



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 09-Nov-2018 | Report No: PIDISDSC24777



BASIC INFORMATION

A. Basic Project Data

Country Nepal	Project ID P163418	Parent Project ID (if any)	Project Name Nepal Urban Governance and Infrastructure Project (P163418)
Region SOUTH ASIA	Estimated Appraisal Date May 02, 2019	Estimated Board Date Jul 17, 2019	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Urban Development	

Proposed Development Objective(s)

The Project Development Objective is to expand municipal infrastructure and strengthen institutional & financial systems in participating urban local governments in Nepal.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	150.00
Total Financing	150.00
of which IBRD/IDA	150.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	150.00
IDA Credit	150.00

Environmental Assessment Category

Concept Review Decision



A - Full Assessment

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

- 1. Nepal is at a critical juncture in its history embarking on an ambitious reform path to shift from a unitary to a federal government system, marking a momentous shift in the country's political landscape.** After a decade of political uncertainty that ensued the end of Maoist insurgency, a new constitution was enacted in 2015, putting an end to monarchy and ushering into a new era of federalism. A radical restructuring of the state is taking place in the ongoing political transition to a federalist structure. The 2015 constitution established a three-tiered government system governed by federal, provincial and local level governments, with significant decentralization of decision-making, service delivery responsibilities and resources to local governments.
- 2. The new federalist structure of Nepal comprises the federal government, seven provincial governments and 753 local governments.** The 753 new local governments have been formed through a rigorous territorial consolidation and restructuring of about 3,400 pre-existing village development committees (VDCs) and municipalities. Out of 753 new local governments, 293 are urban local governments and 460 are rural municipalities. The 293 urban local governments are further categorized into 6 metropolitan municipalities, 11 sub-metropolitan municipalities and 276 urban municipalities based on population size, annual income and facilities.
- 3. Following the adoption of the new constitution, elections were held at all three levels of the government in 2017 marking the successful conclusion of the country's political transition.** A new government, backed by a historic majority in Parliament, took up office at the federal level on February 15, 2018. Provincial governments largely mirror the coalition at the center. At the local level, elections were held for the first time in May-September 2017 after a long gap of 20 years. Mayors and other ward level representatives have been elected in all the 753 municipalities. The current political landscape in the country is primarily dominated by Nepal Communist Party and Nepali Congress.
- 4. Under the new constitution, the functions, funds and functionaries hitherto managed by the central, district and village authorities have been assigned to the seven provinces and 753 local governments.** While most of the service delivery responsibilities have been devolved to the local governments, the constitution also provides a list of concurrent functions, which are shared between different tiers of the government. An institutional set-up has been put in place at the federal level to design, implement and monitor the federalism transition process. The federal level restructuring is expected to result in improved governance, accountability and service delivery systems but will likely take time before they become fully operational and stable.



Sectoral and Institutional Context

5. **Under the ongoing federalism transition, the Government of Nepal (GoN) has introduced important laws and policies to operationalize the new inter-governmental architecture and complete the devolution process as stipulated in the new constitution.** In 2017, four laws were approved by the parliament – (i) Intergovernmental Fiscal Arrangement Act (IFAA), (ii) National Natural Resources and Fiscal Commission Act (NNRFCA), (iii) Local Government Operations Act (LGOA) and (iv) Civil Service Readjustment Act (CSRA). Concurrently, the federal government has also completed the restructuring of the federal line ministries based on the functional review that consolidates the 31 ministries to 18 ministries.

6. **The inter-governmental fiscal architecture, as prescribed in the constitution and the ensuing laws enacted by GoN namely IFAA and NNRFCA is in the process of being operationalized.** The constitution defines four types of fiscal transfers to the sub-national governments (provincial and local both) namely (i) fiscal equalization grants, (ii) conditional grants, (iii) matching grants and (iv) special grants. IFAA details these four modalities further in terms of the eligible expenses and the broad criteria for determining the grant allocation as well as the overall revenue sharing norms and revenue assignments for different tiers of the government. It also clearly lays out that the grants will be allocated based on the recommendations of the new fiscal commission.

7. **Nepal's transition to federalism is accompanied by rapid urbanization, putting additional pressure on ULGs to expand and improve municipal service delivery.** As Nepal transitions fast into a federalist and decentralized state, the country is also experiencing rapid urbanization, which poses additional challenges to ULGs in terms of increasing demand for basic municipal services and infrastructure. Although Nepal is the least urbanized country in South Asia (19%), it is the fastest-urbanizing in the region, as is likely to remain so in the future. The country's urban population grew at an average annual rate of 3.2% between 2010 and 2015.¹ This growth has put greater pressure on an already strained urban infrastructure. In addition to taking on new responsibilities related to urban development and service delivery, municipalities are faced with operating under a challenging environment of rapid and unplanned urbanization. Another consideration is Nepal's high vulnerability to climate-related disasters, which has the potential to reverse any progress in urban development (Refer to Annex 1 for a detailed description of Nepal's climate vulnerability context).

8. **Most ULGs face critical gaps in public services and core infrastructure.** Although access to improved water supply expanded significantly in urban areas², access to piped water has declined from 68% in 2003 to 58% in 2010. Similarly, while access to toilets in urban areas increased from 81% in 2003 to 85% in 2010, only 30% of urban households had toilets connected to the sewer systems, and 48% were connected to septic tanks, many of which are not designed properly.³ In terms of solid waste management, less than 50% of 700,000 tons of waste generated in cities is collected each year, mostly to be dumped inappropriately, leading to serious environmental and health concerns.⁴ Likewise, quality of municipal roads and intra-city connectivity is a major challenge across many cities. Furthermore, as a conservative estimate, the country faces an affordable housing backlog of almost half a million. The share of the urban population living in slums (60%) in 2010 is much larger than the share living below the national urban poverty line (10%). Overall, infrastructure planning and development lacks an integrated and long-term approach, and considerations to environmental factors and risks. Annex

¹ UN DESA 2015.

² 93 percent of Nepal's urban population had access to an improved source for drinking water as of 2010, which lies on par with other countries in the region, such as Bangladesh (85 percent), India (97 percent), and Pakistan (96 percent).

³ MoWSS 2016, p. 34.

⁴ Output Based Aid on Municipal Solid Waste Management in Nepal, "Lessons Learned and Recommendations."



2 presents a brief description of the existing levels of core municipal services in the nine cities that are currently being supported for investment identification.

9. **Institutional systems and organizational capacities are weak and inadequate in most ULGs to assume newly devolved service delivery mandates in line with the evolving federal structure.** Most UGLs, especially those that were newly formed in 2017 as a part of the federalism process, have limited capacity in key functions for sustainable and inclusive urban development, including budgeting, planning and execution of infrastructure projects, procurement, governance systems, financial management, safeguards management and own source revenue (OSR) administration.

10. **Despite increasing amounts of intergovernmental transfers to ULGs, significant infrastructure investment gaps remain to address existing low levels of municipal services.** Intergovernmental transfers account for roughly 80% of total revenues received by local governments. The amount of transfers had been increasing even prior to the pre-federal era, and are projected to continue growing under the new federal system, a rate that is estimated to reach around 10% of the country's GDP and 20% of total general government spending. However, despite the increasing amount of fiscal transfer, ULGs also confront challenges of addressing priority investment requirements due to lack of implementation capacity. Most municipal investment has focused on community-level small scale infrastructure.

11. **To enable the ongoing federal transition process and support ULGs in the efficient provision of assigned service delivery responsibilities in the context of rapid urbanization, the proposed Nepal Urban Governance and Infrastructure Project (NUGIP) aims to address two main challenges under the new federal context:** (i) limited institutional systems and capacities of ULGs; and (ii) critical gaps in core municipal services and infrastructure. NUGIP will provide critical financial and technical support to ULGs to strengthen systems and capacities to assume decentralized functional responsibilities assigned to them under the constitution and detailed in LGOA; address critical infrastructure gaps for uninterrupted service delivery; formally adopt the federal policies and legislation through appropriate legal instruments at the local level; and comply with the federal government's prescribed reporting and accountability requirements. This Project builds on the experience of the Bank-financed Urban Governance and Development Project: Emerging Towns Project (UGDP-ETP).

Relationship to CPF

12. **The proposed Project is fully aligned with the new Country Partnership Framework for Nepal (FY2019-2023),** particularly in its overarching goal of supporting Nepal's transition to a federal state that can deliver higher and sustained growth for poverty reduction, inclusive development, and shared prosperity. The Project would directly support Focus Area 1 of the CPF, "Public institutions," and its Objective 1.2 "Strengthened institutions for public service delivery," keeping in mind the risk of greater instability in the short-term with the introduction of the three-tier government system, which might disrupt service delivery.

C. Proposed Development Objective(s)

13. The Project Development Objective is to expand municipal infrastructure and strengthen institutional & financial



systems in participating urban local governments in Nepal.

Key Results (From PCN)

14. The proposed Project's key results are:
 1. Improved access to core municipal services in participating urban local governments
 2. Strengthened planning, budgeting and implementation systems for municipal service delivery
 3. Strengthened municipal finances and financial management systems

15. The proposed results can be measured through the following proposed indicators:
 1. Number of households with improved access to core municipal services (solid waste management, municipal roads and drainage, waste water management)
 2. Number of urban local governments that developed and implemented own source revenue enhancement plans
 3. Number of people with access to improved urban living conditions (Corporate Results Indicator)

D. Concept Description

16. **It is well-acknowledged from the international experience that strengthening the local governments systems and capacities for efficient service delivery in a decentralized set-up requires a long-term strategic and focused partnership.** Therefore, the proposed NUGIP is aimed at establishing a long-term programmatic partnership with Government of Nepal for supporting the newly formed ULGs under the new three-tiered federalist government structure in a phased manner for improving the access and quality of municipal service delivery as well as for strengthening urban governance, institutional and financial systems at the local level. The proposed NUGIP will support this long-term agenda in a limited number of ULGs in Nepal. The support could scale up through subsequent operations to a larger number of ULGs, building upon the implementation experience and learnings of NUGIP.

17. **Geographic coverage:** Building on the experience and learnings of earlier urban engagements (UGDP-ETP) in Nepal, the proposed NUGIP will support a selected number of urban local governments (ULGs) in two priority strategic urban clusters, that have been identified through an analytical assessment conducted jointly by the Bank and MoUD. The assessment identified two strategic urban clusters in eastern-terai region (Province 1 and 3) and central-hill region (Province 4), covering up to 15 cities that have high economic potential and important development gaps in terms of poverty, human development and access to basic services. The eastern-terai cluster covers municipalities in and around two regional economic corridors namely Biratnagar-Dharan economic corridor and Itahari-Mechinagar economic corridor. The central-hill cluster covers municipalities in and around the second-largest urban municipality of Nepal, Pokhara-Lekhnath.

18. **Proposed components:** The proposed NUGIP will comprise the following three components:

19. **Component 1: Investment support for strategic city-wide municipal infrastructure development and local/regional economic development projects (indicative IDA allocation: USD 130 million).** This component will provide financial resources to participating ULGs for financing critical infrastructure requirements focusing on (i) improving access and quality of core municipal services such as drinking water supply, solid waste management, municipal roads, storm



water drainage, street lights etc, and/or (ii) developing local infrastructure for boosting local/regional economic development such as bus-terminals and shelters, markets, regional connectivity, etc. The infrastructure requirements will be identified through detailed infrastructure and service delivery need-gap assessment as well as intensive stakeholder consultation and community engagement to ensure that the critical local needs and priorities are addressed in an effective manner. A capital grant will be allocated to the ULGs on the basis of an objective formula (based on the formula used by GoN for inter-governmental fiscal transfers) agreed with MoUD during the preparation.

20. **Component 2: Capacity building and technical support for improved institutional and financial systems (indicative IDA allocation: USD 10 million).** This component would provide capacity building support and technical assistance to participating ULGs for targeted improvements in institutional and financial systems at the local level. In the context of ongoing transition to federalism, the overall focus of the interventions under this component would be to strengthen the systems and capacities of local governments. While specific areas of interventions would be identified based on the strategic institutional systems and needs assessment that is being carried out by the task team as part of Project preparation, the indicative areas include: (i) project implementation systems in terms of project preparation, technical design, and implementation supervision, (ii) participatory planning and project development, (iii) fiduciary systems including procurement, contract management and PFM systems (budgeting, accounting/reporting and auditing), (iv) own source revenue mobilization focusing on property tax and select non-tax sources; (v) social and environmental management, including citizen engagement and grievance regress mechanisms; and (vi) urban and local development planning. The specific areas of interventions will be identified during the project preparation phase. The proposed interventions will be implemented through (a) formal training sessions, (b) on-the-ground mentoring support, and (c) technical assistance for institutional systems development.

21. In addition, this component may also support the upper two tiers of the government in a demand responsive manner. Interventions for each of the upper two tiers of government will be aligned with their respective roles and responsibilities as prescribed in the constitution and LGOA, 2017. Support to the federal government would indicatively focus on creating an enabling policy environment for inclusive urban development and establishing standards for municipal service delivery in ULGs. The support at the provincial level would be aligned with its inter-jurisdictional coordination role as envisaged in the LGOA, 2017 and will be determined, as the roles and responsibilities of the provincial governments becomes clearer.

22. **Component 3: Project management, co-ordination and monitoring (indicative IDA allocation: USD 10 million).** This component would provide the technical support to the Ministry of Urban Development (MoUD) at the federal level and the participating ULGs at the local level for project implementation, coordination, monitoring and reporting. At the federal level, the support would include establishing a fully functional Project Coordination Office (PCO). At the local level, the support would be focused on establishing a fully functional Project Implementation Unit (PIU) and for technical support to prepare Detailed Project Reports (DPRs), bidding documents as well as to carry out design and construction supervision. This component will also fund the preparatory activities for the follow-on lending engagements that may be proposed as a series of operations.

23. **The Project will directly contribute to World Bank corporate commitments, including climate change co-benefits, gender tagging, citizen engagement and maximizing finance for development (MFD).** Recognizing Nepal's vulnerability to natural and climate-related disasters, NUGIP integrates climate considerations in the technical design of the proposed urban infrastructure investments under Component 1. It is estimated that the Project will yield both climate change and adaptation and mitigation Co-Benefits. On the gender aspect, the project will also support meaningful



participation of women in urban governance and infrastructure by identifying community needs and priorities through need gap assessment/survey, and consultations. A more detailed gender gap assessment will be carried out to understand the specific gender differential needs and impacts during appraisal; identify policy, regulatory, and financial gaps and inadequacies; and institutional capacity of the implementing partner. Based on the assessment specific actions to address the gender gaps will be identified to improve women's access to quality municipal services and in addressing their needs and priorities.

24. **The investment support to participating ULGs will be fully aligned with the Bank's commitment to MFD**, primarily through the ongoing work on preparation of Nepal Urban Infrastructure Sector Assessment Program (InfraSAP) that includes detailed sector diagnostics and sector roadmap for improving potential for commercial and private sector financing through (i) specific investment opportunities in municipal solid waste management sector as well as in some of the commercially viable municipal utility projects such as regional bus terminals, green spaces etc. for exploring the potential to attract private sector investments and (ii) medium term and long-term interventions that are needed to address the broader binding constraints to de-risk the urban sector and enhance its attractiveness for private sector investments and commercial financing. The proposed project will support interventions for strengthening the fiscal fundamentals of the ULGs to enable MFD in the long term.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Project will support a selected number of urban municipalities in two priority strategic urban clusters: in eastern-terai region (Province 1 and 3), and central-hill region (Province 4). The eastern-terai cluster covers 10 municipalities in and around Itahari-Mechinagar economic corridor. The central-hill cluster covers 5 municipalities in and around the Pokhara-Lekhnath. Drainage, and floods are common issues in the plain Tarai region, where as landslides & soil erosion are common in the hills/ mountains. It is possible that there are community forests and wet-lands within the project municipalities. Different ethnic groups are residing in different parts of the proposed project municipalities.

B. Borrower's Institutional Capacity for Safeguard Policies

Ministry of Urban Development (MOUD) is the main implementing agency at the federal level. Department of Urban Development and Building Construction (DUDBC) under MOUD will be the nodal department. Investment sub-projects under Component 1 will be directly implemented by participating ULGs while Component 2 will be implemented directly by MOUD/DUDBC. MOUD is currently implementing multiple donor funded investment projects for urban infrastructure with the support of ADB. MOUD has also implemented the UGDP-ETP project supported by the World Bank in 6 cities and hence has a basic understanding of the key requirements and policies. However, the proposed project has a much wider coverage and type/size of investments is expected to be larger than the ones implemented under ETP. In this context the borrower's institutional capacity will need to be properly assessed and adequate mechanisms will be put in place to strengthen the capacity at the federal and the local level for complying with the applicable safeguards policies.

An Environmental and Social Management Framework (ESMF) will be prepared for the project in line with World Bank Safeguard policies and country's legal framework. The ESMF will also include Resettlement Policy Framework (RPF) a Gender Development Framework (GDF), Stakeholder Engagement and Consultation Framework (SECF) and Vulnerable



Community Development Framework (VCDF). According to the ESMF, Environmental and Impact Social Assessment (ESIA) and Environmental and Social Management Plan (ESMP) will be prepared for each investment sub-project. Depending on the project specific requirements, Resettlement Action Plan (RAP), Gender Development Plan (GDP), Vulnerable Communities People’s Development Plan (VCDP), and public consultation reports will also be prepared. A Stakeholder Engagement Plan (SEP) would be developed as part of the ESMP to guide stakeholder engagement for each sub-project. The ESMF will be the main guiding document in preparation and implementation of safeguard requirements.

C. Environmental and Social Safeguards Specialists on the Team

- Maya Gabriela Q. Villaluz, Environmental Specialist
- Drona Raj Ghimire, Environmental Specialist
- Caroline Mary Sage, Social Specialist
- Jun Zeng, Social Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>Project will invest in strategic city-wide municipal infrastructure development and local/regional economic development subprojects such as water supply facilities, solid waste management facilities, municipal roads, urban drainage and other municipal infrastructure in emerging secondary cities in Nepal. Since the specific project sites are yet to be determined, an ESMF containing a chance finds procedure would be prepared and disclosed nationwide and locally, and also in the World Bank’s InfoShop.</p> <p>Depending on the scope and scale of the subprojects, these activities may generate significant impacts such as the extraction, impoundment, distribution and treatment of drinking water supply using water system structures or the construction of sanitary landfills that may require a comprehensive environmental and social assessment (ESIA) to determine the level of risks of the potential environmental and social impacts which shall be properly addressed in the Environmental and Social Management Plan (ESMP) in a timely, sustainable and equitable manner. For the sub-projects, the environmental and social assessment scope and level of detail will be commensurate to the project’s potential impacts. The project will be designed and implemented to ensure the avoidance, reduction and resolution of any anticipated impacts on the natural environment, human health and safety,</p>



		<p>and physical cultural resources are adequately mitigated.</p> <p>Public consultations with various stakeholder groups (local government units, potentially affected communities, NGOs, etc.) would be conducted. When necessary, a social assessment would be conducted as part of the EA process.</p> <p>The capacity of the coordinating and implementing agencies will be assessed during project preparation and will be strengthened during project implementation to ensure adequate environmental and social risk management during the entire project cycle of all activities.</p>
Performance Standards for Private Sector Activities OP/BP 4.03	No	Not applicable.
Natural Habitats OP/BP 4.04	No	While the exact location of subprojects is not yet identified, the project will not cause the permanent conversion of critical habitats. To ensure this, the ESMF will define robust screening criteria that excludes subprojects that may cause the intrusion, conversion or degradation of critical natural habitats as well as the degradation and extraction of natural resources.
Forests OP/BP 4.36	No	While the exact location of subprojects is not yet identified, there will be no activities that will not intrude into, harvest or convert any natural forest or forest-based products. To ensure this, the ESMF will define robust screening criteria that excludes subprojects that may involve any conversion or degradation of natural forests, or related habitat – including cutting of trees.
Pest Management OP 4.09	TBD	While this policy is unlikely to be triggered, in case a site development necessitates land clearing or defogging, the project will use an integrated pest management approach.
Physical Cultural Resources OP/BP 4.11	No	Anticipated impact of investments on physical cultural resources will be part of the screening criteria, depending on location and type of activities. Physical investments will be designed with attention to cultural heritage values and protection. While the exact location of investment subprojects is not yet identified, chance finds procedures will be described in detail in the ESMF.



Indigenous Peoples OP/BP 4.10	Yes	The project may affect indigenous peoples living in, or having a collective attachment to, the project area. To address potential impacts on indigenous groups, the ESMF will contain a Vulnerable Community Development Framework (VCDF) as a separate chapter, with a specific focus on Indigenous communities. The VCDF will be prepared prior to Appraisal, to guide planning approaches with indigenous peoples/vulnerable groups, such as ensuring a process of free, prior and informed consultation with affected indigenous communities. The VCDF will be used when preparing Vulnerable Community Development Plans (VCDP). If the sub-project activities and locations are known by appraisal, an SA and VCDPs will be prepared.
Involuntary Resettlement OP/BP 4.12	Yes	Investments in urban infrastructure could require the taking of land, resulting in the relocation or loss of shelter, loss of assets or access to assets, or could affect income or livelihood. Resettlement Policy Framework (RPF) will be the guiding document in preparation of RAP. RAP will include among others entitlement matrix, stakeholder engagement and community strategy and GRM. For sub-project activities and locations known by appraisal, SA and RAP will be prepared.
Safety of Dams OP/BP 4.37	No	Project infrastructure does not include dam or does not depend on existing dam.
Projects on International Waterways OP/BP 7.50	No	Project does not use or affect water from international river.
Projects in Disputed Areas OP/BP 7.60	No	Project is not located in disputed area.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Jan 10, 2019

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Environmental and Social Management Framework (ESMF) including VCDF, RPF and GDF, as well as specific safeguard documents for select subprojects to be implemented in the first year, will be prepared prior to appraisal.



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APPROVAL

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