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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 28-Jul-2024 | Report No: PIDDA00019



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Nepal	P181344	Nepal Disaster Resilience Development Policy Credit with Cat DDO (NDRC)	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
SOUTH ASIA	26-Sept-2024	Urban, Resilience and Land	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency Ministry of Home Affairs, Ministry of Urban Development, National Disaster Risk Reduction and Management Authority, Ministry of Health and Population, Department of Hydrology and Meteorology, Department of Urban Development and Building Construction, Ministry of Energy, Water Resources and Irrigation		
Ministry of Finance			

Proposed Development Objective(s)

The development objective is to strengthen the capacity of the Government of Nepal to manage disaster and climate risks, including disease outbreaks.

Financing (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	No
Is this project Private Capital Enabling (PCE)?	No

SUMMARY



Total Financing	150.00
DETAILS	
Total World Bank Group Financing	150.00
World Bank Lending	150.00
Decision	
The review did authorize the preparation to continue	
Explanation	

B. Introduction and Context

Country Context

- Nepal is the second most vulnerable country in the world in terms of mortality risk from two or more hazards, given its geographical location, topographical and geological conditions.** It is also among the most vulnerable countries in terms of impact of extreme natural events, climate change and disease outbreaks, which threatens its sustainable growth and development as revealed by the 2015 Gorkha earthquake, the COVID-19 pandemic and subsequent recurring natural disasters, including recent earthquakes on November 3 2023 in Karnali province, the ranging forest fires in April, 2024, as well as the variety of water induced disasters including floods, landslides and multi-hazard cascading events that hit Nepal every monsoon. Climate change and burgeoning health crises further heighten the risks to infrastructure, community health and productivity and eventually to the economy. Every year the Government spends billions of rupees to respond to impacts of natural and health hazards across the country, diverting resources away from other development priorities. Nepal's vulnerabilities underscore the necessity for improved disaster risk management, addressing health emergencies, and ensuring access to contingent financing instruments such as the Cat DDO without which response and recovery can be impacted while slowing down future disaster preparedness efforts.
- The proposed Nepal Disaster Resilience Development Policy Credit with Catastrophe Deferred Drawdown Option (NDRC) aims to deepen support towards the Government of Nepal's progress in reducing its disaster, climate, and public health risks.** The operation builds on the successes achieved and lessons from the implementation of the prior Development Policy Financing (DPF) with Cat DDO project, which was approved in February 2020, as well as more than a decade of partnership between the Government and the World Bank on disaster and climate risk management, including a range of operations and technical assistance on housing reconstruction, disaster risk preparedness and hydromet as well as public health emergency preparedness and response
- Nepal's macroeconomic policy framework is deemed adequate for development policy financing despite risk to the outlook.** Economic growth is expected to be about 5 percent over the medium-term, on the back of increased hydropower projects and exports. Nepal is assessed at low risk of external debt, and the country's debt is expected to



remain sustainable. Fiscal policy has remained consistent with macroeconomic stability, although occasional slippages occur. Fiscal prudence has been upheld through the enactment of fiscal-related acts and the establishment of fiscal-related constitutional bodies in line with the fiscal federalism system. However, it is important to ensure efficient implementation of fiscal federalism to avoid duplication of public expenditure. Efforts to increase domestic revenue mobilization (through removal of VAT exemption, excise duty, and income tax reforms) will contribute to strengthen macroeconomic framework. The Nepali rupee is pegged to the Indian currency, providing a stable nominal anchor for monetary policy. The monetary policy framework aims to achieve price and external sector stability. Macroeconomic adequacy is also supported by an ongoing IMF Extended Credit Facility (ECF) program.

Relationship to CPF

4. **The proposed operation is consistent with the Country Partnership Framework (CPF) for Nepal FY 19–23, extended to FY24 (Report No. 121029-NP).** It responds to the CPF’s “Objective 3.3 Increased resilience to health shocks, natural disasters, and climate change”, with a stated focus on securing emergency financing in the immediate aftermath of climate-induced extreme events and potential pandemics. Increasing the resilience of the country to shocks and climate impacts would enable more inclusive and sustainable growth, which is the overarching Strategic Goal of the current CPF. Furthermore, the operation is also aligned with the high-level objectives of the CPF 25-29 which under preparation. The 2023 Systemic Country Diagnostic (SCD) under preparation identifies challenges including exposure to external demand shocks from natural disasters and limited macroeconomic and fiscal space to deal with an external shock. The SCD also recognizes that improving preparedness for disasters and climate change would have a medium- to long-term impact on reducing macro fiscal risk. The proposed operation is consistent with Priority Area on “strengthening climate and disaster resilience” of the SCD by expanding macroeconomic resilience to external shocks.

C. Proposed Development Objective(s)

The development objective is to strengthen the capacity of the Government of Nepal to manage disaster and climate risks, including disease outbreaks.

Key Results

5. **Reforms supported by this operation are expected to contribute to achieving the development objectives.** The operation will enhance the ability for decentralized disaster risk management by supporting the flow of funds transferred from the Disaster Management Fund (DMF) at central level to province, district and local DMFs for relief, response, and risk-reduction in line with the updated DMF operational guidelines, including conducting evidence-based assessments to support funding requests. It will strengthen resilient infrastructure in Nepal by enhancing compliance to the update of buildings codes (NBC 205 and 206) through an increase in number of municipalities using the upgraded integrated electronic building permitting system (e-BPS) - through which building permit applications are processed – which will include verification of new evacuation and fire safety standards. The operation is expected to enhance the capacity for Early Warning by supporting an expansion in the number hazard warnings communicated by telecommunication service providers to the public, increasing from one (flood) to five (including wildfire, heatwave, earthquake, and landslide). This operation will also strengthen the institutional framework to better manage river and water-induced hazards under the newly approved River and Water Induced Disaster Management Policy, by preparing two river management plans for critical river systems that would inform the design and development of 150kms of climate resilient river embankment protection. Furthermore, the operation underpins the Government’s commitment for disease surveillance which will be



enhanced by increasing the number of diseases, syndromes and conditions monitored by the Early Warning and Reporting System to eight.

D. Project Description

6. **The operation aims to deepen Nepal's policy and institutional reforms towards reducing its disaster, climate, and public health risks through five Prior Actions (PA).** PA 1 supports the operationalization of the Disaster Management Fund and improve its efficiency and utilization through the amendment of the Disaster Risk Reduction and Management regulation to enable the allocation and transfer of funds from the DMF to provincial and local levels. PA 2 strengthens construction requirements, practices and compliance for emergency evacuation, disaster risk mitigation and fire safety and monitor their implementation through the amendment of National Buildings Codes (NBC) 205:2015 "Architectural design requirements for building structures, including revisions of provisions regarding accessibility and exit requirements, light and ventilation, which are critical factors to improve fire safety and emergency evacuation in buildings" and NBC 206:1994 "Mandatory rules of thumb for reinforced concrete without masonry infill", now called "Ready To Use Detailing Guideline For Low Rise Reinforced Concrete Buildings Without Masonry Infill". PA 3 supports Nepal's move to multi-hazard early warning and preparedness by expanding the scope of its partnership with telecommunication service providers through a memorandum of understanding from single to multi-hazard early warning communication. PA 4 facilitates coordinated and risk-informed investments and action to reduce river and water-induced hazards through the development of the River and Water Induced Disaster Management Policy. PA 5 enhances the government's preparedness and response capacities for public health emergencies by expanding the scope of the monitored diseases and health risks within its disease surveillance system by formulating the list of notifiable prioritized diseases, syndromes, and conditions as mandated by the Public Health Service Act 2018. A meticulously formulated prioritized list of notifiable diseases is critical for early warning and response.

7. **The proposed operation is anchored in the Green, Resilient, Inclusive Development or GRID approach,** which Nepal adopted as a national long-term vision, articulated in the 2021 Kathmandu Declaration on GRID. It represents a fundamental shift in managing risk and development, towards a deliberate proactive recovery strategy, consistent with the Nepal Disaster Risk Reduction National Strategic Plan of Action (2018-2030). Furthermore, the program supports the government's effort to improve health emergency preparedness and response, as anchored in the One Health Strategy and National Health Sector Strategic Plan (NHS-SP), 2023.

8. **The program is developed in close coordination with development partners working on similar areas to maintain complementarity across programs** such as the Japan International Cooperation Agency's (JICA) support to the development of electronic Building Permit System (eBPS). This operation and associated technical assistance are coordinated with GFDRR and key development partners such as Switzerland, United Kingdom, United States, Canada, and Japan as well as a range of technical partners. A heavy suite of technical assistance activities complement the operation and are financed by the Earthquake Resilience and DRM related Multi-Donor Trust Fund Program involving Swiss Agency for Development and Cooperation, Foreign, Commonwealth & Development Office, United States Agency for International Development and the Government of Canada, focused on i) Resilient infrastructure, ii) Community Preparedness, Response and Recovery, iii) Disruptive Technology Application for DRM, and iv) Multi-hazard Risk Assessment Framework. The program is also benefiting from a technical support by Japan through GFDRR in promoting resilient reconstruction practices and early warning communication.

E. Implementation

Institutional and Implementation Arrangements



9. **The program design benefits from reform dialogues with authorities, World Bank knowledge work and series of consultations, meetings and reviews by different government agencies and other stakeholders.** The GoN's procedures to formulate and approve policies, and regulations includes consultations with several stakeholders and concurrence by at least the Ministry of Finance and Ministry of Law Justice and Parliamentary Affairs. The GoN's agencies leading the policy reforms engaged the relevant stakeholders during the formulation of policies and amendments of the regulations. All data are collected by responsible line Ministries, some of them are publicly available, and others are available upon request. The Bank staff have working relationships with the line Ministries and agencies involved in the reform program and maintain close working relationships with MOF.

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

Poverty and Social Impacts

10. **Reforms supported by this Cat DDO will have neutral to positive poverty impacts.** PA1 and PA3 will have neutral to positive effects on poverty and inequality reduction if these are accompanied by additional mechanisms that target and/or compensate the poor. The poor are more likely to be affected by natural disasters and have fewer coping mechanisms. As a result, disasters are also likely to push people into poverty, especially the most vulnerable. Financing gaps are one important factor that underly the limited coping potential of the poor. Therefore, PA1 will have a positive effect on poverty and inequality reduction in the event of a disaster, compared to the status quo. However, variability in institutional capacity at the local level to utilize financing effectively should be addressed, to avoid a widening of spatial disparities. Also, PA2 may increase poverty if not accompanied by compensation measures or subsidy programs for the poorest. Similarly, EWC (PA3) can protect vulnerable groups from the immediate impact of a disaster, and therefore can have positive impacts in the event of a disaster. However, complementary mechanisms that allow reaching the poorest of the poor who might not own mobile phones, and targeted local level awareness campaigns will be crucial to realize the positive impacts of this reform. PA4 and PA5 will be beneficial for poverty and inequality reduction if they are accompanied by appropriate operationalization and implementation of the policy guidelines.

Environmental, Forests, and Other Natural Resource Aspects

11. **All policy actions supported by this operation are likely to have beneficial effects on the environment, forests, natural resources, and climate change.** Moreover, PA 1 and PA 4 would bring significant environmental benefits by protecting watersheds, rivers, and biodiversity from the destructive effects of floods and landslides. For PA 1 a window of opportunity to achieve these benefits is open through the updating of the DMF's operational procedure that may integrate environmental considerations into the Fund's supported operations- an issue that the Bank will highlight in its policy dialogue with the government. Successfully achieving the environmental benefits of PA 4 would likely result from several of the institutional strengthening measures that are considered in the policy itself, the Bank's technical assistance for the master plans of the Daraundi and Balan rivers, and the reinforcing positive effect from the Nepal's "National Irrigation Policy, 2023" supported by the GRID DPC 2 and the World Bank supported Water Sector Governance and Infrastructure Support Project.

G. Risks and Mitigation

12. **The proposed operation's overall risk rating to achieve its PDO is substantial.** Political and governance risks are also substantial. A new coalition government has been established at the federal and provincial levels, except in two



provinces where government formation is likely to take place shortly. However, the risks of political uncertainty, overlaps and gaps among the three tiers of government, and the need for more clarity and coherence between policies and devolved powers will remain in the coming period. The WB maintains continuity in policy dialogue with all key political parties on the development agenda to mitigate any risks that may be influenced by political change. Macroeconomic risk is moderate, as fiscal policy has generally remained consistent with macroeconomic stability, although occasional slippages occur. Fiscal prudence has been upheld through the enactment of fiscal-related acts and the establishment of fiscal-related constitutional bodies in line with the fiscal federalism system. However, it is important to ensure efficient implementation of fiscal federalism to avoid duplication of public expenditure. Furthermore, the economic costs of climate change and disasters in Nepal are significant, and the direct cost of climate shocks to be in the range of 1.5 to 2 percent of GDP per year and as high as 5 percent of GDP in years with extreme shocks. This program will contribute to mitigating some of the costs associated with similar climate and natural hazard shocks in the future

13. **Sector strategies and policies are rated moderate, reflecting the complexity of the reform agenda.** The GoN has a strong capacity to design sector strategies and policies, but implementation remains a challenge. To mitigate this, the program is designed to align the country's development strategy and objectives. Also, the government is working closely with development partners, including the World Bank, as well as the private sector, for advice and technical support to address specific knowledge gaps. The Bank is providing technical assistance to or has ongoing programs with the respective government agency leading PAs, to enhance their implementation capacity.

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