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# Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 27-Sep-2024 | Report No: PIDDA00052



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Nepal	P178687	NEPAL GREEN, RESILIENT AND INCLUSIVE PROGRAMMATIC DPC 2	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
SOUTH ASIA	12-Dec-2024	Environment, Natural Resources & the Blue Economy	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Nepal	Ministry of Finance		

Proposed Development Objective(s)

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

Financing (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?

Yes

Is this project Private Capital Enabling (PCE)?

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



## Explanation

### B. Introduction and Context

#### Country Context

**The Second Nepal Green, Resilient, and Inclusive Development (GRID) Programmatic Development Policy Credit (DPC-2) is part of a three operations series, which is a catalyst for Nepal's ongoing transition to a GRID path.** The DPC series is a key instrument for Nepal to operationalize its homegrown GRID Platform across the economy. This ambition is articulated in the 2021 *Kathmandu Declaration on GRID*, the 2023 *Joint Communiqué on GRID*, and Nepal's emerging *GRID Strategic Action Plan (SAP) 2024-2034*. The latter identifies over US\$10 billion of ongoing and pipeline investments for ten key transitions. The World Bank and 15 other international Development Partners (DPs) support this effort led by the Government of Nepal. These partners, which include the International Finance Corporation, Asian Development Bank (ADB), United Nations, and other multilateral, bilateral, and non-governmental organizations, coordinate on policy, knowledge, and investment via Nepal's GRID Platform.

**Nepal's political situation remains fluid, yet commitment to GRID and this DPC series has been maintained through four successive coalition governments** that have taken office since the November 2022 federal and provincial elections. The current coalition took over on July 14, 2024. At the sub-national level, funds, functions, and staff are managed by seven provinces and 753 local governments for which legislation, institutions, and administrative procedures have been formalized as constitutionally prescribed. The federalization process is supported by this DPC series.

**Nepal's macroeconomic policy framework is adequate for development policy financing.** Medium-term economic growth is expected to be about five percent, due to new hydropower projects, a stronger services sector, and expected exports. Fiscal policy has remained consistent with macroeconomic stability. Fiscal prudence has been maintained by enacting fiscal-related acts and establishing fiscal-related constitutional bodies aligned with fiscal federalism. Efforts to increase domestic revenue mobilization will also continue to strengthen the macroeconomic framework. The Nepali rupee is pegged to the Indian currency, providing a stable anchor for monetary policy. Macroeconomic adequacy is also strengthened by the IMF Extended Credit Facility program.

#### Relationship to CPF

**GRID DPC-2 helps achieve the World Bank Group (WBG) mission to reduce poverty and boost prosperity on a liveable planet via continued operationalization of the GRID approach in Nepal.** The operation is consistent with WBG Country Partnership Framework (CPF) FY19-24, Report No. 83148-NP, July 10, 2018, discussed by the WBG Board of Executive Directors on August 7, 2018. The operation aligns with all three Pillars of the CPF: (a) public institutions; (b) private sector-led jobs and growth; and (c) inclusion and resilience, and in particular the pivot to GRID articulated in the 2022 Performance and Learning Review. The DPC series is also well aligned with all high-level objectives of the upcoming CPF under preparation. DPC-2 also contributes to corporate, IDA20, and IDA21 priorities by addressing: (a) climate change; (b) jobs and economic transformation; (c) gender and development; and (d) human capital. The DPC series addresses regional priorities on jobs and clean air, and relevant WBG's Corporate Scorecard indicators as per the WBG Evolution Roadmap.

### C. Proposed Development Objective(s)



**The Program Development Objective (PDO) is to improve the enabling environment for Nepal's green, resilient, and inclusive development pathway.** Two pillars support the PDO. Pillar A: Consolidating GRID principles in strategic development planning across sectors, and Pillar B: Sectoral policies for GRID. Together, these pillars include measures for (a) sustainably and productively using natural capital for people's livelihoods; (b) building resilience of urban and rural infrastructure, people, and livelihoods to climate, environmental, and other risks and shocks; (c) promoting more efficient and cleaner production, consumption, and mobility for greater livability; (d) strengthening inclusion in development decision-making and access to assets and services; and (e) mobilizing private sector participation to help green Nepal's economy and create or enable job opportunities from tourism, forestry, agriculture, water security, solid waste management, and urban sustainability.

#### Key Results

**The results expected in 2027 from the implementation of all three operations in the programmatic series are:**

##### Pillar A:

- Share of newly registered two- three-, and four-wheeled vehicles that are electric (percent).
- Share of imported ICE vehicles that meet the new vehicle emission standards: two- and three-wheelers that meet Euro 5 standards, and vehicles with four or more wheels that meet Euro 6 standards (percent).
- Reduction of greenhouse gas emissions from new electric vehicles, new cleaner ICE vehicles, and the Green Tax (metric tons of CO2 equivalent).
- Effective, inclusive, and transparent land classification, mapping, and planning framework is in place (Y/N).
- Automatic hydrological monitoring stations and radar that are fully operational in additional locations (number).
- SESAs carried out for policies, programs, and strategic plans (number).

##### Pillar B:

- Tourism concessions awarded under the National Parks and Wildlife Conservation Regulation (number).
- Land area covered by an approved sustainable forest management plan that is in line with the Forest Regulation and that includes climate outcomes and documented women's participation in the plan (hectares).
- Share of annual income earned by forest users' groups that is spent on women empowerment and female entrepreneurship activities (percent)
- Social protection programs in which the respective delivery system is used for the provision of relief and recovery in response to a shock (number).
- Irrigation Master Plan approved with a pipeline of investments that will maintain and expand the area irrigated year-round, boosting productivity, and reducing yield variability and GHG emissions (Y/N).
- River Basin Offices operationalized with approved river basin plans (number).
- Operators of WSS services licensed with binding performance indicators for safe water provision (number).
- Federal Waste Management Technical Support Unit fully staffed and budgeted (Y/N).

#### D. Project Description

**GRID DPC-2 builds on GRID DPC-1 (P177776) to programmatically support Nepal's transition to a greener, more resilient growth path that leaves no one behind.** GRID DPC-2, in the amount of US\$100 million equivalent, is the second of three operations. DPC-1 was delivered in July 2022, and the series is currently scheduled to close in December 2026. GRID DPC-1 supported substantive policy actions to operationalize GRID, build a country-led platform to develop and align policy, and leverage associated new public and private investment. GRID DPC-2 deepens the engagement. This effort is being strengthened by an intended US\$100 million from the ADB for a parallel coordinated policy loan and technical assistance based on the GRID DPC-2 policy matrix. The coordination of these two operations strengthens the overall reform program. Together, they help Nepal operationalize the GRID approach through reforms in sectors such as water



supply, irrigation, air quality, and climate and disaster information systems. The program is informed by the 2022 Nepal Country Climate Development Report (CCDR, Report No. 178385), GRID Advisory Program (P176456), and other analytics.

**Under Pillar A, the GoN's Prior Actions (PAs) supported by GRID DPC-2 include:** (a) Introduction of a Green Tax on imported petroleum and coal products in the Financial Act 2024 to reduce air pollution and improve human health; (b) Approval of the Land Use Program Implementation Directive to support municipalities to implement the land use, classification, mapping, and planning framework articulated in the 2022 Land Use Regulation; and (c) Approval of the National Hydromet Policy to provide hydro-meteorological services to support the delivery of sector-specific weather, water, and climate data, and improve decision making.

**Under Pillar B, the GoN's PAs supported by GRID DPC-2 include:** (a) Approval of Karnali and Madhesh Provincial Forest Regulations that promote training, employment, and economic opportunities for women and Indigenous People and Local Communities through equitable benefit sharing mechanisms to strengthen the operationalization of the 2022 Forest Regulation and sustainable forest management (SFM); (b) Approval of the standard for shock-responsive social protection management and relief distribution to mobilize social protection systems in providing relief and recovery in response to climate and other shocks; (c) Adoption of the National Irrigation Policy that defines roles and responsibilities among the three tiers of government, strengthens capacity to ensure participation by women and marginalized farmers, and boosts the sustainability of the irrigation systems; and (d) Approval of the (i) National Drinking Water, Sanitation, and Hygiene Policy and (ii) 2022 Drinking Water and Sanitation Act.

## E. Implementation

### Institutional and Implementation Arrangements

**Ministry of Finance (MoF) coordinates implementation of the DPC series** and has experience with World Bank policies and procedures. Experience with World Bank-financed budget support operations has built up institutional capacity on data requirements and overall monitoring arrangements. Nepal has implemented the IMF's Enhanced General Data Dissemination System and data is generally available through MoF and the Nepal Rastriya Bank websites, and the Central Bureau of Statistics.

**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-supported DPF 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 to address pertinent concerns. Project-affected communities and individuals may submit their complaint 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 any time after concerns have been brought directly to the Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate GRS, visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's AM, visit <https://accountability.worldbank.org>.

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

### Poverty and Social Impacts

**A detailed poverty and social impact assessment has been prepared**, finding that the prior actions are likely to have neutral to positive poverty and social effects. All policy tracks support sectors and themes with development potential, and support drivers that reduce poverty and inequality. For example, improved water supply (PA7) and a sustainable and prosperous forest sector (PA4) could increase the resilience and adaptability of the poor and marginalized, especially



those working in primary sectors. While the National Hydromet Policy (PA3) is expected to have a neutral effect on poverty and inequality reduction, the approval of guidelines for shock-responsive social protection (PA5) will have neutral to positive effects with the positive potential depending on complementary policy actions that improve targeting and reach at the local levels. Similarly, land classification and planning frameworks (PA2) can support positive effects if they are also operationalized and implemented as designed. The Green Tax (PA1) has been assessed to have negative, albeit insignificant, impacts on the poor and vulnerable.

**Some policies have risks that need to be assessed based on monitoring and other administrative data over the DPC series.** The positive potential of PA2 (land use) could be at risk if land access of the poor and vulnerable is undermined. This is unlikely as the reform does not have measures related to land access and requires land use planning to be conducted in a participatory manner by all municipalities. PA4 (SFM) aims to support Nepal's vaunted community forestry experience, involving about half of Nepali families, to shift from conservation towards combined conservation and sustainable production based on participatory forest planning and management and local benefits sharing. A system that monitors and evaluates the sector is crucial to mitigate the risks, and the building blocks for this system are in place, with support from the World Bank and others.

#### Environmental, Forests, and Other Natural Resource Aspects

**A detailed environmental analysis finds that policy measures supported by this operation would likely have significant beneficial effects, as intended, on environmental health, forests, natural resources, and climate.** Reinforcing efforts undertaken in GRID DPC-1, air pollution would be reduced by increasing fossil fuel cost, although minimally at first given the low level of the Green Tax introduced in July 2024 (PA1). Additional improvements in environmental and human health would result from increasing access to water and sanitation services (PA7). Reductions of GHG emissions are likely to result from increasing fossil fuel cost (PA1), enhancing land use planning (PA2), and implementing SFM at the provincial and local levels (PA4). The policy measures supporting land use planning (PA2), hydromet (PA3), and SFM (PA4) would reduce natural disaster risk, particularly in some of the most vulnerable municipalities. Policy measures to put in place SFM (PA4) will benefit biodiversity conservation and wildlife protection. While significant potential adverse environmental effects from the use of pesticides might result from irrigation expansion promoted by PA6, these effects are unlikely to materialize as Nepal has banned toxic pesticides, has an integrated system for pest management and monitoring, and the irrigation policy itself promotes environmentally friendly planning and integrated natural resource management. Other potential negative environmental impacts from construction and operation of hydromet stations (PA3) and water supply and sanitation infrastructure (PA7) can be addressed by Nepal's environmental management system and the institutional strengthening measures in PA3 and PA7.

#### G. Risks and Mitigation

The operation faces substantial risks to the achievement of the PDO. These risks relate mostly to macro-economic, political and governance, sector strategy and policies, technical design, institutional capacity, fiduciary, and stakeholders risks. Macroeconomic risks are substantial given the increasing frequency of shocks, higher inflation, reduced investment in human capital after the Covid-19 crisis, and increasing inequality. Political and governance risks are substantial, with frequent change in government and residual risks of political uncertainty remaining high. Risk relating to technical design arises from weak implementation of policies in Nepal, whereas institutional capacity for implementation and sustainability risk stems from the reform program requiring technical expertise and coordination across line ministries and tiers of government while the country continues to transition to its federal structure in line with the 2015 Constitution. The substantial fiduciary risk is derived from a weak internal control system and procurement capacity constraints. Further, stakeholders risks are substantial and arise from vested interest groups that benefit from the current policy regime and could resist reform that alters the status quo.



Nevertheless, on-going engagement helps mitigate the risks; this engagement features the strong commitment of MoF and the line ministries through four consecutive governments to the GRID agenda, long-term sectoral policy engagement by the World Bank, strong support from international Development Partners to Nepal on the GRID priorities in this operation, broad consultations with key stakeholders, and the Government of Nepal's proactive management of the change process to engage all types of stakeholders.

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## **APPROVAL**



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