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Report No: PD000017

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 113 MILLION (EQUIVALENT TO US\$150 MILLION) TO

NEPAL

FOR THE

Nepal Disaster Resilience Development Policy Credit with Catastrophe Deferred Drawdown Option  
(NDRC)

September 11, 2024

Urban, Resilience and Land  
South Asia

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Nepal

**GOVERNMENT FISCAL YEAR**

*July 16 – July 15*

**CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of July 31, 2024)

Currency Unit

US\$1.328420 = SDR 1.00

NPR 133.96= US\$1.00

**ABBREVIATIONS AND ACRONYMS**

CPF	Country Partnership Framework	LDP	Letter of Development Policy
CCDR	Country Climate and Development Report	MTEF	Medium-Term Expenditure Framework
DMF	Disaster Management Fund	MOF	Ministry of Finance
DHM	Department of Hydrology and Meteorology	MOHP	Ministry of Health and Population
DRRMA	Disaster Risk Reduction and Management Act	NTA	Nepal Telecommunications Authority
e-BPS	Electronic Building Permit System	NBC	National Building Codes
GDP	Gross Domestic Product	NDRRMA	Disaster Risk Reduction and Management Act Authority
GNP	Gross National Product	PER	Public Expenditure Review
GoN	Government of Nepal	SDR	Special Drawing Rights
GRID	Green Resilient and Inclusive Development	SCD	Systematic Country Diagnostic
GRID SAP	GRID Strategic Action Plan	VRA	Vulnerability and Risk Assessment
IBRD	International Bank for Reconstruction and Development	WB	World Bank
IDA	International Development Association	WBG	World Bank Group
IFC	International Finance Corporation		
IMF	International Monetary Fund		

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**NEPAL**  
**Nepal Disaster Resilience DPC with Cat DDO (NDRC)**

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This operation was prepared by a multi-practice team consisting of Arati Belle, Senior Disaster Risk Management (DRM) Specialist and Task Team Leader (TTL); Iguniwari Thomas Ekeu-Wei, DRM Specialist and Co-TTL; Mamata Ghimire, Health Economist and Co-TTL; Jolanta Kryspin-Watson, Lead DRM Specialist; Carina Fonseca Ferreira and Basanta Paudel, DRM Specialists; Rubika Shrestha, Water Supply and Sanitation Specialist; Abdoul Mijiyawa, Senior Economist; Nayan Krishna Joshi, Economist; Sachiko Morita, Senior Counsel; Philippine De Maere, Counsel; Annu Rajbhandari, Senior Environmental Specialist; Mishka Zaman and Jaya Sharma, Senior Social Development Specialists; Bishwa Raj Basaula, FM Specialist; Shambhu Uprety, Senior Procurement Specialist; and Satish Kumar Shivakumar, Finance Officer.



## SUMMARY OF PROPOSED FINANCING AND PROGRAM

### BASIC INFORMATION

Operation ID	Programmatic	
P181344	No	

### 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.

### Organizations

Borrower:	Nepal
Implementing Agency:	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, Ministry of Home Affairs, Ministry of Urban Development, National Disaster Risk Reduction and Management Authority

### PROJECT FINANCING DATA (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
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### DETAILS

#### World Bank Group Financing

International Development Association (IDA)	150.00
IDA Credit	150.00



#### IDA Resources (US\$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	112.50	0.00	0.00	0.00	112.50
Crisis Response Window (CRW)	37.50	0.00	0.00	0.00	37.50
<b>Total</b>	<b>150.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>150.00</b>

#### PRACTICE AREA(S)

##### Practice Area (Lead)

Urban, Resilience and Land

##### Contributing Practice Areas

Health, Nutrition & Population; Macroeconomics, Trade and Investment; Water

#### CLIMATE

##### Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

#### OVERALL RISK RATING

Overall Risk

● Substantial



<b>RESULTS</b>		
<b>Indicator Name</b>	<b>Baseline (2024)</b>	<b>Target (2027)</b>
<u>Results Indicator 1:</u> Funding from the central level DMF is transferred 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 (Y/N)	No	Yes
<u>Intermediate Result Indicator 1.1:</u> Mechanism to collect disaggregated data (by sex, age, disability) of the affected population established at the PLGs and linked to the BIPAD portal for vulnerability risk assessment (VRA) informed planning (Y/N)	No	Yes
<u>Results Indicator 2:</u> Establish a centralized electronic building permit system (eBPS) to enable building code compliance (Y/N).	No	Yes
<u>Intermediate Result Indicator 2.1:</u> Municipalities that have upgraded their electronic building permit systems (eBPS) or connected to centralized eBPS for compliance and monitoring of building codes including NBC 205 and 206 (Number).	0	20
<u>Results Indicator 3:</u> Hazard warning communication provided by DHM expanded from single (flood) to multiple hazards (wildfire, heatwave, flood, thunderstorms, and landslide) (Number).	1	5
<u>Intermediate Result Indicator 3.1:</u> People with enhanced resilience to climate risks due to improved access to early warning communication (Number).	5,000,000	7,500,000
<u>Results Indicator 4:</u> River management masterplans (including sediment management plans) prepared for critical river systems (Number).	0	2
<u>Result Indicator 5:</u> River embankment protection informed by the river management master plan (Kilometers).	0	100
<u>Results Indicator 6:</u> Diseases, syndromes, and conditions monitored weekly by the Early Warning and Reporting System (Number).	6	12



## IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO NEPAL

### 1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Nepal Disaster Resilience Development Policy Credit (DPC) with Catastrophe Deferred Drawdown Option (NDRC) aims to deepen support for Nepal's efforts to mitigate disaster, climate, and public health risks.** This operation builds on the successes achieved and lessons from implementing the previous Development Policy Financing (DPF) with Cat DDO, approved in February 2020<sup>1</sup>. The proposed credit, for US\$150 million, aims to strengthen regulatory instruments such as policies, regulations, and codes for Disaster Risk Management (DRM) and infrastructure resilience. The NDRC also facilitates risk-informed investments to address river and water-induced disasters and highlights the government's commitment to scaling up multi-hazard early warning communication. Furthermore, this operation expands institutional mechanisms for disease surveillance and preparedness to address new and emerging health risks in Nepal. In addition to providing access to immediate liquidity to the country in the aftermath of natural disasters, the NDRC strengthens resilience at sectoral and at sub-national levels while promoting technology adoption and private sector engagement for health emergencies and DRM.

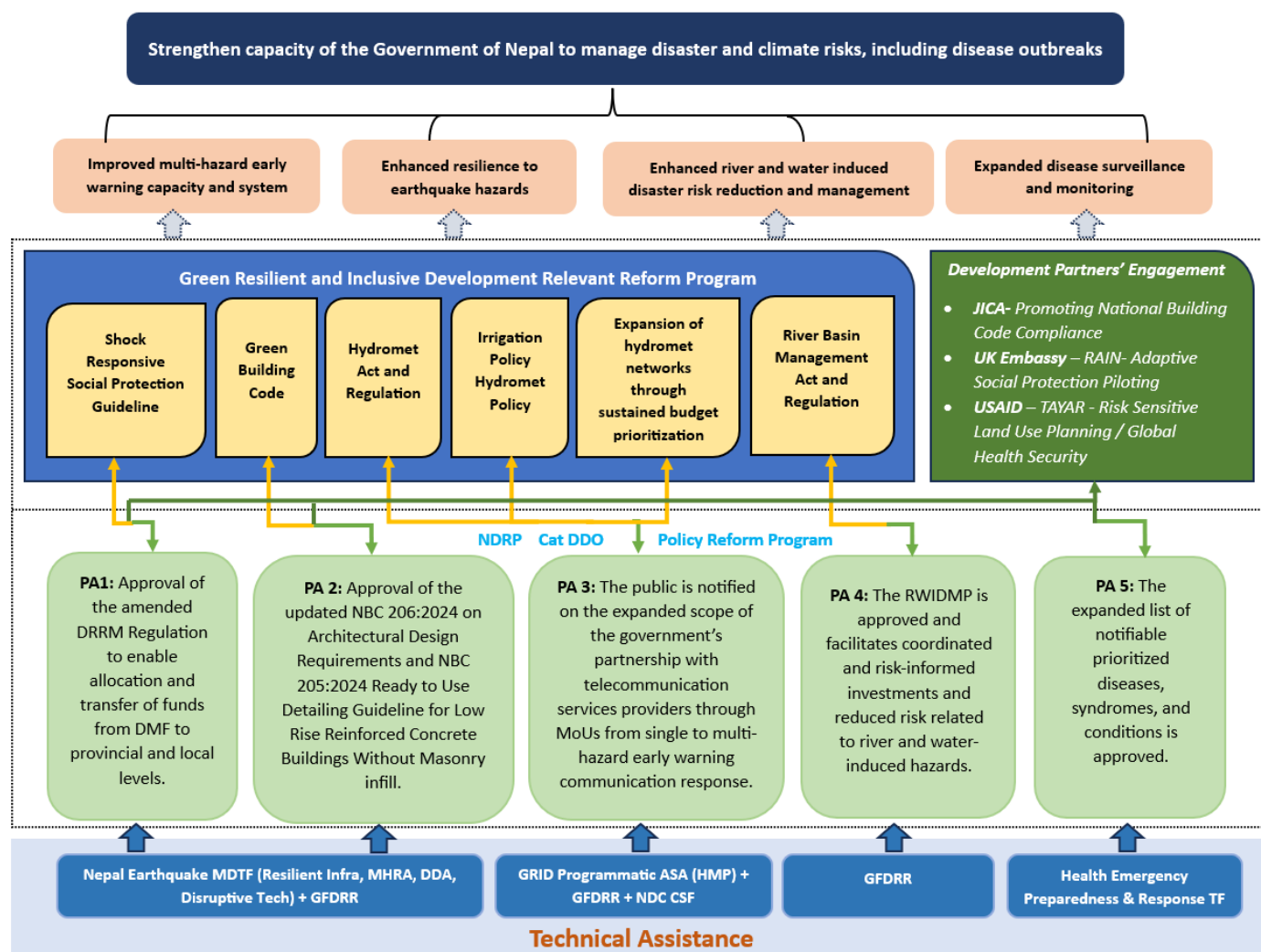
2. **This proposed operation enhances the resilience agenda in Nepal, building on the decade-long partnership between the Government of Nepal (GoN) and the World Bank (WB).** These include the Nepal DPF with Cat DDO operation (P166788), the First Nepal Green, Resilient, and Inclusive Development (GRID) Programmatic DPC (P177776), as well as projects such as the Earthquake Housing Reconstruction Project (P155969), Building Resilience to Climate-related Hazards Project (P127508), Climate Adaptation and Resilience for South Asia (P171054), Nepal: COVID-19 Emergency Response and Health Systems Preparedness Project (P173760), and Nepal Quality Health Systems Program-for-Results (P177389).

3. **Reform programs under the NDRC Cat DDO complement World Bank initiatives and those of other development partners in disaster and health risk management in Nepal.** Policy reforms under the GRID DPC series and the Asian Development Bank (ADB)'s Policy Based Lending foster an enabling policy environment for early warning systems and strengthen river and water-induced DRM, such as the expansion of hydromet observation networks and the formulation of the Hydromet Policy and Shock Responsive Social Protection Guideline which complements the reforms under the NDRC. Additionally, development partners' engagement in the DRM landscape, such as USAID's Risk-Sensitive Land Use Planning, JICA's promotion of National Building Code Compliance, and piloting of Adaptive Social Protection, complements the NDRC's policy reforms. These efforts collectively set the stage for strengthening Nepal's long-term resilience to climate, disaster risk, and disease outbreaks. **Figure 1** illustrates the linkage between each PA, the GRID, and development partners' programs on DRM and health risk surveillance.

4. **The DPC with Cat DDO instrument contributes to building long-term disaster resilience in Nepal.** In Nepal's shift towards a federal administrative system and a proactive DRM strategy, this operation targets critical policy and institutional gaps that impede federal, provincial, and local governments from effectively executing their responsibilities. It introduces reforms pivotal to long-term resilience, focusing on crisis preparedness and risk mitigation. Central to this is improving the DRM governance framework through institutional capacity to enhance DRM implementation efficiency at all levels. The operation also supports revising and updating the policy and regulatory frameworks, as well as investments to translate these policies into actions. Furthermore, the operation promotes partnerships with the private sector in enhancing disaster risk preparedness through multi-hazard early warning communication.

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<sup>1</sup> This was the first time Nepal had availed Cat DDO financing and will close in November 2024.



**Figure 1.** Schematic illustration of linkages between NDRC, GRID and Development Partners' programs on Disaster Risk Management (DRM) and Health Risk Surveillance in Nepal.

5. **The NDRC focuses on results, including i) disaster risk mitigation:** to minimize loss of human life and property by reducing disaster impacts; ii) **disaster preparedness:** to develop strategies and systems to manage potential disasters; and iii) **disaster response and recovery:** to provide immediate relief and quickly restore affected communities after a disaster (**Figure 2**). More so, the Cat DDO provides access to contingent financing that is critical immediately after a major disaster event, which is central to the Government's Disaster Risk Financing (DRF) Strategy<sup>2</sup>. Other DRF tools, such as risk transfer instruments, complement but do not replace risk retention instruments and should also be included in this approach. The World Bank plans to pursue these tools in alignment with the GoN's broader DRF efforts.

6. **The NDRC operation is complemented by robust technical and advisory assistance linked to its objectives and results.** In addition, it leverages government investments through its annual work program and budget, and public-private

<sup>2</sup> National Disaster Risk Financing Strategy, 2020



partnerships to ensure the reforms contribute to building long-term resilience to multi-hazards in Nepal. The WB's overall support for strengthening long-term resilience to disasters in Nepal is presented in **Figure 2**, showing the suite of regulatory, advisory, analytical, and investment inputs required to achieve expected DRM outcomes. Additional investments are still needed to enhance infrastructure resilience, including implementing structural disaster mitigation measures, retrofitting, installing and operationalizing multi-hazards early warning systems, and establishing integrated emergency management systems and capacity building.

### Nepal's Vulnerability Context

7. **Nepal is the second most vulnerable country globally to mortality risks from multiple hazards<sup>3</sup> due to its geographical and geological dispositions.** It faces significant threats from earthquakes, extreme natural events, climate change, and disease outbreaks, all impacting its sustainable growth. The April 2015 Gorkha earthquake (7.8 magnitude) caused widespread devastation<sup>4</sup>, totaling US\$7 billion, and exposing weaknesses in building practices, and limited compliance with building codes. The November 2023 Jajarkot Earthquake highlighted vulnerabilities in building construction practices where many collapsed or heavily damaged houses were constructed using rubble stone masonry in mud mortar – a typical vulnerable construction approach dominating housing typology in Nepal's mid-hills and mountains. Nepal is also prone to disasters like floods, landslides, and droughts, which damage infrastructure and affect economic productivity. A severe wildfire in April 2024 caused loss of life, damaged buildings, and a deterioration in air quality. Climate change is expected to intensify these events, with drier winters and wetter monsoons potentially increasing river flooding impacts from 157,000 people in 2010 to 350,000 by 2030. Analysis indicates that the negative impact of flooding on built infrastructure could account for around half of the almost 7 percent reduction in GDP projected by 2050<sup>5</sup>.

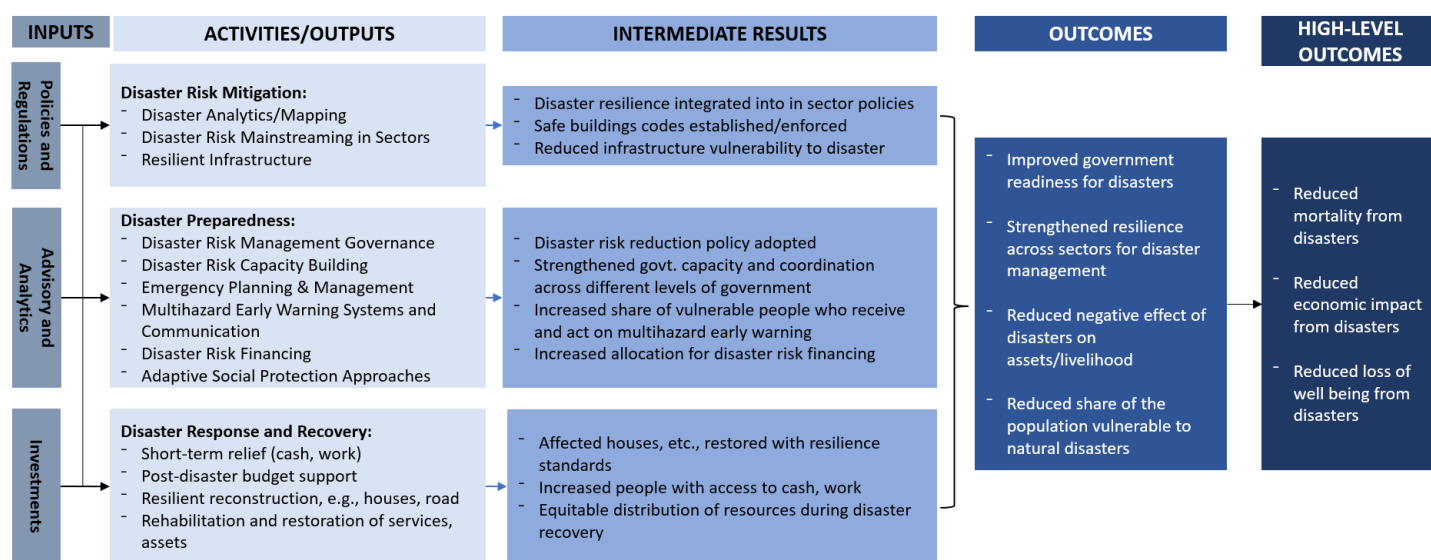
8. **Every year, Nepal suffers substantial socio-economic loss due to the impacts of natural and climate-induced hazards across the country.** The 2017 flood killed over 150 people and displaced around 460,000<sup>6</sup>, while the incessant rainfall in July 2019 caused 92 landslides and 83 instances of flooding, killing over 100 people, and temporarily displacing over 80,000 in central and eastern Nepal. More recently, the Sindhupalchowk flood and landslide event caused significant physical, social, and economic damage, including damage to the Melamchi Water Supply Project that supplies water to Kathmandu Valley. In 2023, monsoon floods and landslides wreaked havoc in Koshi Province, disrupting many small hydropower plants in Sankhuwasabha, Taplejung, and Panchthar districts and causing significant economic losses.

<sup>3</sup> Nepal Climate Risk Country Profile 2021 and MOFE (Ministry of Forests and Environment), GoN. 2019. Climate Change Scenarios for Nepal for National Adaptation Plan

<sup>4</sup> 8790 lives were lost and over 22,300 people injured (Nepal Earthquake Post Disaster Needs Assessment, 2015)

<sup>5</sup> Nepal Country Climate and Development Report, 2022

<sup>6</sup> A Situation Report on Nepal Floods 2017



**Figure 2.** Result Chain of World Bank support to strengthen long-term resilience to disasters in Nepal (Adapted from IEG Report on Country Program Evaluation, 2024)

9. **Nepal's vulnerability to diseases with epidemic and pandemic potential is complex and likely to be intensified by climate change.** Open borders and points of entry expose it to the risk of pathogen transmission between neighboring countries<sup>7</sup>. Rural areas reliant on animal husbandry are threatened by zoonotic diseases that are spread by migratory birds. Exposure to climate-related health risks, particularly rising temperatures, is expected to put an additional 60,000 people at risk of malaria and a further 400,000 at risk of dengue<sup>8</sup>. Malaria cases rose from 377 in 2021 to 491 in 2022, and dengue cases surged from 489 to 733<sup>9</sup>. Emerging and re-emerging diseases, not limited to Vector Borne Diseases, have a high potential to create outbreaks with widespread morbidity and mortality. Nepal ranks 107<sup>th</sup> and 53<sup>rd</sup> in the Global Health Security Index<sup>10</sup> and Infectious Disease Vulnerability Index<sup>11</sup> respectively, indicating high vulnerability to climate-related disease outbreaks. Despite significant efforts to expand COVID-19 testing and treatment, Nepal's health system is inadequately prepared to manage larger-scale emergencies due to its limited capacity to implement international health regulations<sup>12</sup>. Additionally, emerging livestock diseases like lumpy skin disease, which affected all 77 districts in 2023, causing a death of around fifty thousand cattle and infections in over one million, have led to significant losses for farmers and reduced agricultural productivity. These gaps in the disease monitoring and early warning system need strengthening, drawing lessons from implementing the National Pandemic Preparedness and Response Plan for COVID-19.

10. **Contingent financing instruments such as the Cat DDO contribute to the GoN's response and recovery efforts.** The Gorkha earthquake highlighted the need for contingent finance, as it took approximately 300 days to mobilize finance for recovery and reconstruction finance. In the aftermath of a disaster, line ministries and the Ministry of Finance (MoF) normally reallocate the existing development budget to cover costs for response, relief, recovery, and reconstruction. This

<sup>7</sup> Assessing the Ground Crossing Points of Nepal and Their Compliance with the International Health Regulations (2005) to Prepare and Inform the Public Health Response to COVID-19

<sup>8</sup> Climate and Health Vulnerability Assessment: Nepal, 2023.

<sup>9</sup> Annual Report 2078/79 (2021/22). Government of Nepal, Department of Health Services

<sup>10</sup> Global Health Security Index, 2022.

<sup>11</sup> Identifying Future Disease Hot Spots Infectious Disease Vulnerability Index 2016

<sup>12</sup> World Health Organization, 2023. Electronic IHR States Parties Self-Assessment Annual Reporting Tool



process can be cumbersome and affects resource allocation to other development priorities. Given the risk of frequent and severe disasters, the GoN sought Cat DDO financing for the first time in 2020, drawing down US\$24.5 million following the 2020 floods and availing the balance after the November 2023 Jajarkot earthquake. Furthermore, contingent finance is appropriated annually for the Disaster Management Fund (DMF) established by the 2017 Disaster Risk Reduction and Management (DRRM) Act. However, as the DMF is nascent, measures are needed to ensure funds flow to local levels and improve their capacity for effective DMF utilization. Moreover, access to contingent finance is critical to address emerging health risks that could add to the fiscal burden of healthcare costs in the event of a disease outbreak, as seen during the COVID-19 pandemic.

## 2. MACROECONOMIC POLICY FRAMEWORK<sup>13</sup>

### 2.1. RECENT ECONOMIC DEVELOPMENTS

11. **Real GDP growth slowed to an estimated 1.9 percent in FY23, but recent data indicate signs of economic recovery.** The slowdown was driven by import restrictions and the continued tightening of monetary policy to address the significant widening of external imbalances. The Nepal Rastra Bank (NRB) raised its key interest rate by 150 basis points (bps) in July 2022, on top of the 200-bps increase from FY22. Import restriction measures were in place from December 29, 2021, to January 19, 2023. Nonetheless, real GDP growth rebounded to 3.9 percent (year-on-year, y/y) in the first half of FY24 (H1FY24) from 1.2 percent in H1FY23. This was driven by the services sector, buoyed by increased tourist arrivals. On the demand side, private consumption drove growth, supported by high remittance inflows; however, private investment was low, as illustrated by weak credit demand and low import of capital goods. The contribution of public investment to growth was also low due to the persistent low execution of capital expenditure.

12. **Average consumer price inflation reached a seven-year peak in FY23 but has declined over the past months.** It was 7.8 percent in FY23, driven by food and non-food prices. Key drivers of food prices were supply-side shocks such as India's wheat and rice export restrictions and domestic policy changes, including the removal of Value Added Tax (VAT) exemptions on several essential food items and price support to rice paddies, milk, and wheat producers. However, inflation has declined from 8 percent in H1FY23 to 6.5 percent in H1FY24, equaling the central bank's FY24 inflation target of 6.5 percent. The decrease was driven by lower non-food and services inflation, reflecting the easing of housing and utility costs and transportation prices amid lower global oil prices. Tightened monetary policy in early FY23 also contributed to containing inflation. However, the effectiveness of monetary policy transmission to the real sector has been limited, as illustrated by weak private sector credit demand despite a reduction in the key interest rate by 1 percentage point to 5.5 percent in early December 2023.

13. **The current account deficit narrowed to a six-year low in FY23, driven by lower imports and higher remittances.** The current account deficit fell from 12.6 percent to 1.3 percent of GDP from FY22 to FY23, primarily due to a decrease in imports of goods and services, driven by import restriction and export restriction from India. Exports remained stable as increased services exports offset the decrease in goods exports. The current account balance continued to improve, turning positive in H1FY24 as remittances expanded and the trade deficit narrowed. The surplus was primarily driven by higher remittances, which rose from 10.9 percent of GDP in H1FY23 to 12.3 percent of GDP in H1FY24, and lower imports of goods. Due to the current account surplus, official foreign exchange reserves increased to 12.1 months of import cover at the end of H1FY24.

14. **The financial sector remains in an adequate position amidst increasing pressures.** The sector remains vulnerable to institutional and systemic risks, notably in the cooperative subsector. Additionally, the monetary tightening to address excessive credit growth in the aftermath of the COVID-19 pandemic, coupled with the economic slowdown, has impaired

<sup>13</sup> This section is based on the World Bank Macro team assessment.



the debt-servicing capacity of borrowers. However, despite being on an upward trend, the reported non-performing loans ratio remains reasonable, estimated at 3.7 percent in January 2024. The banking sector's capital adequacy also remained above the regulatory minimum capital adequacy ratio (CAR) of 11 percent, but recent pressures have been observed, including a decline in banks' net profit. The government is committed to strengthening anti-money laundering/combating the financing of terrorism (AML/CFT) framework. Amendments to a set of fifteen laws, including on money laundering, have been recently enacted—and secondary legislation is under preparation—to bring Nepal's AML/CFT legal framework in line with international standards. Effective implementation of the new legal framework needs to be ensured.

15. **The fiscal deficit increased to a record high of 6.2 percent of GDP in FY23, driven by a sharp decline in fiscal revenues, but the deficit has been declining as of mid FY24.** Total revenue (including grants) declined to 19.2 percent of GDP in FY23, down from 23.1 percent in FY22 due to import restrictions and slower economic growth. Total expenditure also decreased by a smaller amount of 1.1 percentage points of GDP. However, the fiscal deficit has decreased to 0.4 percent of GDP in H1FY24, (compared to 1.4 percent of GDP in H1FY23), driven by lower public spending. Reduced fiscal transfers and austerity measures contributed to lower current expenditure. Capital expenditure decreased due to lower budget allocations and structural issues of underspending the capital budget. Revenue declined due to reduced excise revenue, diminished VAT revenue, and lower income tax revenue, as domestic demand was low.

16. **Public debt remains moderate and sustainable due to a largely concessional external debt stock and prudent fiscal management.** It increased to 42.7 percent of GDP in FY23, up from 40.8 percent in FY22. Despite this increase, public debt remains moderate and sustainable, with concessional public and publicly guaranteed external debt accounting for 49.8 percent of total public debt in H1FY24<sup>14</sup>. The National Natural Resource and Fiscal Commission annually sets the ceiling for domestic borrowing for all three tiers of government. The Public Debt Act has set the ceiling for external public debt at one-third of the previous fiscal year's GDP.

**Table 1: Key Macroeconomic Indicators**

	FY2021	FY2022	FY2023e	FY2024f	FY2025f	FY2026f	FY2027f
<b>Real economy</b> (percentage change, unless otherwise stated)							
Real GDP growth (at market prices)	4.8	5.6	1.9	3.3	4.6	5.3	5.5
Real GDP growth (at factor prices)	4.5	5.3	2.2	3.3	4.6	5.3	5.5
Components of GDP growth							
Agriculture (percent)	2.8	2.2	2.7	2.2	2.4	2.5	2.5
Industry (percent)	6.9	10.8	0.6	2.9	5.7	8.6	9.1
Services (percent)	4.7	5.3	2.3	4.0	5.4	5.8	5.9
Consumer prices (period average)	3.6	6.3	7.7	6.7	6.0	5.5	5.5
<b>Fiscal sector</b> (as a percentage of GDP, unless otherwise indicated)							
Total revenue and grants	23.3	23.1	19.2	18.7	19.6	20.1	20.4
Expenditures	27.2	26.8	25.4	21.8	22.3	22.8	22.9
Fiscal balance, including grants	-4.0	-3.7	-6.2	-3.1	-2.8	-2.7	-2.5
Financing sources	9.1	7.4	8.1	7.0	7.3	5.2	5.0
Foreign	4.0	2.6	3.3	3.0	2.3	2.2	2.0
Domestic	5.1	4.7	4.8	4.0	5.0	3.0	3.0
Total public debt	39.9	40.8	42.7	42.5	41.6	40.8	39.8
Domestic	18.4	20.0	21.0	20.5	20.4	20.2	20.1

<sup>14</sup> Nepal Development Update April 2024



External	21.5	20.8	21.7	21.9	21.3	20.6	19.7
<b>Monetary sector</b> (percentage change, unless otherwise indicated)							
Broad money	21.8	6.8	11.4	..	..	..	..
Domestic credit	27.1	14.4	8.7	..	..	..	..
Private sector credit	27.1	12.9	4.8	..	..	..	..
<b>Balance of payments</b> (as a percentage of GDP, unless otherwise indicated)							
Current account balance	-7.7	-12.6	-1.3	3.9	1.6	1.0	0.7
Exports of goods and services	5.1	6.8	6.9	7.0	7.2	7.6	7.9
Imports of goods and services	37.9	42.6	34.5	30.9	32.7	33.2	33.5
Remittances (as a percentage of GDP)	22.1	20.4	22.7	24.4	23.5	23.1	22.8
Gross official reserves (US\$ millions, eop)	11,753	9,513	11,709	15,674	18,675	21,786	24,886
Gross official reserves (in months of concurrent imports of goods and services)	10.2	6.9	10.0	13.6	13.7	14.1	14.3
Rupees per U.S. dollar (period average)	117.9	120.8	130.7				
<b>Memorandum items:</b>							
Nominal GDP, current prices (NPR, billions)	4,353	4,934	5,381	5,965	6,657	7,445	8,310
Nominal GDP, current prices (US\$, billion)	36.9	40.8	41.2	..	..	..	..
Population, million	30.0	30.5	30.9	..	..	..	..
GDP per capita, current prices (US\$)	1229	1337	1332	..	..	..	..

Sources: Nepal Rastra Bank, Ministry of Finance, National Statistics Office, and Financial Comptroller General Office for historical data; and World Bank for projections and estimates.

**Table 2: Fiscal Indicators**

(As percentage of GDP, unless otherwise indicated)	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023e</b>	<b>FY2024f</b>	<b>FY2025f</b>	<b>FY2026f</b>	<b>FY2027f</b>
<b>Total Revenue and Grants</b>	<b>23.3</b>	<b>23.1</b>	<b>19.2</b>	<b>18.7</b>	<b>19.6</b>	<b>20.1</b>	<b>20.4</b>
Total revenue	22.4	22.6	18.8	18.2	19.1	19.8	20.1
Tax revenue	20.0	20.0	16.1	15.6	16.3	16.8	17.0
Taxes on goods and services (incl. VAT and excise)	10.6	10.7	8.6	8.1	8.3	8.4	8.5
Direct taxes	5.1	5.1	4.5	4.6	4.8	4.9	4.9
Taxes on international trade	4.1	4.0	2.8	2.8	3.1	3.3	3.4
Other taxes (incl. social security contributions)	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Nontax revenue	2.4	2.6	2.7	2.6	2.8	3.0	3.1
Grants	0.8	0.6	0.4	0.4	0.4	0.3	0.3
<b>Total Expenditure</b>	<b>27.2</b>	<b>26.8</b>	<b>25.4</b>	<b>21.8</b>	<b>22.3</b>	<b>22.8</b>	<b>22.9</b>
Current expenditure	22.0	22.4	21.0	18.2	18.3	18.4	18.2
Wages and compensation	2.7	2.8	2.9	2.3	2.4	2.5	2.4
Goods and services	1.1	1.5	1.1	0.8	0.9	0.9	1.0
Interest payment	0.8	0.9	1.4	1.4	1.2	1.0	0.8
Current transfer	17.4	17.2	15.7	13.6	13.8	13.9	13.9
of which: fiscal transfer	9.1	8.2	7.4	6.3	6.4	6.4	6.3
of which: revenue sharing	2.5	3.1	2.6	2.1	2.2	2.3	2.3



Capital expenditure	5.3	4.4	4.4	3.5	4.0	4.4	4.7
Overall balance (excluding grants)	-4.8	-4.2	-6.6	-3.5	-3.2	-3.0	-2.8
<b>Fiscal balance (including grants)</b>	<b>-4.0</b>	<b>-3.7</b>	<b>-6.2</b>	<b>-3.1</b>	<b>-2.8</b>	<b>-2.7</b>	<b>-2.5</b>
Amortization of debt	-1.4	-1.6	-2.8	-3.1	-3.7	-1.7	-1.7
Net acquisition of financial assets	-0.6	-1.3	-0.8	-0.8	-0.8	-0.8	-0.8
<b>Gross financing needs</b>	<b>-6.0</b>	<b>-6.5</b>	<b>-9.8</b>	<b>-7.0</b>	<b>-7.3</b>	<b>-5.2</b>	<b>-5.0</b>
<b>Financing sources</b>	<b>9.1</b>	<b>7.4</b>	<b>8.1</b>	<b>7.0</b>	<b>7.3</b>	<b>5.2</b>	<b>5.0</b>
Foreign	4.0	2.6	3.3	3.0	2.3	2.2	2.0
Domestic	5.1	4.7	4.8	4.0	5.0	3.0	3.0

Sources: Nepal Rastra Bank, Ministry of Finance, National Statistics Office, and Financial Comptroller General Office for historical data; and World Bank for projections and estimates.

**Table 3: External Financing Needs and Sources**

(In US\$ millions)	FY2021	FY2022	FY2023e	FY2024f	FY2025f	FY2026f	FY2027f
<b>Financing requirements</b>	<b>-3,028.81</b>	<b>-5,402.11</b>	<b>-822.82</b>	<b>1,451.99</b>	<b>441.03</b>	<b>175.93</b>	<b>31.00</b>
Current Account deficits	-2,830.89	-5,158.68	-551.90	1,763.82	789.39	566.24	466.66
Debt amortization	-197.93	-243.43	-270.92	-311.83	-348.36	-390.31	-435.66
<b>Financing Sources</b>	<b>3,028.81</b>	<b>5,402.11</b>	<b>822.82</b>	<b>-1,451.99</b>	<b>-441.03</b>	<b>-175.93</b>	<b>-31.00</b>
FDI and portfolio investment (net)	165.55	153.59	45.59	74.90	202.97	345.77	345.77
Long term borrowing	1,467.30	1,081.54	1,375.37	1,353.26	1,156.42	1,247.61	1,237.84
Others (trade credits, currency deposits, and misc. items)	1,556.22	2,627.40	1,507.45	1,085.49	1,199.98	1,342.14	1,485.18
Changes in reserves (minus sign indicates increase)	-160.26	1,539.57	-2,105.59	-3,965.64	-3,000.41	-3,111.46	-3,099.80

Sources: Nepal Rastra Bank, Ministry of Finance, National Statistics Office, and Financial Comptroller General Office for historical data; and World Bank for projections and estimates.

## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. **Nepal's economic growth is projected to rebound to 3.3 percent in FY24.** This momentum is expected to continue, with growth expected to reach 4.6 percent in FY25 and about 5.4 percent, on average, over FY26-27, close to the economy's long-term potential. The services sector is expected to remain the primary growth driver over the medium term. The accommodation and food services sub-sectors are poised to benefit significantly from a projected increase in international and domestic tourism. Real estate services are also expected to see a boost due to the central bank's policies, including an increase in the loan-to-value ratio for real estate loans and a higher lending ceiling (NPR 20 million) for first-time homebuyers. The industrial sector is also poised for growth in the medium term, fueled by a significant expansion in the electricity sub-sector. A reliable electricity supply could support manufacturing development as firms will have access to energy to expand their activities and increase productivity. The industry sector will also benefit from expanding construction activity, as over 20 new five-star hotels are currently under construction. On demand side, private consumption and investment are expected to drive growth over the medium term. Remittance inflows will support private consumption, while higher private investment is expected in hydropower and tourism sectors. Exports of electricity and services, notably from the tourism sector, will further fuel growth.

18. **Nepal's inflation rate is anticipated to remain elevated in FY24 before gradually declining.** It is projected at 6.7 percent in FY24, slightly higher than the central bank's 6.5 percent ceiling. Factors such as the removal of VAT exemptions on select basic food items, India's food export restrictions, and increased minimum support prices of paddy will contribute



to this trend. In subsequent years, inflation is forecasted to decrease to 6.0 percent in FY25 and to further decrease to 5.5 percent in FY26, driven by the moderation of global commodity prices and containment of domestic price pressures through monetary policy. The expected lower inflation in India could also aid in reducing domestic inflation through the currency peg, as imported inflation will subside. The central bank will retain the exchange rate peg of the Nepalese Rupee against the Indian Rupee as a nominal anchor of monetary policy throughout the forecast period; there will be enough international reserves to defend the peg arrangement.

19. **Nepal's current account balance is projected to record a surplus in FY24, for the first time since FY16, and then gradually narrow thereafter.** This will be driven by robust remittance growth fueled by record international migration in FY23 and a narrowing trade deficit due to a projected decline in goods imports resulting from restrictions on Indian exports, lower global oil prices, and weak domestic demand. Goods exports, particularly in electricity, are set to increase from FY25 onwards. Services exports are expected to rise as tourism recovers. Meanwhile, imports of services are likely to surpass exports due to continued emigration for work and study. Consequently, the trade deficit is projected to expand, outweighing the increased remittance flow, which is anticipated to average 23.1 percent of GDP over FY25-27 (down from 24.4 percent of GDP in FY24), as outmigration is expected to calm from an FY23 peak. This will result in a narrower current account surplus from about 3.9 percent of GDP in FY24 to an average of 1.1 percent over FY25-27.

20. **Improved economic outlook and envisaged regulatory and structural measures by the authorities are expected to strengthen financial sector stability.** Capital adequacy, liquidity, and average ratios for banking and financial institutions are expected to remain above the regulatory requirements over the projection period, indicating their soundness. However, despite interest rate reductions, the gradual deterioration of asset quality and lower domestic credit demand remain concerns<sup>15</sup>. These concerns are likely to decrease over the medium term as the economy grows. At the same time, the operational independence of regulators and the central bank's continued implementation of macroprudential measures, further enhancement of supervision, and implementation of the AML/CFT legal framework will also contribute to mitigating financial sector risks. The planned audit of the 10 largest banks will be instrumental in assessing their loan portfolio quality and strengthening financial sector stability.

21. **Nepal's fiscal deficit is projected to narrow significantly from its peak of 6.2 percent of GDP in FY23, stabilizing around 3 percent of GDP in the medium term.** Revenue is anticipated to rise gradually over FY25-27 as economic growth and imports recover. This increase will also be supported by a reduction in VAT and Corporate Income Tax (CIT) exemptions, improved revenue administration, and a modernized customs policy framework. Additionally, the implementation of key reforms recommended by the high-level tax committee could further boost tax revenues. Non-tax revenues are also expected to increase, fueled by royalties from new hydropower projects and higher tourism and passport fees. The FY25 budget also includes additional revenue measures, such as the green tax on petroleum products, higher taxes on vehicles, increased excise duties on alcohol and tobacco, and measures to improve tax compliance. More capital spending has been budgeted, but current spending will be contained. Spending is expected to increase gradually over FY25-27, driven by better capital spending. The National Project Bank's integrated guidelines, issued in March 2023, are expected to streamline project development, selection, and prioritization. Fiscal deficit is projected to decline to 3.1 percent in FY24 and then further to 2.5 percent by FY27. It is expected to be financed through external concessional borrowing and domestic sources.

22. **Nepal's debt is expected to remain sustainable.** The most recent Joint Bank-Fund DSA in June 2024 estimated that the risk of debt distress is low for both external and overall public debt. While the analysis resulted in a rating of moderate debt distress risk, staff judgment was applied to assess the debt to be at low risk of distress, noting that remittances, rather than exports, are the major source of foreign exchange to balance the current account and service external debt. Public debt in FY23 was in line with the projection in last year's DSA despite much slower GDP growth and a sharp drop in revenue. The better-than-expected result was due to a favorable valuation effect. Stress tests show a



vulnerability to export shocks (Figures 2 and 3). The DSA findings stress the importance of structural reforms to diversify exports, improve productivity and competitiveness, and enhance resilience to shocks, particularly natural disasters. Reducing reliance on remittances as a source of foreign exchange earnings is particularly important, which increases Nepal's vulnerability to external shocks.

23. **Despite the positive outlook, the forecast is subject to both domestic and external risks.** Externally, geopolitical tension and uncertainty could trigger a rise in commodity prices, impacting all sectors. A growth slowdown in partner countries might also lead to a drop in remittances and tourism, hindering economic growth. Persistently low domestic demand could exacerbate financial stability risks by impacting credit growth to the private sector and, consequently, banks' profitability and asset quality. Finally, frequent political changes, a top headwind for businesses for over a decade, could continue to deter private investment. These changes trigger high staff turnover in Nepal's public administration, including in technical positions, thereby disrupting the continuity of policy implementation<sup>15</sup>. Natural disasters pose additional risks to sustaining welfare gains. However, Nepal's robust track record of maintaining macroeconomic stability during periods of significant exogenous shocks demonstrates its growing capacity to navigate future macroeconomic risks. Moreover, measures supported under the Fiscal Policy for Growth, Recovery, and Resilience DPC series will contribute to mitigating the risks by strengthening domestic revenue mobilization, debt management, and transparency.

24. **Nepal's macroeconomic framework is deemed adequate for development policy financing.** Economic growth is expected to be about 5 percent over the medium term due to new hydropower projects, expected exports, and a stronger services sector. Nepal is evaluated as having a low risk of external debt, and the country's debt is projected to remain sustainable. Fiscal policy has generally remained consistent with macroeconomic stability, and the Government of Nepal remains committed to fiscal sustainability. Fiscal prudence has been upheld through enacting fiscal-related acts and establishing a fiscal-related constitutional body (National Natural Resources and Fiscal Commission) in line with the fiscal federalism system. However, it is important to continue efforts to better implement fiscal federalism, through improved service delivery and reduced expenditure duplication. Efforts to increase domestic revenue mobilization (through removable VAT exemption, excise duty, and income tax reforms) will strengthen the macroeconomic framework. The Nepali rupee is pegged to the Indian currency, providing a stable nominal anchor for monetary policy. The domestic financial system remained sound and resilient despite recent pressure on the asset quality. Macroeconomic adequacy is also strengthened by the ongoing IMF Extended Credit Facility (ECF) program.

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<sup>15</sup> Nepal World Bank Enterprise Survey 2023

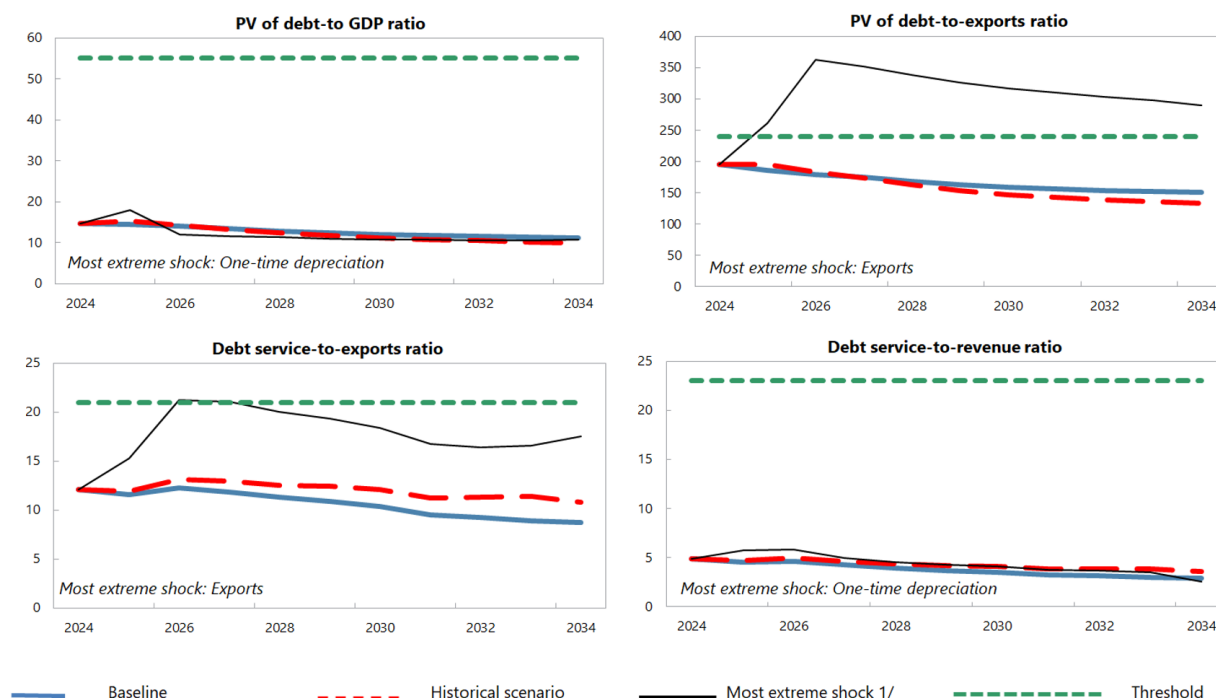


Figure 2: Nepal - Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2024-2034

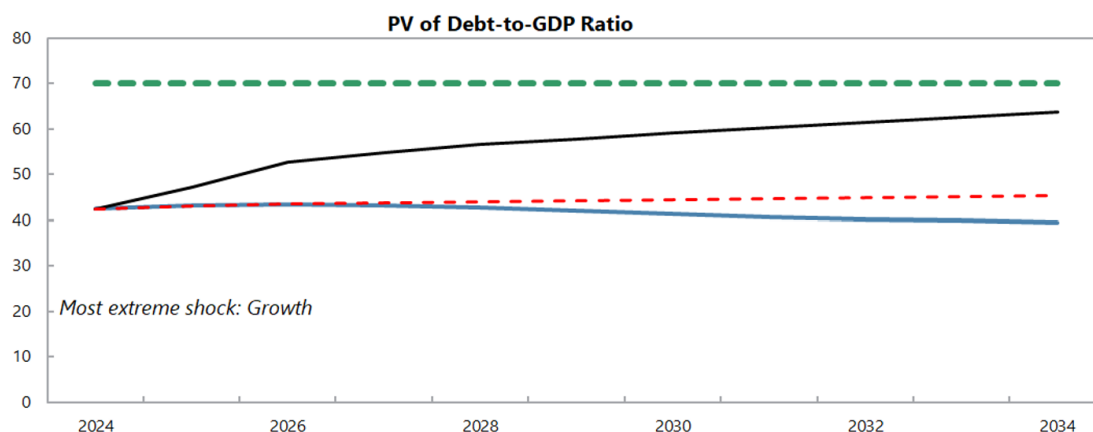


Figure 3: Nepal - Indicators of Public Debt Under Alternative Scenarios, 2024-2034

Source: IMF-WB DSA, June 2024

### 2.3. IMF RELATIONS

25. The IMF Executive Board concluded the fourth review under the Extended Credit Facility (ECF) on July 9, 2024. The ECF arrangement for Nepal was approved by the IMF Executive Board on January 12, 2022, with a financing amount equivalent to 282.42 million SDR (180 percent of quota or about US\$384.8 million). The successful completion of the fourth review enabled a further disbursement of SDR 31.4 million (about US\$41.3 million). This brings total disbursements under the ECF for budget support thus far to SDR 188.3 million (about US\$247.7 million). The ECF arrangement has helped



mitigate the impact of the pandemic and global shocks on economic activity. It aims to protect the vulnerable, preserve macroeconomic and financial stability, and support sustained growth and poverty reduction. The program is helping to catalyze additional financing from Nepal's DPs. The World Bank continues to coordinate with the IMF on financial sector reform issues, public financial management (PFM) capacity building, the federalism agenda, Nepal's GRID Platform, and reforms to raise investment and accelerate growth.

### 3. GOVERNMENT PROGRAM

26. **The proposed operation is anchored in the 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 proactive strategy to build resilience to climate and other shocks that erode development gains.

27. **The Government of Nepal is taking concrete policy and regulatory steps towards managing climate and disaster risks.** The 2017 DRRM Act and associated policy instruments on disaster risk reduction and management underpin the GoN's effort to achieve resilient and inclusive development. Furthermore, the Sendai Framework 2015-2030<sup>16</sup> and the Disaster Risk Reduction National Strategic Plan of Action (2018-2030)<sup>17</sup> provide the framework for strategic actions to reduce climate and disaster risk. The GoN is committed to expanding infrastructure and capacity for hydro-meteorological hazard monitoring, forecasting, and early warning through policy and budgetary provisions. Although the current policy frameworks lay the foundation for climate and DRM, more needs to be done at all tiers of government, specifically at the local level, where capacity and resources are limited to address emergencies of various scales. Often, disaster response tends to be ad-hoc, coordination is less efficient and seldom evidence-based. Also, systems for real-time data sharing among government agencies and the public need to be enhanced, and evidence-based damage assessments are needed to facilitate effective response, reconstruction, and recovery.

28. **Health emergency preparedness and response are central to Nepal's public health agenda.** The Constitution of Nepal 2015 mandates communicable disease control at the federal level and assigns health and disaster management as a shared responsibility across federal, provincial, and local levels. The Public Health Services Act 2018, with its subsequent Regulations 2020, emphasizes preventing and treating infectious diseases, requiring the Ministry of Health and Population (MOHP) to maintain and monitor a list of priority diseases<sup>18</sup>. The One Health Strategy 2019 calls for collaborative efforts to attain optimal health for humans, animals, and the environment. Building on previous strategies and the COVID-19 response, the National Health Sector Strategic Plan (NHS-SP) 2023 aims to enhance disease surveillance systems<sup>19</sup>. With support from the World Health Organization (WHO), the MOHP is (i) implementing an Early Warning and Reporting System in 118 sentinel sites reporting for six notifiable diseases<sup>20</sup> and (ii) operating federal and provincial Health Emergency Operations Centers to coordinate and manage the response to various disasters and public health emergencies. Learning from the COVID-19 pandemic, Nepal is updating its list of notifiable diseases to monitor health risks, including addressing emerging zoonotic diseases and climate-related health threats in line with the Nationally Determined Contributions (NDC) target 2025. The Climate Change Health Adaptation Strategy and Action Plan 2023-2030 further outlines strategies for managing climate-sensitive health risks, emphasizing the development of robust disease surveillance and response systems.

<sup>16</sup> Sendai Framework for Disaster Risk Reduction, 2015-2030

<sup>17</sup> Nepal Disaster Risk Reduction National Strategic Plan of Action (2018-2030)

<sup>18</sup> Nepal Public Health Service Act 2018

<sup>19</sup> Nepal Health Sector Strategic Plan 2023

<sup>20</sup> Malaria, Kala-azar, Dengue, Acute Gastroenteritis, Severe Acute Respiratory Infection, and other epidemic potential diseases/syndromes (like enteric fever, Leptospirosis, Hydrophobia, etc.)



## 4. PROPOSED OPERATION

### 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

29. **The Project Development Objective is to strengthen the Government of Nepal's capacity to manage disaster and climate risks, including disease outbreaks.** The operation enhances policy and regulatory reforms related to disaster resilience and strengthens institutional mechanisms for effective disaster response. It further allows the GoN to improve early warning services, enhance building resilience, embrace risk-informed river and water-induced disaster risk management investments in critical rivers, and expand health emergency preparedness.

30. **This operation is aligned with the goals of the Paris Agreement.** First, the operation is fully aligned with the policy recommendations that have emerged from the Nepal's Country Climate and Development Report (CCDR) and is consistent with the climate priorities outlined in its Second Nationally Determined Contributions (NDC), National Adaptation Plan (NAP), and Long-term Strategy (LTS). Second, on mitigation goals, the reforms under this operation do not significantly increase greenhouse gas (GHG) emissions and do not introduce or reinforce persistent barriers to the country's transition to low-GHG emissions. Third, on adaptation and resilience goals, risks from climate hazards are not likely to have an adverse effect on the prior actions' contribution to the PDO. Prior Action 1 (PA1) aids the NAP and NDC goals to enhance disaster response, while PA2 focuses on updating building designs for climate resilience, in line with NDC and NAP. However, these updates do not address building materials or production processes, thus the greenhouse gas (GHG) impact is minimal. PA3 targets the NDC goal of expanding multi-hazard early warning systems. PA4 supports the NAP's capacity-building initiatives for climate-informed policies and water infrastructure design. PA5 is in sync with the Disaster Risk Reduction (DRR) National Strategic Plan of Action, NAP, and NDC objectives to improve climate-sensitive disease surveillance by 2025. Therefore, all prior actions of the program are aligned with the adaptation and resilience goals of the Paris Agreement (**Annex 5**).

31. **Cat DDO Instrument trigger and drawdown.** Funds may be drawn down by the Recipient either (i) upon imminent or occurring any adverse natural event in the country, followed by a disaster declaration by the Cabinet and notification in the gazette as per the provisions of the Disaster Risk Reduction and Management Act 2017, Chapter 11, Section 32, or (ii) upon imminent or occurring health-related shock in the country followed by a declaration of public health emergency by the Local or Provincial Levels or the Council of Ministers, as per the provisions of the Public Health Service Act of 2018, Chapter 6, Section 48, each in such manner as the Recipient deems appropriate or as the Government may amend it at the time of disbursement. For this operation, the drawdown trigger will cover new and distinct shocks, which should differ from pre-existing shocks or an ongoing state of disaster. Requests for drawdown and renewal follow World Bank procedures and require the maintenance of an adequate macroeconomic policy framework and a satisfactory DRM program in place. Furthermore, under the expanded Crisis Preparedness and Response Toolkit, should there be the occurrence of a catastrophe where the Recipient's needs for resources to address response go beyond the available financing, the NDRC can be scaled with new DPF financing (up to the initial amount of the Cat DDO) to increase liquidity.

32. **The operation's design incorporates lessons from global experience with Cat DDOs, the Nepal DPF with Cat DDO, and other DPFs, including green growth and resilient development engagement.** The lessons from Nepal and global experiences highlight the importance of: (a) sustaining the evolving DRM program with continuous access to contingent financing is crucial for managing fiscal challenges posed by frequent natural disasters like floods and landslides; (b) strengthening inter-ministerial coordination led by the MoF is essential for the implementation of the policy reforms and achievements of the results; (c) complementing the Cat DDO with a package of advisory services to address capacity constraints and aid in the implementation of the policy reforms; (d) ensuring budget and investments to support implementation of the policy reforms for long-term impact and sustainability; and (e) targeting reforms at all levels of government in line with their mandates to ensure both ownership and viability of the reform agenda.



## 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

33. The following prior actions support the operation and reflect the Government of Nepal's commitment to strengthening its disaster, climate, and health risk management.

**Prior Action #1:** *To enable the allocation and transfer of funds from the Disaster Management Fund (DMF) at the central level to provincial and local level DMFs and effective utilization, the Recipient through the Council of Ministers, has approved the Disaster Risk Reduction and Management (First Amendment) Regulation 2081 (2024), as evidenced by its publication in the Recipient's gazette (section 74 Gazette No. 13, June 17, 2024).*

34. **Rationale:** While Nepal has made substantial progress in developing its DRM framework at the national level, strengthening fiscal resilience at the sub-national level remains a challenge. The approval of the Disaster Risk Reduction and Management Regulation in 2019 (a Prior Action under the Nepal DPF with Cat DDO) paved the way for the establishment of the National Disaster Risk Reduction and Management Authority (NDRRMA) and DMF at Central, Provincial, District and Municipal levels. However, operationalizing the DMF has remained a challenge as regulatory limitations hinder the flow of funds from the DMF at central level to provincial and local governments and the capacity to maintain a minimum balance at the central level DMF to undertake critical DRM actions such as preparedness and risk reduction, response, reconstruction, and recovery. These gaps impede the effective utilization of the central level DMF. Furthermore, the limited capacity of provincial and local governments to utilize the DMF, especially after large disasters, has remained a concern, given that disaster events such as earthquakes occur at a scale that may require the mobilization of human and material resources beyond the boundaries and capacity of the provincial or local levels for effective rescue, relief, reconstruction, and recovery.

35. **Substance of Prior Action:** The amendment of the Disaster Risk Reduction and Management Regulation aims to resolve current fund-flow bottlenecks for decentralized DRM action by facilitating allocation and transfer of funds from the central DMF to provincial and local levels. This is contingent upon evidence-based demand and is complemented by continuous monitoring and reporting to ensure its effective use. The amended regulation introduces significant reforms to enhance disaster risk governance at sub-national levels, enabling provincial and local authorities to manage disaster risk (ex-ante- and ex-post). Furthermore, the regulation clarifies fiscal responsibilities across various level of governance for post-disaster recovery efforts, including retrofitting, reconstruction, and rehabilitation and establishes institutional mechanisms for monitoring and reporting of fund usage. Specifically, the amended regulation outlines several provisions, including: i) enabling the evidence-based request and transfer of funds to the Provincial Disaster Management Fund (PDMF), District Disaster Management Fund (DDMF) or Local Disaster Management Fund (LDMF) to support disaster risk reduction, preparedness, response, reconstruction, and recovery; ii) empowering the Executive Committee to determine and ensure a minimum deposit is maintained in the fund and replenished by the Ministry of Finance upon request; iii) ensuring the use of evidence-based assessment for damages and losses for funding request by provincial and local governments; iv) establishing mechanism for regular monitoring and reporting for transparency and accountability, including delegating responsibilities to the Chief District Officer, as well as the Provincial, District and Local Government Disaster Management Committees in monitoring and reporting progress of fund usage; and v) clarifying grant share contributions and responsibilities for retrofitting, reconstruction or rehabilitation of private houses following a disaster excluding earthquake, to 50, 30, and 20 percent from federal, provincial and local DMFs respectively, whereas, in the case of earthquake, 100 percent of the grant resources is to be provided from the central DMF. The amended regulation will inform the revision of the DMF operational guidelines to include, among other features, the use of evidence-based damage and loss assessment tools and methodologies that support funding requests and gender responsiveness in local disaster planning and budgeting that consider the vulnerabilities and constraints women face during crises. Technical assistance



provided to the Government of Nepal during the Cat DDO implementation will enhance sub-national governments' capacity to undertake disaster damage assessment (ex-post) and understanding multi-hazard risk to inform disaster mitigation and preparedness actions (ex-ante).

36. **Expected Results:** The reform is expected to enhance Nepal's DRM federalization, including building the fiscal and technical capacity to implement DRM actions at the sub-national level to achieve long-term resilience. The evidence-based transfer of funds from the central level DMF to PDMF and LDMF will support disaster risk mitigation, preparedness, response, reconstruction, and recovery at the sub-national level, thereby improving the readiness of the government to manage disasters. Furthermore, operational mechanisms for monitoring and reporting will ensure efficient utilization of the fund in reducing risk and losses caused by disasters, including for the most vulnerable groups, and identifying and addressing future disaster risks.

**Prior Action #2:** *To enhance building resilience to disasters and strengthen construction requirements, practices and compliance for emergency evacuation, disaster risk mitigation and fire safety, and to facilitate implementation monitoring, the Recipient, through the Ministry of Urban Development, has approved the amended National Building Codes NBC 206:2024 Architectural Design Requirements and NBC 205:2024 Ready to Use Detailing Guideline for Low Rise Reinforced Concrete Buildings Without Masonry Infill, as evidenced by their publication in the Recipient's gazette (Section 74 Gazette No. 8, May 27, 2024; Section 74 Gazette No. 11, June 10, 2024).*

37. **Rationale:** The majority of the buildings in Nepal are extremely vulnerable to earthquakes and other disasters. While the Building Act of 1998 makes compliance with building codes mandatory, many codes need to be updated, given the country's dynamic vulnerability to natural and climate-induced hazards. Also, municipalities lack the appropriate mechanisms and capacities necessary to implement building codes strictly. The amendment and rigorous implementation of building codes are the most effective ways to reduce the risk of earthquake and disaster damage to future building stocks (e.g., hospitals, schools, private houses, commercial buildings, and government buildings). The National Building Code (NBC) 105:2020 on "Seismic Design of Buildings" – a critical code to avoid building collapses and life-threatening damage during earthquakes was updated in 2020 (a Prior Action under the previous Cat DDO). However, NBC 105:2020 alone is insufficient to protect the lives of occupants from other hazards. Many building codes are yet to be updated, including codes that would strengthen the resilience of rubble stone masonry buildings, that is among the most vulnerable structures to earthquakes, as evidenced by the recent Doti (8 November 2022), Bajhang (3 October 2023), and Jajarkot (3 November 2023) earthquakes, where thousands of buildings collapsed or sustained severe damage from moderate ground shaking. Furthermore, fires are among the hazards causing more fatalities and casualties, and local municipalities are ill-equipped to manage fire emergencies. While the data is scarce in understanding the baseline, fire accidents in buildings are estimated to occur within the order of thousands every year in Nepal. The unregulated use of heating appliances, malfunctioning heating units, and deficient ventilation systems are among the major causes of fires leading to serious injuries and death. Earthquake shaking also significantly increases the risk of fire, where fires are commonly initiated from electrical or fuel gas-related sources.

38. **Substance of Prior Action:** The amendment of NBC 206:2015 of "Architectural Design Requirements for Building Structures," including revisions of provisions to improve accessibility and exit requirements, light, and ventilation, which are critical factors to improve fire safety and emergency evacuation in buildings, including occupant safety, refuge, and egress. The amendment of NBC 205:1994 on 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," articulates the new earthquake and design provisions with a segment of the building stock comprising of reinforced



concrete building falling under the Category C<sup>21</sup> as per the Building Act 1998 Article 8, thus ensuring the new provisions are applicable to a wider proportion of the building stock. To ensure disasters impacts from earthquakes, landslides, erosion, and liquefaction are mitigated, NBC 205 mandates site investigations to ensure buildings are not constructed in disaster-prone areas, such as areas of subsidence and riverbeds. The amended building codes would only be applied to new constructions and do not address retrofitting, which still needs to be further developed as part of Nepal's overall DRM program in the medium-to-long term. The implementation and compliance with the amended building codes (NBC 205 and 206) will be tracked with an upgraded electronic building permit system (e-BPS), through which building permit applications are processed and include verification of new evacuation and fire safety standards. Furthermore, the Department of Urban Development and Building Construction (DUDBC) under the Ministry of Urban Development (MoUD) has established an institutional mechanism to continuously review and update obsolete codes, which will be supported throughout the Cat DDO implementation through technical assistance to ensure the development of new and updating of other important policy and codes. The proposed technical assistance will also support capacity building to engineers and masons to translate codes into practice in collaboration with the Japan International Cooperation Agency (JICA).

39. **Expected Results:** The amended codes NBC 205 and 206 and the establishment of systems for compliance and capacity to both operationalize the codes and ensure their compliance are expected to strengthen the resilience of the future building stocks to earthquakes and other disasters, thereby reducing the vulnerability of people, assets, and livelihoods to disasters. New buildings in Nepal designed according to the revised technical provisions are expected to perform better under seismic stress than buildings that follow older codes. Furthermore, implementing NBC 205:2024 and NBC 206:2024 is expected to reduce deaths and injuries that often occur during evacuation.

**Prior Action #3:** *To improve disaster risk preparedness and response capacity, and to facilitate public-private partnerships to expand the scope of early warning communication from single to multiple hazards, the Recipient, through the Department of Hydrology and Meteorology (DHM) has entered into memorandum of understanding with the key telecom service providers, as evidenced by public notification published on DHM's website.*

40. **Rationale:** Nepal's efforts to combat climate-induced hazards have intensified, with the government's commitment to multi-hazard risk management and early warnings highlighted by the formation of a dedicated working committee during the 18<sup>th</sup> Executive Committee of the NDRRMA on September 14, 2023. This initiative aligns with the global Early Warning for all (EW4ALL) goal. Progressing beyond established flood early warning services, Nepal is developing a comprehensive multi-hazard early warning systems (MHEWS) in partnership with various stakeholders, including World Bank's contribution through the Building Resilience to Climate-Related Hazard Project. Collaborations with entities like the German Development Cooperation (KfW), CARE Nepal, USAID, ICIMOD, and the Asian Development Bank (ADB) are underway to enhance national capabilities for landslide, heatwave, cold wave, forest fire detection, and flood forecasting. Despite these efforts, significant challenges remain in effectively communicating early warnings to the public. The current EWS communication system only delivers flood warnings through a 2016 agreement between the DHM and telecom operators, reaching millions of people with 5-8 hours' notice. However, other hazards are not yet covered by this communication framework.

41. **Substance of Prior Action:** This prior action supports the enhancement of the operational mechanism for MHEW by expanding the scope of early warning communication in Nepal through public-private partnership for multiple hazards, such as floods, thunderstorms, landslides, wildfires, heatwaves, air pollution, etc. This PA expands the scope of the Memorandum of Understanding (MoU) between the DHM and telecom operators, NCell, and NTC (with a combined population penetration of 16.4 percent) for 2-5 years to allow DHM to send alert and warning Short Message Services

<sup>21</sup> Category "C": Buildings with plinth area of up to One Thousand square feet, with up to Three floors including the ground floor or with structural span of up to 4.5 meters.



(SMS) free of charge to registered mobile phone numbers in areas at risk of multiple hazards. The MoU outlines responsibilities, steps, and timelines of action for each party and will be operationalized through a Standard Operating Procedure jointly developed by DHM and telecom operators to validate the messaging for early warning communication for timely dissemination. With the increase in frequency, intensity, and magnitude of geophysical and climate-induced disasters in Nepal, it is imperative to cover the communities with multi-hazard early warnings aligning with the global goal of EW4ALL. The partnership would also allow improved targeting of early warning, moving beyond only issuing SMS to area-based geo-tagged early warning messaging to dissemination via social and traditional media like Radio and Television. World Bank's ongoing technical assistance will support the capacity of DHM and telecom providers to improve service delivery for early warning both in the timeliness and quality of messaging.

42. **Expected Results:** This operational mechanism supports the government's effort to enhance disaster preparedness by disseminating multi-hazard early warnings to the public to reduce the negative effect of disasters on assets and livelihoods and reduce the share of the population vulnerable to natural disasters. Hazard information communicated via the partnership will also strengthen DRM decision-making across various sectors, including agriculture, transport, tourism, etc.

**Prior Action #4:** *To manage water-induced disasters and regulate the extraction of river and river-based construction materials, protect watershed and river network, and clarify the institutional mandates across three tiers of government, the Recipient, through the Council of Ministers, has approved the River and Water Induced Disaster Management Policy, as evidenced by the letter dated December 14, 2023 (Council of Ministers M./321/2969), from the Office of Prime Minister and Council of Ministers and its publication on the MOEWRI's website.*

43. **Rationale:** Water is at the heart of Nepal's productive economic sectors and key to its resilience, as river and water-induced disasters such as floods, landslides, soil erosion, and drought in watersheds of various rivers and streams of Nepal could lead to disastrous and far-reaching consequences for lives, property, and infrastructure. The main issues concerning the river and water-induced disaster risks include (a) increasing settlements along the river corridors and flood plains and their encroachments into the river network, (b) unplanned and unscientific mining of riverbed materials to cope with the prevailing development needs, (c) high sedimentation in the river during monsoon that has changed river morphology in the plain areas, including aggradation and degradation in some areas, (d) degradation of the watershed and mountain slopes leading to erosion and landslides, and improper planning for river management integrating the climate change risk. A "Water-induced Disaster Management Policy" was formulated in 2015, which paved the way for the re-organization of the Department of Water-induced Disaster Management, later merged into the Department of Water Resources and Irrigation, with the responsibility for water-induced disaster management under MOEWRI. However, the federal governance structure has necessitated the clarification of institutional responsibilities across three tiers of government as mandated by the constitution. This is to manage the impacts of river and water-induced disasters and mitigate climate change impacts, protect river, and regulate river systems, and use resources to reduce loss or damage from water-induced disasters. Additionally, there is a clear need to adopt risk-based and data-informed approaches to river management and infrastructure development to promote multi-hazard risk assessment, exposure mapping, and early warning and improve data sharing between relevant agencies in a coordinated way.

44. **Substance of Prior Action:** The River and Water-Induced Disaster Management Policy (RWIDMP) provides the framework and overarching strategy for the management and protection of river and riverine lands and water-induced disasters using appropriate technologies to reduce the loss or damage to their properties while addressing climate and disaster risk and sustainability. The policy also contributes to the economic and social prosperity of the concerned communities, which is consistent with the principles of integrated water resources management. The policy focuses on conserving biodiversity, managing river resources, and mitigating water-induced disasters. It promotes coordinated



disaster management across sectors, adopting climate-resilient technologies, and strengthening early warning and information systems. The RWIDMP outlines strategies for integrated river management, regulating river resources extraction and usage, disaster risk prioritization, cross-agency collaboration, inclusive participation, transboundary river management, research on adaptive technologies, and evidence-based risk reduction policies. MOEWRI is taking steps toward implementing these objectives by developing a river management masterplan<sup>22</sup> (including sediment management plans) for select critical rivers. This plan would be implemented through its annual work plan and budget to inform investment decisions, such as river embankment protection.

45. **Expected Results:** The adoption and implementation of this policy reform will strengthen the government's capacity to manage water-induced disasters, regulate the extraction of river and river-based construction materials, protect watersheds and river networks, and clarify the institutional mandates across three tiers of government for effective flood and water-induced disaster risk management. This policy would enable a shift towards risk-informed river management rather than piecemeal investments that guarantee watershed and river network protection through resilient infrastructure development, thereby reducing degradation and destruction from water-induced disasters.

**Prior Action #5:** *To enhance its preparedness and response capacities for public health emergencies, the Recipient, through the Council of Ministers, has approved a new list of notifiable prioritized diseases, syndromes, and conditions to expand the scope of monitored diseases and health risk within its disease surveillance system for early warning and emergency actions pursuant to section 49 (1) of the Public Health Service Act 2018, as evidenced by the decision approved by the Council of Ministers and its publication in the Recipient's gazette (Section 74, Gazette No.17, July 4, 2024).*

46. **Rationale:** The COVID-19 pandemic exposed the gaps in Nepal's capacity to manage pandemics and epidemics and provided an opportunity to improve systems for testing and treatment. However, the Nepalese health system is not adequately prepared to for large-scale health emergencies, especially given the growing risk of emerging and re-emerging diseases that could lead to outbreaks with widespread morbidity and mortality. The prioritization of diseases that pose potential public health concerns to the nation in line with scientifically established criteria<sup>23</sup> that would help the government to channel resources and enhance institutional mechanisms to strengthen national preparedness for health emergencies is crucial. The current list includes six prioritized diseases and does not holistically capture vector-borne, food- and water-borne, zoonotic, emerging, and re-emerging diseases which are climate-change-induced and have the potential for greater social and economic impact if they evolve into epidemics and pandemics. Analysis shows that these climate-sensitive health risks disproportionately affect the most vulnerable and disadvantaged, including women, children, ethnic minorities, poor communities, migrants or displaced persons, older populations, and those with underlying health conditions<sup>24</sup>. This prior action will incentivize the government to formulate and regularly update a robust list of notifiable diseases, conditions, and syndromes to be notified by the government. Countries with established prioritized disease lists take a shorter time to detect and respond to any future epidemics and pandemics.

47. **Substance of Prior Action:** The Cabinet approved 52 priority notifiable diseases, as mandated by the Public Health Service Act 2018, putting in motion the institutional and operational mechanism for monitoring and early warning critical to addressing the emerging disease outbreaks with epidemic and pandemic potential and strengthening Nepal's disease

<sup>22</sup> The River Management Plan focuses on managing issues along specific river stretches and not the whole basin (River Basin Management Plan), addressing in detail localized issues such as flood control, habitat preservation, sedimentation, etc., in consultation with directly affected stakeholders, e.g., water users and flood-affected communities.

<sup>23</sup> WHO, 2017: Methodology for Prioritizing Severe Emerging Diseases for Research and Development

<sup>24</sup> Intergovernmental Panel on Climate Change, 2023, Synthesis Report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change



surveillance system. This would be followed by updating the existing protocol/procedure to track the increased scope of diseases of greatest public health concern weekly and would require additional budget, human resources, an increased number of sentinel sites, and upgrades to the software used in these sites where needed. Prioritizing, ranking, and incorporating diseases of public health concern into the national surveillance system will allow Nepal to efficiently address the steady increase in the frequency and diversity of disease outbreaks. The formulated list of priority diseases, conditions, and syndromes considers criteria such as i) incidence/prevalence, ii) case fatality, iii) outbreak potential, iv) potential economic impact, and v) effectiveness of national and international surveillance. Furthermore, the prevalence of some of the priority diseases considered for early warning and reporting, including Measles, Rabies, Dengue, Enteric (typhoid/Paratyphoid) fever, Cholera, and Anthrax, could be exacerbated by climate drivers due to factors such as increased disease spread due to changing temperature, increased risk of disease due to contamination of water and food, and creation of favorable conditions for disease-carrying vectors. This prior action builds on the experience and capacity of the government enhanced in the DPF with Cat DDO, which supported the development of the National Pandemic Preparedness and Response Plan and supported simulation exercises for the validation of core capacities at all levels of the government.

48. **Expected Results:** This PA is expected to strengthen institutional and operational mechanisms to enhance public health emergency preparedness, thus ensuring consistent monitoring and reporting for early warning and response to reduce the risk of future pandemics. Considering the changing dynamics of disease, the prioritized diseases identified will facilitate better monitoring and response to public health concerns, utilizing the one-health approach across the human, animal, and environmental health sectors.

**Table 4. DPF Prior Actions and Analytical Underpinnings**

Prior Actions	Analytical Underpinnings
Prior Action #1	<b>World Bank, 2023, National-Disaster-Risk-Financing-Strategy, 2020.</b> National Disaster Risk Financing (DRF) strategy reviews the DRF instruments in Nepal. It provides suggestions to improve the operationalization and coordination of stakeholder agencies, which includes i) making the disaster preparedness and response more effective by ensuring proper management of Federal, Provincial, and Local DMFs to enhance financial capacity for response actions according to nature, magnitude, and impact of various types of disasters; and ii) improving risk analytics using scientific methodologies multi-hazard risk analysis.
Prior Action #2	<b>World Bank, 2023, Building Code Checklist for Fire Safety.</b> The report guides reviewing regulations for fire safety consideration in building design, including a combination of i) understanding of the overall regulatory framework, ii) identifying fire-related regulations and chapters, iii) undertaking a systematic review, iv) assessing provisions in the country context, vi) assessing interface among fire and other regulator and vi) completing checklist and reporting. It also details critical fire safety/protection components of building/fire regulations and shares lessons from other countries. <b>International Fire Safety Standards Coalition, 2020, International Fire Safety Standards: Common Principles.</b> This report identifies overarching, performance-based common principles for fire safety engineering design, construction, occupation, and ongoing management. Adopting these principles aims to help protect people, buildings, and contents and the environment from the destructive effects of fire.
Prior Action #3	<b>World Bank and Department of Hydrology and Meteorology (DHM), Nepal Hydromet Master Plan (HMP) (Ongoing)</b> assesses the capabilities of DHM to produce and deliver products and services based on the needs of their user community. The analysis identifies gaps and challenges in producing and delivering fit-for-purpose weather, climate, hydrological, and cryosphere information and services. The



Prior Actions	Analytical Underpinnings
	<p>HMP provides a technical and strategic framework to improve hydromet and cryosphere monitoring, early warning services and systems, and the resulting socioeconomic benefits.</p> <p><b>World Bank, 2022, Nepal Country Climate and Development Report (CCDR).</b> The CCDR identifies the major risks and opportunities that climate change presents for Nepal’s economic growth and poverty reduction and shows how investments in climate change actions are good for sustainable development and vice versa. The CCDR highlights the need to strengthen and improve the timeliness and accuracy of climate information and early warning services for risk-informed decision-making to enhance resilience in sectors important for jobs, climate resilience, and growth, including energy, agriculture, water, tourism, and aviation, as well as boost disaster preparedness and response capacity of federal, provincial, and local governments.</p>
Prior Action #4	<p><b>World Bank, 2023, Nepal’s GRID Strategic Action Plan (SAP) 2023-2035.</b> The Nepal GRID SAP articulates priority GRID transitions, including investment and policy that deliver impact on sustainability, efficiency, resilience, and inclusion. These include investment in infrastructure for improved water supply and sanitation, with a focus on improving health outcomes, reducing vulnerability to climate risks, extending critical water and sanitation services to remote and vulnerable groups, and enhancing the regulatory framework and enforcement of laws to achieve greater effectiveness in the management of the water supply and sanitation sector.</p> <p><b>World Bank 2023, Sedimentation Management Practice in Nepal (Ongoing).</b> The study aims to review existing policies on sediment management, enhance the government's commitment to sediment management through policy dialogue, identify the necessary capacity-building programs and concerned stakeholders for implementation, and develop plans for improving sediment management practices in Nepal.</p>
Prior Action #5	<p><b>World Bank, 2022, Nepal Climate and Health Vulnerability Assessment.</b> The report mentions that climate change is likely to aggravate food security and nutrition outcomes in Nepal, the prevalence of vector-borne and water-borne diseases, and health-related morbidity. The report recommends establishing a climate-smart health system to reduce climate-related health risks and improve overall health service delivery.</p> <p><b>World Bank, 2023, Nepal’s GRID Strategic Action Plan (SAP) 2023-2035.</b> The Nepal GRID SAP identifies “Equipping the Health System for Preparedness, Prevention and Response” under “Leverage Human Capital” as one of the priority GRID transitions for a more sustainable, resilient, and inclusive development. Transition calls for investments in improved health outcomes for its citizens to boost resilience to shocks as well as equipping the public health system for enhanced preparedness, prevention, and response to public health and disaster emergencies as well as changes in disease vectors driven by climate change.</p>

#### 4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

49. The proposed operation is consistent with the World Bank Country Partnership Framework (CPF) for Nepal FY 19–23 (Report No. 121029-NP) discussed by the World Bank Board of Executive Directors on August 7, 2018, and extended to FY24 by the Performance and Learning Review dated January 17, 2022. 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 CPF 25-29's high-level objectives, which are 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 the Priority Area on “strengthening climate and disaster resilience” of the SCD by expanding macroeconomic resilience to external shocks.

50. **Building disaster and climate resilience is essential to supporting the Bank’s mission to end extreme poverty and boost shared prosperity on a livable planet and is in line with the Global Challenge Program (GCP) on Water Security and Climate Adaptation and Enhanced Health Emergency Prevention, Preparedness and Response.** The program design also addresses resilience and sustainability, focal areas of the recently released Bank’s Evolution Roadmap<sup>25</sup>, specifically strengthening the ability of people and countries to prevent, prepare, and recover from shocks, including against climate and pandemics, and advancing economic growth and job creation. It contributes towards addressing several of the global challenges noted in the Evolution Roadmap, such as: water security and climate change adaptation, and enhanced health emergency prevention and preparedness, accelerating digitalization, among others. It also emphasizes partnerships with the private sector, innovation, and technology promotion. Climate change and natural disasters have their greatest impact on the vulnerable populations who generally live in higher-risk areas, where even frequent, low-intensity events may have crippling and cumulative effects on livelihoods and communities. Therefore, strengthening infrastructure resilience, timely early warning communication and reporting of natural disaster and public health emergencies, and rapid deployment of funds to mitigate disaster risk would reduce the vulnerability of the poorest and most vulnerable.

51. **Furthermore, the program is integral to the Green, Resilience, and Inclusive Development (GRID) agenda of the government of Nepal.** Prior actions under the program would support the achievement of four GRID transition areas as outlined in the GRID strategic action plan, including i) Disaster risk management (DRM) and Shock Responsive Social Protection, ii) Green, resilient, and Inclusive Cities, iii) Leverage Human Capital (Building the Skills for Green, Resilient, and Inclusive Economy through the Education, and Equipping the Health System for Disaster Preparedness, Prevention, and Response) and iv) the cross-cutting transition areas on Accelerating digital development.

52. **The policy reforms under this operation are shaped through a series of consultations, meetings, and reviews by different government agencies and other stakeholders.** The Government of Nepal’s procedures to formulate and approve policies and regulations include consultations with several stakeholders and concurrence by at least the Ministry of Finance and Ministry of Law, Justice, and Parliamentary Affairs. The Government of Nepal agencies leading the policy reforms engaged the relevant stakeholders during the formulation of policies and amendments to the regulations. The World Bank also engaged in consultations and workshops on relevant topics with government agencies.

53. **Regular coordination with the development partners active in the field of climate and disaster resilience helped maintain complementarity across programs** such as the Japan International Cooperation Agency’s (JICA) support of electronic Building Permit Systems (eBPS). This operation and associated technical assistance are coordinated with GFDRR and key development partners such as Switzerland, the United Kingdom, the United States, Canada, and 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 the Swiss Agency for Development and Cooperation (SDC), British Embassy, United States Agency for International Development (USAID) and the Government of Canada, focused on i) Resilient infrastructure, ii) Community Preparedness, Response and Recovery, iii)

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<sup>25</sup> Ending Poverty on a Livable Planet: Report to Governors on World Bank Evolution, September 2023



Disruptive Technology Application for DRM, and iv) Multi-hazard Risk Assessment Framework. The program is also benefiting from technical support from Japan through GFDRR in promoting resilient reconstruction practices and early warning communication.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1. POVERTY AND SOCIAL IMPACT

54. **The Poverty and Social Impact Assessment assesses policy reforms supported by this DPC to have neutral to positive impact on poverty and social well-being.** The expected impact of each prior action is described in Annex 4. Prior Action 1 can mitigate the poverty and inequality impacts of disasters compared to the status quo, as it would make more finances available for disaster response at the provincial and local levels, especially if implemented in accordance with the proposed GEDSI Strategy. Similarly, Prior Action 3 can aid in reducing disaster risks faced by the poor in terms of loss of lives and assets, with higher positive returns if accompanied by awareness campaigns to enhance the effectiveness of the response. Prior Actions 2, 4 and 5 will have a neutral impact. At the same time, Prior Actions 4 and 5 can support positive effects in the medium to long-term depending on the activation of complementary policies and institutional mechanisms, as summarized in Annex 4.

### 5.2. GENDER

55. **A significant body of evidence suggests that women and children are especially vulnerable during disasters.** When disasters strike, women and children are 14 times more likely than men to lose their lives.<sup>26</sup> The gendered effects of disasters stem from gender dynamics that impact not only the way men and women are affected by disasters but also their capacity and resilience to cope and recover. The nuances behind such differential impacts stem from gaps in systematic disaggregated data collection and timely delivery of emergency preparedness and response services and measures. These gaps in disaggregated information translate to gaps in policy responses, leading to women and girls bearing a disproportionately heavier burden of the disaster's impact, both in the short and long term. To address gender disparities in DRRM, a critical first step is understanding where these disparities exist by integrating relevant reporting into national data, including in post-disaster response and recovery efforts.

56. The existing disaster risk management system (DIMS) systems should be improved by incorporating the disaggregated data at the household level covering all types of populations. Disaggregated data is being collected by some Provincial and Local Governments (PLGs) in an ad hoc manner and has not been linked to the national portal. In addition, policy provisions such as the Disaster Risk Reduction and Management (DRRM) Act 2017, National Policy for Disaster Risk Reduction 2018<sup>27</sup>, Disaster Risk Reduction National Strategic Plan of Action (2018-2030), and the Sendai Framework<sup>28</sup> have all prioritized the engagement and participation of women and vulnerable groups in different processes of disaster risk management. Further, the Gender Equality, Disability and Social Inclusion in Disaster Risk Reduction and Management

<sup>26</sup>In the 2015 Gorkha earthquake, out of the 8193 fatalities, 55 percent (4,497) were women; In the November 2023 Jajarkot earthquake (Karnali Province), pregnant and lactating women were adversely affected due to inadequate shelter to shield them from the cold and lack of emergency obstetric health care; Similarly, the disruption in water supply after the 2015 Gorkha earthquake had a disproportionate and adverse effect on women and girls who are traditionally responsible for 75 percent of all household water management.

<sup>27</sup> The National Policy for Disaster Risk Reduction, 2018 in section 7.21 promotes access, representation and meaningful participation of women, children, senior citizens, and person with disabilities and people from economically and socially marginalized communities in all steps and structures of disaster risk reduction.

<sup>28</sup> The Sendai Framework for Disaster Risk Reduction 2015-2030 emphasizes that "women and their participation are critical to effectively managing disaster risk and designing, resourcing and implementing gender-sensitive disaster risk reduction policies, plans and programs; and adequate capacity building measures need to be taken to empower women for preparedness as well as build their capacity for alternate livelihood means in post-disaster situations".



(GEDSI) Strategic Action Plan is approved by the National Disaster Risk Reduction and Management Authority (NDRRMA). The implementation of the action plan will ensure that the intersectional needs of women and vulnerable groups and their meaningful participation are at the center of disaster risk management. The action plan identifies the need to provide access to the national information system (BIPAD portal) to PLGs and establish a mechanism to collect gender and inclusion disaggregated data, including identification and assessment of multi-hazard risks to ensure post-disaster needs (such as food, shelter, etc.) are adequately met in an inclusive manner. Hence, under PA1, collecting disaggregated data by sex, age, and disability is crucial for evidence-based planning which is linked to Intermediate Result Indicator (IRI) 1.1. This will strengthen institutional mechanisms to respond to disasters in a decentralized and agile way.

### 5.3. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

57. **All policy actions supported by this operation will likely benefit the environment, forests, natural resources, and climate.** Additionally, PA 1 and PA 4 are expected to bring significant environmental benefits by safeguarding watersheds, rivers, and biodiversity from the destructive effects of floods and landslides. For PA 1, there is a window of opportunity to achieve these benefits through the updating of the DMF's operational procedures, which may integrate environmental considerations into the Fund's supported operations—an issue that the Bank will highlight in its policy dialogue with the government. The successful achievement of the environmental benefits of PA 4 is likely to result from several of the institutional strengthening measures considered in the policy itself, the Bank's technical assistance for the river management plans of the Daraundi and Balan rivers, and the reinforcing positive effect from Nepal's "National Irrigation Policy, 2023," supported by the GRID DPC 2 and the World Bank supported Water Sector Governance and Infrastructure Support Project.

### 5.4. PFM, DISBURSEMENT AND AUDITING ASPECTS

58. **Government expenditure reporting and procurement.** Reporting is compliant with the Government Finance Statistics (GFS-2014) for all three tiers of government, and the reports are publicly available at the federal level. Nepal's procurement regulatory framework is governed by the Public Procurement Act (PPA), 2007, and the Public Procurement Regulations (PPR), 2007, which is generally in compliance with the United Nations Commission on International Trade Law. National Procurement Procedures (NPP) under this legal framework were assessed by the Bank and were acceptable with some caveats. Amendments to the PPR have been made in the recent past, particularly related to contract management and bidding opportunities, international good practices are yet to be fully matched. Nevertheless, there is expected to be no impact on this operation. The Law also has provisions for procurement in case of emergencies, though decision making in using this option is challenging. The electronic government procurement (e-GP) system is available and is being used by all 3 tiers of governments up to online bid submission and opening but is not used to its fullness after bid opening. The recently closed PFM reform project has completed several reform activities, including professional procurement training for government staff and e-GP training for the government and private sector.

59. **The Government's PFM processes are gradually improving.** The 2015 Public Expenditure and Financial Accountability Assessment concluded that Nepal has made substantial progress in deepening PFM structures and processes. Noteworthy progress has been made in technology use in the PFM systems for planning, budgeting, treasury, accounting, reporting, and audit, and integrating/ interfacing some of those systems. Medium Term Expenditure Framework has been operationalized in the federal government and being initiated in the subnational governments. Nepal Public Sector Accounting Standards based on the 2017 International Public Sector Accounting Standards have been recently approved. Based on this, an Accounting Manual is being developed for the three tiers of government. Nepal Government Auditing Standards based on international standards have also been developed and are being applied to the three tiers of government. Nonetheless, areas remain that need improvement, especially in the federal context. The FY21 Auditor General's Report stresses the need for internal control system reforms. These concerns are, however, mainly in



the subnational governments due to inadequate staff and capacity constraints. The Bank is supporting the development of internal control systems in the three tiers of government through the Government executed project under the PFM Multi-donor Trust Fund (PFM MDTF). The Bank, along with the Development Partners, supported Government in conducting the third Public Expenditure and Financial Accountability (PEFA) Assessment, which has been completed and the report has been published. This assessment will guide areas for further improvements in the PFM system through an update of the Government's PFM Reform Strategy. The implementation of the strategy is planned to be supported by the PFM MDTF and other assistance from the various development partners.

60. **Government budget and expenditure reporting and audit.** The federal government's budget based on economic, administrative, and functional classification is publicly available on the website of the Ministry of Finance. The Chart of Accounts of the three tiers of government is based on the Government Finance Statistics, 2014, and the Classification of Function of Government (COFOG). The federal budget execution report with aggregated information is publicly available daily on the Financial Comptroller General Office website. The annual consolidated financial statements for the three tiers of government are also publicly available on the same website.

61. **Foreign exchange control environment.** The DPC with Cat DDO proceeds will reach the country's Foreign Exchange reserves maintained at NRB before being credited to an account of the government to finance budgeted expenditures. As per the 2023 IMF's Article IV Staff Report, the NRB has implemented four out of the sixteen recommendations of the 2021 Safeguards Assessment, including by engaging experienced and reputable international auditors to conduct FY 2021/22 audit of the NRB under the auspices of the Auditor General of Nepal, addressing departures in financial reporting from international standards, and timely publication of the NRB's financial statements. The report also notes the draft amendment to the NRB Act undergoing internal review by the line ministries for submission to Parliament soon. Among other aspects, the amendments will clarify the roles and responsibilities of the NRB's governance bodies, strengthen oversight over the NRB and establish the independence of the Board's Audit Committee. While work is ongoing on other recommendations, progress remains slow on recommendations related to internal audits and controls in key operations. These are still hampered by human resource management practices, which the NRB is reviewing.

62. **Disbursements.** Bank proceeds follow DPC with Cat DDO disbursement procedures, subject to satisfactory program implementation and adequate macroeconomic policy framework maintenance. Disbursement in US\$ based on Special Drawing Rights (SDR) amount will be made to a treasury account of the government maintained at the NRB after receipt of Authorized Signatories Letter from the Ministry of Finance, which will be transferred to local currency account constituting the Government's consolidated fund. The government will confirm, within 30 days, the receipt of proceeds and their credit in the treasury account and availability to finance budget expenditures. If proceeds are used for ineligible purposes against the provisions in the Financing Agreement, the WB will require the borrower to refund such an amount which shall be canceled.

63. **Reporting, Audit, and Closing Date.** As proceeds are transferred directly to the treasury, no specific financial reporting or audit is required for the operation. Annual audit reports are usually issued within nine months of the fiscal year-end and are publicly available. The closing date of the operation is November 30, 2027.

64. **Although there are areas requiring strengthening as specified above, the basic controls are enforced in the federal government, which is the recipient of the DPC proceeds.** Thus, those controls of the budget management system are considered satisfactory for this operation. Regarding the foreign exchange control environment, the IMF is monitoring its recommendations to address areas of weakness and concern identified in its assessment and providing support as required. The auditors raised no major concerns about foreign exchange management.

## 5.5. MONITORING, EVALUATION AND ACCOUNTABILITY



65. Monitoring and Evaluation will be done following World Bank Procedures and include periodic reviews of the status of policy reform implementation and progress towards achievement of results targets.

66. **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 Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaints to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. 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 Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

## 6. SUMMARY OF RISKS AND MITIGATION<sup>29</sup>

67. **The overall risk of the proposed operation is assessed as substantial.** The ranking is driven by political and governance considerations, Nepal's institutional capacity for implementing and sustaining reforms, and fiduciary factors.

68. **Political and governance risk is substantial.** A new coalition government has been formed at the federal and provincial levels. The frequent change of governments increases the risks of political uncertainty, further delaying the resolution of existing overlaps and gaps among the three tiers of government, especially during disaster response. Therefore, there is a need for more clarity and coherence between policies, which is being addressed in the amended DRRM regulation and updated RWIDP. To mitigate this risk, the WB will continuously engage in policy dialogue with the government and build public support through broader stakeholder consultation and participation, strategic communication, and outreach to mitigate any risks that may be influenced by political change.

69. **Institutional capacity risk for implementation and sustainability is substantial.** Frequent institutional and personnel changes in Government cause a lot of delays in decision-making. Further, the operation supports reforms requiring technical expertise and coordination across line ministries and tiers of government. These factors add to the challenges of lower capacity, weak coordination, and technical risk. To help mitigate them, the MoF will chair a Technical Working Group to coordinate with the various sectoral agencies and address issues. Specific and substantial technical assistance for capacity building and integrating expertise and global and regional best practices is also in place to support the GoN in implementing this program.

70. **Fiduciary risk is substantial.** It emanates from the weak internal control system and procurement capacity constraints. The Integrated Public Financial Management Reform Project (IPFMRP) is working to mitigate these risks. Based on the third Public Expenditure and Financial Accountability Assessment results, the World Bank and other DPs continue to engage in the next generation of PFM reforms, focusing more on the federal and provincial context.

Table 5. Summary Risk Ratings

<sup>29</sup> Based on the World Bank team's assessment.



Risk Categories	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Low
8. Stakeholders	● Moderate
9. Other	
<b>Overall</b>	● Substantial



## ANNEX 1: POLICY AND RESULTS MATRIX

### DETAILED RESULTS FRAMEWORK

Prior Actions	Results		
	Indicator Name	Baseline (2024)	Target (2027)
<p><b>PA 1:</b> To enable the allocation and transfer of funds from the Disaster Management Fund (DMF) at the central level to provincial and local level DMFs and effective utilization, the Recipient through the Council of Ministers, has approved the Disaster Risk Reduction and Management (First Amendment) Regulation 2081 (2024), as evidenced by its publication in the Recipient's gazette (section 74 Gazette No. 13, June 17, 2024).</p> <p><b>Lead agency:</b> Ministry of Home Affairs / National Disaster Risk Reduction and Management Authority (NDRRMA)</p>	<p><b>RI #1</b> Funding from the central level DMF is transferred 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 (Y/N)</p> <p><b>IRI #1.1</b> Mechanism to collect disaggregated data (by sex, age, disability) of the affected population established at the PLGs and linked to the BIPAD portal for vulnerability risk assessment informed planning (Y/N)</p>	No	Yes
<p><b>PA 2:</b> To enhance building resilience to disasters and strengthen construction requirements, practices and compliance for emergency evacuation, disaster risk mitigation and fire safety, and to facilitate implementation monitoring, the Recipient, through the Ministry of Urban Development, has approved the amended National Building Codes NBC 206:2024 Architectural Design Requirements and NBC 205:2024 Ready to Use Detailing Guideline for Low Rise Reinforced Concrete Buildings Without Masonry Infill, as evidenced by their publication in the Recipient's gazette (Section 74 Gazette No. 8, May 27, 2024; Section 74 Gazette No. 11, June 10, 2024).</p> <p><b>Lead agency:</b> Ministry of Urban Development/Department of Urban Development and Building Construction</p>	<p><b>RI #2</b> Establish a centralized electronic building permit system (e-BPS) to enable building code compliance (Y/N).</p> <p><b>IRI #2.1</b> Municipalities that have upgraded their electronic building permit systems (e-BPS) or connected to the centralized e-BPS for compliance and monitoring of building codes, including NBC 205 and 206 (Number).</p>	No	Yes
<p><b>PA 3:</b> To improve disaster risk preparedness and response capacity, and to facilitate public-private partnerships to expand the scope of early warning communication from single to multiple hazards, the Recipient, through the Department of Hydrology and</p>	<p><b>RI #3</b> Hazard warning communication provided by DHM expanded from single (flood) to multiple hazards (wildfire, heatwave, flood, thunderstorms, and landslide)</p>	1	5



Prior Actions	Results		
	Indicator Name	Baseline (2024)	Target (2027)
<p>Meteorology (DHM) has entered into memorandum of understanding with the key telecom service providers, as evidenced by public notification published on DHM's website.</p> <p><b>Lead agency:</b> Department of Hydrology and Meteorology</p>	<p>(Number).</p> <p><b>IRI #3.1:</b> People with enhanced resilience to climate risks due to improved access to early warning communication (Number).</p>	5,000,000	7,500,000
<p><b>PA 4:</b> To manage water-induced disasters and regulate the extraction of river and river-based construction materials, protect watershed and river network, and clarify the institutional mandates across three tiers of government, the Recipient, through the Council of Ministers, has approved the River and Water Induced Disaster Management Policy, as evidenced by the letter dated December 14, 2023 (Council of Ministers M./321/2969), from the Office of Prime Minister and Council of Ministers and its publication on the MOEWRI's website.</p> <p><b>Lead agency:</b> Ministry of Energy, Water Resources, and Irrigation</p>	<p><b>RI #4</b> River management masterplans (including sediment management plans) prepared for critical river systems (Number).</p> <p><b>RI #5</b> River embankment protection informed by the river management masterplan (Kilometers).</p>	0	2
<p><b>PA 5:</b> To enhance its preparedness and response capacities for public health emergencies, the Recipient, through the Council of Ministers, has approved a new list of notifiable prioritized diseases, syndromes, and conditions to expand the scope of monitored diseases and health risk within its disease surveillance system for early warning and emergency actions pursuant to section 49 (1) of the Public Health Service Act 2018, as evidenced by the decision approved by the Council of Ministers and its publication in the Recipient's gazette (Section 74, Gazette No.17, July 4, 2024).</p> <p><b>Lead agency:</b> Ministry of Health and Population</p>	<p><b>RI #6</b> Diseases, syndromes and conditions monitored weekly by the Early Warning and Reporting System (Number).</p>	6	12



## RESULTS INDICATORS BY PILLAR

Baseline	Closing Period
<b>NDRC Cat DDO</b>	
<b>RI #1: Funding from central level DMF is transferred to province, district, and local DMFs for relief, response, and risk-reduction in line with the updated DMF operational guidelines. (Yes/No)</b>	
Feb/2024	Nov/2027
No	Yes
➤IRI1.1: Mechanism to collect disaggregated data (by sex, age, disability) of the affected population established at the PLGs and linked to the BIPAD portal for VRA informed planning (Yes/No)	
Feb/2024	Nov/2027
No	Yes
<b>RI#2: Establish a centralized electronic building permit system (e-BPS) to enable building code compliance. (Yes/No)</b>	
Feb/2024	Nov/2027
No	Yes
➤IRI#2.1Municipalities that have upgraded their electronic building permit systems (eBPS) or connected to centralized eBPS for compliance & monitoring of building codes including NBC205 & 206 (Number)	
Feb/2024	Nov/2027
0	20
<b>RI #3 Hazard warning communication provided by DHM expanded from single (flood) to multiple hazards (wildfire, heatwave, flood, thunderstorms, and landslide) (Number)</b>	
Feb/2024	Nov/2027
1	5
➤IRI #3.1 People with enhanced resilience to climate risks due to improved access to early warning communication. (Number of people)	
Feb/2024	Nov/2027
5,000,000	7,500,000
<b>RI#4: River management masterplans (including sediment management plans) prepared for critical river systems. (Number)</b>	
Feb/2024	Nov/2027
0	2
<b>RI #5: River embankment protection informed by the river management master plan (Kilometers)</b>	
Feb/2024	Nov/2027
0	100
<b>RI #6: Diseases, syndromes and conditions monitored weekly by the Early Warning and Reporting System (Number)</b>	



Feb/2024	Nov/2027
6	12



## ANNEX 2: FUND RELATIONS ANNEX

### IMF Executive Board Completes the Fourth Review of Nepal's Extended Credit Facility

July 10, 2024

- The IMF Executive Board completed the fourth review under the Extended Credit Facility (ECF) Arrangement for Nepal, providing the country with access to SDR 31.4 million (about US\$41.3 million).
- Nepal has made good progress with implementation of the program, despite a challenging political environment.
- Following a slowdown last year, economic activity has started to pick up and the recovery is expected to gather steam, supported by cautiously accommodative monetary policy stance, planned increase in capital expenditure in the FY2024/25 budget, additional hydropower generation, and continued increase in tourist arrivals.

**Washington, DC – July 10, 2024:** On July 9, 2024, the Executive Board of the International Monetary Fund (IMF) completed the fourth review under the four-year Extended Credit Facility (ECF) for Nepal, allowing the authorities to withdraw the equivalent of SDR 31.4 million (about US\$41.3 million). This brings total disbursements under the ECF for budget support thus far to SDR 188.3 million (about US\$247.7 million).

The ECF arrangement for Nepal was approved by the Executive Board on January 12, 2022 (see [Press Release No. 22/6](#)) for SDR 282.42 million (180 percent of quota or about US\$371.6 million). Nepal has made good progress with implementation of the program, which has helped mitigate the impact of the pandemic and global shocks on economic activity, protect vulnerable groups, and preserve macroeconomic and financial stability. The program is also helping to catalyze additional financing from Nepal's development partners.

The economy continues to face challenges as growth, projected around 3 percent in FY23/24, remains below potential in the context of subdued domestic demand and post-pandemic balance sheet repairs. Economic activity is expected to pick up with growth reaching 4.9 percent in FY24/25, supported by stronger domestic demand. The cautiously accommodative monetary policy stance planned increase in capital expenditure in the FY24/25 budget, additional hydropower generation, and a continued increase in tourist arrivals are expected to boost domestic demand and growth. Inflation is expected to remain within the Nepal Rastra Bank's (NRB) target ceiling of 5.5 percent.

Domestic risks dominate the outlook. Failure to raise the execution rate of capital projects would deprive the economy of much-needed stimulus and weigh on growth. Fragile political stability could disrupt policy continuity and reform implementation. Intensification of financial sector vulnerabilities such as a further rise in NPLs or more failures of cooperative lenders could endanger banking system soundness. Externally, high commodity prices could slow the recovery in energy-intensive sectors. Nepal remains vulnerable to natural disasters.

Following the Executive Board discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

"Nepal has made important strides on its economic reform agenda. Decisive actions in monetary policy, bank regulation and rolling off COVID support policies played a major role in overcoming urgent balance of payments pressure in FY21/22. Reserves continue to rise without the need to use distortive import restrictions. Fiscal discipline was maintained in FY22/23 and so far in FY23/24, despite revenue shortfalls. Bank supervision and regulation have improved with the rolling out of new supervisory information systems, the Working Capital Loan Guidelines and Asset Classification Regulations. Nepal's



medium-term outlook remains favorable as strategic investments in infrastructure, especially in the energy sector, are expected to support potential growth.

“With growth below potential, executing the planned increase in capital spending, as envisaged in the FY24/25 budget, while maintaining fiscal discipline through domestic revenue mobilization and rationalization of current spending remains critical to boost growth and preserve medium-term fiscal sustainability. Strengthening public investment management will support the needed boost to capital spending. Enhancing fiscal transparency will help contain fiscal risks and further strengthen medium-term fiscal sustainability.

“As monetary policy transmission is still weak in a context of balance sheet repair, a cautious and data dependent monetary policy remains appropriate to preserve price and external stability. Continuing to strengthen Nepal’s financial system remains a top priority. Financial policy should remain vigilant and focused on building regulatory frameworks that promote sustainable credit growth while proactively addressing emerging vulnerabilities in the savings and credit cooperatives sector. Maintaining recent reforms regarding lending practices and asset classification is important as preparations for the loan portfolio review of the ten largest banks continue.

“Nepal’s commitment to strengthen its AML/CFT framework is welcome. Amendments to a set of fifteen laws, including on money laundering, have been recently enacted—and secondary legislation is under preparation—to bring Nepal’s AML/CFT legal framework in line with international standards. It remains critical to ensure the effectiveness of the new legal framework. Reforms to implement the 2021 IMF Safeguards Assessment recommendations regarding the Nepal Rastra Bank (NRB) Act and NRB audit are a priority.

“Continued progress on the structural front remains needed to foster investment and more inclusive growth. These include improving the business climate, building human capital, and continuing to improve social safety nets, in particular aiming for full execution of the child grant budget, followed by an expansion of the program to all districts in Nepal.”



### ANNEX 3: LETTER OF DEVELOPMENT POLICY



## Government of Nepal MINISTRY OF FINANCE



SINGHADURBAR  
KATHMANDU, NEPAL

August 5, 2024

RECEIVED  
23 AUG 2024  
Ref. no: 1930  
WORLD BANK RECEPTION

Mr. Ajay Banga  
President  
World Bank  
Washington, DC  
USA

Dear Mr. Banga,

**Subject: Letter of Development Policy for the proposed Nepal Disaster Resilience Development Policy Credit with Catastrophe Deferred Drawdown Option (NDR Cat DDO)**

The Constitution of Nepal has identified Disaster Risk Management and Health Emergency Preparedness as key priorities of all levels of government (federal, provincial, and local). In order to meet these priorities, the Disaster Risk Reduction and Management Act and the Public Health Service Act were approved by the parliament in 2017 and 2018 respectively. Subsequently, in 2019, the Government of Nepal (GoN) endorsed the Disaster Risk Reduction and Management Regulations, and in 2020, the Public Health Service Regulations, to operationalize these Acts within the context of a federal governance structure. The government has also laid out its strategic vision to build resilience to natural and climate-related risk and ensure citizens access to the emergency health services in the Disaster Risk Reduction National Strategic Plan of Action (2018-2030) and Nepal Health Sector-Strategic Plan (2022/23-30/31) respectively.

The GoN is committed to enhance its technical and institutional capacity to (i) improve the country's institutional and regulatory framework for climate resilience and Disaster Risk Management (DRM); (ii) strengthen institutional mechanisms for multi-hazard early warning communication to enhance preparedness and response to multi-hazards; (iii) strengthen resilience of the disaster management system; and (iv) enhance preparedness and response capacities for public health emergencies by strengthening disease surveillance systems to monitor and manage the risk of emerging diseases.

In this context, the technical and financial assistance from the World Bank through the Nepal Disaster Resilience Development Policy Credit with Catastrophe Deferred Drawdown Option (Cat DDO), will provide Nepal with financing instruments to proactively address development challenges while reducing its fiscal vulnerability to the effect of adverse natural events, including potential disease outbreaks.

In light of this, the GoN fully supports the reforms and actions included in the Cat DDO operation to ensure they will generate the expected results over the next years:

1. **Amendment of the Disaster Risk Reduction and Management (DRRM) Regulation.** The amended DRRM regulation will help unknott the issues that currently constrain funds flow towards decentralized DRM action, by enabling the allocation and transfer of funds from the National Disaster Management Fund (NDMF) to provincial and local levels and ensuring its effective utilization, in line with the federal governance structure. The amended DRRM regulation will also ensure a minimum amount is maintained in the funds, operationalize instructional mechanisms for monitoring and reporting of fund usage to ensure accountability and transparency, and enable the fund to be used beyond response and relief, for disaster risk reduction, preparedness, and reconstruction by the local level and other government agencies designated by the DRM Executive Committee, thereby strengthening provincial and local level capacity for DRM.

Tel: Minister 4211809, Secretary 4211332, International Economic Cooperation Coordination Division 4211372, 4211867  
Fax No. 4211164, 4211165, Website: [www.mof.gov.np](http://www.mof.gov.np)



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2. **Amendment of National Building Codes (NBC) 206:2015 and 205:2021.** The amended NBC 206:2015 (Architectural Design Requirements) and NBC 205:2021 (Ready-To-Use Detailing Guideline for Low Rise Reinforced Concrete Buildings Without Masonry Infill) underscores the government's commitment to enhance building resilience to earthquakes and strengthen construction requirements, practices and compliance for emergency evacuation, disaster risk mitigation and fire safety. The government will make efforts to implement and monitor compliance to the amended codes by (i) ensuring full compliance of newly built or reconstructed public buildings and (ii) strengthening code enforcement of private buildings through enhanced municipal electronic building permitting systems. To ensure future stock of buildings as resilient to multi-hazard risk, the Ministry of Urban Development has established an institutional mechanism to continuously review and update obsolete codes, including NBC 201 (RC Building with Masonry infill), NBC 202:2015 (Load-bearing Masonry) and NBC 203:2015 (Low Strength Masonry) and NBC 204:2015 (Earthen Building) to incorporate the requirements of the NBC 105:2020 (Seismic Design of Buildings in Nepal) during the implementation period of this Cat DDO and beyond.
3. **Public/Private Partnership for Multi-hazard Early Warning Communication.** Nepal is among the most vulnerable countries in the world, with a significant portion of Nepal's population being at risk from natural and climate-induced hazards. The government recognizes the need to improve disaster risk preparedness and response through enhanced hazard forecasting and early warning and is committed to enhancing Multi-hazard Early Warning (MHEW) and communication. Therefore, the GoN has entered into a Memorandum of Understanding with telecommunication service providers (NCELL and Nepal Telecom) to expand the scope of hazard early warning communication from one to thirteen hazards. Going forward, we intend to improve Multi-hazard Risk Assessment (MHRA) and MHEW and have instituted a Technical Working Groups at the National Disaster Risk Reduction and Management Authority (NDRRMA) to develop a National Framework for MHRA and conceptual framework for MHEW Services in Nepal, which would guide our efforts to manage multi-hazard risk in Nepal in the future.
4. **River and Water-induced Disaster Risk Management Policy (RWIDMP).** This policy articulates the government's vision and strategies to manage water-induced disasters along with the management of rivers and the protection of watersheds to meet the requirements of multiple users, while addressing climate and disaster risk, and ensuring sustainable watershed management, sustainable sediment management and resilient infrastructure development. The policy also clarifies the roles of all levels of government for RWIDRM and sets out the framework to manage water-induced disasters in the long-term by adopting a risk-informed approach to river management, infrastructure development and sustainable use of water resources. The government will make every effort to support its policy implementation through its Annual Work Plans and Budget.
5. **Prioritization of Diseases, Syndromes, and Conditions Monitored by the Disease Surveillance Systems:** Nepal is highly vulnerable to emerging and re-emerging diseases, including the climate change-induced diseases. The government acknowledges the need to strengthen public health emergencies preparedness and response and has been working with development partners towards realizing it. The government is committed to enhancing the disease surveillance system by identifying diseases of greatest national public health concern and adapting the current surveillance system for improved monitoring and reporting, allowing for regular updates as health risks change over time. Consequently, the GoN has formulated a new set of notifiable prioritized diseases, syndromes, and conditions, considering their incidence/prevalence, case fatality, outbreak potential, potential economic



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impact, to be monitored through the disease surveillance system for early warning and response thereby reducing the risk of future pandemic. Furthermore, the government will provide the required resources, including budget, human resources, sentinel sites, and upgrades to the software for implementation.

In addition to the above reforms and institutional actions linked to this Cat DDO, the Government of Nepal is committed to advancing reforms and institutional actions to (i) accelerate technology adoption for disaster risk management and infrastructure resilience, (ii) put in place systematic periodic review and updates to building codes and capacity to ensure compliance, (iii) advance methodologies and systems to mainstream climate and disaster resilience in development and infrastructure planning at national, provincial and local levels and (iv) facilitate the sharing of climate, weather, and water and geospatial data between government agencies and the public to strengthen multi-hazard preparedness, risk-informed planning and infrastructure development.

I would like to reiterate our strong commitment to the reforms summarized above, which are also described in the Cat DDO operation, and look forward to the Bank's continued support to advance our efforts to build a more climate and disaster resilient country.

Yours Sincerely,

(Eishnu Prasad Paudel)  
Deputy Prime Minister  
and Finance Minister



**ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE**

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<b>Prior Action 1</b>	<p><b>Likely (positive)</b></p> <p>Prevention and/or reduction of watersheds, natural resources, and biodiversity degradation mostly caused by floods and landslides.</p>	<p><b>Neutral to positive</b></p> <p>The poor are more likely to be affected by natural disasters, and the economically vulnerable are likely to fall into poverty following such events. Reducing financing gaps at the provincial and local levels can reducing the impacts of natural disasters on the poor, especially if accompanied by investments in institutional capacity to respond effectively.</p>
<b>Prior Action 2</b>	<p><b>Not Likely</b></p>	<p><b>Neutral</b></p> <p>The urban poor are more likely to live in inferior-quality constructions, and the rural poor in stone-masonry buildings. The revised NBCs could improve the resilience of those living in deprived housing conditions, including the poor and vulnerable who move to new and reconstructed ones. It is expected to have a neutral impact.</p>
<b>Prior Action 3</b>	<p><b>Not Likely</b></p>	<p><b>Neutral to slightly positive.</b></p> <p>The poor are more affected by disasters, and past disasters have pushed people (back) into poverty. EWC can protect vulnerable groups from the immediate impact of a disaster.</p> <p>94 percent of households in Nepal own a mobile phone. However, minor differences remain along the welfare distribution, with the poorest remaining outside mobile phone coverage. Finding alternate mechanisms to target the poorest 6percent and raising awareness about the use of EWC will help amplify the positive potential of this reform.</p>
<b>Prior Action 4</b>	<p><b>Likely (positive)</b></p> <p>Protection of water resources with potential cumulative beneficial effects on</p>	<p><b>Neutral (positive potential in medium to long term)</b></p> <p>Realizing the positive potential will depend on the operationalization of the RWIDMP,</p>



Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
	watershed protection, river management, and infrastructure.	e.g., clarification of roles and responsibilities, especially at the lowest tier of the government, and strengthening the capacity and ensuring participation of women and marginalized communities. At the same time, mitigation measures will need to also include an assessment of impacts on sand miners, to understand the livelihood dimension of small-scale river sand mining. The policy provides the provision for establishing water users and flood-affected community associations (WUFACA) at several levels for participatory management of river and riverine lands, reclaimed lands, associated public infrastructure, etc.
Prior Action 5	Not Likely	<b>Neutral (positive potential in medium to long term)</b> Climate-sensitive health risks disproportionately affect the poorest and vulnerable, including women, children, ethnic minorities, poor communities, migrants or displaced persons, older populations, and those with underlying health conditions. The positive potential will be realized if the extended list of notifiable prioritized diseases, syndromes, and conditions is followed up with public health and action preparedness to improve the health of the population.



## ANNEX 5: PARIS ALIGNMENT ASSESSMENT

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

<b>Step 1:</b> Considering our climate analysis, is the operation consistent with the country's climate commitments, including the NDC, NAP, LTS, and other relevant strategies?	Nepal's Second Cat DDO aims to deepen and strengthen support for the Government of Nepal's program to reduce disaster, climate, and public health risks, with a particular focus on strengthening resilience at sectoral and sub-national levels, policy updates, and technology adoption. Specifically, PA1 highlights the transfer of the National DMF from the national to the sub-national level, and this aligns with the DRM Act and programs laid out in the NAP. The upgrading of building codes as per PA2 supports the development of the adaptive capacity and complements several national plans, including the DRR National Strategic Plan of Action (2018-2030), and provides an opportunity to scale the use of lesser GHG intensive Compressed Stabilized Earth Brick (CSEB), thus addressing the NDC's target to adopt low emission technologies in brick and cement industries to reduce coal consumption and air pollution by 2030. Through prioritization of energy-efficient technology, the PA also aligns with Nepal's Long-term Strategy for Net-zero Emissions of 2021. Furthermore, the NDC has explicitly highlighted Nepal's ambition to increase the coverage of a multi-hazard early warning system. Thus, the PA3 aligns with the NDC. Likewise, the PA4 highlights river and water-induced disaster management, which properly echoes the Water-Induced Disaster Management Policy 2015 and NAP. Finally, the PA5 would support the enhancement of the disease surveillance system, which fully aligns with the DRR National Strategic Plan of Action (2018-2030), NAP, and NDC targets of strengthening the climate-sensitive disease surveillance system.
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### Mitigation goals: assessing and reducing the risks

**Prior Action 1:** To enable the allocation and transfer of funds from the Disaster Management Fund (DMF) at the central level to provincial and local level DMFs and effective utilization, the Recipient through the Council of Ministers, has approved the Disaster Risk Reduction and Management (First Amendment) Regulation 2081 (2024), as evidenced by its publication in the Recipient's gazette (section 74 Gazette No. 13, June 17, 2024).

<b>Step M2.1:</b> Is the PA likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No  <b>Explanation:</b> N/A
<b>Step M2.2:</b> Is the PA likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	<b>Answer:</b> No  <b>Explanation:</b> NA
<b>Step M2.3:</b> Is the risk of the PA introducing or reinforcing significant and persistent barriers being reduced to	<b>Answer:</b> NA  <b>Explanation:</b> NA



low after mitigation measures have been implemented?	
<b>Conclusion for PA 1:</b> PA1 has no material risk of negatively impacting the country's low-GHG emissions development pathways.	
<b>Prior Action 2:</b> To enhance building resilience to disasters and strengthen construction requirements, practices and compliance for emergency evacuation, disaster risk mitigation and fire safety, and to facilitate implementation monitoring, the Recipient, through the Ministry of Urban Development, has approved the amended National Building Codes NBC 206:2024 Architectural Design Requirements and NBC 205:2024 Ready to Use Detailing Guideline for Low Rise Reinforced Concrete Buildings Without Masonry Infill, as evidenced by their publication in the Recipient's gazette (Section 74 Gazette No. 8, May 27, 2024; Section 74 Gazette No. 11, June 10, 2024).	
<b>Step M2.1:</b> Is the PA likely to cause a significant increase in GHG emissions?	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> The PA highlights amending National Building Codes will mostly include improvements related to fire safety and emergency evacuation for NBC 206 and seismic safety for NBC 205 and monitor their implementation. The upgrading of the building codes is not likely to result in significant GHG emissions, but it would explore the adoption of brick options with low GHG emissions and improved energy efficiency. For example, compressed stabilized earth bricks typically have lower greenhouse gas (GHG) emission potential as compared to traditional bricks, are fire resistant, and provide seasonal temperature control<sup>30</sup>. Even though ensuring building energy performance is outside this PA's scope, it intends to minimize any GHG emission potential.</p>
<b>Step M2.2:</b> Is the PA likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> NA</p>
<b>Step M2.3:</b> Is the risk of the PA introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	<p><b>Answer:</b> NA</p> <p><b>Explanation:</b> NA</p>
<b>Conclusion for PA 2:</b> PA2 has no material risk of negatively impacting the country's low-GHG emissions development pathways.	
<b>Prior Action 3:</b> To improve disaster risk preparedness and response capacity, and to facilitate public-private partnerships to expand the scope of early warning communication from single to multiple hazards, the Recipient, through the Department of Hydrology and Meteorology (DHM) has entered into memorandum of understanding with the key telecom service providers, as evidenced by public notification published on DHM's website.	
<b>Step M2.1:</b> Is the PA likely to cause a significant increase in GHG emissions?	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> N/A</p>
<b>Step M2.2:</b> Is the PA likely to introduce or reinforce significant and persistent	<b>Answer:</b> No

<sup>30</sup> Thomas Bowen, 2017. A best practice manual for using compressed earth blocks in sustainable home construction in India Country



barriers to transition to the country's low-GHG emissions development pathways?	<b>Explanation:</b> NA
<b>Step M2.3:</b> Is the risk of the PA introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	<b>Answer:</b> NA  <b>Explanation:</b> NA
<b>Conclusion for PA 3:</b> PA3 has no material risk of negatively impacting the country's low-GHG emissions development pathways.	
<b>Prior Action 4:</b> To manage water-induced disasters and regulate the extraction of river and river-based construction materials, protect watershed and river network, and clarify the institutional mandates across three tiers of government, the Recipient, through the Council of Ministers, has approved the River and Water Induced Disaster Management Policy, as evidenced by the letter dated December 14, 2023 (Council of Ministers M./321/2969), from the Office of Prime Minister and Council of Ministers and its publication on the MOEWRI's website.	
<b>Step M2.1:</b> Is the PA likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No  <b>Explanation:</b> N/A
<b>Step M2.2:</b> Is the PA likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	<b>Answer:</b> No  <b>Explanation:</b> NA
<b>Step M2.3:</b> Is the risk of the PA introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	<b>Answer:</b> NA  <b>Explanation:</b> NA
<b>Conclusion for PA 4:</b> PA4 has no material risk of negatively impacting the country's low-GHG emissions development pathways.	
<b>Prior Action 5:</b> To enhance its preparedness and response capacities for public health emergencies, the Recipient, through the Council of Ministers, has approved a new list of notifiable prioritized diseases, syndromes, and conditions to expand the scope of monitored diseases and health risk within its disease surveillance system for early warning and emergency actions pursuant to section 49 (1) of the Public Health Service Act 2018, as evidenced by the decision approved by the Council of Ministers and its publication in the Recipient's gazette (Section 74, Gazette No.17, July 4, 2024).	
<b>Step M2.1:</b> Is the PA likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No  <b>Explanation:</b> Strengthening the disease surveillance system by expanding the list of prioritized diseases, syndromes, and conditions is not likely to significantly increase GHG emissions.
<b>Step M2.2:</b> Is the PA likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	<b>Answer:</b> No  <b>Explanation:</b> NA



<p><b>Step M2.3:</b> Is the risk of the PA introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?</p>	<p><b>Answer:</b> NA</p> <p><b>Explanation:</b> NA</p>
<p><b>Conclusion for PA 5:</b> PA5 has no material risk of negatively impacting the country's low-GHG emissions development pathways.</p>	
<p><b>Mitigation goals: Conclusion of the Paris Alignment Assessment for the Program</b> Most reforms of the five PAs of this program do not significantly increase GHG emissions and do not introduce or reinforce persistent barriers to the country's ability to pursue low-emissions development pathways. The PA2 also prioritizes the exploration of using GHG-efficient bricks, thus helping to reduce possible GHG emissions; hence, it is considered Paris-aligned.</p>	
<p><b>Adaptation and resilience goals: assessing and managing the risks</b></p>	
<p><b>Prior Action 1:</b> To enable the allocation and transfer of funds from the Disaster Management Fund (DMF) at the central level to provincial and local level DMFs and effective utilization, the Recipient through the Council of Ministers, has approved the Disaster Risk Reduction and Management (First Amendment) Regulation 2081 (2024), as evidenced by its publication in the Recipient's gazette (section 74 Gazette No. 13, June 17, 2024).</p>	
<p><b>Step A2:</b> Are climate hazard risks likely to adversely affect the PA's contribution to the Development Objective(s)?</p>	<p><b>Answer:</b> Yes</p> <p><b>Explanation:</b> Nepal ranks as the 10<sup>th</sup> most affected country in the world according to the Climate Risk Index<sup>31</sup>, approximately 80 percent of its population is at risk from natural and climate-induced hazards, including landslide, flooding<sup>32</sup>. Every year, on average, more than 500 disastrous incidents result in loss of life and livelihoods. The maximum economic loss occurred in 2017 during the Tarai floods, which was about 2 percent of FY17/18 GDP<sup>33</sup>. The funds to comprehend this situation are already considered low, and the risk from climate hazards is expected to worsen further, thus putting development goals and the people at greater risk.</p>
<p><b>Step A3:</b> Does the design of the PA reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</p>	<p><b>Answer:</b> Yes</p> <p><b>Explanation:</b> The mechanism of fund transfer from the national level to the subnational level will help minimize disaster and climate change risk. A disaggregated and decentralized DMF could be an essential instrument for the subnational governments to better prepare for, adapt to, or respond to climatic and geophysical shocks.</p>
<p><b>Conclusion for PA 1:</b> The PA1 facilitates the transfer of the DMF from the national to the sub-national level to address the effect of climate hazards by addressing the financing gap. The availability of financial resources through the decentralized DMF will support in implementing adaptive measures of climate and disaster risk management at the sub-national level. Thus, the PA is aligned with the goals and objectives of the NDC, NAP, and the Paris Agreement.</p>	

<sup>31</sup> Eckstein, David, Vera Künzel, and Laura Schäfer. 2021. Global Climate Risk Index 2021: Who Suffers Most from Extreme Weather Events? Weather-related Loss Events in 2019 and 2000–2019. Berlin: Germanwatch

<sup>32</sup> MoHA. (2018). Nepal Disaster Report 2017: The Road to Sendai. Kathmandu, GoN.

<sup>33</sup> MoFE. (2021). Vulnerability and Risk Assessment and Identifying Adaptation Options: Summary for Policy Makers.



<p><b>Prior Action 2:</b> To enhance building resilience to disasters and strengthen construction requirements, practices and compliance for emergency evacuation, disaster risk mitigation and fire safety, and to facilitate implementation monitoring, the Recipient, through the Ministry of Urban Development, has approved the amended National Building Codes NBC 206:2024 Architectural Design Requirements and NBC 205:2024 Ready to Use Detailing Guideline for Low Rise Reinforced Concrete Buildings Without Masonry Infill, as evidenced by their publication in the Recipient's gazette (Section 74 Gazette No. 8, May 27, 2024; Section 74 Gazette No. 11, June 10, 2024).</p>	
<p><b>Step A2:</b> Are climate hazard risks likely to adversely affect the PA's contribution to the Development Objective(s)?</p>	<p><b>Answer:</b> Yes</p> <p><b>Explanation:</b> Extreme weather conditions such as floods, landslides, fires, and others could pose significant threats to the development objectives. Climate hazards are likely to pose threats to buildings. However, the updated building code mandates that buildings consider disaster-resilient features and are not constructed in disaster-prone areas, such as areas of subsidence and riverbeds.</p>
<p><b>Step A3:</b> Does the design of the PA reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</p>	<p><b>Answer:</b> Yes</p> <p><b>Explanation:</b> The amendment of NDC 205 and 206 will strengthen construction requirements, practices, and compliance for emergency evacuation, disaster risk mitigation (including climate-related risk), and fire safety (including forest and monitor their implementation. Furthermore, the revision of building codes would provide resilience to multi-hazards, including floods and rainfall-induced landslides.</p>
<p><b>Conclusion for PA 2:</b> This PA supports the objectives of NAP, NDC, and LTS by making the infrastructures multi-hazard resilient. Promulgating building codes through this PA will increase adaptive capacity, thus aligning with the goals of the NAP, NDC, and National Building Code 2020. This also supports the adaptation goal of the Paris Agreement.</p>	
<p><b>Prior Action 3:</b> To improve disaster risk preparedness and response capacity, and to facilitate public-private partnerships to expand the scope of early warning communication from single to multiple hazards, the Recipient, through the Department of Hydrology and Meteorology (DHM) has entered into memorandum of understanding with the key telecom service providers, as evidenced by public notification published on DHM's website.</p>	
<p><b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the PA's contribution to the Development Objective(s)?</p>	<p><b>Answer:</b> Yes</p> <p><b>Explanation:</b> The disruption of telecommunication services due to climate-related hazards such as floods, landslides, and wildlife could adversely affect the PA, limiting the dissemination of hazard early warnings and alerts during an emergency. However, the telecom providers will have a backup electricity supply, and it is capable of transferring calls amongst nearby cell towers to mitigate the impact of such disruption on cell communication during disasters.</p>
<p><b>Step A3:</b> Does the design of the PA reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</p>	<p><b>Answer:</b> Yes</p> <p><b>Explanation:</b> Expanding the coverage of access to a multi-hazard early warning system through this PA can be a critical tool to be better prepared for future climate extreme events. The approach will assist in enhancing adaptive capacity and subsequently reducing the risk of climate change.</p>



<p><b>Conclusion for PA 3:</b> Access to a multi-hazard early warning system will increase adaptive capacity; hence, this PA aligns with the NAP, Disaster Risk Reduction National Strategic Plan of Action (2018-2030), and the adaptation goal of the NDC and Paris Agreement.</p>	
<p><b>Prior Action 4:</b> To manage water-induced disasters and regulate the extraction of river and river-based construction materials, protect watershed and river network, and clarify the institutional mandates across three tiers of government, the Recipient, through the Council of Ministers, has approved the River and Water Induced Disaster Management Policy, as evidenced by the letter dated December 14, 2023 (Council of Ministers M./321/2969), from the Office of Prime Minister and Council of Ministers and its publication on the MOEWRI's website.</p>	
<p><b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the PA's contribution to the Development Objective(s)?</p>	<p><b>Answer:</b> Yes</p> <p><b>Explanation:</b> With increased intensity and frequency of precipitation, the risk of river and water-induced disasters is increasing, and unplanned infrastructure along river courses will pose significant challenges to the development objective of managing climate and disaster risks. However, the Ministry of Energy, Water Resource and Irrigation is developing a River management plan to support risk-informed investment planning in selected river basins to mitigate the impact of river-induced disasters.</p>
<p><b>Step A3:</b> Does the design of the PA reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</p>	<p><b>Answer:</b> Yes</p> <p><b>Explanation:</b> The PA4 highlights the approval of river and water management policy. The policy will facilitate risk-informed investments and hence reduce the risk posed by riverine and water-induced disasters to an acceptable level.</p>
<p><b>Conclusion for PA 4:</b> This PA is also aligned with the goals and objectives of the Water-Induced Disaster Management Policy 2015, NAP, NDC, and the Paris Agreement as it tends to decrease the impacts of riverine and water-induced disasters.</p>	
<p><b>Prior Action 5:</b> To enhance its preparedness and response capacities for public health emergencies, the Recipient, through the Council of Ministers, has approved a new list of notifiable prioritized diseases, syndromes, and conditions to expand the scope of monitored diseases and health risk within its disease surveillance system for early warning and emergency actions pursuant to section 49 (1) of the Public Health Service Act 2018, as evidenced by the decision approved by the Council of Ministers and its publication in the Recipient's gazette (Section 74, Gazette No.17, July 4, 2024).</p>	
<p><b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the PA's contribution to the Development Objective(s)?</p>	<p><b>Answer:</b> Yes</p> <p><b>Explanation:</b> Climate change is expected to increase the frequency of disease outbreaks or create favorable conditions for the outbreak of new or infectious diseases. The accuracy of the disease surveillance or risk modeling system might be challenging under hard-to-predict climatic conditions; hence, the expansion of priority diseases to be notified is paramount to address the impact of climate-related diseases.</p>
<p><b>Step A3:</b> Does the design of the PA reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</p>	<p><b>Answer:</b> Yes</p> <p><b>Explanation:</b> The PA supports the expansion of disease surveillance systems to monitor and manage priority diseases and syndromes, including zoonotic and vector-borne diseases whose spread could be exacerbated by climate risk, such as floods. Thus, the PA is helping to reduce the risk of climate hazards to an acceptable level.</p>



**Conclusion for PA 5:** This PA's goal of improving our understanding of diseases harmonizes with the goals and objectives of the National Adaptation Plan. It also supports the adaptation goal of NDC and the Paris agreement.

**Adaptation and resilience: Conclusion of the Assessment for the Program**

Most of the PAs of this program prioritize measures that support adaptation goals through (i) strengthening the enabling environment for climate-resilient development through updating policy frameworks and decentralizing the disaster management fund; (ii) instituting climate-resilient infrastructure design standards and building codes; and (iii) enhancing emergency preparedness, response, and recovery by strengthening the early warning systems.

**CONCLUSION OF PARIS ALIGNMENT ASSESSEMENT:**

The prior actions of this operation are unlikely to pose any significant emissions of GHGs or barriers to Nepal in achieving low-carbon emission pathways. Most of the prior actions are adaptation centric, strengthening Nepal's adaptation capacity and aligning with its climate commitments like NAP and NDC. The operation is also consistent with existing regulatory frameworks and strategic action plans, such as the National Climate Change Policy 2019, National Policy for Disaster Risk Reduction, 2018, National Building Code 2020, Health Service Act 2018 and Regulation 2020, and Nepal Health Sector Strategic Plan 2022/23-2030/31.

**This operation enhances adaptive capacity without causing any significant harm to the country's target of transition to low-carbon development and is, therefore, aligned with the goals of the Paris Agreement. The operation has set out five different prior actions that aim to reduce loss or damage caused by disasters, including natural and climate-induced, with negligible GHG emissions.** Implementing the PAs and associated result indicators is expected to save lives, property, health, livelihoods, physical infrastructures, and cultural and environmental resources.