



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 29-Oct-2020 | Report No: PIDC30181

**BASIC INFORMATION****A. Basic Project Data**

Country Nepal	Project ID P167531	Parent Project ID (if any)	Project Name Unlocking Human Capital for a Prosperous Nepal (P167531)
Region SOUTH ASIA	Estimated Appraisal Date Jan 20, 2021	Estimated Board Date Jul 08, 2021	Practice Area (Lead) Social Protection & Jobs
Financing Instrument Investment Project Financing	Borrower(s) Nepal	Implementing Agency Ministry of Health & Population, Ministry of Education, Science and Technology, Ministry of Finance, Ministry of Home Affairs, Ministry of Federal Affairs and General Administration	

Proposed Development Objective(s)

The proposed development objective is to promote greater access and utilization of human capital services particularly for poor and vulnerable households, in selected disadvantaged areas.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	80.00
Total Financing	80.00
of which IBRD/IDA	80.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	80.00
---	-------



IDA Credit

80.00

Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

Over the past decade, Nepal's economy has performed reasonably well, though vulnerabilities have increased with COVID-19. Real growth domestic product (GDP) growth averaged 4.9 percent (at market prices) over 2010-19. Although declining as a share in the economy, agriculture continues to play a large role, contributing over 29 percent of GDP in FY2019. The service sector has grown in importance, accounting for 46 percent of GDP in FY2019. Industry and manufacturing have grown more slowly and their relative share in the economy has averaged 14 percent of GDP over the past decade. Similarly, exports continue to struggle, while imports are fueled by remittances. Remittances remained stable, between 2010-19, with its share as a percentage of GDP averaging 24.5 percent, supported by an increased transfer of funds through formal channels in recent years. Inflation has been in single digits for most of the past decade, with the peg of the Nepalese rupee to the Indian rupee providing a nominal anchor. Fiscal balances remained sustainable owing to strong revenue growth and modest spending. However, the federal government is now sharing revenue and transferring grants to provincial and local governments, as part of the recent reforms linked to federalism. The poverty headcount ratio (at the international line of US\$1.90/day) was estimated at 8 percent in 2019, down from 15 percent in 2010. At a higher line (US\$3.20/day), 39 percent of the population was estimated to be poor in 2019. With the COVID-19 pandemic, the risk of falling into poverty has increased. About 31 percent of the population that are estimated to live between US\$1.9 and US\$3.2 a day face significant risks of falling into extreme poverty in 2020/21, primarily because of reduced remittances, foregone earnings of potential migrants, job losses in the informal sector, and rising prices for essential commodities as a result of the pandemic.

The recent COVID-19 pandemic is expected to derail the strong growth trajectory established over the past three years. GDP growth averaged 7.3 percent (between 2017 and 2019); and grew by 7 percent in FY19 supported by an uptick in tourist arrivals, strong agricultural growth from good monsoons and robust industrial growth due to increased electricity generation. On the demand side, the main growth drivers were private investment and private consumption, the latter supported by remittance inflows. In the first half of FY20 (mid-July to mid-January), agricultural growth slowed down with delayed monsoons and crop damage. In March 2020, stringent measures were imposed to contain the spread of COVID-19, including travel restrictions. This stopped tourist arrivals, leading to a significant reduction in hotel occupancy rates. With lower oil prices, remittance inflows are declining, impacting services growth. Lockdowns and social distancing measures have disrupted domestic distribution channels causing shortages of fertilizer, livestock feed, labor and transportation, all of which will further reduce agricultural growth in FY20. The restrictions on trade (limited to only essential goods) has disrupted supply chains in the manufacturing sector. Shortages in imports of building materials and



skilled labor have brought construction activity to a halt. Lower domestic demand has translated to lower consumption of electricity, gas and water, further reinforcing the slump in overall economic activity, with an estimated GDP growth rate of 2.3 percent in FY20. However, a widespread and protracted COVID-19 outbreak, with the attendant lockdowns and supply disruptions still has the potential to reduce GDP growth as low as 0.5 percent in FY20. In FY21, growth is expected to remain subdued at 2.1 percent. However, a widespread outbreak that extends into the high agriculture harvest and festival seasons, could cause GDP to contract by as much as 2.8 percent in FY21.

Inflation averaged 4.5 percent year on year in FY19, but rose in the first half of FY20, driven by higher food prices. In FY2019, prices of non-food items grew by 5.8 percent, driven mainly by housing and utilities, while food prices rose only 3.1 percent due to good agricultural production. Inflation averaged 6.4 percent (year-on-year) in the first half of FY20, driven by higher food prices (particularly vegetables) and increased import duties on certain agricultural and industrial goods. In March 2020, inflation reached 6.7 percent (year-on-year), primarily led by food prices because of disruptions in distribution channels. This widened the inflation gap with India and contributed to a 2.1 percent (real effective) appreciation of the Nepalese Rupee, over the first half of FY20. The Nepalese rupee (NPR) is pegged to the Indian rupee (INR) at the rate of 1.6 NPR to one INR. As a result, inflation follows the price movements in India with a lag.

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

Human capital measured by child and adult survival rates, expected years of schooling, and stunting rates compare favorably with that of other countries in the same country-income group, and ranks relatively well against that of other countries in the region. Service delivery measured by basic indicators such as institutional delivery, ante-natal care visits, student's reading proficiency, and birth registration, indicate also positive gains in recent years. However, all human capital positive gains are at risk as Nepal's "success" hides important inequity of access and of opportunities, mainly among the poor and vulnerable and in rural and remote areas.

The recent federalism transition has substantively changed the functions of both the Federal and subnational governments, offering opportunities to improve the impact of social programs and service delivery while improving equity. Under the new structure, the Federal Government is responsible for guiding the sectors and financing a significant share of activities, however, significant essential and basic service provision is under the responsibility of subnational governments. The provision of basic services is now under the mandate of the 753 autonomous Palikas and 7 Provinces, but there is still confusion regarding the division of responsibilities on key areas of education, health and social protection such as curriculum, assessments/ examinations, teacher management, medicines procurement, monitoring, etc. The subnational governments are still in their infancy and require considerable human resource and logistics support to deliver on their constitutional mandate.

The country remains vulnerable to a range of shocks (natural, health-related, social, economic, political, or environmental). More recent ones, such as the 2015 earthquake and ongoing COVID-19 pandemic, have exposed Nepal's inadequate resilience capacity to first protect the population prior the shocks, as well as properly respond and protect the affected population during and in the aftermath of the shocks. For example, the current COVID-19 outbreak has adversely affected the delivery of essential health services, education services and social security allowance schemes



due to lockdown measures and the fear in the general public of contracting the virus. This also led to school closures that kept millions of children out of school and led to significant income losses. Poor and vulnerable people are deeply affected as they have less or no cushion to address this loss and have become more food insecure and their children malnourished. There is an estimated additional 60,000 malnourished children due to COVID-19 impact. Unless addressed soon, the loss in human capital is imminent.

Sectoral and Institutional Context

Investing in people and building human capital raises the productivity and earnings potential of individuals, and matters for sustained and inclusive growth. For instance, one additional year of schooling in Nepal can raise an individual's earnings by 8 to 10 percent. Malnutrition reduces learning potential and can reduce GDP by as much as 11 percent. Investing in psychosocial stimulation during a child's early years can raise her adult income by up to 25 percent. School deworming can have a large and sustained impact on labor market outcomes in adulthood. Increases in life expectancy are positively correlated with economic growth. Human capital also affects growth indirectly through its effect on the productivity of capital, technological change, and innovation.

Despite recent improvements in some human capital outcomes, a child born in Nepal today will only be 49 percent as productive as an adult if she or he did not have access to a complete education or full health services. This low Human Capital Index (HCI) is linked to high levels of stunting, low child survival rates, and poor learning outcomes. In terms of economic growth, this means that if all children receive full education and health, Nepal's GDP could be twice as large as it is currently.

High vulnerability to natural and economic shocks has adverse impacts on human capital in Nepal. Shocks set back human capital progress and have negative impacts on children's development. This is partly because they affect household income and productive capacity, and partly the delivery of services. For example, the current COVID-19 outbreak has adversely affected the delivery of social services. Programs and systems need to be designed to address short and long-term impacts of shocks.

High inequality in access to services – by geographic area, income or wealth, and gender are also a barrier to a prosperous Nepal. Promoting social inclusion (no one left behind) calls for a holistic and integrated approach, focusing both on addressing the challenges faced by the poorest and most vulnerable in accessing services and of quality of services.

To translate human capital into economic growth, it is critical to boost employment and productivity, particularly for youth and women, and traditionally excluded groups as Dalit. Currently, in Nepal, an important share of the population is employed in (subsistence) agriculture, with few non-agricultural job opportunities; and youth and female labor force participation is lagging. Harnessing Nepal's human capital calls for (a) investments in skills that increase employability and respond to the needs of the private sector; and (b) support to boost the productivity of the poor and vulnerable.

Federalism provides a unique opportunity to boost access to quality services for all, with Local Levels acting as platforms that for integration of both the delivery of basic services and the promotion of demand and access for the vulnerable. However, Local Levels face many challenges, including low human capital planning capacity, service delivery systems that are not shock-resilient, inadequate infrastructure, and low capacity. Also, Local Levels need improved systems, including by harnessing digital technology, to support planning, the delivery of services, coordination, and monitoring.

The proposed project would work with Federal, Provincial and Local Level governments to increase human capital and promote equality of opportunities, with a particular focus on the vulnerable. It aims to promote the productivity and resilience of the population and supporting the transition to federalism by (a) promoting investments in the human capital of children, (b) addressing inequalities that limit access to services; (c) promoting quality in service delivery, including using disruptive technology; and (d) addressing the services' vulnerability to shocks.



The project is designed to complement existing programs, policies, and technical assistance, with a view to promote a coordinated approach to human capital across the health, education and social protection sectors and across three government levels. More specifically, the project would coordinate with different initiatives to address territorial coordination and improve coverage and quality of services, aiming to complement ongoing efforts by focusing on gaps in programming. In particular, it would be articulated with interventions such as the Provincial and Local Governance Support Programs (PLGSP); with WB-supported projects such as the Nepal Urban Governance and Infrastructure Project (P163418), Health Sector Management Reform (P160207), Nurturing Excellence in Higher Education (P171516), Strengthening Systems for Social Protection and Civil Registration (P154548), and Youth Employment Transformation Initiative (P160696); and with WB Technical Assistance such as the Improve Integration of Social Protection System in Nepal (P168213), Harnessing social protection to promote resilience of poor and vulnerable households (P173393), and Integrated Approach to Employment & Social Protection systems (P170572), which encompasses the recently approved Bill and Melinda Gates TF (TF072728) for improving G2P in Nepal.

Promoting social inclusion (no one left behind), supporting federalism transition and addressing both country vulnerability and inequalities in access to services by geographic area, income or wealth, and gender requires a holistic and integrated approach, focusing both on addressing the challenges faced by the poorest and most vulnerable in accessing services and of quality of services. Hence, the project will focus both on the supply and the demand sides of service delivery, by (a) improving the quality and efficiency of local level investments and their impacts on human capital outcomes and (b) promoting access to services and social inclusion (no one left behind), especially for the poor and vulnerable.

Relationship to CPF

The proposed project is in line with the current CPF for FY19–FY23 (Report No. 121029). The CPF prioritizes: (a) strengthening public institutions for effective economic management, service delivery, and public investment not only at the national level but also at provincial and local levels; and (b) inclusion and diversity to achieve greater inclusion for the poor, vulnerable, and marginalized groups, with greater resilience against climate change, natural disasters, and other exogenous shocks. The proposed operation will contribute to these areas through capacity building for HD sector officials and the LLs' service delivery around health, education and social protection. However, as Nepal PLR is under preparation to determine the status of implementation of the FY19–FY23 CPF adjustments, the project will be re-aligned to any CPF adjustments as needed when findings of PLR is finalized in May 2021.

C. Proposed Development Objective(s)

The Development Objective of the project is to to promote greater access and utilization of human capital services particularly for poor and vulnerable households, in selected disadvantaged areas

Key Results (From PCN)

The progress toward achieving the PDO will be measured by the following key indicators:

- Number of Local Levels with at least 80 percent of Social Security Allowances (SSA) applicants in the National Social Registry System.
- Share of children in the age group of 3-5 years benefiting from integrated services in Early Care and Education (ECE)
- Number of families with children 0-5 receiving accompanying measures in targeted areas, by gender of the head of household
- Increased tracer for Reproductive, Maternal, Newborn and Child Health Services (RMNCH) service coverage, with decreased equity gap by caste/ethnicity and between high and low performing Local Levels



D. Concept Description

Improved, sustainable human capital outcomes contribute to promote inclusion, productivity and overall economic growth. It requires increased access to quality health and education services, especially among the poor and vulnerable, as well as improved employability of today's youth and adults. This, in turn, calls for both increased efforts on the demand side, supporting utilization of the most vulnerable, and improved access to services to promote human capital accumulation to accelerate economic growth and reduce poverty.

By promoting greater access and utilization of human capital services for poor and vulnerable households, the project will help improve human capital outcomes of children, and thus promote inclusion and future productivity.

The project will target Palikas on the basis of their human development index levels (e.g. access to basic education and low health outcomes as child-mortality, stunting and maternal and child indicators) and their prevalence of vulnerable communities and poor people.

The activities will be articulated around efforts to improve the delivery of services, including (i) strengthening territorial coordination (clarification of roles/responsibilities of each level) for human capital services, (ii) investing in Local Level capacity to deliver services, (iii) promote the development and adoption of information systems to improve data integration (e.g. with civil registration, national ID and other systems as SSA system) and data quality; and (iv) boosting Local Level capacity for planning, management, and monitoring. To promote demand and access, the activities will also be human-centered and rely on disruptive technologies to improve outreach and offer incentives/knowledge for utilization of basic services. The project will have two key components, plus a project management component:

Component 1: Technology adoption and System development at local levels.

This component will support Local Levels to better deliver basic health, education and social protection services. Goals are to be achieved by strengthening systems and capacity through provision of adequate tools and technology (infrastructure, logistics, trained human resource, robust data and information technology) to government. Potential activities to be financed are:

- Enhance use of technology for better service delivery to citizens (e.g. citizen centered driven data approach), including electronic payments, monitoring human capital outcomes, remote learning, etc.
- Improve Capacity of Local Levels for strategic and micro-planning to improve access to services by poor and vulnerable population through evidenced based and data-driven information.
- Development of software and hardware installation for better data system and information management, and for implementing a platform for multi-sectoral interventions.
- Basic upgrading of service units, ECE centers, schools, and health facilities, which include waste management and sanitation facilities, as well as medical stores at Local Levels.
- Hiring human resource for Human Development sector specific functions within the education, health and social protection functions.

Component 2. Improve future generation productivity and address inequities in access to services.

This component will promote access to quality health, education and social protection services among the poor and vulnerable population, while promoting the resilience of service delivery, households and communities to shocks.

Potential activities to be financed are:

- **To boost future productivity:** Implement accompanying measures/case management through home visits and community sessions for poor and vulnerable households to
 - Increase knowledge and promote behavioral changes and early year stimulation for children under 5;
 - Provide referrals for youth/adults to employment opportunities and training programs offered through other projects as PMEP and TVET that are locally available;



- Provide counseling services to households and their members, with a focus on non-violent conflict resolution and elimination of child maltreatment.
- **To promote on equity and reduce vulnerability:**
 - Dedicated outreach activities to provide basic services to poor and vulnerable communities (basic health and nutrition, parenting and early stimulation and social protection services).
 - Building of a social registry to improve the process of identification of poor households as well as those vulnerable to shocks, at the Local Level.
 - Formulating local health and education emergency plans, including remote learning, for the service delivery system to become more resilient to shocks
 - Improving the connectivity and use of ICT in classrooms (elementary and middle schools) to promote blended learning and inclusion of the poor and vulnerable.

Component 3: Project Management

This component will support (a) the establishment and maintenance of effective implementation and coordination arrangements at the federal, provincial and local levels; and (b) the setup of an Monitoring & Evaluation mechanism to track the progress (spot checks, Citizen engagement and feedback, and policy reviews) and conduct evaluations (including a process and robust impact evaluation).

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

Environmental and social risk is substantial. The substantial risk particularly due to the limited capacity of local government levels to manage environmental and social risks. The project will have potential site-specific impacts associated with the minor civil works for the improvement and upgrading of existing structures including ECE centers, facilities in schools including classrooms and water, sanitation and hygiene (WASH) facilities, and medical stores. The environmental impacts envisioned during the construction and operational phases include moderate level risks associated with the occupational health and safety (OH&S) of workers, the generation of construction waste including asbestos waste, dust and noise pollution, electronic waste, waste from WASH facilities, waste water pollution, and medical wastes from health care facilities. Workers will need to adhere to COVID-19 OH&S precautions and protocols to minimize the risk of COVID-19 transmission between workers on construction sites and within the community. As all civil works are expected to take place on existing premises and will be small-scale, the associated risks are temporary, reversible, low in magnitude and can be managed through known and readily available avoidance and mitigation measures. The Environmental and Social Standards (ESSs) which apply are ESS1, ESS2, ESS3, ESS4, ESS5, ESS7, ESS8 and ESS10. Given that the exact activities and site locations have not yet been determined, the project will prepare an Environmental and Social Management Framework (ESMF) prior to appraisal. Additional assessments and/or plans as required under the ESF will be prepared prior to appraisal including an E&S capacity assessment, Labor Management Procedures, and Resettlement Framework as part of the ESMF, as well as a Stakeholder Engagement Plan including details of the project’s grievance redress mechanism, and an Environmental and Social Commitment Plan (ESCP). Vulnerability and access to services for marginalized and indigenous communities will be addressed as key components of the overall project, however guidelines for ensuring inclusion will still be included in the ESMF to ensure key principles of the ESF are covered.



CONTACT POINT

World Bank

Phillippe George Pereira Guimaraes Leite, Karthika Radhakrishnan, Manav Bhattarai
Senior Social Protection Economist

Borrower/Client/Recipient

Nepal
Shreekrishna Nepal
Joint Secretary, IECCD - Ministry of Finance
sknepal40@mof.gov.np

Implementing Agencies

Ministry of Health & Population
Khaga Raj Baral
Secretary
tbc@tbc.com

Ministry of Education, Science and Technology
Mahesh Prasad Dahal
Secretary
tbc@tbc.com

Ministry of Finance
Shreekrishna Nepal
Joint Secretary, IECCD
sknepal40@mof.gov.np

Ministry of Home Affairs
Narayan Prasad Duwadi
Joint Secretary
tbc@tbc.com

Ministry of Federal Affairs and General Administration
Bishnu Dutta Gautam
Joint Secretary
tbc@tbc.com



FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Phillippe George Pereira Guimaraes Leite, Karthika Radhakrishnan, Manav Bhattarai
----------------------	---

Approved By

Practice Manager/Manager:		
Country Director:	Lada Strelkova	29-Oct-2020