BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tr>
<td>Nepal</td>
<td>P166788</td>
<td>Nepal Development Policy Credit with CAT DDO (P166788)</td>
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<table>
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<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
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<tr>
<td>SOUTH ASIA</td>
<td>20-Mar-2020</td>
<td>Urban, Resilience and Land</td>
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Borrower(s) | Implementing Agency

Proposed Development Objective(s)

To support the government in enhancing its technical and institutional capacity to manage the risk of climate change and natural disasters including disease outbreaks.

Financing (in US$, Millions)

**SUMMARY**

| Total Financing | 50.00 |

**DETAILS**

| Total World Bank Group Financing | 50.00 |
| World Bank Lending               | 50.00 |

Decision

Other

Explanation

The review authorized the team to appraise. The Country Director will authorize negotiations after the pending Prior Action has been met.
B. Introduction and Context

Country Context

1. **Nepal is highly vulnerable to a range of natural hazards, particularly earthquakes, flood, drought, and landslides.** In the aftermath of the 2015 earthquakes, a total of 8,790 people lost their lives and more than 22,300 people were injured\(^1\) Approximately 725,000 houses, 2,656 Government buildings, and 30,000 classrooms were either completely or partially damaged. The country is drought prone as well as susceptible to floods and landslides. These hazards and the country’s high level of vulnerability make Nepal the second most vulnerable country in the world in terms of mortality risk from two or more hazards.\(^2\) Nepal’s varied topography and social vulnerability make the country particularly susceptible to climate change impacts.

2. **Nepal has been experiencing increased incidence of emerging diseases** such as dengue, Japanese encephalitis, chikungunya, and leptospirosis in the recent years. They have a high potential of creating outbreaks with widespread morbidity and mortality at any time. The threat of emerging infectious diseases to the global health and socioeconomic security is growing. Nepal is considered at high risk to the introduction and appearance of novel pathogens of highly infectious nature, given the fact that it is a touristic country with visitors coming from different parts of the world and it has a porous border. Nepal’s health sector is vulnerable to natural disasters and climate change and there is a growing need for improved emergency preparedness and response. The 2015 earthquake also resulted in damages and losses to health infrastructure and disruption in essential health care services delivery, especially for women. Nepal is implementing its third Sector Wide Approach (SWAp) program called Nepal Health Sector Strategy (2015-2020). The strategy recognizes the need for establishing a multi-sectoral response system to climate change impacts.

3. **Macroeconomic Policy Framework:** Despite several severe shocks in the past (conflict, unstable governments, earthquakes, trade disruptions, India’s demonetization and introduction of GST), Nepal’s macroeconomic fundamentals have remained sound.

Relationship to CPF

4. **The proposed operation is consistent with the Country Partnership Framework (CPF) for Nepal FY 19–23.** In particular, it responds to “Focus Area 3: Inclusion and Resilience”. Increasing the resilience of the country to shocks and climate impacts would enable more inclusive and sustainable growth, which is the over-arching Strategic Goal of the current CPF. The 2018 Systemic Country Diagnostic (SCD) identifies a number of challenges including exposure to external demand shocks from natural disasters and limited macroeconomic and fiscal space to deal with an external shock.

C. Proposed Development Objective(s)

To support the government in enhancing its technical and institutional capacity to manage the risk of climate change and natural disasters including disease outbreaks.

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Key Results

5. The main results expected for this operation are related to the areas of DRM, climate change and health, and address the need to (i) improve climate and disaster risk management institutional and regulatory framework, (ii) Integrate climate and disaster resilience in key sectors, and (iii) enhance human health crisis preparedness and response.

D. Project Description

6. This operation responds to the country’s need for disaster risk financing mechanisms to address the economic impact of adverse natural events including health-related shocks by providing: (i) immediate liquidity in the aftermath of natural disasters through an IDA US$50 million-Disaster Risk Management (DRM) Development Policy Credit (DPC) Catastrophe Deferred Drawdown Option (Cat DDO), and (ii) access to the Pandemic Emergency Financing Facility (PEF) cash and insurance windows to ensure timely support to address disease outbreaks, before they reach pandemic proportions.

7. The proposed Cat DDO will incorporate ex-ante arrangements for co-financing from the PEF. This risk financing product is consistent with the Bank’s emphasis on disaster prevention, as opposed to only disaster response. The country’s establishment of an adequate macroeconomic policy framework and the existence of a satisfactory DRM program make the Nepal eligible for the Cat DDO, and also eligible to benefit from the PEF as an IDA country.

8. The PDO takes into account Nepal’s fast development rate in the last 2 decades, the country’s proactive approach towards adverse natural events and climate change, and the recognition of increasing focus towards resilient and sustainable development. The PDO will be achieved by supporting policy reforms under the following three pillars: (i) Improving the climate and disaster risk management institutional and regulatory framework, (ii) Integrating climate and disaster resilience in key sectors, and (iii) Enhancing human health crisis preparedness and response.

E. Implementation

Institutional and Implementation Arrangements

9. The Ministry of Finance is leading the effort in coordinating the overall implementation of the Cat DDO-PEF. The MOF will have an overall coordination and decision-making role, while the Ministry of Home Affairs, Ministry of Forestry and Environment, Ministry of Urban Development, and Ministry of Health and Population will monitor the implementation of the indicators to ensure the progress of the proposed operation during the entire drawdown period.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

10. Despite fragility, poverty has been on a declining trend. The proportion of Nepalese households living in poverty as measured by the international extreme poverty line fell from 46 percent in 1996 to 15 percent in 2011.3 The key

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drivers of improvement in the twin goals included an increase in the amount and the number of households receiving remittances, an increase in labor income derived from wage and non-wage employment, and changes in the demographic structure with a lowering of the dependency ratio. However, these results need to be interpreted with caution because there is a paucity of official data on well-being trends and other basic statistics since 2010.

11. Greater impact from disasters and endemics is felt by the poorest and most vulnerable. The impact of disasters on the government’s finances can be overwhelming, limiting a country’s ability to build cushions for development programs and future needs. The implementation of this Cat DDO-PEF operation is expected to have a positive impact on government finances as it provides timely liquidity to a country facing a disaster.

12. The Cat DDO-PEF supports the use of climate and disaster risk information to include and reach the most vulnerable populations in risk reduction, disaster response, and reconstruction activities. The activation of the Cat DDO will help to ensure the continuity of development plans, targeted at alleviating the needs of the poor making resources quickly available to respond to the needs of the affected populations. The National Pandemic Preparedness and Response Plan (NPPRP, prior action under Pillar C) will likely have positive effects on the poor as it reduces vulnerability to disaster risk and enables the poor and other vulnerable groups to return to, or improve, the socioeconomic, health, and environmental conditions found before the disaster event. The activation of the PEF will help to specifically address potential and actual high-severity disease outbreaks and to prevent them from becoming pandemics.

Environmental, Forests, and Other Natural Resource Aspects

13. The prior actions selected for this operation are likely to have a positive and mainly indirect effect on Nepal’s environment, forests or other natural resources. The implementation of the DRRM regulation will internalize environment concerns into key sectoral policies and enhance delivery of environmental mandates, especially through Nepal’s participation in the REDD+ and World Bank’s Forest Carbon Partnership facility (FCPF), and the approval of the Environmental Protection and Climate Change Act.

14. Prior action 2 on Climate Change Policy reflects recent international and national commitments made by the Government of Nepal, in line with the country’s federal governance structure. This prior action supports the sustainable Forest Management for Carbon Sequestration which is one of the key activities under the World Bank’s Forest Carbon Partnership facility (FCPF).

G. Risks and Mitigation

15. The proposed operation faces substantial risk, with political and governance, institutional capacity, fiduciary and stakeholder risks assessed to be substantial. While Nepal’s transition to federal structure offers opportunities to decentralize and make service delivery more effective and accountable, the risks of jurisdictional overlap among the new tiers of Government, and lack of clarity and coherence between policies and devolved powers is likely to remain high during the coming few years, especially in the DRM sector. These risks will be mitigated through continuous consultations with key stakeholders as well as ongoing TA activities to support progress on policy reforms. Risk related to institutional capacity and sustainability are mitigated through ongoing dialogue with and support for the agencies responsible for delivering on the agreed policy actions results indicators. The Bank team continues to work closely with the various agencies to ensure progress takes place and is monitored and reported on. For the substantial Fiduciary risks, With the approval and implementation of the new financial procedural act, increased accountability and transparency should lower fiduciary risks. Fiduciary risks are also mitigated through on-going institutional capacity strengthening activities funded through a MDTF centered around the rules governing budget implementation.
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