

## REGIONAL COOPERATION AND INTEGRATION

1. The Government of Nepal actively participates as a full member of the South Asian Association for Regional Cooperation (SAARC), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and the South Asia Subregional Economic Cooperation (SASEC) programs.

### A. Nepal in South Asian Association for Regional Cooperation

2. Nepal is a founding member of SAARC, which was formed as an intergovernmental regional organization in 1985 in Dhaka, Bangladesh to promote the development of economic and regional integration among its member states, now comprising Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.<sup>1</sup> The Secretariat of SAARC was established in Kathmandu, Nepal in January 1987. SAARC has established several regional centers of which two are also based in Kathmandu.<sup>2</sup> Nepal assumed Chairmanship of SAARC in 2013 and hosted the 18th SAARC Summit in Kathmandu in November 2014. Nepal also acceded in 2006 to the South Asian Free Trade Area, which helps the region move toward becoming a free trade area. Key transport and energy projects with regional implications have been identified in member countries, including Nepal under the 2006 SAARC Regional Multimodal Transport Study, and the 2010 SAARC Regional Energy Trade Study.<sup>3</sup> Regional cooperation benefits and potential for Nepal are also included in the ADB-supported study on regional economic integration,<sup>4</sup> which explores possible elements of a South Asian Economic Union, such as the reduction of non-tariff barriers, the reduction of products in sensitive lists, and wider other trade facilitation measures.

### B. Nepal in the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation

3. BIMSTEC was established as an interregional grouping in June 1997 to promote free trade within the region, increase cross-border investment and tourism and promote technical cooperation especially on matters of common interest and those tapping regional synergies.<sup>5</sup> Initially comprising Bangladesh, India, Sri Lanka, and Thailand, BIMSTEC has expanded to include Myanmar (December 1997), and Bhutan and Nepal (July 2004). As a sector-based program, BIMSTEC has identified several priority areas of cooperation, with Nepal assigned as lead country for poverty alleviation. Nepal participates in the BIMSTEC Free Trade Area Agreement via the Trade Negotiating Committee working on a list of goods to be covered. Nepal assumed the chairmanship of BIMSTEC at the closing of the third BIMSTEC summit held in Nay Pyi Taw, Myanmar in March 2014. The BIMSTEC Transport Infrastructure and Logistics Study (BTILS) is the blueprint for transport cooperation in BIMSTEC. It identifies a short list of about 60 projects as part of key BIMSTEC trade routes.<sup>6</sup> Six projects were specific to Nepal, including the major development of Tribhuvan International Airport at Kathmandu, and further automation

<sup>1</sup> South Asian Association for Regional Cooperation. About SAARC. <http://saarc-sec.org/about-saarc>.

<sup>2</sup> Specifically, the SAARC Information Centre, and the SAARC Tuberculosis and HIV/AIDS Centre.

<sup>3</sup> SAARC Secretariat. 2006. *SAARC Regional Multimodal Transport Study*. Kathmandu; and SAARC Secretariat. 2010. *SAARC Regional Energy Trade Study*. Kathmandu. ADB funded both studies.

<sup>4</sup> SAARC Secretariat. *Next Steps to South Asian Economic Union: A Study on Regional Economic Integration (Phase II)*. Commissioned by the SAARC Secretariat.

<sup>5</sup> BIMSTEC: Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. <http://www.bimstec.org/index.php>.

<sup>6</sup> ADB. 2014. *Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) Transport Infrastructure and Logistics Study*. Manila. BTILS was updated in 2014 and acknowledged at the Third BIMSTEC Summit.

of trade processing (customs and national single windows). The BIMSTEC Transport Connectivity Working Group met in May 2016 to agree on short- and medium-term tasks in coordinating and monitoring implementation of the BTILS strategies, policies, and projects.

### **C. Nepal in South Asia Subregional Economic Cooperation**

4. SASEC brings together Bangladesh, Bhutan, India, the Maldives, Myanmar, Nepal, and Sri Lanka in a project-based partnership to promote regional prosperity by improving cross-border connectivity, facilitating faster and less costly trade among member countries, developing regional energy trade, and strengthening effective regional economic cooperation. SASEC was formed in 2001, when founding members of the South Asian Growth Quadrangle (SAGQ)—Bangladesh, Bhutan, India, and Nepal—requested ADB to support their goal to accelerate economic development among the four countries through increased regional cooperation.<sup>7</sup> Maldives and Sri Lanka joined the SASEC partnership in May 2014, and Myanmar in February 2017. Since 2001, SASEC has approved 46 investment projects in priority sectors worth a cumulative total of \$9.17 billion. Nepal's SASEC portfolio 2001-2016 comprises 12 investment projects with a regional dimension, worth a cumulative \$777.7 million (Table 1). ADB serves as the SASEC Secretariat.

5. In 2011, SASEC tightened its scope of operations to focus on the transport, trade facilitation, and energy sectors, as reflected in Nepal's SASEC portfolio for the period 2011–2016. SASEC countries adopted the SASEC Operational Plan 2016–2025 in May 2016 as the program's first comprehensive long-term strategy.<sup>8</sup> The SASEC Operational Plan broadened the scope of the three implementing sectors and introduced economic corridor development as a new area of strategic and operational focus. Primary strategic objectives of the SASEC Operational Plan include (i) enhanced physical connectivity through multimodal transport systems that are aligned more closely with the development of markets; (ii) expansion of current focus on land-based facilitation to sea-borne facilitation to complement multi-modal network investments; (iii) enhanced electricity trade leading to expansion/diversification of energy supply to meet energy needs and secure power reliability; and (iv) promotion of synergies between in-country economic corridors, and optimization of their development impacts through improved cross-border linkages.

6. Nepal has participated in the country-led formulation of the SASEC 2025 Vision, which articulates the long-term potential of an integrated subregion.<sup>9</sup>

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<sup>7</sup> SAGQ was established in April 1997 as a subset of SAARC countries with the aim of creating an enabling environment to accelerate economic growth; overcome infrastructural constraints; optimize and further develop complementarities in the subregion; and develop economic and institutional linkages to facilitate cooperation on policy framework and project implementation. SAGQ was endorsed in April 1997 at the 9th SAARC Summit, held in Male', Maldives.

<sup>8</sup> ADB. 2016. *South Asia Subregional Economic Cooperation Operational Plan 2016-2025*. Manila.

<sup>9</sup> The SASEC Vision was endorsed at the SASEC Finance Ministers' meeting in Delhi on 3 April 2017. <http://www.sasec.asia/index.php?page=event&eid=243&url=sasec-finance-ministers-meeting>

**Table 1: Nepal ADB-financed Regional Cooperation and Integration Projects under SASEC**

SN	Project	Sector	Status	ADB Financing (\$ million)	Project Scope
1	SASEC Power System Expansion Project (Additional Financing) (2016)	Energy	Ongoing	20.0	This will expand the scope of the original project through installation of utility-scale solar power to help address chronic power shortages and fuel supply deficits in Nepal (item 3).
2	SASEC Roads Improvement Project (2016)	Transport	Ongoing	187.0	This project focuses on providing faster and better access to social services and economic opportunities. The project area is integral to the international and regional road network system connecting Nepal to India, and upgrading of the road sections is expected to have a transformational impact by facilitating closer trade integration and contributing to Nepal's export competitiveness.
3	SASEC Power Systems Expansion Project (2014)	Energy	Ongoing	191.0	The Project seeks to increase power transmission capacity and power distribution networks, mini-grid-based renewable energy systems in off-grid areas, and provide capacity development support to Nepal Electricity Authority and Alternative Energy Promotion Center.
4	Project Preparatory Facility for Energy (2013)	Energy	Ongoing	21.0	The facility will improve Nepal's energy security and make it a potential energy exporter, by supporting project preparatory activities for the Sun Koshi 2, Sun Koshi 3, and Dudh Koshi Hydropower Projects and a second 400-kilovolt transmission line project across Nepal's border with India. The facility will also provide public-private partnership project development services.
5	SASEC Road Connectivity (2013)	Transport	Ongoing	75.0	The project envisages improving connectivity in Nepal and between Nepal and its neighbors. The main investment is an alternate route in Sunsari and Saptari districts, which will create year-round passable conditions along the East–West Highway), especially across the Koshi River. The repair of three feeder roads in the hill areas will improve connectivity between villages along this road system and better access to basic services.
6	Air Transport Capacity Enhancement Project (2009)	Transport	Ongoing	80.0	The Project intends to improve safety and capacity at Tribhuvan International Airport and three remote domestic airports in Lukla, Simikot and Rara and strengthen institutional capacity of Civil Aviation Authority of Nepal.
7	SASEC Trade Facilitation Program (2012)	Trade Facilitation	Ongoing	15.0	The program aims to modernize and strengthen customs administration and management; streamline and improve trade processes and procedures; and improve services and information for private sector traders and investors, including women entrepreneurs
8	Subregional Transport Enhancement Project (2010)	Transport	Ongoing	49.0	Provide north-south link between Nepal's northeastern region and East-West Highway, improve major international corridors, and customs modernization. The project will also strengthen the capacity of

SN	Project	Sector	Status	ADB Financing (\$ million)	Project Scope
					the road sector and customs authorities.
9	South Asia Tourism Infrastructure Development Project (2009)	Tourism	Ongoing	55.0	The Project aims to have a sustainable and inclusive development by tapping the potential of contiguous and complementary tourism assets of Nepal.
10	SASEC Information Highway Project (2007)	ICT	Ongoing	5.0	Establish high speed direct fiber optic connection among SASEC countries. The Project is assisting the regional cooperation among Bangladesh, Bhutan, India, and Nepal through the SASEC program by implementing most urgent improvement in SASEC information and communication technology development master plan in areas of (i) cross-border connectivity, (ii) rural access to information, and (iii) human resource capacity.
11	Road Connectivity Sector I Project (2006)	Transport	Completed (2012)	55.0	Expanded and upgraded feeder roads connecting China and southern Nepal, enhanced access to district headquarter markets, employment opportunities, and social services including health and education, reduced transport costs, improved efficiency and sustainability of DOR in planning, constructing, and managing the SRN, and enhanced capacity of local construction and consulting services.
12	Subregional Transport Facilitation (2004)	Transport	Completed (2010)	20.0	Improvement of 41.4 km two-lane access road to connect Birgunj and Bhairawa ICDs to national highways; constructed an inland clearance depot at Kakarbhitta gateway at the eastern border; and improved automation system of customs cargo clearance and management along with strengthening capacity of customs agency.

DOR = Department of Roads; ICD = inland container depot; ICT = information and communications technology, km = kilometer, SASEC = South Asia Subregional Economic Cooperation, SRN = Strategic Road Network

#### D. Nepal and the South Asia Subregional Economic Cooperation Trade Facilitation Sector

7. SASEC trade facilitation activities focus on making trade and transport in the subregion faster, cheaper, and more predictable, while maintaining the security of international supply chains. Nepal is an active participant in SASEC efforts to address key nontariff barriers that constrain intra-regional trade in South Asia, such as bottlenecks caused by inefficient customs and land border procedures, and inefficiencies in port operations and logistics performance. The three-country (Bangladesh, Bhutan, and Nepal) SASEC Trade Facilitation Program accounts for \$48 million of the overall SASEC portfolio,<sup>10</sup> with national and regional technical assistance projects augmenting this. As SASEC Secretariat, ADB assists the SASEC countries in developing strategic direction and implementing trade facilitation activities.

<sup>10</sup> ADB. 2012. *South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila. Approved in November 2012, the Nepal component (worth \$15 million) of this three-country regional program closed officially in November 2015.

8. In March 2014, SASEC member countries approved the SASEC Trade Facilitation Strategic Framework (STFSF) 2014-2018 with the goal of increasing trade facilitation efficiency and reducing the time and cost of trade. This will be achieved by modernizing and improving border-clearance practices to meet international standards, focusing on five priority areas: (i) customs modernization and harmonization; (ii) standards and conformity assessment strengthening; (iii) cross-border facility improvement; (iv) through transport facilitation; and (v) institution and capacity building.

- (i) **Customs modernization and harmonization.** ADB has supported the SASEC Customs Subgroup (SCS) since formation in March 2013 to pursue customs reform and modernization, strengthen interagency cooperation, and enrich partnerships with the private sector. The SCS follows a two-track approach in implementing both subregional and national projects. Subregional projects address a common need of at least two countries, where joint or collective approaches would lead to efficient and effective results. Examples of subregional projects include capacity-building and knowledge-sharing initiatives in areas that require standards setting or harmonization, where SASEC platforms for dialogue among countries on common issues are provided to great effect. Specifically, Nepal has benefited from the World Customs Organization (WCO)-ADB Joint Subregional Train-the-Trainer Workshop on Customs Valuation initiative (2014-2016),<sup>11</sup> which both brought together all SASEC customs administrations to learn from each other's customs valuation procedures, and also implemented a national action plan in Nepal to successfully deliver a model training program and materials for customs valuation. In addition, Nepal actively participated in the SCS-sponsored subregional Workshop on International Standards and Conventions Relating to Temporary Admission (September 2016), which sought to directly facilitate intraregional trade in SASEC by promoting standardization and harmonization of formalities associated with temporary admission of goods and vehicles, and by building the capacity of SASEC Customs administrations and related agencies on the scope and coverage of various international conventions governing temporary import of goods and vehicles.<sup>12</sup> Such regional dialogue platforms create opportunity to build and maintain strong working relationships and cooperation among the South Asian customs administrations.

Recognizing that a subregional approach can address only specific common needs of all six SASEC customs administrations, national projects are also identified and implemented under the SCS in each SASEC country, enabling national agencies to address particular sets of customs challenges. Nepal is implementing five national

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<sup>11</sup> Under this multiyear initiative, two joint subregional workshops on customs valuation were held in February and October 2014. Various national workshops on customs valuation were held in 2015-2016, with the first and second national workshops for Nepal held in August 2015 and March 2016, respectively: [www.sasec.asia/index.php?page=event&eid=189&url=nep-second-natl-workshop-customs-valuation](http://www.sasec.asia/index.php?page=event&eid=189&url=nep-second-natl-workshop-customs-valuation)

<sup>12</sup> SASEC. Workshop on International Standards and Conventions Relating to Temporary Admission. <http://www.sasec.asia/index.php?page=event&eid=216&url=sasec-workshop-on-international-conventions-on-customs>

projects under the SCS,<sup>13</sup> supported by the ADB-administered Japan Fund for Poverty Reduction (JFPR) technical assistance project.<sup>14</sup>

- (ii) **Standards and conformity assessment strengthening.** International agreements on the application of sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) aim to balance the competing demands for domestic regulation and global harmonization of product standards, while minimizing the use of standards as protectionist mechanisms that impede international trade. In the case of Nepal, and its export promotion strategy, many traders and producers alike have highlighted this as the single most significant obstacle to their export.<sup>15</sup> The SASEC SPS/TBT agenda has initiated preparation of national diagnostic studies in all SASEC countries to identify SPS/TBT-vulnerable export commodities, determine why they are traded sub-optimally (in terms of SPS/TBT bottlenecks), and provide recommendations to tackle the SPS/TBT barriers. Completion of the Nepal national SPS/TBT diagnostic study is anticipated by quarter three 2017.<sup>16</sup> In addition to the six national studies, a regional SPS/TBT diagnostic study will identify SPS/TBT issues common to all six country members, and suggest solutions at a regional level. The SASEC diagnostic studies will inform the next steps in forming a SASEC SPS/TBT Subgroup (SSTS), to serve as a regional platform for analytical work, information sharing, and capacity building. Activities carried out under the future SSTS will continue to be closely coordinated with the South Asian Regional Standards Organization, and other relevant regional, multilateral, and bilateral organizations.
- (iii) **Cross-border facility improvement.** SASEC road transport projects in Nepal include components to improve cross-border facilities as well as “last-mile connectivity” to border posts. The Subregional Transport Facilitation Project,<sup>17</sup> for example, improved the access road connecting the Birgunj and Bhairawainland clearance depots (inland container depot [ICDs]) to national highways, and constructed an ICD at Kakarbhitta gateway. The Subregional Transport Enhancement Project includes improvement of roads linking to key border posts,<sup>18</sup> as well as capacity enhancement to help reduce congestion at border areas by using automated systems to speed up clearance times and streamlining customs documentation and procedures.

<sup>13</sup> The five projects are: (i) accession to the revised Kyoto Convention, (ii) updating of the Customs Reform and Modernization Strategies and Action Plan (CRMSAP) in line with the Secure and Facilitate Trade (SAFE) Framework and Authorized Economic Operator Scheme, (iii) review of existing trade documents, (iv) implementation of the Automated Systems for Customs Data (ASYCUDA) World, and (v) creating interface architecture of ASYCUDA World with Nepal National Single Window.

<sup>14</sup> ADB. 2013. *Technical Assistance to Nepal for Supporting Participation in the South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila (TA 8442-NEP, \$1.5 million, approved on 2 September, financed by JFPR).

<sup>15</sup> International Trade Centre. 2016. *Nepal: Company Perspective on Non-Tariff Measures—Summary of Findings, NTM Business Survey*. Geneva; World Economic Forum and the Global Alliance for Trade Facilitation. 2016. ‘Nepal: Economy Profiles.’ *Global Enabling Trade Report 2016*. Geneva.

<sup>16</sup> The SPS/TBT diagnostics for Nepal will be coordinated with the efforts of the South Asia Regional Standards Organization to (i) harmonize standards for identified SPS/TBT-vulnerable commodities; and (ii) remove items from the South Asian Free Trade Agreement sensitive list. [www.sasec.asia/index.php?page=event&eid=204&url=spstbt-national-consultation](http://www.sasec.asia/index.php?page=event&eid=204&url=spstbt-national-consultation)

<sup>17</sup> ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Subregional Transport Facilitation Project*. Manila.

<sup>18</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Subregional Transport Enhancement Project*. Manila.

- (iv) **Through transport facilitation.** Bangladesh, India, and Nepal have ratified the Bangladesh-Bhutan-India-Nepal (BBIN) Motor Vehicle Agreement (MVA), signed at the BBIN Transport Ministers' Meeting held on 15 June 2015, in Thimphu, Bhutan. The BBIN MVA is a landmark framework agreement designed to facilitate passenger, personal, and cargo vehicular traffic between the BBIN countries to reduce costly and time-consuming transshipment of people and goods at border crossings, boosting economic exchanges along key designated trade routes. ADB as SASEC Secretariat was requested by the BBIN governments to provide secretariat support to the preparation, finalization, and implementation of the BBIN MVA; it continues to support the countries' efforts to finalize MVA operating protocols covering the movement of passenger and cargo vehicles.
- (v) **Institution and capacity building.** ADB supports key regional training programs in trade facilitation for the SASEC countries, primarily in the areas of customs reform and modernization, and standards and conformity assessment. Officials from Nepal have benefited from all regional programs. A number of these programs were organized also in cooperation with WCO, especially in the areas of customs valuation, time release study, coordinated border management, and post-clearance audit. ADB and WCO implemented a joint subregional train-the-trainer multi-year assistance initiative on customs valuation in 2014-2016 (para. 8 (i)). Of particular note, WCO has consistently provided technical support to key ADB-Nepal Department of Customs joint initiatives: in particular, the Relief Consignment Clearance (for prompt clearing of disaster relief goods after the April 2015 earthquakes); time release studies; the mid-term review of the Customs Reform and Modernization Strategies and Action Plan (CRMSAP) 2013-2017; and formulation of the CRMSAP 2017-2021.

9. In addition to activities coordinated jointly with other SASEC members under the STFSF, ADB has supported several trade facilitation projects with a regional dimension to help develop efficient and modern trade processes in Nepal:

- (i) The SASEC Trade Facilitation Program (STFP) supported customs reform and modernization efforts in Nepal, including completion of the Revised Kyoto Convention accession process, information and communication technology enhancements through installation of Automated Systems for Customs Data World, and improved enforcement and compliance with risk-based systems.
- (ii) The technical assistance Supporting Nepal's Participation in the SASEC Trade Facilitation Program is helping to better align Nepal's customs procedures and practice with internationally accepted standards, and to reduce trade costs and improve efficiency.<sup>19</sup> In measuring progress toward the desired outcome of the STFP, a 2014 Business Process Analysis report analyzed the time and cost of trade through Nepal's Kakarbhitta border as a first step to collect baseline data for detailed export and import procedures. Nepal also participated in the three-country SASEC Transport and Trade Facilitation Monitoring Mechanism.<sup>20</sup>

<sup>19</sup> ADB 2013. *Technical Assistance to Nepal for Supporting Participation in the South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila (TA 8442-NEP, \$1.5 million, approved on 2 September, financed by JFPR).

<sup>20</sup> This ADB-United Nations Economic and Social Commission for Asia and the Pacific initiative combines methodologies on business process analysis, time release study, and time cost distance analysis.

- (iii) The regional technical assistance Trade Facilitation in South Asia supports the operations of the Customs Subgroup and of the SASEC Trade Facilitation Working Group (STFTWG),<sup>21</sup> and strengthens coordination and cooperation among Customs officials in the SASEC countries through facilitation of regional-level strategic planning and capacity-building activities.

## **E. Nepal and the South Asia Subregional Economic Cooperation Transport Sector**

10. Since 2004, Nepal has invested more than \$466 million in construction and improvement of priority roads that are part of or link to regional networks, and civil aviation projects (Table 1), in line with the SASEC objective to build critical multi-modal transport networks that enhance intra-regional trade and investment in the subregion, and boost economic growth. The SASEC Operational Plan 2016-2025 reiterates and broadens this original aim to improve connectivity as a means to facilitate trade, and promotes the close coordination of transport and trade facilitation sectors to optimize the planning and implementation of trade-supporting physical infrastructure. Since 2011, coordinated regional project planning has taken strategic direction from joint meetings of the STFTWG. Ongoing SASEC road connectivity projects are developing key sections of SAARC corridors 4 and 8 in Bangladesh, Bhutan, India, and Nepal (BBIN), with project preparation underway for additional priority international corridor sections in the BBIN countries to enhance capacity of existing transport and trade routes. Enhanced connectivity provided by these road corridors helps small landlocked economies like Nepal access more easily key markets and integrate more effectively with regional and global value chains, by increasing export volumes and reducing transport costs relative to export value.

11. In Nepal, the ADB-funded SASEC Road Connectivity Project is improving regionally strategic roads,<sup>22</sup> including an alternative East-West Highway route that provides access to a new bridge over the Koshi River; border connectivity road sections near Kakarbhitta; and the Mid Hill point of the East-West corridors. SASEC member countries agreed to focus investments along a 40-kilometer stretch of the Kakarbhitta (Nepal)-Panitanki (India)-Phulbari (India)-Banglabandha (Bangladesh) regional road corridor to enhance Nepal's direct access to a sea port. Work in Kakarbhitta has already been completed, and other transport and road connectivity investments in Nepal are being discussed bilaterally. The SASEC Roads Improvement Project will continue ADB's thrust to upgrade the international and regional road network system connecting Nepal to India, boosting Nepal's export competitiveness and helping its integration with world markets.<sup>23</sup> Priority road sections such as Bhairahawa-Lumbini-Taulihawa (Tilaurakot) and the East-West Highway (Narayanghat-Butwal) will be developed. The STFTWG Meeting held in November 2015 in Tokyo, Japan, endorsed three transport projects with a regional dimension for Nepal to further enhance regional connectivity and trade opportunities: (i) the SASEC Roads Improvement Project (para. 11); (ii) the Tribhuvan

<sup>21</sup> ADB. 2013. *Technical Assistance for Trade Facilitation in South Asia*. Manila (TA 8435-REG, \$1.5 million, approved on 20 August, financed by JFPR). The TA also seeks to promote experience and knowledge exchange on international best practice in customs reform and modernization in South Asian countries, and helps develop a framework for interface of modern customs administration systems between and among SASEC countries.

<sup>22</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: South Asia Subregional Economic Cooperation Road Connectivity Project*. Manila.

<sup>23</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: South Asia Subregional Economic Cooperation Roads Improvement Project*. Manila. This project was originally included in the ADB 2016 Regional Cooperation Operations Business Plan pipeline as the SASEC Transport and Trade Facilitation Sector Development Program with proposed funding of \$160 million, but has since been divided into two separate loan projects: (i) the SASEC Roads Improvement Project, with ADB loan amounting to \$186.8 million, and (ii) the proposed SASEC Customs Reform and Modernization for Trade Facilitation.

International Airport Capacity Enhancement Investment Program to enhance regional air connectivity;<sup>24</sup> and (iii) the Tribhuvan International Airport Terminal Building Modernization Program: Tranche 1.

#### **F. Nepal and South Asia Subregional Economic Cooperation Economic Corridor Development**

12. Economic and industrial corridor development, envisaged to come out of improved physical and non-physical connectivity improvements throughout the region, has been added as a priority area under the SASEC Operational Plan. In Nepal, the government and ADB have identified a cluster of cities to proactively shape urbanization and lay the foundation for economic growth in its underserved regions. Preliminary studies are ongoing, and include development of a regional economic and urban vision, and identification of synergies with other sectors. An economic corridor development technical assistance has been included in Nepal's 2018 pipeline to further define the scope of the economic corridor development initiative in Nepal. Furthermore, the Regional Urban Development Project is included in ADB's lending pipeline for 2017 with estimated costs of \$147 million.<sup>25</sup>

#### **G. Nepal and South Asia Subregional Economic Cooperation Energy Sector**

13. Since 2013, Nepal has invested \$232 million in three SASEC energy sector projects to increase the capacity of both transmission and distribution networks (Table 1), that are in line with the overall SASEC goal to ensure national energy security, while developing the potential for more effective regional energy trade. Nepal's modest SASEC energy portfolio has further invested significantly in off-grid and renewable energy generation, which supports the SASEC Operational Plan's strategic objective to accelerate development of renewable energy resources.

14. In spite of its abundant hydropower potential, Nepal functions nationally at a deficit in energy for several reasons. In particular, difficult and costly terrain in terms of infrastructure development has made investment in generation, transmission, and distribution fall behind growth in demand for energy. With ADB support, Nepal has focused on increasing power transmission capacity and the power distribution network, including provision of off-grid systems, under the SASEC Power System Expansion Project, approved in 2014, with additional financing in 2016.<sup>26</sup> An ongoing project preparatory facility for energy in Nepal,<sup>27</sup> approved in September 2013, has undertaken project preparatory activities for hydropower, transmission, and public-private partnership services to boost energy exports. This facility has produced a pipeline of projects for Nepal, such as the Dudh Koshi Hydropower Project, and the Nepal Energy Sector Reform Program.<sup>28</sup>

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<sup>24</sup> Tranche 1 is included as an ADB pipeline project for 2019 with total costs of \$90 million, including ADB loan funding of \$70 million. ADB. 2016. *Country Operations Business Plan: Nepal, 2017–2019*. Manila.

<sup>25</sup> ADB. 2016. *Country Operations Business Plan: Nepal, 2017–2019*. Manila.

<sup>26</sup> ADB. 2014. *Report and Recommendation of the President to the Board of Directors: South Asia Subregional Economic Cooperation Power System Expansion Project*. Manila; and ADB. 2016. *Report and Recommendation of the President to the Board of Directors: South Asia Subregional Economic Cooperation Power System Expansion Project (Additional Financing)*. Manila.

<sup>27</sup> ADB. 2013. *Technical Assistance to Nepal for South Asia Subregional Economic Cooperation Power System Expansion*. Manila.

<sup>28</sup> ADB. 2016. *Country Operations Business Plan: Nepal, 2017–2019*. Manila.

15. Nepal is an active member of the SASEC Electricity Transmission Utility Forum (SETUF), which is SASEC's main platform for knowledge sharing and capacity building on cross-border power trade issues, as well as clean development mechanism, and demand-side management issues. SETUF also guides preparation of the SASEC Transmission Master Plan Study, which is assessing the most economical options for energy generation and cross-border transmission over the period 2020–2030.

16. In the draft final report of the Master Plan Study, case scenarios show that net benefits could be realized from expanded power interconnection and trade among two or more countries in the subregion; and that benefits could be achieved if Bangladesh replaced its gas generation with hydropower imports from either Bhutan or Nepal, both via India. This does not yet include estimated additional economic benefits from mitigation of greenhouse gases by replacing gas or oil-fired electricity with hydropower. The SASEC Vision and SASEC Operational Plan envisage Nepal's potential transformation from an energy deficient country to a net exporter. The country's current energy plans estimate that by 2025, 7GW of additional capacity is expected to be commissioned in Nepal with expected economic output of almost \$13.7 billion. This provides a commercially attractive option to bridge the demand-supply gap in SASEC countries (especially India and Bangladesh), while benefitting Nepal through additional gross domestic product contribution.