



# Technical Assistance Report

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Project Number: 50254-002  
Transaction Technical Assistance (TRTA)  
July 2017

## Nepal: South Asia Subregional Economic Cooperation Customs Reform and Modernization for Trade Facilitation (Financed by the Japan Fund for Poverty Reduction)

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 10 July 2017)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.0096747354
\$1.00	=	NRs103.362000

## ABBREVIATIONS

ADB	–	Asian Development Bank
ASYCUDA	–	Automated System for Customs Data
CRMSAP	–	Customs Reform and Modernization Strategies and Action Plan
DOC	–	Department of Customs
JFPR	–	Japan Fund for Poverty Reduction
QCBS	–	quality- and cost-based selection
RKC	–	revised Kyoto Convention
SASEC	–	South Asia Subregional Economic Cooperation
TA	–	technical assistance
TFA	–	Trade Facilitation Agreement
WTO	–	World Trade Organization

## NOTES

In this report, "\$" refers to US dollars.

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## TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 50254-002</b>	
<b>Project Name</b>	South Asia Subregional Economic Cooperation Customs Reform and Modernization for Trade Facilitation Capacity Development	<b>Department /Division</b>	SARD/SARC
<b>Nature of Activity</b>	Capacity Development	<b>Executing Agency</b>	Department of Customs
<b>Modality</b>	Regular		
<b>Country</b>	Nepal		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>Financing (\$ million)</b>	
✓ Industry and trade	Industry and trade sector development		0.52
	Trade and services		0.48
		<b>Total</b>	<b>1.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 2: Trade and investment		
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional development	No gender elements (NGE)	✓
Partnerships (PAR)	Public financial governance		
	Bilateral institutions (not client government)		
	Official cofinancing		
Private sector development (PSD)	Conducive policy and institutional environment		
	Promotion of private sector investment		
	Public sector goods and services essential for private sector development		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Not Applicable	
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8, SDG10, SDG16, SDG17		
<b>6. Risk Categorization</b>	Low		
<b>7. Safeguard Categorization</b>	Safeguard Policy Statement does not apply		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>0.00</b>	
None		0.00	
<b>Cofinancing</b>		<b>1.00</b>	
Japan Fund for Poverty Reduction		1.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>1.00</b>	

## I. THE ONGOING PROGRAM

1. The South Asia Subregional Economic Cooperation Customs Reform and Modernization for Trade Facilitation Program will contribute to Nepal's national goals in promoting and diversifying exports, and help the country fulfill its commitments to the Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO) and related international standards on customs.<sup>1</sup> The program's impact will be expanded exports and increased export competitiveness of Nepal. The outcome will be increased access by legitimate trade to simplified, harmonized, and modernized trade processes. The four outputs of the program will be: (i) national policy and legal framework for trade facilitation improved; (ii) customs procedures improved; (iii) Nepal's Department of Customs' (DOC) organizational structure strengthened; and (iv) DOC's capacity enhanced. The Government of Nepal has requested a concessional loan in various currencies equivalent to SDR15,341,000 (\$21 million) from ADB's ordinary capital resources to help finance the program.<sup>2</sup> The funds will be released in two tranches—\$10 million on loan effectiveness, expected in August 2017, and \$11 million about 24 months later—once the government has complied with the policy conditions.

## II. THE TECHNICAL ASSISTANCE

### A. Justification

2. The transaction technical assistance (TA) is needed to help strengthen DOC's capacity to execute reform measures captured in the policy matrix of the ongoing policy-based loan, which are in turn the strategic priorities of the 4-year national strategy—the Customs Reform and Modernization Strategies and Action Plan (CRMSAP) 2017–2021—with which the program is fully aligned. The program's policy measures include sector reforms to (i) improve the national policy and legal framework for trade facilitation, bringing it in line with international standards; (ii) improve customs procedures to reduce the cost of trade; (iii) strengthen institutions to enable effective and sustainable trade facilitation; and (iv) institutionalize capacity development plans to enhance operational capacities in a sustainable manner.

3. Although the overall risk rating for program implementation is assessed as *moderate*, a number of identified key risks and issues have pointed the need for TA support, including: (i) weak coordination within DOC and between DOC and other trade facilitation stakeholders; (ii) frequent DOC staff turnover; (iii) inadequate DOC human resources, in terms of low staff numbers and limited technical expertise of the serving staff; and (iv) limited experience in project implementation and monitoring. Delivery of well-targeted training and provision of technical expertise, underpinned by long-term policy dialogue—the main ingredients of the TA—cannot be subsumed in the policy-based loan's budget support. The TA and the policy-based loan were thus included in the Country Operations Business Plan: Nepal, 2017–2019 and the Regional Cooperation Operation Business Plan: South Asia, 2016–2018.<sup>3</sup>

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<sup>1</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to Nepal for South Asia Subregional Economic Cooperation Customs Reform and Modernization for Trade Facilitation Program*. Manila.

<sup>2</sup> SDR1 = \$1.36892 as of 9 May 2017.

<sup>3</sup> ADB. 2016. *Country Operations Business Plan: Nepal, 2017–2019*. Manila; and ADB. 2015. *Regional Cooperation Operation Business Plan: South Asia, 2016–2018*, as a national project with regional implications. The TA first appeared in the business opportunities section of ADB's website on 14 July 2017.

## B. Outputs and Activities

4. The TA outputs will help achieve the ongoing program's policy actions, and the four outputs of the ongoing program. Capacity development support will be provided to DOC, complementing ADB TA provided under the South Asia Subregional Economic Cooperation (SASEC) program.<sup>4</sup>

### 5. **Output 1: Legal and regulatory frameworks aligned with international standards.**

The TA will support drafting of necessary legal and regulatory amendments to ensure compliance with the revised Kyoto Convention (RKC) General Annex and the WTO TFA provisions; and compile relevant manuals, standard operating procedures, and other tools for implementing the new regulations in six specific priority areas: (i) risk management; (ii) post-clearance audit; (iii) advance ruling; (iv) trade facilitation measures for authorized operators; (v) pre-arrival processing; and (vi) expedited shipments. The TA will also support the conduct of legal gap analysis and drafting of legal amendments on 19 additional TFA provisions and customs procedures with economic impact. To help introduce the legislative amendments to the field customs operations, handbooks, manuals, standard operating procedures, and other relevant tools will also be developed. Publications, particularly manuals and tools, will be printed for dissemination to customs field offices and other stakeholders present at the border areas, where access to electronic information continues to be limited. This output will also require intensive workshops, stakeholder consultations, and training on implementing the updated rules and guidelines, for better understanding of the legal amendments among the trade and the government authorities.

### 6. **Output 2: Enhanced automated systems and streamlined customs processes operationalized.**

To further improve compliance levels of the six identified trade facilitation measures, the TA will support continuing efforts to advance and expand the roll-out and implementation of the Automated System for Customs Data (ASYCUDA) World system. In particular, a road map will be designed to launch ASYCUDA World functionalities and module configuration, including associated subsystems; a business re-engineering process will be conducted for the declaration processing path; trainings will be conducted for selected customs officials on new procedures and ASYCUDA World modules; gap analyses will be undertaken on infrastructure and information technology requirements for e-Customs in Nepal's 18 main customs offices; and support will be provided to finalize the ASYCUDA World operation and maintenance contract with the United Nations Conference on Trade and Development. The DOC's move to risk-based approaches is key to successful compliance with the RKC and TFA provisions. The TA will develop and start implementing a risk management framework and associated standard operating procedures, accompanied by training workshops and seminars.

7. **Output 3: DOC's organizational structure strengthened.** The TA will support the launch of the major organizational restructuring plan. Major organizational change will be required to optimize the benefits of introducing risk-based customs procedure and automation. The TA will assist in formulating new organizational structure for DOC supported by organizational change management to ensure sustainable benefits.

8. **Output 4: DOC's capacity enhanced.** Various TA activities will strengthen the capacity of DOC to ensure the timely and effective implementation of the CRMSAP 2017–2021—DOC's roadmap to achieve risk-based and paperless e-Customs, and introduce customs procedures to

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<sup>4</sup> ADB. 2016. *Technical Assistance for Regional Project Development Support for the South Asia Subregional Economic Cooperation Operational Plan, 2016–2025*. Manila; and ADB. 2013. *Technical Assistance for Trade Facilitation in South Asia*. Manila.

promote export. Based on the capacity gap analysis conducted under the program's tranche 1, the TA will help formulate a long-term DOC capacity development plan, including standard operating procedures and training manuals for the key strategic priorities of CRMSAP. Following the results of tranche 1's mapping of existing experts in CRMSAP priority areas, the TA will assist DOC launch the "pool of experts" scheme, starting in areas where sufficient expertise was identified.<sup>5</sup> This scheme aims to fill DOC's technical capacity gaps and address staff rotation constraints. This will involve a roster of customs experts to act as trainers or undertake specialized assignments with DOC. The DOC officials, retirees, and other ex-DOC officials will comprise the pool of experts on customs technical areas. It will also provide CRMSAP implementation monitoring support, including the CRMSAP mid-term review and time release studies. Other knowledge support under the TA includes: a tariff review, integrity plan, hardware replacement plan, standard operating procedures for coordinated border management, and a uniform layout for customs offices. As part of the CRMSAP 2017–2021 objective to improve availability of trade information to the public, the TA outputs will, whenever possible, be published on DOC website, and outreach and consultation activities carried out. To this end, the TA will also support overall enhancement of DOC website.

### C. Cost and Financing

9. The TA is estimated to cost \$1 million, which will be financed on a grant basis by the Japan Fund for Poverty Reduction (JFPR) and administered by ADB. The key expenditure items are listed in Appendix 1.

10. The following are ineligible expenditures under the 2016 JFPR policy guidelines<sup>6</sup> and are not included in the financing plan (Appendix 1): (i) purchase of vehicles, (ii) salary for civil servants, (iii) any foreign travel, (iv) scholarships or long internships, (v) detailed engineering, (vi) civil works and other related expenses, and (vii) those under ADB's List of Ineligible Items (or Negative List) and Prohibited Investment Activities.<sup>7</sup>

11. The government will provide counterpart support in the form of counterpart staff, office and housing accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

### D. Implementation Arrangements

12. The TA will be implemented from August 2017 to February 2020 with DOC as the executing agency. ADB will administer the TA led by the South Asia Department's Regional Cooperation and Operations Coordination Division and supported by the Nepal Resident Mission. The Regional Cooperation and Operations Coordination Division will recruit consultants and procure goods.

13. All TA disbursements will be made following ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Limited international bidding or direct

<sup>5</sup> These are (i) risk management, (ii) post clearance audit, (iii) automation, (iv) integrity, (v) accounting, and (vi) procurement, according to DOC's report, submitted to ADB as evidence of compliance with the relevant tranche 1 actions. Government of Nepal, Ministry of Finance, DOC. 2017. *Nepal Customs Training Need Assessment (Policy Action 1-9) and Pool of Expert Scheme (Policy Action 1-10)*. Kathmandu (unpublished).

<sup>6</sup> ADB. 2016. *Japan Fund for Poverty Reduction (JFPR): 2016 Policy Guidelines for Technical Assistance Grant*. Manila.

<sup>7</sup> ADB. 2011. Cost Sharing and Expenditure Eligibility, *Compendium of Staff Instructions*. Manila.

contracting with a specialized supplier and installer might be considered. National competitive bidding and shopping methods would be considered for procurement of office equipment. All procurements under the TA will be made following ADB's Procurement Guidelines (2015, as amended from time to time).

14. The government's implementation arrangements will follow those of the ongoing program. The program steering committee, chaired by DOC director general, will guide and monitor implementation of both the program and the TA. The DOC's program implementation framework, headed by its deputy director general (management), will be responsible for day-to-day implementation of TA activities. The program implementation framework comprises five thematic task forces for (i) coordination, (ii) legislation, (iii) automation, (iv) risk management, and (v) organization and development.

**Table 1: Implementation Arrangements**

Aspects	Arrangements		
Indicative implementation period	August 2017–February 2020		
Executing agency	The Department of Customs		
Implementing agency	The Department of Customs		
Consultants	To be selected and engaged by ADB		
	5 individual international consultants	22 person-months	\$176,000
	8 individual national consultants	108 person-months	\$230,000
	1 firm through QCBS (90:10)	24 person-months	\$120,000
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	Equipment is limited to that required for implementing the TA activities by the implementing agency, which will include but not be limited to office equipment (e.g., computers, printer/scanner, and other related office equipment). The equipment that will be purchased under the TA will be turned over to the government upon TA completion.		

ADB = Asian Development Bank, QCBS = quality- and cost-based selection, TA = technical assistance.  
Source: Asian Development Bank.

15. **Consulting services.** The TA is estimated to require a total of 22 person-months of international consultancy and 132 person-months of national consulting services, of which 24 person-months will be from a firm selected through QCBS (Table 1). Consultants will be selected and engaged through a firm for development of ASYCUDA World subsystems,<sup>8</sup> and on an individual basis for the remaining tasks. A consulting firm will be recruited using the quality- and cost-based selection method with a quality–cost ratio of 90:10 due to the highly specialized expertise needed. The consultants will be engaged by ADB in accordance with the Guidelines on the Use of Consultants (2013, as amended from time to time).<sup>9</sup>

<sup>8</sup> The subsystems to be developed by the consulting firms will be limited to those that are technically viable and compatible with the ASYCUDA system, as well as not overlapping with the single window system being developed in Nepal.

<sup>9</sup> Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).



16. **Cofinancier requirements.** Progress, milestones, and outcomes of the project will be reported to the Embassy of Japan and Japan International Cooperation Agency office in Nepal. Copy of the TA completion report, documenting cumulative inputs, outputs and outcomes, lessons learned and Japan visibility measures, will also be forwarded to the two offices.

### III. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$1,000,000 to the Government of Nepal to be financed on a grant basis by the Japan Fund for Poverty Reduction for the South Asia Subregional Economic Cooperation Customs Reform and Modernization for Trade Facilitation, and hereby reports this action to the Board.

Takehiko Nakao  
President

24 July 2017

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Amount
<b>A. Japan Fund for Poverty Reduction<sup>a</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	220.8
ii. National consultants	305.8
b. Out-of-pocket expenditures	
i. International and local travel	100.0
ii. Reports and communications	10.0
2. Equipment <sup>b</sup>	9.4
3. Miscellaneous administration and support costs <sup>c</sup>	10.0
4. Surveys	5.0
5. Training, seminars, and conferences	
a. Facilitators	10.0
b. Venue rental and related facilities	80.0
c. Participants	160.0
6. Contingencies	89.0
<b>Total</b>	<b>1,000.0</b>

Note: The technical assistance (TA) is estimated to cost \$1.0 million, of which contributions from the Japan Fund for Poverty Reduction are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office and housing accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The value of government contribution is estimated to account for 1.0% of the total TA cost.

<sup>a</sup> Administered by ADB.

<sup>b</sup> Equipment required by the implementing agency for implementing the TA activities, which includes but not limited to office equipment (e.g., computers, printer/scanner, and other related office equipment). The equipment to be purchased under the TA will be turned over to the government upon TA completion.

<sup>c</sup> Includes temporary office accommodation as earthquake-damaged office space of Department of Customs is being rehabilitated.

Source: Asian Development Bank estimates.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=50254-002-TARreport>

1. Terms of Reference for Consultants