



# Report and Recommendation of the President to the Board of Directors

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Project Number: 45260  
November 2012

## Proposed Policy-Based Loans and Grants South Asia Subregional Economic Cooperation Trade Facilitation Program

Asian Development Bank

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
ASYCUDA	–	automated system for customs data
DOC	–	Department of Customs (Nepal)
DRC	–	Department of Revenue and Customs (Bhutan)
LPI	–	logistics performance index
NBR	–	National Board of Revenue (Bangladesh)
NSW	–	national single window
NTB	–	non-tariff barrier
PMU	–	program management unit
PFM	–	public financial management
PSC	–	program steering committee
RKC	–	Revised Kyoto Convention for the Simplification and Harmonization of Customs
SAFE	–	Framework of Standards to Secure and Facilitate Global Trade
SASEC	–	South Asia Subregional Economic Cooperation
SDR	–	special drawing right
TA	–	technical assistance
TFTWG	–	Trade Facilitation and Transport Working Group
WCO	–	World Customs Organization

## **NOTE**

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

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## PROGRAM AT A GLANCE

<b>1. Program Name:</b> South Asia Subregional Economic Cooperation Trade Facilitation Program				<b>2. Project Number:</b> 45260-001	
<b>3. Country:</b> Bangladesh, Bhutan, Nepal, Regional		<b>4. Department/Division:</b> South Asia Department/Public Management, Financial Sector, and Trade Division			
<b>5. Sector Classification:</b>					
		<b>Sectors</b>	<b>Primary</b>	<b>Subsectors</b>	
		Industry and trade	√	Industry and trade sector development	
<b>6. Thematic Classification:</b>					
		<b>Themes</b>	<b>Primary</b>	<b>Subthemes</b>	
		Economic growth		Promoting economic efficiency and enabling markets	
		Private sector development		Policy reforms	
		Regional cooperation and integration	√	Trade and investments	
				Cross-border infrastructure	
<b>6a. Climate Change Impact</b> No Climate Change Indicator available.			<b>6b. Gender Mainstreaming</b>		
			Gender equity theme (GEN)		
			Effective gender mainstreaming (EGM)		
			Some gender elements (SGE)		√
			No gender elements (NGE)		
<b>7. Targeting Classification:</b>			<b>8. Location Impact:</b>		
<b>General Intervention</b>	<b>Targeted Intervention</b>			National	High
	<b>Geographic Dimensions of Inclusive Growth</b>	<b>Millennium Development Goals</b>	<b>Income Poverty at Household Level</b>	Regional	High
√					
<b>9. Project Risk Categorization:</b> Complex					
<b>10. Safeguards Categorization:</b>					
		Environment	C		
		Involuntary resettlement	C		
		Indigenous peoples	C		
<b>11. ADB Financing:</b>					
	<b>Sovereign/Nonsovereign</b>	<b>Modality</b>	<b>Source</b>	<b>Amount (\$ Million)</b>	
	Sovereign	Program loan	Asian Development Fund	Bangladesh	21.00
				Bhutan	8.34
	Sovereign	Program grant	Asian Development Fund	Bhutan	3.33
				Nepal	15.00
	Total				47.67
<b>12. Cofinancing:</b> <div style="text-align: center;">No Cofinancing available.</div>					
<b>13. Counterpart Financing:</b> <div style="text-align: center;">No Counterpart Financing available.</div>					
<b>14. Aid Effectiveness:</b>					
	Parallel project implementation unit		No		
	Program-based approach		Yes		

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed policy-based loan to the People's Republic of Bangladesh, (ii) a proposed policy-based loan and grant to the Kingdom of Bhutan, and (iii) a proposed policy-based grant to Nepal for the SASEC<sup>1</sup> Trade Facilitation Program.<sup>2</sup>

2. The program supports ADB's South Asia Regional Cooperation Strategy, 2011–2015<sup>3</sup> and the goals of SASEC. Its intended impact is to increase trade, including intraregional trade, of SASEC countries by reducing or removing non-tariff barriers (NTBs), specifically institutional, administrative, and technical barriers to trade in Bangladesh, Bhutan, and Nepal. While India is not participating in the program because it is self-financing its trade facilitation reforms, it is part of the implementation through the SASEC Trade Facilitation and Transport Working Group (TFTWG).<sup>4</sup> The program's intended outcome is to support a more efficient, transparent, secure, and service-oriented processing of trade in the subregion. To achieve this, it will support activities under three thematic areas: (i) modern and effective customs administration and/or management; (ii) streamlined and transparent trade processes and procedures; and (iii) improved services and information for private sector traders and investors, including women entrepreneurs.

## II. THE PROGRAM

### A. Rationale

3. **Strong commitment to fostering subregional trade.** A high-level forum in Manila in 2010 set three SASEC priorities: trade facilitation, transport, and energy. Subsequently, SASEC TFTWG meetings were held in Bangkok in October 2011 and Kolkata in March 2012 to discuss priority initiatives, as follows: (i) subregional trade facilitation, (ii) cross-border road corridor and border infrastructure development, and (iii) technical assistance (TA) to support capacity building and institutional strengthening for transport and trade facilitation. The inclusion of trade facilitation reflects both ADB's South Asia Regional Cooperation Strategy and SASEC's recognition of both the problems and opportunities in this area, as discussed below.

4. **South Asia one of the world's least integrated regions.** Despite South Asia's impressive growth since the early 2000s, it remains one of the least integrated regions in the world. South Asia accounts for only 2% of world trade, and 1.7% of world foreign direct investment.<sup>5</sup> Intraregional trade is less than 6% of the region's total trade. In comparison, intraregional trade as a share of total trade for Latin America is 17%; Middle East and North Africa, 8%; and East Asia, 55%. South Asia's intraregional trade is lower than that of other regions even after factors such as geographic proximity, income levels, and population are taken into account.<sup>6</sup> At the same time, estimates of informal trade are high, perhaps as much as

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<sup>1</sup> SASEC stands for South Asia Subregional Economic Cooperation, covering Bangladesh, Bhutan, India, and Nepal.

<sup>2</sup> The program's design and monitoring framework is in Appendix 1.

<sup>3</sup> ADB. 2011. *South Asia: Regional Cooperation Strategy, 2011–2015*. Manila.

<sup>4</sup> Trade facilitation refers to the reduction of costs related to "transportation logistics and customs administration associated with cross-border trade" as well as "the environment in which trade transactions take place, which includes the transparency of trade policy and regulation, as well as product standards, infrastructure to support trade, and technology as it applies to lowering trade costs". See P. Sourdin and R. Pomfret, *Trade Facilitation: Defining, Measuring, Explaining, and Reducing the Cost of International Trade*, Edward Elgar: 2012, p.5.

<sup>5</sup> International Monetary Fund. 2010. *Direction of Trade Statistics*. Washington, DC.

<sup>6</sup> World Bank. 2007. *South Asia: Growth and Regional Integration*. Washington, DC. The World Bank's classification of East Asia includes the countries in the Association of Southeast Asian Nations (ASEAN), while ADB's

72% of formal trade.<sup>7</sup> Thus, there is enormous potential for greater subregional trade impacts in terms of economies of scale, increased competition, and technology spillovers, which in turn will lead to a bigger market and foster faster regional and global integration.<sup>8</sup>

5. **Higher costs of trade in South Asia.** South Asia fares poorly relative to other regions on transaction costs and processing time. It takes on average 32 days for exports to reach their destinations, which is the same average export time of Sub-Saharan Africa. Compared with East Asia and the Pacific, South Asia's export time is 31% longer, and administrative fees and storage and handling costs are 43% more expensive (Table 1).

**Table 1: Trade Indicators by Region**

Region	Documents to Export (number)	Time to Export (days)	Cost to Export (\$ per container)	Documents to Import (number)	Time to Import (days)	Cost to Import (\$ per container)
East Asia and Pacific	6.5	21.9	906	7.0	23.0	954
Eastern Europe and Central Asia	6.9	27.0	1,774	7.8	28.8	1,990
Latin America and Caribbean	6.4	17.8	1,257	6.9	19.6	1,546
Middle East and North Africa	6.3	19.7	1,057	7.6	23.6	1,238
OECD (high-income)	4.4	10.5	1,032	4.8	10.7	1,085
<b>South Asia</b>	<b>7.8</b>	<b>32.1</b>	<b>1,590</b>	<b>8.9</b>	<b>32.5</b>	<b>1,768</b>
Sub-Saharan Africa	7.7	31.5	1,960	8.5	37.1	2,502

OECD = Organisation for Economic Co-operation and Development.

Source: World Bank. 2012. *Doing Business*. Washington, DC.

6. **Subregional trading costs particularly high.** Within SASEC, the two landlocked countries of Bhutan and Nepal have especially high trading costs because of their distance from ports and low volume of containers. Moreover, the two countries also require a high number of documents for trading, i.e., close to twice the average of Organization of Economic Co-operation and Development countries (Table 2).

**Table 2: Trading Costs within Subregion**

Country	Ranking (trading across borders)	Documents to Exports (number)	Time to Export (days)	Cost to Export (\$ per container)	Documents to Import (number)	Time to Import (days)	Cost to Import (\$ per container)
Bangladesh	115	6	25	965	8	31	1,370
Bhutan	169	8	38	2,230	12	38	2,805
India	109	8	16	1,095	9	20	1,070
Nepal	162	9	41	1,960	9	35	2,095

Source: World Bank. 2012. *Doing Business*. Washington, DC.

7. **Poor logistics performance in South Asia.** Unsurprisingly, the World Bank's logistics performance index (LPI) shows that South Asia is the second least efficient region in the world,

classification only includes People's Republic of China; Hong Kong, China; Republic of Korea; Mongolia; and Taipei, China.

<sup>7</sup> Nisha Taneja. 2005. *Informal Trade in South Asia: How to channelize to a formal route?* Jaipur, India: CUTS Centre for International Trade, Economics & Environment.

<sup>8</sup> According to T. Mirza and T. Hertel, reforms could boost South Asia's regional trade by up to 75% and intraregional trade by 22%. See ADB–Australian Agency for International Development. 2009. *The Role of Trade Facilitation in South Asian Economic Integration. Study on Intraregional Trade and Investment in South Asia*. Manila.

on average 26% less efficient than East Asia.<sup>9</sup> Per overall LPI classification (footnote 9), Nepal is deemed “logistics unfriendly”, Bangladesh and Bhutan rate a “partial performance”, while India rates a “consistent performance”. With respect to customs clearance, Bangladesh, Bhutan, and Nepal are all “logistics unfriendly”, while India is rated as “partial performance” (Table 3).

**Table 3: Logistics Performance Index within Subregion**

Country	Overall Index	Customs Clearance	Infra-structure Quality	Priced Shipments	Logistic Competence	Tracking and Tracing	Timeliness
<b>Bangladesh</b>							
Index	2.74	2.33	2.49	2.99	2.44	2.64	3.46
Ranking	79	90	72	61	96	92	70
<b>Bhutan</b>							
Index	2.52	2.29	2.29	2.61	2.42	2.56	2.90
Ranking	107	109	117	102	111	101	111
<b>India</b>							
Index	3.08	2.77	2.87	2.98	3.14	3.09	3.58
Ranking	46	52	56	54	38	54	44
<b>Nepal</b>							
Index	2.04	2.20	1.87	1.86	2.12	1.95	2.21
Ranking	151	125	149	151	146	149	153

Note: Data for Bangladesh reflect 2010 values, whereas 2012 values were used for the other countries.

Source: World Bank logistics performance index website at <http://info.worldbank.org/etools/tradesurvey/mode1b.asp>.

8. **Nontariff barriers to trade.** The high costs of trade and the poor logistics performance in South Asia are due in part to infrastructure deficits. Poor infrastructure limits regional connectivity, especially for landlocked Bhutan and Nepal, and the northeast region of India. These obstacles are worsened by the lack of cross-border transit agreements, resulting in multiple border transshipments. In addition, land border crossings have inadequate facilities for warehousing, handling, scanning, and testing.<sup>10</sup> These are serious trade impediments, as almost all intraregional trade is by land.<sup>11</sup> ADB is seeking to bridge the infrastructure gaps through ongoing and upcoming transport projects.<sup>12</sup> Compounding the gaps are three sets of NTBs:

- (i) **Time-intensive processing and high degree of inspection.** Recent studies suggest that while infrastructure constraints are important, the “soft bottlenecks” of administrative and technical barriers are “the primary problem”.<sup>13</sup> The dominant approach in the subregion combines heavy and intensive physical and documentary controls. This increases operating costs and is highly inefficient.

<sup>9</sup> LPI measures how efficiently trade is being moved. It is based on a worldwide survey of operators (global freight forwarders and express carriers) providing feedback on the logistics “friendliness” of the countries in which they operate. The LPI has a maximum score of 5.0. Country scores are obtained by computing and averaging responses from a questionnaire filled by 1,000 logistics professionals. The World Bank suggests the following classification for logistics performance in the country: (i) if score < 2.35: logistics unfriendly; (ii) if 2.35 < score < 2.85: partial performance of logistics service providers; (iii) if 2.85 < score < 3.35: consistent performance of logistics service providers; and (iv) if score > 3.35: logistics friendly.

See LPI website at <http://info.worldbank.org/etools/tradesurvey/mode1b.asp>.

<sup>10</sup> The lack, or poor state, of testing facilities constitutes technical barriers to trade. This includes the lack of international accreditation of product certifications originating from Bangladesh, Bhutan, and Nepal.

<sup>11</sup> There are also constraints arising from security concerns. The porous nature of borders between Bangladesh and India and between Nepal and India are perceived to be conducive to insurgency, smuggling, and illegal migration, which foster the creation of NTBs, such as 100% physical examinations and compulsory transshipment.

<sup>12</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to Nepal for the Subregional Transport Enhancement Project*. Manila (Loan 2685-NEP). See also footnote 13.

<sup>13</sup> See Jean-François Arvis, Robin Carruthers, Graham Smith, and Christopher Willoughby. 2011. *Connecting Landlocked Developing Countries to Markets: Trade Corridors in the 21st Century*. Washington, DC. (p. 29).

- (ii) **Cumbersome paperwork and limited automation.** There is a high level of paperwork and time-consuming procedures at SASEC borders. Multiple copies of documents are required, and many approvals from several national and local government agencies, which necessitates the use of clearing and forwarding agents acting as “couriers”. Moreover, the customs management systems of SASEC countries (with partial exception of India) are generally not used as a processing tool but as a transaction database. Manual and automated systems operate in parallel, thus increasing rather than decreasing traders’ costs.
- (iii) **Lack of information and transparency in trade.** The high level of informal trade in the subregion suggests that there are strong incentives for traders to bypass rules and regulations. Such action is fostered by a lack of transparency and accountability, partly due to the private sector’s lack of access to information and channels for communication. This situation leads to governance risks, deters legitimate trade, and increases transaction costs.

9. **India’s leading role.** As the dominant actor in subregional trade, India has taken a leading role in SASEC through its chairing of the last two SASEC TFTWG meetings in Bangkok in October 2011 and in Kolkata in March 2012. In Nepal, India accounts for 58% of exports and 59% of imports. In Bhutan, India accounts for 93% of exports and 77% of imports. For Bangladesh, the challenge is increasing the volume of trade. India accounts for only 1.7% of Bangladesh’s exports and 11.3% of its imports.<sup>14</sup> In support of subregional trade, the Government of India, through its integrated check posts project, is upgrading 13 land ports along the border with Bangladesh, Myanmar, Nepal, and Pakistan, which is expected to increase cross-border movements of passengers and goods.

10. **Strategic and coordinated approach of the program.** Due to its limited resources, the program will be highly selective and strategic. A program modality is proposed in view of the policy reforms required to dismantle NTBs. Working closely with the World Customs Organization (WCO), the program is supporting the aspirations of SASEC to meet global standards and performance benchmarks.<sup>15</sup> Moreover, given the complexity of issues and, in the case of Nepal, multiplicity of donor initiatives, the program will be processed in coordination with other ADB divisions and other development partners. Notably, the program is being coordinated with the Transport and Communications Division (SATC), which is processing transport projects, and with the Regional Cooperation and Coordination Division (SARC), which is implementing TA projects for regional cooperation and trade facilitation. The Public Management, Financial Sector and Trade Division, SARC, and SATC conducted a joint trade facilitation and transport mission in March 2012. In September 2012, the WCO joined ADB in fact-finding missions to Bangladesh and Bhutan.

## **B. Impact and Outcome**

11. The impact of the program will be increased trade, including intraregional trade, of SASEC countries. The outcome will be more efficient, transparent, secure and service-oriented processing of cross-border trade of SASEC countries. The outputs will be (i) modern and effective customs administration and/or management; (ii) streamlined and transparent trade processes and procedures; and (iii) improved services and information for private sector traders and investors, including women entrepreneurs.

<sup>14</sup> ADB. 2007. *Technical Assistance for Preparing the South Asia Subregional Economic Cooperation Transport Logistics and Trade Facilitation Project (Financed by the Japan Special Fund)*. Manila (TA 6435-REG).

<sup>15</sup> ADB and the WCO signed a memorandum of understanding in May 2010 on cooperation and assistance.

## C. Outputs

12. **Output 1: Modern and effective customs administration and/or management.** To reduce time-intensive procedures and high levels of inspection, the program will assist the three SASEC countries in transforming their customs agencies to become more modern agencies. Specifically, it will assist Bhutan and Nepal to accede and comply with the Revised Kyoto Convention (RKC).<sup>16</sup> RKC standards are associated with faster release of goods, reduced trade costs, increased revenues, higher foreign direct investments, and economic competitiveness.<sup>17</sup> In Bhutan, the program will support the conduct of a gap analysis with respect to RKC accession and the implementation of reforms to close the gaps. In Nepal, the program will help support accession, which is part of the government's Customs Reform and Modernization Plan.

13. The program will also assist Bangladesh implement the WCO's Framework of Standards to Secure and Facilitate Global Trade (SAFE), which to date is unevenly applied in the subregion.<sup>18</sup> As appropriate, the program will also support Bhutan and Nepal with SAFE Framework implementation. SAFE measures help boost the security of the international supply chain and foster and protect legitimate trade. By supporting RKC accession and SAFE adoption, the program seeks to create a convergence of capacities for stronger SASEC trade.

14. **Output 2: Streamlined and transparent trade processes and procedures.** To reduce the excessive paperwork and increase automation, the program will assist SASEC countries in updating their customs management systems and establishing a national single window (NSW).<sup>19</sup> The leading automated system for managing customs data is ASYCUDA World developed by the United Nations Conference on Trade and Development.<sup>20</sup> The adoption of ASYCUDA World or ASYCUDA-compatible systems—combined with NSW—will result in lower costs and fewer delays due to efficient transactions, greater harmonization of forms, and electronic exchange of information between customs administrations.

15. All three participating countries have invested in automated customs management systems. Bangladesh is in the process of upgrading to ASYCUDA World. Bhutan's system is expected to be replaced by the customs component of a revenue administration management information system.<sup>21</sup> Nepal has secured financing from ADB to upgrade to ASYCUDA World but has since requested program assistance to review the suitability of upgrading versus developing a bespoke system.<sup>22</sup> In addition, through the program, ADB will support Nepal in the implementation of its e-customs master plan. All SASEC countries have expressed interest in NSW implementation.<sup>23</sup> As a group, SASEC could consider the path taken by the Association of

<sup>16</sup> In September 2012, Bangladesh acceded to the RKC, thus complying with a key policy action for the disbursement of its 1st tranche under the program. The RKC, or the International Convention on the Simplification and Harmonization of Customs Procedures, came into force in 1999 and represents the most widely accepted blueprint for modern customs operations. Upon accession, it mandates that countries meet RKC standards within 3–5 years.

<sup>17</sup> WCO. 2010. Benefits of the Revised Kyoto Convention. *WCO Research Paper No. 6*. Brussels.

<sup>18</sup> See WCO website at <http://www.wcoomd.org/MemberMap/WorldMap.asp>.

<sup>19</sup> A national single window is “a facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit related-related regulatory requirements.” See WCO at <http://www.wcoomd.org/files.1.%20Public%20files/PDFandDocuments/Procedures%20and%20Facilitation/Single%20Window%20Concept.pdf>.

<sup>20</sup> ASYCUDA, short for automated system for customs data, is a computerized customs management system that handles manifests and customs declarations, accounting procedures, and transit procedures. It generates trade data and provides for electronic data interchange between traders and customs. See [www.asycuda.org](http://www.asycuda.org).

<sup>21</sup> ADB. 2011. *Technical Assistance to the Kingdom of Bhutan for Development of Revenue Administration Management Information System*. Manila (TA 7881–BHU); and ADB. 2010. *Technical Assistance to the Kingdom of Bhutan for Strengthening Public Management*. Manila (TA 7724–BHU).

<sup>22</sup> India's bespoke customs electronic data interchange system (or ICEGATE) is compatible with ASYCUDA World.

<sup>23</sup> India's ICEGATE has single-window functions, including e-filing, e-payments, real-time tracking, and query status.

Southeast Asian Nations (ASEAN), which seeks to integrate their NSWs into a regional single window.<sup>24</sup> Such a goal could be part of a follow-on ADB SASEC program.

16. **Output 3: Improved services and information for private sector traders and investors, including women entrepreneurs.** The program will assist the three SASEC countries in implementing reforms to provide better services and information to importers and exporters. For traders, besides lacking information on regulations,<sup>25</sup> the biggest difficulties are assessing potential markets and accessing finance.<sup>26</sup> The program will thus support the creation of a trade portal in Bangladesh and will help establish national trade facilitation committees that can help pinpoint NTBs, develop feasible alternatives, and assist in their implementation.<sup>27</sup>

#### D. Development Financing Needs

17. The total adjustment cost of the program is estimated at \$75 million (Table 4).

**Table 4: Program Adjustment Costs**  
(\$ million)

Item	Amount
<b>Bangladesh</b>	
Output 1: Modern and effective customs administration and/or management	10.00
Output 2: Streamlined and transparent trade processes and procedures	15.00
Output 3: Improved services and information for private sector traders and investors	7.00
<b>Subtotal</b>	<b>32.00</b>
<b>Bhutan</b>	
Output 1: Modern and effective customs administration and/or management	6.00
Output 2: Streamlined and transparent trade processes and procedures	9.00
Output 3: Improved services and information for private sector traders and investors	3.00
<b>Subtotal</b>	<b>18.00</b>
<b>Nepal</b>	
Output 1: Modern and effective customs administration and/or management	7.00
Output 2: Streamlined and transparent trade processes and procedures	13.00
Output 3: Improved services and information for private sector traders and investors	5.00
<b>Subtotal</b>	<b>25.00</b>
<b>Total</b>	<b>75.00</b>

Sources: Asian Development Bank, Government of Bangladesh, Government of Bhutan, and Government of Nepal estimates.

18. The adjustment costs above reflect joint estimates of ADB and the three governments of Bangladesh, Bhutan and Nepal during country programming missions and other consultation missions about the program's financing requirements.<sup>28</sup> The Government of Bangladesh has requested a loan in various currencies equivalent to SDR13,579,000. The loan will have a 24-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in

<sup>24</sup> See Protocol to Establish and Implement the ASEAN Single Window, at <http://www.aseansec.org/23084.pdf>. See also ASEAN trade single window expected in place by 2015, *Businessworld*, 20 May 2012.

<sup>25</sup> None of the subregional customs websites, aside from India, provide detailed guidance for traders and investors on import and export processes and procedures.

<sup>26</sup> World Economic Forum. 2012. *Global Enabling Trade Report 2012: Reducing Supply Chain Barriers*. Geneva. See <http://reports.weforum.org/global-enabling-trade-report-2012>.

<sup>27</sup> The involvement of women entrepreneurs' associations in these committees could (i) help remove possible biases in policies and procedures against women traders, and (ii) strengthen capacity building to help ensure that training includes gender sensitization of officials and that needs assessments will include women traders.

<sup>28</sup> For Bangladesh, the estimated adjustment costs are based in part on National Board of Revenue. 2011. *Outline of Modernization Plan (2011–2016)*. Dhaka. For Nepal, the estimated adjustment costs reflect in part the estimates of Government of Nepal. 2011. *Customs Reform and Modernization Action Plan (2009–2013)*. Kathmandu.

the draft loan agreement. The Government of Bhutan has requested a loan in various currencies equivalent to SDR5,412,000 and a grant not exceeding \$3,330,000. The loan will have a 24-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan and grant agreements. The Government of Nepal has requested a grant not exceeding \$15,000,000. All loans and grants will be from ADB's Asian Development Fund resources. The respective governments will shoulder the balance of the costs for their countries. The proceeds of the loans and grants will be disbursed in accordance with ADB's Simplification of Disbursement Procedures and Related Requirements for Program Loans.<sup>29</sup> There will be two tranches per country—the first upon loan and grant effectiveness, the second 18 months later upon verified compliance of second-tranche actions. Each country's disbursements are linked to specific policy actions, and are not cross-conditional to the policy actions of other countries.

## E. Implementation Arrangements

19. The executing agencies of the program will be the National Board of Revenue (NBR) in Bangladesh, the Ministry of Finance (MOF) in Bhutan, and the Department of Customs (DOC) in Nepal. In Bangladesh, the implementing agencies will be the NBR, the Ministry of Commerce, and the Ministry of Shipping. In Bhutan, the implementing agency will be the Department of Revenue and Customs. In Nepal, the implementing agencies will be DOC and the Ministry of Commerce and Supplies. To manage the implementation of the program in each country, a program steering committee (PSC) and a program management unit (PMU) will be established. Biennial meetings of the SASEC TFTWG will ensure intercountry coordination.

**Table 5: Implementation Arrangements**

Aspects	Arrangements
Implementation period	January 2013–December 2015
Estimated completion date	31 December 2015
Management	
(i) Oversight body	SASEC Trade Facilitation and Transport Working Group will provide overall guidance, with support from program steering committee in each country.
(ii) Executing agency	Bangladesh: National Board of Revenue Bhutan: Ministry of Finance Nepal: Department of Customs
(iii) Key implementing agencies	Bangladesh: National Board of Revenue, Ministry of Commerce, Ministry of Shipping Bhutan: Department of Revenue and Customs Nepal: Department of Customs and Ministry of Commerce and Supplies
Disbursement	The total of \$47.67 million in Asian Development Fund loans and grants is divided as follows: Bangladesh \$21 million (loan), Bhutan \$11.67 million (\$8.34 million loan, \$3.33 million grant), and Nepal \$15 million (grant). Disbursement for each country will be in two tranches. Tranche 1 (\$11 million Bangladesh, \$3.16 million loan and \$3.33 million grant Bhutan, and \$8 million Nepal) will be disbursed upon loan and grant effectiveness. Tranche 2 (\$10 million Bangladesh, \$5.18 million loan Bhutan, and \$7 million Nepal) will be disbursed once all conditions for second-tranche release have been met.

SASEC = South Asia Subregional Economic Cooperation.

Source: Asian Development Bank.

20. **Program steering committee.** To provide guidance on policy directions, a high-level PSC will be formed in each country and chaired by the head of the respective executing agency. The PSC membership will include senior representatives from the implementing agencies, as well as from other trade-related agencies and private sector associations. The PSC will meet at

<sup>29</sup> ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

least twice a year and on an ad hoc basis as needed to review the progress of program implementation and recommend adjustments as needed. ADB will be an observer in the PSC.

21. **Program management unit.** Each executing agency will set up a PMU to implement the policy actions and other program activities in coordination with implementing agencies and stakeholders. Each PMU will be headed by a program coordinator who is a senior official of the executing agency. Each implementing agency will designate a focal point person to be part of the PMU. The PMUs will submit quarterly reports to the PSC and their work plans may be revised as needed to improve effectiveness.

22. The program's implementation period will be 3 years, from January 2013 to December 2015. Overall program coordination will be conducted through the SASEC TFTWG.

### III. TECHNICAL ASSISTANCE

23. Although the program does not have a linked TA, it will be supported by two TAs recently approved under the Australia–ADB South Asia Development Partnership Facility.<sup>30</sup>

### IV. DUE DILIGENCE

#### A. Technical

24. The program has two highly technical components: (i) the automation of customs management systems and (ii) the establishment of NSWs (footnote 19). The mission based its analysis and program recommendations on key studies. In Bangladesh, the mission drew on the government's assessment of the requirements for upgrading to ASYCUDA World. In Bhutan, an ADB TA conducted an as-is analysis of the existing system, followed by a to-be analysis for a new system (footnote 21). In Nepal, the mission drew on a previous assessment of AYSCUDA++ under a separate project (footnote 12).

#### B. Economic and Financial

25. The program's economic and financial benefits to governments, businesses, and consumers are (i) less time spent by traders on submitting documents as a result of online lodgment of declarations; (ii) less processing time spent by custom officers on each declaration, as greater automation increases productivity and savings in hiring additional personnel; (iii) shorter transit time of vehicles due to faster clearing by border authorities, which translates into savings in transport costs that can be passed on to consumers; (iv) more revenue could be collected through more effective targeting of undervalued and undeclared shipments through the use of risk assessment systems; and (v) cheaper and better-quality goods, as standards are met and distribution costs are reduced thanks to more efficient processing. Nonquantifiable benefits relate to the increase in trade generated by the reduction or removal of NTBs. As the

<sup>30</sup> ADB. 2006. *Establishing the Australia-ADB South Asia Development Partnership Facility*. Manila. The first TA is the SASEC Transport and Trade Facilitation Capacity Building and Institutional Strengthening. With a budget of \$1,175,000, the TA will support program implementation in key areas, e.g., gap analyses for accession to the RKC and adoption of SAFE Framework; regulatory impact analyses; and assessments for NSWs. The second TA is *Assessing Gender Dimensions in Regional Cooperation and Integration in South Asia*. With a budget of \$500,000, it will conduct policy-oriented research on increasing women's participation in intraregional trade, promote safe labor migration, and mitigate risks of cross-border movements of goods and people. Other TA will be developed in 2013 to further assist program implementation, e.g., study visits to the Greater Mekong Subregion and Central Asia Regional Economic Cooperation programs. For Nepal, additional TA support could include drafting a business plan for the Customs Reform and Modernization Action Plan (2013–2017) and devising an e-desk of client services.

trading environment becomes more efficient and transparent, the incentives for illicit trade will weaken, while the use of legitimate channels will increase and thus generate further revenue.<sup>31</sup>

### **C. Governance**

26. The mission drew on risk assessments of the three countries conducted in line with ADB's Second Governance and Anticorruption Action Plan.<sup>32</sup> Risks related to public financial management (PFM), corruption, and procurement are described in each country's risk assessment.<sup>33</sup> Among the common risks are high opportunities for corruption due to numerous face-to-face transactions of border agencies with traders. This is compounded by the agencies' highly manual procedures in their internal operations and frontline transactions, which are characterized by limited internal controls. To highlight the need to address the issues, the mission discussed with counterparts ADB's Anticorruption Policy (1998, as amended to date).

### **D. Poverty and Social**

27. The impact of the program on poverty and social factors will be indirect and gradual. The following groups will be affected: (i) government agencies involved in trade; (ii) importers and exporters, including women entrepreneurs; (iii) local businesses; (iv) workers, including women workers, in export-oriented enterprises; (v) informal traders; and (vi) clearing and forwarding agents. Some officials may resist automation and process reengineering for fear of becoming redundant or because more transparency will reduce their discretionary power. Importers and exporters, including women entrepreneurs, are 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. Workers in export-oriented enterprises will experience a boon as exports are expected to increase due to reforms. Effects on informal traders will be mixed—smaller ones will not be affected, larger ones will be forced to formalize trade to reduce costs. Clearing and forwarding agents are likely to face less demand as their business model relies on cumbersome procedures. In sum, over the medium term, the removal of NTBs will spur economic growth, reduce poverty, and create jobs with better labor safeguards.

### **E. Safeguards**

28. The program's reforms do not involve physical construction, and an adverse impact on the environment, involuntary resettlement, or indigenous peoples is unlikely. The program is thus classified as category C in all three of ADB's safeguard areas.

### **F. Risks and Mitigating Measures**

29. The program's support for key trade facilitation reforms have risk mitigating dimensions. The enhancement of customs management systems will help strengthen internal controls. The establishment of NSW will compel reduction of paperwork and simplify procedures, and hence will reduce corruption opportunities. The activation of trade facilitation committees will strengthen private sector participation and introduce more transparency in trade processes. Furthermore, in Bangladesh, ADB is providing a TA to improve procurement, accounting and auditing<sup>34</sup> as well as supporting the Strengthening Good Governance Program, which recently

<sup>31</sup> Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

<sup>32</sup> ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

<sup>33</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 3).

<sup>34</sup> ADB. 2011. *Technical Assistance to the People's Republic of Bangladesh for the Capacity Building of the Anti-Corruption Commission*. Manila (TA 8028-BAN).

approved a National Integrity Strategy.<sup>35</sup> In Bhutan, ADB is supporting TAs to strengthen the Anti-Corruption Commission and the Royal Audit Authority.<sup>36</sup> In Nepal, ADB is financing a program to strengthen PFM systems of local governments.<sup>37</sup> Other risk mitigating measures are outlined in the risk assessment and risk management plan (footnote 33).

## V. ASSURANCES

30. The respective governments and finance ministries of the three countries have assured ADB that the implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption, safeguards, gender, procurement, consulting services, and disbursement, as described in the and loan and grant documents.

## VI. RECOMMENDATION

31. I am satisfied that the proposed policy-based loans and grants would comply with the Articles of Agreement of ADB and recommend that the Board approve

- (i) the loan in various currencies equivalent to SDR13,579,000 to the People's Republic of Bangladesh for the SASEC Trade Facilitation Program, from ADB's Special Funds resources, with an interest charge at the rate of 1.0 % per annum during the grace period and 1.5% per annum 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;
- (ii) the loan in various currencies equivalent to SDR5,412,000 to the Kingdom of Bhutan for the SASEC Trade Facilitation Program, from ADB's Special Funds resources, with an interest charge at the rate of 1.0 % per annum during the grace period and 1.5% per annum 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 financing agreement presented to the Board;
- (iii) the grant not exceeding \$3,330,000 to the Kingdom of Bhutan, from ADB's Special Funds resources, for the SASEC Trade Facilitation Program, on terms and conditions that are substantially in accordance with those set forth in the draft financing agreement presented to the Board; and
- (iv) the grant not exceeding \$15,000,000 to Nepal, from ADB's Special Funds resources, for the SASEC Trade Facilitation Program, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Haruhiko Kuroda  
President

7 November 2012

<sup>35</sup> ADB. *Report and Recommendation of the President to the Board of Directors on Proposed Program Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the Good Governance Program*. Manila (Loan 2362-BAN and TA 4983-BAN).

<sup>36</sup> ADB. 2011. *Technical Assistance to the Kingdom of Bhutan for Strengthening the Anti-Corruption Commission of Bhutan*. Manila (TA 6337-REG, subproject 22); and ADB. 2011. *Technical Assistance to the Kingdom of Bhutan for Strengthening Audit Resource Management*. Manila (TA 7723-BHU).

<sup>37</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant, Administration of Grant, and Technical Assistance Grant to Nepal for the Strengthening Public Management Program*. Manila.

### DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<b>Impact</b>  Increased trade, including intraregional trade, of SASEC countries	Intraregional trade increases to 7.5% by 2018 (2011 baseline: 6%)  Customs revenues in the subregion increase by at least 10% by 2018 (baseline: TBD)	ADB's Asian Development Outlook  MOF reports	<b>Assumption</b>  Regional economic stability and growth can be maintained  <b>Risk</b>  Political instability and exogenous economic shocks
<b>Outcome</b>  More efficient, transparent, secure and service-oriented processing of cross-border trade of SASEC countries	Border transits in Bangladesh, Bhutan and Nepal for freight traffic improve by 15% by 2015 (baseline: results of 2013 time release study)  Minimum of 20% of shipments "green channeled" or not physically inspected by 2018 in Bangladesh, Bhutan, and Nepal (baseline: 100% inspection)	Results of time release study  Customs reports	<b>Assumption</b>  Support from border agencies including providing data from operational reports  <b>Risk</b>  Lack of capacity among border agencies to implement trade facilitation reforms
<b>Outputs</b>  1. Modern and effective customs administration and/or management  2. Streamlined and transparent trade processes and procedures	Accession of Bangladesh, Bhutan, and Nepal to the Revised Kyoto Convention by 2015 (baseline: zero)  Web-based customs management system launched in Bhutan, Bangladesh, and Nepal by 2015 (baseline: none)  Combined 8 to 10 documents for exports and imports in Bangladesh by 2015 (2012 baseline: Total 14 documents for export and import)	WCO reports  Customs reports  World Bank's Doing Business surveys	<b>Assumption</b>  Key enabling legislation adopted  <b>Risks</b> Unusually high staff turnover in executing and/or implementing agencies  Lack of infrastructure such as electricity and internet services that are essential for automation and online processing of documents

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
3. Improved services and information for private sector traders and investors, including women entrepreneurs	Combined 10 to 12 documents required for exports and imports in Bhutan and Nepal by 2015 (2012 baseline: total of 19 documents for export and import)	World Bank's Doing Business surveys	
	Pilot national single windows established in Bangladesh, Bhutan and Nepal by 2015 (baseline: none)	Customs reports	
	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 (baseline: none)	Reports of national Chambers of Commerce and Industries	
Activities with Milestones			Inputs
<b>A. General Program Preparation and Management</b> 1. Program steering committees established and inception meetings held (Q1 2013) 2. Program management units established and inception meetings held (Q1 2013) 3. Key consultants recruited (Q2 2013)  <b>B. Program Outputs</b> <b>1. Modern and effective customs administration and/or management</b> 1.1 Gap analysis of Bangladesh's legal and regulatory environment relative to the RKC (Q3 2013) 1.2 Submission by Bhutan to the World Customs Organization of its accession instrument to the RKC (Q2 2014) 1.3 Submission by Nepal's Ministry of Finance to Cabinet of draft instrument of accession to the RKC (Q3 2013) 1.4 Submission by Government of Bhutan to Parliament of draft laws and amendments to comply with RKC requirements (Q2 2014) 1.5 Gap analysis of Bangladesh's governance and operating environment relative to SAFE (Q4 2013) 1.6 Issuance of Bangladesh's updated standard operating procedures on risk management, post clearance audit, assessment, physical inspection, and non-intrusive inspection that are compliant with SAFE (Q2 2014) 1.7 WCO time release study covering Chittagong port and Benapole land port operations to serve as benchmarks for a performance monitoring system (Q2 2014)			ADB: \$47.67 million  Bangladesh loan \$21.00 million Bhutan loan \$ 8.34 million Bhutan grant \$ 3.33 million Nepal grant \$15.00 million

Activities with Milestones	
<p><b>2. Simplified and transparent trade processes and procedures</b></p> <p>2.1 Development and pilot launching in Bangladesh of ASYCUDA World with a pilot NSW program involving National Board of Revenue and at least two other government bodies (Q3 2014)</p> <p>2.2 Launching in Bhutan of pilot automation of the application and approval processes of trade-related transactions of border agencies under its revenue administration management information system (Q2 2014)</p> <p>2.3 Issuance by Nepal cabinet of directive to establish an NSW (Q1 2013)</p> <p>2.4 In each of the three countries, conduct of regulatory impact assessment of residual non-tariff barriers (technical, administrative, and institutional) to trade and investment that provides recommendations for further legal and regulatory reforms (Q3 2014)</p> <p><b>3. Improved services and information for private sector traders and investors, including women entrepreneurs</b></p> <p>3.1 Needs assessment of traders and other stakeholders, including formal complaints of exporters and importers (Q3 2013)</p> <p>3.2 Survey of frontline service experiences in select border posts (Q3 2013)</p> <p>3.3 Development and pilot launching of trade portal in Bangladesh with online access for the processing and issuance of import/export registration certificates, linked to the NSW program (Q3 2014)</p> <p>3.4 Development and implementation of pilot client service centers in select border posts (Q2 2014)</p>	

ADB = Asian Development Bank, ASYCUDA = automated system for customs data, NSW = national single window, RKC = Revised Kyoto Convention for the Simplification and Harmonization of Customs, SAFE = Framework of Standards to Secure and Facilitate Global Trade, SASEC = South Asia Subregional Economic Cooperation, TBD = to be determined.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=45260-001-3>

1. Loan Agreement: Bangladesh
2. Loan Agreement: Bhutan
3. Grant Agreement: Nepal
4. Sector Assessment (Summary): Industry and Trade
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. International Monetary Fund Assessment Letter
10. Summary Poverty Reduction and Social Strategy
11. Risk Assessment and Risk Management Plan
12. List of Ineligible Items

## DEVELOPMENT POLICY LETTERS

### A. Bangladesh

#### DEVELOPMENT POLICY LETTER AND POLICY MATRIX



Ministry of Finance

Abul Maal A Muhith  
Minister  
Ministry of Finance  
Government of the People's Republic of Bangladesh

18 October 2012

Mr. Haruhiko Kuroda  
President  
Asian Development Bank  
Manila, Philippines

Subject: Development Policy Letter in connection with the proposed  
'SASEC Trade Facilitation Program'

Dear Mr. Kuroda,

1. The Government of Bangladesh is committed to improve the environment for trade and customs to support its commitment for export-led growth and employment in Bangladesh. Despite increased globalization with the rest of the world, especially a large market in the USA and EU for ready-made garments and textiles sectors, intraregional trade in South Asia remains low for Bangladesh. Three major reasons for low trade with neighboring countries include (i) inability to market local products to neighboring countries, (ii) high costs associated with transportation and regulations pertaining to the movement of land-based cargo, and (iii) high time costs and uncertainty associated with customs clearances. Currently, the majority of Bangladesh's trade among the countries in the South Asia Subregional Economic Cooperation (SASEC) constitute of imports from India. Bangladesh's export share to SASEC countries is 3% and import share is 14% (with most of these imports comprising raw materials and intermediate inputs for textiles from India). Despite geographical proximity, Bangladesh's trade with Bhutan and Nepal remains small.

2. Despite efforts to modernize customs and improve trade, there are still significant trade barriers for Bangladesh. According to the World Bank's Doing Business Report (2012) Bangladesh takes 25 days to complete all paperwork and procedures related to exports, and 31 days to complete that for imports. Approximately 80% of the time is spent on completing the requirements pertaining to trade document preparations and customs clearances. Some key non-tariff barriers to trade include lack of streamlined processes, requirements for multiple authorizations, poor border management processes, lack of transparent and automated customs clearance, lack of 'single-stop' solutions, post-clearance audit, and risk management systems, and limited access to information for traders. To overcome these barriers the Government of Bangladesh is keen to initiate the necessary steps that will create a more enabling environment for trade.

3. We are pleased with the Asian Development Bank's (ADB's) support through the proposed SASEC Trade Facilitation Program which is critical for customs modernization and increased trade facilitation in Bangladesh. The Government agrees to undertake the accompanying ~~the~~ policy matrix under the proposed program as included in Attachment 1 (to be finalized during the loan negotiations). As the policy matrix indicates, the Government's priorities to strengthen trade practices in Bangladesh will be centered on creating: (i) modern and effective customs administration; (ii) streamlined and transparent regulations and procedures; and (iii) improved services and responsiveness to the private sector.

4. Showing its high commitment for conforming to international best practices in customs reforms, the Government of Bangladesh has recently submitted to the World Customs Organization (WCO) its instrument for accession to the Revised Kyoto Convention (RKC) in September 2012. This accession represents a significant step forward for trade facilitation reforms in Bangladesh as it commits the government to reform its legal and regulatory environment as well as institutional procedures and practices to meet international standards. Further to the accession, the Government is keen on the implementation of required activities including compliance with the General Annex of the RKC. To this end, the Government will support an initial gap analysis to identify gaps in Customs laws and regulations, and based on the findings will submit proposed amendments to the Customs Act to the Parliament.

5. Bangladesh has already informed the WCO that it intends to adopt the Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework) of the World Customs Organization. The National Board of Revenue (NBR) will conduct a gap analysis to identify the divergence between the standards and procedures outlined in the SAFE Framework and the current institutional, policy, regulatory and operational environment of Bangladesh. This analysis will include findings and recommendations to implement key areas of the SAFE Framework, including an Authorized Economic Operators (AEO) program, Risk Management measures, and audit and inspection mechanisms. Through support of the Program NBR will introduce a pilot AEO at selected high-priority SASEC border check posts, and a pilot risk management system that will include post-clearance audit, single-stop mechanisms. It is anticipated that the introduction of modern risk management systems will increase efficiency without compromising on security, provide incentives for compliance, improve overall accountability, and raise revenue collections at the BCP.

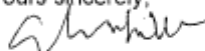
6. The Government of Bangladesh is further committed to the development of a National Single Window (NSW) which will be a significant step towards easing trade costs and reducing trade paperwork processing time. Presently, multiple ministries and public and private agencies are engaged in the trade process which increases inefficiencies. With the support of the Program, the Government is keen to develop a scalable, first-phase NSW that will be led by the NBR and include participation of the Ministry of Commerce (MOC) and a few other key agencies. As part of its upgrade to the ASYCUDA World customs management system, the Government will develop an electronic National Single Window that will create the provision for online filling and clearing of trade forms submitted by traders. The NSW will include a key monitoring system to ensure that the NSW facilitates reducing time to process documents, minimizes uncertainty and increases transparency. Further, for improved access to trade-related information and services, the MOC will establish a Trade Portal with online access for the processing and issuance of Import/Export Registration Certificates.

7. The executing agency (EA) for the Program will be the National Board of Revenue (NBR) and the implementing agencies (IAs) will include MOC and Ministry of Shipping and Port. As part of the reforms, NBR will form a Program Coordination Unit (PCU) that will be headed by the Department of Customs. Each Implementing Agency (IA) will formally designate a focal person to coordinate with the PCU responsible for implementing the policy actions and other activities of the program. The cost for undertaking the policy actions will be borne by the relevant agencies who will apply for appropriate financing requirements to the MOF to meet each of the policy conditions. The PCU will provide detailed cost estimates including requirements for consultancy services, procurements of equipments and goods, and relevant training and staff support budget as required. The Government will also form a Program Steering Committee (PSC) to be chaired by the Chairman of NBR. The PSC will include members from the IAs at senior levels as well as from other organizations and stakeholders, such as Bangladesh Bank (BB), BSTI, Land Port Authority, representatives of FBCCI and Cargo Handling Association.

Given that the envisioned trade reforms will require coordination across multiple ministries and agencies, the Government will closely monitor the progress in implementation and extend coordination support from the Ministry of Finance. This will include engagement of senior government officials to ensure greater ownership and successful implementation of program activities. The Government is fully committed to the proposed trade facilitation and customs modernization reforms, and is determined to implement the actions as outlined in the Policy Matrix. We will maintain an active policy dialogue with ADB, SASEC countries, and with relevant internal ministries to ensure the implementation of the agreed policy actions and progress of the reforms.

9. In conclusion, we are convinced that trade facilitation reforms will strengthen the internal capacities of customs and other trade-related agencies, as well as create a more low-cost, efficient environment for private businesses to participate in international trade. We feel the Program is the beginning of a long-term engagement of reforms with the ultimate long-term objective of creating a seamless integrated market in goods, services and investment in the SASEC subregion and beyond. The Government considers trade facilitation to be an important part of greater regional integration that will expand trade opportunities for Bangladesh, accelerate economic growth, and meet targets for employment generation and poverty alleviation.

Yours sincerely,



Finance Minister  
Abul Maal A. Muhith

### BANGLADESH POLICY MATRIX

	Policy Actions and First Tranche Conditions	Policy Actions and Second Tranche Conditions (18 months after 1 <sup>st</sup> tranche release)
1. Modern and effective customs administration/management	<p>1. The Government will have submitted to the World Customs Organization (WCO) Bangladesh's instrument of accession to the International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention).</p> <p>[Document required: Official copy of Bangladesh's instrument of accession submitted to the WCO]</p>	<p>1. The Government will have submitted to its Parliament proposed amendments to the Customs Act, 1969 (Customs Act) to make it fully compliant with the General Annex (the General Annex) of the Revised Kyoto Convention.</p> <p>[Document required: Certified copy of the government's submission to parliament of the proposed amendments to the Customs Act]</p>
2. Streamlined and transparent trade processes and procedures	<p>2. The National Board of Revenue (NBR) will have finalized an action plan (Action Plan) with respect to Bangladesh's compliance with the Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework) of the WCO, which will include (a) a gap analysis to identify the steps required to ensure compliance with SAFE Framework; (b) recommendations on the priority areas for reforms; and (c) a time-bound implementation plan to effect the priority reforms.</p> <p>[Document required: Certified copy of NBR's Action Plan]</p>	<p>2. NBR will have completed a Regulatory Impact Assessment (RIA) of proposed amendments to the Customs Act and related legislation to make them fully compliant with the General Annex.</p> <p>[Document required: Certified copy of NBR's RIA.]</p> <p>3. Based on the findings and recommendations of the Action Plan, NBR will have issued a directive to establish an Authorized Economic Operators (AEO) program.</p> <p>[Document required: Certified copy of NBR's order establishing the AEO program]</p> <p>4. Based on the findings and recommendations of the Action Plan, NBR will have issued updated Standard Operating Procedures (SOP) on Risk Management, Post Clearance Audit, Assessment, Physical Inspection, and Non-Intrusive Inspection that are compliant with the SAFE Framework.</p> <p>[Document required: Certified copy of Standard Operating Procedures]</p>

<p><b>3. Improved services and information for private sector traders and investors, including women entrepreneurs</b></p>	<p><b>3. NBR will have finalized an As-Is and To-Be Analyses for the development of an electronic National Single Window as part of its customs management systems upgrade to ASYCUDA World.</b></p> <p>[Document required: NBR certified copy of As-Is and To-Be Analyses for the National Single Window]</p>	<p><b>5. NBR will have completed a WCO Time Release Study (TRS) covering Chittagong Port and Benapole Land Port operations to serve as benchmarks for a performance monitoring system.</b></p> <p>[Documents required: Certified copy of TRS report]</p> <p><b>6. NBR will have launched its operations of ASYCUDA World with a pilot national single window program which will include NBR and, at a minimum, the Ministry of Shipping.</b></p> <p>[Document required: Certified copy of NBR's administrative order for the establishment of ASYCUDA World and the pilot national single window program.]</p> <p><b>7. The Ministry of Commerce will have established a Trade Portal with online access for the processing and issuance of Import/Export Registration Certificates that is linked to the National Single Window program.</b></p> <p>[Documents required: Certified copies of auto-generated import and export registration certificates]</p>
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**B. Bhutan**

དངུལ་རྩིས་ལྷན་ཁག།  
**Royal Government of Bhutan**  
**Ministry of Finance**  
**Thimphu**



DPA/DMD/ADB-3P/2012/1014

October 31, 2012

Mr. Haruhiko Kuroda  
 President  
 Asian Development Bank  
 Manila, Philippines.

Dear Mr. President,

We would like to mention that after the transition to a parliamentary democracy in 2008, the current government (Royal Government of Bhutan (RGoB)) was sworn into office with a strong commitment to sustainable and equitable socio-economic reforms, environmental conservation and preservation and promotion of good governance in line with our development philosophy of Gross National Happiness (GNH). Implementing comprehensive reforms to enhance trade is part of the RGoB's commitment to foster inclusive economic growth and provide more opportunities to expand the happiness of all Bhutanese people and enable them to achieve their full and innate potential as human beings.

To advance GNH, the RGoB seeks to diversify the economy in addition to its focus on the development of tourism and hydro-power generation. A key objective for Bhutan is to develop a backbone of diversified small and medium-sized enterprises that cater to specific niche sectors in the sub-regional supply and trade chain, thereby fostering inclusive growth and employment creation. It is with a conviction that trade and regional integration will be essential to ensure diversification and inclusive growth of our economy that we embark on the necessary reforms for effective trade facilitation. We realize that a faster rate of economic growth and diversification is required to raise living standards and reduce poverty on a nation-wide basis, including in geographically remote areas. As a result, RGoB places high priority on reforms that will enhance trade and regional cooperation in the sub-region.

Subregional free trade agreements such as the South Asia Free Trade Agreement (SAFTA), which Bhutan is part of, are important factors to facilitate trade flows. In South Asia, which is diverse in terms of country size, natural endowments, population size and culture, the effective implementation of SAFTA needs to be complemented with efforts to reduce or remove non-tariff barriers (NTBs). NTBs and the absence of efficient and harmonized customs clearance procedures at border points are crucial to fostering intra-regional trade. Notably, the lack of automated and stream-lined customs procedures and harmonized documentation increases the cost of doing business and discourages future trade and investment. We consider that it is essential to pursue reforms in trade facilitation to address the concerns of our traders, while ensuring transparency and safety at our borders.

The reforms under the proposed SASEC Trade Facilitation Program (Program) seek to achieve higher intraregional trade among the SASEC countries, i.e., Bangladesh, Bhutan, India and Nepal. Goods will be traded more effectively, more quickly and more securely. The reform agenda focuses on three main areas: (i) improved, modern and efficient customs administration; (ii) streamlined and transparent regulations and procedures; and (iii) improve services and information for traders and investors, including women entrepreneurs.



དངུལ་རྩིས་ལྷན་ཁག།  
**Royal Government of Bhutan**  
**Ministry of Finance**  
**Thimphu**



Improved, modern and efficient customs administration

Bhutan's Department of Revenue and Customs (DRC) is currently using the Bhutan Automated Customs System (BACS) to record import and export transactions. We are fully aware that the system is outdated and does not meet functional requirements of internationally accepted best practice systems such as ASYCUDA World provided by United Nations Conference on Trade and Development (UNCTAD). We are therefore committed to develop a customized Revenue Administration Management Information System (RAMIS) to streamline and enhance revenue collection. This system will include a module for customs management in line with comprehensive customs management functions provided by ASYCUDA World. By implementing the custom revenue administration module, substantial efficiency gains are expected for both customs clearance procedures and revenue collection.

Streamlined and transparent regulations and procedures

The International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention) aims to facilitate trade by harmonizing, optimizing and automating customs procedures. RGoB is committed to accede to and implement the Revised Kyoto Convention. With support from the Program, we plan to finalize an action plan to implement the Revised Kyoto Convention which will include a gap analysis identifying the gaps between Bhutan's national legislation and the requirements of the Revised Kyoto Convention. RGoB intends to submit its instrument of accession to the Revised Kyoto Convention to the World Customs Organization within 18 months of the Program's effectiveness and to undertake the necessary reforms to ensure full compliance with the Revised Kyoto Convention in three to five years following Bhutan's accession to the Revised Kyoto Convention.

Improved services and information for traders and investors

Since trade is a cross cutting undertaking and involves many different agencies, RGoB is of the view that inter-ministerial coordination is crucial in achieving results and driving critical reforms in this area. Equally important is the participation of the private sector, which has an important role in providing feed-back on the effects of reforms on the country's trading community. We are therefore committed to establish a dedicated trade facilitation committee with a broad range of stakeholders. By identifying bottlenecks in the import and export process as well as legal and regulatory obstacles, this trade facilitation committee will play a key role in determining and driving the policy reforms required to make Bhutan's customs environment highly responsive to the needs of its importers and exporters.

RGoB considers regional integration, and notably trade facilitation, a critical area of reform to ensure inclusive growth and meet poverty alleviation targets. We are of the view that the proposed reforms are the beginning of a reform process with the ultimate long-term objective of creating a seamless integrated market in goods, services and investments in the sub-region. With ADB's support, RGoB is dedicating the necessary staff and resources to undertake implementation of the reforms as outlined in the attached policy matrix .



དངུལ་རྩིས་ལྷན་ཁག།  
**Royal Government of Bhutan**  
**Ministry of Finance**  
**Thimphu**



RGoB will dedicate funds to meet the adjustment cost arising from the proposed reforms and the respective development financing needs. To ensure successful implementation, RGoB will seek and consider the views of all parties to be affected by reforms and consult with all stakeholders, including the private sector. Specific issues and concerns will be brought to the attention of ADB at an early stage.

In this regard, we would like to thank ADB for supporting our trade facilitation agenda, and for working closely with us in developing and implementing reforms in this area.

Yours sincerely,

  
Wangdi Norbu  
Minister


## BHUTAN POLICY MATRIX

	Policy Actions and First Tranche Conditions	Policy Actions and Second Tranche Conditions (18 months after 1 <sup>st</sup> tranche release)
1. Modern and effective customs administration/ management	<p>1. Department of Revenue and Customs (DRC) will have finalized an Action Plan for the purposes of Bhutan's accession to the Revised Kyoto Convention (RKC). The Action Plan will include (a) a gap analysis to identify the gaps between national legislation and the requirements of RKC (Gap Analysis); (b) an analysis of the process required for Bhutan to prepare for accession to and implementation of RKC including the administrative and infrastructure enhancements required; (c) the expected benefits to Bhutan of acceding to and implementing RKC; and (d) a time-bound implementation plan, including budgetary requirements, for accession to and implementation of RKC.</p> <p>[Document required: Certified copy of the Action Plan finalized and approved by DRC]</p>	<p>1. The Government will have submitted to World Customs Organization Bhutan's instrument of accession to RKC.</p> <p>[Document required: Certified copy of Bhutan's instrument of accession to RKC.]</p> <p>2. Based on the findings of the Gap Analysis, the Beneficiary will have finalized a Regulatory Impact Assessment Report on the proposed amendments to the Bhutan's laws, rules and regulations which are required to ensure Bhutan's compliance with the General Annex of the RKC.</p> <p>[Document required: Certified copy of Regulatory Impact Assessment Report finalized and approved by the Government.]</p>
2. Streamlined and transparent trade processes and procedures	<p>2. DRC will have finalized the system requirement specifications document for the Customs Management System Component (CMSC) of the Revenue Administration Management Information System (RAMIS) and will have finalized a time-bound Action Plan to implement CMSC at Bhutan's land and air borders.</p> <p>[Document required: Certified copy of the system requirement specifications document and Action Plan finalized and approved by DRC]</p>	<p>3. DRC will have piloted the CMSC of RAMIS in accordance with its approved Action Plan.</p> <p>[Document required: Certified copy of an implementation report finalized and approved by DRC on the piloting of RAMIS]</p>
3. Improved services and information for private sector	<p>3. The Government will have issued an executive order for the establishment of a Trade Facilitation Committee with designation of the roles and responsibilities of the trade facilitation committee</p>	<p>4. DRC, in coordination with the Trade Facilitation Committee, will have piloted the RAMIS based automation of the application and approval process of trade-related transactions at Bhutan's border agencies.</p>

<b>traders and investors, including women entrepreneurs</b>	<p><b>which will include representation from Bhutan Standards Bureau (BSB), Ministry of Finance (MOF), Ministry of Economic Affairs (MOEA), Ministry of Agriculture and Forests (MOAF), Ministry of Home and Cultural Affairs (MOHCA), and private sector entities.</b></p> <p>[Document required: Certified copy of the executive order issued by the Government establishing the Trade Facilitation Committee]</p>	<p>[Document required: Certified copy of an implementation report finalized and approved by DRC and the Trade Facilitation Committee on the piloting of the automated application approval process.]</p>
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## C. Nepal

Attachment 2




Government of Nepal

**MINISTRY OF FINANCE**

Singha Durbar, Kathmandu

Nepal



**Barshaman Pun "Ananta"**  
Finance Minister

**DEVELOPMENT POLICY LETTER**

Mr. Haruhiko Kuroda  
President  
Asian Development Bank  
Metro Manila, Philippines

RECEIVED

02 NOV 2012

BY: .....

**SASEC Trade Facilitation Program**

Nepal's historical political changes triggered by the initiation of the peace process in 2006 have ushered in a new paradigm of political, social and economic order. Against this backdrop, the country has been aspiring for a peace dividend in the form of higher, inclusive and sustained economic growth for raising the standard of living of the common Nepali people. In this context, the Government of Nepal (GoN) increasingly recognizes that the trade sector can contribute significantly towards achieving this aspiration. The trade sector can be an agent of economic transformation in Nepal by adopting a dynamic trade policy based on strategic enabling factors, including transit and transport infrastructure, a conducive investment climate, new production technologies, enhancement of productive capacities, and advancing the trade development agenda.

Recognizing the vital role of trade in Nepal's economic growth and transformation, GoN has undertaken major policy reviews of the trade sector in the recent years. First, revamping its trade policy of 1992, GoN adopted a new trade policy in 2009. The Trade Policy, 2009—issued following Nepal's accession to the World Trade Organization (WTO) in 2004—is consistent with the principles of WTO and adheres to the principles of liberal, open and transparent economic system. The Trade Policy seeks to address the challenges and takes advantage of the opportunities of integrating Nepalese trade and economy at the multilateral, regional and bilateral level by making export trade competitive, pursuing, among others, the measures of product development, export promotion and trade facilitation.


Second, to complement and operationalize the Trade Policy, 2009, GoN formulated the Nepal Trade Integration Strategy (NTIS), 2010 which aims to address the constraints and seize the opportunities of trade liberalization and integration of Nepal's economy at the regional and multilateral level. The NTIS identifies four major challenges in enhancing its export trade, which include ensuring proper market access, building domestic support institutions, strengthening the supply capacities and mobilizing overseas development assistance. In order to face these challenges, the strategy has set four major objectives: strengthen trade negotiations (especially bilateral); strengthen the technical capacity of domestic non-tariff barriers (NTB) and other business environment supporting institutions; strengthen the export capacity of 'inclusive' export potential goods and services, and strengthen the GoN's capacity to coordinate and manage Trade-Related Technical Assistance (TRTA) and Aid for Trade (AfT) and to implement the NTIS. It has also recommended two hundred fifty eight action plans as necessary for the

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**Barshaman Pun "Ananta"**  
 Finance Minister

promotion of trade and to improve its contribution to GDP. It has identified 19 products comprising 12 commodities and 7 services as major export potential items that can contribute significantly in the promotion of export. It has also identified 10 major potential markets for Nepalese exports. Now the challenge is to fully implement the recommendations of NTIS. The GoN has adopted NTIS as its mid-term national trade development strategy.

In addition, GoN has taken several initiatives towards liberalizing Nepal's economy and trade regime with the rest of the world. These include important policy reforms such as the reduction in tariff-slabs and rates; abolition of different non-tariff taxes; introduction of Value Added Tax (VAT); application of harmonized system codes for customs tariff; adoption of the WTO Customs Valuation Agreement; enactment of the Customs Act, 2007 and rules and regulations for further transparency and simplification of customs administration process; limiting import restrictions to safeguard health, environment, security and archaeological properties; and the establishment of the Automated System for Customs Data (ASYCUDA) in major customs offices by using broker modules and selectivity modules. Customs procedures have been significantly simplified by introducing new customs codes and procedures, using upgraded version of ASYCUDA (ASYCUDA++) for clearance in 13 major customs offices and introducing risk-based customs clearance in six major customs offices.

Given the procedural constraints related to transit that Nepal faces as a land-locked country and recognizing the vast untapped opportunities and potential for economic integration with the regional countries, promoting subregional and regional trade is an important strategic thrust of the Trade Policy and the NTIS. As a land-locked country situated between two of the largest and most rapidly growing economies in the world, Nepal has much to gain from regional cooperation. While adoption of an outward-oriented external trade policy since the mid-1980s boosted regional trade and investment, Nepal is yet to realize potential benefit from regional cooperation. Nepal has to overcome challenges and needs to undertake measures to deepen and widen its regional cooperation and integration in South Asia. There is enormous potential for intra-regional trade to grow and for the sub-region to benefit from economies of scale, greater competition, and technology spillovers from increased trade. Subregional growth and integration will in turn lead to a bigger market and foster greater integration with other regions and with the world economy.

Despite the significant policy, legislative and institutional reforms GoN has undertaken over the past years, Nepal still faces significant challenges in realizing the full economic and social benefits from regional trade. In particular, South Asia is among the least integrated regions in the world. Despite its impressive growth performance in recent years, the region remains one of the least integrated in the world. The South Asia Free Trade Agreement (SAFTA), 2006 and bilateral free trade agreements (FTAs) have not yet led to increased trade among the regional or subregional countries, largely due to a number of constraints:

- Poor trade-related infrastructure, including the lack of cross-border transit agreements and land border crossing facilities in the regional trading partners, which limit regional connectivity, especially for landlocked countries like Nepal.

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**Barshaman Pun "Ananta"**  
 Finance Minister

- Administrative trade barriers, including the lack of modern procedures and systems such as use of IT systems, inadequate coordination and harmonization of standards across agencies and trading partners which increase transaction costs.
- Technical barriers to trade, including the lack of international accreditation of product certifications originating from some South Asian countries, which limits the potential for trade in plant, animal, and food products.
- Security constraints among the regional countries, largely due to the porous border between the regional countries, tend to contribute to the creation of NTBs.

GoN fully appreciates the Asian Development Bank's instrumental role in establishing and operationalizing the South Asia Subregional Economic Cooperation (SASEC) to promote regional cooperation and integration in South Asia by promoting regional trade, among other key economic activities and investments. There have been significant achievements under the SASEC initiative and Nepal has been a strong supporter and a proactive member. With timely and successful completion of the Subregional Transport Facilitation Project, Nepal has contributed to and demonstrated its strong commitment to promoting regional/subregional trade and regional economic cooperation and integration in South Asia. However, much remains to be done to realize the full benefits of the SASEC initiative.

In this context, ADB's support through programs such as the proposed reform program, the Subregional Trade Facilitation Program encompassing the other SASEC countries (Bangladesh, Bhutan and India) will help in addressing the critical constraints outlined above and promoting trade among these countries, including Nepal. More specifically, GoN welcomes ADB current and future support in the following areas for promoting subregional trade, and subregional economic cooperation and integration more generally:

- Customs modernization** including electronic data interchange among customs administrations, and increased aid coordination in customs modernization;
- Simplification and harmonization of customs procedures** by reducing administrative barriers to trade through a national single window (NSW), developing a legal and regulatory framework for a NSW, upgrading Nepal's testing and certification systems, and harmonizing and reducing trade/transit documents and procedures;
- Facilitating transport and transit agreements** with the SASEC countries; and
- Creating an enabling environment for private sector participation in subregional trade promotion** through convergence between government and private sector on key issues in trade facilitation and orientation of the private sector on customs administration.

The reforms under the Program will have significant positive implications for subregional trade among the SASEC countries and economic cooperation and integration more broadly. GoN believes these reforms will also help promote foreign direct investments in



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 Nepal



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**Barshaman Pun "Ananta"**  
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and enhance economic competitiveness of the SASEC countries, particularly Nepal. Various studies have indicated that efficient and simplified border procedures are key considerations for the private sector in determining where to invest largely because these have a bearing in just-in-time systems and other tools for efficient manufacturing and production. Other important social benefits can also be expected from trade facilitation reforms. The use of information technology can help in the detection and prevention of movements of illicit goods and human trafficking, as well as improve timely coordination among border agencies for interdiction and other interventions to enhance security and human health.

At the same time, GoN recognizes the challenges in pursuing these reforms under the Subregional Trade Facilitation Program in coordination with other SASEC countries. However, given the importance of trade for higher, inclusive and sustainable economic growth and poverty reduction and the friendly and cordial relations among the participating SASEC countries, we believe, the proposed reform measures can be implemented in a timely and effective manner. We believe that the Program, as designed, is the right approach to facilitating trade among the SASEC countries and hence, firmly commit to undertaking these reforms in close coordination with the participating SASEC countries. In particular, the GoN reconfirms its commitment to fulfilling all the actions outlined in the Program policy matrix and to dedicate the counterpart funds generated from the Program for achieving its objectives.

In this regard, we would like to thank ADB for supporting the GoN's priority trade facilitation reform agenda and look forward to working closely with ADB and the SASEC countries for successful outcomes under the Program.

Yours sincerely,

Barshaman Pun  
 Finance Minister

## NEPAL POLICY MATRIX

	Policy Actions and First Tranche Conditions	Policy Actions and Second Tranche Conditions (18 months after 1 <sup>st</sup> tranche release)
1. Modern and effective customs administration/management	<p>1. Department of Customs (DOC) will have completed, subject to consultation with stakeholders and inclusion in the annual budget 2013-14, its Strategic Plan for Customs Reform and Modernization (July 2013-July 2017) which will include a timetable for: (a) Nepal's accession to the Revised Kyoto Convention (RKC); and (b) implementation of legislative reforms required to comply with RKC provisions.</p> <p>[Document required: Certified copy of DOC's Strategic Plan.]</p>	<p>1. Ministry of Finance (MOF) will have forwarded to Cabinet a proposal to submit a resolution to the legislature parliament for Nepal's accession to RKC.</p> <p>[Document required: certified copy of MOF's submission to Cabinet Nepal's instrument of accession to RKC]</p> <p>2. The DOC will have completed a Regulatory Impact Assessment (RIA) of proposed amendments to the Customs Act, 2007, and related regulations to make fully compliant with the General Annex of the RKC.</p> <p>[Document required: Certified copy of RIA.]</p>
2. Streamlined and transparent trade processes and procedures	<p>2. DOC will have commenced the development of an e-Customs Master Plan which will include a time-bound implementation plan to: (a) upgrade its automated customs management system; (b) integrate customs operations with the proposed national single window program being supported by the World Bank.</p> <p>[Document required: Certified copy of the notice to proceed from DOC to the consultants selected to develop the e-Customs Master Plan]</p>	<p>3. The Cabinet will have issued a directive to establish a National Single Window program that will: (a) specify the lead agency and other participating agencies;<sup>38</sup> (b) outline the roles and responsibilities of participating agencies; and (c) provide an implementation plan which includes gender and social inclusion objectives.</p> <p>[Document required: Certified copy of Cabinet order to establish the NSW.]</p> <p>4. MOF will have issued a directive: (a) supporting DOC's participation in the national single window program in accordance with the e-customs master plan; and (b) allocating resources and funding required for DOC's participating in the national single window program and for the implementation of DOC's Strategic Plan for Customs</p>

<sup>38</sup> Determination of which agency will take the lead in NSW will be the prerogative of the government. ADB and other development partners, notably the World Bank, which is interested in helping finance NSW development, will provide guidance as appropriate.

<p><b>3. Improved services and information for private sector traders and investors, including women entrepreneurs</b></p>	<p><b>3. DOC will have finalized an Implementation Plan for the establishment of client service centers at customs border posts to effectively address client concerns. The Implementation Plan will include time-bound actions for: (a) the provision of dedicated and trained staff at the designated customs border posts; (b) establishment of a dedicated telephone client services facility; and (c) enhancement of the DOC's central customs client services website to provide greater access to, and increased levels of, customs information relevant to importers and exporters.</b></p> <p>[Document required: Certified copy of DOC's Implementation Plan for client service centers]</p>	<p><b>Reform and Modernization (July 2013-July 2017) beginning with the annual budget 2014-15.<sup>39</sup></b></p> <p>[Document required: Certified copy of MOF order, in the form of a formal letter, supporting DOC participation in the NSW and allocating appropriate budgetary resources for DOC's participation in the NSW and implementation of the DOC's Strategic Plan for Customs Reform and Modernization (July 2013-July 2017).]</p> <p><b>5. DOC will have established client service centers at the customs border posts at Birgunj, Biratnagar, and Bhairahawa.</b></p> <p>[Document required: Certified copy of the order from DOC establishing the client service centers at Birgunj, Biratnagar, and Bhairahawa.]</p>
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<sup>39</sup> Resources for NSW development may come directly from the national government or from donor funds, including potentially from the World Bank's proposed "Nepal and India Trade and Transport Facilitation Project".

## POLICY MATRIX

**Objective** – The program seeks to increase trade, including intra-regional trade, of SASEC countries by making import and export processes more efficient, transparent, secure and service-oriented.

Country	Policy Actions and First Tranche Conditions	Policy Actions and Second Tranche Conditions (18 months after 1 <sup>st</sup> tranche release)
<b>BANGLADESH</b>		
1. Modern and effective customs administration/ management	<p>1. The Government will have submitted to the World Customs Organization (WCO) Bangladesh's instrument of accession to the International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention).</p> <p>[Document required: Official copy of Bangladesh's instrument of accession submitted to the WCO]</p>	<p>4. The Government will have submitted to its Parliament proposed amendments to the Customs Act, 1969 (Customs Act) to make it fully compliant with the General Annex (the General Annex) of the Revised Kyoto Convention.</p> <p>[Document required: Certified copy of the government's submission to parliament of the proposed amendments to the Customs Act]</p>
2. Streamlined and transparent trade processes and procedures	<p>4. The National Board of Revenue (NBR) will have finalized an action plan (Action Plan) with respect to Bangladesh's compliance with the Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework) of the WCO, which will include (a) a gap analysis to identify the steps required to ensure compliance with SAFE Framework; (b) recommendations on the priority areas for reforms; and (c) a time-bound implementation plan to effect the priority reforms.</p> <p>[Document required: Certified copy of NBR's Action Plan]</p>	<p>5. NBR will have completed a Regulatory Impact Assessment (RIA) of proposed amendments to the Customs Act and related legislation to make them fully compliant with the General Annex.</p> <p>[Document required: Certified copy of NBR's RIA.]</p> <p>6. Based on the findings and recommendations of the Action Plan, NBR will have issued a directive to establish an Authorized Economic Operators (AEO) program.</p> <p>[Document required: Certified copy of NBR's order establishing the AEO program]</p> <p>4. Based on the findings and recommendations of the Action Plan, NBR will have issued updated Standard Operating Procedures (SOP) on Risk Management, Post Clearance Audit, Assessment, Physical Inspection, and Non-Intrusive Inspection that are compliant with the SAFE Framework.</p>

<p><b>3. Improved services and information for private sector traders and investors, including women entrepreneurs</b></p>	<p><b>5. NBR will have finalized an As-Is and To-Be Analyses for the development of an electronic National Single Window as part of its customs management systems upgrade to ASYCUDA World.</b></p> <p>[Document required: NBR certified copy of As-Is and To-Be Analyses for the National Single Window]</p>	<p>[Document required: Certified copy of Standard Operating Procedures]</p> <p><b>5. NBR will have completed a WCO Time Release Study (TRS) covering Chittagong Port and Benapole Land Port operations to serve as benchmarks for a performance monitoring system.</b></p> <p>[Documents required: Certified copy of TRS report]</p> <p><b>8. NBR will have launched its operations of ASYCUDA World with a pilot national single window program which will include NBR and, at a minimum, the Ministry of Shipping.</b></p> <p>[Document required: Certified copy of NBR's administrative order for the establishment of ASYCUDA World and the pilot national single window program.]</p> <p><b>9. The Ministry of Commerce will have established a Trade Portal with online access for the processing and issuance of Import/Export Registration Certificates that is linked to the National Single Window program.</b></p> <p>[Documents required: Certified copies of auto-generated import and export registration certificates]</p>
<p><b>BHUTAN</b></p> <p><b>1. Modern and effective customs administration/ management</b></p>	<p><b>1. Department of Revenue and Customs (DRC) will have finalized an Action Plan for the purposes of Bhutan's accession to the Revised Kyoto Convention (RKC). The Action Plan will include (a) a gap analysis to identify the gaps between national legislation and the requirements of RKC (Gap Analysis); (b) an analysis of the process required for Bhutan to prepare for accession to and implementation of RKC including the administrative and infrastructure</b></p>	<p><b>5. The Government will have submitted to World Customs Organization Bhutan's instrument of accession to RKC.</b></p> <p>[Document required: Certified copy of Bhutan's instrument of accession to RKC.]</p> <p><b>6. Based on the findings of the Gap Analysis, the Beneficiary will have finalized a Regulatory Impact</b></p>

	<p>enhancements required; (c) the expected benefits to Bhutan of acceding to and implementing RKC; and (d) a time-bound implementation plan, including budgetary requirements, for accession to and implementation of RKC.</p> <p>[Document required: Certified copy of the Action Plan finalized and approved by DRC]</p>	<p><b>Assessment Report on the proposed amendments to the Bhutan's laws, rules and regulations which are required to ensure Bhutan's compliance with the General Annex of the RKC.</b></p> <p>[Document required: Certified copy of Regulatory Impact Assessment Report finalized and approved by the Government.]</p>
<p><b>2. Streamlined and transparent trade processes and procedures</b></p>	<p><b>2. DRC will have finalized the system requirement specifications document for the Customs Management System Component (CMSC) of the Revenue Administration Management Information System (RAMIS) and will have finalized a time-bound Action Plan to implement CMSC at Bhutan's land and air borders.</b></p> <p>[Document required: Certified copy of the system requirement specifications document and Action Plan finalized and approved by DRC]</p>	<p><b>7. DRC will have piloted the CMSC of RAMIS in accordance with its approved Action Plan.</b></p> <p>[Document required: Certified copy of an implementation report finalized and approved by DRC on the piloting of RAMIS]</p>
<p><b>3. Improved services and information for private sector traders and investors, including women entrepreneurs</b></p>	<p><b>3. The Government will have issued an executive order for the establishment of a Trade Facilitation Committee with designation of the roles and responsibilities of the trade facilitation committee which will include representation from Bhutan Standards Bureau, Ministry of Finance (MOF), Ministry of Economic Affairs, Ministry of Agriculture and Forests (MOAF), Ministry of Home and Cultural Affairs (MOHCA), and private sector entities.</b></p> <p>[Document required: Certified copy of the executive order issued by the Government establishing the Trade Facilitation Committee]</p>	<p><b>8. DRC, in coordination with the Trade Facilitation Committee, will have piloted the RAMIS based automation of the application and approval process of trade-related transactions at Bhutan's border agencies.</b></p> <p>[Document required: Certified copy of an implementation report finalized and approved by DRC and the Trade Facilitation Committee on the piloting of the automated application approval process.]</p>
<p><b>NEPAL</b></p>		
<p><b>1. Modern and effective customs</b></p>	<p><b>1. Department of Customs (DOC) will have completed, subject to consultation with stakeholders and inclusion in the annual budget 2013-14, its</b></p>	<p><b>1. Ministry of Finance (MOF) will have forwarded to Cabinet a proposal to submit a resolution to the legislature parliament for Nepal's accession to RKC.</b></p>

<p>administration/ management</p> <p>2. Streamlined and transparent trade processes and procedures</p>	<p><b>Strategic Plan for Customs Reform and Modernization (July 2013-July 2017) which will include a timetable for: (a) Nepal's accession to the Revised Kyoto Convention (RKC); and (b) implementation of legislative reforms required to comply with RKC provisions.</b></p> <p>[Document required: Certified copy of DOC's Strategic Plan.]</p> <p><b>2. DOC will have commenced the development of an e-Customs Master Plan which will include a time-bound implementation plan to: (a) upgrade its automated customs management system; (b) integrate customs operations with the proposed national single window program being supported by the World Bank.</b></p> <p>[Document required: Certified copy of the notice to proceed from DOC to the consultants selected to develop the e-Customs Master Plan]</p>	<p>[Document required: certified copy of MOF's submission to Cabinet Nepal's instrument of accession to RKC]</p> <p><b>2. The DOC will have completed a Regulatory Impact Assessment (RIA) of proposed amendments to the Customs Act, 2007, and related regulations to make fully compliant with the General Annex of the RKC.</b></p> <p>[Document required: Certified copy of RIA.]</p> <p><b>3. The Cabinet will have issued a directive to establish a National Single Window program that will: (a) specify the lead agency and other participating agencies;<sup>40</sup> (b) outline the roles and responsibilities of participating agencies; and (c) provide an implementation plan which includes gender and social inclusion objectives.</b></p> <p>[Document required: Certified copy of Cabinet order to establish the NSW.]</p> <p><b>4. MOF will have issued a directive: (a) supporting DOC's participation in the national single window program in accordance with the e-customs master plan; and (b) allocating resources and funding required for DOC's participating in the national single window program and for the implementation of DOC's Strategic Plan for Customs Reform and Modernization (July 2013-July 2017) beginning with the annual budget 2014-15.<sup>41</sup></b></p> <p>[Document required: Certified copy of MOF order, in the form of a formal letter, supporting DOC participation in the NSW and allocating appropriate budgetary resources for DOC's participation in the NSW and implementation of the DOC's Strategic Plan for Customs Reform and Modernization (July</p>
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<sup>40</sup> Determination of which agency will take the lead in NSW will be the prerogative of the government. ADB and other development partners, notably the World Bank, which is interested in helping finance NSW development, will provide guidance as appropriate.

<sup>41</sup> Resources for NSW development may come directly from the national government or from donor funds, including potentially from the World Bank's proposed "Nepal and India Trade and Transport Facilitation Project".

<b>3. Improved services and information for private sector traders and investors, including women entrepreneurs</b>	<p><b>3. DOC will have finalized an Implementation Plan for the establishment of client service centers at customs border posts to effectively address client concerns. The Implementation Plan will include time-bound actions for: (a) the provision of dedicated and trained staff at the designated customs border posts; (b) establishment of a dedicated telephone client services facility; and (c) enhancement of the DOC's central customs client services website to provide greater access to, and increased levels of, customs information relevant to importers and exporters.</b></p> <p>[Document required: Certified copy of DOC's Implementation Plan for client service centers]</p>	<p>2013-July 2017).]</p> <p><b>5. DOC will have established client service centers at the customs border posts at Birgunj, Biratnagar, and Bhairahawa.</b></p> <p>[Document required: Certified copy of the order from DOC establishing the client service centers at Birgunj, Biratnagar, and Bhairahawa.]</p>
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AEO = Authorized Economic Operators; ASYCUDA = automated system for customs data; CMSC = Customs Management Systems Component; DOC = Department of Customs; DRC = Department of Revenue and Customs; MOF = Ministry of Finance; NBR = National Board Revenue (Bangladesh); NSW = National Single Window; RAMIS = Revenue Administration Management Information System; RIA = Regulatory Impact Assessment; RKC = Revised Kyoto Convention; SAFE = Framework of Standards to Secure and Facilitate Global Trade; SOP = Standard Operating Procedures; TRS = Time Release Study; WCO = World Customs Organization.