

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC794

Project Name	Nepal-India Trade And Transport Facilitation Project (P144335)
Region	SOUTH ASIA
Country	South Asia
Sector(s)	General transportation sector (40%), General industry and trade sector (15%), Other domestic and international trade (15%), Agro-ind ustry, marketing, and trade (15%), Public administration- Industry and trade (15%)
Lending Instrument	Specific Investment Loan
Project ID	P144335
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Commerce and Supplies
Environmental Category	A-Full Assessment
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Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

A: Regional Context

1. The South Asia Region (SAR) has experienced rapid GDP growth over the past three decades, averaging nearly six percent per annum. However, there are two faces of South Asia. The first South Asia is dynamic, growing rapidly, highly urbanized, and is benefiting from global integration. The second South Asia is largely agricultural, landlocked, exhibits high poverty levels, suffers from many conflicts, is lagging and needs to be better integrated with the dynamic sectors in the region. Divergence between the two South Asias is on the rise and many policy, institutional, and infrastructure constraints contribute to this dichotomy. Capital flows through legal channels are negligible, transit arrangements are cumbersome and expensive, and the physical connectivity is limited and restrictive. Together, SAR economies account for 2.4 percent of world GDP. However,

their share of world trade is only 1.3 percent, indicating a relatively poor performance in trade. South Asians as a whole trade more with China than with each other. Intra-regional trade as a share of total trade in South Asia is less than 5 percent, the lowest in the world.

2. The South Asia Region has the potential to raise growth through increased intra-regional trade. SAR has the highest population density in the world and the average distance between cities and borders is low. These features naturally propel trade between countries, but presently this is hindered by policy, administrative and physical barriers. The World Bank's 2012 Logistics Performance Index (LPI), a global multidimensional assessment of logistics performance, shows that as in previous years, South Asia lags behind all other regions except Sub-Saharan Africa in overall logistics performance. India's performance is relatively strong (ranked 46), but the two landlocked countries, Afghanistan and Nepal, are among the weakest performers (ranked 131 and 151 out of 155, respectively). These two countries are also the poorest in the region. Estimates suggest that annual intra-regional trade in the region could increase from the current US\$5 billion to US\$20 billion if restrictions on trading with neighbors are removed. The benefits of scale economies could be even larger for the small landlocked countries.

3. The poor logistics performance of Nepal relative to India is apparent in Figure 1. Essentially Nepal's score in the LPI is about two-thirds that of India. The poor performance is across all six dimensions of the international LPI which suggests it is the product of some choices at the domestic level as well as those pertaining to international connectivity, i.e. dependent on integration and cooperation with neighbors such as India.

4. In addition to policy and institutional reforms aimed at removing domestic constraints to growth and job creation, market integration and infrastructure connectivity are key elements to removing the trade facilitation constraints faced by landlocked countries such as Nepal. That landlocked countries face much higher trade costs than coastal countries is well established. Such countries have to rely on their coastal neighbors for access to export gateways and to access regional and global markets. The interdependence is across several fronts, in terms of infrastructure development, harmonization and integration of policies and procedures and synchronization of operational practices. Effective cooperation and coordination across these areas is fundamental to reducing trade costs and enhancing trade competitiveness. Hausmann and Rodrik (2003) have shown that learning from and integrating with more successful neighbors can help reduce a country's new product development and initial investment costs in production and trade. Cooperation between neighboring countries can help provide the scale attractive for foreign investors and the access to intermediate goods that make new product development less costly. Moreover, the 2009 World Development Report (WDR) on Reshaping Economic Geography establishes that implementing behind the border reforms (within national borders) is as important as cross-border reforms in promoting regional cooperation and integration, and enhancing a country's competitiveness. This project seeks to enhance Nepal's capacity to promote and facilitate international trade, and support cooperation in trade and transport facilitation between Nepal and its largest trade partner as well as trade gateway, India.

B: Country Context

5. Nepal is a geographically small landlocked country, nestled between China and India, the two most populous and among the world's most rapidly growing economies. Its territory is mostly mountainous and hilly and its transport infrastructure is poor, leaving many communities with

limited access to local and international markets. As a consequence, transport costs are high and the country near-completely depends on India for transit routes. Sharing a 1,800 km long border and 22 border points, India is often considered Nepal's 'natural' trading partner. The port of Kolkata in India has been serving as Nepal's access to the sea and is a major transit point for Nepal's third-country trade. India also provides a large market for Nepali goods and services, and is Nepal's largest trading partner, with about 60 percent of Nepal's trade going to or coming from India. Despite its proximity and deep economic relations with India as well as China, Nepal's trade outcomes have been poor. Since 2007, exports have been stagnant (declined by about 5 percent), while imports have increased by more than 50 percent. The trade deficit is offset by high remittances, dependence on which is raising the economy's vulnerability, underlining the importance of enhancing Nepal's trade competitiveness.

6. Nepal's 2010 Trade Integration Strategy (NTIS) and 2013-16 National Development Plan prioritize the need to facilitate trade and improve the country's export competitiveness. Key objectives include strengthening the capacity of the country's trade-related institutions, strengthening export industries that promote economic inclusion, and strengthening the Government's capacity to implement the NTIS, coordinate trade-related institutions and technical assistance. Nepal also has to meet trade facilitation objectives related to its obligations to the World Trade Organization (WTO), South Asian Free Trade Agreement (SAFTA), and bilateral agreements with India. Most of these have to do with facilitating freedom of transit and eliminating non-tariff barriers including those related to technical and sanitary and phyto-sanitary inspections, and cumbersome clearance procedures.

7. While Nepal's trade with India does not represent a significant share of India's total trade, the two countries have had a long history of cooperation on trade and transit. For example, the borders between India and Nepal are the only fully open borders between India and her neighboring countries (visas not required for passengers from either country). Moreover, improving economic and trading ties with Nepal and other South Asian countries occupies a much more central place in the Indian policy agenda than ever before. In the aftermath of the global financial crisis, there is a growing recognition within India that regional cooperation and integration has a role in creating jobs and shared prosperity, and mitigating conflicts, which would all contribute to regional political stability. Further, India's agenda on domestic inclusive growth and sustainable development cannot be fully addressed without active regional cooperation in South Asia, as many lagging areas in India are located in border areas and are heavily impacted by cross-border issues.

8. With trade between India and China already growing and expected to grow even more in the coming years, Nepal could become an important transit country for both countries. Bilateral trade between India and China reached US\$58 billion in 2010; most of this trade travels by sea. The land route across the Himalayas could significantly reduce the time taken for the transport of commodities for trade directed to the western areas of China. However, to take advantage of this opportunity to transform Nepal from a landlocked to a landlinked country that links to regional and global trade, Nepal would need to address its high transport costs, attributable to its poor transport infrastructure and cumbersome trade-related policies, systems and procedures.

9. India-Nepal Cooperation. The Governments of India and Nepal have had a long history of cooperation on trade and transit. The two countries meet regularly at several levels to discuss these issues, from Secretary-level talks to district level discussions, through fora such as the Empowered Steering Committee (which has oversight of the implementation of the new bilateral Integrated

Check Posts), the Joint Working Group on Border Management (Joint Secretary-level talks on cross-border issues), the Border District Coordination Committee (cross-border issues at the district level) and the Inter-Governmental Committee and Sub-Committee for Trade (Secretary and Joint-Secretary level talks on trade collaboration). Through these institutional mechanisms and the agreements they have signed, the two countries are signaling the high priority they attach to trade and transport facilitation between them. In addition to the Agreement of Cooperation to Control Unauthorized Trade between India and Nepal, the Double Taxation Avoidance Agreement, Bilateral Investment Promotion and Protection Agreement, and Air Services Agreement, the three most important treaties which govern bilateral trade and transit between the two countries include:

- Treaty of Trade (updated October 2009 and valid for seven years): Expanded the list of primary products with duty free access to India. Agreed to recognize the sanitary and phyto-sanitary certificates issued by the competent authority of the exporting country if that authority is internationally accredited; Adopted a joint mechanism for clearance of perishable goods; Established the Inter-Governmental Sub-Committee at the joint-secretary level in addition to Inter-Governmental Committee (both meet at six month intervals). Agreed to capacity building for Nepal on technical standards, quarantine and testing facilities and human resources.
- Treaty of Transit (renewed March 2006 for seven years, and again in 2013 for seven years): Confirmed transit rights through each other's territory through mutually agreed routes and modalities, restricting Nepalese traders to use only the ports at Kolkata-Haldia. India allows Nepali trucks to operate on designated routes. Indian trucks can go anywhere in Nepal as long as they return to India within 72 hrs. Goods can move by road or rail through the two countries. The Inland Clearance/Container Depot (ICD) in Birgunj and the extension of railway line from Raxaul to Birgunj has facilitated the direct movement of goods by rail between the two countries.
- Rail Services Agreement (RSA): During a 2012 Review of the RSA, India agreed to the movement of containerized railway cargo between all Inland Container/Clearance Depots and Integrated Check Posts (ICPs) between Nepal and India through which Nepal is authorized to carry out third country trade. However, break bulk and open wagons are still not permitted restricting the type of products that Nepal can trade internationally.

10. Integrated Check Posts. A physical illustration of the close cooperation between Nepal and India of trade and transport facilitation is the ICP program that India designed and is supporting. In 2005, India and Nepal signed a Memorandum of Understanding covering the construction of four ICPs along the India-Nepal border in an effort to upgrade and integrate border controls and customs services. The ICPs include construction of border post infrastructure including administration buildings, parking, laboratory facilities, quarantine points, a post office, a bank, lavatories and a cafeteria. In addition to investing in the four ICPs on its side of the border, India agreed to contribute INR 5 billion (about US\$100 million) towards the construction of the parallel ICPs on the Nepali side. Officials from the two countries meet regularly to discuss the progress of the program through the Empowered Steering Committee, which is the interim governing body of the ICP program. The Raxaul-Birgunj border crossing was selected as the site of the first India-Nepal ICP to be constructed, as about 60 percent of Nepal's trade passes through this border point. The Government of India contributed 120 Crore (about US\$25 million) to the construction of the ICP on the Nepali side of the border. Construction began in 2011 and is expected to be completed by end 2014. Building the ICPs at Raxaul-Birgunj will help address the current severe congestion, and increase trade between Nepal and India and international or third-country trade for Nepal.

11. GoN Commitments. While the Government of India (GoI) is addressing the bottlenecks on India's side of the border, and financing the ICPs at Nepal's key border posts, the Government of

Nepal (GoN) has not been able to address the behind-the-border infrastructure or administrative bottlenecks within Nepal. However, for Nepal to maximize the benefits of cooperation with India it is important that it addresses some of the constraints at the domestic level. Addressing these domestic constraints will unblock current congestion points for both Nepalese and Indian bilateral and international trade, and facilitate bilateral and regional harmonization of policies, systems and procedures. These investments and reforms together will benefit not only Nepalese and Indian traders, transporters, producers, and consumers, but also the third-party/international importers and exporters with whom they trade.

Sectoral and Institutional Context

Trade Profile

12. Nepal generates about 6 million tons of trade traffic per year, with a huge imbalance between import and export trade volumes. Imports account for about 85 percent of trade volumes and exports for the remaining 15 percent. India provides a large market for Nepali goods and services, and is Nepal's largest trading partner, with about 60 percent of Nepal's trade going to or coming from India

13. Manufacturing, largely textiles, forms the bulk of Nepal's exports to high income countries as well as to China, but agricultural products also form a significant share of its exports. Exports to India are more varied, a quarter of which are food products, a quarter textiles, and 10 percent chemicals, though manufacturing is still the biggest by trade value. The manufacturing items exported most to India include iron and steel, and plastics.

Transit Framework for Trade

14. In addition to India, Nepal's foreign trade mainly composes trade with Bangladesh transiting through India, trade with China by land route, trade with third countries through the Indian seaports of Kolkata and Haldia, and through air freight. The Treaty of Transit between India and Nepal allows Nepali goods to transit through designated routes in India, with the ports of Kolkata/Haldia serving as gateway ports for the movement of transit cargo which is transited either by road or by rail to the only railhead serving Nepal at Raxaul (Indian border with Nepal) and onwards to the ICD at Birgunj, Nepal across the border from Raxaul (see Box 1). The transit path that Nepalese international trade, including Indian bilateral trade, follows is described below along with the key barriers that they face.

15. Kolkata-Haldia Ports to Raxaul border post with Nepal: Current policies and incentives, as well as operational and clearance procedures cause congestion, long clearance time and long dwell time at Kolkata Port, as well as long transit and turnaround time for Nepalese cargo that goes by rail to the Raxaul border post. 85 percent of Nepalese trade leaving Kolkata Port travels by rail (20,000 TEUs in 2011) and 15 percent by road to the border at Raxaul. Although rail transport is 2.5 times cheaper than by truck, the inefficiency and lack of predictability of the rail operations causes some exporters to use truck transport. The proposed Project will help address the restrictive provisions in the existing Railway Services Agreement and Transit Agreement to decrease the time and cost of rail travel for Nepalese international trade.

16. Crossing the border from Raxaul to Birgunj: On average it takes one to two days to clear goods at the Raxaul-Birgunj border posts, but this process can take up to 4 days if SPS inspections

are required or other issues emerge. Private sector traders complain of the high number of procedures and documentation required, including 19 signatures on the typical Indian Customs Transit Document (CTD), and duplication of procedures on both sides of the border. Several factors contribute to the delay as described below. The proposed Project will address these soft barriers to trade by facilitating the simplification and harmonization of forms, systems and procedures, modernizing the trucking services framework, developing human resources capacity of key trade-related agencies including that of the Ministry of Physical Planning and Transport Services to monitor and regulate the trucking services sector, developing multi-functional joint SPS labs at key border/clearance points, and implementing the Single Window System and Trade Portal. Since multi-functional joint laboratories require significant change management work, and as such are a challenge to implement, the proposed Project will likely only finance two laboratories where the most SPS inspections are required, and not all the seven listed in the Government's program. This entry support program can test the impact of these laboratories and GoN's implementation capacity before additional laboratories are considered, perhaps in a subsequent support program.

a. Customs: The Indian and Nepali systems are not connected electronically, and Customs processing on both sides of the border at Raxaul-Birgunj is not fully automated. On the Nepal side, the Customs system and related infrastructure need to be automated and modernized, with processes and procedures simplified and harmonized (in keeping with international standards and those applied in India). Currently, most of Nepal's land Customs facilities are inadequate and do not meet international standards. Customs inspection equipment and anti-smuggling detection facilities, as well as staffing and skills, are inadequate at most border posts. ASYCUDA is still not fully utilized at all Customs points. The parallel use of manual systems has resulted in more time to traders, as they have to follow both systems. Finally, other agencies that have a role in the clearance process, including agencies performing SPS inspections and certifications (Department of Agriculture, Department of Livestock Services, Department of Food Technology and Quality Control) and agencies that issue import-export permits and licenses (Ministry of Commerce and Supply, Ministry of Industry, Chamber of Commerce) are not connected to Customs or to each other, forcing traders to perform multiple steps manually at different agencies, often times submitting the same information multiple times to different agencies, increasing the time and cost of trade.

b. SPS Inspections: Currently, the Department of Customs, Department of Food Technology and Quality Control, Department of Livestock Services, and Department of Agriculture have separate networks of laboratories for SPS inspections. This places a great strain on traders and transporters as they have to visit multiple laboratories for multiple inspections at different locations if they are dealing with multiple products and sometimes even for the same product. Many of these laboratories are not located near border points or near each other. For example, the DFTQC regional laboratory in the Central Region is located at Hetauda, 50 km away from the Birgunj border post while the Department of Agriculture laboratory in Birgunj town is a few kilometers away from the border post. Similarly, the DFTQC laboratories in the Eastern and Western regions are located at significant distances away from the border. These challenges increase the costs for traders as they spend a significant amount of time, effort and money in getting the required inspections. Furthermore, since these laboratories are not yet internationally accredited, Nepal's trading partners, including India, do not recognize their certifications, forcing traders to go through another round of inspections on the other side of the border, which sometimes can take up to 7 days.

c. Transloading still happens at the border. The India-Nepal border is one of the very few in South Asia where the trucks of one country can cross the border. Indian trucks are allowed into Nepal for up to 72 hours to deliver cargo before they return to India. Under normal circumstances this provides sufficient time for the trucks to drive to Kathmandu, unload and return to the border. There is no restriction on the time limit for Nepalese trucks entering India, though a prior permit has

to be obtained from Nepal Transit and Warehousing Co. Ltd for which a nominal fee is paid. However, it is apparent that Indian and Nepalese trucks prefer to operate largely within their respective territories. Survey feedback indicates that this is due to the large amounts of informal payments and harassment that they face on the other side of the border. For example, Nepalese trucks are reluctant to drive into Indian territory due to the frequent stops/police road blocks where incidences of extortion and high informal payments are common, while Indian trucks face the same in Nepal. In addition, trucks in Nepal have to pay a Village Development Contribution charge levied by the local Village Development Committees (VDC). Foreign trucks also face groups that demand various charges including the vehicle entry tax and Kabadi Tax levied by local District Development Committees.

17. Birgunj to Kathmandu: Road congestion is increasing at Nepal's borders because of higher traffic volumes and because transit is constrained by the poor condition of roads. The 276 km stretch of road along the Corridor from Birgunj to Kathmandu, which forms part of the SAARC Regional Road Network (SAARC Road Corridor 2), is the most important trade route in Nepal for Nepalese and Indian international trade. Yet, sections of this road, including the 33km between Narayanghat and Mugling and the 50km Birgunj-ICD-Pathlaiya-Ratomate-Hetauda bypass section, are too narrow to accommodate existing and projected traffic flows, and in the case of the Narayanghat-Mugling section, is in poor condition posing safety risks to users and local inhabitants. This road section also experiences the heaviest traffic load carrying 90 percent of Nepal's international trade traffic (about 6000 vehicles per day). Moreover, once construction of the ICPs is completed, more traffic is expected to pass through the Raxaul-Birgunj border post at a faster rate, causing even greater congestion than at present. The proposed Project will upgrade and expand the Narayanghat-Mugling road section to Asian Highway Standard and address road maintenance, road safety and biodiversity conservation issues along the trade Corridor, but will not finance upgradation of the Birgunj-Hetauda road section because design and environmental safeguards studies have not yet commenced, and because the GoN and IDA have insufficient financing to fund the works for this road section.

18. Trucking Services: A 2012 review by USAID of the trucking industry in Nepal found an oversupply of trucks together with lack of proper regulation to correct perceived market failure in providing efficient services. The study also found the existence of numerous transport entrepreneurs' associations (TEAs). The TEAs aim not only to equally distribute benefits among members but also to self-regulate the entire industry. However, users of trucking services suggest the associations have colluded for mutual benefit, eroded market competition and raised transport costs in Nepal. The review provides evidence that the authorities have lacked capacity to regulate the trucking industry. Trucking syndicates have therefore been left to promote practices that raise costs. The practices are in the form of rotations or use of odd-even leading systems for trucks. Even though the syndicate system was not enforced throughout the year but only when demand for transport services runs low, the effect was the same in that transport prices are much higher. The study estimates that syndication could be costing the Nepali economy as much as NPR 5.78 billion (US\$68 million) per year. The proposed Project aims to strengthen the capacity of the Ministry of Physical Planning and Transport Management to monitor and regulate the trucking services industry.

19. Clearance and Loading in Kathmandu: Currently there are no parking or warehouse facilities available for trucks carrying goods from or to Kathmandu, placing significant burdens on traders, freight forwarders, transporters/truckers, and increasing further the time and cost of

transport. With heavy traffic congestion in and around Kathmandu, truckers have nowhere to park to off-load imported goods or load goods for export. Many end up parking on the side of the ring road – which is illegal – to wait until traders call them into the city for on-loading and off-loading (usually night time). This current pattern increases the costs for transporters and traders, and has a negative impact on public safety and the environment. The proposed Project will finance a logistics/clearance facility in or near Kathmandu if an adequate site can be identified which does not have significant land acquisition challenges.

Relationship to CAS

20. The South Asia Regional Strategy recognizes regional cooperation and integration as a key strategic objective. It pinpoints limited intraregional trade and connectivity, cumbersome procedures, non-tariff barriers, and costly road transport and logistics services as key impediments to increasing trade in the region. The SAR Regional Strategy Updates for 2012 and 2013 specifically recognize the importance of trade and transport facilitation for Nepal and for the South Asia Region. The FY2012-2013 Nepal Interim Strategy Note (ISN) and the new FY2014-17 Nepal Country Assistance Strategy (CAS) recognize regional cooperation in trade and transit and promoting Nepal's export competitiveness as priorities. The FY2009-2012 India Country Partnership Strategy (CPS) highlights the importance of active regional cooperation as part of India's agenda on inclusive growth and sustainable development. The new FY2013-2015 India CPS includes regional cooperation as one of three strategic pillars. Many lagging areas of India are located in border areas and are heavily impacted by cross-border issues.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

23. The proposed development objective is to facilitate efficient goods trade between Nepal and India. This will be done by reducing key trade-related infrastructure constraints within Nepal, and by alleviating soft barriers to trade between Nepal and India including those related to policy, procedures, and systems for international trade transiting between the two countries.

Key Results (From PCN)

24. The expected outcome as a result of project interventions is a reduction of transport time and logistics costs for Nepal's international trade. This will be achieved through reductions in: a) clearance time at Raxaul-Birgunj border post for road and railtraffic; and b) transport time and cost between Birgunj and Kathmandu for trucks.

25. Baseline values: A customized methodology for will be used to collect primary baseline data by the date of Board approval. Capacity support will be provided to GoN to ensure systematic and regular collection of performance data.

III. Preliminary Description

Concept Description

24. Enhancing trade competitiveness is one of six priorities of the Government of Nepal's development plan. The GoN's 2010 Trade Integration Strategy (NTIS) seeks to enable inclusive growth in Nepal through enhancing the competitiveness of Nepal's exports and reducing the cost of trade. The priorities of this strategy include: (i) reducing the time and cost of trade-related transactions through efforts at simplification, harmonization, and automation; (ii) building the capacity of domestic trade-related institutions including for sanitary and phytosanitary inspections,

trade negotiations, trade facilitation and logistics, and monitoring and regulating trade-related sectors; and, (iii) enhancing the Government's ability to coordinate trade-related institutions and development partners.

25. The GoN has requested the World Bank to provide IDA financing, including Regional IDA, to support Nepal's goals of enhancing international and intra-regional trade. The proposed activities and components will address the infrastructure and non-infrastructure constraints along the key international trade routes in Nepal. These include reforms to (i) address the fragmented supply chains arising from operational, organizational, procedural, and regulatory issues as well as business practices; and (ii) modernize the transit regime within Nepal and between Nepal and India. The project's development objective is to facilitate efficient goods trade between India and Nepal, and all activities in the project are designed to support that objective.

26. The estimated total project cost is US\$101 million (m). IDA will finance US\$99 million and the IFC will provide US\$2 million in support from its South Asia Regional Trade and Integration Program (SARTIP). The projected costs below may change when all feasibility studies are finalized.

Component 1: Modernize transport and transit arrangements between Nepal and India (US\$7 m: US\$2m IFC, US\$5m IDA): The project seeks to improve the efficiency of the systems used to manage and control the movement of Nepal and India's third country trade by providing technical assistance to: (a) Nepal to propose evidence based amendments to the Transit Treaty and Rail Services Agreement in order to expedite the movement of third country trade passing through the two countries; (b) Nepal and Indian Customs to simplify and harmonize customs and border management procedures, processes and systems, especially to provide for electronic interchange of data; (c) Road transport regulatory authority in Nepal to strengthen and modernize the regulation of international trucking services; and (d) Introduce a modern and effective transit regime between the two countries.

Component 2: Strengthen Trade Related Institutional Capacity in Nepal (US\$20m)

a) Trade Portal and Single Window System Development: The project will finance the design and development of a Trade Information Portal and a Single Window system and related governance arrangements that will collectively allow traders to obtain all relevant information and undertake most regulatory requirements associated with clearing import, export and transit consignments via a single web-based gateway. Preparatory work for this component, including work planning and change management, has already begun under the Bank-managed NLTA Program.

b) Institutional strengthening and Interagency Coordination including financing of PCO: Support human skills development and other strategic institutional strengthening measures for targeted trade-related agencies so that they can better support and promote international trade. Specific activities include: (i) Support the implementation of the Customs Human Resources Development Plan; (ii) Support capacity development and institutional strengthening for the Ministry of Commerce and Supplies; and, (iii) Establishment of the PCO including strengthening the M&E capacity of the NITDB.

Component 3: Improve Select Trade-Related Infrastructure (US\$74m)

a) Expand and upgrade the Narayanghat-Mugling road section: This road section is one of the most congested in Nepal with 90 percent of Nepal's international trade passing through this road. The Project will support upgrading 33km of this road to a two-lane Asian Highway Standard from

an existing intermediate carriageway and finance road safety, biodiversity conservation and axle load control measures. The feasibility study, and draft environmental and social assessments and detailed designs have been completed. The detailed designs will be updated to reflect environmental management measures, and bid documents will be prepared in the coming months.

b) Build a distribution/warehousing/logistics center or ICD in Kathmandu. Currently there are no parking or warehouse facilities available for trucks carrying international goods trade from or to Kathmandu, placing significant burdens on traders, freight forwarders, transporters/truckers, and increasing further the time and cost of transport. With heavy traffic congestion in and around Kathmandu, truckers have nowhere to park to off-load imported goods or load goods for export. The feasibility study to build a logistics center or ICD is underway and is expected to be completed by late March 2013.

c) Improve the infrastructure at Birgunj ICD through the extension of the warehouse shed and removal of unused rail tracks at the Birgunj ICD. Currently, the warehouse shed covers only half the length of a train shipment. During the rainy season, the remaining goods are exposed to the elements and perishables goods would rot or suffer damage. Removal of a set of unused tracks would create space for loading and unloading of Nepal's international goods trade, which would also speed up these processes. The engineering design and cost estimates are completed.

d) Develop Multi-Functional Joint Analysis Laboratories (including for Customs and SPS inspections including food, plant, and animal): a) Finance the refurbishment or construction, provision of equipment, IT systems and connectivity, technical assistance, staffing and human resources capacity development to develop new multi-functional, multi-agency, joint analysis laboratories at the Central Laboratory in Kathmandu and at select border posts; and, b) Support the international accreditation of the laboratories with Indian expertise and technical assistance. The feasibility study is underway and is expected to be completed by late March 2013.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04	x		
Forests OP/BP 4.36	x		
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Tentative financing

Financing Source	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	99.00
International Finance Corporation (IFC)	2.00

Total

101.00

Public Disclosure Copy

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