

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Regional (Bangladesh, Bhutan, and Nepal)	Project Title:	SASEC Subregional Trade Facilitation Program
Lending/Financing Modality:	Program loan and grant	Department/ Division:	South Asia Department/ Public Management, Financial Sector and Trade Division

I. POVERTY ANALYSIS AND STRATEGY**A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy**

The proposed program aims to increase trade between four South Asia Subregional Economic Cooperation (SASEC) countries—Bangladesh, Bhutan, Nepal, and India. While India is part of SASEC, they pledged their own resources to undertake trade facilitation reforms and therefore will not participate in the SASEC Trade Facilitation Program. Trade in the subregion has been constrained by several factors. A key bottleneck is poor infrastructure with limited regional connectivity, especially in landlocked Bhutan and Nepal, and the northeastern regions of India. Infrastructure-related impediments are exacerbated by the absence of cross-border transit agreements, which necessitates multiple transshipments of cargo at the border. In addition, many land border crossings have inadequate facilities for warehousing, handling, scanning, and testing, and basic information and communication technology (ICT) for efficient cargo clearance. As a result, South Asia's intraregional trade is lower than that of other regions. There is therefore immense potential for gains from regional trade through the benefits of economies of scale, greater competition, and technology spillovers. Thus, trade facilitation will be an indirect but crucial tool for governments in Bangladesh, Bhutan, and Nepal to meet poverty alleviation targets by increasing their gross domestic product (GDP), creating employment, and boosting government revenues.

The program is in line with the respective national development strategies and the Asian Development Bank (ADB) country partnership strategies (CPSs) for the subregion. Regional cooperation and integration (RCI) is one of the main pillars of ADB's Strategy 2020, which underlines the importance of RCI's role in accelerating growth and poverty reduction. Trade facilitation is a priority area of the regional cooperation strategy for South Asia,¹ along with transport and energy. RCI is also highlighted in the CPSs for Bangladesh, Bhutan, and Nepal. Bhutan's 10th Five-Year Plan, 2008–2013² "recognizes trade as a tool for economic growth and poverty alleviation." In order to achieve this objective, Bhutan will "facilitate the flow of trade through a trade facilitation mechanism." Nepal's three-year plan approach paper³ emphasizes trade as one of the prime sectors to achieve economic growth and poverty alleviation. Equally, Bangladesh's 6th Five-Year Plan, 2011–2015⁴ foresees to increase the country's export potential by seeking "more effective cooperation with neighbors."

B. Poverty Analysis Targeting Classification: General Intervention

1. **Key issues.** The program is classified as general intervention since all citizens in the subregion are expected to benefit from greater intraregional trade. It is equally expected that program benefits will be greater in the so-called "chicken neck area", where most of the interventions in the SASEC corridors are concentrated. Empirical evidence from East Asia suggests that export-led growth plays a substantial role in effective and rapid poverty alleviation. Despite geographic proximity and the existing South Asia Free Trade Agreement (SAFTA), intraregional trade in South Asia accounts for only 5% of total regional trade as a result of technical and administrative non-tariff barriers to trade. In this regard, the establishment of effective trade facilitation mechanisms has proven to play a pivotal role in reducing non-tariff barriers and stimulate trade and regional integration. Literature on this topic suggests that "there is little doubt that changes in trade directly, and indirectly, affect the welfare of households."⁵ There are three major channels through which trade affects households: (i) the distribution channel, relating to changes in prices of goods and services; (ii) the enterprise channel, relating to changes in profits, wages, and employment; and (iii) the government channel, relating to changes in taxes and transfers. The proposed reforms under the program are expected to have an indirect impact on poverty reduction through the enterprise and government channels, since the existing subregional trade tariff system, and therefore prices of goods, is not targeted (footnote 5).

¹ ADB. 2011. *South Asia: Regional Cooperation Strategy, 2011–2015*. Manila.

² Royal Government of Bhutan, Gross National Happiness Commission. 2009. *10th Five-Year Plan, 2008–2013*. Thimphu.

³ Government of Nepal, National Planning Commission. 2010. *Three Year Plan Approach Paper, 2010/2011–2012/2013*. Kathmandu.

⁴ Government of Bangladesh, Planning Commission. 2011. *6th Five-Year Plan, 2011–2015*. Dhaka.

⁵ Kate Higgins and Susan Prowse. 2010. *Trade, growth and poverty: making Aid for Trade work for inclusive growth and poverty reduction*. www.odi.org.uk/resources/docs/5778.pdf

<p>2. Design features. By targeting policy reforms in the area of trade facilitation with national government agencies, the program does not offer scope for direct pro-poor design.</p>
<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <p>The proposed policy reforms are focused on (i) modernizing customs agencies, (ii) streamlining and making more transparent regulations and procedures, and (iii) improving services and information for traders and investors, including women entrepreneurs. The impact of the program on poverty and social factors will be indirect and materialize over the medium term. The following groups will be directly affected: (i) government agencies involved in trade; (ii) importers and exporters; (iii) local business groups; (iv) workers, including women workers, in export-oriented enterprises; (v) informal traders; and (vi) clearing and forwarding (C&F) agents. Some public officials may resist automation for fear of becoming redundant or because more transparency will reduce their discretionary power. Importers and exporters, including women entrepreneurs, are clear winners since the reforms will reduce their cost of doing business. Local businesses selling domestic goods may fear greater competition as a result of more imports. On the other hand, workers in export-oriented enterprises, many of whom are women, will benefit as exports increase thanks to reforms. The effects on informal traders will be mixed—smaller ones will not be affected, but larger ones will be forced to formalize trade to reduce business costs. C&F agents are likely to face lower demand, as their business model is partly dependent on cumbersome customs procedures. By producing losers and winners, even within affected groups, the proposed reforms are unlikely to face organized and targeted resistance.</p> <p>The program is expected to indirectly impact the first Millennium Development Goal on eradication of extreme poverty and hunger. In the medium term, the removal of non-tariff trade barriers will encourage greater formal trading in the subregion, spur economic growth, and create jobs, thereby contributing to the governments' poverty alleviation objectives. There are two major channels through which the program will benefit the poor. Implementing reforms on trade facilitation will reduce manufacturers' cost of doing business and in turn trigger greater investment and employment creation. Second, stronger trade will increase GDP and consequently strengthen national budgets and lead to higher spending in infrastructure, health, education, and housing, which will in particular benefit the poor, who are unable to procure such services privately. It is important to acknowledge that facilitating the transit of goods across borders has the potential to increase human trafficking and the spread of HIV/AIDS, adversely affecting vulnerable groups such as women, low castes, ultra-poor, and the handicapped.</p>
<p align="center">II. SOCIAL ANALYSIS AND STRATEGY</p>
<p>A. Findings of Social Analysis</p> <p>Key issues. The ethnic and social fabric of the subregion is diverse. Bangladesh and Bhutan have relatively homogeneous societies, with 98% of Bangladeshi being Muslim Bengali and 75% of Bhutanese being Lamaistic Buddhists. In contrast, Nepal comprises a vast diversity of ethno-linguistic groups. Poverty lines in the subregion run mostly along urban–rural divides. In Bangladesh, urban poverty stands at 21.3% and rural poverty at 35.2% (as of fiscal year 2010). In Nepal and Bhutan, the remote and mountainous areas tend to be much poorer. In Bhutan for example, 98% of the poor live in rural areas. In addition, households headed by women in the subregion, with the exception of Bhutan, are much more likely to be vulnerable and/or poor. Marginalized groups beyond women in Nepal include dalits (low castes), religious minorities, third genders, and the handicapped. Lack of regular employment is a major constraint in improving the well-being of these groups, along with inadequate public health and education services, notably in remote areas. Enhancing trade facilitation will indirectly contribute to employment creation, including in remote areas around the subregional land borders. At the same time, increased cross-border transit of persons and goods entails a heightened risk of human trafficking and the spread of HIV/AIDS. The vulnerable and marginalized groups in the subregion are disproportionally subject to these risks. The respective governments need to be aware and sensitized to these risks to ensure adequate risk mitigation and protection measures.</p>
<p>B. Consultation and Participation</p> <ol style="list-style-type: none"> Provide a summary of the consultation and participation (C&P) process during project preparation. What level of C&P is envisaged during the project implementation and monitoring? <input checked="" type="checkbox"/> Information sharing <input checked="" type="checkbox"/> Consultation <input type="checkbox"/> Collaborative decision making <input type="checkbox"/> Empowerment Was a C&P plan prepared for project implementation? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <p>Since there are no major safeguard issues expected during program implementation, no C&P plan was prepared.</p>

C. Gender and Development		Gender Mainstreaming Category: Some gender elements			
<p>1. Key issues. Women in the subregion are one of the vulnerable groups defined in the social analysis. By supporting trade facilitation, the program is expected to generate employment in the trade-oriented sectors in the medium term. Experience in Bangladesh suggests that jobs in the garment sector have disproportionately benefited women, boosting their household income, and strengthening their confidence and independence. There is, however, a risk that increased trade without effective risk management will benefit human traffickers and lead to the further spread of HIV/AIDS through increased cross-border flow of persons. Women are disproportionately exposed to these risks, notably in remote rural areas. The respective governments in the subregion will need to be sensitized to these issues to ensure the effective implementation of risk management systems. However, the involvement of women entrepreneurs' associations could help remove possible biases in policies and procedures against women entrepreneurs or traders. Their involvement could also strengthen capacity building to help ensure that training includes gender sensitization of customs and border officials and that relevant needs assessments and surveys will likewise include women traders or entrepreneurs.</p>					
<p>2. Key actions. Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:</p> <p><input type="checkbox"/> Gender action plan <input checked="" type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure</p> <p>The proposed program has direct and indirect gender elements. A direct action is indicated in the third output of the program, "Improved services and information for traders and investors, including women entrepreneurs".</p>					
III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS					
Issue	Significant/Limited/No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design		
Involuntary resettlement	No impact	Not required	<input checked="" type="checkbox"/> No action		
Indigenous peoples	No impact	Not required	<input checked="" type="checkbox"/> No action		
Labor <input checked="" type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	Limited impact	The program is expected to have an indirect positive effect on the creation of jobs. Redundancies due to automation are expected to be negligible.	<input checked="" type="checkbox"/> No action		
Affordability	No impact	Not required	<input checked="" type="checkbox"/> No action		
Other risks and/or vulnerabilities <input checked="" type="checkbox"/> HIV/AIDS <input checked="" type="checkbox"/> Human trafficking <input checked="" type="checkbox"/> Others (e.g., conflict, political instability)	By facilitating trade flows, there is a risk that HIV/AIDS and human trafficking may increase. In addition, Nepal is in a post-conflict situation.	The executing agencies will need to be sensitized to the potential effect of trade facilitation on human trafficking and the spread of HIV/AIDS. The impact of the post-conflict situation in Nepal is expected to be limited given the track record of past program and project implementation, including during the height of the conflict.	<input checked="" type="checkbox"/> Other action <input type="checkbox"/> No action		
IV. MONITORING AND EVALUATION					
Are social indicators included in the design and monitoring framework to facilitate monitoring of gender and social development activities and/or social impacts during project implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No					
One of the indicators is "Trade and market access information portals operational in Bangladesh, Bhutan, and Nepal, with links to sites of special interest to women entrepreneurs, by end 2015".					

Source: Asian Development Bank.