RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF THE

SECOND HNP AND HIV/AIDS PROJECT

CREDIT 4707-NP

AND

GRANT H557-NP

APPROVED APRIL 20, 2010

TO

NEPAL

JULY 7, 2015

HEALTH, NUTRITION AND POPULATION
SOUTH ASIA

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ABBREVIATIONS AND ACRONYMS

DFID Department for International Development
GAVI Global Alliance for Vaccines and Immunization
GoN Government of Nepal
HHS Household Survey
HMIS Health Management Information System
HNP Health, Nutrition and Population
JAR Joint Annual Review
KfW Kreditanstalt fur Wiederaufbau
MoHP Ministry of Health and Population
NDHS Nepal Demographic and Health Survey
NHSP 2 Second Nepal Health Sector Program
PDO Project Development Objective
SWAp Sector Wide Approach

Regional Vice President: Annette Dixon
Country Director: Johannes C.M. Zutt
Country Manager: Takuya Kamata

Senior Global Practice Director: Timothy Grant Evans
Practice Manager/Manager: Rekha Menon
Task Team Leader: Tekabe Ayalew Belay
NEPAL
SECOND HNP AND HIV/AIDS PROJECT (P117417)

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Nepal

Nepal: Second HNP and HIV/AIDS Project (P117417)

SOUTH ASIA

Health, Nutrition & Population

Report No: RES19304

Basic Information

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<tr>
<th>Project ID:</th>
<th>P117417</th>
<th>Lending Instrument:</th>
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<td>Johannes C.M. Zutt</td>
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<td>Rekha Menon</td>
<td>Current Closing Date:</td>
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<td>Team Leader(s):</td>
<td>Tekabe Ayalew Belay</td>
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Borrower: Ministry of Finance
Responsible Agency: Ministry of Health and Population

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Financing (as of 04-May-2015)

Key Dates

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Policy Waivers

| Does the project depart from the CAS/CPF in content or in other significant respects? | Yes [ ] | No [ X ] |
| Does the project require any policy waiver(s)? | Yes [ ] | No [ X ] |

A. Summary of Proposed Changes

This Restructuring Paper proposes a Closing Date extension to the Second HNP and HIV/AIDS Project (IDA Credit 4707-NP and IDA Grant H557-NP, P117417). The six month Closing Date extension was requested by the Ministry of Finance through a letter dated June 26, 2015. This proposed change would be addressed through a Level 2 restructuring. Without a Closing Date extension, it is estimated that approximately USD 6.13 million would be canceled at the end of project, currently scheduled to close on July 15, 2015.

The rationale for the proposed restructuring is to allow Nepal to fully utilize the project’s unused balance. The availability of these funds for Nepal is especially important given the devastating earthquakes on April 25th and May 12th, 2015 and the many aftershocks. The earthquakes totally or partially destroyed more than 1,200 public health facilities in the affected districts and the proposed Closing Date extension would allow the sector to use remaining funds to respond to needs arising from the disaster. Furthermore, extending the Closing Date would help bridge the gap that could otherwise exist in the Bank’s support to the health sector given that the new project, currently under preparation, is anticipated to be effective in the last quarter of FY16.

B. Project Status

The Second HNP and HIV/AIDS Project (NHSP 2) was approved on April 20, 2010 and became effective on October 4, 2010. The current Closing Date is July 15, 2015. Total International Development Association (IDA) financing at approval was US$129.15 million equivalent (SDR 83.1 million, SDR 44.82 Credit and SDR 38.28 Grant). Current disbursement is 90.48 percent of the Credit (4707-NP) and 99.77 percent of the Grant (H557-NP) and the Project is currently rated as Satisfactory for progress towards achievement of the PDO and Moderately Satisfactory for Implementation Progress (IP).

The project supports the Government of Nepal’s (GoN) Second Nepal Health Sector Program (NHSP-2, 2010-2015) through a Sector Wide Approach (SWAp). NHSP-2 is the second sector program and aims to improve the health and nutritional status of the Nepali population, especially the poor and excluded. The implementing partner for NHSP-2 is the Ministry of Health and Population (MoHP). The Bank, together with DfID, KfW and GAVI, pools its financing to provide on-budget support to the GoN. This support finances a proportion of total health sector expenditures as agreed and determined by a pro-rata share to the Ministry of Health and Population. As such, project implementation has been steady and disbursements have been relatively predictable over the life of the project.

Based on the most recent ISR (June 2015, not yet achieved), the PDO rating is Satisfactory and the IP rating is Moderately Satisfactory (MS) but other ratings, including Financial Management (FM), Procurement and Monitoring and Evaluation (M&E) are Unsatisfactory (FM) and Moderately Unsatisfactory (Procurement, M&E) respectively. There was a misprocurement declared in September 2014 and the Ministry of Health and Population has been working to resolve the issue. The first and second trimester interim unaudited financial reports for the current fiscal year have been received and accepted by the Bank. Furthermore, in view of the circumstances caused by the earthquakes that struck Nepal on April 25, 2015 and May 12, 2015 respectively, the World Bank, in a letter to the Ministry of Finance dated June 11, 2015, extended the period of submission of audit reports for FY2012/13 for
affected projects to September 30, 2015. As such, the audit report for FY2012/13 is due by September 30, 2015.

The mid-term review (MTR) of the project (January 2013) found good progress on many key indicators including the percentage of infants exclusively breastfed for six months (68.7%, HHS 2012); the percent of children aged 6-59 months receiving vitamin A supplementation (90.2%, HHS 2012); Total Fertility Rate (2.6, 2011 NHDS); Under-5 Mortality Rate (54 (2011 NDHS) and the Tuberculosis treatment success rate (90%, HMIS). It was noted that progress was not uniform across all indicators and variations remained between ethnic groups, geographic areas and wealth quintile.

The final Joint Annual Review (JAR) of NHSP-2 which took place in February 2015 built on the MTR’s findings by recognizing improvements in service delivery and health outcomes during the NHSP-2 period, especially on maternal and child health. Progress was also noted in financial management with the introduction of the Transaction Accounting and Budget Control System (TABCUS) to record and capture expenditures at cost centers. However, disparities in access to services continue to exist among certain population sub-groups and ecological zones and human resource management, procurement and logistics management continue to plague the sector.

As the NHSP-2 period neared its end, Nepal suffered a devastating 7.8 magnitude earthquake on April 25, 2015. The earthquake and its aftershocks claimed more than 8,700 human lives and injured more than 22,300 people. A total of 446 public health facilities (including administrative buildings) and 16 private facilities were completely destroyed while a total of 765 health facilities or administrative structures were partially damaged. Nearly 84 percent (375 out of 446) of the completely damaged health facilities are from the 14 most affected districts. As a result, the ability of the health facilities to respond to the healthcare needs has been affected by the destruction and service delivery is disorganized. Consequently, vulnerable populations, including earthquake victims, have been further disadvantaged in accessing health services in remote areas.

C. Proposed Changes

| Financing |

| Change in Loan Closing Date(s): |

The proposed restructuring would extend the project’s Closing Date by six months from July 15, 2015 to January 15, 2016. This would allow Nepal and the MoHP to fully utilize remaining project funds at this critical time as the country moves from earthquake recovery to reconstruction.

<table>
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<tr>
<th>Ln/Cr/TF</th>
<th>Status</th>
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