



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 29-Apr-2022 | Report No: PIDA33997



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Nepal	P177776	First Nepal Green, Resilient and Inclusive Programmatic DPC (P177776)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
SOUTH ASIA	16-Jun-2022	Environment, Natural Resources & the Blue Economy	Development Policy Financing
Borrower(s) The Secretary, Ministry of Finance, Singha Durbar, Kathmandu	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The development objective is to improve the enabling environment for Nepal's green, climate-resilient, inclusive development pathway.

Financing (in US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

The proposed Development Policy Credit (DPC) is the first in a programmatic series of three operations to support Nepal to improve the enabling environment to transition to a Green, Resilient, and Inclusive Development (GRID) path. The program supports key reforms that build a foundation for greener and more resilient growth that aims to leave no



one behind. Recognizing that the current growth and development model has reached its limits, in 2021 the Government of Nepal (GoN) formally adopted the GRID approach to address the inter-related challenges of a durable economic recovery from COVID-19, climate risks, natural capital depletion, and exclusion of vulnerable people from economic opportunities. The GoN's recently approved budget incorporates GRID priorities. The GoN is also preparing a GRID Strategic Action Plan backed by 17 Development Partners (DPs). These DPs committed to supporting Nepal to implement the GRID approach by endorsing, with the GoN, the "Kathmandu Joint Declaration on GRID" in September 2021. The Declaration notes that achieving GRID outcomes requires an increase in quantity and quality of financing from diverse sources, coordination across institutional and sectoral boundaries, and an enabling policy and institutional environment.

Nepal's macroeconomic policy framework is adequate for development policy financing. While facing the unprecedented challenges from the COVID-19 pandemic – coupled with uncertainties of the ongoing Russia-Ukraine conflict –, the GoN remains committed to fiscal sustainability, as evidenced by relatively stable macro-economic and fiscal indicators.

Relationship to CPF

The proposed DPC helps to operationalize World Bank's pivot towards the GRID agenda to support Nepal's long-term development trajectory, as confirmed in the recent Performance and Learning Review (PLR)¹ of the Nepal Country Partnership Framework (CPF) FY19-23². The operation is consistent with all three Pillars of the CPF—(a) public institutions, (b) private sector-led jobs and growth, and (c) inclusion and resilience. The CPF's first pillar, "Public institutions" targets to strengthen institutions for public sector management and service delivery. The second Pillar "Private sector-led jobs and growth" emphasizes the need to (a) improve regulatory environment for competitiveness, and (b) improve income opportunities for farmers, women, and disadvantaged youth. The third Pillar "Inclusion and resilience" aims to (a) improve access to services and support for the well-being of the vulnerable groups including access to water and sanitation, (b) increase resilience to health shocks, natural disasters, and climate change, and (c) improve adaptation of sustainable natural resources, to enable more sustainable, efficient, resilient, and inclusive growth. The GRID DPC will directly contribute to these CPF targeted outcomes.

C. Proposed Development Objective(s)

The PDO is to improve the enabling environment for Nepal's green, climate-resilient, inclusive development pathway.

Key Results

The key results are: (a) increased share of newly registered two-, three-, and four-wheeled vehicles that are electric, (b) increased share of newly registered internal combustion engine (ICE) vehicles (two-, three-, and four-wheelers) that meet Euro 4 or higher standard, (c) an effective, inclusive, and transparent land classification and planning framework is in place, (d) automatic hydrological monitoring stations and radar that are fully operational in additional locations, (e) increased number of Strategic Environmental and Social Assessments carried out for policies, programs, and strategic plans, (f) increased tourism concessions issued for tender under new policy, (g) increased land area covered by an approved forest management plan that is in line with the Forest Regulation and that includes climate outcomes and documented women's participation in the plan, (h) additional share of annual income earned by forest users' groups that are spent on women empowerment and female entrepreneurship activities, (i) increased number of social protection programs in which the respective delivery system is used for the provision of relief and recovery in response to a shock due to an adverse natural event, (j) increase in the proportion of sectoral spending at the federal and provincial levels for

¹ Report No. 168048-NP, January 17, 2022, discussed at the Board on February 22, 2022.

² Report No. 83148-NP; July 10, 2018, discussed at the Board on August 7, 2018.



climate-smart agriculture investments, (k) increased number of River Basin Offices established at the river basin level, (l) increased number of Palikas that collect WASH data using N-WASH, including at schools and health centers, and (m) increased investment flows to SWM at federal and local levels, from both public and private sources.

D. Project Description

The GoN has taken strategic steps to transition to a GRID development pathway, as evidenced by the September 2021 Kathmandu Declaration on GRID, the Nationally Determined Contribution (NDC), and the ambitious new climate target to achieve net zero emissions by 2045, presented at COP26 in Glasgow. Nepal's GRID transition requires strategic planning to boost the quality and quantity of public and private investment and strengthen institutional coordination. The GRID DPC is a substantive step to implement GRID in Nepal by building partnerships to develop and align policy and leverage associated new public and private investment. The DPC has two pillars. objective Pillar 1 aims to consolidate GRID principles in strategic development planning across sectors. Pillar 2 aims to support sectoral transitions to GRID pathways. These pillars include measures for (a) sustainably and productively using natural capital; (b) building resilience of urban and rural infrastructure, human capital, and livelihoods to climate and environmental risks; (c) promoting more efficient and cleaner production, consumption, and mobility; (d) strengthening inclusion in development decision-making and access to assets and services; and (e) mobilizing private sector participation to green Nepal's economy and create jobs in tourism, forestry, agriculture, water, and urban sustainability.

Under DPC-1 Pillar 1, Prior Actions by the GoN include: (a) reduction of customs duties for electric vehicles from 80 percent to 10-40 percent, depending on the vehicle type and electric motor capacity, as per the 2021-22 Budget Act, (b) adoption of Land Use Regulations, setting the institutional roles and mandates at the three tiers of government and implementation provisions for land use classification, mapping, and planning, (c) MOF's decision to expand the hydrological and meteorological network, to prioritize the strengthening of climate information services and system.

Under DPC-1 Pillar 2, Prior Actions by the GoN include: (a) cabinet approval of the Forest Regulation to strengthen community-based sustainable forest management (SFM), forest management planning and institutional arrangements, productive activities throughout the forest value chain, women's leadership in decision making, inclusive benefit sharing, climate resilience and mitigation benefits, and to protect biodiversity and water resources, (b) cabinet adoption of (i) the Animal Health Policy, with provisions to control animal diseases, closing key gaps in animal health services, in alignment with international standards and with Nepal's One Health Strategy; and (ii) the Animal Breeding Policy, to enhance livestock production, productivity, and income for farmers, (c) cabinet approval of the regulation and mandatory guidelines on to upgrade drinking water quality standards, to strengthen water supply provision for protecting human capital, and (d) cabinet approval of the SWM Policy and the ban of plastic bags thinner than 40 microns, to reduce solid waste generation and improve its management for better environmental health, reduced GHG emissions, and flood risk reduction.

E. Implementation

Institutional and Implementation Arrangements

The MoF will remain responsible for overall coordination and implementation of the DPC. The MoF has institutional capacity on WB policies and procedures, data requirements and overall monitoring arrangements. Nepal has implemented the IMF's Enhanced General Data Dissemination System, and data is generally available through the MOF and the NRB websites, and the Statistical Agency. The MoF will remain responsible for overall coordination and implementation of the DPC. The MoF has institutional capacity on WB policies and procedures, data requirements and overall monitoring arrangements. Nepal has implemented the IMF's Enhanced General Data Dissemination System, and data is generally available through the MoF and the NRB websites, and the Statistical Agency.



Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

A detailed poverty and social impact assessment (PSIA) has been prepared. The prior actions of this operation provide improved public goods that are likely to have neutral direct but have the potential for positive indirect effects on poverty in the medium and long-term through multiple channels: these improved public goods include: higher air quality (particularly in urban areas) through traffic emission reductions (Prior Action 1), improved water quality and services (Prior Action 6), improved environmental health from less waste and pollution (Prior Actions 1, 6, and 7), improved climate and weather information (Prior Action 3) and disaster risk reduction (Prior Actions 2, 3 and 6). In addition to transforming the nature of public goods, the policy tracks that could have direct implications for the poor and marginalized in the short to medium term include policy tracks on land use, community-based forest management, agriculture and livestock, solid waste management, and water (Prior Actions 2, 4, 5, 6, 7).

Benefits in the short to medium term to the poor and vulnerable will depend on two key factors: First, the extent to which reforms that seek to strengthen the regulatory framework for environmental and social policies translate into policies and programs that reach the poor, vulnerable and marginalized. For example, climate information services and systems can be pro-poor if the information generated can be provided to small farmers for risk mitigation, or if it is employed institutionally to improve insurance systems for weather shock mitigation with affordable premiums (Prior Action 3). Second, policy tracks that could have a direct implication for the poor and marginalized in the short to medium term will need to be accompanied by complementary investments that target them. For example, Prior Action 5 will need to be accompanied by a targeted effort for livestock interventions to reach the poorest quintile, where only 15% of households are currently able to generate any revenue from their livestock. As women significantly outnumber men in agriculture, ensuring that support reflects this distribution should strengthen equity in implementation. Prior Action 7 should recognize the contribution of informal workers and their dependence on solid waste management for their livelihoods, and include them as stakeholders in design and implementation of new systems. Positive effects can occur if labor demand for solid waste management increases.

Environmental, Forests, and Other Natural Resource Aspects

A detailed environmental analysis finds that the prior actions are unlikely to have significant negative effects on environment, forests, and natural resources and are designed to have a positive effect. Moreover, the operation has a significant potential to assist Nepal in complying with its NDCs and in addressing Nepal's environmental health priorities, particularly ambient air pollution and water, sanitation, and hygiene (WASH). The GoN's systems for reducing adverse environmental impacts and enhancing positive effects associated with the supported policies require



strengthening. The Environmental Analysis report notes the WBG is assisting Nepal through investment operations and sister DPFs in strengthening Nepal's systems. Policy Track 4 aims to enhance SESA and can be complemented with investment to help improve Nepal's environmental management systems.

G. Risks and Mitigation

The operation faces substantial risks. These relate mostly to macro-economic, political and governance, institutional capacity, fiduciary, stakeholder risks. Macroeconomic risks are deemed substantial that have arisen from the ongoing impact of the COVID-19 pandemic. Should the ongoing Russia-Ukraine conflict deepen further, it could lower travel demand and may threaten the recovery of tourism and tourism related sectors. Political and governance risks are substantial, with elections scheduled for all three tiers of government in 2022 and residual risks of political uncertainty remaining high. Institutional capacity for implementation and sustainability risk arises from on-going capacity constraints and challenges in coordination between line ministries and different levels of government. Fiduciary risk is substantial due to capacity constraints of the subnational governments. Further, Stakeholder risks are substantial and arise from vested interest groups that benefit from the current policy regime and could resist reform that alters the status quo. Nevertheless, the strong commitment of the MOF and the line ministries to the GRID agenda, long-term sectoral policy engagement by the World Bank, and strong development partner support in GRID sectors will help mitigate some of the risks.

CONTACT POINT

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APPROVAL

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