



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 03-Feb-2022 | Report No: PIDC33560



BASIC INFORMATION

A. Basic Project Data

Country Nepal	Project ID P177776	Project Name First Nepal Green, Resilient and Inclusive Programmatic DPC (P177776)	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Board Date Jun 15, 2022	Practice Area (Lead) Environment, Natural Resources & the Blue Economy	Financing Instrument Development Policy Financing
Borrower(s) Nepal	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

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

Financing (in US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed programmatic Green, Resilient, and Inclusive Development (GRID) Development Policy Credit (DPC) responds to the Government of Nepal's (GoN) commitment to implement the GRID approach. The program supports specific key transitions that build a foundation for greener and more resilient growth that aims to leave no one behind. Recognizing that the current growth and development model has reached its limits, in 2021 the GoN formally adopted the GRID approach to address the inter-related challenges of a durable economic recovery from COVID-19, climate risks,



natural capital depletion, and exclusion of vulnerable people from economic opportunities. The GoN's recently approved budget incorporates GRID priorities. The GoN is also preparing a GRID Strategic Action Plan backed by 17 Development Partners (DPs). These DPs committed to supporting Nepal to implement the GRID approach by endorsing, with the GoN, the "Kathmandu Joint Declaration on GRID" in September 2021. The Declaration notes that achieving GRID outcomes requires an increase in quantity and quality of financing from diverse sources, coordination across institutional and sectoral boundaries, and an enabling policy and institutional environment.

The new government took office on July 13, 2021, following the second reinstatement of parliament in five months. A minimum program was announced though challenges remain in keeping the coalition intact until the election in November 2022. At the sub-national level, funds, functions, and staff continue to be managed by seven provinces and 753 local governments for which legislation, institutions, and procedures are being formalized as prescribed in the 2015 Constitution. Some of these processes are supported by this DPC.

Nepal's macroeconomic policy framework is adequate for development policy financing. While COVID-19 has presented unprecedented challenges, the GoN has taken steps to reduce the economic risk and government policies have remained sound. The risk of debt distress remains low and the GoN remains committed to sustaining fiscal sustainability, as evidenced by relatively stable macro-economic and fiscal indicators during the pandemic.

Relationship to CPF

The proposed DPC helps to operationalize World Bank's overarching shift to pivot towards the GRID agenda to support Nepal's long-term development trajectory, as identified in the recent Performance and Learning Review (PLR) of the Nepal Country Partnership Framework (CPF) FY19-24. The operation is consistent with all three Pillars of the CPF—(a) public institutions, (b) private sector-led jobs and growth, and (c) inclusion and resilience. The CPF's first pillar, "Public institutions" targets to strengthen institutions for public sector management and service delivery. The second Pillar "Private sector-led jobs and growth" emphasizes the need to (i) improve regulatory environment for competitiveness, and (ii) improve income opportunities for farmers, women, and disadvantaged youth. The third Pillar "Inclusion and resilience" aims to (i) improve access to services and support for the well-being of the vulnerable groups including access to water and sanitation, (ii) increase resilience to health shocks, natural disasters, and climate change, and (iii) improve adaptation of sustainable natural resources, to enable more sustainable, efficient, resilient, and inclusive growth. The GRID DPC will directly contribute to these CPF targeted outcomes.

C. Proposed Development Objective(s)

Improve the enabling environment for Nepal's green, climate-resilient, inclusive development pathway. The objective is supported by two pillars: Pillar 1 aims to consolidate GRID principles in strategic development planning across sectors. Pillar 2 aims to support sectoral transitions to green, resilient, and inclusive development pathways.

Key Results

The results of Pillar 1 are: (i) increased percentage of electric passenger vehicles registered, (ii) increased percentage of registration of internal combustion engine (ICE) cars and trucks that are Euro 4 technology compliant, (iii) adoption of an effective, inclusive, and transparent rural land classification and planning system, (iv) installed and operational hydrological monitoring stations and radar, in additional locations, generating more frequent and reliable information, (v) usage of at least one Social Protection program's delivery system for the provision of relief and recovery in response to a shock due to an adverse natural event, and (vi) increased number of Strategic Environmental and Social Assessments undertaken for public policies, programs, and strategic plans.

The results for Pillar 2 are: (i) improved concessions issued for tender under the Tourism Promotion Procedures in Protected Areas, (ii) increased land covered by an approved forest management plan in line with the Forest Regulation,



(ii) additional women and members of indigenous communities formally benefitting from the Access to Benefit Sharing scheme, (iv) increased proportion of sectoral spending at the federal and provincial levels for climate smart agriculture investments, (v) River Basin Offices established at the river basin level, and (vi) higher investment flows to Solid Waste Management at federal and local levels, from both public and private sources.

D. Concept Description

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

Under DPC-1 Pillar 1, Prior Actions by the GoN include: (i) issuance of a budget ordinance reducing electric vehicle import taxes and duties, to reduce air pollution and greenhouse gas emissions from the transport sector—one of the largest sources of air pollution, (ii) approval of Land Use Regulations to promote socio-economic and environmental sustainability in the use of land resources, (iii) issuance of a budget ordinance on the expansion of the hydrological and meteorological network, and (iv) formal establishment and institutionalization of the GoN GRID Steering Committee to ensure a stronger strategic framework for multi-sectoral decision making on GRID priorities, financing, and budgeting across sectors and initiate the preparation of the GRID Strategic Action Plan.

Under DPC-1 Pillar 2, Prior Actions by the GoN include: (i) regulation of tourism concessions in protected areas, (ii) approval of the Forest Regulation to promote productive activities throughout the forest value chain, while maintaining long-term sustainability of Nepal's forest resources, (iii) adoption of the Gender and Social Inclusion Strategy and Action Plan for Forest and Biodiversity, setting goals, responsibilities, priority interventions, coordination and funding mechanisms, and monitoring and evaluation system, to promote inclusion in natural resources management, (iv) strengthening the legal framework for livestock by adopting (a) an Animal Breeding Policy, to enhance livestock production, productivity, and income for farmers, and (b) an Animal Health Policy, with provisions to control animal diseases aligned to international standards and Nepal's One Health Strategy, (v) enactment of (a) Water Supply and Sanitation Act, defining the mandates at the three tiers of government in service provision, and (b) approval of the Amendments to the Irrigation and Water Induced Disaster Management Policy, defining the mandates of the three tiers of government in the operation and management of irrigation systems in Nepal, and (vi) adoption of a plastic bag ban to help reduce waste generation and burning of plastic that damages human health, and stimulate alternatives to plastic.

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

Poverty and Social Impacts

The GRID DPC series aims to contribute to less poverty and more inclusion. The WB's 2021 Nepal Light Poverty Assessment highlights several threats to poverty reduction including (a) exposure to natural disasters which will increase with climate change, and (b) a high rate of vulnerability of falling back into poverty in response to economic disasters and shocks. While an in-depth policy and social impact analysis of the GRID DPC-1 is constrained by an absence of recent



poverty data, the programmatic operation is anticipated to enhance resilience to climate shocks, improve environmental health and associated human capital important for wealth generation, and protect the resource base upon which productive sectors and jobs depend. The operation can have indirect long-run positive consequences (both economy-wide, as well as benefitting the poor and vulnerable) through improved public goods such as higher air quality, and safer and more resilient public infrastructure, and more equitable access to forest resources. Benefits in the medium term depend on whether the reforms indeed target the poor and vulnerable to such a degree that does improve their resilience. The risks related to a green transition in the short-term have to do with an adjustment period, during which relative prices of green and non-green goods and services as well as labor and asset allocations due to sectoral reforms can change.

Environmental, Forests, and Other Natural Resource Aspects

The GRID DPC series supports reforms that are fundamentally designed to improve environmental (including climate), forests, and other natural resource dimensions. All prior actions under DPC-1 are expected to either have positive or no negative effects on the environment, forests, and other natural resources.

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APPROVAL

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