I. Project Context

Country Context

1. The population of Nepal is estimated at about 26.5 million in the Census 2011 with a growth rate of 1.4% per annum. Nepal is predominantly a rural society with 83% of people living in rural areas. Nepal’s economy experienced sustained GDP growth at a rate of 3.9% per annum on average over the past 10 years, above the rate of demographic growth of 1.4% per annum. The percentage of people living below the international line for extreme poverty has halved in only seven years, from 53.1% in 2004 to 24.8% in 2011.

2. Nepal is passing through a prolonged political transition following a 10-year violent conflict that ended in 2006. After almost a year of political turbulence, marked by policy inconsistency and dramatic delays in public spending, the four largest political parties in March 2013 agreed a technocratic interim administration mandated to undertake elections for a new CA; the election date has since been set for November 19, 2013. The CA will agree a new constitution and then function as a parliament. The country’s logistical limitations and inadequate infrastructure are the most important bottlenecks for growth. In the 2011/12 Global Competitiveness Report, Nepal was ranked 141st in overall quality of infrastructure. It is also among the poorest countries in the World and currently ranks 157th out of 187 countries on the Human Development Index.
Poverty is more severe in rural areas (27%) compared to urban areas (15%) and particularly severe in mountainous areas (42%) with ethnicity a dominant factor in these differences. Thus, despite improving standards of living, the country’s level of human development remains among the lowest in the World.

**Sectoral and institutional Context**

1. Water and sanitation coverage: According to the Nepal Census 2011 access to improved water in Nepal is 85% and for sanitation is 61%. According to the Joint Monitoring Program (JMP) database the country has achieved the MDG target for access to improved water supply (Actual 2011 = 88%, Target 2015 = 84%) but is off target for access to improved sanitation (Actual 2011 = 35%, Target 2015 = 54%). The true situation in rural areas may be worse than indicated above as surveys conducted by the National Management Information Project (NMIP) show that 44% of the existing rural water systems are in need of repairs or rehabilitation. The WASH Sector Status Report (SSR) published by MoUD in May 2011 reinforces this picture and estimates that about 5.5 million people have inadequate water service and 16 million lack adequate sanitation facilities. The national target is for universal access to water and sanitation by 2017.

2. Institutions: The Ministry of Urban Development (MoUD) has overall responsibility for water supply and sanitation service delivery across the country. It is responsible for formulating national policy on water supply and sanitation including service levels, quality standards and technological choices. Under MoUD, the Department of Water Supply and Sewerage (DWSS) and Rural Water Supply and Sanitation Fund Development Board (the Fund Board) are the two agencies that provide support to user groups in implementing water supply and sanitation systems in the rural communities. At the same time, the rural water supply and sanitation is the responsibility of the local bodies - DDCs and VDCs as per the LGSA. The Ministry of Federal Affairs and Local Development is the liaison ministry for these bodies and the ministry provides technical support and develops WSS schemes for the DDCs and VDCs through its Department of Local Infrastructure Development and Agriculture Roads (DoLIDAR).

3. Service Delivery: Up to the early 1990s a top-down and contractor-led service delivery approach was used to construct and operate the rural water supply and sanitation systems in Nepal. Gradually this has been replaced by a demand responsive approach which adopts an inclusive, community driven approach where local communities play the lead role in planning, design and implementation of the schemes, as well as in the operation and maintenance of services. The approach is holistic and integrated, and incorporates water supply, sanitation, health and hygiene.

**II. Proposed Development Objectives**

The development objectives of the project are to: (i) Increase sustainable access to improved water services and promote improved sanitation and hygiene practices in rural areas; and (ii) Develop and implement a long-term support mechanism to promote the sustainability of water supply schemes in selected Districts.

**III. Project Description**

**Component Name**

Component 1 – Access to Improved Water Supply and Sanitation and Hygiene Practices

**Comments (optional)**
Component Name
Component 2 – District Level Institutional Strengthening
 Comments (optional)

Component Name
Component 3 – Technical Assistance/Capacity Building and Project Management
 Comments (optional)

Component Name
Component 4: Contingency Emergency Response
 Comments (optional)

IV. Financing (in USD Million)

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<th>Amount</th>
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V. Implementation

7. The MoUD will be the executing agency for the project. Partnerships with local bodies, civil society, NGOs, and the private sector (service providers) will be important for both Component 1 and 2. A Project Steering Committee (PSC) will be set up at the national level prior to appraisal to provide guidance on both components. The role of the PSC will be critical for Component 2 in particular, where cross-ministry support and coordination will be essential.

8. Component 1 will be implemented by the Fund Board, under the purview of the MoUD, and in close coordination with the local governments. With over 15 years in operation the Fund Board has developed a successful implementation modality for RWSS delivery with a detailed and well-thought-out scheme cycle. It exercises its functions professionally, effectively and efficiently. The ICRR for RWSS-II project rated the Fund Board performance satisfactory. The Fund Board has a relatively lean organization, with a cadre of 48 experienced technical, financial and management staff who are recruited through open competition.

9. Component 2 will be managed by a Project Management Unit (PMU) within MoUD and in close coordination with the local governments (DDCs and VDCs) which are under the purview of MoFALD. Participating districts will establish District WASH units staffed by the Department of Water Supply and Sewerage Division Office (DWSS-DO) and District Technical Office (DTO) of
DOLIDAR, and supported by project consultants. The District WASH unit (D-WASH unit) will be the central institution for management of the sustainability component and coordination with the D-WASH-CC and DDC.

10. The financing mechanism for Component 1 will be through the Fund Board. Activities under Component 2 will be the responsibility of the PMU housed in the MoUD. Component 3 will be managed by both MoUD and the Fund Board for their respective parts.

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point

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