

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

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

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY
Poverty targeting: General intervention
A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy
<p>Nepal aspires to graduate from least development country status by 2022 and become a middle-income country by 2030. The objective of the 14th periodic plan, FY2017–FY2019 is to facilitate socioeconomic transformation and poverty reduction through high economic growth, with productive employment and equitable distribution of resources. The plan sets a target of reducing headcount poverty to 17.0% by FY2020 from the estimate of 21.6% in FY2016, and achieving annual gross domestic product growth of 7.2% per annum, of which non-agricultural growth is estimated at 8.4% per annum.^a The country partnership strategy 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 in the transport sector.^b This is to be complemented by investments in customs modernization, coordinated through the South Asia Subregional Economic Cooperation program. The proposed program is thus fully aligned to the country partnership strategy, and will contribute to poverty reduction indirectly.</p> <p>The program aims to improve the efficiency and reduce the costs associated with importing and exporting of goods, thereby contributing indirectly to Nepal’s broader development goal of export promotion and diversification. The program will enhance ongoing efforts in customs modernization, and is closely aligned to the government’s next phase of the Customs Reform and Modernization Strategies and Action Plan, 2017–2021, developed with Asian Development Bank (ADB) technical assistance.^c It will build on the ongoing ADB support in customs automation by triggering the requisite legal and procedural reforms, maximizing the use of automation tools, and initiating the institution and human resource capacity building to transform the customs operations to risk-based, paperless e-Customs, and to introduce customs measures to promote export.</p>
B. Results from the Poverty and Social Analysis during PPTA or Due Diligence
<p>1. Key poverty and social issues. Nepal’s poverty headcount is about 21.6%, but variations persist across different caste and ethnic groups, rural versus urban poverty, and diverse geographical areas. Society remains largely agrarian, with about two-thirds of the population engaged in agriculture. About 56% of the population is in the economically active 15–64 year age group, while a further 39% are in the 0–14 year age group. However, with limited economic opportunities at home, many youths are migrating for employment. An estimated one-third of households receive remittances, which made up almost a third of the gross domestic product in 2015.^d Although the basic literacy rate among 5-year olds and above increased from 50% in 1999 to 75% in 2015, only about 20% of the population above 15 years of age have secondary or higher educational attainment. Many health indicators have improved significantly because of remittances and better connectivity. The main challenge for Nepal is to ensure employment-centric economic growth to reap the benefit of its demographic dividend.</p> <p>2. Beneficiaries. The program is classified <i>general intervention</i> as it does not specifically target the poor, but will have significant indirect impacts on poverty through export diversification gains, participation in global value chains, greater export opportunities for small and medium-sized enterprises (SMEs), improved revenue collection, and increased attractiveness for foreign direct investment.</p> <p>3. Impact channels. It is envisaged that the program will have significant long-term benefits by reducing trade barriers, thereby contributing to prosperity and welfare. According to the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organization, lower trade costs mean more trade, and potentially higher incomes, and they have distributional impacts within countries.^e A reduction in trade costs may have an indirect impact on poverty reduction through the promotion of export diversification gains, participation in global value chains, greater export opportunities for SMEs, improved government revenue collection, as well as increased attractiveness for foreign direct investment.^f</p>

<p>4. Other social and poverty issues. Nepal has a large network of civil society organizations that are working on targeted poverty reduction programs. The government also has in place a relatively good social protection system, which provides cash transfers to the elderly, widows, disabled, highly marginalized indigenous people, and poor children.</p> <p>5. Design features. Indirect impact on poverty.</p>
<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <p>1. Impact channels of the policy reform(s). Trade affects households through three major channels: (i) the distribution channel, relating to changes in the 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 proposed reforms under the program are expected to have an indirect impact on poverty through all three channels, leading to higher economic growth, employment, and income opportunities (footnote e).</p> <p>2. Impacts of policy reform(s) on vulnerable groups. Beneficiaries of the program could include smaller firms (with limited resources to cope with burdensome controls), exporters and producers of goods, as well as freight operators. Producers and exporters of agricultural and other perishable goods are among the most likely beneficiaries. Cumbersome customs procedures and resulting delays may matter most for the rural poor because of the often perishable nature of their export products, and can negatively affect the value of goods. Lower trading costs could allow consumers access to higher quality and lower priced goods. Improvements such as automation, which minimize face-to-face interactions, can help reduce arbitrary behavior and tend to reduce bias against vulnerable groups such as small firms and female exporters (footnote e).</p> <p>3. Systemic changes expected from policy reform(s). Expected systemic changes include export competitiveness, private sector development and foreign direct investment, market integration, and employment opportunities arising from higher economic growth associated with improved trade.</p>
<p style="text-align: center;">II. PARTICIPATION AND EMPOWERING THE POOR</p> <p>Participatory approaches and project activities. The program steering committee, tasked with guiding and monitoring program implementation, will invite members of the Customs National Trade Facilitation Committee to attend its regular meetings. Trade-related public and private sector representatives constitute the Customs National Trade Facilitation Committee. The membership includes the 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; and customs agents. The program steering committee will present the progress and discuss issues on program implementation at regular Customs National Trade Facilitation Committee meetings, held about every 4 months. The institutional arrangement for project implementation and coordination is clearly defined.</p>
<p style="text-align: center;">III. GENDER AND DEVELOPMENT</p> <p>Gender mainstreaming category: No gender elements.</p> <p>A. Key issues. The gender effects will be indirect, through higher economic growth and poverty reduction. Women traders may find increased access to trade opportunities, and will benefit from improvements such as automation of customs procedures, which reduce the need for face-to-face interaction and lessen arbitrary decision making. This will drive down the cost of doing business, making it profitable for SMEs to export (footnote f).</p> <p>B. Key actions. <input type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input checked="" type="checkbox"/> No action or measure</p>
<p style="text-align: center;">IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</p> <p>A. Involuntary Resettlement Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Key impacts. No involuntary resettlement will occur under the project.</p> <p>2. Strategy to address the impacts. None.</p> <p>3. Plan or other Actions.</p> <p><input type="checkbox"/> Resettlement plan <input type="checkbox"/> Combined resettlement and indigenous peoples plan</p> <p><input type="checkbox"/> Resettlement framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p>

<p>B. Indigenous Peoples</p> <p>1. Key impacts. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Strategy to address the impacts.</p> <p>3. Plan or other actions.</p> <p><input type="checkbox"/> Indigenous peoples plan</p> <p><input type="checkbox"/> Indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement</p> <p><input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> No action</p> <p><input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</p> <p><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</p>	<p>Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p>
V. ADDRESSING OTHER SOCIAL RISKS	
<p>A. Risks in the Labor Market</p> <p>1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).</p> <p><input checked="" type="checkbox"/> unemployment (L) <input checked="" type="checkbox"/> underemployment (L) <input checked="" type="checkbox"/> retrenchment (L) <input checked="" type="checkbox"/> core labor standards (L)</p> <p>2. Labor market impact. The program will have positive impacts on the labor market, specifically from the enterprise channel, relating to changes in profits, wages, and employment. The government channel, relating to changes in taxes and transfers, will also favor the growth of business. New employment opportunities will thus arise from these channels.</p>	
<p>B. Affordability</p> <p>The program is expected to reduce the cost of cross-border trade, resulting in reduced cost of goods. The expected growth of SMEs will also have positive impacts on the poor.</p>	
<p>C. Communicable Diseases and Other Social Risks</p> <p>1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input checked="" type="checkbox"/> Communicable diseases (NA) <input checked="" type="checkbox"/> Human trafficking (NA)</p> <p><input type="checkbox"/> Others (please specify) _____</p> <p>2. Risks to people in project area. No social risks are anticipated.</p>	
VI. MONITORING AND EVALUATION	
<p>1. Targets and indicators: The program is expected to indirectly contribute to the economic growth and poverty reduction targets of the 14th periodic plan, FY2017–FY2019 (footnote a).</p> <p>2. Required human resources: ADB staff missions will monitor program implementation at least twice per year and prepare the program completion report for the programmatic assistance.</p> <p>3. Information in the project administration manual: Not applicable.</p> <p>4. Monitoring tools: Progress in implementing the 14th periodic plan, FY2017–FY2019 will be monitored as indirect reference.</p>	

^a Government of Nepal, National Planning Commission. 2016. *An Approach Paper of Fourteenth Plan, FY2017–FY2020*. Kathmandu.

^b ADB. 2013. *Country Partnership Strategy: Nepal, 2013–2017*. Manila.

^c Government of Nepal, Ministry of Finance, DOC. 2017. *Customs Reform and Modernization Strategies and Action Plan (CRMSAP), 2017–2021*. Kathmandu; ADB. 2013. *Technical Assistance to Nepal for Supporting Participation in the South Asia Subregional Economic Cooperation Trade Facilitation Program*. Manila.

^d Government of Nepal, National Planning Commission, Central Bureau of Statistics. 2009. *Nepal Labour Force Survey 2008*. Kathmandu; and Government of Nepal, National Planning Commission, Central Bureau of Statistics. 2016. *Annual Household Survey 2014/2015*. Kathmandu.

^e OECD and World Trade Organization. 2015. *Aid for Trade at a Glance 2015: Reducing Trade Costs for Inclusive, Sustainable Growth*. Paris: OECD; Geneva: World Trade Organization. <http://www.oecd.org/dac/aft/aid-for-trade-at-a-glance-22234411.htm>.

^f Further discussion of the channels through which trade facilitation reforms can impact an economy and empirical evidence is in Economic Analysis; and Nepal's Development Context and the Role of Trade Facilitation (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.