World Bank Group Country Partnership Framework
For Nepal, FY2019-2022

Stakeholder Consultations

February 2018
Objective of consultations

To seek views on the World Bank Group’s proposed country engagement in Nepal in the next four years (FY2019-2022)
Outline

- What is a WBG Country Partnership Framework (CPF)
- Building blocks of CPF
- Country context
- Selectivity and prioritization
- Proposed focus areas and objectives
- Next steps
- Questions for which inputs are sought
World Bank Group

IBRD
International Bank for Reconstruction and Development

Loans to middle-income and credit-worthy low-income country governments

IDA
International Development Association

Concessional loans and grants to governments of poorest countries

IFC
International Finance Corporation

Solutions in private sector development

MIGA
Multilateral Investment Guarantee Agency

Guarantees to private sector investors and lender against non-commercial risks

IDA, IFC, and MIGA are engaged in Nepal
WBG’s country engagement model

- **Systematic Country Diagnostics (SCD)**
  - Finalized

- **Country Partnership Framework (CPF)**
  - Current one FY14-18
  - New CPF under preparation

- **Completion and Learning Review**
  - Ongoing for CPF FY14-18

- **Performance and Learning Review (PLR)**
  - Completed for CPF FY14-18 in Feb. 2017
Building blocks of the Nepal CPF

Considers:
- Stakeholder consultations
- Development partners’ activities
- WBG comparative advantage
- Experience and lessons learned

Country Development Goals
Systematic Country Diagnostic
WBG Comparative Advantage

* SCD incorporates Risk and Resilience Assessment, Country Economic Memorandum, Poverty and Mobility Analysis. Other key analytical work ongoing includes the Country Private Sector Diagnostic, InfraSAP, Policy Note on Federalism
Critical juncture in Nepal’s development

- **Historic change taking place** with a new federal structure in place in 2018 following complex transition after end of conflict in 2006—high expectations to improve inclusion, accountability, and responsiveness to people’s needs.

- **Impressive results in poverty reduction and human development**, even while economic growth remains relatively modest - explained largely by remittances.

- **Opportunity for a different approach to achieve faster growth**, which is needed for the country to become a middle-income country by 2030.

- **Remains vulnerable to a reversal of development** given the fragile social and institutional environment, and vulnerabilities to economic shocks and natural disasters.
Establishment of a federal structure -
An unprecedented opportunity and a challenge for Nepal

• An unprecedented change with new federal government system with 2015 constitution

• **Opportunities**
  ✓ Greater inclusion
  ✓ Greater accountability and responsiveness to local population needs
  ✓ Genuine power sharing the federal, provincial and local governments
  ✓ Economic competition among more autonomous local governments leading to better investment climate

• **Challenges**
  ✓ Service delivery disrupted
  ✓ Formulation and implementation of laws and regulation delayed
  ✓ High fiduciary risks
  ✓ New federal structure does not meet people’s expectations for greater inclusion
Nepal’s economic context and outlook

- Stable yet modest economic growth – 4% average growth the last 20 years.
- Agriculture continues to play a large role.
- Service sector has grown in importance.
- Current account deficit is expected to widen.
- Inflation has been steady.
- Fiscal balances have been healthy, but expected to widen with an increase in government spending foreseen to finance the new federal structure and for disaster recovery.
- Low public investment and low FDI continue.
- Economy remains vulnerable to a decrease in remittances, downturn in agriculture, weak investment climate, and slow capital formation.

From the Nepal Development Update 2017
Poverty reduction and shared prosperity - need to watch

- Strong progress in poverty reduction.
- One of the best performers globally on shared prosperity.
- Concerns about a reversal.
- Paucity of recent evidence on poverty and shared prosperity - 2011 estimates remain the latest data available.

Nepal’s Poverty Reduction Compared to Other Countries, 1990-2011

(Poverty headcount rate using $1.9, 2011 PPP)

Source: Povcalnet (April 2017)*
## Systematic Country Diagnostic (SCD) Summary – six areas of action

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<th>Area</th>
<th>Focus</th>
<th>Actions</th>
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| **Improving public institutions** | • Increasing inclusiveness & strengthening the rule of law is essential to addressing sources of fragility.  
• Progress in other areas requires improving public institutions. | 1. Support federal transition & inclusiveness in the political process  
2. Improve accountability & strengthen rule of law  
3. Invest in capacity at subnational levels |
| **Increasing private sector investment for job creation** | • This is essential to taking advantage of opportunities for growth. | 2. Encourage investments in infrastructure (roads & electricity)  
3. Strengthen regulation & reduce gov. involvement in markets  
4. Address barriers to health & education posed by remoteness, low income, & norms  
5. Reduce the role of social networks in labor markets  
6. Reduce high malnutrition rates  
7. Increase access to credit for women, rural entrepreneurs & SMEs |
| **Acquiring & using human capital equitably** | • This ensures all individuals can take advantage of growth opportunities.  
• It is fundamental to addressing sources of fragility.  
• It reduces vulnerability. | 3. Support agricultural growth by improving market access, & year-round irrigation  
4. Enable private sector investment in hydropower  
5. Improve planning & interagency coordination |
| **Natural resource Development** | • This is an area in which Nepal has considerable growth opportunities.  
• It can also be a means by which Nepal addresses spatial inequalities. | 4. Increase action to reduce environmental risk  
5. Improve targeting & coverage of social protection  
6. Develop insurance markets, part. health |
| **Resilience to natural disasters & health shocks** | • This is essential to reducing vulnerability. | 5. International migration provides Nepal considerable growth opportunities if returnees invest skills and remittances |
| **Getting more from migration** | | 6. Provide information, language, & soft skills for migrants  
7. Diversify destinations for temporary migration |

*From* Systematic Country Diagnostic 2018
Focus of government’s development strategy and priorities

- **Longer term objective:** Achieve all the SDGs and become an inclusive, equitable, and prosperous middle-income country (MIC) with the spirit of welfare state by 2030.

- **14th Periodic Plan (2017-2019):** Build a prosperous nation through an independent, progressive, and socialism-oriented economy.

Source: National Planning Commission
Learning from ongoing implementation experience

• Balance long term engagement with short term responses
• Deepen knowledge base to support policy reform and program implementation
• Pursue multi-pronged approach for project implementation
• Improve selectivity in World Bank Group program and focus on transformational projects
• Continue to coordinate with development partners, supported by core analytical work
OVERALL STRATEGIC GOAL: Support Nepal to transition to a federal state that enables it to achieve competitive development, higher growth and increased opportunities for shared prosperity.

Proposed CPF focus area:
1. Public Institutions and Policies
2. Growth and Employment
3. Inclusion and Resilience

Principles for selectivity and prioritization
- Transformative impact on development
- Greater resilience
- Maximizing financing for development (MFD)
- WBG Comparative advantage
- Ongoing experience
- Implementation readiness
Preliminary CPF Objectives

Focus Area 1: Public Institutions and Policies
Support efficient and effective public service delivery

Preliminary Objectives
A. Improved budget and revenue management for fiscal decentralization
B. Improved efficiency of the public service delivery

Focus Area 2: Growth and Employment
Contribute to improved conditions for higher growth and employment

Preliminary Objectives
A. Improved sustainable infrastructure in transport and energy
B. Enhanced financial inclusion
C. Improved trade and competitiveness in key sectors
D. Increased provision of market relevant skills
E. Improved livelihood and income opportunities

Focus Area 3: Inclusion and Resilience
Promote equal opportunities for human capital development and strengthen resilience against economic, health and environment risks

Preliminary Objectives
A. Improved equity in access to quality education
B. Improved efficiency in health delivery systems
C. Increased resilience to economic and health shocks
D. Improved adoption of sustainable natural resource management
E. Enhanced preparedness of disaster risk management and climate vulnerabilities
Financial resources and instruments available

Resources:

• Current World Bank portfolio consists of 23 operations totaling $2.475 billion.
• Indicative IDA18 (FY2018-2020) allocation is US$ 1.4 billion (credit), including US$300 million from the IDA Risk Mitigation to address root causes of fragility**
• Scale up private sector solutions (IFC investments and advisory services) in hydropower and other key sectors
• MIGA will continue to explore opportunities to stimulate cross-border private investment, including in priority sectors; MIGA could potentially utilize its Guarantee Facility under the Private Sector Window to support such investments

Additional resources:

• Under IDA18, Nepal may access new IDA IFC/MIGA Private Sector Window, IFC Creating Markets Advisory Window, IDA Regional Integration Window, IDA18 Scale-up Facility, and new Refugee Sub-window

Financing instruments:

• Applying all financing instruments to meet country demand – investment project financing, program-for-results, development policy financing
• Nepal can also access Catastrophe Deferred Drawdown Option (CAT-DDO) and Pandemic Epidemic Facility

** Final IDA allocation for FY18-20 depends on: (i) total IDA resources available; (ii) the number of IDA-eligible countries; (iii) Nepal’s performance rating, per capita GNI, and population; and (iv) the performance and other allocation parameters for other IDA borrowers.
Meeting IDA priorities

Gender

- **Target for mainstreaming gender in operations:** 100 percent
- **Key support** National Gender Policy Implementation, including its roll out under the new federal structure; promote socially inclusive local governance; roll-out Gender Based Violence platform; support women’s economic empowerment (i.e. women’s entrepreneurship)

Climate mitigation and resilience

- **Target for incorporating climate co-benefits:** 28 percent
- **Key support:** Fulfilling its Intended Nationally Determined Contributions (INDC) commitments; WBG Climate Action Plan 2016-2020; WBG Forest Action Plan – Nepal a priority country (2016-2020)

Citizen’s engagement

- **Target for mainstreaming of citizen’s engagement:** 100 percent of all investment project financing
- **Key support:** Citizen Monitoring Framework for decentralized governance; policy dialogue and support for social risk management capacity at sub-national levels; local conflict resolution and citizen redress mechanisms
Partnership and donor coordination

- **Donor coordination through:**

  *International Development Partners Group* (e.g. ADB, EU, UN, Australia, Denmark, Finland, France, Germany, Japan, Norway, Switzerland, UK, US)

  ✓ UNDP (representing multilaterals) and Swiss Development Group (representing bilaterals) are co-chairs.

  ✓ Objective is to promote regular exchange of information and strategic coordination

  ✓ Critical to coordinating earthquake reconstruction efforts

  ✓ Federalism Working Group established: Lead is World Bank with Swiss Development Group

*Local Donor Meeting*

✓ Led by the government

✓ Forum for dialogue between the government and development partners
**CPF process- planned next steps**

- **In country consultations with Govt and stakeholder inputs** (End-January-early March ‘18)
- **Internal review** (end-March ‘18)
- **Finalization of draft** (April 2018)
- **Submission to the Board of Directors** (end-May ‘18)

**Next Steps:**
- Consultations in 2 phases:
  1. January 29-February 2;
  2. February 26- March 15
- Submit the CPF to the Board of Directors end-May 2018
- Public dissemination after Board discussion
Areas for inputs

- In what areas should the World Bank Group focus on support to make progress in reducing extreme poverty in Nepal?
- In what areas should the World Bank Group focus on to achieve inclusive and sustainable economic development?
- How may the WBG support the new federal state?
- What should the WBG do to support more private sector investment?
- What tangible change would you want the WBG to contribute to in the next 4 to 5 years?