

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Nepal	Project Title:	South Asia Subregional Economic Cooperation Customs Reform and Modernization for Trade Facilitation
Lending/Financing Modality:	Policy-Based Lending	Department/Division:	SARD/SARC

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

Nepal aspires to graduate from least development country status by 2022 and become a middle-income country by 2030. The Fourteenth Plan, FY2017–FY2019 aims to facilitate socioeconomic transformation and poverty reduction through high economic growth with productive employment and equitable distribution of resources. The Fourteenth Plan aims to reduce the number of poor people to 16.0% of the population from the current estimate of 21.6% and achieve annual gross domestic product growth of 7.1% per year, with non-agricultural growth estimated at 8.3% per year. The Country Partnership Strategy (CPS) for Nepal (2013–2017) is in line with the national development goals and aims to enhance global–local connectivity to facilitate regionally balanced and inclusive growth, and prioritizes investment on transport (among other things). This is to be complemented by investments in customs modernization, coordinated through the South Asia Subregional Economic Cooperation (SASEC) program. The proposed program is fully aligned with the CPS, and will indirectly reduce poverty.

According to the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO), lower trade costs mean more trade, and potentially higher incomes, with distributional impacts within countries.<sup>1</sup> Lower trade costs may indirectly help reduce poverty by promoting export diversification, participation in global value chains, export opportunities for small- and medium-sized enterprises, improvements to government revenue collection, and increased attractiveness for foreign direct investment. The proposed Program aims to improve the efficiency and reduce the costs of imports and exports, contributing indirectly to Nepal's broader development goal of export promotion and diversification. The Program will enhance ongoing efforts in customs modernization, and will closely align with the government's next phase of the Customs Reform and Modernization Strategies and Action Plan (CRMSAP) 2017–2021, which is being developed with ADB technical assistance.<sup>2</sup> It will build on the ongoing ADB support in customs automation by triggering the requisite legal and procedural reforms to maximize the use of automation tools. The Program will also initiate institutional and human resource capacity building to support full automation of customs clearance procedures at Nepal's major customs offices. The Program targets issues that have a high potential to reduce Nepal's trade costs. The OECD Trade Facilitation Indicators (TFIs) estimate that trade costs in low-income countries can drop by as much as 16.5% in low-income countries as a result of full implementation of the WTO Trade Facilitation Agreement.

#### B. Poverty Targeting

General Intervention Individual or Household (TI-H)  Geographic (TI-G)  Non-Income MDGs (TI-M1, M2, etc.)

The Program is classified as general intervention. It does not specifically target the poor, but it indirectly reduces poverty through export diversification gains, participation in global value chains, greater export opportunities for small- and medium-sized enterprises, improved revenue collection, and increased attractiveness of Nepal as a destination for foreign direct investment.

<sup>1</sup> OECD/WTO. 2015. *Aid for Trade at a Glance 2015: Reducing Trade Costs for Inclusive Sustainable Growth*, OECD Publishing. Paris.

<sup>2</sup> ADB. 2013. *Technical Assistance to Nepal for Supporting Participation in the South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila.

### C. Poverty and Social Analysis

#### 1. Key issues and potential beneficiaries.

Gains from customs modernization will facilitate the growth of small- and medium-sized enterprises, particularly export-oriented businesses, which will support entrepreneurs nationwide. Nepal, which depends heavily on imports, including essential food items, will also likely benefit from lower costs of essential commodities, in turn boosting household savings. Finally, increased revenue collection by the customs administration (which collected 42% of government revenue in FY2015, inclusive of the value-added tax and excise on import, together with the customs duty, which constituted 18% of the total revenue)<sup>3</sup> will help the government finance targeted poverty reduction programs, including financing the expanding social protection programs.

#### 2. Impact channels and expected systemic changes.

The Program's longer term benefits include reducing trade barriers, thereby contributing to prosperity and welfare. Studies have cited improved trade (and therefore higher economic growth) as a contributor to export competitiveness, private sector development, foreign direct investment, market integration, and employment opportunities. The Program's more direct beneficiaries could include smaller firms (with limited resources to cope with burdensome controls), exporters and producers of goods, as well as freight operators. Producers of agricultural and other perishable goods are likely beneficiaries; delivery delays can reduce the value of their goods. Cumbersome customs procedures may matter most for the rural poor because their export products are often perishable. Consumers may gain access to higher quality and lower priced goods.

#### 3. Focus of (and resources allocated in) the PPTA or due diligence. Not Applicable

#### 4. Specific analysis for policy-based lending.

There are three major channels through which trade affects households: (i) the distribution channel, relating to changes in prices of goods and services; (ii) the enterprise channel, relating to changes in profits, wages, and employment; and (iii) the government channel, relating to changes in taxes and transfers. The Program's proposed reforms will have an indirect impact on poverty through all three channels leading to more economic growth, employment, and income opportunities.

### II. GENDER AND DEVELOPMENT

#### 1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?

This Program does not have direct gender consequences. Women's participation in Nepal's business sector is low but growing in micro and small enterprises particularly in the agriculture sector and handicrafts. The Program's indirect impacts will benefit women entrepreneurs.

#### 2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes  No Please explain.

The gender effects will be indirect, through higher economic growth and poverty reduction. Women traders may find increased access to trade opportunities, benefiting from the automation of customs procedures, which will drive down the cost of doing business, and thereby making small and medium enterprises profitable for exports.

#### 3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes  No Please explain

The program does not involve any specific gender issues.

#### 4. Indicate the intended gender mainstreaming category:

GEN (gender equity)  EGM (effective gender mainstreaming)  
 SGE (some gender elements)  NGE (no gender elements)

### III. PARTICIPATION AND EMPOWERMENT

#### 1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

Ministry of Finance, Department of Customs, customs field offices, other trade-related government ministries (Ministry of Commerce, Ministry of Agricultural Development, Ministry of Industry), banks, manufacturers, producers of agricultural goods, traders, freight forwarders, customs agents, among others. They are represented in the Customs National Trade Facilitation Committee, which will act as the project steering committee. Local/provincial customs trade facilitation

<sup>3</sup> Government of Nepal. Ministry of Finance. 2016. *Budget Speech of Fiscal Year 2016/2017*. Kathmandu.

committees are established at towns and cities of main border crossing points with comparable membership.
<p>2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?</p> <p>Regular coordination meetings through the Customs National Trade Facilitation Committee will create opportunities for public-private dialogue. Service-users of border clearance can be engaged in these consultations and raise their views, including small and medium scale enterprises.</p>
<p>3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?</p> <p>(L) Information generation and sharing (L) Consultation (L) Collaboration (L) Partnership</p> <p>Not applicable</p>
<p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Please explain.</p> <p>Not applicable.</p>
<b>IV. SOCIAL SAFEGUARDS</b>
<p><b>A. Involuntary Resettlement Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p>
<p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Resettlement plan      <input type="checkbox"/> Resettlement framework      <input type="checkbox"/> Social impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement      <input checked="" type="checkbox"/> None</p>
<p><b>B. Indigenous Peoples Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p>
<p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan      <input type="checkbox"/> Indigenous peoples planning framework      <input type="checkbox"/> Social Impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement      <input checked="" type="checkbox"/> None</p>
<b>V. OTHER SOCIAL ISSUES AND RISKS</b>
<p>1. What other social issues and risks should be considered in the project design? None.</p> <p><input type="checkbox"/> Creating decent jobs and employment      <input type="checkbox"/> Adhering to core labor standards      <input type="checkbox"/> Labor retrenchment</p> <p><input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS      <input type="checkbox"/> Increase in human trafficking      <input type="checkbox"/> Affordability</p> <p><input type="checkbox"/> Increase in unplanned migration      <input type="checkbox"/> Increase in vulnerability to natural disasters      <input type="checkbox"/> Creating political instability</p> <p><input type="checkbox"/> Creating internal social conflicts      <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? None of the social issues and risks will be associated with the Program.</p>
<b>VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>
<p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?</p> <p><input type="checkbox"/> Yes      <input checked="" type="checkbox"/> No (not applicable)</p>
<p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence? Not applicable.</p>