



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

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Project Number: 49215-001  
June 2015

## Proposed Loan and Technical Assistance Grant Nepal: Earthquake Emergency Assistance Project

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 2 June 2015)

|               |   |                            |
|---------------|---|----------------------------|
| Currency unit | – | Nepalese rupee/s (NRe/NRs) |
| NRe1.00       | = | \$0.0097892                |
| \$1.00        | = | NRs102.1528                |

## ABBREVIATIONS

|      |   |   |
|------|---|---|
| ADB  | – | Asian Development Bank                        |
| EAL  | – | emergency assistance loan                     |
| EARF | – | environmental assessment and review framework |
| GDP  | – | gross domestic product                        |
| GESI | – | gender equality and social inclusion          |
| km   | – | kilometer                                     |
| PAM  | – | project administration manual                 |
| PDNA | – | post-disaster needs assessment                |
| SDR  | – | special drawing right                         |
| SPV  | – | special purpose vehicle                       |

## NOTES

- (i) The fiscal year (FY) of the Government of Nepal ends on 15 July. “FY” before a calendar year denotes the year in which the fiscal ends, e.g., FY2015 ends on 15 July 2015.
- (ii) In this report, “\$” refers to US dollars.

|                         |  |
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## PROJECT AT A GLANCE

|  |   |  |                              |
|--|---|--|------------------------------|
| <b>1. Basic Data</b>   |   | <b>Project Number: 49215-001</b>       |                              |
| <b>Project Name</b>  | Earthquake Emergency Assistance Project   | <b>Department /Division</b>            | SARD/NRM                     |
| <b>Country</b>   | Nepal   | <b>Executing Agency</b>                | Ministry of Finance          |
| <b>Borrower</b>  | Government of Nepal   |  |                              |
| <b>2. Sector</b>   | <b>Subsector(s)</b>   | <b>ADB Financing (\$ million)</b>      |                              |
| ✓ <b>Education</b>   | Pre-primary and primary   |  | 50.00                        |
|  | Secondary   |  | 30.00                        |
| <b>Transport</b>   | Road transport (non-urban)  |  | 80.00                        |
| <b>Water and other urban infrastructure and services</b>                               | Other urban services  |  | 41.50                        |
|  | <b>Total</b>  |  | <b>201.50</b>                |
| <b>3. Strategic Agenda</b>   | <b>Subcomponents</b>  | <b>Climate Change Information</b>      |                              |
| Inclusive economic growth (IEG)  | Pillar 2: Access to economic opportunities, including jobs, made more inclusive | Adaptation (\$ million)                | 35.00                        |
| Environmentally sustainable growth (ESG)   | Disaster risk management  | Climate Change impact on the Project   | High                         |
| <b>4. Drivers of Change</b>  | <b>Components</b>   | <b>Gender Equity and Mainstreaming</b> |                              |
| Governance and capacity development (GCD)  | Institutional development   | Effective gender mainstreaming (EGM)   | ✓                            |
|  | Organizational development  |  |                              |
| <b>5. Poverty Targeting</b>  |   | <b>Location Impact</b>                 |                              |
| Project directly targets poverty   | No  | Rural                                  | High                         |
|  |   | Urban                                  | Medium                       |
| <b>6. Risk Categorization:</b>   | Low   |  |                              |
| <b>7. Safeguard Categorization</b>   | <b>Environment: B</b>   | <b>Involuntary Resettlement: B</b>     | <b>Indigenous Peoples: C</b> |
| <b>8. Financing</b>  |   |  |                              |
| <b>Modality and Sources</b>  |   | <b>Amount (\$ million)</b>             |                              |
| <b>ADB</b>   |   | <b>200.00</b>                          |                              |
| Sovereign Project loan: Asian Development Fund   |   | 200.00                                 |                              |
| Sovereign Capacity development technical assistance: Technical Assistance Special Fund |   | 1.50                                   |                              |
| <b>Cofinancing</b>   |   | <b>0.00</b>                            |                              |
| None   |   | 0.00                                   |                              |
| <b>Counterpart</b>   |   | <b>32.00</b>                           |                              |
| Government   |   | 32.00                                  |                              |
| <b>Total</b>   |   | <b>233.50</b>                          |                              |
| <b>9. Effective Development Cooperation</b>  |   |  |                              |
| Use of country procurement systems   |   | No                                     |                              |
| Use of country public financial management systems                                     |   | Yes                                    |                              |

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to Nepal for the Earthquake Emergency Assistance Project. The report also describes proposed technical assistance (TA) for Support for Project Implementation of the Nepal Earthquake Rehabilitation and Reconstruction Program, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the TA.<sup>1</sup>
2. The Earthquake Emergency Assistance Project will support the Government of Nepal to accelerate recovery and reconstruction following the devastating earthquake of 25 April 2015 and the major aftershock of 12 May 2015. The project will support the rebuilding of schools, roads, and district-level government buildings, and strengthen resilience to future disasters.

## II. THE PROJECT

### A. Rationale

3. **Disaster risk in Nepal.** Nepal is one of the most disaster-prone and vulnerable countries in the world. It is the 11th most earthquake-vulnerable country, with major earthquakes occurring about every 80 years.<sup>2</sup>
4. **Description of the emergency.** An earthquake of 7.8 magnitude struck Nepal on 25 April 2015. Its epicenter was in Gorkha district, 77 kilometer (km) northwest of Kathmandu, causing widespread damage. Key characteristics of the disaster are (i) the prolonged period of large-scale aftershocks; and (ii) catastrophic damages to poorly built buildings and infrastructure in vast and rugged rural terrain that is difficult to access. The humanitarian impact of the earthquake has been equally serious, affecting as many as 8 million people. Estimates, as of 3 June 2015, show 8,702 deaths and 22,493 injuries. Preliminary reports indicate that more than 785,000 homes were destroyed or damaged. Education of around 1.5 million children has also been affected, as the earthquake destroyed or damaged about 7,000 schools.<sup>3</sup>
5. The government, international community, and nongovernment organizations responded quickly to provide immediate rescue and relief. The Asian Development Bank (ADB) approved a \$3 million grant from the Asia Pacific Disaster Response Fund on 27 April 2015.
6. **Damage and loss to property and infrastructure.** On 20 May 2015, a joint post-disaster needs assessment (PDNA) was initiated by the government in partnership with development partners, including ADB, the European Union, Japan International Cooperation Agency, the United Nations, and the World Bank. Covering 23 sectors and themes, it assessed damages and losses caused by the earthquakes.<sup>4</sup> Preliminary estimates of direct damage total \$4.8 billion–\$7.7 billion, equivalent to about 22%–35% of gross domestic product (GDP) of the country.<sup>5</sup> The

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> United Nations Development Programme. 2009. *Nepal Country Report: Global Assessment of Risk*. ISDR Global Assessment Report on Poverty and Disaster Risk 2009. Kathmandu.

<sup>3</sup> Classrooms are the unit used by the government to estimate damages; and 30,000 classrooms is about 7,000 schools.

<sup>4</sup> ADB led the sector assessments for education (co-led with the United Nations Children's Fund), irrigation, transport, and macroeconomic impact (co-led with the World Bank) in collaboration with respective agencies and supported the preparation of the cross-cutting disaster risk resilience report.

<sup>5</sup> Post-Disaster Needs Assessment Draft Executive Summary (accessible from the list of linked documents in Appendix 2).

largest component is private housing, which amounts to \$1.2 billion–\$3.9 billion,<sup>6</sup> followed by education at \$250 million.

7. **Economic impacts.** According to the Central Bureau of Statistics, annual GDP growth in FY2015 will be 1.6 percentage points lower than the 4.6% estimated in the Asian Development Outlook 2015.<sup>7</sup> The services sector accounted for 51.0% of FY2014 GDP and has been hit hardest, particularly tourism. The main earthquake and prolonged aftershocks caused extensive damage in seven out of 10 world heritage sites in Kathmandu valley and severely affected popular trekking routes. The agriculture sector appears less affected in FY2015, given that the harvesting season had passed. However, the impacts of lost livestock and productive assets, which were severe in affected districts, will prolong recovery. Prior to the earthquakes, Nepal was maintaining a sound fiscal balance, with a fiscal deficit of only 0.1% of GDP in FY2014 and a surplus of 0.7% of GDP in FY2013. Public debt has been consistently declining. A preliminary debt sustainability analysis indicates that Nepal may be able to maintain its current low debt distress rating. However, close monitoring and concessional support will be needed to cope with the upward pressure. Overall, the economic growth outlook is contingent on the scope and pace of reconstruction activities, remittance inflows, the political situation, and monsoon rains.

8. **Poverty impacts.** The 14 severely affected districts<sup>8</sup> account for about 13.6% of the total population living below the poverty line in Nepal. Among them, six have higher poverty rates than the national average of 25.2%,<sup>9</sup> and nine have a human development index score lower than the national average. Preliminary estimates show that the income shock resulting from the earthquake will likely push an additional 700,000 to 982,000 people below the poverty line. The income shock is largely felt through the loss of income-generating opportunities and livelihoods (including death and injuries to primary wage earners); and the loss of housing, productive assets (seeds, livestock, and farm equipment), and durable assets (assorted household items). Progress toward the Sustainable Development Goals is likely to be adversely affected given the widespread damage to schools, houses, and health posts.<sup>10</sup>

9. The poor and vulnerable are particularly dependent on local infrastructure for access to labor and commodity markets, and for services such as health care and education that strengthen human capital, especially that of children. Reviving local economic activities and resumption of basic public services, coupled with an accelerated implementation of reconstruction projects, will be critical to make up for the setback on poverty reduction. Restoring educational services after such a disaster is crucial, since time away from school has long-term negative impacts on education and development. Rebuilding school facilities, planning for a better educational future, restoring connectivity, and promoting resilience are all ways to support faster recovery.

10. **Government's reconstruction strategy, road map, and response.** In line with preliminary PDNA findings, the government has started preparing a rehabilitation and reconstruction policy. The government is also organizing a high-level donors' conference on 25 June 2015 to consult on the reconstruction strategy and programs, including financing. The

<sup>6</sup> The amount varies depending on the valuation method used for rural housing.

<sup>7</sup> ADB. 2015. *Asian Development Outlook 2015: Financing Asia's Future Growth*. Manila.

<sup>8</sup> Bhaktapur, Dhading, Dolakha, Gorkha, Kathmandu, Kavrepalanchok, Lalitpur, Makawanpur, Nuwakot, Okhaldhunga, Rasuwa, Ramechhap, Sindhuli, and Sindhupalchowk.

<sup>9</sup> The districts below the national poverty average are Dolakha, Makwanpur, Ramechhap, Rasuwa, Sindhuli, and Sindhupalchowk.

<sup>10</sup> Sustainable Development Goal targets for education include (i) ensuring that all girls and boys complete free, equitable, and quality primary and secondary education leading to relevant and effective learning outcomes by 2030; and (ii) building and upgrading education facilities that are child, disability, and gender sensitive and provide safe, non-violent, inclusive, and effective learning environments for all by 2030.

government has set up a National Reconstruction Fund to raise \$2 billion, and contributed \$200 million. The outcome of the conference will be reflected in the FY2016 budget to be finalized by 15 July 2015 for immediate initiation of the reconstruction programs.

11. **Development partner coordination.** Before the earthquake, various development partners had been closely coordinating to build the government's disaster risk management (DRM) capacity. In 2009, the Nepal Risk Reduction Consortium was launched by the government in partnership with several development partners including ADB, to strengthen preparedness, response systems, and the overall policy framework. ADB assisted in pilot retrofitting 160 schools in Kathmandu valley (all of which withstood the earthquake of 25 April 2015) and preparing a national school safety master plan. After the earthquake, the government and development partners closely coordinated rescue, relief, and early recovery efforts. The PDNA process also demonstrated a high level of coordination. The outcome of the PDNA provides a common platform to implement development partner-assisted reconstruction programs in a harmonized and collaborative manner.

12. Close consultations continue among key development partners and the government on the assistance to be provided. The government intends to apply aid coordination principles as reflected in the Paris Declaration—reduced fragmentation, development partner collaboration possibly led by a key development partner in each sector, and harmonization. Based on these principles, focal areas for ADB assistance in the initial part of the reconstruction phase were identified as education (in light of ADB's lead role taken in school safety under the Nepal Risk Reduction Consortium), road transport, and district towns (in light of the long-term partnership of ADB in the urban sector). These sectors were also selected in view of the highly significant social development and livelihood restoration implications.<sup>11</sup> Development partners were consulted on the proposed project design to provide a platform for others to cofinance.

13. **Request for emergency assistance loan.** The government requested an emergency assistance loan (EAL) on 27 May 2015 to support its post-earthquake recovery and reconstruction. ADB's different lending modalities were assessed to determine the most appropriate way to help the government respond to urgent needs while remaining within the national expenditure programs.<sup>12</sup>

14. **Lessons in disaster response.** The project incorporates key lessons from recent disasters in India, Pakistan, and the Philippines. It supports the government to build back better (BBB) and strengthen resilience to future disasters, particularly through more resilient schools, roads and government office buildings and by using school communities to build awareness and capacity for DRM. Government capacity for BBB will also be strengthened through implementation of the project and capacity building. In view of the finite human resources within the government, the project will require outsourcing of experts to supplement the gaps while not diverting human resources from ongoing development operations. Building on the existing partnership with and capacity of the sector agencies is another lesson to facilitate timely implementation, while using advanced procurement and retroactive financing. To promote transparency, reduce the administrative burden, and ensure sound management, a TA will be provided to set up an electronic, results-based monitoring, and evaluation system. Finally, to identify synergies and avoid duplication, close development coordination was undertaken for selecting sectors and designing the project.

<sup>11</sup> In the meantime, the World Bank is planning to focus on rural housing reconstruction. The Japan International Cooperation Agency has also shown interest in reconstruction and building resilience in major cities.

<sup>12</sup> The project meets all six characteristics of an EAL, as defined in the Staff Instructions. ADB. 2015. Staff Instruction on Processing and Administration of Emergency Assistance Loans. *Compendium of Staff Instructions*. Manila.



## B. Impact and Outcome

15. The impact of the project is accelerated economic and social recovery in Nepal's earthquake affected districts. The outcome will be critical economic and social services resumed with disaster-resilient infrastructure.

## C. Outputs

16. In response to and in line with the PDNA findings, the project has four outputs:<sup>13</sup>
- (i) **Output 1: Schools are rebuilt and upgraded.** At least 700 schools will be rebuilt or retrofitted in line with school reconstruction plans to disaster-resilient standards and equipped with water and sanitation facilities, including sex-disaggregated toilets.<sup>14</sup> About five will be model schools built with information and communication technology equipment, science laboratories, and improved learning spaces.
  - (ii) **Output 2: Roads and bridges are rehabilitated and/or reconstructed.** About 135 km of strategic roads and about 450 km of rural roads damaged by the earthquake and landslides will be rehabilitated.<sup>15</sup> Project roads and bridges will have built back better features for road safety and climate resilience. Construction and maintenance equipment will also be procured.
  - (iii) **Output 3: District-level government facilities constructed and/or rebuilt.** About 300 district-level government buildings will be rebuilt or retrofitted to disaster resilient standards with basic utilities, and furnished.<sup>16</sup> Transitional district-level government offices will also be established to enable services to continue throughout the reconstruction period.
  - (iv) **Output 4: Disaster preparedness and management capacities strengthened.** All outputs are assured to be disaster risk resilient. Engineering divisions of all implementing agencies will be strengthened.

## D. Investment and Financing Plans

17. **Investment plan.** The project is estimated to cost \$232 million (Table 1). Detailed cost estimates by expenditure category and detailed cost estimates by financier are provided in the project administration manual (PAM).<sup>17</sup>

18. **Financing plan.** The government has requested a loan in various currencies equivalent to SDR143,212,000 from ADB's Special Funds resources to help finance the project. The loan will have an interest charge at the rate of 1.0% per annum; a term of 40 years, including a grace period of 10 years; repayment of principal at 2% per annum for the first 10 years after the grace period and 4% per annum thereafter, and such other terms and conditions set forth in the draft loan agreement. The loan from ADB will finance (i) civil works and equipment, (ii) consulting services and capacity building, (iii) financing charges during construction on ADB's loan, and (iv)

<sup>13</sup> Subproject Selection Criteria and Approval Procedures (accessible from the list of linked documents in Appendix 2).

<sup>14</sup> The total number of classrooms to be rebuilt or retrofitted is at least 7,000, or almost one-fourth of the 30,000 damaged classrooms, benefiting at least 350,000 children.

<sup>15</sup> PDNA preliminary estimates are damages to 4,400 km of roads in rural areas, requiring \$250 million for reconstruction. Their reconstruction is critical to restore the livelihoods of the affected population.

<sup>16</sup> This responds to the urgent need for restoration of public service delivery in district headquarters. PDNA preliminary estimates are \$250 million in damages to government buildings.

<sup>17</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

nominal taxes and duties on ADB-financed project expenditure.<sup>18</sup> The government will provide \$32 million equivalent to cover (i) land acquisition and resettlement costs, (ii) incremental administration costs, and (iii) all other taxes and duties. The financing plan is in Table 2.

**Table 1: Project Investment Plan**  
(\$ million)

| Item  | Amount <sup>a</sup> |
|---|---------------------|
| <b>A. Base Cost<sup>b</sup></b>                               |                     |
| 1. Schools  | 86.5                |
| 2. Roads and bridges  | 81.3                |
| 3. District-level government buildings                        | 35.8                |
| 4. Disaster preparedness and management capacities            | 9.0                 |
| <b>Subtotal (A)</b>   | <b>212.7</b>        |
| <b>B. Contingencies<sup>c</sup></b>                           | <b>15.9</b>         |
| <b>C. Financing Charges During Implementation<sup>d</sup></b> | <b>3.4</b>          |
| <b>Total (A+B+C)</b>  | <b>232.0</b>        |

<sup>a</sup> Includes taxes and duties of about \$30 million.

<sup>b</sup> In mid-2015 prices.

<sup>c</sup> Physical contingencies computed at 5% for civil works and 4% for consulting services. Price contingencies computed at 0.3% to 1.5% on foreign exchange costs and 7.0% to 7.7% on local currency costs in line with escalation rates published by the Asian Development Bank (ADB) at <http://lnadbg1.asiandevbank.org/erd0004p.nsf/>; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Includes only interest. Interest during construction for the ADB loan(s) has been computed at 1% per annum.

Note: Figures may not add up precisely due to rounding.

Source: Asian Development Bank.

**Table 2: Financing Plan**

| Source                        | Amount (\$ million) | Share of Total (%) |
|-------------------------------|---------------------|--------------------|
| <b>Asian Development Bank</b> |                     |                    |
| Asian Development Fund        | 200.0               | 86.2               |
| <b>Government of Nepal</b>    | 32.0                | 13.8               |
| <b>Total</b>                  | <b>232.0</b>        | <b>100.0</b>       |

Sources: Asian Development Bank and the Government of Nepal.

19. **Cofinancing.** Some development partners have expressed their interest to participate in the proposed project, including through cofinancing. Considering that the damages and losses are substantial, additional funds from cofinanciers could be utilized to expand the coverage of the project components. ADB typically seeks Board approval for the administration of loan or grant funds from cofinanciers only when cofinancing commitments are in place. Discussions are underway, but no firm commitment has been made at this short notice. In light of the need for expediency and efficiency in the response to post-disaster recovery and rehabilitation, Management requests Board approval for the administration of any cofinanced funds obtained from development partners subsequent to the date of Board approval, consistent with the objective, purpose or scope of the project. The administration of such cofinanced funds will be approved by Management and reported to the Board in accordance with standard reporting procedures.

<sup>18</sup> ADB financing includes part of tax and duties of about \$5 million. The estimated expenditure is not excessive (2.5% of ADB financing amount) and will apply only to ADB-financed expenditures. The amount is within a reasonable threshold identified during the country partnership strategy preparation process. Financing of the taxes and duties is material and relevant to the success of the project and to simplify and expedite disbursement arrangements. Any incidental expenditures relating to bank charges, local transport, freight, and insurance are eligible for ADB financing.

## E. Implementation Arrangements

20. An interministerial project steering committee, chaired by the secretary of the Ministry of Finance, will guide project implementation and review progress and results. It will meet at least twice a year. The government is establishing a special purpose vehicle (SPV) to manage the reconstruction programs with high efficiency through focused, streamlined, and flexible decision making in budgetary, implementation, and monitoring and evaluation processes. The SPV will be the executing agency for the project once established, and the Ministry of Finance will be the interim executing agency. The project management unit will be established within the SPV.

21. The implementing agencies are:

- (i) The Department of Education of the Ministry of Education for schools (outputs 1 and 4),<sup>19</sup> supported by the Department of Urban Development and Building Construction of the Ministry of Urban Development.
- (ii) The Department of Local Infrastructure Development of the Ministry of Federal Affairs and Local Development and the Department of Roads of the Ministry of Physical Infrastructure Transport for rural roads and strategic roads, respectively (outputs 2 and 4).
- (iii) The Department of Urban Development and Building Construction of the Ministry of Urban Development for district headquarters buildings (outputs 3 and 4).

22. A project implementation unit will be established in each implementing agency. At the district level, each implementing agency will have district implementation units to supervise and implement the approved subproject activities.

23. The implementation arrangements are summarized in Table 3 and detailed in the PAM (footnote 17).

**Table 3: Implementation Arrangements**

| Aspects                                     | Arrangements  |                    |                 |
|---|---|--------------------|-----------------|
| Implementation period                       | September 2015–September 2018<br>The project will be implemented over 3 years. The extended implementation period beyond the EAL norm of 2 years is justified given the extensive nature of the disaster, low capacity, the need for building back better, and Nepal's historically low disbursement record.  |                    |                 |
| Estimated completion date/loan closing date | 30 September 2018/31 March 2019   |                    |                 |
| <b>Management</b>                           |   |                    |                 |
| (i) Oversight body                          | Project steering committee comprised of the secretary, Ministry of Finance (chair); <sup>a</sup> secretary, Ministry of Urban Development; secretary, Ministry of Education; secretary, Ministry of Federal Affairs and Local Development; secretary, Ministry of Physical Infrastructure and Transport; representative, National Planning Commission; and project directors (four implementing agencies) |                    |                 |
| (ii) Executing agency                       | Ministry of Finance (for interim period)  |                    |                 |
| (iii) Key implementing agencies             | Department of Education, Department of Local Infrastructure Development, Department of Roads, Department of Urban Development and Building Construction   |                    |                 |
| (iv) Implementation unit                    | Four implementing agencies; about 40 full-time staff proposed   |                    |                 |
| Procurement                                 | ICB   | 2 contracts        | \$15.0 million  |
|   | NCB   | Numerous contracts | \$157.5 million |

<sup>19</sup> Output 4 includes consultancies to support all four implementing agencies; and outputs 1 to 3.

| Aspects  | Arrangements  |                     |               |
|--|---|---------------------|---------------|
|  | Shopping  | Numerous contracts  | \$6.5 million |
| Consulting services                              | QCBS  | 1,683 person-months | \$6.3 million |
|  | ICS   | 930 person-months   | \$2.2 million |
|  | CQS   | 90 person-months    | \$0.3 million |
| Retroactive financing and/or advance contracting | For eligible expenditures incurred for consulting services; procurement of goods, services, and civil works; and project administration after 25 April 2015, and up to a maximum of 30% of the loan amount. |                     |               |
| Disbursement                                     | The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.   |                     |               |

ADB = Asian Development Bank, CQS=consultants' qualification selection, EAL = emergency assistance loan, ICB = international competitive bidding, ICS = individual consultant selection, NCB = national competitive bidding, QCBS = quality- and cost-based selection,

<sup>a</sup> The special purpose vehicle chief executive officer will chair the committee once the special purpose vehicle is established.

Sources: Asian Development Bank; Government of Nepal.

24. **Procurement.** The procurement of goods and works, and recruitment of consulting services, will be carried out in a manner consistent with the simplified and expedient procedures permitted under ADB's Disaster Emergency Assistance Policy (2004), Procurement Guidelines (2015, as amended from time to time), and Guidelines on the Use of Consultants (2013, as amended from time to time).

25. Based on the procurement capacity assessments of the executing agency (interim) and implementing agencies, (i) centralized procurement will be used; and (ii) thresholds for the procurement of works, goods, and consulting services have been agreed with the government. ADB's prior review and post review have been set forth in the procurement plan. Domestic preference will be provided to the international competitive bidding contracts for goods and works in accordance with ADB's Procurement Guidelines. The PAM's procurement section details the thresholds and processes to be followed.

### III. TECHNICAL ASSISTANCE

26. To support the new SPV (under establishment) and the implementing agencies in implementing the project on time and efficiently and to build their capacities, the government has requested ADB to provide TA grant support for earthquake reconstruction. The TA will have three outputs: (i) institutional capacity strengthened, (ii) effective monitoring and evaluation established, and (iii) school safety enhanced. The first output will provide capacity building support to the executing agency and implementing agencies for speedy and smooth implementation, particularly with respect to procurement, contract management, quality control, and disbursement. The second output will help establish monitoring and evaluation systems at central and district levels. The third output will help establish design standards, type designs, disaster awareness curriculums, and training systems for masons.<sup>20</sup> The TA is estimated to cost \$1,500,000 which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V).<sup>21</sup>

<sup>20</sup> The TA will provide international consultants to bring international best practices on school safety design and to provide quality assurance. This complements related activities in the loan.

<sup>21</sup> Capacity development will also be supported by ongoing TA for Enhancing Portfolio Performance, which provides training on a range of project implementation subjects by setting up the Capacity Development Resource Center based on a capacity rating system and training calendars. ADB. 2014. Technical Assistance for *Enhancing Portfolio Performance: Technical Assistance Report*. Manila.

#### **IV. DUE DILIGENCE**

##### **A. Technical**

27. The final selection of subprojects is not complete but will be in accordance with the criteria and approval procedures already agreed with the government. These include adherence to safeguards requirements and technical viability. Implementing agencies will lead the screening of priority projects. The objective is to rebuild to a better standard. Climate risk screening, including natural hazards caused by climate events, was conducted. Results will be considered in the technical design of schools, roads, and bridges as appropriate. Consultants under ongoing roads projects will be used to prepare designs.

##### **B. Economic and Financial**

28. Given the focus on severely affected zones, the project is likely to bring significant incremental benefits economy-wide and to the affected population. Financial and economic due diligence will be conducted after Board approval and once the individual projects have been identified due to the difficulty in acquiring information in the short processing time needed for emergency response. All of the identified subprojects will be subject to economic analysis as per ADB guidelines to ensure that the selected projects are economically viable.

29. Overall, the multiplier effect of large-scale, productivity-enhancing capital investments will be much larger in the post-quake rehabilitation and reconstruction phase given that the aggregate demand is suppressed and private sector investment has slowed down. Furthermore, proposed capital investments through the project will increase returns to private investment over time, increase per capita income, create local jobs, and boost local as well as regional economic activities.

30. Project outputs are public service goods with no cost recovery, and hence no financial viability assessment is required. Roads, schools, and buildings constructed under the project will be maintained from relevant ministries' ongoing recurrent budget. Government commitment will be obtained as a loan assurance. As project outputs are built back with features to enhance resilience, there would be less strain on the operations and maintenance budget.

##### **C. Governance**

31. An updated financial management assessment of the executing and implementing agencies was conducted for the purposes of the emergency project. The overall fiduciary risk, although substantial, remains manageable as a result of the additional measures provided in the PAM, notably the targeted TA and support to the executing agency. All four implementing agencies have satisfactory experience in implementing ADB-funded projects. A key risk mitigating measure is to ensure a dedicated full-time qualified accountant forms part of the project management unit and program implementation units.

32. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, Ministry of Finance, and all implementing agencies. The specific policy requirements and supplementary measures are described in the PAM (footnote 17).

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

33. The project is expected to help restore classes in permanent, safe buildings for at least 350,000 students in project communities, and citizen services in at least 10 of the most affected districts. Beneficiaries include households headed by females and those below the poverty line.

The project will help restore and improve (i) school facilities, in consultation with affected communities; (ii) access to public and social service facilities; and (iii) connectivity toward the recovery of business, livelihoods, and commercial activities. It will also act on social risks associated with disasters, such as sexually transmitted infections, human trafficking (child, girls, women trafficking), and child labor.

34. **Gender.** The project is classified effective gender mainstreaming, and a gender equality and social inclusion (GESI) action plan has been prepared.<sup>22</sup> To ensure the effective implementation of the GESI Action Plan, the project will hire four GESI experts—one based in Kathmandu and three in the affected districts. These GESI experts will ensure that women and disadvantaged groups are part of the rehabilitation and recovery processes, including labor opportunities, and will receive equitable pay for work of equal value. GESI-related results will be reported using sex-, caste-, and ethnicity-disaggregated data.

## E. Safeguards

35. **Environment.** The project is classified category B for environment. Subproject selection criteria were formulated to avoid significant adverse environmental impacts. An environmental assessment and review framework (EARF) has been prepared in accordance with ADB's Safeguard Policy Statement (2009) and government laws and regulations. The draft EARF has been disclosed on ADB's website. Implementation arrangements build on the implementing agencies' experience from other ADB-financed projects, and adequate capacity is ensured to manage environmental impacts through consultant support. Initial environmental examinations and environmental management plans will be prepared consistent with the EARF, and will be incorporated in bidding documents and contract documents to be implemented by contractors and monitored by the implementing agencies. Environmental reporting to the Nepal Resident Mission will be done on a semiannual basis.

36. **Social.** The project is classified category B for involuntary resettlement and category C for indigenous peoples. Subproject selection criteria were formulated to avoid land acquisition, involuntary resettlement impacts, and social risks. A resettlement framework has been prepared and disclosed in accordance with ADB's Safeguard Policy Statement (2009), and government laws and regulations, to guide planning studies and detailed designs of subprojects. The project ensures that the implementing agencies have adequate capacity to prepare resettlement plans through consultant support. Consultations will be undertaken with stakeholders in project areas during implementation. Resettlement implementation reporting to the resident mission will be done on a semiannual basis.

## F. Risks and Mitigating Measures

37. The overall risk is medium while the integrated benefits and impacts are expected to outweigh the costs. The main risks relate to the ongoing political impasse and capacity issues. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.<sup>23</sup>

**Table 4: Summary of Risks and Mitigating Measures**

| <b>Risks</b>        | <b>Mitigating Measures</b>   |
|---------------------|--|
| Prolonged political | Development partners continue dialogue with the government and key |

<sup>22</sup> Gender Action Plan: Gender Equality and Social Inclusion Plan (accessible from the list of linked documents in Appendix 2).

<sup>23</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

| Risks                                   | Mitigating Measures   |
|---|---|
| transition                              | stakeholders to ensure that the rehabilitation and reconstruction program can move forward in light of the ongoing political processes. Establishment of a separate special purpose vehicle with financial and approval powers for execution of the rehabilitation and reconstruction program will further mitigate the risk of slow implementation.  |
| Poor financial management compliance    | The executing agency will set up a unified web-based project monitoring and management information system in the PMU, PIUs, and district counterparts to monitor implementation, fund flows, accounting, audit and reporting functions. Dedicated accounting staff shall be part of the PMU.  |
| Low implementing capacity (government)  | Extensive support from ADB consultants will be provided for procurement, financial management, disbursement, monitoring and safeguard policies, and procedures. Ongoing technical assistance will also be used to this end.   |
| Low implementing capacity (contractors) | Contractors will be trained in the preparation and submission of responsive bids, and compliance with contractual conditions. The design, construction, and supervision consultant will be engaged for close monitoring and support on contractual compliance. To ensure contractors' cash flow, an advance of 20% will be provided against a reputable bank guarantee.                         |
| Lack of sustainability                  | The assets will be transferred to the respective line ministry and/or the community to ensure utilization and maintenance. Under the existing sector partnerships with ADB, line ministries have plans to pursue O&M sustainability (through sound asset inventories, performance monitoring, O&M planning, and budget allocation for execution). Dialogue will be continued in this direction. |

ADB = Asian Development Bank, O&M = operation and maintenance, PIU= project implementation unit, PMU = project management unit.

Source: Asian Development Bank.

## V. ASSURANCES

38. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents.

39. The government has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

## VI. RECOMMENDATION

40. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve

- (i) the loan in various currencies equivalent to SDR143,212,000 to Nepal for the Earthquake Emergency Assistance Project, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum; for a term of 40 years, including a grace period of 10 years; with repayment of principal at 2% per annum for the first 10 years after the grace period and 4% per annum thereafter; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (ii) the administration by ADB of loans or grants in accordance with the proposal set forth in paragraph 19 of this report, to be provided by any development partner or cofinancier after the date of Board approval of the project.

Bindu N. Lohani  
Vice-President

17 June 2015

## DESIGN AND MONITORING FRAMEWORK

| <b>Impact the Project is Aligned with:</b>   |  |  |   |
|--|--|--|---|
| Accelerated economic and social recovery in Nepal's earthquake-affected districts (defined by project) |  |  |   |
| <b>Results Chain</b>   | <b>Performance Indicators with Targets and Baselines</b>   | <b>Data Sources and Reporting</b>  | <b>Risks</b>  |
| <b>Outcome</b><br>Critical economic and social services resumed with disaster-resilient infrastructure | <b>By 2019</b><br>a. 28% of total earthquake damaged roads improved and operational<br><br>b. Enrollment rates in basic and secondary schools, for boys and girls, restored to pre-earthquake level in project districts, with at least 350,000 students benefitting from new or improved facilities<br><br>c. 10 district headquarters have permanent and safer buildings | a-c. Periodic project progress reports prepared by the executing agency<br><br>b. Educational management information system, flash data, and surveys undertaken by the Ministry of Education | Extreme seismic or weather event occurs during construction   |
| <b>Outputs</b><br>1. Schools are rebuilt and upgraded  | <b>By 2018</b><br>1a. At least 700 schools (including 5 model schools) with water supply and sanitation facilities rebuilt or retrofitted to disaster-resilient standards with sex-segregated toilets  | a. Periodic project progress reports prepared by the executing agency  | Delays in implementation caused by the short working season, difficult terrain, low capacity of contractors, and labor shortage |
| 2. Roads and bridges are rehabilitated and/or reconstructed  | 2a. About 135 km of strategic roads and 450 km of district roads rehabilitated (Target: 20% women in workforce)<br><br>2b. Project communities and all contractors participate in sexually transmitted infection prevention, human trafficking, and adherence to core labor standards awareness campaign (Target: 50% women)   | a-b. Periodic project progress reports prepared by the executing agency  |   |
| 3. District-level government facilities constructed and/or rebuilt                                     | 3a. About 300 district-level government buildings rebuilt or retrofitted to disaster-resilient standards with provision for select   | a. Periodic project progress reports prepared by the executing agency  |   |



| <b>Results Chain</b>   | <b>Performance Indicators with Targets and Baselines</b>   | <b>Data Sources and Reporting</b>                                       | <b>Risks</b> |
|--|--|---|--------------|
|  | temporary offices  |   |              |
| 4. Disaster preparedness and management capacities strengthened  | 4a. All designs and works undergo technical quality assurance<br><br>4b. About 500 staff of implementing agencies acquire skills on disaster risk reduction technical approaches | a-b. Periodic project progress reports prepared by the executing agency |              |
| <b>Key Activities with Milestones</b>  |  |   |              |
| <p><b>1. Schools are rebuilt and/or upgraded</b></p> <p>1.1 Identify and appraise subprojects, as required (by Q2 2016)</p> <p>1.2 Recruit consultants (by Q4 2016)</p> <p>1.3 Prepare engineering designs and bid documents (by Q4 2016)</p> <p>1.4 Construct assets (by Q2 2018)</p> <p>1.5 Make assets operational (by Q2 2018)</p> <p><b>2. Roads and bridges are rehabilitated and/or reconstructed</b></p> <p>2.1 Identify and appraise subprojects, as required (by Q2 2016)</p> <p>2.2 Prepare engineering designs and bid documents (by Q2 2016)</p> <p>2.3 Construct assets (by Q3 2018)</p> <p><b>3. District-level government facilities constructed and/or rebuilt</b></p> <p>3.1 Identify suitable land in district headquarters (by Q3 2016)</p> <p>3.2 Prepare engineering designs and bid documents (by Q2 2016)</p> <p>3.3 Construct assets (by Q1 2018)</p> <p>3.4 Make assets operational (by Q2 2018)</p> <p><b>4. Disaster preparedness and management capacities strengthened</b></p> <p>4.1 Carry out quality assurance activities (by Q2 2018)</p> <p>4.2 Complete disaster risk reduction capacity building for implementing agencies (by Q3 2018)</p> |  |   |              |
| <b>Inputs</b>  |  |   |              |
| <p>ADB: \$200.0 million (loan)</p> <p>ADB: \$1.5 million (technical assistance grant)</p> <p>Government: \$32.0 million</p>  |  |   |              |
| <b>Assumptions for Partner Financing</b>   |  |   |              |
| <p>Additional cofinancing may be confirmed and added to the project after loan approval for any of the project outputs.</p>  |  |   |              |

ADB = Asian Development Bank, km = kilometer, Q = quarter.

Source: Asian Development Bank.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=49215-001-3>

1. Loan Agreement
2. Summary Assessment of Damage and Needs: Education and Transport
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Emergency Assistance Coordination
6. Attached Technical Assistance
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Gender Action Plan: Gender Equality and Social Inclusion Action Plan
10. Environmental Assessment and Review Framework
11. Resettlement Framework
12. Risk Assessment and Risk Management Plan

**Supplementary Documents**

13. Subproject Selection Criteria and Approval Procedures
14. Post Disaster Needs Assessment (Draft Executive Summary)
15. Climate Change: Project Climate Risk Assessment and Management Report
16. Disaster Risk Management
17. Financial Management Assessment (Executive Summary)