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**INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY
COUNTRY PARTNERSHIP FRAMEWORK
FOR
NEPAL
FOR THE PERIOD FY2019-FY2023
July 10, 2018**

**Bangladesh, Bhutan, and Nepal Country Management Unit
South Asia Region**

The International Finance Corporation

The Multilateral Investment Guarantee Agency

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	InfraSAP	Infrastructure Sector Assessment Program
AF	Additional Financing	IPF	Investment Project Financing
AIIB	Asian Infrastructure Investment Bank	ISR	Implementation Status Report
ASA	Advisory Services and Analytics	IWRMP	Irrigation and Water Resources Management Project
ATM	Automated Teller Machine	JICA	Japan International Cooperation Agency
BIMP	Bridges Improvement and Maintenance Program	JIP	Joint Implementation Plan
CAR	Capital Adequacy Ratio	KM	Kilometer
CAT-DDO	Catastrophe Deferred Drawdown Option	KOICA	Korea International Cooperation Agency
CC	Climate Change	MDTF	Multi-Donor Trust Fund
CCS	Compliance Cost Analysis	MFD	Maximizing Finance for Development
CEM	Country Economic Memorandum	MFI	Microfinance Institution
CERC	Contingent Emergency Response Component	MIC	Middle-Income Country
CLR	Completions and Learning Review	MIGA	Multilateral Investment Guarantee Agency
CPF	Country Partnership Framework	MIS	Management Information System
CPN	Communist Party of Nepal	MPI	Multidimensional Poverty Index
CPS	Country Partnership Strategy	MSME	Micro, Small and Medium Enterprise
CPSD	Country Private Sector Diagnostic	MTEF	Medium-Term Expenditure Framework
CSO	Civil Society Organization	MW	Megawatt
DB	Doing Business	NBL	Nepal Bank Limited
DCGF	Deposit and Credit Guarantee Fund	NDC	Nationally Determined Contribution
DFAT	Department of Foreign Affairs and Trade	NEA	National Electric Authority
DFID	Department for International Development	NERC	Nepal Electricity Regulatory Commission
DHS	Demographic and Health Surveys	NIRTT	Nepal India Regional Trade and Transport
DLI	Disbursement Linked Indicator	NLTA	Non-Lending Technical Assistance
DP	Development Partner	NPR	Nepal Rupee
DPC	Development Policy Credit	NRB	Nepal Rastra Bank
DPO	Development Policy Operation	NWC	National Women Council
DRM	Disaster Risk Management	ODF	Open Defecation Free
EHRP	Earthquake Housing Reconstruction Project	OM	Operation and Maintenance
ESF	Environment and Social Framework	PACT	Project for Agriculture Commercialization and Trade
ESMAP	Energy Sector Management Assistance Program	PAF	Poverty Alleviation Fund
EU	European Union	PCA	Prompt Collective Action
EVENT	Enhanced Vocational Education and Training Project	PDO	Project Development Objective
EVM	Effective Vaccine Management	PEF	Pandemic Emergency Facility
FAO	Food and Agriculture Organization	PEFA	Public Expenditure and Financial Accountability
FCPF	Forest Carbon Partnership Facility	PFM	Public Financial Management
FDI	Foreign Direct Investment	PforR	Program-for-Results
FI	Financial Institution	PLR	Performance and Learning Review
FITTA	Foreign Investment Act	PPA	Power Purchase Agreement
FSAP	Financial Sector Assessment Program	PPMO	Public Procurement Monitoring Office
FWG	Federalism Working Group	PPP	Public-Private Partnership
FY	Fiscal Year	PSW	Private Sector Window
GBV	Gender Based Violence	RRA	Risk and Resilience Assessment
GESI	Gender Equality and Social Inclusion	SARTI	South Asia Regional Integration in Trade and Investment
GHG	Greenhouse Gas	SAWI	South Asia Water Initiative
GIZ	Gesellschaft für Internationale Zusammenarbeit	SCD	Systematic Country Diagnostic

GLOF	Glacial Lake Outburst Floods	SDC	Swiss Development Cooperation
GNI	Gross National Income	SEZ	Special Economic Zone
GoN	Government of Nepal	SME	Small and Medium Enterprise
HERP	Higher Education Reform Project	SORT	Systematic Operation Risk-rating Tool
HNP	Health, Nutrition and Population	TA	Technical Assistance
ICIMOD	International Center for Integrated Mountain Development	TF	Trust Fund
ICRP	Investment Climate Reform Program	UN	United Nations
ICT	Information, Communication and Technology	US	United States
IDA	International Development Association	USAID	United States Agency for International Development
IDPG	International Development Partners Group	VDC	Village Development Committee
IFAD	International Fund for Agriculture Development	WASH	Water Supply, Sanitation and Hygiene
IFC	International Finance Corporation	WB	World Bank
ILO	International Labour Organization	WBG	World Bank Group
IMF	International Monetary Fund	WFP	World Food Program
INDC	Intended Nationally Determined Contribution	WSS	Water Supply and Sanitation

FY2019-2023 COUNTRY PARTNERSHIP FRAMEWORK FOR NEPAL

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I. INTRODUCTION

1. **The Country Partnership Framework (CPF) covering the five-year period of FY2019-2023 comes at a time of historic transformation in Nepal.** The signing of the 2006 Comprehensive Peace Agreement ended a 10-year conflict that came at a significant cost of lives and foregone economic development. Since then, Nepal has gone through lengthy and complex transitions towards a new Constitution in 2015 that establishes a federal structure. By the end of 2017, elections were successfully held at the federal, state, and local tiers. There is a newfound optimism for greater political stability, inclusion, good governance and sustainable growth. The new federal structure presents unprecedented opportunities to reset Nepal's development storyline, as raised in the Systematic Country Diagnostic (SCD)¹. At the same time, the shift to federalism poses new challenges and source of fragility, given the heightened popular aspirations and expectations. Key challenges include the need to clarify the functions and accountabilities of the federal, state, and local governments; deliver basic services and maintain infrastructure development; create a conducive environment for the private sector; and address governance weaknesses that may worsen in the early years of federalism.

2. **The implementation of the CPF will need to balance flexibility and steady focus on the country's transition to a federal state with the quest for higher and sustained growth with poverty reduction and inclusive development.** To that end, the CPF focuses on three transformative engagement areas: (1) public institutions for economic management, service delivery and public investment; (2) private sector-led jobs and growth; and (3) inclusion for the poor, vulnerable, and marginalized groups, with greater resilience against climate change, natural disasters, and other exogenous shocks.

3. **The CPF builds on the FY2014-2018 Country Partnership Strategy (CPS) and additional analyses to identify new challenges and opportunities in the coming period.** The CPF focus areas have emerged from nationwide consultations for, and analysis of the SCD. They are further refined by exploring Nepal's drivers of fragility, its new federalism context, the World Bank Group's (WBG) comparative advantage, and lessons learned. Equally important, the CPF focus areas are aligned with the government's own priorities in *Envisioning Nepal 2030*, and the 14th Periodic Plan for FY2017-2019. The CPF incorporates the findings of the CPS Completion and Learning Review (CLR), the Risk and Resilience Assessment (RRA), and other analytical work² including the early findings of the Country Private Sector Diagnostic (CPSD), and the Infrastructure Sector Assessment Program (InfraSAP). The indicative resources available under IDA18 (FY2018-2020) are about US\$1.3 billion³, including US\$300 million from the IDA Risk Mitigation Regime for which an Implementation Action Plan was prepared⁴. The International Finance Corporation (IFC) aims to commit about US\$800 million to US\$1.2 billion. The Multilateral Investment Guarantee Agency (MIGA) has no pre-determined envelope for guarantees over the CPF period, but is actively seeking opportunities to support foreign private investment into Nepal and may make use of the IDA IFC/MIGA Private Sector Window (PSW) and the MIGA Guarantee Facility to de-risk eligible projects.

¹ The Nepal Systematic Country Diagnostic- A New Approach to Federal Nepal (Report Number 123958, World Bank 2018).

² Core diagnostics include Moving Up the Ladder (World Bank 2016), Climbing Higher (World Bank 2016) and Country Economic Memorandum (World Bank 2017).

³ Referenced IDA18 volumes are indicative. Actual PBA allocations will be determined annually during the FY18-20 period and will depend on: (i) total IDA resources available; (ii) the number of IDA-eligible countries; (iii) the country's performance rating, per capita GNI, and population; and (iv) the performance and other allocation parameters for other IDA borrowers.

⁴ The use of the IDA Risk Mitigation Regime is summarized in the Implementation Action Plan for the IDA Risk Mitigation Regime included as Annex 10.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

Overview

4. **Nepal's transition to a federal state is expected to profoundly impact its future.** Since the mid-20th century, Nepal has struggled to move away from a feudal past where power and resources were concentrated, and where the state was unable to meet the people's needs. With a diversity of castes, ethnicities and languages, the country is also characterized by a stark topography ranging from the Himalayas in the north to the plains in the south, and by formidable impediments to connectivity that have left many communities isolated. The country was in conflict from the mid-1990s until the signing of the 2006 Comprehensive Peace Agreement. Since then, Nepal has gone through multiple transitions and two Constituent Assemblies until the 2015 Constitution introduced the three-tier structure for a new federal state. The shift to federalism has been a response to the central government's inability to deliver an inclusive contract called for, especially by the historically marginalized people⁵. Political instability and weak public institutions have constrained economic growth, while progress in poverty reduction, and shared prosperity was attributed mainly to remittances. Nepal successfully completed federal, state, and local elections in 2017, paving the way for a new federal system.

Political Context

5. **In a departure from the past, greater political stability is expected that provides a basis for a positive shift in Nepal's development path.** Over the last decade, Nepal experienced frequent government turnover and political fragmentation with a considerable toll on investment, quality of public institutions, growth and development. The 2017 elections represented a significant turning point. Local elections were held after 20 years filling a void in popular representation. The elections also resulted in, for the first time in Nepal's parliamentary history, a super-majority coalition government with the two leading coalition parties merging to become the Nepal Communist Party in May 2018⁶. These developments have generated a sense of unprecedented political stability and policy predictability.

6. **At the same time, the transition to federalism poses significant challenges.** The country faces the daunting task of adapting to a three-tier structure in the face of weak and often-nonexistent institutions at the state and local levels. Ministries have been merged, the civil service is being restructured, and approximately 110 new laws must be enacted and a further 300 amended in line with the 2015 Constitution. Functions across the three tiers of government, and the revenue sharing and fiscal transfer arrangements are being defined. The new structure also requires substantial investment in setting up offices; improving infrastructure connectivity between federal, state, and local governments and across state and local governments; and capacity building at subnational levels, with likely impact on the country's fiscal position in the short term. Nepal's public debt, estimated at 26.6 percent of gross domestic product (GDP) in 2017, is likely to rise in the medium term. Furthermore, federalism presents a significant source of potential fragility in the short to medium term given the magnitude of institutional changes needed, and Nepalis' expectations of a more responsive, accountable and inclusive government.

⁵ Marginalized groups include women, Dalits (untouchables), Adivasi Janajatis (indigenous nationalities), Madhesis, Muslims, the disabled, and people from 'backward' regions.

⁶ The Communist Party of Nepal (CPN)- Unified Marxist-Leninist (UML) and CPN-Maoist Centre (MC) formed the Left Alliance during the 2017 elections, and emerged as the super-majority coalition government. These two parties merged to become the Nepal Communist Party.

7. **In the medium term, Nepal’s political transformation may either remedy or aggravate the key drivers of fragility.** The RRA identifies four sources of fragility. One source is the weak institutions and governance, where public institutions corroded by rent seeking behavior, weak capacity, and leadership turnover have thwarted Nepal’s development over the past decade. Second is the centralized Kathmandu-based governance structure and exclusion based on geography, ethnicity, caste, and gender. Third relates to the structural weaknesses in the economy, compounded by Nepal’s high levels of remittances that have driven impressive poverty reduction through consumption rather than investment and introduced new vulnerabilities to global economic trends. Fourth is the impact of natural disasters such as the 2015 earthquakes⁷, climate change, and other uninsured risks that disproportionately affect the poor and vulnerable, and that may reverse the welfare gains. These vulnerabilities may diminish once the new structure is well-established, but may be magnified in the interim as the details for the new federal system is being worked out.

Economic Context

8. **Nepal’s economic fundamentals have been relatively sound, with progress in poverty reduction and shared prosperity despite the political uncertainty of the past decade.** Inflation was in single digits for the better part of the last decade. Fiscal balances remained sound leading to a halving of public debt, although this may reverse due to the fiscal costs of decentralization. The financial sector for the most part has been stable and external balances remained at comfortable levels. The proportion of Nepalese households living in poverty declined by about 30 percentage points in the last three decades. Nepal also recorded strong progress on shared prosperity. From 2004 to 2011, consumption among the bottom 40 percent grew almost twice as fast as that of the top 60 percent⁸. The progress in poverty reduction and shared prosperity is attributable to high levels of remittances. The 2015 earthquakes and trade disruptions with India had a major impact on Nepal’s economy, where economic growth slowed in the second half of the CPS period (0.6 percent in FY2016) and there may have been a reversal in poverty reduction. However, economic growth in 2017 rebounded to 7.9 percent, even though it was impacted by the worst floods in decades.⁹ This has contributed to a reduction in the growth rate to an estimated 6.3 percent in 2018.

9. **Nepal’s GDP growth has been modest over the past decade.** Nepal’s growth has been lower than that of other regional economies, growing at an average rate of 4.4 percent (at market prices) over 2007 to 2017. This may be attributed to several structural factors. Although declining as a share of the total economy, the agriculture sector continues to play a large role employing more than two-thirds of the workforce while contributing to one-third of the value-added of the economy. The service sector has grown in importance, accounting for more than half of value-added whereas the industrial sector, particularly manufacturing, has declined as a share of the economy. Exports have continued to struggle due to an erosion in competitiveness, lack of adequate power supply for production and the appreciation of real exchange rates while imports have remained high, fueled by remittances. Consumption has driven growth while moribund public investment has not crowded in much needed private sector investment, resulting in slow capital accumulation. In the past 10 years, productivity growth has been broadly flat,

⁷ The 2015 earthquakes took about 8,700 lives and destroyed or damaged assets worth approximately one-quarter of the country’s FY2014 GDP.

⁸ 2011 is the most recent Household Income and Expenditure Survey available.

⁹ According to the government’s Post Floods Recovery Needs Assessment, the 2017 floods affected 35 out of 77 districts, and resulted in 134 deaths and US\$500 million in damages.

while remittances have grown in importance and created more vulnerabilities for the country.¹⁰

Box 1. Government's Strategy to achieve Middle Income Status

Nepal's first federal budget, fiscal year 2019, lays the foundation to achieve its targeted growth rate – 8 percent in 2019 and more (9.5 percent in 2021). Investments in economic, physical and social infrastructures are the channels identified to attain this higher growth and to reach middle income country status by 2030. To unlock the economic potential by year 2021, the Government of Nepal plans to double energy output (an additional 1,401 MW); build an additional 14,000 km of transmission lines; irrigate an additional 45,000 hectares of land; create 180,000 industrial jobs annually; provide internet access to 70 percent of population; reduce maternal mortality to 125 per 100,000; increase coverage of primary education schooling to 99.5 percent and secondary schooling to 53 percent; and provide 95 percent of population with access to safe drinking water. To achieve these targets, an increase of 4 percent of GDP in public investment outlay is planned (38.7 percent of GDP in 2021 from an estimated 34.8 percent of GDP in 2018). A near doubling of aid availability to 9 percent of GDP (from 3.7 percent of GDP, aid use in 2018) is planned while keeping domestic borrowing level below 5 percent of GDP. In the process, the Government also has a strategy to maximize private sector participation to contribute to their projected growth scenario. The Government is committed to unlocking the critical bottlenecks constraining private sector participation and foreign direct investment that are critical for economic growth. (Sources: 2019 Budget and Medium Term Expenditure Framework documents)

The WB assesses that Government's 8 to 9 percent growth target is a high case scenario that is achievable over the medium term, subject to an accelerated implementation of key reforms to raise productivity and spending efficiency. The focus on agriculture (accounts for one-third of GDP and two-thirds of the labor force) is appropriate as rapid growth of this sector could drive overall GDP growth and rapidly reduce poverty. However, there would need to be accelerated implementation of reforms to: (i) strengthen public investment management, efficiency and productivity and address the problem of low and uneven public expenditure; (ii) enable contestability and competition in product and factor markets and reduce barriers to foreign entry; (iii) crowd in the private sector through public-private partnerships and strengthen implementation of existing laws to support industrial development; (iv) update the legal framework for land acquisition (including its implementation) that has constrained implementation of several big projects especially in hydropower generation, transmission lines, airports and highways as well as in the agriculture sector; and (v) diversify the financial sector (beyond the current dominance of banks), improve competition and financial sector governance, establish institutions to enable the use of non-collateral solutions to improve access to credit. The baseline projections presented in Table 1, account for the impact of the above constraints on the achievable level of growth.

10. Nepal needs to achieve faster growth to become a middle-income country by 2030. If the current growth trend continues, GDP per capita at US\$853 in 2017 is not likely to reach the level at which Nepal would graduate from low-income country status by 2030.¹¹ Nepal needs faster rates of growth, in the order of 7 to 8 percent, and a shift from remittance-led consumption to productive investment. However, the economy remains vulnerable to exogenous shocks (*e.g.* earthquakes, floods, trade disruptions) and to slowdown in remittance growth. Remittances peaked at almost 29.5 percent of GDP in FY2016, declined to 26.3 percent in FY2017 and is estimated to have declined further in FY2018. This has been due to cuts in public spending in oil producing countries such as Malaysia, Qatar, Saudi Arabia, and the United Arab Emirates where many Nepalese migrants work. Slower remittance growth may lead to widening current account deficit given the high level of imports for reconstruction. Implementation of

¹⁰ Nepal Country Economic Memorandum (Report No. 115156), May 1, 2017.

¹¹ Ibid.

federalism, post-earthquake and post-flood reconstruction needs, and social assistance programs are likely to put significant pressures on the government's fiscal position.

11. **These long standing economic challenges will require wide-reaching and carefully-calibrated reforms.** This includes a coordinated effort for prudent macroeconomic management, coupled with efforts to increase and leverage private sector financing and external development financing. They will need to be addressed in parallel with the implementation of federalism. The government is prioritizing macroeconomic reforms and has committed to establishing the high-level Public Expenditure Commission to carry out a spending review. Equal attention will be needed to manage the stock of public debt, which while low at 26.6 percent of GDP in FY2017, is likely to grow but expected to remain sustainable during the CPF period. The joint WB-International Monetary Fund (IMF) debt sustainability analysis (2017) assesses the debt risk to remain low. Inflation, which increased to 9.9 percent after the 2015 exogenous shocks has moderated to 4.5 percent (year-on-year) in FY2017 and is expected to remain low.

Table 1: Select Macroeconomic Indicators

	FY2015	FY2016	FY2017	FY2018 (e)	FY2019 (f)	FY2020 (f)	FY2021 (f)	FY2022 (f)	FY2023 (f)
Real economy (Percentage change, unless otherwise stated)									
Nominal GDP, current prices (NPR, billions)	2,130	2,253	2,643	3,007	3,311	3,642	3,988	4,367	4,782
Real GDP growth (at market prices)	3.3	0.6	7.9	6.3	5.0	5.1	5.0	5.6	5.6
Consumer prices (period average)	7.2	9.9	4.5	4.5	5.0	5.0	5.5	5.5	5.5
Fiscal Sector (As percentage of GDP, unless otherwise indicated)									
Total revenue and grants	20.8	23.1	24.4	25.0	24.2	23.8	24.6	25.5	27.3
Expenditures	21.9	23.6	29.1	31.8	32.3	31.4	32.8	32.7	32.4
Fiscal Balance (including on-lending)	-1.1	-0.4	-4.8	-6.7	-8.1	-7.6	-8.2	-7.3	-5.1
Total public debt	25.6	27.9	26.6	30.2	35.8	34.4	35.6	36.5	37.2
Balance of Payments (As percentage of GDP, unless otherwise indicated)									
Current account balance	5.1	6.2	-0.4	-4.2	-5.6	-4.3	-1.9	-2.7	-3.6
Exports of goods and services	11.6	9.5	9.1	9.5	10.6	11.4	12.8	13.2	11.8
Imports of goods and services	41.5	39.3	42.9	43.1	44.7	45.1	44.7	44.1	43.4
Remittances (as percentage of GDP)	29.0	29.5	26.3	23.4	22.2	21.1	20.8	20.6	20.3
Memorandum items:									
Population, million	28.7	29.0	29.2	...	...	...	...	...	...
GDP per capita, USD current	747	731	853	...	...	...	...	...	...

Source: Nepal Rastra Bank, Ministry of Finance and Central Bureau of Statistics for actuals, World Bank (WB) staff for estimates and forecasts.

Note: e = estimate; f = forecast; ... = not available.

Poverty Context

12. **Nepal has achieved a remarkable reduction in poverty in the last three decades, but the agenda remains unfinished.** In the late 1980s, Nepal had one of the world's lowest Gross National Income (GNI)

per capita (US\$140) and the highest share of labor force in agriculture, where income is relatively low.¹² Nepal's poverty rate had reached 40 percent in 1995, but declined to 31 percent in 2003 and to 13 percent in 2010. The government revised the poverty line to reflect improved living standards, resulting in the often-cited 25 percent poverty rate in 2010.¹³ As measured by the international extreme poverty line, poverty fell from 46 percent in 1996 to 15 percent in 2011¹⁴. An improvement in agricultural productivity in impoverished rural areas was long regarded as the only hope for reduced poverty in Nepal.¹⁵ However, most of the poverty reduction resulted from the massive outmigration of labor, and an unprecedented increase in private remittances that reached 29.5 percent of GDP in FY2016. The outmigration also led to an increase in domestic wages in both farm and non-farm sectors with less labor supply in the country.¹⁶

13. There remains a significant disparity in poverty incidence across the country. Most multidimensional indicators of poverty have shown improvements across Nepal, despite remaining geographic disparities. While the widely held view is that poverty is concentrated in the mid-western and far-western regions covering two states, the latest analysis on Multidimensional Poverty Index (MPI) in Nepal shows a different picture. In addition to those areas, State 2 emerges as the second poorest state, primarily due to lower school attendance and access to improved sanitation. Unfortunately, data gaps make it difficult to measure poverty across Nepal, even based on the 2010 poverty line.

Nepal's Priority Areas for Development

14. The six action areas identified in the SCD reinforce Nepal's own development priorities. Although progress in each area is important, evidence from SCD suggests that strengthening public institutions is the top priority, followed by private sector investment, human capital development, natural resources management, strengthened resilience and unlocking the benefits of migration, respectively. These are consistent with the country's long-term goal of *Prosperous Nepal, Happy Nepali* and its priorities under *Envisioning Nepal 2030*, whereby the government seeks to "achieve all the SDGs and become an inclusive, equitable, and prosperous middle-income country (MIC) with the spirit of welfare state by 2030". To operationalize this vision, the 14th Periodic Plan (2017-2019) envisages "...an independent, progressive, and socialism-oriented economy" with a focus on credible public management and governance reform; increased investment in physical infrastructure (energy, connectivity and urban development); transformation in key sectors of the economy; human and social development contributing to job creation; and social protection for marginalized groups. Gender, poverty, environment, inclusion, private and co-operative sectors, and application of information technology (IT) sectors cut across the above areas. The 14th Periodic Plan is supported by the new government, which is prioritizing good governance and achievement of results. Government's strategy to achieve middle income status by 2030 is reflected in Box 1.

¹² World Development Report 1989: Financial Systems and Development (Report No. PUB7682).

¹³ Nepal Bigger Strides in Post-Conflict Poverty Reduction Poverty Diagnostics, 2010- 11, World Bank 2013.

¹⁴ The poverty data was last updated in 2010. The WB will be collaborating with the Central Bureau of Statistics to update the national poverty estimates using the Annual Household Survey data (2013/14 – 2016/17) and prepare the next Nepal Living Standard Survey. The Nepal Living Standard Survey will be key to monitoring the progress of the Sustainable Development Goals.

¹⁵ Nepal: Poverty and Incomes (Report No. 9585, World Bank 1991).

¹⁶ Moving Up the Ladder: Poverty Reduction and Social Mobility in Nepal (Working Paper 106652, World Bank 2016); Trends and Drivers of Poverty Reduction in Nepal: A Historical Perspective (Policy Research Working Paper No. 7830, World Bank 2016).

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

A. Overview of the CPF

15. **The CPF covers a five-year period FY2019-2023, and is aligned with the pivotal years of Nepal's federalism.** Federalism and its successful implementation would contribute to shifting the development paradigm, which the SCD has highlighted as necessary for Nepal to achieve faster growth to become a MIC by 2030. Accordingly, it has implications on the WBG's overall engagement. The WBG will aim to support Nepal's new federal system that can deliver on higher sustained growth for poverty reduction, inclusive development, and shared prosperity in a sustainable manner. To adjust to the emerging political and institutional structure in the country, the federalism agenda will directly or indirectly underpin future WB program at the strategic, policy, and operational levels.

16. **Drawing from the SCD's six action areas and the country's development agenda, the CPF focuses on three transformative engagement areas: public institutions (Focus Area 1), private-sector led jobs and growth (Focus Area 2), and inclusion and resilience (Focus Area 3).** Under Focus Area 1, the WB proposes to contribute to strengthening public institutions for effective public management and service delivery under the new federal system, and to underpin private sector development. Focus Area 2 aims to contribute to private sector-led jobs and growth, addressing the SCD action areas of private sector investment for jobs and natural resources management. Interventions to promote better business environment for entrepreneurship will also enable channeling of remittances into productive investments, an SCD action area. Under Focus Area 3, the WBG will endeavor to promote opportunities for greater inclusion and resilience, reflecting the SCD's call for action to achieve greater equity in human capital development and preparedness against health shocks, climate change impact and natural disasters. The three focus areas will contribute to the government's development priorities including the achievement of the SDGs as indicated in Annex 1. They also address the foundations for achieving the WBG's corporate goals of ending extreme poverty and promoting shared prosperity in a sustainable manner as indicated in Annex 1. The resources from the IDA Risk Mitigation Regime are being deployed to bolster Nepal's new federal structure and sub-national governance and to address the horizontal and spatial inequalities under Focus Area 1. They are also expected to support operations aiming at job creation, focusing on the vulnerable groups under Focus Area 2.

17. **The CPF focus areas are guideposts for the WBG as it responds with agility and adaptability during a period of rapid change in Nepal.** The CPF will be implemented at a time of fundamental restructuring of the country's entire backbone for governance and public-sector management, service delivery, and development. As such, the CPF does not predefine all aspects of WBG engagement. In the first two years of the CPF period, the WB will emphasize advisory services and analytics focusing on federalism and service delivery. Based on this, the WB will consider new operations. The WB in consultation with the government, is also restructuring projects that have not been substantially implemented and/or have less than 50 percent disbursement to address any emerging needs related to federalism.¹⁷

18. **In line with the CPF, IFC's program in Nepal is addressing the key development gaps and creating markets by focusing on financial inclusion, sustainable infrastructure, including power and connectivity, and sectors that contribute to growth, increased competitiveness and more and better jobs.** IFC will

¹⁷ This is in line with the government's development priorities.

utilize the IDA PSW to de-risk key engagements and offer local currency financing across sectors including infrastructure, financial sector, tourism, manufacturing, and agribusiness. IFC is aiming to add over 500MW in hydropower generation through a series of interventions, including the ground-breaking 216MW Upper Trishuli-1 hydropower project (with the WB), which is expected to be the largest foreign direct investment (FDI) project in Nepal. IFC's advisory services (AS) aims to improve environment and social standards in the hydropower sector. IFC's investment and AS will support increased access to financial services, through interventions such as digital finance, gender-informed financial products and instruments, agribusiness financing, and credit bureau. IFC will also promote competitiveness in tourism, healthcare, manufacturing, and agribusiness. Key interventions in this regard include support for a comprehensive destination development plan; increased access to quality health services such as hospitals and diagnostics centers; improvements in cement production efficiency and capacity expansion; agribusiness value chains and climate-smart agriculture. IFC is targeting these key sectors that have significant job creation impact.

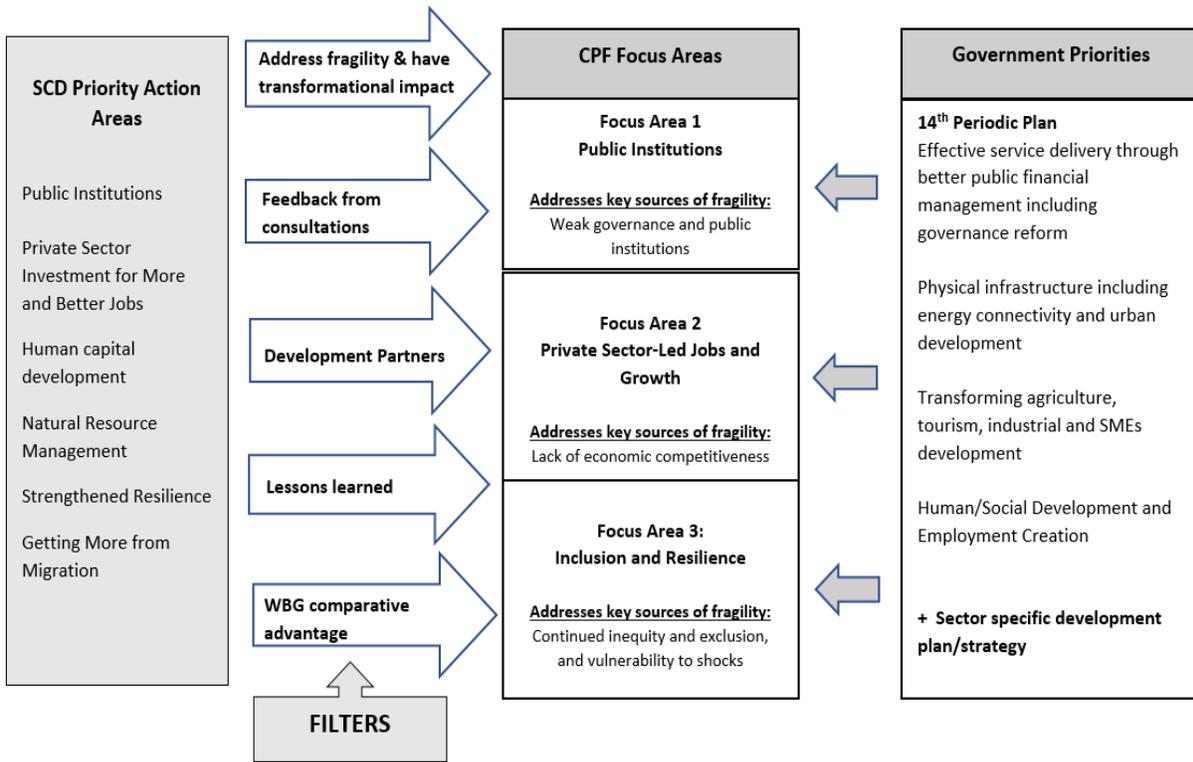
19. **MIGA will continue to seek opportunities to support foreign private sector investment (i.e. Foreign Direct Investment) into Nepal.** It may make use of the IDA-PSW MIGA Guarantee Facility to further de-risk eligible projects. MIGA is exploring opportunities to utilize its political risk insurance products in the infrastructure and energy sectors against the risks of transfer and convertibility restrictions, expropriation, war and civil disturbance, and breach of contract, the latter in the context of public-private partnership (PPP) concessions. In addition to the energy sector, MIGA will seek to engage in other sectors where opportunities arise to stimulate cross-border private investment and lending.

Criteria for Selectivity

20. **A number of factors were considered in determining the WBG priorities given the SCD's six action areas and the government priorities as illustrated in Chart 1.** They include the following:

- a. Key drivers of fragility and areas where the WBG may have a transformative impact. Underlying the 2015 Constitution and the new federal state is the overarching priority of greater equity and inclusion. This is critical to reducing fragility, as well as furthering poverty reduction and shared prosperity. The WBG is prioritizing the inclusion agenda in drawing from the SCD's six priority areas and the Gender Equity and Social Inclusion (GESI) assessment (Annex 6), and will endeavor to reach disadvantaged/marginalized communities. The WBG is giving precedent to areas where it may have a transformative impact on Nepal's development, contribute to reducing risks of fragility, and benefit from strong government ownership.
- b. Feedback from stakeholder consultations. As summarized in Annex 8, respondents suggested that WBG may help strengthen sub-national functions; build capacity; strengthen governance; and support policies and procedures across the central and subnational levels. The WBG was also encouraged to do more on the jobs agenda to retain youths in Nepal and reduce migration, and to unlock productivity. In this regard, the continued importance of infrastructure development (i.e. energy and transport), private sector development, and technical and vocational training were highlighted. The potential for tourism, increased agriculture productivity, and financial inclusion was highlighted. Additionally, emphasis was made on human capital development, and equity and protection for the poor, vulnerable, and marginalized.

Chart 1: SCD, Government Priorities and the CPF



- c. Development Partners’ (DPs) work. The WBG will continue to be an active member of the International Development Partners Group (IDPG) to exchange information, confer on issues of common interest, and coordinate activities. The WB will consider activities of other DPs to make effective use of its resources to meet Nepal’s significant development financing needs. Coordination is especially critical in supporting federalism, for which the government has requested the WB to take the lead among the DPs. This will be carried out through the IDPG’s Federalism Working Group (FWG), which the WB co-leads. The WB is leading a capacity needs assessment at state and local levels that will guide future support by the WB and other DPs.
- d. Lessons learned from the Completion and Learning Review (CLR). During the CPS for FY2014-2018, the WBG faced a fluid political environment, and the 2015 earthquakes and trade disruptions demanded that the WBG be flexible while maintaining sight of Nepal’s longer-term development. This approach remains relevant in the CPF, which also keeps in mind the need for realism. The complex operating context of the CPS (*e.g.* frequent leadership changes, prolonged policy-level decision making, high turnover of counterpart staff, and capacity and governance issues) had a bearing on the speed in which key objectives were being achieved, as experienced in supporting reforms and joint WB-IFC projects in the energy sector. Thus, the CPF considers the need to deepen understanding of the political economy and to be strategic and opportunistic in its engagement, especially in view of federalism.
- e. WBG comparative advantage. The CPF pursues a multi-sectoral approach to the SCD action areas, based on the WBG’s comparative advantage of being able to mobilize global expertise across sectors, and to bring together public and private sectors through a range of financing options to Maximize Finance for Development (MFD). To determine specific interventions, the WBG will apply its sector experience and knowledge in Nepal complemented by policy dialogue and outreach to achieve ownership and buy-in of the government and key stakeholders.

Cross-cutting Themes

21. **Across the CPF program, the WB will address the corporate commitments in gender, citizen engagement, and climate change co-benefits.** As outlined in the Gender Action Brief FY2018-2023, the WB will emphasize support to women's economic empowerment and increase gender equity through support for National Gender Policy Implementation and addressing gender-based violence (GBV). The GESI Assessment (Annex 6) identifies issues and possible ways in which gender equity and social inclusion may be addressed under each CPF focus area. The WB's South Asia Region's target is to integrate gender aspects in all its operations and mainstream citizen engagement in all investment operations. The WB will support a citizen engagement framework for decentralized governance, policy dialogue and support for social risk management capacity at sub-national levels, and grievance redress mechanisms. The WB aims to meet the IDA policy commitment on climate change co-benefit, especially in operations that address energy, agriculture and livestock, forestry, trade and competitiveness, urban development, transport, and disaster risk management. It will also incorporate where appropriate a contingent emergency response component (CERC). Linked to this effort to increase climate change co-benefit in projects, the WB will support Nepal to meet its Nationally Determined Contributions (NDC) commitments.

22. **The WBG will apply the principles of Maximizing Finance for Development (MFD) in its interventions across sectors.**¹⁸ Aligned with the government's own development cooperation policy, the WBG will identify potential areas where it may optimize the use of scarce public resources and leverage private sector/commercial financing, management capabilities, and innovations. Key elements of the MFD approach is supporting conducive policy reforms and addressing sector-specific constraints. The WB will focus on public institution strengthening and jobs and growth that are private sector led (*e.g.* energy, transport, financial sector, competitiveness, agriculture and tourism). IFC will support private sector participation through investments and AS, including public-private partnerships and upstream reform advisory assistance through the joint Global Practices. Based on the recommendations of the InfraSAP (Box 2) and the CPSD (Box 3), the WBG would seek to apply MFD principles in transport, urban, tourism, agribusiness, health, education and ICT.

23. **The WB, IFC and MIGA will continue to collaborate to realize potential MFD opportunities.** Consistent with the MFD principles, the WBG will support the government in power sector reforms. To increase access to finance and improve financial sector stability, WB and IFC interventions will continue through policy dialogue, joint WB/IFC Access to Finance Advisory Services and IFC investment in financial institutions. In tourism, the WBG is supporting the implementation of the National Tourism Strategic Plan, which includes improving business environment, identifying tourism investment opportunities, and supporting potential downstream PPP transactions and tourism projects. In agribusiness, the WB and IFC will complement its work to apply the MFD principles in agribusiness value chain ecosystems and in strengthening the policy dialogue in this sector. MIGA stands ready to collaborate with the WB and IFC on

¹⁸ In considering potential WB lending, the WB, in collaboration with IFC, will first assess if a private sector solution is available. If not, the WBG will support policy and regulatory reforms to facilitate private sector solutions. If this proves insufficient, the WBG will consider how its risk mitigation instruments can help attract the private sector. Finally, if this is still insufficient, then the WBG will pursue public sector funding.

potential MFD opportunities. The WBG will use all relevant advisory and financing instruments including the IDA PSW.

Box 2. Nepal Infrastructure Sector Assessment Program (Infra SAP) – Early Findings

The InfraSAP is a structured diagnostic and pragmatic joint planning exercise that informs how WBG and the government can partner to improve infrastructure access and performance. The Nepal InfraSAP focuses on energy, transport, and urban development. Delivering sustainable and affordable infrastructure services require making judicious use of scarce public and concessional resources, suggesting the need to prioritize private sector financing. Common themes among Nepal’s infrastructure sectors include: fiscal constraints that limit the ability to publicly finance projects; limited government capacity to spend available budgets; inefficiencies in spending; and an inconsistent track record in implementation of private sector solutions. Nepal’s infrastructure space presents tremendous opportunities to leverage financial and technical capacity of the private sector toward greater investment and better service delivery, by aligning private sector objectives with development impacts.

B. Focus Areas, Objectives, and Planned Support

24. **The sections below summarize the focus areas, objectives, and planned intervention areas.** More details are available in the results framework (Annex 1).

Focus Area 1: Public Institutions

25. **This CPF differs from the ongoing strategy in its explicit focus on public institutions.** Nepal’s transition to federalism offers a unique chance to support the country’s institutions, systems and process reforms. Robust public institutions are critical for supporting the WBG’s goals of ending extreme poverty and promoting shared prosperity in a sustainable manner. The 2017 World Development Report notes that development partners should move beyond technocratic approaches to consider the openings and constraints by shifting politics to governance reforms for development. In line with this recommendation, the WBG will prioritize initiatives where there is strong government ownership, potential for broad impact, and impact to reduce the risk of greater instability in the short term as the new federal system is established.

26. **The WBG will pursue improved budget and revenue management and strengthened institutions for public sector management and service delivery.** The government has prioritized the establishment of a robust and transparent framework for expenditure and revenue management as a foundation for strengthened public sector management and governance. The effort started prior to the 2017 elections, keeping in mind the need to foster greater equity and inclusion. It is being accompanied by clarification of functions and restructuring of the civil service administration. Against this backdrop, the WB will support the government’s efforts and will aim to scale up analytical work to inform future interventions and to support more evidence-based decision making, as recommended by the RRA. This includes the capacity needs and gap assessment at sub-national levels to be carried out with other DPs, which will be the basis for designing a comprehensive capacity development program for the new federal state. New operations emerging from the capacity building needs assessment will be reflected during the mid-term

review and update of the CPF. In addition, there are ongoing initiatives intended to improve the systems and capacities of public institutions.¹⁹

27. **In line with the government’s priority to improve governance, the CPF will integrate support for greater accountability and transparency.** The WB will do so through interventions to increase data availability and quality, access to information, and social accountability. Opportunities will be sought to leverage IT for data management and use for, among others public sector management, efficient business regulation, monitoring results, and dissemination of information. The WB will support the update of the country’s poverty measurement including at the state level²⁰ per SCD recommendations. It will continue efforts to strengthen social accountability and find opportunities to engage citizens and local authorities into local planning processes and incorporating mechanisms for citizen feedback into its projects²¹.

Objective 1.1. Improved budget and revenue management

28. **The WB will focus on building a credible fiscal and public financial management (PFM) system at the national and sub-national levels²².** The absence of an effective framework for fiscal transfer and revenue mobilization will impede the ability for subnational governments to carry out their functions leading to a worsening of public services delivery. The WB will support strengthened budget and revenue management that incorporates measures for equity and inclusion in the decentralized context. Such effort is expected to mitigate the tensions between national and subnational governments and between different groups that can compromise the new federal system and increase fragility. Fiscal decentralization needs to be accompanied by effective PFM for transparent and accountable use of resources. The First Programmatic Fiscal and PFM DPC addresses this challenge. This operation is financed from the IDA Risk Mitigation Regime²³ given the DPC’s additionality to spur key reforms²⁴ in setting the framework for fiscal decentralization and to support predictable and balanced flow of resources to hitherto underserved areas and people. These reforms would be further strengthened by the planned second DPC to establish a credible system for robust, transparent, and accountable public sector management. The policy reforms are complemented by efforts to strengthen the PFM system and social accountability through the multi-donor trust funds (MDTF) for PFM and the Integrated PFM Reform project. The WB is discussing with the government possible future lending operation to strengthen public sector management, accountability, and governance.

Objective 1.2. Strengthened institutions for public sector management and service delivery

29. **The WB will seek to strengthen public institutions, systems, and capacities for service delivery.** Weak institutions and institutional governance have constrained public and private investments, and

¹⁹ Support for strengthening systems and capacities of public institutions are being integrated in various development policy, investment and program-for-results operations and supported by ASAs.

²⁰ The Bank is preparing for the next Nepal Living Standard Survey that will update the poverty measure at the state level. This survey will be largely funded by a Bank-executed TF from DFID. The government officially adopted the MPI last year with WB support using 2014 data. This may be updated at state level with the next Multiple Indicator Cluster Survey (planned in 2019) or with the 2016 Demographic and Health Survey by UNICEF.

²¹ This may be supported through the Global Partnership for Social Accountability, Open Contracting, and Open Government.

²² Sub-national refers to state and local levels, as agreed with the government.

²³ Refer to Implementation Action Plan for the use of the IDA Risk Mitigation Regime.

²⁴ Reforms include the enactment of the Intergovernmental Fiscal Arrangement act that provides the legal framework for resources allocation, the National Natural Resources and Fiscal Commission Bill that govern federal transfers to state and local governments, and the Local Government Operations Act that govern the operation and management of local governments.

service delivery. There is a concern about further weakening of the public institutions and increased rent-seeking behavior in the early days of federalism. While the 2015 Constitution has empowered the local governments to deliver basic services, their capacities are generally weak posing a risk of disruption of services. Cognizant of this risk, the government is discussing a transition plan so that the objectives of its 14th Periodic Plan for effective service delivery can be met. The WB will support strengthening systems and capacities of public institutions for continued service delivery in education, health, social protection, and local infrastructure in rural and urban areas. It will also contribute to improved local governance and institutions through a planned engagement in local urban development for which analytical work is ongoing. Local urban development is important for the jobs and growth agenda (Focus Area 2). In supporting basic services and local urban development, attention will be paid to reach women and marginalized groups.

Focus Area 2: Private Sector-Led Jobs and Growth

30. **The WBG will aim to improve the ecosystem for higher growth and more and better jobs, which is aligned with the WBG’s goals of ending extreme poverty and promoting shared prosperity in a sustainable manner.** The majority of Nepal’s domestic labor force, especially youth and women, continues to be employed in agriculture and other low-return sectors. Low income and lack of domestic jobs are cited as the primary reasons that Nepalis seek foreign employment. The 14th Periodic Plan includes an ambitious target of creating 400,000 jobs per year to be met by investing in the agriculture sector (including agribusiness), tourism, industrial, and small and medium enterprises (SMEs). WBG support in this area will benefit from the ongoing CPSD, which assesses the constraints and opportunities in tourism, agribusiness, health, education, and ICT (Box 3). The SCD identifies more and better jobs through private sector investments as a high priority. However, private sector investment is relatively low, averaging 18 percent of GDP between 2007 and 2015 and FDI was 0.5 percent of GDP. The 2013 World Development Report notes that jobs, even informal ones, can have a transformational impact on living standards, productivity, and social cohesion, thus contributing to the achievement of the WBG’s corporate goals. The government has a key role in setting the policy framework and fundamental conditions (*i.e.* macroeconomic stability, an enabling business environment, human capital, rule of law). Accordingly, the WBG will focus on improving the conditions for private sector investment.

Box 3. Nepal Country Private Sector Diagnostic (CPSD) – Preliminary Findings

The CPSD is a tool for addressing constraints in sectors that have the potential to generate strong development impacts through private sector engagement. The Nepal CPSD is assessing upstream obstacles in five key sectors: agri-business, tourism, health, education and ICT. It is identifying (a) cross-cutting constraints that undermine the ability of the private sector to have full developmental impact; (b) sub-sectors whose growth will have significant developmental impact and are constrained by issues that can be addressed in the short- to medium- term; and (c) actions to unlock these sectors for private sector engagement. Preliminary CPSD findings prioritize poor infrastructure connectivity (including digital connectivity) and unpredictable and cumbersome decision-making of the government as the most pressing cross-cutting constraints, followed by access to finance, land and skilled labor as well as limited firm capability. Furthermore, the CPSD shows that these five key sectors are dominated by small and fragmented players, but have opportunities to scale up, improve productivity and create more and better jobs.

31. **Five areas will be pursued to address the constraints to private sector investment.** They are energy, transport connectivity, regulatory environment, financial sector stability and access to finance, and income opportunities. The SCD has identified the uncertain political environment and weak public institutions as top reasons for weak private sector investment, which is being addressed under Focus Area

1. Other challenges include infrastructure constraints, weak investment climate, issue of access to finance especially for micro, small, and medium enterprises (MSMEs) and smallholder farmers. These areas will be tackled under Focus Area 2. Across the five areas, the WBG will seek opportunities to strengthen women's economic empowerment, including to ensure that women and marginalized groups are engaged in stakeholder consultations including in infrastructure development. The WB will identify opportunities to support climate change co-benefit such as through energy efficiency, climate resilient infrastructure and clean air in energy and transport; as well as focus on sustainable use of natural resources.

Objective 2.1 Improved power generation capacity and access to electricity

32. **The WBG will continue to address the gaps in energy, which remain a significant constraint to greater private sector investment, productivity, and livelihoods.** Nepal ranks 130 out of 190 countries in terms of infrastructure availability, with electricity and roads being particularly acute constraints. Two-thirds of Nepal's firms identify electricity as a major obstacle to doing business. Annual average per capita electricity consumption, at 160 kilowatt hours is a twentieth of the global average and a fifth of India's average. Infrastructure development is a government priority under the 14th Periodic Plan, and yet faces low and inefficient public investment rates. Gross public investment averages around 5 percent of GDP, the capital budget is underspent, and projects can take up to 13 years to complete. This sector entails a long-term horizon and face considerable challenges, including a weak legal and institutional framework, significant barriers to private sector investments, and implementation capacity issues. To meet the immediate energy needs of the country, the WB will seek opportunities to contribute to increasing power supply through promotion of hydropower generation, renewable energy solutions, energy efficiency that will also contribute to climate change co-benefit. The WB will also pursue regional cooperation in energy to reduce fluctuations in power supply and develop a market for energy as Nepal increasingly benefits from hydropower in the medium and long term.

33. **Consistent with MFD principles, the WBG will continue supporting the government on power sector reforms and private sector engagement.** The WB with IFC input is supporting a programmatic energy DPC series focusing on key institutional and policy actions to remove binding constraints to private investment in the sector. Building on the ongoing policy dialogue backed by WB and IFC AS²⁵, the energy DPC is expected to support sector reforms to improve financial viability and governance, critical to enhancing the environment for private investment. These reforms should help lower investment risk and reduce the cost of private capital for Nepal's power sector. The WB also proposes to support business models for private sector led mini-grid energy access. IFC is supporting ASs aimed at improving bankability and environment and social standards of key hydropower projects to attract private sector capital. The WB and IFC have been collaborating in financing and attracting private sector finance for the Upper Trishuli-1, a 216MW hydro power generation project that is expected to contribute to creating markets. MIGA will look to complement such financing and is considering support for the Upper Trishuli-1 project through its political risk insurance guarantee with the possible use of the IDA-PSW MIGA Guarantee Facility.

Objective 2.2 Increased transport connectivity

34. **The WBG will seek to improve transport connectivity to facilitate the movement of people and goods within and across the borders of Nepal.** Poor transport connectivity was cited as the third top

²⁵ IFC and WB are providing technical assistance on power sector reforms.

constraint to business environment. It is also a major development challenge, where the rural population faces poor access to social services, markets, and government centers. The WB has long-standing engagements in the strategic road network, local road network, and roads serving cross-border trade. With the new government structure, the WB will recalibrate its strategy towards transformational projects. Where opportunities arise, the WB will support regional transport connectivity with India and China to facilitate trade integration with the IDA Regional Program Window. MIGA will consider supporting eligible cross-border investments in transportation through its guarantee instruments. The WB will also address the persistent shortcomings in the strategic and local road networks through strengthening planning and management of projects, improving the quality and resilience of transport infrastructure including bridges, and enhancing implementation capacity. Through its engagement in local road networks and bridges, the WB will contribute to strengthening local government capacity. The WB will carry out analytical and advisory work in civil aviation and urban infrastructure to support the government in updating its strategy and policies in these sub-sectors. IFC is also considering opportunities to support upgrading and expansion of airport infrastructure. Building on the findings of the ongoing InfraSAP, the WB, IFC, and MIGA will collaborate in promoting private sector engagement in the transport sector.

Objective 2.3 Improved financial sector stability and financial inclusion

35. **The WBG will continue to support efforts to consolidate progress in financial sector stability and enhance financial inclusion and long-term finance.** Nepal's financial system is commercial bank-dominated (82 percent of financial sector assets) and fragmented. While capital adequacy and asset quality figures appear robust, the data may not fully reflect reality. There are concerns of underfunded safety nets, ever-greening of bad loans, and vulnerability to exogenous shocks. Moreover, the financial system is not efficient in financial intermediation or in channeling long-term financing for investment due to the distorting impact of remittances and associated informal non-banking channels. Access to finance for MSMEs remains limited, while the agriculture sector receives less than 5 percent of bank loans. Insurance and capital markets are nascent and require strengthened regulatory and institutional framework. In this context, WBG interventions will continue through policy dialogue complemented by joint WB/IFC Access to Finance Advisory Services, WB ASAs²⁶ and IFC investment in financial institutions to strengthen financial stability and inclusion²⁷. IFC will utilize innovative private sector solutions via the IDA PSW Local Currency Facility to expand microfinance, including very small enterprises, in the underserved regions and population segments in Nepal. This would support the objectives in the 14th Periodic Plan to achieve inclusive financial services, ensure financial stability, and increase access to finance, including by those disadvantaged by geography, gender, ethnicity and income levels.

Objective 2.4 Improved regulatory environment for competitiveness

36. **The WBG will pursue an integrated approach to support policy and institutional reforms to enhance the investment climate and trade competitiveness.** In addition to the political instability and weak institutions, infrastructure gaps, and limited access to finance, Nepal's competitiveness has been

²⁶ Future WB ASAs include following-up on the Financial Sector Assessment Program, improving the financial infrastructure, enhancing access to financial services, increasing access to finance by the agriculture sector

²⁷ IFC's investment and advisory services will target financial inclusion for women, digital finance, SME finance, and secured transaction registry and credit bureau. It is also looking to increase access to financial services to MSMEs through investments aimed at microfinance institutions (MFIs) and providing Working Capital Solutions to SMEs through commercial banks.

constrained by insufficient links with regional (e.g. China and India) and world markets, complex trade regulations, a feeble business regulatory environment, and inadequate investment facilitation. There are concerns that with the new federal structure may add to bureaucratic complexity and to the cost of doing business. Nepal ranked overall 105 out of 190 countries in terms of ease of doing business (2018 Doing Business Report) and 88 out of 137 countries in the 2018 Global Competitiveness Index. The WB will support initiatives at the national and subnational levels to reduce the costs of doing business. This will comprise of support to policy reform and policy advice at the national and sub-national levels where opportunities arise to reduce policy and regulatory uncertainties and to strengthen implementation capacities. Based on the final CPSD findings, the WBG in discussion with the government will prioritize areas for reform where the WB and IFC can promote private sector participation. These interventions will build on ongoing initiatives in promoting regional trade, investment climate reforms, and operationalizing a one-stop shop.

Objective 2.5 Improved income opportunities

37. **The WBG will contribute to enhancing income generation opportunities.** Domestic job creation is a pressing agenda, particularly for youth, women, and marginalized groups with limited employable skills who end up in low income jobs domestically and internationally. The WBG will pursue a broad-based approach to add more and better jobs and increased income, including through agriculture, tourism, and other sectors where opportunities arise. This aligns with the SCD and the RRA prioritization of domestic job creation, value-addition in the agriculture sector to expand job opportunities, and product diversification. The WB will build on its ongoing efforts to address low agriculture productivity and value-addition through support for irrigation, livestock, extension services, and market-oriented agribusiness. The WB plans to carry out a Rural Enterprise Analysis to identify emerging opportunities for rural enterprises (farm/off-farm), which is still limited. The WBG will support opportunities in the tourism sector, which was identified as a key sector for domestic job creation and should contribute to creating markets. IFC also plans to support the hospitality sector. Through its joint practice groups, the WBG has been providing analytical support in tourism development, which along with the CPSD findings, will inform future tourism interventions.

38. **The WBG will support the jobs agenda, for which it is preparing a comprehensive strategy.** As an entry point, the WB has established a Jobs Platform²⁸ to take stock of ongoing interventions that link to enhanced productivity and better and more jobs, and develop a comprehensive strategy to enhance productivity and earnings for formal and informal workers. The WB is proposing to finance a multi-sector jobs program to benefit vulnerable groups, especially youths and women. This may utilize resources from the IDA Risk Mitigation Regime given the expected additionality of concentrating efforts on groups that are marginalized. The WB is also considering the IDA Risk Mitigation Regime resources for financing other operations supporting more and better jobs for the poor and vulnerable such as through the planned support for tourism. These initiatives will need to be further developed with the government.

Focus Area 3: Inclusion and Resilience

39. **The WBG will seek to address spatial and horizontal inequities in human development outcomes, and people’s vulnerabilities to climate change, natural disasters, and health shocks.** Despite

²⁸ The Job Platform is the basis for the WBG to prioritize focus on more and better jobs in its operations, integrating this agenda in a range of lending and ASA support.

the significant progress in access to education and health, there are spatial and socio-economic disparities in outcomes. Among certain pockets of the population, malnutrition and stunting persist, impacting other outcomes such as education, productivity, and longer-term human capital development. While headway is being made in empowering women and providing them with opportunities, they remain vulnerable and face unequal treatment and violence. In addition, the poor and those on the borderline of poverty remain vulnerable to a relapse in the event of an exogenous shock. The social protection system can play a significant role in mitigating this vulnerability. In parallel, the insurance sector needs to be further developed. Nepal's acute vulnerability to climate change, natural disasters and health shocks is compounded by their disproportionate impact on the poor and those on the margins of poverty. This will require enhanced preparedness to natural disasters, as well as improved natural resources management to mitigate preventable disasters, recognized in the 14th Periodic Plan.

40. **The WBG will concentrate on four areas to mitigate the disparities and enhance inclusion and resilience.** They include improved access to quality education as well as to health services and support, especially for the marginalized due to geography, ethnicity, gender, or disability. The WBG will support a strengthened and better targeted social protection system that reflects the population's susceptibility to a wide range of shocks (*e.g.* against illness, weather shocks). To render the WBG's engagement more effective, this will be complemented by focus on improving preparedness and management of disasters, and of strengthening natural resource management. All these activities will involve direct and indirect interventions, such as investment operations, insurance mechanisms, and/or ASAs that are aligned with the WBG goals.

Objective 3.1 Improved equity in access to quality education
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41. **Under this objective, the WBG will aim to enhance access to quality education and skills development for employment.** Despite the gains in education, significant gaps in outcomes persist across Nepal's regions and socioeconomic groups. There has been limited attention to early childhood development, which impacts learning outcomes in the latter years. Moreover, market relevant skills remain scarce, thereby limiting the supply of a productive labor force that will be needed to trigger Nepal's growth. The WBG's engagement will focus on improving the quality of education system and on higher education and vocational skills development for jobs, which will promote greater equity and economic empowerment of women. This will need to be carried out in parallel with support to the government in reorganizing the service delivery model under the new federal structure (Objective 1.2). This includes restructuring of the government's School Sector Development Program, supported by the DPs including the WB. ASAs to address the impact of federalism for the education sector related to federalism will be carried out.

Objective 3.2 Improved access to services and support for the well-being of the vulnerable groups

42. **The WBG will contribute to improved health outcomes and the well-being of vulnerable and marginalized groups through multiple sectors.** While improvements are seen in health outcomes at the national level, there are significant differences in health service utilization across geography, education status, gender, and income quintiles. With local governments responsible for basic health services, there is a need to consider equity and quality of services across the country. The WB's ongoing health operation will continue to contribute to enhance efficiency of health systems (Objective 1.2). The IFC program will support private sector investments in healthcare facilities, to increase access to affordable and quality health care. Malnutrition and stunting remain a concern for early childhood development. The WB will build on ongoing multi-sectoral interventions to address stunting and malnutrition. It will integrate efforts

in select projects including water and sanitation to reduce diarrheal and other diseases that may lead to stunting when contracted during early childhood, basic health services, maternal health and education, and dietary diversity through agricultural interventions. Another worrying trend is the relatively high level of gender-based violence (GBV), which is a leading cause of death among women. The WB will continue to support the government in building a comprehensive response mechanism bringing together the 24-hour helpline for GBV victims with Nepal Police, One-Stop Crisis Management Center and civil society organizations that provide shelter, healthcare, legal aid, and counseling to help the victims.

Objective 3.3 Increased resilience to health shocks, natural disasters, and climate change

43. **To mitigate the impacts of health shocks, natural disasters, and climate change, the WB will aim to strengthen preparedness and management.** The degree and nature of vulnerability to natural disasters and climate change varies across the country. The poor and marginalized face disproportionate economic impacts from health shocks. While natural disasters and health shocks may be unavoidable, actions may be taken to reduce exposure. The WB will focus on financial protection for the poor and marginalized groups, as well as deepening the policy dialogue and providing support to strengthen the social protection programs (*e.g.* targeting, shock response, delivery systems). Where opportunities arise, the WBG will support the development of risk insurance products, such as the government's health insurance scheme. The WB is preparing a Catastrophe Deferred Drawdown Option (CAT-DDO) operation to secure emergency financing in the immediate aftermath of a climate catastrophe, which may be combined with Pandemic Emergency Financing (PEF) triggered by a health pandemic. In addition, the WBG will support physical resilience and early warning systems. Through the Earthquake Housing Reconstruction Project (EHRP), the WB will continue to finance earthquake-resilient housing where most houses destroyed by the 2015 earthquakes belonged to the poor and the vulnerable. The WB will support other climate resilient infrastructure where opportunities arise. It will further strengthen the hydro-meteorological warning capacities and early warning systems through technical assistance.

Objective 3.4 Improved adoption of sustainable natural resources management

44. **The WB will support Nepal's efforts towards sustainable use of natural resources to enhance resilience and underpin economic growth.** Nepal has significant natural resource wealth, which can contribute to economic growth. The forest sector contribution is on average 3.5 percent of GDP, although it has a potential to add more to the economy and people's lives through tourism and forest-based products, while achieving resource sustainability. The forest sector is also important in meeting the government's commitment to reduce greenhouse gas (GHG) emissions from deforestation and forest degradation in its Nationally Determined Contribution (NDC) to mitigate climate change²⁹. The agriculture sector faces significant volatility given its reliance on weather, as well as from the challenges of low and variable water productivity in the Tarai, limited watershed management, and land fragmentation. In general, development and management of natural resources have been fragmented with multiple government agencies involved. For example, while Nepal has adopted a policy of integrated water resources management, its implementation has been hampered by the need to coordinate across multiple agencies. This may be rendered more complex with federalism. In response, the WB will continue to

²⁹ Nepal aims to enhance forest carbon stock by a least 5 percent by 2025, compared to 2015 level, and to decrease the mean annual deforestation in the Tarai and Siwalik Hills.

deepen the policy dialogue through ASAs on land governance, environment sector diagnosis, and a forest engagement note. The WB is establishing a Water Sector Strategic Platform to coordinate and bring together the range of initiatives to improve water resources management, which is critical given the competing demands in water use. It will also support initiatives to reduce GHG emissions through ongoing REDD+³⁰. The WB and IFC will provide farm and agribusiness investments and advisory services to promote efficient value chains and climate smart agriculture processes that will help create markets.

C. Implementing the Country Partnership Framework

Financial envelope and allocations

45. **The indicative total IDA allocation for Nepal under IDA18 (FY2018-2020) is about US\$1.3 billion³¹.** This includes US\$300 million from IDA Risk Mitigation Regime. Under IDA17, US\$1.2 billion (US\$901 million core IDA and US\$300 million from Crisis Response Window) was committed. In the first year of IDA18, the lending program was substantially frontloaded with US\$704 million delivered through five operations in FY2018.³² The pipeline of operations exceeds the remaining IDA18 balance of about US\$686 million. Additional IDA resources may be sought such as from the IDA-PSW and the IDA Regional Program Window as well as trust fund resources. IFC investments are expected to be in the range of US\$800 million – US\$1.2 billion. IFC will utilize the IDA-PSW to de-risk key engagements and offer local currency financing across sectors, including infrastructure, financial sector, tourism, manufacturing and agribusiness. MIGA has no pre-determined envelope for guarantees over the CPF period. The WB plans to review the existing country financing parameters and revise it as needed by mid-point of the CPF period.

Table 2: Indicative FY2019-2020 IDA Lending Program

Focus Area	Indicative Lending (Project amounts are provisional and subject to change)	Indicative IDA Amount (US\$ million)	Indicative TF Amount (US\$ million)
Public institutions	Nepal Local Governance and Integrated Infrastructure Support	150.00	
	Second Programmatic Fiscal and PFM DPC	100.00	
	PFM Support	100.00	
Private sector-led jobs and growth	Upper Trishuli -1 Hydropower	100.00	
	Nepal Energy Sector DPC	100.00	
	Additional Financing to School Sector Development Program		24.20
	Business Models for Private Sector-Led Mini-Grid Energy Access		7.61
	Second Bridges Improvement and Maintenance Program	133.00	
	Nepal Fourth Financial Sector Stability Credit DPC4	100.00	
	Nepal Sustainable Tourism Value Creation	80.00	
	Accelerating Inclusive Jobs Growth for Youth in Nepal	150.00	
Inclusion and resilience	Nepal DPL with CAT-DDO	100.00	
	Food Nutrition and Security Project		22.70
	TOTAL	1,113.00	54.51

³⁰ REDD+ stands for countries' efforts to reduce emissions from deforestation and forest degradation, and foster conservation, sustainable management of forests, and enhancement of forest carbon stocks.

³¹ Referenced IDA18 volumes are indicative. Actual PBA allocations will be determined annually during IDA18 (FY18-20) and will depend on: (i) total IDA resources available; (ii) the number of IDA-eligible countries; (iii) the country's performance rating, per capita GNI, and population; and (iv) the performance and other allocation parameters for other IDA borrowers.

³² The five operations include: First Programmatic Fiscal and PFM DPC (Focus Area 1); Nepal Rani Jamara Kulariya Irrigation Phase 2 and Nepal Livestock Sector Innovation Project (Focus Area 2); and Enhanced Vocational Education and Training Project II and Nepal Earthquake Housing Reconstruction Project Additional Financing (Focus Area 3).

46. **In the first two years of the CPF program, emphasis will be given to carrying out critical and program-informing ASAs.** The CPF is being implemented at a time of rapid change in Nepal. One key lesson learned from the CLR is the importance of deepening the analytical basis for future lending given the complex environment. As such, the WB is prioritizing ASAs, especially related to federalism to inform possible restructuring of operations and future lending. It is also addressing some of the knowledge gaps identified in the SCD related to poverty, strengthening local governments, jobs, and natural resource management. These areas have been prioritized based on government interest, programmatic link with ongoing or future operations, and availability of resources.

Table 3. Indicative (FY2019-2020) ASA Program

Focus Area	Indicative
Public Institutions	Nepal Federalism Support Platform – Include Capacity Needs and Gap Assessment
	Nepal Urban Governance and Federalism ASA
	Macroeconomic Monitoring
	Nepal Development Updates
	Programmatic Poverty Task
	Human Development- Public Expenditure Review
	Nepal Health Financing Strategy Support
Private sector-led jobs and growth	Nepal - Infrastructure Sector Assessment
	Developing Improved Solution for Cooking
	Renewable Energy Resource Mapping and Geospatial Planning
	Regional Energy Sector Dialogue
	Nepal Bridges Impact Evaluation
	Policy Note for Agriculture Finance Strategy in Nepal
	Finance & Competitiveness Dialogue
Nepal Jobs Platform/ Support to Developing an Inclusive Jobs Strategy for Nepal	
Inclusion and resilience	Early Childhood Development
	TA for Adaptive Social Protection in Nepal
	Advancing Social Protection II
	Water Sector Strategic Platform
	Nepal Environment Sector Diagnostics: Priorities for Accelerating Sustainable Growth
Nepal Climate Change	

Portfolio Management

47. **A number of principles will be applied to facilitate CPF implementation and achievement of results.** As of end-June 2018, Nepal’s portfolio comprises of 21 operations amounting to almost US\$2.5 billion, with 4 operations (US\$614 million) closing in FY19. Out of the portfolio, 3 operations or US\$606 million in commitments are at risk. Disbursement for investment project financing (IPF) during the IDA17 period was on average US\$240 million per annum, and in FY18 was about US\$248 million. The WB will continue efforts to reduce fragmentation of support by fostering lending, non-lending, and trust-funded activities that are programmatic and strategically aligned. This includes limiting trust-funded activities to those above US\$5 million per government request, which will help reduce the burden on government and WB to manage many small disparate activities. The IPF will be complemented by results-based financing and DPCs to leverage reforms and institutional changes that have broad nation-wide impact, as well as other financing support (e.g. guarantees, CAT-DDO, PEF) to respond to government priorities. The WB will continue to tackle project implementation issues from multiple angles including ensuring project

readiness, carrying out joint portfolio reviews, applying more stringent measures³³ for non-performing operations to free counterpart and WB resources (staff and financing) for redeployment, and supporting capacity building, especially for environment and social safeguards.

Financial management and procurement

48. **Continued progress is needed in PFM reforms to reduce the fiduciary risks.** The second Public Expenditure and Financial Accountability (PEFA) Assessment carried out in 2015³⁴ concluded that the overall fiduciary risk remains high. While the government has accorded high priority to PFM reforms through implementation of its National PFM Strategy and Action Plan (2016-2026), deeper engagement is required to address the accountability and governance needs of the new federal structure. This includes addressing internal control, financial reporting and audit.

49. **PFM reforms to align with the new government structure will have a bearing on WB operations.** The government is designing national strategies to channel resources to subnational levels based on agreed national priorities, for which existing supervision and enforcement mechanisms are insufficient. As the resource allocation mechanism and expenditure tracking are being rolled out, transparency and accountability at all levels needs to be assured. The federal government is mandated to consolidate subnational data on resource mobilization and management, for which it needs to be equipped. The subnational governments are expected to substantially manage public resources for which building procurement capacity and anti-corruption mitigation frameworks are necessary. The state parliaments' capacity to review, deliberate, and approve budget documents, as well as monitor budget implementation is untested. Governments at all three levels need systems and procedures to ensure the governance and procurement performance. The accountability institutions must establish procedures and strengthen their capacity to operate at state and local levels. Under Objective 1.1, the WB will address accountability and governance, capacity gaps, and systems and procedures for PFM and procurement. It will also support the strengthening of the independent oversight agencies. These interventions will contribute to reducing fiduciary risks at the systemic level, with positive impact on WB operations.

Environment and social

50. **There are new challenges in managing the environmental and social aspects of the WB operations given the multiple transitions.** On the government side, the new federal structure implies a need to strengthen the institutional capacity and understanding of the environmental and social standards embedded in WB-financed operations, especially when working with new counterparts and at subnational levels. On the WB side, the new Environment and Social Framework (ESF) will become effective in October 2018, while ongoing projects will continue to use the existing policies. Accordingly, two sets of policies will need to be managed during the CPF period that may amplify the already challenged counterpart capacity. In response, the WB is carrying out several actions. It is updating the review of Nepal's environmental and social framework for implementing the ESF and to better inform the application of safeguards policies. The WB also aims to support environmental and social management capacity at the national and subnational levels. The WB will proactively explore policy dialogue and

³³ This may include not granting extensions, suspensions, and cancellations.

³⁴ Public Expenditure and Financial Accountability (PEFA) Assessment: Nepal PFM second performance assessment as of FY2013-14 (Working Paper 97606, World Bank 2015).

technical assistance for complex issues of labor rights, gender and social inclusion, cultural heritage, and Indigenous People’s rights that are part of the ESF. In addition, the WB is bolstering its staff capacity.

Monitoring and Evaluation

51. **The principle tool for monitoring progress against the objective indicators is the results framework (Annex 1).** The WB will continue to carry out joint portfolio reviews with the government to address implementation bottlenecks, disbursement issues, and systemic challenges. A Performance and Learning Review (PLR) will be carried out at mid-term to take stock of the progress made against the objectives set out in this document, and adjust the strategy and results framework as needed to reflect the evolving country context and demand.

52. **The results framework integrates indicators to monitor progress in areas identified by the RRA as sources of fragility.** Indicators have been identified to track improvements in expenditure and revenue management that is core to the functioning of the new federal structure, as well as strengthening of public institutions for service delivery. They include indicators to monitor efforts to promote inclusion such as adoption of a citizen engagement strategy at the federal level, involvement of citizens in the budgetary process at the sub-national level, and gender-informed budget at state level³⁵. The results framework also disaggregates indicators to monitor efforts to ensure equity for vulnerable and marginalized groups such as in access to infrastructure, basic services, as well as jobs where data is expected to be available³⁶. The results matrix is expected to be updated during the PLR to reflect shifts in WBG program and new operations, and adjust indicators and baselines based on new data available. More broadly, the WBG will be tracking the developments related to federalism, macroeconomic and fiscal situation, and key sectors and thematic areas that may have implications on WBG operations. It will do so by reaching out and actively listening to key stakeholders, development partners and opinion leaders.

IV. MANAGING RISKS TO ACHIEVING CPF RESULTS

53. **The overall risk to program implementation is “substantial”.** Below are the risks rated “substantial” or “high” and their mitigation measures, where possible. Table 2 summarizes the risks.

- a. Political and governance. The risks related to federalism as described in the earlier sections of the paper may not be fully mitigated. However, the WB will contribute to systematic framework for fiscal decentralization and PFM, and greater accountability in the use of public resources. It will also support strengthening public institutions. The WB will deepen its understanding of the political economy through outreach across different stakeholders and analytical work on federalism.
- b. Macroeconomic. Federalism, earthquake recovery efforts, post-flood reconstruction, and the revamped social assistance programs will likely place a significant pressure on the government’s fiscal position. The external sector may add to this pressure with the slowdown in growth of remittances. These macroeconomic pressures may divert resources away from CPF implementation. The WB may help the government manage these economic challenges through support to federalism, expenditure

³⁵ Gender informed budget has been in place at the federal government level for the past 5 years.

³⁶ For example, in infrastructure, the CPF will monitor increase in number of people within 2-4 hours walking distance to roads in areas that are geographically disadvantaged. In basic service delivery, the CPF will monitor progress in reducing number of out-of-school children in the most disadvantaged areas as well as retention rates of poor students. In jobs, the CPF will monitor share of female and disadvantaged youth completing market relevant short-term training program to improve their chances of employability.

- and revenue management, and leveraging resources.
- c. Sector strategies and policies. Uncertainties with sector priorities and implementation of activities are anticipated, with the reorganization of line ministries and ongoing revisions of the functions and staffing. The WB will need to proactively reach out to the government counterparts to keep abreast of the changes and support them as needed in updating/implementing sector priorities.
 - d. Technical design of project or program. Technical design of projects and programs may become increasingly complex as the WB’s engagement becomes more multi-sectoral to address the development needs around establishing the new federal structure, creating more and better jobs, and improving inclusion and resilience. Complex project/program designs often impact implementation speed and achievement of results. The WBG will need to simplify the design as much as possible, and identify clear counterpart. This applies to joint WBG initiatives, especially in the context of MFD.
 - e. Institutional capacity for implementation. Implementation and sustainability may be impacted by institutional capacity issues, especially at subnational levels. Capacity constraints will need to be considered project design and integrate capacity strengthening across WB-financed operations. The planned capacity needs assessment for federalism will determine a systematic approach to capacity building. Interventions to address capacity gaps will benefit WBG operations in the longer term.
 - f. Fiduciary. Corruption at national and subnational levels may increase especially in the early years of federalism. The WB will endeavor to mitigate the fiduciary risks in each operation with project-specific fiduciary arrangements and incorporating third-party monitoring and citizen engagement. It would also aim to harmonize fiduciary mitigation measures with other DPs. The WB will address the fiduciary weaknesses systemically through PFM support with longer term benefit.
 - g. Environment and social. Weak capacity to implement safeguards policies pose a significant risk that will be further challenged by changes in the government structure and the introduction of the new ESF. The WB will carry out a number of actions to better support the application of the ESF and use of the existing safeguards policies (paragraph 50).
 - h. Stakeholder. With federalism, the WBG will most likely work with new stakeholders at the subnational levels where capacity and familiarity with WBG’s operational policies and processes may be more limited. Together with government, the WBG will need to strengthen its outreach and presence at the subnational levels in preparing and implementing operations. Given the aspirations for federalism, the WBG will need to manage expectations of what it can deliver during the CPF period.
 - i. Exogenous shocks. Nepal is vulnerable to natural disasters that may impact CPF implementation. While disasters may not be avoided, the WB may help strengthen disaster preparedness including through the introduction of risk insurance (CAT-DDO) to provide bridge financing for natural disasters.

Table 4: Summary of Risks to the Implementation of the CPF

Risk Categories	Rating
Political and governance	High
Macroeconomic	Substantial
Sector strategies and policies	Substantial
Technical design of project or program	Substantial
Institutional capacity for implementation	Substantial
Fiduciary	High
Environment and social	High
Stakeholders	Substantial
Exogenous shocks	Substantial
Overall	Substantial

Annex 1. Nepal CPF (FY2019-2023) Results Matrix

Focus Area 1: Public Institutions

Definition of Focus Area: This focus area will seize the unprecedented opportunity of federalism to strengthen systems and processes of public institutions that supports greater equity and inclusion. Transparency and accountability will be prioritized under Focus Area 1 as well as across all WB interventions, through for example promotion of better data and its dissemination and participation/engagement of citizens. Weak public institutions and governance were identified as a cross cutting constraint for public and private investments, for service delivery, and for access to jobs in the SCD. The RRA has highlighted the Kathmandu centric governance structure as a key source of exclusion. The 2015 Constitution and the introduction of the new federal structure was in response to the failure of previous centralized governments to deliver on equity and inclusion.

Link between the Focus Area and the WBG Corporate Goals: The SCD highlights that for federalism to deliver on its promise of greater equity, inclusion and accountability, there is a need to strengthen public institutions. This focus area provides the foundations that support ending extreme poverty and promotion of shared prosperity in a sustainable manner. If the new federal state structure cannot meet the expectations of greater inclusion, good governance, receptivity to local needs, and economic competition, there is an increased risk of destabilization. This may also lead to a regression in poverty reduction and shared prosperity.

Country Development Goals. The 2015 Constitution is explicit in assuring the representation and participation of women and disadvantaged groups in the new federal structure, equal access to quality public services and facilities, and good governance (*i.e.* transparent, free of corruption, accountable). The 14th Periodic Plan identifies as priority effective service delivery through better PFM, good governance reforms, and ensuring social protection and security. This focus area has an impact on government's efforts to achieve all the SDGs, especially SDGs 5 (gender equity), 16 (peaceful and inclusive sustainable development), and 17 (means to implement and partnership for sustainable development).

CPF Objective 1.1. Improved budget and revenue management

Intervention Logic: Nepal's new federal system needs to meet the popular expectations of more inclusive and higher sustained development and growth, with improved accountability and governance. To do so, strengthening of core functions and systems is critical, one of which is expenditure and revenue management at the three tiers of government, which is a government priority. A sound system and process is needed for budget and revenue management, and effective transfer of resources from national to subnational levels so that the subnational governments have the means to carry out its functions and deliver services. If such system and process are not in place, there is an elevated short- to- medium term risk of destabilization due to rising tensions between the three tiers of governments and between the people and the government if public services are negatively impacted due to disruptions in financial flow. Fiscal decentralization needs to be accompanied by strengthened PFM, enhanced systems for effective citizen engagement and support for effective grievance redress and dispute resolution mechanisms, to ensure the equitable and accountable use of public resources.

WBG Support: Under this objective, the WB proposes to focus on budget and revenue management for the new federal system. It aims to do so through a combination of policy advice, lending operations, and analytics/technical assistance to support ongoing fiscal reforms. The WB is financing a Programmatic Fiscal and PFM DPC series. It supports the establishment of a fiscal framework and procedures to transfer resources from national to subnational governments that support equitable and inclusive distribution of resources. It also promotes strengthened PFM systems for improved budget execution, which may be measured by reduction in capital spending in the last quarter of the fiscal year, increase in revenue collection, and improved transparency of information. This programmatic DPCs will be complemented by the PFM MDTF, Integrated PFM Reform, and proposed PFM support operations, which will support the strengthening of PFM, procurement systems and processes, and accountability of institutions across the three tiers of government. Based on

the capacity building needs assessment being carried out with other development partners, the WB will support capacity building at the three-levels of government. The ongoing InfraSAP is also identifying key policy reform and institutional strengthening needs for infrastructure, which will be considered in the future operations such as on urban governance (e.g. related to expenditure and revenue management, PFM, administrative system). The WB is incorporating the inclusion agenda in the DPC that will support a gender responsive budget system and an integrated approach to addressing GBV (refer also to Focus Area 3). It also aims to emphasize participation of women and marginalized group in policy reforms and capacity building efforts as recommended by the GESI Assessment. Accountability will be supported wherever possible, for example through the Integrated PFM Reform (TA) that would include the preparation of a citizen engagement strategy for PFM related activities and involving citizens in the budgetary process at the subnational government (SNG) level.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Proportion of capital expenditure spent in the last quarter of fiscal year³⁷ Baseline: 75% (2018) Target: 65% (2023)</p> <p>Indicator 2: Tax collections information available on real time basis at all tiers of government Baseline: 90% of tax collections available with a lag of two months³⁸ (2018) Target: 90% of tax collections available on real time basis (2023)</p> <p>Indicator 3: Number of states incorporating gender informed budget in their plan³⁹ Baseline: 0 (2018) Target: 7 (2023)</p> <p>Indicator 4: Sub-National Government (SNG) involve citizens in budgetary process⁴⁰</p>	<p>1.1.1. Consolidated local government public expenditure data available in the public domain Baseline: No data Target: Data available (2020)⁴¹</p> <p>1.1.2. States and local governments increase own-source of revenue⁴² Baseline: 20% (2018) Target: 30% (2023)</p> <p>1.1.3. Local government budget is prepared based on three-year MTEF⁴³ Baseline: no multi-year framework (2018) Target: Provincial 80% and local 50% (2023)</p> <p>1.1.4. A citizen engagement strategy is adopted at the federal level and provides guidance for Sub-National Government⁴⁴</p>	<p>Financing: Ongoing</p> <ul style="list-style-type: none"> - First Programmatic Fiscal and PFM DPC (P160792, US\$200 million) - Integrated PMF Reform (TA) (P164783, US\$18 million) <p>Financing: Indicative</p> <ul style="list-style-type: none"> - Second Programmatic Fiscal and PFM DPC - PFM Support - Nepal Local Governance and Integrated Infrastructure Support <p>ASA: Ongoing/Indicative</p> <ul style="list-style-type: none"> - Nepal Fiscal Federalism/ Fiscal Policy Analysis and Management - Nepal Federalism Transition Support/Fiscal Federalism Transition - Cost of Federalism and Capacity Gap Survey/Capacity Needs Assessment for federalism.

³⁷ Programmatic Fiscal and PFM DPC.

³⁸ Ibid.

³⁹ This will be supported through Fiscal and PFM DPC series.

⁴⁰ PFM (MDTF).

⁴¹ Ibid.

⁴² Integrated PFM Reform (TA).

⁴³ PFM (MDTF).

⁴⁴ Integrated PFM Reform (TA).

Baseline: Not established system. (2018); Target: 50% of SNG involve citizens in one or more stages of the budgetary process (2023)		- Urban Governance and Federalism
CPF Objective 1.2. Strengthened institutions for public sector management and service delivery		
<p>Intervention Logic: Public institutions have faced frequent changes in government leadership, weak capacity and rent seeking behavior, hampering service delivery. Basic services in education, health, safe water supply, sanitation, local roads had been provided by the central government through line ministries. Access to and quality of basic services have differed given geographic location. The quality of public services has deteriorated over the years, <i>e.g.</i> unavailability of medicine and trained staff, teacher absenteeism, limited access to roads and water supply. Urban planning, municipal financial management, and core municipal services delivery need to be strengthened with growing number of people in urban areas, for whom basic services (<i>e.g.</i> water and sanitation, city transport, solid waste management, public space) need to be provided. The 2015 Constitution determines that the responsibility for core basic services is with local governments, many of them with weak to non-existent capacities. The delivery of public services, already hampered by weak institutions and governance, may be exacerbated while the functions of the three-levels of government are being clarified. In this context, there is a need to ensure that basic services will be maintained and improved particularly given the popular expectations for improvements with federalism.</p> <p>WBG Support: The WBG will support the new government structure to deliver services efficiently and equitably across the country. The CPF program through multi sector interventions will aim to strengthen the systems and capacities across the three tiers of government to deliver services efficiently by (i) enhancing institutional and administrative capacity of urban local governments based on a gap analysis of cities and towns that lack critical public services and infrastructure; (ii) strengthening civil registration, establish a national population register, roll out of management information system to cover civil registration, cash transfers and transition to electronic payments; (iii) supporting local governments to establish health systems for planning, budgeting, expenditure tracking which also include quality vaccine management at the central, regional and service delivery level; (iv) improving fiduciary and education management data systems; (v) strengthening the institutional capacity and delivery of agricultural services at the national and sub-national levels and (vi) strengthening the mechanisms for effective citizens engagement in local governance, including accountable grievance redress systems. The ongoing water supply and sanitation (WSS) operations combine investment in asset creation with strengthening of local capacity for improvement in asset management. The capacity building needs assessment as well as public expenditure reviews in key sectors are expected to identify future interventions to improve service delivery and to be responsive to the people’s needs, including women and marginalized, as recommended by the GESI assessment. The WB is identifying activities to promote social accountability, to bring citizens into the local planning processes, and seek citizen feedback on basic services.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Number of districts with an electronic national population register established⁴⁵ Baseline: 0 (2018) Target: Increase by 75 (2023)</p>	<p>1.2.1. Number of birth registered in Management Information System(MIS) within the first year of birth⁴⁸ Baseline: 7,000 (2018)</p>	<p>Financing: Ongoing - Strengthening Systems for Social Protection and Civil Registration (P154548, US\$150 million)</p>

⁴⁵ Strengthening Systems for Social Protection and Civil Registration. The baseline is zero as there are no districts with electronic national population registers.

⁴⁸ Strengthening Systems for Social Protection and Civil Registration.

<p>Indicator 2: Percentage improvement in Effective Vaccine Management (EVM) Score ⁴⁶ Baseline: Average EVM score of 64% with 2 parameters achieving 80% (2018) Target: Average EVM Score of 80% with any 6 parameters achieving 80% (2023)</p> <p>Indicator 3: Percentage of funds disbursed to community schools in compliance with eligibility and utilization guidelines⁴⁷ Baseline: 80% (2018) Target: 90% (2023)</p>	<p>Target: 371,200 (2020)</p> <p>1.2.2. Livestock Management Information System (MIS) established and being used at the central and local level⁴⁹ Baseline: None (2017) Target: 1 at central level, 4 at state level (2023)</p>	<ul style="list-style-type: none"> - Health Sector Management Reform Program for Results (P160207, US\$150 million) - School Sector Development Program (P160748, US\$185 million) - Livestock Sector Innovation (P156797, US\$80 million) <p>Financing: Indicative</p> <ul style="list-style-type: none"> - Local Governance and Integrated Infrastructure Support <p>ASA: Ongoing/Indicative</p> <ul style="list-style-type: none"> - Urban Governance and Federalism - Nepal Federalism Transition Support - Nepal Fiscal Federalism (Transition) - Cost of Federalism and Capacity Gap Survey/ Capacity Needs Assessment for federalism - Human Development Public Expenditure Review - Health Financing Strategy Support
<p style="text-align: center;">Focus Area 2: Private Sector-Led Jobs and Growth</p> <p>Definition of Focus Area: The SCD notes that the opportunities for higher growth and poverty reduction are being missed, where growth rate are low and driven by remittance dependent private consumption rather than investment. It discusses the potential of changing the economic structure and productivity to contribute to a higher growth model of development. This focus area will contribute to improving the conditions for private sector led jobs and higher growth. Key areas of support include energy and transport connectivity, financial sector stability and inclusion, regulatory environment, and structural improvements for increased income opportunities. An emphasis will be made on youth and female labor force participation, especially those that are disadvantaged. Support for strengthening human capital will be addressed under Focus Area 3 as part of the efforts to bring about greater equity across the population.</p> <p>Link between the Focus Area and the WBG Corporate Goals: As argued in the SCD, if key variables – investment to GDP, growth of human, and growth of productivity – continue at the historical average and factoring in the population projections, Nepal’s per capita income is estimated to reach only US\$958 by 2030. This focus area aims to shift the economic structure to improve the environment for private sector investments and create income opportunities that would contribute to the WBG corporate goals.</p>		

⁴⁶ Health Sector Management Reform Program for Results. EVM is a standard score consist of nine parameters to determine the management and quality of vaccine management at the central, regional and service delivery levels.

⁴⁷ School Sector Development Program.

⁴⁹ Livestock Sector Innovation Project.

Country Development Goals: The 2015 Constitution commits to a new federal state that support policies to enhance employment. It also emphasizes its role to promote the private sector role in economy. The 14th Periodic Plan prioritizes employment creation and the contributing factors – private sector development, infrastructure development, and transforming key sectors (*e.g.* agriculture, tourism, industry, MSMEs). This focus area contributes to the government’s efforts to achieving the SDGs 1 (ending poverty), 5 (gender equity), 7 (energy for all), 8 (inclusive sustainable growth and decent work for all), 9 (resilient infrastructure and sustainable industrialization), 11 (inclusive, safe, resilient and sustainable cities), 12 (sustainable consumption and production), 13 (action against climate change, 14 (sustainable use of water resources), and 15 (sustainable use of land and forest resources).

CPF Objective 2.1. Improved power generation capacity and access to electricity

Intervention Logic: Nepal’s energy sector faces significant supply constraints. Insufficient installed generation capacity, aging transmission and distribution network lead to significant power outages. Two-thirds of the Nepalese firms identified electricity as a major constraint with frequent outages and expensive diesel generators, raising the cost and reducing competitiveness. In addition, legal and regulatory frameworks do not support the efficiency in the electricity sector. Increasing investment in hydropower and regional trade in energy would address some of these constraints. The Government’s 14th Periodic Plan prioritizes infrastructure, including energy and connectivity, as one of four development pillars.

WBG Support: The WBG will build on ongoing engagement in the energy sector and apply the MFD principles. In line with the government’s objectives and strategy for the power sector, the WB will aim to meet immediate needs for more power supply, considering renewable energy and energy efficiency solutions, as well as regional energy exchange. In doing so, the future WBG operation will seek opportunities to empower women and the needs of the poor and marginalized groups to reduce discriminatory practices restricting access, participation and influence in the energy sector, per the GESI Assessment. The WB also plans to explore ways to expand opportunities for professional women in the power sector. The WB’s investment and budget support operations are expected to contribute to at least 50 percent in climate change co-benefit. The WB and IFC will support hydropower generation capacity to supply the National Electric Authority (NEA) grid through public-private investments. The WB has been preparing a programmatic DPC series that would support the government’s policy, legislative, and institutional reforms efforts in the power sector to improve the environment of private participation, improve governance and financial performance of the sector, and services. IFC’s advisory services aim to improve bankability and environmental and social standards of key hydropower projects to attract qualified foreign and domestic developers. The WB and the IFC are providing technical assistance on power sector reforms, generation and transmission planning, financial viability, and operationalization of Nepal Electricity Regulatory Commission (NERC) Act. MIGA may support the Upper Trishuli-1 project through its political risk insurance guarantees with possible use of the IDA PSW MIGA Guarantee Facility.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1. Additional generation capacity in select areas (excluding import) Baseline: 0 (2018) Target: Increase by 63 MW⁵⁰ (2023)</p>	<p>2.1.1. Additional generation capacity supported by private sector financing Baseline: 0 MW (2018) Target: Increase by 216 MW (2020)⁵⁵</p>	<p>Financing: Ongoing - NP-Electricity Transmission and Trade (P115767, US\$138 million)</p>

⁵⁰ Grid Solar and Energy Efficiency 25 MW + Kabeli-A 38 MW.

⁵⁵ IFC investments.

<p>Indicator 2. Number of people provided with new or improved⁵¹ electricity services in targeted areas⁵² Baseline: 55 (2018) Target: 500,000⁵³(2023)</p> <p>Indicator 3. Additional generation capacity under construction or operational Baseline: 0 (2018) Target: New construction to deliver 516 MW⁵⁴ (2023)</p>	<p>2.1.2. High-voltage cross border transmission capacity⁵⁶ Baseline: 0 (2018) Target: Increase by 500 MW (2023)</p> <p>2.1.3. Nepal Electricity Regulatory Commission (NERC) is fully functional⁵⁷ Baseline: NERC Act passed and became effective in August 2017 Target: NERC is fully operational and has issued tariff setting guideline and one technical guideline.</p>	<ul style="list-style-type: none"> - Kabeli-A Hydro Electric (P122406, US\$65 million) - Sustainable Renewable Energy Program (SREP) (P131592, US\$7.9 million) - Grid Solar and Energy Efficiency (P146344, US\$130 million) - Power Sector Reform and Sustainable Hydropower (P150066, US\$20 million) <p>Financing: Indicative</p> <ul style="list-style-type: none"> - Energy Sector DPC - Upper Trishuli-1 Hydropower (with IFC, MIGA) - Business Models for Private Sector -Led Mini Grid Energy Access - IFC investments/PPP in hydropower <p>ASA: Ongoing/Indicative</p> <ul style="list-style-type: none"> - InfraSAP - Regional Energy Sector Dialogue - Developing Improved Solutions for Cooking; - Renewable Energy Resource Mapping and Geospatial Planning - Cross-cutting advisory to bankability of hydropower (IFC) - Environment & social advisory to improve standards in hydropower (IFC)
<p>CPF Objective 2.2. Increased transport connectivity</p>		
<p>Intervention Logic: SCD identifies transport connectivity as a key ingredient for continued development. Road and air transport connectivity are critical for the movement of people and goods within and across the borders of Nepal. It is the third top constraint to business environment, while poor connectivity in rural areas means that people there, often poor and disadvantaged, have limited access to social services, markets for buying and selling, and government</p>		

⁵¹ “Improved” is defined as more reliable, efficient (lower losses) and/or better customer services for the existing connections and measured by loss reduction, reliability and other indicators defined in the related projects.

⁵² SREP + Grid Solar and Energy Efficiency + ABC Business Models for Private Sector Led Off-Grid Energy Access.

⁵³ IDA existing distribution efficiency + SREP mini grid + new distribution.

⁵⁴ IFC investments.

⁵⁶ Nepal Electricity Transmission and Trade Project.

⁵⁷ Energy Sector DPC.

facilities. The sector also suffers from inefficient and low public investment. Road safety is a concern where transport related fatalities in Nepal is among the highest in the world.

WBG Support: The WBG support to transport connectivity will involve improving the level and quality of transport infrastructure and strengthening the government capacity to manage environmental and social risks. Building on ongoing engagement, the WB will support (i) safe, climate resilient and cost-effective bridges; (ii) improved maintenance, safety and quality of road infrastructure; (iii) improved connectivity in rural areas and regionally; and (iv) capacity building of key institutions in the transport sector. The WB will continue incorporating citizen engagement, to include outreach to women and marginalized groups as emphasized in the GESI Assessment. For example, the WB is promoting increase in female labor force participation in more high-value/technical jobs in the Second Bridges Improvement and Maintenance project. The WB will also explore opportunities for transformational initiatives including strategic road projects to improve connectivity with India and China. ASA on civil aviation and urban infrastructure to support government’s strategy is being proposed. Based on the InfraSAP findings, the WBG will also consider leveraging private sector efficiencies through public-private partnerships.

<p>Indicator 1: Percentage of bridges in good and fair condition in targeted routes⁵⁸ Baseline: 75% (2018) Target: 85% (2023)</p> <p>Indicator 2: Percentage of population within 2 and 4 hours of walking distance in the targeted Tarai and hill districts⁵⁹ Baseline: 0% (2018) Target: Increase by 4% (2019)⁶⁰</p>	<p>2.2.1. Roads constructed/upgraded in selected districts/areas⁶¹ Baseline: 350 km (2018) Target: 1,210 km (2019)</p>	<p>Financing: Ongoing</p> <ul style="list-style-type: none"> - Strengthening National Rural Transport (P132750, US\$100 million) - Road Sector Development AF (P095477, US\$55 million) - Nepal India Regional Trade and Transport (NIRTTP) (P144335, US\$99 million) <p>Financing: Indicative</p> <ul style="list-style-type: none"> - Second Bridges Improvement and Maintenance - Transport PPP (Airport) <p>ASA: Ongoing/Indicative</p> <ul style="list-style-type: none"> - InfraSAP (Transport) - Bridges Impact Evaluation
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CPF Objective 2.3. Improved financial sector stability and financial inclusion

Intervention Logic: Financial sector sustainability is core to expanding access to financial services. Nepal’s financial system’s capacity for financial intermediation or to channel long-term financing to support the country’s investment needs is still limited. Despite progress in financial inclusion, significant gaps remain for smaller firms and households, and across gender and geography. Access to finance for firms have shown some progress, but 40 percent of

⁵⁸ Second Bridges Improvement and Maintenance Project.

⁵⁹ Participating Districts (Tarai): Banke, Bara, Bardiya, Dang, Dhanusha, Kaillai, Kanchanpur, Kapilvastu, Nawalparasi, Mahottari, Parsa, Rautahat, Ruapandehi, Saptari, Sarlahi and Siraha; Participating Districts (Hills): Arghakhanchi, Bhojpur, Dhading, Gorkha, Gulmi, Kaski, Lamjung, Makwanpur, Nuwakot, Palpa, Pyuthan, Raswua, Salyan, Shankauwasabha, Sindhupalchowk, Surkhet, Syangja, Tanahun, Terhathum and Udayapur.

⁶⁰ The indicator is being monitored through the Strengthening National Rural Transport Project, which is expected to close in June 2019. The target will be updated at the Performance and Learning Review stage.

⁶¹ Strengthening National Rural Transport Project.

them still report it as a major constraint. Similarly, the agriculture sector contributing to one-third of GDP and to two-thirds of employment receives less than 5 percent of bank loans. The maturity mismatch of asset-liability in banks is a stability issue and it also limits long-term finance for infrastructure projects. Policy reforms for inclusive financial services, ensuring continuous financial stability and increasing access to finance in productive sectors, especially agriculture, and for underserved population are government’s key priorities in the 14th Periodic Plan.

WBG Support: The CPF program will support the government’s efforts to strengthen Nepal’s financial infrastructure and improve financial inclusion. The WB, through a programmatic series of Financial Sector Stability Development Policy Credit has been helping to reduce vulnerability of the banking sector and increase its transparency. The WB is expected to continue efforts to consolidate financial stability while enhancing financial inclusion and creating the enabling environment for long term finance. To promote financial inclusion, the WB is supporting livestock producers by linking them with financial institutions to finance their business plans. It will explore opportunities for market friendly alternative financial instruments (*e.g.* risk sharing facilities) that can have significant impact on female entrepreneurship and labor force participation. IFC will provide investment and advisory services to support the financial infrastructure (*i.e.* secured transactions and MFI credit reporting), financial services for women, digital finance and SME finance. Where opportunities arise, IFC will contribute to increasing access to financial services to MSMEs through investments aimed at MFIs and providing Working Capital Solutions to SMEs through commercial banks. The WB and IFC will support ASAs to inform government policy on managing risks and promoting financial resilience amongst more commercial farmers and agribusiness.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Financial Sector Stability: Indicator 1. Capital fund coverage of the total insured deposits to strengthen financial system’s safety net⁶² Baseline: Around 0.95% of the total insured deposits (2018) Target: Increase to at least 3% of the total insured deposits (2023)</p> <p>Financial Inclusion: Indicator 2: Number of targeted SMEs, agriculture producer groups and individuals have access to finance</p>	<p>2.3.1. All banks continue to meet prudential norms relating to solvency (Capital Adequacy Ratio (CAR)) and liquidity position (Credit-to-Capital and Deposit Ratio)⁶⁶ Baseline: All banks have met solvency and liquidity indicators⁶⁷ (2018) Target: All banks continue to meet solvency and liquidity indicators at all time or are subject to solvency action⁶⁸ (2023)</p>	<p>Financing: Ongoing - Third Financial Sector Stability DPC (P156960, US\$100 million) - Livestock Sector Innovation (P156797, US\$80 million)</p> <p>Financing: Indicative - Fourth Financial Sector Stability DPC - Banking for Women (IFC) - Investments for Digital Finance (IFC) - Global Trade Finance Program (GTPF) to support SMEs (IFC)</p> <p>ASA: Ongoing/Indicative - Policy Note on Agriculture Finance Strategy</p>

⁶² This means Capital Fund Coverage by the Deposit and Credit Guarantee Fund (DCGF). Data source from DCGF, Fourth Financial Sector Stability DPC and possible future programmatic DPC.

⁶⁶ Data from Nepal Rastra Bank (NRB) and Fourth Financial Sector Stability DPC.

⁶⁷ Lack of Supervisory Information System (SIS); measured through Fourth Financial Sector Stability DPC.

⁶⁸ All banks are subject to Bank Resolution Framework or Prompt and Corrective Action (PCA) by NRB; Operationalization of Supervisory System (SIS).

<p>(i) SMEs⁶³: Baseline: 0 (2018) Target: Additional 11,000 (2023)</p> <p>(ii) Agriculture Producer Groups⁶⁴: Baseline: 0 (2018) Target: Additional 500 (2023)</p> <p>(iii) Individuals⁶⁵: Baseline: 0 (2018) Target: Additional 600,000 (2023)</p>	<p>2.3.2. Number of financial services points (branchless banking, mobile banking customers, ATMs)⁶⁹ Baseline: 1,008 branchless banking centers; 2.66 million mobile bank customers; 2,081 ATMs (2017) Target: Additional 150 branchless banking centers, 0.5 million mobile banking customers and 200 ATMs per annum (2023)</p> <p>2.3.3 Long-term financing as percent of total loan portfolio and financial deepening measured by total market capitalization⁷⁰ Baseline: Long-term finance (NPR 353 billion) accounts for 16.5 % of total loan portfolio of the banking sector and total market capitalization of Nepal Stock Exchange is NPR 1,857 billion (2017) Target: Long-term finance to grow by 15% per annum and total market capitalization increases by 7% per annum (2023)</p>	<ul style="list-style-type: none"> - Finance and Competitiveness Dialogue - Insolvency Reform (TA) (IFC) - Digital Financial Service (IFC) - FinInfra Nepal (IFC) - Access to Finance (IFC)
<p>CPF Objective 2.4. Improved regulatory environment for competitiveness</p>		
<p>Intervention Logic: Nepal’s investment climate is characterized by complex trade regulations, poor logistic performance, inadequate investment facilitation, lack of infrastructure and political instability. These factors, in addition to the political instability that has characterized Nepal’s development in the last decade, have contributed to Nepal having one of the lowest rate of FDI in the world. Trade policies are not supportive and impede firms from accessing foreign markets for their output or to source inputs (both goods and services). Service trade has affected the quality and cost of provision of key backbone services such as transport, telecommunications and finance. The industrial infrastructure (<i>e.g.</i> economic zones, industrial parks, technology extension centers) necessary for firms to operate and grow is inadequate. There are concerns that the transaction costs of doing business may increase with the establishment of the three-tier government structure, and where the functions among them are still being clarified. The 2015 Constitution and the 14th Periodic Plan prioritizes private sector development for higher growth, which will contribute to further poverty reduction and shared prosperity.</p>		

⁶³ IFC intervention.

⁶⁴ Livestock Sector Innovation Project.

⁶⁵ IFC Intervention.

⁶⁹ IFC Access to Finance.

⁷⁰ Data source NRB; IFC’s Global Trade Finance Program.

WBG Support: The WBG will aim to support through lending, technical assistance, and analytical work key regulatory reforms and other areas to improve the enabling environment, competition and capacity of new firms to enter the market. The WB will support national and sub-national governments in policy and administrative reforms that will help reduce regulatory uncertainty, strengthen implementation capabilities and reduce transaction costs. The ongoing Nepal India Regional Trade and Transport project will contribute to reduced transport time and logistic cost along the Nepal -India corridor. The WBG will deepen its analysis to better understand the factors that limit entry/competition in key markets and the welfare impacts, and work with different levels of government. Public-private partnerships will be explored where industrial infrastructure is increasingly developed and operated by the private sector. The CPSD is expected to identify key reforms to be further discussed with the government to prioritize WB and IFC support. The future initiatives will be reflected in the review and update of the CPF at the time of the mid-term review.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1. Time needed to meet regulatory requirements for import/export and transit activities⁷¹ Baseline 61 hours (2018) Target: 55 hours (2023)</p> <p>Indicator 2. Tourism spending in targeted destination⁷² Baseline: \$53 /day (2018) Target: \$64/day (2022)</p>	<p>2.4.1. Border crossing time at selected border posts reduced⁷³ Baseline: 2.30 days (2018) Target: 1.50 days (2022)</p> <p>2.4.2. Improved measurement and evidence in key agri-business regulatory framework⁷⁴</p>	<p>Financing: Ongoing</p> <ul style="list-style-type: none"> - Nepal India Regional Trade and Transport (NIRTP) (P144335, US\$99 million) <p>Financing: Indicative</p> <ul style="list-style-type: none"> - Nepal Sustainable Tourism Value Creation - Healthcare, agribusiness and manufacturing (IFC) <p>ASA Ongoing/Indicative:</p> <ul style="list-style-type: none"> - South Asia Regional Trade Facilitation Program (SARTI) - Investment Climate Reforms Industry (IFC) - Competition in transport sector Nepal (TA) PPP in SEZs and Industrial Park (TA) - Nepal Market Creation for Tourism (IFC)
<p>CPF Objective 2.5. Improved income opportunities</p>		
<p>Intervention Logic: Most jobs in Nepal are of poor quality and are in the informal sector. Most youths that enter the labor market have limited employable skills and get absorbed in low income jobs either domestically or internationally. While off-farm employment is growing, it remains largely informal. In agriculture representing two-thirds of total employment, productivity and value-addition remain low. While agribusinesses are increasing, providing value addition to agriculture and contributing to jobs to the rural poor, their role in the economy is still limited. More and better jobs and income opportunities would contribute to economic empowerment of youths, women, and the poor/marginalized.</p>		

⁷¹ SARTI- Trade Facilitation Advisory Project. The indicator is monitored in hours according to the Doing Business methodology.

⁷² Nepal Market Creation for Tourism (IFC), which aims to increase tourism spending by 20%.

⁷³ Raxaul-Birgunj Border Post from NIRTTP.

⁷⁴ The range of regulatory framework include: seed, fertilizer, machinery, finance, market, transport, water and ICT. This will be monitored through ASA “Enabling Business for Agriculture”.

WBG Support: The WBG will take a broad-based approach to expand economic opportunities for youths, women, and other marginalized groups, which is aligned with the recommendations of the GESI Assessment. As an entry point, the WB has established the Jobs Platform ASA to prepare a comprehensive strategy to enhance productivity and earnings for formal and informal sector workers and to identify opportunities for creating more and better jobs across its operations. A Rural Enterprise Analysis will complement the Jobs Platform to identify constraints to emerging sub-sectors of rural enterprise (farm/non-farm) and opportunities for job creation. Through its investments, the WB and the IFC will continue to support improvements in productivity and value addition in the agriculture sector. The WB will support vocational education and market relevant skill development for disadvantaged youths. Another sector where the WB and IFC will engage is in tourism. Based on the CPSD findings, the WBG will consider opportunities to expand the tourism sector to contribute to sustained income generation. This effort will be linked to the interventions to improve the sustainable use of forest resources. The WB will also support a multi-sector jobs program that seeks to address the demand and supply side issues of the labor market. The program will target female youth for job opportunities outside traditional agriculture and gender roles. In addition, financial literacy training to migrant and returnees will promote smooth re-integration of migrants into local labor markets. The WBG will collaborate with development partners (e.g. DFID, ILO, SDC).

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1. Number of farmers/producer groups increase in sales of value added products/income in selected value chains Baseline: 0 (2018) Target: Additional 4,590 (o/w female 45%)⁷⁵ (2023)</p> <p>Indicator 2. Sales of value added products/income of targeted producer groups in selected value chains Baseline: 0 % (2018) Target: Increase by 25% (2023)⁷⁶</p> <p>Indicator 3. Percent of additional people employed ⁷⁷</p>	<p>2.5.1. Share of female and disadvantaged youth completing market relevant short-term training program⁷⁹ Baseline: 50% (2018) Target: 65% (2023)</p>	<p>Financing: Ongoing</p> <ul style="list-style-type: none"> - Poverty Alleviation Fund (PAF) II (P105860, US\$245 million) - Livestock Sector Innovation (P156797, US\$80 million) - Enhanced Vocational Education and Training II (P163018, US\$60.41 million) - Rani Jamara Kulariya Irrigation Phase II (P158364, US\$66 million) <p>Financing: Indicative</p> <ul style="list-style-type: none"> - Accelerating Inclusive Jobs Growth in Nepal Food and Nutrition Security Enhancement - Sustainable Tourism Value Creation - IFC Investment in Agribusiness and tourism <p>ASA: Ongoing/Indicative</p>

⁷⁵ Livestock Sector Innovation Project 3000+Food and Nutrition Security Enhancement Project 1590. 45% female share will be monitored through Livestock Sector Innovation.

⁷⁶ Livestock Sector Innovation Project (measures sales of value added products) and Food and Nutrition Security Enhancement (measures household income among producer groups).

⁷⁷ Employment includes both wage, self-employment, formal and informal.

⁷⁹ Enhanced Vocational Education and Training Project II.

<p>Baseline: 0% (2018) Target: Increase by 70% (2023)⁷⁸</p>		<ul style="list-style-type: none"> - Support to Developing an Inclusive Jobs Strategy for Nepal/Nepal Jobs Platform - IFC advisory Services in Agribusiness and tourism
<p style="text-align: center;">Focus Area 3: Inclusion and Resilience</p> <p>Definition of Focus Area: The SCD notes that overall inequality in Nepal, as measured by the Gini index of consumption, has been low and stable at 0.33 in 2011 and almost unchanged since 1996. This reflects the fact that Nepal is at the early stages of development and is benefitting from the equalizing force of international remittances rather than the absence of structural inequalities. The SCD also notes that while there has been a reduction in poverty and gains in human development, these are vulnerable to natural disasters and other risks (<i>e.g.</i> health shocks). To address these challenges, the WBG will promote equal opportunities in human capital development and strengthen resilience against climate change, natural disasters, and health shocks.</p> <p>Link between the Focus Area and the WBG Corporate Goals: This focus area contributes to ending extreme poverty and promoting shared prosperity in a sustainable manner. Through interventions supporting equal opportunities in human capital development, especially in education and the overall well-being of the poor, the poor and the vulnerable may be better equipped to participate in the economy. Through strengthening resilience, the poor and the vulnerable may be able to better weather the impacts of climate change, natural disasters, and health shocks, and not back into poverty</p> <p>Country Development Goals: The 2015 Constitution contains provisions to promote greater inclusion through equal access to basic services (<i>i.e.</i> education, health, water and sanitation) and empowerment of women, especially the vulnerable. It also underlines the need to ensure social protection and insurance against shocks, prevention and strengthened response mechanism for GBV, the sustainable use of natural resources, and preparedness for natural disasters. The 14th Periodic Plan focuses on effective service delivery, human and social development, and social security and protection for marginalized groups. It recognizes the need to strengthen preparedness to natural disasters, as well as improving natural resource management to mitigate preventable disasters. This focus area contributes government’s efforts to achieve SDGs 1 (ending poverty), 2 (food security and nutrition), 3 (healthy lives and well-being), 4 (inclusive and equitable quality education), 5 (gender equity), 6 (sustainable water and sanitation management), 11 (inclusive, safe, resilient and sustainable cities), 12 (sustainable consumption and production), 13 (action against climate change), 14 (sustainable use of water resources), and 15 (sustainable use of land and forest resources).</p>		
<p>CPF Objective 3.1. Improved equity in access to quality education</p>		
<p>Intervention Logic: While Nepal made impressive progress in access to primary education with youth literacy rate of 85 percent, there is a wide gap in learning outcomes given geography, ethnicity, and caste. Key challenges include the need for more attention to early childhood development, low skills and motivation among teachers, and the need to improve the use of learning assessment data for guiding policy and classroom practice. The importance of market relevant skills development has been identified as a constraint in the supply side of the labor market. In this regard, improvements are necessary in quality and relevance of higher education and vocational skills training, to address the issue of unskilled human resources and low labor productivity that limits youths, women, and marginalized groups to participate in the economy</p>		

⁷⁸ The target is from Enhanced Vocational Education and Training II project. Additional project interventions will be included during the mid-term review of the CPF.

WBG Support: Consistent with the government’s priorities, the WB will focus on improving the quality of education systems and the learning outcomes in basic and secondary education, as well as vocational training. In doing so, it will focus on access and opportunities for women and vulnerable groups, as recommended in the GESI Assessment. Through a combination of lending and ASAs, the WB will support efforts to align the education service delivery to the new federal structure and to strengthen the performance of education delivery at the local levels, particularly the disadvantaged districts to bring out-of-school children to formal school systems and learning centers. Planned analytical work include Federalism Support in Education Sector to prepare service delivery indicator and analysis of cost-effective approaches for strengthening performance and accountability at local levels, and a multi-sector ASA in Early Childhood Development. The WB is co-financing with 9 development partners that follow the mutually agreed Joint Financing Arrangement in the School Sector Development Program (SWAp).

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Equity in Access:</p> <p>Indicator 1. Number of out-of-school children brought to schools or learning centers in most disadvantaged districts (basic grade level 1-8)⁸⁰ Baseline: 88,875 out of school children aged 5-16⁸¹ (o/w female 49%) (2017) Target: 20% reduction from baseline (o/w female 50%) (2023)</p> <p>Indicator 2. Number of students enrolled in higher education institutions⁸² Baseline: 48 Students Target: 1200 students per year (o/w female 45%)</p> <p>Quality:</p>	<p>3.1.1. Poverty targeted support extended to Grades 9-12 students in targeted districts⁸⁵ Baseline: 25 districts (2017) Target: 77 districts (2022)</p> <p>3.1.2. Number of higher education institutions with (HEI) specific autonomous academic programs initiated⁸⁶ Baseline: 2 Target: 25 HEI specific autonomous academic programs initiated (2023)</p>	<p>Financing: Ongoing</p> <ul style="list-style-type: none"> - Higher Education Reform (P147010, US\$65 million) - School Sector Development Program (P160748, US\$150 million) <p>Financing: Indicative</p> <ul style="list-style-type: none"> - Nurturing Excellence in Higher Education <p>ASA: Ongoing/Indicative</p> <ul style="list-style-type: none"> - Human Development Public Expenditure Review - Early Childhood Development

⁸⁰ School Sector Development Program. According to the baseline survey of the 5 most disadvantaged districts, slightly more boys are out-of-school than girls (51% vs 49%). The objective is to bring out-of-school children into the formal school system or learning centers without increasing the gender disparity.

⁸¹ Based on household survey of 5 most disadvantaged districts. Additional 10 most disadvantaged districts will be carried out in FY17/18.

⁸² Enrollment is for specific autonomous academic programs through Higher Education Reform Project.

⁸⁵ School Sector Development Program.

⁸⁶ Higher Education Reform Project.

<p>Indicator 3. Retention rate of poor students to grade 12 in community schools⁸³ in selected districts⁸⁴ Baseline: 0% (2018) Target: Increase by 50% (o/w female 45%) (2023)</p>		
<p>CPF Objective 3.2. Improved access to services and support for the well-being of the vulnerable groups</p>		
<p>Intervention Logic: Nepal’s poor households continue to face constraints in access to basic health services and safe water supply and sanitation. In health, there are significant differences in utilization of health services across geography, education status, and income quintiles. Nepal faces high rates of malnutrition and stunting that reinforce inequality of opportunities. This area requires multi-sectoral interventions – safe water supply and sanitation, hygienic practices, food storage, maternal diet, access to diverse food supply to support early childhood development, cash transfers to vulnerable groups. GBV is the leading cause of death among women. According to the Nepal Demographic Health Survey 2016, 66 percent of women have faced sexual violence in their lives and 37 percent women are married before they are 18. There is a need to empower women, especially victims of GBV so that they may participate more equally in society and the economy.</p> <p>WBG Support: A combination of lending, TA and advisory services will support this objective. The WB’s ongoing health operation aims to improve the efficiency of health delivery system in the context of federalism. The IFC program will focus on supporting private sector investments in healthcare facilities to increase the quality and access to affordable healthcare. These health interventions will be complemented by WB support for sustainable and safe water and sanitation services in selected rural areas and agriculture investments that integrate nutrition support. The nutrition interventions will mainly target young children, adolescent girls, pregnant and lactating mothers. Specifically, the WB will work directly with communities such as Female Community Health Volunteers (FCHVs) using a community driven, skill based approach for improved utilization of available foods, care practices, food safety and access to public health services. The WB will continue to support institutional capacity building of the National Women Council to comprehensively respond to GBV (e.g. policy response, access to legal services, health support, shelters).</p>		
<p>CPF Objective Indicators</p>	<p>Supplementary Progress Indicators</p>	<p>WBG Program</p>
<p>Indicator 1. Number of households have access to water and sanitation services in targeted districts/state⁸⁷ Baseline: 518,258 (2018)</p>	<p>3.2.1. Number of people with access to improved private health services in targeted State/districts⁹² Baseline: 0 (o/w female) (2017)</p>	<p>Financing: Ongoing - Strengthening Systems for Social Protection and Civil Registration (P154548, US\$150 million)</p>

⁸³ Community Schools in Nepal are referred to as Public School; School Sector Development Program.

⁸⁴ Proportion of grade 9 pro-poor targeted scholarships (PPTS) beneficiary students in year 2 (FY17/18), from community schools in the 25 districts with high poverty incidence where PPTS scheme implemented in year 2, reaching Grade 12 in year 5.

⁸⁷ Rural Water Supply and Sanitation Project.

⁹² IFC investment in Health Services.

<p>Target: 1,182,000 (o/w female 49%) (2022)</p> <p>Indicator 2. Percentage of children with minimum acceptable diet⁸⁸ for 6 -23 months in targeted districts⁸⁹ Baseline: TBD (2018) Target: 8 % over baseline (2023)</p> <p>Indicator 3. Number of Gender Based Violence (GBV) survivors have access to justice and support⁹⁰ Baseline: 300 GBV Survivor/Year (2018) Target: 11,000Survivor/Year⁹¹ (2023)</p>	<p>Target: Increase by 750,000 (2023)</p> <p>3.2.2. Number of pregnant and lactating mothers receiving improved nutrition services⁹³ and products in targeted areas/state Baseline: 0 (2018) Target: Increase by 30,000 (2023)</p>	<ul style="list-style-type: none"> - Health Sector Management Reform (P160207, US\$150 million) - Rural Water Supply and Sanitation (P143036, US\$72 million) <p>Financing: Indicative</p> <ul style="list-style-type: none"> - Food and Nutrition Security Enhancement - IFC Investment in Health Services <p>ASA: Ongoing/Indicative</p> <ul style="list-style-type: none"> - Health Financing Strategy Support - Human Development Public Expenditure Review - Early Childhood Development - Integrated Platform for Gender Based Violence Prevention and Response in Nepal (TA) TF - Adaptive Social Protection TA - Water Sector Strategic Platform
<p>CPF Objective 3.3. Increased resilience to health shocks, natural disasters and climate change</p>		
<p>Intervention Logic: Nepal is extremely vulnerable to climatic and seismic shocks. Climate change will worsen the weather-related shocks, with certain regions likely to be hit harder by landslides and flooding. Nepal has recently experienced 24 glacial lake outbursts flood events, several of which have caused considerable damage and loss of life. Disaster risks disproportionately impact the poorest and set back the development gains. There is a need to better recognize the social dimensions for disaster and climate change. The government has enacted the Disaster Risk Reduction and Management Bill, establishing the National Disaster Risk Reduction and Management Authority. The poor are especially vulnerable to health shocks with limited access to safety net and to risk-pooling mechanisms (<i>i.e.</i> public or private insurance). Social protection programs are fragmented across several agencies and are not explicitly designed for poverty reduction interventions.</p> <p>WBG Support: The WBG will provide integrated support to improve climate and disaster resilience, which is aligned with the NDC. The WB has developed a comprehensive program to support the government’s disaster risk management and climate change agenda through focused engagement in housing reconstruction, disaster risk management capacities, policy reform and financial protection measures. The WBG will integrate disaster-resilience into infrastructure investments (<i>e.g.</i> roads and bridges, urban infrastructure). The WB is preparing a CAT-DDO, possibly accompanied by a Pandemic Emergency Facility to facilitate Nepal’s access to emergency financing in case of disaster. This would support the government’s broader disaster risk financing strategy. Through ASAs, the WB will seek to integrate climate resilience in government policies, strategies and social protection programs given the new federal structure. This includes a TA for adaptive social protection to improve risk management, preparedness and response to shocks. The Social Protection</p>		

⁸⁸ Acceptable diet refers to a child meeting the minimum feeding frequency and minimum dietary diversity for their age group and breastfeeding status.

⁸⁹ Food and Nutrition Security Enhancement Project.

⁹⁰ Integrated platform for GBV project (TA) will help GBV survivors through coordinated multi-sectoral response and benefit from reduction in harmful social norms.

⁹¹ Baseline and target are based on Nepal Police Department.

⁹³ Nutrition Services means behavior change communications around exclusive breastfeeding, complementary feeding, maternal dietary diversity, and antenatal care.

<p>Program will support the modernization of systems and the expansion of coverage of the vulnerable in social protection and civil registration through better targeting and a strong emphasis on gender equity. The Social Security Allowance (SSA) program focuses on women (single and widowed). The Bank will explore opportunities for improved inclusion in disaster risk management activities such as gender specific trainings on risk awareness and mitigation, crowdsourced risk assessment and promoting role of women in resilient recovery. Ongoing housing reconstruction program is training women in masonry.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1. Number of eligible beneficiaries who have access to social security allowance program in selected districts⁹⁴ Baseline: 2.3 million (o/w 1.5 million female) (2018); Target: 2.9 million (o/w 1.9 million female) (2023)</p> <p>Indicator 2 Accuracy and timeliness of weather and flood forecasts and early warning dissemination Baseline: 0.49 (24-hour time period)⁹⁵ (2017) Target: 0.80 (24-hour time period) (2023)</p> <p>Indicator 3: Adoption of disaster risk financing and insurance schemes⁹⁶ Baseline: 0% (2017); Target: Increase by 30% (2023)</p>	<p>3.3.1. Number of additional households adopt hazard resistant construction practices Baseline: 50,000 (2017) Target: 650,000⁹⁷ (2023)</p> <p>3.3.2. Expanded disaster preparedness and response capacities at national and local levels⁹⁸ Baseline: 0% (2017) Target: Increase by 30% (2023)</p> <p>3.3.3. Number of river basin management plans for hard infrastructure (i.e. hydropower, roads) Baseline: 0 (2017) Target: 4 additional plans (2023)</p>	<p>Financing: Ongoing</p> <ul style="list-style-type: none"> - Building Resilience to Climate Hazards (P127058, \$31 million) - Earthquake Housing Reconstruction Additional Financing (P163593, US\$300 million) - Safer Reconstruction (MDTF TA) - Strengthening Systems for Social Protection and Civil Registration (P154548, US\$150 million) - First Programmatic Fiscal and PFM DPC (P160792, US\$200 million) <p>Financing: Indicative</p> <ul style="list-style-type: none"> - CAT DDO - Second Programmatic Fiscal and PFM DPC <p>ASA Ongoing/Indicative:</p> <ul style="list-style-type: none"> - Nepal Climate Change - Nepal Advancing Social Protection II - Adaptive Social Protection TA - Water Sector Strategic Platform
CPF Objective 3.4. Improved adoption of sustainable natural resource management		
<p>Intervention Logic: Nepal has significant natural resource wealth, which may contribute to the economy. However, natural resources need to be well managed to mitigate the impact of climate change (e.g. floods or drought) and environment risks. Small farmers face numerous technological and agronomic constraints such as outdated agricultural practices and technologies, land fragmentation, low water productivity in the Tarai and limited watershed management. The forest sector contributes on average only 3.5 percent to the national GDP due to low productivity. Deforestation and poor catchment management pose increased flood and other environmental risks. The government has committed to reducing greenhouse gas emissions from</p>		

⁹⁴ Strengthening Systems for Social Protection and Civil Registration Project.

⁹⁵ Forecast verification system score per World Meteorological Organization methodology. The indicator will be monitored through Building Resilience to Climate Hazards Project.

⁹⁶ CAT-DDO, Programmatic Fiscal and PFM DPC, and on demand technical assistance.

⁹⁷ Earthquake Housing Reconstruction project beneficiaries who are expected to complete hazard resistant housing reconstruction.

⁹⁸ The aim is to increase existing disaster preparedness and response by supporting the implementation of DRR&M Bill 2017 over the next five years through CAT-DDO and TA.

deforestation and forest degradation in its NDC to mitigate climate change. Addressing the drivers of deforestation such as increased demand for agricultural land, lack of access to improved technology, absence of inclusive forest policy process, weak rule of law and social inequality is an important to meeting the NDC. Nepal is also facing increased pollution (air quality and solid waste) in urban areas and from neighboring countries.

WBG Support: The WBG will support increased resilience through sustainable use of natural resources. This includes climate smart technologies and practices in agriculture that improve water productivity, irrigation, soil management, sustainable agriculture productivity growth, and diversification into more resilient and remunerative cropping. Attention will be given to women, youth and vulnerable segments of the rural population. IFC will work with agribusiness firms to promote improved agriculture and irrigation practices and introduce new techniques to small farmers to adapt to climate change. Through ASAs, the WB will provide advice and support to the government on agricultural credit and risk insurance, land governance, and water management. The Water Sector Strategic Platform ASA aims to bring together water related activities across GPs as well as IFC. In forest management, ongoing REDD+ interventions will continue to focus on reducing GHG emissions from deforestation and forest degradation, supporting sustainable forest management and enhance forest carbon stocks in the context of improving the productivity of the forest sector. These efforts will contribute to SDG15 related to forestry. The WB’s agriculture projects will also contribute to reducing the GHG emission. An environment sector analysis is being carried to identify opportunities to strengthen the sustainable use of natural resources.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1. Increase in number of farmers adopting climate smart agricultural practices in targeted districts/States Baseline: 0 (2017) Target: Additional 116,800 farmers ⁹⁹ (o/w female 45%¹⁰⁰) (2023)</p> <p>Indicator 2. Net Decrease in greenhouse gas emissions from deforestation and forest degradation¹⁰¹ Baseline: 0 (2017) Target: 1.5 mil tons of CO2 reduced (2023)</p>	<p>3.4.1. Increase in area provided with improved irrigation service in targeted areas¹⁰² Baseline: 0 (2017) Target: Additional 11,000 ha (2023)</p> <p>3.4.2. Number of sub-national land use/spatial plans governing sustainable natural resources use¹⁰³ Baseline: 0 (2017) Target: 2 sub-national land use/spatial plans (2023)</p>	<p>Financing: Ongoing</p> <ul style="list-style-type: none"> - Forest Investment Program and FCPF REDD Readiness grant (AF) (P125198; US\$5.2 million) - Livestock Sector Innovation (P156797, US\$80 million) - Modernization of Rani Jamara Kulariya Irrigation Phase 2 (P158364, US\$66 million) <p>Financing: Indicative</p> <ul style="list-style-type: none"> - FCPF Nepal Emission Reduction Program - Forest for Prosperity Project (with Forest Investment Program and IDA-18 resources)

⁹⁹ 75,000 from IDA Livestock Sector Innovation Project+31,800 IDA FANSP+10,000 from IFC intervention.

¹⁰⁰ Livestock Sector Innovation Project 45%.

¹⁰¹ Target is part of the FCPF Emission Reduction Program (working in the Tarai Arc Landscape) and the Forest Investment Program- Investment Plan. The indicator is net based so baseline is 0.

¹⁰² Rani Jamara Kulariya Irrigation Phase 2.

¹⁰³ Forest for Prosperity Project.

	<p>3.4.3. Additional ha of degraded forest rehabilitated¹⁰⁴ Baseline: 0 (2018) Target: Additional 10,000 ha (2023)</p>	<ul style="list-style-type: none"> - Forest Investment Program- Dedicated Grant Mechanism for Indigenous Peoples and Local Communities - Food and Nutrition Security Enhancement <p>ASA: Ongoing/Indicative</p> <ul style="list-style-type: none"> - Environmental Sector Diagnostics: Priorities for accelerating growth - Catchment and hydropower ASA - Nepal Federalism Transition Support - Water Sector Strategic Platform
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¹⁰⁴ The indicator will be measured through FCPF Emission Reduction Program and the Forest Investment Program- Investment Plan. The indicator is net based so baseline is 0.

Annex 2: Nepal Country Partnership Strategy FY2014-2018 - Completion and Learning Review

Date of CPS: May 29, 2014 (Report No. 83148-NP)

Date of CPS Performance and Learning Review: February 21, 2017 (Report No. 110322-NP)

Period covered by the Completion and Learning Review: June 1, 2014 to May 31, 2018

I. SUMMARY OF KEY FINDINGS

1. **The FY2014-18 CPS was preceded by a series of Interim Strategy Notes and constituted a major shift in focus of WBG engagement from more short-term, post-conflict assistance to longer-term development.** The CPS was prepared after the 2013 elections when there was cautious optimism for the moderation of political and social divisions, continued progress in poverty reduction, and faster and more inclusive growth. The CPS recognized the implementation risks including political instability, weak governance, and low implementation capacity. It was organized around two pillars: *Increasing Economic Growth and Competition* and *Increasing Inclusive Growth and Opportunities for Shared Prosperity*. Cutting across these pillars, the WBG aimed to support improvements in governance, gender, and climate change across the portfolio. It was aligned with the country's own development goals to improve living standards and reach middle-income country status by 2030. This Completion and Learning Review (CLR) draws together the experience and key lessons learned from the CPS implementation as adjusted by the Performance and Learning Review (PLR).

2. **The PLR concluded that while WBG was on track to achieve many outcome targets and the CPS pillars and themes remained valid, evolving country realities demanded adjustments in its engagement.** The PLR confirmed the challenges confronting the CPS implementation. One set related to the frequent changes in political leadership, weak governance and institutions, and implementation capacity issues. Another stemmed from exogenous factors – the devastating earthquakes in 2015 and the trade disruptions/fuel crisis in 2015-2016. In addition, important changes are occurring in the country including Nepal's transition to a federal state based on the 2015 Constitution and the slowdown in growth of remittances raising concerns about absorbing returning migrant workers and impact on poverty reduction. These developments called for adjustments. The PLR was used to adjust the WBG's program to start shifting support for the transition to federalism including strengthening institutions, to foster domestic jobs, and to increase preparedness against shocks. Operationally, this entailed greater discipline in the types of activities being funded and an increase in multi-sectoral approach. The PLR recalibrated the CPS results matrix to reflect these changing circumstances.

Development Outcome

3. **The development outcome of the CPS is assessed as *Moderately Satisfactory* since CPS objectives were mostly achieved.** Table 1 summarizes the CPS development outcome ratings and Section II provides more detailed assessment of the achievement of CPS objectives.

4. **The WBG's overall performance in designing and implementing the CPS program is assessed as *Good*.** The CPS design was aligned with the government's own development priorities. The WBG's program was focused on the major constraints to poverty reduction and improved shared prosperity. Though aware of the risks, the CPS reflected a degree of optimism about the speed with which outcomes could be achieved (*e.g. hydropower*). The WBG could respond flexibly to realized risks and the exogenous shocks. A range of approaches were applied to address implementation issues (see para. 30). The World Bank's lending portfolio increased from 17 projects with net commitments of US\$1.45 billion to 23

operations totaling US\$ 2.7 billion (end-May 2018) including 3 operations (US\$228 million) closing on June 30, 2018. The portfolio includes an addition of US\$300 million from the IDA Crisis Response Window mobilized for post-earthquake needs. IFC's committed investment portfolio totaled US\$46 million with 13 clients at the start of FY2014 and US\$47 million working with 12 clients as of end-May 2018. MIGA had no exposure. The CPS often articulated outcomes that were broader at a country level, while the supporting outcome indicators were shorter-term, project focused. This suggests the importance of articulating the results chain focused on the development outcomes. The assessment of the WBG performance rating is discussed in Section III.

II. ASSESSMENT OF DEVELOPMENT OUTCOMES

5. **The CPS focused on establishing the foundations for longer-term inclusive and sustainable growth.** It was prepared at a time of optimism after the 2013 elections and progress was seen in consolidating peace. Nepal has been caught in a low growth trap where economic growth has been steady yet modest, averaging 4 percent in the last 20 years. Remittances, equivalent to 30 percent of GDP in 2015 contributed to sustained poverty reduction and improvements in human development, putting Nepal ahead of its southern neighbors. While Nepal has made impressive gains in poverty reduction and other human development indicators, the CPS noted the unequal decline in poverty based on ethnicity and geography. The CPS recognized the risks and vulnerabilities of political and economic developments, in addition to the weak institutions and capacities.

6. **At the time of the PLR, the WBG engagement was adjusted to address the evolving country context.** The 2015 earthquakes and external trade disruptions had a major impact on Nepal, and on WBG operations. Economic growth slowed in the second half of the CPS period (0.6 percent in FY2016) and some poverty gains may have been reversed. The resumption of economic growth in 2017 was affected by the worst floods in decades. During the CPS period, government leadership changed frequently. The successful completion of the local, provincial and parliamentary elections at the end of 2017 bodes well going forward. While some uncertainty remains about the modalities of the constitutionally mandated transition to a federal state, the government is committed to following through.

7. **This self-assessment is based on the results matrix updated in the PLR.** Table 1 summarizes the development outcome and outcome indicator ratings, while CLR Attachment 1 contains the assessment details of the outcome indicators. It is largely based on the recent data contained in implementation status reports (ISR) and other project documents as well as the views of WBG staff.

Pillar 1. Increasing Economic Growth and Competitiveness

8. **Under Pillar 1, assessed as *Moderately Satisfactory*, the WBG focused on the binding constraints to economic growth and competitiveness.** The CPS identified infrastructure (energy and transport) as a key binding constraint to growth. Infrastructure development is also important to addressing poverty and improving social inclusion. To boost private investment for growth, under this pillar the WBG focused on financial sector stability, financial inclusion, and promoting an enabling business environment.

Table 1. Summary of CPS Development Outcome and Outcome Indicator Ratings

Pillar I. Increasing Economic Growth and Competitiveness (<i>Moderately Satisfactory</i>)					
CPS Outcome	Total No. of Indicators	Indicators Achieved	Indicators Mostly Achieved	Indicators Partially Achieved	Indicators Not Achieved
1.1 Increased Supply and Reliability of Energy (<i>Mostly Achieved</i>)	4	3			1
1.2 Improved Transportation Connectivity (<i>Achieved</i>)	3	3			
1.3 Improved Financial Sector Stability and Increased Financial Inclusion (<i>Mostly Achieved</i>)	2	1	1		0
1.4 Improved Business Regulatory Environment for Private Sector Investment (<i>Mostly Achieved</i>)	3	2		1	
	12	9	1	1	1
Pillar II. Promoting Inclusion and Increasing Resilience (<i>Moderately Satisfactory</i>)					
CPS Outcome	Total No. of Indicators	Indicators Achieved	Indicators Mostly Achieved	Indicators Partially Achieved	Indicators Not Achieved
2.1 Increased Agricultural Productivity and Commercialization (<i>Achieved</i>)	3	3			
2.2 Increased Equitable Access to Education and Improved Relevance of Skills Development (<i>Mostly Achieved</i>)	4	1	1	2	
2.3 Improved Access to and Quality of Health and Nutrition Services (<i>Partially Achieved</i>)	3	1		2	
2.4 Reduced Vulnerability of the Socially Excluded, Marginalized, and economically Vulnerable Population (<i>Mostly Achieved</i>)	2	1	1		
2.5 Improved Infrastructure in Areas Affected by the 2015 Earthquakes (<i>Achieved</i>)	1	1			
	13	7	2	4	

Outcome 1.1: Increased Supply and Reliability of Energy (Mostly Achieved)

9. **While developing Nepal’s hydropower capacity requires longer-term support, the WBG aimed to increase on-grid generation capacity, power imports, and the overall reliability of the system.** As noted in the PLR, the WBG energy portfolio performance was poor. Implementation was slower than anticipated with delays in decision making (e.g. project effectiveness)¹⁰⁵, procurement and contract award¹⁰⁶; and challenges in environmental and social safeguards issues. Given the complex political economy of the sector many projects anticipated during the CPS period did not materialize. The Upper

¹⁰⁵ The Kabeli-A Hydroelectric project, approved July 2014, and the Grid Solar and Energy Efficiency project, approved December 2014, only became effective mid-2016.

¹⁰⁶ An example is the Grid Solar and Energy Efficiency project where contract was awarded in August 2017.

Trishuli-1 project was delayed due to a backlog of other Power Purchase Agreements pending approval, though the Project Development Agreement for Upper Trishuli-1 was signed. In January 2018, the Upper Trishuli-1 PPA was signed, paving the way for financial closure. The Kabeli-A Transmission project (closed 2017) achieved 35 percent of the target increase in transmission capacity. During the CPS period the World Bank undertook analytical work to build the knowledge base for further policy and institutional reforms through future engagement in the energy sector.

10. **Despite these challenges, the immediate CPS objective of increasing the supply and reliability of on-grid electricity was mostly achieved.** Additional local generation capacity is still coming on line. However, the indicators for rehabilitated local generation capacity, increased power imports, and reduced load-shedding hours were achieved. The increase in power imports, above the CPS target, and the rehabilitation of local hydropower capacity contributed to reducing the load-shedding hours in major cities connecting districts from an average of 14 hours per day at the start of the CPS to zero hours, far better than the CPS target of 8 hours per day. This reduction may also be attributed to the reduction in leakage and the redirecting of electricity from elsewhere (e.g. industrial/commercial use) to households.

Outcome 1.2: Improved Transportation Connectivity (Achieved)

11. **Progress was made in improving internal transportation connectivity and this CPS objective was achieved.** The World Bank support focused on improving internal connectivity, particularly in remote areas, as well as on rehabilitating and maintaining roads and bridges impaired by armed conflict, political instability and the earthquakes. The use of the PforR instrument – a first in Nepal – for the Bridge Improvement and Maintenance Program (BIMP) incentivized improvements in government’s planning and prioritization of investments and maintenance efforts of bridges. Along the targeted routes, the percentage of bridges in good and fair condition increased to 81.2 percent, above the CPS target. The World Bank’s involvement also helped improve the government’s performance management with 63 percent of bridge works completed on time compared to the baseline of 20 percent. With support of the Road Sector Development Project, in the targeted districts, the percent of population with access to all season roads within a 20-minute walking distance increased from 8 to 14 percent. In addition, average journey times from the targeted districts to key economic centers decreased from 4 to 2.6 hours.

Outcome 1.3: Improved Financial Sector Stability and Increased Financial Inclusion (Mostly Achieved)

12. **The WBG support for financial sector stability to address economic risks stemming from the sector’s rapid expansion and associated period of distress achieved the CPS target.** The WBG broadened its engagement in the sector with a series of DPCs to promote reforms to strengthen financial sector stability. It supported improvements in the capital adequacy of state-owned banks, strengthened inspection and compliance, and increased the number of beneficiaries with access to finance. The DPC supported the passage of key legislations¹⁰⁷ making the framework for bank resolution and deposit insurance more effective. The World Bank also contributed to the development of the government’s Financial Sector Development Strategy through complementary technical assistance (TA). The targets for capital adequacy and government inspections were achieved. The capital adequacy ratio for Nepal Bank Limited, Rastriya Banijya Bank, and other state-owned banks exceeded the target of 10 percent threshold.

¹⁰⁷ These include the Bank and Financial Institution Act, the Nepal Rastra Bank Act and the new Deposit and Credit Guarantee Fund Act.

The special inspections program was carried out on financial institutions covering 64 percent of banking sector assets and covering 74 percent of Class A bank assets - above the CPS target.

13. **The WBG also met its objective to increase financial inclusion.** IFC undertook a number of financial sector advisory engagements to, among others, foster the development of e-payments and mobile banking over the CPS period. To date, 2.9 million individuals and microenterprises have access to financial services through mobile banking, of which at least 1.67 million are female. These achievements compare with the IFC target of increasing access to financial services for 2.5 million micro-enterprises and individuals, of which 1.6 million being female.

Outcome 1.4: Improved Business Regulatory Environment for Private Sector Investment (Mostly Achieved)

14. **CPS targets for improving the business regulatory environment was mostly achieved, although the broader investment climate continues to be challenging.** Nepal's ranking in the Global Competitiveness Index improved from 125th out of 144 in 2012/13 to 88th out of 137 countries in 2017/18. It ranks 105th out of 190 countries in the 2018 Doing Business (DB) Report – the same relative ranking as in 2014. While Nepal's relative DB ranking has not improved, the recent DB report indicates that the financial cost of doing business has fallen (*e.g.*, cost of starting a business fell from 34.6 percent of income per capita in 2014 to 24.9 percent in 2018). This result is reflected in the CPS outcome indicator, where IFC advisory services contributed to achieving compliance cost savings of US\$24 million, above the target of US\$18.5 million. Similarly, the increase in the number of formally registered business exceeded the CPS target. Although the costs of doing business/compliance costs may have declined, they have not resulted in an increase in private capital formation as a share of GDP. While it was expected that an additional US\$100 million in new private investment would be mobilized in priority sectors, only US\$38 million was achieved. Overall, IFC's program was affected by the setbacks faced by the private sector (*i.e.*, the 2015 exogenous shocks and frequent changes in government). The Upper Trishuli-1 hydropower project, expected to be the largest single FDI project in Nepal, was envisaged to have been committed during the CPS period but faced significant delays (refer to para. 9).

Pillar 2. Promoting Inclusion and Increasing Resilience (Moderately Satisfactory)

15. **Under Pillar 2, assessed as Moderately Satisfactory, the WBG program concentrated on promoting inclusive growth, providing those disadvantaged with opportunities to improve their livelihoods and resilience.** The WBG supported increased agricultural productivity, equitable access to education, access to and quality of health and nutrition services, empowerment of marginalized groups (*e.g.*, women), improved social protection, and infrastructure resilience.

Outcome 2.1: Increased Agricultural Productivity and Commercialization (Achieved)

16. **The WBG achieved the targets for increased agricultural productivity and share of rural households selling in the market.** The CPS recognized that agricultural productivity and increased sale of agriculture products by rural households is important for continued poverty reduction especially with over three quarters of the population employed in this sector. The provision of year-round irrigation and expanding the irrigated area is one element of the WBG's efforts to increase agricultural productivity. Similarly, a shift to high value agriculture and a value chain approach to agricultural development is key

to increasing income. With the WBG's support¹⁰⁸, the area under irrigation in the Tarai region increased above the CPS target. By financing demand-based sub-projects by farmers' groups/agribusiness and pre-investment advisory and technical support, the WBG also achieved the CPS targets of increased productivity across a range of commodities (*i.e.*, tomatoes, milk, sugarcane) and sale in markets of select commodities (*i.e.*, ginger and milk). Among key crops supported by the WBG projects¹⁰⁹ (*i.e.*, rice, wheat, maize and potatoes), the increase in productivity ranged from 44 to 73 percent. Of the estimated 200,000 beneficiaries of WBG agricultural projects, nearly 75 percent were women. While the CPS targets were achieved, any future support should consider in its design the potential for broader, country-wide impact.

Outcome 2.2: Increased Equitable Access to Education and Improved Relevance of Skills Development (Mostly Achieved)

17. **During the CPS period, the WBG placed a stronger focus on equalizing access to secondary and higher educations and on quality, which was mostly achieved.** Given the near universal net enrollment at the primary level, the World Bank shifted to improving equitable access to secondary and higher education including skills development. It also focused on increasing education quality and inclusion, especially for the poor. While net enrollment in secondary education increased significantly for male and female students over the CPS period, the targeted enrollment rates were just missed. Efforts to increase the number of under-privileged students enrolled in higher education were partially achieved due to implementation coordination and capacity issues and the impact of the 2015 exogenous shocks. Similarly, the number of students graduating annually from accredited tertiary institutions was partially achieved. The target for improving the quality and relevance of short-term training programs, on the other hand, was achieved – 70.3 percent of graduates were gainfully employed at least six months after completion of a training program. Employment rate for those receiving training was higher than those who did not receive training.¹¹⁰ In terms of institutional reform, the WBG was successful in shifting technical vocational education training (TVET) programs to focus on outcomes (as opposed to inputs) and to introduce a range of affirmative actions to promote inclusion. The sector-wide approach (SWAp) proved to be a good vehicle for development partner (DP) harmonization and improved administrative efficiency to expand access to quality education.

Outcome 2.3: Improved Access to and Quality of Health and Nutrition Services (Partially Achieved)

18. **The WBG support concentrated on access and quality of health of the poorest income quintiles as well as those in rural areas, which was partially achieved.** The CPS noted the low quality and unequal access to health services, the burden of chronic malnutrition and the important link between health and nutrition and improvements in water and sanitation. The World Bank contributed to improving access to better and safer health services as measured by percentage of births attended by skilled birth attendants. Among the lowest and second lowest income quintiles, births delivered by skilled professionals exceeded the CPS target. While a nation-wide indicator was not part of the CPS, there was a significant improvement in birth attendance - 55.6 percent of births compared to the CPS baseline of 35 percent. Similarly, the percent of children receiving vaccinations increased, reaching nearly 85 percent of children. Both maternal and infant mortalities rates have continued to decline. Sustaining these improvements and strengthening health care systems and governance, including developing a health care finance strategy,

¹⁰⁸ Rani Jamara Kulariya Project.

¹⁰⁹ Project for Agriculture Commercialization and Trade and Agriculture and Food Security Project.

¹¹⁰ An increase in the probability of employment by 20 percent – even higher for female trainees.

will be important. As with the education sector, the health SWAp contributed to greater harmonization among DPs and better alignment with government priorities.

19. **While progress is seen in improving equal access and quality of services, reaching disadvantaged communities has required extra effort.** Support to improve child nutrition was more challenging given the multi-sector coordination needed across government agencies; the outcome indicator - the percentage of small children with improved nutrition in the most disadvantaged village development committees - was partially achieved. Similarly, increasing the number of new households with access to safe drinking water and improved sanitation was only partially achieved. Reaching those remaining households is challenging both technically and in terms of increased costs as they tend to be in more remote locations. This will need to be kept in mind in future interventions.

Outcome 2.4: Reduced Vulnerability of the Socially Excluded, Marginalized, and Economically Vulnerable Population (Mostly Achieved)

20. **So that the vulnerable may better cope with shocks, the WBG financed initiatives to strengthen social protection, which was mostly achieved.** As recent events have demonstrated, Nepali households are vulnerable to shocks. Costly and inefficient social protection schemes have had a limited impact on poverty and inequality. The World Bank has started to assist the government in developing a coherent social protection framework to better identify household vulnerabilities, coping strategies, payments systems and coverage. Within targeted areas, the number of marginalized households supported with productive assets increased more than expected, benefiting from improved infrastructure and income generation activities. In target communities, the percentage of households with greater income has increased, although slightly less than the CPS target; the World Bank supported programs will likely achieve this target by the end of project period in late-2018. In addition, key ministries have developed gender equality and social inclusions strategies and undertaken equality and inclusion analyses.

Outcome 2.5: Improved Infrastructure in Areas Affected by the 2015 Earthquakes (Achieved)

21. **The World Bank achieved the targets to support the construction of multi-hazard resilient housing in rural areas.** It responded quickly to Nepal's reconstruction needs after the 2015 earthquakes. The single largest need was the reconstruction of rural housing, where most of the houses destroyed were traditional brick or stone structures built with mud mortar. World Bank financing and the associated multi-donor trust fund¹¹¹ focuses on restoring affected houses with multi-hazard resistant housing in three of the worst affected districts. These districts are hard to access, rendering logistics expensive and construction materials scarce and trained workers short in supply. Within the project, it is supporting the National Reconstruction Authority in developing criteria for extending special support to the vulnerable. The World Bank has led the coordination of DPs (e.g. JICA, DFID, USAID, SDC, India) who are also providing financial and TA for housing reconstruction. As of end-February 2018, over 100,000 houses were reported to be reconstructed with multi-hazard resilient features, compared to a target of 40,000. Beyond infrastructure resilience, the World Bank has financed ASAs to strengthen disaster management (e.g. Hydromet Building Resilience to Climate Related Hazards).

¹¹¹ An accompanying Multi-Donor Trust Fund (MDTF) was established in 2015 to facilitate development partners interested in contributing to housing reconstruction. So far USAID, DFID, SDC and Canadian government have contributed.

Cross-cutting Dimensions of Institutional Governance, Gender and Climate Change

22. **The CPS mainstreamed three cross-cutting dimensions – institutional governance, gender and climate change.** These areas were not explicitly included as separate outcomes in the CPS results framework. They were integrated into the design and implementation of WBG supported initiatives.

- **Governance** – The World Bank contributed to strengthening institutional governance through its operations and support for PFM. Lending operations have incorporated activities to support institutional governance, with some having an explicit project objective or component.¹¹² The World Bank administered MDTF for PFM has helped establish a comprehensive Treasury information technology system, create a Treasury Single Account and furthered progress in government accounting with the introduction of international account norms. In addition, demand side activities to strengthen governance have been supported (*e.g.* assisting CSOs in the use of social accountability tools to improve PFM at local levels). The World Bank has carried out analytical work¹¹³, which is an important basis for updating the government’s PFM strategy in the context of federalism.
- **Gender** – Nepal has made progress in achieving greater gender equality. Yet, much remains to be done given the persistent disparities across geography and social groups. Many CPS outcome indicators reflect the WBG’s efforts to mainstream gender into its program. The health and education outcomes are explicitly focused on increasing female access to these services (*e.g.*, female participation in higher education). Under its gender action plan updated in FY18, the World Bank is promoting women’s economic empowerment, participation in policy making, and well-being. Female empowerment has been the focus of the WBG efforts to improve access to finance and respond to the 2015 earthquakes. The World Bank has supported the establishment of a platform to address gender-based violence, under which a 24-hour helpline for women was launched. With WBG support, there is greater mainstreaming of gender into the lexicon of policy makers. For example, the government has introduced gender sensitive budgeting and allocation of activities that directly support women. Nevertheless, implementation is weak. There is a need for appropriate mechanisms, improvements in the regulatory framework and increase in capacity to realize greater equality.
- **Climate change** – The WBG supported the development of the government’s Strategic Program for Climate Resilience. In the agricultural sector, the WBG is supporting the introduction of climate- smart and resilient agricultural practices, such as in irrigation, and IFC efforts are promoting improved agricultural and water management practices and the introduction of new technologies. Through the Forest Carbon Partnership Facility, the World Bank has promoted the reduction of emissions from deforestation and forest degradation, sustainable management of forests, and forest carbon stocks (REDD+¹¹⁴). The WBG is supporting the government’s efforts to mitigate climate-related hazards by improving the accuracy and timeliness of weather and flood forecasts and warnings.

¹¹² Examples include the Health Sector Management Reform Program that aims to improve the efficiency in public resource management systems of the health sector and the Strengthening Systems for Social Protection and Civil Registration that includes a component to address ineffective control and accountability.

¹¹³ Examples of analytical work include the 2015 Public Expenditure and Financial Accountability Assessment and Report on the Observance of Standards and Codes in Accounting and Auditing.

¹¹⁴ REDD+ stands for countries' efforts to reduce emissions from deforestation and forest degradation, and foster conservation, sustainable management of forests, and enhancement of forest carbon stocks.

III. Assessment of World Bank Group Performance

23. **The WBG overall performance in designing and implementing the CPS is rated as *Good*.** The following details this assessment.

A. Design of CPS

24. **The two pillars and cross-cutting themes of the CPS were relevant to the country's own development goals.** The CPS focused on establishing the longer-term foundations for increased and sustainable growth. Its pillars aimed at (1) removing the binding growth constraints (e.g. infrastructure) to allow for higher income levels and reduce poverty; and (2) increasing inclusive growth and opportunities for shared prosperity. The CPS was aligned with the government's goal of improving the living standards of all Nepalis and becoming a middle-income country by 2030, implemented through consecutive three-year Periodic Plans. The 13th Periodic Plan (2014-2016) focused on achieving higher growth and employment through physical infrastructure development, inclusive and equitable development, ensuring social services, effective service delivery, promoting private sector and development of industries/trade/services. The 14th Periodic Plan (2017-2019) continues this effort to focus on physical infrastructure development, transforming key productive sectors (e.g. agriculture, tourism, manufacturing, SMEs), human/social development, effective service delivery. Gender, poverty, inclusion environment, private and co-operative sectors are addressed as cross-cutting priorities. The areas supported by the CPS mirror the results of the FY 16 Nepal Country Opinion Survey report. As discussed below, the CPS was well aligned with the WBG's corporate goals.

25. **While recognizing the significant implementation challenges, the PLR reaffirmed the validity of the original CPS design.** As the WBG aimed to support longer term development, it endeavored to consolidate its engagement and refocus within sectors (e.g., a more concentrated focus on higher education and skills development). The limited number of CPS outcomes reflected this selectivity, even accounting for those outcomes added in the PLR. While the CPS focused on the relevant development priorities, some of the selected interventions may be considered more pilot in nature. For instance, the broader impact of the Agriculture Commercialization and Trade (PACT) activities to promote productivity and commercialization has not been clear. In the results matrix, this challenge was manifested in the formulation of relatively broad country-level outcomes, with indicators that were project specific.

26. **The CPS maintained programmatic flexibility when confronted with changing country context.** There were three significant changes in country circumstances during the CPS period - the 2015 exogenous shocks, the promulgation of the 2015 Constitution putting Nepal on the path to a federal democratic state, and increasing concerns of a slowdown in remittances. Following the earthquakes, additional crisis response resources were mobilized, and existing IDA operations were restructured, reallocated or extended to support recovery efforts (paragraph 30). IFC quickly provided financing support for an existing agribusiness client to address value chain disruptions. It also worked on a US\$70 million early response liquidity facility for partner banks in case these banks face liquidity constraints. The PLR was used to adjust the WBG's program to start shifting support for the transition to federalism, to foster domestic jobs, and to increase preparedness against shocks. The results framework was updated to reflect the shift, simplify and clarify outcomes areas, and align CPS outcomes and indicators.

27. **The CPS design reflected the WBG's comparative advantage vis-à-vis other DPs.** For example, the WBG has been the lead agency in energy and road transportation, while ADB had led in local development, agriculture and drinking water – areas where the WBG plays a supplementary role. The CPS

noted the fragmentation of DP portfolios and the lack of cooperation. During the CPS period, the WBG more proactively contributed to DP coordination especially in response to the 2015 earthquakes, while its analytical work (some carried out with other DPs) bolstered its leading role in coordination. The WBG has been co-chairing with the Swiss Development Corporation (SDC) the International Development Partners Group (IDPG) that meets regularly to exchange information and promote strategic coordination. It is also leading with SDC the IDPG Federalism Working Group to coordinate DPs support for Nepal to implement federalism, where the government has sought the WBG's help in coordination. The World Bank is working with others to leverage resources to support the capacity building of government systems (*e.g.* strengthening the health and education system through SWAPs, MDTF for PFM).

B. Implementation

28. **The WBG faced significant implementation challenges.** Government coordination issues, frequent rotation of project counterparts, slow counterpart decision making processes, poor financial management, prolonged procurement processes, inadequate application of social safeguard measures, challenges in contract management, and quality-at-entry and project preparedness issues have impacted investments and implementation of activities by the World Bank, IFC, and MIGA. As noted in the PLR, the World Bank has tackled the implementation challenges from multiple angles – *e.g.* joint portfolio reviews with government to co-own the problems and their solutions, capacity building of counterparts; continuous and proactive follow-up with counterparts; greater use of Disbursement Linked Indicators (DLIs); and emphasis on outputs for disbursements¹¹⁵. In energy and transport sectors the World Bank teams faced implementation capacity issues in environmental and social safeguards. The Inspection Panel case of the Nepal Power Development Project (closed in 2013) is a symptom of weak capacity in environment and social safeguards. Effort is ongoing to strengthen monitoring and implementation of environment and social aspects of projects. For example, in the transport sector, the World Bank engaged the International Labor Organization to support the labor standards and prepare the occupational health and safety guidelines. Given the desired shift towards supporting longer-term development goals, the CPS was guided by the principle of balancing risk and reward. In this context, the WBG pursued operations with potential for high development impact for growth, shared prosperity, and poverty reduction, especially in the hydropower sector.

29. **Although lending operations were affected by the earthquakes and trade disruptions, the World Bank maintained a robust lending program.** Under IDA17, Nepal delivered approximately US\$1,201 million (US\$901 million core IDA and US\$300 million from Crisis Response Window). For the first time, the full amount of financing available in any IDA cycle – US\$900 million – was committed. There are 23 operations totaling US\$2.7 billion (as of end-May 2018) with 3 operations (US\$228 million) closing on June

¹¹⁵ This was applied for Earthquake Housing Reconstruction Project. Using output-based disbursement arrangements, resources are advanced to the government for transfer directly to eligible beneficiaries who are rebuilding their houses according to safer, earthquake resilient standards. Each payment is certified by a technical personnel and each check is tracked by the government budget management system (for which support was provided to strengthen the information system) and reported for third-party verification.

30, 2018. Three of these operations¹¹⁶ are in problem status and two¹¹⁷ are in potential problem status¹¹⁸. Procurement, project, and safeguard management are the main problem areas. As noted in the PLR, the 2015 earthquakes and trade disruptions significantly slowed project preparation impacting lending in FY2016¹¹⁹ and implementation. Flexibility and speed were critical in responding to post-earthquake needs. In this regard, the WBG was successful in adjusting its existing operations by restructuring, reallocating and extending 12 existing IDA operations for the recovery effort. It mobilized resources from the IDA Crisis Response Window to address the earthquake housing reconstruction needs, rebuild roads, and reinforce the banking sector stability post-disaster. In addition to the lending program, the portfolio includes some large trust funds. To promote greater coherence of development support and reduce transaction costs, Nepal's development assistance coordination policy has discouraged small development initiatives below US\$5 million.

30. **The World Bank financed advisory services and analytics (ASAs) to support policy dialogue on key reform areas¹²⁰ and to deepen knowledge of the sector.** For policy dialogue, the World Bank has been preparing short policy notes for the government, as well as longer analytical work ranging from macroeconomic analysis, fiscal management, and specific reform areas (*e.g.* Medium-Term Expenditure Framework (MTEF), the Country Economic Memorandum, Moving up the Ladder – Poverty Reduction and Social Mobility in Nepal (with DFID), the Financial Sector Assessment, and Support to Nepal's Trade Policy Reform). The World Bank has supported sector specific ASAs to inform and complement lending operations. In the energy sector, it has carried out TA on hydropower scale- up, off-grid household renewable energy access, and renewable energy resource mapping. These ASAs have added to the understanding of the complex political economy and supported lending operations in this sector.

31. **IFC's committed investment portfolio totaled US\$46 million with 13 clients at the start of FY14 and US\$47 million working with 12 clients as of end- May 2018.** The advisory services portfolio increased from US\$11.2 million to US\$15.1 million (with 7 advisory services still ongoing). During the CPS, IFC committed three long-term finance investments in energy, agribusiness and tourism/hotel and provided financing to seven commercial banks to support trade, including for SMEs. Following the earthquakes and trade disruptions, IFC provided financing support for existing clients in agribusiness to address value chain disruptions. It also worked on an early response liquidity facility for partner banks in case these banks faced liquidity constraints. The outstanding portfolio performed well with no non-performing loans.

32. **MIGA has no exposure in Nepal.** A challenging business environment has limited cross-border investments and MIGA's ability to identify bankable projects to support via its political risk insurance (PRI) guarantee instruments.

33. **The WBG had high ambitions for the Joint Implementation Plan for hydropower development.** The Joint Implementation Plan (JIP) provided a framework for the World Bank, IFC, and MIGA joint support

¹¹⁶ Strengthening National Rural Transport Project, Kabeli-A Hydroelectric Project, and Rural Water Supply and Sanitation Improvement Project.

¹¹⁷ Earthquake Housing Reconstruction Project and Project for Agriculture Commercialization and Trade.

¹¹⁸ Problem status refers to those projects that are rated unsatisfactory (U, MU, or HU) in the progress towards achieving Project Development Objectives and/or the Implementation Progress in an archived Implementation Status and Results Report (ISR).

¹¹⁹ In FY2016, one energy technical assistance project was approved and four operations were granted closing date extensions.

¹²⁰ Examples include the Financial Sector Assessment, the Country Economic Memorandum, Moving up the Ladder – Poverty Reduction and Social Mobility in Nepal, and Support to Nepal's Trade Policy Reform.

for transformational hydropower projects and the cross-border transmission lines. As part of the JIP, the World Bank and IFC jointly financed the Kabeli-A, a 37.6 MW hydropower project. A joint World Bank, IFC and MIGA team has also been exploring the potential to support the development of the Upper Trishuli 1, which was slow to materialize due to a backlog of PPAs. The WBG is also working together to prepare the environmental and social guideline for hydropower projects. Despite World Bank and IFC efforts, overall it has taken time given the need to build government and stakeholder ownership to address the complex political economy of the sector with various agencies involved; the need for reform; and weaknesses in the institutions, capacity, and operational procedures/processes. There is a need to persist to deepen the policy dialogue, promote buy-in across key stakeholders, and strengthen the political will for sectoral reforms through relevant TA, analytical work and outreach.

34. **The CPS and the PLR recognized the significant risks to CPS implementation.** The vulnerability to external shocks and weak institutional capacity for implementation materialized, impacting CPS implementation. The WBG, however, proved to be adaptable in responding to these risks in its projects and in adjusting its program to respond to the changing country context as noted in paragraph 29.

IV. Alignment with corporate goals

35. **The CPS was explicitly aligned with the WBG's goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner.** The first pillar focused on removing the binding constraints to private investment and growth, emphasizing energy, transportation, the financial sector and the business regulatory environment. Removing these constraints also has a direct impact on poverty by enabling, for example, the poor to have better access to markets and enhancing their income-generating opportunities. The second pillar, focused on increasing inclusive growth and delivering services to historically disadvantaged Nepalis to increase their prosperity. This included expanding access to education and health services and improving agricultural productivity and diversification (given the preponderance of the poor dependent on agricultural activities). The CPS also integrated the corporate priorities of gender, citizen engagement, and climate change. The South Area Region has committed to meeting and going beyond the IDA policy commitments in gender, citizen engagement, and climate co-benefits¹²¹.

V. Key Lessons learned

36. **The CLR confirms the main lessons that emerged in the PLR.** Namely, as the WBG focuses on longer-term development goals, addressing institutional governance and capacity issues plays an important role in successful WBG program implementation and the achievement of desired program outcomes. CPS implementation, along with the PLR and the CLR self-assessment have yielded lessons learned that are being considered in the Country Partnership Framework (CPF) Attachment 1: *Nepal CPS (FY14-18) Results Matrix: Summary of Program Evaluation* provides more details.

- **Knowledge base and outreach for policy reform.** Nepal's frequent turnover of political leadership and power-sharing among key parties has led to prolonged decision making at the policy level. This has also weakened technocratic leadership and the functioning of the bureaucracy, leading to creation of institutional silos and hesitancy in taking action. In addition, the WBG faced challenging inter-

¹²¹ In FY2018, the South Asia Region committed to achieving 100 percent gender tagged, 100 percent citizen engagement in investment operations, and 28 percent climate-co benefits in its operations.

ministerial coordination issues. For project preparation and implementation, particularly in challenging sectors like energy, the WBG should continue to invest in the understanding of the political economy of the sector and to reach out across the political spectrum to promote broad national ownership and support for policy continuity. While the WBG has started down this path (e.g. with the SCD, transportation PER and energy assessment), in the new CPF this effort should be deepened as the new federal state can complicate the political economy. In areas where the WBG teams have built strong and consistent dialogue with government counterparts through a combination of policy advice, DPCs, PforRs and TA, reform progress has been stronger (i.e. financial sector, bridge maintenance).

- **Considered use of lending instruments.** To promote policy reforms for strengthening institutions and their governance in the medium term, DPCs have been an important financing instrument. As noted earlier, the World Bank extended a series of DPCs to promote the financial sector stability. The first DPC in 2013¹²² followed significant World Bank and IMF TA and other support to address the 2011 liquidity crisis. Building on the successful first engagement, the DPF series enabled deepening of policy dialogue and supported the momentum for key policy reforms (e.g. modernized legal/regulatory framework for crisis management and bank resolution, consolidation of financial system). At the project level, the World Bank increasingly supported outcome effectiveness, using results-based financing. BIMP supported government's own initiative to provide safe, reliable, and cost-effective bridges. Its disbursement linked indicators (DLIs) contributed to government's planning and implementation system becoming more accountable and results oriented. The DLIs, also incorporated into some IPFs, changed the focus of dialogue with the government from inputs to outputs and outcomes, and contributed to enhancing government's own planning, management, and fiduciary capacity. Going forward, the World Bank will continue to maximize the potential of DPCs and results-based financing to leverage reforms and institutional change that have country-level impact.
- **Selectivity of WBG program.** To address emerging development issues, including those arising from federalism, and to enhance development impact the WBG will need to exercise more discipline and selectivity in the type of activities its supports. This implies doing less trust-funded standalone program and small trust funds¹²³. It also means applying more stringent remedial measures for non-performing operations to free Bank resources (staff and financing) to support emerging areas (e.g. not granting extensions, undertaking remedial measures such as suspension and cancellation). As for ASAs, continued effort is necessary to prioritize, ensure their strategic relevance, and improve their complementarity with ongoing and planned lending. Greater selectivity of WBG support will help to reduce pressure on the already over-extended weak institutions and counterpart capacity.
- **Multi-pronged approach to implementation.** The WBG will need to continue to apply a range of approaches to address the systemic constraints in project implementation, especially in the context of federalism. Among these are strengthening project readiness, reducing the burden on government implementation capacity by decreasing the number of small activities (particularly TFs below US\$5 million), and carrying out joint portfolio reviews with the government to co-own solutions. Related

¹²² The first DPC was based on a standalone and ensuring that prior actions were met before Board approval, given concerns that the political instability may complicate the reform process.

¹²³ Per government strategy, the World Bank will not proceed with trust fund activities less than US\$5 million. A smaller trust funded activity would be considered on exceptional basis, if there is high strategic value.

to environment and social management, there is a need to strengthen government understanding, policy and capacity to manage environmental and social risks especially in the transport and energy sectors if the government is to meet its objectives in those sectors. In the energy sector, IFC has faced legal and regulatory gaps that have delayed project development in addition to other systemic challenges. Examples of these gaps include lack of regulatory regime for venture capital and private equity investments, and non-existence of dollar-denominated power purchasing agreement guidelines. Accordingly, close and multiple follow-ups with relevant government agencies have been necessary.

- **WBG leadership and coordination with DP community.** To avoid conflicting and diffused development support, continued harmonization and coordination with DPs will be important, particularly as Nepal transitions to federalism. The WBG should continue producing core analytical and flagship reports, jointly with others where opportunities arise, which serve as an important basis for coordination. The WBG has been a co-chair of the IDPG and has a leadership role in the Federalism Working Group. It is important to leverage these roles to promote coordination and reduce fragmentation of DP support especially given the government's implementation capacity constraints. The World Bank should continue to identify opportunities where development partners may participate in the SWAp, which help harmonize and bring together the resources of DPs around the government's efforts as done in education and health.
- **Community managed interventions.** Community-managed interventions have had limited scalability, have encountered poor governance with possible misuse of funds per the Office of Auditor General annual reports and investigations by the Commission for the Investigation of Abuse of Authority that reported on corruption. They have also experienced local political interference. While they may have been appropriate in a post-conflict environment, such support may be less suitable for the longer-term development agenda unless they are part of the government's own program. There is a need to carefully consider engagement in such activities that may increase reputational risk and where the government may be less interested to utilize IDA credits for such programs.
- **CPS results chain.** As noted earlier, the CPS outcomes were often articulated as higher-order development outcomes while the accompanying outcome indicators were at a lower project level. It is important to have a clear result chain that connects the ambitions of the country strategy with the realities of a WBG program with more limited focus. Developing a layered approach, with broad pillars and focus areas but more narrowly defined and achievable outcomes/objectives may help with the accountability aspects. In addition, some thought may be given to how project level results for those interventions that are more of "demonstration" or "piloting" nature are being scaled up to have a broader impact.

CLR Attachment 1: Nepal CPS (FY14-18) Results Matrix: Summary of Program Evaluation

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
Pillar 1: Increasing Economic Growth and Competitiveness (Moderately Satisfactory)			
<p>Outcome 1.1: Increased supply and reliability of electricity</p> <p>Indicator 1: Local generation capacity rehabilitated (MW) Baseline: 0 MW; Target: 144 MW¹²⁴</p> <p>Indicator 2: Local generation capacity added Baseline: 0 MW; Target: 25 MW¹²⁵</p> <p>Indicator 3: Additional power imports Baseline: 100MW; Target: 225MW¹²⁶</p> <p>Indicator 4: Number of load-shedding hours reduced in selected areas (hours)¹²⁷ Baseline: 14 hours; Target: 8 hours</p>	<p>➤ Mostly Achieved</p> <ul style="list-style-type: none"> • Achieved. 144 MW of local generation capacity of hydropower rehabilitated. • Not achieved. Contract awarded in August 2017 for supply and installation of 25 MW grid connected solar PV plants. • Achieved. As of June 2017, 160 MW of electricity is being imported through Dhalkebar-Muzzaffarpur transmission line above the additional 125MW targeted. • Achieved. The load-shedding hours reduced in major cities like Kathmandu and connecting districts from 14 hours to 0 hours during 2017. The improvement in supply is due to electricity imports of 160 MW from India. (Source: Nepal Electricity Authority) 	<ul style="list-style-type: none"> • To achieve timely and satisfactory progress for transmission lines, land acquisition, compensation and forest clearance process needs to be streamlined. Finalization of transmission route alignment takes time and should not be part of the contract as it requires coordination among various ministries. • Poor coordination between and within ministries, agencies, and departments impact implementation. The World Bank should clarify and agree on roles and responsibilities during preparation. It also needs to make more resources available and proactively follow-up, monitor, and intervened to promote collaboration and address problems. 	<p>Financing Closed</p> <ul style="list-style-type: none"> ✓ Kabeli-A Transmission Project ✓ Kabeli-A Hydroelectric Development Project (with IFC 37MW) ✓ Kali Gandaki Hydropower Rehabilitation Project <p>Financing Ongoing</p> <ul style="list-style-type: none"> ✓ Grid Solar and Energy Efficiency Project ✓ SREP-Supported Extended Biogas Project ✓ Nepal India Electricity Transmission and Trade Project ✓ Power Sector Reform and Sustainable Hydropower Development ✓ Butwal Power Co (4.3 MW Hydropower- IFC) <p>ASA Delivered</p> <ul style="list-style-type: none"> ✓ NLTA Household Renewable Energy Access ✓ Hydropower Scale-Up in Nepal

¹²⁴ IDA Kali Gandaki Hydropower Rehabilitation Project.

¹²⁵ Grid Solar and Energy Efficiency Project (IDA) 25 MW.

¹²⁶ Nepal India Electricity Transmission and Trade Project.

¹²⁷ Kali Gandaki Hydropower Rehabilitation, Grid Solar and Energy Efficiency and Kabeli Transmission.

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
		<ul style="list-style-type: none"> • Project and contract management mechanisms need to be established for all projects. • Hydropower project development and rehabilitation is challenging. As such, project preparation should be robust and requisite analytical work (preparation of studies, bidding document) should be front loaded to the extent possible, including for activities to be implemented after project approval. If that is not possible, the Project duration should be made long enough to cope with the uncertainties encountered during the implementation. • Results indicators need to be designed and selected appropriately to align the project activities with the PDOs; the PDO indicators were reported to be achieved just by completing the few activities, even though some of the major activities required for the achievement of PDO remained incomplete. • The emergency component was unutilized, although it 	<ul style="list-style-type: none"> ✓ Economic Impacts of Hydropower Development in Nepal ASA Ongoing ✓ Fostering Hydropower Development in Nepal (Partnership for South Asia Regional Integration Programmatic Fund) ✓ Power Sector Reform and Sustainable Hydropower Development Project (SAWI-Phase 2) ✓ Sustainable Water Resources Development for Hydropower in Nepal (SAWI-Phase 2) ✓ Nepal Power Sector Reform and Sustainable Hydropower Development (Public-Private Infrastructure Advisory Facility) ✓ Energy Sector Management Assistance Programme Support

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
		<p>had huge relevance given the vulnerability of hydropower projects to the natural disasters. There should be enough discussion and deliberation on the fund flow mechanisms and types of fund (loan vs grant) that would be available in case of an emergency.</p> <ul style="list-style-type: none"> The sector continues to face serious institutional challenges in dealing with environmental and social risks in projects. There is a need to strengthen government understanding, policy and capacity in this area if the targets are to be met. 	
<p>Outcome 1.2: Improved transportation connectivity</p> <p>Indicator 1: Percentage increase in population with access to all season road within 20 minutes of walking distance in targeted districts¹²⁸ Baseline: 8 percent; Target: 14%</p>	<p>➤ <u>Achieved</u></p> <ul style="list-style-type: none"> Achieved. 14% of the population have access to all season road within 20 min walking distance. 	<ul style="list-style-type: none"> Strong and seamless collaboration between the Bank, Government and implementing agency is critical for successful implementation of operations and achieving results. 	<p>Financing Closed</p> <ul style="list-style-type: none"> ✓ Bridges Improvement and Maintenance Program ✓ Road Safety Support Project <p>Financing Ongoing</p> <ul style="list-style-type: none"> ✓ Nepal-India Regional Trade and Transport Project ✓ Strengthening the National Rural Transport Program

¹²⁸ IDA's Road Sector Development Project (RSDP) and AF of RSDP.

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
<p>Indicator 2: Decrease in journey times from the targeted areas to key economic centers¹²⁹ Baseline: 4 hours; Target: 2.6 hours</p> <p>Indicator 3: Percentage of bridges in good and fair condition in targeted routes¹³⁰ Baseline: 53 percent; Target: 75 percent</p>	<ul style="list-style-type: none"> • Achieved. Journey times have been decreased from 4 hours to 2.6 hours. • Achieved. As of June 2017, 81.2 percent of bridges are in fair and good conditions. 	<ul style="list-style-type: none"> • Capacity constraints and frequent changes in project team members are challenges. The World Bank should provide capacity building support to enhance planning, design, procurement and implementation and management of safeguards aspects. • Contract design should be improved with explicit provisions and budget for environmental safeguard related items, and tangible penalties for non-performance. • The market for services, especially consulting services, is still deficient thereby making it difficult to separate the roles of “the Employer” and “the Engineer.” The Bank should continue to support efforts to develop the capacity of the consulting industry. • The WB supported the Department of Roads to 	<ul style="list-style-type: none"> ✓ AF to Road Sector Development Project <p>ASA Delivered</p> <ul style="list-style-type: none"> ✓ Trade Facilitation and Competitiveness ✓ Nepal Fast Track: Preparing Next Steps (TA) <p>ASA Ongoing</p> <ul style="list-style-type: none"> ✓ Feasibility study for improvement of Kathmandu – Naubise – Mugling road ✓ SARTI Trade Facilitation Advisory (with IFC) ✓ Support to Nepal’s Trade Policy Reforms ✓ Nepal Export Incentive Program (Impact Evaluation) <p>ASA Pipeline</p> <ul style="list-style-type: none"> ✓ Transport and Market Infrastructure Improvement ✓ Bridges Impact Evaluation

¹²⁹ IDA’s RSDP and AF of RSDP.

¹³⁰ Bridges Maintenance and Improvement Project.

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
		<p>prepare a department wide Environmental and Social Management Framework and Resettlement Management Framework, which enables the efficient processing of projects, and increases the Department's ownership over the management of key environmental and social issues. In addition, the WB supported capacity development of the Environmental and Social Management Unit within the department, which helped to improve performance across the portfolio.</p>	
<p>Outcome 1.3 Improved financial sector stability and increased financial inclusion</p> <p>Indicator 1: State-owned banks are either Capital Adequacy Ratio (CAR) compliant or under Prompt Collective Actions (PCA)¹³¹</p> <p><u>CAR:</u> NBL: Baseline: -0.49%; Target: 10% RBB: Baseline: 3.33%; Target: 10% Other Banks>10%; Target: >10%</p> <p><u>PCA:</u> Baseline: No inspections;</p>	<p>➤ Mostly Achieved</p> <ul style="list-style-type: none"> • Achieved. Nepal Bank Limited (NBL) CAR: 15.61%; Rastriya Banijya Bank (RBB) CAR: 11.83%; Other CAR: 14.72% (A class); 20.44% (B Class) and 21.9% (C Class) and overall 15.40% as of mid- July 2017. Prompt Corrective Action (PCA): Special Inspections Program carried 	<ul style="list-style-type: none"> • Programmatic DPC operations helped achieved several policy reform actions, which contributed to improved stability and increased inclusiveness. • Budget support operations combined with TA proved to be a more effective way to trigger and implement reforms in the financial sector. 	<p>Financing Closed</p> <ul style="list-style-type: none"> ✓ Financial Sector Stability Credit -DPC 1, DPC2, DPC 3 <p>Financing Ongoing</p> <ul style="list-style-type: none"> ✓ Access to finance in SME Ventures and Poultry (IFC) ✓ IFC investments in banks and trade finance facilities ✓ Nepal Fiscal Reform DPC1 ✓ Integrated PFM Reform (TA <p>Financing Pipeline</p> <ul style="list-style-type: none"> ✓) ✓ PFM Support <p>ASA Delivered</p>

¹³¹ Financial Sector Stability DPC series (3 and 4).

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
<p>Target: 50% of Assets in Class A Bank</p> <p>Indicator 2: Individuals and micro enterprises reached with financial services¹³²</p> <p>Baseline: Micro enterprise and individual 2.3 million (of which 1.5 million female)</p> <p>Target: Micro enterprise and individual 2.5 million (of which 1.6 million female)</p>	<p>out on 54 financial institutions covering 64% banking sectors assets which included 22 Class A banks covering 74% Class A banks assets.</p> <ul style="list-style-type: none"> At present, 9 Financial Institutions (FIs) are under PCA while 7 FIs are in the process of resolution. NRB has issued recently PCA Bylaws in 2017. Mostly Achieved. 215,397 microloans outstanding, of which, 80 percent (172,318) are female borrowers <p>2.986 million - number of individuals and micro enterprises with access to financial services through e-payments/mobile banking.</p> <p>[Data on female with access through e-payments/mobile banking is not available, however, the incremental female borrowers of 172,318 females reached through microloans exceeds the target of 1.6 million (from 1.5 million)].</p>	<ul style="list-style-type: none"> Close working relations with counterpart staffs over an extended period was key to developing broad based support for the government’s medium-term agenda. Adjusting prior actions ensured early wins for reform champions. Building broad based support and early wins were needed to maintain focus on the main goals, which were fulfilled with support of subsequent DPCs. It also ensured that the government has the necessary resources to implement DPC supported reforms. Working with the right mix of team involving main stakeholders, and a risk based approach focused on outcomes helped to achieve the targeted reform in the financial sector. 	<ul style="list-style-type: none"> ✓ IFC payments project ✓ Financial Sector Assessment Program ✓ Bank Resolution Capacity Building ✓ IDA- AgriFinance Nirdhan Utthan Bank ✓ IFC- TA to MNepal Project ✓ IFC-Nepal SME Banking ✓ IFC-Nepal Regulatory Reform Payment Project with Nepal Rastra Bank ✓ National Risk Assessment TA ✓ Financial Sector Support (TA) ✓ Nepal Problem Bank Resolution ✓ Financial Sector Assessment Program and Follow-up ta ✓ Nepal Governance Reform Project ✓ PEFA Assessment II ✓ Nepal ROSC ASA Ongoing ✓ Support to Fiscal Management (TA) ✓ IFC- AgriFinance advisory to Nirdhan Microfinance Bank ✓ IFC: Nepal Investment Climate Reform Program

¹³² IFC Advisory services and Investment projects.

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
<p>Outcome 1.4: Improved business regulatory environment for private sector investment</p> <p>Indicator 1: US\$100 million in new private investment supported or mobilized in priority sectors¹³³</p> <p>Indicator 2: Compliance cost savings (CCS) from investment climate interventions¹³⁴ Baseline: US\$0 million; Target: US\$18.5 million</p> <p>Indicator 3: Additional number of formally registered business increased¹³⁵</p>	<p>➤ Mostly Achieved</p> <ul style="list-style-type: none"> • Partially Achieved. US\$38 million invested in long-term finance. • Achieved. Direct compliance cost savings: US\$24 million (from Nepal Investment Climate Reform Program (ICRP) - Regulatory Reform Project US\$6.3 million; ICRP- Public Private Dialogue US\$8.5 million; and South Asia Regional Integration in Trade and Investment (SARTI) US\$9.5 million). • Achieved. Additional 182,260 formally registered business. 		<p>Financing Closed</p> <ul style="list-style-type: none"> ✓ IFC SME Venture and Poultry Feed <p>Financing Ongoing</p> <ul style="list-style-type: none"> ✓ IFC equity and debt support to infrastructure companies, micro-finance institutions and financial institutions. ✓ IFC investments in the hotel/tourism sector <p>ASA Delivered</p> <ul style="list-style-type: none"> ✓ IFC- Strengthening the Poultry Value Chain ✓ Supporting Nepal Trade Integration Strategy ✓ Enhancing Investment Climate Nepal ✓ Competitive Industries Studies

¹³³ IFC Investment projects.

¹³⁴ IFC Advisory Services.

¹³⁵ IFC Advisory Services.

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
Baseline: 10,123; Target: 13,400			<ul style="list-style-type: none"> ✓ Enhancing Investment Climate ✓ Export Incentive Program ✓ Regional Trade Program (TA) ASA Ongoing <ul style="list-style-type: none"> ✓ IFC-Nepal Investment Climate Reform Program ✓ IFC advisory with existing clients in Nirdhan Microfinance Bank ✓ IFC PPP transaction advisory to the GoN ✓ SARTI Policy ✓ Development of new tourism destination
Pillar 2: Promoting Inclusion and Increasing Resilience			
<p>Outcome 2.1 Increased agricultural productivity and commercialization</p> <p>Indicator 1: Productivity of selected high value commodities¹³⁶ increased Tomato: Baseline: 52.85 mt/ha; Target: 66.06 mt/ha Milk: Baseline: 978 liter/year and cow; Target: 2,250 liter/year and cow Sugarcane: Baseline: 39.5 mt/ha; Target: 47 mt/ha</p> <p>Indicator 2: Increased area under irrigation farming¹³⁷</p>	<p>➤ Achieved</p> <ul style="list-style-type: none"> • Achieved: Tomato: 91.56 metric tons. Milk: 3113 liter/lactation and cow (different measurement than what we have in CPS). Sugarcane: 88 mt/ha, based on lead farmer demonstration plots.¹³⁹ • Achieved. 28,942 ha area under irrigation. This includes 18,312 ha 		<p>Lending Closed</p> <ul style="list-style-type: none"> ✓ Irrigation and Water Resource Management Project ✓ Rani Jamara Kulariya Irrigation Project ✓ Agriculture and Food Security Project <p>Lending Ongoing</p> <ul style="list-style-type: none"> ✓ Agriculture Commercialization and Trade (PACT) ✓ Livestock Sector Innovation

¹³⁶ PACT (IDA) for tomato and milk and Sugarcane from IFC project.

¹³⁷ Rani Jamara Kulariya Project

¹³⁹ Climate Smart and Resilient Agricultural practices focused on vulnerable commodities (rice, sugarcane, maize)

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
<p>Baseline: Irrigated area 15,817; Target: 26,800</p> <p>Indicator 3: Increase in selected high value agricultural commodities sold (annual)¹³⁸</p> <p>Ginger: Baseline: 930 t/year; Target: 1302 t/year Milk: Baseline: 9,598, ltr/year; Target: 13,437ltr/year</p>	<p>from the main phase of Rani Jamara Kulariya Project and 10,630 ha from additional financing of Rani Jamara Kularya Project. (Source: Project Trimester Progress Report 2017/18)</p> <ul style="list-style-type: none"> • Achieved. Ginger: 1,620 tons/year; Milk: 14,288 ltr/year. 		<ul style="list-style-type: none"> ✓ IFC: Investment in Probiotech Industries Private Limited– a feed manufacturer for poultry complemented by advisory services ✓ Rani Jamara Kulariya Irrigation Project II <p>ASA Delivered</p> <ul style="list-style-type: none"> ✓ Sources of Growth in Agriculture ✓ IFC-Strengthening the Poultry Value Chain <p>ASA Ongoing</p> <ul style="list-style-type: none"> ✓ IFC – Climate Smart and Resilient Agricultural practices focused on vulnerable commodities (rice, sugarcane, maize)
<p>Outcome 2.2: Increased equitable access to education and improved relevance of skills development</p> <p>Indicator 1: Net Enrollment rate in secondary education¹⁴⁰</p>	<p>➤ Mostly Achieved</p> <ul style="list-style-type: none"> • Mostly Achieved. Net enrollment rate for male is 39.3 and female 38.6¹⁴⁵. 	<ul style="list-style-type: none"> • Nepal’s Sector-Wide Approach (SWAp) in school sector that brings development partners under one umbrella through a Joint Financing Arrangement proved to be a 	<p>Financing Closed</p> <ul style="list-style-type: none"> ✓ School Sector Reform Program (SSRP; education SWAp) ✓ Enhanced Vocational Education and Training Project

¹³⁸ Agriculture Commercialization and Trade Project

¹⁴⁰ Government of Nepal (Nepal Living Standards Survey if available)

¹⁴⁵ Consolidated Flash Report 2016-17, Department of Education

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
<p><u>Baseline:</u> Male: 30.9% Female: 30.3%</p> <p><u>Target:</u> Male: 40% Female: 39.5%</p> <p>Indicator 2: Number of under-privileged enrolled in higher secondary and bachelors program¹⁴¹ Baseline: 14,100; Target: 23,000</p> <p>Indicator 3: Number of students graduating annually from tertiary accredited institutions¹⁴² Baseline: 2,000; Target: 5,000</p> <p>Indicator 4: Percentage of graduates from supported programs gainfully¹⁴³ employed at least for six months after completion of the short-term training¹⁴⁴ Baseline: 68%; Target: 70%</p>	<ul style="list-style-type: none"> • Partially Achieved. Enrollment in higher secondary (HS): 3,847 (778 from Higher Education Reform program and 3,069 EVENT project); Enrollment in bachelors: 4,563. • Partially Achieved. 3,586 students graduating annually from accredited institutions. (Source: Education Management Information System (EMIS) Report; graduates (pass rate)) • Achieved. 70.3% of the graduates gainfully employed. 	<p>good vehicle for development partners' harmonization. It consolidated the DPs efforts to improve access to quality education. While the SWAp made visible contributions to improved access including gender parity and equity, continuing this effort is critical for improved access to quality education.</p> <ul style="list-style-type: none"> • The Quality Assurance Accreditation System was introduced as a tool for improved quality education, governance and management in higher education. It has received wide spread support in the academia. 	<ul style="list-style-type: none"> ✓ Second Higher Education Project ✓ Pro-poor Targeted Stipend Project (TF) <p>Financing Ongoing</p> <ul style="list-style-type: none"> ✓ Higher Education Reforms Project ✓ School Sector Reform Project (PforR) ✓ Enhanced Vocational Education and Training Project II <p>ASA: Delivered</p> <ul style="list-style-type: none"> ✓ Nepal Education Studies ✓ Nepal Education Strategy Note

¹⁴¹ Higher Education Reform Project

¹⁴² GoN.

¹⁴³ Gainfully employed means that a graduate earns at least NRs 27,600 (NRs 4,600 per month on average) from the job (or self-employment) that is directly related to the training received by the graduates. The graduate must have been placed in employment within two months of completion of the training.

¹⁴⁴ Enhanced Vocational Education and Training Project.

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
<p>Outcome 2.3: Improved access to and quality of health and nutrition services</p> <p>Indicator 1: Percentage of births delivered by skilled birth attendants in the poorest two quintiles¹⁴⁶ <u>Baseline:</u> <u>Target:</u> Lowest 10.7% Lowest 20% 2nd Lowest 2nd lowest 23.7 % 30%</p> <p>Indicator 2: Percentage of children 6-24 months of age who consume a minimum acceptable diet in the most disadvantaged VDCs of the 15 project districts¹⁴⁷ Baseline: 9.3% and Target: 15%</p> <p>Indicator 3: New households with access to safe drinking water, new Village Development Committees (VDCs) that</p>	<p>➤ Partially Achieved</p> <ul style="list-style-type: none"> • Achieved. Lowest quintile: 34 % births delivered by skilled professionals and second lowest quintile: 48% births delivered by skilled professionals. (Source: Nepal Demographic and Health Survey 2016 Final Report) • Partially Achieved. 13.76% of children 6-24 months of age who consume a minimum acceptable diet in the most disadvantaged VDCs of the 15 project districts. (Source: Nepal Sunaula Hazar Din Community Action Project Impact Evaluation Midline Report) • Partially Achieved: Drinking water: 53,567 (Based on the number of drinking water schemes completed under the project.) Sanitation: 53 VDCs; 103 new public latrines 	<ul style="list-style-type: none"> • Health and Nutrition Program and HIV/AIDS project supported Government's health sector reform program through a sector-wide approach and pooled funding arrangement with other development partners. Joint planning, sector reviews and financing for priority areas led to successful achievement of the sector targets. • The Nutrition program was implemented by a new ministry and suffered delays due to human resource constraints. • 87% of the population has access to water supply. Reaching the remaining 13% is a challenge both technically and in terms of increased costs. 	<p>Financing Closed</p> <ul style="list-style-type: none"> ✓ Second HNP and HIV/AIDS Project (health SWAp) ✓ Nepal: Community Action for Nutrition Project (Sunaula Hazar Din) <p>Financing Ongoing</p> <ul style="list-style-type: none"> ✓ The Rural Water Supply and Sanitation Project ✓ Health Sector Management Reform PforR <p>ASA Delivered</p> <ul style="list-style-type: none"> ✓ Food Security and Nutrition Thematic Report ✓ Capacity Assessment of Community Workers to Implement Priority Nutrition Actions in Nepal ✓ District Profiles of Determinants of Malnutrition in Nepal ✓ Review of Behavior Change for Infant and Young Child Feeding (Interventions in Nepal)

¹⁴⁶ Second HNP and HIV AIDS Project and DHS data.

¹⁴⁷ Ibid.

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
<p>are open defecation free (ODF) and new public latrines¹⁴⁸ added in selected areas</p> <p><u>Baseline:</u> <u>Target:</u> Drinking water: Drinking 0 (2014) water: 100,000 new households (2017)</p> <p>Sanitation: 0 Sanitation: VDCs (2014) 140 new VDCs or about new 50,000 households (2017)</p> <p>Public latrines: New public 0 (2014) latrines: 130</p>	<p>constructed. (Source: Management Information System of the Rural Water Supply and Sanitation Fund Development Board)</p>	<ul style="list-style-type: none"> • Long term sustainability of water supply and sanitation systems require backstopping support to water user groups that operate and manage the system. 	<ul style="list-style-type: none"> ✓ Nepal Nutrition Policy Dialogue II (TA) ✓ Nutrition Policy Dialogue III (TA) ✓ Nepal Health Insurance – Impact Evaluation ✓ Qualitative Study for Sunaula Hazar Din-Community Action for Nutrition Project ✓ Strategic Communications Plan to raise awareness and increase commitment for action against food and nutrition insecurity in Nepal ✓ Operational Strategy for addressing malnutrition in Nepal ✓ Rural Water Study Dissemination ✓ Evaluating Nutritional Outcome Impact Evaluation ✓ Women’s Enterprising Initiatives to Ensure Community Food and Nutrition Security in Upland Nuwakot

¹⁴⁸ RWSSP3 project data.

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
<p>Outcome 2.4: Reduced vulnerability of the socially excluded, marginalized, and economically vulnerable population</p> <p>Indicator 1: Number of marginalized household supported with productive assets¹⁴⁹ in targeted areas Baseline: 416,712; Target: 575,000</p> <p>Indicator 2: Percentage of households in the targeted communities with income increase of at least 15%¹⁵⁰ Baseline: 0.5%; Target: 70%</p>	<p>➤ Mostly Achieved</p> <ul style="list-style-type: none"> • Achieved. 966,622 marginalized households benefitted from improved infrastructure and income generation activities. • Mostly Achieved. 68% households have increased their incomes by 15% as of August 2017. The target will likely be achieved by December 2018 – the end of the project. 	<ul style="list-style-type: none"> • Preliminary data from the impact evaluation (around 6000 household panel data) indicate that strong results were achieved such as: (i) Poverty Alleviation Fund (PAF) Project’s community driven approach was effective in targeting the poorest and most marginalized; (ii) high-cost of debt has decreased due to the availability of direct funding to communities; (iii) women’s empowerment was enhanced; and (iv) dependency on the remittances decreased. The PAF project reached almost 1 million poor households in the country. 	<p>Financing Ongoing</p> <ul style="list-style-type: none"> ✓ Poverty Alleviation Fund II Project (PAF II) ✓ Strengthening Systems for Social Protection and Civil Registration Project <p>ASA Delivered</p> <ul style="list-style-type: none"> ✓ Human Development and Social Protection Pilot (TF) ✓ Human Development Note (based on Nepal Living Standards Survey data) ✓ Food Insecurity and Child Malnutrition ✓ Gender and Nutrition Review for Public Works ✓ Social Protection Study ✓ Nepal Programmatic Poverty Work ✓ Mobility and the Middle Class <p>ASA Ongoing</p> <ul style="list-style-type: none"> ✓ Employment Creation Platform (with Cross Cutting Solutions Area -Jobs)
<p>Outcome 2.5: Improved infrastructure in areas affected by the 2015 earthquakes</p>	<p>➤ Achieved</p> <ul style="list-style-type: none"> • Achieved. 	<ul style="list-style-type: none"> • Transferring housing grants directly to the beneficiary accounts and third-party monitoring mitigates 	<p>Financing Ongoing</p> <ul style="list-style-type: none"> ✓ Earthquake Housing Reconstruction Project Additional Financing

¹⁴⁹ Poverty Alleviation Fund Project (PAF- II)

¹⁵⁰ Ibid.

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
<p>Indicator 1: Additional number of households with multi-hazard resilient feature reconstructed by end FY18 Target: 40,000 (of which 10,390 women headed households)</p>	<p>As of May 2017, a total of 51,836 houses are reported to be under construction of which 36,867 are completed up to plinth level and 2,013 up to lintel level. 7,306 beneficiaries have received second tranche of housing construction¹⁵¹.</p>	<p>fiduciary risks to a large extent.</p> <ul style="list-style-type: none"> • Damage assessment through census survey, using information technology, helps to establish real baseline data, especially identification of eligible beneficiaries. • TA to beneficiaries has critical given the magnitude of reconstruction necessary as craftsmen, especially masons remain in short supply. • Social mobilization plays a pivotal role in communicating government policies and procedures effectively to home-owners. • Reconstruction of 750,000 houses is a huge task for government. Therefore, streamlining institutional set-up is critical. Nepal needed a new institution which took time to be established – the Nepal Reconstruction Authority was established 8 months after the earthquake and 	<ul style="list-style-type: none"> ✓ MDTF Financing for Earthquake Housing Reconstruction Project <p>ASA Delivered</p> <ul style="list-style-type: none"> ✓ DRM Country Program (TA) <p>ASA Ongoing</p> <ul style="list-style-type: none"> ✓ Building Resilience to Climate Related Hazards (TA)

¹⁵¹ The number of eligible beneficiaries have been determined by the survey of affected households carried out by the Central Bureau of Statistics in 2016.

CPS Outcomes, Indicators and Milestones	Progress at CLR	Lessons Learned	Delivered, Ongoing and Indicative WBG Program
		<p>the first tranche distribution started after approximately 1 year of the earthquake.</p> <ul style="list-style-type: none"> • While pace of reconstruction is picking up, with the current pace of it may take at least 3 more years to rebuild 90 percent of damaged houses in all 14 districts. 	

CLR Attachment 2: Nepal Planned and Actual Lending (FY14-18)

FY	CPS Planned	IDA (US\$ mil)	Actual	IDA (US\$ mil)
FY14	Strengthening the National Rural Transport Program	100	Strengthening the National Rural Transport Program (P132750)	100
	Irrigation and Water Resource Management AF	50	Irrigation and Water Resource Management AF (P099396)	50
	Rural Water Supply and Sanitation	72	Rural Water Supply and Sanitation (P143036)	72
	Scaling Up-Renewable Energy (SREP) (TF)	7.9		
FY15	Higher Education Reform	200-300	Higher Education Reform (P147010)	65
	Second Financial Sector Development Policy Credit		Financial Sector Stability DPC2 (P156960)	100
	Energy Sector Development Policy Credit (delayed)		Grid Solar and Energy Efficiency (P146344)	130
	Grid Solar and Energy Efficiency Project		Kabeli A Hydroelectric (P122406)	46
	Kabeli A Hydroelectric		Earthquake Housing Reconstruction (P155969) *	200
	Technical Assistance for Preparation of Hydropower Project and Sector Reform (delayed)		Scaling-up Renewable Energy (SREP) (P131592)	7.9 (TF)
			Road Safety Support Project (P149606)	7.5 (TF)
FY16	Third Health Swap (delayed)	200-300	Power Sector Reform AND Sustainable Hydropower Development (P150066)	20
	Second Energy Sector Development Policy Credit (delayed)		School Sector Reform Program -Additional Financing (GPE) (P113441)	59.3 (TF)
	Social Safety Net System Building			
	Strategic Roads Network (dropped)			
	Public Procurement Performance Improvement (TF) (delayed)			
FY17	Hydropower Project (delayed)	200-300	Strengthening Systems for Social Protection and Civil Registration (P154548) *	150
	Skills Development (delayed)		Financial Sector Stability DPC3 (P156960) *	100
	Local Roads Bridges (delayed)		Road Sector Development (AF) (P095477) *	55
			Health Sector Management Reform PforR (P160207)	150
			School Sector Development Program (P160748) *	185
FY18	Hydropower Project (delayed)	200-300	MDTF Funding for EHRP (P162067) *	10 (other)
	Nepal Fast Track (delayed)		Nepal EHRP Additional Financing (P163593) *	300

FY	CPS Planned	IDA (US\$ mil)	Actual	IDA (US\$ mil)
	Nepal Energy DPC (delayed)		Nepal Livestock Sector Innovation Project (P156797) *	80
			Enhanced Vocational Education and Training Project (P163018)	60
			Rani Jamara Kulariya Irrigation Phase 2 (P158364) *	66
			First Programmatic Fiscal Reform and Strengthening PFM DPC (P160792) *	200
			Integrated PFM Reform (TA) (P164783) *	15 (other)

Note: * Indicates those added at the time of PLR.

CLR Attachment 3: Nepal Planned and Actual Analytical Services and Advisory (ASA) FY14-FY18

FY	Planned ASA	Actual ASA
FY14	Competitive Industry Diagnostic	Competitive Industries Diagnostic (P133457)
	Economic Updates	Financial Sector Support (TA) (P146993)
	Education PETS	Kathmandu Valley Urban Policy Dialogue (132703)
	Fast Track Study and TA	Mapping Local Service Delivery (TA) (P147730)
	Financial Sector Strategy TA	MTEF FY14 (P144053)
	Hydropower Dialogue Studies and TA	Nepal Education Studies (P131381)
	Mapping local service delivery	Nepal Problem Bank Resolution Operation (TA) (P130747)
	National Risk Assessment	NLTA for the Hydropower Scale-Up in Nepal (P133677)
	Policy Notes	Nutrition Policy Dialogue II (TA) (P127709)
	Poverty and Shared Prosperity TA	Policy Notes for the New Government (P147471)
	PFM TA	Regional Trade Program (TA) (P133169)
Social Protection	TA on National Risk Assessment (P145850)	
FY 15	Agriculture Growth	Agri Finance Nirdhan Uthan Bank (P132887)
	CEM/Growth Study	Bank Resolution Capacity Building (P153264)
	Competitive Industries Diagnostic	Debt Management Performance Assessment (P150422)
	Economic Updates	Financial Sector Assessment Program (P146345)
	ESMAP – Wind Energy Resource Mapping (TF)	Governance Reform NLTA (P116281)
	Fast Track Study and TA	Nepal ROSC A&A (P147582)
	Federalism	Nutrition Policy Dialogue (III) (TA) (P149901)
	Financial Sector Strategy (TA)	Renewable Energy Resource Mapping and Geospatial Planning: Nepal (P150328)
	Governance Reform	Rural Water Study Dissemination (TA) (150557)
	Hydropower Dialogue Studies and TA	Scaling up off-grid household renewable energy access (TA) (P144683)
	Mapping Local Service Delivery	Social Protection Study (P149876)
	National Risk Assessment	Support to MTEF Anchoring Three Year Plan (TA) (P147711)
	PEFA	
	Policy Notes	
	Poverty and Shared Prosperity Non-Lending TA	
	PFM TA	
ROSC		
Social Protection		
FY16	Economic Updates	DRM Country Program (TA) (P126009)
	Education Sector Review	Enhancing Investment Climate in Nepal (P155116)
	Fast Track Study and TA	MTEF Preparation (TA) (P153358)
	Hydropower Dialogue Studies and TA	Nepal Development Updates (P157501)
	Nutrition Policy	Nepal Fast Track: Preparing Next Steps (TA) (P150358)
	Policy Notes	PEFA II (P147728)
	Poverty and Shared Prosperity Non-Lending TA	Sources of Growth in Agriculture (P147727)

FY	Planned ASA	Actual ASA
	Skills Development Study	Statistical Capacity Building (TA) (P157854)
		Strengthening Budgeting Process (TA) (P145814)
		Supporting Nepal's Trade Integration Strategy (TA) (P154536)
FY17	Breaking Barriers to Regional Integration in South Asia*	Country Economic Memorandum (P151901)
	CEM/Growth Study*	Economic Impacts of Hydro Development (P153729)
	Economic Updates	Education Strategy Note (P160968)
	Export Incentive Program*	Evaluating the Impact of Information and framed unconditional cash transfers on nutritional outcomes (P144787)
	Evaluating Nutritional Outcomes*	Export Incentive Program (P158247)
	Fast Track Study and TA	Health Insurance Impact Evaluation (P133588)
	Forest Management*	Mobility and the Middle Class (P157853)
	Governance Reform	Programmatic Poverty Work (P148167)
	Hydropower Dialogue Studies and T	Urban Engagement (P161335)
	Nepal Financial Protection and Access to Health Services*	Women's Enterprise Nuwakot (P160077)
	Nepal Urban Management*	
	Nutrition Policy	
	Policy Notes	
	Poverty and Shared Prosperity Non-Lending TA	
	Qualitative Study of Sunaula Hazar Din-Community Action for Nutrition Impact Project*	
	Skills Development Study	
	Support to Trade Policy Reform*	
	Transport Public Expenditure*	
	Understanding Labor Market Decisions*	
	Women's Enterprise Nuwakot*	
FY18	Advancing Social Protection*	Development Impact Evaluation- Global Agriculture and Food Security Program Nepal Impact Evaluation (P144022)
	Bridges Impact Evaluation*	Development Impact Evaluation- Sunaula Hazar Din- Community Action for Nutrition Impact Project Impact Evaluation (P143931)
	Developing Improved Solution for Cooking*	FIRST Nepal Insurance Sector Strengthening (P162272)
	Development Impact Evaluation- Global Agriculture and Food Security Program Nepal Impact Evaluation*	FSAP Follow-up TA (P161207)
	Development Impact Evaluation- Sunaula Hazar Din- Community Action for Nutrition Impact Project Impact Evaluation*	FY18 Nepal Development Update (P165663)
	Employment Creation Platform (with cross cutting area- jobs) *	Health Finance Protection and Access to Services (P162109)
	Entangled: Trade and Jobs in South Asia*	Jobs Platform - FY18/19 (P163141)
	Federalism/Political Economy Study*	Macro Monitoring and Analysis (P152522)
	FSAP follow up*	Nepal Fiscal federalism (P165688)

FY	Planned ASA	Actual ASA
	Fiscal Policy Analysis*	Nepal Fiscal Policy Analysis and Management Program (P157724)
	Hydropower Dialogue Studies and TA	Nepal Forest Note "Forests for Prosperity (P166888)
	Macro Monitoring and Analysis*	Nepal Trade Facilitation & Competitiveness (P148953)
	Nutrition Policy	Nepal Urban Governance and Federalism (P165231)
	Poverty and Shared Prosperity Non-Lending TA	Nepal: Advancing Social Protection Programmatic TA (P152509)
	Renewable Energy Resource Mapping and Geospatial Planning*	Policy Note for Agriculture Financing Strategy (P165645)
	Safety Net System Building*	Qualitative Study of Sunaula Hazar Din-Community Action for Nutrition Impact Project (P155592)
	Strengthening Insurance Sector*	Safety Net System Building TA (P153410)
	Strengthening National Vigilance Center's Technical Auditing*	Support to Fiscal Management (P160712)
	Support for Fiscal Management*	Support to Nepal's Trade Policy and Reforms (P162515)
	Systematic Country Diagnostic*	Systematic Country Diagnostic (P163310)
	Trade Facilitation and Competitiveness*	Understanding Labor Market Decisions and Outcomes of Nepal's Young Adults (P156694)
	Transport and Market Infrastructure Improvement*	

Note: * Indicates those added at the time of PLR.

Annex 3. Selected Indicators of Bank Portfolio Performance and Management

(All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year)

<i>As of Date 06/11/2018</i>				
Indicator	FY15	FY16	FY17	FY18
Portfolio Assessment				
Number of Projects Under Implementation ^a	20.0	18.0	18.0	21.0
Average Implementation Period (years) ^b	3.4	4.2	4.1	4.4
Percent of Problem Projects by Number ^{a,c}	10.0	33.3	5.6	23.8
Percent of Problem Projects by Amount ^{a,c}	3.6	36.3	4.9	15.9
Percent of Projects at Risk by Number ^{a,d}	40.0	66.7	33.3	38.1
Percent of Projects at Risk by Amount ^{a,d}	45.5	69.9	33.2	43.2
Disbursement Ratio (%) ^e	24.3	15.4	26.0	25.4
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				
Memorandum Item				
		Since FY80	Last Five FYs	
Proj Eval by IEG by Number		92	12	
Proj Eval by IEG by Amt (US\$ millions)		2,661.3	673.8	
% of IEG Projects Rated U or HU by Number		33.0	8.3	
% of IEG Projects Rated U or HU by Amt		25.2	18.5	
<p>a. As shown in the Annual Report on Portfolio Performance (except for current FY).</p> <p>b. Average age of projects in the Bank's country portfolio.</p> <p>c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).</p> <p>d. As defined under the Portfolio Improvement Program.</p> <p>e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.</p>				

Annex 4: Operations Portfolio (IBRD/IDA and Grants)

As of 05/31/2018

Closed Projects										
IBRD/IDA*										
Total Disbursed (Active)										
of which has been repaid(1)										
Total Disbursed (Closed)										
of which has been repaid										
Total Disbursed (Active + Closed)										
of which has been repaid										
Total Undisbursed (Active)										
Total Undisbursed (Closed)										
Total Undisbursed (Active + Closed)										
Active Projects										
Last PSR										
Difference Between										
Expected and Actual										
Supervision Rating										
Original Amount in US\$ Millions										
Disbursements^a										
Project ID	Project Name	Development	Implementation	Fiscal	IBRD	IDA	Cancel.	Undisb.	Orig.	Frm Rev'd
P155969	Earthquake Housing Reconst Project	MS	MS	2015	0.0	500.0	0.0	312.3	-89.7	0.0
P163018	EVENT II	S	MS	2018	0.0	60.0	0.0	60.2	5.5	0.0
P147010	Higher Education Reforms Project	S	MS	2015	0.0	65.0	0.0	39.8	20.4	0.0
P122406	Kabeli-A Hydro Electric Project	MS	MU	2015	0.0	46.0	0.0	35.5	37.3	0.0
P160792	Nepal Fiscal Reforms DPC	#	#	2018	0.0	200.0	0.0	0.0	0.0	0.0
P146344	Nepal: Grid Solar & Energy Efficiency	MS	MS	2015	0.0	130.0	0.0	118.9	0.0	0.0
P160207	Nepal Health Sector Mgmt Reform PforR	S	MS	2017	0.0	150.0	0.0	130.1	0.0	-4.0
P156797	Nep Liv Sec Innov Proj	S	S	2018	0.0	80.0	0.0	81.5	0.0	0.0
P144335	NIRTTP	MU	MU	2013	0.0	99.0	0.0	59.9	64.7	0.0
P087140	NP:Agriculture Commercialization & Trade	MS	MS	2009	0.0	60.0	0.1	3.6	-33.4	0.0
P115767	NP-IN Electricity Transmission & Trade P	MS	MU	2011	0.0	138.0	0.0	53.9	23.7	0.0
P099296	NP: Irrig & Water Res Mgmt Proj	S	MS	2008	0.0	114.3	0.7	5.3	-53.3	11.5
P105860	NP: PAF II	S	MS	2008	0.0	245.0	0.0	1.0	-136.3	-101.3
P158364	NP Rani Jamara Kulariya Irrigation Ph 2	S	S	2018	0.0	66.0	0.0	64.7	0.0	0.0
P095977	NP: Road Sector Development Project	MS	S	2008	0.0	172.6	15.1	31.5	-82.4	-8.4
P143036	NP Rural Water Supply & Sanitation Impr	U	MU	2014	0.0	72.0	0.0	25.9	9.6	0.0
P113441	NP: School Sector Reform Program	S	MS	2010	0.0	230.0	9.2	0.0	-86.2	102.8
P150066	Power Sector Ref.& Sus. Hydropower Dev.	S	MS	2016	0.0	20.0	0.0	18.9	0.0	0.0
P160748	School Sector Development Program	S	MS	2017	0.0	185.0	0.0	196.6	0.0	0.0
P132750	SNRTP	MU	MS	2014	0.0	100.0	0.0	50.6	35.5	18.3
P154548	Strengthening Systems for SP and CR	MS	MS	2017	0.0	150.0	0.0	152.0	27.5	0.0
Overall Result					0.0	2,882.9	25.2	1,442.3	-257.0	18.9

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex 5: IFC Committed and Disbursed Outstanding Investment Portfolio
As of 06/15/2018
(in USD Millions)

Commitment Fiscal Year	Company	Committed					Disbursed Outstanding				
		Loan	Equity	Quasi Equity**	GT/RM	Participant	Loan	Equity	Quasi Equity**	GT/RM	Participant
2010	Nirdhan MFB	0	0.19	0	0	0	0	0.19	0	0	0
2010/2013	Butwal Power Co	2.35	0	0	0	0	2.35	0	0	0	0
2010/2013/2018/2017/2014/2011/2015/2016/2012	NIBL Nepal	0	0	0	0.17	0	0	0	0	0.17	0
2011/2012	Nepal BO2	0	0.28	6.85	0	0	0	0.28	1.59	0	0
2012	RMDC Nepal	0	0.54	0	0	0	0	0.54	0	0	0
2014/2012	NWEDC	0	4.00	0	0	0	0	4.00	0	0	0
2014/2015	Probiotech	0	1.88	0	0	0	0	1.88	0	0	0
2015	Kabeli	19.30	0	0	0	0	0	0	0	0	0
2015	NHHPL	2.61	0	0	0	2.61	2.61	0	0	0	2.61
2017	Himalayan Chain Resort	1.70	0	0	0	0	0	0	0	0	0
2018/2014/2017/2015/2016	Siddhartha Bank	0	0	0	0.08	0	0	0	0	0.08	0
2018/2017/2015/2016	NMB Bank	0	0	0	2.02	0	0	0	0	2.02	0
Grand Total:		25.97	6.89	6.85	2.27	2.61	4.97	6.89	1.59	2.27	2.61

** includes both equity and loan types

Annex 6. IFC Advisory Services – Portfolio Project FY19-23

Project Name	Project Description	Status	Expected End Date
Energy- Cross Cutting Advisory			
Nepal Hydro Sector Development	Support the emergence of a pipeline of investable hydropower projects in Nepal for IFC and other financial institutions. The program will facilitate the development of 400MW of hydropower capacity in adherence to good project development practices, by working in-depth with at least 2 hydropower companies. Enable at least 10 companies to develop and manage hydropower projects in line with good international standards and practices through trainings, workshops and conferences on E&S, technical and commercial issues.	Active	FY21
Energy and Water Solutions for Firms in South Asia	Catalyze adoption of clean energy and resource efficiency solutions by promoting investments that lead to cost savings and operational efficiency through reduced energy, water and GHG emissions. The project will build on prior project experience and pipeline and focus predominately on two sectors: (i) construction materials, including cement and aluminum; and (ii) textiles.	Active	FY21
Telecom, Media, Technology and Venture Investing (TTV)			
Nepal SME Ventures Advisory Project	Develop the capacity of the Business Oxygen SME fund management team as it proceeds to ramp up operations with its first fund.	Active	FY21
Environmental, Social, and Governance			
Nepal E&S Hydro	Improve adherence of environmental and social standards in the hydropower sector in Nepal and India, facilitating the sustainability of the hydropower sector and the development of sustainable hydropower projects.	Active	FY20
South Asia Regional Corporate Governance Project	Increase the ability of firms and markets to improve performance and attract and retain investment by promoting the adoption of corporate governance best practices and standards.	Active	FY19

Macroeconomic, Trade, and Investments (MTI)			
SA Regional Trade	Reduce the time and cost to trade and increase regional cooperation to improve cross border movement of goods in the South Asia Region, focusing on Nepal, Bangladesh and Eastern India. The project will support simplification and harmonization of procedures and documents within national and across borders, introduction of risk management, automation, and conduct regional peer to peer events to promote regional cooperation.	Active	FY19
Finance, Competitiveness, and Innovation (FCI)			
SARTI Investment Policy	Increase intra-regional FDI flows in South Asia by 3% and generate compliance cost savings of \$5.7 million by 3 years after project completion. These will be achieved through Improving the regulatory environment (investment laws, and foreign exchange regulations), reducing investor uncertainty and delays by streamlining investment related processes and procedures, Investment facilitation to catalyze cross-border flows.	Active	FY19

Annex 7: Summary of the Country Level Gender Equality and Social Inclusion Assessment

Background

1. The World Bank policy (OP/BP 4.20) mandates periodic country-level gender diagnostics.¹⁵² In 2016, the South Asia Region prepared a Regional Gender Action Plan for FY2016-2023, which reviews the progress and challenges in improving gender equality and identifies actions to make further progress. Since then, Nepal has updated its Country Gender Action Brief, which has been taken into consideration in preparing the CPF. In addition, the WB carried out a rapid gender equality and social inclusion (GESI) Assessment to take stock and identify areas that may be furthered during the CPF period. The GESI Assessment considers the Gender Action Brief 2018-2023, the theory of change accepted by various government documents, and the common GESI framework of donors.¹⁵³ It was prepared through a consultative and participatory process.

2. Nepal's 2015 Constitution envisions an inclusive state that guarantees equality for all its citizens. While progress is being made, inequities based on complex and deep-rooted attitudes and stereotypes based on geography, gender, ethnicity, and disability remain. This has contributed to exclusion/unequal treatment of women and marginalized groups and a prevalence of gender/caste and ethnicity based violence. To achieve WBG's goals of poverty reduction and shared prosperity, it is essential to promote social capital, economic autonomy and political participation of women and the marginalized. In doing so, address issues of low access to resources and opportunities, lack of influence in decision-making, discriminatory gender and social norms, and gender based violence (GBV).

3. Below is a summary of how GESI may be addressed under each focus area of the CPF.

Focus Area 1: Public Institutions

Key GESI Issues: Demand side- poorly informed about government processes & services; inability to influence decisions; discriminatory gender and social norms constraining access. Supply side- poor quality services & accountability; inadequate government responsiveness; limited diversity and skills of service providers; inadequate budget allocations

Areas for consideration in the CPF: Integrate support for improving the capacity of government entities to deliver services to women and excluded, for example through the budget and social accountability measures to ensure that the women and the excluded benefit. Improve the capacity of women and the excluded to access and benefit from public services by enhancing their ability to demand services and increase accountability of service providers.

Focus Area 2: Private Sector-Led Jobs and Growth

Key GESI Issues: Jobs - limited employable skills due to low educational levels, poor vocational and technical skills, rural and agriculture dependence, social and gender based constraints; Energy- differential energy needs, priorities and access of women, poor and the excluded; lack of recognition and understanding of gender/caste/ethnicity based constraints, capacities and requirements; Roads - inability of women and excluded to benefit equally from increased access of roads and related opportunities due to structural issues of responsibilities and discrimination; limited analysis of transport needs and roads use of women, poor and excluded groups; impact of roles, mobility, transport burden, cultural norms not considered by decision makers; marginalization and non-recognition of the needs/priorities of women, poor and marginalized in the strategic road networks.

¹⁵² Good Practice Note Country Gender Diagnostics, Feb 7, 2013, World Bank

¹⁵³ GESI Working Group, A Common Framework for Gender Equality and Social Inclusion, IDPG, March 2017.

Areas for consideration in the CPF: Support women’s economic empowerment through interventions to expand employment opportunities. Ensure that women are considered in activities for improving technical and vocational skills and other activities to enhance their prospects for employment. In working with the private sector, encourage employment of women and reduce discriminatory practices at the workplace. In infrastructure (i.e. energy and road), engage women and marginalized groups in consulting citizens. Where possible, incorporate complementary investment activities to benefit women and the marginalized group, and encourage hiring of women in the sector.

Focus Area 3: Inclusion and Resilience

Key GESI issues: GBV- high prevalence of different forms of GBV throughout the life-cycle of girls and women; Social-cultural acceptance of physical, emotional and sexual violence against women and girls; notions of masculinity promoting control and violence as the accepted norm; inadequate and poor implementation of response mechanisms; Health, Education, Agriculture, WASH - poor quality services, lack of women service providers, out of pocket expenses; caste/ethnic and gender discrimination, unequal power relations, low ownership of assets, language, cultural insensitivity, distance, non-disabled friendly services/infrastructure; weak implementation; low priority and interest of service providers to address GESI barriers; poor sectoral governance. Climate Change/Disaster Response - social dimensions of disaster and climate change not recognized; women, marginalized groups’ needs, priorities neglected; limited participation in decision-making; lack of information and access.

Areas for consideration in the CPF: Under this area there is a significant opportunity to contribute to reducing girls/women, the poor and marginalized groups’ vulnerabilities, especially to GBV, health shocks, and natural disasters.

Country Gender Action Brief FY18-23: Nepal	
Economic Empowerment	
KEY GENDER ISSUES	Declining female labor force participation and intensity of employment, especially in rural areas.
PRIMARY CAUSES	Slow job creation; Rising real earnings for agriculture as a result of falling labor supply; Male outmigration from rural areas led to a feminization of agriculture; Weak labor market intermediation services; Limited provision of marketable skills in rural areas; Informal economy; Early marriage; Socio-cultural norms that limit women’s participation in the labor force; Lack of gender sensitive work environment and lack of transport systems.
INSTRUMENTS	<ul style="list-style-type: none"> • Skills and employability training tailored to high growth sectors and rural areas • Increasing access to finance and productive assets for women • Supporting the business environment to raise labor demand • Supporting job search and matching processes where demand for labor exists • Changing perceptions about women working in certain sectors (e.g. women working as waitresses) • Gender sensitivity at workspace
BANK PROGRAM	<ul style="list-style-type: none"> • Earthquake Housing Reconstruction (EHRP); School Sector Development Program (SSDP); Higher Education Reform Project (HERP); Enhanced Vocational Education and Training Project (EVENT-II); Poverty Alleviation Fund (PAF); Project for Agriculture Commercialization and Trade (PACT); Road Sector Development Project (RSDP); Project for Strengthening the National Rural Transport Program (SNRTP); IFC’s programs on agribusiness and financial services; Rural Water Supply and Sanitation Improvement Project (RWSSIP); Strengthening Systems for Social Protection and Civil Registration Project; Integrated Platform for Gender Based Violence Prevention and Response; UT1:

	Upper Trishuli Hydro Project; Business Models for Private Sector-Led Mini-Grid Energy Access Project; Bridges Improvement and Maintenance Program-II (BIMP II); Nepal Fiscal Reform DPC; Livestock Sector Innovation Project; Modernization of Rani Jamara Kulariya Irrigation Scheme-Phase II <ul style="list-style-type: none"> • Pipeline projects: Accelerating Inclusive Jobs Growth for Youth in Nepal; Food and Nutrition Security Project; Tourism project
OUTCOMES	Increased number of women in employment and entrepreneurial activities
Voice and Agency	
KEY GENDER ISSUES	Limited decision-making ability of women in local-level social and political institutions
PRIMARY CAUSES	Socio-cultural norms that limit women's participation in decision-making roles; Dominance of men in formal institutions and decision-making bodies
INSTRUMENTS	<ul style="list-style-type: none"> • Reserved seats and quotas for women in local institutions • Investing in infrastructure to facilitate female engagement in public life • Literacy and trainings to empower women and improve their leadership skills • Awareness raising activities to change negative attitudes towards women leaders • Raising awareness on gender equality • Investing in the prevention of and response to gender-based violence
BANK PROGRAM	<ul style="list-style-type: none"> • Projects that engage with community institutions such as community organizations, users' groups, management committees (e.g. PAF, EHRP, SSDP, PACT, IWRMP, SNRTP, RWSSIP, HERP, AFSP, Health Sector Management Reform) to improve women's participation • Integrated Platform for GBV to prevent and respond to GBV and raise awareness, especially by engaging boys and men • Pipeline projects: Accelerating Inclusive Jobs Growth for Youth in Nepal; Food and Nutrition Security Project; Business Models for Private Sector-Led Mini-Grid Energy Access Project
OUTCOMES	Increased number of women in decision-making positions in local institutions/community groups (e.g. user groups, management committees, community organizations)
Health	
KEY GENDER ISSUES	High incidence of maternal deaths
PRIMARY CAUSES	Early marriage including child marriage; Inadequate nutrition; Inadequate number of medical facilities with doctors present for birthing; Significant proportion of pregnant women not availing antenatal and postnatal care; Limited awareness of and access to adolescents'/women's SRH related issues; Limited use of contraceptives, particularly among young women; Socio-cultural norms and perceptions that prevent women from using birth facilities; Limited female autonomy in decisions related to personal family health care
INSTRUMENTS	<ul style="list-style-type: none"> • Increasing number of public and private delivery facilities, especially in rural areas • Adolescent health programs targeted at the indirect causes of maternal death • Improving access to maternal and child health services • Awareness raising and behavior change communication relating to nutrition and antenatal care
BANK PROGRAM	<ul style="list-style-type: none"> • Health Sector Management Reform • Pipeline projects: Food and Nutrition Security Project
OUTCOMES	Improved access to SRH-related services for women of reproductive age

Annex 8. Summary of Development Partner Coordination

1. **The government's development cooperation policy guides development assistance.** The 2015 Constitution includes provisions on coordination of development assistance, which is the responsibility of the Ministry of Finance. No development assistance can be channeled directly to the state or local government without the prior approval at the federal level. It is channeled through the national country system and included in the overall national budget.

2. **The International Development Partner Group (IDPG) and Local Development Dialogue are the main platforms for coordination.** The IDPG co-chaired by a representative from a multilateral and bilateral organization, meets regularly to share information and coordinate on issues of common interest. It played a crucial role in bringing together development partners in the aftermaths of the 2015 earthquakes, to undertake the needs assessment and coordinate the post-earthquake response. Under the IDPG there are several formal and informal sector-based coordination groups. Table 1 provides a snapshot of the range of activities supported by development partners¹⁵⁴ as well as WB joint and co-financed initiatives. The Ministry of Finance organizes the Local Development Dialogue as a forum for exchanges between the development partners and the government. This forum was reconvened under the new government in April 2018.

3. **Nepal receives significant resources from development partners.** According to the Development Cooperation Report FY2017 released by the Ministry of Finance, the top five multilateral development partners were: the WB, the Asian Development Bank, the UN, the European Union and IFAD. The top five bilateral donors were: USAID, United Kingdom, Japan, India and China. The education sector was a top recipient of development assistance, due mainly to the School Sector Development Program. This was followed by local development, housing (mainly earthquake housing reconstruction), drinking water and policy and strategy support.

Focus Area 1

4. **Under the IDPG, the Federalism Working Group (FWG) was established, co- led by the WBG and the Swiss Development Cooperation.** The FWG serves as a coordination platform for multilateral and bilateral development partners to support federalism. It seeks to identify potential gaps and duplication, synergies to maximize impact with available resources, and common/coordinated approaches to issues (e.g. addressing inequities) linked to the new federal structure. This includes coordinating on the capacity building needs assessment, which the WB is leading. The WB is working with others in implementing the PFM Reforms funded by Multi-Donor Trust Fund (MDTF). A key challenge is ensuring complementarity and coherence of advice and support for the federalism agenda by development partners

Focus Area 2

5. **Multiple development partners are engaged in infrastructure.** Energy and transport sectors get significant levels of development financing including from China, and India. In energy sector, regular meetings take place, to coordinate and exchange information particularly on on-grid and transmission. While the WBG support has been more focused on energy generation, other development partners (e.g. ADB and MCC) have financed transmission lines. In the transport sector, there are no formal coordination body. However, ADB, USAID, and WB teams are regularly in touch. Much of development partner financing has been for strategic roads. A key challenge where all development partners need to work together is in institutional and policy reforms to improve investment efficiency. Most development partners are engaged in agriculture sector and social protection. The WB financing for the Financial Sector DPCs is being complemented by a TA from DFID.

¹⁵⁴ Based on the Government's Development Cooperation Report 2016/2017.

Focus Area 3

6. **The WBG is collaborating with others mainly in education and health sectors.** The WB is the largest contributing partner in the Health Sector Management Reform Program and the School Sector Development Program. It is also the largest contributing partner in the Earthquake Housing Reconstruction Project. In other areas (i.e. disaster risk management, forest sector, nutrition, water and sanitation, and social protection), WB is coordinating with other DPs.

Table 1. Snapshot of Development Partner Activities

CPF Focus Areas	Engagement Areas	Development Partners	Co-Financing or Joint Work With the WBG
Focus Area 1: Public Institutions	• Federalism	• ADB, DFAT, DFID, EU, JICA, Norway, UNDP, USAID, UN agencies	<ul style="list-style-type: none"> • MDTF - PFM (DFAT, DFID, EU, Norway, SDC, USAID) • Federalism Working Group co-chaired by WB and Swiss Embassy (All DPs) • Joint Capacity Building Needs Assessment to be launched
	• Capacity Building	• DFAT, GIZ, UN agencies	
	• Human Rights	• EU	
	• Public Administration (Central and Local)	• DFAT, DFID, EU, JICA, Norway, SDC, UN agencies	
	• Law and Justice	• KOICA, Norway, UN agencies, USAID	
	• Governance	• DFAT, DFID, SDC	
	• Public Financial Management	• ADB, DFAT, DFID, EU, Norway, USAID	
	• Poverty	• DFID, UNICEF	
Focus Area 2: Private Sector-Led Jobs and Growth	• Agriculture, Rural Development, Irrigation	• ADB, FAO, IFAD, JICA, KOICA, SDC, USAID, UN Women, WFP	<ul style="list-style-type: none"> • Energy Sector DPC (ADB) • Strengthening the National Rural Transport Program (ILO) • Road Safety Support Project (DFID) • Bridges Improvement and Maintenance Program (SDC) • Agriculture and Food Security Project (FAO) • Poverty Alleviation Fund II AF (IFAD) • Financial Sector DPC 4 (DFID and IMF)
	• Financial Sector Development and Access to Finance	• ADB DFID, KfW, SDC, UNCDF, USAID	
	• Energy	• ADB, AIIB, China, GIZ, KfW, India (Exim Bank), JICA, Norway, SDC, USAID	
	• Employment and Jobs	• DFID, ILO, SDC	
	• Rural and Urban Development	• ADB, AIIB, DFID, EU, GIZ, Norway, SDC, USAID,	
	• Social Protection and Jobs	• ADB, DFID, EU, ILO, SDC UNCDF, UNICEF, WFP, UNHCR, ADB	
	• Tourism Infrastructure	• ADB	
	• Transport	• ADB, China, DFID, GIZ, ILO India (Exim Bank), JICA, SDC, USAID,	
Focus Area 3: Inclusion and Resilience	• Disaster Risk Management	• ADB, Canada, China, DFID, EU, India (Exim Bank), JICA, KOICA, SDC, UNDP, USAID	<ul style="list-style-type: none"> • Health Sector Management Reform Program (DFID, GIZ, KfW, UNICEF, USAID)
	• Climate change and adaptation ¹⁵⁵	• DFID, FAO, IFAD	

¹⁵⁵ Climate change mitigation and adaptation agenda is part of almost all engagement areas e.g. the forestry sector and SFM contributes to both, the climate change mitigation and adaptation/resilience agendas

CPF Focus Areas	Engagement Areas	Development Partners	Co-Financing or Joint Work With the WBG
	<ul style="list-style-type: none"> Forestry (incl. REDD+)/Environment 	<ul style="list-style-type: none"> DFID, FAO Finland, JICA, SDC, GIZ (through ICIMOD), USAID, 	<ul style="list-style-type: none"> School Sector Development Program (ADB, DFAT, EU, Finland, JICA, Norway, UNICEF) Earthquake Housing Reconstruction Project (Canada, DFID, EU, JICA, SDC, UNDP, USAID)
	<ul style="list-style-type: none"> Education and Skills Development 	<ul style="list-style-type: none"> ADB, China, DFAT, DFID, EU, Finland, JICA, Norway, SDC, UNICEF, USAID 	
	<ul style="list-style-type: none"> Health, Nutrition, Population and Family Planning 	<ul style="list-style-type: none"> China, DFID, EU, GIZ, KfW, JICA, KOICA, UNAIDS, UNICEF, UNFPA, UNODC, USAID, WFP 	
	<ul style="list-style-type: none"> Gender based violence protection 	<ul style="list-style-type: none"> SDC, UN Women 	
	<ul style="list-style-type: none"> Water, Sanitation and Hygiene 	<ul style="list-style-type: none"> ADB, DFID, Finland, JICA, UNICEF, UN-Habitat, USAID 	

Annex 9. Summary of Stakeholder Consultations

1. **The WBG conducted extensive stakeholder consultations to inform the SCD and the CPF.**

The SCD was informed by six internal working groups' discussions, external consultations and surveys (online and SMS with more than 200,000 responses). The SCD team carried out face-to-face meetings and online outreach across Nepal in November and December 2017. During the meetings, the WBG received feedback on Nepal's development priorities and challenges, as well as on areas where WBG support would be important in the new CPF. To support a continuity between the SCD and the CPF, there was an overlap of CPF and SCD team members.

2. **Consultations on the new CPF was carried out January to March 2018, in two rounds.**

The first phase was held end January to early February and the second phase took place end February to mid-March 2018. In the first phase, the CPF team met with the Ministry of Finance, key government oversight agencies, and the development partners. In addition, it held extensive internal discussions with the WBG country team members including from IFC. The second phase was tied to the formation of the new government. It was also scheduled so that consultations with the private sector on the CPF overlapped with those on the CPSD and the InfraSAP, to facilitate the integration of the MFD into the CPF. During the second round of consultations, the CPF team met with key political leaders, representatives from line ministries, chief ministers, mayors/their representatives, provincial assembly members, CSO representatives, and the private sector. In addition, the CPF team held face-to-face discussions in Biratnagar and Butwal, and met the Madhesi leaders from State 2 in Kathmandu. The face-to-face outreach was complemented by online survey to seek feedback on the proposed areas for WBG support.

3. **Stakeholders were generally optimistic about the development prospects of Nepal following the successful completion of the 2017 elections and formation of the new government.**

They were also cognizant of the challenges faced by the country in establishing a well-functioning three-tier government structure. In this context, they were overall supportive of the proposed WBG focus on strengthening public institutions, where government representatives noted the need for basic infrastructure to set up the state- and local- level governments (*e.g.* building, furniture, equipment, infrastructure to connect local with state governments). Government representatives at the national and sub-national levels also underlined the seriousness in which they were approaching expenditure and revenue management; and planning, budgeting, execution, and monitoring for service delivery. They reiterated the need for capacity building, especially for elected officials with limited experience in public service. The differences between the states were highlighted, where there would be a need for customized approach to development.

4. **The need for the new government system to ensure results and accountability, especially to local population needs (*e.g.* basic services related to health, education, water and sanitation) and the importance of good governance were emphasized.**

This was brought up by both government and CSO representatives, who were also concerned about the cost of basic services, especially for the poor and the marginalized. The WBG was encouraged to help address the disparities based on geography, gender, and economic status. At the time of consultations, the ministries were being restructured, the functions across the three levels of government were being clarified; and the systematic devolution of resources (staff and financing) to support a smooth transition from central to decentralized government system especially for ensuring basic service delivery were being discussed. In this context, stakeholders raised concerns about rent-seeking behavior by individuals taking advantage of the gaps in regulations and processes during the transition period.

5. **The proposed CPF focus on private sector led jobs growth and higher growth resonated with participants.**

Across the board, there was a desire for higher domestic economic growth and jobs,

which many government representatives, CSOs, and community leader noted is important in reducing migrations, which they noted had led to loss of young workers, weakening of the social fabric of families, and dependency on remittances. A recurrent theme across stakeholders was the untapped opportunities for more and better jobs and sustainable income generation in tourism and agriculture, where the private sector may play an important role. The need for an enabling environment for the private sector was considered a top priority, where certain stakeholders – government and private sector representatives – noted the still relevant role of the WBG in energy and transport infrastructure. In addition, private sector representatives urged improvements in the regulatory environment and reduction in cost of doing business. Some concerns were expressed that the new three-level structure would increase the bureaucratic complexity.

6. A recurring theme linked to jobs was the need to address human capital development, and protecting the poor and the vulnerable. Across all stakeholder groups, the need for skills development of youths, especially vocational and technical training was highlighted. They encouraged the WBG support in this area, linked to jobs. Concerns were raised about access and quality of health care, especially for those in remote areas and the financial burden for the poor and the vulnerable. The vulnerabilities of young women and girls to exploitation and gender-based violence came up during the state level consultations, which was linked to the social costs of migration. In this context, WBG support for women’s economic empowerment was supported. Nepal’s vulnerability to natural disasters and climate change was raised in almost all meetings, with the 2015 earthquakes and flooding still fresh in people’s minds. In this regard, some line ministry representatives mentioned the need for climate resilience infrastructure, agricultural practices and natural resources management.

7. Finally, the stakeholders commented on how development partners like the WBG may better contribute to the country’s development. In this regard, there was a recommendation to hold joint-consultative meetings with national and subnational governments and the development partners to review externally financed initiatives, and discuss future engagement. The WBG was encouraged to reflect on its own performance, and to consider implementation experience and results in future design and focus of projects.

External Stakeholders Consulted
<p>Outside Kathmandu: <u>Combined with SCD:</u> Biratnagar, Ilam (State 1), Pokhara, Kaski (State 4), Nepalgunj (State 5), Birendranagar, Surkhet (State 6), Dhangadhi (State 7) <u>Follow-up consultations on CPF:</u> Biratnagar (State 1), Butwal (State 5)</p> <p><u>Participants:</u> Chief Minister/Chief Minister’s Office (for CPF only), Assembly Members/Assembly Secretariat (CPF only), political leaders, mayors/mayor’s office, district coordination committee/district office representatives, representatives from cooperatives/user groups private sector, CSOs, community leaders, journalists</p> <p>In Kathmandu: <u>Participants:</u> Office of the Prime Minister and Council of Ministers, Ministry of Finance, National Planning Commission, Ministries (Physical Infrastructure and Transport, Land Management, Agriculture and Cooperative, Industry, Tourism, Forest and Environment, Energy, Education, Health, Federal Affairs and General Administration), Provincial Leaders (including State 2 Madhesi leaders), private sector (2 consultations -combined with CPSD and InfraSAP Teams), Oversight Agencies, Development partners, CSOs</p> <p>Online: Outreach to public through WB website, face book, and SMS for the SCD.</p>

Annex 10. Nepal Implementation Action Plan for use of IDA18 Risk Mitigation Regime Window

I. Introduction

1. **This note is the Implementation Action Plan outlining the proposed use of IDA18 Risk Mitigation Regime for Nepal.** The Risk Mitigation Regime is intended to provide enhanced support to countries to mitigate risks of fragility, conflict and violence (FCV). Nepal is one of four countries eligible for exceptional support under the Risk Mitigation Regime¹⁵⁶. A Risk and Resilience Assessment (RRA) prepared in June 2017 provides an analysis of the key drivers of fragility facing Nepal and identifies possible areas of Bank support to mitigate and address these risks. Drawing from the recommendations of the RRA, this note provides the background for using the financing from the IDA18 Risk Mitigation Regime. The RRA informs the Systematic Country Diagnostics (SCD) completed in February 2018 and the Country Partnership Framework (CPF) under preparation for Board presentation in late FY18, which will also incorporate the main Implementation Action Plan.

2. **Through the DPC, the World Bank proposes to focus at the outset on addressing the most immediate source of fragility related to the new federal state.** According to the RRA, Nepal faces multi-dimensional sources of fragility, which include weak institutions and governance, among others. The most immediate risk is related to the establishment of the new federal government structure, based on the 2015 Constitution. The shift from a centralized, unitary government structure to a three-tiered system of central, provincial and local governments was motivated by the inability of the previously centralized government system to deliver on inclusive development. As such, expectations are high for the new federal state to deliver on greater equity across different segments of population and responsiveness to local communities' needs. If these expectations are not met and the decentralization process results in disruption of service delivery, risk of instability is likely to increase in the short term. At the same time, the new federal state also offers an opportunity for Nepal to move away from Kathmandu-centered system of leadership to achieve greater accountability and responsiveness to local population needs and genuine power sharing between federal, provincial and local governments.

3. **In response, the World Bank proposes to provide immediate support using the IDA Risk Mitigation Regime for policy reforms to help establish the foundations of a functioning federal state** by creating a framework for fiscal transfers from central to subnational governments and for improving the framework for PFM. The proposed DPC is part of the broader framework for the World Bank support to Nepal's federal structure, as summarized in paragraph 17. In addition, the World Bank will utilize the resources from the IDA Risk Mitigation Regime to promote greater inclusion in human capital development and economic participation. The World Bank will contribute to strengthening Nepal's overall resilience against the sources of fragility through its engagement under the forthcoming CPF.

II. Overview of Fragility Risks

4. **Nepal continues to face risks of fragility and conflict.** These risks are clustered into four areas outlined in the RRA— institutions and governance, equity and inclusion, economic competitiveness and jobs, and exogenous factors – and are further elaborated below. Nepal is a low-income, landlocked country with complex ethnic, geographic, caste, and class divisions; relatively closed economy; and high vulnerability to natural disasters. Since the middle of the 20th century, Nepal has struggled to move away from a feudal past where power was concentrated, resources were extracted for the benefit of the ruling elite, and the state did not meet the needs of the people. This process has

¹⁵⁶ Other countries are Guinea, Niger, and Tajikistan.

been made more difficult by the country's varied topography ranging from the Himalayas in the north to the plains in the south; its diversity of castes, ethnicities, and languages; as well as formidable challenges in connectivity leaving many communities isolated from the rest of the country. From mid-1990s until 2006 when the Comprehensive Peace Agreement was signed, the country was in the throes of conflict. Since 2006, Nepal has gone through a lengthy and complex political transition taking 10 years to draft a new constitution outlining the structure and process for a new federal state, which was promulgated in 2015. In 2017, Nepal successfully completed the local, provincial and federal elections paving the way for a new government and a new federal state in 2018, which will have a profound impact on Nepal's future.

Institutions and Governance

5. **Political uncertainty has deterred economic growth and development.** The post-conflict period (2006–16) has been characterized by frequent government changes, political fragmentation and a proliferation of new actors, with political parties splitting and new groups competing for space on the national stage. Over the past 10 years, Nepal had nine governments. Frequent changes in government have weakened technocratic leadership and the functioning of the bureaucracy, acting as constraint to economic growth and development. With the smooth completion of local, provincial, and federal elections in 2017, and formation of new government in February 2018, there is cautious optimism for political stability.

6. **Transition to a federal democratic republic state poses a significant immediate challenge.** The completion of elections ushers in the federal democratic republic state and brings to closure the 2006 Comprehensive Peace Agreement. The establishment of a federal state is a response to the central government's inability to deliver an inclusive social contract called for by citizens, particularly the historically marginalized groups¹⁵⁷. Nepal has struggled to move away from Kathmandu-centered system of leadership. The 2015 Constitution outlining the new federal state was highly contested, particularly by the Madhesis, with some issues unresolved. The country faces the daunting task of establishing the new federal structure comprising of federal, provincial and local governments, particularly in the face of weak institutions. The country needs to draft approximately 150 new laws and amend approximately 300 existing laws in line with the 2015 Constitution. Across the three-tiers of government, there is a need to further define the functions, clarify revenue sharing and fiscal transfer arrangements, decentralize key state institutions including the civil service and policy. Moreover, the new structure will require substantial investment in setting up the offices, building capacity, and improving connectivity. If the new federal state does not show early results, conflict between different groups and overall fragility of the country may increase.

7. **Weak institutions and governance may be exacerbated by the new federal structure.** Nepal has faced frequent government changes, fragmentation of leadership with multiple political parties that have proliferated, and unstable governing coalitions. Centralization of power in Kathmandu has been a key source of public discontent. Public institutions suffer from rent seeking and weak capacity, particularly at the local levels. PFM is an area of high fiduciary risk during the period of establishing the federal state. Civil service has been impacted by the political uncertainties, affecting appointments and functioning of bureaucracy. These weaknesses in leadership and public institutions have hampered reforms and service delivery. There is a strong risk that the constraining practices and behavior at the central level may be replicated at the local levels.

¹⁵⁷ Marginalized groups include women, Dalits (untouchables), Adivasi Janajatis (indigenous nationalities), Madhesis (i.e. heterogenous group of plains people, a majority of whom live in the Tarai), Muslims, the disabled and people from "backward regions".

Equity and Inclusion

8. **Geography and identity have been a mobilizing force contributing to instability.** Nepal has a complex ethnic, geographic, caste, and class landscape. A majority of the population are Hindus with significant ethnic diversity¹⁵⁸. About half of the population of 28.5 million people live in the Tarai (southern plains), with the remaining population in the hills and the mountains. The Tarai is the breadbasket of Nepal, while economic activities are concentrated around Kathmandu and the Tarai. There are significant inequities in terms of voice and participation in government and access to resources and opportunities given gender, geographic, ethnic and caste differences. In recent years, there has been increased social polarization as different groups tried to secure benefits under the 2015 Constitution. To promote greater inclusion under the new federal state, quotas for disadvantaged groups were introduced. However, their voice and participation may be slow to materialize as new entrants in public service will be constrained by limited experience and capacity.

9. **Access to resources and opportunities continues to be unequal despite strong progress in shared prosperity.** Nepal achieved an impressive reduction in poverty, with the proportion of Nepalese households living in poverty (as measured by the international extreme poverty line) falling from 46 percent in 1996 to 15 percent in 2011. It is also one of the best performers globally on shared prosperity. From 2004 to 2011, consumption among the bottom 40 percent grew almost twice as fast as consumption among the top 60 percent. These strong performances are explained by high levels of remittances, which reached 30 percent of GDP in 2015 – one of the highest in the world. However, historic patterns of spatial and socio-economic exclusion have continued in education, health, employment and social protection. Before the new federal structure, public services were provided by the central government through line ministries, resulting in limited access to basic services in certain parts of the country and uneven and poor quality of services. Going forward, local governments will assume responsibility for delivering basic services such as education, health, local transport, and water and sanitation. Given the need for the newly elected local officials to understand and develop the framework for service delivery and the weak institutions and capacities, there are concerns of possible disruptions of service delivery.

Economic Competitiveness and Jobs

10. **The weak economic structure and limited economic competitiveness are a source of fragility.** Nepal's economic growth has averaged 4 percent per year for the last 20 years, which is lower than other economies in the region. It has a relatively closed economy with insufficient opportunities for domestic economic growth and employment, including for youths who account for approximately 30-40 percent of the total population. Youth unemployment rate stands at 19 percent, with graduate unemployment at 26 percent¹⁵⁹. The SCD identifies several factors constraining economic competitiveness: political instability and weak institutions and policies that discourage investments, poor infrastructure, poor governance of markets, constraints to trade, and unequal access to credits. With limited domestic opportunities, many Nepalis have chosen to migrate abroad for employment. Remittances account for almost 30 percent of GDP and have contributed to the impressive poverty reduction and human development in Nepal. A decline in global demand for migrant workers from Nepal raises concerns about absorbing returning migrant workers, and a decline in remittances would negatively impact gains in poverty reduction and shared prosperity. If Nepal continues along the path of low growth, it will remain vulnerable to slowdown in remittances. It will also not be able to achieve its goal of becoming a middle-income country by 2030.

¹⁵⁸ According to 2011 census, there are 123 spoken languages and 125 caste and ethnic groups.

¹⁵⁹ ILO 2015.

Exogenous Factors

11. **Nepal is vulnerable to natural disasters and climate change, which intensify its fragility risks.**

It is the 11th most earthquake-prone country in the world. Due to its topography, it is prone to floods, landslides, and droughts that will increase with climate change. The degree and impact of natural disasters vary across the country. For example, while rainfall levels are on average higher in the Tarai, drought has the largest monetary and welfare impact in the breadbasket of the country. Agriculture contributes to one-third of GDP, and a large share of the workforce - 67 percent – are engaged in this sector. Risks are generated through direct resource competition (in which climate change leads to greater scarcity), increased grievances over relative deprivation (in which climate change results in changes in relative prosperity between different groups), and complex crisis and human insecurity, as experienced in the aftermaths of the 2015 earthquakes that led to 8,700 deaths, 25,000 injured, and 10 million people (one-third of population) displaced.

12. **As a landlocked country, Nepal is vulnerable to developments in neighboring countries.**

Nepal is located between two of the fastest growing economies in the world – China and India. India is Nepal's largest trading partner, accounting for 65 percent of Nepal's total trade, and the principal transit route, with more than 85 percent of all imports entering through India irrespective of country of origin. The two countries share 1,750 kilometers of open border. As such, in addition to formal trade there is a considerable volume of unrecorded trade in goods, movement of people, and remittances. The Nepalese rupee is pegged to the Indian rupee, giving the central bank limited scope to undertake independent monetary policy. While Nepal's relationship with China is less developed given the physical barrier posed by the Himalayas, it is deepening. Due to this unique geography, Nepal's future trajectory will continue to be affected by the situation in neighboring countries.

III. **Opportunities for Risk Mitigation**

13. **Nepal's desire for greater stability, equity and inclusion is represented by its adoption of the new Constitution calling for transition to a federal state and by its development strategy.**

The country successfully completed local, provincial and federal elections in 2017 despite concerns about limited time to organize the elections and about potential protests escalating into violence given that the 2015 Constitution had been contested. Completion of the elections has laid the groundwork for the new federal state, and there is cautious optimism for greater political stability in the future.

14. **The government is already taking steps to address the challenges of fiscal decentralization and PFM, which pose significant risks.**

Fiscal decentralization is a major undertaking. Without effective and efficient revenue collection, adequacy of funding to sub-national governments through predictable, transparent, formula-based allocation, and prudent debt management, financing for public services, especially to underserved regions and populations would be impacted. Fiscal decentralization will need to be combined with PFM to ensure good governance, transparency, and accountability for use of public resources at all three levels of government. While PFM poses a high fiduciary risk, given the existing weak institutions and capacities, the country's commitment to follow through in establishing a federal state is strong: it has already established the National Natural Resource and Fiscal Commission (the Fiscal Commission), a constitutional body, which among other responsibilities would devise the formulae for distribution of grants, revenues, and royalties to subnational governments. The government is also pushing forward with key acts such as Intergovernmental Fiscal Arrangement Act in 2017. The Act establishes a critical legal framework for resource allocation among the three tiers of government. To strengthen PFM, an information platform that integrates multiple budget management systems into a single platform has been created. All federal ministries will be provided access to this system. This is an important tool for improving transparency and ensuring timely information to support informed decisions on budget.

15. **The country's resolve for greater inclusion under the new federal state is enshrined in the 2015 Constitution.** The 2015 Constitution, which had been much contested, commits to “ending all forms of discrimination and oppression created by the feudalistic, autocratic, centralized, unitary system of governance...”¹⁶⁰. It contains provisions to promote inclusion, such as requiring women to represent one-third of total members elected from each political party in Parliament and for the 56 elected members of National Assembly to include at least three women, one Dalit, and one person with disabilities or from minority groups.

16. **The 14th Periodic Plan aims to increase the rate of economic growth, enhance inclusion, and strengthen social protection of Nepal's population.** The overarching vision of the 14th Periodic Plan prepared through public consultations is to build a prosperous nation “...through an independent, progressive, and socialism-oriented economy”. The 14th Periodic Plan focuses on: effective service delivery through better PFM and governance reform; investment in physical infrastructure (energy and connectivity in-country and cross border and urban development); transforming key sectors of the economy; human and social development, including for youth to participate in the economy; and social security and protection for marginalized groups. It features inclusive development encompassing meaningful and equal participation of all groups of the population, good governance, and a focus on results.

IV. Proposed Activities

17. **The World Bank proposes to prioritize the use of the IDA Risk Mitigation Regime to support the establishment of the new federal structure.** This is in line with Performance and Learning Review (PLR) completed in February 2017, which called for a greater focus on supporting Nepal's transition to a federal state, taking into consideration the opportunity and significant challenge posed by weak government and institutions. The World Bank also committed to scale up its support to promote economic stability and jobs, and earthquake reconstruction and disaster preparedness. These priorities stemmed from concerns about the deceleration of demand for migrant workers, and related decline in remittances and reintegration of returning migrant workers into the local economy; and from the devastating earthquakes in 2015 and the trade disruptions and fuel crisis in 2016.

18. **The new federal structure represents a fundamental change to the country, and will redefine WBG engagement under the next CPF (FY2019-2022).** The overarching goal of the CPF is to support Nepal to establish a federal state that is better placed to achieve sustainable development, higher growth and increased opportunities for shared prosperity. The World Bank proposes to support federalism at three levels: strategic, policy and operational levels. At the strategic level, the World Bank will support Nepal's efforts in maintaining political consensus to transform into a federal state. At the policy level, the World Bank intends to support policy makers in aligning the country's economic, social, environmental and other policies with the new federal state system. At the operational level, the World Bank aims to contribute to building sound public institutions.

19. **With federalism defining the WBG's engagement in the next four years, the new CPF is expected to focus on public institutions and policies, economic growth and jobs, and inclusion and resilience.** These focus areas were identified as priorities in the SCD, which was informed by consultations and surveys across the country's seven states with government, civil society organizations, the private sector, development partners and citizens. They also reflect the areas of fragility described in Section II of this paper. Voice, participation, and citizen engagement to promote inclusion is a cross-cutting issue that will be integrated into World Bank lending and supported through

¹⁶⁰ Preamble of the Constitution of Nepal, 2015.

analytical and advisory support. The CPF consultations are ongoing to identify the priority objectives under the focus areas, where the World Bank would deploy a range of financing instruments and facilities (i.e., investment financing, development financing, program-for-results, catastrophe deferred drawdown options, pandemic epidemic facility) and analytical and advisory support. Considering the still unfolding new federal structure, the World Bank is proposing to place greater emphasis on advisory services and analytics (ASAs) to inform new lending and possible restructuring of projects.

20. The World Bank is prioritizing the use of the IDA Risk Mitigation Regime to support Nepal's new federal structure and sub-national governance, as well as horizontal and spatial inequalities as recommended in the Risk and Resilience Assessment. As noted earlier, the most immediate source of fragility is related to the establishment of the new federal structure. Building on the ongoing analytical work, the World Bank will support sound fiscal and PFM of the new federal state through the First Programmatic Fiscal and PFM DPC to be submitted for Board approval in March 2018. Sound fiscal and PFM is fundamental to the functioning of the new federal structure. They are key to supporting transfer of resources for basic services in underserved regions. In the absence of an effective and efficient framework for fiscal transfer, local governments will not have the means to deliver basic services, and increased tensions between central and local governments may potentially destabilize the new federal state. The process also offers opportunities to strengthen local institutions responsive to citizens' needs.

21. The First Programmatic Fiscal and PFM DPC supports government's efforts in implementing fiscal arrangement in the federated context, functioning of the local governments, and operationalizing the National Natural Resources and Fiscal Commission. It also integrates strengthening of PFM systems and budget management to support good governance, transparency, and accountability for use of public resources in the context of weak institutions. The reforms being supported build on ongoing, long-term policy dialogue, analytical work and activities of the Multi-Donor Trust Fund for PFM. The First Programmatic Fiscal and PFM DPC falls under the core WBG's engagement proposed in the CPF, focusing on public institutions and policies. It proposes to utilize \$200 million of the financing under the IDA Risk Mitigation Regime as the operation supports effective and efficient transfer of resources complemented by strengthening PFM—fundamental to the functioning of the new federal state.

22. Support to fiscal and PFM, will be complemented by other interventions so that the new federal structure can respond equitably to people's needs. Support for smooth fiscal transfer from the central to subnational level alone is not sufficient to ensure delivery of basic services, given the weak institutions and capacities at the local level. Parallel efforts are ongoing to address institutional and capacity issues and to identify opportunities for more inclusive and participatory governance at the local level. Discussions are underway with other development partners to conduct a joint decentralization needs and gap assessment as a basis for a comprehensive capacity development program at the federal and sub-national levels. This assessment would also examine whether citizen participation systems are in place for planning and prioritizing service delivery investments, and whether appropriate recourse and grievance redress mechanisms are in place. It would also map the ongoing and planned activities of development partners, providing a baseline for inform decisions around funding priorities, including potential targeting of efforts to channel resources based on differentiated spatial profiles of states and communities. Opportunities to support citizen engagement with new subnational government units will be explored. For instance, the Integrated PFM Reform (TA) under preparation is expected to include the preparation of a citizen engagement strategy for PFM related activities. The World Bank is preparing a series of policy notes that could inform future public investment planning. It is also considering opportunities to restructure

operations that have not been substantially implemented to meet the emerging needs of the new federal structure.

23. **Remaining resources under the IDA Risk Mitigation Regime will be deployed to promote greater inclusion in human capital development and economic participation.** As noted in paragraph 17, the new CPF proposes to prioritize economic growth and jobs. This includes activities to promote equal opportunities for human capital development and employment, to promote female labor force participation, social inclusion, and spatial disparities (recommended by the RRA). The World Bank has been carrying out analytical work to inform future operations and is supporting initiatives to promote human capital and economic opportunities for vulnerable groups, including youths and women. This includes planned investment lending for skills development and job creation, currently under early stages of preparation. This would complement World Bank financing of operations in agriculture that targets marginalized groups, including women and in the Tarai area. Nepal has been moving towards feminization of agriculture with men migrating to urban areas and abroad in search of more remunerative employment opportunities. The Nepal Livestock Innovation Project (FY18), which includes the Tarai area targets 200,000 livestock producers (at least 45 percent female) and targets women's participation in access to resources, services (including livestock insurance), and training. The Rani Jamara and Kulariya Irrigation Scheme 1 has supported traditional irrigation systems constructed, operated, and managed by the indigenous Tharu community, along with agriculture service support. The Rani Jamara and Kulariya Irrigation Scheme 2 to be presented for Board approval in March 2018 will be implemented across the mountains, hills, and the Tarai plains.

24. **Addressing inequities and disparities is a priority, which will be considered in future operations and operations that may be restructured.** Discussions continue among government and development partners on how to tackle inequities, based on common data. This will require updating the poverty data; the most recent of which dates to 2011. A gender and social inclusion assessment is ongoing to identify possible measures that may be integrated into the proposed focus areas of the CPF under preparation. The First Programmatic Fiscal and PFM DPC promotes the government's efforts towards greater equity and justice for women by integrating action and triggers to support a comprehensive responsive system encompassing access to shelter, health care, psychosocial support, legal aid and improved service delivery for survivors of gender-based violence. The World Bank has been addressing gender-based violence, a significant issue in Nepal, which ranks 14th out of 15 countries with highest prevalence of intimate partner violence.

V. Arrangements for Monitoring Progress

25. **The CPF results framework will be the main tool for monitoring the World Bank's contribution towards strengthening the country's resilience.** The CPF will incorporate results indicators that measure progress in strengthening institutions and policies, achieving greater growth and jobs, and improving inclusion and resilience. Targets will be reviewed at the time of the Performance and Learning Review and recalibrated based on the evolving country context. The CPF results framework will include indicators to monitor progress in fiscal decentralization and PFM, inclusion and resilience, linked to World Bank support. To monitor progress in fiscal decentralization, indicators on spending of local government based on norms established in the Local Government Management Act by FY2020 will be considered. Given the importance of transparency and accountability in PFM, a key indicator to monitor progress in this area is availability of consolidated public expenditure data in the public domain by FY2020.

26. **The World Bank will monitor the evolving country situation and fragility risks, and adjust its engagement and approach as needed.** It will track key indicators linked to the stability of the new federal structure. This includes frequency in changes in government, pace of civil administration

restructuring, state of delivery of basic services at the local level, and public sentiment that emerges through traditional and social media. The World Bank will also continue monitoring the macroeconomic and fiscal stability through its regular Nepal Development Update. It will also undertake analysis across different sectors and thematic areas, engaging a broad range of stakeholders to deepen the knowledge and understanding of the evolving political economy under the new federal structure.

VI. Partnership and Coordination Arrangements

27. **The International Development Partner Group (IDPG) is the main platform for coordination with development partners.** The IDPG, currently co-chaired by the UN Resident Coordinator and the Swiss Development Cooperation, is an active platform for coordination that meets regularly. It played a critical role in bringing together development partners to undertake the needs assessment and coordinate response to the 2015 earthquake. It also serves as a mechanism for dialogue on issues of common interest. Under the IDPG, the Federalism Working Group (FWG) was established, led by the WBG and the Swiss Development Cooperation. The FWG is intended to serve as a coordination platform for multilateral and bilateral development partners in the evolving context of federalism. It seeks to identify potential gaps and duplication, synergies to maximize impact with available resources, and common/coordinated approaches to issues (e.g. addressing inequities) linked to the new federal structure. The Ministry of Finance has engaged with this group to outline its vision for engaging with development partners under the new federal structure. To ensure development assistance is delivered in an integrated manner, the Ministry of Finance will continue to coordinate aid financing, and development partners are expected to carry out their activities in accordance with the 2015 Constitution and its provisions on aid mobilization.