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# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 06-Jul-2018 | Report No: PIDISDSC23738

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

Country Nepal	Project ID P165130	Parent Project ID (if any)	Project Name Nepal Sustainable Tourism Value Creation (P165130)
Region SOUTH ASIA	Estimated Appraisal Date Feb 19, 2019	Estimated Board Date Mar 27, 2019	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance of Nepal	Implementing Agency Ministry of Culture, Tourism and Civil Aviation	

**Proposed Development Objective(s)**

To establish favorable conditions to enhance the value creation, sustainability and inclusiveness of the tourism sector at selected destinations.

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

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

**DETAILS****World Bank Group Financing**

International Development Association (IDA)	80.00
IDA Credit	80.00

Environmental Assessment Category

Concept Review Decision



A - Full Assessment

Track II-The review did authorize the preparation to continue

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## B. Introduction and Context

### Country Context

1. **Over the past decade, Nepal's economy has performed reasonably well.** Growth averaged 4.3 percent (at market prices) over 2005-15, fell to 0.6 percent in 2016 as a result of the devastating earthquake in 2015, but rebounded strongly in 2017 reaching 7.9 percent. Although declining as a share in the economy, agriculture continues to play a large role, contributing one-third of output value-added. The service sector has grown in importance, accounting for more than half of value-added in recent years. Industry in general, and manufacturing has grown more slowly and its relative share in the economy is falling. Similarly, exports continue to struggle, while imports are fueled by remittances which reached 30 percent of GDP in 2016. Inflation has been in single digit for most of the past decade, with the peg of the Nepalese rupee to the Indian rupee providing a nominal anchor. Fiscal balances have been mostly sustainable owing to strong revenue growth and modest spending, although spending picked up significantly in FY2017 and spending pressures increased in the first half of FY2018, due to fiscal transfers, election spending, capital goods and expenditure to implement federalism. On the external side, the cumulative effect of a sharp trade balance deterioration and a slow growth of remittances is putting a significant pressure on the current account, from a surplus of 6.2 percent of GDP in 2016 to estimated deficit of 0.4 percent in 2017. The incidence of poverty measured against the national poverty line fell by 19 percentage points from 2003/04 to 2010/11, and in 2010/11<sup>1</sup>, 25 percent of the population was counted as poor. Most multidimensional indicators of poverty also showed improvements across regions in Nepal. However, these gains remain vulnerable to shocks and setbacks, like the 2015 earthquakes which were followed by trade disruptions resulting in the lowest economic growth in 14 years in 2016 and 2017 worst floods in decades which has destroyed 64,000 hectares of standing crop.

2. **A new government, backed by a historic majority in Parliament, took up office on February 15, 2018.** This follows elections for all three tiers (local, provincial and federal) of the state architecture defined by the new constitution, marking a protracted but successful conclusion of a political transition that began with the signing of the Comprehensive Peace Agreement in November 2006. In contrast to the frequent changes in government that characterized Nepal's decade-long transition to federalism, the new government enjoys a historic three-fourths majority in Parliament. Along with new constitutional checks and a far smaller number of political parties, there is a much greater degree of optimism for stability in the coming years. However, the challenge of setting up and implementing the new division of powers and fiscal transfers is daunting. At the sub-national level, funds, functions, and functionaries hitherto managed by the central, district and village authorities are moving to the seven new provinces and 753 local governments, for which new legislation, institutions, and administrative

<sup>1</sup> Recent data not available



procedures are being formalized as constitutionally prescribed. Meanwhile, the central level authority is being streamlined with a focus on oversight, with the previous 31 ministries having been consolidated into 18 ministries.

3. **The Government of Nepal (GoN) has introduced important laws and policies to operationalize the federal devolution process as stipulated in the new Constitution.** The Local Government Operations Act of 2017 details the responsibilities of local governments in planning and service delivery, including formulation of policy, legislation, standards and plans, as well as design and implementation of programs for infrastructure development and service delivery. Municipalities also assume key functions previously vested in the central government, including budget planning, financial management, procurement, and own source revenue collection (including land revenue, property tax, etc.). Regarding fiscal transfers, the constitution defines four types of fiscal transfers to provincial and local governments<sup>2</sup> and the Intergovernmental Fiscal Arrangement Act of 2017 details eligible expenses and broad criteria for determining the transfer allocation, as well as the overall revenue sharing norms and revenue assignments for different tiers of the government. This institutional and fiscal restructuring is expected to result in improved outreach and service delivery; but, it will likely take time before the new system is fully operational.

#### Sectoral and Institutional Context

### 1. Overview of Nepal potential and challenges in tourism

4. **Tourism is an important contributor to Nepal's economy.** According to the World Travel and Tourism Council (WTTC), which compiles tourism statistics for 185 countries, the direct contribution of Travel & Tourism (T&T) to Nepal's GDP in 2016 was US\$0.8bn, representing 3.6 percent of GDP, while the total contribution of this sector was US\$1.6bn, representing 7.5 percent of GDP<sup>3</sup>. Tourism also benefits Nepal in terms of poverty reduction, employment generation, and income redistribution. The WTTC report estimates that the sector supported nearly one million (945,000) direct and indirect jobs in 2016, or roughly 6.4 percent of total employment. There are also high spillover effects to other sectors such as agriculture, transport, and aviation. The tourism industry provides an important market for a host of agricultural products as hotels and restaurants demand diverse agricultural inputs, and tourists demand agri-tourism experiences and destination-branded specialty crops as souvenirs. As such tourism generates, employment in rural areas and for women, contributing to inclusiveness.

5. **The number of tourists traveling to Nepal has recently recovered after a period of slow growth and sharp declines due to the April 2015 earthquake (which was marked by a 32% decline compared to 2014).**<sup>4</sup> 2017 statistics of international arrivals indicate a significant recovery, with around 1 million international tourists, compared to around 0.8 million in 2013 and 0.5 million in 2015. Western tourists remain the largest source market and absolute numbers have increased significantly in 2016 and 2017. In 2016, tourist from India formed the largest visitor group by nationality at around 15 percent of total arrivals (and a much higher fraction including

<sup>2</sup> The four types of fiscal transfers are; (i) equalization grants, (ii) conditional grants, (iii) matching grants and (iv) special grants.

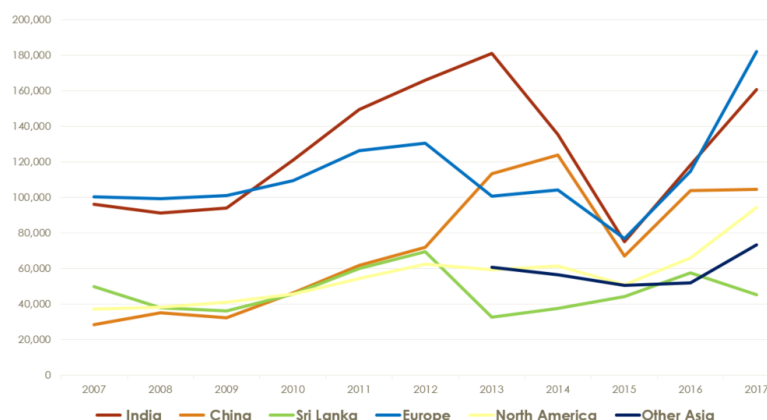
<sup>3</sup> "Total contribution of tourism includes direct contributions and wider impacts on the economy such as travel and tourism investments spending, government spending that helps travel and tourism sector such as tourism marketing and promotion, and domestic supply chain purchases by sectors directly dealing with tourists." "Direct contribution includes total spending within a country on travel and tourism by residents and non-residents for business and leisure and spending by government on travel and tourism services directly linked to visitors such as museums". See <https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2017/nepal2017.pdf>.

<sup>4</sup> Unless otherwise noted, figures from this section are from Government of Nepal, Nepal Tourism Statistics 2016, Ministry of Culture, Tourism and Civil Aviation. These statistics are mainly based on visa for tourists arriving by air, and therefore do not include Indian visitors arriving by land, who may account for



estimated entries by land), followed by Chinese with 13 percent.<sup>5</sup> Domestic tourism also constitutes a growing and very significant market, but little is known about it due to a lack of data. By one estimate, it represented around 66 percent of the T&T sector’s contribution to GDP in 2016.<sup>6</sup>

### Trends by Major Market Segments 2007-2017



Source: Arrival cards/ DoI, Tourism Statistics, 2017, MoCTCA (Indians via land not accounted)

6. **Its natural offering and geographical position Nepal well positioned to benefit from T&T trends over the next five years, notably in nature-based tourism and increase revenues.**<sup>7</sup> Culture is one of the main tourist attractions in the Kathmandu Valley, which hosts seven sites listed as one UNESCO World Heritage Site. Nepal also has 20 well-established protected areas (PAs), including national parks (with associated buffer zones), wildlife reserves, conservation areas and hunting reserves, covering 23.2 percent of the country’s land area. Nepal’s protected areas have registered excellent achievements in species conservation; but, several of them underutilize their tourism potential. An additional 23 percent of the land area is classified as protected forest, featuring scenic landscapes. More than half of Nepal’s tourists visit protected areas. In 2017, around 630,000 visitors representing 67% of all arrivals visited a protected area. Terai parks attracted 190,000 visitors, while about 210,000 foreign tourists visited the Nepal Himalayas in 2017. Finally, several temples and other pilgrimage sites are found throughout Nepal. This diversity strategically positions Nepal to take advantage of tourism’s fastest growing markets in the sub-sectors of wellness, soft adventure, village tourism and ecotourism.

7. **However, Nepal is also facing the risk of becoming a low-cost destination, damaging the very natural assets on which tourism depends.** While the number of visitors has increased sharply in 2016 and 2017, tourism receipts are still low compared to competing destinations. With an average of US\$ 592 per international visitor in 2016, Nepal’s international receipts were almost half of the global average and one-third of those of Thailand and India.<sup>8</sup> The daily average spend per tourist remains low at \$54 in 2017, compared to a regional average of

<sup>5</sup> There were 17 500 Chinese visitors in 2006 and 104 000 in 2016. However, according to preliminary statistics, the number of Chinese visitors would have plateaued in 2017, while Indian tourists would have increased significantly.

<sup>6</sup> WTTC. 2017. Travel & Tourism Economic Impact 2017 – Nepal.

<sup>7</sup> Nature-based tourism broadly refers to travel to natural areas. It can overlap partly with cultural and historical tourism. Though the term nature-based tourism is sometimes used interchangeably with the term ecotourism, the latter is defined in the literature as a subset of nature-based tourism with the explicit additional aims to support conservation of the environment and to provide livelihood benefits to local communities. For the purposes of this paper we use the term nature-based tourism to refer to all categories of tourism in natural settings.

<sup>8</sup> UNWTO *Tourism Highlights 2017 edition*.



\$100-150 in 2016. There is also a quality/standards gap, whereby 80% of hotels in Nepal are in the tourist standard category catering to the low-tier tourist segment. Unhealthy competition entails companies competing on price alone, undercutting each other and paying little attention to the quality of products provided to tourists. Overall, it appears that, similar to what happened in other countries, such as Myanmar, Laos and Cambodia, there is a tendency to maximize the number of visitor arrivals versus the value of visitors (i.e. average daily spend per visitor multiplied by their average length of stay). This trend may become a “race to the bottom” as newly empowered local governments all strive to increase the number of tourists visiting their jurisdictions. The result would be rapid but highly unsustainable economic gains, as large numbers of tourists overuse the environment and natural assets, without generating revenues for protection and conservation activities. A more sustainable strategy would entail efforts to increase the per tourist revenue by offering a more diverse set of higher-value, sustainable nature activities and higher quality facilities that appeal to the middle and high-income tourists, while also trying to increase at a moderate rate the annual number of tourism arrivals.

8. **Nepal’s current fragmented destination management is not conducive to a coherent approach towards higher value and sustainable tourism.** Sustainability refers to the environmental, economic, and socio-cultural aspects of tourism development, and the need to establish a suitable balance between these three dimensions to guarantee that a destination continues to provide benefits in the long-term.<sup>9</sup> Sustainable tourism requires a higher level of coordination than other industries, especially at the destination level.<sup>10</sup> In these respects, Nepal’s tourism sector is facing several important constraints:

- a) **Poor planning and budgeting of small and medium infrastructures related to tourism.** Tourism-specific investments are often not well planned and infrastructure investments not designed or implemented considering specific tourism needs. As a result, most tourism destinations are suffering from low quality and poor maintenance of small and medium infrastructure (e.g. trekking trails, small bridges, camping sites, picnic spots, recreational parks), inadequate services (e.g. water, waste management and electricity) and inadequate planning and zoning.
- b) **Investments in large transport and connectivity infrastructure and services are undertaken without a tourism perspective.** Inadequate coverage and quality of the road network has been a longstanding problem, making access to many areas with tourism potential difficult. Large investments in the road and air transport have been recently launched, notably with donor’s support, but implementation is slow and infrastructure are often not resilient or designed with a tourism perspective.<sup>11</sup>
- c) **Outdated and/or unpredictable regulatory environment for private sector development.** Nepal ranked 103<sup>rd</sup> out of 136 countries on the World Economic Forum’s 2017 Travel & Tourism Competitiveness Index, far behind regional competitors such as India (40<sup>th</sup>) and Bhutan (78<sup>th</sup>).<sup>12</sup> While Nepal does well on competitiveness pillars such as natural assets and price competitiveness, it fares poorly with regards to quality of the business environment. According to calculations made for a World Bank

<sup>9</sup> In recent years, sustainability has emerged as a critical concern that must be addressed in any viable tourism development strategy. Expressed simply, sustainable tourism can be defined as “Tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment, and host communities”.

<sup>10</sup> A tourism destination is a physical space with tourism attractions and resources in which a visitor spends at least one overnight. It has physical and administrative boundaries defining its management, images and perceptions defining its market competitiveness.

<sup>11</sup> Expansion of Tribhuvan International Airport (TIA) in Kathmandu is planned, construction of the Gautam Buddha International Airport (GBIA) in Bhairawaha/Lumbini, and the Pokhara International Airport in Pokhara is underway, and the second International Airport in Nijgadh is planned.

<sup>12</sup> <https://www.weforum.org/reports/the-travel-tourism-competitiveness-report-2017>



technical assessment, an average five-star hotel project could be delayed by up to six years due to lengthy approval processes of foreign investment, franchising, service outsourcing and management contracts, repatriation of funds to foreign investors<sup>13</sup>, access to land, and building permit.<sup>14</sup>

- d) **Rigid limits to tourism activities in PAs and forests.** Although tourism contributes directly to protected area management in Nepal (via park entrance fees and concession payments), restrictions on tourism businesses are relatively tight within protected areas, particularly in national parks in the Terai region. The process of allocating permits is often overly complex and lacks transparency.<sup>15</sup> The government has been working, with IFC support, to prepare a new concession framework, but it has not been adopted yet.
- e) **Weak product diversification and limited training capacity.** The sector has not made the transition from trekking tourism to a more diverse and comfortable form of nature-based tourism thereby missing-out on higher value market segments such as wellness, wildlife and adventure tourism.

## 2. Developing an integrated approach towards sustainability and revenue creation

9. **Government strategies and action plans emphasize tourism as a priority sector for private sector development and job creation.** The Fourteenth Periodic Plan (FY2017–FY2019) stresses the importance of investing in the tourism sector and identifies the need to develop tourism infrastructure, improve policy and governance, and better promote destinations. In addition, the Ministry of Culture, Tourism and Civil Aviation (MoCTCA) has adopted a National Tourism Strategic Plan (NTSP) for the period 2016-2025, an all-encompassing strategy to support the growth of tourism through an integrated and detailed action plan. The NTSP's objective is to (i) position Nepal as a leading tourism destination in the region and develop tourism as a significant contributor to the economy, and (ii) diversify current tourism offerings from the existing main hubs and provide a range of experiences of interest to international visitors from key markets.<sup>16</sup> While detailed and comprehensive, this action plan lacks a clear approach towards revenue generation and sustainable destination management.

10. **The progressive institutional transition towards Federalism presents both an opportunity and a need to better coordinate and organize the management of Nepal destinations with concerned actors.** The new Constitution provides for a new distribution of powers and a transfer of tourism promotion and project implementation to the provincial and municipal governments, while keeping tourism policy and the management

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<sup>13</sup> E.g. for each hard currency payment to foreign investors (regular interest and principal repayment), sponsors have to seek approval of the NCB each time.

<sup>14</sup> "Making Nepal's National Tourism Strategy Work: Legal Recommendations for unlocking Investment in Tourism Accommodation Infrastructure", June 2016, Celia Ortega Sotes, K. Paige Griffin and Taneem Ahad.

<sup>15</sup> See for instance the revocation of concession agreements to lodges operating in Chitwan in 2012 ([http://www.nepaleconomicforum.org/uploads/publications/file/Nefport-Issue28\\_20170609012528.pdf](http://www.nepaleconomicforum.org/uploads/publications/file/Nefport-Issue28_20170609012528.pdf))

<sup>16</sup> The implementation of the NTSP is structured in two sequenced stages. Under phase 1 (2015 to 2019), the emphasis is on improving and diversifying the range of products by opening new areas and locations, which will also result in relieving congestion in tourism zones that are under pressure. Under phase 2 (2020 to 2024), the emphasis will be on consolidating new products and the new locations developed during phase one. The NTSP aims at (a) increase in tourist arrivals; (b) increase in length of stay; (c) increase in receipts per tourist and total revenue; and (d) increase in employment. The annual tourist arrival growth is expected to be 9.3% by 2019 and 10% by 2024. Correspondingly, tourist arrivals are expected to increase to 1,340,000 by 2019 and 2,147,000 by 2024. Length of stay is expected to be 15 days by 2019 and 17 days by 2024. Foreign exchange receipts are expected to increase to US\$ 1,239 million in 2019 and to US\$ 3,645 million by 2024.





of national parks and conservation areas at the federal level. This new division of competencies needs to be clarified in practice to enable a coordinated and holistic tourism approach at destination level.<sup>17</sup>

11. **The project will help support the ongoing federal transition process and support national agencies as well as selected provincial and municipal governments in delivering on their new responsibilities in the tourism sector.** Considering the various challenges identified above, solving the coordination challenge will require the establishment and rolling out of well-designed destination master plans in selected destinations. At this stage, it is envisioned that the project limits its geographical area to 3-4 tourism destinations located in two of the seven newly created provinces. Selected destinations cover rural municipalities in and around national parks and conservation areas. The objective would be not only to increase the number of tourists in Nepal, but also to improve the quality and diversity of the tourism offering through better horizontal and vertical coordination in tourism, improved governance at the destination level, better identification and implementation of tourism investments by local governments, regulatory reform for improved sustainability, and capacity building of communities and local private sector.

#### Relationship to CPF

12. **The draft CPF recognizes the importance of the tourism sector for Nepal, and identifies the sector as a priority of its second intervention area focused on “Private Sector-led Jobs and Economic growth”.** Under draft CPF objective 2.4 aimed at improving income opportunities, tourism has been identified as a key sector for domestic job creation for all segments of the Nepalese population, and the proposed operation is included in the CPF results matrix. The SCD and feedback from CPF consultations pointed to Nepal’s comparative advantage in tourism, and a recurrent theme across stakeholders was that tourism offered untapped opportunities for more and better jobs, with greater role for the private sector. The need for establishing an enabling environment for the private sector was considered a top priority. Tourism can also contribute or benefit from other objectives of the CPF, notably in its focus area relating to inclusion and resilience. For instance, improved park and forest management has the potential to attract more high-spending visitors and therefore allow sustainable natural resources management, improve the revenues of local communities, and create more jobs especially for women.

13. **This Project is aligned with the Bank’s Federal Engagement Framework that guides the overall support being provided for Nepal’s transition to a federalist structure,** and ensures that decentralization translates into growth, inclusion, and stability for the country. The Federal Engagement Framework defines the Bank’s engagement along three levels – strategic, policy and administrative. The project will directly support the GoN and the local governments by providing investment in provincial and municipal infrastructure and technical assistance to strengthen local government systems and capacities. The project will also contribute at the policy level by supporting the development of a coherent and comprehensive policy framework for an inclusive tourism sector.

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<sup>17</sup> Practical Guidelines for Integrated Quality Management in Tourism Destinations – Concepts, Implementation and Tools for Destination Management Organizations, February 2017, UNWTO





### C. Proposed Development Objective(s)

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14. **The project development objective (PDO)** is to establish favourable conditions to enhance the value creation, sustainability and inclusiveness of the tourism sector at selected destinations.

Key Results (From PCN)

15. **PDO level results and indicators:**

- Percentage of implementation by participating sub-national governments of the integrated tourism destination master plans for selected destinations.
- Number of laws and regulations affecting tourism development upgraded.
- Percentage increase in average spend by tourists at selected tourism destinations.
- Number of managers and workers in tourism enterprises at selected destinations trained, disaggregated by gender.

### D. Concept Description

16. The PDO will be attained through four components, which will (1) demonstrate formulation and implementation (at selected destinations) of integrated tourism planning, (2) support local communities, small and medium enterprises, tourism developers, and tourism workers to enhance and diversify their offering and skills, (3) enhance institutional and regulatory capacity for promoting sustainable tourism investments, and (4) ensure efficient and effective management of project activities. The demonstration of the integrated planning approach to destination development at selected destinations is expected to have a catalytic effect in other parts of Nepal.

17. **The project has four components.**

a) **Component 1: Establishing a model integrated approach to tourism development at selected destinations**

18. This component will support the development and implementation of integrated tourism development master plans (ITDPs) selected destinations. The project will finance two sub-components to this end:

- **Preparation of integrated tourism development master plans at selected destinations.** The project will provide technical assistance and financing to designated destination management organizations (DMOs) at selected destinations to formulate ITDPs. DMOs will bring together vertical and horizontal tourism stakeholders to develop the ITDPs and manage their implementation, under continuous stakeholder engagement. DMOs will be identified from among existing public or private entities or, where a suitable



entity does not exist, established in a manner that fits the local institutional setup and is sustainable. Key steps of ITDP development will involve (i) institutional and stakeholder assessment; (ii) demand and market analysis; (iii) gap analysis (infrastructure, facilities, products and services, human resources, and regulatory framework); and (iv) identification of priority interventions.

- **Investments in tourism-related infrastructure.** The project will finance basic infrastructures and tourism services identified in the ITDPs. Investments may include last-mile road connection, water management, waste management, visitor information centers, signage, access to lakes, villages and hilltops, and construction and renovation of tourism infrastructure in protected areas to improve trekking and scenic trails. Infrastructure investments will be designed with attention to resilience to be resilient to climate change and natural disaster risks. Depending on the institutional division of responsibilities, provinces, municipalities or concerned national agencies will carry out the infrastructure investments.

#### **b) Component 2: Supporting inclusiveness and innovation in products and services**

19. This component will support local communities, small and medium enterprises, developers, and workers to enhance and diversify their offering and skills, to generate and retain more value at the local level. To this end the project will support two sub-components:

- **Capacity building to local communities and enterprises to develop new tourism products.** At selected destinations, the project will support the establishment of networks of local business development service providers and provide small grants to small and medium enterprises for (i) improving market linkages and branding; (ii) enhancing service standards; and (iii) developing innovative tourism products.
- **Upgrading the tourism training capacity and decentralize training offering.** The project will provide technical assistance and financing to enhance the capacity to train tourism service providers. Specifically, at the national level, the project will support the upgrading of courses and infrastructure at the Mountaineering Training Academy and the Nepal Tourism and Hotel Management Academy. The project will also support decentralized training of enterprises and communities by partnering with local training centers and business organizations at selected destinations.

#### **c) Component 3: Enhancing institutional and regulatory capacity**

20. This component will provide technical assistance for strengthening strategic planning, monitoring and coordination capacity and for upgrading the regulatory framework that has a bearing on sustainable private investment in tourism including in protected areas.

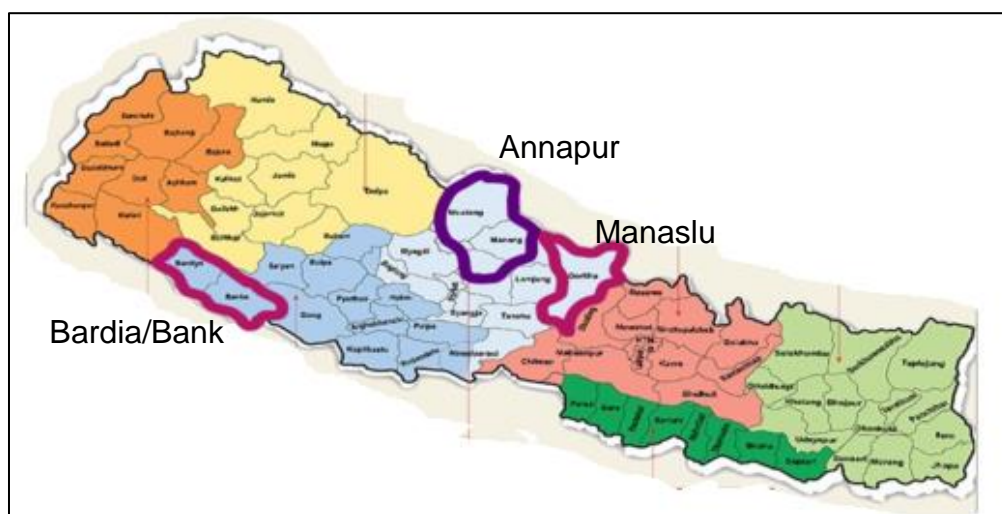
- **Strengthen strategic planning, monitoring and coordination.** To enable integrated strategic planning central level activities aimed at tourism development, the project will support the establishment of a Tourism Development Steering Committee that will adopt annual investment plans and recommend budgets allocations. The project will also improve the data collection and analytical capacity of the Ministry of Culture, Tourism and Civil Aviation and the Nepal Tourism Board to inform the design of a more effective tourism promotion strategy.



- **Upgrading the regulatory framework affecting private investment in tourism and sustainable tourism in protected areas.** The project will provide technical assistance for the preparation of a reform plan and drafting of updated regulations that have a bearing on (i) private investment in tourism, notably approval of foreign investments, licensing, and standards, and (ii) sustainable use of protected areas (PAs) for revenue generating nature-tourism activities by local communities and private investors. The project will support the adoption and implementation of priority, “low-hanging fruit” regulations. In addition, the project will build capacity among local government and PA management authorities to better enforce safeguards and environmental protection standards.

#### **d) Component 4. Project management, monitoring and evaluation.**

21. This component will finance the activities of a central project management unit (PMU) and local project implementation units (PIUs) in each of the selected provinces to manage day-to-day project implementation activities, including procurement, financial management, and social and environmental safeguards, and monitoring and evaluation.
22. **Choice of financing instrument.** The project will finance the achievement of results through an investment project financing (IPF). Selected goods, consulting services, works and training activities will be financed under this modality because they (a) are considered significant and critical investments required for meeting the PDO, and (b) procurement authorities will require specialized assistance for the procurement process and/or international tenders. Procurement capacity-building support will be provided to assist the government develop the medium-term capacity of participating sub-national governments (provincial authorities and municipalities at the selected destinations) to procure such goods and consultancy services. In addition, the team will explore the possibility of including a component that would disburse through disbursement-linked indicators (DLIs) triggered against eligible expenditures. Possible DLIs would notably focus on results linked to the setting up and functioning of DMOs at destinations and progress of ITDP investments.
23. **Geographical coverage.** Considering current capacity limitations, in particular of newly elected provincial and municipal governments, the operation will initially focus on three or four selected destinations situated in two provinces such as the Annapurna Conservation Area (Province 4), the Manaslu Conservation Area (Province 4), and the Bardia and Banke National Parks, including their buffer zones (Province 5). These destinations have been selected in discussion with authorities and using criteria employed in the Country Private Sector Diagnostic (CPSD), including feasibility, diversification, and opportunity for greater value creation, as well as maximizing finance for development. The final list of selected destinations will be confirmed with government during project preparation. The project will liaise closely with the Nepal Urban Governance and Infrastructure Project (NUGIP - P163418) project, considering that Pokhara-Lekhath, the second-largest urban municipality of Nepal, plays a critical role as gateway to the Annapurna Conservation Area and is covered under this project. As such, this municipality will be included in the scope of the ITDP for the Annapurna destination, but identified investments in the municipality will be financed under NUGIP. On the other hand, this project will finance small tourism-related infrastructure in rural municipalities whose limits are partially or wholly included in the Conservation Area. The same principle will apply to other national parks and their destinations gateways that are also covered by NUGIP.



Destination	Main Gateway City	Main Airport	Province, Municipalities, Population and Visitors
<b>Annapurna (Conservation Area)</b>	Pokhara-Lekhnath	Pokhara (regional international airport opening in 2021)	Province 4 1 metropolitan city (pop. 450,000) 16 rural municipalities (pop. 100,000) Visitors: 158,000 in ACA (excluding pilgrims) and 400,000 in Pokhara
<b>Manaslu (Conservation Area)</b>	Pokhara-Lekhnath /Gorkha	Pokhara (regional international airport opening in 2021)	Province 4 1 rural municipality (pop. 7,000) Trekking: 5800 (2017)
<b>Bardia/Banke (National Parks and Buffer Zones)</b>	Nepalgunj	Nepalgunj (large domestic, opening direct lines with India) + Bhairahawa (regional international Airport opening in 2019)	Province 5 1 sub-metropolitan city (pop. 150,000) 6 municipalities (pop. 350,000) 5 rural municipality (pop. 200,000) Visitors: 18000 (2017)

24. **Complementary with other WBG operations.** The project will be coordinated closely with NUGIP, as discussed above. The project is also closely liaised with an IFC advisory project that is under preparation and will support regulatory reforms, demand assessment and development of new tourism products with public and private stakeholders in the Annapurna Destination Area. Finally, the project will be coordinated with the Nepal Public Sector Management Program and the planned Forests for Prosperity Project.

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## SAFEGUARDS

### A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Project area is not yet identified at this stage; while some DLIs may apply nationally, potential tourism destinations for investment include Pokhara, Annapurna Conservation Area, Mustang, Manaslu and Gorkha (province 4) and Bardia and Banke (province 5). The final list of selected destinations will be confirmed with government during project preparation. Some of the potential destinations include national parks and other protected areas. Project envisage investment in infrastructure such as roads, airports, energy, as well as promote enterprises (lodges and concessions) in or close to sensitive sites such as protected areas (national parks, conservation area, heritage sites, lakes etc). The mountain areas are physically fragile, and prone to landslides and erosion due to infrastructure construction.

### B. Borrower’s Institutional Capacity for Safeguard Policies

Borrowers, particularly of Provinces and Municipalities, institutional capacity for safeguard management is weak. These are newly formed agencies under the new federal constitution of Nepal. As part of ESMF, the capacity building needs for safeguard management will be assessed in details. The project will build capacity among local government and PA management authorities to better enforce safeguards and environmental protection standards. The measure may include strengthening the institutions, building system, staffing and resources, awareness etc for implementing agencies and stakeholders.

### C. Environmental and Social Safeguards Specialists on the Team

Drona Raj Ghimire, Environmental Safeguards Specialist  
Caroline Mary Sage, Social Safeguards Specialist  
Annu Rajbhandari, Environmental Safeguards Specialist

### D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The tourism infrastructure and tourism activities such as construction/ upgrading of roads, airports, energy, enterprises (hotels), bridges and trails, etc are likely to have adverse impacts on natural environment (air, water, and land), human health & safety. The wastes generated by the tourism activities may cause pollutions, and infrastructure development may lead to landslides and soil erosion in the mountains/ hills. If specific site for an activity known by appraisal, EA and/or EMP will be prepared for the same.
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	Yes	Some potential destinations include protected area/ natural habitat such as Bardiyaya and Banke National Parks, Annapurna Conservation Areas, Manaslu



		Conservation Area, Mustang, as well as lakes. The project will invest in construction/ upgrading of road, airports, bridges & trails in those areas, access to lakes etc. The project also aims to promote enterprises (including hotels/ lodges) in or near protected areas, and aim reforms for use of PAs for nature-tourism and related concessions for private investments (including FDI). Increased accessibility through these infrastructure as well as wastes generated through tourism, directly or indirectly, are likely to affect protected areas / natural habitats (degradation of PAs and lakes, loss of or encroachment in the PA/ natural habitats, as well as poaching). EA and/or EMP for a subproject will be cover natural habitat / bio-diversity impacts and mitigations, as required (or separate assessment may be carried out if necessary).
Forests OP/BP 4.36	Yes	The tourism infrastructure and destinations development may affect forests (including community forests) quality and forest areas. The roads/ trails may cause loss or degradation of forests, hotel/ lodges may increase demand for firewood, spoils and wastes generated may lead to pollution of forest areas, etc. EA and/or EMP for a subproject will be address impacts on forest and include relevant mitigation measures as required.
Pest Management OP 4.09	TBD	Unlikely to be triggered, but project activities needs to be better understood to decide applicability of this policy.
Physical Cultural Resources OP/BP 4.11	TBD	Likely to be triggered, but locations, scope and activities needs to be better understood.
Indigenous Peoples OP/BP 4.10	Yes	The project may affect indigenous people living in the project area. ESMF will comprise Vulnerable Community Development Framework (VCDF) to guide planning approaches on indigenous peoples (and vulnerable groups) and interventions under the project. If the sub-project activities and locations are known by appraisal SA and VCDPs will be prepared.
Involuntary Resettlement OP/BP 4.12	Yes	Investment in tourism infrastructure could cause loss of land, relocation or loss of shelter, loss of assets or access to assets, and could affect income or livelihood. Resettlement Policy Framework (RPF) will be the guiding document in preparation of RAP. RAP will include among others entitlement matrix, stakeholder engagement and community strategy and GRM. For sub-project activities and locations known by appraisal, SA and RAP will be prepared.





Safety of Dams OP/BP 4.37	No	Project does not finance dam and does not depend on existing dam.
Projects on International Waterways OP/BP 7.50	No	Project will not use international waterways, and is unlikely to affect quantity and/ or quality of international waterways.
Projects in Disputed Areas OP/BP 7.60	No	Project is not located in disputed area.

### **E. Safeguard Preparation Plan**

Tentative target date for preparing the Appraisal Stage PID/ISDS

Sep 28, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The location and type of activities are not known at this stage, hence, Environmental and Social Management Framework (ESMF) will be prepared before appraisal.

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**APPROVAL**

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