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First Nepal Green, Resilient and Inclusive Programmatic DPC (P177776)

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PROGRAM DOCUMENT

FOR A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 74,100,000
(US\$100 MILLION EQUIVALENT)

TO

NEPAL

FOR THE

FIRST NEPAL GREEN, RESILIENT AND INCLUSIVE
PROGRAMMATIC DEVELOPMENT POLICY CREDIT

June 15, 2022

Environment, Natural Resources and The Blue Economy Global Practice
South Asia Region

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**GOVERNMENT FISCAL YEAR***July 16 – July 15***CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of May 31, 2022)

Currency Unit =Nepali Rupee (NPR)

US\$1 = SDR 0.740905

SDR 1 =US\$ 1.349700

US\$1 = NPR 124.37

NPR 1 =US\$ 0.00804

ABBREVIATIONS AND ACRONYMS

ADS	Agriculture Development Strategy
CAD	Current Account Deficit
CCDR	Climate Change Development Report
CPF	Country Partnership Framework
CPSD	Country Private Sector Diagnostic
CSA	Climate-Smart Agriculture
DP	Development Partner
DPC	Development Policy Credit
DSA	Debt Sustainability Analysis
e-GP	Electronic Government Procurement
ECF	Extended Credit Facility
EIA	Environmental Impact Assessment
EU	European Union
EV	Electric Vehicle
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoN	Government of Nepal
GRID	Green, Resilient, and Inclusive Development
GRS	Grievance Redress Service
ICE	Internal Combustion Engine
IMF	International Monetary Fund
IPs	Indigenous Peoples
IWRM	Integrated Water Resource Management
LUA	Land Use Act
LUR	Land Use Regulation
MLMCPA	Ministry of Land Management, Cooperatives and Poverty Alleviation
MoEWRI	Ministry of Energy, Water Resources, and Irrigation
MoF	Ministry of Finance
MoFE	Ministry of Forests and Environment

NBSAP	National Biodiversity Strategic Action Plan
NDC	Nationally Determined Contribution
NRB	Nepal Rastra Bank
PA	Protected Area
PFM	Public Financial Management
PMEP	Prime Minister's Employment Program
PPP	Public-Private Partnership
RDT	Road Development Tax
SESA	Strategic Environmental and Social Assessment
SFM	Sustainable Forest Management
SP	Social Protection
SRSP	Shock-Responsive Social Protection
SSA	Social Security Allowance
SUP	Single-Use Plastic
SWM	Solid Waste Management
TA	Technical Assistance
UDS	Urban Development Strategy
WASH	Water, Sanitation, and Hygiene
WB	World Bank
WBG	World Bank Group
WSS	Water Supply and Sanitation
VAT	Value Added Tax

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FIRST NEPAL GREEN, RESILIENT AND INCLUSIVE PROGRAMMATIC DPC

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P177776	Yes	1st in a series of 3

Proposed Development Objective(s)

The development objective is to improve the enabling environment for Nepal's green, climate-resilient, inclusive development pathway.

Organizations

Borrower: NEPAL

Implementing Agency: Ministry of Finance

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

International Development Association (IDA)	100.00
IDA Credit	100.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial



Results

Indicator Name	Baseline	Target
Results Indicator #1A. Share of newly registered two-, three-, and four-wheeled vehicles that are electric (percent)	< 1 percent (2021)	10 percent (2026)
Results Indicator #1B. Share of newly registered internal combustion engine vehicles (two-, three-, and four-wheelers) that meet the Euro 4 or higher standard (percent)	< 1 percent (2021)	90 percent (2026)
Results Indicator #2. Effective, inclusive, and transparent land classification and planning framework is in place (Y/N)	No (2022)	Yes (2026)
Results indicator #3. Automatic hydrological monitoring stations and radar that are fully operational in additional locations (number)	0 (2021)	25 hydromet stations and 1 radar (2026)
Results indicator #4. Strategic Environmental and Social Assessment (SESAs) carried out for policies, programs, and strategic plans (number)	0 (2021)	1 (2026)
Results Indicator #5. Tourism concession contracts issued under the new reforms (number)	0 (2022)	2 (2026)
Results Indicator #6A. Land area covered by an approved forest management plan that is in line with the Forest Regulation and that includes climate outcomes and documented women’s participation in the plan (hectare)	2,903,825 (2022)	2,949,325 (2026)
Results Indicator #6B (<i>Gender tag</i>). Share of annual income earned by forest users’ groups that is spent on women empowerment and female entrepreneurship activities (percentage)	0 (2021)	20 percent (2026)
Results indicator #7: Social protection programs in which the respective delivery system is used for the provision of relief and recovery in response to a shock due to an adverse natural event (number)	0 (2021)	1 (2026)
Results indicator #8: Increase in the proportion of sectoral spending at the federal and provincial levels for climate-smart agriculture investments (percent)	0 (2022)	30 percent (2026)
Results Indicator #9A. River Basin Offices established at the river basin level (number)	0 (2022)	4 (2026)
Results Indicator #9B. <i>Palikas</i> ¹ that collect Water, Sanitation and Hygiene (WASH) data using the National WASH Management Information System, including at schools and health centers (number)	0 (2022)	40 (2026)
Results Indicator #10. Increased investment flows to Solid Waste Management (SWM) at federal and local levels, from both public and private sources (US\$)	0 (2021)	US\$10 million (2026)

¹ *Palikas* refer to Municipalities



1. INTRODUCTION AND COUNTRY CONTEXT

1. **This programmatic Development Policy Credit (DPC) supports Nepal to improve the enabling environment to transition to a Green, Resilient, and Inclusive Development (GRID) path.** The DPC series consists of three operations sequenced approximately 18 months apart. DPC-1 would be financed in FY22 with a US\$100 million IDA credit and close June 30, 2023. DPC-2 and DPC-3 are meant to be delivered in FY24 and FY25, respectively, and the program would close in FY26. This series is part of a set of four programmatic DPCs supporting Nepal's policy reforms and priorities with significant complementarities. The programmatic DPCs in Nepal are strategically positioned to support key reforms in an integrated way. They are well-aligned with each other and are based on the Government of Nepal's (GoN) growth objectives proclaimed in the 2021 Kathmandu Declaration on GRID. The GRID DPC series supports the GoN to transition to more sustainable, efficient, climate resilient, and inclusive green growth. The Finance for Growth (F4G) (P173044, P176881, and P178531) DPC series supports the GoN in strengthening financial sector stability and resilience, diversifying financial solutions, and increasing access to financial services. The Fiscal Policy for Growth, Recovery and Resilience DPC series (Fiscal DPC) (P173982, P176498, and P176499) supports the GoN in strengthening the regulatory and institutional framework to protect the most vulnerable and support sustainable business growth while advancing GRID. The Energy DPC (P154693, P170248, P178037) supports the GoN's efforts to improve the financial viability and governance of the electricity sector.

2. **Each operation is addressing policy issues from different angles with an overarching target of supporting GRID while making sure that fiscal, financial sector, and sectoral governance systems are strengthened simultaneously.** For instance, the GRID DPC and Fiscal DPC both support environmental fiscal instruments to reduce air pollution and greenhouse gas (GHG) emissions, while the Energy DPC supports complementary electric charging infrastructure and fossil fuel energy price reforms. Similarly, to enhance climate-resilient infrastructure spending, the Fiscal DPC supports the Ministry of Finance (MoF) in issuing budget guidelines with strengthened public investment management. Simultaneously, the GRID DPC series aims to strengthen the policy and institutional basis for basin management, establishing an integrated framework for managing hydropower, irrigation, water supply, flooding, drought, and erosion. The Energy DPC complements these efforts by improving the financial viability and governance of the electricity sector. The Finance for Growth DPC supports the Insurance Board to strengthen its risk-based approach to assess and monitor risks including climate related risks while increasing accessibility to finance. The GRID and other DPC series are complemented by ongoing analytics and technical assistance (TA) including the GRID Advisory Program (P176456).

3. **The Program responds to the GoN's commitment to implement the GRID approach, supporting key transitions that build a foundation for greener, more resilient growth that leaves no one behind.** Recognizing that the current development model has reached its limits, in 2021, the GoN adopted the GRID approach to address the interrelated challenges of a durable economic recovery from COVID-19, climate risks, natural capital depletion, and exclusion of vulnerable people from economic opportunities. The GoN's recent budget incorporates GRID priorities. The GoN is also preparing a GRID Strategic Action Plan backed by 16 development partners (DPs). The DPs committed to support Nepal by endorsing, with the GoN, the *Kathmandu Joint Declaration on GRID* in September 2021. The declaration notes that achieving GRID outcomes requires an increase in the quantity and quality of financing from diverse sources, coordination across institutional and sectoral boundaries, and an enabling policy and institutional environment.

4. **The GRID DPC series supports a strategic reform program to help Nepal transition to a more sustainable, efficient, resilient, and inclusive economy—a shift in the development paradigm.** The process of designing the multiyear reform program is already convening sectors, stakeholders, and partners to catalyze implementation of Nepal's GRID vision, including the country's Nationally Determined Contribution (NDC) and an ambitious new climate target to achieve net zero emissions by 2045. This DPC is a substantive step to implement GRID in Nepal by building partnerships to develop and align policy and leverage associated new public and private investments.



2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENT

5. **The economy is estimated to have rebounded in FY21.** Real Gross Domestic Product (GDP) is estimated to have grown by 1.8 percent in FY21 following a 2.1 percent contraction in FY20, driven by low base effects and a recovery in domestic demand. Private consumption expanded on the back of increased remittance inflows, while accommodative domestic monetary and fiscal policy supported private investment. On the supply side, industry and services are estimated to have grown by 0.9 and 1.6 percent in FY21, respectively. Average inflation reached a record low in FY21, registering 3.4 percent in FY21. In the first half of FY22 (H1FY22), nonfood inflation increased due to higher transportation prices associated with the surge in global fuel prices and increased educational fees and housing prices. However, food price inflation slowed, reflecting a continuation of lower vegetable prices.

6. **The current account deficit (CAD) widened, and gross official foreign reserves declined.** The CAD widened from 0.9 percent of GDP in FY20, to 8.1 percent in FY21. Goods exports and remittance inflows expanded from 2.8 and 22.4 percent of GDP to 3.5 and 23.2 percent of GDP, respectively, partially offsetting the increase in goods imports. Exports and imports of services continued contracting in FY21. In the absence of significant foreign direct investment (FDI) inflows, the CAD was financed by trade credits and external concessional loans. While the stock of reserves remains adequate, they have been declining following the import surge, reducing coverage from 10.2 to 8.6 months of import cover between FY20 and FY21. The Nepal Rastra Bank (NRB) recently adopted several measures to mitigate pressures on foreign exchange reserves and support the pegged exchange rate, including limiting imports of luxury goods.

7. **Fiscal revenues and expenditures recovered in FY21, with the fiscal deficit narrowing.** Total federal government revenue and grants² increased from 22.1 to 24.2 percent of GDP in FY20–21, driven by a recovery in trade-related taxes. Non-tax revenues declined due to lower tourism-related royalties and visa fee collections. Total federal expenditures rose from 27.4 to 28.7 percent of GDP in FY21 reflecting higher recurrent spending, including expenditure targeted specifically for COVID-19 related economic recovery and relief programs. Capital expenditure also rose, although execution was low at 64.7 percent. The federal government fiscal deficit fell from 5.3 to 4.6 percent of GDP (FY20–21), raising public debt to 41.8 percent of GDP in FY21.

8. **Credit in the financial sector has been expanding, outpacing deposits and resulting in a liquidity shortage.** Driven by accommodative monetary policy during the pandemic, credit expansion has been broad-based with credit to the agriculture, industry, and services sectors all increasing. Deposits also expanded, albeit at a lower rate. The growing gap between credit and deposits has resulted in a liquidity shortage for lending institutions and an increase in interbank interest rates. Despite liquidity shortages, official statistics suggest that asset quality is sound. The capital adequacy ratio stood at 13.4 percent at the end of H1FY22 while the non-performing loan ratio averaged 1.3 percent.

Table 1. Key Macroeconomic Indicators

	FY19	FY20	FY21(e)	FY22(f)	FY23(f)	FY24(f)	FY25(f)
Real economy (Percentage change, unless otherwise stated)							
Real GDP growth (at market prices)	6.7	-2.1	1.8	3.7	4.1	5.8	6.2
Real GDP growth (at factor prices)	6.4	-2.1	1.8	3.7	4.1	5.8	6.2
Components of GDP growth							
Agriculture (percent)	5.2	2.2	2.7	1.3	1.8	2.3	2.5
Industry (percent)	7.4	-3.7	0.9	5.1	5.3	6.9	7.5

² In Nepal, federal government refers to the central government.



	FY19	FY20	FY21(e)	FY22(f)	FY23(f)	FY24(f)	FY25(f)
Services (percent)	6.8	-4.0	1.6	4.7	5.0	7.4	7.7
Consumer prices (period average)	4.6	6.1	3.4	6.0	5.7	5.2	4.9
Fiscal sector (As percentage of GDP, unless otherwise indicated)							
Total revenue and grants	22.4	22.1	24.2	25.9	26.4	26.2	26.3
Expenditures	27.3	27.4	28.7	29.6	29.9	29.6	29.4
Fiscal balance including grants	-5.0	-5.3	-4.6	-3.7	-3.5	-3.4	-3.2
Financing sources	5.7	8.0	8.5	6.5	6.5	6.4	6.2
Foreign	3.2	3.0	3.0	2.5	2.5	2.4	2.3
Domestic	2.5	5.0	5.4	4.0	4.0	4.0	3.9
Total public debt	27.2	36.3	41.8	43.1	44.2	44.5	44.3
Domestic	11.7	15.7	19.4	20.8	21.9	22.7	23.1
External	15.4	20.6	22.4	22.4	22.2	21.8	21.1
Monetary sector (Percentage change, unless otherwise indicated)							
Broad money	15.8	18.1	21.8				
Domestic credit	21.1	13.6	26.8				
Private sector credit	19.3	12.4	26.6				
Balance of payments (As percentage of GDP, unless otherwise indicated)							
Current account balance	-6.9	-0.9	-8.1	-11.9	-9.5	-6.8	-3.8
Exports of goods and services	7.8	6.8	5.4	6.7	7.0	7.5	9.0
Imports of goods and services	41.4	33.9	39.9	43.1	42.1	40.6	39.2
Remittances (as percentage of GDP)	22.8	22.4	23.2	20.9	21.9	22.5	22.7
Gross official reserves (US\$, millions, end of period)	9,202	12,054	11,866	10,082	8,517	8,004	8,900
Gross official reserves (in months of prospective imports of goods and services)	9.4	10.2	8.6	6.8	5.4	4.7	4.9
Rupees per US dollar (period average)	112.9	116.3	117.9				
Memorandum items							
Nominal GDP, current prices (NPR, billions)	3,859	3,915	4,135	4,523	4,958	5,508	6,175
Nominal GDP, current prices (US\$, billions)	34.2	33.7	35.1	38.4	42.1	46.7	52.4
Population, millions	29.5	30.0	30.6				
GDP per capita, US\$ current	1,159	1,120	1,146				

Table 2. Fiscal Indicators

(As percentage of GDP, unless otherwise indicated)	FY19	FY20	FY21(e)	FY22(f)	FY23(f)	FY24(f)	FY25(f)
Total revenue and grants	22.4	22.1	24.2	25.9	26.4	26.2	26.3
Total revenue	21.8	21.5	23.7	25.3	25.8	25.6	25.7
Tax revenue	19.1	17.9	21.1	22.9	23.1	22.8	22.8
Taxes on goods and services (including VAT and excise)	10.3	9.1	11.2	12.0	12.1	12.0	12.1
Direct taxes	4.9	5.4	5.4	5.9	6.0	6.2	6.3
Taxes on international trade	3.7	3.2	4.3	4.8	4.8	4.4	4.2
Other taxes (including social security contributions)	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-tax revenue	2.7	3.6	2.6	2.4	2.7	2.8	2.9
Grants	0.6	0.6	0.5	0.6	0.6	0.6	0.6
Total expenditure	27.3	27.4	28.7	29.6	29.9	29.6	29.4



(As percentage of GDP, unless otherwise indicated)	FY19	FY20	FY21(e)	FY22(f)	FY23(f)	FY24(f)	FY25(f)
Current expenditure	21.1	22.6	23.2	24.1	24.1	23.4	22.9
Wages and compensation	2.6	3.0	2.9	3.6	3.5	3.3	3.1
Goods and services	1.0	1.1	1.1	1.3	1.2	1.2	1.2
Interest payment	0.5	0.7	0.8	0.9	1.0	1.0	1.1
Current transfer	17.0	17.8	18.3	18.3	18.4	17.9	17.5
of which: fiscal transfer	8.3	9.0	9.6	8.7	8.7	8.7	8.8
of which: revenue sharing	2.5	2.6	2.7	2.8	2.9	2.9	2.9
Capital expenditure	6.3	4.8	5.5	5.5	5.8	6.2	6.6
Overall balance (excluding grants)	-5.6	-5.9	-5.1	-4.3	-4.1	-4.0	-3.8
Fiscal balance (including grants)	-5.0	-5.3	-4.6	-3.7	-3.5	-3.4	-3.2
Amortization of debt	-1.4	-1.5	-1.46	-1.6	-1.7	-1.7	-1.6
Net acquisition of financial assets	-2.5	-1.5	-0.99	-1.2	-1.3	-1.4	-1.4
Gross financing needs	-8.9	-8.3	-7.0	-6.5	-6.5	-6.4	-6.2
Financing sources	5.7	8.0	8.5	6.5	6.5	6.4	6.2
Foreign	3.2	3.0	3.0	2.5	2.5	2.4	2.3
Domestic	2.5	5.0	5.4	4.0	4.0	4.0	3.9

Table 3. External Financing Needs and Sources (US\$, millions)

	FY19	FY20	FY21(e)	FY22(f)	FY23(f)	FY24(f)	FY25(f)
Financing requirements	-2,542.2	-492.9	-3,027.5	-4,815.1	-4,278.2	-3,499.5	-2,318.2
CADs	-2,364.7	-290.3	-2,830.1	-4,560.9	-3,998.0	-3,190.2	-1,980.2
Debt amortization	-177.5	-202.6	-197.4	-254.3	-280.1	-309.2	-338.0
Financing sources	2,542.2	492.9	3,027.5	4,815.1	4,278.2	3,499.5	2,318.2
FDI and portfolio investment (net)	115.7	167.5	165.5	180.3	252.3	303.7	366.6
Long-term borrowing	721.7	1,397.9	1,078.7	964.0	1,041.7	1,133.8	1,228.5
Others (trade credits, currency deposits, miscellaneous items, and so on)	988.6	1,302.6	1,943.5	1,885.3	1,623.1	1,615.0	1,503.2
Changes in reserves (minus sign = increase)	716.2	-2,375.1	-160.2	1,785.6	1,361.0	446.9	-780.0

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

9. **The economy is expected to recover gradually over the medium term under a baseline scenario.**³ GDP growth is expected to accelerate from 3.7 percent in FY22 to 6.2 percent by FY25. Deploying effective vaccines to the eligible population is expected to unleash pent-up demand and aid a recovery of the wholesale and retail trade, transportation, financial, insurance, real estate, and education sectors.

10. **The outlook has been revised downward due to the war in Ukraine, impacting Nepal's economy through rising commodity prices.** If the conflict pushes fuel, metal, and mineral prices 20 percent higher in 2022 and 2023 than they were projected in January 2022, a conservative estimate is that the CAD as a share of GDP will widen by around 1.5

³ The forecast assumes (a) no return to nationwide strict domestic containment measures; (b) deployment of effective vaccinations to the entire eligible population by the end of FY22; and (c) a gradual increase in international migration and tourist arrivals as global vaccination rates rise, reaching pre-pandemic levels in FY24.



percentage points in FY22 and FY23 relative to the January 2022 forecast. Higher prices will be reflected in increased construction costs as well as consumer prices, dampening overall demand and in turn reducing the real GDP growth rate by an estimated 0.2 and 0.6 percentage points in FY22 and FY23, respectively. The direct impact of higher global fuel and edible oil prices on consumer inflation is nonetheless expected to be low, as the share of these products is around 5 percent of consumer expenditure. As such, most of the higher inflation is likely to come from indirect effects, for example, through an increase in transportation prices.

11. **Inflation is expected to average around 6 percent, and Nepal's large trade deficit will cause the CAD to widen in the medium term.** Inflation is expected to increase to 6 percent in FY22 due to higher global oil prices spurred by the Russia-Ukraine war, although the increase is expected to be moderated by policies to ensure low-income households receive lower utility and liquefied petroleum gas prices. The exchange rate peg with the Indian rupee is expected to help stabilize prices, assuming inflation in India remains contained. The trade deficit is expected to rise from 34.5 to 36.4 percent of GDP (FY21–22), then decline through FY25. An increase in electricity exports is expected to boost goods exports in the outer years. Overall, the CAD is projected to widen to 11.9 percent of GDP in FY22, then begin to narrow. Remittances should stabilize at 22.4 percent of GDP over the next three years, supported by new incentives for formal remittance transfers announced in FY22. Larger CADs are expected to be financed by both debt accumulation and drawdown of reserves, while FDI is assumed to remain modest.

12. **The fiscal deficit is projected to narrow from 4.6 to 3.7 percent of GDP (FY21–22), as growth would continue to support revenue collection, while a low capital budget execution rate should keep expenditures in check.** Revenue collection will expand from 10.2 percent of GDP in H1FY21 to 12 percent of projected GDP in H1FY22, reflecting robust growth in both tax and non-tax revenues. The deficit is expected to be financed partly through concessional bilateral and multilateral borrowing. Expenditure is expected to continue being subdued by low budget execution rates, with capital budget execution standing at only 11.6 percent of budgeted spending in H1FY22, a decrease from 13.4 percent for H1FY21. Total public debt is projected to peak at 44.5 percent of GDP in FY24 before declining to 44.3 percent of GDP by FY25. As Nepal remains at low risk of debt distress, the country has the fiscal space and access to concessional external debt to fund external financing requirements. This access should keep debt servicing obligations affordable.

13. **The central bank is expected to continue unwinding its accommodative monetary policy stance in the medium term.** The exchange rate peg with the Indian Rupee will continue to serve as a nominal anchor of Nepal's monetary policy. As the economy continues to recover from the pandemic, the central bank is expected to continue tightening monetary policy as signaled recently through increases in the policy rate during FY22.

14. **A downside scenario highlights growth and fiscal risks.** It considers a situation in which the central bank uses stronger import control measures to maintain the foreign exchange reserve coverage at 7 months of imports, and expenditure consolidation progresses less swiftly than projected under the baseline. This scenario results in adverse growth impacts following the import contraction, which would depress domestic output as well as consumption. Limited spending consolidation could also result in reduced capital spending to compensate for persistent elevated recurrent spending, which could dampen growth further. A decrease in import-related revenues and higher spending would lead to larger deficits and substantially higher debt levels.

15. **Debt is expected to remain sustainable.** The most recent Joint Bank-Fund Debt Sustainability Analysis (DSA) (December 2021) estimates that the risk of debt distress is low for both external and public debt. While the analysis resulted in a mechanical rating of moderate risk of debt distress, IMF's staff assessed that Nepal's risk rating was low because remittances, rather than exports, are the major source of foreign exchange to balance the current account and



service external debt. Stress tests show a vulnerability to growth and export shocks.⁴ The DSA findings stress the importance of reforms to increase the economy’s resilience to external shocks through, for example, diversification, improving productivity and competitiveness, and monitoring of contingent liability risk.

16. **Nepal’s macroeconomic policy framework is adequate for Development Policy Financing (DPF).** The GoN remains committed to fiscal sustainability, as evidenced by relatively stable macroeconomic and fiscal indicators. Risks are tilted to the downside, and there remains uncertainty over the growth trajectory. The risks include potential new COVID strains which could affect remittance flows and tourism, and the duration and severity of the Russia-Ukraine conflict. That said, macroeconomic adequacy is supported by an ongoing IMF program and the aforementioned Fiscal DPC series. The latter includes measures aimed at: (i) strengthening revenue through reforms to value-added tax (VAT) exemptions and other direct and indirect taxes; (ii) increasing capital budget execution rates through implementation of Nepal’s National Project Bank; (iii) supporting external sector stability through the facilitation of FDI inflows; and (iv) enhancing debt management and transparency.

Figure 1. Nepal: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2021–2031

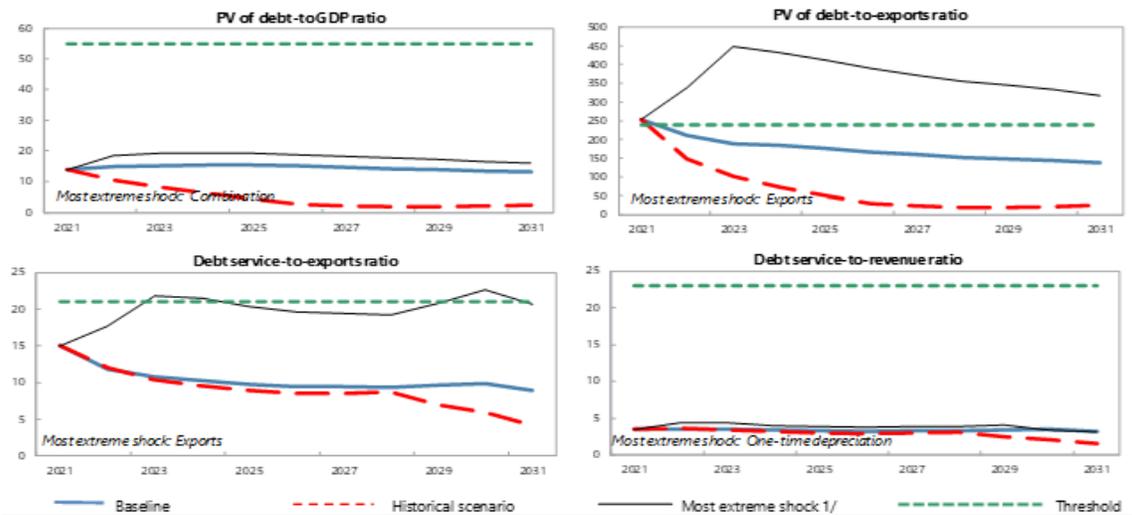
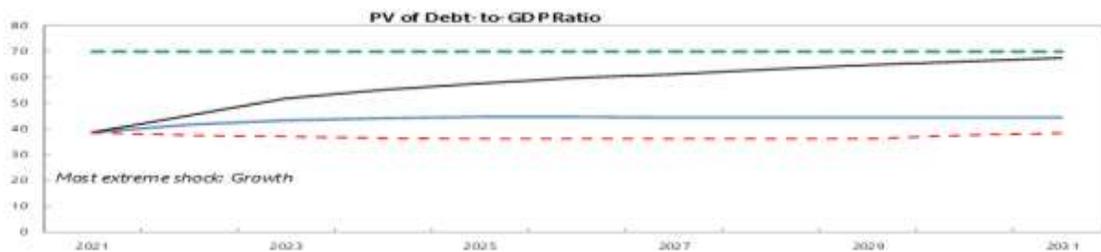


Figure 2. Nepal: Indicators of Public Debt under Alternative Scenarios, 2021–2031



Source: Joint Bank-Fund Debt Sustainability Analysis, December 2021.

⁴ The short- and medium-term macroeconomic projections used in the DSA assume a: (a) larger near-term primary deficit; (b) faster consolidation of primary deficits; and (c) larger CAD in the near term than in the preceding section of this World Bank macroeconomic outlook. Considering staff judgement, the conclusion of the DSA is unlikely to change if the World Bank macroeconomic outlook was applied.



2.3 IMF RELATIONS

17. **The report ‘Request for an Arrangement under the Extended Credit Facility (ECF) dated December 2021 was approved by the IMF Board of Executive Directors on January 12, 2022.** The report details a program that accommodates spending to address health needs, support the economy, and protect the most vulnerable in the early part of the program followed by declining fiscal deficits to help stabilize public debt in subsequent years. The program supports a fiscal structural reform agenda alongside strengthening financial sector regulation and the central bank. The disbursing 38-month (January 2022–March 2025) ECF arrangement provides access to 180 percent of quota, approximately US\$398.8 million. The World Bank (WB) continues to coordinate with the IMF on the Debt Service Suspension Initiative, financial sector reform issues, public financial management (PFM) capacity building, the federalism agenda, and reforms to raise investment and accelerate growth.

3. GOVERNMENT PROGRAM

18. **The Government program centers on mainstreaming GRID priorities into national development to drive and protect the basis for economic growth now and for future generations—and in the face of future climate and other shocks.** Nepal’s NDC and recent budgets include GRID priorities in many sectors as well as national economic planning. The specific sectors supported by the proposed operation have engaged in reform programs that will take time to mature and be implemented on the ground. Programmatic policy support from the WB and partners will help Nepal accelerate and realize a transition to a green, resilient, and more inclusive economy over time. Key transitions driven by sector reforms include electrification and renewable energy, air quality management, integrated water resource management (IWRM), climate-smart agriculture (CSA), sustainable forest management (SFM) for multiple benefits for more people including women and indigenous peoples (IPs), resilient water supply and other infrastructure, greening urban development, solid waste management (SWM), conservation-minded private sector participation in protected area (PA) tourism, and shock-responsive social protection (SRSP). See the Letter of Development Policy (Annex 3).

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

19. **The Program Development Objective is to improve the enabling environment for Nepal’s green, climate-resilient, inclusive development pathway.** The objective is supported by two pillars. Pillar A aims to consolidate GRID principles in strategic development planning across sectors. Pillar B aims to support sectoral transitions to GRID pathways. These pillars include measures for: (a) sustainably and productively using natural capital; (b) building resilience of urban and rural infrastructure, human capital, and livelihoods to climate and environmental risks; (c) promoting more efficient and cleaner production, consumption, and mobility; (d) strengthening inclusion in development decision-making and access to assets and services; and (e) mobilizing private sector participation to green Nepal’s economy and create jobs in tourism, forestry, agriculture, water, and urban sustainability.

20. **Lessons from earlier DPFs and green growth engagement globally and in Nepal include the following:** (a) emphasize inter-ministerial cooperation; (b) identify a lead agency and build on high-level country leadership; (c) keep adequate intervals between operations and consider the time needed to achieve results over the long term; (d) complement DPFs with advisory services and investment projects to ensure active engagement and ownership by line ministries, for both designing and implementing DPF-supported policies; (e) coordinate DPs to maximize the benefit of joint inputs; (f) strengthen high-level engagement focusing on outcomes and impacts of policies; and (g) target



appropriate level of reform.⁵ The GRID DPC series involves many WB Global Practices collaborating programmatically across instruments as well as institutional and sectoral boundaries. The operation is complemented by the new GRID programmatic advisory services (P176456) including a GRID diagnostic, the Climate Change and Development Report (P176737), and other advisory services, as well as several lending operations. The GRID programmatic DPC addresses priorities in the World Bank Group (WBG) South Asia Climate Roadmap 2021–2025. Additionally, several DPs are aligning policy dialogue anchored in the GRID DPC and the broader GRID initiative. Some are considering parallel co-financing of the GRID DPC series using sector budget support and technical assistance.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1. Consolidating GRID principles in strategic development planning

Policy Track 1: Addressing air pollution and greenhouse gas (GHG) emissions to protect human capital and mitigate climate change

21. **Air pollution in Nepal leads to significant adverse effects on health, cognition, productivity, and other human capital indicators and is correlated with GHG emissions.** The three main contributors are mobility, manufacturing, and burning of biomass and waste. Each year, an estimated 33,500 people die prematurely from air pollution in Nepal, and countless more fall ill.⁶ The economic costs of air pollution equal about 3.5 percent of GDP each year.

22. **This policy track supports actions to reduce air pollution, including from short-lived climate pollutants, and GHG emissions from two of the three largest sources.** Vehicle and manufacturing emissions (especially from brick kilns and cement production) each generate about one-third of the particulate matter and black carbon in the Kathmandu Valley.⁷ The third main source, biomass/waste burning, is addressed by the Second Fiscal Policy for Growth, Recovery and Resilience DPC (P176498).⁸

23. **This policy track aims at helping to create the enabling conditions for a long-term transformation toward cleaner mobility, including electric vehicles (EVs) and cleaner internal combustion engine (ICE) vehicles.** Cleaning up the air pollution from transport sources alone requires a symphony of diverse policies and investments. While this policy track will not tackle all relevant abatement measures by itself and lead to an immediate and short-term clearing of the skies over Kathmandu, the supported policies are critical for cleaning mobility over the long run, as envisioned by Nepal's second NDC and its Low Emissions Strategy. It is important that new vehicles entering the current vehicle fleet are cleaner, whether electric or cleaner ICE technology.

24. **Nepal's renewable electricity generation is expanding, making it important to plan on the demand side, as is the case in electrifying transport.** As noted in the draft 2022 Country Climate Change Development Report (CCDR) for Nepal, the country's electricity generation and distribution are growing among the world's fastest rates, and it is preparing to become a clean electricity exporter, mostly from hydropower. Policies that encourage firms and households to electrify will decrease the import bill for fuels and reduce GHG emissions and air pollution.

⁵ The Nepal GRID DPC is informed by the Independent Evaluation Group's assessment of environmental DPCs. (<https://ieg.worldbankgroup.org/learning-envidpo>) and the South Asia Region's draft 2021 retrospective of recent DPCs.

⁶ World Bank. 2019. *Nepal - Country Environmental Analysis: Strengthening Institutions and Management Systems for Enhanced Environmental Governance*. Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/7996>.

⁷ See Fillipini, Kumar, and Srinivasan (2021) Nudging adoption of electric vehicles: Evidence from an information-based intervention in Nepal; and Kim et al. (2015) Source apportionment of PM10 mass and particulate carbon in the Kathmandu Valley, Nepal.

⁸ The Second Fiscal Policy for Growth, Recovery and Resilience DPC (P176498) supports actions that reduce import costs of electric cookstoves, targeting residential energy—the third largest source of air pollution.



25. **Moving toward EVs mainly relies on improving the coverage of charging stations and reducing the costs of EVs (almost all of which are imported).** Less than one percent of the 3.5 million vehicles in Nepal are electric a long way from the NDC target to have 90 percent of all new passenger vehicle sales to be EVs by 2030.⁹ To accelerate EV adoption, and in line with the Nepal National Action Plan on Electric Mobility (2018), the Second Programmatic Energy Sector DPC (P170248) supported the Nepal Electricity Authority in improving the regulatory framework for charging stations. The GRID DPC series complements this work, by supporting EV cost reduction.

26. **The prior action supported by the GRID DPC has made EVs less costly through significantly reduced customs duties and road development taxes.** A budget ordinance, passed by the Cabinet and effective from July 2021, reduced customs duties and provided additional tax incentives for EVs. These tax incentives were subsequently confirmed by the Parliament in the Financial Act in September 2021. Customs duties were reduced from 80 percent to 10–40 percent for four-wheelers (depending on EV capacity) and from 30 percent to 10 percent for three-wheelers, leading to significant import cost drops. Additional tax incentives for two-wheelers, which had already benefited from low customs duties (10 percent), were also approved, including reduced Road Development Tax (RDT) rates (depending on motorcycle engine capacity RDT is anywhere from 1.5 to 10 times higher for an ICE motorcycle). Comparing import data from six months before and after the changed tax structure for EVs shows an initial growth in EV imports: two-wheeler and three-wheeler imports have doubled, and four-wheeler imports have increased by a factor of 9.

27. **DPC-2 would support mandating cleaner technology or more stringent emissions standards for ICE vehicles which would lead to reduced air pollution and GHG emissions.** Improved vehicle technology standards (Euro 4 or more) are important, as fuel quality was already improved in Nepal to meet Euro 6 standards in 2020, which was a costly step. Unless new vehicles match the new generation fuels already available, air quality benefits cannot be realized.

28. **DPC-3 would support incentives for cleaner technology through more stringent emissions standards for the cement and brick manufacturing industry and advance carbon/pollution pricing, which could include a pollution tax amendment or other instruments.**

- **Prior Action #1:** To promote markets and demand for electric vehicles (EVs), the Recipient has approved the 2021 Financial Ordinance, which was subsequently confirmed by the enactment of the Financial Act 2021 as evidenced by its publication in the Recipient’s gazette (Gazette No. 39) incorporating: (a) reduced customs duties for four-wheeled EVs (from 80 percent to 10–40 percent, depending on the vehicle type and motor capacity); (b) reduced customs duties for three-wheeled EVs (from 30 to 10 percent); and (c) reduced the road development tax (RDT) for two-wheeled EVs (which is 1.5 to 10 times higher for ICE vehicles compared to EVs, depending on ICE engine capacity).
- **Triggers:** DPC-2: Ministry of Forest and Environment (MoFE) has updated vehicle emission standards from Euro 3 to Euro 4 or higher. DPC-3: MoFE has updated emission standards for the cement and brick kiln industry, and the Ministry of Finance has adopted a carbon/pollution pricing instrument, with appropriate compensation mechanisms especially for low-income households (see policy track 7 that strengthens social protection).
- **Results indicators:** (a) Share of newly registered two-, three-, and four-wheeled vehicles that are electric (percent), Baseline: < 1 percent (2021). Target: 10 percent (2026) and (b) Share of newly registered internal combustion engine vehicles (two-, three-, and four-wheelers) that meet the Euro 4 or higher standard (percent). Baseline: < 1 percent (2021), Target: 90 percent (2026).

29. **Private sector opportunities.** The Program incentivizes green technologies and practices in transport and industry that include opportunities for firms.

⁹Ministry of Forests and Environment (MoFE). 2021. *Assessment of Electric Mobility Targets for Nepal’s 2020 NDC*.



Policy Track 2: Transforming land use and management

30. **The GRID transition is facilitated by a shift to more sustainable, resilient, and efficient land use, supporting several sectors and greater inclusivity. Nepal is grappling with inefficient use of land, leading to unorganized spread of towns and cities and loss of productive rural land and ecosystem services** including climate benefits such as flood and erosion risk reduction and carbon sequestration. Unorganized and unplanned settlements are a significant challenge for authorities to provide or extend basic services such as road connectivity, power supply, water, and sewerage. The 2019 Land Use Act (LUA) aims to address these issues.

31. **The 2022 Land Use Regulation (LUR) builds upon the 2019 LUA, both of which focus on land use classification, mapping, and planning across the three tiers of government—the framework for more inclusive, resilient, and sustainable land management.** The LUA aims to utilize land resources and maximize long-term benefits through land classification, proper use, and effective management as stipulated under the Land Use Policy (2015). The LUA classified land into 10 different categories based on topography, aptitude and appropriateness, existing use, and necessity: agricultural, residential, commercial, industrial, mines and minerals, forest, river-stream-lake-wetland, public use, cultural-archeological, and other areas. This includes attention to areas which have forest cover that act as carbon sinks and provide other ecosystem services for reducing climate vulnerability (for example, healthy watersheds strengthen resilience against droughts and erosion including landslides). The LUA aims to limit land fragmentation, help protect agricultural land conversion, and allow land pooling. The LUR sets forth the institutional roles and mandates at the three tiers of government for implementing the land use classification, mapping, and planning measures as outlined in the LUA. The LUR stipulates the authority of federal, provincial, and local land councils to designate land use areas, establish land use maps, consolidate land plots, and regulate land use under land banks established at the local government level. The land banks aim to promote land allocation to the landless, Dalit, poor and small farmers, single women, minorities, marginalized communities and financially compromised households. Embedded social, environmental and governance risks will need to be addressed/verified in the procedures to be developed later, and subsequent implementation. Any elite capture via the land banks would require going against the priority criteria for land allocation and the spirit of the land banks, and would not comply with the LUA and LUR. The procedures should include transparency, inclusion, and grievance mechanisms. The WB aims to provide advisory services on these aspects, which has been requested from the Ministry of Land Management, Cooperatives and Poverty Alleviation.

32. **The LUR directly supports the poor, addresses development needs, boosts climate resilience and adaptation, reduces disaster risks, and helps secure environmental sustainability.** The classification of land can support more transparent compensation for land affected by development, and the creation of land banks at the local government level aim to prioritize marginalized groups. Further, it recognizes land used for cultural and ecological purposes, fundamental for many indigenous and marginalized groups. Consultations on the LUR have taken place across government institutions; the role of the LUR is to implement the preceding Land Use Policy and LUA, which were both more widely consulted including with civil society organizations. The policy track would be complemented by a subsequent Land Acquisition Act under preparation which would institutionalize the need for consultations, a robust resettlement action plan, and the disclosure of entitlements in respect of land acquisition—issues not addressed by the LUA or by the LUR. Put together, these reforms can help prevent ad hoc urbanization and infrastructure development.

- **Prior Action #2:** To promote socio-economic and environmental sustainability, including climate resilience and mitigation, in the use of land resources, the Cabinet has approved the Land Use Regulation setting the institutional roles and mandates at the three tiers of government and implementation provisions for land use classification, mapping, and planning.
- **Triggers:** Land Use Policy (2015), Land Use Act (2019), and Land Use Regulation implemented through guidelines and procedures developed by the Ministry of Land Management, Cooperatives and Poverty Alleviation (MLMCPA) for the land use planning framework at the three tiers of government and including measures for grievance redress (DPC-2).



- **Results indicator:** Effective, inclusive, and transparent land classification and planning framework is in place (Y/N). Baseline: No (2022), Target: Yes (2026).

Policy Track 3: Climate- and disaster- resilient infrastructure

33. **Climate change and disaster risk present serious challenges to Nepal’s development goals, and the country seeks to shift from a reactive to a proactive approach to disaster preparedness and climate risk reduction.** Nepal is among the most vulnerable countries to natural disasters and needs to modernize information systems and institutions for building resilience across sectors as natural disasters become more frequent and intense, consume greater fiscal space, and increasingly impact infrastructure, productive rural assets, and people. Each year, losses associated with extreme weather events are estimated to exceed 1.5 percent of GDP equivalent; on average, more than 600 lives are lost to weather- and climate-related disasters in Nepal, and more than 150,000 people are affected by floods alone. The 2015 earthquake damaged infrastructure and buildings, including 31 hydroelectric plants and dams. Damaged infrastructure significantly affects access to services, economic productivity, and mobility. About 18 percent of urban employment is in construction, and 2 million additional homes will be needed in 2021–30. The current use of poor materials and methods in housing construction will further increase disaster risk.

34. **This policy track tackles the core issues of resilience and climate adaptation by strengthening climate and disaster information systems, as well as construction requirements of hydroelectric and urban infrastructure.** Hydrometeorological services are a basic decision-making, early warning, and planning tool for enhancing resilience in sectors important for jobs, climate resilience, and growth including energy, agriculture, water, tourism, and aviation. Scaling up investments in hydromet observation networks will lead to improved weather services and inform a new Climate Information System, all of which is critical for long-term adaptation and resilience planning and investments. The improved early warning systems, with timely and accurate weather alerts, will also boost the disaster preparedness and response capacity of federal, provincial, and local governments.

35. **The combination of rapid urbanization and unsustainable and energy-inefficient construction contributes to Nepal’s climate vulnerability and GHG emissions.** The GoN has identified the construction and building sector as a priority for future climate action. Nepal’s second NDC has set targets for adopting low-carbon and climate-resilient urban settlements. The 2017 National Urban Development Strategy (UDS) estimated considerable needs for upgrading the housing stock, which makes a shift to more resilient and green housing and construction pressing.

36. **Federalization has created additional municipalities and provinces that have further increased the need for a green building policy and legal framework.** Significant investments are allocated for the construction of public buildings for provincial and local governments. The anticipated large-scale construction could help contribute to GoN’s net zero emissions target through greener construction that has a smaller environmental footprint in terms of carbon, water, natural resources, sustainable materials, and energy use.

37. **The GoN has promoted green buildings and energy-efficient solutions through the National Urban Policy (2012) and UDS (2017).** Likewise, the National Climate Change Policy (2019) and National Adaptation Program of Action (2010) prioritize settlement as key sector to increase climate resilience and reduce the carbon footprint with green technologies and standards developed for infrastructure and buildings to integrate energy efficiency in the construction practices. Mainstreaming green development in the urban sector particularly in construction and urban planning, which is one of the major contributors, is critical to help Nepal achieve the NDC as targeted by 2045.

- **Prior Action #3:** To prioritize the strengthening of climate information services and system, the Recipient, through the Ministry of Finance, has confirmed the commitment to expanding the hydrological and meteorological network.



- **Triggers:** DPC-2: The GoN has regulated hydrometeorological services to support the planning and performance of several sectors including agriculture, aviation, water supply, and hydropower, as well as disaster risk management. DPC-3: The Cabinet has approved a green building code, and the Ministry of Energy, Water Resources, and Irrigation (MoEWRI) has approved seismic guidelines for the design of dams and hydropower projects.
- **Results indicator:** Automatic hydrological monitoring stations and radar that are fully operational in additional locations (number). Baseline: 0 (2021), Target: 25 hydromet stations and 1 radar (2026).

Policy Track 4: Strategic planning for GRID

38. **Nepal’s GRID transition requires strategic planning to boost the quality and quantity of public and private investment and strengthen institutional coordination.** Steps have been taken by two successive governments of Nepal to transition to a GRID pathway. Nepal’s 2021 Kathmandu Declaration on GRID articulates the vision for this new strategic direction. The GoN delivered a new budget that contains several funded GRID priorities.

39. **This policy track will strengthen the institutional and policy framework for strategic planning to transition to the GRID path.** Taking this path requires managing trade-offs and mutual opportunities across sectors and stakeholders. The GoN is developing three key tools: (a) the GoN’s GRID Steering Committee, a high-level multi-sectoral institutional platform for decision-making; (b) the GRID Strategic Action Plan, which is under preparation and will define a program of investments and policy actions over the next decade; and (c) Strategic Environmental and Social Assessment (SESA). The latter is supported by the GRID DPC series; all are supported by the GRID Advisory Program (P176456).

40. **SESA is a planning tool aligning sector strategies, policies, and investments with GRID outcomes.** SESAs provide analytical backbone and stakeholder engagement at an early upstream stage to inform investment and policy decisions, including across sectors and spatial units such as jurisdictions ecosystems, landscapes, and basins. The GoN has already set the legal basis for SESAs and Environmental Impact Assessments (EIAs) with the Environmental Protection Act 2019 and the Environmental Protection Regulation 2020. Currently, the guidelines for what should be in a SESA, how to carry one out, and what the priority SESAs are (for which policies, programs, and strategies should they be carried out) to underpin strategic planning for the GRID transition are missing. The GoN is identifying a list of sectors, programs, policies, and themes on which to conduct SESAs, including policy tracks in this DPC.

- **Prior Action:** n.a.
- **Triggers:** DPC-2: The Cabinet has approved guidelines prescribing SESAs for targeted policies, programs, and strategies and specifying institutional arrangements for preparing SESAs, including provisions on information disclosure and public participation. DPC-3: MoFE has approved detailed procedures for line ministries to implement SESAs.
- **Results indicator:** SESAs carried out for policies, programs, and strategic plans (number). Baseline: 0 (2021), Target: 1 (2026).

Pillar 2. Sectoral policies for GRID

Policy Track 5: Transitioning to sustainable tourism for jobs, conservation, and private sector investment

41. **This policy track focuses on facilitating businesses to partner with the GoN on boosting the economic role of protected areas (PAs) to create jobs and income while generating revenues to protect biodiversity and landscapes—assets that also generate climate resilience and mitigation benefits. Nepal’s PAs are its core tourism offering.** Two-thirds of Nepal’s visitors visit PAs but are concentrated in only four of 20 PAs despite good conservation records. PAs cover over 23 percent of the country’s land area and include national parks, conservation areas, and wildlife and hunting reserves. Despite the increasing visitor flow (1.19 million in 2019), Nepal has been facing the risk of becoming a low-value mass tourism destination, damaging the very natural assets on which the sector depends. While visitor numbers



increased sharply from 2016 to 2019, tourism receipts declined and have been low compared to competing destinations, averaging US\$48 per day per international visitor in 2019, or almost half the global average and one-third of that of Thailand and India. The direct contribution of tourism to Nepal's GDP in 2019 was US\$0.8 billion, or 3.6 percent of GDP, while its total impact was US\$2.2 billion, or 7.9 percent of GDP. Tourism also supported over 1 million direct and indirect jobs in 2019, or 6.7 percent of total employment—80 percent of which are in the most remote and poorest regions.

42. **As Nepal's tourism economy emerges from COVID-19, the sector has an opportunity to diversify its tourism offerings and develop higher value-addition activities, while sustainably managing landscapes.** Well-managed concessions in PAs comprise one of the opportunities for Nepal to increase the higher-paying visitor segment, as well as generate revenue for conservation and contribute to climate adaptation and mitigation. Nepal's tourism can provide a viable financial option for PAs, through stronger tourism concessions that leverage private sector investment in strengthening and sustaining conservation. Investment in PAs pays off and is good for not only for biodiversity but also local economic development. In Chitwan National Park, the economic return of public spending is 7.6 to 1.

43. **By enhancing PA management, this policy track will help address climate change vulnerabilities by contributing to a more sustainable financial model for protecting multifunctional landscapes which will deliver adaptation and mitigation outcomes.** Intact landscapes provide ecosystem services important for adapting to and regulating climate, such as water provisioning and filtering, erosion reduction, and local weather regulation. Biodiversity underpins the ecosystem processes and functions that provide critical services to society. Actions that help conserve, restore, or sustainably make use of biodiversity and ecosystems can provide climate adaptation and other benefits. These include climate change mitigation, disaster risk reduction, water security, livelihoods, and other essential ecosystem services. As a result, biodiversity, including forests and grasslands, is a priority of Nepal's National Biodiversity Strategic Action Plan (NBSAP). Forest and grassland ecosystems provide floodwater retention and slope stabilization and serve as windbreaks while also providing food, fodder, and innumerable recreational and cultural services. Actions that are contemplated under the Amendment to the Protected Areas and Wildlife Regulation (DPC-2) can help restore and conserve forest and grassland biodiversity and ecosystems as well as provide benefits to human health and well-being, such as reducing disease transmission risk by less contact and pathogen exchange between humans and wildlife.

44. **By enhancing private investment in demand-driven nature-based tourism development, Nepal can help meet conservation objectives and generate income and other benefits for the communities living around these globally renowned PA assets.** Evidence from around the world shows that concessions can produce a great development impact as private operators have the industry expertise and market access and understand the market demand. In addition to mobilizing private sector investment in the PAs, the concessions will also establish standards for tourism service providers, thereby enhancing visitor experiences and economic benefits for the communities in and around PAs. It would also strengthen global competitiveness of tourism firms, and lead to stronger support to implement Nepal's NBSAP (an IDA20 priority) by outlining opportunities for private operators to partner in and implement conservation activities.

- **Prior Action:** n.a.
- **Triggers:** DPC-2: To strengthen environmental, social, and economic sustainability of PAs, MoFE has regulated the operation of tourism concessions in PAs through an Amendment to the Protected Areas and Wildlife Regulation that would enable conservation partnerships and activities.
- **Results indicator:** Tourism concession contracts issued under the new reforms (number). Baseline: 0 (2022), Target: 2 (2026).

45. **Private sector opportunities.** The proposed amendment would allow increased private sector participation through forward and backward links with local value chains in and around the PAs. There is a stronger demand for



concessions from operators catering to high-end travelers and this enhances revenue streams which will also provide resources. The policy program also follows the recommendations of the WB's Country Private Sector Diagnostic (CPSD) for Nepal. The CPSD identified tourism as a key sector of the economy and calls for inclusive and environmentally sustainable development of national parks and conservation areas and for the diversification of tourism products by rejuvenating Annapurna and developing Manaslu and Bardia.

Policy Track 6: The forest sector transition to sustainability, productivity, and climate resilience

46. **This policy track supports Nepal's ongoing shift to SFM and helps operationalize sector delivery in the federal structure.** SFM will contribute to growth, jobs, and income throughout the forest value chain including sustainable timber, non-timber, and tourism, transitioning from pure conservation toward a more modern sector with strong social and environmental sustainability centered on Nepal's vaunted experience with community forest management. This policy track contributes to the GoN's new and more ambitious net forest cover target of 45 percent in the second NDC. Better forest and landscape management directly supports a reduction in risks from climate-related hazards such as floods, drought, erosion, landslides, and fire. The policy track will contribute to managing these climate risks by supporting better management of forest ecosystems, biodiversity, and watersheds (climate adaptation via forests is one of the eight thematic adaptation priorities in the NDC). The policy track will also contribute to the economic and financial sustainability of hydropower and irrigation assets by reducing erosion from forest degradation. The policy track also supports greater inclusion of IPs, women, and other disadvantaged groups to manage and benefit from forests.

47. **From deforestation to development.** Nepal's forest cover averaged 24 percent in 1960–90 and recovered to about 40 percent in 1990 and 44 percent in 2022, through community-based forest management which now involves over 22,000 communities and over 10 percent of Nepali households. Forestry's direct and indirect contribution to Nepal's GDP is about 3.5 percent and 10.5 percent, respectively. The 2019 Forest Act aims to increase inclusive economic, climate, and environmental benefits from the forest sector. To do this, the 2019 Forest Act initiated a transition to SFM, a process advanced by the 2022 Forest Regulation under DPC-1.

48. **Building on Nepal's long community-based forest management experience and the new federal structure, the Forest Regulation strengthens the governance framework at three tiers of government for managing forests in a more sustainable way for more inclusive benefits.** It is a comprehensive regulation benefitting from robust consultations and participation over a long period, including infrastructure and development projects, operationalization of the Forest Development Fund, and harvesting and transport of timber and non-timber forest products, among others. The regulation will enhance the sustainable management of community, leasehold, and private forests. It will provide clarity to the handover of national forest areas to community user groups, including vulnerable groups and IPs. Preference will be given to the poorest of the poor; single women; and marginalized, landless, and disadvantaged families for providing such forests. There are provisions for disadvantaged people and those certified to be below the poverty line to access forest-based income generation. The regulation also has provisions for leasehold forests, highly inclusive benefit-sharing arrangements, forest management plans, and standards for carbon finance and trading emission reductions. As the country transitions to more inclusive and more SFM and governance, the regulation also mandates the analysis of alternatives, an EIA, and a feasibility study, before using forested areas for development projects. The regulation also includes requirements to compensate for loss and damage to local forest users. It also provides measures for defining user rights to forest land. Taken together, the regulation is expected to enable private sector investment including community enterprises, provide opportunities for privately funded restoration and protection, define approaches for restoring degraded and encroached forests, and generate additional jobs and livelihoods especially among the poorest and disadvantaged. The Forest Regulation aims to improve environmental and social sustainability and includes several measures to do so (see section V.B). Nevertheless, risks can arise from poor-quality local forest management plans. To



support higher quality, SFM guidelines and follow-on provincial regulations and procedures would be developed under DPC-2 and DPC-3 depending on provinces' readiness and resources.

49. **Gender tag for DPC-1.** Nepali women have not been sufficiently included in key decision-making positions in forest institutions,¹⁰ which hinders their access to forest resources, knowledge, financing, and other benefits directly supporting their livelihoods. This lack of effective representation of women in leadership positions begets decisions that adversely affect women's access to forest resources and funds for their livelihoods. Consequently, women have been unable to enhance their livelihood through sustained forest-based enterprises. To address these gender gaps, the GoN has introduced specific provisions on women's leadership and access to benefits in the 2019 Forest Act that provisions for: (a) gender parity in the management body of all forest-related committees and institutions; and (b) a minimum spending of 25 percent of the annual income earned by the forest users' groups in poverty alleviation, women's empowerment, and/or entrepreneurship activities. To operationalize the Act, the Forest Regulation sets detailed procedures for executing the provisions set out in the Act through equitable governance; equitable access to resources; and increased recognition of the role of women in the utilization, management, and conservation of forests. The Forest Regulation articulates specific provisions for women in leadership roles in key forest institutions at the local and provincial levels which will address the gap in representation and decision-making. These provisions will cultivate female leaders in the management of community, leasehold, and private forests while increasing their access to and benefits from forest resources.¹¹

- **Prior Action #4:** To strengthen community-based sustainable forest management, forest management planning and institutional arrangements, productive activities throughout the forest value chain, women's leadership in decision making, inclusive benefit sharing, climate resilience and mitigation benefits, and to protect biodiversity and water resources, the Cabinet has approved the Forest Regulation.
- **Triggers:** DPC-2: To strengthen the implementation of the Forest Regulation, the MoFE has approved guidelines for implementing SFM provisions that set standards, procedures, and mechanisms for transferring government-managed forests to community-based forest user groups, ensuring inclusive benefits including for women, and engaging in international carbon markets. DPC-3: To strengthen SFM implementation at the subnational level, at least two provinces have promulgated the regulations and procedures to incorporate the provisions of the 2019 Forest Act, 2022 Forest Regulation, and SFM Guidelines in their legal framework.
- **Results indicators:** (a) Land area covered by an approved forest management plan that is in line with the Forest Regulation and that includes climate outcomes and documented women's participation in the plan (hectare). Baseline: 2,903,825 (2022), Target: 2,949,325 (2026). (b) (*Gender tag*) Share of annual income earned by forest users' groups that is spent on women empowerment and female entrepreneurship activities (percentage). Baseline: 0 (2021). Target: 20 percent (2026).

50. **Private sector opportunities** will be facilitated by this policy track, especially for community forest enterprises as the sector shifts to community based SFM to produce timber and non-timber products.

¹⁰ In 2020, only 6 percent of the 22,531 community forest user groups were chaired by women in Nepal. ICIMOD (International Centre for Integrated Mountain Development), UNEP (United Nations Environment Programme), and UN Women. 2021. *The State of Gender Equality and Climate Change in Nepal*. Kathmandu: ICIMOD, UNEP, and UN Women; MoALD (Ministry of Agriculture and Livestock Development). 2017. *GESI Integration Annual Progress Report, Fiscal Year 2016/2017*. MoALD, GoN; CIFOR (Center for International Forestry Research). 2016. *Gender and Forests: Climate Change, Tenure, Value Chains and Emerging Issues*.

¹¹ The Forest Act has a 25 percent target. To ensure the use of funds for women's empowerment and female entrepreneurship, a target of 20 percent has been set to specifically monitor the narrowing of the gender gap.



Policy Track 7: Building resilience of the most vulnerable to climate and other shocks

51. **Nepal's poor and vulnerable are highly exposed to the impacts of climatic shocks and often lack resources to cope with the impacts of disasters.** About one-third of households face at least one shock per year (Household Risk and Vulnerability Survey [HRVS] 2019). Such shocks can push more people into poverty and cause long-term damage to household assets and human capital. Poorer households are more exposed to shocks and frequently suffer more severe impacts, counteracting progress in reducing poverty. An average of 5,000 private homes are damaged by landslides, floods, and fire—all aggravated by climate change impacts—requiring reconstruction every year. To mitigate the impact of shocks and promote the resilience of households, Nepal seeks to shift from a more reactive to a proactive approach to disaster preparedness.

52. **Nepal has many social protection (SP) programs which reach about one-third of the population, but these programs are not flexible or scalable to respond to climate and other shocks.** The two main programs include the Social Security Allowances (SSAs) targeted at the demographically vulnerable and the Prime Minister's Employment Program (PMEP) targeted to the poor and unemployed. SP can help build the resilience of poor and vulnerable households to prepare for (before), cope with (during), and adapt to (after) the shocks they face. However, the current programs have limited coverage of the poor and are not scalable in response to shocks. These programs are designed to address demographic vulnerability such as old age, disability or chronic poverty and unemployment but are not flexible enough to provide relief and recovery for vulnerabilities induced by climate-related shocks. SP and disaster risk management programs and systems operate largely in parallel. Delivery of relief and recovery to the affected households is often ad hoc and does not utilize the existing reach of programs and delivery systems. The practice has been to conduct post disaster damage assessments to identify the affected—leading to delayed response, contested beneficiary identification, and gaps in reaching affected people with assistance.

53. **SRSP can help address these issues by mobilizing existing delivery systems.** This includes using existing registries to identify vulnerable people instead of collecting new data after disasters, using existing management information systems instead of creating new ones to manage emergency transfers, and using existing bank accounts to expedite payments. In addition, using those who are pre-identified on beneficiary lists for disaster relief reduces the chances of excluding the most vulnerable and marginalized.

54. **Nepal's disaster relief is guided by the Disaster Victims Rescue and Relief Standards 2020 (7th amendment) and multiple hazard-specific guidelines that guide the preparation, damage assessment, and delivery of relief and reconstruction.** These guidelines tend to focus on one-time relief aimed at partially compensating for losses and do not aim at medium-term recovery. The size of relief is determined based on the damage incurred without considering household vulnerability. There is no comprehensive guideline that guides response across shocks.

55. **This policy track will enable the GoN to respond better during shocks to deliver assistance more efficiently and reach the most vulnerable population affected by shocks.** While the Disaster Risk Reduction and Management Act 2018 has provisions to prioritize the poor and vulnerable, there is no policy or institutional framework that institutionalizes the use of SP delivery systems in a standardized manner across shocks to deliver relief and recovery while ensuring inclusion of the most vulnerable. To address these limitations, the National Disaster Risk Reduction and Management Authority has initiated the drafting of guidelines for SRSP. The current guidelines detail how to enroll current target groups into the program and deliver the monthly benefits. The updated guidelines will allow the GoN to deliver additional assistance to the same target groups if affected during a shock, or add more beneficiaries temporarily to alleviate the impact of shocks. It would be faster and more efficient to do so than create a parallel mechanism to deliver such relief. These guidelines are expected to clearly establish when and how disaster response can be delivered using existing delivery systems. This would frontload the decision-making process, linking climate forecasts—to which



Policy Track 3 will contribute—to their potential consequences at the household level and expedite the delivery of relief. Integrating adaptation priorities into the SP programs has also been identified as a priority area in the National Adaptation Plan 2021–2050 (NAP).

- **Prior Action:** n.a.
- **Triggers:** DPC-2: The GoN has approved guidelines for SRSP to enable the GoN to mobilize SP systems for the provision of relief and recovery in response to a shock due to an adverse natural event. DPC-3: To enable flexibility and scalability of social protection during times of shock, the Recipient will amend guidelines of the Social Security Allowance (SSA) and Prime Minister’s Employment Program (PMEP).
- **Results indicator:** Social protection programs in which the respective delivery system is used for the provision of relief and recovery in response to a shock due to an adverse natural event (number). Baseline: 0 (2021), Target: 1 (2026).

56. **SRSP will foster inclusivity by helping to strengthen the adaptive capacity of the poor and vulnerable through expedited delivery of relief and recovery.** This would be done by ensuring the use of existing registries and payment systems to identify, enroll, and deliver assistance to the poor and vulnerable, including current SP beneficiaries, during times of shock. SRSP is expected to help improve access of women, particularly single women who are eligible for cash transfers, to relief and recovery. Single women are a category of individuals eligible for the SSA and are also likely to be excluded from relief efforts. Using the existing beneficiary database of single women for delivery or relief and recovery will help ensure their inclusion.

Policy Track 8: Transitioning to inclusive climate-smart agriculture (CSA) and food systems that promote growth and protect health

57. **This policy track supports the transition to a more climate-resilient, productive, and inclusive farming sector that supports agribusiness growth, food security, and exports; protects the health of farmers, traders, and consumers; and reduces the fiscal and human costs of weather, production, market, and zoonotic risks.** The reform program reinforces the GoN’s process to update the current Agriculture Development Strategy (ADS) on key dimensions of sustainability and inclusion and provides a firm base for agri-food sector growth. The updated ADS will aim to: (a) increase self-reliance on basic food items; (b) improve competitiveness and exports; (c) support the transition to clean and CSA systems to improve sustainability and protect biodiversity; and (d) implement effective systems for intergovernmental coordination and service provision.

58. **Nepal’s land and water resources are already under pressure from crop and livestock production, while the poverty-reduction potential of the agriculture sector is constrained by low productivity and high risks.** With population, urbanization, and income growth in Nepal, demand for food, feed, and fiber is expected to increase significantly in the next decades. Demand will grow for staples, particularly for high-value products, particularly vegetables, fruit, meat, milk, leather, wool, and honey, among others. Responding to this demand (and to export opportunities) will require a strong focus on the adoption of CSA technologies to ensure: (a) adequate management of weather and production risks; (b) improved management of land and water to enhance resilience to climate shocks; (c) reduction of emissions intensity; and (d) improvement of productivity and income. Adequate CSA policies are vital for shared prosperity as well. From the point of view of farmers, inclusion refers to the capacity of smallholders to build market links to profit from the rise in demand and, from the point of view of consumers, to have access to a range of food products at relatively low prices. CSA policies are thus central to Nepal’s sustainable development.

59. **The policy track will support the transition to competitive CSA through a phased approach.** The initial focus will be placed on livestock development. Livestock accounts for 27 percent of agricultural GDP and is the main source of food, nutrition, and cash income for close to 70 percent of the households engaged in agriculture, and a large



proportion of the labor is provided by women. Animal husbandry generates more than half of the GHG emissions in the sector, or close to one-third of Nepal's emissions. The contribution of livestock to agricultural GDP will grow in the future given the changes in food demand, directly affecting natural resources such as water and land through grazing and feed production as well as agrochemical contamination of soils and water courses and GHG emissions from ruminants and manure management. A resilient livestock sector requires an effective livestock disease management system which minimizes impacts on health, in particular, foodborne illnesses which sap individuals' productivity and zoonotic risks which can have devastating impacts on society as COVID-19 has shown.

60. **This policy track will also support the GoN's One Health Strategy starting with animal health and the intersection with human health.** Demand growth for animal products is an important income opportunity for farmers but it also raises issues that will require the GoN's attention. For example, environmental issues include livestock's direct impact on natural resources (for example, water and land) and GHG emissions from ruminants and manure management. Resilience issues for farmers include adequate management of risks, both present (weather, diseases, and markets) and future (climate change and high-value market requirements).

61. **The policy track builds on two initial policies under DPC-1: the Animal Health Policy and the Animal Breeding Policy.** These policies would be consolidated and their links to human health, climate, and inclusion solidly established by enacting the Infectious Animal Disease Act under DPC-3. The GRID DPC supports linking these policies explicitly to the current One Health Strategy, which would coordinate across agriculture, environment, and health sector interventions. The GoN also plans to develop a One Health Action Plan to complement the policy track.

- **Prior Action #5:** To strengthen the management of the livestock sector, the Cabinet approved (a) the Animal Health Policy, with provisions to control animal diseases, and closing key gaps in animal health services, in alignment with international standards and with Nepal's One Health Strategy; and (b) the Animal Breeding Policy, to enhance livestock production, productivity, and income for farmers.
- **Triggers:** DPC-2: The Cabinet has adopted the National Climate Smart Agriculture Policy, establishing prioritization criteria for CSA technologies, an intergovernmental funding mechanism, and a monitoring and evaluation system. DPC-3: The Cabinet has adopted an integrated risk management policy for the agriculture sector covering weather, production, market, zoonotic, and other risks, and the Infectious Animal Disease Act is published in the Gazette and aligned with Nepal's One Health Strategy.
- **Results indicator:** Increase in the proportion of sectoral spending at the federal and provincial levels for climate-smart agriculture investments (percent). Baseline: 0 (2022), Target: 30 percent (2026).

62. **Private sector opportunities.** The program can enable private actors such as input and services providers, smallholder farmers, agro-processors, and food retailers to pursue market opportunities through improvements in animal health and food safety as well as reduced impact of weather, production, and market risks. Opportunities are envisioned for public-private partnerships (PPPs) for service provision, vertical coordination, and value chains.

Policy Track 9: Transitioning to integrated water resource management (IWRM) and resilient water supply

63. **IWRM is a building block in Nepal for sustainable and resilient economic growth, development, poverty reduction, and environmental services, including water provision and climate risk reduction.** Water lies at the heart of productive economic sectors and human capital but is not managed efficiently to meet the requirements of multiple uses and users, leading to persistent water security challenges. Hydropower, agriculture, household use, forests, and tourism are all affected by how water resources are managed. Climate change is felt through changes in water availability and quality as well as increased frequency, extent, or intensity of flooding; erosion; landslides; and drought. Given the competing demands for water in Nepal's growing yet climate-vulnerable economy, there is a need to develop



IWRM to ensure adequate water for all uses and users. This policy track supports actions to address the increased frequency and intensity of disasters from climate change.

64. **A key step in the IWRM transition is the sustained development of the institutional and policy framework for river basin planning in line with the federal system.** Support for developing a National Water Resources Act under DPC-3, for example, would promote IWRM planning at the level of major river basins for water security for all uses and users in the country. Amendments to the Irrigation Policy and amendments to the Water Induced Disaster Management Policy are indicative triggers that aim to align the institutional framework for irrigation and disaster management to the new federal structure, ensuring clear roles and responsibilities at all levels while boosting climate resilience. The amendments to the Irrigation Policy will enable better planning and management of irrigation infrastructure, including their maintenance and rehabilitation, thus facilitating improved water use efficiency and productivity. The amendments to the Water Induced Disaster Management Policy will facilitate better disaster preparedness for floods, droughts, and landslides and other climate shocks and improve disaster response at all levels of government.

65. **Inadequate drinking water and sanitation provision is compounded by poor water quality and persistent climate risks, lowering productivity and human capital potential.** Despite high levels of access to technologically improved sources of drinking water supply, the quality and reliability of services are poor. Kathmandu can meet only 19 percent of the total water demand in the dry season. Fecal sludge management, particularly wastewater, is at a nascent stage across Nepal. Poor drinking water quality due to bacterial, geogenic, and industrial contamination is a persistent problem in most parts of the country. This has led to poor health and human capital outcomes while increasing household-level coping costs from water treatment, health care expenditures, and productivity loss from ill health. A nationally representative 2019 survey estimated that the percentage of households with drinking water without *E. coli* contamination was as low as 19 percent. Only 50 percent of the 26 urban utilities had a water quality monitoring system in place. Although all had chlorination units, their application and maintenance were irregular. The new water quality standards under DPC-1 will set the maximum permissible levels of bacteriological and chemical pollution levels in drinking water provided by urban and rural water supply service providers. The water quality standards also align with international standards from the World Health Organization.

66. **The 2015 Constitution places the responsibility for water supply and sanitation (WSS) services with local governments.** It is important to clarify the roles of the three tiers of government in WSS to improve the quality of service provision. Local governments face capacity constraints both in terms of funds and functionaries and the support required for improving access, quality, and services. The Water, Sanitation and Hygiene (WASH) Policy and the WSS Act, when enacted, will define the mandates for the legal, financial, and functional autonomy for the three tiers of government and help reduce their capacity constraints in WSS service provision.

- **Prior Action #6:** To strengthen water supply provision for protecting human capital, reducing climate risks, and defining institutional mandates across three tiers of government, the Cabinet has approved the National Drinking Water Quality Standards and the Ministry of Water Supply has approved the guidelines.
- **Triggers:** DPC-2: (a) Cabinet approval of the WASH Policy to clarify the mandates of the three tiers of government on water and sanitation service provision, and (b) Cabinet approval of the Amendment to the Water Induced Disaster Management Policy aligning the role and responsibilities of each tier of government in increasing preparedness and providing response to water-induced disasters, and (c) Cabinet approval of the Amendment to the Irrigation Policy aligning roles and responsibilities of each tier of government in the management and maintenance of irrigation infrastructure. DPC-3: Adoption of the Water Supply and Sanitation Act establishing the mandates of the three tiers of government in water and sanitation service provision and adoption of the National Water Resources Act establishing integrated management of water resources at the basin level and River Basin Organizations.



- **Results indicators:** (a) River Basin Offices established at the river basin level (number). Baseline: 0 (2022), Target: 4 (2026). (b) *Palikas* that collect WASH data using the National WASH Management Information System, including at schools and health centers (number). Baseline: 0 (2022), Target: 40 (2026).

Policy Track 10: Solid waste management (SWM) and the reducing single-use plastics

67. **SWM supports the development of greener, more sustainable, climate-smart cities; health; and related job creation.** The solid waste sector has substantial potential for integrating, capacitating, and better equipping informal waste management operators. An estimated 35,000 people are engaged in the sector in Kathmandu alone. The solution to reducing waste in Nepal includes improving SWM and regulating certain materials to reduce waste generation; the ban on certain forms of plastic, for example, centers on thin single-use plastic (SUP) bags.

68. **Nepal's growing urban population of over seven million people is estimated to produce two million tons of solid waste annually, doubling by 2050.** Today, less than 50 percent of all solid waste in urban areas is collected. Most is openly dumped without treatment or burned, contributing to air pollution and compromising human capital. Improving SWM will improve air quality while reducing CO₂ and methane emissions by roughly 5 percent and 20 percent, respectively, and lowering risk of floods and landslides. Hazardous medical and electronic waste are also concerns. Plastic waste is also rapidly increasing in Nepal, comprising around 15 percent of all solid waste. Mismanaged plastic waste accumulates in the environment, harming people's health. One of the most harmful waste streams is SUP bags, which are often burned or cause flooding by clogging drains.

69. **Inadequate SWM throughout Nepal imposes significant environmental, health, and climate costs and undermines key sectors such as tourism.** The lack of a comprehensive SWM framework at the national level and SWM systems at the local level costs about one percent of GDP annually. Only five of 77 districts have a landfill. Major investments and behavior changes will be needed to sustain current services to keep up with waste generation trends.

70. **Key economic opportunities from improving SWM include:** (a) reducing flood risks; (b) improving outcomes in health and education and improving tourism; (c) using waste as an economic resource and job creator in a more circular economy; (d) creating new value chains such as plastic alternatives from forest and agricultural products; and (e) over time, creating modern landfills that can eventually become parks and potentially generate energy.

71. **Key challenges for better SWM include:** (a) an inconsistent regulatory framework and lack of enforcement of laws promoting waste management; (b) institutional capacity constraints further complicated by federalization of the responsibility for waste management at the municipal level; (c) severe underinvestment across the waste value chain; (d) suboptimal financing models; and (e) lack of awareness on the impacts of poor waste management.

72. **The SWM Policy supported under DPC-1 includes measures to reinforce capacity, define the institutional set up and systems needed to manage waste, change behavior and practices that generate emissions, finance the infrastructure and the operation of systems, and carry out enforcement.** Specific actions include: (a) create the SWM Council; (b) set in motion the preparation of the SWM Act and regulations; and (c) enable actions at various levels of government including levying fees and fines, stimulating organized waste collection, building awareness, and enhancing segregation and recycling. DPC-1 also supports a ban on SUP bags, which targets plastic bags of 40 microns in size. As a follow-up to the ban, the Cabinet endorsed an action plan to support with the implementation, which includes provisions for supporting alternatives to SUP, awareness-raising, monitoring, and enforcement.

- **Prior Action #7:** To reduce solid waste generation and improve its management for better environmental health, reduced GHG emissions, and urban flood risk reduction, the Cabinet has approved the SWM Policy, and the ban of plastic bags thinner than 40 microns, as evidenced by its publication in the Recipient's gazette (Gazette No. 21).



- **Triggers:** DPC-2: Publication of the SWM Act in the Nepal Gazette. DPC-3: To strengthen coordination and technical support among local governments in delivery of SWM solutions, the Recipient has (a) adopted guidelines to implement the SWM Act, including a financing mechanism to ensure dedicated financing for SWM, and the establishment of a National Waste Management Support Unit; and (b) MoFE and MoF have strengthened the plastic management legal framework including regulations for providing incentives for alternatives to plastics.
- **Results indicator:** Increased investment flows to SWM at federal and local levels, from both public and private sources (US\$). Baseline: 0 (2021), Target: US\$10 million (2026).

73. **Private sector opportunities.** The program can help expand opportunities by clarifying institutional roles and establishing a stronger technical support framework and facilitating better options for PPPs. There are also opportunities for commercializing alternatives to plastics, such as in forest and agriculture and innovative upcycling micro-enterprises.

Table 4. DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Operation Pillar A: Consolidating GRID principles in strategic development planning	
<p>Prior Action #1. To promote markets and demand for electric vehicles (EVs), the Recipient has approved the 2021 Financial Ordinance, which was subsequently confirmed by the enactment of the Financial Act 2021 as evidenced by its publication in the Recipient’s gazette (Gazette No. 39) incorporating: (a) reduced customs duties for four-wheeled EVs (from 80 percent to 10–40 percent, depending on the vehicle type and motor capacity); (b) reduced customs duties for three-wheeled EVs (from 30 to 10 percent); and (c) reduced the road development tax (RDT) for two-wheeled EVs (which is 1.5 to 10 times higher for ICE vehicles compared to EVs, depending on ICE engine capacity).</p>	<ul style="list-style-type: none"> • WB CCDR (2022, forthcoming). • WB Public Expenditure Review - chapter on Air Quality (2021): Assesses environmental fiscal policy’s role in reducing air pollution and recommends pollution pricing solutions. • NDC (2022): Highlights the importance of the transport sector and sets the target for attaining 90 percent of registered vehicles being electric by 2030 • Assessment of Electric Mobility Targets for Nepal’s NDC (2021): Provides detailed steps for electrifying the vehicle fleet in Nepal, including infrastructure and pricing options. • Air Quality Management Action Plan for Kathmandu Valley (2017): Identifies transport as the key sector contributing to air pollution in the Kathmandu Valley and suggests electrification as a key solution. • WB Regional Flagship Study on Integrated Airshed Modelling in South Asia (2022 forthcoming): Carried out a cost-effectiveness analysis that prioritized the interventions for improving air quality. • Fillipini, Kumar, and Srinivasan (2021) Nudging adoption of EVs: Evidence from an information-based intervention in Nepal. • Kim et al. (2015) Source apportionment of PM10 mass and particulate carbon in the Kathmandu Valley, Nepal.
<p>Prior Action #2. To promote socio-economic and environmental sustainability, including climate resilience and mitigation, in the use of land resources, the Cabinet has approved the Land Use Regulation setting the institutional roles and mandates at the three tiers of government and implementation provisions for land use classification, mapping, and planning.</p>	<ul style="list-style-type: none"> • Intergovernmental Panel on Climate Change (2022)—Climate Change 2022: Impacts, Adaptation, and Vulnerability. Highlights how LURs can be transformational and are essential to expand current adaptation efforts and reduce future risks • WB (2012)—The Land Governance Assessment Framework: Identifying and Monitoring Good Practice in the Land Sector. Emphasizes efficient land use governance processes for better investment and economic development • Organization for Economic Co-operation and Development (OECD 2017)—The Governance of Land Use in OECD Countries: Policy Analysis and Recommendations. Suggests flexible planning laws to enable efficient and innovative uses.
<p>Prior Action #3. To prioritize the strengthening of climate information services and system, the</p>	<ul style="list-style-type: none"> • WB CCDR (2022, forthcoming)



Prior Actions	Analytical Underpinnings
<p>Recipient, through the Ministry of Finance, has confirmed the commitment to expanding the hydrological and meteorological network.</p>	<ul style="list-style-type: none"> Disaster Risk Management in Nepal: Challenges and Opportunities (2021). Access to climate information services is critical for many sectors to adapt to and reduce climate risks.
Operation Pillar B: Sectoral policies for GRID	
<p>Prior Action #4. To strengthen community-based sustainable forest management, forest management planning and institutional arrangements, productive activities throughout the forest value chain, women’s leadership in decision making, inclusive benefit sharing, climate resilience and mitigation benefits, and to protect biodiversity and water resources, the Cabinet has approved the Forest Regulation.</p>	<ul style="list-style-type: none"> Oldekop, J.A., Sims, K.R.E., Karna, B.K. et al. Reductions in deforestation and poverty from decentralized forest management in Nepal. <i>Nat Sustain</i> 2, 421–428 (2019). https://doi.org/10.1038/s41893-019-0277-3 WB CCDR (2022, forthcoming) WB (2017): Forests for Prosperity at a Time of Transformation in Nepal. Identifies a landscape approach for sustainable management of natural assets. World Wildlife Fund Nepal (2021): SFM Resource Book WB (2020): Forest Landscapes Policy Advisory Note, Nepal. Provides overarching analysis of the sector and specific recommendations for reform GoN. NDC (2016): Commits to reduce GHG emissions from deforestation and forest degradation to address climate change WB (2017). Gender integration in the REDD+ Emission Reduction Program for Nepal: Assessment Report and Gender Action Plan. Highlights gaps and challenges women face and recommends ways to integrate gender-responsive provisions.
<p>Prior Action #5. To strengthen the management of the livestock sector, the Cabinet approved (a) the Animal Health Policy, with provisions to control animal diseases, and closing key gaps in animal health services, in alignment with international standards and with Nepal’s One Health Strategy and (b) the Animal Breeding Policy, to enhance livestock production, productivity, and income for farmers.</p>	<ul style="list-style-type: none"> WB/GoN (2021): Climate Smart Agriculture Investment Plan. WB CCDR (2022, forthcoming). Early messages highlight there are several pathways to a sustainable and inclusive growth model through an integrated approach to managing risks to agriculture The World Organization for Animal Health (2018): Performance of Veterinary Services Evaluation. Identified strengths and weaknesses on policy, institutional, legal, and human resources capacity gap in the performance of veterinary services.
<p>Prior Action #6. To strengthen water supply provision for protecting human capital, reducing climate risks, and defining institutional mandates across three tiers of government, the Cabinet has approved the National Drinking Water Quality Standards and the Ministry of Water Supply has approved the guidelines.</p>	<ul style="list-style-type: none"> WB CCDR (2022, forthcoming) WB Water platform 2.0 Glaciers, Rivers and Springs. A Water Sector Diagnostic of Nepal (2021) WB (2020), Water Quality Management Study in Nepal. Suggests updating existing water quality standard and implementation directive of 2005 to address water quality management under federalization.
<p>Prior Action #7. To reduce solid waste generation and improve its management for better environmental health, reduced GHG emissions, and urban flood risk reduction, the Cabinet has approved the SWM Policy, and the ban of plastic bags thinner than 40 microns, as evidenced by its publication in the Recipient’s gazette (Gazette No. 21).</p>	<ul style="list-style-type: none"> WB (2020). SWM Policy Advisory Note, Nepal. Provides analysis of the sector and specific recommendations for reform. Asian Development Bank (2013). SWM in Nepal: Current status and policy recommendations. Provides comprehensive survey of the waste situation. WB (2021). Sustainable SWM in Mountain Areas. Study on waste impacts, particularly plastics, in mountain areas sensitive to tourism and population growth. WB (forthcoming). Study on Plastics Material Flow and COVID-19-related Medical Waste in Nepal. Highlights the impact of SUPs. WB/South Asia Water Initiative (forthcoming). Assesses monitoring, management, and policies for plastic waste reduction and circular economy models.



4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

74. **The proposed DPC helps operationalize the WB's pivot toward the GRID agenda to support Nepal's long-term development trajectory.** It is consistent with the World Bank Group Country Partnership Framework FY19–23¹² and extended to FY24 by the Performance and Learning Review.¹³ The operation is consistent with all CPF pillars: (a) public institutions; (b) private sector-led jobs and growth; and (c) inclusion and resilience. The operation is also aligned with two WBG Approach Papers: GRID and the COVID-19 Crisis Response - Saving Lives, Scaling Up Impact and Getting Back on Track. The DPC also contributes to corporate and IDA19 and IDA20 priorities by addressing: (a) climate change; (b) jobs and economic transformation; (c) gender and development; and (d) governance and institutions.

75. **The DPC Series is highly complementary to other operations and analytical work in Nepal.** This includes investment operations covering agriculture, forest, water resources and supply, urban development, hydropower development, transportation, social protection, and health. Complementarity among Nepal's policy operations are detailed in paragraphs 1 and 2. The GRID and other DPC series are complemented by ongoing analytics and TA including the GRID Advisory Program (P176456).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

76. **The GoN has undertaken consultations on the supported prior actions.** It has consulted on the prior actions and/or the underlying predecessor policies and legislation. The WB also engaged in consultations and workshops pertaining on relevant topics with the government, regulators, and key market participants that demonstrate support for the reforms by different interest groups.

77. **Regular coordination with the wider DP community and the IMF helped maintain complementarity across programs to pivot toward a long-term GRID development path.** Several DPs are considering providing parallel co-financing to the policy matrix. The WB and International Finance Corporation teams also consulted on areas of mutual interest supported by the DPC, including fertilizer subsidies, CSA, tourism concessions, SWM, and green buildings.

5 OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

78. **A detailed poverty and social impact assessment (PSIA) has been prepared.** The prior actions are likely to have neutral to positive poverty and social effects. Its conclusions are summarized in Annex 4.

79. **The prior actions of this operation provide improved public goods that are likely to have neutral direct effects but have the potential for positive indirect effects on poverty in the medium and long term through multiple channels.** The improved public goods include higher air quality (particularly in urban areas) through vehicle emission reductions (Prior Action 1); improved water quality and services (Prior Action 6); improved environmental health from less waste and pollution (Prior Actions 1, 6, and 7); improved climate and weather information (Prior Action 3); and disaster risk reduction (Prior Actions 2, 3 and 6). In addition to transforming the nature of public goods, the policy tracks that could have direct implications for the poor and marginalized in the short to medium term include those on land use, community-based forestry, agriculture and livestock, SWM, and water (Prior Actions 2, 4, 5, 6 and 7).

¹² Report No. 83148-NP, July 10, 2018, discussed by the Board on August 7, 2018

¹³ Report No. 168048-NP, January 17, 2022, discussed by the Board on February 22, 2022.



80. **The benefits to the poor and vulnerable in the short to medium term will depend on two key factors to address gaps and shortcomings in Nepal's systems.** The first is the extent to which a strengthened regulatory framework for environmental and social policies translates into policies and programs that reach the poor, vulnerable and marginalized. For example, climate information services and systems can be pro-poor if the information generated can be provided to small farmers for risk mitigation, or if it is employed institutionally to improve insurance systems for weather shock mitigation with affordable premiums (Prior Action 3). Second, policy tracks that could have a direct implication for the poor and marginalized in the short to medium term will need to be accompanied by complementary investments that target them. For example, Prior Action 5 will need to be accompanied by a targeted effort for livestock interventions to reach the poorest quintile, where only 15 percent of households are currently able to generate any revenue from their livestock. As women significantly outnumber men in agriculture, ensuring that support reflects this distribution should strengthen equity in implementation. Prior Action 7 should recognize the contribution of informal workers and their dependence on SWM for their livelihoods, and include them as stakeholders in design and implementation of new systems. Positive effects can occur if labor demand for SWM increases. Key weaknesses in the country systems include poor identification and targeting of poor households and limited reach of the current social protection system. This implies that any complementary policies supporting the GRID transition that also involve compensation to the poor, will be difficult to implement in the short-to-medium term.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

81. **A detailed environmental analysis finds that the prior actions are unlikely to have significant negative effects on environment, forests, and natural resources and are designed to have a positive effect.** Moreover, the operation has significant potential to assist Nepal in complying with its NDC and in addressing Nepal's environmental health priorities, particularly on ambient air pollution and WASH. The basis for these conclusions is articulated in a detailed environmental analysis carried out during preparation, summarized in the table in Annex 4 and informed by relevant country-level and sectoral analyses.

82. **The GoN's systems for reducing adverse environmental impacts and enhancing positive effects associated with the supported policies require strengthening.** The Environmental Analysis report notes the WBG is assisting Nepal through investment operations and sister DPFs in strengthening Nepal's systems. Policy Track 4 aims to enhance SESA and can be complemented with investment to help improve Nepal's environmental management systems.

83. **Climate co-benefits** are detailed in the *Climate Change Technical Note P177776*.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

84. **The GoN's PFM environment and processes are improving.** The 2015 Public Expenditure and Financial Accountability Assessment concluded that Nepal has made substantial progress in deepening PFM structures and processes. Nonetheless several PFM areas require improvement, especially given the transition to a federal context. The 2021 Auditor General's Report continues to stress the need for reforms in internal control systems, mainly at the subnational governments. The Bank, GoN, and DPs are currently initiating the third PEFA Assessment. This is expected to be completed by December 2022 and will trigger areas for further improvements in PFM system. The immediate plan resulting from the PEFA Assessment is to use the recommendations in updating Government's PFM Reform Action Plan. The Bank and DPs will discuss the plan and find ways to support the recommendations.

85. **Government expenditure reporting and procurement.** The GoN's budget is made available to the public in printed form or through an external website. Reporting is compliant with the Government Finance Statistics (GFS-2014) for all three tiers and data is publicly available at the federal level. The public procurement framework is adequate. The Public Procurement Act and Regulation form an acceptable legal framework; however, recent amendments inserted



provisions in contract management and bidding which will require closer review to ensure consistency with good international practice. The Public Procurement Monitoring Office is advocating the need for transparency in processes by adopting international standards and making greater use of information technology. The Public Procurement Act and Public Procurement Regulations, compliant with the United Nations Commission on International Trade Law, provide a reasonably adequate legal framework. The electronic government procurement (e-GP) system is used widely for national and international bidding opportunities. However, only the bid issuance and submission modules are used, although the e-GP System has features for bid evaluations, contract awards, and handling contract management. With this limited use of the e-GP features, the system is not generating enough data to measure procurement performance.

86. **Foreign exchange control environment.** The IMF's 2022 Article IV Staff Report continues to recommend enhancement of autonomy and accountability in NRB, including strengthening the quality of external audit. The report does not raise any concern on the foreign exchange control environment. Also, as per the 2021 audit report of the Office of the Auditor General, which conducts audits of the government treasury, including foreign currency accounts receiving DPC proceeds, no major audit observation is noted on foreign exchange management. The audit has considered valuation of foreign investment, foreign exchange, and recognition of income from foreign investment to be acceptable.

87. **Disbursements and audit arrangements.** Bank proceeds follow DPC disbursement procedures, subject to satisfactory program implementation and maintenance of an adequate macroeconomic policy framework. USD disbursement will be transferred to the NRB treasury account, forming part of the foreign exchange reserves after effectiveness and submission of authorized signatories' letter and Withdrawal Application Form 2380. Funds will then be transferred to NPR treasury account of the government maintained at the NRB. The government will confirm, within 30 days, receipt of the proceeds into the USD account and its credit in the NPR treasury account including the exchange rate used for the conversion and its availability to finance budgeted expenditures including accounting and statement of receipts and disbursement. If proceeds are used for ineligible purposes, against the provision in the Financing Agreement, the WB will require the Recipient to refund the amount which shall be canceled. As proceeds are transferred directly to the treasury, no specific financial reporting or audit is required for the operation.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

88. **MoF is responsible for the overall coordination and implementation of the DPC.** It has the institutional capacity on WB policies and procedures, data requirements, and overall monitoring arrangements. It will remain responsible for the overall coordination and implementation of the DPC. Nepal has implemented the IMF's Enhanced General Data Dissemination System; data is generally available through the MoF and NRB websites and the Statistical Agency.

89. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a WB Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

6 SUMMARY OF RISKS AND MITIGATION

90. **The overall residual risk is Substantial.**



91. **Political and governance risks are Substantial.** Nepal's political situation remains fluid amid elections of all three tiers of government during 2022, starting with local elections in the fourth quarter of the current FY. Repeated obstruction of parliament by the opposition has resulted in delays in the passage of many bills including those related to federalism. In principle, the federal system provides opportunities to decentralize development benefits and make service delivery more effective and accountable. The pandemic also underscored the role of the local governments. However, the risks of political uncertainty, jurisdictional overlap between the three tiers of government, and lack of clarity and coherence between policies and devolved powers will remain in the coming period. The WB is closely monitoring the situation and maintains regular dialogue on the development agenda with all key political parties to mitigate any risks that may be influenced by political change.

92. **Macroeconomic risks are Substantial.** One major uncertainty is the speed of booster dose deployment and vaccine effectiveness to stop transmission of a new COVID-19 variant. A second is stronger import control measures to mitigate pressures on international reserves, which could affect growth through lower trade-related tax revenues, depressed private consumption and production, and lower capital expenditures. The ongoing Russia-Ukraine conflict, if it deepens further, could lower travel demand and may threaten the recovery of tourism-related sectors. While downside risks are significant, Nepal's strong record of sustained macroeconomic stability during periods of large exogenous shocks demonstrates a growing capacity to navigate future macroeconomic risks.

93. **Institutional capacity risk is Substantial.** The proposed operation supports reforms likely to require technical expertise and coordination across line ministries and tiers of government. These factors pose a capacity, coordination, and technical risk. To help mitigate them, the GoN formally established the GRID Steering Committee, chaired by the Finance Secretary, to take decisions, coordinate, and monitor progress on reforms supported by this operation. The WB's and other DPs' capacity-building and technical support will help address capacity gaps.

94. **Fiduciary risk is Substantial.** The GoN has recently made progress in developing financial management systems for budgeting, accounting, and reporting with the Computerized Government Accounting System and Subnational Treasury Regulatory Application. Progress is also observed in internal auditing by enhancing specialization of internal auditors. Yet capacity gaps persist especially at local level. External auditing capacity is strengthened by developing auditing systems and guidelines; however, monitoring and follow up on audit issues remain weak and require significant improvements. There is a need to align procurement regulations with good international practices, including electronic procurement. The WB has been supporting the GoN in addressing issues related to PFM improvements through the Integrated PFM Reform Project. It is expected that, based on the results of the third PEFA Assessment, the Bank and other DPs continue to engage in the next generation of PFM reforms focusing more at the federal and provincial context.

95. **Stakeholder risks are Substantial.** They arise from vested interest groups that benefit from the current policy regime and could resist reform that alters the status quo. This risk will be partially mitigated through sustained broad consultations with key stakeholders and proactive management of the change process to engage all types of stakeholders. It will also be mitigated by embedding the program in Nepal's broader GRID initiative. The policy matrix has been developed by a combined team consisting of the WB and the GoN line ministries coordinated by MoF. The DPC has been discussed in several high-level DP meetings, and in more detail with DPs who seek to co-finance the matrix in parallel. The GoN has consulted with the public and other stakeholders on various policies.



Table 5. Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Substantial
9. Other	
Overall	● Substantial



ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers			Results		
Prior Actions under DPF 1	Triggers for DPF 2	Triggers for DPF 3	Indicator Name	Baseline	Target
Pillar A. Consolidating GRID principles in strategic development planning across sectors					
<i>Policy Track 1: Addressing air pollution and GHG emissions to protect human capital and mitigate climate change</i>					
Prior Action #1. To promote markets and demand for electric vehicles (EVs), the Recipient has approved the 2021 Financial Ordinance, which was subsequently confirmed by the enactment of the Financial Act 2021 as evidenced by its publication in the Recipient’s gazette (Gazette No. 39) incorporating: (a) reduced customs duties for four-wheeled EVs (from 80 percent to 10–40 percent, depending on the vehicle type and motor capacity); (b) reduced customs duties for three-wheeled EVs (from 30 to 10 percent); and (c) reduced the road development tax for two-wheeled EVs (which is 1.5 to 10 times higher for ICE vehicles compared to EVs, depending on ICE engine capacity).	(Indicative) Trigger #1. MoFE has updated vehicle emission standards from Euro 3 to Euro 4 or higher.	(Indicative) Trigger # 1. MoFE has updated emission standards for the cement and brick kiln industry, and the Ministry of Finance has adopted a carbon/pollution pricing instrument, with appropriate compensation mechanisms especially for low-income households (see policy track 7 that strengthens social protection).	Results Indicator #1A: Share of newly registered two-, three-, and four-wheeled vehicles that are electric (percent) Results Indicator #1B. Share of newly registered internal combustion engine vehicles (two-, three-, and four-wheelers) that meet the Euro 4 or higher standard (percent)	< 1 percent (2021)	10 percent (2026)
				< 1 percent (2021)	90 percent (2026)



Prior Actions and Triggers			Results		
Policy Track 2: Transforming land use and management					
Prior Action #2. To promote socio-economic and environmental sustainability, including climate resilience and mitigation, in the use of land resources, the Cabinet has approved the Land Use Regulation setting the institutional roles and mandates at the three tiers of government and implementation provisions for land use classification, mapping, and planning.	(Indicative) Trigger #2. Land Use Policy (2015), Land Use Act (2019) and Land Use Regulation (LUR) implemented through guidelines and procedures developed by the Ministry of Land Management, Cooperatives and Poverty Alleviation (MLMCPA) for the land use planning framework at the three tiers of government and including measures for grievance redress	N/A	Results Indicator #2. Effective, inclusive, and transparent land classification and planning framework is in place (Y/N)	No (2022)	Yes (2026)
Policy Track 3: Climate and disaster resilient infrastructure					
Prior Action #3: To prioritize the strengthening of climate information services and system, the Recipient, through the Ministry of Finance, has confirmed the commitment to expanding the hydrological and meteorological network.	(Indicative) Trigger #3. The GoN has regulated hydrometeorological services to support the planning and performance of several sectors including agriculture, aviation, water supply, and hydropower, as well as disaster risk management.	(Indicative) Trigger #2: The Cabinet has approved a green building code, and MoEWRI has approved seismic guidelines for design of dams and hydropower projects.	Results indicator #3. Automatic hydrological monitoring stations and radar that are fully operational in additional locations (number)	0 (2021)	25 hydromet stations and 1 radar (2026)
Policy Track 4: Strategic planning for GRID					
N/A	(Indicative) Trigger #4. The Cabinet has approved guidelines prescribing SESAs for targeted policies, programs, and strategies and specifying institutional arrangements for preparing SESAs,	(Indicative) Trigger #3. MoFE has approved detailed procedures for line ministries to implement SESAs.	Results Indicator #4. SESAs carried out for policies, programs, and strategic plans (number)	0 (2021)	1 (2026)



Prior Actions and Triggers			Results		
	including provisions on information disclosure and public participation.				
Pillar B. Sectoral policies for GRID					
Policy Track 5: Transitioning to sustainable tourism for jobs, conservation, and private sector investment					
N/A	(Indicative) Trigger #5. To strengthen environmental, social, and economic sustainability of PAs, MoFE has regulated the operation of tourism concessions in protected areas through an Amendment to the Protected Areas and Wildlife Regulation that would enable conservation partnerships and activities.	N/A	Results Indicator #5. Tourism concession contracts issued under the new reforms (number)	0 (2022)	2 (2026)
Policy Track 6: The forest sector transition to sustainability, productivity, and climate resilience					
Prior Action #4. To strengthen community-based sustainable forest management, forest management planning and institutional arrangements, productive activities throughout the forest value chain, women’s leadership in decision making, inclusive benefit sharing, climate resilience and mitigation benefits, and to protect biodiversity and water resources, the Cabinet has approved the Forest Regulation.	(Indicative) Trigger #6. To strengthen the implementation of the Forest Regulation, the MoFE has approved guidelines for implementing SFM provisions that set standards, procedures, and mechanisms for transferring government-managed forests to community-based forest user groups, ensuring inclusive benefits including for women, and engaging in international carbon markets.	(Indicative) Trigger #4: To strengthen SFM implementation at the subnational level, at least two provinces have promulgated the regulations and procedures to incorporate the provisions of the 2019 Forest Act, 2022 Forest Regulation, and SFM Guidelines in their legal framework.	Results Indicator #6A. Land area covered by an approved forest management plan that is in line with the Forest Regulation and that includes climate outcomes and documented women’s participation in the plan (hectare) Results Indicator #6B (gender tag). Share of annual income earned by forest users’ groups that is spent on women empowerment and female entrepreneurship activities	2,903,825 (2022) 0 (2021)	2,949,325 (2026) 20 percent (2026)



Prior Actions and Triggers			Results		
			(percentage).		
Policy Track 7: Building resilience of the most vulnerable to climate and other shocks					
N/A	(Indicative) Trigger #7. The GoN has approved guidelines for SRSP to enable the GoN to mobilize social protection systems for provision of relief and recovery in response to a shock due to an adverse natural event.	(Indicative) Trigger #5: To enable flexibility and scalability of social protection during times of shock, the Recipient will amend guidelines of the Social Security Allowance (SSA) and Prime Minister’s Employment Program (PMEP).	Results Indicator #7: Social protection programs in which the respective delivery system is used for the provision of relief and recovery in response to a shock due to an adverse natural event (number)	0 (2021)	1 (2026)
Policy Track 8: Transitioning to inclusive climate-smart agriculture and food systems that promote growth and protect health					
Prior Action #5. To strengthen the management of the livestock sector, the Cabinet approved (a) the Animal Health Policy, with provisions to control animal diseases, and closing key gaps in animal health services, in alignment with international standards and with Nepal’s One Health Strategy and (b) the Animal Breeding Policy, to enhance livestock production, productivity, and income for farmers.	(Indicative) Trigger #8. The Cabinet has adopted the National Climate Smart Agriculture Policy, establishing prioritization criteria for CSA technologies, an intergovernmental funding mechanism, and a monitoring and evaluation system. DPC-3:	(Indicative) Trigger #6. The Cabinet has adopted an integrated risk management policy for the agriculture sector covering weather, production, market, zoonotic, and other risks, and the Infectious Animal Disease Act is published in the Gazette and aligned with Nepal’s One Health Strategy.	Results Indicator #8. Increase in the proportion of sectoral spending at the federal and provincial levels for climate-smart agriculture investments (percent).	0 (2022)	30 percent (2026)
Policy Track 9: Transitioning to integrated water resource management (IWRM) and resilient water supply					
Prior Action #6. To strengthen water supply provision for protecting human capital,	(Indicative) Trigger #9. (a) Cabinet approval of the WASH Policy to clarify the mandates of the three	(Indicative) Trigger #7. Adoption of the Water Supply and Sanitation Act establishing the mandates of the	Results Indicator #9A. River Basin Offices established at the river basin level (number)	0 (2022)	4 (2026)



Prior Actions and Triggers			Results		
reducing climate risks, and defining institutional mandates across three tiers of government, the Cabinet has approved the National Drinking Water Quality Standards and the Ministry of Water Supply has approved the guidelines.	tiers of government on water and sanitation service provision, and (b) Cabinet approval of the Amendment to the Water Induced Disaster Management Policy aligning the role and responsibilities of each tier of government in increasing preparedness and providing response to water-induced disasters, and (c) Cabinet approval of the Amendment to the Irrigation Policy aligning roles and responsibilities of each tier of government in the management and maintenance of irrigation infrastructure.	three tiers of government in water and sanitation service provision and adoption of the National Water Resources Act establishing integrated management of water resources at the basin level and River Basin Organizations.	Results Indicator #9B. <i>Palikas</i> that collect WASH data using the National WASH Management Information System, including at schools and health centers (number)	0 (2022)	40 (2026)
Policy Track 10: Solid waste management (SWM) and reducing single-use plastics					
Prior Action #7. To reduce solid waste generation and improve its management for better environmental health, reduced GHG emissions, and urban flood risk reduction, the Cabinet has approved the SWM Policy, and the ban of plastic bags thinner than 40 microns, as evidenced by its publication in the Recipient's gazette (Gazette No. 21).	(Indicative) Trigger #10. Publication of the SWM Act in the Nepal Gazette.	(Indicative) Trigger #8. To strengthen coordination and technical support among local governments in delivery of SWM solutions, the Recipient has (a) adopted guidelines to implement the SWM Act, including a financing mechanism to ensure dedicated financing for SWM, and the establishment of a National Waste Management Support Unit; and (b) MoFE and MoF have strengthened the plastic management legal	Results Indicator #10. Increased investment flows to SWM at federal and local levels, from both public and private sources (US\$)	0 (2021)	US\$10 million (2026)



Prior Actions and Triggers			Results		
		framework including regulations for providing incentives for alternatives to plastics.			



ANNEX 2: FUND RELATIONS

The Chair's Statement Nepal—2021 Request for an Arrangement Under the Extended Credit Facility Executive Board Meeting, January 12, 2022

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

The COVID-19 pandemic severely impacted Nepal's economy, including through a decline in tourism and domestic activity and volatile remittances. Households are experiencing an ongoing shock to income and social assistance programs have limited coverage, implying a likely setback to poverty alleviation gains in recent years. Further, important fiscal and external financing needs remain to support the COVID-19 response, facilitate a continued recovery, and maintain a comfortable level of reserves.

The Extended Credit Facility arrangement will support the government's priorities, to mitigate the pandemic's impact on health and economic activity and protect vulnerable groups, preserve macroeconomic and financial stability, support sustained growth and poverty reduction, and catalyze additional external financing. It will also help anchor and leverage the Fund's capacity development strategy in Nepal.

Fiscal policy in the early part of the program accommodates priority spending to address health needs, support the economy, and protect the most vulnerable. Fiscal deficits would gradually decline once the health crisis wanes, helping to ensure debt sustainability, while also accommodating the authorities' commitment to further enhance social safety nets. A comprehensive fiscal structural reform agenda underpins the program, with both revenue mobilization and PFM reforms to address the public investment efficiency gaps, strengthen fiscal risk management, improve public debt and cash management, and help advance fiscal federalism in a fiscally prudent manner. Moving ahead with reforms to further enhance fiscal transparency and reporting will be important.

The gradual unwinding of accommodative monetary policy and the authorities' commitment to remain vigilant toward emerging risks in the external and financial sectors are welcome. Financial sector regulation and supervision needs to be strengthened. Progress is needed on policies that preserve the stability of the financial system while supporting growth through ensuring the availability of adequate and timely supervisory data, updating the regulatory framework to better capture risks including to banks' asset quality, and enhancing the quality of supervision. Measures set out under the program to further improve the autonomy and accountability framework of the central bank would support this agenda.

Sustained structural reform efforts are necessary to enhance the business environment, strengthen climate resilience, and raise medium-term growth. To this end, the program supports several cross-cutting institutional reforms that address governance, vulnerability to corruption, and efficiency of the public sector.



ANNEX 3: LETTER OF DEVELOPMENT POLICY



Government of Nepal
MINISTRY OF FINANCE

SINGHADURBAR
KATHMANDU, NEPAL

3 June 2022

Mr. David Malpass
President
The World Bank

Dear Mr. President,

The Government of Nepal (GoN) would like to accord its highest respect and compliments to the World Bank Group for supporting Nepal to initiate a strategic shift to implement green, resilient and inclusive development (GRID).

This Letter of Development Policy outlines the main elements of Nepal's GRID policy program that is supported by the Programmatic GRID Development Policy Credit (DPC) series of three operations. The GoN requests US\$100 million in IDA assistance for the first DPC. The Programmatic GRID DPC is key to operationalizing Nepal's GRID ambitions.

The GoN has adopted the GRID approach, to address the inter-related challenges of a durable economic recovery from COVID-19, climate risks, natural capital depletion, and inclusion. This commitment is reflected in GoN's recently approved budget and policy documents. Following the *Kathmandu Joint Declaration on GRID* in September 2021, endorsed by GoN and 17 Development Partners (DPs), the GoN is preparing a GRID Strategic Action Plan to 2030 to implement the GRID approach. With the federal governance structure, significant progress has been made to establish the fiscal and public financial management framework at all levels and key legislation has been enacted.

The GRID DPC series is part of a strategic set of DPCs including the Fiscal DPC, Finance for Growth DPC, and Energy DPC, that support Nepal's policy priorities. Each DPC series is addressing policy issues in a complementary way to support green, resilient, and inclusive growth and development.

Prior to the COVID-19 pandemic, the growth performance of Nepal's economy was robust with an annual growth in real GDP of 6.67 percent in 2019. COVID-19 has significantly impacted our economy, stifling key growth drivers and sources of jobs, income, livelihoods, and resilience. The sharp drop in growth and employment has disproportionately affected the poorest and most vulnerable, informal workers, and self-employed households. However, the economy is recovering gradually. The Bank has projected GDP to grow by 3.7 percent in FY2021/22, accelerate to 4.1 percent in FY2022/23, and rise further to 5.8 percent by FY2023/24 and FY2024/25. Our estimate is that the growth will be 5.8% in FY 2021/22 and 8% targeted for FY 2022/23. The ongoing vaccine rollout to the entire eligible population is expected to unleash pent-up demand and aid the recovery of non-tourism service sectors.

Yet the economic outlook is subject to downside risks. A downside scenario assuming forced import compression to maintain a reserve coverage of seven months and limited progress on expenditure consolidation highlights a vulnerability of growth and debt levels. Climate and natural disasters could impact agricultural production, government finances, and consumer prices. Higher inflation could lead to the central bank tightening monetary policy, reducing credit growth and private sector activity. Increasing fuel prices and a prolonged Russia-Ukraine conflict could increase inflationary and balance of payment pressures and exchange rate risks.

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While COVID-19 has presented unprecedented challenges, we have taken steps to reduce the economic risk, and our policies have remained sound. The risk of debt distress remains low and the GoN remains committed to sustaining fiscal sustainability, as evidenced by relatively stable macro-economic and fiscal indicators during the pandemic. We aim to adopt reforms that build climate resilience through investments in green infrastructure and climate information services, the sustainable use of natural resources, shock responsive social protection, and the reduction of environmental risks. We also aim to enhance human development outcomes with actions to manage pollution and waste and improve gender equality.

We are committed to strengthen the institutional and policy framework for strategic planning to transition to the GRID path. We have prioritized three key tools: (a) a high-level multi-sectoral institutional platform for decision making support—GoN's GRID Steering Committee, (b) the GRID Strategic Action Plan, which is under preparation, and (c) Strategic Environmental and Social Assessment (SESA), which provides analytical backbone and stakeholder engagement to inform investment and policy decisions across sectors and spatial units.

Policies for Addressing Air Pollution and GHG Emissions

The GoN recognizes the need to reduce air pollution and greenhouse gas (GHG) emissions from two of the three largest sources—transport and industry though Nepal is not a major contributor to global GHG emissions and global warming but faces significant costs from climate impacts and air pollution effects. Nepal's second NDC sets a 2030 target for private passenger electric vehicle (EV) sales to be 90 percent of total sales, which is expected to significantly reduce GHG emissions and particulate matter. The GoN aims to achieve these by (a) making cleaner technologies such as electric vehicles less costly through significantly reduced customs duties, and (b) mandating cleaner technology or emissions standards for Internal Combustion Engine (ICE) vehicles and industry. In 2021-22 budget, we reduced customs duties from 80 percent to around 10 percent, depending on the vehicle type and electric motor capacity. We also regulated electric motorcycles and EV charging stations to help strengthen the emerging market for EVs, which can potentially catalyze demand for domestic power generated from Nepal's growing renewable energy sector. We also are reducing the cost of electric cookstoves and aim to reduce emissions from industry, buildings, and open burning of biomass and waste through the GRID DPC series and other engagements.

Policies for Transforming Land Use and Management

Sustainable and efficient land use is a basic element of implementing green, resilient and inclusive development in Nepal. Unplanned urban sprawl, loss of productive agricultural land which can reduce food security, and increasing landslides, are common due to inadequate land use planning. The GoN recognizes the importance of regulations in land use and management as per the Land Use Act (LUA), 2019. The LUA aims to limit land fragmentation, reduce ad-hoc agricultural land conversion,

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and allow land pooling. We have prepared the Land Use Regulation (LUR), 2022 under the GRID DPC to implement the Land Use Act, 2019. The LUR sets forth the institutional roles and mandates at three government levels, and stipulates the authority of federal, provincial, and local land Councils to classify and categorize land uses, establish land use maps, consolidate land plots, and regulate land under land banks established at local government level. A subsequent Land Acquisition Bill would institutionalize the need for consultations, a robust resettlement action plan, and the disclosure of entitlements – issues not addressed by the LUR. Put together, these reforms have the potential to protect the rights of poor and marginalized people from ad-hoc urbanization and infrastructure development.

Going forward, we plan to develop the necessary procedures and guidelines to operationalize the LUA and LUR and roll out integrated land use planning. The procedures and guidelines should help to reduce negative environmental, climate, and socio-economic impacts from ad-hoc and unplanned land use change, such as the loss of valuable agricultural land, and support the establishment of a grievance redress mechanism for land use planning.

Policies to Promote Climate and Disaster Resilient Infrastructure

Nepal is among the most vulnerable countries to natural disasters and infrastructure assets need to be more climate proof. The GoN is interested to modernize climate information systems and institutions to build resilience across sectors, to help adapt to more frequent and intense climate-related and other natural disasters. The annual damages to infrastructure from climate hazards impact access to services, economic productivity, and mobility. We have taken significant steps to shift from a reactive to a proactive approach to disaster preparedness and climate risk reduction, to strengthen the climate and disaster information system, and amend the building code requirements of hydroelectric and urban infrastructure. To improve early warning and disaster risk planning systems, we have prioritized the strengthening of climate information services and system, by approving the 2021/22 budget act expanding the hydrological and meteorological network. Going forward we intend to expand access to, and use of, critical hydrometeorological information by diverse sectors and stakeholders, which will help build economic and household resilience. We also intend to take steps to develop a green building code and put in place mandatory Seismic Guidelines for Design of Dams and Hydropower Projects being developed by MoEWRI.

Policies for transitioning to Sustainable Forest Management

Nepal's forest cover is about 44 percent now. Forests directly and indirectly contribute to about 3.5 percent and 10.5 percent, respectively, to Nepal's GDP. Better forest landscape management is important for climate resilience and contributes directly to a reduction in risks from flood, drought, erosion, landslides, and fire, while contributing to the sustainability of hydropower and irrigation assets and livelihoods and jobs from sustainable timber and non-timber forest products. Our commitment to sustainable forest management (SFM) through community-based forest management is articulated in the Forest Act, 2019 which initiated a transition from pure conservation to Sustainable Forest Management

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(SFM). The new Forest Regulation (2022) supported by DPC-I continues this reform. It defines the operating parameters for the new Forest Development Fund and benefits sharing mechanism for forest revenues including carbon finance. It strengthens women's leadership and decision making on SFM, building on and strengthening Nepal's successful community forest management model. These are important measures for Nepal to maintain and ideally expand forest cover to meet the second NDC target of net 45 percent forest cover, build climate resilience and contribute to global climate change mitigation. Going forward, we will develop and adopt SFM guidelines to implement the Forest Regulation and will put in place measures to implement SFM at sub-national levels.

Policies for Inclusive Climate Smart Agriculture and Food Systems

Agriculture, including livestock, plays an important role in Nepal's economy by contributing to GDP and employment. The GoN is committed to adopting climate smart agriculture (CSA) to ensure (a) adequate management of weather and production risks, (b) improved management of land and water resources for efficient, resilient and sustainable production, (c) reduction of emissions intensity, while (d) improving productivity and income, particularly for small and marginal farmers. With technical assistance from the World Bank and Food and Agriculture Organization, we prepared a new CSA Investment Plan, which guides the evolution of the policy program. Under DPC-I we have delivered the (a) the Animal Health Policy, with provisions to control animal diseases, and closing key gaps in animal health services, in alignment with international standards and with Nepal's One Health Strategy; and (b) the Animal Breeding Policy, to enhance livestock production, productivity, and income for farmers.

The policy program will continue to evolve through the development of (a) the National Climate Smart Agriculture (CSA) Policy, establishing prioritization criteria for CSA technologies, an inter-governmental funding mechanism, and a monitoring and evaluation system; (b) the One Health Action Plan, with detailed responsibilities, targets, coordination, and financing mechanisms to implement the One Health Strategy; (c) an integrated risk management policy for the agriculture sector, and (d) the Infectious Animal Disease Act aligned with Nepal's One Health Strategy

Policies for Transitioning to Integrated Water Resource Management (IWRM) and Water Supply

Water lies at the heart of Nepal's productive economic sectors and human capital development. Given the competing demands for water in Nepal's growing economy, it is crucial to put in place the policy framework for integrated water resource management (IWRM) for adequate water supply for all uses and users, including hydropower, irrigation, drinking water, and tourism – all important priorities in terms of jobs, livelihoods, growth, resilience, and climate change.

Strengthening water resources management and water supply provision will help protect human capital, reduce climate risks, support climate-smart agriculture. As such, under DPC-I the Cabinet has approved the National Drinking Water Quality Standards Regulation and Guidelines. Going forward, the GoN aims to deliver (a) the Water, Sanitation and Hygiene (WASH) Policy, (b) an Amendment to the Water Induced Disaster Management Policy, (c) an Amendment to the Irrigation Policy, the National Water Resources Act to establish principles of integrated water resource management at the river basin level, and establish River Basin Offices in four river basins based on the National Water Resources Policy 2020, and (d) the Water Supply and Sanitation Act, while adopting a nationwide water supply

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and sanitation service monitoring system- N-WASH.

Policies to Improve Solid Waste Management (SWM) and promote the Circular Economy

Waste is a critical health and development challenge across the country, yet solid waste management (SWM) also presents livelihoods and job opportunities. Inadequate SWM in both urban and rural area impose significant environmental, health, and climate costs, undermining key sectors such as tourism. Unmanaged solid waste, including plastic, causes pollution of soil and water, clogs drainage infrastructure and rivers, generates up to 5 percent of Nepal's total GHG emissions, and releases toxic pollutants. Single use plastic bags are one of the most harmful waste streams, which households and dumping sites burn, causing air pollution and amplifying flooding by clogging drains. For these and other reasons it is a priority in Nepal's second NDC. With growing population and urbanization in Nepal, the situation is accelerating requiring a robust policy response in which we are engaging. To address this growing challenge, we have adopted the SWM Policy to reduce solid waste generation, improve management, and are implementing a plastic bag ban to eliminate the widespread use of single use plastic. We are committed to a policy program to improve SWM by putting in place rules and regulations, while focusing on institutional strengthening at all levels of government and private sector.

Policies for sustainable tourism for jobs, conservation, and private sector investment

We are planning to undertake reforms to regulate the operation of tourism concessions in protected areas through an Amendment to the Protected Areas and Wildlife Regulation under DPC-2.

Building resilience of the most vulnerable to climate and other shocks

To protect the vulnerable and the marginalized, we are committed to developing mandatory guidelines for shock-responsive social protection to enable mobilization of social protection systems and employment programs for relief and recovery. This would be an important action supported by DPC-2 to help consolidate Nepal's economic and household resilience to climate and other shocks.

To conclude, I would like to reiterate Nepal's commitment to the policy program outlined in the Programmatic GRID DPC series, which will help Nepal operationalize and implement key actions to transition to a GRID path. We appreciate and look forward to the World Bank's continued support.

Janardan Sharma 'Prabhakar'
Finance Minister



ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Detailed PSIA and Environmental Analysis are in the project files.

Prior Actions	Significant Positive or Negative Environment Effects	Significant Poverty, Social, or Distributional Effects Positive or Negative
Operation Pillar A. Consolidating GRID principles in strategic development planning		
<p>Prior Action #1 To promote markets and demand for electric vehicles (EVs), the Recipient has approved the 2021 Financial Ordinance, which was subsequently confirmed by the enactment of the Financial Act 2021 as evidenced by its publication in the Recipient’s gazette (Gazette No. 39) incorporating: (a) reduced customs duties for four-wheeled EVs (from 80 percent to 10–40 percent, depending on the vehicle type and motor capacity); (b) reduced customs duties for three-wheeled EVs (from 30 to 10 percent); and (c) reduced the road development tax (RDT) for two-wheelers (which is 1.5 to 10 times higher for ICE vehicles compared to EVs, depending on ICE engine capacity).</p>	<p>Yes/positive. Reduction in ambient air pollution in urban areas, particularly the Kathmandu valley, and in emissions of GHGs. Nepal is addressing the potential negative environmental effects from lead-acid batteries. First, although Nepal does not have a system for management of hazardous waste such as worn-out lead-acid batteries, this operation supports, through Prior Action #7 and Policy Track 10, policy measures to revamp Nepal’s SWM that includes hazardous waste management and reduce plastic. Second, the introduction of SESA supported by Policy Track 4 and the Energy Sector DPC that supports Nepal’s adoption of a hydropower EIA manual would strengthen Nepal’s prevention, control, and mitigation systems required to address the electric power deficit in Nepal that is also needed for recharging EVs.</p>	<p>Neutral effect. Cleaner air, from cleaner vehicles, will benefit all households, including poor households. There are no significant social or poverty impacts expected from reducing the costs of EVs in the country.</p>
<p>Prior Action #2 To promote socio-economic and environmental sustainability, including climate resilience and mitigation, in the use of land resources, the Cabinet has approved the Land Use Regulation setting the institutional roles and mandates at the three tiers of government and implementation provisions for land use classification, mapping, and planning.</p>	<p>Yes/positive. Climate change mitigation, enhanced forest conservation, and improved water and land use sustainability. These potentially significant positive effects are reinforced by the Forest Regulation that is also supported by Prior Action #4. Although Nepal’s limited human and technical capacity at the local level is a challenge for fulfilling the regulation’s beneficial effects, the WBG is assisting the GoN on matters of regulatory implementation.</p>	<p>Aggregate positive impacts on economic activity, with neutral to positive poverty impacts. Positive poverty impacts will depend on mitigation strategies for the poor who rely on informal land use for their livelihoods, the composition of land councils, and access to land banks for poor and marginalized groups</p>
<p>Prior Action #3 To prioritize the strengthening of climate information services and system, the Recipient, through the Ministry of Finance, has confirmed the commitment to expanding the</p>	<p>No. Hydrometeorological networks are necessary for informing decision-making. However, this positive effect depends on other systems that transform the data into information for early warning systems, contingency plans, and so on, which Nepal is planning to improve. On the other</p>	<p>Neutral direct impacts on poverty. Indirect impacts can be positive if increased information on climate and weather can be provided to poor farmers for risk-mitigation purposes, and takes into account the barriers they face in accessing information.</p>



Prior Actions	Significant Positive or Negative Environment Effects	Significant Poverty, Social, or Distributional Effects Positive or Negative
hydrological and meteorological network.	hand, the setting and operation of hydrometeorological networks, which could be fostered by this prior action, would have minor or moderate environmental effects that can be prevented or mitigated through Nepal’s environmental management system.	
Operation Pillar B. Sectoral policies for GRID		
<p>Prior Action #4 To strengthen community-based sustainable forest management, forest management planning and institutional arrangements, productive activities throughout the forest value chain, women’s leadership in decision making, inclusive benefit sharing, climate resilience and mitigation benefits, and to protect biodiversity and water resources, the Cabinet has approved the Forest Regulation.</p>	<p>Yes/positive. Enhanced forest conservation, climate change mitigation, amelioration of natural disasters, watershed protection, and biodiversity conservation. The strengthening, particularly at the local level, of monitoring, control, and enforcement systems is key for the implementation of the regulation. The Forest Development Fund, whose main components and operational rules are also defined by this regulation, and which is being established under the Nepal Emission Reductions Program in the Terai Arc Landscape (P165375) is critical in successfully addressing this challenge. In addition, the WBG is currently supporting capacity building for sustainable forest management at the federal level, in 2 provinces and 50 municipalities through the Nepal Forests for Prosperity Project (P170798).</p>	<p>Neutral to positive. Poor and marginalized groups, including forest-dwelling peoples, are currently underrepresented in community-based forest management. Thus, the new Forest Regulation has made a special provision by which a Forest Users' Group can hand over some part of its Community Forests to the users living below the poverty line for income generation, which can result in positive impacts. Such provision needs to be mentioned in the Operational Plan (OP) in advance. While providing any part of the Community Forest to users living below the poverty line, priority shall be given to extremely poor, single women, marginalized, landless and Dalit households.</p>
<p>Prior Action #5 To strengthen the management of the livestock sector, the Cabinet approved (a) the Animal Health Policy, with provisions to control animal diseases, and closing key gaps in animal health services, in alignment with international standards and with Nepal’s One Health Strategy and (b) the Animal Breeding Policy, to enhance livestock production, productivity, and income for farmers.</p>	<p>Yes/positive. Prevention and control of zoonotic diseases and climate change mitigation. The implementation of these strategies could create potential adverse environmental effects through building infrastructure such as animal care centers. Because the infrastructure works that will be promoted by the policy are mostly small or medium scale, their environmental risks are minor or moderate. They can be managed through existing construction practices and by Nepal’s EIA system.</p>	<p>Neutral to positive poverty impacts. Positive impacts can only materialize if reforms target subsistence (as well as commercial) livestock holdings, given their importance to the poor. Benefits to marginal communities such as indigenous people in mountain areas, and Dalits that are heavily involved in animal husbandry in the hills and the southern plane, also requires that they are specifically targeted. It should also impact positively on women, giving their extensive engagement in agriculture.</p>
<p>Prior Action #6 To strengthen water supply provision for protecting human capital, reducing climate risks, and defining institutional mandates across three tiers of government, the Cabinet has approved the National Drinking Water Quality Standards and the Ministry of Water Supply has approved the guidelines.</p>	<p>Yes/positive. Enhanced environmental health by ensuring access to safe drinking water. The Amendment to the Irrigation Policy will establish mainly administrative changes such as reorganizing and redistributing staff and functions in Nepal’s irrigation sector in response to the new government structure. While reorganization from a centralized to a federal system might have environmental and water resource management effects, they are not expected to be significant.</p>	<p>Neutral to positive through WASH components. <i>E. coli</i> bacterial levels in drinking water are highest among the poor. Better drinking water quality and sanitation provision can contribute to lowering contamination, which has negative health effects, particularly for children in poor households; and can be especially effective if targeted at the constraints lower caste groups face in accessing water</p>



Prior Actions	Significant Positive or Negative Environment Effects	Significant Poverty, Social, or Distributional Effects Positive or Negative
<p>Prior Action #7 To reduce solid waste generation and improve its management for better environmental health, reduced GHG emissions, and urban flood risk reduction, the Cabinet has approved the SWM Policy, and the ban of plastic bags thinner than 40 microns, as evidenced by its publication in the Recipient’s gazette (Gazette No. 21).</p>	<p>Yes/positive. Reduction in water drainage clogging and soil and underground water pollution through the ban of plastic bags. The SWM Policy identifies key issues and guiding principles for the structural reform of SWM. As the policy reflects the GoN’s strong intention on how to undertake the reform of this sector, the policy is not expected to have likely significant effects on the environment, natural resources, or forests. Significant effects on the environment would arise downstream from the legal and institutional rules, standards, and so on, such as the SWM Act and regulation that would be formulated and implemented in adherence to the policy’s guiding principles.</p>	<p>Neutral to positive. This policy measure will require affordable plastic bag alternatives to the poor during the transition period. Positive effects can materialize if investments in waste management increases the labor demand in that sector, which can benefit low-income households and includes the (largely female) informal workers who make their living in this sector.</p>