reforms, as well as capacity building, to enable contemporary trade facilitation practices**. Much of this this effort will be anchored in countries' implementation of the WTO Trade Facilitation Agreement (TFA) which is aligned with the objectives of the MPA program in terms of simplifying paperwork, harmonizing customs requirements, goods clearance expedition, transit facilitation, customs cooperation, and capacity building. Support for the implementation of the BBIN MVA will also be considered, notably the formulation of Standard Operating Procedures (SOPs) and the introduction of a guarantee scheme for transit traffic.

17 https://www.worldgbc.org/how-can-we-make-our-buildings-green

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	
Projects in Disputed Areas OP 7.60	

Summary of Screening of Environmental and Social Risks and Impacts

The environmental and social risks and impacts of the phase 1 activities are rated "High". This is due to the scale of civil works, its physical footprints and the potential for displacement of local communities, sensitive locations of some works (especially in Nepal), multiple implementing agencies and complex institutional arrangements. Key environmental risks include air and water pollution, occupational health and safety issues which may affect workers, community health and safety issues including traffic congestions and accidents as well as decline and degradation of forest and wildlife habitats (especially in Nepal). In the operations phase waste management issues may emerge and relates to general wastes, e-wastes, disposal of spoiled perishable goods as well as usual typical occupational health and safety issues. The key social risks and impacts may include the potential displacement and resettlement of local communities (including IPs in the case of Nepal), labor influx into rural and localized environments with its social consequences (i.e. sexual harassment/sexual exploitation and abuse); and the potential exposure of workers and nearby communities to COVID-19 and other communicable diseases. Depending on technical feasibility, the program will explore design options and alternative routes to avoid and/or minimize displacement of local communities including IPs. Because of the regional nature of the project and in relations to the ongoing activities, cumulative impacts would be also expected.

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APPROVAL

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