



# Initial Poverty and Social Analysis

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Project Number: 54402-001  
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## Nepal: South Asia Subregional Economic Cooperation Customs and Logistics Reforms Program (Subprogram 1)

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## **CURRENCY EQUIVALENTS**

(as of 12 November 2021)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRs1.00	=	\$0.008
\$1.00	=	NRs119.170

## **ABBREVIATIONS**

CSO	–	civil society organization
FY	–	fiscal year
GDP	–	gross domestic product
PBL	–	policy-based loan
SME	–	small and medium-sized enterprise

## **NOTES**

- (i) The fiscal year (FY) of the Government of Nepal and its agencies ends on 15 July. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2021 ends on 15 July 2021.
- (i) In this report, "\$" refers to United States dollars.

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## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Nepal	Project Title:	South Asia Subregional Economic Cooperation Customs and Logistics Reforms Program
Lending/Financing Modality:	Policy-Based Loan	Department/Division	South Asia Department / Regional Cooperation and Operations Coordination Division

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The Fifteenth Five-Year Plan fiscal year (FY) 2020-FY2024 of the Government of Nepal envisions reducing the absolute poverty rate<sup>a</sup> of 18.7% in FY2019 to 9.5% in FY2024. However, the COVID-19 pandemic which started since mid-March 2020, has affected achieving this goal. A recent study conducted by United Nations Development Programme shows that in Nepal, three in five employees engaged in micro and small businesses have lost their jobs owing to pandemic.<sup>b</sup> The National Planning Commission report estimated that 700,000 Nepali overseas migrant workers in addition to about 300,000 in India would return home owing to the COVID-19 crisis. An ADB study projects an increase in the poverty headcount ratio from 27.7% at \$3.20 a day to 31.2% in 2021 due to the pandemic.<sup>c</sup> These reflect the severity of pandemic that will have a negative impact on Nepal's national objective of reducing poverty, creating employment opportunities, and ensuring universal social security.

The proposed program aims to support Nepal's economic recovery and aspiration of higher growth through ongoing customs reforms and strengthened logistics. The Fifteenth Plan envisages increasing exports of goods and services from 9.0% of gross domestic product (GDP) in FY2019 to 15.7% by FY2024. The import of goods and services is however expected to stabilize from about 47% of GDP in FY2019 to 49% in FY2024—thus reducing the burgeoning trade deficit. The Plan envisages increasing the annual average labor productivity from NRs 184,600 (equivalent to \$1,577) in FY2019 to NRs 276,000 (\$2,359) in FY2024 and agricultural productivity (of major cereals) from 3.1 metric tons per hectare in FY2019 to 4.0 metric tons per hectare in FY2024. The Plan further envisages increasing the share of industry to GDP from 14.6% in FY2019 to 18.1% in FY2024.

The proposed program is fully aligned with the Country Partnership Strategy for Nepal (2020-2024) with focus on improving transport, logistics, and trade facilitation that can strengthen both domestic and international connectivity, thereby reducing trade transaction cost. It aims to strengthen the logistics sector in Nepal through institutional and structural reforms. It will carry forward the reforms implemented under the previous policy-based loan including implementation of the proposed Customs Act. The Program will facilitate improving supply chains for critical goods during pandemic, enhancing export competitiveness of agriculture and manufactured goods, enhancing value addition in the logistics sector, and improving the capacity of the public and private sector to ensure sustainability of envisaged policy interventions.

#### B. Poverty Targeting

General Intervention  Individual or Household (TI-H)  Geographic (TI-G)  Non-Income MDGs (TI-M1, M2, etc.)

The Program is classified as a general intervention. Though the overall objectives are to reduce national poverty and increase employment opportunities, it does not specifically target the poor. The Program aims at enhancing Nepal's export competitiveness and reducing its trade deficit through improved logistics via institutional and structural reforms as well as improved revenue collection through implementation of a proposed new Customs Act.

#### C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

<sup>a</sup> Using consumption data from 2010 NLSS, the poverty line is set at NRs. 19,262 (about \$165) per capita per year.

<sup>b</sup> <https://www.np.undp.org/content/nepal/en/home/presscenter/articles/2020/Three-in-Five-employees-lost-their-jobs-due-to-COVID19-in-Nepal.html>

<sup>c</sup> ADB. 2021 *Technical notes. COVID-19 and Poverty: some scenarios based on grouped distribution data on household consumption*. Manila.

The proposed program will help further strengthen ongoing customs reforms, control revenue leakages, and enhance faster clearance of consignments, thereby reducing Nepal's cost of doing business and boosting export competitiveness. It can also help increase private-led investment and attract foreign direct investment with improved business environment. The potential beneficiaries are small and medium-sized enterprises (SMEs), consumers, producers, traders, and associated stakeholders from this proposed Program.

2. Impact channels and expected systemic changes

The Program's longer-term benefits from customs reforms include cost reduction in trading across borders, greater transparency and accountability, and increased revenue collection with the control of revenue leakages. Greater harmonization of procedures for cross-border consignments, and increased confidence among traders in terms of timely import and export, thus enhancing the volume of international trade. The Program's long-term benefits from logistics policy and its implementation will help improve Nepal's logistics performance, promote agri-based industries and SMEs via the creation of a conducive business environment. Nepal's export competitiveness will be strengthened, reducing the trade gap. The Program's direct beneficiaries include farmers and SMEs who have faced difficulties exporting commodities owing to high trade costs due to lack of consolidation, warehousing, storage, and transportation networks, among other issues. With effective implementation of the action plan under the Logistics Policy, the stakeholders would benefit as they can sell their produce outside local markets. This will help generate employment opportunities particularly in agri-based industries and SMEs.

3. Focus of (and resources allocated in) the transaction TA or due diligence.

The TA will help achieve the Program's policy actions and the four outputs, namely, a) preparation of analytical studies on thematic sections of the logistics sector; b) operationalization of enhanced business processes; c) adoption of digital technology for logistics related transactions; and d) improvement of institutional and governance structure. The TA is estimated to cost \$1,000,000 to be financed by ADB's Technical Assistance Special Fund (TASF 7).

4. Specific analysis for policy-based lending.

The specific impact of this program would be eliminating market inefficiencies. The program would support systemic distribution channels with improved logistics and customs reforms that will enhance consumer welfare – getting quality goods at better prices. Producers would benefit in terms of increased levels of output owing to higher demand—thus enhancing profitability. Increased employment and greater transparency and accountability in both domestic and international trade are other potential outcomes. The Program's proposed reforms will have an indirect impact on poverty reduction through agri-based industrial growth, SMEs expansion, and creation of a more favorable business environment for investment—all leading to higher economic growth and employment generation as envisaged in the 15th five-year Plan.

## II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program?

This program does not have direct gender consequences. Women's participation in micro and small enterprises is substantial. Therefore, the Program's indirect impacts will benefit women entrepreneurs, especially those involved in micro and small enterprises.

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women access to and use of opportunities, services, resources, assets, and participation in decision-making?  Yes  No

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes  No

4. Indicate the intended gender mainstreaming category:

GEN (gender equity)  EGM (effective gender mainstreaming)  
 SGE (some gender elements)  NGE (no gender elements)

## III. PARTICIPATION AND EMPOWERING THE POOR

1. Who are the main stakeholders of the project, including beneficiaries and affected people? Explain how they will each participate in the project's design.

The main stakeholders of the program include Ministry of Industry, Commerce and Supplies, Department of Customs under the Ministry of Finance, other logistics- and trade-related government ministries (Ministry of Physical Infrastructure and Transport, Ministry of Agriculture and Livestock Development, Ministry of Culture, Tourism and Civil Aviation), freight forwarders, traders, customs agents, micro and small enterprises, banks, manufacturers, and producers of agricultural goods, among others.

2. Who are the key, active, and relevant CSOs in the project area?

<p>Key CSOs include the Nepal Freight Forwarders Association and the Nepal Chamber of Commerce. Opportunities for public–private dialogue will be explored during project processing.</p> <p>3. Are there issues during project design for which participation of the poor and vulnerable is important?  <input type="checkbox"/> Yes    <input checked="" type="checkbox"/> No    If yes, what are these issues?</p> <p>4. How will the project ensure the participation of beneficiaries and affected people, particularly the poor and vulnerable and/or CSOs, during project design to address these issues?  Regular coordination with private sector stakeholders will create opportunities for public–private dialogue. Service-users of border clearance can be engaged in these consultations and raise their views, including small and medium scale enterprises.</p> <p>5. What level of CSO participation is planned during the project design?  <input checked="" type="checkbox"/> Information generation and sharing    <input checked="" type="checkbox"/> Consultation    <input type="checkbox"/> Collaboration    <input type="checkbox"/> Partnership</p>
<b>IV. SOCIAL SAFEGUARDS</b>
<p><b>A. Involuntary Resettlement Category</b>    <input type="checkbox"/> A    <input type="checkbox"/> B    <input checked="" type="checkbox"/> C    <input type="checkbox"/> FI</p> <p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement?    <input type="checkbox"/> Yes    <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?  <input type="checkbox"/> Resettlement plan                                    <input type="checkbox"/> Resettlement framework                                    <input type="checkbox"/> Social impact matrix  <input type="checkbox"/> Environmental and social management system arrangement                                    <input checked="" type="checkbox"/> None</p>
<p><b>B. Indigenous Peoples Category</b>    <input type="checkbox"/> A    <input type="checkbox"/> B    <input checked="" type="checkbox"/> C    <input type="checkbox"/> FI</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples?    <input type="checkbox"/> Yes    <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain?    <input type="checkbox"/> Yes    <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities?    <input type="checkbox"/> Yes    <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?  <input type="checkbox"/> Indigenous peoples plan                                    <input type="checkbox"/> Indigenous peoples planning framework                                    <input type="checkbox"/> Social impact matrix  <input type="checkbox"/> Environmental and social management system arrangement                                    <input checked="" type="checkbox"/> None</p>
<b>V. OTHER SOCIAL ISSUES AND RISKS</b>
<p>1. What other social issues and risks should be considered in the project design? None  <input type="checkbox"/> Creating decent jobs and employment    <input type="checkbox"/> Adhering to core labor standards    <input type="checkbox"/> Labor retrenchment  <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS    <input type="checkbox"/> Increase in human trafficking    <input type="checkbox"/> Affordability  <input type="checkbox"/> Increase in unplanned migration    <input type="checkbox"/> Increase in vulnerability to natural disasters    <input type="checkbox"/> Creating political instability  <input type="checkbox"/> Creating internal social conflicts    <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design?</p>
<b>VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>
<p>1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks? Are the relevant specialists identified?  <input type="checkbox"/> Yes    <input checked="" type="checkbox"/> No    Relevant specialists are already identified based on consultations with the government and extensive analysis of the challenges and issues gathered during consultations.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis; and the participation plan during the transaction TA or due diligence? Not applicable</p>

Source: Asian Development Bank