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Report No: PGD418

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 73.8 MILLION  
(EQUIVALENT TO US\$100 MILLION)

TO NEPAL

FOR THE

NEPAL SECOND GREEN, RESILIENT, AND INCLUSIVE  
PROGRAMMATIC DEVELOPMENT POLICY CREDIT

NOVEMBER 12, 2024

Environment Department  
South Asia

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Nepal  
**GOVERNMENT FISCAL YEAR**  
*July 16 – July 15*

**CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of September 30, 2024)

Currency Unit

1.00 SDR = US\$1.35637

US\$1.00 = NPR133.63

**ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank	IPLC	Indigenous Peoples and Local Communities
AM	Accountability Mechanism	IWRM	Integrated Water Resource Management
AMT/CFT	Anti-Money Laundering and Combating the Financing of Terrorism	MLMCPA	Ministry of Land Management, Cooperatives and Poverty Alleviation
CatDDO	Catastrophe Deferred Draw Down Option	MoALD	Ministry of Agriculture and Livestock Development
CCDR	Country Climate and Development Report	MoEWRI	Ministry of Energy, Water Resources and Irrigation
CPF	Country Partnership Framework	MoF	Ministry of Finance
CS	Corporate Scorecard	MoFAGA	Ministry of Federal Affairs and General Administration
CSA	Climate-Smart Agriculture	MoFE	Ministry of Forest and Environment
DP	Development Partner	MoHA	Ministry of Home Affairs
DPC	Development Policy Credit	MoUD	Ministry of Urban Development
DPF	Development Policy Financing	MoWS	Ministry of Water Supply
DRM	Disaster Risk Management	NDC	Nationally Determined Contribution
DSA	Debt Sustainability Analysis	NRB	Nepal Rastra Bank
ECF	Extended Credit Facility	PDO	Program Development Objective
e-GP	Electronic Government Procurement	PEFA	Public Expenditure and Financial Accountability
EIA	Environmental Impact Assessment	PFM	Public Financial Management
EOP	End of Program	PMEP	Prime Minister's Employment Program
EPR	Environmental Protection Rule	PPA	Public Procurement Act
EV	Electric Vehicle	PPR	Public Procurement Regulations
GCP	Global Challenge Program	SAP	Strategic Action Plan
GDP	Gross Domestic Product	SDR	Special Drawing Rights
GHG	Greenhouse Gas	SESA	Strategic Environmental and Social Assessment
GoN	Government of Nepal	SFM	Sustainable Forest Management
GRID	Green, Resilient, and Inclusive Development	SP	Social Protection
GRS	Grievance Redress Service	SRSP	Shock Responsive Social Protection
ICE	Internal Combustion Engine	SWM	Solid Waste Management
IDA	International Development Association	TA	Technical Assistance
IFC	International Finance Corporation	WASH	Water, Sanitation and Hygiene
IMF	International Monetary Fund	WBG	World Bank Group
		WSS	Water Supply and Sanitation

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**NEPAL**

**NEPAL SECOND GREEN, RESILIENT AND INCLUSIVE PROGRAMMATIC DPC**

**TABLE OF CONTENTS**

<b>SUMMARY OF PROPOSED FINANCING AND PROGRAM.....</b>	<b>i</b>
<b>1. INTRODUCTION AND COUNTRY CONTEXT .....</b>	<b>1</b>
<b>2. MACROECONOMIC POLICY FRAMEWORK.....</b>	<b>2</b>
2.1. RECENT ECONOMIC DEVELOPMENTS.....	2
2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY .....	5
2.3. IMF RELATIONS.....	7
<b>3. GOVERNMENT PROGRAM .....</b>	<b>8</b>
<b>4. PROPOSED OPERATION .....</b>	<b>8</b>
4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION.....	8
4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS .....	9
4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY.....	20
4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS.....	21
<b>5. OTHER DESIGN AND APPRAISAL ISSUES.....</b>	<b>21</b>
5.1. POVERTY AND SOCIAL IMPACT.....	21
5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS.....	22
5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS.....	23
5.4. MONITORING, EVALUATION AND ACCOUNTABILITY.....	23
<b>6.SUMMARY OF RISKS AND MITIGATION .....</b>	<b>24</b>
<b>ANNEX 1: POLICY AND RESULTS MATRIX .....</b>	<b>27</b>
<b>ANNEX 2: FUND RELATIONS ANNEX.....</b>	<b>37</b>
<b>ANNEX 3: LETTER OF DEVELOPMENT POLICY .....</b>	<b>39</b>
<b>ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE.....</b>	<b>43</b>
<b>ANNEX 5: PARIS ALIGNMENT ASSESSMENT .....</b>	<b>47</b>
<b>ANNEX 6: MATRIX OF KEY CHANGES TO ORIGINAL POLICY MATRIX IN A PROGRAMMATIC SERIES.....</b>	<b>56</b>

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**SUMMARY OF PROPOSED FINANCING AND PROGRAM****BASIC INFORMATION**

Operation ID	Programmatic	If programmatic, position in series
P178687	Yes	2nd in a series of 3

**Proposed Development Objective(s)**

To improve the enabling environment for Nepal's green, resilient, and inclusive development pathway.

**Organizations**

Borrower:	Nepal		
Contact	Title	Telephone No.	Email
The Secretary	Ministry of Finance	014211161	moev@mof.gov.np
Implementing Agency:	Ministry of Finance		
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The Joint Secretary	International Economic Cooperation Coordination Division	014211371	moev@mof.gov.np

**PROJECT FINANCING DATA (US\$, Millions)****Maximizing Finance for Development**

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

Is this project Private Capital Enabling (PCE)? Yes

**SUMMARY**

Total Financing	100.00
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**DETAILS****World Bank Group Financing**

International Development Association (IDA)	100.00
IDA Credit	100.00

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

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	100.00	0.00	0.00	0.00	100.00
<b>Total</b>	<b>100.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>100.00</b>

**PRACTICE AREA(S)****Practice Area (Lead)**

Environment, Natural Resources &amp; the Blue Economy

**Contributing Practice Areas**

Agriculture and Food; Urban, Resilience and Land; Water; Social Protection &amp; Jobs

**CLIMATE****Climate Change and Disaster Screening**

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

**OVERALL RISK RATING****Overall Risk**

● Substantial

**RESULTS**



Indicator Name	Baseline	Target
Results Indicator #1A. Share of newly registered two-, three-, and four-wheeled vehicles that are electric (percent).	< 1 (2021)	25 (2026)
Results Indicator #1B. 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).	< 1 (2021)	90 (2026)
Results Indicator #1C. Reduction of annual greenhouse gas emissions from the Green Tax (percent).	0 (2022)	0.9 (2026)
Results Indicator #2. Local levels of government with approved land use classification (percent).	0 (2022)	61 (2026)
Results Indicator #3. People with improved resilience to climate-related disasters due to the installation and operation of additional hydromet monitoring stations and/or radar (Number).	0 (2022)	5 million (2026)
Results indicator #4. SESAs carried out for policies, programs, and strategic plans (number).	0 (2021)	1 (2026)
Results Indicator #5. Tourism concessions awarded to conservation-based enterprises under the National Parks and Wildlife Conservation Regulation (number).	0 (2022)	2 (2026)
Results Indicator #6A. Forest area covered by new and updated community forest management plans that comply with the Forest Regulation 2022 by including climate outcomes and documented women's participation (hectares).	0 (2022)	2,949,325 (2026)
Results Indicator #6B. (Gender tag) Share of annual income earned by forest users' groups that is spent on women empowerment and female entrepreneurship activities (percent).	N/A (2021)	20 (2026)
Results indicator #7. The delivery system of at least one social protection program is used for the provision of relief and recovery in response to a shock (Yes/No).	0 (2021)	1 (2026)
Results indicator #8. MoEWRI 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).	No (2021)	Yes (2026)
Results indicator #9A. River Basin Offices operationalized with approved river basin plans (number).	0 (2022)	3 (2026)
Results indicator #9B. Operators of WSS services licensed with binding performance indicators for safe water provision (number).	1 (2021)	50 (2026)
Results indicator #10. Federal Waste Management Technical Support Unit fully staffed and budgeted (Y/N).	No (2021)	Yes (2026)



## IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO NEPAL

### 1. INTRODUCTION AND COUNTRY CONTEXT

1. **The Green, Resilient, and Inclusive Development (GRID) programmatic Development Policy Credit (DPC) series is a catalyst for Nepal's ongoing transition to a GRID path.** The series of three operations 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*, 2023 *Joint Communiqué on GRID*, Nepal's 16<sup>th</sup> Five-Year Development Plan, and Nepal's *GRID Strategic Action Plan 2024-2034 (SAP)* which is now being finalized after a series of provincial consultations. The GRID SAP includes over US\$10 billion of ongoing and pipeline investments for ten key transitions. The World Bank and 15 other Development Partners (DPs) back this effort, including the International Monetary Fund (IMF), International Finance Corporation (IFC), Asian Development Bank (ADB), United Nations, and other multilateral, bilateral, and non-governmental organizations that coordinate on policy, knowledge, and investment via Nepal's GRID Platform.

2. **Nepal's GRID platform was established in 2021 when the Government of Nepal (GoN) recognized an enhanced development model was needed to address the inter-related crises of joblessness, pandemics, exclusion of vulnerable groups from economic opportunities, and climate and other environmental risks that impact people, prosperity, and the planet.** These risks threaten to reverse Nepal's development achievements including: (a) poverty reduced from 25 to under four percent between 2011 and 2023,<sup>1</sup> (b) malaria eliminated in cities, (c) electricity access expanded from 53 to 95 percent, (d) forest cover expanded from 25 to 45 percent, and (e) one of the world's highest Covid vaccination rates.

3. **The DPC series anchors Nepal's shift to GRID through an ambitious, integrated reform program of ten policy tracks.** These policy tracks were derived from dialogues around setting up Nepal's GRID Platform and the GoN's ownership in operationalizing the GRID approach to generate durable impacts in the face of the multiple crises and development challenges. These reforms enable the investment priorities in Nepal's GRID SAP. A few examples from the reform program that are linked to the World Bank Group's (WBG) new Global Challenge Programs (GCPs) and Corporate Scorecard (CS) illustrate why an integrated, economy-wide approach to operationalizing GRID continues to find traction:

- (a) Basin and landscape management, community forestry, and hydro-meteorological services can contribute to more resilient and sustainable hydropower, water supply, irrigation, climate-smart agriculture, and other infrastructure, leading to higher returns on public and private investment.<sup>2</sup>
- (b) The public health crisis of air pollution arises from many sectors and most affects the poorest; confronting the challenge requires policies that incentivize clean mobility, brick manufacturing, and household energy.
- (c) Nepal's on-going transition to federalism required by the 2015 Constitution continues to resolve gaps and overlaps in institutional mandates for policy and investment. For example, only 16 percent of people have access to safe drinking water (89 percent have basic access), while the responsibility of water service delivery has been unclear across the three tiers of government, hindering investment and impact.

4. **The Program addresses inclusion by strengthening decision-making by local people to enhance benefit sharing, access to resources, assets, and services, while encouraging private sector investment.** For instance, the forest reforms supported by DPC-1 and DPC-2 strengthen women's voices and empowerment in community forest user groups

<sup>1</sup> Government of Nepal, 2024. *National Living Standards Survey IV, 2022-2023*. Poverty rate calculated using consistent 2011 definition of poverty.

<sup>2</sup> For example, forests are critical for water security. By adding moisture in the air through transpiration and evaporation, for instance, they determine as much as 70 percent of rainfall downwind, affecting distant populations. Upstream forests also renew and sustain soil moisture and recharge springs, which are buffers against drought. In addition, forests reduce flood impacts on people and property by absorbing water and reducing water erosion. These services from "green water" are widely overlooked yet deliver quantifiable economic benefits—in addition to forest products such as construction materials, furniture, medicines, and food, and ecosystem services such as carbon storage and biodiversity.



as the sector transitions to sustainable forest management, related enterprises, inclusive livelihoods, and jobs from the forest assets built over the past three decades.

5. **GRID DPC-2 builds on GRID DPC-1 (P177776) to programmatically support Nepal's transition to the 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 closes in December 2026. DPC-1 supported substantive policy actions to operationalize GRID, help 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 with US\$100 million in parallel financing from the ADB for the first of two loans in a programmatic policy-based operation that is coordinated with the World Bank based on the GRID DPC-2 policy matrix (Annex 1). The coordination of these two operations and associated TA strengthens the overall reform program. Together, they help operationalize the GRID approach and Nepal's GRID partnership platform through reforms in green fiscal instruments, water security, irrigation, air quality, and climate and disaster information systems. The program is informed by the 2022 Nepal Country Climate and Development Report (CCDR, Report No. 178385), GRID Advisory Program (P176456), and other analytics (Table 4).

6. **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, led by the two largest parties in Parliament. This change has impacted the provincial government set up. At the sub-national level, funds, functions, and staff are managed by the 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.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1. RECENT ECONOMIC DEVELOPMENTS

7. **Real gross domestic product (GDP) growth accelerated to 3.9 percent in FY24, from 2 percent in FY23.** The services sector was a key driver, with a surge in tourist arrivals that boosted activities in transportation, accommodation, and food services sub-sectors. Increased hydropower production of 453 MW, primarily from the private sector, and a 4.3 percent increase in paddy production (one of the three major cereal crops in terms of cropland area), also supported this growth. On the demand side, private consumption was supported by high remittance inflows, while public investment remained subdued from persistent low capital spending.

8. **Average headline inflation fell to 5.4 percent in FY24 from 7.7 percent in FY23.** This decline was primarily driven by a decrease in non-food and services inflation from 8.6 percent in FY23 to 4.6 percent in FY24. The slowdown in housing and utility costs, along with a decline in transportation prices contributed to this easing. While food and beverage inflation decreased to 6.5 percent, food prices remained elevated due to several factors including India's restrictive export measures. Nonetheless, Nepal benefited from a declining inflation rate in India via the currency peg.

9. **In FY24 Nepal recorded a current surplus for the first time in eight years,** driven by an increase in remittances from 23.2 percent to a nine-year high of 25.3 percent of GDP, and a decrease in imports of goods and services from 34.7 to 32.9 percent of GDP. While export of goods and services increased to 7.6 percent of GDP, supported by services exports with a surge in tourist arrivals over 30 percent, factors such as India's tariff cuts led to lower imports of intermediate goods. Together, they helped increase foreign reserves to 13 months of import cover by the end of FY24.

10. **The financial sector is under pressure, although its stability has been maintained.** The sector remains vulnerable to institutional and systemic risks, notably in the cooperative subsector. Monetary tightening to address



excessive credit growth after Covid coupled with the economic slowdown, impaired the debt-servicing capacity of borrowers, with an upward trend in the non-performing loans ratio of 3.8 percent by the end of FY24. However, despite these pressures, the stability of the financial sector has been maintained. By the end of FY24, the banking sector's capital adequacy ratio was estimated at 12.8 percent, well above the regulatory minimum of 11.5 percent (including a countercyclical buffer of 0.5 percent). The government is committed to strengthening anti-money laundering/combating the financing of terrorism (AML/CFT) framework, as evident by the recent enactment of amendments to fifteen laws, and with secondary legislation under preparation to align Nepal's AML/CFT legal framework with international standards. Effective implementation of the legal framework is critical.

11. **Nepal's fiscal deficit was 2.6 percent of GDP in FY24, a steep decline from 5.8 percent of GDP in FY23.** Although spending contracted in FY24, revenue stabilized at its lowest point in eight years. Federal government spending significantly decreased from 25.2 percent of GDP in FY23 to 21.9 in FY24, driven by a 2.2 percent point reduction in recurrent spending. This decline resulted from lower fiscal transfers to subnational governments and austerity measures targeting recurrent expenditures, which focused on reducing costs related to allowances, fuel, office supplies, and other administrative expenses. Lower-than-expected revenue collection led to reduced capital spending, particularly in construction projects. Conversely, federal government revenue (including grants) remained flat at 19.4 percent of GDP. This reflected lower revenue that offset the effect of tax collection from the gains made by banks, financial institutions, and insurance companies through follow-on public offers, mergers and acquisitions, and auction sales of shares, instituted by FY24 budget provisions.

**Table 1: Key Macroeconomic Indicators**

	FY2022	FY2023	FY2024e	FY2025f	FY2026f	FY2027f	FY2028f
<b>Real economy</b> (percent change, unless otherwise stated)							
Real GDP growth (at market prices)	5.6	2.0	3.9	5.1	5.5	5.7	5.8
Components of GDP growth							
Agriculture (percent)	2.4	2.8	3.0	3.3	3.4	3.4	3.5
Industry (percent)	10.7	1.4	1.3	4.9	7.5	8.3	8.7
Services (percent)	5.3	2.4	4.5	6.1	6.0	6.1	6.1
Consumer prices (period average)	6.3	7.7	5.4	5.0	4.5	4.3	4.2
<b>Fiscal sector</b> (as percent of GDP, unless otherwise indicated)							
Total revenue and grants	22.9	19.3	19.4	20.0	20.3	20.7	20.9
Expenditures	26.6	25.2	21.9	22.2	22.3	22.5	22.6
Fiscal balance including grants	-3.6	-5.8	-2.6	-2.2	-1.9	-1.8	-1.6
Financing sources	7.3	8.2	6.3	6.7	6.4	6.1	5.7
Foreign	2.6	3.4	2.2	1.9	1.8	1.8	1.7
Domestic	4.7	4.8	4.1	4.8	4.6	4.3	4.0
Total public debt	40.5	42.9	42.7	42.2	41.3	40.5	39.5
Domestic	19.8	21.0	20.7	20.8	20.7	20.4	20.1
External	20.6	21.9	22.0	21.4	20.7	20.1	19.4
<b>Monetary sector</b> (percent change, unless otherwise indicated)							
Broad money	7.6	11.2	13.0				
Domestic credit	14.5	8.8	6.1				
Private sector credit	13.0	4.8	6.5				



<b>Balance of payments</b> (as percent of GDP, unless otherwise indicated)							
Current account balance	-12.5	-0.9	3.9	2.6	1.7	1.3	1.1
Exports of goods and services	6.7	7.0	7.6	8.0	8.5	9.1	9.8
Imports of goods and services	42.3	34.7	32.9	34.2	35.1	35.8	36.4
Remittances (as percent of GDP)	20.2	23.2	25.3	25.0	24.5	24.2	24.1
Gross official reserves (US\$ millions, eop)	9,513	11,709	11,710	555	585	622	637
Gross official reserves (in months of concurrent imports of goods and services)	6.9	10.0	13.0	11.6	9.9	8.4	6.9
Rupees per U.S. dollar (period average)	120.8	130.7	133.0				
<b>Memorandum items:</b>							
Nominal GDP, current prices (NPR, billions)	4,977	5,349	5,705	6,206	6,783	7,406	8,078
Nominal GDP, current prices (US\$, billion)	41.2	40.9	42.9				
Population, million	30.5	30.9	31.2				
GDP per capita, current prices (US\$)	1,348	1,324	1,373				

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 percent of GDP, unless otherwise indicated)	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024e</b>	<b>FY2025f</b>	<b>FY2026f</b>	<b>FY2027f</b>	<b>FY2028f</b>
<b>Total Revenue and Grants</b>	<b>22.9</b>	<b>19.3</b>	<b>19.4</b>	<b>20.0</b>	<b>20.3</b>	<b>20.7</b>	<b>20.9</b>
Total revenue	22.4	18.9	19.0	19.6	19.9	20.3	20.5
Tax revenue	19.8	16.2	16.6	17.0	17.2	17.6	17.8
Taxes on goods and services (incl. VAT and excise)	10.6	8.7	8.7	9.0	9.1	9.2	9.3
Direct taxes	5.1	4.5	4.8	5.0	5.1	5.2	5.2
Taxes on international trade	4.0	2.8	2.9	2.9	2.9	3.0	3.1
Other taxes (incl. social security contributions)	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other revenues	2.6	2.7	2.4	2.6	2.7	2.7	2.8
Grants	0.6	0.4	0.4	0.4	0.4	0.4	0.4
<b>Total Expenditure</b>	<b>26.6</b>	<b>25.2</b>	<b>21.9</b>	<b>22.2</b>	<b>22.3</b>	<b>22.5</b>	<b>22.6</b>
Current expenditure	22.2	20.8	18.6	18.3	18.0	17.7	17.5
Wages and compensation	2.8	3.0	2.7	2.7	2.7	2.7	2.7
Goods and services	1.5	1.1	0.8	0.9	0.8	0.8	0.8
Interest payment	0.9	1.4	1.4	1.3	1.3	1.2	1.1
Current transfer	17.1	15.4	13.6	13.4	13.2	13.0	12.8
of which: fiscal transfer	8.2	7.4	6.0	5.9	5.9	5.8	5.8
of which: revenue sharing	3.0	2.2	2.2	2.2	2.2	2.2	2.2
Capital expenditure	4.3	4.4	3.4	3.9	4.3	4.7	5.0
Overall balance (excluding grants)	-4.2	-6.3	-3.0	-2.6	-2.3	-2.2	-2.0
<b>Fiscal balance (including grants)</b>	<b>-3.6</b>	<b>-5.8</b>	<b>-2.6</b>	<b>-2.2</b>	<b>-1.9</b>	<b>-1.8</b>	<b>-1.6</b>
Amortization of debt	-1.5	-2.8	-3.9	-3.7	-3.7	-3.5	-3.3
Net acquisition of financial assets	-1.3	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8
<b>Gross financing needs</b>	<b>-6.4</b>	<b>-9.5</b>	<b>-7.3</b>	<b>-6.7</b>	<b>-6.4</b>	<b>-6.1</b>	<b>-5.7</b>



Financing sources	7.3	8.2	6.3	6.7	6.4	6.1	5.7
Foreign	2.6	3.4	2.2	1.9	1.8	1.8	1.7
Domestic	4.7	4.8	4.1	4.8	4.6	4.3	4.0

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)	FY2022	FY2023	FY2024e	FY2025f	FY2026f	FY2027f	FY2028f
<b>Financing requirements</b>	<b>-5,402.11</b>	<b>-627.08</b>	<b>1,357.67</b>	<b>896.56</b>	<b>509.85</b>	<b>356.10</b>	<b>264.48</b>
Current Account deficits	-5,158.68	-356.16	1,663.78	1,223.09	866.74	749.40	681.50
Debt amortization	-243.43	-270.92	-306.10	-326.53	-356.88	-393.30	-417.02
<b>Financing Sources</b>	<b>5,402.11</b>	<b>627.08</b>	<b>-1,357.67</b>	<b>-896.56</b>	<b>-509.85</b>	<b>-356.10</b>	<b>-264.48</b>
FDI and portfolio investment (net)	153.59	47.20	63.15	69.97	101.97	139.17	151.81
Long term borrowing	1,081.54	1,375.37	929.15	881.76	941.54	1,015.62	1,054.01
Others (trade credits, currency deposits, and misc items)	2,627.40	1,310.11	1,320.95	-1,960.30	-	-	-2,655.94
Changes in reserves (minus sign indicates increase)	1,539.57	-2,105.59	-3,670.91	112.00	588.65	903.82	1,185.64

**12. Public debt remained moderate and sustainable due to a largely concessional external debt stock and prudent fiscal management.** In FY24 it slightly declined to 42.7 from 42.9 percent of GDP in FY23, due to lower fiscal deficit and higher growth rate. Nepal's concessional public and publicly guaranteed external debt accounted for 51 percent of total public debt at the end of FY24. Each year, the National Natural Resource and Fiscal Commission 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.

## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

**13. GDP growth is projected to accelerate to 5.1 percent in FY25.** Growth is expected to be around 5.5 percent over the medium term, close to the economy's long-term potential. The services sector is expected to continue driving growth over the medium term. The accommodation and food services sub-sectors are poised to benefit significantly from a surge in domestic and international tourism. Real estate services are expected to see a boost due to Nepal Rastra Bank's (NRB's) policies, including increased loan limits, higher debt-to-income ratios, and reduced risk weights for first-time homebuyers. Industrial sector growth is envisioned in the medium term due to a significant expansion in electricity and construction, with GoN's ambitious goal of exceeding 11,700 MW of installed electricity capacity by FY29. Private sector is expected to boost growth over the medium term as they benefit from the NRB's loosening of monetary policy and relaxed regulatory measures like lower working capital requirements.

**14. Consumer price inflation is expected to remain moderate, supported by declining global commodity prices.** India's expected lower inflation, combined with Nepal's currency peg, could also help mitigate imported inflation. The NRB will retain the exchange rate peg of the Nepali Rupee against the Indian Rupee as a nominal anchor of monetary policy throughout the forecast period; there will be enough reserve to defend the peg arrangement.

**15. The current account surplus is expected to narrow as the trade deficit widens from a rise in goods and service imports.** Goods imports are projected to increase with a recovery in domestic demand. Service imports are likely to increase from continued emigration for work and study and loosening of foreign exchange restrictions for outbound travel. Electricity exports are expected to rise significantly, and service exports are projected to grow from stronger tourism. Remittances are expected to stabilize at around 24 percent of GDP over the projection period, assuming





migration peaks in FY23. Foreign reserves are expected to be sufficient to cover nearly 7 months of imports of goods and services by the end of FY28. Despite efforts to attract foreign direct investment, inflows are likely to be modest.

16. **Improved economic outlook is likely to mitigate financial stability risks over the medium term.** Capital adequacy, liquidity, and key indicators for banking and financial institutions are expected to remain above the regulatory requirements over the projection period. Despite interest rate reductions, the gradual deterioration of asset quality and lower domestic credit demand are concerning but are likely to decrease over the medium term as the economy grows. Regulators' operational independence, NRB's continued implementation of macroprudential measures and the AML/CFT legal framework, and supervision improvements will help mitigate financial sector risks. An audit of the 10 largest banks, scheduled for later this year, will help assess the quality of the loan portfolios and strengthen financial sector stability.

17. **The fiscal deficit is expected to gradually decline over the medium term,** driven by decreased recurrent expenditure and new revenue measures. Lower recurrent spending is expected to come from lower fiscal transfer to subnational governments. The FY25 budget introduced tax measures expected to boost revenue collection; these include the new Green Tax (supported by this DPC), the implementation of the new Domestic Revenue Mobilization Strategy, the removal of VAT exemptions on selected goods, and planned increase in duties on certain items. Non-tax revenues are also expected to increase, fueled by royalties from new hydropower projects, and higher tourism and passport fees. However, these gains may be partially offset by the reversal of certain tax amendments. While capital expenditure is projected to rise, its execution will likely remain constrained by slow implementation of the national project bank. The fiscal deficit is expected to be financed through external concessional and domestic borrowing.

18. **Nepal's debt is projected to remain sustainable.** The latest Joint Bank-IMF Debt Sustainability Analysis (DSA, June 2024) estimated debt distress risk as low for external and overall public debt. While the analysis yielded a moderate debt distress risk rating, staff judgment considered Nepal at low risk, noting that remittances form the primary source of foreign exchange to balance the current account and service external debt. In FY23, public debt aligned with last year's DSA projection despite slower GDP growth and a sharp revenue decline. This favorable outcome was attributed to a positive valuation effect. Stress tests show vulnerability to export shocks (Figures 1 and 2). The DSA findings underscore the importance of structural reforms to diversify exports, enhance productivity and competitiveness, and strengthen resilience to shocks, particularly natural disasters. Reducing reliance on remittances as a source of foreign exchange earnings is also crucial to decrease vulnerability to external shocks.

19. **Despite the generally positive outlook, the forecast is subject to several downside risks.** Increased vulnerabilities in the financial system, such as a rise in non-performing loans, could curtail private sector credit. Policy discontinuity resulting from frequent changes in political administrations, along with the short tenures of officials, might deter investors. Delays in implementing capital expenditure could hinder infrastructure development, negatively impacting growth. Externally, regional instability and trade disruptions could reduce tourism and domestic demand. Natural disasters coupled with a changing climate and environmental conditions pose additional risks to sustaining welfare gains. A growth slowdown in partner countries might lead to a drop in remittances and tourism, hindering economic growth. 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. Measures supported under the Fiscal Policy for Growth, Recovery, and Resilience DPC series help mitigate these risks by strengthening domestic revenue mobilization, debt management, and transparency.

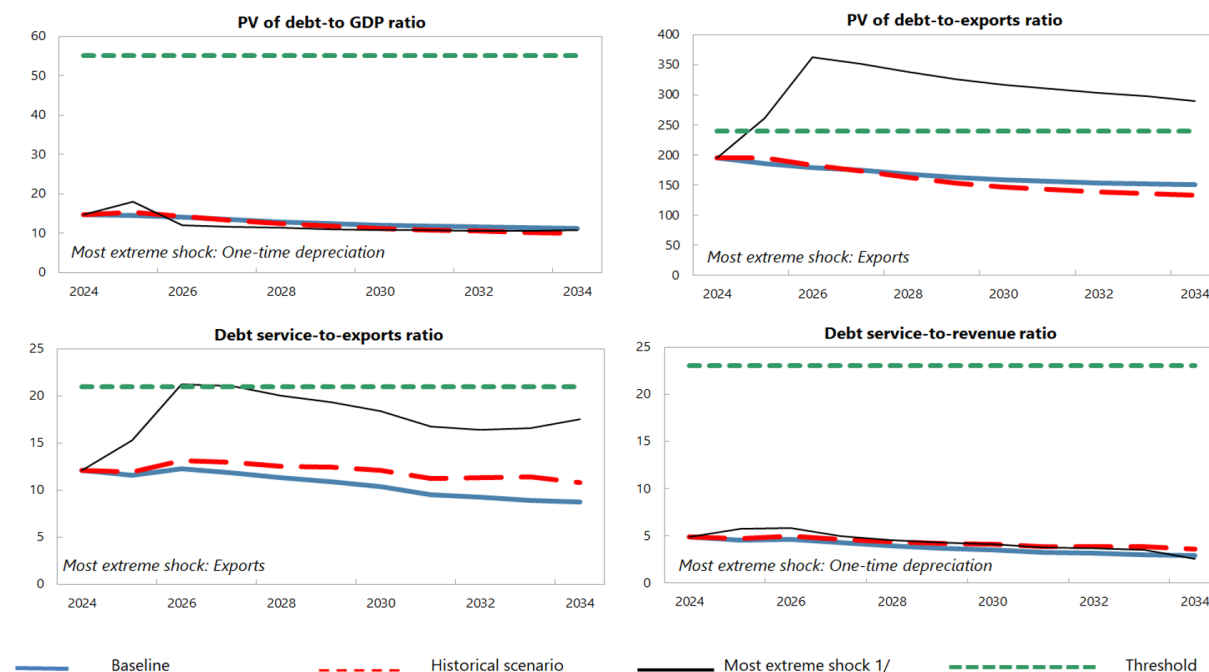
20. **Nepal's macroeconomic policy framework is adequate for development policy financing (DPF).** Medium term economic growth is projected to average 5.5 percent due to new hydropower projects, expected exports, and a stronger services sector. Nepal's external debt remains at a low risk, ensuring debt sustainability. Fiscal policy has remained consistent with macroeconomic stability. Fiscal prudence has been maintained by enacting fiscal-related acts and



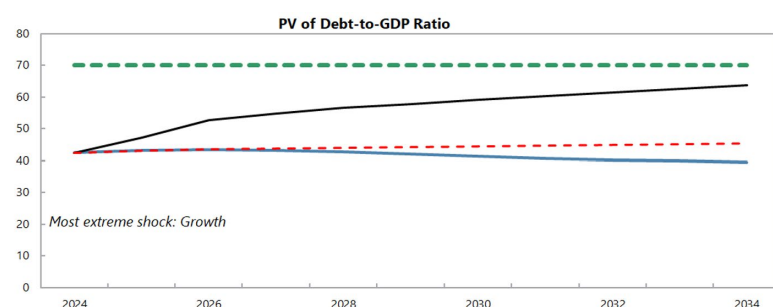


establishing fiscal-related constitutional bodies aligned with fiscal federalism. It is important to continue efforts to better implement fiscal federalism, such as improving service delivery while reducing expenditure duplication. Efforts to increase domestic revenue mobilization by removing VAT exemptions, review and gradual reduction of tax exemptions, streamlining excise duties, income tax reforms, and tax administration reforms are also crucial for a stronger macroeconomic framework. The Nepali rupee is pegged to the Indian currency, providing a stable nominal anchor for monetary policy. The domestic financial system remains sound and resilient despite recent asset quality pressures. Macroeconomic adequacy is also strengthened by the IMF Extended Credit Facility (ECF).

**Figure 1: Nepal - Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2024-2034**



**Figure 2: Nepal - Indicators of Public Debt Under Alternative Scenarios, 2024-2034**



Source: IMF-WB DSA, June 2024

## 2.3. IMF RELATIONS

21. **The IMF Executive Board concluded the fourth ECF review on July 9, 2024.** The ECF arrangement was approved by the IMF Executive Board on January 12, 2022, in an 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 further disbursement of 31.4 million SDR (about US\$41.3 million), bringing the total disbursements under the ECF for budget support to 188.3 million SDR



(about US\$247.7 million). The ECF has helped mitigate the impact of the pandemic and global shocks on economic activity, protect vulnerable groups, preserve macroeconomic and financial stability, and support sustained growth and poverty reduction. It is helping to catalyze additional financing from DPs. The World Bank continues to collaborate with the IMF on financial sector reforms, public financial management (PFM), reforms to raise investment and accelerate growth, as well as federalism and Nepal's GRID Platform.

### 3. GOVERNMENT PROGRAM

22. **The Letter of Development Policy notes that the program centers on mainstreaming the GRID priorities and approach into national development to drive and protect inclusive economic growth now and for future generations, while addressing climate and other shocks.** Nepal's Nationally Determined Contribution (NDC), 15<sup>th</sup> and 16<sup>th</sup> development plans, and recent budgets include GRID priorities in many sectors. Programmatic support from the World Bank, ADB, and other partners continue to help Nepal transition to a greener, more resilient, and more inclusive economy over time. Key transitions driven by sector reforms include electrification and renewable energy, air quality, water security, hydrometeorological services, climate-smart agriculture (CSA), and sustainable forest management (SFM) for multiple benefits including for women and Indigenous Peoples. Nepal's GRID policy program is closely aligned with the ten priority transitions and investments in Nepal's GRID SAP 2024-2034.

### 4. PROPOSED OPERATION

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

23. **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. Both 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 jobs in tourism, forestry, agriculture, water security, and urban sustainability.

24. **The program contributes to Nepal's stated priority climate actions, by aligning closely with the Paris Agreement and helping operationalize both Nepal's second NDC and the WBG's 2022 CCDR.** The reform program leads to a decrease in net greenhouse gas (GHG) emissions through SFM, CSA, better land use, biodiversity conservation, cleaner transport, green buildings, and solid waste management (SWM). Each of these actions also delivers a double dividend of greater climate adaptation and resilience. The program will further reduce climate risks by providing hydrometeorological services. Risks from climate hazards are not likely to have an adverse effect on the reforms. The program was screened for climate impacts during DPC-1 and has been updated for DPC-2.

25. **The program also contributes to the WBG's new CS by measuring progress on addressing priority global challenges, the South Asia Region's regional priorities on jobs and air quality, and the objectives of five of the WBG's new GCPs as follows:** (a) Forests for Development, Climate, and Biodiversity; (b) Food and Nutrition Security; (c) Enhanced Health Emergency Prevention, Preparedness and Response; (d) Fast-Track Water Security and Adaptation; and (e) Energy Transitions, Efficiency, and Access.

26. **The operation's design incorporates lessons from earlier DPFs and green growth engagements from Nepal and globally:** (a) emphasize inter-ministerial cooperation; (b) identify a lead agency and build on high-level country leadership; (c) adequate intervals between programmatic operations, taking into account time needed for durable results; (d) complement the DPC series with advisory services and investments to ensure active client engagement and



ownership; (e) coordinate among DPs to align policy dialogues and maximize chances to propel change processes; (f) pursue high-level engagement focusing on outcomes from policies; and (g) target the appropriate level of reform.

#### 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

##### Pillar A. Consolidating GRID principles in strategic development planning across sectors

##### *Policy Track 1: Addressing air pollution to protect human capital*

27. **Nepal's air pollution is the #1 public health crisis and carries significant economic costs.** Nepal has amongst the world's highest shares of population exposed to hazardous air pollution, with over 96 percent of the population breathing air that is worse than 35  $\mu\text{g}/\text{m}^3$  average annual  $\text{PM}_{2.5}$  concentration.<sup>3</sup> The annual average air pollution concentration in Kathmandu Valley routinely exceeds the World Health Organization guidelines by a factor of ten. Nepal's air pollution contributes to almost 40,000 premature deaths each year.<sup>4</sup> At current levels, lifetime air pollution exposure will shorten Nepalis' average life expectancy by 4.1 years.<sup>5</sup> Air pollution has negative spillover effects on the economy, with welfare costs estimated to be the equivalent of six percent of GDP.<sup>6</sup> According to source identification analyses by the World Bank, the main sources of Nepal's air pollution include fossil-fuel based mobility, industrial emissions, and burning firewood and cow dung. The Nepal CCDR notes that air quality measures in line with the South Asia Clean Air Vision 2030 could result in a 67 percent reduction in premature deaths each year compared to 2018.

28. **This policy track supports cleaner air by strengthening the enabling conditions for Nepal's transition toward less-polluting technologies, including for mobility and manufacturing.**<sup>7</sup> Policies supported by DPC-1 significantly lowered the cost of electric vehicles (EVs), through significantly reduced customs duties and road development taxes. These pricing policies led to a significantly greater share of imports of two-, three-, and four-wheeled EVs, putting Nepal on track to exceed its ambitious NDC target on new EV penetration. From July 2023 to July 2024, seven percent of new two-wheelers were electric, up from one percent in the three years prior to the policy taking effect. Strong EV market share was also reported for three-wheelers (15 to 88 percent) and four-wheelers (four to 81 percent). The market is further responding with new charging stations throughout Nepal, and other opportunities are emerging.

29. **To advance this policy track, GRID DPC-2 complements and deepens the on-going reforms by supporting Nepal's new Green Tax on imported fossil fuels.** The Green Tax was put into effect in July 2024 and is the first of its kind in South Asia. The Green Tax is small when compared internationally; it levies one Nepali rupee per liter of diesel and gasoline and 0.5 rupee per kilogram of coal (equivalent to about US\$1.5 per ton of carbon). It is a foundational fiscal instrument to reduce air and climate pollution over time while raising government revenues. At the current rate, it is projected to generate a 0.7 percent increase in revenues, and a 0.9 percent decrease in GHGs per year. DPC-3 aims to support an increase in these initially small but important taxes on fossil fuels, while also strengthening compensation mechanisms for the affected poor, and tightening emissions standards for vehicles and industry. The Green Tax will also help incentivize the use of Nepal's renewable energy resources such as hydropower.

<sup>3</sup> World Bank, 2023. Detox Development: Repurposing Environmentally Harmful Subsidies.  $\text{PM}_{2.5}$  refers to particulate matter that is less than 2.5 micrometers in diameter.

<sup>4</sup> World Bank, 2019. Nepal Country Environmental Analysis.

<sup>5</sup> University of Chicago, Energy Policy Research Institute, 2021. Air Quality Life Index.

<sup>6</sup> World Bank, 2019. Nepal Country Environmental Analysis.

<sup>7</sup> The significant carbon emissions reductions from this policy track are currently being assessed for potential purchase under the policy crediting window of the World Bank's Transformative Carbon Asset Facility.



**Prior Action #1:** To reduce air pollution and improve human health, the Parliament has introduced a Green Tax on imported petroleum and coal products in the Finance Act 2024, as evidenced by its publication in the Recipient's gazette (Section 74 Gazette Supplementary 16, July 16, 2024).

**DPC-3 Trigger #1:** To reduce air pollution and improve human health, (a) the Green Tax has been increased and enhanced with appropriate compensation mechanisms for the affected poor, and (b) the Council of Ministers has adopted stronger emission standards for cement and brick production, and vehicle emission standards for new imported internal combustion engine (ICE) vehicles: from Euro 3 to Euro 5 for new two- and three-wheel vehicles, and from Euro 3 to Euro 6 for new vehicles with four or more wheels including buses for public transport.

**Results:** This policy track contributes to the achievement of the CS results: "people exposed to hazardous air quality," and reduced "net GHG emissions per year." The following end of program (EOP) indicators measure progress toward these results:

(a) Share of newly registered two-, three-, and four-wheeled vehicles that are electric (percent). Baseline: < 1 (2021), Current: 20<sup>8</sup> (2024), Target: 25 (2026).

(b) 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). Baseline: < 1 (2021), Current: N/A (2024), Target: 90 (2026).

(c) Reduction of annual greenhouse gas emissions from the Green Tax (percent). Baseline: 0 (2022), Current: 0.9 (2024), Target: 0.9 (2026)

## *Policy Track 2: Transforming land use and management*

30. **A durable economy-wide GRID transition requires more inclusive and efficient land use to boost the sustainability and resilience of rural and urban areas.** Nepal grapples with inefficient use of land, leading to unorganized spread of towns and cities, and loss of productive rural land and ecosystem services. These services include climate benefits such as flood and erosion risk reduction and carbon sequestration. Unorganized and unplanned settlements are a significant barrier to deliver basic services such as connectivity, power, drainage, water, and waste management. To fulfill Nepal's NDC, 1.2 million hectares of additional land is required, highlighting the need for a functional land administration system to mediate land needs of various sectors.<sup>9</sup> There is also a need to strengthen the land administration system to improve land access for the landless and other vulnerable groups, to protect the rights of land owners in an era of high demand for land, and to enable greater private investment.

31. **The Land Use Act 2019 and Land Use Regulation 2022 (supported by DPC-1) established a basic land use framework across the three tiers of government.** The Act requires all land to be classified into ten land use categories and defines land use objectives and restrictions, such as limiting new housing construction on agricultural land. The Regulation defines the institutional roles and mandates for the three tiers of government on land use, classification, and planning. The Regulation stipulates the authority of federal, provincial, and local land councils to designate land uses, establish land use maps, and consolidate land plots. However, the Act and Regulation both lack details for implementation at provincial and local levels.

32. **The Land Use Program Implementation Directive 2024 provides legally binding guidance to all three government tiers, especially local levels, to implement the Act and the Regulation, allowing for sustainably and inclusively planned land use.** The Directive (a) further clarifies the ten categories of land use, aiming to reduce the ongoing over-classification of agricultural land as residential; (b) enables formulation of land use plans by all municipalities based on land, demographic, agricultural production, economic, infrastructure, environment, and disaster risk conditions; (c) clarifies steps in land use planning processes; (d) identifies procedures for inclusive stakeholder participation, identification, and engagement; and (e) clarifies how land use classification and planning information and decisions should be published. The Directive complements the Act and Regulation in enhancing inclusion, transparency, climate resilience such as flood and erosion mitigation, and environmental sustainability. These policies do not provide new regulations on involuntary resettlement but rely on pre-existing legislation. For DPC-3, the GoN aims to improve the

<sup>8</sup> From July 2023 to July 2024, seven percent of new two-wheelers were electric, up from one percent in the three years prior to the policy taking effect. Strong EV market share was also reported for three-wheelers (15 to 88 percent) and four-wheelers (four to 81 percent).

<sup>9</sup> Dooley K., Keith H., Larson A., Catacora-Vargas G., Carton W., Christiansen K.L., Enokenwa Baa O., Frechette A., Hugh S., Ivetic N., Lim L.C., Lund J.F., Luqman M., Mackey B., Monterroso I., Ojha H., Perfecto I., Riamit K., Robiou du Pont Y., Young V., 2022. The Land Gap Report 2022.



framework for transparent land access, digitalization, federalization of land administration services, and develop a land valuation system.

**Prior Action #2:** To support local levels of government to implement the land use, classification, mapping, and planning framework articulated in the Land Use Regulation 2022, and to strengthen measures for grievance redress, the Ministry of Land Management, Cooperatives, and Poverty Alleviation (MLMCPA) has approved the Land Use Program Implementation Directive, as evidenced by the Note and Order dated May 10, 2024, and its publication on the MLMCPA's website.

**DPC-3 Trigger #2:** To enhance inclusivity, equality and accessibility of the land administration system, Nepal has adopted a regulatory framework for land access by vulnerable groups, digitalization, and federalization of land administration service delivery, and development of a standardized land valuation system.

**Results:** This policy track contributes to the achievement of the CS result: “millions of hectares of terrestrial and aquatic areas under enhanced conservation and management.” The first step toward enhanced conservation and management is to implement the reforms that require Nepal's total land area of 14.7 million hectares to be classified and planned. The following EOP indicator measures progress toward this result:

Local levels of government with approved land use classification (percent). Baseline: 0 (2022), Current: 18 (2024), Target: 61 (2026).

### ***Policy Track 3: Climate- and disaster-resilient infrastructure***

33. **Recognizing that climate and disaster risk complicate Nepal's development ambitions, the country seeks to shift to a proactive approach to disaster preparedness and climate risk reduction.** The CCDD notes that Nepal is among the most vulnerable countries to natural disasters. It is critical to modernize information systems and institutions to build resilience across sectors as natural disasters become more frequent and intense, consume greater fiscal space, and increasingly impact infrastructure, physical assets, and people. Each year, losses associated with extreme weather events are estimated to exceed 1.5 percent of GDP equivalent. On average, more than 600 lives are lost to weather and climate-related disasters, and more than 150,000 people are affected by floods annually.<sup>10</sup> Strengthening weather, water and climate services and practicing risk-informed planning in sectors important for jobs, resilience, and growth—including energy, agriculture, water, tourism, and aviation—can help address climate and disaster risks and help build a greener, more resilient and inclusive economy.

34. **This policy track tackles core resilience and climate adaptation by strengthening climate and disaster information systems, as well as standards for more efficient, resilient, and sustainable buildings.** DPC-1 supported the expansion of Nepal's hydro-meteorological (hydromet) network. A sufficiently dense and well-functioning network can boost the disaster preparedness and response capacity of federal, provincial, and local governments if actionable information reaches the right user at the right time. DPC-2 supports the Hydromet Policy, which will result in the delivery of improved weather, water, and climate data and services critical for hydropower, agriculture, tourism, aviation, and disaster risk management (DRM), and help put in place early warning systems that cover all people in Nepal. The policy provides guidance for prioritizing hydromet investments, strengthening institutional capacity, and enhancing coordination among tiers of government. It supports the constitutional provision of reducing disaster risks through early warnings, preparedness, rescue, relief, and reconstruction. These reforms are aligned with the new GCPs on water security, food and nutrition, and forests. DPC-3 aims to support Nepal's first green building code for more efficient and sustainable use of water, natural resources, and energy while boosting climate and disaster resilience. ADB is complementing this policy track through the parallel coordinated policy/TA program that includes support for (a) a construction design standard to promote the use of indigenous construction materials for recovery and reconstruction, and (b) developing a medium-term expenditure framework for DRM.

**Prior Action #3:** The Council of Ministers has approved the Hydrology and Meteorology (Hydromet) Policy to provide hydro-meteorological services to support the delivery of sector-specific weather, water, and climate data and services to improve decision making for hydropower,

<sup>10</sup> World Bank Group. 2022. *Nepal Country Climate and Development Report*. Washington, D.C.





water supply, agriculture, tourism, aviation, and disaster risk management, as evidenced by the letter dated October 4, 2024 (Council of Ministers M./321/1802), from the Office of the Prime Minister and Council of Ministers.

**DPC-3 Trigger #3:** To enhance climate resilience and promote more efficient and sustainable use of water, natural resources, and energy, the Council of Ministers has approved a green building code.

**Results:** This policy track contributes to the achievement of the CS result: “millions of people with enhanced resilience to climate risks.” The following EOP indicator measures progress toward this result:

People with improved resilience to climate-related disasters due to the installation and operation of additional hydromet monitoring stations and/or radar (Number). Baseline: 0 (2022), Current: 0, Target: 5 million (2026)

#### *Policy Track 4: Strategic planning for GRID*

35. **Nepal’s GRID transition requires strategic planning to boost the quality and quantity of public and private investment and strengthen institutional coordination.** This policy track therefore strengthens the policy framework for the strategic planning needed for an economy-wide GRID approach, including policy instruments for environmental and social risk management. Four successive governments have taken steps to transition to a GRID pathway. Nepal’s 2021 Kathmandu Declaration on GRID and 2023 Joint Communiqué articulate the vision for this strategic shift. Operationalizing GRID requires managing trade-offs and cultivating mutual opportunities across sectors and stakeholders. To do this, the GoN has several key tools that underpin Nepal’s GRID Platform: (a) its GRID Steering Committee, a secretary-level multi-sectoral decision-making body, as well as its GRID National Task Force composed of joint secretaries; (b) Nepal’s emerging new GRID SAP 2024-2034 that includes a US\$10 billion investment portfolio and pipeline for ten priority transitions, along with thematic platforms to coordinate the investments among DPs and stakeholders; (c) a new national five-year plan and annual GoN budgets in 2021-2024 that contain explicit GRID priorities, and (d) an embryonic policy-level Strategic Environmental and Social Assessment (SESA) framework and a mature but evolving Environmental Impact Assessment (EIA) framework.

36. **The GoN is in the process of establishing its policy-level SESA framework, an important regulatory and planning tool for aligning sector strategies, policies, and investments to better deliver GRID outcomes.** Policy-level SESAs provide analytical backbone for stakeholder engagements to inform investment and policy decisions at sectoral, thematic, policy, and program levels upstream. Policy-level SESAs often cut across sectors and spatial units such as jurisdictions, ecosystems, landscapes, growth corridors and transportation, cities, destination management plans for tourism, protected areas, and basins. The GoN set the legal basis for SESAs and EIAs with the Environmental Protection Act 2019 and Environmental Protection Rules 2020 (EPR). Yet, SESAs are generally not carried out unless required by an external donor for project financing. Parameters do not yet exist in Nepal’s policy framework for developing, consulting on, and using SESAs. To establish a conducive framework for developing high-quality policy-level SESAs and strengthening the implementation of EIAs to include public disclosure and consultations, the GoN is amending the EPR 2020. While this was originally planned to be supported under GRID DPC-2, to streamline the policy matrix while strengthening the policy alignment function of the GRID Platform, ADB intends to support this action under a subsequent parallel coordinated operation and TA, along with other reforms in the amended EPR. DPC-3 would then focus on strengthening the implementation of these reforms by supporting SESA guidelines. The World Bank remains engaged, providing coordinated TA along with ADB to the GoN on environmental and social risk management instruments including policy-level SESA.

**Prior Action:** Not applicable

**DPC-3 Trigger #4:** Ministry of Forests and Environment (MoFE) has approved guidelines for line ministries to conduct strategic environmental and social assessments (SESA), pursuant to the 2020 Environmental Protection Rules and its Amendments.

**Results:** This policy track contributes to the achievement of the CS results: “millions of hectares of terrestrial and aquatic areas under enhanced conservation and management,” “millions of people benefitting from greater gender equality, of which (%) from actions that expand and enable



economic opportunities,” and “millions of people with enhanced resilience to climate risks.” The following EOP indicator measures progress toward these results:

SESAs carried out for policies, programs, and strategic plans (number). Baseline: 0 (2021), Current: 0 (2024), Target: 1 (2026).

## Pillar B. Sectoral policies for GRID

### *Policy Track 5: Transitioning to sustainable tourism for jobs, conservation, and private sector investment*

37. **Nepal’s core tourism offer is its protected areas, which cover over 23 percent of the country’s land area and include national parks, conservation areas, wildlife and hunting reserves, and buffer zones.** Most of Nepal’s 20 protected areas have good conservation results. More than 45 percent of Nepal’s tourists visit protected areas, but are concentrated in four parks.<sup>11</sup> While Nepal has achieved notable conservation successes (tigers, birds), it remains a low-value mass tourism destination. This status presents a risk of damaging the natural assets on which the sector depends and provides limited revenues compared to the potential. Tourism receipts are low compared to competing destinations, averaging US\$41 per day per international visitor in 2023,<sup>12</sup> which is almost half the global average and one-third that of Thailand or India. In 2023, tourism rebounded to its pre-Covid level, with one million visitors, contributing 6.1 percent to GDP and supporting 1.2 million direct and indirect jobs, or an estimated 15.2 percent of total jobs.<sup>13</sup> There is an opportunity to diversify the tourism offer, attract a higher-value market, and attract private investment in conservation-focused businesses, while managing landscapes for livelihoods and biodiversity.

38. **This policy track focuses on strengthening the environmental, social, and economic sustainability of protected areas. It facilitates conservation-focused businesses to partner with the GoN to boost the economic role of protected areas to create jobs and income, while generating revenues to protect biodiverse landscapes.** DPC-3 aims to support a new National Parks and Wildlife Conservation Regulation. The previous Protected Areas and Wildlife Regulation 2030 (1974) and five other regulations would be repealed and replaced by the new regulation. The new regulation would enable conservation partnerships with private firms, through links with local value chains in and around protected areas. There is strong demand for conservation-minded concessions from operators catering to high-end travelers. High quality concessions would enhance revenue streams and provide resources for conservation, improving the overall park experience for all visitors. The regulation can help restore and protect biodiversity and ecosystem services, generate income for Indigenous People and Local Communities (IPLCs) living in and around protected areas, and provide benefits to human health and well-being. In addition to mobilizing conservation- and socially-minded private investment in the protected areas, concessions will also establish standards for tourism service providers, thereby enhancing visitor experiences and generating economic benefits for the communities in and around protected areas.

39. **Intact landscapes provide ecosystem services important for adapting to and regulating climate, such as water provisioning and filtering, erosion reduction, and local weather regulation.** Biodiversity underpins the ecosystems that provide economic services such as livelihoods, jobs, food, medicines, recreation, and spiritual value. In addition, the reform would enhance the overall regulatory framework for protected areas. Yet a recent challenge to the tourism and biodiversity value of protected areas has emerged that requires enhancements to the regulatory framework: A 2024 Amendment to the National Parks and Wildlife Conservation Act 1973 initiates a process, yet to be defined, of establishing “highly sensitive” biodiversity zones within protected areas. According to the July 2024 Amendment, National Pride Projects could be allowed within Protected Areas outside these zones. This policy track is well positioned to support the GoN to help manage the risks associated with the July 2024 Amendment.

<sup>11</sup> World Bank, 2022. *Economic Impacts of Protected Area Tourism on Local Communities in Nepal*.

<sup>12</sup> Nepal Ministry of Culture, Tourism, and Civil Aviation, 2024. *Nepal Tourism Statistics 2023*.

<sup>13</sup> World Travel and Tourism Council, 2024. *Nepal 2024 Annual Research: Key Highlights*.



**Prior Action:** Not applicable

**DPC-3 Trigger #5:** To strengthen the environmental, social, and economic sustainability of protected areas, the Council of Ministers has approved the National Parks and Wildlife Conservation Regulation that would enable conservation partnerships with private sector entities by regulating the operation of tourism concessions in protected areas.

**Results:** This policy track contributes to the achievement of the CS results: “millions of hectares of terrestrial and aquatic areas under enhanced conservation and management” and “total private capital enabled.” The following EOP indicator measures progress toward these results:

Tourism concessions awarded to conservation-based enterprises under the National Parks and Wildlife Conservation Regulation (number).  
Baseline: 0 (2022), Current: 0 (2024), Target: 2 (2026).

### ***Policy Track 6: The forest sector transition to sustainability, economic productivity, and climate resilience***

40. **Nepal aims to build on its community forestry experience to shift to participatory SFM to help secure livelihoods, jobs, biodiversity, green water, and resilience of rural people and assets to floods, droughts, erosion, and heat—risks that are amplified by the changing climate.** With over 22,000 community forest user groups, SFM will contribute to growth, jobs, and income throughout the forest value chain, including sustainable timber, non-timber products, and tourism, transitioning from pure conservation toward a more modern, economically productive sector with strong social and environmental sustainability including conservation. Better forest and landscape management directly supports a reduction in risks from climate-related hazards such as floods, drought, erosion, landslides, and fire. SFM contributes to managing these risks by supporting better management of forest ecosystems, biodiversity, watershed function including spring and groundwater recharge, and production. Climate adaptation via forests is one of the eight thematic adaptation priorities in Nepal’s NDC. The sector’s performance depends on the empowerment of IPLCs, women, and other disadvantaged groups to manage and continue to benefit from forests.

41. **This policy track strengthens the governance framework for all forest types (community, state, leasehold, private smallholder) at the three tiers of government while enhancing inclusive benefits sharing.** About 37 percent of Nepali households access public forests for daily livelihoods and the largest share of users are the poorest households. At the same time, 48 percent of households depend on private tree plots, and these smallholders are equally distributed among consumption quintiles.<sup>14</sup> The federal Forest Regulation 2022 (under DPC-1) devolved the management of national forests (outside of protected areas) to the provinces, and included provisions for women in decision-making roles in forest institutions at the community, local, and provincial levels and to increase their benefits from forest resources. To strengthen the operationalization of the federal Forest Regulation 2022, and help transition to SFM at local levels, DPC-2 supports new provincial forest regulations in Karnali and Madhesh provinces. These provincial reforms also aim to increase the participation of women and IPLCs in decision-making and benefit-sharing mechanisms. DPC-3 will support additional provinces to develop similar provincial forest regulations that promote employment, leadership, and economic opportunities for women through equitable governance and benefit-sharing mechanisms. The reform program does not include measures for large-scale commercial plantations, but there are commercial opportunities for community, state, and private forests and downstream industries. These opportunities include furniture production, non-timber forest products, wood for earthquake-resistant construction, pellets that could displace imported coal in brick manufacturing, and so on.

42. **Gender tag for DPC-2.** Nepali women have been insufficiently included in key decision-making positions in local forest institutions hindering their access to forest resources, knowledge, financing, and other benefits supporting their livelihoods. With support from DPC-1 and TA, the Forest Regulation 2022 helped address this gap by devolving management of national forests to the provinces while promoting women’s empowerment in community forest user groups and women’s access to benefits from forest resources. The provincial forest regulations supported under GRID

<sup>14</sup> World Bank (forthcoming): *Data and Analytics for Sustainable Forest Management in Nepal*.





DPC-2 will continue to help close gender gaps. To understand and document progress being made to address the gaps, an assessment is underway on women's leadership and decision-making in community forest user groups. Initial findings show that leadership and representation in user groups have become increasingly inclusive, with greater participation and voices from women and marginalized groups. More than 50 percent of executive committees and leadership roles are now filled by women members. However, the gap persists, as women's leadership, capacity, and resources available for investment in women's empowerment and enterprise development activities vary by location. In addition, the majority of the sampled user groups have not collected or reported disaggregated data on women's annual income and expenditures. The assessment outlined parameters for the establishment of a robust national data management system that captures gender-disaggregated data aligned with the inclusion targets in the Forest Regulation 2022.

**Prior Action #4:** To strengthen the operationalization of the Forest Regulation 2022 and sustainable forest management, while expanding opportunities for livelihoods development and locally led climate action, the respective Provincial Cabinets of Karnali and Madhesh have approved provincial forest regulations that promote training, employment and economic opportunities for women and indigenous peoples and local communities through equitable benefit sharing mechanisms, as evidenced by publication in the respective provincial gazettes (Section 6 Karnali Provincial Gazette Number 11, December 13, 2023; and Section 8 Madhesh Provincial Gazette Number 4, September 2, 2024).

**DPC-3 Trigger #6:** To strengthen the operationalization of the Forest Regulation 2022 and expand opportunities for livelihoods development and locally led climate action, the relevant authorities of additional provinces have approved provincial forest regulations that promote training, employment and economic opportunities for women and indigenous peoples and local communities (IPLCs) through equitable benefit sharing mechanisms.

**Results:** This policy track contributes to the achievement of the CS results: "millions of hectares of terrestrial and aquatic areas under enhanced conservation and management," "millions of people benefitting from greater gender equality, of which (%) from actions that expand and enable economic opportunities," and "millions of people with enhanced resilience to climate risks." The following EOP indicators measure progress toward these results:

(a) Forest area covered by new and updated community forest management plans that comply with the Forest Regulation 2022 by including climate outcomes and documented women's participation (hectares). Baseline: 0 (2022), Current: 44,891 (2024), Target: 2,949,325 (2026).

(b) (*Gender tag*) Share of annual income earned by forest users' groups that is spent on women empowerment and female entrepreneurship activities (percent). Baseline: N/A (2021), Current: N/A<sup>15</sup> (2024), Target: 20 (2026).

### *Policy Track 7: Building resilience of the most vulnerable people to climate and other shocks*

**43. Nepal's poorest and most vulnerable people are highly exposed to climate impacts and economic shocks. They often lack resources, such as effective social safety nets, to cope with the impacts of disasters.** As noted in the 2022 CCDR, about one-third of Nepali households face at least one shock annually. Such shocks push people into poverty and cause long-term damage to household assets and human capital. Poorer households are more exposed to shocks and suffer more severe impacts, counteracting progress in poverty reduction. Current social protection (SP) programs have limited coverage of the poor and are not scalable in response to shocks. Relief and recovery to affected households is often ad hoc, delayed, and fails to utilize the reach of programs and delivery systems. Well-designed SP systems can help build resilience of poor and vulnerable households to prepare for and adapt to shocks. Shock-responsive SP (SRSP) can help address these issues by mobilizing existing delivery systems to identify the most vulnerable people, to ensure they receive relief and recovery services faster and more efficiently. For instance, using existing management information systems and bank accounts to expedite payments, instead of creating new ones, saves time and resources.

**44. This policy track helps institutionalize SRSP by enabling the GoN to better respond to shocks to deliver assistance efficiently and reach the most vulnerable affected populations.** There is not yet a policy framework that

<sup>15</sup> An ongoing assessment led by the World Bank is qualitatively assessing this figure which is currently estimated to be a range 15-25 percent based on a rapid survey of 16 community forest user groups.



institutionalizes the use of SP delivery systems in a standardized manner across shocks to deliver relief and recovery, while including the most vulnerable people. To address this gap, DPC-3 aims to support the National Disaster Risk Reduction and Management Authority and Ministry of Home Affairs in delivering legally binding standards for SRSP approved by the Council of Ministers. The draft SRSP standards, under review and consultation, establish when and how disaster response can be delivered using existing systems, thereby frontloading the decision-making process, linking climate and weather forecasts to potential consequences at household level, and expediting delivery of relief. Building on the SRSP Standards, DPC-3 also aims to support the amendment of Social Security Allowances (SSA) and Prime Minister's Employment Program (PMEP) Guidelines to align with the SRSP Guidelines, so the programs are scalable to deliver benefits to more people in need during shocks. ADB also complements this policy track through the parallel coordinated policy/TA operation that includes support for developing a DRM medium-term expenditure framework.

**Prior Action:** Not applicable

**DPC-3 Trigger #7:** To mobilize social protection systems and enable their flexibility and stability for the provision of relief and recovery in response to climate and other shocks, the (a) Council of Ministers has approved (i) the Shock-Responsive Social Protection Management and Relief Distribution Standards, and (ii) amended the Prime Minister's Employment Program (PMEP) guidelines, and the (b) Ministry of Home Affairs (MoHA) has amended the Social Security Allowance (SSA) guidelines.

**Results:** This policy track contributes to the achievement of the CS results: "millions of beneficiaries of social safety net programs" and "millions of people with enhanced resilience to climate risks." The following EOP indicator measures progress toward these results:

The delivery system of at least one social protection program is used for the provision of relief and recovery in response to a shock (Yes/No).  
Baseline: No (2021), Current: No (2024), Target: Yes (2026).

### **Policy Track 8: Transitioning to CSA and food systems for inclusive growth and health**

45. **Nepal aims to increase the productivity, sustainability, and resilience of agriculture to meet rising food demand while reducing poverty and food insecurity.** Agriculture/forestry contributed 57 percent of employment and over 21.3 percent of GDP in 2023, while over 11 million people (37 percent) face chronic moderate or severe food insecurity over 2021-2023.<sup>16</sup> Demand for food, feed, and fiber is expected to increase significantly in the next decades in Nepal. Yet the sector is constrained by pressures on its land, soil, and water resources from unsustainable practices along with a changing climate and land use. Rising temperatures, evaporation, and erratic precipitation at critical cropping times significantly affect crop growth. The sector remains vulnerable to climate variability and shocks with little storage capacity to hold monsoon precipitation and less than 20 percent of irrigable land equipped for year-round irrigation.<sup>17</sup> The changing climate is also projected to increase the incidence of pests and diseases in crops and livestock.<sup>18</sup> Responding to these challenges will require reforms across the value chain to enable strong governance, effective services, and greater investments to transition towards CSA.

46. **This policy track enables the transition to CSA.** DPC-1 focused on livestock health. Livestock's contribution to agricultural GDP is expected to grow with changes in food demand. A resilient food system requires a strong livestock disease management system to minimize human health impacts through food-borne illnesses and zoonotic risks such as Covid, as well as regular stress on public expenditure in the sector due to animal disease outbreaks.

47. **DPC-2 supports the National Irrigation Policy, which will enhance the productivity and climate resilience of agricultural livelihoods for farmers through expanded year-round irrigation access.** This will help farmers practice double cropping, shift to higher value crops, and adopt CSA technologies that can help secure more sustainable, resilient, and higher land productivity. The Policy (a) defines the roles and responsibilities for irrigation among the three

<sup>16</sup> World Bank Microdata Catalogue, accessed 26 August 2024.

<sup>17</sup> Computed based on updated GoN Irrigation Master Plan 2023.

<sup>18</sup> GON, 2021. *Nepal Climate Smart Agriculture Investment Plan*. With support from World Bank and FAO.



tiers of government; (b) strengthens the capacity of local water user associations to jointly develop and manage irrigation systems with greater participation by women and marginalized farmers; and (c) boosts the sustainability of irrigation systems by promoting multi-purpose reservoirs, integrated natural resource management across sectors and stakeholders, establishing processes for designating special irrigation zones to reduce land fragmentation and unfair land acquisition, establishing a maintenance fund, and allowing private sector irrigation operations.

48. **The reforms are well aligned with the new GCPs on (i) water security and climate adaptation, and (ii) food and nutrition security.** DPC-3 will support further action in these areas via (a) a CSA Directive; (b) animal health regulations linked to Nepal's One Health Strategy and Action Plan; and (c) a National Irrigation Regulation to establish criteria for climate adaptation and mitigation in production systems. ADB's parallel coordinated policy operation is also supporting irrigation reforms including the complementary National Irrigation Act.

**Prior Action #5:** To enhance agricultural productivity and climate resilience through expanded year-round irrigation, the Council of Ministers has adopted the National Irrigation Policy 2023 that (a) defines the roles and responsibilities for irrigation among the three tiers of government; (b) strengthens the capacity of local water user associations to jointly develop and manage irrigation systems with greater participation by women and marginalized farmers; and (c) boosts the sustainability of irrigation systems by prioritizing multi-purpose reservoirs, integrated natural resource management, special irrigation zones, a new maintenance fund, and private sector participation, as evidenced by the letter dated November 23, 2023 (Council of Ministers M./321/2968), from the Office of the Prime Minister and Council of Ministers.

**DPC-3 Trigger #8:** To expand climate smart agriculture and sustainable food systems, (a) the Ministry of Agriculture and Livestock Development (MoALD), has approved (i) a Climate Smart Agriculture Directive, pursuant to the National Agricultural Policy, and (ii) Animal Health Regulations that help operationalize Nepal's One Health Strategy and Action Plan, and (b) the Council of Ministers has adopted a National Irrigation Regulation establishing climate adaptation and mitigation criteria for production systems.

**Results:** This policy track contributes to the achievement of the CS results: "millions of people with enhanced resilience to climate risks," "millions of people with strengthened food and nutrition security," and reduced "net GHG emissions per year." The following EOP indicator measures progress toward these results:

MoEWRI 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). Baseline: No (2021), Current: No (2024), Target: Yes (2026).

### *Policy Track 9: Transitioning to integrated water resource management (IWRM) and safe, resilient water supply for enhanced water security*

49. **Water security is at the heart of productive economic sectors, resilience, and human capital but Nepal is far from achieving it.** For instance, Nepal has miniscule built storage capacity—only three m<sup>3</sup> per capita compared to 181 m<sup>3</sup> in India and 128 m<sup>3</sup> in Pakistan. As a result, seasonal water resource variability dictates the rhythm of water-dependent sectors of the economy and undermines their potential. Today, 84 percent of Nepalis do not have access to a safely managed water service,<sup>19</sup> and major cities like Kathmandu face chronic water shortages in the dry season. Less than half of net irrigable land receives irrigation water, and only 39 percent of the irrigated area receives a year-round service—leaving the rural economy exposed to weather shocks.<sup>20</sup> In addition, strategic infrastructure for water supply, irrigation, and hydropower is highly exposed to, and impacted by, droughts and floods. Achieving water security requires integrated planning and management of water resources across multiple uses and their protection from climate hazards.

50. **Nepal's major challenge in securing water for people and prosperity lies in the gaps in the existing policy, legal, and regulatory frameworks governing IWRM as well as Water Supply and Sanitation (WSS) service delivery.** The 2015 Constitution places many responsibilities of water resources management and service provision with provincial and local governments, but an unfinished reform agenda has hampered implementation. Local governments face

<sup>19</sup> WHO/UNICEF, 2023. Joint Water Supply and Sanitation Monitoring Programme Wash Dash 2020. Geneva: World Health Organization

<sup>20</sup> Computed based on GoN Irrigation Master Plan 2023, Department of Irrigation, GON



capacity constraints in both funding and functions and require support for improving the access and quality of services. Nepal needs a robust policy framework for intergovernmental coordination for both IWRM and WSS service provision.<sup>21</sup>

**51. This policy track supports improvements in water security via a reform program to enable IWRM and safely managed WSS service delivery in the federal system.** The National Drinking Water Quality Standards and Guidelines, supported under DPC-1, set the foundation to strengthen water supply provision for protecting human capital. DPC-2 supports the approval of a package of two reforms: the (a) National Drinking Water, Sanitation and Hygiene (WASH) Policy 2023 and (b) Drinking Water and Sanitation Act 2022. These reforms establish the legal, financial, and functional mandates for the three tiers of government by aligning roles and responsibilities and are expected to close gaps in WSS service provision and improve sustainability. DPC-3 will support the implementation of these acts through a new directive and the development of a new water resources regulation. To complement this reform program, ADB in the parallel coordinated policy operations, supports a new National Water Resources Bill to promote IWRM at the basin level, including the formation of River Basin Offices.

**52. In line with the new GCP on water security, the full reform program will improve the sector's policy and regulatory environment and help expand resilient and safe WSS services to reach more people, while transitioning to IWRM.** Key policy outcomes from IWRM center on resilience, sustainability, and return on public and private investment in water and hydropower infrastructure that benefit millions of people and several sectors driving growth and resilience.

**Prior Action #6:** To clarify the mandates of the three tiers of government and strengthen the use of data and information in the regulation and delivery of water and sanitation services, the (a) Council of Ministers has approved the National Drinking Water, Sanitation, and Hygiene Policy and (b) Parliament has approved the Drinking Water and Sanitation Act 2022, as evidenced by: (a) the letter dated August 23, 2023 (Council of Ministers M./321/228), from the Office of the Prime Minister and Council of Ministers and (b) publication in the Recipient's Gazette Section 72, Additional Issue 36(A), September 6, 2022).

**DPC-3 Trigger #9:** To promote water security for people, prosperity, and the planet, (a) the Ministry of Water Supply (MoWS) has adopted a Directive that establishes a tariff fixation mechanism that promotes cost recovery and financial sustainability in water and sanitation service provision and (b) the Council of Ministers has approved a Water Resources Regulation that enables river basin planning and management.

**Results:** This policy track contributes to the achievement of the CS results: "millions of people provided with water, sanitation, and hygiene, of which (%) is safely managed," and "millions of people with enhanced resilience to climate risks." Policy and institutional reforms to implement IWRM and WSS in the federal context are expected to improve water security and resilience to climate shocks and can together lead to improvement in the provision of safely managed water supply. The following EOP indicators measure progress toward these results:

(a) River Basin Offices operationalized with approved river basin plans (number). Baseline: 0 (2022), Current: 0 (2024), Target: 3 (2026).

(b) Operators of WSS services licensed with binding performance indicators for safe water provision (number). Baseline: 1 (2022), Current: 1 (2024), Target: 50 (2026).

### ***Policy Track 10: Solid waste management (SWM) and reducing single-use plastics***

**53. Inadequate SWM throughout Nepal imposes significant environmental, health, and climate costs and undermines tourism and other sectors.** Less than 50 percent of all solid waste in urban areas is collected, and this is expanding with Nepal's high urbanization rate. The lack of a national SWM framework and local SWM systems costs about one percent of GDP annually. Nepal's NDC notes that good SWM could reduce CO<sub>2</sub> emissions by five percent and CH<sub>4</sub> emissions by 20 percent, while reducing air pollution from open burning and flooding from blocked drainage. SWM also has the potential to create jobs by integrating, capacitating, and equipping informal operators—employing about 35,000 people in Kathmandu alone—and attracting private sector investment in landfills.<sup>22</sup>

<sup>21</sup> As a result, two systems for creating assets have emerged: one that operates through federal government and another that works through local government. The two systems operate almost independently, leading to sub-optimal allocation of scarce investment resources.

<sup>22</sup> World Bank (2020), SWM Policy Advisory Note, Nepal; and World Bank (2021), Sustainable SWM in Mountain Areas.



54. **By improving the SWM regulatory framework, this policy track supports the GoN's vision to develop more livable cities and rural areas, cleaner air, reduced GHG emissions, job creation, and private sector investment.** The SWM Policy 2022 supported under GRID DPC-1 aims to reduce solid waste generation, and improve its management for better environmental health, reduced emissions, and flood risk reduction. Building on this policy, the Ministry of Urban Development is preparing a new SWM Act for support under DPC-3. This new Act will consolidate SWM related measures and operationalize SWM in the federal system. The new SWM Act will replace the SWM Act 2011. The new Act will (a) define roles and responsibilities of the three government tiers, the private sector, and waste generators. It will also (b) establish a new federal SWM technical support unit to reinforce municipalities; (c) prohibit open burning of waste; (d) regulate medical, electronic, and hazardous waste such as lead, (e) establish an integrated information system for SWM; and (f) introduce the “3Rs” (Reduce, Reuse, and Recycle) approach and the “pay-as-you-throw” principle, which charges waste generators based on the amount and type of waste. The reform will also strengthen the regulatory framework for plastics including incentives for alternatives to plastics. The reform program has the potential to promote technically and economically viable SWM solutions among municipalities, mobilize private capital, and support value chains from plastic alternatives and other solid waste streams. The World Bank and ADB are engaged in the sector.

**Prior Action:** Not applicable

**DPC-3 Trigger #10:** To strengthen coordination and technical support for municipalities in delivering SWM solutions, the SWM Act has been promulgated, as evidenced by its publication in Nepal's Gazette.

**Results:** This policy track contributes to the achievement of the CS results: reduced “net GHG emissions per year.” Millions of people will also benefit from improved municipal SWM services that in turn reduce litter, plastic pollution in riverways, air pollution from open burning of waste, and flood risk from blocked drainage. These results arise from support to municipalities provided by the Waste Management Technical Support Unit which may include development of SWM financing plans, SWM data and information, and establishment of public-private partnerships in SWM. The following EOP indicator measures progress toward these results:

Federal Waste Management Technical Support Unit fully staffed and budgeted (Y/N). Baseline: No (2021), Current: No (2024), Target: Yes (2026).

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

Prior Actions	Selected Analytical Underpinnings
<b>Pillar A: Consolidating GRID principles in strategic development planning across sectors</b>	
<b>Prior Action #1.</b> To reduce air pollution and improve human health, the Parliament has introduced a Green Tax on imported petroleum and coal products in the Finance Act 2024.	<ul style="list-style-type: none"> <li>World Bank (2024): Environmental, Macroeconomic, and Distributional Effects of Carbon Taxes in Nepal [GRID Advisory Program P176456]</li> <li>World Bank (2024): Nepal: Options for Euro 6 Vehicle Standards (Technical note) [GRID Advisory Program]</li> <li>World Bank (2024): Economic and Policy Analysis for Emission Reduction from the Brick Industry in Nepal [GRID Advisory Program]</li> <li>World Bank (2023): Are carbon taxes good for South Asia? Policy Research Working Paper</li> <li>World Bank (2022): Striving for Clean Air – Air Pollution and Public Health in South Asia (2022)</li> <li>World Bank (2022): CCDR</li> <li>World Bank (2021): Fiscal Policy for Sustainable Development: Nepal Public Expenditure Review (chapter 4 on Environmental Fiscal Policy)</li> <li>World Bank (2019): Nepal Country Environmental Analysis</li> </ul>
<b>Prior Action #2.</b> To support local levels of government to implement the land use, classification, mapping, and planning framework articulated in the Land Use Regulation 2022, and to strengthen measures for grievance redress, the Ministry of Land Management, Cooperatives, and Poverty Alleviation (MLMCPA) has approved the Land Use Program Implementation Directive.	<ul style="list-style-type: none"> <li>World Bank (ongoing) Nepal Land TA [GRID Advisory Program]</li> <li>World Bank (2022): CCDR</li> <li>MoFAGA (2022): National Framework for Risk Sensitive Land Use Planning for Local Level</li> <li>World Bank (2020): Technical Assistance to Develop the Land Administration and Geospatial Information Systems of Nepal</li> </ul>





<p><b>Prior Action #3.</b> The Council of Ministers has approved the Hydrology and Meteorology (Hydromet) Policy to provide hydro-meteorological services to support the delivery of sector-specific weather, water, and climate data and services to improve decision making for hydropower, water supply, agriculture, tourism, aviation, and disaster risk management.</p>	<ul style="list-style-type: none"> <li>World Bank: CCDR (2022)</li> <li>World Bank (2021): Pathways for Transforming Weather, Water, and Climate Services in Nepal</li> <li>World Bank Technical Assistance to develop a Hydromet Master Plan (ongoing) [GRID Advisory Program]</li> </ul>
<p><b>Pillar B: Sectoral policies for GRID</b></p>	
<p><b>Prior Action #4.</b> To strengthen the operationalization of the Forest Regulation 2022 and sustainable forest management, while expanding opportunities for livelihoods development and locally led climate action, the respective Provincial Cabinets of Karnali and Madhesh have approved provincial forest regulations that promote training, employment and economic opportunities for women and indigenous peoples and local communities through equitable benefit sharing mechanisms.</p>	<ul style="list-style-type: none"> <li>World Bank (2022): CCDR</li> <li>World Bank (ongoing for GRID DPC): Assessment of gender-disaggregated data at the national level in Nepal</li> <li>World Bank (forthcoming 2024): Data and analytics for SFM in Nepal [supported by the Global Program on Sustainability Trust Fund, GRID Advisory Program]</li> <li>GoN (2024): Nepal Living Standards Survey IV 2022/2023 Forest Module [Global Program on Sustainability Trust Fund, GRID Advisory Program]</li> <li>World Bank (2019): Nepal Country Environmental Analysis</li> </ul>
<p><b>Prior Action #5.</b> To enhance agricultural productivity and climate resilience through expanded year-round irrigation, the Council of Ministers has adopted the National Irrigation Policy 2023 that (a) defines the roles and responsibilities for irrigation among the three tiers of government; (b) strengthens the capacity of local water user associations to jointly develop and manage irrigation systems with greater participation by women and marginalized farmers; and (c) boosts the sustainability of irrigation systems by prioritizing multi-purpose reservoirs, integrated natural resource management, special irrigation zones, a new maintenance fund, and private sector participation.</p>	<ul style="list-style-type: none"> <li>GoN (2021): Nepal Climate-Smart Agriculture Investment Plan [GRID Advisory Program]</li> <li>World Bank (2022): CCDR</li> <li>World Bank (2021): Fiscal Policy for Sustainable Development: Nepal Public Expenditure Review</li> <li>World Bank (2022): Glaciers, Rivers, and Springs: A Water Sector Diagnostic of Nepal</li> <li>World Bank (2023): Nepal Agri-food System Public Expenditure Review [GRID Advisory Program]</li> <li>World Bank (2023): Agriculture Policy Reform in Support of a Green, Resilient and Inclusive Development [GRID Advisory Program]</li> </ul>
<p><b>Prior Action #6.</b> To clarify the mandates of the three tiers of government and strengthen the use of data and information in the regulation and delivery of water and sanitation services, the (a) Council of Ministers has approved the National Drinking Water, Sanitation, and Hygiene Policy and (b) Parliament has approved the Drinking Water and Sanitation Act 2022.</p>	<ul style="list-style-type: none"> <li>World Bank (2022): CCDR</li> <li>World Bank (2022): Glaciers, Rivers, and Springs: A Water Sector Diagnostic of Nepal.</li> </ul>

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

55. **GRID DPC-2 helps achieve the World Bank’s mission to reduce poverty and boost prosperity on a livable planet via continued operationalization of the GRID approach in Nepal.** The operation is consistent with WBG Country Partnership Framework (CPF) for Nepal FY19-22 (Report No. 83148-NP, July 10, 2018) discussed by the WBG Board of Executive Directors on August 7, 2018, and extended to FY24 by the CPF Performance and Learning Review (Report No. 168048-NP, January 17, 2022, discussed by the Board on February 22, 2022). The operation aligns with all 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 CPF Performance and Learning Review. The DPC series is also well aligned with the upcoming CPF under preparation, and 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 is closely aligned with five of the six new GCPs, regional priorities on jobs and air quality, and the CS.

56. **The DPC series is highly complementary to other operations and analytical work in Nepal.** This includes investment operations on agriculture, forest, water resources and supply, urban development, hydropower, transportation, social protection, and health. Nepal’s policy operations are complementary and are strategically positioned to support key reforms in an integrated way. The Finance for Growth DPC series (P173044, P176881, P178531) supported the GoN in strengthening financial sector stability and resilience, diversifying financial solutions



including green finance, and increasing access to financial services. The Fiscal Policy for Growth, Recovery and Resilience DPC series (P173982, P176498) supported the GoN in strengthening the regulatory and institutional framework to protect the most vulnerable and support business growth while advancing GRID. These DPC series are complemented by ongoing analytics and TA including, among others, the GRID Advisory Program (P176456) and the CCDR.

57. **GRID DPC-2 supports reforms that contribute to Maximizing Finance for Development and are Private Capital Enabling.** The National Irrigation Policy (PA5) allows for private-sector irrigation operations and private-sector investment in irrigated agriculture. Though it is currently not possible to estimate the amount of private capital investment that would arise from this reform, further reform is expected, as well as a pipeline of investments under the Irrigation Master Plan (RI8). These investments, once materialized, will provide opportunities for private sector participation and investment. The DPC-3 Trigger on Sustainable Tourism (Policy Track 5) would promote private investments through tourism concessions for conservation-minded enterprises (RI5) in National Parks and Conservation Areas. The DPC-3 Trigger on Solid Waste Management (Policy Track 10), is anticipated to enable increased private sector participation and investment in the management of solid waste.

#### 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

58. **The GoN has undertaken consultations on prior actions.** The GoN's procedures to formulate and approve the reforms include multiple consultations across all tiers of government vertically and horizontally during which comments from different institutions are incorporated. The GoN agencies leading the preparation of reforms also consult with the public and other stakeholders through meetings, websites, workshops, etc., and incorporate feedback. For instance, the MLMCPA conducted national level stakeholder consultations on the land use reforms (PA2) on December 8, 2023. Representatives from the three tiers of government, civil society organizations representing women, Indigenous Peoples, vulnerable groups, and experts participated and provided detailed inputs on the draft directive. The World Bank also engaged in consultations and workshops on relevant topics with GoN, regulators, key market participants, and partners that demonstrate support for the reforms. One example is a series of GRID policy roundtables.

59. **Regular coordination among the 16 DPs active in Nepal's GRID platform has helped maintain complementarity across programs to pivot toward a GRID path.** Several DPs are aligning policy dialogue anchored in the GRID DPC series. ADB is preparing a Policy Based Loan and TA to provide parallel coordinated financing for GRID DPC-2.

#### 5. OTHER DESIGN AND APPRAISAL ISSUES

60. **This operation aligns with Paris Agreement goals** (see Annex 5). The program is consistent with Nepal's climate commitments in its National Adaptation Plan and NDC and is informed by the 2022 CCDR. Regarding mitigation goals, no PA is likely to cause a significant increase in GHG emissions or support any persistent barriers to a low carbon intensity economy. Rather, the Green Tax (PA1) will help reduce GHG emissions, and land use reforms (PA2) and provincial forest regulations (PA4) will help improve carbon sequestration potential. Regarding adaptation and resilience goals, risks from climate hazards are not likely to adversely affect the PAs and their contribution to the PDO. Nearly all PAs contribute directly to climate adaptation and resilience objectives, and none undermine climate adaptation and resilience. Further, hydromet and early warning (PA3), irrigation (PA5), and water supply (PA6) enhance Nepal's adaptive capacity and resilience and decrease vulnerabilities.

##### 5.1. POVERTY AND SOCIAL IMPACT

61. **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. The assessment's conclusions are summarized in Annex 4.



62. **Most prior actions will have neutral to positive effects on poverty and inequality reduction.** All policy tracks support sectors and themes with development potential, and support drivers that reduce poverty and inequality. For example, improved water supply (PA6) 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. The Hydromet Policy (PA3) is expected to have a neutral effect on poverty and inequality reduction. 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.

63. **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.

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

64. **The policy measures supported by DPC-2 would likely have significant beneficial effects, as intended, on environmental health, forests, natural resources, and climate** (see Annex 4). Reinforcing efforts undertaken in GRID DPC-1, air pollution would be reduced by increasing fossil fuel cost, although minimally at first given the low taxes introduced in July 2024 (PA1). Additional improvements in environmental health would result from increasing access to water and sanitation services (PA6). GHG emissions reductions are likely to result from increasing fossil fuel cost (PA1), enhancing land use planning (PA2), and promoting 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 PA5, 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 (PA6) can be addressed by Nepal's environmental management system and the institutional strengthening measures in PA3 and PA6.

65. **While lack of adequate inter-governmental coordination and capacity at provincial and local levels may limit delivery of environmental benefits from DPC-2, the GoN has made efforts to address these constraints by strengthening its system for environmental and social risk management.** Nepal is implementing several institutional and capacity building programs beginning with its national flagship, the Provincial and Local Governance Support Program, to ensure provincial and local governments are functional, sustainable, inclusive, and accountable to their citizens. The Forests for Prosperity Project (P170798) is assisting municipalities in preparing land use and forest plans and regulations (PA2, PA4). Capacity building for EIA is a GoN priority that is being supported by the World Bank through the Environment and Social Framework Capacity Building Program and the GRID Advisory Program (P176456), the ADB, the Millennium Challenge Corporation, the Foreign Commonwealth and Development Office, and the World Wildlife Fund. The Water Sector Governance and Infrastructure Support Project (P176589) is also building capacity in local governments to provide water supply and sanitation services. The support from ADB's parallel GRID policy-based loan/TA also includes measures to enhance Nepal's environmental and social risk management system.





### 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

66. **PFM.** The GoN is making gradual improvements in its PFM processes. The 2024 Public Expenditure and Financial Accountability (PEFA) Assessment highlighted Nepal's robust legislative and institutional PFM framework. Key improvements include high predictability of resources for spending units, transparent fiscal transfers to subnational governments, and the operationalization of the Medium-Term Expenditure Framework at the federal level, with initiation at subnational levels. The Nepal Public Sector Accounting Standards, based on the 2017 International Public Sector Accounting Standards, were approved in December 2022 and issued in April 2023. Internal and external audits have extensive scope and coverage, significantly advanced by the Integrated PFM Reform Project (P164783). However, budget outturn variance and timely examination of audit reports by the legislative body need improvement. The PEFA Assessment also reports inadequate macroeconomic and fiscal forecasting and the need for fiscal risk reporting. Based on the 2024 PEFA findings, the government is finalizing its PFM reform strategy, focusing on increasing budget outturn through better budget formulation and execution, assessing public procurement systems, enhancing Electronic Government Procurement (e-GP), and developing internal auditing standards. A web-based tracking system for audit reports, the Public Accounts Committee Management Information System, is also planned.

67. **The GoN budget** is publicly available on the Ministry of Finance (MoF) website. The Chart of Accounts for all government tiers is based on the Government Finance Statistics 2014 and Classification of Functions of Government. The federal budget execution report is updated daily, and consolidated annual financial statements are publicly available on the Financial Comptroller General Office's website.

68. **Procurement.** Nepal's procurement framework, governed by the Public Procurement Act (PPA) 2007 and Regulations (PPR), generally complies with international standards but requires specific adaptations for projects financed by the World Bank. Recent amendments to the PPA and PPR have impacted contract management and bidding opportunities. The e-GP system is not fully utilized after bid opening. The recently closed PFM reform project provided professional procurement and e-GP training to government staff and the private sector.

69. **Foreign exchange control environment.** The 2024 IMF Article IV Staff Report notes that NRB implemented recommendations of the 2021 Safeguards Assessment, including engaging international auditors and addressing financial reporting standards. NRB Act amendments are under review to clarify governance roles and strengthen oversight. Progress on internal audit and controls is slow due to human resource management. The IMF is monitoring and supporting improvements in the foreign exchange control environment, with no major concerns raised by auditors.

70. **Disbursements and audit arrangements.** Basic controls are enforced at federal level, which receives the DPC proceeds. Disbursement arrangements follow World Bank procedures, with disbursements of SDR equivalent in US\$ transferred to a treasury account at NRB and converted to local currency for the consolidated fund after submission of the Authorized Signatories Letter. The government will confirm, within 30 days, receipt of proceeds and their credit in the treasury account, and availability to finance budget expenditures as per the Financing Agreement. If proceeds are used for ineligible purposes against the provisions in the Financing Agreement, the World Bank will require the borrower to refund such an amount which shall be canceled. No specific financial reporting or audit is required for the operation; annual audit reports are publicly available within nine months of the fiscal year end.

### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

71. **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 available through the websites for MoF, NRB, National Statistics Office, and other government institutions. Detailed methodologies for each results indicator are available in the program file.

72. **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>.

## 6.SUMMARY OF RISKS AND MITIGATION

73. **The overall residual risk for the operation is substantial.** Table 5 presents the residual risk ratings. A description of the substantial or higher risks to the achievement of the PDO, and their mitigation measures, is provided below.

74. **Political and governance risk is substantial.** Frequent political changes resulting from changes in government coalition are the main political risks in Nepal. These changes trigger high staff turnover in Nepal's public administration, including in technical positions, thereby disrupting the continuity of policy development and implementation, and affect the confidence of private investors as shown in the Nepal World Bank Enterprise Survey 2023. Nepal's political situation remains fluid, though the latest coalition government provides hope for some stability until the next parliamentary election. The federal system provides opportunities to decentralize development benefits and make service delivery more effective and accountable. The risks of political uncertainty, jurisdictional overlap between the three tiers of government, and need for more clarity and coherence between policies and devolved powers are persistent challenges. While the extent to which mitigation of political and governance related risk is limited, the World Bank maintains continuity in policy dialogue with the government, and program design includes specific actions to build public support through stakeholder consultation, communication, and outreach and operationalize federalism.

75. **Macroeconomic risk is substantial.** The forecast includes no new shocks but may be optimistic given the increasing frequency of shocks. Political stability is important to manage the economy and ensure the pursuit of development priorities. Higher than expected inflation would reduce household purchasing power and drag growth. Welfare recovery remains uncertain due to inflation and risks to agricultural production. Reduced investments in human capital, especially amongst those yet to recover from a job loss following Covid-19, also impose risks to rising inequality.

76. **Sector strategy and policies risk is substantial.** For each of the sectoral reforms, the relevant institutions' strategies, policies, and governance arrangements are relevant to sector performance, contribute to stability and predictability of investment; and align closely with the country's development strategy and objectives. Several of the reforms are financially and fiscally viable. The water reforms, for example, enable private capital and address the cost of services, while the Green Tax raises government revenues. However, there is a risk in the predictability, adequacy, and variability of funding in some sectors. For example, infrastructure (water, hydromet, irrigation) face regular funding gaps compared to the GoN's action plans and sectoral strategies. The reforms themselves are meant to address these risks.



77. **Technical design of program risk is substantial.** Weak implementation of policies in Nepal is a risk. A full sequence of policymaking in Nepal begins with policies, then acts, regulations to implement the acts, followed by legally binding standards, directives, and/or guidelines. To mitigate the risks, the World Bank and DPs are supporting (a) Nepal's full sequence of policymaking, and (b) prior actions with parallel TA and investment operations.
78. **Institutional capacity risk is substantial.** The reform program requires technical expertise and coordination across line ministries and tiers of government. To help mitigate this risk, the GoN established the multi-sectoral GRID Steering Committee, chaired by the Finance Secretary, to take decisions, coordinate, and monitor reform progress. This body is mirrored by a GRID Technical Committee composed of Joint Secretaries that is also chaired by MoF. The World Bank's and DPs' capacity building, technical support, and sustained policy dialogue also helps mitigate this risk.
79. **Fiduciary risk is substantial,** as noted in the 2024 PEFA Assessment, due to low budget outturn, inadequate macroeconomic and fiscal forecasting, need for fiscal risk reporting, need for improving public procurement data dissemination, and weak internal control systems at subnational levels. However, these risks are mitigated by the GoN's emerging PFM reform strategy and ongoing support from the World Bank and DPs.
80. **Stakeholders risk is substantial,** arising from vested interest groups that benefit from the current policy regime and could resist reform that alters the status quo. This risk will be partially mitigated through broad consultations with key stakeholders and proactive management of the change process to engage all types of stakeholders. This risk is also being mitigated by embedding the program in Nepal's GRID Platform led by MoF, which also coordinates the DPC. The DPs in the GRID Platform have continuously shown support for the DPC series, especially ADB which is preparing parallel co-financing for the DPC series. The team monitors GoN consultations with stakeholders on policies under consideration.



**Table 5: Summary Risk Ratings**

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



## ANNEX 1: POLICY AND RESULTS MATRIX

### DETAILED RESULTS FRAMEWORK

Prior Actions			Results		
Completed Policy Actions under DPF 1	Prior Actions for DPF 2	Indicative Triggers for DPF 3	Indicator	Baseline	Target
<b>Pillar A. Consolidating GRID principles in strategic development planning across sectors</b>					
<i>Policy Track 1: Addressing air pollution to protect human capital</i>					
<b>Prior Action #1.</b> To promote markets and demand for electric vehicles (EVs), the Recipient has approved the 2021 Financial Ordinance, which was subsequently confirmed by the enactment of the Financial Act 2021 as evidenced by its publication in the Recipient's gazette (Gazette No. 39) incorporating: (a) reduced customs duties for four-wheeled EVs (from 80 percent to 10–40 percent, depending on the vehicle type and motor capacity); (b) reduced customs duties for three-wheeled EVs (from 30 to 10 percent); and (c) reduced the road development tax for two-wheeled EVs (which is 1.5 to 10 times higher for ICE vehicles	<b>Prior Action #1.</b> To reduce air pollution and improve human health, the Parliament has introduced a Green Tax on imported petroleum and coal products in the Finance Act 2024, as evidenced by its publication in the Recipient's gazette (Section 74 Gazette Supplementary 16, July 16, 2024).	<b>(Indicative) Trigger #1.</b> To reduce air pollution and improve human health, (a) the Green Tax has been increased and enhanced with appropriate compensation mechanisms for the affected poor, and (b) the Council of Ministers has adopted stronger emission standards for cement and brick production, and vehicle emission standards for new imported internal combustion engine (ICE) vehicles: from Euro 3 to Euro 5 for new two- and three-wheel vehicles, and from Euro 3 to Euro 6 for new vehicles with four or more wheels including buses for public transport.	<b>Results Indicator #1A.</b> Share of newly registered two-, three-, and four-wheeled vehicles that are electric (percent).  <b>Results Indicator #1B.</b> 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).  <b>Results Indicator #1C.</b> Reduction of annual greenhouse gas emissions from the Green Tax (percent).  These indicators contribute to the achievement of the CS results: “people exposed to	< 1 (2021)  < 1 (2021)  0 (2022)	25 (2026)  90 (2026)  0.9 (2026)



Prior Actions			Results		
Completed Policy Actions under DPF 1	Prior Actions for DPF 2	Indicative Triggers for DPF 3	Indicator	Baseline	Target
compared to EVs, depending on ICE engine capacity).			hazardous air quality,” and reduced “net GHG emissions per year.”		
<b>Policy Track 2: Transforming land use and management</b>					
<b>Prior Action #2.</b> To promote socio-economic and environmental sustainability, including climate resilience and mitigation, in the use of land resources, the Cabinet has approved the Land Use Regulation setting the institutional roles and mandates at the three tiers of government and implementation provisions for land use classification, mapping, and planning.	<b>Prior Action #2.</b> To support local levels of government to implement the land use, classification, mapping, and planning framework articulated in the Land Use Regulation 2022, and to strengthen measures for grievance redress, the Ministry of Land Management, Cooperatives, and Poverty Alleviation (MLMCPA) has approved the Land Use Program Implementation Directive, as evidenced by the Note and Order dated May 10, 2024, and its publication on the MLMCPA’s website.	<b>(Indicative) Trigger #2.</b> To enhance inclusivity, equality and accessibility of the land administration system, Nepal has adopted a regulatory framework for land access by vulnerable groups, digitalization, and federalization of land administration service delivery, and development of a standardized land valuation system.	<b>Results Indicator #2.</b> Local levels of government with approved land use classification (percent).  This indicator contributes to the achievement of the CS result: “millions of hectares of terrestrial and aquatic areas under enhanced conservation and management.”	0 (2022)	61 (2026)
<b>Policy Track 3: Climate and disaster resilient infrastructure</b>					
<b>Prior Action #3.</b> To prioritize the strengthening of climate information services and system, the Recipient, through the Ministry of Finance, has confirmed the commitment to	<b>Prior Action #3.</b> The Council of Ministers has approved the Hydrology and Meteorology (Hydromet) Policy to provide hydro-meteorological services to support the delivery of sector-specific weather, water, and	<b>(Indicative) Trigger #3.</b> To enhance climate resilience and promote more efficient and sustainable use of water, natural resources, and energy, the Council of Ministers has approved a green building code	<b>Results indicator #3.</b> People with improved resilience to climate-related disasters due to the installation and operation of additional hydromet monitoring stations and/or radar (Number).	0 (2022)	5 million (2026)



Prior Actions			Results		
Completed Policy Actions under DPF 1	Prior Actions for DPF 2	Indicative Triggers for DPF 3	Indicator	Baseline	Target
expanding the hydrological and meteorological network.	climate data and services to improve decision making for hydropower, water supply, agriculture, tourism, aviation, and disaster risk management, as evidenced by the letter dated October 4, 2024 (Council of Ministers M./321/1802), from the Office of the Prime Minister and Council of Ministers.		This indicator contributes to the achievement of the CS result: “millions of people with enhanced resilience to climate risks.”		
<b>Policy Track 4: Strategic planning for GRID</b>					
Not applicable	Not applicable	<b>(Indicative) Trigger #4.</b> Ministry of Forests and Environment (MoFE) has approved guidelines for line ministries to conduct strategic environmental and social assessments (SESA), pursuant to the 2020 Environmental Protection Rules and its Amendments.	<b>Results Indicator #4.</b> SESAs carried out for policies, programs, and strategic plans (number).  This indicator contributes to the achievement of the CS results: “millions of hectares of terrestrial and aquatic areas under enhanced conservation and management,” “millions of people benefitting from greater gender equality, of which (%) from actions that expand and enable economic opportunities,” and “millions of people with	0 (2021)	1 (2026)



Prior Actions			Results		
Completed Policy Actions under DPF 1	Prior Actions for DPF 2	Indicative Triggers for DPF 3	Indicator	Baseline	Target
			enhanced resilience to climate risks.”		
<b>Pillar B. Sectoral policies for GRID</b>					
<b><i>Policy Track 5: Transitioning to sustainable tourism for jobs, conservation, and private sector investment</i></b>					
Not applicable	Not applicable	<b>(Indicative) Trigger #5.</b> To strengthen the environmental, social, and economic sustainability of protected areas, the Council of Ministers has approved the National Parks and Wildlife Conservation Regulation that would enable conservation partnerships with private sector entities by regulating the operation of tourism concessions in protected areas.	<b>Results Indicator #5.</b> Tourism concessions awarded to conservation-based enterprises under the National Parks and Wildlife Conservation Regulation (number).  This indicator contributes to the achievement of the CS results: “millions of hectares of terrestrial and aquatic areas under enhanced conservation and management” and “total private capital enabled.”	0 (2022)	2 (2026)
<b><i>Policy Track 6: The forest sector transition to sustainability, economic productivity, and climate resilience</i></b>					
<b>Prior Action #4.</b> To strengthen community-based sustainable forest management, forest management planning and institutional arrangements, productive activities throughout the forest value chain, women’s leadership in decision making, inclusive benefit sharing, climate	<b>Prior Action #4.</b> To strengthen the operationalization of the Forest Regulation 2022 and sustainable forest management, while expanding opportunities for livelihoods development and locally led climate action, the respective Provincial Cabinets of	<b>(Indicative) Trigger #6.</b> To strengthen the operationalization of the Forest Regulation 2022 and expand opportunities for livelihoods development and locally led climate action, the relevant authorities of additional provinces have approved provincial forest	<b>Results Indicator #6A.</b> Forest area covered by new and updated community forest management plans that comply with the Forest Regulation 2022 by including climate outcomes and documented women’s participation (hectares).	0 (2022)	2,949,325 (2026)





Prior Actions			Results		
Completed Policy Actions under DPF 1	Prior Actions for DPF 2	Indicative Triggers for DPF 3	Indicator	Baseline	Target
resilience and mitigation benefits, and to protect biodiversity and water resources, the Cabinet has approved the Forest Regulation.	Karnali and Madhesh have approved provincial forest regulations that promote training, employment and economic opportunities for women and indigenous peoples and local communities through equitable benefit sharing mechanisms, as evidenced by publication in the respective provincial gazettes (Section 6 Karnali Provincial Gazette Number 11, December 13, 2023; and Section 8 Madhesh Provincial Gazette Number 4, September 2, 2024).	regulations that promote training, employment and economic opportunities for women and indigenous peoples and local communities (IPLCs) through equitable benefit sharing mechanisms.	<b>Results Indicator #6B (gender tag).</b> Share of annual income earned by forest users' groups that is spent on women empowerment and female entrepreneurship activities (percent).  These indicators contribute to the achievement of the CS results: "millions of hectares of terrestrial and aquatic areas under enhanced conservation and management," "millions of people benefitting from greater gender equality, of which (%) from actions that expand and enable economic opportunities," and "millions of people with enhanced resilience to climate risks."	N/A (2021)	20 (2026)
<b>Policy Track 7: Building resilience of the most vulnerable people to climate and other shocks</b>					
Not applicable	Not Applicable	<b>(Indicative) Trigger #7.</b> To mobilize social protection systems and enable their flexibility and stability for the provision of relief and recovery in response to climate and other shocks, the (a) Council of Ministers has approved	<b>Results Indicator #7.</b> The delivery system of at least one social protection program is used for the provision of relief and recovery in response to a shock (Yes/No).	No (2021)	Yes (2026)



Prior Actions			Results		
Completed Policy Actions under DPF 1	Prior Actions for DPF 2	Indicative Triggers for DPF 3	Indicator	Baseline	Target
		(i) the Shock-Responsive Social Protection Management and Relief Distribution Standards, and (ii) amended the Prime Minister's Employment Program (PMEP) guidelines, and the (b) Ministry of Home Affairs (MoHA) has amended the Social Security Allowance (SSA) guidelines.	This indicator contributes to the achievement of the CS results: "millions of beneficiaries of social safety net programs" and "millions of people with enhanced resilience to climate risks."		
<b>Policy Track 8: Transitioning to climate-smart agriculture (CSA) and food systems for inclusive growth and health</b>					
<b>Prior Action #5.</b> To strengthen the management of the livestock sector, the Cabinet approved (a) the Animal Health Policy, with provisions to control animal diseases, and closing key gaps in animal health services, in alignment with international standards and with Nepal's One Health Strategy and (b) the Animal Breeding Policy, to enhance livestock production, productivity, and income for farmers.	<b>Prior Action #5.</b> To enhance agricultural productivity and climate resilience through expanded year-round irrigation, the Council of Ministers has adopted the National Irrigation Policy 2023 that (a) defines the roles and responsibilities for irrigation among the three tiers of government; (b) strengthens the capacity of local water user associations to jointly develop and manage irrigation systems with greater participation by women and marginalized farmers; and (c) boosts the sustainability of irrigation systems by prioritizing multi-purpose	<b>(Indicative) Trigger #8.</b> To expand climate smart agriculture and sustainable food systems, (a) the Ministry of Agriculture and Livestock Development (MoALD), has approved (i) a Climate Smart Agriculture Directive, pursuant to the National Agricultural Policy, and (ii) Animal Health Regulations that help operationalize Nepal's One Health Strategy and Action Plan, and (b) the Council of Ministers has adopted a National Irrigation Regulation establishing climate adaptation and mitigation criteria for production systems.	<b>Results Indicator #8.</b> MoEWRI 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).  This indicator contributes to the achievement of the CS results: "millions of people with enhanced resilience to climate risks," "millions of people with strengthened food and nutrition security," and reduced "net GHG emissions per year."	No (2021)	Yes (2026)

Page 33



Prior Actions			Results		
Completed Policy Actions under DPF 1	Prior Actions for DPF 2	Indicative Triggers for DPF 3	Indicator	Baseline	Target
	the Recipient's Gazette Section 72, Additional Issue 36(A), September 6, 2022).		of people with enhanced resilience to climate risks."		
<b>Policy Track 10: Solid waste management (SWM) and reducing single-use plastics</b>					
<b>Prior Action #7.</b> To reduce solid waste generation and improve its management for better environmental health, reduced GHG emissions, and urban flood risk reduction, the Cabinet has approved the SWM Policy, and the ban of plastic bags thinner than 40 microns, as evidenced by its publication in the Recipient's gazette (Gazette No. 21).	Not applicable	<b>(Indicative) Trigger #10.</b> To strengthen coordination and technical support for municipalities in delivering SWM solutions, the SWM Act has been promulgated, as evidenced by its publication in Nepal's Gazette.	<b>Results Indicator #10.</b> Federal Waste Management Technical Support Unit fully staffed and budgeted (Y/N).  This indicator contributes to the achievement of the CS results: reduced "net GHG emissions per year."	No (2021)	Yes (2026)

## RESULTS

Baseline	Period 1	Closing Period
<b>Pillar A. Consolidating GRID principles in strategic development planning across sectors</b>		
<b>1A. Share of newly registered two-, three-, and four-wheeled vehicles that are electric (Percentage)</b>		
Dec/2021	Sep/2024	Dec/2026
<1	20	25
<b>1B. 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 (Percentage)</b>		
Dec/2021	Sep/2024	Dec/2026



<1	N/A	90
<b>1C. Reduction of annual greenhouse gas emissions from the Green Tax (Percentage)</b>		
Dec/2022	Sep/2024	Dec/2026
0	0.90	0.90
<b>2. Local levels of government with approved land use classification (Percentage)</b>		
Dec/2022	Sep/2024	Dec/2026
0	18	61
<b>3. People with improved resilience to climate-related disasters due to the installation and operation of additional hydromet monitoring stations and/or radar (Number)</b>		
Dec/2022	Sep/2024	Dec/2026
0	0	5 million
<b>4. SESAs carried out for policies, programs, and strategic plans (Number)</b>		
Dec/2021	Sep/2024	Dec/2026
0	0	1
<b>Pillar B. Sectoral policies for GRID</b>		
<b>5. Tourism concessions awarded to conservation-based enterprises under the National Parks and Wildlife Conservation Regulation (Number)</b>		
Dec/2022	Sep/2024	Dec/2026
0	0	2
<b>6A. Forest area covered by new and updated community forest management plans that comply with the Forest Regulation 2022 by including climate outcomes and documented women's participation (Hectare(Ha))</b>		
Dec/2022	Sep/2024	Dec/2026
0	44,891	2,949,325
<b>6B. Share of annual income earned by forest users' groups that is spent on women empowerment and female entrepreneurship activities (Percentage)</b>		
Dec/2021	Sep/2024	Dec/2026
N/A	N/A	20
<b>7. The delivery system of at least one social protection program is used for the provision of relief and recovery in response to a shock (Yes/No)</b>		
Dec/2021	Sep/2024	Dec/2026
No	No	Yes
<b>8. MoEWRI Irrigation Master Plan approved with a pipeline of investments that will maintain &amp; expand the area irrigated year-round, boosting productivity, &amp; reducing yield variability &amp; GHG emissions (Yes/No)</b>		
Dec/2021	Sep/2024	Dec/2026
No	No	Yes



9A. River Basin Offices operationalized with approved river basin plans (Number)		
Dec/2022	Sep/2024	Dec/2026
0	0	3
9B. Operators of WSS services licensed with binding performance indicators for safe water provision (Number)		
Dec/2021	Sep/2024	Dec/2026
1	1	50
10. Federal Waste Management Technical Support Unit fully staffed and budgeted (Yes/No)		
Dec/2021	Sep/2024	Dec/2026
No	No	Yes



## 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 FY2023/24, 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 FY2024/25, supported by stronger domestic demand. The cautiously accommodative monetary policy stance, planned increase in capital expenditure in the FY2024/25 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 FY2021-22. Reserves continue to rise without the need to use distortive import restrictions. Fiscal discipline was maintained in FY2022-23 and so far in FY2023-24, 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  
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KATHMANDU, NEPAL

October 16, 2024

Mr. Ajay Banga  
President of the World Bank Group  
1818 H Street NW  
Washington DC 20433  
United States of America

**Subject: Letter of Development Policy credit for green, resilient and inclusive development**

Dear Mr. President,

Government of Nepal adopted Green, Resilient and Inclusive (GRID) approach to address the interrelated challenges of a stable economic recovery from the COVID-19 crisis, climate risks, natural capital depletion and inclusive economic opportunities. This commitment is reflected in the current fiscal year's budget, policy documents, and the Sixteenth Plan, as well as international agreements such as the second Nationally Determined Contribution (NDC).

The *Kathmandu Joint Declaration on GRID*, endorsed by the Government and 16 Development Partners (DPs) in September 2021, was significant step towards establishing Nepal's GRID Platform. To implement this vision, Nepal initiated preparation of GRID Strategic Action Plan (SAP 2024 -2034), which is now being finalized after the series of consultations at the Province Level.

**1. Macro-fiscal framework**

Prior to the COVID-19 pandemic, the growth performance of Nepal's economy was robust, with annual growth in real GDP of 6.67 percent in 2019. COVID-19 significantly impacted our economy, stifling key growth drivers and sources of jobs, income and livelihoods. The sharp drop in growth and employment opportunities disproportionately affected the poorest and most vulnerable people. The economy showed marked signs of recovery, with real GDP growth inching up to 4.8 percent in FY21 and a further acceleration to 5.6 percent in FY22. Real GDP growth, however, decreased to an estimated 1.9 percent in FY23, the lowest rate since FY20. The economy is showing signs of recovery. This recovery is fueled by private consumption demand, remittances, and the tourism sector.

Despite all these positive developments, Nepal's economy is facing several challenges, for instance climate risks and natural disasters are projected to impact lives and livelihoods, agriculture, infrastructure and government finances. Given the challenges, the Government has commenced initiatives to reduce the economic risks, and our fiscal policies have remained sound. The risk of debt distress remains low. The Government remains committed to maintaining fiscal sustainability, as evidenced by relatively stable macroeconomic and fiscal indicators during and after the pandemic. We are adopting new policies, that build climate resilience through investments in green infrastructure, forests, water security, climate information services, the sustainable use of land resources, shock-



## Government of Nepal MINISTRY OF FINANCE



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responsive social protection, and reducing environmental risks.

### 2. Nepal's policy program

As agreed under the first GRID DPC and the policy actions specified in the Letter of Development Credit dated June 3, 2022, the Government remains committed to the policy reform. The program has evolved and strengthened as noted in the Program Document for the GRID DPC-2.

We hope that the policy performs backed by a strong investment and resource allocation will lead to several important medium and long-term achievements. These results will improve lives of millions of Nepali people and, are aligned with the World Bank's new scorecard and Nepal's Sixteenth Plan.

### 3. Policies for Addressing Air Pollution to Protect Human Capital

The Government of Nepal is committed to reducing air pollution by strengthening the enabling conditions for Nepal's transition toward less-polluting technologies in transport and manufacturing sector. This, in turn, will improve people's health and life expectancy, and protect our cultural heritage, while creating new business opportunities from the green transition, as well as opportunities for leveraging climate and carbon finance.

One of the three main sources of air pollution is fossil fuel-based transport. The Government implemented policies that considerably lowered the cost of electric vehicles (EVs) through reduced customs duties and road development taxes, leading to an increase in the share of electric vehicles well beyond the expectation. Nepal was among the world's top countries in terms of electric vehicle penetration rates over the last two years.

The Government has introduced a Green Tax on imported petroleum and coal products in the Finance Act 2024. This policy reform is the first of its kind in South Asia. The Green Tax has already been implemented at the border in July 2024.

### 4. Policies for Transforming Land Use and Management

Sustainable and efficient land use is a basic element of implementing green, resilient, and inclusive development. The Government accords high priority to the regulation of land use and management as per the 2019 Land Use Act (LUA). To complement the LUA, we have approved the 2024 Land Use Program Implementation Directives, which provides legal framework to all three tiers of government to implement the LUA.

### 5. Policies to Promote Disaster and Climate Resilient Infrastructure

Nepal is among the most vulnerable countries to natural disasters. Therefore infrastructure has to be more resilient to floods, heat, and erosion risks that are being amplified by climate change. The annual damages to infrastructure from natural hazards negatively impact access to services and economic productivity.

The Government is modernizing climate and weather information systems and institutions to build resilience across sectors and help adapt frequent and intense natural disasters. The Government has taken significant steps to shift from a reactive to a proactive approach to disaster preparedness and risk reduction by strengthening the natural disaster information system and by amending the building code requirements of hydropower and urban infrastructure. The Government has expanded hydrological and meteorological network in the country to enhance disaster preparedness and response capacity at all three tiers of government.





## Government of Nepal MINISTRY OF FINANCE



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The Government adopted the National Hydromet Policy, that will improve the delivery of improved weather, water, and climate data and services to hydropower, agriculture, tourism, aviation, DRM, and other sectors, helping us to progress toward putting in place early warning systems that reach all people in Nepal.

### 6. Policies for Transitioning to Sustainable Forest Management

Building on Nepal's successful experience with community forest management, the Government is committed to transitioning from an approach based on conservation to one which enables the utilization of forests to provide employment and economic growth while maintaining the ecosystem services from forest such as biodiversity and water provisioning. The Government commitment to sustainable forest management through community-based forest management is articulated in the 2019 Forest Act.

The 2022 Forest Regulation, continues the reform agenda, devolving the management of national forests to the provinces. It defines the operating parameters for the new Forest Development Fund and the benefits-sharing mechanism for forest revenues, including through carbon finance. It strengthens women's leadership and decision-making in community forest user groups, building on and strengthening Nepal's successful community forest management model. Karnali and Madhesh Provinces have approved provincial forest regulations, These provincial forest regulations strengthen the operationalization of the 2022 National Forest Regulation.

### 7. Policies for Inclusive Climate Smart Agriculture and Food Systems that promote inclusive growth and health.

Agriculture, including livestock, plays an important role in Nepal's economy by contributing to about 24 percent of the GDP. The Government is committed to adopting climate smart agriculture (CSA) to ensure (a) adequate management of weather and production risks, (b) improved management of land and water resources for efficient, resilient, and sustainable production, (c) reduction of emissions intensity, while (d) improving productivity and income, particularly for small and marginal farmers, by moving towards high-value crops. The Government has formulated the Animal Health Policy and the Animal Breeding Policy to enhance livestock production, productivity, and income for farmers. To increase agricultural productivity and climate resilience through expanded year-round irrigation access, we have also approved the National Irrigation Policy 2023, that among others, clarifies governance arrangements in the federal framework, promotes multipurpose storage, and encourages maintenance and private sector participation. Aligned with this, we have also amended the National Seed Regulations to clarify roles and responsibilities of all three tiers of government.

### 8. Policies for Transitioning to Integrated Water Resource Management (IWRM) and Water Supply

Water lies at the heart of Nepal's productive economic sectors and human capital development. Given the competing demands for water in Nepal's growing economy, it is crucial to put in place the policy framework for integrated water resource management (IWRM) to ensure water security for all uses and users, including hydropower, irrigation, drinking water, and tourism – all important priorities in terms of jobs, livelihoods, growth, resilience, and climate change.

Strengthening water resources management and water supply provision will help protect human capital, reduce climate risks, and support climate-smart agriculture. The Government approved the National Drinking Water Quality Standards and Guidelines and the National Drinking Water, Sanitation, and Hygiene Policy. The 2022

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Drinking Water and Sanitation Act has been enacted to clarify the mandates of the three tiers of government and strengthen the use of data and information in the regulation and delivery of water and sanitation services.

**9. Policy to Improve Solid Waste Management (SWM) and reduce single-use plastics.**

Waste is a critical health and development challenge across the country, yet solid waste management (SWM) also presents livelihoods and job opportunities. Inadequate SWM in both urban and rural areas cause significant environmental, health, and climate costs, undermining key sectors such as tourism. To address aforementioned challenge, we have adopted the 2022 SWM Policy to reduce solid waste generation, and improve its management for better environmental health, reduced emissions, and flood risk reduction.

To conclude, I would like to reiterate Nepal's unflinching commitment to the policy reform outlined in the Programmatic GRID DPC series, which will help Nepal operationalize and implement the key actions to transition to a GRID path. I look forward to the Bank's continued support to advance our efforts to build a more climate and disaster resilient country.

Sincerely,

Dr. Ram Prasad Ghimire  
Finance Secretary



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

Prior Actions	Significant positive or negative environment effects	Significant positive or negative poverty, social or distributional effects
<b>Pillar A. Consolidating GRID principles in strategic development planning across sectors</b>		
<b>Prior Action #1.</b> To reduce air pollution and improve human health, the Parliament has introduced a Green Tax on imported petroleum and coal products in the Finance Act 2024.	<p><b>Likely (positive)</b></p> <p>The Green Tax will lead to modest but positive impacts on reducing air pollution and carbon emissions.</p> <p>Reduction in air pollution has significant benefits in environmental health, cognition, productivity, and welfare for all, especially women and children who are highly exposed to indoor air pollution.</p>	<p><b>Negligible in the short run</b> and <b>potentially positive in the long run</b>. The Green Tax is expected to have negative, albeit insignificant effects on poverty and social inclusion, due to its low base rate of only one NPR per liter of petroleum and diesel, and 0.5 NPR per kilogram of coal. When accounting solely for both the direct and indirect impacts of the policy, the overall poverty rate is assessed to increase marginally by 0.04 percent points. Estimated impacts on consumption expenditures are between 0.04 and 0.06 percent across the welfare distribution, with slightly lower impacts on the poorer segment of the distribution.</p>
<b>Prior Action #2.</b> To support local levels of government to implement the land use, classification, mapping, and planning framework articulated in the Land Use Regulation 2022, and to strengthen measures for grievance redress, the Ministry of Land Management, Cooperatives, and Poverty Alleviation (MLMCPA) has approved the Land Use Program Implementation Directive.	<p><b>Likely (positive)</b></p> <p>Beneficial environmental effects on biodiversity and forest, water and waste management are expected, but their significance will depend on its effectiveness for reducing and eventually stopping the current overclassification of ‘agricultural land’ as ‘residential or urban land.’ For achieving this goal, the Directive promotes transparency and stakeholder involvement in land use planning.</p>	<p><b>Neutral to positive</b> in the medium- to long-term if it is ensured that land access of informal settlers and other vulnerable groups is not affected. If these mitigation measures are not implemented effectively, the impact could be negative on the overall welfare of the poor and vulnerable.</p> <p>The Directive includes the following mitigation measures to reduce overclassification of agriculture land as residential:</p> <ul style="list-style-type: none"> <li>• Requiring land adjacent to agricultural roads to be classified agricultural instead of residential land</li> <li>• Requiring residential, commercial and industrial zones to meet minimum standards set by local level for housing and construction</li> </ul>



		<ul style="list-style-type: none"> <li>Controlling the classification of everything around roads as residential</li> <li>Requiring areas with irrigation systems to be classified as agricultural</li> <li>Promoting the use of tax and fee exemptions for agricultural lands</li> <li>Promoting the use of agricultural subsidies and special concessions on electricity, water, fertilizers and seeds only for land classified as agricultural</li> </ul>
<p><b>Prior Action #3.</b> The Council of Ministers has approved the Hydrology and Meteorology (Hydromet) Policy to provide hydro-meteorological services to support the delivery of sector-specific weather, water, and climate data and services to improve decision making for hydropower, water supply, agriculture, tourism, aviation, and disaster risk management.</p>	<p><b>Likely (positive)</b></p> <p>Environmental and natural resource benefits would result from hydrometeorological reliable and timely data whose significance will depend on how effectively this data can be used by sectors such as disaster risk management, aviation, or hydropower and in monitoring and management of risks. Furthermore, the installation of hydromet stations may have negative environmental impacts but they can be managed by Nepal's EIA system.</p>	<p><b>Neutral.</b> Building adaptive capacity through equitable access to information is important to mitigate the impacts of climate change on the poor and vulnerable. Awareness and outreach activities targeted at different population groups being able to use publicly available hydrometeorological data will be critical. In addition, the guideline needs to be followed by an operationalization plan.</p>
<b>Pillar B. Sectoral policies for GRID</b>		
<p><b>Prior Action #4.</b> To strengthen the operationalization of the Forest Regulation 2022 and sustainable forest management, while expanding opportunities for livelihoods development and locally led climate action, the respective Provincial Cabinets of Karnali and Madhesh have approved provincial forest regulations that promote training, employment and economic opportunities for women and indigenous peoples and local communities through equitable benefit sharing mechanisms.</p>	<p><b>Likely (positive)</b></p> <p>Enhanced forest conservation, climate change mitigation, amelioration of natural risk disasters, watershed protection and biodiversity conservation</p>	<p><b>Neutral to Positive</b></p> <p>Recent research carried out by the Bank's environment team (also leading this policy track) shows that public forests are important safety nets for the poorest and most vulnerable forest dependent communities, many of whom are Indigenous People. They rely on forest products for consumption, and energy needs, in addition to cultural and spiritual ones. Community forestry emerged in Nepal to first reverse deforestation, and then allow forest user group members to access forest products to support their livelihoods, with surplus timber being sold to non-members outside the group. The research also demonstrates that access to community forests is progressive by consumption quintiles, and equitable by social</p>





		<p>status, an impressive achievement that should be preserved and bolstered.</p> <p>This prior action (sustainable forest management) continues the reform introduced with the Forest Regulation 2022 under DPC-1. Both reforms aim to support Nepal's vaunted community forestry experience, involving about 37 percent of Nepali households, to shift from conservation towards combined conservation and sustainable production based on participatory forest planning and management and local benefits sharing. This shift to what is known globally as "sustainable forest management" balances conservation and production objectives, and comes with some risks, as a significant share of the Nepali population currently relies on the forests for safety nets, timber for local construction and funeral rites, and non-timber forest products for livelihoods. The intent of the reform is to retain and enhance these forest management objectives, while also expanding economic opportunities for jobs and livelihoods creation from the forest asset that has been created by expanding forest over the past 30 years from 25 to 45 percent forest cover. 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 who are providing assistance to MoFE and to forest community user group associations. It is worth noting that there is no plan to introduce large-scale commercial private plantations, which would require a specific policy measure.</p> <p>Coupled with efforts to sustain public forest systems and improving productivity of private trees and forests owned by 48 percent of Nepali households, a real-time system that tracks compliance with national standards for SFM and forest coverage would be beneficial to mitigate potential risks to forests currently serving as safety nets. Updating the subnational forest statistics developed by Forest Research and</p>
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		Training Center would be an easy way to monitor changes on a regular basis [This is on-going with support from the World Bank and its Global Program on Sustainability Trust Fund]. In addition, frequent consultations with households that currently rely on forest products for livelihoods will be important to react quickly to potentially adverse effects.
<b>Prior Action #5.</b> To enhance agricultural productivity and climate resilience through expanded year-round irrigation, the Council of Ministers has adopted the National Irrigation Policy 2023 that (a) defines the roles and responsibilities for irrigation among the three tiers of government; (b) strengthens the capacity of local water user associations to jointly develop and manage irrigation systems with greater participation by women and marginalized farmers; and (c) boosts the sustainability of irrigation systems by prioritizing multi-purpose reservoirs, integrated natural resource management, special irrigation zones, a new maintenance fund, and private sector participation.	<b>Not Likely</b> The expansion of irrigation would lead to intensification of crop cultivation, increasing the use of pesticides and fertilizers, which may have potentially adverse effects on the environment and human health. However, the banning of toxic pesticides and Nepal's integrated system for pest management in addition to the policy measures like the irrigation development fund, the preparation of river basin and long-term master plans and the strengthening of water user associations that attach priority to environmental protection and climate change would prevent or control potential adverse effects on the environment and human health.	<b>Positive.</b> The poor suffer more from food insecurity, rely more on subsistence farming, have less access to water, and are less likely to use an improved variety of seeds. In addition, agriculture in Nepal is slightly feminized, and women could therefore profit more from productivity gains in agriculture, such as via improved irrigation systems. Better irrigation systems could also help small farmers and those relying on subsistence farming.
<b>Prior Action #6.</b> To clarify the mandates of the three tiers of government and strengthen the use of data and information in the regulation and delivery of water and sanitation services, the (a) Council of Ministers has approved the National Drinking Water, Sanitation, and Hygiene Policy and (b) Parliament has approved the Drinking Water and Sanitation Act 2022.	<b>Likely (positive)</b> Water supply, hygiene and sanitation are an environmental health key issue. Potential adverse environmental impacts from WASH operations would be prevented or controlled by the combined effect of the policy measures supported by the PA and ongoing investment projects to improve intergovernmental coordination and support capacity building for WASH at the local level.	<b>Neutral to positive.</b> Access to water differs across the welfare distribution, with poorer people having less access to piped water. Acts and regulations that clarify the mandates of the three tiers of government and strengthen the use of data and information in the regulation and delivery of water and sanitation services could be beneficial for the poor if they are implemented accordingly.



ANNEX 5: PARIS ALIGNMENT ASSESSMENT

Pillar A: Consolidating GRID principles in strategic development planning across sectors				
Prior Actions	Mitigation goals: assessing and reducing the risks		Adaptation goals: assessing and reducing the risks	
<b>Prior Action #1.</b> To reduce air pollution and improve human health, the Parliament has introduced a Green Tax on imported petroleum and coal products in the Finance Act 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> The reform is estimated to reduce GHG emissions by 0.9 percent in the year since its enactment. The increase in fossil fuel prices is expected to drive behavioral change towards the adoption of cleaner production and transportation alternatives in the long-term that could lead to reductions in GHGs.	<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)?	<b>Answer:</b> Yes  <b>Explanation:</b> Nepal has the second highest share of population exposed to hazardous air pollution and the PA intends to address air pollution to protect human capital. However, the likelihood of increasing occurrence of hazards such as forest fires due in part to a changing climate (most fires are caused by humans) has the potential to have an adverse effect on the PA's contribution to the development objectives.
	<b>Step M2.2:</b> Is the PA likely to introduce or reinforce significant and persistent barriers to the country's low-GHG emissions development pathways?	<b>Answer:</b> No  <b>Explanation:</b> This reform supports the transition to cleaner fuel and electrification that in turn reduces vehicular and production emissions. The PA will therefore not introduce or reinforce significant and persistent barriers to transition to low-GHG emissions development pathway; in fact, the PA helps alleviate such barriers.	<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?	<b>Answer:</b> Yes  <b>Explanation:</b> The Green Tax is expected to reduce Short-Lived Climate Pollutants, such as Black Carbon in addition to GHGs. Reducing Black Carbon will contribute to slowing down glacial melting and the risk of Glacial Lake Outburst Floods.
	<b>Step M2.3:</b> Is the risk of the PA introducing or reinforcing significant and	<b>Answer:</b> Yes  <b>Explanation:</b> The PA is removing barriers for cleaner		



	persistent barriers being reduced to low after mitigation measures have been implemented?	technology/fuel adoption and leading to GHG reductions.		
<b>Prior Action #2.</b> To support local levels of government to implement the land use, classification, mapping, and planning framework articulated in the Land Use Regulation 2022, and to strengthen measures for grievance redress, the Ministry of Land Management, Cooperatives, and Poverty Alleviation (MLMCPA) has approved the Land Use Program Implementation Directive.	<b>Step M2.1:</b> Is the PA likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No  <b>Explanation:</b> The PA intends to support the government in sustainable management of land, including forest, agricultural, and urban land. Through land-use zoning and mapping, the PA will regulate the conversion or the fragmentation of forest and agricultural lands. The approach will lead to a better forest management system and hence increase carbon sequestration potential.	<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)?	<b>Answer:</b> Yes  <b>Explanation:</b> Nepal grapples with inefficient use of land, leading to the unorganized spread of towns and cities, and the loss of productive rural land and ecosystem services. With increasing weather and climate extremes, land use and management challenges are expected to be exacerbated.
	<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> Proper management of forest land enhances the potentiality of carbon storage. This PA is not likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways.	<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?	<b>Answer:</b> Yes  <b>Explanation:</b> The PA intends to support local authorities to implement sustainable, resilient, inclusive, and efficient land use. Proper land classification, mapping, and use achieved from this PA will assist in reducing the impacts of hazards such as flood, landslide, and erosion risk reduction through Risk Sensitive Land Use Planning. The implementation of the Land Use Regulation and Implementation Directive will help authorities deliver a sustainable supply of services such as connectivity, power,



				drainage, water, and waste management, hence increasing adaptive capacity. Improved access and better land use management will help to reduce the future risk of climate hazards.
	<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> This PA does not introduce or reinforce significant or persistent barriers to transition to low-GHG emissions development pathways. On the contrary, the PA contributes to increased GHG storage potential.		
<b>Prior Action #3.</b> The Council of Ministers has approved the Hydrology and Meteorology (Hydromet) Policy to provide hydro-meteorological services to support the delivery of sector-specific weather, water, and climate data and services to improve decision making for hydropower, water supply, agriculture, tourism, aviation, and disaster risk management.	<b>Step M2.1:</b> Is the PA likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No  <b>Explanation:</b> The PA intends to support disaster resilience through the development of the hydromet policy. The PA will not cause a significant increase in GHG emissions.	<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)?	<b>Answer:</b> Yes  <b>Explanation:</b> The PA intends to modernize the disaster information system and institutions that depend on this system to reduce the losses associated with extreme weather events. However, the risk imposed by the climate-induced hazards is likely to cause threats to the hydromet infrastructure itself, potentially disrupting the services impacting the timely availability of the information leading to lesser efficacy of the adaptation practices.
	<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	<b>Answer:</b> No  <b>Explanation:</b> The PA doesn't have the potential to cause a significant increase in GHG emissions, hence it will not introduce or reinforce	<b>Step A3:</b> Does the design of the PA reduce the risk from climate hazards to an acceptable level, considering climate	<b>Answer:</b> Yes  <b>Explanation:</b> The PA prioritizes the development of a hydromet policy that provides reliable information about weather, climate, cryosphere, and



	emissions development pathways?	significant and persistent barriers to transition to the country's low-GHG emissions development pathways.	adaptation good practices applicable to the country context?	hydrology. The climatic information that would result from enabling policy will also enhance knowledge and understanding of multiple sectors such as hydropower, agriculture, aviation, water supply, tourism, and disaster risk management thus increasing the adaptive capacity for reducing the risk of climate change. The policy further guides prioritizing hydromet investments, strengthening institutional capacity, and enhancing coordination among three tiers of government, thus playing a significant role in achieving the constitutional provision of reducing disaster risks through early warnings, preparedness, rescue, relief, and reconstruction.
	<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> The PA doesn't introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways.		
<b>Conclusion for Pillar A:</b> Pillar A is aligned with mitigation and adaptation goals of the Paris Agreement. Specifically, PA 1 prioritizes low-carbon development by introducing a tax on fossil fuels, contributing to reduced GHG and black carbon emissions (a driver of glacier lake outburst floods). PA2, by regulating land use planning, will help increase carbon sequestration potential and help reduce the impacts of climate-related hazards like floods, landslides, and soil erosion. Similarly, PA3 helps build a foundation for durable resilience and climate adaptation by strengthening climate and disaster information systems contributing to early warning systems that benefit all Nepalis.				
<b>Pillar B: Sectoral policies for GRID</b>				
<b>Prior Action #4.</b> To strengthen the operationalization of the	<b>Step M2.1:</b> Is the PA likely to cause a	<b>Answer:</b> No	<b>Step A2:</b> Are risks from climate hazards likely to	<b>Answer:</b> Yes



<p>Forest Regulation 2022 and sustainable forest management, while expanding opportunities for livelihoods development and locally led climate action, the respective Provincial Cabinets of Karnali and Madhesh have approved provincial forest regulations that promote training, employment and economic opportunities for women and indigenous peoples and local communities through equitable benefit sharing mechanisms.</p>	<p>significant increase in GHG emissions?</p>	<p><b>Explanation:</b> The PA highlights the operationalization of forest regulation, which promotes sustainable forest management. This approach is likely to increase the carbon sequestration capacity of the forest.</p>	<p>have an adverse effect on the PA's contribution to the Development Objective(s)?</p>	<p><b>Explanation:</b> The forest sector is likely to be hard hit by climate-induced hazards like forest fires, floods, landslides, soil erosion, pests, and diseases. Increased frequency and the intensity of the disasters will also pose threats to the livelihood of the people dependent upon it, thus making them more vulnerable.</p>
	<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>	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> The PA aims to operationalize a sustainable forest management system through the development of forest regulation at the provincial level. With the sub-national government, women, Indigenous Peoples, and Local Communities (IPLCs) also involved in better, often community-led forest management practices, this PA will enhance the carbon sequestration potential, thus alleviating barriers to the transition to low-GHG emissions development pathways.</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> Sustainable forest management is an effective approach to climate adaptation and mitigation. Additionally, the PA focuses on providing training, employment, and economic opportunities for women, Indigenous Peoples, and Local Communities (IPLCs) through equitable benefit-sharing mechanisms. The approaches of inclusion, better economic opportunities and capacity building could support adaptation, helping to be better prepared for the risk of climatic hazards. Further, better forest management through this PA will directly support a reduction in risks from climate-related hazards such as floods, drought, erosion, landslides, and fire.</p>
	<p><b>Step M2.3:</b> Is the risk of the PA introducing or reinforcing significant and persistent barriers being reduced to low</p>	<p><b>Answer:</b> NA</p> <p><b>Explanation:</b> The PA is not expected to introduce or reinforce significant and persistent barriers to transition to</p>		





	after mitigation measures have been implemented?	the country's low-GHG emissions development pathways and aims to alleviate such barriers.		
	<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> The PA is unlikely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways		
<b>Prior Action #5.</b> To enhance agricultural productivity and climate resilience through expanded year-round irrigation, the Council of Ministers has adopted the National Irrigation Policy 2023 that (a) defines the roles and responsibilities for irrigation among the three tiers of government; (b) strengthens the capacity of local water user associations to jointly develop and manage irrigation systems with greater participation by women and marginalized farmers; and (c) boosts the sustainability of irrigation systems by prioritizing multi-purpose reservoirs,	<b>Step M2.1:</b> Is the PA likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No  <b>Explanation:</b> This PA is not likely to cause a significant increase in GHG emissions.	<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)?	<b>Answer:</b> Yes  <b>Explanation:</b> Agriculture and forestry account for 24 percent of the GDP and 57 percent of employment in 2023. Climate change is expected to significantly affect the sector through an increase in the intensity and frequency of climate extremes and hazards like rising temperatures, evaporation, and erratic precipitation at critical cropping times thus negatively impacting yields and increasing yield variability. Thus, climate extremes are expected to pose a serious threat to half the population and the overall GDP of the country which are both dependent on agriculture.
	<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	<b>Answer:</b> No  <b>Explanation:</b> The PA supports the transition to climate-smart agriculture, which is supposed to have mitigation co-benefits as well, thus the PA is not likely to	<b>Step A3:</b> Does the design of the PA reduce the risk from climate hazards to an acceptable level, considering climate adaptation good	<b>Answer:</b> Yes  <b>Explanation:</b> The PA prioritized national irrigation policy which aims to strengthen the capacity of the institutions and enhance the productivity and climate resilience of



integrated natural resource management, special irrigation zones, a new maintenance fund, and private sector participation.	development pathways?	introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways. In addition, better soil moisture management enabled by better and more available irrigation and natural resource management will lead to greater accumulation of carbon in soil – an important carbon pool.	practices applicable to the country context?	agricultural livelihoods for farmers through expanded year-round irrigation access. This will help farmers practice double cropping, shift to higher-value crops, and adopt climate smart agriculture technologies. With better access to irrigation, PA enhances the adaptation capacity of farmers to climate extremes like drought, and dry conditions, thus reducing possible climate risk. In addition, better soil moisture management enabled by better and more available irrigation and natural resource management will lead to greater resilience of soil. This dynamic in turn leads to reduced yield variability – an important indicator of climate adaptation and resilience.
	<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> This PA is not likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways		
<b>Prior Action #6.</b> To clarify the mandates of the three tiers of government and strengthen the use of data and information in the regulation and delivery of water and sanitation services, the (a) Council of Ministers has approved	<b>Step M2.1:</b> Is the PA likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No  <b>Explanation:</b> The PA supports a package of two reforms: the (a) Water Supply, Sanitation and Hygiene (WASH) Policy and (b) Water Supply and Sanitation Act. Hence it is not likely to cause a	<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)?	<b>Answer:</b> Yes  <b>Explanation:</b> Access to safe water and sanitation (WBG corporate scorecard indicator) is critical for basic human health and well-being. At the same time, water and sanitation are among the sectors hardest hit by the impacts of climate change. Under climatic



<p>the National Drinking Water, Sanitation, and Hygiene Policy and (b) Parliament has approved the Drinking Water and Sanitation Act 2022.</p>		significant increase in GHG emissions.		extremes, water springs are expected to further dry up and watersheds continue to degrade, potentially impacting the NDC target of providing access to basic water supply to 99 percent and improving safe water supply to 40 percent from 16 currently by 2030. In addition, climate extremes such as flash floods, extreme temperatures, and other indirect or cascading disasters would amplify the management challenge of the WASH sector and subsequently the country's development ambitions.
	<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>	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> The PA is not expected to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways.</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> Clarification or understanding among the three tiers of the government on the provisions of the water supply and sanitation would help to be better prepared for the anticipated climatic and non-climatic risk. The legislative structure may further enhance the synergy among the government to carry out the development works considering the likely climatic risks. This effort of PA6 can be an essential factor for reducing risk.</p>
	<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</p>	<p><b>Answer:</b> NA</p> <p><b>Explanation:</b> The PA is not expected to introduce or reinforce significant and persistent barriers to transition to</p>		



	measures have been implemented?	the country's low-GHG emissions development pathways.		
<b>Conclusion for Pillar B:</b> Pillar B aligns with the goals of the Paris Agreement by supporting sectoral policies that explicitly aim to generate adaptation, resilience, and mitigation benefits. These policy initiatives include including promoting community-led sustainable forest management that delivers on all three climate benefits, expanding year-round irrigation to reduce yield variability for vulnerable farmers, expanding safe resilient water supply, development of shock-responsive social protection to enable efficient and early disaster response, and strengthening institutional capacity for climate related planning and implementation.				
<b>Overall Conclusion of Paris Alignment Assessment:</b>  The operation does not impose any significant threat to the mitigation targets of the country. Meanwhile, all the prior actions support the country's low-carbon development pathways. Specifically, PA1 supports lower GHG and black carbon emissions, and PA2 and PA4 support more sustainable land use and forest management thereby enhancing mitigation capacity.  The operation also supports strengthening the adaptive capacity of Nepal through the full complement of prior actions, which also reinforce one another (e.g., forest, land use, water, and hydromet services). For example, the Hydromet Policy will set the basis for expanding early warning to eventually cover all Nepalis, and support evidence-based planning, regulation, and investment. In addition to access to better hydromet information, climate-smart irrigation, community-based sustainable forest management, and safe resilient water supply will enhance the adaptive capacity and resilience of Nepalis and their assets while also decreasing vulnerabilities.  <b>In summary, the program is aligned with the goals of the Paris Agreement.</b> All of the PAs help achieve Nepal's adaptation and/or mitigation goals. The operation also contributes to harmonizing Nepal's commitments such as the National Adaptation Plan and NDC. The operation is also consistent with several of Nepal's commitments to manage climate and disaster risk, including, National Climate Change Policy 2019, Nationally Determined Contribution 2020, Nationally Determined Contribution Implementation Plan 2023, 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, and draft GRID Strategic Action Plan 2024-2034 which coordinates financial support for climate and development objectives among 16 development partners including the World Bank.				



ANNEX 6: MATRIX OF KEY CHANGES TO ORIGINAL POLICY MATRIX IN A PROGRAMMATIC SERIES

Original PDO, Policy Tracks and Results Indicators	Updated PDO, Policy Tracks and Results Indicators	Comments
<b>Program Development Objective</b>		
<b>PDO for the DPC series:</b> To improve the enabling environment for Nepal's green, climate resilient, inclusive development pathway.	<b>PDO for DPC series:</b> To improve the enabling environment for Nepal's green, resilient, inclusive development pathway.	Removed the word "climate" from the PDO, as "resilience" refers to more than climate resilience. The DPC series remains committed to supporting Nepal to reduce the costs of a changing climate on its economy, assets, and people.
<b>Policy Track 1: Addressing air pollution to protect human capital</b>		
<b>Policy Track name:</b> Addressing air pollution and GHG emissions to protect human capital and mitigate climate change	<b>Policy Track name:</b> Addressing air pollution to protect human capital	Minor edit. Removed language on climate mitigation from the title of the policy track given that public health resonates more strongly with the client. There are still climate mitigation co-benefits from air pollution action, as reflected in the results indicator on GHG emissions.
<b>(Indicative) Trigger #1 for DPC-2:</b> MoFE has updated vehicle emission standards from Euro 3 to Euro 4 or higher.	<b>Prior Action #1 for DPC-2:</b> To reduce air pollution and improve human health, the Parliament has introduced a Green Tax on imported petroleum and coal products in the Finance Act 2024.	<p>Material change. The Green Tax was originally envisioned to be supported only by GRID DPC-3. However, World Bank advisory and analytical support advanced faster than expected, and so did the productive dialogue with the GoN, which led to a faster than expected implementation of the Green Tax. Therefore, the reform was put into effect in July 2024 during preparation of GRID DPC-2.</p> <p>Conversely, the stronger vehicle emission standards are taking longer than expected, and therefore are proposed to move to DPC-3. The delay in part is due to the frequent changes in GoN leadership and staffing but also due to the sensitive nature of the policy reform. The team is actively involved and supporting this multi-sectoral and multi-stakeholder policy dialogue.</p>



<p><b>(Indicative) Trigger #1 for DPC-3:</b> MoFE has updated emission standards for the cement and brick kiln industry, and the Ministry of Finance has adopted a carbon/pollution pricing instrument, with appropriate compensation mechanisms especially for low-income households (see policy track 7 that strengthens social protection).</p>	<p><b>(Indicative) Trigger #1 for DPC-3:</b>To reduce air pollution and improve human health, (a) the Green Tax has been increased and enhanced with appropriate compensation mechanisms for the affected poor, and (b) the Council of Ministers has adopted stronger emission standards for cement and brick production, and vehicle emission standards for new imported internal combustion engine (ICE) vehicles: from Euro 3 to Euro 5 for new two- and three-wheel vehicles, and from Euro 3 to Euro 6 for new vehicles with four or more wheels including buses for public transport.</p>	<p>Material change. The trigger is rephrased to:</p> <ul style="list-style-type: none"> <li>• add the strengthening of the Green Tax that was introduced as a prior action under DPC-2, and</li> <li>• reflect a stronger instrument for regulating emissions standards: Council of Ministers (Cabinet) approval instead of ministerial approval.</li> </ul>
<p><b>Results Indicator #1A:</b> Share of newly registered two-, three-, and four-wheeled vehicles that are electric (Percent) Baseline: &lt;1 (2021), Target: 10 (2026).</p>	<p><b>Results Indicator #1A:</b> Share of newly registered two-, three-, and four-wheeled vehicles that are electric (percent). Baseline: &lt;1 (2021), Target: 25(2026).</p>	<p>While the indicator is the same, the target value has been increased substantively given the good progress Nepal has made through the policy supported under DPC-1 (reduced customs duties for EVs).</p>
<p><b>Results Indicator #1B:</b> Share of newly registered internal combustion engine vehicles (two-, three-, and four-wheelers) that meet the Euro 4 or higher standard (percent) Baseline: &lt; 1 percent (2021), Target: 90 percent (2026).</p>	<p><b>Results Indicator #1B:</b> 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). Baseline: &lt; 1 (2021), Target: 90 (2026).</p>	<p>The new results indicator is stronger (Euro 5 and above as opposed to Euro 4 and above) and more specific as the on-going reform process has become stronger and more specific since the time of DPC-1 approval. The target and baseline years, and values remain the same.</p>
<p><b>Results Indicator #1C:</b> N/A</p>	<p><b>Results Indicator #1C:</b> Reduction of annual greenhouse gas emissions from the Green Tax (percent). Baseline: 0 (2022), Target: 0.9 (2026).</p>	<p>Added a new results indicator to align with CS results and articulate climate mitigation impacts from the reforms supported by this policy track.</p>
<p><b>Policy Track 2: Transforming land use and management</b></p>		
<p><b>(Indicative) Trigger #2 for DPC-2:</b> Land Use Policy (2015), Land Use Act (2019) and Land Use Regulation (LUR) implemented through guidelines and procedures developed by the Ministry of Land Management, Cooperatives</p>	<p><b>Prior Action #2 for DPC-2:</b> To support local levels of government to implement the land use, classification, mapping, and planning framework articulated in the Land Use Regulation 2022, and to strengthen measures for grievance redress, the</p>	<ol style="list-style-type: none"> <li>1. Rephrased to reflect a stronger instrument.</li> <li>2. Minor language edits. Instead of guidelines and procedures, the instrument is now a directive. Whether a directive, guidelines or procedure, these instruments once enacted all have legal force, require compliance with their</li> </ol>



and Poverty Alleviation (MLMCPA) for the land use planning framework at the three tiers of government and including measures for grievance redress.	Ministry of Land Management, Cooperatives, and Poverty Alleviation (MLMCPA) has approved the Land Use Program Implementation Directive.	measures, and are not voluntary. The slight rephrasing of the PA focuses on land use, classification, mapping, and planning framework—critical aspects of the Land Use Regulation approved under GRID DPC-1.
<b>(Indicative) Trigger for DPC-3:</b> N/A	<b>(Indicative) Trigger #2 for DPC-3:</b> To enhance inclusivity, equality and accessibility of the land administration system, Nepal has adopted a regulatory framework for land access by vulnerable groups, digitalization, and federalization of land administration service delivery, and development of a standardized land valuation system.	A new trigger added to the program to strengthen the overall policy track.
<b>Results Indicator #2:</b> Effective, inclusive, and transparent land classification and planning framework is in place (Y/N) Baseline: No (2022), Target: Yes (2026).	<b>Results Indicator #2.</b> Local levels of government with approved land use classification (percent). Baseline: 0 (2022), Target: 61 (2026).	Strengthened the RI with inclusion of “Local levels of government.” There are currently 753 local levels of government, which includes six metropolises, 11 sub-metropolises, 276 municipalities and 460 rural municipalities.  The target and baseline values have been updated accordingly.
<b>Policy Track 3: Climate- and disaster-resilient infrastructure</b>		
<b>(Indicative) Trigger #3 for DPC-2:</b> The GoN has regulated hydrometeorological services to support the planning and performance of several sectors including agriculture, aviation, water supply, and hydropower, as well as disaster risk management.	<b>Prior Action #3 for DPC-2:</b> The Council of Ministers has approved the Hydrology and Meteorology (Hydromet) Policy to provide hydro-meteorological services to support the delivery of sector-specific weather, water, and climate data and services to improve decision making for hydropower, water supply, agriculture, tourism, aviation, and disaster risk management.	Rephrased to reflect a stronger and more specific instrument: Council of Ministers approval of a new policy.
<b>(Indicative) Trigger #3 for DPC-3:</b> The Cabinet has approved a green building code, and MoEWRI has approved seismic guidelines for design of dams and hydropower projects.	<b>(Indicative) Trigger #3 for DPC-3:</b> To enhance climate resilience and promote more efficient and sustainable use of water, natural resources, and energy, the Council of Ministers has approved a green building code.	The seismic guidelines for design of dams and hydropower projects have been moved to the new Nepal Disaster Resilience Development Policy Credit with Catastrophe Deferred Draw Down Option (CatDDO) (P181344), given the high relevance of the CatDDO instrument to seismic risk management for reducing disaster risks.





		Rephrased language on green building code but the instrument remains the same.
<b>Results Indicator #3.</b> Automatic hydrological monitoring stations and radar that are fully operational in additional locations (number). Baseline: 0 (2021), Target: 25 Hydromet stations and 1 radar (2026)	<b>Results Indicator #3.</b> People with improved resilience to climate-related disasters due to the installation and operation of additional hydromet monitoring stations and/or radar (Number). Baseline: 0 (2022), Target 5 million (2026).	Strengthened the RI to address the Corporate Scorecard and be more outcome oriented. The proposed RI will track the number of persons benefitting from the additional hydromet installations rather than the number of additional hydromet stations installed and operational. Baseline year and value, and target value updated accordingly.
<b>Policy Track 4: Strategic planning for GRID</b>		
<b>(Indicative) Trigger #4 for DPC-2:</b> The Cabinet has approved guidelines prescribing SESAs for targeted policies, programs, and strategies and specifying institutional arrangements for preparing SESAs, including provisions on information disclosure and public participation.	<b>Prior Action for DPC-2:</b> Not applicable.	Dropped from DPC-2 and moved to the sister ADB operation.  This policy dialogue has evolved since DPC-1 approval. The reform articulated in the original trigger was strengthened by preparing an Amendment to the Environment Protection Rules (EPR) 2020 that would specify stronger parameters for conducting SESA and EIA, including parameters that strengthen public disclosure and consultation requirements. This updated phrasing appeared in the DPC-2 concept stage PD.  However, since the DPC-2 concept review, ADB has formally decided to provide coordinated financing for a new sister GRID budget support operation. This operation also includes a policy dialogue on the Amendment to the EPR and is focused on Article 6 of the Paris Agreement to operationalize access to the voluntary carbon market. It was, therefore, decided to fold in the SESA and EIA measures into the parallel ADB-financed operation. The World Bank and ADB teams continue to harmonize TA and policy dialogues on the EPR.
<b>(Indicative) Trigger #3 for DPC-3:</b> MoFE has approved detailed procedures for line ministries to implement SESAs.	<b>(Indicative) Trigger #4 for DPC-3:</b> Ministry of Forests and Environment (MoFE) has approved guidelines for line ministries to conduct strategic environmental and social assessments (SESA),	Minor edits. Whether a directive, guidelines or procedure, these instruments once enacted all have legal force, require compliance with their measures, and are not voluntary.



	pursuant to the 2020 Environmental Protection Rules and its Amendments.	
<b>Policy Track 5: Transitioning to sustainable tourism for jobs, conservation, and private sector investment</b>		
<b>(Indicative) Trigger #5 for DPC-2:</b> To strengthen environmental, social, and economic sustainability of PAs, MoFE has regulated the operation of tourism concessions in protected areas through an Amendment to the Protected Areas and Wildlife Regulation that would enable conservation partnerships and activities.	<b>Prior Action for DPC-2:</b> Not applicable.	Moved PA to DPC-3, because an Ordinance that has an impact on protected areas and private sector investment in them was signed into law on April 28, 2024, with insufficient consultation. The PA intended for DPC-2, which is a new Protected Areas and Wildlife Regulation, had been drafted, consulted, and reviewed by the World Bank but the Ordinance has superseded this Regulation. The Regulation, when approved, could still bring much-needed details on environmentally, socially, and financially sustainable investment in protected areas that would complement the Ordinance, but doing so requires additional unforeseen work on the Regulation. As a result, the PA has been moved to DPC-3.
<b>(Indicative) Trigger for DPC-3: N/A</b>	<b>(Indicative) Trigger #5 for DPC-3:</b> To strengthen the environmental, social, and economic sustainability of protected areas, the Council of Ministers has approved the National Parks and Wildlife Conservation Regulation that would enable conservation partnerships with private sector entities by regulating the operation of tourism concessions in protected areas.	Rephrased initial indicative trigger for DPC-2 to reflect a stronger instrument and approval: Council of Ministers approval instead of MoFE approval of a new regulation to replace the existing regulation governing national parks and wildlife.
<b>Results Indicator #5:</b> Tourism concession contracts issued under the new reforms (number). Baseline: 0 (2022), Target: 2 (2026)	<b>Results Indicator #5:</b> Tourism concessions awarded to conservation-based enterprises under the National Parks and Wildlife Conservation Regulation (number). Baseline: 0 (2022), Target: 2 (2026).	The RI has been strengthened by: i) adding the specific reform from DPC-3 to the results indicator phrasing ii) adding “to conservation-based enterprises” as the reform program should ensure that only enterprises that contribute to the conservation objectives of national parks and conservation areas should be awarded concessions. The target and baseline years, and values remain the same.
<b>Policy Track 6: The forest sector transition to sustainability, economic productivity, and climate resilience</b>		



<p><b>(Indicative) Trigger #6 for DPC-2:</b> To strengthen the implementation of the Forest Regulation, the MoFE has approved guidelines for implementing SFM provisions that set standards, procedures, and mechanisms for transferring government-managed forests to community-based forest user groups, ensuring inclusive benefits including for women, and engaging in international carbon markets.</p>	<p><b>Prior Action #4 for DPC-2:</b> To strengthen the operationalization of the Forest Regulation 2022 and sustainable forest management, while expanding opportunities for livelihoods development and locally led climate action, the respective Provincial Cabinets of Karnali and Madhesh have approved provincial forest regulations that promote training, employment and economic opportunities for women and indigenous peoples and local communities through equitable benefit sharing mechanisms.</p>	<p>This is overall a stronger PA and a stronger policy track due to the substantive and innovative changes summarized below.</p> <p>The DPC-3 trigger was brought forward to DPC-2 to accelerate the transition to federalism in the forest sector. This acceleration is possible because provinces have an interest in moving quickly to operationalize federalism – as well as to operationalize the federal level Forest Regulation 2022 as subnational levels. The Bank team is assisting this reform process through this DPC—and associated IPFs which anchor the client relationship at subnational level. This is the first time a subnational reform has been supported in a DPC in Nepal. As such, the original trigger for DPC-2 has been dropped in favor of the two provincial regulations. Additional provinces are also developing their own regulations.</p> <p>“Indigenous People and local communities” added to the PA phrasing.</p>
<p><b>(Indicative) Trigger #4 for DPC-3:</b> To strengthen SFM implementation at the subnational level, at least two provinces have promulgated the regulations and procedures to incorporate the provisions of the 2019 Forest Act, 2022 Forest Regulation, and SFM Guidelines in their legal framework.</p>	<p><b>(Indicative) Trigger #6 for DPC-3:</b> To strengthen the operationalization of the Forest Regulation 2022 and expand opportunities for livelihoods development and locally led climate action, the relevant authorities of additional provinces have approved provincial forest regulations that promote training, employment and economic opportunities for women and indigenous peoples and local communities (IPLCs) through equitable benefit sharing mechanisms.</p>	<p>Trigger added to reflect continued provincial level reforms by more provinces, as in DPC-2.</p> <p>IPLCs added to the trigger.</p>
<p><b>Results Indicator #6a:</b> Land area covered by an approved forest management plan that is in line with the Forest Regulation and that includes climate outcomes and documented women’s participation in the plan (hectare). Baseline: 2,903,825 (2022), Target: 2,949,325 (2026)</p>	<p><b>Results Indicator #6a:</b> Forest area covered by new and updated community forest management plans that comply with the Forest Regulation 2022 by including climate outcomes and documented women’s participation (hectares). Baseline: 0 (2022), Target: 2,949,325 (2026).</p>	<p>RI was re-formulated to show the nearly 3 million hectares increase in land area with improved forest management plans that include climate and gender outcomes. The baseline value updated.</p>



<p><b>Results Indicator #6b (gender tag):</b> Share of annual income earned by forest users' groups that is spent on women empowerment and female entrepreneurship activities (percent). Baseline: 0 (2021), Target: 20 (2026).</p>	<p><b>Results Indicator #6b (gender tag):</b> Share of annual income earned by forest users' groups that is spent on women empowerment and female entrepreneurship activities (percent). Baseline: N/A (2021), Target: 20 (2026).</p>	<p>The baseline value has been changed to N/A (not available). This is because there is no data. An ongoing assessment is qualitatively assessing this figure which is an estimated 15-25 percent currently based on a sample of 16 community forest user groups (of over 22,000 groups).</p>
<p><b>Policy Track 7: Building resilience of the most vulnerable people to climate and other shocks</b></p>		
<p><b>(Indicative) Trigger #7 for DPC-2:</b> The GoN has approved guidelines for SRSP to enable the GoN to mobilize social protection systems for provision of relief and recovery in response to a shock due to an adverse natural event.</p>	<p><b>(Indicative) Trigger #7 for DPC-3:</b> To mobilize social protection systems and enable their flexibility and stability for the provision of relief and recovery in response to climate and other shocks, the (a) Council of Ministers has approved (i) the Shock-Responsive Social Protection Management and Relief Distribution Standards, and (ii) amended the Prime Minister's Employment Program (PMEP) guidelines, and the (b) Ministry of Home Affairs (MoHA) has amended the Social Security Allowance (SSA) guidelines.</p>	<p>DPC-2 Trigger 7 on SRSP was moved to DPC-3 because continuous policy dialogue revealed that the GoN needed additional work to consult on the proposed reform and to elevate the approval level to Council of Ministers. These GoN processes will strengthen the reform but take more time especially given the frequent changes in the GoN since DPC-1 approval, a complicating factor indicated in the risk analysis for this operation.</p> <p>The updates for DPC-3 also include adding the specific GoN entity responsible for approvals (Council of Ministers, MOHA), to ensure a strong reform that is legally binding and has greater likelihood of implementation than would otherwise be the case.</p> <p>Minor edits were also made to clarify the SRSP reform. Instead of a guideline, the instrument is now a standard. Both are legally binding instruments, but a standard is considered stronger. In addition, the new phrasing deletes "an adverse natural event" as the reform encompasses other shocks as well in line with the GRID approach that addresses polycrises.</p>
<p><b>(Indicative) Trigger #5 for DPC-3:</b> To enable flexibility and scalability of social protection during times of shock, the Recipient will amend guidelines of the Social Security Allowance (SSA) and Prime Minister's Employment Program (PMEP).</p>		
<p><b>Results Indicator #7:</b> Social protection programs in which the respective delivery system is used for the provision of relief and recovery in response to a shock due to an adverse natural event (number). Baseline: 0 (2021), Target: 1 (2026).</p>	<p><b>Results Indicator #7:</b> The delivery system of at least one social protection program is used for the provision of relief and recovery in response to a shock (Yes/No). Baseline: No (2021), Target: Yes (2026).</p>	<p>Strengthened the RI by making it more specific and aligned with the reform program. Deleted "an adverse natural event" to extend the guidelines to other crises as well. Instead of a number, the RI is now Yes/No. Baseline and Target years remain the same, while the values have been updated accordingly.</p>
<p><b>Policy Track 8: Transitioning to climate-smart agriculture (CSA) and food systems that promote inclusive growth and health</b></p>		



<p><b>(Indicative) Trigger #8 for DPC-2:</b> The Cabinet has adopted the National Climate Smart Agriculture Policy, establishing prioritization criteria for CSA technologies, an intergovernmental funding mechanism, and a monitoring and evaluation system.</p>	<p><b>Prior Action #5 for DPC-2:</b> To enhance agricultural productivity and climate resilience through expanded year-round irrigation, the Council of Ministers has adopted the National Irrigation Policy 2023 that (a) defines the roles and responsibilities for irrigation among the three tiers of government; (b) strengthens the capacity of local water user associations to jointly develop and manage irrigation systems with greater participation by women and marginalized farmers; and (c) boosts the sustainability of irrigation systems by prioritizing multi-purpose reservoirs, integrated natural resource management, special irrigation zones, a new maintenance fund, and private sector participation.</p>	<p>This is overall a stronger PA and policy track due to the substantive changes summarized below.</p> <p>The Council of Ministers (Cabinet) has, since DPC-1 approval and DPC-2 concept review, approved a new irrigation policy, which the Bank team had been advising on. This policy is a cornerstone of climate smart agriculture and is well crafted; it includes measures for sustainable financing and local governance, among others.</p> <p>The irrigation policy has explicit measures to improve the resilience, productivity, sustainability, and inclusiveness of crop production – building blocks of CSA. It therefore operationalizes several recommendations from the CCDR as well as Nepal’s GRID framework as articulated in Nepal’s draft GRID Strategic Action Plan 2024-2034.</p> <p>The updated PA (irrigation policy) will enhance livelihoods for farmers through expanded year-round irrigation access and local management of water. This in turn directly enables the transition to CSA, the objective of this policy track.</p> <p>In addition, the irrigation policy was originally a trigger in DPC-2 under policy track 9 on water.</p>
<p><b>(Indicative) Trigger #6 for DPC-3:</b> The Cabinet has adopted an integrated risk management policy for the agriculture sector covering weather, production, market, zoonotic, and other risks, and the Infectious Animal Disease Act is published in the Gazette and aligned with Nepal’s One Health Strategy.</p>	<p><b>(Indicative) Trigger #8 for DPC-3:</b> To expand climate smart agriculture and sustainable food systems, (a) the Ministry of Agriculture and Livestock Development (MoALD), has approved (i) a Climate Smart Agriculture Directive, pursuant to the National Agricultural Policy, and (ii) Animal Health Regulations that help operationalize Nepal’s One Health Strategy and Action Plan, and (b) the Council of Ministers has adopted a National Irrigation Regulation establishing climate adaptation and mitigation criteria for production systems.</p>	<p>Updated the trigger to better reflect the most recent elements of the reform program as it has become more concrete since DPC-1.</p>



<p><b>Results Indicator #8:</b> Increase in the proportion of sectoral spending at the federal and provincial levels for climate-smart agriculture investments (percent).</p> <p>Baseline: 0 (2022), Target: 30 percent (2026).</p>	<p><b>Results Indicator #8:</b> MoEWRI 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).</p> <p>Baseline: No (2021), Target: Yes (2026).</p>	<p>The new results indicator was updated to reflect the end of the program impact of the overall reform program (with updated PAs) in climate smart agriculture that is more aligned the CS Results.</p>
<p><b>Policy Track 9: Transitioning to integrated water resource management (IWRM) and safe, resilient water supply for enhanced water security</b></p>		
<p><b>(Indicative) Trigger #9 for DPC-2:</b> (a) Cabinet approval of the WASH Policy to clarify the mandates of the three tiers of government on water and sanitation service provision, and (b) Cabinet approval of the Amendment to the Water Induced Disaster Management Policy aligning the role and responsibilities of each tier of government in increasing preparedness and providing response to water-induced disasters, and (c) Cabinet approval of the Amendment to the Irrigation Policy aligning roles and responsibilities of each tier of government in the management and maintenance of irrigation infrastructure.</p>	<p><b>Prior Action #6 for DPC-2:</b> To clarify the mandates of the three tiers of government and strengthen the use of data and information in the regulation and delivery of water and sanitation services, the (a) Council of Ministers has approved the National Drinking Water, Sanitation, and Hygiene Policy and (b) Parliament has approved the Drinking Water and Sanitation Act 2022.</p>	<p>The PA was updated to focus on resilience of water supply and sanitation in the federal structure.</p> <p>The Water Supply and Sanitation Act 2022 was added as a strong PA in DPC-2. It was approved and gazetted after DPC-1 approval. It was initially an indicative trigger for DPC-3.</p> <p>Two items originally listed as triggers at the time of DPC-1 approval were moved to other locations:</p> <ul style="list-style-type: none"> <li>Item (b) was moved to the upcoming CatDDO as it directly focuses on DRM.</li> <li>Item (c) updated and moved to policy track 8 on climate-smart agriculture above.</li> </ul>
<p><b>(Indicative) Trigger #7 for DPC-3:</b> Adoption of the Water Supply and Sanitation Act establishing the mandates of the three tiers of government in water and sanitation service provision and adoption of the National Water Resources Act establishing integrated management of water resources at the basin level and River Basin Organizations.</p>	<p><b>(Indicative) Trigger #9 for DPC-3:</b> To promote water security for people, prosperity, and the planet, (a) the Ministry of Water Supply (MoWS) has adopted a Directive that establishes a tariff fixation mechanism that promotes cost recovery and financial sustainability in water and sanitation service provision and (b) the Council of Ministers has approved a Water Resources Regulation that enables river basin planning and management.</p>	<p>The Water Supply and Sanitation Act is approved as part of DPC-2. The updated trigger (both a and b) better reflects the most recent elements of the reform program as it has become more concrete since DPC-1.</p>
<p><b>Results Indicator #9A:</b></p> <p>River Basin Offices established at the river basin level (number).</p> <p>Baseline: 0 (2022), Target: 4 (2026).</p>	<p><b>Results Indicator #9A:</b></p> <p>River Basin Offices operationalized with approved river basin plans (number).</p> <p>Baseline: 0 (2022), Target: 3 (2026).</p>	<p>The updated results indicator is stronger and better reflects the most recent elements of the reform program as it becomes more concrete since DPC-1.</p> <p>While the baseline and target years, and the baseline value remain the same, the target has been revised down (from 4</p>



		to 3) to make it more realistic based on ongoing dialogue with the line ministry.
<b>Results Indicator #9B:</b> <i>Palikas</i> that collect WASH data using the National WASH Management Information System, including at schools and health centers (number). Baseline: 0 (2022), Target: 40 (2026).	<b>Results Indicator #9B:</b> Operators of WSS services licensed with binding performance indicators for safe water provision (number). Baseline: 1 (2022), Target: 50 (2026).	The new results indicator is better aligned with the new CS results and better reflects the most recent elements of the reform program as it becomes more concrete since DPC-1. As licensed WSS operators are required to use binding performance indicators will increase from 1 to 50 operators, the number of people with access to safe water supply will increase (CS indicator) after the time period of the DPC series.
<b>Policy Track 10: Solid waste management (SWM) and reducing single-use plastics</b>		
<b>(Indicative) Trigger #10 for DPC-2:</b> Publication of the SWM Act in the Nepal Gazette.	<b>Prior Action for DPC-2:</b> Not applicable.	The intended PA was moved to DPC-3, as the GoN recently transferred the SWM mandate from Ministry of Federal Affairs and General Administration (MoFAGA) to the Ministry of Urban Development (MoUD). MoUD, in its new capacity, has begun to develop the Act (initially under preparation by MoFAGA) further. The World Bank continues to engage in SWM policy dialogue and advisory services along with ADB.
<b>(Indicative) Trigger #8 for DPC-3:</b> To strengthen coordination and technical support among local governments in delivery of SWM solutions, the Recipient has (a) adopted guidelines to implement the SWM Act, including a financing mechanism to ensure dedicated financing for SWM, and the establishment of a National Waste Management Support Unit; and (b) MoFE and MoF have strengthened the plastic management legal framework including regulations for providing incentives for alternatives to plastics.	<b>(Indicative) Trigger #10 for DPC-3:</b> To strengthen coordination and technical support for municipalities in delivering SWM solutions, the SWM Act has been promulgated, as evidenced by its publication in Nepal's Gazette.	As the SWM Act has been moved to DPC-3, the SWM Act implementation guidelines, which would follow as a next step, have been dropped.
<b>Results Indicator #10:</b> Increased investment flows to SWM at federal and local levels, from both public and private sources (US\$). Baseline: 0 (2021), Target: US\$10 million (2026).	<b>Results Indicator #10:</b> Federal Waste Management Technical Support Unit fully staffed and budgeted (Y/N). Baseline: No (2021), Target: Yes (2026).	The new results indicator better reflects the most recent elements of the reform program as it becomes more concrete since DPC-1, with changes in indicative triggers.