

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA53950

<b>Project Name</b>	Strengthening Systems for Social Protection and Civil Registration Project (P154548)
<b>Region</b>	SOUTH ASIA
<b>Country</b>	Nepal
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P154548
<b>Borrower(s)</b>	Government of Nepal
<b>Implementing Agency</b>	Department of Civil Registration, Ministry of Federal Affairs and Local Development
<b>Environmental Category</b>	C-Not Required
<b>Date PID Prepared/Updated</b>	09-Aug-2016
<b>Date PID Approved/Disclosed</b>	12-Aug-2016
<b>Estimated Date of Appraisal Completion</b>	12-Aug-2016
<b>Estimated Date of Board Approval</b>	13-Oct-2016
<b>Appraisal Review Decision (from Decision Note)</b>	The review did authorize the team to appraise the project.

## I. Project Context

### Country Context

1. Nepal is a landlocked, low-income country with per capita income of US\$730 (2014). It is characterized with a high degree of social diversity and cultural complexity. The ethno-linguistic and religious/caste stratifications that have been a source rich socio-cultural diversity have also contributed to frequent social and political tensions in Nepal. While the political development in Nepal marked important milestones with the end of the decade-long civil strife in 2006 and the subsequent abolition of the monarchy in 2008, the country is still going through a prolonged process of political transition and settlement, sometimes characterized with political instability including prolong political protests that resulted in effective closing of the Nepal-India borders over 2015-16.

2. A new constitution that defined Nepal as a federal democratic republic was promulgated in September 2015. Under the new constitution, Nepal is expected to transition to a federal state structure with autonomous sub-national governments to be run by elected authorities. But this transition is expected to take at least several years to complete. Until the transition completes, the country will continue to be governed under the existing structure of center-local relations which presently divide the entire country into 75 districts, around 200 municipalities, and 3,200 Village Development Committees (VDCs), each overseen by a centrally-appointed civil servant. Not all

the VDCs are fully operational nor are their appointed secretaries always physically present at their respective offices. This limits the extent of effective state presence in some of the remote locations, which in turn weakens the state capacity to address potential sources of social tension and conflict through effective provision of public services or dispute resolution.

3. Nepal is a predominantly rural economy with around two thirds of the employment in or linked to agriculture and a little more than a third of the GDP generated from it. While the service sector accounts for about half of the GDP, employment is largely informal, and the modest growth in recent years (averaging 4.18 percent over 2005-13) has depended heavily on domestic consumption boosted by steady and growing inflow of remittances. The small export and industrial bases have shrunk steadily for more than a decade, partly due to the lack of adequate infrastructure to support those economic activities.

4. In contrast to the lackluster growth performance, Nepal has registered remarkable progress in poverty reduction and improvements in some basic social indicators such as school enrollment. The poverty headcount (at US\$1.25/day) fell from 53 percent in 2003-04 to 25 percent in 2010-11, the most recent year for which national household survey data exist. However, much of the poverty reduction has been attributed to the dramatic increase in remittances, which nearly quadrupled in this period and reached over 25 percent of GDP in 2013, rather than to expansion in domestic economic activities.

5. Low income and limited access to economic opportunities are not the only sources of vulnerability for the ordinary Nepalis. The highly diverse social fabric of Nepal has proven to be both a cultural asset and source of social tension. Certain segments of society have historically fared poorly in their access to opportunities and social standing while certain geographic areas suffer from chronic food insecurity and climate-related risks such as natural disasters. Finally, a large number of people are reported to be excluded from accessing public services because of lack of official documentation, most importantly, citizenship documents. The exact extent of this type of exclusion has not been documented, although some report the number to be around a few million individuals.

6. The recent major earthquakes showed how vulnerable Nepal is to natural disasters, its relative lack of preparedness, and its weak capacity for rapid response. The earthquakes resulted in over 8,700 deaths and 25,000 injuries, and caused economic damages estimated at US\$7 billion. Although the government tried to respond quickly, its efforts were initially hampered by the difficulty of obtaining accurate information from the affected areas, some of which remained unreachable for an extended period because of the remoteness and poor or non-existent transport infrastructure. Delivery of the planned relief and recovery efforts had to go through the existing local body structure but in the worst hit areas, the earthquakes rendered local bodies themselves inoperable. Lack of a comprehensive national population database further added significant hurdles to the government, international agencies, and non-governmental organizations in identifying eligible recipients of assistance for disaster relief and recovery.

7. This snapshot suggests Nepal would benefit from a stronger system of safety nets linked to a comprehensive population registry to protect the vulnerable from shocks including frequent natural disasters. While a political consensus to overhaul the social protection policy is absent at the moment, incremental improvements in the existing delivery systems is a viable possibility, especially if these build on demonstrated successes from previous pilots within Nepal.

## **Sectoral and institutional Context**

8. The social protection (SP) sector of consists of numerous programs, most of them relatively small and poorly coordinated with each other. The fiscal cost of the current portfolio of SP programs in Nepal reaches 2.5 percent of GDP (2011-12). The lion share (about 1.5 percent) of this spending is on public sector pensions, which only reach about 3 percent of the workforce. Programs that can be classified as social assistance programs, usually intended to assist the poor and the vulnerable, amount to about 0.9 percent of GDP altogether. The impact of these programs on poverty is limited, both because most of the programs are small and fragmented and because these are not explicitly designed as poverty reduction interventions. The government has recognized the importance of consolidating some of these disparate programs but this recognition has yet to translate into concrete policy commitments or actions.

9. The bulk of social assistance expenditures of Nepal are under the Ministry of Federal Affairs and Local Development (MOFALD) and consists of the social security allowances (SSAs) and the two public works programs: Rural Community Infrastructure Works (RCIW) and Karnali Employment Program (KEP). Even within MOFALD, there is some degree of fragmentation as these programs are currently managed by three separate units within the ministry.

10. The SSA is the largest of the social assistance programs in Nepal. Old-age pension, single woman pension, and the child grant, three of the largest schemes, together reach more than 2 million individual beneficiaries, with the benefit amounts ranging from Rs.200 per month per child for the child grant to Rs.1,000 per month for the elderly benefit. The total budget allocation for FY 2015-16 for the SSAs was Rs.16.5 billion. The benefit amount for the old-age pensions for those above 70 years of age was doubled from Rs.500 per month to Rs.1,000 per month in FY2015-16. Although these allowances are not explicitly targeted to the poor, they are intended for those who are considered socially and/or economically vulnerable. For FY2016-17, the government announced its intention to double the benefit amount and also gradually increase the coverage of the child grant.

11. For the SSA program, MOFALD has relied on manual recording of beneficiary information and benefit payments by local officials at each of the roughly 3,200 VDCs and 200 municipalities. The manual and decentralized record keeping of beneficiary information is a major hurdle for addressing issues of duplication, under-coverage and weak oversight facing the administration of SSA program. The District Development Committees (DDCs), headed by MOFALD-appointed Local Development Officers (LDOs), are supposed to oversee the operations. In practice, however, the DDC roles are limited to serving as intermediaries between the VDCs and the Ministry for reporting beneficiary and payment information and managing flow of funds to the VDCs for each round of payments processed three times a year. The underdevelopment of MOFALD administrative systems has given rise to a host of problems, both real and perceived, including lingering suspicions of duplication, alleged leakage of funds, and delayed benefit payments. Furthermore, the recent World Bank analysis has indicated considerable under-coverage of around 30-40 percent of eligible beneficiaries of the senior citizen and single woman pensions, with the incidence slightly worse at the lower end of the income distribution.

12. The fragmented and non-robust identity ecosystem in the country further adds to the challenges of reducing duplications and identifying eligible SSA beneficiaries. Citizenship

certificates and civil registration (CR) certificates are the primary means of identifying eligible beneficiaries for the SSA program. The World Bank recent study on under-coverage highlighted the access to these documents as one of the major reasons for the exclusion of certain eligible beneficiaries. However, even the existing registers for both of these sources of identification cannot be utilized to identify eligible beneficiaries due to lack of digitization and consolidation of their paper records. Both the citizenship identification and the civil registration systems operate without a nationally unique identification number for each certificate and/or individual, thus increasing chances of duplication and fraud. Two different ministries, and their district-level offices, are responsible for administering citizenship and CR services with no coordination between the two.

13. Nepal also lacks a comprehensive national population register (NPR) which could, in theory, uniquely identify all residents of the country and link the identification documents issued by various agencies. A regularly updated NPR would not only help clean the existing SSA beneficiary database by uniquely identifying each beneficiary, but also help identify potential beneficiaries as they become eligible so that they can be targeted for enrolment to increase coverage. However, for a population register to be useful, it needs to be linked to the CR system for regular updating.

14. Nepal CR system started operating in the late 1970s and captures five vital events, birth, death, marriage, divorce, and migration. Each VDC/municipal secretary is designated as a local registrar and is responsible for recording vital events in each VDC/municipality when residents come forward voluntarily to report a particular event. Besides its linkages to the SSA program, the CR system would also be a foundation for legal identities of people and their access to a range of public and private services.

15. However, the CR system in Nepal is under-developed. The decentralized and paper-based recording of documents collected during registrations limits the potential usage of the information to generate vital statistics for planning and other purposes. Limited awareness among the population and difficulty in accessing local body offices have led to low registration rates and coverage. Transitioning to a digital CR system that is linked to a population register and the SSA beneficiary register would facilitate improved coverage and delivery of both CR and SSA.

16. MOFALD recently stepped up its institutional commitment to strengthen its capacity to manage CR and SSA by creating a new Department of Civil Registration (DOCR). DOCR is headed by a director-general at the rank of joint secretary and concurrently designated as the national registrar.

17. With Bank assistance, MOFALD recently developed a management information system (MIS) to use as a database on specific information about the actual beneficiaries and program implementation (e.g., details on payment transactions) and piloted use of commercial banks as SSA payment service providers (PSP) in three districts. MOFALD MIS is capable of recording CR data as well as the SSA beneficiary data and hence serving as a tool to integrate the two strands of related services for which MOFALD, now through DOCR, is responsible. MOFALD has deployed the MIS in approximately 25 districts and plans to continue its roll-out to all 75 districts.

18. The recent experiences and organizational development of DOCR has led to its recognition of the need of a system-wide overhauling for better management and coordination between its two core mandates of CR and SSA programs. The department has also identified the lack of a population register to link its CR and SSA beneficiary and payment information as one of the key

bottlenecks for improving the administration of its two functions. DOCR has expressed interest in receiving the World Bank assistance to develop a project to improve the existing system of delivery and administration of its two core functions.

## II. Proposed Development Objectives

The Project Development Objective (PDO) is to improve the coverage of social security allowances and civil registration, and the delivery of social security allowances.

## III. Project Description

### Component Name

Component 1: Improving Coverage of Civil Registration and Social Security Allowances

### Comments (optional)

Component 1 will support the expansion of coverage of CR and SSA by establishing a national population register of individuals and household/family folders. The register will be updated through regular CRs and targeted outreach and communications campaigns. The population register will be housed in the existing management information system (MIS) at DOCR, which will be enhanced to accommodate the additional functionalities required (under Component 3). The goal is to establish a CRVS system that will allow all individuals/residents easy access to CR, enable regular monitoring of registrations, generate timely vital statistics from a central database and establish linkage with programs such as SSA. The World Health Organization (WHO) will provide technical assistance to DOCR.

### Component Name

Component 2: Modernizing Social Security Delivery Systems

### Comments (optional)

Component 2 will support roll-out of e-payments to improve operational efficiency and accountability of the SSA program in 25 of 75 districts in Nepal. It will also support strengthening of other facets of the SSA benefit delivery largely through increased and improved citizen engagement and use of IT in all 75 districts. The United Nations Capital Development Fund (UNCDF) will provide technical assistance to DOCR for this component.

### Component Name

Component 3: Institutional Strengthening

### Comments (optional)

Component 3 is designed to support a range of cross-cutting activities for sustainable institutionalization of the improvements supported under components 1 and 2 by building the government organizational and institutional capacities for managing CR and SSA functions at both the central and local levels.

### Component Name

Component 4: Project Management, Monitoring and Evaluation

### Comments (optional)

Component 4 will support project implementation and M&E by establishing and maintaining an effective project management unit (PMU), district-level project implementation units (DL-PIUs), building capacity of project management staff, and financing specific project evaluation studies.

## IV. Financing (in USD Million)

Total Project Cost:	150.00	Total Bank Financing:	150.00
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Financing Gap:	0.00	
<b>For Loans/Credits/Others</b>		<b>Amount</b>
International Development Association (IDA)		150.00
Total		150.00

## V. Implementation

The implementing agency of this project will be the Department of Civil Registration (DOCR). The project supports DOCR core mandates of delivering CR and SSA services and as such most of the activities to be supported by the project should be mainstreamed into DOCR day-to-day work routine over time. With this in mind, DOCR will set up a Project Management Unit (PMU) to be led by the DOCR Director-General as the Project Director.

The PMU will be headed by the DOCR Director-General (DG) as the Project Director. The existing Directors at DOCR (Under-Secretaries) will support the Project Director in line with their regular portfolio of responsibilities and existing personnel, while also being responsible for their designated component activities. Besides, the PMU will include a number of consultants for financial management, procurement, and specific technical areas such as payment, MIS and M&E and others as needed. A small district-level project implementation unit (DLPIU) will be set up in each of the 75 districts to support project activities at the local level. The LDO or an official designated by the LDO will chair a district-level project coordination committee to ensure appropriate coordination across relevant agencies.

The MOFALD Secretary will chair a project steering committee (PSC) that includes Joint Secretaries from MOFALD and relevant ministries. The DOCR DG will be the member secretary of the PSC. A technical committee will also be formed with undersecretary level representatives of all the agencies in the steering committee. At the district level, a District Project Coordination Committee (DPCC) chaired by the Local Development Officer will be formed to facilitate coordination across relevant agencies. The DPCC will include DDC officials and representatives from other relevant agencies.

## VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01		x
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

**Comments (optional)**

## **VII. Contact point**

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