I. Project Context

Country Context

A: Regional Context
1. 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.

B: Country Context
2. 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 an approximately 1,800 km
long border and 26 border points, India is often considered Nepal’s ‘natural’ trading partner. The port complex of Kolkata-Haldia 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.

3. **Nepal’s Trade Integration Strategy (NTIS) 2010 and 2010-13 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, improve coordination between trade-related institutions and enhance the delivery of technical assistance.

4. **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, the two countries are signaling the high priority they attach to trade and transport facilitation between them.

5. **Integrated Check Posts (ICPs).** A physical illustration of the close cooperation between Nepal and India of trade and transport facilitation is India’s Integrated Check Posts program. 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. 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 third-country trade for Nepal.

6. **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. These impact heavily on Nepal’s capacity to export as excessive red tape and inefficient systems and procedures simply add unnecessary costs that are ultimately reflected in a poor capacity to compete on regional markets. 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. They are also critical to stimulating Nepal’s export performance.

**Sectoral and institutional Context**

7. In addition to India, Nepal also trades with Bangladesh transiting through India, with China by land, and 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 moves by road or by rail to the only railhead serving Nepal at Raxaul (Indian border with Nepal) and onwards to the Inland Clearance Depot at Birgunj, Nepal across the border from Raxaul. Challenges faced by traders along this trade corridor include long dwell time at Kolkata Port, long transit time from Kolkata to Raxaul by road and rail, long border crossing time between Birgunj and Raxaul, long transport time between Birgunj and Kathmandu, and long unloading time in Kathmandu for imports and loading time for exports.

**II. Project Development Objectives**

The proposed Project Development Objective is to decrease transport time and logistics costs for bilateral trade between Nepal and India and transit trade along the Kathmandu-Kolkata corridor for the benefit of traders. This will be achieved by reducing key infrastructure bottlenecks in Nepal and by supporting the adoption of modern approaches to border management.

**III. Project Description**

**Component Name**

- Modernize transport and transit arrangements between Nepal and India
- Strengthen Trade-Related Institutional Capacity in Nepal
- Improve Select Trade-Related Infrastructure

**IV. Financing (in USD Million)**

<table>
<thead>
<tr>
<th>For Loans/Credits/Others</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>BORROWER/RECIPIENT</td>
<td>0.00</td>
</tr>
<tr>
<td>International Development Association (IDA)</td>
<td>99.00</td>
</tr>
<tr>
<td>International Finance Corporation (IFC)</td>
<td>2.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>101.00</td>
</tr>
</tbody>
</table>

**V. Implementation**

8. Implementation of the Project will be under the general oversight of the Ministry of Commerce and Supplies. However, the Project’s four main activities will be implemented by three different government ministries: Ministry of Physical Infrastructure and Transport, Ministry of Finance, and Ministry of Commerce and Supplies. These three ministries have gained experience and expertise through previous implementation of World Bank roads projects and the 1998-2003 Nepal Multimodal Transit and Trade Facilitation Project.

**VI. Safeguard Policies (including public consultation)**
<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>✖</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td>✖</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td></td>
<td>✖</td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td></td>
<td>✖</td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td></td>
<td>✖</td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td></td>
<td>✖</td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td></td>
<td>✖</td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td></td>
<td>✖</td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td></td>
<td>✖</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td></td>
<td>✖</td>
</tr>
</tbody>
</table>

VII. Contact point

World Bank
Contact: Diep Nguyen-Van Houtte
Title: Senior Operations Officer
Tel: 473-7213
Email: dnguyenvanhoutte@worldbank.org

Borrower/Client/Recipient
Name: Government of Nepal
Contact: Ministry of Finance
Title: 977-1-425-9820
Email:

Implementing Agencies
Name: Ministry of Commerce and Supplies
Contact: Mr. Lal Mani Joshi
Title: Secretary
Tel: 977-1-4211446
Email: lalmanijoshi@yahoo.com

VIII. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop