

ADB

Report and Recommendation of the President to the Board of Directors

Project Number: 49202-001
September 2015

Proposed Administration of Grant Nepal: Disaster Risk Reduction and Livelihood Restoration for Earthquake-Affected Communities Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 10 September 2015)

Currency unit	-	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.0094
\$1.00	=	NRs106.0160

ABBREVIATIONS

ADB	-	Asian Development Bank
DOE	-	Department of Education
EARF	-	environmental assessment and review framework
EEAP	-	Earthquake Emergency Assistance Project
FSMD	-	Financial Sector Management Division
GESI	-	gender equity and social inclusion
JFPR	-	Japan Fund for Poverty Reduction
JICA	-	Japan International Cooperation Agency
MFI	-	microfinance institution
MOF	-	Ministry of Finance
NRA	-	National Reconstruction Authority
PDNA	-	Post Disaster Needs Assessment
SFC	-	small farmers cooperative
SFDB	-	Small Farmers Development Bank
UN	-	United Nations
VDC	-	village development committee

NOTES

- (i) The fiscal year (FY) of the government ends on 15 July. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2015 ends on 15 July 2015.
- (ii) In this report, “\$” refers to US dollars.

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CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impacts and Outcome	4
C. Outputs	4
D. Investment and Financing Plans	6
E. Implementation Arrangements	6
III. DUE DILIGENCE	8
A. Technical	8
B. Economic and Financial	8
C. Governance	9
D. Poverty and Social	9
E. Safeguards	10
F. Risks and Mitigating Measures	10
IV. ASSURANCES	10
V. RECOMMENDATION	10
 APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	13

PROJECT AT A GLANCE

1. Basic Data		Project Number: 49202-001	
Project Name	Disaster Risk Reduction and Livelihood Restoration for Earthquake-Affected Communities	Department /Division	SARD/NRM
Country Borrower	Nepal Government of Nepal	Executing Agency	Ministry of Finance
2. Sector		ADB Financing (\$ million)	
<input checked="" type="checkbox"/> Education	Education sector development		0.00
<input type="checkbox"/> Finance	Inclusive finance		0.00
		Total	0.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG) Environmentally sustainable growth (ESG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive Disaster risk management	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change Civil society participation	Effective gender mainstreaming (EGM)	<input checked="" type="checkbox"/>
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	Bilateral institutions (not client government) Civil society organizations Official cofinancing		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	Yes		
Geographic targeting (TI-G)	Yes		
6. Risk Categorization:			
7. Safeguard Categorization		Environment: B Involuntary Resettlement: C Indigenous Peoples: C	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB			0.00
Cofinancing			15.00
Japan Fund for Poverty Reduction			15.00
Counterpart			2.80
Government			1.30
Others			1.50
Total			17.80
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed grant to Nepal for the Disaster Risk Reduction and Livelihood Restoration for Earthquake-Affected Communities Project to be provided by the Japan Fund for Poverty Reduction (JFPR).¹
2. The project will support accelerated reconstruction following the devastating earthquake on 25 April 2015. The project will focus on reconstructing disaster-resilient schools, building community capacity to cope with future disasters, and providing microcredit to recover productive capacities.

II. THE PROJECT

A. Rationale

3. On 25 April 2015, a 7.8 magnitude earthquake struck Nepal, causing widespread destruction and loss of life. The initial earthquake was followed by aftershocks and another powerful quake on 12 May 2015. The earthquake affected 31 out of 75 districts in Nepal. Among the affected districts, 14 in the central and western regions with a total population of 5.4 million were most severely affected.²
4. **Disaster needs assessment and response.** The Government of Nepal and international and bilateral donor agencies responded quickly and jointly undertook a Post Disaster Needs Assessment (PDNA).³ The overall damages in all of the affected districts include 8,790 deaths and over 22,300 injured (footnote 3). Nearly 500,000 houses were destroyed and 250,000 damaged (footnote 3). The total value of disaster effects, including direct damages and indirect losses, is estimated at NRs706 billion. Of that amount, NRs517 billion (73% of the total effects) represents the value of destroyed physical assets, and NRs189 billion (27% of the total effects) reflects the losses and higher costs of production of goods and services arising from the disaster.

5. The affected districts, except for the Kathmandu Valley, are essentially rural and agriculture-based areas where the pre-earthquake vulnerability level was already high. The 14 severely affected districts account for about 13.6% of the total number of people living below the poverty line across Nepal. The earthquake particularly affected rural livelihoods by damaging livestock, crops, and agro-based cottage industries. Due to the income shock caused by the earthquake, it is estimated that an additional 2.5% of Nepal's total population of 27 million as of 2013, or at least 700,000 people, will be pushed into poverty in FY2015. The affected rural districts account for 20% of the country's total road networks and 23% of total schools, and the earthquake caused severe disruptions to rural households' access to essential physical infrastructure and social services.

¹ The design and monitoring framework is in Appendix 1.

² The 14 most severely affected districts are Bhaktapur, Dhading, Dolakha, Gorkha, Kabhrepalanchok (Kavre), Kathmandu, Lalitpur, Makwanpur, Nuwakot, Okhaldunga, Ramenchhap, Rasuwa, Sindhuli, and Sindhupalchowk. Government of Nepal. Central Bureau of Statistics. *National Population and Housing Census 2011*. Kathmandu.

³ On 22 May 2015, the government launched the Post Disaster Needs Assessment (PDNA), covering 23 sectors and themes. Supported by the Asian Development Bank (ADB), the European Union, the Japan International Cooperation Agency (JICA), the United Nations (UN), and the World Bank, it aimed to assess the impact of the earthquake and define a recovery strategy. A PDNA report was presented at the International Conference on Nepal's Reconstruction on 25 June 2015 (Government of Nepal. National Planning Commission. 2015. *Nepal Earthquake 2015 Post Disaster Needs Assessment*. Kathmandu).

6. **Education sector damage and needs.** Over 8,000 public schools were affected, with 25,134 classrooms fully destroyed and another 22,097 partially damaged. In private schools, 956 classrooms were fully destroyed and 3,983 classrooms were partially damaged. More than 80% of the damages have been concentrated in the 14 severely affected districts. Public schools accounted for 92% of the education sector's estimated total damages and losses of NRs31.3 billion. Of this, the damage to infrastructure and physical assets is estimated at NRs28.0 billion. The total needs for recovery and reconstruction are estimated at NRs39.70 billion (footnote 3).

7. Due to the disruption in educational services, there will be an impact on enrollment, attendance, and internal efficiency, leading to an increase in the number of out-of-school children. With an increase in the demand for additional labor for reconstruction, some children, particularly in the higher grades, may attend school less regularly or drop out.

8. **Livelihood damage and needs.** The earthquake affected the livelihoods of about 2.3 million households and 5.6 million workers across 31 districts, resulting in the loss of 94 million workdays and NRs17 billion of personal income in FY2015. The agriculture sector was most severely affected. It is estimated that 49% of all workdays lost occurred in agriculture, followed by tourism (31%), industry (11%), and commerce (9%) (footnote 3).

9. Affected households need immediate access to finance to recover their livelihoods and restart income generation. However, microfinance institutions (MFIs), which are the main source of finance in rural areas, were also affected.⁴ It is estimated that as of September 2015, approximately NRs10 billion MFI portfolio is at risk, and the funding needed by MFIs to meet affected people's demands is estimated at over NRs100 billion. In Nepal, only 14% of the total population have bank accounts. The majority of the affected households have access to only semiformal MFIs (footnote 4). The earthquake affected a large number of such unbanked households, and it is estimated that approximately 30% of the 1.5 million MFI borrowers across the country have been affected.

10. As most of the affected MFI borrowers do not have alternative credit source, MFIs will face both liquidity and solvency issues, impacting their capacity to assist their communities in this time of need. MFIs have limited funding sources and mainly rely on the government's deprived sector lending scheme, in which banks are mandated to allocate 5% of their total loan portfolio to relend to MFIs. After the earthquake, banks are particularly cautious in extending loans to MFIs due to the increased risk from the disaster.

11. **Post-disaster recovery strategy.** For the education sector, the recovery strategy involves three major elements: (i) improving existing policies, guidelines, and systems to promote safety; (ii) working to make new schools and other education institutions resilient to climate change and disaster; and (iii) enhancing disaster resilience through awareness-building among teachers and students.

12. For the education sector, the government has already initiated reconstruction activities. The Asian Development Bank (ADB) and other development partners contributed to construct temporary learning centers.⁵ ADB's Earthquake Emergency Assistance Project (EEAP) will (i)

⁴ MFIs in this document refer to both microfinance nongovernment organizations, and savings and credit cooperatives.

⁵ ADB. 2015. *Nepal Earthquake Disaster Response Humanitarian Assistance (funded from the Asia Pacific Disaster Response Fund)*. Manila.

support the reconstruction and retrofitting of schools in the 14 severely affected districts, and (ii) strengthen awareness and capacities for disaster risk management at schools.⁶ The EEAP will build on ADB's successful experience in piloting a school safety program that retrofitted 160 schools and provided capacity development to 180 engineers and sub-engineers of the government.⁷

13. For livelihood recovery, the strategy focuses on enabling households to recover their productive activities while increasing their resilience to disasters. Affected households must gain access to finance to regenerate incomes, but they cannot obtain commercial sources of finance because their income streams have been disrupted. MFIs and savings and credit cooperatives can serve as effective mechanisms to provide assistance in rebuilding affected people's livelihoods. MFIs have huge outreach, community-based linkages, and a long and trusted presence in the rural areas. A priority need is injecting liquidity into MFIs to onlend to affected households and enabling them to restart their livelihoods and become bankable again.

14. The project is built on ADB's successful experience in extending rural finance services under ADB's Rural Finance Sector Development Cluster Program, under which the Small Farmers Development Bank (SFDB) and network of small farmers' cooperatives (SFCs) were reformed and strengthened as an efficient financial service provider.⁸ The program enabled 142,514 small farmers in rural areas to access institutional financial services for the first time.

15. **Emergency assistance coordination.** There are three phases of ADB's earthquake response: (i) an Asia Pacific Disaster Response Fund grant of \$3 million for Nepal Earthquake Disaster Response Humanitarian Assistance approved on 27 May 2015, (ii) a loan of \$200 million for the EEAP approved on 24 June 2015, and (iii) the grant from the JFPR of \$15 million for the project.⁹

16. On 25 June 2015, the World Bank announced its plan to provide \$100 million of support to Nepal from its International Development Association resources. It also pledged to reallocate up to \$200 million from the existing portfolio for the recovery and reconstruction, and provide an additional \$200 million for a house reconstruction program. The Japan International Cooperation Agency (JICA) is focusing efforts on education with ADB and housing with the World Bank, in addition to general disaster risk reduction activities for increasing disaster resiliency.

17. **Need for emergency assistance grant from the Japan Fund for Poverty Reduction.** The project will have a strong focus on innovation, future orientation, and poverty reduction. The project will rebuild or retrofit model schools that will be equipped with disaster-resilient structural standards, more learning space, better furniture and amenities, and capable and dedicated teachers who are trained for disaster-preparedness education. The model schools can provide a prototype for possible replication in future. The JFPR grant funding will also enable the project to provide concessional livelihood restoration microcredit to affected poor and vulnerable households. ADB loans or other commercial sources of funding are not suitable for the

⁶ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to Nepal for the Earthquake Emergency Assistance Project*. Manila.

⁷ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant and Technical Assistance Grant to Nepal for the School Sector Program*. Manila.

⁸ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Grant, and Technical Assistance Grant for Subprogram 2 to Nepal for the Rural Finance Sector Development Cluster Program*. Manila.

⁹ ADB. 2015. *Nepal Earthquake Disaster Response Humanitarian Assistance*. Manila.

emergency microcredit, as the funding costs would be prohibitive to meet the immediate livelihood restoration needs of the affected borrowers.

18. The JFPR grant funding supplements the EEAP and enhances the recovery impact by focusing on (i) recovery and livelihood restoration with improved disaster resilience of poorer and vulnerable households among the severely affected districts;¹⁰ (ii) community capacity building on disaster risk reduction following the “build back better” concept;¹¹ and (iii) the provision of integrated assistance to affected communities by (a) addressing education and livelihood rehabilitation needs, and (b) reaching a wide range of community stakeholders, including village development committees (VDCs), school management committees, and women and youth groups.

19. The project fulfills the eligibility criteria under the Disaster and Emergency Assistance section of ADB's Operations Manual.¹² The project will not provide relief or comprehensive reconstruction, but will aim to rebuild high-priority physical assets and restore economic activities in affected areas. The project is also intended to provide transitional assistance for priority rehabilitation and include microcredit for a quick transfer of resources to affected households. ADB's Disaster and Emergency Assistance Policy requires that the processing of an emergency project will not exceed 12 weeks.¹³ The Project's ADB Board of Directors consideration date falls beyond 12 weeks from the government request date for the emergency assistance due to (i) additional time required for the Government of Japan's approval, and (ii) delayed grant negotiation date because of Nepal's ongoing constitution formulation process.

B. Impacts and Outcome

20. The impacts will be (i) improved equity and enhanced social inclusion; and (ii) enhanced disaster preparedness and resilience of earthquake-affected communities aligned with Nepal Earthquake 2015 Post Disaster Needs Assessment. The outcome will be livelihoods and schooling in poorer and more severely earthquake-affected communities restored with better disaster resilience.

C. Outputs

21. **Output 1: Schools in poorer and severely affected districts constructed or rebuilt as model disaster-resilient schools.** The project will rebuild or retrofit at least 14 model schools with disaster-resilient standards in line with the government's education sector recovery strategy (footnote 3), and equipped with information and communication technology equipment,

¹⁰ Sustainability in disaster risk reduction will be ensured in various measures, including adopting disaster risk management plans by village development committees (VDCs) covered under the project (Appendix 1).

¹¹ Adopted at the Third United Nations World Conference on Disaster Risk Reduction, 14–18 March 2015 in Sendai, Japan.

¹² ADB received a request from the Government of Nepal for Japan Fund for Poverty Reduction (JFPR) for an emergency assistance on 18 June 2015. The PDNA, led by the National Planning Commission to estimate damages, losses, and reconstruction needs, was initiated on 20 May 2015 and published on 25 June 2015. The earthquake is not a chronic natural hazard, but a rare, severe disaster. The security risks to ADB staff are at an acceptable level for engagement, as determined by the UN. The level of burden and risk-sharing among partners, especially shareholders and other key local and international actors, is appropriate. An emergency assistance grant was assessed as the most relevant instrument because (i) the proposed support is designed to provide immediate to short-term assistance to ease the transition from relief to normal development through quick support for priority recovery and reconstruction, and (ii) ongoing development programs need to advance simultaneously so that Nepal's development objectives will be met. ADB. 2015. Disaster and Emergency Assistance. *Operations Manual*. OM D7/BP. Manila.

¹³ ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.

science laboratories, and improved learning space, furniture, and other amenities. This output will be implemented using the same implementation arrangements as the EEAP and in coordination with JICA's planned reconstruction assistances for schools.¹⁴ The overall designs and approach to disaster-resilient structures are expected to be harmonized between the EEAP, JICA, and the project.

22. The project will cover the 14 severely affected districts, and there will be no overlapping between the EEAP and the project locations. This output will have a strong linkage to disaster risk reduction capacity building (output 3) to make the model schools serve as local learning centers for disaster risk reduction.

23. **Output 2: Microcredit facility for livelihood restoration provided to members of small farmers' cooperatives.** The project will provide microcredit to approximately 12,500 affected households to recover from the impacts of the earthquake. The microcredit, which will have flexible purposes to meet the various needs of affected households, could finance (i) reviving microenterprises; (ii) restoring livestock, agricultural activities, and other means of livelihood; and (iii) purchasing essential expenses during the recovery period, such as food. Microcredit will be channeled through SFCs affiliated under the SFDB. SFCs are member-owned and member-governed cooperatives with small and poor farmers as members. The SFDB has 85 SFC affiliates in the affected districts with 150,000 member households in total.¹⁵

24. Using the grant proceeds, the government will provide a loan to the SFDB, which will relend the loan to SFCs, which will onlend to final borrowers.¹⁶ Microcredit will be provided in the same geographic areas for the model schools. SFC member networks will also be utilized to provide training on disaster-resilient construction and community-based disaster risk management (output 3).

25. **Output 3: Disaster risk management capacity of the affected communities strengthened.** Training programs will be provided on disaster-resilient construction and disaster risk management. The disaster-resilient construction training will adopt the training of trainer methodology in which trained masons and carpenters will conduct training in communities.

26. The project will also support disaster risk management trainings for the communities associated with the schools, including maintenance of school buildings as potential evacuation centers in the event of disaster. The project will prepare community-based disaster risk management plans for the individual school communities, and train locally selected teachers, education administrators, school management committee members, and VDC members.

¹⁴ At the International Conference on Nepal's Reconstruction, JICA announced its plan to assist school reconstruction in collaboration with ADB.

¹⁵ The SFDB was selected as a partner financial intermediary for the JFPR grant because it has (i) the most extensive outreach network in the affected districts, (ii) a satisfactory implementation record in providing microfinance services in rural areas under ADB's project (footnote 8), and (iii) a functioning project implementation unit staffed with experienced experts that can facilitate fast disbursement and implementation under the emergency circumstances.

¹⁶ Final terms and conditions will be defined in the subsidiary loan agreement between the Government of Nepal and the SFDB.

D. Investment and Financing Plans

27. The project is estimated to cost \$17.8 million, inclusive of taxes and duties (Table 1). Detailed cost estimates by expenditure category and detailed cost estimates by financier are provided in the project administration manual.¹⁷

Table 1: Project Investment Plan
(\$ million)

Item		Amount ^a
A.	Base Cost^b	
1.	Model disaster-resilient schools	8.1
2.	Microcredit for livelihood restoration	7.0
3.	Disaster risk reduction capacity building	1.9
	Subtotal (A)	17.0
B.	Contingencies^c	0.8
	Total (A+B)	17.8

^a Includes taxes and duties of about \$1.3 million to be partially financed from government resources, Small Farmers Development Bank resources, or the Asian Development Bank (ADB) resources. Financing of and duties by the government are mainly through tax exemption. The amount of taxes and duties will be within the reasonable threshold identified during the country partnership strategy preparation process in 2012. Such amount will not represent an excessive share of the project investment plan. The taxes and duties apply only to ADB-financed expenditures. Financing of the taxes and duties is material and relevant to the success of the project. The JFPR grant may finance local transportation, insurance costs, and bank charges.

^b In mid-2015 prices.

^c Physical contingencies computed at 5% for civil works and 3% for consulting services. No physical contingency is applied for the credit line. Price contingencies computed at 0.3%–1.5% on foreign exchange costs and at 7.0%–7.7% on local currency costs (in line with escalation rates published by ADB) at <https://lnadbg1.adb.org/erd0004p.nsf/>) include provisions for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank estimates.

28. The Japan Fund for Poverty Reduction (JFPR) will provide a grant cofinancing equivalent to \$15 million to be administered by ADB. The grant will finance (i) civil works and equipment; (ii) consulting services, training, and capacity building; (iii) credit line; and (iv) incidental expenditures and contingencies.¹⁸ The government and SFDB will provide \$2.8 million equivalent to contribute to taxes and duties, and credit line.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Japan Fund for Poverty Reduction ^a	15.0	84.0
Government of Nepal	1.3	8.0
Small Farmers Development Bank	1.5	8.0
Total	17.8	100.0

^a Administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

29. The Government of Nepal is to establish the National Reconstruction Authority (NRA) to steer all the rehabilitation and reconstruction programs including this JFPR project. Upon its

¹⁷ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹⁸ Any incidental expenditures relating to bank charges, local transport, freight, and insurance are eligible for ADB financing.

establishment, the NRA will be the project's executing agency. In the interim, the Ministry of Finance (MOF) will be the executing agency for the project.¹⁹

30. The project will adopt the same overall project implementation arrangement as the EEAP. Under the EEAP, a dedicated project management unit will be established in the MOF as the executing agency, consisting of managerial staff and technical experts assisted by project management consultants. The project management unit of the EEAP will also be the project management unit for the project.

31. Output 1 will be implemented using the EEAP implementation arrangement for school rebuilding. Under the EEAP, the Department of Education (DOE) under the Ministry of Education will be the implementing agency, with a dedicated project implementation unit. Consultants to be recruited under the EEAP will also assist in the implementation of the project's output 1. The implementing agency will establish a high-level task force for the approval of designs for model schools and an overall policy for the construction of disaster-resilient school buildings.

32. For output 2, the Financial Sector Management Division (FSMD) of the MOF will be the implementing agency, with SFDB as the partner financial intermediary. SFDB will channel the funds to SFCs to onlend to its members. SFDB has been the implementing agency under ADB's Rural Finance Sector Development Cluster Program (Subprogram 2) (footnote 8), whose project implementation unit will be used for this output.

33. For output 3, the MOF's FSMD and the DOE will implement the output in their areas of responsibility. The MOF's FSMD, in coordination with SFDB, will organize the disaster-resilient construction training and community-based disaster risk management training to SFCs. The DOE will organize training for school communities on disaster risk management.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	July 2015–September 2018 The extended implementation period beyond the emergency assistance norm of 2 years is justified based on slow disbursement and implementation progress in similar projects in Nepal. ^a The project's implementation period needs to be aligned with the EEAP because the consultants under the EEAP will also support implementation of the project.		
Estimated completion date	30 September 2018		
Estimated closing date	31 March 2019		
Management			
(i) Oversight body	Project Steering Committee (to be established)		
(ii) Executing agency	MOF (interim executing agency)		
(iii) Key implementing agencies	Department of Education, MOF (Financial Sector Management Division), Small Farmers Development Bank (partner financial intermediary)		
(iv) Implementation unit	Kathmandu, Nepal, about three full-time staff proposed (three offices)		
Procurement	National competitive bidding	2 contracts	\$6.8 million
	Shopping	Multiple contracts	\$0.68 million
Consulting services	Individual consultant selection	152 person-months	\$608,000
	Single source selection	5 person-months	\$125,000
Retroactive financing and/or advance contracting	Provided for eligible expenditures incurred for consulting services, procurement of goods and civil works, training and capacity building, and credit line after 25 April 2015, and up to a maximum of 20% of the grant amount		

¹⁹ A National Reconstruction Authority is expected to be established and provided with adequate financial and approval authority (through an ordinance or the 2015 earthquake rehabilitation and reconstruction act) to allow it to execute rehabilitation and reconstruction programs successfully.

Aspects	Arrangements
Disbursement	The grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB

ADB = Asian Development Bank, EEAP = Earthquake Emergency Assistance Project, MOF = Ministry of Finance.

^a ADB. 2015. Disaster and Emergency Assistance. *Operations Manual*. OM D7/BP. Manila.

Sources: Asian Development Bank.

34. The procurement of goods and works, and recruitment of consulting services will be carried out in a manner consistent with the simplified and expedient procedures permitted under ADB's Disaster Emergency Assistance Policy, Procurement Guidelines (2015, as amended from time to time), and Guidelines on the Use of Consultants (2013, as amended from time to time). ADB will assist the implementing agency in the selection of the following consultants, and the executing agency will be responsible for contracts and administration: (i) engineer advisor (earthquake-resistant building design for the DOE), (ii) project management specialist (JFPR), (iii) school project coordinator (school safety, JFPR), (iv) training specialist (model schools for the DOE), (v) architect (model schools for the DOE), (vi) information and communication technology specialist (model schools for the DOE), and (vii) procurement and financial management specialist for the DOE.

35. Procurement capacity assessments of the executing agency and implementing agencies have been undertaken. Based on these assessments, (i) centralized procurement will be used by all implementing agencies, and (ii) the thresholds for procurement of goods and works as well as consulting services have been agreed upon with the government. Likewise, ADB's prior review and post-review have been set forth in the procurement plan. The procurement section in the project administration manual details the thresholds and processes to be followed by the project to support the executing and implementing agencies.

III. DUE DILIGENCE

A. Technical

36. The design and site selection of model disaster-resilient school subprojects will be in accordance with the subproject selection criteria and approval procedures agreed with the government. The project adopts the same subproject selection criteria as under the EEAP.²⁰ These include adherence to safeguards requirements and technical and economic viability. The screening of subprojects will be led by the implementing agency. The objectives of the model schools will be better disaster resilience. Each school shall also serve as community-based learning centers for disaster risk management, and promote community outreach for disaster risk reduction planning and training programs. The possible impacts of climate change and its resilience measures will also be considered during the screening of subprojects.

B. Economic and Financial

37. Economic and financial assessments for the model disaster-resilient schools will be undertaken after the ADB Board of Directors approves the project and under the EEAP implementation arrangement. The EEAP will conduct an economic analysis for model schools with reference to cost–benefit analysis of educational opportunities provided to students at risk of dropout, particularly in poor and vulnerable locations. Selection and approval of individual

²⁰ The subproject selection criteria are in Appendix 5 of the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

subprojects, as well as their implementation, will be subject to the conduct of economic due diligence and to the demonstration of each subproject's economic viability.

38. The project's model schools are public services goods with no cost recovery, and hence no financial viability assessment is required. The schools will be maintained using funds from the government's recurrent budget.

39. Economic returns of microcredit for livelihood restoration will be an aggregate of at least 12,500 investment subprojects, with each investment size less than \$500. As such, quantifying economic returns of the microcredit will be difficult. However, microcredit for livelihood restoration is expected to generate significant economic impacts through restored livelihoods and income-generating activities of affected households. Direct employment will be generated by reviving farm activities and microenterprises. Liquidity injection into the post-disaster economic environment will enhance financial viability of SFCs. Improved financial viability of SFCs and enhanced financial intermediation in the affected areas will significantly reduce the government's budgetary needs for rehabilitation.

40. SFDB's institutional due diligence was conducted in May 2015.²¹ SFDB is a leading rural finance provider and is licensed and regulated as a class D financial institution (i.e., an MFIs) by the Central Bank of Nepal. As a regulated institution, SFDB is subject to the central bank's on-site and off-site inspection and minimum capital and liquidity compliance. SFDB has a track record of delivering microfinance services through SFCs. It has successfully expanded microfinance outreach in remote hill and mountain areas under ADB's Rural Finance Sector Development Cluster Program (Subprogram 2) (footnote 8).

C. Governance

41. The project will be implemented under the same implementation arrangement as the EEAP. The FSMD of the MOF will be added as an additional implementing agency, and SFDB will be added as the financial intermediary for the microcredit. The same measures to address the fiduciary risk will be applied as under the EEAP. The overall fiduciary risk, although substantial, remains manageable as a result of the additional measures, notably the targeted technical assistance and support to the executing agency under the EEAP. All the implementing agencies, including the FSMD of the MOF and SFDB, have a satisfactory record in implementing ADB-funded projects.

42. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, the MOF, and all implementing agencies. The specific policy requirements and supplementary measures are described in the project administration manual.

D. Poverty and Social

43. The project will address the post-disaster needs of women and vulnerable groups, and their equal access to project benefits. The project will rebuild or retrofit model disaster-resilient schools addressing gender equity and social inclusion (GESI) concerns such as meeting universal design and accessibility standards, building the capacity of women teachers and staff on emergency response. In the livelihood restoration microcredit operation, at least 60%

²¹ Small Farmers Development Bank Due Diligence Report (accessible from the list of supplementary documents in Appendix 2).

microcredit borrowers are women. The project is classified as effective gender mainstreaming, and a GESI action plan was prepared.²²

E. Safeguards

44. The project is classified category B for environment. Subproject selection criteria were formulated to avoid significant adverse environmental impacts for outputs 1 and 3, and to exclude output 2 subprojects with environmental impacts. The environmental assessment and review framework (EARF), prepared in accordance with ADB's Safeguard Policy Statement (2009) and government laws and regulations, will be used for the project. The project's EARP is aligned with the EEAP. Initial environmental examinations and environmental management plans will be (i) prepared consistent with the EARP through consultant support provided through the project, and (ii) incorporated in bidding documents and contract documents to be implemented by contractors and monitored by the implementing agencies. Environmental reporting to ADB's Nepal Resident Mission will be done on a semiannual basis. The project is classified category C for involuntary resettlement and category C for indigenous peoples. Subproject selection criteria were formulated to avoid land acquisition, involuntary resettlement impacts, and social risks.

F. Risks and Mitigating Measures

45. The overall implementing risk is considered to be high. The key risks relate to the ongoing political instability and limited implementation capacity. To mitigate these key risks the project's implementation arrangement will use the arrangement under the EEAP, with project management consultants for output 1. For output 2, implementation will be supported by a national project coordination specialist, who has extensive experience implementing ADB-funded projects. Major risks and mitigation measures are described in detail in the risk assessment and risk management plan.²³

IV. ASSURANCES

46. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual. The government has agreed with ADB on certain covenants for the project, which are set forth in the grant and project agreement.

V. RECOMMENDATION

47. I am satisfied that the proposed grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the administration by ADB of the grant not exceeding the equivalent of \$15,000,000 to Nepal for the Disaster Risk Reduction and Livelihood Restoration for Earthquake-Affected Communities Project, to be provided by the Japan Fund for Poverty Reduction.

Takehiko Nakao
President

23 September 2015

²² Gender and Social Inclusion Action Plan (accessible from the list of supplementary documents in Appendix 2).

²³ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with: Improved equity and enhanced social inclusion, and enhanced disaster preparedness and resilience of earthquake-affected communities (Nepal Earthquake 2015 Post Disaster Needs Assessment) ^a			
Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Livelihood and schooling in poorer and more severely earthquake-affected communities restored with better disaster resilience	a. Enrollment rates in primary and secondary schools restored to pre-earthquake level (98% primary; 67% secondary) by 2018 (2015 [post-earthquake] baseline: not available) b. Average real annual household income of the affected communities restored up to the pre-disaster level (NRs125,000) by 2018 (2015 [post-earthquake] baseline: not available) c. At least 80% of the selected village development committees (VDCs) for disaster risk capacity building; developed a disaster risk management plan by 2018 (2015 baseline: not applicable)	a. School Level Educational Statistics of Nepal: Consolidated Report, Department of Education (annual) b. Ministry of Finance Economic Survey Report (annual) c. Quarterly progress reports from the Department of Education, Ministry of Finance (Financial Sector Management Division), and Small Farmers Development Bank	Unfavorable economic conditions at the national level and significant delays in the implementation of earthquake recovery programs make it difficult to restart rural economic activities.
Outputs 1. Schools in poorer and severely affected districts constructed or rebuilt as model disaster-resilient schools 2. Microcredit facility for livelihood restoration provided to members of small farmers' cooperatives (SFCs) 3. Disaster risk management capacity of the affected communities	1a. At least 14 model schools with disaster-resilient features rebuilt by 2018 (2015 baseline: not applicable) 2a. Livelihood restoration microcredit provided to at least 12,500 affected borrowers (including 60% women) by 2018 (2015 baseline: not applicable) 3a. Community-based disaster risk management training conducted in at least 30 VDCs by 2018, with	1a. Quarterly progress reports from the Department of Education, Ministry of Finance (Financial Sector management Division), and Small Farmers Development Bank 2a. Quarterly progress reports from the Department of Education, Ministry of Finance (Financial Sector Management Division), and Small Farmers Development Bank 3a. Quarterly progress reports from the Department of Education, Ministry of Finance (Financial Sector	Delay in implementation due to short working season, difficult terrain, low capacity of contractors, and labor shortage

Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
strengthened	women comprising 50% of participants (2015 baseline: not applicable) 3b. Community-based disaster-resilient construction training conducted in at least 90 VDCs by 2018 (2015 baseline: not applicable) 3c. Training for school communities ^b on disaster risk management provided in at least 30 VDCs, with girls and women comprising 50% of participants (2015 baseline: not applicable)	Management Division), and Small Farmers Development Bank 3b. Quarterly progress reports from the Department of Education, Ministry of Finance (Financial Sector Management Division), and Small Farmers Development Bank 3c. Quarterly progress report from the Department of Education, Ministry of Finance (Financial Sector Management Division), and Small Farmers Development Bank	
Key Activities with Milestones			
Output 1. Schools in poorer and severely affected districts constructed or rebuilt as model disaster-resilient schools			
1.1 Establish project implementation unit and recruit consultants (Q4 2015) 1.2 Review school designs and construction process (Q1 2016–Q2 2017) 1.3 Identify schools (Q1–Q2 2016) 1.4 Prepare designs, cost estimates, and bid document (Q2–Q3 2016) 1.5 Procurement of civil works contract (Q3 2016, Q2 2017) 1.6 Construction: Batch 1 schools (Q4 2016–Q3 2017) 1.7 Construction: Batch 2 schools (Q3 2017–Q3 2018)			
Output 2. Microcredit facility for livelihood restoration provided to members of SFCs			
2.1 Recruit consultant (Q1 2016) 2.2 Develop lending policy, risk management policy, and products with SFCs (Q4 2015) 2.3 Select SFCs to disburse loans (Q1 2016) 2.4 Receive funding from the Ministry of Finance (Q1 2016) 2.5 Capacity building of SFCs (Q1–Q3 2016) 2.6 Disbursement of first loan installment (Q1–Q2 2016) 2.7 Disbursement of second loan installment (Q2–Q3 2016)			
Output 3. Disaster risk management capacity of the affected communities strengthened			
3.1 Review and develop training materials (Q1 2016) 3.2 Training on disaster-resilient construction and disaster risk management (Q2 2016–Q3 2018) 3.3 Training on school-based disaster risk management (Q2 2016–Q3 2018)			
Inputs Japan Fund for Poverty Reduction: \$15 million Government of Nepal: \$1.3 million Small Farmers Development Bank: \$1.5 million			
Assumptions for Partner Financing Not applicable.			

^a Government of Nepal. National Planning Commission. 2015. *Nepal Earthquake 2015 Post Disaster Needs Assessment*. Kathmandu.

^b Includes teachers, education administrators, school management committee members, and VDC members.
Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=49202-001-2>

1. Grant Agreement
2. Project Agreement
3. Summary Assessment of Damage and Needs
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Emergency Assistance Coordination
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Gender and Social Inclusion Action Plan
10. Environmental Assessment and Review Framework
11. Risk Assessment and Risk Management Plan

Supplementary Documents

12. Small Farmers Development Bank Due Diligence Report
13. Proposal for Restoring the Livelihoods of Members of Small Farmers Cooperatives in the Earthquake-Affected Districts