Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 13-May-2019 | Report No: PIDISDSA26326
<table>
<thead>
<tr>
<th>BASIC INFORMATION</th>
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### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Nepal</td>
<td>P165130</td>
<td>Sustainable Tourism Enhancement of Nepal’s Protected Areas (STENPA)</td>
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<td>14-Aug-2019</td>
<td>Finance, Competitiveness and Innovation</td>
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<th>Implementing Agency</th>
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<td>Ministry of Culture, Tourism and Civil Aviation, Ministry of Forest and Environment</td>
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**Proposed Development Objective(s)**

The objective of the project is to improve the sustainability, inclusiveness and value generation of nature-based tourism in selected destinations.

**Components**

- Improving Destination Management, Planning and Coordination
- Enhancing Access Infrastructure, Environmental Management and Tourism Facilities for Diversification
- Upgrading tourism-related services and livelihood activities for local communities
- Project Management, Monitoring and Evaluation

### PROJECT FINANCING DATA (US$, Millions)

<table>
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<th>SUMMARY</th>
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<td>Total Project Cost</td>
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<tr>
<td>Total Financing</td>
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<td>of which IBRD/IDA</td>
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<td>Financing Gap</td>
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**DETAILS**

World Bank Group Financing
B. Introduction and Context

Country Context

1. **A new government, backed by an unprecedented majority in Parliament, which took office on February 15, 2018 has recently completed one year.** This follows successful elections for all three tiers (local, state and federal) of the new state architecture defined by the 2015 constitution, marking a protracted-but-successful conclusion of a political transition that began with the signing of the Comprehensive Peace Agreement in November 2006. State governments largely mirror the coalition at the center. At the sub-national level, funds, functions and functionaries hitherto managed by the central, district and village authorities are moving to the seven new provinces and 753 local governments for which new legislation, institutions and administrative procedures are being formalized as constitutionally prescribed. Meanwhile, the central level authority is being streamlined with a focus on national policies and oversight. This profound level of state restructuring is expected to result in improved outreach and service delivery in the medium term but is likely to take time before becoming fully operational.

2. **Regarding economic development, over the past decade Nepal’s economy has performed reasonably well.** Growth averaged 4.7 percent (at market prices) over 2008-18. Although declining as a share in the economy, agriculture continues to play a large role, contributing over 30 percent of value-added. The service sector has grown in importance, accounting for half of value-added in recent years. Industry and manufacturing have grown more slowly and their relative share in the economy has averaged 16 percent of GDP over the past decade. Similarly, exports continue to struggle, while imports are fueled by remittances. However, remittance as a share of GDP has recently been on a declining trend due to lower oil prices that have impacted economic prospects in those countries with large Nepalese migrants. Inflation was in single digits for most of the past decade, with the peg of the Nepalese rupee to the Indian rupee providing a nominal anchor.

3. **Fiscal balances remained sustainable owing to strong revenue growth and modest spending,** although recent reforms and transition to federalism has increased spending by 4 percentage points between
FY2017 and FY2018 (when fiscal transfers to subnational governments came into effect). The poverty headcount ratio (at the international $1.90 / day line) is estimated to have fallen to 10 percent in 2017 (from 15 percent in 2010). At a higher line of $3.20 a day, poverty is estimated at 43 percent in 2017, down from 51 percent in 2011, indicating widespread vulnerability. According to the 2018 Multidimension Poverty Index (MPI), about 29 percent of Nepal’s population is multidimensionally poor. However, these gains remain vulnerable to shocks and setbacks, as evidenced by the 2015 earthquakes which were followed by trade disruptions resulting, in GDP growth of 0.6 percent in 2016, the lowest in 14 years.

4. **Data released by the Central Bureau of Statistics show that growth has been strong, despite the external shock from floods.** In mid-August 2017, the worst flood in decades destroyed 64,000 hectares of standing crop, contributing to an estimated reduction in the agriculture growth rate from 5 to 2.8 percent (in FY2017 and FY2018, respectively). This contributed to a reduction in overall GDP growth from 7.9 to 6.3 percent in FY2018. Government revenue continued to perform well but spending also picked up significantly in FY2017 compared to previous years. Nevertheless, ambitious expenditure targets envisioned in the budget have not been met and the quality of spending has not improved with 60 percent of the capital spending occurring in the last quarter. Also, spending pressures increased in FY2018 due to fiscal transfers, as well as spending on elections, capital goods and the transition to federalism. High inflation in the past two years has moderated sharply due to moderating inflation in India and improving supply side constraints.

5. **Inflation slowed to 4.2 percent (y-o-y) in December 2017 but increased to 6 percent (y-o-y) in March 2018 owing to a sharp uptick in vegetable prices.** Meanwhile, credit growth slowed to 16.7 percent (y/y) in early 2018 compared to its peak of 31.9 percent in 2017; but growth in savings deposits continued to decline, pushing up interest rates. On the external side, the cumulative effect of a sharp trade balance deterioration and a slow growth of remittances is putting significant pressure on the current account. Economic activity, impacted by the worst floods in decades, affected agriculture output. This contributed to the slowdown in growth from its peak of 7.9 percent in FY2017 to an estimated 6.3 percent in FY2018.

6. **Tourism is an important contributor to Nepal’s economy.** According to the World Travel and Tourism Council (WTTC), which compiles tourism statistics for 185 countries, the direct contribution of Travel & Tourism (T&T) to Nepal’s GDP in 2018 was US$0.8bn, representing 3.6 percent of GDP, while the total contribution of this sector was US$1.6bn, representing 7.5 percent of GDP. Tourism also benefits Nepal in terms of poverty reduction, employment generation, and income redistribution. The WTTC report

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1 Poverty data were last updated in 2010. The World Bank will be collaborating with the Central Bureau of Statistics to update national poverty estimates using the Annual Household Survey data (2013/14 – 2016/17) and prepare the next Nepal Living Standard Survey.

2 Data consisting of a revision of the FY2017 growth rate and an updated estimate for FY2018. “Total contribution of tourism includes direct contributions and wider impacts on the economy such as travel and tourism investments spending, government spending that helps travel and tourism sector such as tourism marketing and promotion, and domestic supply chain purchases by sectors directly dealing with tourists.” “Direct contribution includes total spending within a country on travel and tourism by residents and non-residents for business and leisure and spending by government on travel and tourism services directly linked to visitors such as museums”. See [https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2017/nepal2017.pdf](https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2017/nepal2017.pdf) (WTTC, 2017)

3 “Total contribution of tourism includes direct contributions and wider impacts on the economy such as travel and tourism investments spending, government spending that helps travel and tourism sector such as tourism marketing and promotion, and domestic supply chain purchases by sectors directly dealing with tourists.” “Direct contribution includes total spending within a country on travel and tourism by residents and non-residents for business and leisure and spending by government on travel and tourism services directly linked to visitors such as museums”. See [https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2017/nepal2017.pdf](https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2017/nepal2017.pdf) (WTTC, 2017)
estimates that the sector supported nearly one million (945,000) direct and indirect jobs in 2018, or roughly 6.4 percent of total employment. There are also high spillover effects to other sectors such as agriculture, transport, and aviation. The tourism industry provides an important market for agricultural products as hotels and restaurants demand diverse agricultural inputs, and tourists demand agro-tourism experiences and destination-branded specialty crops as souvenirs. Tourism’s large informal sector presents opportunities for micro-businesses – production and supply of vegetables, dairy products and fruits in agricultural industries, transport and communication services, small shops, handicraft markets, guides, porters, and other activities relatively accessible to poor or marginalized groups lacking formal education, skills or assets. As such, tourism generates employment in rural areas and for women, contributing to inclusiveness.

7. Nepal’s tourism sector ranks low on the World Economic Forum’s Travel & Tourism Competitiveness Index at 103 out of 136 countries with a score of 3.3 out of 7.\(^4\) Nepal ranks particularly low in terms of tourism services infrastructure (124) and environmental sustainability (126). Nepal’s relatively high ranking in price competitiveness (19) indicates that it is a low-cost destination and not achieving revenues in line with the quality of its outstanding natural resources where it ranks 27th. The same index rated the quality of the business environment in Nepal as low.

8. The number of tourists traveling to Nepal has recently recovered after a period of slow growth and sharp declines due to the April 2015 earthquake.\(^5\) 2017 statistics of international arrivals indicate a significant recovery, with around one million international tourists, compared to around 0.8 million in 2013 and 0.5 million in 2015 (Table 1). Year 2018 also witnessed a noticeable growth in international visitors arrivals with 25% increase and reaching a historic total of 1.17 million. Western tourists remain the largest source market and absolute numbers have increased significantly in 2016 and 2017. Tourists from India formed the largest visitor group by nationality at around 15 percent of total arrivals (and a much higher fraction including estimated entries by land), followed by Chinese with 13 percent. Domestic tourism also constitutes a growing and significant market.

Table 1: Total tourism arrivals, revenues and average spend per day

\(^5\) Unless otherwise noted, figures in this section are Nepal’s official tourism statistics for 2016, from the Ministry of Culture, Tourism and Civil Aviation. These statistics are mainly based on visa for tourists arriving by air and therefore do not include Indian visitors arriving by land.
9. Nepal’s unique scenic landscapes and high level of biodiversity coupled with rich cultural heritage and proximity to growing Asian markets position it to benefit from tourism and travel trends in the region over the next five years. Nepal is well positioned vis-à-vis global trends in favor of wellness travel, a global phenomenon projected to grow by 9 percent per year⁶; adventure tourism, and more generally nature-based tourism (NBT), which is estimated to account for 20 percent of international travel in 2020, or about 240 million global trips a year. More specifically, Nepal’s tourism sector is benefiting from growth of the middle class in neighboring countries such as India and China, as well as from domestic tourism. As incomes rise and urban populations increase in Asia, the desire to spend time in natural protected areas grows. The growing number of tourists visiting Nepal during the 2010s’ confirm this tendency (Table 1).

10. Nepal’s protected areas constitute the core of Nepal’s NBT offering. Nepal has 20 well-established protected areas (PAs), including national parks (with associated buffer zones), wildlife reserves, conservation areas and hunting reserves, covering 23.2 percent of the country’s land area (Figure 1). Nepal’s PAs have registered excellent achievements in biodiversity conservation; but, several of them underutilize their tourism potential. An additional 2 percent of the land area is classified as protected forest. The attractiveness of these destinations is reinforced by Nepal’s rich cultural heritage, with Buddhist and Hindu temples and pilgrimage sites found in natural settings throughout Nepal, including in or near some PAs.⁸ Annexes 2 and 3 present the PAs system of Nepal, as governed by the National Parks and Wildlife Conservation Act (1973) and related regulations.

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⁷ With the exception of 2015, the year when a large earthquake occurred.
⁸ Kathmandu Valley remains the largest cultural heritage destination in Nepal, featuring seven sites listed as UNESCO World Heritage Sites.
Source: MOFE, 2019

11. Nepal’s PAs could benefit from the rising demands in global NBT only in a limited manner as its potential beyond trekking has not been well developed. Nepal is globally known for its trekking destinations, namely the Annapurna Conservation Area (ACA) and the Sagarmatha National Park (SNP). However, these treks generally take one to three weeks and do not appeal to individuals who enjoy or are physically able to do less strenuous nature activities, including shorter hikes, bird-watching, indigenous flower tours and the like. Wellness and adventure tourism, which tend to attract the higher value market segment, have also been explored in a limited manner. Furthermore, while Nepal has a total of 20 PAs, only a few are functioning as significant tourism destinations. In 2017/2018, about 600,000 of the 700,000 visitors to Nepal’s PAs were received by only four PAs, namely the Shivapuri-Nagarjun NP, Annapurna CA, the Chitawan NP, and Sagarmatha NP (where the Everest is located). As Nepal’s Tourism Strategy (2016-25) indicates, several of Nepal PAs have the potential to be developed as equally attractive NBT destinations. However, diversification is limited by restrictions on commercial activities that are relatively tight within the PAs, particularly in national parks in the Terai region.

12. Most PAs and other NBT destinations lack adequate tourism infrastructure and facilities and modern arrangements for visitor safety, which would enable a diversification of the offering. Most nature destinations areas are suffering from low quality and poor maintenance of small and medium infrastructure (e.g. trekking trails, small bridges, camping sites, picnic spots, and recreational parks), inadequate services (e.g. water, waste management and electricity) and inadequate planning and zoning. The PAs are also not well equipped to address effectively safety related incidents arising due to high altitude sickness, extreme weather conditions or natural disasters including landslides and flooding. A recent survey of visitors at the ACA, undertaken during project preparation, found that, while the overall satisfaction with the experience was good, there were challenges regarding the quality of roads, quality of trekking trails, and toilet hygiene and sanitation. The quality of accommodation, a key touchpoint in the evaluation of any tourism destination, was also identified by respondents as needing improvement. Overall, the price perception of the destination was not considered optimal: 13% found the ACA was ‘very expensive’ and another 50% thought it was ‘expensive’.

13. Nepal faces the risk of becoming a low-value mass tourism destination, damaging the very natural assets on which the sector depends. While the number of visitors increased sharply between 2016 and 2018, tourism receipts are still low compared to competing destinations. With an average of US$592 per international visitor in 2016, Nepal’s international receipts were almost half of the global average and one-third of those of Thailand and India. The daily average spend per tourist remains low at US$54 in 2017, compared to a regional average of US$100-150 in 2016. This low level of average tourist spend is closely linked with the predominantly low quality of service, with 80% of hotels in Nepal being in the tourist standard category catering to the low-tier tourist segment. Furthermore, an unhealthy price competition among service providers and increasingly among local governments aimed at maximizing visitor numbers further drives down prices. Consequently, in some PAs, visitor numbers during the high season exceed the area’s ecological capacity, making tourism environmentally unsustainable.

14. Limited access to finance is constraining the development of tourism services with a higher revenue potential. While basic homestays will always be an important livelihood provider in Nepal’s NBT sector and continue to attract budget travelers, middle-income tourists require a higher level of basic comfort, including heating in the winter season, separate and consistently clean toilets, easy access to online reservation and improved overall quality in design and safety of offering. However, access to finance and

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9 Baseline analysis for Annapurna Conservation Area Destination and Investment Plan, Hidria and Metcon, February 2019.
10 UNWTO Tourism Highlights 2017 edition.
financial inclusion has remained low for tourism business in Nepal. Financial institutions have collateral requirements which the borrower in the semi urban/rural area is usually not able to fulfill, and which tend to increase the cost of credit, such as insurance of assets used as collateral. Furthermore, the lack of registry to record collateralized assets complicates the lending process and undermines the borrower’s ability to secure formal credit from commercial banks. Microfinance institutions are also severely constrained by uncertain funding available, coupled with regulatory cap on interest rates (18%), which reduce their ability to broaden outreach and provide long term financing. This is perpetuating inequities by restricting access to finance to less risky and increasing the focus on conventional collateral-based lending approaches.

15. **Nepal faces climate change and disaster risks, which require enhanced resilience of livelihoods and infrastructure.** The degree and nature of vulnerability to natural disasters vary across Nepal. Rainfall levels are on average higher in the Terai, but drought has the largest monetary and welfare impact. Glacial lake outburst floods and landslides pose a significant national and regional risk that is increasing due to climate-change-induced glacier thinning and retreat in the Himalayas. Poor road construction has also been linked to increased incidence of landslides and associated losses. In the non-Himalayan region, climate change projections indicate that the risk of flooding will increase considerably in Nepalese river basins because of higher monsoon precipitation (a projected increase of 14 to 40 percent by the 2030s and 52 to 135 percent by the 2090s).

16. **Limited availability of skilled local workforce is also a constraint to improving the quality of services.** Despite a steady improvement in the educational qualifications of the emerging cohort of workers, firms in the formal sector persistently complain about the difficulty of hiring and retaining skilled workers. Shortage of skilled laborers in the tourism sector is mainly due to constant migration of young graduates abroad, especially to India, Malaysia and the Gulf States. The graduates often seek paid-internships abroad to fulfill the certification requirements as well to get better pay. Between 2001 and 2011, the share of the male working age population abroad doubled (from 8 to 16 percent).12

17. **Women’s role in tourism economic activities can be enhanced.** The UN Global Report on Women and Tourism 201013 mentions tourism as providing better opportunities for women’s participation in the workforce, entrepreneurship, and leadership than other sectors of the economy. Nepal’s Tourism Strategic Plan (2016-2025) has identified women as key actors in destination communities with women playing key roles as caretakers of both households and communities at large.14 In Nepal, women represent 20% of the tourism labor force as compared to the global average of 61%.15 The data shows women engagement higher in homestays (57%) than in other services such as hotels (23%), domestic airlines (20%), travel agencies (18%), trekking agencies (10%), and rafting agencies (4%). Homestays account for higher numbers of women as employees (62.3%) and as self-employed workers (55.8%). While women are increasingly involved in popular trekking trails as porters, guides, cooks, cleaners, and farmers, more can be done to improve their role in economic activities with higher revenues.

18. **Another key constraint to diversifying NBT destinations is accessibility.** Access to some of the PAs from Kathmandu, notably those in western Nepal, requires a multiplicity of means of transportation

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13 World Tourism Organization (UNWTO) and UN Women, 2010


15 Women in Tourism: Designing for Inclusion, WB.
including airline, hours-long grand transportation followed by multiple hours of walking. Some large investments in the road and air transport have been recently launched, but implementation is slow.16 Furthermore, infrastructure investments in gateway cities are often planned without a tourism perspective, limiting access to tourism destinations. For visitors who travel by bus, terminal facilities in the gateway city and/or the associated PA are not well developed. Similarly, within existing PAs in the mountains, such as the Annapurna CA and Manaslu CA, access to potential alternative sites for trekking or other potential NBT activities is limited by poor, unsafe or lacking roads. Where air transportation is the only feasible mode of transportation, landing facilities are often sub-standard.

16 Improvement of the Tribhuvan International Airport (TIA) in Kathmandu, construction of the Gautam Buddha International Airport (GBIA) in Bhairawaha/Lumbini, and construction of the Pokhara International Airport are all underway; the government also plans the construction of the second International Airport in Nijgadh.

17 In the high mountain of the Himalayas, where it is the managing institution for Annapurna, Manaslu and Gauri Shankar conservation areas, NTNC has adopted an “integrated conservation and development program” (ICDP) approach, aiming to balance the protection of nature with supporting communities in adapting measures that sustained both the nature and human interests.

19. In this context, the project will develop the sustainable tourism potential of selected PAs by supporting national agencies, local governments, local communities and the private sector in and around selected project destinations. The new Constitution establishes a new distribution of powers in tourism development. While tourism policy and the management of national parks, wildlife reserve and conservation areas remain at the federal level, the Constitution transfers tourism promotion and local project implementation to the local governments. This new division of competencies needs to be clarified in practice to enable a coordinated and holistic tourism approach that can benefit PAs, which are part of the core tourism destinations in Nepal. The project will also support a new approach by the DNPWC and the NTNC towards sustainable tourism development. While these agencies have contributed to the transition in nature management from conventional protectionism to a more participatory conservation for development approach,17 nature-based tourism has remained a relatively modest component of their management plans compared to the potential of several PAs.

C. Proposed Development Objective(s)

Note to Task Teams: The PDO has been pre-populated from the datasheet for the first time for your convenience. Please keep it up to date whenever it is changed in the datasheet. Please delete this note when finalizing the document.

Development Objective(s) (From PAD)

The objective of the project is to improve the sustainability, inclusiveness and value generation of nature-based tourism in selected destinations.

Key Results

20. PDO level indicators.

- Increase per visitor spend at Project Destinations. (Percentage)
- Satisfaction of visitors with the quality of tourism products and services at the Project Destinations. (Percentage)
D. Project Description

Component 1: Improving Destination Management, Planning and Coordination (US$9 million)

21. This component aims to promote an informed and coordinated approach to developing, managing, and marketing the tourism potential of the Project Destinations and Nepal as a whole, in a way that is sustainable and strategically geared towards higher value tourism. To this end, the component will provide key stakeholders such as local governments, private sector organizations and local communities, the expertise and tools for strengthening strategic monitoring, planning and coordination, both at the destination level and at the broader national level. Importantly, the project will support the transition of PA management from a primarily conservation-oriented approach to one that treats them as the center of high-quality tourism destinations within the limits of ecological sustainability and cooperates with private sector operators to generate sustainable revenues to local stakeholders.

22. To promote an integrated approach in Project Destinations, the project will support the preparation of detailed destination visions and investment plans (DVIP) for each Project Destination. The DVIPs will be based on an assessment of supply and demand, and connectivity infrastructure gap, and include a medium-term vision and an investment plan with activities, responsibilities and budget needs for priority interventions. The preparation of the DVIPs and detailed investment plans will follow a structured participatory approach involving the concerned provinces, municipalities and local stakeholders supported by technical experts. Depending on the Project Destination, preparation and endorsement of the investment plan should take between 6-10 months. The DVIP will also detail the involvement of local communities and private sector in the management and maintenance of infrastructure whenever possible and integrate gender equality in the destinations plans and development. The DVIP approval process is summarized in the Table below.

Sub-component 1.1: Enhancing Destination Management and Coordination (US$6 million)

23. This sub-component will aim to enhance NBT planning and management in Project Destinations and at the national level, through provision of expertise, training and equipment to: (i) Develop in a participatory manner detailed destination sustainable tourism visions and investment plans (DVIP) for each Project Destination; (ii) Review and upgrade zoning and management plans of Project Destinations; (iii) Strengthen the capacity of provincial governments, municipalities, and local committees, notably women’s groups; (iv) Upgrade the design and enforcement of key regulations impacting commercial activities in Project Destinations; and (v) Develop a system for review of and adjustments of Project Destinations’ visitor entry fees and its sharing.

Subcomponent 1.2: Integrating NBT into National Tourism Policy and Planning (US$3 million)

24. Implemented under the supervision of the MoCTCA, this sub-component will support the integration of the Project Destinations and NBT development activities into Nepal’s broader tourism policies, regulations and promotion by providing operational funds, expertise, training, and equipment to:
(i) Strengthen strategic planning, monitoring and coordination of the NBT across Nepal; (ii) Review, adapt and support implementation of the tourism regulations and related online tourism enterprise registration system in Project Destinations; (iii) Improve data collection, statistics and analytics and contribute to inform the design of a more effective tourism promotion strategy for Pas; and (iv) Design and implement specific branding and marketing strategies that would contribute to the upgrading and visibility of Nepal’s PA offering.

Component 2: Enhancing Access Infrastructure, Environmental Management and Tourism Facilities for Diversification (US$40 million)

25. This component will enhance the overall quality of the Project Destinations in terms of accessibility, environmental sustainability, safety, and infrastructure for diversified tourism activities. The investments in this component will be implemented in the context of the DVIPs prepared for each project destination under Sub-component 1.1 (ii). DVIPs will include a detailed investment plan integrating connectivity, environment and tourism-related infrastructures for each destination. DVIPs for the CA, the Bardia NP and the Banke NP and related surroundings has been prepared during project preparation and have allowed identifying a detailed list of investments, including consultancies, purchase of equipment and infrastructure works. These draft investment plans will be discussed and prioritized through forums at provincial, municipal and communities’ levels. A limited set of priority investments will be identified at project effectiveness and earmarked for accelerated preparation and implementation.

26. Infrastructure investments under this component will be implemented following an integrated approach, with the objective of developing coherent tourism areas and avoid fragmentation and overlaps in tourism investments. For each Project Destination, the DVIPs will identify key tourism areas and products that can form a coherent tourism offering and will need a “package” of interventions to develop. The objective is to implement a offset of targeted and coordinated interventions upgrading physical infrastructures to boost sustainable tourism and facilitate increased involvement of the private sector and local communities into higher quality tourism services. These infrastructure investments will be designed with attention to climate change and natural disaster risks resilience and guided by nature-based green approaches and incorporating gender aspects in infrastructure development. These improvements will notably help reduce tourism flow seasonality by better mitigating the impact of weather conditions on access infrastructure and other facilities.

Sub-component 2.1 Enhancing Connectivity Infrastructure and Environmental Management (US$23 million)

27. This sub-component will aim to make the NBT areas more easily accessible for tourists year-round, reduce the time to access the protected areas from the gateway cities and between different points within the Project Destinations. This will be realized by investing in the rehabilitation, construction and maintenance of key connectivity infrastructure and facilities, and improving the environmental sustainability of the tourism facilities in the Project Destinations.

Sub-component 2.2 Upgrading tourism facilities and safety management (US$17 million)

28. This sub-component will aim to increase the attractiveness of the Project Destinations to diverse tourist segments by increasing the variety and quality of available NBT offerings and instituting better systems for ensuring tourists’ safety. Diversification will entail developing untapped tourism areas, which will help reduce the pressure on ecosystems. The project will support an integrated approach to upgrade
infrastructure facilities identified through the destination development plan and set up a competitive selection process for smaller investments presented by local beneficiaries. The project will also support the management of the small-scale infrastructure by non-governmental operators. Finally, the project will pilot small-scale support to community user groups for green tourism infrastructures in forests beyond Protected Areas, following specific guidelines and criteria.

Component 3: Upgrading tourism-related services and livelihood activities for local communities (US$16 million)

29. This component aims to improve the livelihood of communities and entrepreneurs in the Project Destinations by better integrating them in the tourism supply chain. The proliferation of operators servicing the budget market and operating in price sensitive segments often leads to low operating margins resulting in low wages and the attraction of low skilled workers to the sector which also leads to low quality tourist products and services. Products and services with potential to grow and enhance the quality of their offering include accommodation, food and beverage, cultural events, guiding and adventure tourism activities as well as their related supply chains. To support the upgrading of those activities, this component will implement a capacity building program through enhancing the capacity of existing organized groups that can provide business development services (BDS) and implementing a training program to PA dependent enterprises and community groups engaged in tourism. This component is particularly focused on promoting women integration in the tourism sector by prioritizing enterprises and communities’ activities that target women empowerment. This component will also implement financial schemes aimed at catalyzing and diversifying investments in the tourism sector namely: a small grant scheme aimed at incentivizing MSMEs and community enterprises to upgrade the quality of their offering; and a pilot program aimed at facilitating access to commercial finance for SMEs operating in the tourism sector, through the existing public guarantee scheme of Nepal.

Subcomponent 3.1: Upgrading MSMEs and local communities’ capacities and products (US$8 million)

30. This subcomponent will provide technical assistance to develop and build the capacity of a network of proximity enterprise development and incubator centers for tourism (EDIT) with adequate physical facilities and the resources to deliver both cross-cutting and sector specific services for entrepreneurs; this network will be tasked with implementing a training and capacity building program for MSMEs and local communities. It will also support the creation of a pipeline of investment proposals by local communities and MSMEs that will be supported by small grants.

Subcomponent 3.2: Improving access to banking finance for SMEs in the tourism sector (US$8 million)

31. The second activity will pilot a program aimed to access to finance through reducing the need for collaterals for loan application to banking institutions. This facility will improve financial access to businesses in the tourism sector who are otherwise constrained by lack of or insufficient fixed collateral. This program will support the Deposit and Credit Guarantee Fund (DCGF) in implementing a better targeted and accelerated guarantee program to commercial banks committed to increase their lending share in the tourism sector. To facilitate access to credit above NPR 1.5 million by SMEs, the Project will set up a dedicated facility with the DCGF, which would assume the credit risk to the extent of 70 percent of the loan amount of SME applicants, while the remaining risk would be borne by the BFIs. Eligibility criteria of the partnering financial institutions (PFIs - BFIs and MFIs) and borrowers (ultimate beneficiaries), terms and conditions between DCGF and the PFIs, and also between PFIs and the borrowers will be agreed with

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18 See Annex 5 for a detailed description.
GoN in line with the Bank’s operational policy requirement, and the specific instruments, procedures and responsibilities for the delivery of technical and financial support to beneficiaries will be included in a Subproject Manual approved by the World Bank before the onset of activities.

E. Implementation

Institutional and Implementation Arrangements

32. **The project will be implemented by the MOFE and the MOCTCA, with strategic guidance provided by an inter-ministerial Steering Committee.** Implementation arrangements are detailed in Annex 1. The MOFE will be the main implementing agency holding the overall responsibility and accountability for project implementation considering the project’s focus on nature-based tourism in and around protected areas. The MOCTCA will be the Implementing Agency (IA) responsible for Component 1.2. A Steering Committee (SC) chaired by the MOFE and comprising representatives from the MOCTCA, the MoF and other key ministries will provide strategic oversight and guidance. A Project Management Committee (PMC) chaired by the DNPWC in the MOFE and comprising representatives of key departments and agencies involved in the project (that is DNPWC, NTNC, Department of Tourism) will meet on a periodic basis to review project progress to inform the Steering Committee meetings. The MOFE and the MOCTCA departments and designated agencies will be responsible for implementing project activities consistent with their mandates. The Financing Agreement and the Project Implementation Manual (PIM) will delineate responsibilities and detailed arrangements for collaboration as relevant.

33. **Project Management Office (PMO) and Project Implementation Unit (PIU).** To facilitate project implementation, the MoFE will assign the NTNC the role of PMO, tasked with implementing MOFE’s project activities at national and destination levels. The MOFE will make relevant part of the project’s financing available to NTNC on a grant basis under a subsidiary agreement with terms and conditions approved by the World Bank. The DOT will be the Project Implementation Unit (PIU) in charge of implementing component 1.2 activities under the MOCTCA’s purview. The MOFE and the MOCTCA will ensure that the PMO and the PIU are adequately staffed with expertise from relevant technical, administrative, environmental and social safeguards, procurement and finance units. The PMO and PIU will consolidate their project progress reports and submit to the PMC of the Steering Committee as needed.

Figure 5: Project Implementation Arrangement
34. A Field Implementation Committee (FIC) and a Field Implementation Unit (FIU) will be established in each Province where Project Destinations are located. The FIUs will constitute the local implementing units and will be staffed accordingly. The network of decentralized NTNC units will serve as FIUs at Project Destinations; in cases where there is no such decentralized unit in the proximity of a Project Destination, the NTNC will establish a new FIU in the concerned Province. The NTNC’s existing decentralized units in Pokhara and Bardia will serve as the FIUs for the initial Project Destinations. FICs will meet as needed from time to time under the chairmanship of the management institution of the concerned PA and their role will be to ensure there is adequate coordination between various MOFE’s departments, units and agencies operating in the area and involved in the Project.

35. On a case by case basis, the Project will provide technical and financial support to LGs for implementing projects identified in the DVIP. The Ministries of Industry, Tourism, Forest and Environment of concerned Provinces (P-MITFE) will act as the main counterparts of the PMO and FIUs to ensure coordination at the provincial level. The specific instruments, procedures and responsibilities for the delivery of financial support to LGs under component 2 will be included in the PIM and approved by the World Bank before the onset of activities.

Note to Task Teams: The following sections are system generated and can only be edited online in the Portal. Please delete this note when finalizing the document.

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

Project envisage investment in infrastructures such as upgrading of existing roads, trails, energy, as well as promote enterprises (lodges and concessions) in or close to sensitive sites such as protected areas (national parks, conservation area, heritage sites, lakes etc). The mountain areas are physically fragile, and prone to landslides and erosion. Different ethnic groups including the Indigenous Peoples are residing in the
proposed destinations. Locations of specific investments are not known at this stage. However, the project will focus on a set of selected Nature Based Tourism (NBT) destinations. Each Project Destination will include a selected Protected Area (PA) including surrounding buffer zone areas with NTB potential and nearby gateway cities. The selected first batch of destinations include the Bardia National Park, the Banke National Park, the Shuklaphanta National Park, and their respective buffer zones in the Terai; and the Annapurna Conservation Area and the Manaslu Conservation Area in the Middle Hills and Himalayas. While the project will focus on selected destinations, it aims to develop models of integrated approaches that can be progressively replicated across other PAs and community forests of Nepal with NBT potential, and hence additional PAs may be added as project destinations after year one of the project, subject to meeting the selection criteria.

G. Environmental and Social Safeguards Specialists on the Team

Jaya Sharma, Social Specialist
Drona Raj Ghimire, Environmental Specialist
Caroline Mary Sage, Social Specialist
Rekha Shreesh, Social Specialist
Annu Rajbhandari, Environmental Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

<table>
<thead>
<tr>
<th>Safeguard Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>Yes</td>
<td>The tourism infrastructure and tourism activities such as construction/ upgrading of roads, energy, enterprises (hotels), bridges and trails, etc are likely to have adverse impacts on natural environment (air, water, and land), human health &amp; safety. The wastes generated by the tourism activities may cause pollutions, and infrastructure development may lead to landslides and soil erosion in the mountains/ hills. If specific site for an activity known by appraisal, EA and/or EMP will be prepared for the same.</td>
</tr>
<tr>
<td>Performance Standards for Private Sector Activities OP/BP 4.03</td>
<td>No</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td>Yes</td>
<td>Some potential destinations include protected area/natural habitat such as Bardia and Banke National Parks, Annapurna Conservation Areas, Manaslu</td>
</tr>
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</table>
Conservation Area, Mustang, as well as lakes. The project will invest in construction/upgrading of road, airports, bridges & trails in those areas, access to lakes etc. The project also aims to promote enterprises (including hotels/lodges) in or near protected areas, and aim reforms for use of PAs for nature-tourism and related concessions for private investments (including FDI). Increased accessibility through these infrastructure as well as wastes generated through tourism, directly or indirectly, are likely to affect protected areas/natural habitats (degradation of PAs and lakes, loss of or encroachment in the PA/natural habitats, as well as poaching). EA and/or EMP for a subproject will cover natural habitat/bio-diversity impacts and mitigations, as required (or separate assessment may be carried out if necessary).

<table>
<thead>
<tr>
<th>OP/BP</th>
<th>Impact Assessment</th>
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<tr>
<td><strong>Forests OP/BP 4.36</strong></td>
<td>The tourism infrastructure and destinations development may affect forests (including community forests) quality and forest areas. The roads/trails may cause loss or degradation of forests, hotels/lodges may increase demand for firewood, spoils and wastes generated may lead to pollution of forest areas, etc. EA and/or EMP for a subproject will address impacts on forest and include relevant mitigation measures as required.</td>
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<tr>
<td><strong>Pest Management OP 4.09</strong></td>
<td>Project is unlikely to purchase or use or induce use of pesticides.</td>
</tr>
<tr>
<td><strong>Physical Cultural Resources OP/BP 4.11</strong></td>
<td>Many of the natural attraction sites also have cultural heritage/sites/value. The ESMF will provide guidance on the screening and avoiding/mitigating adverse impacts on physical cultural resources including procedure for &quot;Chance Find&quot;.</td>
</tr>
<tr>
<td><strong>Indigenous Peoples OP/BP 4.10</strong></td>
<td>The project may affect indigenous people living in the project area. ESMF will comprise Vulnerable Community Development Framework (VCDF) to guide planning approaches on indigenous peoples (and vulnerable groups) and interventions under the project. If the sub-project activities and locations are known by appraisal SA and VCDPs will be prepared.</td>
</tr>
<tr>
<td><strong>Involuntary Resettlement OP/BP 4.12</strong></td>
<td>Investment in tourism infrastructure could cause loss of land, relocation or loss of shelter, loss of assets or access to assets, and could affect income or livelihood. Resettlement Policy Framework (RPF) will be the guiding document in preparation of RAP.</td>
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RAP will include among others entitlement matrix, stakeholder engagement and community strategy and GRM. For sub-project activities and locations known by appraisal, SIA and RAP will be prepared.

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<thead>
<tr>
<th>Safety of Dams OP/BP 4.37</th>
<th>No</th>
<th>Project does not finance dams and does not depend on existing dams.</th>
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<tbody>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td>No</td>
<td>Project will not use international waterways, and is unlikely to affect quantity and/or quality of international waterways.</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td>No</td>
<td>Project is not located in a disputed area.</td>
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### KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

#### A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

   Environmental issues and impacts include impacts on natural environment (air, water, and land), human health & safety, wastes generated by the tourism and pollution, tourism infrastructure and activities may lead to landslides and soil erosion in the mountains/ hills. Potential tourist destinations include protected area/ natural habitat - hence impacts on biodiversity and natural habitat such as degradation of PAs, loss or encroachment in the PA/ natural habitats, as well as poaching are likely. The roads/ trails and destination development may cause loss or degradation of forests, hotel/ lodges may increase demand for firewood, spoils and wastes generated may lead to pollution of forest areas, etc.

   From the social perspective, the project will bring positive benefits to the beneficiaries, including poor, women, Indigenous Peoples (IPs), Dalits, etc. in the form of improved access and transportation, employment creation, skill enhancement, local capacity building and increased scope of business opportunities among others. However, there are also potential social risks and impacts which may include resettlement impacts due development of tourism infrastructures, inadequate consultations with vulnerable groups including IPs and women leading to low participation in the project activities, ineffective mechanisms for benefit targeting and information dissemination leading to exclusion of marginalized groups from project benefits.

   The project is classified as Category B as the exclusion criteria (negative list) require excluding activities and locations that could have significant adverse impacts that are sensitive, diverse or unprecedent.

   EA and/or EMP of a subproject/ investment will cover, if relevant, impacts on natural environment (including water, air, and land), impacts on natural habitat / bio-diversity, impacts on forest, impacts on slopes, and include relevant and specific mitigation measures.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

   Increased accessibility through the tourism infrastructure as well as wastes generated through increased tourists and tourism activities, directly or indirectly, are likely to increase pollution, increase resource demand, affect natural
habitats, etc. The expected long-term environmental impacts are likely to be addressed through capacity strengthening of the relevant agencies, local government and communities, green-approach to infrastructure development and civil works, good engineering practices and strong monitoring / compliance system.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Alternatives have not been considered at destination level from impact avoidance or minimization point of view. However, during Project implementation, subproject/ investment level alternatives will be considered as part of Detailed Report of each subproject/ investment as well as by EA/EMP and SA of each subproject/ investment.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

Project will use an overall framework approach for the identification and management of the environmental and social impacts since specific investments are not-known at the preparation stage. The client has prepared a draft Environmental and Social Management Framework (ESMF) which also comprises Resettlement Planning Framework (RPF) and Vulnerable Community Development Framework (VCDF). ESMF provides general guidance for assessing, avoiding, mitigating, and managing potential environmental and social risks, impacts and issues that may come up during project implementation and throughout the project/ subproject cycle. It describes process, procedures and institutional responsibilities to ensure compliance with the Bank’s Environmental and Social safeguard Policies; and compliance with national environmental and social legislations. The ESMF includes exclusion criteria (negative list) with the aim of avoiding highly significant/ unprecedented adverse impacts. The ESMF provides criteria, tools and guidance: (i) for the environmental and social screening of investment sub-project and activities, (ii) Resettlement planning, (iii) Indigenous Peoples planning, (iv) for the preparation of Environmental Management Plan (EMP), RAP, and VCDP, if and where required; (iii) for safeguard compliance monitoring.

Environmental and Social risk and impact management capacity of executive and implementing agencies is relatively weak. MoFE’s hands-on experience at project level environmental risk and impact management is limited; though DoNPWC has good knowledge and experience in managing the protected areas, it lacks experience and expertise in project level safeguard management. NTNC has some experience related to managing environmental and social risks and impacts of project, however it is inadequate as there is lack of dedicated staff, expertise and experience. Project, in recognition of this, includes capacity strengthening support for environmental and social management through trainings, hiring of safeguard consultants, and provision for external monitoring.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Key stakeholders includes MoFE, MoCTCA, DoNPWC, and NTNC at the federal level; Providences and municipalities as well as community groups (e.g. Community Forest Users Group), entrepreneurs (hotels, tours & travel agencies, potentially affected people etc. NTNC carried consultations on draft ESMF with key stakeholders including IPs and other vulnerable groups on 30 April, 2019. The draft ESMF was published on the NTNC website prior to the consultation. NTNC plans to discuss the draft ESMF with the stakeholders including potential affected people and partners - consultations will take place at convenient locations (currently proposed in two locations - Pokhara and Bardia/ Banke). In addition, NTNC, in the process of writing the ESMF and in preparing the investment plans, carried out consultations with the stakeholders including potentially affected people. All consultation will take place in local/ Nepali language. The ESMF will be made available in English and Nepali languages in the project website and in Bank’s system, as well as in public places convenient to/ close to the potentially affected people and stakeholders. ESMF requires consultations with the affected people and other stakeholders during planning and implementation of each subproject/ investment, and provide guidance on the consultation during implementation.
## B. Disclosure Requirements

### Environmental Assessment/Audit/Management Plan/Other

<table>
<thead>
<tr>
<th>Date of receipt by the Bank</th>
<th>Date of submission for disclosure</th>
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<td>26-Apr-2019</td>
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For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors

### "In country" Disclosure

#### Nepal

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Comments

### Resettlement Action Plan/Framework/Policy Process

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Comments

### Indigenous Peoples Development Plan/Framework

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Comments
C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

**OP/BP/GP 4.01 - Environment Assessment**

Does the project require a stand-alone EA (including EMP) report?
Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
Yes

**OP/BP 4.04 - Natural Habitats**

Would the project result in any significant conversion or degradation of critical natural habitats?
No

If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?
NA

**OP/BP 4.11 - Physical Cultural Resources**

Does the EA include adequate measures related to cultural property?
Yes

Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?
Yes

**OP/BP 4.10 - Indigenous Peoples**

Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?
Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes

If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?

**OP/BP 4.12 - Involuntary Resettlement**

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?
Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes
OP/BP 4.36 - Forests

Has the sector-wide analysis of policy and institutional issues and constraints been carried out?

Does the project design include satisfactory measures to overcome these constraints?

Does the project finance commercial harvesting, and if so, does it include provisions for certification system?

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

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World Bank

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Senior Environmental Economist

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**APPROVAL**

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Tijen Arin |

| Approved By |

| Safeguards Advisor: |  |
| Practice Manager/Manager: | Esperanza Lasagabaster  
14-May-2019 |
| Country Director: | Faris H. Hadad-Zervos  
15-May-2019 |
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