Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 09-Jun-2020 | Report No: PIDISDSA29673
BASIC INFORMATION

A. Basic Project Data

<table>
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<th>Country</th>
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<td>P163418</td>
<td>Nepal Urban Governance and Infrastructure Project</td>
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Proposed Development Objective(s)

The Project Development Objective is to strengthen the institutional and fiscal capacities of participating ULLs for strategic municipal infrastructure and service delivery.

Components

- Urban Development Grants (UDG) for strategic municipal infrastructure and service delivery
- Institutional strengthening of the participating ULLs
- Support to ULLs for COVID-19 Recovery
- Contingent Emergency Response
- Project management and coordination

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

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DETAILS

World Bank Group Financing

| International Development Association (IDA) | 150.00 |

B. Introduction and Context

Country Context

1. Over the past decade, Nepal’s economy has performed reasonably well, though vulnerabilities have increased with COVID-19. Real growth domestic product (GDP) growth averaged 4.9 percent (at market prices) over 2010-19. Although declining as a share in the economy, agriculture continues to play a large role, contributing over 29 percent of GDP in FY2019. The service sector has grown in importance, accounting for 46 percent of GDP in FY2019. Industry and manufacturing have grown more slowly and their relative share in the economy has averaged 14 percent of GDP over the past decade. Similarly, exports continue to struggle, while imports are fueled by remittances. Remittances remained stable, between 2010-19, with its share as a percentage of GDP averaging 24.5 percent, supported by an increased transfer of funds through formal channels in recent years. Inflation has been in single digits for most of the past decade, with the peg of the Nepalese rupee to the Indian rupee providing a nominal anchor. Fiscal balances remained sustainable owing to strong revenue growth and modest spending. However, the federal government is now sharing revenue and transferring grants to provincial and local governments, as part of the recent reforms linked to federalism. The poverty headcount ratio (at the international line of US$1.90/day) is estimated at 8 percent in 2019, down from 15 percent in 2010. At a higher line (US$3.20/day), 39 percent of the population is estimated to be poor in 2019. With the COVID-19 pandemic, the risk of falling into poverty has increased. About 31.2 percent of the population that are estimated to live between US$1.9 and US$3.2 a day face significant risks of falling into extreme poverty in 2020, primarily because of reduced remittances, foregone earnings of potential migrants, job losses in the informal sector, and rising prices for essential commodities as a result of COVID.

2. The recent COVID-19 pandemic is expected to derail the strong growth trajectory established over the past three years. GDP growth averaged 7.3 percent (between 2017 and 2019); and grew by 7 percent in FY19 supported by an uptick in tourist arrivals, strong agricultural growth from good monsoons and robust industrial growth due to increased electricity generation. On the demand side, the main growth drivers were private investment and private consumption, the latter supported by remittance inflows. In the first half of FY20 (mid-July to mid-January), agricultural growth slowed down with delayed monsoons and crop damage. In March 2020, stringent measures were imposed to contain the spread of COVID-19, including travel restrictions. This stopped tourist arrivals, leading to a significant reduction in hotel occupancy rates. With lower oil prices, remittance

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1 As of April 2020, the Hotel Association of Nepal estimated the hotel occupancy rates among its 270-members at below 10 percent.
inflows are declining, impacting services growth. Lockdowns and social distancing measures have disrupted domestic distribution channels causing shortages of fertilizer, livestock feed, labor and transportation, all of which will further reduce agricultural growth in FY20. The restrictions on trade (limited to only essential goods) has disrupted supply chains in the manufacturing sector. Shortages in imports of building materials and skilled labor have brought construction activity to a halt. Lower domestic demand has translated to lower consumption of electricity, gas and water, further reinforcing the slump in overall economic activity, with an estimated GDP growth rate of 2.3 percent in FY20. However, a widespread and protracted COVID-19 outbreak, with the attendant lockdowns and supply disruptions still has the potential to reduce GDP growth as low as 0.5 percent in FY20. In FY21, growth is expected to remain subdued at 2.1 percent. However, a widespread outbreak that extends into the high agriculture harvest and festival seasons, could cause GDP to contract by as much as 2.8 percent in FY21.

3. Inflation averaged 4.5 percent year on year in FY2019, but rose in the first half of FY2020, driven by higher food prices. In FY2019, prices of non-food items grew by 5.8 percent, driven mainly by housing and utilities, while food prices rose only 3.1 percent due to good agricultural production. Inflation averaged 6.4 percent (year-on-year) in the first half of FY2020, driven by higher food prices (particularly vegetables) and increased import duties on certain agricultural and industrial goods. In March 2020, inflation reached 6.7 percent (year-on-year), primarily led by food price due to disruptions in distribution channels. This widened the inflation gap with India and contributed to a 2.1 percent (real effective) appreciation of the Nepalese Rupee, over the first half of FY2020. The Nepalese rupee (NPR) is pegged to the Indian rupee (INR) at the rate of 1.6 NPR to one INR. As a result, inflation follows the price movements in India with a lag.

4. The Nepal Communist Party led government is backed by a majority in Parliament which took office on February 15, 2018. This follows successful elections for all three tiers (local, state and federal) of the new state architecture defined by the 2015 constitution, marking a protracted-but-successful conclusion of a political transition that began with the signing of the Comprehensive Peace Agreement in November 2006. State governments largely mirror the coalition at the center. At the sub-national level, funds, functions and functionaries hitherto managed by the central, district and village authorities are moving to the seven new provinces and 753 local governments for which new legislation, institutions and administrative procedures are being formalized as constitutionally prescribed. Elections were successfully held at all three levels of the government in 2017-18. Meanwhile, the central level authority is being streamlined with a focus on national policies and oversight. GoN has enacted multiple important laws, policies, and regulations in line with the new constitution, including the Intergovernmental Fiscal Arrangement Act (IFAA), National Natural Resources and Fiscal Commission Act (NNRFCA), Local Government Operations Act (LGOA), and Civil Service Readjustment Act (CSRA). This profound level of state restructuring is expected to result in improved outreach and service delivery in the medium term but is likely to take time before becoming fully operational.

Sectoral and Institutional Context

5. Nepal is the least urbanized but fastest urbanizing country in South Asia. Approximately 26 percent of the country’s population lives in urban areas and the annual urban population growth rate (about 6 percent) is

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2 Of all local governments, 293 are urban local governments that are further categorized into 6 metropolitan, 11 sub-metropolitan and 276 urban municipalities based on a criterion comprising population, fiscal and infrastructure indicators.

3 It defines the rules and the regulations to govern human resources redeployment across the three tiers of government. However, due to strong resistance, this Act has not been fully implemented and it may be replaced with a new legislation on the modalities of civil service management.

4 Urban population figures taken from the 2011 census and Agglomeration Index.
significantly higher than the regional average (3-4 percent). Urban areas in Nepal suffer from critical municipal infrastructure deficits, constraining their ability to deliver to services to their residents and undermining their ability to tap into their economic growth potential. These deficits include (i) inadequate, unsafe and poor quality municipal road networks; (ii) inadequate and poor drainage systems that have worsened the impact of floods; (iii) limited access and poor quality of drinking water supply; (iv) high septic tank dependency for waste water management without proper design and maintenance which is leading to widespread ground water pollution and (v) inadequate infrastructure for solid waste treatment and safe disposal, often resulting in open-dumping alongside roads and rivers. Due to a legacy of weak local government systems and heavy reliance on community-based User Committees (UCs) for infrastructure development, Nepalese cities and towns suffer from a relative deficiency of urban service networks, and for some key urban services, vital aspects of the overall service-delivery chain have never been adequately tackled.

6. In the context of the introduction of the new constitution, the urban local levels (ULLs) are emerging incrementally as autonomous local service delivery institutions under the new federalist state structure. The new constitution has assigned a range of sector functions and responsibilities to each of the three spheres of government, some of which are exclusive to the local levels, while others are shared with the upper tiers of government (e.g., education, health services, disaster management). The constitution envisions a significantly expanded role for local levels as public service providers, including increased responsibility for delivering basic services and municipal infrastructure. While there is a strongly decentralized local governance model and a relatively clear assignment of functions and powers related to municipal services, the de facto institutional structure is emerging only incrementally and ULLs have not yet assumed many of their de jure responsibilities as envisioned in the constitution and LGOA.

7. The ongoing transition to federalism presents a unique opportunity to consolidate and strengthen ULLs, thus driving economic growth in Nepal. ULLs need to be strengthened in order to become robust institutions able to deliver inclusive services and infrastructure, and capable of providing effective urban management. If this vision is to materialize, however, three key challenges will need to be addressed.

8. First, financial resources need to be commensurate with service delivery needs. The current level of fiscal resources available to ULLs is not adequate to address critical infrastructure investment requirements. Using government methodologies as a basis, the total urban infrastructure financing needs are estimated at between US$1.6-2.1 billion per annum depending on the level of service-delivery to be achieved. However, current resource flows are nowhere near adequate for these requirements. Post decentralization, the share of total public sector revenues devolved to ULLs increased to over 30 percent in FY19. However, a large proportion (40-60 percent) of total fiscal transfers is earmarked as conditional grants chiefly for social sectors (public health and education services). Currently, there is no dedicated grant for ULLs to undertake strategic municipal infrastructure. Moreover, the horizontal allocation of these grants is such that unconditional grant allocations are significantly smaller in per capita terms for larger and more populous ULLs, which generally have greater infrastructure investment needs. Due to weak systems and capacities, ULL own source revenues (OSR) are also very low: OSRs accounted, on average, for about 5 percent of the ULLs’ total annual income in FY18. Due to lack

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5 National statistics on road accidents show that there were approximately 13,582 traffic crashes in FY2012/13, and 2,541 road deaths were recorded in FY2017/18.
6 ULLs’ responsibilities include planning, infrastructure development and service delivery including water supply, drainage, solid waste management, natural and cultural heritage conservation, social welfare, land-use planning, public health, pollution control, primary education, and small and medium scale industries. ULLs have also assumed key cross-cutting functions including budget planning, FM, procurement, and revenue collection.
8 This is in the form of intergovernmental fiscal transfers and revenue-sharing.
of an enabling policy environment and lack of creditworthiness, ULLs are also not able to mobilize investments from private sector.

9. **Second, ULLs' institutional and organizational weaknesses need to be tackled.** Historically, urban service delivery system in Nepal has been characterized by a very weak local governance layer. Because pre-federal local governments in Nepal were functionally and fiscally disempowered, almost all urban infrastructure development has historically been undertaken either by central government agencies or by UCs that built and managed small-scale projects in sectors such as roads and water supply. The impacts of such service delivery modalities are evident in: (i) the very weak organizational structures of ULLs; (ii) highly fractured and dispersed planning and capital budgeting practices; and (iii) poor project development and execution performance. Key institutional systems for core functions including urban planning, financial management (FM), procurement and contract management have not been operationalized due to lack of technical capacity and adequate administrative infrastructure. For instance, none of the ULLs participating in the proposed Project have developed Integrated Urban Development Plans. The roll-out of FM and procurement systems such as the Sub-National Treasury Regulatory Application (SUTRA) and the e-Government Procurement is also yet to be completed.

10. **ULLs continue to rely on a legacy of UC-based planning and implementation models for municipal infrastructure and service delivery, resulting in small-scale and fragmented local infrastructure investments.** While this system has several positive aspects, such as an emphasis on community participation and employment generation, it inevitably generates small-scale, fragmented investments with very localized impacts9 (in the participating ULLs, an average of 70 percent of total capital expenditure FY18 was executed through UCs). This fragmented, dispersed and localized model of infrastructure planning and development is one of the key factors underlying the limited levels of basic municipal network infrastructure and services evident across urban Nepal. Strategic municipal infrastructure investments critical to the development of integrated and well-planned urban centers are currently not taking place, hampering the growth potential and inclusive service-delivery in the emerging cities.

11. **Third, it is important that Nepal’s fastest growing urban areas – where urbanization pressures are highest, and which hold the greatest promise for harnessing economic growth potential - are prioritized.** Urbanization in Nepal is strongly concentrated in the primary city – the metropolitan region of Kathmandu Valley – and other urban nodes emerging in the Central Hills and East and West Terai. This is likely to exacerbate, with these regions experiencing the most rapid growth in city populations, producing ever higher proportions of the country’s economic output and providing the source of the highest urban infrastructure investment return.

12. **In this context, a set of targeted interventions is required to operationalize federalism at the local level and enable ULLs in Nepal’s fast-growing cities to properly assume their devolved infrastructure and service-delivery mandates.** Such interventions include: (i) dedicated fiscal resources for strategic municipal infrastructure development in a manner that shifts the local level practices for strategic municipal infrastructure projects, moving away from UC-led investments; and (ii) focused capacity development support to strengthen the ULL’s institutional systems and organizational capacity to identify, plan, finance and implement strategic municipal infrastructure projects for improved service delivery. The proposed Project will serve as a model for federal government to provide sector focused financial and technical support to ULLs and can inform the design of the future government programs to scale-up this support to all 293 ULLs, not only for urban infrastructure development and service delivery improvements but also for future investments in other sectors.

13. **Nepal’s high vulnerability to climate change adds mounting pressure to its already strained urban infrastructure.** Nepal ranks as the fourth most vulnerable country to climate change impacts (Climate Change

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9 UCs are only authorized to carry out projects of up to approximately US$100,000; the average value ranges from US$5,000 to US$60,000.
Vulnerability Index, 2011) due to its complex topography and variability in climate within short distances. The number and frequency of landslides, flash floods, and droughts has increased in recent years, and erratic weather patterns projected in climate models may exacerbate the impact of these disasters in the coming years\textsuperscript{10}. Mean annual temperatures throughout Nepal are projected to increase between 0.5-2.0°C by the 2030s\textsuperscript{11}, while projections show a three-fold increase in monsoon rainfall and more frequent summer floods.\textsuperscript{12} The risk of flooding in the river basins of the non-Himalayan region due to higher monsoon precipitation is projected to increase by as much as 14 to 40 percent by the 2030s\textsuperscript{13}. The absence of guidelines and technical standards for good quality infrastructure decreases ULLs’ resilience to climate hazards.\textsuperscript{14} In a context of rapid urbanization, building resilience to climate change is crucial for the prosperity of Nepal’s urban areas. The GoN’s National Urban Development Strategy demonstrates a commitment to increasing the resilience, mitigation and adaptation of urban areas to climate change effects.

14. **Nepal has a long history of citizen engagement and participation, and the new decentralized governance model provides a unique opportunity to support the development of more participatory and accountable systems in local governments.** A plethora of local institutions, including UCs, cooperative organizations, traditional authorities, and local management committees, have long existed in Nepal and have intervened in infrastructure development. Previous forms of local governments used a range of participatory processes to identify development priorities and ensure social accountability. Under the new local governance model in the federalist structure, existing local institutions and citizen engagement mechanisms can be strengthened to support the new ULLs in channeling public inputs to identify local needs and priorities and deliver public services. However, clear regulatory frameworks and operational procedures are needed to systematize participation and ensure that existing local institutions function effectively.

15. **The COVID 19 pandemic has had significant impact on all local governments in Nepal, but especially in urban settings, given the additional risk factor of spread associated with denser living conditions and inadequate basic municipal services.** In the context of ongoing federalism in Nepal, ULLs are on the frontline of managing the crisis, including both immediate responses and short- and medium-term recovery measures. ULLs are faced with critical challenges associated with anticipated reduction in fiscal transfers and own source revenues; limited capacity to continue delivery of basic municipal services; and disproportionately significant impact on the urban poor, including those living in informal settlements, as well as widespread loss of livelihoods for the urban population. To support the response to these multifaceted challenges, the proposed Project will provide financial and technical support to participating ULLs to mitigate the negative social and economic impacts of the pandemic.

### C. Proposed Development Objective(s)

**Development Objective(s) (From PAD)**

The Project Development Objective is to strengthen the institutional and fiscal capacities of participating ULLs for strategic municipal infrastructure and service delivery.

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\textsuperscript{11} *Intended Nationally Determined Contributions (INDC)”. Ministry of Population and Environment. Communicated to UNFCC Secretariat in February 2016.

\textsuperscript{12} *Risk Screening Overview of Nepal. Climate Change Knowledge Portal. World Bank Group.*


\textsuperscript{14} Glacial lake outburst floods, heat waves, intensive rainfall, and landslides have impacted roads and water supply and sanitation systems. Source: “Climate Proofing Urban Development in Nepal”, Presentation by the GON during Regional Dialogue on Climate Resilient Growth and Development, Thailand.
Key Results

I. ULLs receive annual Urban Development Grant (UDG) allocations in a timely manner after verification of Grant Access Conditions (GACs).
II. Average annual UDG utilization rate of participating ULLs for financing strategic municipal infrastructure projects.
III. Number of strategic municipal infrastructure subprojects planned and executed reflecting citizen and service delivery needs.
IV. Number of people with improved urban living conditions.
V. Person-days of temporary work provided

D. Project Description

1. The proposed Project includes three components, as follows:

Component 1: Urban Development Grants (UDG) for strategic municipal infrastructure and service delivery (US$112 million).

2. The component will provide UDG to participating ULLs for financing strategic municipal infrastructure sub-projects focusing on, amongst others, rehabilitation and improvements in municipal roads, drainage, drinking water supply and onsite sanitation as well as associated design and implementation support. The component will support the operationalization of Nepal’s first urban sector conditional grant (UDG) system, that focuses exclusively on strategic municipal infrastructure and service delivery improvement at the local level. The UDG allocations have been determined based on an objective and transparent allocation formula, and will allow ULLs to develop their multi-year municipal investment program in year 1. ULLs will identify, design and implement identified subprojects in line with the guidelines and procedures outlined in the Project Implementation Manual (PIM). The component, through the design and implementation support will help the participating ULLs in developing robust contract structuring and implementation modalities to attract private sector participation for construction as well as operations and maintenance of the municipal infrastructure, to the extent feasible.

Component 2: Institutional strengthening for ULL’s institutional strengthening (US$10 million).

3. The component will focus on strengthening institutional systems and capacities of participating ULLs for improved urban management and service delivery in the areas of, amongst others: (a) integrated urban development planning; (b) OSR mobilization; (c) municipal FM, procurement, and contract management; (d) citizen engagement and gender inclusion; (e) urban infrastructure asset management system and (f) institutional performance monitoring and reporting system for ULLs. In addition to these six core urban management areas, the technical assistance will also include dedicated support to the municipalities in the context of the COVID 19 pandemic, including in: (i) support to Business Continuity Plans to allow ULLs to maintain and operate key municipal functions during the short and medium term as their staff and finances are affected by the crisis, (ii)

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15 Improved urban living conditions are assessed by improvement in access to core municipal services including drinking water supply, wastewater management, municipal roads and storm water drainage.
16 The agreed sectoral allocation formula is: 70 percent weightage for population; 10 percent weightage for equal share; 10 percent weightage for area of the ULL; and 10 percent weightage for infrastructure gap.
17 A core set of urban management and service delivery issues have been identified and prioritized based on the institutional assessment of participating ULLs, as well as a series of extensive stakeholder consultations at the local level.
mapping of particular vulnerable/high risk/highly impacted zones within the cities, (including informal settlements) and provide targeted interventions, (iii) communication and awareness raising campaigns on actions to limit the risks for exposure and spread of virus, including handwashing, and (iv) support to design targeted interventions to help reduce the risk of spread of the virus. The specific TA can be tailored to meet the needs of the ULL. The COVID 19 related technical assistance will be provided to a total of 33 ULLs (the 21 municipalities benefitting from support in Component 1 and 2, plus the 12 ULLs being supported under Component 3).

Component 3: Support to ULLs for COVID-19 Recovery (US$20 million).

4. This component provides support and relief to vulnerable groups in the target municipalities\(^\text{18}\) to help mitigate the short and medium negative impact of the COVID 19 crisis through rapid labor-intensive public works (LIPW). The component will finance (i) payment of wages for unskilled labor to undertake temporary employment in participating ULLs, (ii) expenses for works, tools and materials for the implementation of such projects, and (iii) expenses related to management of the LIPW (consultations, administration, and supervision). Target beneficiaries for the LIPW will be individuals from poor and vulnerable households. Participants will be provided with appropriate training on construction methods, where required, and specific occupational health and safety measures, including the use of protective personal equipment. The selection process for beneficiaries will have provisions for inclusion of vulnerable groups including the elderly, physically challenged, minorities and disadvantaged groups. The LIPW subprojects will require a minimum percentage representation of female workers. The criteria and other guidance for targeting beneficiaries will be detailed in the PIM.

Component 4: Contingent Emergency Response (US$0)

5. The proposed project includes a Contingent Emergency Response (CER) component to respond rapidly at the Government’s request in the event of an eligible disaster, including climate-related events and pandemics. This Component will finance the implementation of emergency infrastructure reconstruction, rehabilitation and associated studies (Emergency Response Activities). Resources will be allocated to this component as needed by the project during implementation. Disbursements will be made against a preestablished list of critical goods or the procurement of goods, works, and consultant services required to support the immediate response and recovery needs of the GoN. A separate Implementation Manual for this component will be prepared by the GoN and will provide detailed guidelines and instructions on how to trigger the CER component and use funds.

Component 5: Project management and coordination (US$8 million).

6. This component will provide support to the MoUD for managing, coordinating and monitoring the implementation of the proposed Project, and also for enhancing its federal policy and regulatory role for urban development. More specifically, it will finance (i) operational expenses of a dedicated team established in MoUD for managing, coordinating and monitoring the implementation of the proposed Project, including due diligence, quality control and reporting to the Bank on fiduciary, environment & social safeguards and technical aspects; (ii) policy and regulatory support to MoUD for supporting Nepal’s evolving urban sector and increasing private sector engagement (through appropriate policies and regulations at national level); (iii) analytical studies and assessment, including baseline, mid-term and end-line evaluation of the Project, as well as support to information management and monitoring system to better track, document and analyze Nepal’s urban development; (iv) knowledge sharing mechanisms to provide learning and experience-sharing opportunities for other ULLs and (v)

\(^{18}\) Target municipalities for Component 3 include the 17 ULLs covered under Component 1 and the 12 ULLs to be identified for Component 3.
support for designing and scaling up the Project, or preparatory activities for the Bank’s follow-up urban engagement. Overall, the component will focus on supporting MoUD in coordinating project implementation and strengthening its new policy-making role in evolving federal context\(^{19}\).

E. Implementation

Institutional and Implementation Arrangements

7. The MoUD will be the federal level primary coordinating agency for the proposed Project and will be responsible for project management, supervision, reporting and coordination through a dedicated team established in the Department of Urban Development and Building Construction (DUDBC). The MoUD will be supported by a project management support team comprising expertise in technical, FM, procurement, environment and social safeguards, gender inclusion, monitoring and evaluation (M&E) and project management. The MoUD will be responsible for, inter alia: (i) managing and supervising the implementation of all three components; (ii) coordinating with participating ULLs, (iii) monitoring the implementation progress of all proposed Project activities; (iv) compliance with the policies and procedures (technical, institutional, fiduciary and safeguards) agreed between GON and the Bank, and (v) submit periodic progress and compliance reports to the Bank.

8. Participating ULLs will be the primary implementing agencies for Component 1 and Component 3. For Component 1, a dedicated implementation team in the areas of engineering, urban planning, financial management, procurement and community mobilization will be established in each ULL. Each ULL will be assisted by a design and supervision support team, comprising technical/engineering, FM, procurement, M&E, gender and social inclusion, environmental and social safeguards experts. Under Component 2, UDSTs will provide technical assistance activities to the 21 ULLs across all key thematic areas, and to an additional 12 ULLs for COVID related TA. MoUD will lead the implementation of all the activities in Components 2 and 5. A PIM will include detailed implementation systems, procedures and supervision mechanisms for all proposed Project activities.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The Project will support Urban Local Levels (ULLs) located in two priority strategic urban clusters: Eastern-Terai region (Provinces 1 and 2), and Western Region (Provinces 4 and 5). Seventeen ULLs were selected as recipients for resources for municipal infrastructure and service delivery investments, comprising 9 ULLs in the Eastern-Terai cluster, located across the East-West highway, and 8 ULLs in the Western cluster, located in and around Pokhara-Lekhnath. Four additional ULLs in the Central Hill cluster were included for the capacity building program under Component 2. Twelve additional ULLs will be supported under Component 3 for the COVID-19 response and recovery activities through supporting rapid labor-intensive public works (LIPW). These 12 ULLs will be identified in the project implementation manual (PIM). In the event that the Contingency Emergency Response Component (CERC) is activated, the specific activities and sites will be

\(^{19}\) The Project is not proposed to support provincial governments currently as their role is still evolving within the new federal set-up. However, this will be reviewed at the mid-term review and the project design will be adjusted accordingly to provision for any technical support that provincial governments may require in urban sector aligned with the PDO.
determined at the time of activation. Floods are common issues in the plain Terai region, whereas landslides and soil erosion are common in the hills/mountains. It is possible that there are community forests and agricultural wetlands within the project municipalities. Different ethnic groups reside in different parts within the ULLs.

G. Environmental and Social Safeguards Specialists on the Team

Maya Gabriela Q. Villaluz, Environmental Specialist
Caroline Mary Sage, Social Specialist
Jun Zeng, Social Specialist
Bandita Sijapati, Social Specialist

<table>
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The ESMF has been revised to address additional environmental and social risks and impacts arising as a result of the COVID-19 pandemic, and to address risks under the added component for rapid Labor Intensive Public Works (LIPWs). Guidance has been provided on labor procedures including on occupational health and safety (OH&S), and community health and safety risks, including on hygiene, sanitation and waste management. Activities which have significant environmental or social risks or impacts will not be selected for LIPW subprojects. Guidance on selecting LIPW subprojects will be provided in the PIM. The revised ESMF will be publicly disclosed on the World Bank and GoN websites. Once detailed design of the LIPW has been undertaken, the ESMF will be updated in order to address identified environmental and social risks. The revised ESMF does not address risks related to CERC given that the type of likely emergency and indicative list of activities that will be required cannot yet be determined. In the event that activities go beyond the scope of the ESMF, the ESMF will be updated and redisclosed.

Depending on the scope and scale of subprojects, these activities may generate limited potential environmental impacts due to construction activities that may produce air and water pollution, traffic, borrow pits and stockpiles for aggregates and building materials, noise, dust, vibration, obstruction, PPE waste and other medical waste, OH&S implications, and other nuisances. An ESIA and/or ESMP will be prepared for each identified subproject where required.

The project follows the hierarchy of impact management starting with avoidance, minimization, mitigation, and compensation. This approach is being adopted to ensure that anticipated impacts on the natural environment, human health and safety, other social impacts, and physical cultural resources are adequately addressed. Public consultations with various stakeholder groups (including local government units, potentially affected communities, and NGOs) were conducted during preparation of the ESMF.
An ESIA and ESMP have been prepared for the Talchowk-Begnas road and drainage rehabilitation subproject in Pokhara-Lekhnath in compliance with the ESMF. It was determined that the anticipated impacts will generate manageable risks brought about by the construction activities which are short-term and reversible.

The Ministry of Urban Development (MoUD) will be the federal level primary coordinating agency for the Project and will have a dedicated team at the Department of Urban Development and Building Construction (DUDBC) which will oversee compliance to the environmental and social safeguard requirements of the ULLs. Participating ULLs will be the primary implementation agencies for Components 1 and 3. For Component 1, a dedicated implementation team will be responsible for the day-to-day operations of the subprojects at the ULL level and will be assisted by an environmental specialist, a social safeguard specialist, and a gender and social inclusion (GESI) specialist.

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<td>Natural Habitats OP/BP 4.04</td>
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<td>While the exact location of subprojects is not known, the policy has been triggered as the proposed subprojects could generate environmental impacts that may affect natural habitats directly or indirectly which would necessitate appropriate conservation and protection measures. However, the project will not cause permanent conversion of critical habitats. To ensure this, the ESMF has defined robust screening criteria that excludes subprojects that may cause the intrusion, conversion or degradation of critical natural habitats as well as the degradation and extraction of resources in natural habitats. In addition, the ESMP will include mitigating measures to ensure natural habitats that may be affected during project implementation are protected or restored to its original state.</td>
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<td>Forests OP/BP 4.36</td>
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</tbody>
</table>
Forest-based products. To ensure this, the ESMF has defined robust screening criteria that excludes subprojects that may involve any conversion or degradation of natural forests, or related habitat – including cutting of trees. In case trees will be affected along the Right-of-Way (ROW), the trees will be balled and transferred or if not feasible, will be replaced with at least 25 tree saplings per tree removed.

<table>
<thead>
<tr>
<th>Category</th>
<th>Code</th>
<th>Status</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forest-based products</td>
<td></td>
<td></td>
<td>Anticipated impact of investments on physical cultural resources will be part of the screening criteria, depending on location and type of activities. Physical investments will be designed with attention to cultural heritage values and protection. While the exact location of investment subprojects is not yet identified, chance finds procedures is an essential part of the ESMF.</td>
</tr>
<tr>
<td>Indigenous Peoples</td>
<td></td>
<td>Yes</td>
<td>This policy has been triggered as indigenous communities may be presented in locations of subprojects. To address potential impacts on indigenous groups, the ESMF contains a Vulnerable Community Development Framework (VCDF) as a separate chapter to address the needs of vulnerable communities, including indigenous groups, and the procedures for assessing impacts. Vulnerable groups including women’s groups and Dalit groups will be specifically targeted under the LIW component. The VCDF provides guidance to ULLs on preparing Vulnerable Community Development Plans (VCDP) where a VCDP is required for subprojects. The VCDP guides planning approaches with indigenous peoples and other vulnerable groups, including women, disabled populations, the elderly and those living in poverty. These approaches include ensuring a process of free, prior and informed consultation with affected indigenous communities. Any proposed engagement needs to take COVID-19 requirements into consideration, such as the need for social distancing.</td>
</tr>
<tr>
<td>Involuntary Resettlement</td>
<td></td>
<td>Yes</td>
<td>This policy has been triggered as subprojects may have resettlement impacts. Under component 1, investments in municipal infrastructure could require the taking of land, resulting in the relocation or loss of shelter, loss of assets or access to assets,</td>
</tr>
</tbody>
</table>
or could affect income or livelihood. The ESMF contains a Resettlement Policy Framework (RPF) as a separate chapter and will be the guiding document in the preparation of Resettlement Action Plans (RAP) for subprojects. The RPF provides guidance on land acquisition and resettlement activities, and includes the process for confirming land title, and the different options that ULLs can follow to undertake land transfer where required as part of civil works. Where voluntary land donation has taken place following PCN review and prior to appraisal, the ESMF provides guidance on undertaking due diligence to show that the land taking practices were on voluntary basis, the livelihood impacts were minor and land donors were fully consulted. The RPF includes an entitlement matrix to guide the provision of appropriate entitlements as well as guidance on conducting stakeholder engagement and grievance redress. Any proposed engagement needs to take COVID-19 requirements into consideration, such as the need for social distancing. RAPs will be prepared for all subprojects where resettlement impacts are expected. A RAP for the Talchowk-Begnas road and drainage rehabilitation subproject in Pokhara-Lekhnath has been prepared consistent in OP4.12. The RAP provides details of project-affected persons, resettlement policy procedures, compensation rates and institutional and monitoring arrangements.

<table>
<thead>
<tr>
<th>Safety of Dams OP/BP 4.37</th>
<th>No</th>
<th>Project infrastructure does not include dam or does not depend on existing dam.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td>Yes</td>
<td>The policy has been triggered, as the proposed investment sub-projects could involve use of water from the Gandak, Koshi, and other rivers that are tributaries of Ganga river and are considered international waterways under the Policy. The proposed investment sub-projects are limited to rehabilitation/upgradation of existing municipal road and adjoining drainage, water supply and sanitation schemes and will not adversely change the quality or quantity of water flows to other riparians, therefore, the Project falls under the exception to the notification requirement according to paragraph 7 (a) of the Policy. To further ensure that selected drainage, water supply and on-site sanitation sub-</td>
</tr>
</tbody>
</table>
projects do not lead to any adverse impact on the quality or quantity of water flowing to other riparians, the Project will include a screening mechanism in the Project Implementation Manual (PIM) to exclude investment sub-projects on (i) new drainage, water supply and on-site sanitation systems and/or (ii) rehabilitation and expansion, which would change the nature of existing sub-projects or adversely impact the quality or quantity of international waterways. This screening condition will also be included as a Legal Covenant in the Financing Agreement.

<table>
<thead>
<tr>
<th>Projects in Disputed Areas OP/BP 7.60</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project is not located in a disputed area</td>
<td></td>
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</table>

**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT**

**A. Summary of Key Safeguard Issues**

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The Project is expected to bring significant positive benefits for residents living in sub-project areas across the 17 ULLs under Component 1 through improvements to critical infrastructure services such as municipal roads, storm drainage, water supply, waste water management and solid waste management which will improve mobility and provide better access to services and markets, safer roads, and healthier living environments. The LIPW component will provide support and relief to vulnerable groups in target municipalities to help mitigate the short and medium term negative impacts of the COVID-19 crisis through rapid LIPW activities. However subprojects may have some limited negative environmental and social impacts. While detailed environmental and social screening will be carried out during the feasibility assessment of each subproject, the potential environmental and social impacts are anticipated to be site-specific, short-term and manageable. No large scale, significant, or irreversible impacts are expected from the subprojects being financed.

Based on the anticipated impacts, the Project has been classified as a Category B project. The Environmental and Social Management Framework (ESMF) includes a list of ineligible investments for Component 1 subprojects that are potentially Category A investment or high-risk activities. Activities which have significant environmental and social risks or impacts will not be selected for LIPW subprojects. Guidance on selecting LIPW subprojects, including ensuring effective targeting for location-specific vulnerable groups, will be provided in the PIM.

Given that subproject activities will take place in urban areas, there may be some limited negative environmental and social impacts, such as resettlement impacts from the taking of land, and community health and safety impacts, such as from construction noise, equipment vibrations, hygiene and sanitation, and waste management (such as for medical personal protective equipment (PPE) and other medical waste). Indigenous people may possibly be present in ULLs which are within scope of the project. Further, there is a risk of sexual exploitation and abuse and sexual harrassment (SEA/SH) during subproject construction under Component 1 due to possible labor influx into communities. However, due to the nature of this project, these negative impacts will not be significant and will be
manageable. There are also risks related to COVID-19 transmission under subproject activities, and well as occupational health and safety (OH&S) risks to workers, particularly under the LIPW component. Mitigating measures for environmental and social impacts are included in the design features of the subprojects to make sure that net environmental and social benefits are achieved during the construction and operation phases.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
No long-term impacts have been identified. The Project will provide improved infrastructure services that will help arrest natural resources degradation in the project area, and improve mobility of communities, as well as providing support and relief to vulnerable groups impacted under COVID-19 through LIPW activities. The LIPW subprojects will require a minimum percentage representation of female workers. The ESIAs undertaken for subprojects where required and the mitigating measures for risks and impacts as provided in the ESMPs are designed to ensure that indirect or long-term impacts will generate positive environmental and social benefits in the area.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
Alternative analyses will be conducted during the Feasibility Study Report (FSR) phase for each subproject including a environment and social risk screening based on baseline data. The ESIA will include the analysis of alternatives for sites and technology. Subprojects which cause the least environmental and social impacts will be prioritized for Project funding.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
The ESMF has been prepared by the Ministry of Urban Development (MoUD) according the World Bank’s safeguards policies. A Resettlement Policy Framework (RPF) and Vulnerable Communities Development Framework (VCDF) were included in the ESMF as well as guidance for conducting stakeholder engagements. Guidance for adapting citizen engagement and stakeholder engagement requirements to the COVID-19 context have also been included. Given the expected labor influx to undertake subprojects under Component 1 and ensuing risks such as for SEA/SH, the ESMF includes a SEA/SH Risk Mitigation Action Plan providing guidance on managing labor influx and mitigation measures for such risks. Guidance has also been provided to address OH&S risks to workers. An Environmental and Social Impact Assessment (ESIA), Environmental and Social Management Plan (ESMP), and a Resettlement Action Plan (RAP) has been prepared for the Talchowk-Begnas road and drainage rehabilitation subproject in Pokhara-Lekhnath in compliance with the ESMF. The safeguards management capacity of the implementing agencies was assessed, and will be strengthened during project implementation through technical support under Component 1, to ensure adequate environmental and social risk management and safeguards performance. During project implementation, the MoUD together with the environmental specialist and social specialist will work closely with the environment and social safeguards staff of the ULLs to ensure adequate ESMP implementation and safeguards compliance.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
Key stakeholders include project-affected households, communities in subproject areas, women’s groups, indigenous communities and other vulnerable groups including women, disabled populations, the elderly and those living in poverty, and local government authorities. During preparation of safeguards instruments under Component 1, consultations were conducted with these stakeholders with an emphasis on those directly impacted by the project, and vulnerable groups. Details of these consultations are provided in the prepared safeguards instruments.
In addition, key stakeholders under the LIPW component are vulnerable groups who will be targeted for the LIPW activities. The selection process for beneficiaries will specifically cater to supporting vulnerable groups including women, the elderly, physically challenged, minorities and disadvantaged groups.

The Project will build on existing mechanisms for engagement to undertake consultations to institutionalize and strengthen these systems, and will also support existing grievance mechanisms established by ULLs in order to build ULL capacity in effectively addressing and resolving community grievances and to strengthen those systems. Under component 1, municipal forums are proposed as the primary mechanism for community participation, to ensure that infrastructure subprojects identified by ULLs reflect local needs and priorities. Locally appropriate processes will be supported at each stage of the investment identification and selection process. Selection and implementation of subprojects under the LIPW component will be undertaken in close consultation with communities such through user committees or representative groups such as women’s groups or disadvantaged groups at the municipal or ward level.

The ESMF provides guidance on adapting citizen engagement and stakeholder engagement mechanisms to the COVID-19 context such as using a wider range of ICT tools, to conduct meetings and workshops, and drawing on existing networks, local social mobilizers and representative groups to disseminate project information to individuals and communities.

### B. Disclosure Requirements

<table>
<thead>
<tr>
<th>Environmental Assessment/Audit/Management Plan/Other</th>
<th>Date of receipt by the Bank</th>
<th>Date of submission for disclosure</th>
<th>For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>26-May-2020</td>
<td>27-May-2020</td>
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</table>

"In country" Disclosure

Nepal

26-May-2020

Comments

<table>
<thead>
<tr>
<th>Resettlement Action Plan/Framework/Policy Process</th>
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<td></td>
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"In country" Disclosure

Nepal

27-May-2020

Comments
Indigenous Peoples Development Plan/Framework

<table>
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"In country" Disclosure

Nepal

27-May-2020

Comments

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?

No

OP/BP 4.04 - Natural Habitats

Would the project result in any significant conversion or degradation of critical natural habitats?

No

If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?

Yes

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?

Yes

Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?

Yes

OP/BP 4.10 - Indigenous Peoples

Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?
Yes
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes
If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?
NA

**OP/BP 4.12 - Involuntary Resettlement**

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?
Yes
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes

**OP 7.50 - Projects on International Waterways**

Have the other riparians been notified of the project?
No
If the project falls under one of the exceptions to the notification requirement, has this been cleared with the Legal Department, and the memo to the RVP prepared and sent?
Yes
Has the RVP approved such an exception?
Yes

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
Yes
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes
All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

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|                      | Harsh Goyal  
|                      | Jonas Ingemann Parby |

Approved By

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| Practice Manager/Manager: | Catalina Marulanda  
| 10-Jun-2020 |
| Country Director: | Faris H. Hadad-Zervos  
| 11-Jun-2020 |