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RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
EARTHQUAKE HOUSING RECONSTRUCTION PROJECT  
CREDIT  
JUNE 29, 2015  
TO  
NEPAL  
MARCH 21, 2016

Social, Urban, Rural and Resilience (SURR) Global Practice  
Bangladesh and Nepal Country Management Unit  
South Asia Region

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## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BCR	Benefit Cost Ratio
BP	Bank Policy
CBA	Cost Benefit Analysis
CPS	Country Partnership Strategy
DA	Designated Account
DC	Direct Contracting
DL-PIUs	District-Level Project Implementation Units
DRM	Disaster Risk Management
DUDBC	Department of Urban Development and Building Construction
EA	Environmental Assessment
EHDC	Earthquake Household Damages and Characteristics
ESIA	Environment and Social Impact Assessment
ESMF	Environmental and Social Management Framework
GoN	Government of Nepal
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
IA	Implementing Agency
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Association
IUFR	Interim Unaudited Financial Report
IPF	Indigenous People’s Framework
ISP	Implementation Support Plan
M&E	Monitoring & Evaluation
MoFALD	Ministry of Federal Affairs and Local Development
MoI	Ministry of Industry
MoUD	Ministry of Urban Development
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
NPC	National Planning Commission
OP	Operational Policy
PDNA	Post-Disaster Damage and Needs Assessment
PDO	Project Development Objective
PIU	Project Implementing Unit

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**NEPAL  
EARTHQUAKE HOUSING RECONSTRUCTION PROJECT**

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## DATA SHEET

*Nepal*

*Earthquake Housing Reconstruction Project (P155969)*

*SOUTH ASIA*

*Social, Urban, Rural and Resilience Global Practice*

Report No: RES22633

<b>Basic Information</b>									
Project ID:	P155969	Lending Instrument:	Investment Project Financing						
Regional Vice President:	Annette Dixon	Original EA Category:	Partial Assessment (B)						
Country Director:	Qimiao Fan	Current EA Category:	Partial Assessment (B)						
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez	Original Approval Date:	29-Jun-2015						
Practice Manager/Manager:	Bernice K. Van Bronkhorst	Current Closing Date:	31-Jul-2020						
Team Leader(s):	Marc S. Forni								
<b>Borrower:</b>									
		Government of Nepal							
<b>Responsible Agency:</b>									
		National Reconstruction Authority							
<b>Restructuring Type</b>									
Form Type:	Full Restructuring Paper	Decision Authority:	Country Director Approval						
Restructuring Level:	Level 2								
<b>Financing ( as of 15-Feb-2016 )</b>									
<b>Key Dates</b>									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P155969	IDA-57060	Effective	29-Jun-2015	14-Aug-2015	28-Jan-2016	31-Jul-2020	31-Jul-2020		
<b>Disbursements (in Millions)</b>									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P155969	IDA-57060	Effective	XDR	143.90	143.90	0.00	0.00	143.90	0
<b>Policy Waivers</b>									
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 ]
<b>A. Summary of Proposed Changes</b>		
<p>The proposed restructuring will transfer the implementation responsibilities of the Project Management Unit (PMU) from the Ministry of Finance (MoF) to the recently established National Reconstruction Authority (NRA). The NRA was established in December 2015 by the Act No. 11 of 2015, approved by the Legislature-Parliament. The NRA is responsible to approve policies, plans, budget and programs with schedule of operations for the reconstruction of earthquake affected structures, including housing reconstruction.</p>		
Change in Implementing Agency	Yes [ X ]	No [ ]
Change in Project's Development Objectives	Yes [ ]	No [ X ]
Change in Results Framework	Yes [ ]	No [ X ]
Change in Safeguard Policies Triggered	Yes [ ]	No [ X ]
Change of EA category	Yes [ ]	No [ X ]
Other Changes to Safeguards	Yes [ ]	No [ X ]
Change in Legal Covenants	Yes [ ]	No [ X ]
Change in Loan Closing Date(s)	Yes [ ]	No [ X ]
Cancellations Proposed	Yes [ ]	No [ X ]
Change to Financing Plan	Yes [ ]	No [ X ]
Change in Disbursement Arrangements	Yes [ X ]	No [ ]
Reallocation between Disbursement Categories	Yes [ ]	No [ X ]
Change in Disbursement Estimates	Yes [ ]	No [ X ]
Change to Components and Cost	Yes [ ]	No [ X ]
Change in Institutional Arrangements	Yes [ X ]	No [ ]
Change in Financial Management	Yes [ X ]	No [ ]
Change in Procurement	Yes [ X ]	No [ ]
Change in Implementation Schedule	Yes [ ]	No [ X ]
Other Change(s)	Yes [ ]	No [ X ]
Appraisal Summary Change in Economic and Financial Analysis	Yes [ ]	No [ X ]
Appraisal Summary Change in Technical Analysis	Yes [ ]	No [ X ]
Appraisal Summary Change in Social Analysis	Yes [ ]	No [ X ]
Appraisal Summary Change in Environmental Analysis	Yes [ ]	No [ X ]
Appraisal Summary Change in Risk Assessment	Yes [ ]	No [ X ]
<b>B. Project Status</b>		
<p>Considerable progress has been made in target areas of the Project, in coordination with JICA, USAID, and local partner organizations, particularly the training of masons and households on safer building construction. Training guidelines, implementation procedures, capacity strengthening of central and local bodies, and technical standards for inspection have been addressed by the government with support of the Bank and other development partners.</p>		

The first critical step of the program is the household damage census carried out by the Central Bureau of Statistics (CBS) with support from United Nations Office for Project Services (UNOPS). After four months of preparation, the survey was launched on January 1, 2016 and is expected to be completed by April 2016. The data is collected electronically and is analyzed for eligibility in real time. As the names of eligible households in target areas become available, the process of enrollment is expected to begin to roll out in March 2016. After enrollment, the first tranche of household subsidies will be transferred directly to the beneficiaries' bank accounts.

The project became effective on January 28, 2016, after the client had met the conditions of effectiveness which included establishment of Project Implementing Units at the central and district levels, and approval of the Project Operations Manual. On February 14, 2016, the Safeguards documents were submitted to the Bank for review and was approved on March 4, 2016.

The project objectives continue to be achievable.

### C. Proposed Changes

#### Change in Implementing Agency

Implementing Agency Name	Type	Action
Ministry of Federal Affairs and Local Development	Implementing Agency	No Change
Ministry of Urban Development	Implementing Agency	No Change
Ministry of Finance	Implementing Agency	Marked for Deletion
National Reconstruction Authority	Implementing Agency	New

#### Development Objectives/Results

##### Project Development Objectives

Original PDO

The Project Development Objective (PDO) is to restore affected houses with multi-hazard resistant core housing units in targeted areas and to enhance the government's ability to improve long-term disaster resilience.

##### Change in Project's Development Objectives

#### Financing

##### Change in Disbursement Arrangements

Explanation:

The change in implementation agency will require an equivalent change in the disbursement arrangements to move PMU responsibilities from MoF to the NRA. Otherwise implementation arrangements will remain as outlined in the PAD with MoUD and MoFALD as the implementing agencies with the advantage of prior experience in implementation of IDA funded projects.

The fiduciary risk assessments (both FM and Procurement) of the NRA have been carried out and a set of actions have been agreed upon to mitigate risks observed by the assessments. Please find more detail in the section on "Institutional Arrangements" below.



**Planning and Budgeting**

The annual work program and budget (AWPB) based on the activities to be carried out as enumerated in the Project Appraisal Document and Financing Agreement will be prepared and consolidated by NRA based on activities to be implemented by NRA, MoFALD and MoUD and as per guidelines issued by the National Planning Commission and budget directive issued by the MoF. The draft AWPB will be discussed by NRA with the respective Line Ministries of the PIUs before submission to the Project Steering Committee (PSC). NRA will submit AWPB endorsed by the Steering Committee to National Planning Commission and the Ministry of Finance (MoF) for approval and budget allocation. MoF will allocate annual budget to NRA under a separate budget code in the Government's Budget (Red Book) for recurrent and capital expenditures. MoF will issue budget authorization to NRA after submission of the budget in the Parliament. NRA will provide budget authorizations to line ministries (MoFALD and MoUD) and they will provide budget authorizations to cost centers for activities to be implemented by respective cost centers at districts. This assessment was outlined already in the PAD and therefore previously assessed by FM

**Funds Flow Arrangement**

MoF issues budget authorization as per budget allocated in the Red Book to NRA and NRA to the MoFALD and MoUD for the activities to be implemented by them. MoFALD and MoUD will issue budget authorization to their PIUs. PIUs will issue budget authorization to the DL-PIU for expenditures to be incurred by the DL-PIU. The payment orders for issuance of cheques for expenditures incurred by the PIUs and DL-PIU will be sent to the concerned District Treasury Controller Office (DTCO). As outlined in the PAD the concerned DTCO will prepare cheques and send them back to the concerned PIUs and DL-PIU for payment to the concerned payees. Each district office will make use of its existing accounting team, which have been assessed by FM and found adequate. An FM consultant will be hired for the NRA.

**Designated Account**

With the establishment of NRA, it will be key counterpart to IDA. Accordingly, there will be one Designated Account managed by NRA instead of two in previous arrangements. To facilitate liquidity position of Government Treasury, especially given the earthquake situation and large scale of the project, a separate Designated Account in US Dollars will be opened and maintained by NRA in the Nepal Rastra Bank under the terms and conditions acceptable to IDA as per disbursement letter. The eligible expenditures will be pre-financed by the GON and this will be later reimbursed by transferring funds from the Designated Account to Government treasury. In case of some select expenditures and as per AWPB, NRA may make direct payments through the designated account.

The authorized allocations for the Designated Account under the IDA Credit will be USD 20 million. The authorized signatories will be submitted in the prescribed format of letter specified in disbursement letter. The eligible expenditure amounts will be transferred from the Designated Bank Accounts to the government treasury on monthly or more frequently if required.

NRA will maintain the designated account properly and ensure that the bank account is reconciled with bank statements within one week of every month. The bank reconciliation statement should be submitted along with the withdrawal application showing opening balance, disbursement during the period, replenishment during the period and closing balance. The supporting documents of financial transactions of designated account will be maintained by NRA and PIUs and they should be made available for review by World Bank staff and independent auditors.

**Statement of Expenditures**

Statement of Expenditures (SOEs) will be used for the expenditures incurred against contracts below prior review threshold as per Procurement Plan. During project supervisions, IDA will review supporting

documents of SOE claims to ensure that IDA funds are utilized for the intended purposes only and claimed accordingly. The supporting documents of the SOEs should be maintained properly as per Financial Procedure Act and Regulation of the GoN. Any ineligible expenditure identified during such reviews will need to be refunded to IDA as per financing agreement.

## Other Change(s)

### Change in Institutional Arrangements

Explanation:

At the time of project design and approval, in the absence of a Reconstruction Authority, the implementation responsibilities of the PMU were established within MoF, recognizing that upon the establishment of such an authority the PMU responsibilities would be transferred. The Project Appraisal Document and Financing Agreement further noted that such an Agency could take over the guidance and oversight role of the PMU, if established, as well as additional responsibilities, such as implementation, procurement and/or financial management, following required assessments in accordance with Bank policies and the project would be restructured, if necessary. The Bank received the Government of Nepal's request to transfer the PMU to the NRA on February 28, 2016.

The NRA was established in December 2015 by the Act No. 11 of 2015, approved by the Legislature-Parliament. The NRA is responsible to approve policies, plans, budget and programs with schedule of operations for the reconstruction of earthquake affected structures, including housing reconstruction. With the NRA in place, the proposed restructuring of the Project will serve to transfer the main implementing agency responsibilities from the MoF to the NRA.

The Project will, as outlined in the PAD, continue to be implemented through two Project Implementing Units (PIUs), one in the Ministry of Federal Affairs and Local Development (MoFALD) and one in the Ministry of Urban Development (MoUD), under the overall supervision of the PMU. The MoFALD-PIU will be the implementing agency for the provision of the housing grants, and the MoUD-PIU through its Department of Urban Development and Building Construction (DUDBC) will be responsible for providing technical inputs to oversee housing reconstruction. Both PIUs will continue to carry out their responsibilities under the Project after the restructuring.

The transfer of implementation responsibilities of the PMU to the NRA is required to reflect the Government of Nepal's Act No. 11 of 2015. As agreed during Project negotiations, the Bank carried out an assessment of the NRA's capacity to assume the responsibilities of the PMU, mainly with coordinating responsibilities, while MoUD and MoFALD will carry out the largest share of implementation activities, all in accordance with the Project Operations Manual.

i. Financial Management: An FM assessment has been conducted at the NRA level (in addition to the assessment already carried out of the two implementing agencies MoFALD and MoUD – for those agencies FM management arrangements are already in place) and concluded that:

- Current FM arrangements at NRA level (with three full staff for financial management/accounting) is sufficient to move forward with the restructuring and project implementation;
- Recommendations have been made to NRA management to strengthen FM arrangements further;
- FM arrangements after restructuring are simpler than before (one DA instead of two);
- Most expenditures (except for direct payments) will be made through GoN PFM systems for budgeting, expenditure management, controls and audits.

ii. Procurement:

a. General: The main procurement arrangement for the project remains the same as mentioned in the

PAD and further explained in the Operations Manual, with the addition of the NRA's role in consolidating procurement activities as detailed below. The NRA will be the central agency for coordinating and guiding procurement functions, whereas MoFALD-PIU and MoUD-PIU will be implementing the largest share of procurement under the components allocated to them.

b. Procurement Planning: The NRA will consolidate the procurement activities to be implemented by NRA, MoFALD-PIU and MoUD-PIU; prepare an annual consolidated procurement plan (PP); and submit it to the Bank for its review and clearance. The manual PP prepared in the beginning of the project should be uploaded in the Bank's online system STEP. For this purpose, the Bank will provide training to all the related staff of NRA and other implementing agencies.

c. Procurement Arrangement within NRA: The NRA's procurement management capacity has been assessed by the Bank team. A procurement unit has been established within the NRA as per the requirement of the Public Procurement Act (PPA). It is headed by the Under Secretary of the Internal Administration Section and has two other members – one account officer and a store keeper. Though the account officer has some 3 to 4 years of general procurement experience, other members do not possess any exposure to procurement. Therefore, the overall project procurement risk rating of "HIGH" reflected in the PAD as fiduciary risk rating remains unchanged for the NRA as well. A detailed report of procurement risk assessment of NRA will be uploaded in the Bank's Procurement Risk Assessment Management System (PRAMS).

In order to mitigate the risks and ensure timely and quality procurement, NRA's procurement capacity needs to be strengthened as proposed for MoUD-PIU and MoFALD-PIU in the PAD and Operations Manual. In addition to that, NRA has to hire a senior procurement consultant for managing its own procurement and also for providing overall guidance on procurement management to the PIUs. Considering the scarcity of procurement experts in local market, hiring of senior procurement consultant with intermittent input and a general more junior procurement consultant with full time input for NRA may also be arranged.

d. Implementation Orientation Program for Project Officials: Considering the emergency nature of the project, three different implementing agencies and challenging coordination by NRA with all other agencies, an orientation program for key project officials of all the agencies will be facilitated by the Bank. Since staffing of NRA is being gradually fulfilled, such programs may be repeated at reasonable intervals.

iii. Safeguards: From a Safeguards perspective, NRA will require support from three specialists—1 Senior Social Specialist, 1 Junior Social Specialist and 1 Environmental Specialist to provide overall oversight on social and environmental issues and risks relating to housing reconstruction as well as other activities of NRA. They will provide guidance and enforce implementation and integration of safeguard requirements during site selection, preparation and implementation/construction stages. Support from these specialists will also help facilitate project supervision and monitoring during implementation, and also ensure close coordination with various agencies and with the specialists from the PIUs who will be responsible for screening, preparation, implementation and monitoring of the safeguards documents, namely the ESMF, VCDF and RPF prepared under the project.