ADB

Report and Recommendation of the President to the Board of Directors

PUBLIC

Project Number: 54402-003
June 2026

Proposed Policy-Based Loan for Subprogram 2 Nepal: South Asia Subregional Economic Cooperation Customs and Logistics Reforms Program

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 3 June 2026)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	$0.00656
$1.00	=	NRs152.42

ABBREVIATIONS

ADB	–	Asian Development Bank
ASYCUDA	–	Automated System for Customs Data
CRMP	–	Customs Reform Modernization Plan
DOC	–	Department of Customs
E&S	–	environmental and social
ECF	–	Extended Credit Facility
EU	–	European Union
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MOICS	–	Ministry of Industry, Commerce and Supplies
PBL	–	policy-based loan
PCA	–	post-clearance audit
PFM	–	public financial management
PPP	–	public–private partnership
RCI	–	regional cooperation and integration
SASEC	–	South Asia Subregional Economic Cooperation
SEZ	–	special economic zone
TA	–	technical assistance
TLP	–	Trade Logistics Policy
WTO TFA	–	World Trade Organization Trade Facilitation Agreement

NOTES

(i) The fiscal year (FY) of the Government of Nepal and its agencies ends on 15 July. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2026 ends on 15 July 2026.

(ii) In this report, "$" refers to United States dollars.

Vice-President	Yingming Yang; Office of the Vice-President (South, Central and West Asia)
Director General	Sona Shrestha, South Asia Department (SARD)
Directors	Çiğdem Akın, Director, Public Sector Management and Governance Sector Office, Sectors Department 3 (SD3-PSMG) Arnaud Cauchois, Country Director, Nepal Resident Mission (NRM), SARD
Program team leaders	Sameer Khatiwada, Principal Public Management Economist, SD3-PSMG Manbar S. Khadka, Senior Economics Officer, NRM, SARD
Program team members	Hanna Lee Arriesgado, Associate Safeguards Officer (Environment), Office of Safeguards (OSFG) Sandeep Bhattacharya, Principal Public Sector Specialist, SD3-PSMG Hanna Bucher, Senior Public Sector Specialist (Trade and Industry), SD3-PSMG Soumya Chattopadhyay, Lead Programs Officer, India Resident Mission, SARD Zyrah Ann Fullo, Operations Assistant, SD3-PSMG Esmyra Javier; Senior Climate Change Specialist (Climate Finance); Climate Change, Resilience, and Environment Cluster; Climate Change and Sustainable Development Department Deewas Khadka; Financial Management Officer; Financial Management Division; Procurement, Portfolio, and Financial Management Department (PPFD) Shuvechha Khadka, Senior Social Development Officer (Gender), NRM, SARD Sooyeon Kwon, Counsel, Office of the General Counsel Kirsteen Anne Mack, Procurement Specialist, Procurement Division, PPFD Emma Marsden, Principal Safeguards Specialist (Environment), OSFG Jocelyn Mendoza, Safeguards Officer (Social), OSFG Pamela Kristie Puspus, Associate Project Officer, SD3-PSMG Pauline Marie Ruiz, Project Analyst, SD3-PSMG
Peer reviewers	Saad Abdullah Paracha, Senior Public Sector Specialist, SD3-PSMG Karola Lepasaar, Public Sector Specialist, SD3-PSMG

CONTENTS

[1] The International Monetary Fund confirmed on 22 May 2026 that the attached press release may serve as the International Monetary Fund assessment letter.

PROGRAM AT A GLANCE

1.	**Project Data**			
	Project number	54402-003	**Project name**	South Asia Subregional Economic Cooperation Customs and Logistics Reform Program (Subprogram 2)
	Country	Nepal	**Executing or implementing agency**	Ministry of Finance
	Borrower	Nepal		
	Sector office	Public Sector Management and Governance Sector Office	**Geographical location**	Country
	Sector(s)	✓ Industry and trade	**Subsector(s)**	Industry and trade sector development
	Country economic indicators	https://www.adb.org/Documents/LinkedDocs/?id=54402-003-CEI	**Portfolio at a Glance**	https://www.adb.org/Documents/LinkedDocs/?id=54402-003-PortAtaGlance
	Strategic Focus Area	✓ Regional cooperation and public goods Digital transformation Private sector development	**Sustainable Development Goals**	SDG 8.3
	Lending modality	Programmatic Approach Policy-Based Lending (Loan)		
2.	**Financing**			

ADB Financing	**Amount** ($ million)
Concessional ordinary capital resources loan	50.00
Cofinancing	**Amount** ($ million)
None	0.00
Counterpart	**Amount** ($ million)
None	0.00
Total	**50.00**
ADB Climate Financing	
ADB	
Adaptation	1.50
Mitigation	16.50
Cofinancing (ADB-administered)	
Adaptation	0.00
Mitigation	0.00
Total	**18.00**
Currency of ADB Financing: US Dollar	

3.	**Climate Action**	
	Absolute GHG emissions (tCO_2e per year)	
	Relative GHG emissions (tCO_2e per year)	
	Climate change risk on the project without adaptation measures	Low
	Disaster Risk Management, Environment and Nature	Not Applicable
4.	**Private Sector Development**	
	Private capital mobilized ($):	
	PSD classification:	Medium-PSD
5.	**Safeguards**	
	Category	Environment: ☐ A ☑ B ☐ C ☐ FI Involuntary resettlement: ☐ A ☐ B ☑ C ☐ FI Indigenous peoples: ☐ A ☐ B ☑ C ☐ FI
6.	**Gender Equality**	

Category	☐ Gender equality objective (GEN) ☐ Effective gender mainstreaming (EGM) ☑ Some gender elements (SGE) ☐ Indirect gender benefits (IGB)
7. Poverty Reduction and Inclusion	
Category	☑ Poverty reduction and inclusion focus (PIF) ☐ Poverty reduction and inclusion elements (PIE) ☐ Indirect poverty reduction and inclusion (IPI)
8. Regional Cooperation and Public Goods	
Category	☐ Pillar 1 ☑ Pillar 2 ☐ Pillar 3 ☐ Not applicable
9. Digital Transformation	
Category	☐ Level 1 ☑ Level 2 ☐ Level 3 ☐ Level 4 ☐ Not applicable

Source: Asian Development Bank

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to Nepal for subprogram 2 of the South Asia Subregional Economic Cooperation Customs and Logistics Reforms Program.

2. The proposed program is subprogram 2 of a programmatic approach approved by the Asian Development Bank (ADB) Board of Directors in June 2023 to modernize Nepal's customs and enhance logistics sector development for higher economic competitiveness, growth, and job creation.[1] Subprogram 2 supports customs reforms by implementing the Customs Reform and Modernization Plan (CRMP), 2021–2026. It also enhances trade logistics by implementing the Trade Logistics Policy (TLP), 2022 and the Industrial and Logistics Trade Master Plan, 2026–2030, focusing on key production centers in Nepal. The program has two reform areas: (i) customs processes improved for better trade facilitation, and (ii) logistics sector developed and strengthened for export promotion. Key achievements under subprogram 1 include the approval of the CRMP, the implementation of an e-payment system and paperless customs, the approval of the TLP, and institutional strengthening for logistics sector coordination. Subprogram 2 builds on these achievements and further promotes reforms in both customs and logistics. Overall, subprogram 2 helps modernize Nepal's trade facilitation ecosystem by reducing costs, improving border predictability, and strengthening coordination across agencies and supply chain actors. These reforms support Nepal's broader efforts to foster more competitive, diversified, and resilient economic activity and to deepen participation in regional value chains. Under subprogram 3, the Government of Nepal will further advance reforms to modernize customs administration and logistics services to enhance trade facilitation and supply chain efficiency.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Macroeconomic context.** Nepal is a landlocked country in South Asia with a population of about 30 million and gross domestic product (GDP) of $44.8 billion in fiscal year (FY) 2025. It is a lower middle-income country, with gross national per capita income of $1,470 (Atlas method) in 2024. Economic growth accelerated from 3.7% in FY2024 to 4.4% in FY2025. Although the growth rate was projected to decelerate to 2.7% in FY2026 amid prolonged political uncertainty following the civil unrest in early September 2025 and the wider conflict in the Middle East,[2] according to the preliminary estimates of the government of Nepal, growth is projected at 3.9% in FY2026.[3] Growth is expected to strengthen in FY2027 to 5.0%, driven by stronger domestic demand, hydropower exports, and tourism. However, the wider conflict in the Middle East poses downside risks for Nepal's economy by causing higher oil prices; fewer tourist arrivals; and, especially, lower remittances from Gulf Cooperation Council countries, which account for about 40% of overall remittances.[4] The strategic priorities of the new government, which has a stable majority in the House of Representatives following the elections on 5 March 2026, align well with ADB's country partnership strategy for Nepal, 2025–2029 by building on improved governance, strengthening the business-enabling policy environment, and promoting infrastructure

[1] ADB. 2023. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to Nepal for the South Asia Subregional Economic Cooperation Customs and Logistics Reforms Program*.

[2] This forecast assumes an early stabilization scenario. ADB. 2026. *Asian Development Outlook*.

[3] Economic Survey (2025/26). Ministry of Finance, Government of Nepal, Singha Durbar, Kathmandu.

[4] A. Abiad et al. 2026. The Impact of the Middle East Conflict on Asia and the Pacific: An Updated Analysis. *ADB Briefs.* No. 388. ADB.

investments to enhance competitiveness.[5] Growth will be supported by the implementation of priority reforms under a 100-point reform agenda, approved on 27 March 2026 by the government, including strengthened single-window approvals, faster land acquisition and environmental impact assessment processes, and targeted relief for firms affected by last year's civil unrest. These measures have been integrated into national plans, programs, and the FY2027 budget.

4. **Fiscal context.** The fiscal deficit moderated to 1.6% of GDP in FY2025 from 2.4% in FY2024 as revenue mobilization improved. Collections of customs duties, value-added tax, income tax, and excise duties increased in FY2025 because of higher imports and greater economic activity. Central government revenue (excluding foreign grants) increased by 10.2% to 17.0% of GDP as a result of better direct and indirect tax collection. With subdued revenue growth in FY2026 and higher spending for the election and reconstruction, the fiscal deficit is forecast to increase to 2.9% of GDP, up from 1.6% in FY2025.[6] Total revenue increased by a modest 3.2% year on year in the first 6 months of FY2026 and is unlikely to grow more rapidly in the second half as the policy attention of the new government shifts to the next fiscal year (FY2027). Expenditure will grow moderately, as election-related spending is partially offset by lower infrastructure and development spending. Customs revenue in Nepal accounted for about 40% of total government revenue in FY2024 yet fell nearly 33% short of its target because of economic sluggishness and subdued import demand. The shortfalls primarily point to entrenched structural problems, including undervaluation of goods, weak compliance enforcement, and over-ambitious revenue targeting. This persistent gap between targets and collections has reinforced the urgency of the ongoing CRMP, which seeks to shift the Department of Customs (DOC) toward risk-based, technology-driven operations that improve compliance and enable more realistic revenue forecasting. The Joint International Monetary Fund (IMF)–World Bank Debt Sustainability Analysis assessed Nepal as being at *low* risk of debt distress—for both external debt (52.6% of the total debt) and overall public debt—because of the exceptionally high level of remittances, the major source of foreign exchange, to balance the current account and service external debt. Further, most of Nepal's external debt is concessional (with low interest rates and long maturities).[7] Based on these factors, ADB assesses the quality of Nepal's macroeconomic framework and policies as *satisfactory*.

5. **Structural transformation has been gradual.** Nepal aims to graduate from least-developed country status in November 2026, reflecting its progress in meeting established graduation criteria, including the Sustainable Development Goals. The government's 16th plan outlines its development aspirations, emphasizing good governance, social justice, and prosperity.[8] However, the structural transformation that economies typically go through as they develop—with a shift from agriculture to more productive manufacturing and services—has been gradual in Nepal. From FY2019 to FY2025, the share of the agriculture sector in GDP averaged 24.8% of GDP, industry 13.9%, and services 61.3%. During the previous five-year period (FY2014–FY2018), the average shares of the three broad sectors were 31.32% for agriculture, 14.85% for industry, and 53.83% for services. Nepal's industrialization efforts have stalled while exports have remained relatively stagnant. In 2024, the manufacturing sector's value added to GDP was 4.7%. In comparison, in 2024, it was 21.89% in Bangladesh, and 12.53% in India.[9] The export of goods and services has remained stagnant, unlike in peer countries like Bangladesh

---

5 ADB. 2025. *Country Partnership Strategy: Nepal, 2025–2029—A Partnership for Private Sector-Led Growth, Youth Employment, and Resilience*.

6 The September unrest of 2025 disrupted economic activity, leading to reduced tax collection.

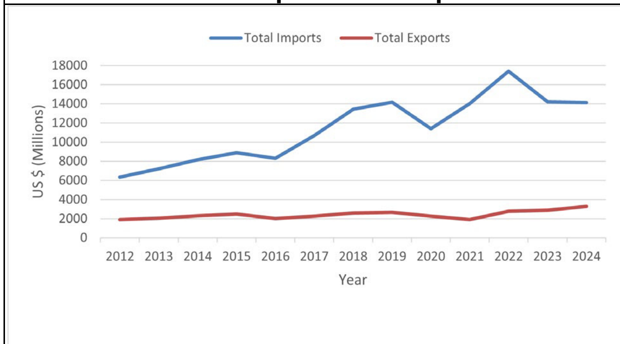
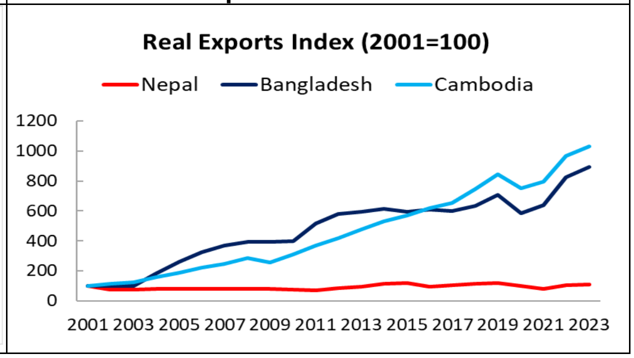
7 World Bank. 2026. *Nepal: Joint World Bank–IMF Debt Sustainability Analysis*.

8 Government of Nepal, National Planning Commission. 2024. *The Sixteenth Plan (Fiscal Year 2024/25–FY2028/29)*.

9 World Development Indicators; variable (accessed 30 April 2026): the manufacturing sector's value added as a percentage of GDP in 2024.

and Cambodia (Figure).[10] Exports of goods and services have improved slightly from 7.78% in 2019 to 8.96% in 2025. However, it remains low compared to countries in the region: in 2024, exports of goods and services accounted for 10.46% of GDP in Bangladesh, compared with 21.18% in India.[11]

Nepal's export performance has been dismal

Panel A: Exports and Imports	Panel B: Comparison with other countries
	

Sources: World Bank. World Development Indicators (accessed 30 April 2026); and World Bank. 2025. Nepal Country Economic Memorandum: Unlocking Nepal's Growth Potential.

6. **Development constraints.** The program identified two key constraints that have led to Nepal's low economic and export competitiveness. First, despite modernization efforts, customs processes remain cumbersome as the move toward paperless customs and automation has been slow. Second, Nepal's low economic competitiveness is partly explained by its underdeveloped and fragmented logistics infrastructure. Further, policy reforms in logistics have not kept pace with the needs of the economy, while logistics and customs constraints fall disproportionately on SMEs and women-owned enterprises.[12]

1. Despite modernization efforts, customs processes remain cumbersome.

7. **Nepal's trade efficiency remains hampered by excessive border controls, high inspection rates, and persistent procedural bottlenecks.** Although Nepal enacted its first Customs Act in 1962 and established the DOC in 1965, meaningful reforms were only introduced for customs administration in the mid-1990s after the trade regime was liberalized following the elimination of import license requirements and quotas, a reduction in tariffs, and the introduction of full convertibility of the Nepalese rupee in the current account. Nepal has since been making attempts to simplify, harmonize, and modernize its customs procedures to facilitate trade and reap the benefits of its comparative advantage in competitive labor costs and natural resources. These attempts have generated positive results. In the United Nations Survey on Digital and Sustainable Trade Facilitation and Paperless Trade, Nepal's trade facilitation score rose to 58.1% in 2023 from 34.4% in 2017. However, further improvements are necessary because customs clearance procedures still rely heavily on inspections at border checkpoints. About 62% of goods undergo physical inspection, which is significantly higher than the rate of 42% in the Lao People's Democratic Republic, another landlocked country facing similar customs and logistics challenges.This leads to congestion at border checkpoints. Low-risk trade faces inefficient

[10] World Bank. 2023. Nepal Development Update, October 2023: Restoring Export Competitiveness.

[11] World Development Indicators; variable (accessed 30 April 2026): exports of goods and services as a percentage of GDP in 2024.

[12] SMEs and women-owned enterprises typically lack the financial buffers, legal expertise, and industry connections needed to navigate complex clearance procedures, absorb unpredictable duty assessments, or negotiate preferential freight arrangements that larger firms routinely access.

processes and the same regulatory delays as potentially illegal, high-risk trade. These constraints delay customs clearance and raise the costs of trading.

8. **Operational and infrastructural hurdles significantly hinder trade efficiency and increase transaction costs.** Although border compliance times are short, the document preparation process for imports and exports remains cumbersome. Traders must compile extensive paperwork for banks, customs, transport authorities, and other government agencies, often submitting original documents and duplicate copies multiple times, especially for bilateral and transit cargo. Despite the availability of electronic platforms like the Automated System for Customs Data (ASYCUDA) World in Nepal and the Indian Customs Electronic Gateway, manual submission of customs declarations is still the norm at border points with India and the People's Republic of China.[13] Traders or their agents must physically navigate each step of the clearance process, undermining the potential for paperless trade facilitation.

9. A key bottleneck is the high incidence of physical cargo inspections, with about 62% of shipments undergoing verification. This high inspection rate tends to slow clearance and undermines the adoption of a risk-based approach, often leading to superficial rather than targeted and thorough assessments, particularly under the Red Lane system.[14] Delays in obtaining certifications from other government agencies, especially for agricultural and food products, further complicate the clearance process. These delays are common at both Indian and Nepalese border checkpoints, affecting export and import timelines. Transit cargo, particularly from overseas markets via Kolkata port, faces an arduous journey. With more than 35 procedural steps spanning gateway ports, Indian customs, and Nepalese border points, the complexity of transit logistics adds a significant burden to traders.

10. Infrastructure remains a critical constraint. While Nepal has three integrated check posts (Birgunj, Nepalgunj, and Biratnagar) and three inland container depots (Birgunj, Bhairahawa, and Tatopani Larcha), most customs points lack modern facilities. Integrated check posts and inland container depots suffer from poor layout design, inadequate yard space, and a shortage of non-intrusive inspection equipment—making smooth cargo clearance difficult.

11. Additionally, customs systems—particularly digital clearance, valuation, and payment platforms—function as national critical infrastructure, given their central role in revenue mobilization, border security, and continuity of trade. Disruptions to these systems could have economy-wide consequences, underscoring the importance of resilience, cybersecurity, and institutional safeguards alongside process modernization. To mitigate the digital and operational risks associated with the integration of the national single window with ASYCUDA World, ADB will support the DOC in strengthening cybersecurity, data protection, and system governance frameworks, including role-based access controls, audit trails, and incident-response protocols. Support will also focus on rigorous Application Programming Interface testing, as well as change management and business continuity planning. This will be complemented by user training and phased implementation to minimize disruption and ensure service reliability.

2. Underdeveloped and fragmented logistics sector remains a challenge.

[13] ASYCUDA World is the latest version of a computerized customs management system developed by the United Nations Conference on Trade and Development to automate and streamline foreign trade procedures. It is designed to help countries modernize customs operations by handling everything from manifests and declarations to accounting and transit procedures, ultimately improving efficiency, security, and revenue collection.

[14] The Red Lane (or Red Channel) system in Nepal is a "Goods to Declare" checkpoint within the DOC, designed for passengers or cargo carrying dutiable, restricted, or prohibited items. It signifies the highest level of control, requiring both mandatory document review and physical inspection of goods.

12. **Nascent logistics sector.** Nepal's logistics sector is still at an early stage of development. Logistics infrastructure in Nepal cannot adequately support the supply chain system for production and distribution of manufacturing and agriculture products. As a result, these sectors have higher costs and lower efficiency than neighboring countries in South Asia. To address these critical issues, the government formulated the TLP in 2022, which has three objectives: (i) developing targeted and integrated trade logistics infrastructure; (ii) strengthening trade-related supply chain management; and (iii) strengthening good governance in the trade logistics system. With ADB support, the Ministry of Industry, Commerce and Supplies (MOICS) formulated the Industrial and Logistics Trade Master Plan, 2026–2030, which identified growth enablers for priority sectors as well as key interventions across five integrated pillars, namely, infrastructure, policy, technology, sustainability, and operations. Effective implementation of this master plan will elevate the export potential of key products while unlocking new pathways to global markets for Nepal's specialty products (for examples, niche natural fibers, handmade and artisanal fabrics, chemical products, coffee and orthodox tea). Nepal's export potential remains constrained by overlapping structural bottlenecks spanning infrastructure deficits, institutional gaps, and trade facilitation inefficiencies. The master plan addresses these binding constraints through five integrated pillars. Hard infrastructure investments and industrial zone development expand the productive base for exportable goods, while operational and technological interventions compress logistics costs and border dwell times that erode price competitiveness. Policy and regulatory reforms, particularly duty rationalization and the institutionalization of the National Information Technology Development Board, are essential to sustaining private sector confidence and enabling a predictable operating environment for export-oriented industries. The five pillars form a mutually reinforcing reform agenda. If sequenced correctly and implemented effectively, this could shift Nepal's export trajectory from low-value, low-volume commodity trade toward diversified, higher-value export growth.

13. **Poor trade competitiveness.** Nepal's trade competitiveness is constrained by persistent challenges stemming from poor infrastructure, weak service standards, and fragmented coordination. Nepali businesses focused on export markets face considerable challenges in the logistics sector, adding to the cost of doing business and hampering their ability to compete in foreign markets. These challenges can be categorized into four main areas: (i) the poor quality and insufficient availability of transport and non-transport infrastructure—including roads, railways, waterways, digital channels, airports, and border infrastructure including warehouses, cold storage cross-border infrastructure—are the main problems that Nepal faces in maximizing the benefits of trade by enhancing competitiveness; (ii) many logistics service providers are inefficient because of lack of standardization, limited use of logistics services and related legal provisions and insufficient skills among regulators and service providers; (iii) there is insufficient coordination among governments and agencies in formulating, developing, operating, and monitoring infrastructure plans for trade and transportation, the cross-border customs process also lacks logistics data systems, internal and international coordination, and data-sharing mechanisms; and (iv) long transaction times and high costs need to be reduced by maximizing the use of bilateral and multilateral treaties as well as agreements related to Nepal's strategic location and e-commerce. Although Nepal has many such treaties, implementation gaps persist. In addition, preferential market access schemes, including the United States Nepal Trade Preference Program and the European Union's Everything but Arms initiative, remain underutilized.[15]

[15] The US Nepal Trade Preference Program and the EU's Everything but Arms initiative grant Nepal duty-free, quota-free access to the US and EU markets respectively.

14. **Governance and integration issues.** Nepal's logistics sector also suffers from informal governance and limited integration—undermining efficiency, service quality, and global supply chain connectivity. These issues fall into three main areas:

(i) Informal governance of the logistics sector. For example, the transport execution and administration and small-scale truck owners currently operate under inconsistent standards. Freight forwarders and cold storage facilities also function in silos, lacking integration and formal oversight. This disjointed system and operating environment leads to inefficiencies, high transaction costs, and vulnerability during crises;

(ii) Fragmented operations undermining product-specific efficiencies. Most freight forwarders focus either on air or surface or sea-linked transport chains, with only a few product-specific services (e.g., garments, handicrafts, or pharmaceuticals). This fragmentation limits end-to-end service capabilities, value-added offerings, and international competitiveness. Few logistics service providers offer comprehensive multimodal solutions linking production centers with export destinations; and

(iii) Small-scale operators dominate the market. Small operators lack capital investment for advanced IT systems, warehousing, and fleet modernization or accreditation of logistic services to link with the global supply chain. Coordination among freight forwarders, transporters, warehouse operators, and customs brokers is limited, reducing efficiency across the supply chain.

15. The government has carried out reforms to address these development constraints (paras. 16–18) and boost economic and trade competitiveness. Subprogram 2 builds on the achievements of subprogram 1 and addresses many of these constraints (paras. 20–22). Subprogram 3 will further strengthen and sustain the reforms carried out during subprogram 1 and subprogram 2.

B. Policy Reform, ADB's Value Addition, and Sustainability

16. Nepal's development strategy for the 16th five-year plan period (FY2025–FY2029) aims to boost industrial growth, trade performance, and logistics efficiency to strengthen its economic foundation. The industry sector is being prioritized to increase its contribution to GDP by enhancing competitiveness, productivity, and capacity utilization. This includes rehabilitating nonoperational industries; attracting domestic and foreign investment through policy reforms; and promoting micro, small, and medium-sized enterprises by linking traditional knowledge with innovation. Nepal has made incremental progress in operationalizing its industrial estates and special economic zones (SEZs), with the Special Economic Zone Authority overseeing several SEZs at varying stages of readiness. However, the SEZ in Bhairahawa continues to face constraints related to power supply, road connectivity, and administrative bottlenecks, despite recent policy reforms and improved occupancy. The Public–Private Partnership and Investment Act, 2019 provides the legal foundation for public–private partnership (PPP) frameworks, while the Investment Board Nepal serves as the nodal agency for facilitating large-scale PPP projects. Yet operational capacity constraints persist, particularly in deal structuring, transparent procurement processes, and risk-sharing mechanisms—limiting the effective translation of the legislative framework into bankable and investable projects. ADB, through its ongoing SASEC and private sector development programs, has provided technical assistance (TA) for infrastructure connectivity and value chain development, particularly in agriculture and cross-border trade corridors. Efforts are underway to fully operationalize industrial parks, SEZs, and industrial villages, while encouraging PPP-based infrastructure development and value chain integration in agriculture, forestry, and mining. In trade, the focus is on diversifying export markets

and product types, lowering production and transit costs through clean technology, and reinforcing trade agreements. Infrastructure such as dry ports and logistics hubs is being developed to support exports, alongside protective measures for domestic industries. To facilitate this, Nepal is expanding and modernizing its transport systems by building integrated multimodal networks, industrial corridors, and north–south linkages, all aimed at improving logistics efficiency and reducing trade costs.

17. **Government initiatives in customs reform and modernization in Nepal.** Customs plays a central role in mobilizing domestic revenue while meeting international commitments, including the World Trade Organization Trade Facilitation Agreement (WTO TFA)[16] and the World Customs Organization's Revised Kyoto Convention. The government has implemented major reforms aimed at ensuring fair revenue collection, improving the business environment for cross-border trade, strengthening automation for faster customs clearance, investing in infrastructure, and restructuring the DOC to address emerging needs. Since 1996, development partners, including ADB, have supported key initiatives such as formulating the CRMPs (2017–2021 and 2021–2026) to sustain and introduce reform programs; drafting the Customs Act, 2025 to align it with WTO TFA measures; rolling out ASYCUDA for prompt clearance and e-payment; and financing infrastructure like the Mechi Dry Port and airport cargo facilities. Government priorities for the future include implementing the new Customs Tariff Act; advancing compliance with the WTO TFA and Revised Kyoto Convention; and preparing the CRMP, 2026–2031.

18. **Government reforms to address logistics challenges.** The government is working to enhance the logistics sector as a key driver of economic growth. Central to this effort is the Nepal Trade Integration Strategy 2023, which outlines the strategic vision of significantly boosting trade's share in the GDP. This involves creating a more supportive environment for trade and export promotion; reinforcing supply chains for primary goods; and prioritizing the development of key commodities, institutional capacity, and essential infrastructure. With ADB support, a comprehensive TLP was formulated and approved in 2022, which promotes coordination across 40 agencies responsible for trade-related activities. Nepal also introduced the Nepal Trade Integration Strategy 2023 to enhance the competitiveness of domestic products and reduce trade-related costs by improving infrastructure and streamlining procedures. This policy shift comes as the country prepares to graduate from least-developed country status in 2026, replacing a 9-year-old framework and responding to calls from experts for a more robust foreign trade strategy. Alongside this, a new export–import bill has been prepared and submitted to Parliament to address the limitations of the outdated Export and Import (Control) Act, 1957. The bill marks a major shift from a narrowly defined, eight-article control regime to a more comprehensive trade governance framework, introducing export and import codes, export incentives, re-export provisions, certificates of origin, and institutional coordination mechanisms.

19. **Accomplishments of subprogram 1.** The approval and implementation of the CRMP, 2021–2026 was one of the key achievements under subprogram 1. The CRMP is critical to improving the resiliency and efficiency of customs clearance procedures for cross-border trade by including reform measures to introduce e-payment, actions to promote paperless customs, post-clearance audit (PCA), a reduction in export documentation requirements, and the introduction of a valuation database. The implementation of the CRMP informs the design of customs-related reforms included in the program. During subprogram 1, the government pilot-

[16] The WTO TFA (World Trade Organization Trade Facilitation Agreement) is a landmark international treaty that aims to speed up the movement, release, and clearance of goods across borders, including those in transit. It sets global standards to modernize customs procedures, eliminate "red tape," and reduce trade costs. *Agreement on Trade Facilitation*, Dec. 7, 2013, WT/MIN(13)/36, WTO Doc. WT/L/931 (adopted Nov. 27, 2014).

tested e-payment in at least one out of 10 major revenue-generating customs offices, demonstrating early efficiency gains through reduced transaction times and costs. The DOC pilot-tested the mandatory online submission of all export-related documents in one major customs office to promote paperless customs. This reflected early benefits of the reforms, such as efficiency gains, reduced compliance costs, and enhanced transparency. The DOC also developed and operationalized an interface in ASYCUDA World for the national single window to promote paperless customs. The government approved an amendment to the Customs Regulation (2007) on the reduction of export documentation requirements to ease customs clearance processes. In reform area 2 on the logistics sector, the key achievement during subprogram 1 was the approval of the TLP, which included reforms measures to introduce (i) an Industrial and Logistics Trade Master Plan, (ii) PPP guidelines for trade and logistics infrastructure, (iii) technical standards for logistics infrastructure and equipment, (iv) a grading system for the accreditation of logistics operators, (v) a logistics information portal, and (vi) guidelines on government support to small and medium-sized logistics operators. The implementation of the TLP forms the basis of the program design covering the logistics sector. During subprogram 1, the government established an institutional arrangement to better facilitate coordination in the logistics sector. The government also approved a time-bound work plan to implement the TLP to improve logistics sector efficiency. These prior actions of subprogram 1 remain valid and in force, providing a sustained governance and implementation foundation for subsequent reforms under subprogram 2.

20. **Programmatic approach and key changes to the program design**. Subprogram 2 builds on the reforms implemented during subprogram 1 (para. 19). In reform area 1 on customs, the policy action on the rollout of an e-payment facility at customs offices was strengthened to include all 26 operational customs offices in Nepal (instead of just 10).[17] No other changes were made to reform area 1. Changes were introduced to reform area 2 on logistics based on the government's priorities and ADB's assessment of what could be achieved during the subprogram 2 implementation period. The key changes are in Table 1. Subprogram 2 policy actions under reform area 2 were designed and implemented with the aim of consolidating and deepening the advancements made under subprogram 1. However, revisions to the indicative policy actions of subprogram 2 became necessary because of the political upheaval in 2025. These revisions addressed the limited ability of the interim caretaker government to undertake major reforms and the need to adjust policy actions to reflect the recent establishment of the new government. To ensure the feasibility of subprogram 2 policy actions, some of them were revised from their original form. As shown in Table 1, this included the introduction of a phased approach to achieving certain actions between subprograms 2 and 3. In addition, new policy actions were included to improve the efficiency of the logistics sector by adopting the Multimodal Transportation of Goods Act, 2006 and enhance trade facilitation through a revised export–import act. Following the successful completion of federal elections on 5 March 2026 and the formation of a new government, policy actions in the trade and logistics sector under subprogram 2 were completed. Subprogram 2 remains substantially aligned with the original program design, introducing targeted adjustments to optimize reform sequencing considering political developments in the country. These changes did not change the policy objectives or expected development outcomes of the program.

[17] The total number of approved Customs Offices under Department of Customs in Nepal are 39. Out of these, only 26 customs offices are operational as of June 2026.

Table 1: Key Updates to Program Design

Aspect	Updates in Reform Area 2
Changes in the policy actions that have been retained	Policy action 2.6: The original policy action included the approval and implementation of a "logistics infrastructure master plan" for Nepal. The revised action includes the development and approval of an "industrial and logistics trade master plan" focusing on four key production centers in Nepal.[a] This change was necessary to focus on key production centers to unlock logistics sector challenges in economically important centers given the limited resources available to the government to implement the master plan. Policy action 2.7: The original policy action included the implementation of new PPP guidelines for private sector participation in the logistics sector. The revised action includes the formulation and submission for approval by MOICS of PPP guidelines for trade and logistics infrastructure to develop an enabling environment to increase private sector participation. This revision was necessary given the delay in formulating new PPP guidelines. Policy action 2.9: The original policy action included the implementation of a new standardized grading system of logistics operators. In subprogram 2, a concept plan to systematize the certification of logistics operators was developed by approving a new standardized grading system that sets criteria to measure the service quality. The implementation of the concept plan will take place through policy actions under subprogram 3.
Addition of new and impactful policy actions	The new policy action 2.8 has been added for approval and submission to the cabinet as an amendment to the Export Import (Regulation) Act, 2013. This amendment transforms Nepal's export–import legal framework from a restrictive control mechanism to a modern, integrated, and trade-facilitating system that promotes exports, improves transparency, and aligns with regional and global trade standards. The new policy action 2.10 has been included with MOICS approving the amendment to the Multimodal Transportation of Goods Act, (to streamline and regulate the movement of goods using multiple modes of transport under a single contract) for publishing on its website to solicit feedback from all the relevant stakeholders.
Policy actions moved to subprogram 3	The policy action on technical standards for logistics infrastructure and equipment to promote interoperability and compatibility with trade partners was considered challenging by the government because of its lack of readiness. While the policy action was anticipated to be completed by subprogram 2, institutional readiness constraints—compounded by political instability, frequent transfers of senior government officials, and inadequate interagency coordination—delayed its formulation and approval. However, this will be developed during subprogram 3 with the new and stable government, which has anchored this policy action in the 100-point reform agenda. It will also be implemented as part of the post-program partnership engagement. A policy action on launching a logistics information portal to support service providers and users will be developed under subprogram 3 rather than subprogram 2 (for similar reasons as described above). This portal will be implemented as part of the post-program partnership engagement.

MOICS = Ministry of Industry, Commerce and Supplies; PPP = public–private partnership.
Note: Details on each policy action are in the policy design and monitoring framework (Appendix), which also contains a detailed comparison of the policy matrix proposed during subprogram 1 and the revised policy matrix.
[a] Bagmati, Koshi, Lumbini, and Madhesh.
Source: Asian Development Bank.

21. **Reform area 1: Customs processes improved for better trade facilitation**. In subprogram 2, under the CRMP, 2021–2026, the DOC completed the operationalization of the e-payment facility in all 26 customs offices. The DOC also implemented the mandatory online submission of all documents for export for paperless customs in 10 major customs offices. Under

subprogram 2, the DOC implemented a risk-based approach for transaction-based PCA to enhance efficiency in customs clearance.[18] Further, under subprogram 2, the DOC pilot-tested an online valuation database in three out of 10 major customs offices to enhance the predictability of the assessment of customs duties for traders. Given the strong government support, the online valuation database system has been rolled out in 18 customs offices as of January 2026, far exceeding the target of three. This is a major achievement for Nepal's customs regime. Online valuation moves away from less reliable reference-based pricing by using actual invoice data and technology to determine the true value of goods. This helps prevent undervaluation, provides legal certainty, and streamlines customs procedures. Lastly, under subprogram 2, the DOC approved and began implementing the gender equality and social inclusion action plan for customs. The gender equality and social inclusion action plan prioritizes completing gender equality and social inclusion-focused training programs and developing standardized training materials, followed by the systematic rollout of gender equality and social inclusion sensitivity trainings and workshops to build awareness and strengthen institutional capacity among relevant stakeholders.

22. **Reform area 2: Logistics sector developed and strengthened for export promotion**. Under subprogram 2, MOICS developed and approved the Industrial and Logistics Trade Master Plan, 2026–2030 for submission to the Coordination Committee, which is chaired by the chief secretary of the government and operates under the Office of the Prime Minister and Council of Ministers. The master plan focuses on four key production centers in Nepal[19] and aims to develop logistics infrastructure across different transport modes in a systematic and coordinated way. It also emphasizes effective last-mile connectivity, encourages the promotion of private sector investment, and includes measures to assess and mitigate environmental and social (E&S) risks. The government, through the Investment Board of Nepal, formulated and submitted for approval PPP guidelines for trade and logistics infrastructure to create an enabling environment for increasing private sector participation. Similarly, MOICS approved and submitted to the cabinet the amendment to the Export Imports (Regulation) Act, 1957 required for promoting exports, regulating measures to regulate the massive imports of goods and curb illegal trade practices. MOICS formulated a concept plan to systematize the accreditation of logistics operators by approving a new standardized grading system by establishing a set of criteria to evaluate the quality of their services. This system establishes a structured set of evaluation criteria, covering dimensions such as fleet quality, warehousing standards, on-time delivery performance, regulatory compliance, and customer service, against which logistics service providers are formally assessed and publicly ranked. Lastly, under subprogram 2, MOICS approved an amendment to the Multimodal Transportation of Goods Act, 2006, which aims to streamline and regulate the movement of goods using multiple modes of transport under a single contract. This amendment will be published on its website to gather feedback from all relevant stakeholders. All proposed master plan investments will comply with applicable environmental, health, safety, security, and labor laws of Nepal. E&S commitments are reflected in the master plan. Regional cooperation and integration (RCI) is a key sector focus area for expanding global and regional trade and investment opportunities, given its role in promoting cross-border connectivity and market integration. Its inclusion is fully aligned with the Operational Approach for Revitalizing Regional Cooperation and Integration,[20] which identifies trade and investment facilitation as core priority areas. MOICS's actions reinforce RCI by strengthening both the physical and regulatory foundations for cross-border trade. Likewise, revisions to the Multimodal Transportation of Goods

[18] PCA is a customs verification process conducted after goods have been released into Nepal to ensure that importers and exporters have complied with regulations and paid the correct duties and taxes.
[19] The key production centers in Nepal are: Bagmati, Koshi, Lumbini, and Madhesh.
[20] ADB. 2026. *Operational Approach for Revitalizing Regional Cooperation and Integration*.

Act, accompanied by broad stakeholder consultation, will streamline the cross-border movement of goods under a single contract—directly advancing RCI objectives by reducing trade costs, improving predictability, and aligning Nepal's logistics framework with regional and international best practices.

23. **Strategic alignment.** Subprogram 2 is aligned with the government's 16th plan and broader reform agenda, which emphasizes enhancing economic competitiveness, strengthening domestic resource mobilization, and expanding the use of digital solutions to improve public service delivery. The program supports these priorities through customs and logistics modernization, digitalization, and strengthened revenue administration. These interventions contribute to the 16th plan objectives of increasing the central government revenue–GDP ratio from 16.6% in FY2023 to 21.0% in FY2029. The program aligns with the government's 100-point reform agenda, supporting customs modernization and the removal of trade-related logistical constraints, while streamlining one-stop investment services, start-up registration, and small and medium-sized enterprises financing to promote private sector development and entrepreneurship. Subprogram 2 is aligned with ADB's country partnership strategy for Nepal, 2025–2029 (footnote 5), which supports competitive, private sector-led economic transformation and enhanced connectivity. It is also consistent with ADB's Strategy 2030 and its midterm review, particularly in promoting the strategic focus areas of private sector development, regional cooperation and public goods, and digital transformation.[21] Digital transformation continues to be appropriately positioned as a complementary strategic focus area under subprogram 2, with its core elements operationally extended into subprogram 3. This reflects the phased nature of reforms, as subprogram 3 places greater emphasis on implementation, particularly updating and further strengthening the current trade portal, which will subsequently pave the way for the ministry to launch a logistics information portal and further automation of customs systems, thereby deepening and consolidating earlier digitalization efforts.

24. **ADB's value addition.** ADB's value addition is evident across both the reform areas, particularly in customs where ADB has been supporting modernization efforts for decades in Nepal.[22] Key initiatives supported by ADB include (i) formulating the CRMPs (2017–2021 and 2021–2026); (ii) supporting the drafting of the new Customs Act, 2025 in line with WTO TFA and Revised Kyoto Convention standards, thereby enabling the transition of several WTO TFA commitments from category C to category B or category A;[23] (iii) developing and rolling out ASYCUDA for web-based clearance and electronic payments; (iv) funding infrastructure such as the Mechi Dry Port and Airport Cargo Facilities; and (v) advancing reforms through online export clearance, an electronic valuation database, and strengthened PCA risk management. ADB and the DOC will build on these reforms; formulate the CRMP, 2026–2031; and support the implementation of the new customs act, particularly measures related to the WTO TFA and Revised Kyoto Convention standards. ADB worked closely with MOICS in the development and implementation of the TLP and the Industrial and Trade Logistics Master Plan, which serve as the foundation for the design of subprograms 1 and 2. ADB TA supported the implementation of the TLP by developing the master plan, initiating activities such as the standardized grading system,

---

[21] ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*; and ADB. 2024. *Strategy 2030 Midterm Review: An Evolutionary Approach for the Asian Development Bank*.

[22] ADB has been supporting trade facilitation in Nepal since 1996. This support includes financing successive customs reform and modernization strategies, aligning customs procedures with WTO TFA and Revised Kyoto Convention standards. ADB has also played a central role in customs automation, supporting the nationwide deployment of ASYCUDA World.

[23] Measures that previously required TA or longer transition periods (category C) can be implemented sooner with reduced assistance (category B) or immediately (category A), reflecting stronger institutional capacity, clearer legal frameworks, and improved operational readiness.

formulating technical standards, and introduce logistics portals in future rollout phases.[24] This program is ADB's first initiative in Nepal focused specifically on logistics sector development. The program will complement ADB's initiatives in Nepal on transport infrastructure, including rural and urban roads, the strategic road network (notably the East–West Highway), an electronic cargo tracking system, the Bangladesh–Bhutan–India–Nepal Motor Vehicles Agreement, and other initiatives supported under the SASEC Program.

25. Through the SASEC program, ADB has helped partner countries like Nepal to collectively improve priority sectors, including transport and trade facilitation. The SASEC program works though its annual reporting exercise under the Action Plan for SASEC Initiatives and meetings of senior officials, the trade facilitation working group, and the customs subgroup. These activities have addressed the regional cooperation aspects of customs and logistics to support the seamless movement of goods and services across the borders. Under the SASEC customs subgroup, ADB has provided support to the partner countries to streamline the exchange of documents at major border crossing points on a needs basis, organize border meetings between customs at major border points, develop electronic exchange of pre-arrival data, introduce a regional electronic cargo tracking system, and strengthen cross-border coordinated border management. Under the SASEC economic corridor development operational priority, ADB has supported the partner countries to develop highly facilitated trade corridors. Further, ADB's experience in trade facilitation efforts in other subregional programs, such as the Greater Mekong Subregion Economic Cooperation Program and Central Asia Regional Economic Cooperation Program, will be shared through TA capacity development activities and RCI seminars and conferences.[25]

26. **Lessons and sustainability.** Lessons from the previous SASEC Customs Reform and Modernization for Trade Facilitation Program are embedded in the program design.[26] These include: (i) long-term engagement with the government laid a solid foundation for the development and implementation of reforms, (ii) policy actions should be within the purview of the implementing agencies, and (iii) output and outcome targets should be realistic and reflective of outcome-level measures. Continued ADB engagement is critical under the new government. Subprogram 3 will be implemented from July 2026 to June 2028. ADB will work closely with the DOC and MOICS to ensure timely implementation of subprogram 3 actions and will develop a post-program partnership framework to ensure the sustainability of reforms.

27. **Private sector development.** Customs and logistics sector reforms were carried out in close coordination with the private sector in Nepal. The DOC held workshops focused on the launch of the online valuation database system and PCA at major customs points in Nepal. Similarly, the formulation of the logistics and industry master plan was done in close coordination with the private sector. ADB helped MOICS develop the master plan, with strong engagement and feedback from the private sector throughout the process. The implementation of this master plan will promote private sector development in Nepal in logistics infrastructure. Investment projects could be implemented through PPP, drawing on lessons from neighboring India. The program is linked to ADB's new program on Reforms to Accelerate Investment and Scale Employment (RAISE), which supports government efforts to enhance the business environment and address constraints to private sector investment and quality job creation in Nepal.[27] Further,

---

[24] ADB. 2021. *Technical Assistance to Nepal for Implementation Support for the South Asia Subregional Economic Cooperation Customs and Logistics Reforms Program*.
[25] Greater Mekong Subregion; and CAREC Program.
[26] ADB. 2021. *Completion Report: South Asia Subregional Economic Cooperation Customs Reform and Modernization for Trade Facilitation Program in Nepal*.
[27] RAISE Program is expected to be approved by ADB Board in Q3 2026.

the program is aligned with ADB's Trade and Supply Chain Finance Program (TSCFP) in Nepal. TSCFP works with 6 banks in Nepal and has supported $181 million ($83 million through cofinancing) in trade through over 430 guarantee issuances from inception in 2009 to 2025. In 2025, TSCFP supported $11 million ($3 million through cofinancing) through 17 guarantee issuances. However, trade finance transactions through the TSCFP have seen a downward trend since 2023 mainly due to: i) high liquidity and slow credit growth in Nepal, and ii) majority of trade flows being with India in Indian Rupees.

28. **Coordination with development partners.** The ADB program team has been working closely with development partners in Nepal on reforms related to trade facilitation and promoting export competitiveness. Given the long engagement of the European Union (EU) with MOICS, the ADB team has coordinated with the EU on the preparation of the Inudstrial and Trade Logistics Master Plan and its complementarities with EU efforts to promote export competitiveness. The ADB team has coordinated with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on trade facilitation given its technical expertise on customs-related reforms such as e-payment, paperless customs, and PCA. Similarly, the United Nations Economic and Social Commission for Asia and the Pacific's technical expertise on customs modernization and trade facilitation has provided analytical underpinnings for reforms included in the program. ADB has coordinated closely with the World Bank team on its ongoing Accelerating Transport and Trade Connectivity in Eastern South Asia (ACCESS) Program. ADB plans to work with the World Bank team on a time release study that will be supported by ADB TA. The IMF has implemented an Extended Credit Facility (ECF) to improve revenues and public spending efficiency and to support fiscal transparency.[28] The ADB program supports the IMF objectives on customs duty, value-added tax, and excise duty collection on imports at the border. ADB discussions with the IMF have focused on the assessment of the macroeconomic environment, specifically fiscal risk management. In December 2025, ADB organized a roundtable in Nepal with other development partners to identify areas of further collaboration. Subprogram 3 and the post-program partnership framework will explore opportunities to solicit technical inputs from other development partners working on trade and competitiveness.

C. Expected Outcome of the Reforms

29. Subprogram 2 helps the government lower the cost and increase the reliability of moving goods across borders and within the country.[29] Building on the institutional and regulatory foundations established under subprogram 1, the reforms strengthen customs administration—through expanded digital services, PCA, improved valuation practices, and enhanced sanitary and phytosanitary coordination—and logistics sector regulation, including planning, service quality standards, multimodal connectivity, and opportunities for private sector participation. Together, these measures aim to reduce trade-related costs, improve predictability for traders, and support Nepal's integration into regional value chains and advance RCI objectives by reducing trade costs, improving predictability, and aligning Nepal's logistics framework with regional and international best practices.

30. An ADB staff assessment of logistics cost data indicates that the average logistics costs in Nepal are about 19% of the cost of goods, and that improvements consistent with the reforms

[28] Nepal has requested an extension of its ECF arrangement to 11 July 2026, from its current expiration date of 11 May 2026. The ECF, approved in January 2022 for SDR282.42 million, has already been extended twice without additional access. The objectives of the ECF are to help Nepal handle shocks by improving policymaking and governance and protecting vulnerable groups; preserve macroeconomic and financial stability; and sustain growth and poverty reduction.

[29] Program Impact Assessment (Annex 4).

supported under subprogram 2 could reduce this burden to about 17% (footnote 29). When this reduction is interpreted using the established trade-cost elasticities from the subprogram 1 economic assessment, it corresponds to an indicative 7.5%–14.5% increase in total trade. These effects are direct and provide a high-level indication of the scale of potential gains associated with improved customs processes and logistics performance. Benefits are expected across sectors, but the largest gains are anticipated for agriculture and time-sensitive products, which currently bear higher logistics cost burdens and face greater exposure to delays, handling losses, and sanitary and phytosanitary bottlenecks. Industry and manufacturing stand to benefit from more predictable import and export processes, greater valuation consistency, and lower handling and storage costs. Digital customs systems also reduce fixed compliance burdens that disproportionately affect micro, small, and medium-sized enterprises, while the gender action plan for customs enhances accessibility and inclusiveness in service delivery.

D. Development Financing Needs and Budget Support

31. The government's development financing need for FY2026 is estimated at $4.3 billion based on its projected budget deficit for the fiscal year. External financing (foreign loans) will cover 39.5% of the deficit ($1.7 billion), while foreign grants and domestic borrowing will fund the balance.[30] Of the $1.7 billion in external financing for FY2026, the government estimates that 48.6% ($826.2 million) will come from ADB, 30.9% ($525.3 million) from the World Bank, and 4.8% ($81.6 million) from the IMF.The government has requested a concessional loan of $50 million from ADB's ordinary capital resources to help finance subprogram 2, which accounts for 2.9% of overall external financing needs. The loan will give the government fiscal space to implement reforms identified by the program at a time when revenue collection has been unstable for various reasons, including the recent civil unrest and political volatility, and reduced inflow of foreign grants. The loan will have a 24-year term, including a grace period of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter; and such other terms and conditions set forth in the draft loan agreement.

E. Implementation Arrangements

32. The Ministry of Finance (MOF) is the executing agency for subprogram 2, while the DOC, MOICS, and Investment Board Nepal are the implementing agencies. Subprogram 2 was implemented from July 2023 to June 2026. Subprogram 3 will be implemented between July 2026 and June 2028. The proceeds of the PBL will be withdrawn following ADB's *Loan Disbursement Handbook* (2022, as amended from time to time) and detailed arrangements agreed between the government and ADB. Through the MOF, the government will provide oversight for the program and regularly monitor the progress of the programmatic approach. Given the significant capacity constraints for logistics and customs, the associated TA will finance capacity building to support the implementation of the policy actions and sustain the activities envisaged under the program.

III. DUE DILIGENCE

33. **Climate change.** The program contributes to both climate change mitigation and adaptation by strengthening the resilience and efficiency of Nepal's transport and logistics system. Subprogram 2 is expected to reduce climate-related and operational disruptions to the transport and logistics sector at the borders and enhance overall efficiency.[31] Activities under the plan, such

[30] Of the $1.7 billion in external financing for FY2026, the government estimates that 48.6% ($826.2 million) will come from ADB, 30.9% ($525.3 million) from the World Bank, and 4.8% ($81.6 million) from the IMF.
[31] Climate Change Assessment (Annex 6).

as electronic payments, online submission of documents, and paperless customs, are expected to reduce greenhouse gas emissions and promote energy and resource efficiency by minimizing paper use, travel requirements, congestion, and idling through the digitalization and streamlining of processes. In addition, the Industrial and Logistics Trade Master Plan will support downstream activities in climate-resilient and low-emission logistics infrastructure and equipment, such as energy efficient storage and disaster-resilient facilities. The program will also support policies to improve freight consolidation and multimodal logistics, reducing reliance on multiple small vehicles and thereby lowering emissions. Subprogram 2 is aligned with the government's climate commitments or ambitions. Implementing the gender equality and social inclusion action plan and systemizing the accreditation of logistics operators support climate adaptation, while nine policy actions contribute to climate mitigation—including electronic payment facilities, paperless system, and transaction-based PCA. ADB's climate adaptation finance for subprogram 2 totals $1.5 million, and climate mitigation finance is reported at $16.5 million.

34. **Gender.** The program is categorized *some gender elements*. The program's policy actions for establishing electronic payments and paperless customs will benefit businesses led by women by decreasing their dependence on agents and intermediaries and by formalizing businesses led by women through registration. Under subprogram 2, the DOC prepared a gender equality and social inclusion action plan for customs. Capacity building under the associated TA will include preparing a logistics sector skills development strategy and programs. Their implementation with skills development agencies will prioritize female entrepreneurs, managers, and employees. The Industrial and Trade Logistics Master Plan includes gender-responsive guidelines for the logistics sector.[32]

35. **Safeguards.** Subprogram 2 is classified category B for environment following ADB's Safeguard Policy Statement (2009). The PBL will not finance investments but provides budget support for two policy actions under reform area 2 that have the potential to result in adverse impacts on the environment: the development and approval of the Industrial and Trade Logistics Master Plan (policy action 2.6) and amendments to the import–export act (policy action 2.8) altering penalties for restricted and prohibited import–export activities. Regarding policy action 2.6, the master plan indicates the specific nature, scale, and location of downstream development. This includes specific major new infrastructure overlapping with environmental sensitivities, which may result in significant adverse impacts, although no direct investment in this infrastructure is included in the program scope. E&S commitments have been reflected in the master plan. Since most proposals are only at the feasibility stage, opportunities exist for government to avoid, minimize, and mitigate impacts through strategic and project environmental assessments. Regarding policy action 2.8 amendments, MOICS will mandate customs officials to forward offenses under other prevailing laws to the relevant authorities for prosecution. No environmental impacts are anticipated under reform area 1 or the remaining policy actions under reform area 2, although environmental implications were considered. Since subprogram 2 focuses on policy and institutional reforms that do not entail involuntary resettlement or impact the lives of Indigenous Peoples, it is classified category C for involuntary resettlement and Indigenous Peoples following the Safeguard Policy Statement. An E&S assessment of the policy matrix has been conducted, which sets out the potential impacts of each policy action with corresponding mitigation measures.[33]

36. **Governance.** Nepal measures its public financial management (PFM) performance largely through the public expenditure and financial accountability assessments. Most of Nepal's

---

[32] Gender Assessment (Annex 7).
[33] Matrix of Potential Environmental and Social Impacts and Measures (Annex 5).

scores in the 2024 public expenditure and financial accountability assessment were either C, which denotes a basic level of performance, or D, which indicates a less than basic level of fiduciary performance. PFM challenges include declining budget credibility, weak monitoring of public investment, insufficient information to assess fiscal risks objectively, poor internal and external audits, inefficient procurement planning, fragmented public asset management, and the absence of compliance improvement plans for revenue entities. An ADB program in Nepal, approved in 2025, has helped address some of these challenges through measures such as[34] (i) adopting fiscal risk strategies and annual borrowing plans, (ii) recording the contingent liabilities of public enterprises, (iii) strengthening public enterprise governance policies, (iv) supporting the development of the PFM reform strategy and the rollout of medium-term expenditure frameworks, (v) mobilizing alternative development financing mechanisms, (vi) integrating PFM systems, (vii) digitizing revenue administration, and (viii) improving public asset management systems to enhance efficiency and accountability.

37. Major risks and mitigating measures are summarized in Table 2.

Table 2: Summary of Risks and Mitigating Measures

Risks	**Mitigation Measures**
Ineffective intergovernmental coordination mechanisms could lead to policy reversals.	Subprogram 2 is aligned with the new government's 100-point reform agenda, which includes the restructuring of the customs system to reorient customs administration from a predominantly control- and revenue-focused model toward a modern, trade facilitation-driven framework.
Weak PFM systems of the country may lead to governance risk, weak accountability, and poor allocation of resources.	ADB will continue supporting the government's PFM strengthening efforts in collaboration with other development partners, including the rollout of the 2025–2029 PFM Reform Strategy.
Given increasing reliance on online systems for revenue collection and clearance, cyber incidents could have material fiscal impact.	The program builds on the development of ASYCUDA interfaces for the national single window. To mitigate digital and operational risks associated with national single window with ASYCUDA World integration, ADB will support the Department of Customs in strengthening cybersecurity, data protection, and system governance frameworks, including role-based access controls, audit trails, and incident-response protocols.

ADB = Asian Development Bank, ASYCUDA = Automated System for Customs Data, PFM = public financial management.
Sources: ADB; and Government of Nepal, Ministry of Finance.

38. ADB's Anticorruption Policy (1998, as amended from time to time) was explained to and discussed with the MOF.

IV. ASSURANCES

39. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement, as described in detail in the draft loan agreement. No disbursement shall be made unless ADB is satisfied that the government has completed the policy actions specified in the policy matrix relating to the program.

[34] ADB. 2025. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to Nepal for Strengthening Public Financial Management and Devolved Service Delivery Program*.

V. RECOMMENDATION

40. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of $50,000,000 to Nepal for subprogram 2 of the South Asia Subregional Economic Cooperation Customs and Logistics Reforms Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1.0% per year during the grace period and 1.5% per year thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masato Kanda
President

8 June 2026

POLICY DESIGN AND MONITORING FRAMEWORK
NEPAL: SOUTH ASIA SUBREGIONAL ECONOMIC COOPERATION CUSTOMS AND LOGISTICS REFORMS PROGRAM (SUBPROGRAM 2)

Country's Overarching Development Objectives Growth and diversification of trade achieved (Sixteenth Plan FY2025–FY2029)[a]	
Outcome Efficiency of domestic and cross-border trade increased	**Risks and Critical Assumptions** R: Prolonged impact of COVID-19 and geopolitical events on global supply chain could impede cross-border movement of goods and slow economic growth. R: Political uncertainties which usually lead to frequent changes in higher level officials may delay implementation of policy actions.

Prior Actions: Subprogram 1 Completed (July 2021-June 2023)	**Prior Actions: Subprogram 2 Completed (July 2023–June 2026)**	**Policy Actions: Subprogram 3 (July 2026–June 2028)**	**Outcome Indicators**
Reform Area 1: Customs processes improved for better trade facilitation			
1.1 Ministry of Finance approved and commenced implementation of the CRMP 2021–2026 to improve resiliency and efficiency of customs clearance procedures for cross-border trade by including reform measures to introduce e-payment, actions to proceed paperless customs, post-clearance audit, reduction of export documentation requirements, and introduction of valuation database. 1.2 DOC pilot-tested e-payment in at least one out of 10 major revenue-generating customs offices to reduce transaction time and cost. [b]	2.1 DOC completed the operationalization of the e-payment facility in all 26 customs offices. 2.2 DOC implemented a mandatory online submission of all documents for export for paperless customs in 10 major customs offices.	3.1 The government through DOC will issue a new CRMP 2026–2031, a multi-year national strategy that includes timeline for implementing RKC standards and the WTO TFA measures included in the Customs Act of 2025. 3.2 The Government through DOC will issue a Customs Handbook to ensure effective implementation of Customs Act 2025, mainly focusing on (i) post-clearance audit, (ii) pre-arrival information exchange with at least one neighboring trading country, (iii) expedited shipment for air-cargo, (iv) advance ruling, and (v) authorized business person.	**By June 2029** a. Share of e-payment in total customs and duties increased to 50% (2020 baseline: 0.0%) (Source: Department of Customs) b. Average time of release of goods reduced to 16 hours (2020 baseline: 19 hours) (Source: Department of Customs) c. At least 80% of foreign trade (value-based) cleared without physical verification in 12 main Customs Offices. (2022 baseline: 71.1%) d. Number of documents for exports reduced to four (2018 baseline: five) (Source: Department of Customs) e. 75% of respondents reporting improved or much-improved customs clearance procedures (2018 baseline:

Prior Actions: Subprogram 1 Completed (July 2021-June 2023)	Prior Actions: Subprogram 2 Completed (July 2023–June 2026)	Policy Actions: Subprogram 3 (July 2026–June 2028)	Outcome Indicators
1.3 DOC pilot-tested mandatory online submission of all documents for export in one out of the 10 major customs offices to promote paperless customs and facilitate export.	2.3 DOC implemented a risk-based approach for transaction-based post-clearance audit (PCA) to enhance efficiency in customs clearance. [h]	3.3 DOC will implement e-payment facilities and paperless export in all customs offices in Nepal (footnote d).	50%) (Source: World Bank's Domestic LPI or sample survey)
1.4. DOC developed and operationalized an interface in ASYCUDA World[c] to receive from other government agencies licenses, permit, certificates, and other documents which are required for customs clearance through the Nepal National Single Window to promote paperless customs process within the government.	2.4 DOC pilot-tested and implemented an online valuation database system in three out of the 10 major customs offices to enhance predictability of assessment of Customs duties for traders.[i]	3.4 PCA Office, following the risk-based audit approach, will implement a comprehensive audit (systems-based audit)[n] in addition to the post-importation transaction-based audit for better compliance to rules at firm level and enhance further efficiency in customs clearance.	
1.5 Cabinet approved the amendment to the Customs Regulation 2007 on the reduction of export documentation requirement of packing list to ease the customs clearance process.[d]	2.5 DOC approved and commenced implementation of gender equality and social inclusion action plan for customs to adopt the principles and values of gender equality and social inclusion.[j]	3.5 DOC will operationalize an online valuation database system in 10 major customs offices.[o]	
Reform Area 2: Logistics sector developed and strengthened for export promotion			
1.6 Cabinet approved the TLP which became effective in 2022 to enhance trade competitiveness through reduced cost of trade logistics, improved trade facilitation, improved domestic supply chain management, and quality employment generation. The objective will be achieved by TLP including reform measures to introduce (i) logistics infrastructure master plan, (ii) PPP guidelines, (iii) technical standards of logistics	2.6 MOICS developed and approved for submission to the Coordination Committee, chaired by Chief Secretary of the Government of Nepal and operating under the Office of the Prime Minister and Council Ministers, industrial and logistics trade master plan 2026–2030 focused on 4 key production centers in Nepal for a systematic and coordinated development of logistics infrastructure across different transport modes, effective last-mile	3.6 MOICS will approve and implement the technical standards of logistics infrastructure and equipment to promote interoperability and compatibility with trade partners, in formulating new logistics investments.[p]	**By June 2029** f. 50% of respondents reporting improved or much-improved regulations related to logistics (2018 baseline: 25%) (Source: World Bank's Domestic LPI) g. 90% of respondents reporting often or nearly always the efficiency of processes on clearance and delivery of exports (2018 baseline: 75%) (Source: World Bank's Domestic LPI)

Prior Actions: Subprogram 1 Completed (July 2021-June 2023)	Prior Actions: Subprogram 2 Completed (July 2023–June 2026)	Policy Actions: Subprogram 3 (July 2026–June 2028)	Outcome Indicators
infrastructure and equipment, (iv) grading system, (v) logistics information portal, and (vi) guidelines on government support to small and medium-sized logistics enterprises.	connectivity, and promotion of private sector investment, and featuring measures to assess and mitigate environmental and social risks.[k]		h. At least 20% of the prioritized private sector investment projects included in the master plan started preparation including pre-feasibility study. (2021 baseline: None Source: Logistics survey to be conducted by MOICS)
1.7 MOICS established an institutional arrangement, which began functioning to enhance inter-Ministerial coordination on policy reforms in logistics sector[e] and began functioning with the first Implementation Committee Meeting completed. The institutional arrangements include (i) the Board of Trade chaired by the Minister of MOICS to provide strategic and policy guidance; (ii) the Coordination Committee chaired by the Chief Secretary to facilitate inter-ministry coordination and ensure alignment of TLDP with other government plans, policies and strategies; and (iii) the Implementation Committee chaired by the Secretary MOICS.[f]	2.7 GON through IBN and MOICS formulated the public–private partnership (PPP) guidelines, for MOICS's approval, for trade and logistics infrastructure to develop enabling environment to increase private sector participation.[l]	3.7 MOICS will systematize accreditation of logistics operators by approving a new standardized grading system by establishing a set of criteria to measure the quality of their services. [q]	i. 80% of respondents reporting usefulness of the logistics information portal. (2021 baseline: None Source: Logistics survey to be conducted by MOICS)
1.8 MOICS approved a sequenced, time-bound Work Plan for TLP. The work plan included preparation and implementation of infrastructure master plan, PPP guidelines, technical standards, grading system, logistics information portal, capacity development plan for small and medium-sized logistics enterprises,[g] as well as gender equality and social inclusion needs	2.8 MOICS approved and submitted to the cabinet the amendment to the Export Imports (Regulation) Act required for promoting exports, regulating measures to regulate the massive imports of goods and curb illegal trade practices. 2.9 MOICS formulated a concept plan to systematize certification of logistics operators by approving a	3.8 MOICS will update and further strengthen the current trade portal, which will subsequently pave a way for the ministry to launch a logistics information portal in future. 3.9 MOICS will develop and approve policy to lease economic space for small and medium-sized	

Prior Actions: Subprogram 1 Completed (July 2021-June 2023)	Prior Actions: Subprogram 2 Completed (July 2023–June 2026)	Policy Actions: Subprogram 3 (July 2026–June 2028)	Outcome Indicators
assessment for logistics infrastructure and gender equality and social inclusion responsive guidelines for the logistics sector.	new standardized grading system by establishing a set of criteria to measure the quality of their services.[m] 2.10 MOICS approved the amendment to the Multimodal Act (to streamline and regulate the movement of goods using multiple modes of transport under a single contract), for publishing on its website to solicit feedback from all the relevant stakeholders.	enterprises, including women's enterprises for inclusive development of logistic sector. 3.10 Cabinet will submit to the Parliament the amended Multimodal Act for due endorsement and its subsequent implementation.	
Budget Support ADB: Subprogram 1: $50 million (policy-based loan, concessional OCR) Subprogram 2: $50 million (policy-based loan, concessional OCR) Subprogram 3: $50 million (policy-based loan, indicative, concessional OCR)			

ADB = Asian Development Bank, ASYCUDA = Automated Systems for Customs Data, COVID-19 = coronavirus disease, CRMP = customs reform and modernization plan, DOC = Department of Custom, GON = Government of Nepal, LPI = logistics performance index, MOF = Ministry of Finance, MOICS = Ministry of Industry, Commerce and Supplies, OCR = ordinary capital resources, PCA = post-clearance audit, PPP = public–private partnership, R = risk, RKC = Revised Kyoto Convention; TLDP = Trade and Logistics Development Policy, TLP = Trade Logistics Policy, WTO TFA = World Trade Organization Trade Facilitation Agreement.

Note: All documents submitted as proof of completion of prior policy actions must be issued by the authorized representative of MOF to ADB as attachments to a letter on MOF letterhead summarizing the completion or relevant prior policy actions, and certifying that the attachment are true copies of the original documents.

[a] Government of Nepal. 2025. *The Sixteenth Plan, Fiscal Year 2024/25–2025/29*. Kathmandu.

[b] There are 39 customs offices (out of which 26 are operational), but the 10 major customs offices contribute more than 98% of the total revenue collected by the DOC.

[c] ASYCUDA is a computerized customs management system developed by United Nations Conference on Trade and Development that covers most foreign trade procedures. It handles manifests and customs declarations, accounting procedures, transit, and suspense procedures. It also generates trade data that can be used for statistical economic analysis. ASYCUDA World is the most recent version of ASYCUDA.

[d] Under existing arrangements, exporters must submit the invoice and packing list separately. After this policy action is implemented, the exporter can submit the invoice in a format that also serves the purpose of the packing list. This would reduce one of the documents required, which will ease the export.

[e] The outcome of the meetings will be smooth and timely implementation of the Logistics Policy with progress review of the work plan, solution of strategic and policy level issues, and coordination between government should and private sector stakeholders.

[f] Under the TLP, there are three committees that were established: (i) Logistics Policy Committee headed by Minister of MOICS and will meet twice a year; (ii) Logistics Coordination Committee headed by Chief Secretary and will meet once every 3 months; and (iii) Implementation Committee to be headed by Commerce Secretary and will meet once every 2 months.

[g] Follow-up activities for infrastructure master plan is included in Policy Action 2.6 and 3.5, PPP guidelines in Policy Action 2.7 and 3.6, technical standards in Policy Action 2.8, grading system in Policy Action 2.9 and 3.7, logistics information portal in Policy Action 2.10 and 3.8, and capacity development plan for small and medium-sized logistics enterprises in Policy Action 2.11 and 3.9.

[h] To implement the PCA, DOC will approve a risk register with and input risk parameters into the ASYCUDA World for selecting consignments for the PCA.

[i] The three Customs offices selected for piloting will include one rail bound (covering southern border toward India) and two road bound offices (one covering the southern border toward India and another covering northern border toward People's Republic of China) to capture all types of Customs clearances.

[j] Commencement of implementation will be defined as establishing gender equality and social inclusion focal unit in all Customs offices with gender equality and social inclusion friendly (institutional and physical) design to support implementation of activities listed in the gender equality and social inclusion action plan (2024/25-2028/29) endorsed by Ministry of Finance, Department of Customs in August 2024. Some examples of gender equality and social inclusion friendly design includes office space and residential facilities that are safer for women staff, flexible work hours, separate changing space, washroom, lactation/nursing room, wheelchair ramps, adequate lighting and CCTV facilities etc.
[k] The plan will include ongoing and new projects financed by public and private sectors with their targeted schedule for completion.
[l] At least one potential PPP project is identified and included in the logistics infrastructure master plan.
[m] This reform will address market failure resulting from information asymmetry, and ensure logistics operators commit to providing quality services.
[n] Comprehensive audit (systems-based audit) looks at the entire business control environment and the impact this might have on Customs compliance. Analytical procedures are used heavily and substantive testing is reduced where an optimal control environment and corporate governance system is in place. This kind of audit takes place at the premises of the auditee (field audit). The amount of information to be examined by auditors is potentially large although it depends on frequency of audit. A complete picture of the business can be captured by the field audit, including examination of its business systems, trading methods, partners/directors and internal control.
[0] At least one logistics project in PPP modality is targeted to serve as a pilot project to draw lessons, since logistics is a new area for PPP in Nepal.
[p] The technical standards will incorporate lessons from the gender equality and social inclusion needs assessment for logistics infrastructure. Application of the technical standards for newly built infrastructure will be included as a condition to obtain accreditation under the grading system.
[q] As part of the implementation of the plan, priorities/actions are undertaken to enhance climate sustainability, strengthen pandemic and disaster resilience, and utilize advanced technology. Implementation of gender equality and social inclusion Responsive Guidelines for the logistics sector is also a part of the plan. Under the plan, actions are programmed for multiple years with a phased approach for different parts of the country depending on the degree of market economy.
Operational priority indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities.

Source: ADB.