# BASIC INFORMATION

## A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Nepal</td>
<td>P170409</td>
<td>Nepal Strategic Road Connectivity and Trade Improvement Project</td>
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<td>20-May-2020</td>
<td>Transport</td>
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<th>Financing Instrument</th>
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<th>Implementing Agency</th>
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<tr>
<td>Investment Project Financing</td>
<td>Nepal</td>
<td>Ministry of Physical Infrastructure and Transport, Ministry of Industry, Commerce and Supplies</td>
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### Proposed Development Objective(s)

To improve the efficiency and safety of select transport infrastructure, improve the efficiency of cross-border trade, and strengthen capacity for road network management in Nepal.

### Components
- Trade Facilitation
- Regional Road Connectivity Improvement
- Institutional Strengthening
- Contingency Emergency Response

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

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<td>of which IBRD/IDA</td>
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### DETAILS
World Bank Group Financing

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Non-World Bank Group Financing

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<td>Borrower/Recipient</td>
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Environmental and Social Risk Classification

High

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Regional and Country Context

1. **The trade of goods within South Asia is well below its potential.** Gravity models show that total goods trade within South Asia could be worth US$67 billion rather than the actual trade of only US$23 billion.\(^1\) Costs of trading within South Asia, at 114 percent of the value of the goods being exported, is very high compared to its trade costs with distant partners such as the United States (109 percent) and the European Union (114 percent).\(^2\) The unexploited trade potential of the countries in the region, is estimated at 93 percent for Bangladesh, 50 percent for India and 76 percent for Nepal.\(^3\)

2. **The gap between reality and potential for trade is acute in the eastern sub-region of South Asia, comprising Bangladesh, Bhutan, (north-eastern parts of) India and Nepal (BBIN countries),** owing to various constraints including low productivity, challenging terrain, and consequent poor connectivity and high costs of transportation.\(^4\) The scope for trade is further constricted by poor supply capacity of local producers in the sub-region, poor trade facilitation and prevalence of a variety of non-tariff barriers. These barriers to trade are especially pertinent to landlocked Nepal, whose goods export basket is dominated by agricultural products. Its imports and exports face delays and high costs when passing through sea ports in neighbouring countries and limitations on routes for transit cargo. Poor transport connectivity within Nepal, inefficient land border crossings, and lack of accredited trade laboratories to certify agricultural exports gravely undermine its trade performance.

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\(^3\) ibid.

\(^4\) Bhutan, Nepal and northeastern states of India are land-locked with predominantly hilly and mountainous terrain.
The various constraints increase product losses, raise the costs of transportation and logistics, thereby making Nepali exports uncompetitive in international markets and pushing up the prices of imported, essential, and nonessential consumer goods, as well as the prices of inputs.

3. **Over the past decade, Nepal’s economy has performed reasonably well.** Real growth domestic product (GDP) growth averaged 4.9 percent (at market prices) over 2010-19. Although declining as a share in the economy, agriculture continues to play a large role, contributing over 29 percent of GDP in FY2019. The service sector has grown in importance, accounting for 46 percent of GDP in FY2019. Industry and manufacturing have grown more slowly and their relative share in the economy has averaged 14 percent of GDP over the past decade. Similarly, exports continue to struggle, while imports are fueled by remittances. Remittances have remained stable, with its share as a percentage of GDP averaging 24.5 percent, supported by an increased transfer of funds through formal channels in recent years. Inflation has been in single digits for most of the past decade, with the peg of the Nepalese rupee to the Indian rupee providing a nominal anchor. Fiscal balances remained sustainable owing to strong revenue growth and modest spending. However, the federal government is now sharing revenue and transferring grants to provincial and local governments, as part of the recent reforms linked to federalism. The poverty headcount ratio (at the international line of US$1.90/day) is estimated at 8 percent in 2019, down from 15 percent in 2010. At a higher line (US$3.20/day), 39 percent of the population is estimated to be poor in 2019, which is a decline of more than 10 percentage-points from 2011. Despite the declining poverty trend, vulnerability remains high. Almost 10 million people (close to 29 percent of the population) are estimated to live between US$1.9 and US$3.2 a day in 2019 and face a significant risk of falling into extreme poverty, should a shock occur.

4. **GDP growth was 7.1 percent in FY2019 backed by tourism and strong agricultural growth; in FY2020, the COVID19 pandemic is expected to cause a large reduction in growth.** The service sector grew by 7.5 percent in FY2019, supported by remittance inflows and tourist arrivals which in turn contributed to expansion of retail trade, transport, hotel and restaurant activity. Agriculture grew by 5 percent, due to good monsoons together with increased commercialization, the availability of fertilizers and seeds, and irrigation facilities. This helped raise paddy production, maize, and wheat to historic highs, almost doubling agriculture’s contribution to GDP growth. In FY2019, agriculture accounted for 29 percent of overall GDP growth. Government revenue has performed well in FY2018 and FY2019 compared to previous years. However, the COVID19 pandemic is expected to significantly reduce growth in FY2020. Activity in the tourism sector has been significantly impacted, causing a reduction in hotel occupancy rates and transport services that is estimated to exceed 50 percent. Also, expenditure levels are expected to increase significantly as government puts in place programs and measures to mitigate the impact of COVID on the economy and support recovery. This will add to existing spending pressures from ongoing implementation of federalism and federal transfers to provincial and local governments.

5. **Inflation averaged 4.5 percent year on year (y/y) in FY2019, lower than the monetary policy target of 5.5 percent.** The price of non-food items grew by 5.8 percent, driven mainly by housing and utilities, while food prices rose only 3 percent due to good agricultural production. In the last two months of FY2019 (i.e., June/July 2019), inflation spiked to 6 percent (y/y). This was driven by higher food prices due to increased pesticide tests on vegetables and fruits imported from India which resulted in lower uptake of imported food and increased domestic prices. Over the first six months of FY2020, inflation averaged 6.4 percent (y/y), driven by higher vegetable prices and increased import duties on certain agricultural and industrial goods. This has widened the inflation gap with India and contributed to a 2.1 percent (real effective) appreciation of the Nepalese Rupee. As the effects of the COVID pandemic unfold, in terms of domestic demand and supply shocks, this is expected to put more pressure on inflation.
6. **A new government, backed by an unprecedented majority in Parliament took office on February 15, 2018.** This follows successful elections for all three tiers (local, state and federal) of the new state architecture defined by the 2015 constitution, marking a protracted-but-successful conclusion of a political transition that began with the signing of the Comprehensive Peace Agreement in November 2006. State governments largely mirror the coalition at the center. At the sub-national level, funds, functions and functionaries hitherto managed by the central, district and village authorities are moving to the seven new provinces and 753 local governments for which new legislation, institutions and administrative procedures are being formalized as constitutionally prescribed. Meanwhile, the central level authority is being streamlined with a focus on national policies and oversight. This profound level of state restructuring is expected to result in improved outreach and service delivery in the medium term but is likely to take time before becoming fully operational.

**Sectoral and Institutional Context**

7. **In 1997, BBIN countries formed the South Asian Growth Quadrangle (SAGQ) to create an enabling environment for accelerating economic growth and overcome infrastructural constraints.**⁵ At the behest of SAGQ, the Asian Development Bank (ADB) launched the South Asia Sub-regional Economic Cooperation (SASEC) program, with focus on transport, trade and energy. In April 2017, SASEC Finance Ministers’ Meeting in Delhi adopted the SASEC Operational Plan 2016-25.⁶ The Operational Plan is founded on four strategic objectives, viz., (i) enhancing physical connectivity; (ii) following a comprehensive approach to transport and trade facilitation; (iii) enhancing electricity trade; and (iv) promoting synergies between economic corridors being developed in individual SASEC countries and optimizing development impacts of these investments through improved cross-border links. These objectives are also aligned with BBIN countries attempts to enhance regional co-operation and connectivity under the aegis of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).⁷

8. **Specifically, to enhance regional connectivity, the Plan identified priority projects in all countries in the sub-region** covering roads, railways, waterways and airways, which are recognized for their major influence on transport and trade costs between member states. Thee priorities included four-laning of the following two roads in Nepal:

(a) **Mugling-Naubise-Kathmandu (100 km),** with support from the World Bank. This road is part of Asian Highway 42 that connects Nepal to (i) India at Raxaul and Asian Highway 1 at Barhi (in India) and thus forming part of the Kathmandu-Birgunj-Kolkata regional trade corridor; and (ii) China at Kodari and also Rasuwa via another road in Nepal; and

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⁵ The other aims of SAGQ, a sub-regional initiative under the aegis of the South Asian Association for Regional Cooperation (SAARC), included (i) making optimal use of and further develop the complementarities in the subregion; and (ii) developing economic and institutional linkages and nodal points for facilitation cooperation on policy framework and project implementation.


⁷ BIMSTEC is a regional platform comprising of BBIN countries and Myanmar, Sri Lanka and Thailand. At their Fourth Summit at Kathmandu, BIMSTEC countries (i) reiterated their resolve to establish seamless multi-modal transportation linkages and smooth, synchronized and simplified transit facilities through the development, expansion and modernization of highways, railways, waterways, sea routes, airways in the region; and (ii) noted with satisfaction the preparation of draft BIMSTEC Master Plan of Transport Connectivity (prepared with support from ADB) and called for its early adoption. Source: [https://bimstec.org/?event=the-fourth-bimstec-summit](https://bimstec.org/?event=the-fourth-bimstec-summit)
(b) **East-West Highway (1,024km)**, with support from ADB and the World Bank. This road is part of Asian Highway 2, which connects Nepal to India (i) on the east-side via Siliguri, and through it to Bangladesh and further to Bhutan (via Asian Highway 48); (ii) on the west-side via Brahmdevmandi; and (iii) in between, through link roads in Nepal connecting to several border locations such as, for example, Biratnagar, Birgunj and Bhairahawa.

9. **In a similar vein, the Plan identified three trade facilitation priority areas**, viz., (i) customs-related measures covering both land- and sea-based operations; (ii) border and inland facilities, improved logistics, port processes, and automation; and (iii) improvement in the operations of other border agencies, particularly in the implementation of sanitary and phyto-sanitary standards (SPS) and technical barriers to trade (TBT) measures and integration of all border clearance processes through the development of national single windows (NSWs).

10. **Guided by the common goal of increasing sub-regional connectivity and trade, BBIN countries have been pursuing several initiatives, collectively, bilaterally or individually.** These initiatives have been rightly aimed at alleviating soft (transit and trade facilitation) and hard (infrastructure) constraints, both within and across their borders. Notable examples of such initiatives include: (i) BBIN Motor Vehicles Agreement (MVA), which is intended to ease restrictions on cross-border road transit for vehicles, passengers and cargo, reduce transport costs and foster the development of multimodal transport and transit facilities that in turn is expected to promote greater intra-regional trade; (ii) Nepal and India collaboration on Integrated Check Posts (ICPs) at select locations to upgrade and integrate border controls and customs services; (iii) Bangladesh granting Nepal, Bhutan, and India access to the ports of Chittagong and Mongla; and (iv) India’s investments at or near Nepal border that will have positive spin-offs for Nepal. Many of these efforts of BBIN countries are being supported by the Asian Development Bank (ADB) and the World Bank.11

11. **This sub-regional thrust on increasing regional connectivity and improving trade facilitation holds utmost significance for Nepal, as it is land-locked and its trade in goods accounts for 40 percent of its GDP.** Inefficiencies in transit including those related to transportation have high adverse impact on competitiveness of Nepal’s exports and, equally importantly, on its economy because imports of goods accounts for 36 percent of its GDP. Nepal’s ranking on the Logistics Performance Index (LPI) – 114 out of 167 countries – is well behind most of its South Asian Neighbours; even among the 33 land-locked states, it ranks at 20. In the case of infrastructure – one of the sub elements of the LPI – the country is ranked even lower at 123. Alleviating connectivity and facilitation challenges to trade could yield significant benefits for Nepal; according to an estimate, 40 percent

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8 The MVA has been ratified by Bangladesh, India, and Nepal. Bhutan, which could not ratify the agreement earlier, is reportedly reconsidering its stand. All countries recognize MVA as a landmark for giving momentum to transport facilitation in the sub-region.

9 Two ICPs completed include Birgunj (Nepal) – Raxaul (India) and Biratnagar (Nepal) – Jogbani (India).

10 e.g., bridge on the Mechi river, Rupaidiha-Barabanki (144 km), Sonauli-Gorakhpur (184 km), Bobesganj-Jogbani and Piprakodi-Raxaul roads.

11 In the case of ADB, as of March 2017, nine projects worth $2.4 billion were approved as part of the SASEC Operation Plan 2016-2025, which included two road projects in Bangladesh ($890 million), two economic corridor initiatives and a bridge project in India ($1.2 billion), trade facilitation and airport projects in Bhutan ($27 million) and road and energy projects in Nepal ($302 million). In the case of the World Bank, support for this cause is being channeled under the Eastern Corridor Connectivity Program, which since 2012 financed a continually evolving regional program to improve connectivity and trade in the BBIN countries (more details in Annex 2).
reduction in trade costs could yield welfare gains of 56 percent of GDP and intra-regional export gains of 106 percent of GDP.\footnote{12}

12. **Nepal’s regional connectivity and trade challenges, though sizeable and complex, are highly concentrated in geographical terms.** This is because more than 95 percent of Nepal’s trade via land is either with (60 percent of Nepal’s trade) or routed through India, and passing through three cross-border locations and two regional corridors.\footnote{13} Of the goods traded via land, nearly 85 percent are routed through three border locations,\footnote{14} and more than 95 percent relies on Kathmandu-Birgunj-Kolkata corridor and/or East-West Highway.\footnote{15}

13. **The Government of Nepal (GoN) has initiated several measures to alleviate both soft and hard constraints to trade, primarily focusing on its regional connectivity.** To improve trade facilitation, Nepal has implemented the computerized customs management system known as ASYCUDA World (Automated System for Customs Data) with support from ADB and is currently developing a National Single Window (NSW) with support from the World Bank. Also, working in concert with India, it gained access to Visakhapatnam port, piloted Electronic Cargo Tracking System (ECTS) connecting to Kolkata/Haldia and Visakhapatnam ports.\footnote{16} Similarly, to alleviate cross-border infrastructure constraints, Nepal has advanced work on establishing Integrated Check Posts (ICPs) and improving other facilities at four major border points, viz., Birgunj, Bhairahawa, Biratnagar, and Kakarvitta. In addition, with the World Bank support, GoN improved the Narayanghat-Mugling road on the Kathmandu-Birgunj corridor, developed railway ICD at Birgunj and constructing an Inland Clearance Depot (ICD) at Kathmandu. GoN is also developing cross-border rail links at Jogbani-Biratnagar and Jaynagar-Bardibas, with support from the Government of India. Some of these initiatives are yielding notable positive results\footnote{17} and yet, more remains to be done in both trade facilitation and regional connectivity, as explained below.

14. **Trade facilitation:** Institutional, regulatory, and infrastructure capacity needs enhancement, especially in the following three major cross-cutting areas identified in the Nepal Trade Integration Strategy (NTIS, 2016) n.

   (a) **Sanitary and phyto-sanitary (SPS) management:** Nepal’s export basket is dominated by agricultural products and this is likely to remain the case in the short and medium term. However, Nepal is unlikely to expand agriculture exports without investments in infrastructure, equipment, and human resources to certify that its goods achieve the various SPS standards of key regional and global export markets.\footnote{18} Existing laboratories are not internationally accredited and therefore Nepal’s trading partners, including India, do not recognize their certifications. This results in traders having to undergo costly and time-consuming round of inspections in accredited labs in India. Currently, samples of Nepalese export products are sent for testing laboratories in India which takes a minimum of 9 days but often up to 3-4 weeks. (b) **Cross border infrastructure and procedures:** While the clearance time at key cross border points (Birgunj and Biratnagar) has been reduced with the introduction of integrated check posts, many border crossings remain congested arising from inadequate infrastructure, excessive bureaucracy and procedures, and lack of coordination between border agencies. (c) **Trade-related...*/
capacity: Limited institutional capacity (including trade negotiations capacity) and inter-agency coordination have constrained the government’s ability to implement the 2016 NTIS, as well as its 2010 precursor.

15. **Regional connectivity:** Nepal's international trade volumes lack the scale to sustain multiple transit corridors. Therefore, there is a need to establish a primary focus on a few strategic routes. Both Kathmandu-Birgunj corridor and East West Highway, the two major transport corridors that carry more than 95 percent of trade in goods via land, are already operating beyond capacity in several sections. To alleviate this, in Kathmandu-Birgunj corridor, the Nagdhunga-Naubise-Mugling road (NNM, 95 km) is to be improved to a 2-lane standard and, in East West Highway, Kamala-Dhalkebar-Pathlaiya road (KDM, 130 km) is to be upgraded to a 4-lane standard; other sections of East West Highway are being upgraded with support from ADB. In addition to capacity augmentation, it is equally important to ensure that these roads are made climate resilient, safe and sustainable. NNM road is vulnerable to landslides and KDP road is vulnerable to flooding given it spans multiple rivers/streams (around 70 times in a length of 130 km), and both are highly prone to accidents. Also, after capacity augmentation, these roads are very likely to suffer the risk of not getting adequate attention and funds for maintenance. It is proposed to mitigate these risks on the project roads through (i) integrating adequate engineering solutions to address climate resilience and safety aspects in the design, construction and operation & maintenance phases; (ii) supporting enforcement and post-crash aspects of road safety through Safe Corridor Demonstration Program (SCDP) involving other key stakeholder departments, viz., Transport, Police and Health; and (iii) including in the works contracts a provision for maintenance for a period of 5-8 years after construction.

16. **Regional spill-over benefits:** The proposed interventions are expected to significantly improve the economic potential in the eastern sub-region of South Asia, especially in enhancing trade between Nepal and India as well as with Bangladesh and Bhutan. 85 percent of Nepal’s imports enter through India irrespective of their country of origin. This project will contribute to strengthening weak links in the road network of the BBIN countries – as envisioned in the SASEC Operational Plan. The project corridors interconnect with regional transport routes that carry among the heaviest freight traffic in the sub-region and include the largest border crossings in terms of trade volume and value. Through network effects, the project interventions will enhance the integration of the landlocked or semi-isolated status of Nepal, Bhutan and the North Eastern Region (NER) of India with the rest of the sub-region. The increased efficiency in border processing will help reduce the cost of business for traders on both sides of the borders. Likewise, the proposed improvements in road segments are expected to benefit these countries in terms of reducing the transportation time, costs and related carbon emissions. Given the trade pattern of Nepal, larger share of the benefits of reduction in trade costs would be on imports. These benefits are also like to accrue to the movement of goods from and to Bangladesh and Bhutan, as it is mostly channelized through India and these border crossings and transport corridors. The project would strengthen BBIN’s regional coordination which is key to harmonize transit measures.

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19 For example, in Kathmandu-Birgunj corridor, the Naubise-Galchhi section with a design capacity to serve traffic of 10,000 PCUs (Passenger Car Units), is already having a traffic volume of 15,000 PCUs, which is expected to go up to 27,000 by 2022.
20 The ADB is supporting upgrading of several sections of the East-West Highway, viz., Kanchanpur-Kamala (87 km) and Narayanghat-Butwal (110 km) and included support for Kanchanpur-Kakarvitta (143 km) and Pathlaiya-Narayanghat (106 km) sections in pipeline.
22 In 2017, in South Asia, Nepal imported goods worth approximately US$6.6 billion and exported goods worth approximately US$0.4 billion (mostly from and to India). At global scale, Nepal’s imports and exports are approximately US$10 billion and US$0.74 billion, respectively.
23 In 2017, Nepal’s imports from and exports to Bangladesh are worth approximately US$38.9 million and US$9.8 million, respectively.
17. **Given the large scale of the proposed road works, GoN sees them as an opportune ground for introducing good practices for addressing the following major sector-wide challenges:**

(a) **Climate Resilience:** The International Panel on Climate Change (IPCC) suggests that that Himalayan regions like Nepal will experience significant changes in weather patterns due to climate change. Historical and recent data collected via the Association’s Climate and Disaster Risk Screening tool further confirm the high level of risk for the physical component pertaining to extreme precipitation, flooding, landslides and earthquakes events, which have been more important in frequency and intensity over the years. In terms of volumes, the monsoon delivers about 80 percent of annual rainfall in just three months in a given year. For example, heavy monsoon flooding during the summer of 2019 particularly demonstrated that the road infrastructure is highly vulnerable to natural events and caused hundreds of deaths and thousands of people displaced.\(^\text{24}\)

(b) **Road Safety:** According to official statistics, 2,541 road deaths (8.6 deaths per 100,000 population) were recorded in Nepal in fiscal year 2017-18, which is likely an underestimate as compared to the World Health Organization (WHO) estimate of 4,622 fatalities in 2016 (15.9 deaths per 100,000 population).\(^\text{25}\) Road traffic crashes in Nepal result in an annual cost of 0.8 percent of GDP (WHO, 2015). About 40 percent of the people killed on roads in 2017/18 were less than 26 years old and, in 2016, the Road Transport Injuries (RTI) were the 2nd leading cause of death among men in the 15-49 age group. Heavy vehicles, particularly buses, involved in 70 percent of fatal crashes on highways on selected sections of the SRN. This situation affected the low-income households the most as they relied mainly on long-distance bus services for daily economic and social activities, and because of their limited ability to cope with the losses, pushing them further into poverty or even extreme poverty. GoN is seeking to address this through (a) institutional support to the National Road Safety Council (NRSC); (b) implementation of pilot projects for systematic, targeted safety interventions (in engineering, enforcement and post-crash care); and (c) country-wide roll-out of the Road Accident-Information Management System (RAIMS).

(c) **Gender:** The design of transport infrastructure is largely technical, with less consideration for gender differentiated needs and priorities which are determined by income, time poverty, and risk of personal safety, among others.\(^\text{26}\) Female Labour Force Participation (FLFP) in the construction sector is lower than that of males (4.2 percent for women compared to 19.5 percent for men).\(^\text{27}\) This lower FLFP rate is due to prevalent social norms and fewer women with appropriate skills and education for more technical positions. While female participation in higher education has increased to 52 percent in Nepal, Gender Parity Index (GPI)\(^\text{28}\) shows that their participation is significantly low in the faculties of Engineering (0.16), Veterinary

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\(^\text{24}\) Some locations in Nepal received up to 613 mm of heavy rainfall in July 2019. Major highways had been blocked or destroyed by floods and landslides, including the Koshi-Kamala section of the East-West Highway. The resulting economic damage to the road infrastructure in 2019 have been estimated at Rs 220 million, i.e. $ 1.92 million.

\(^\text{25}\) For consistency when WHO estimates for crash fatality rates, per 100,000 population, are compared within the region, Nepal lags marginally behind Pakistan (14.3), Sri Lanka (14.9), Bangladesh (15.3). However, when compared with best performing countries in the world (less than 3 deaths per 100,000 population) there is significant gap in performance on road safety outcomes.


\(^\text{27}\) Nepal Labor Force Survey (NLSS) 2017/18

\(^\text{28}\) Gender Parity Index (GPI)= Female enrollment/Male enrollment.
Science and Fisheries (0.35), Agriculture (0.43) and Science and Technology (0.58), contributing to the short supply of females in specialized skills in technical/laboratory jobs.

(d) **Citizens’ Engagement:** In large scale road projects, Citizens’ Engagement mechanism are also found to be often confined to informal consultations with affected communities during the planning phase, focusing mainly on land acquisition issues and not in the design and planning of project activities.\(^{30}\)

(e) **Sustainability and Efficiency:** The expenditures on both capital and maintenance works are usually made in a manner that often leaves out sizeable portions of the network and via small, annual contracts that are administratively onerous and not amenable for economies of scope or incentivising the contractor to move up the productivity scale. Maintenance - a critical aspect of sustainability – has been receiving very low priority. Although GoN has increased budget allocation to the Strategic Road Network (SRN)\(^{31}\) at a compound annual growth rate (CAGR) of 44 percent during FY14-FY19, reaching up to US$692 million in FY19, the maintenance expenditure increased only at a CAGR of 8 percent, resulting in a precipitous drop in its share in total expenditure, from 16 percent to 7 percent.\(^{32}\) Government of Nepal is keen to address this through (a) adopting more efficient contracting approaches; (b) developing a road asset management system underpinned by robust data collection and analytics; (c) a multi-year periodic maintenance program for the core high-traffic elements of the SRN; and (d) enhancing their capacity for training and skill-building of their staff.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective is to improve the efficiency and safety of select transport infrastructure, improve the efficiency of cross-border trade, and strengthen capacity for strategic road network management in Nepal.

Key Results

18. **Achievement of this objective will be measured through the following key indicators:** (a) reduction in travel time, vehicle operating costs and annual fatalities related to road crashes on the roads being improved or upgraded; (b) reduction in the time taken for goods transit at a major border crossing point; (c) reduction in time

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\(^{30}\) At the construction phase CE is done through Compensation Determination Committee at the district level, and Local Consultation Forums at the village level but was not done systematically.

\(^{31}\) The primary network comprising about 13,000+ km that serves as the backbone for the physical and economic integration of the country and enables year-round administrative, political and social connectivity throughout Nepal. The principal responsibility for the development and management of the SRN is vested with the Department of Roads (DoR) under the Ministry of Physical Infrastructure and Transport (MoPIT).

\(^{32}\) Capital expenditure, too, could have been benefitted from better prioritization, as can be seen from the fact that capacity addition is lagging even among roads providing the pivotal north-south and east-west connectivity. For instance, out of the 29 highways that provide the principal north-south linkages, as many as 6 are having daily traffic volumes of over 15,000 PCUs indicating an urgent need for upgrading them to a 4-lane standard; these include the Nagdhunga-Naubise-Mugling road.
taken for sanitary and phyto-sanitary clearances in export of selected agricultural commodities; (d) increase in the percentage of Core Highway Network (within the SRN) in “good” condition.

D. Project Description

19. This Project seeks to support Government of Nepal in improving its capacity and efficiency of trade and transport infrastructure and strengthening the institutions managing them. Specifically, the Project will support (a) trade facilitation, through augmenting infrastructure for transit management at key border crossing points, improvement of sanitary and phyto-sanitary (SPS) management, and knowledge and capacity building support for improving management of trade; (b) regional connectivity improvement, through capacity augmentation in two roads within two critical corridors for trade and a safe corridor demonstration program; and (c) institutional strengthening of the National Road Safety Council and the Department of Roads, through inter alia developing and mainstreaming road asset management, training and periodic maintenance of high traffic highways within the Strategic Road Network. Through these activities, the Project will also pilot or demonstrate ways to address four critical challenges plaguing the road sector, viz., sustainability, efficiency, climate impacts and road safety. The proposed interventions together are envisaged to enhance transport and trade connectivity of land-locked Nepal with and via its neighbours in the region, and in particular, improve the efficiency of goods transit between Nepal and India through reducing time and costs and also make it more safe and resilient. This Project contributes to increasing trade within the eastern sub-region of South Asia, where the gap between reality and potential has been acute, and is in line with the commitment of Bangladesh, Bhutan, India and Nepal (BBIN countries) in this sub-region to align and focus their interventions in selected priority areas including transport and trade facilitation.

Legal Operational Policies

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Summary of Assessment of Environmental and Social Risks and Impacts

Environmental Risk Rating

20. The environment risk rating for this project is assessed to be High due to the project’s potential impacts on biodiversity, natural habitats and wildlife mobility and transboundary movement, road works triggering and/or exacerbating landslides in unstable and landslide-prone areas and health & safety risks to workers and communities during the construction phase of the project. The existing KDP Road has about 14km segment passing through the southern border of Parsa National Park (PNP). This segment separates the buffer zone of PNP on one side with the private lands on the other side of the road. Along the 14km stretch, three wildlife transboundary corridors have been identified. Another five wildlife corridors have been identified in KDP Road outside the 14km stretch that passes through PNP. The PNP is known to be of high biodiversity values with some wildlife and avifauna species considered critically endangered and endangered recorded in this national park. The NNM Road, on one hand, is located in a number of active landslide areas and unstable slopes. There are no critical habitats, protected areas and other environmentally-sensitive areas along the NNM Road corridor.
21. While the KDP Road is existing and built without any provisions for wildlife passes, its improvements and widening could potentially affect natural habitats, biodiversity and transboundary wildlife migration if no passages and fences are constructed especially along the wildlife crossing points/corridors identified. Road widening works in KDP Road can also further fragment forest habitats and could potentially affect critical habitats falling under the definition of Environmental and Social Standard (ESS6) that maybe present in the project area, although works will be carried out in the existing right-of-way (ROW) and the area to be affected by the works is small. On one hand, works at NNM road could trigger and/or induce landslides in unstable slopes and active landslide areas. During construction, health & safety issues of workers and communities and potential increase in road or traffic-related accidents especially along the NNM road, which is the main road connecting Mugling to Kathmandu, will be a key risk. There will also be cutting of trees along the ROW, to the extent that they cannot be avoided though further habitat fragmentation is not expected. Also, in NNM Road (and highly likely KDP Road as well), demand for stone and aggregates could induce increased quarrying leading to landslide and erosion risks. Several road side settlements will be exposed to noise, dust, air pollution and safety risks. Works related to trade facilitation activities are not expected to have adverse environmental impacts since these are small to medium scale works mainly involving improvement of existing structures. Period road maintenance works are assessed to be low to moderate risk since works involved are minor and will be carried out in existing roads and within the ROW. That said, occupational and community health and safety during construction, however, will need closer attention as this is proving to be a systemic issue in Nepal that needs significant improvement.

22. During operation, it is expected that impacts will mainly be positive on the economy with increased regional trade between Nepal and India. Traffic-related safety is also expected to improve with the safety features of the improved and/or widened roads and enforcement of road safety rules, which will also be supported by the project. And finally, with the construction of wildlife passes, fences, including guiding fences, and other measures to be proposed and implemented based on the biodiversity management plan, along the KDP Road it is expected that wildlife collision will be minimized and connectivity will be facilitated, thus creating beneficial impacts to wildlife and biodiversity.

Social Risk Rating

23. The social risk rating for the proposed project has been assessed to be “High” due to the significant number of households expected to be physically displaced for road expansion related to the KDP road and proposed civil works under the trade facilitation component. A RAP has been prepared for NNM road and indicates that a total of 78 households will be affected by road improvements. Feasibility studies for the KDP road is underway, as such the scale and magnitude of involuntary resettlement impacts cannot be identified at this preparation stage. Nonetheless, the proposed widening of the road from 2-lane to 4-lane will likely affect a significant number of households living and petty trading (e.g. tea shops, fruit and vegetables stalls, and small grocery markets) along the RoW of the road. During the construction of the roads, the potential for labor influx, health and safety concerns and gender-based violence (GBV) is expected. Traffic safety risk is likely to be high along the NNM road, which is the main road to Kathmandu. However, if the project is able to manage these risks to a satisfactory level, it is expected that it will produce a number of positive impacts on the local, national and regional economy with increased regional trade between Nepal and India. Whilst the DoR and other implementing agencies are familiar with, and have some modest experience in implementing World Bank’s safeguard policies, the Institutional capacity assessment revealed some shortfalls. The proposed project is the first project for DoR that applies the ESF with its expanded scope of risks and significant demand for due diligence. Some E&S staff/consultants of the implementing agencies participated in ESF training, some did not. DoR lacks experience in managing labor influx issues and FPIC (in the case of IPs). The Trade Facilitation component of the
The project is yet to identify and finalize the subprojects it will support. In the meantime, such sub-projects may involve land acquisition and may potentially cause impacts to IP communities. As indicated above, the client lacks sound experience in addressing issues related to IPs. The project Road Periodic Maintenance activities will be finalized during project implementation, however due to the nature of the project, the social impacts caused will not significant.

E. Implementation

Institutional and Implementation Arrangements

24. **The project will be implemented by two Ministries, namely Ministry of Physical Infrastructure and Transport (MoPIT) and Ministry of Industry, Commerce & Supplies (MoICS).** MoPIT will chair the Project Steering Committee (PSC) and exercise an oversight role. MoICS will implement the Trade Facilities Component, through a Project Coordination Unit (PCU), in coordination with the agencies responsible for implementation of various sub-activities, viz., the Nepal Intermodal Transport Development Board (NITDB), Department of Customs (DoC, under the Ministry of Finance), and the Department of Food Technology and Quality Control (DFTQC), Plant Quarantine and Pesticide Management Centre (PQPMC), and Department of Livestock Services (DoLS), under the Ministry of Agriculture and Livestock Development. MoPIT will implement the Regional Road Connectivity and Institutional Strengthening Components, through PCU in the Development Cooperation Implementation Division (DCID), under the Department of Roads (DoR), in coordination with designated units in the agencies responsible for implementation of various sub-activities, viz., National Road Safety Council (NRSC), the Department of Transport Management (DoTM), and Planning and Maintenance Branches of DoR.

25. **Both MoICS and MoPIT have experience of implementing IDA funded projects.** They will be responsible for satisfactory implementation of the project activities under their purview, including compliance with fiduciary and safeguard requirements. For this, the PCUs and designated units will be staffed with the requisite experience and skills for managing the civil works, environmental & social safeguards, gender and social inclusion (GESI), financial management, procurement and contract management, and knowledge and capacity building activities, and support it with administrative and financial management expertise. Also, these agencies, will engage Project Management and Supervision Consultants for regular supervision, monitoring and reporting of project activities.

26. **A Project Implementation Manual (PIM) will be developed detailing roles and responsibilities of PCUs, sub PCUs or designated units and their staff.** The PIM will include guidelines for financial management, monitoring & evaluation and reporting. The PIM will be reviewed and endorsed by the PSC and it will be subject to periodic updating based on implementation experience.

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