

COUNTRY PARTNERSHIP FRAMEWORK FOR NEPAL

FY2025 - 2031



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Design: Print Communication Pvt. Ltd.

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 5, 2025)

Currency Unit = Nepali Rupee (NPR)

US\$ 1 = NPR 136.87

FISCAL YEAR

July 16 – July 15

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Abbreviations and Acronyms

ADB	Asian Development Bank
Cat DDO	Catastrophe Deferred Drawdown Option
CCDR	Country Climate and Development Report
CEM	Country Economic Memorandum
CLR	Completion and Learning Review
CPE	Country Program Evaluation
CPF	Country Partnership Framework
DFS	Digital Financial Services
DPC	Development Policy Credit
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
e-GP	Electronic Government Procurement
ESF	Environment and Social Framework
EU	European Union
FCDO	Foreign and Commonwealth Development Office
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GNI	Gross National Income
GPE	Global Partnership for Education
GROW	Global and Regional Opportunities Window
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IPF	Investment Project Financing
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau

KWPF	Korea World Bank Partnership Facility
MAPS	Methodology for Assessing Procurement Systems
MDTF	Multi-Donor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small, and Medium Enterprises
NDC	Nationally Determined Contributions
NEET	Not in Education, Employment, or Training
NLSS	Nepal Living Standards Survey
NPR	Nepali Rupee
OECD	Organization for Economic Co-operation and Development
PBL	Performance-based Lending
PFM	Public Financial Management
PLR	Performance and Learning Review
PPP	Public Private Partnership
PPP	Purchasing Power Parity
PSW	Private Sector Window
SCD	Systematic Country Diagnostic
SDC	Swiss Agency for Development and Cooperation
SDR	Special Drawing Rights
SME	Small and Medium Enterprises
SRSP	Shock-responsive Social Protection
TA	Technical Assistance
TF	Trust Funds
TSA	Treasury Single Account
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
WB	The World Bank
WBG	World Bank Group
WHO	World Health Organization



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I INTRODUCTION

Nepal's poverty reduction story over the last 30 years is nothing short of remarkable; its US\$2.15 poverty rate fell from over 55 percent in 1995 to 0.37 percent in 2022,¹ a feat as impressive as almost any country in history. Yet, it has done so without transformative domestic growth, investment, or job creation. Nepal's greatest challenge now is to realize its full potential by building an economy that creates sustained domestic growth and jobs. Nepal's reliance on remittances – which has been such an important element in the country's poverty reduction story – has been central to the country's growth but has not translated into quality jobs at home, reinforcing a cycle of lost opportunities and the continued departure of many Nepalis abroad in search of employment. A staggering 82 percent of Nepal's workforce is in informal employment, far higher than global and regional averages.² Nepal is also highly exposed to natural disasters and climate shocks – it is the second most vulnerable country globally to mortality risk from multiple hazards,³ including earthquakes, natural disasters (including those exacerbated by a changing climate), and disease outbreaks. Growth and development in Nepal cannot happen without sustained efforts to reduce risks, prepare for crises, and build resilience across the economy to these threats.

Two critical development challenges – (i) job-creating growth and (ii) resilience to natural disasters, including those caused or exacerbated by climate change – are the foundation upon which the World Bank Group (WBG) is building its FY25-FY31 engagement. Underpinning these are other challenges such as limited connectivity, which hampers growth, jobs, resilience, and access to services, especially given the country's diverse geography and topography. The three-tier federal system, the cornerstone of Nepal's post-conflict democracy, remains weak, reinforcing the persistent need to build public institutions to deliver results.

This Country Partnership Framework (CPF) outlines the strategic approach to the WBG's proposed engagement in Nepal for FY25-31. The design and priorities of this CPF are informed by a comprehensive analytical and evaluation program,⁴ a broad-based consultative process, and, critically, the Government of Nepal's 16th Development Plan (FY24/25-28/29) which lays out its national development priorities. The WBG's engagement in Nepal is grounded in a rich tradition of partnership with the government, development partners, the private sector, and civil society – and this new CPF builds on that legacy. This CPF is unique in that the WBG has

¹ Staff calculations.

² Nepal Living Standards Survey IV (NLSS, 2024). In line with the Government's definition, individuals engaged in subsistence agriculture are excluded from the calculations.

³ Nepal Climate Risk Country Profile 2021: <https://tinyurl.com/ycke3bpk> and Ministry of Forests and Environment, Government of Nepal. 2019. Climate Change Scenarios for Nepal for National Adaptation Plan.

⁴ Including but not limited to the streamlined Systematic Country Diagnostic (SCD, 2024); Completion and Learning Review (CLR, 2025); Country Economic Memorandum (CEM, 2025); Country Climate and Development Report (CCDR, 2022); NLSS, 2024; Public Expenditure Financial Accountability Assessment (PEFA, 2024); Nepal Human Capital Review, 2025; and other strategic documents of the Government.



Photo credit: Milia Production/World Bank Nepal

partnered with the Asian Development Bank (ADB) to undertake a fully joint country strategy planning approach. As ADB and WBG together account for around 70 percent of total official development assistance to Nepal – financing nearly one-fourth of the central government’s capital expenditure⁵ – and have a strong track record of cooperation in sectoral investment and policy dialogue, management from both institutions decided to take this collaborative approach to the next level by jointly preparing both strategies. Consultations with the government and other stakeholders at the federal, provincial, and local levels were held jointly, and a fully coordinated framework for sectoral engagement has been developed.

The CPF aims to balance the dual challenge of building institutions for sustained, lasting development and delivering near-term impact and results. To do so, it introduces two principles for prioritizing and programming WBG interventions.

- **Principle 1: Exclusive Focus on Two Development Challenges.** The two central development challenges – (i) job-creating growth and (ii) resilience to natural disasters – form the framework through which the WBG will structure the annual programming for its analytical, advisory, and lending work. An additional element is the cross-cutting issue of helping strengthen the public sector institutions to meet these challenges. Over the CPF period, the expectation is that the program will be almost fully reorientated to exclusively address these two challenges.

⁵ Based on Red Book data for fiscal year 2020/2021.

- **Principle 2: Balancing Ambition for Transformation and the Need for Near-term Results.** With some notable exceptions, Nepal has faced serious challenges in recent years in translating its externally financed projects and programs into tangible outcomes. While systemic problems in public service delivery are at the core of this, a critical lesson learned is the need to reduce complexity and risk in the bulk of the program. This CPF, therefore, envisions programming with greater differentiation between complex, ambitious, and high-risk/high-reward engagements (envisaged to make up about 20 percent of the program) and those that offer more immediate development dividends with less complexity and risk. The latter is expected to make up around 80 percent of the program, characterized by simplicity of design, the use of existing successful programs and engagements, and phased and programmatic approaches that divide important issues into “bite sized” pieces within a framework for medium-term action,

often leveraging partners, to ensure long-term impact and strategic relevance. The goal of this differentiation is to implement a program that addresses Nepal’s significant development challenges while also achieving short-term impact.

Building on the two principles, the CPF will focus on three Outcomes fully aligned with the WBG Corporate Scorecard: (i) More and Better Jobs; (ii) Connected Communities; and (iii) Green Planet and Resilient Populations. As a cross-cutting theme, the CPF also intends to engage on public sector institutions, governance, accountability, and effectiveness to help strengthen the public sector’s capacity to absorb and utilize scarce resources effectively and deliver results for Nepal and its people. In addition, One WBG solutions will be scaled up as the CPF aims to incentivize private sector participation in priority areas.





COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 Social and Political Context

Ten years after a Comprehensive Peace Agreement ended the conflict in Nepal, the 2015 Constitution restructured the country from a unitary state under a monarchy into a federal democratic republic. The 2015 Constitution introduced a three-tiered system of public administration comprising a federal government, seven provincial governments, and 753 local governments. Nepal's political system is characterized by a multi-party democracy and, since the onset of democracy, governments have been coalition-based. The country's political situation is fluid due to shifting alliances within successive coalition governments. Since the general elections of 2022, the government has undergone four reshuffles, exacerbating challenges related to high staff turnover, the consistency of policy implementation, and, overall, have hampered the ability of the public sector to fully deliver – leading to growing discontent with the political status quo.

The rollout of the federal public administration structures has begun in earnest, but serious implementation challenges persist. Since the adoption of the 2015 Constitution and the country's transition to federalism, some progress has been made in establishing institutional structures, adopting key legislation, and building the core blocks of public financial management. At the same

time, building a fully functioning federal system has been slow, with key legislative reforms still pending and roles and responsibilities often not fully defined. Challenges persist in establishing a fiscal system that fully aligns with the needs of the new federal structure. Additionally, broader political challenges hinder the administrative and policy decisions required to help the system reach its full potential. As of April 2, 2025, close to 45 bills, including the Civil Service Bill, remain pending for discussion in Parliament. While local governments have been incrementally able to deliver on their mandates, considerable challenges persist, particularly at the provincial level, due to legal ambiguities and severe capacity constraints.

Nepal's unique geography and strategic location between China and India offer opportunities for greater linkages to its neighbors and beyond but limit its economic flexibility amid competing strategic interests.

Greater integration in South Asia is seen as a path towards development for many countries in the region, with Nepal as an important anchor for trade and logistics. However, progress has been limited. While India has committed to buy 10,000 megawatts of electricity from Nepal over 10 years – a major development in unlocking Nepal's vast hydropower potential – translating that broad commitment into bringing concrete investments to fruition has been slow and challenging. Nepal faces a delicate balancing act in engaging with both neighbors.

Nepal continues to face internal challenges in addressing critical social development needs.

While there has been notable progress in key health and education indicators in recent decades, challenges remain. A child born in Nepal today is expected to reach only 50 percent of his or her potential productivity. A fourth of children are stunted, a third of the working-age population lacks primary education, and learning outcomes are poor, hampering future productivity. Young women are increasingly out of the labor force, with 47 percent not in employment, education, or training (NEET), more than double the rate of young men (22 percent). A major barrier to improving service delivery is the fragmentation and lack of clarity of roles and coordination between the three levels of government. Many national programs, such as basic health services, school education, and temporary employment programs, are managed at the local level, with minimal coordination between provincial and federal agencies. This lack of coordination disproportionately affects poor, vulnerable, and marginalized communities, who already face additional barriers in accessing essential services.

Nepal is experiencing an early demographic transition and can significantly improve its development trajectory by maximizing the potential of its demographic dividend.

Reduced fertility and mortality rates are producing smaller and healthier families, a youth cohort, more workers, and fewer dependents. Consistent with the experience of most countries at similar levels of development, Nepal is also going through a process of spatial population redistribution through urbanization, with many Nepalis seeking opportunities in Kathmandu and secondary cities; a significant majority of Nepalis now live in urban and peri-urban areas.

Nepal's demographic transition is uniquely intertwined with significant migration abroad – around 2.1 million Nepalis (approximately 7.4 percent of the population) currently live outside the country and recent data shows that the rate of migration is not slowing.⁶ Migrants tend to be young, working-aged men and the challenge of creating quality jobs in Nepal requires increasing and improving the distribution of opportunities, resources, and choices for all, especially for women, youth, and vulnerable and marginalized people. Gender gaps in paid work and unrecognized unpaid domestic and care work continue to negatively impact women's quality of life and productivity. Investing in health, education, skills, resilience, and an enabling work environment could help create more productive employment, taking advantage of the once-in-a-lifetime labor dividend.

2.2 Recent Economic Developments and Outlook

Remittances contribute to economic resilience but have failed to ignite sustained stronger economic growth.

Over the past decade, real GDP grew at an average rate of 4.2 percent – a commendable performance given multiple external shocks, including the 2015 earthquakes and the trade supply disruptions along the Indian border in 2015-16, but below that of regional peers. Remittances, accounting for around one-quarter of GDP in FY24, have been the backbone of economic growth, sustaining private consumption and the services sector. Remittances have not translated into productivity increases or job creation. As a result, Nepal's income level remains below that of peer economies, and at its current trajectory, it would take nearly two decades to reach upper-middle income status.

⁶ Nepal Labour Migration Report 2022, Ministry of Labour, Employment and Social Security. <https://tinyurl.com/2wdze5mk>

Structural bottlenecks constrain domestic economic growth and job creation.

Real exports have stagnated for decades and failed to contribute meaningfully to economic growth, partly due to an appreciating real exchange rate and domestic trade policies, including relatively high input tariffs on intermediate goods and raw materials. Poor transport and logistics infrastructure has further undermined export competitiveness. Manufacturing has steadily declined from an already low base, and the tourism sector remains underdeveloped. Hydropower, which could enable stronger growth and export earnings through affordable and green energy, has progressed too slowly to have a significant impact. Inadequate infrastructure, regulatory hurdles, and digital literacy gaps continue to hold back Nepal's digitalization efforts. Other structural challenges include the lack of adequate physical connectivity and weak governance. All these constraints have left Nepal unable to generate sufficient domestic jobs or achieve higher economic growth.

Nepal's fiscal reliance on trade taxes has made public finances highly vulnerable to external shocks, while inflation and external imbalances remain challenges.

Average inflation has remained high, only recently falling below Nepal Rastra Bank's target of 6.5 percent in FY24, driven by declining non-food and services inflation amid lower global oil prices. Nepal has also struggled with persistent trade deficits, driven by the steady decline of nominal exports relative to GDP. Rather than broadening the tax base, governments have taken the predictable route of relying on trade taxes and de-facto tariffs, which accounted for nearly 45 percent of tax revenue over the past decade. This has not only introduced an anti-export bias but has also made public finances highly sensitive to external shocks. While the

2023 import restrictions temporarily reduced external deficits, they also led to a sharp drop in trade tax revenue, pushing the fiscal deficit to a decade-high of nearly 6 percent of GDP.

Prudent debt management has helped preserve fiscal space, mitigating risks despite rising public debt.

Nepal is one of the few developing economies at low risk of external and overall debt distress under the Low-Income Country Debt Sustainability Framework. While public debt reached 42.7 percent of GDP in FY24,⁷ more than half came from concessional external financing, which offers lower interest rates and longer maturities. This has kept debt servicing costs manageable and limited liquidity pressures. Additionally, Nepal's large foreign exchange reserves, bolstered by remittances, provide an extra buffer against external shocks, reinforcing macroeconomic stability.

Economic growth is expected to accelerate in the medium-term but remains dependent on remittance-driven consumption and services.

Real GDP growth is projected to rise to 4.5 percent in FY25, close to historical averages. However, growth continues to be largely driven by private consumption and services. Without targeted policies to unlock high-potential sectors such as tourism and digital industries, Nepal risks continuing its pattern of slow structural transformation. Furthermore, downside risks, including geopolitical tensions, economic slowdowns in partner countries like India, and natural disasters, could weigh on future growth prospects. Nonetheless, Nepal has demonstrated resilience in managing external shocks, and ongoing support through the International Monetary Fund's (IMF) Extended Credit Facility and development partners will help sustain near-term macroeconomic stability.

⁷ This is based on the numbers reported by the authorities and, as such, does not account for the negative balance of the Treasury Single Account (TSA). Other numbers are as per the World Bank-IMF joint Debt Sustainability Analysis (DSA).

Table 1. Key Macroeconomic Indicators

	FY21	FY22	FY23	FY24e	FY25f	FY26f	FY27f	FY28f	FY29f
Real economy (percentage change, unless otherwise stated)									
Nominal GDP, current prices (NPR, billions)	4,353	4,977	5,349	5,705	6,167	6,702	7,283	7,929	8,632
Real GDP growth (at market prices)	4.8	5.6	2.0	3.9	4.5	5.2	5.5	5.7	5.8
Consumer prices (period average)	3.6	6.3	7.7	5.4	5.0	4.5	4.3	4.2	4.0
Fiscal sector (as percentage of GDP, unless otherwise indicated)									
Total revenue and grants	23.3	22.9	19.3	19.4	19.2	19.4	19.7	19.9	20.1
Expenditures	27.2	26.1	25.2	21.9	21.7	22.2	22.6	22.8	22.9
Fiscal balance including grants	-4.0	-3.2	-5.8	-2.5	-2.5	-2.8	-2.9	-2.9	-2.8
Total public debt	39.9	40.5	42.9	42.7	43.2	43.3	43.4	43.4	43.3
Balance of payments (as percentage of GDP, unless otherwise indicated)									
Current account balance	-7.7	-12.5	-0.9	3.9	3.6	2.8	2.4	2.1	2.0
Exports of goods and services	5.1	6.7	7.0	7.6	8.7	9.5	10.0	10.1	10.3
Imports of goods and services	37.9	42.3	34.7	32.9	33.7	34.9	35.6	35.9	36.1
Remittances (as percentage of GDP)	22.1	20.2	23.2	25.3	24.9	24.5	24.3	24.1	24.0
Gross official reserves (US\$ billion, eop)	11753	9513	11709	15271	15571	15776	15853	15660	15364
Gross official reserves (in months of concurrent imports)	10.2	6.9	10.0	13.0	12.2	11.0	9.9	9.0	8.0
Memorandum items									
Population, million	29.5	29.7	29.7	29.7	..	..	..	..	..
GDP per capita, current prices (USD)	1253	1386	1378	1446	..	..	..	..	..

Sources: Nepal Rastra Bank, Ministry of Finance, National Statistics Office, and Financial Comptroller General Office for historical data; and World Bank for projections and estimates.

2.3 Poverty and Shared Prosperity on a Livable Planet

Poverty and inequality have substantially reduced in Nepal over the last decade, primarily driven by remittances, although significant regional disparities in living standards remain. Living standards have improved across the income distribution and in both urban and rural areas, with minimal differences across male and female-headed households. Inequality has also gone down. Utilizing the revised 2023 national poverty line,

one-fifth of Nepal's population lives in poverty, with significant variations across Nepal's seven provinces. Poverty is highest in Sudurpaschim (34.2 percent) and Karnali (26.7 percent), while Bagmati (12.6 percent) and Gandaki (11.9 percent) have the lowest rates. Madhesh and Lumbini, with above-average poverty rates (22.5 and 24.4 percent) and larger populations, have the largest number of poor.⁸ These regional disparities pose political and social challenges, especially for the elderly and small children left behind due to migration. Targeted policies are needed to protect these groups and promote rural-urban integration, ensuring that disadvantaged areas are not solely reliant

⁸ NLSS, 2024.



Photo credit: Anuj Adhikary/World Bank Nepal

on transfers and remittances. With limited job opportunities at home and higher wages abroad,⁹ emigration remains a preferred option for Nepalis across the income distribution. Remittance-receiving households have increased over the past decade and per capita remittances have risen for both poor and non-poor households. Rapidly growing emigration has also indirectly impacted domestic wages in the non-agricultural sector. Rising wages in this sector have been another key driver of the observed reduction in poverty between 2011 and 2023. With rising remittances, increased demand for non-agricultural goods and services for non-farm labor has also pushed up non-farm wages and shifted employment towards non-agricultural jobs.

Nepal's impressive progress faces significant risk from shocks, including health, economic, and disaster shocks, compounded by the lack of targeted policy instruments for the

poor. Structural vulnerability to individuals falling back into poverty remains high due to a weak domestic labor market and a focus on categorical social assistance programs that have limited reach among the poor and are not easily scalable in response to shocks. Nepal also faces increased risks due to natural disasters and a changing climate. Moreover, rural areas remain structurally reliant on agriculture, with 89 percent of rural households engaged in crop production, which is particularly vulnerable to natural disasters and climate hazards. The absence of a strong risk reduction and disaster risk management policy and institutional framework – along with still developing social safety net framework and programs – limits the capacity to mitigate and respond to such shocks.

Nepal's substantial reductions in poverty have yet to generate equitable opportunities for women in the labor market. The country

⁹ Migrant workers earned three times more than domestic workers on average.

has made significant progress in secondary and higher education enrollment and some aspects of maternal health. However, these improvements have not led to equal participation in paid employment, with women's labor force participation just at 24 percent compared to 53 percent for men. On average, women also earn 25 percent less than men, although the pay gap is less severe in formal employment. Their limited participation is driven by many factors and exacerbated by rigid social norms that shape educational and employment choices. Adolescent fertility remains high, girls are considerably underrepresented in science, technology, engineering, and mathematics, and women shoulder most of the unpaid domestic and caretaking work. Further, many forms of gender-based violence and child marriage remain prevalent.¹⁰ In an environment where remittances have pushed up both wages and reservation wages, women may find it challenging to secure employment that offsets the costs of family care, further limiting their participation in the labor market.

2.4 Main Development Challenges

Key analyses and Nepal's 16th Development Plan broadly converge on a set of intertwined development challenges facing the country.

The 2024 streamlined SCD concluded that the six constraints identified in the 2018 SCD largely remain relevant, although progress on addressing them has been uneven. These constraints relate to (i) weak public sector institutions cutting across all sectors; (ii) job creation and private sector investment; (iii) equitable acquisition and use of human capital; (iv) harnessing the potential of natural resources; (v) resilience to shocks; and (vi)

getting more from migration. The Country Economic Memorandum identifies four areas where challenges persist, hindering growth and domestic job creation: (i) harnessing international migration for employment and welfare; (ii) real exchange rates, trade policy, and exports; (iii) realizing the opportunities for strategic sectors – like hydropower or tourism – to boost growth and create jobs; and (iv) strengthening the digital sector.

The 2022 Country Climate and Development Report (CCDR) identifies ways for Nepal to achieve its development objectives while transitioning to a more sustainable and inclusive development path. It recommends seven policy packages that can help Nepal meet the adaptation and resilience priorities identified in its Nationally Determined Contributions (NDC) and National Adaptation Plan as well as its own 2045 net zero target: (i) taking an integrated approach to water, agriculture, and forests; (ii) harnessing the hydropower opportunity and energy transition; (iii) managing sustainable urbanization; (iv) strengthening low-carbon resilient connectivity; (v) scaling up finance for resilience and low-carbon development; (vi) strengthening household and community resilience; and (vii) strengthening governance for climate change and disaster risk management.

Nepal's development challenges converge with several global challenges identified by the WBG and regional challenges such as air pollution. While Nepal applies global knowledge and lessons from other countries to tackle these issues, its diverse landscape and susceptibility to environmental challenges have fostered innovative local solutions in areas such as community forestry, biodiversity protection, and energy access. For example, it

¹⁰ Police Headquarters Crime Investigation Department Women, Children and Senior Citizens Service Directorate. 2024. Annual Factsheet on Gender-Based Violence Fiscal Year 2080/81 (Shrawan to Ashad) July/Aug 2023 to Jun/July 2024. Naxal, Kathmandu.



is a global leader in building wildlife-friendly roads and has expanded its forest cover from 25 percent in the 1990s to 46 percent in 2022.¹¹ Nepal's expansion of its hydropower capacity is central to its entry into regional power trade through the Sub-South Asian Power Pool, which was initiated in 2022 when Nepal began trading power on India's power exchange.

Nepal has faced increasing challenges in translating externally financed engagements into tangible development results. The challenges in establishing a well-functioning public administration system manifest themselves in the implementation challenges faced by WBG- and other Development Partner-supported programs. The disbursement rates of WB operations have fallen significantly in recent years, reflecting the government's larger challenges in delivering development results domestically. Only 63.5 percent of Nepal's capital budget was executed in FY24. Several factors contribute to this situation, including (a) the incomplete transformation of the

former unitary system of public administration into a three-tiered and decentralized one; (b) issues related to the independence of the civil services; (c) governance issues, broadly, including corruption, which have hampered the credibility of the public sector; and (d) a range of granular issues, from challenges with control and oversight entities to widespread procedural issues in areas such as land acquisition, tree cutting and civil works procurement, leading to risk aversion and bottlenecks in decision-making. And the key challenges which underpin this CPF – building a platform for job-creating growth and addressing the resilience challenge – are profound and multifaceted; simple and short-term solutions for such complex issues are not obvious, especially given the challenges of Nepal's political and policy-making apparatus. Making real and lasting progress in these areas will be contingent on deep reforms and a concerted effort across the political spectrum which has been largely elusive in recent years.

¹¹ Forest Research Training Center, Nepal.



WORLD BANK GROUP PARTNERSHIP FRAMEWORK

3.1 Government's Program and Medium-Term Strategy

Nepal's 16th Development Plan (FY24/25-28/29), approved in May 2024, is broad and ambitious. Its primary goal is to achieve development, good governance, social justice, and prosperity through the structural transformation of the economy. Key areas of structural transformation identified include strengthened economic growth – also at the regional and local levels – enhanced production and competitiveness, productive employment, sustainable social security, and ecological sustainability and climate change. The Plan emphasizes building human capital, developing infrastructure and connectivity, and sustainable and resilient urbanization. It also highlights the importance of reducing

poverty, increasing opportunities for women, an inclusive society, governance reform, financial management, and capital formation.

3.2 Lessons Learned and Feedback from Consultations

The implementation of the FY19-24 CPF provides important lessons (Box 1). The CPF focused on three areas that are still relevant for Nepal: (i) public institutions; (ii) private sector-led jobs and growth; and (iii) inclusion and resilience. The Completion and Learning Review (CLR) rates the development outcome for the FY19-24 period as “Moderately Satisfactory”. Eight of the twelve CPF objectives were either achieved or mostly achieved, three were partially achieved, and one was not achieved.



Box 1: Key Lessons from the Completion and Learning Review (CLR) of the FY19-24 CPF

The CLR identifies several key lessons that inform the design and implementation of this CPF. These lessons emphasize:

- ▶ **Prioritization and selectivity:** There is a need for greater prioritization and selectivity considering Nepal's political economy challenges, federalism transition, and absorptive and implementation capacity, with a focus on long-term institutional strengthening.
- ▶ **Focused results architecture:** There is a need for a more realistic and focused results architecture for both public and private sector interventions, supported by investment in data generation capacity.
- ▶ **Engagement with development partners:** Sustained engagement with development partners is key to improving program effectiveness.
- ▶ **One WBG:** Scaling up the 'One WBG' approach, including IFC's and MIGA's programs, requires stronger cooperation, flexibility, and innovative solutions.

These lessons are also consistent with recommendations from ADB's Country Assistance Program Review (2024), including the focus on improving development effectiveness and private sector development.

Stakeholder consultations were carried out jointly with the ADB at federal, provincial, and local levels of government and with representatives from the private sector, civil society, and development partners. An online survey targeted youth aged 18 to 35.

A key message from the consultations was the need to strengthen provincial and local level authorities' ability to plan and implement programs. Other messages emphasized the lack of economic opportunities and jobs for youth, which drives internal migration to the capital and international migration to India and other countries. The consultations also highlighted the need to enhance private sector engagement, leverage resources, and focus on agriculture productivity and commercialization. A 2024 Country Opinion Survey highlighted that the WBG is considered one of the most trusted institutions in Nepal. Stakeholders urged the WBG to ensure effectiveness through more accountability and transparency in the use of funds, and by considering the local context when developing policies and programs. Additionally, the WBG was encouraged to collaborate more with provincial and local governments and the private sector.

The Independent Evaluation Group's (IEG) analysis of the WBG's support to Nepal between FY14-FY23 reported success in several areas but highlighted challenges in building institutions and reforming policies.

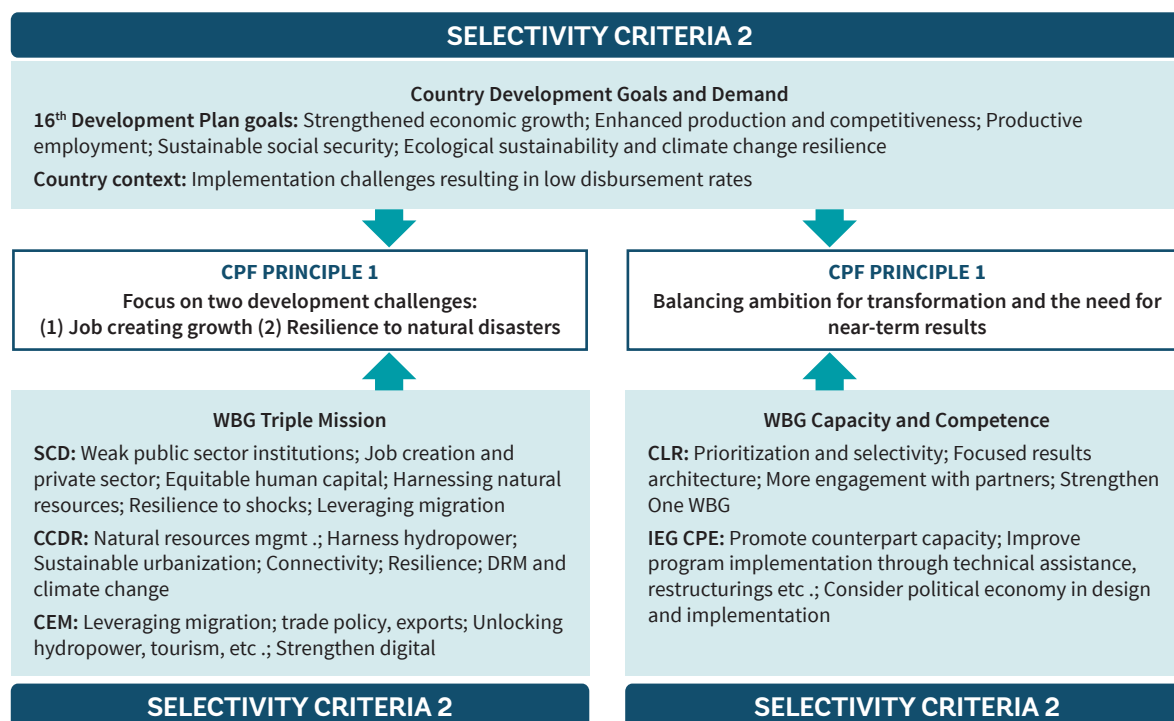
The 2024 Country Program Evaluation (CPE) noted achievements in areas such as infrastructure and disaster reconstruction – sectors largely free of political contention or where government programs preexisted. Evaluating WBG support for Nepal's federalism transition, private sector development and job creation, and climate and disaster resilience, the CPE recommends a focus on (i) promoting counterpart capacity and fostering coalitions for change among counterparts, stakeholders, and development partners; (ii) improving program implementation through enhanced technical support, proactive project restructuring, and more candid results monitoring; and (iii) considering political economy challenges during the program design and implementation stages, with a stronger focus on improving citizen engagement and strengthening subnational institutions.

This CPF reflects lessons from past engagements, IEG's evaluation, and stakeholder consultations. A simpler results framework fully aligns with the Corporate Scorecard, and selectivity and prioritization are embodied in the CPF's focus on just two development challenges and on balancing ambition for transformation with the need for near-term results. 'Institutions' is identified as a cross-cutting theme to help strengthen public sector capacity to absorb and effectively utilize scarce resources and address implementation bottlenecks. Lessons learned are also reflected in both the joint strategy process with ADB and the identification of key sectors for One WBG engagement.

3.3 Overall Approach and Selectivity Going Forward

The CPF will span a seven-year cycle, with the first five coinciding with Nepal's 16th Development Plan. Although the main challenges remain broadly the same as in the previous CPF, this CPF incorporates several shifts based on the WBG evolution and lessons learned. It builds on two principles: an exclusive focus on two development challenges – job-creating growth and resilience to natural disasters (Principle 1) and balancing ambition for transformation and the need for near-term results (Principle 2). The CPF uses the three standard selectivity criteria: (i) WBG Mission to end extreme poverty and boost shared prosperity on a livable planet; (ii) Country development goals and demand; and (iii) WBG Capacity and Competence (Figure 1).

Figure 1: Selectivity Criteria and CPF Principles: What and How



Selectivity Criteria 1: WBG Mission in the Context of Nepal's Development Challenges

The deep analytical work conducted in recent years, along with routine WBG analytical work to understand the dynamics of the economy and society in Nepal, have helped to hone a focus on the two central challenges at the heart of Nepal's development pathway:

(a) lack of sustainable, and job-creating growth; and (b) Nepal's extreme exposure to natural disasters, including those caused by and exacerbated by climate change; as well as the foundational and cross-cutting issue of the public sector's weak capacity to deliver results. These are fully consistent with the findings of the SCD and other analytical underpinnings of the WBG's engagement in Nepal.

Selectivity Criteria 2: Nepal's Development Goals and Client Demand

The proposed CPF Outcomes align with Nepal's 16th Plan and its commitment to environmental sustainability and social inclusion, and priorities identified during CPF consultations. Binding constraints include the government's absorptive and implementation capacity, as well as demand. Priority will be given to areas with strong political will for reform, absorptive capacity, or proactive efforts to address bottlenecks. Further selectivity will be based on the need to balance ambition for transformation with near-term results, weighing trade-offs between complex, high-risk/high-reward engagements and more immediate, achievable interventions grounded in a realistic assessment of constraints. This will ensure that while supporting Nepal's long-term goals remains critical, efforts are directed toward areas where tangible progress can be made within the CPF period. Additionally, commitment to providing a budget and making funds available at the level of government responsible for implementation will also be important.

The CPF will remain flexible to adapt to factors, including demand and needs, that may change during the strategy period. Given the relatively limited IDA program compared to Nepal's extensive development needs and successive governments' views that borrowing, no matter how concessional, should be focused on infrastructure and growth-related operations, the WBG will use the range of instruments at its disposal to maintain a robust engagement in complementary sectors. This includes advisory and analytical work and partner-supported activities financed through grants and is planned to cover areas like environmental management, human capital development, and public sector capacity building and institutional strengthening. In the immediate term, fewer new IDA-financed operations in health and education are likely. However, as the broader development aid landscape evolves, the WB will adjust its program to both complement partners with growing programs and help fill the gaps left by those adjusting their priorities and/or scope of support. The WB will remain engaged in areas critical to the jobs and skills agenda, complementing partners' engagements in developing foundational skills and labor market-relevant skills for young people. As such, engagement will pivot to largely focus on the development of a well-functioning safety net (if there is demand), which has been identified as central to the country's resilience agenda.

Selectivity Criteria 3: WBG Capacity and Competence

The WBG's strengths lie in leveraging financing, guarantees, knowledge, and expertise across the WB, IFC, and MIGA, as well as in enabling and mobilizing private capital. The CPF proposes a strengthened emphasis on One WBG solutions, scaling up engagement, programmatic approaches, and leveraging knowledge. Considering the limitations in Nepal's legal framework and



policies, the WBG's engagement in the early years of this CPF will likely focus on reforms and investment needed for job-creating growth, especially related to the investment climate for domestic and foreign private sector development. Depending on success in this area, IFC and MIGA will step up their engagements to support the private sector. Greater use will also be made of innovative financial instruments, including guarantees through the WBG Guarantee Platform and capital market risk transfer instruments (like Catastrophe Bonds and international reinsurance products), which will help the program go beyond the relatively limited IDA financing available to mobilize private capital.

The WBG's partnership with the ADB lies at the heart of the CPF. Beyond this, convening and coordination with the development partner community in Nepal has been central to the WBG's ability to identify critical reforms and development priorities, and these efforts will be further strengthened. Close partnership

with the ADB is seen as central to improving program effectiveness and increasing scale and replicability. The WBG and ADB have a strong track record of collaboration, including joint and parallel financing in areas such as education, gender, roads, water, and cross-financing the upcoming Upper Arun and Dudhkoshi Storage Hydroelectric Projects. Greater collaboration through the joint strategic approach with ADB will increasingly drive development during the CPF period towards jointly identified objectives and results in selected areas, considering each organization's comparative advantage. Early in the CPF period, the WBG and ADB are planning a joint policy-based engagement in the areas of business environment, jobs, and growth. Other areas include improving capital expenditure and public financial management. In some sectors, support will be complementary – for example, the development of the East-West Highway (a significant strategic road network) and upgrading provincial/local road networks. In addition, in the immediate term, while

there is a large need for energy transmission infrastructure and investment, ADB and other partners are currently funding significant programs in this space.

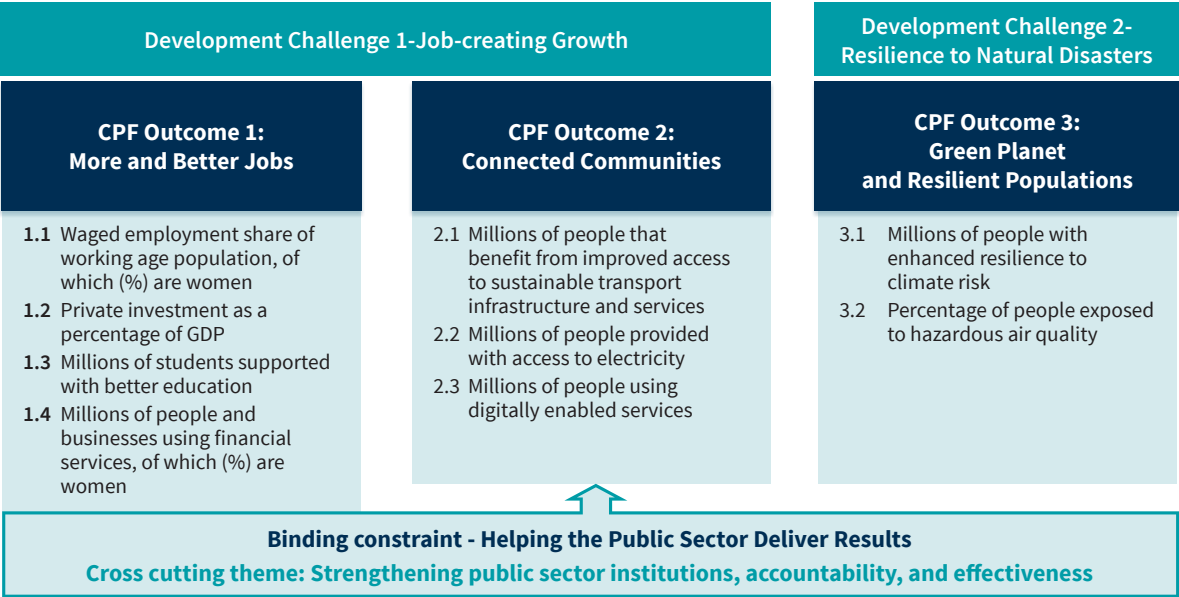
Based on lessons from the previous strategy and the program’s pivot to respond to COVID-19, the CPF will dynamically adapt the program through the business planning process and a Performance and Learning Review. This could include redirecting the program as priorities shift away from areas of low absorptive capacity, low demand, or where other financing has been secured and WBG support is no longer needed. In a changing country context, this will allow the WBG to focus on emerging opportunities where its support is best suited to help the government achieve scale and replicability. The program also needs to be flexible to assist the government in responding to shocks, including natural disasters and disease outbreaks.

3.4 Proposed CPF Program

The CPF’s overall goal is to contribute to the WBG’s mission to end extreme poverty and boost shared prosperity on a livable planet

and support Nepal in implementing its 16th Plan in select areas. The CPF identifies three Outcomes that correspond to the two identified development challenges: job-creating growth and the need for greater resilience to natural disasters, including those caused, or exacerbated, by climate change. Within the framework of these development challenges, the WBG will measure its impact through the CPF Outcomes selected as proxies for the program: More and Better Jobs; Connected Communities; and Green Planet and Resilient Populations (Figure 2). Connectivity is essential for both services and resilience, but it is also a crucial pre-condition for job-creating growth. Given that it is a sizeable part of the WBG’s program in Nepal, it has a dedicated Outcome in the CPF framework. The CPF also identifies strengthened public sector institutions, governance, accountability, and effectiveness as a cross-cutting theme and intermediate step to help the public sector deliver results. While the Outcomes and the selected indicators do not encompass all activities supported by the WBG throughout the 7-year CPF period, they represent the majority of the program, with measurable metrics to track results.

Figure 2: CPF Outcomes, Indicators, and Cross-cutting Theme



CPF Outcome 1: More and Better Jobs

This Outcome supports key building blocks for job-creating and sustainable growth to create more and better jobs. These include

(i) building a better and more investment-friendly business environment with enabling reforms for private sector-driven growth and investment; (ii) supporting urban centers and critical job-creating sectors like tourism; and (iii) improving the quality of education and skills for the labor market. It will be measured by the following indicators from the Corporate Scorecard:

Indicator 1: Waged employment share of working age population, of which (%) are women (client context indicator)

Indicator 2: Private investment as a percentage of GDP (client context indicator)

Indicator 3: Millions of students supported with better education

Indicator 4: Millions of people and businesses using financial services, of which (%) are women

Better Business Environment for Private Sector Growth and Investment

Major policy reforms and investments are needed to shift the economy toward dynamic growth. Nepal's current growth model, heavily reliant on remittances and consumption, has proven resilient but is insufficient to meet the country's ambitious development targets. On the supply side, the quality of skills is a binding constraint for productivity, a challenge exacerbated by outward migration which makes it harder for firms to retain skilled professionals and offer competitive opportunities. High turnover leads to increased training costs and disruptions in productivity, further deepening the challenges of workforce stability and economic competitiveness. Low levels of foreign direct investment (FDI) hinder the transfer of managerial know-how and the diffusion of the latest technologies, which are critical drivers of improved firm performance. At the firm level, low productivity stems from considerable factor market and regulatory constraints, particularly those that facilitate

domestic competition between firms, the entry of productive firms, and the exit of less productive ones. Nepal's cities, where the bulk of total factor productivity-driving investments will take place, have potential but lack a conducive environment for investment and job creation and require substantial investments in livability and competitiveness to attract the employment-creating industries Nepal aspires to have, as well as institutional strengthening to deliver transparent and efficient services. Women's labor force participation in Nepal is low by international standards, with a large gender gap in skilled employment,

unpaid labor, wage gaps, unequal access to opportunities, and restrictive social norms. Increasing female labor participation and productivity would require reducing household-work tradeoffs and ensuring equal access to assets.

The WBG intends to support policy reform, including monetary and trade policy, to promote competitiveness, FDI, and productivity growth. In the immediate term, the centerpiece of the WBG's focus on job-creating growth is likely to be a Development Policy Credit (DPC) to address key business environment constraints to unlock private investment. This flagship engagement is likely to be prepared jointly with ADB under the Full Mutual Reliance Framework and with a single matrix for policy reform. The engagement would embody the One WBG approach, with a team of staff from IFC, WB, and ADB. Support will largely focus on challenges in the investment and enterprise landscape, attracting FDI, and the broader business environment challenges

that limit investment and firm creation and expansion, including binding constraints on micro, small, and medium enterprise (MSME) growth and access to finance. The WBG also plans to focus on strengthening the investment climate for domestic and foreign investment and enhancing access to finance for underserved sectors, particularly those with job creation potential. This includes increasing access to finance for women, youth, and marginalized populations. These initiatives will be complemented by guarantees available under the WBG Guarantee Platform to encourage FDI and support the private sector, potentially with IDA Private Sector Window (PSW) resources. Other efforts will aim to leverage policy reforms to meet MSMEs' short-term capital needs, infrastructure financing, and business support services.

IFC will focus on the diversification of financing opportunities to expand financial inclusion. Through advisory and upstream interventions, improving Nepal's financial infrastructure will be prioritized, including credit reporting, secured lending (including de-risking instruments such as partial credit guarantees and secured transaction registries), and payment systems. With the greater focus on job creation and growth — especially in critical sectors such as tourism and digital — a focused effort to identify opportunities and finance these sectors, including through Public-Private Partnership (PPP) modalities, will characterize joint IFC, MIGA, and WB efforts. To support private capital mobilization by domestic and international investors, the WBG will work with the government to support reforms like those supporting hybrid financing instruments/structures, including mezzanine financing. Current regulations only allow pure debt or equity investments or both. Reforms that broaden the product mix would allow firms with different risk profiles to secure investments.

Support to Urban Centers and Tourism as Growth Engines

With urban areas increasingly concentrating people, assets, and opportunities, a renewed focus on improving the competitiveness of cities — both in the Kathmandu Valley and, equally importantly, in secondary cities — is integral to Nepal's medium-term growth and jobs challenge. With a population of four million, the Kathmandu Valley is the largest urban agglomeration in Nepal and one of the fastest-growing metropolitan regions in South Asia. It accounts for about one-third of the country's urban population and sustains a rapid pace of population growth. The Kathmandu Valley is also a major destination for internal migration due to its economic opportunities. If managed properly, growth in the Valley can generate productivity gains, economic opportunities, and rising incomes for the entire country. However, it suffers from uncontrolled growth, poor or nonexistent planning, traffic congestion, and significant environmental degradation. Housing is often substandard (and unsafe, given the area's high exposure to seismic risk), and major investments are needed in basic services like water supply, sewage and wastewater treatment, urban transport, and drainage. This rapid and unplanned growth has led to a situation where fairly urgent measures are needed to create a livable, competitive urban environment that not only provides a high quality of life to the Valley's inhabitants but leverages Kathmandu's assets as a tourist and investment destination. Kathmandu's relatively mild climate — especially compared to other cities in the region — offers a natural competitive advantage that could be leveraged as heat stress and rising temperatures intensify across the region due to climate change. Beyond Kathmandu, a similar story characterizes medium-sized cities like Pokhara, Biratnagar, Janakpur, and the municipalities that make up greater Lumbini — rapid population growth and a dynamic of

unplanned urban expansion, underinvestment in critical infrastructure for livability like water and sanitation and urban transport, and the need for better urban governance and institutions.

Under this CPF, the WBG plans to put a greater emphasis on Nepal's transition to a greener, inclusive, and more resilient model of urban development in both the Kathmandu Valley and in medium-sized and secondary cities, provided there is demand and buy-in from the various government actors and institutions involved. Support would likely include integrated urban planning and regeneration and, critically, investing in resilient infrastructure such as urban transport, water supply, and sanitation.

Tourism remains relatively underdeveloped in Nepal, despite the country's impressive natural and cultural assets, but holds potential as a driver of private sector-led growth and jobs. Some areas, like the greater Kathmandu Valley and Everest, are in a better position to develop this potential. However, other areas with significant tourism potential often lack adequate infrastructure, including regional connectivity and facilities, hampering efforts to attract visitors. Nepal ranks 105 of 119 countries in the Travel and Tourism Development Index 2024, with infrastructure and services identified as the primary constraints for tourism take-off.¹² Among these areas lacking infrastructure and facilities, Lumbini and Gandaki stand out for their numerous cultural sites, natural beauty, and viability to attract private investment in the medium term. However, both would require major investments to realize this potential. For example, Lumbini is part of the Buddhist circuit, tracing the historical Buddha's journey across India and Nepal. To capitalize on this potential, the government had developed a

National Tourism Strategic Plan in 2016 that is still pending implementation.

In addition to supporting connectivity, adopting a regional perspective, the WBG plans to explore partnering with the private sector to support the sustainable development and growth of Nepal's tourism sector in a way that creates employment opportunities. International experience shows that tourism can be an important sector for employing women, who currently comprise only 20 percent of Nepal's tourism workforce and are largely confined to lower-level positions. Enhancing employment opportunities and enhancing Nepal's overall tourism offer requires a multifaceted approach to engage local governments, the private sector, and communities. The WBG envisages a multiphase programmatic engagement in the tourism sector, comprising multiple operational and analytical engagements over time, that would support a comprehensive tourism strategy. These activities would potentially include operational efforts to enhance connectivity, provide support for private sector investment in tourism, finance critical investments in cultural assets and the resilience of existing infrastructure, enhance conservation of protected areas, and support critical policy interventions to ensure that Nepal's tourism sector can benefit from greater private sector dynamism and investment, including from MSMEs and foreign investors.

Quality of Education and Skills for the Labor Market

While Nepal is at an early stage of its demographic transition, it utilizes less than 20 percent of its human potential due to weak education and health and limited employability and connectivity, especially among its poorest and most disadvantaged.¹³ Increasing the competitiveness, productivity,

¹² World Economic Forum, 2024.

¹³ Nepal Human Capital Review, 2025.

and employability of the Nepali labor force, at home and abroad, will be a key element of leveraging Nepal’s demographic dividend. Investing in better health and skills development is especially relevant for women and youth. At 35 percent, the share of youth not in employment, education, or training in Nepal is the highest in South Asia, except for Afghanistan. For female youth, the share is nearly 47 percent. The lack of skills constrains the employability of people and the job creation potential of firms. Enhancing women’s access to high-growth sectors and employment opportunities requires strengthening school-to-work transitions and equipping girls and women with relevant skills and networks. Priorities include expanding education and training in digital literacy and science, technology, engineering, and mathematics while revitalizing the Technical and Vocational Education and Training sector to upskill women for the evolving job market.

During the first half of the CPF period, the WB plans to continue supporting improved quality of education through an ongoing innovative sector-wide approach that anchors major investments from several development partners, including ADB. The CPF envisages further engagement in the sector through a range of analytic, advisory, and investment tools, including potentially for quality of education and research and innovation. In the latter part of the CPF period, support is likely to gradually shift towards skills development for the labor market. Programmatic support is planned to enhance the development of skills essential for navigating a changing world of work,

productive livelihoods, and local and global employment. The WB and ADB aim to work closely to articulate a comprehensive skills development agenda and requisite financing. To boost the efficiency and productivity of working populations, including informal workers, youth, and women, efforts will likely focus on strengthening foundational skills, digital skills, and soft skills such as teamwork and collaboration. Additionally, the WBG will aim to foster partnerships with industries to implement and scale up apprenticeships and on-the-job training, targeting crucial skills demanded by employers. This is likely to be complemented by continued support for a coherent employment delivery system at the federal and local levels, providing employment services to workers and employers. Improving the impact of efforts in the sector will require action and capacity at all three tiers of government, including through policy and advisory work to continue clarifying roles and responsibilities. An important agenda will be enhancing the capacity and accountability of local governments and schools in delivering education services.

CPF Outcome 2: Connected Communities

Connectivity, including regional connectivity, is crucial for growth, jobs, resilience, and services, especially considering Nepal’s geography and topography. Support under this Outcome focuses on: (i) roads, bridges, and transportation systems; (ii) energy access and reliability; and (iii) digital connectivity and services. WBG engagement under this Outcome will be measured by the following indicators from the Corporate Scorecard:

Indicator 1: Millions of people that benefit from improved access to sustainable transport infrastructure and services
Indicator 2: Millions of people provided with access to electricity
Indicator 3: Millions of people using digitally enabled services

Transport Infrastructure

Increased access to climate-resilient infrastructure and efficient services, including transport connectivity and green mobility, is paramount to job creation and facilitating private sector activity, tourism, productivity, and growth in Nepal. Enhanced regional, national, provincial, and local connectivity ensures that businesses can access markets more effectively, local communities can better access economic opportunities, and tourists are encouraged by safe and reliable access to cultural and natural destinations. International experience demonstrates that investments in safe and reliable infrastructure and transportation services can also be critical to enhancing women's human capital, mobility, and labor force participation – all important challenges in Nepal. Investments in cross-border corridors can enhance regional trade and reduce costs. Moreover, investing in connectivity would also directly create construction, maintenance, and service sector jobs.

Through ongoing and new investment lending, the WB plans to focus on national, provincial, and local connectivity. Resilient roads, bridges, and transportation systems will be designed to withstand natural disasters, ensuring continued functionality, even in adverse conditions. As the two major development partners in the sector, with combined investments in transport infrastructure worth approximately

US\$1.7 billion, the WB and ADB are closely coordinating their portfolios to achieve maximum developmental impact and avoid redundancies. They will also seek to enhance their sectoral collaboration. In addition to connecting people to sustainable transport infrastructure and services, engagements are also designed to increase the number of people with enhanced resilience to climate risk.

A One-WBG approach is instrumental in delivering transformative transport solutions in Nepal. With a focus on de-risking transport development and operation, synergy among the WB, IFC, and MIGA through the WBG Guarantee Platform will harness their collective expertise and resources. The WB has a large and ongoing program to provide financing and create a conducive regulatory environment for sustainable and impactful transport in Nepal. This engagement is expected to remain in place for the bulk of the CPF period. A frontier area where the WBG has had limited presence but is likely to expand is urban transport, linked to the broader urban development and competitiveness agenda. Here there is a significant need to further develop transparent regulatory frameworks and the kind of well-organized and efficient urban transport systems that have transformed urban landscapes in a number of developing countries, and which could, in principle, leverage PPPs, including attracting private investment and commercial financing. IFC will aim to mobilize private investments and



commercial financing for transport projects with WB support in addressing viability gaps and enhancing project bankability for private sector participation, as well as de-risking through WBG Guarantee Platform instruments. By engaging with local and international private investors, IFC aims to attract the necessary capital for the development and operation of sustainable transportation systems in electric mobility, cable cars, and logistics and warehousing. There will be an emphasis on innovative financing solutions, including private capital mobilization and the use of concessional finance products that blend public and private funds to optimize project finance. MIGA can offer political risk insurance to foster confidence for foreign private investments in transport, potentially with IDA PSW involvement, while the WBG Guarantee Platform can leverage its instruments to support investment in the sector.

Increased Energy Access and Reliability

Greater energy connectivity, reliability of supply, and its resilience are important to ensure that businesses can thrive and contribute to local communities' better access to economic opportunities and services.

Nepal's abundant hydropower resources, combined with its geographic location, have the potential to transform its economy and shape long-term economic development by providing low-carbon energy for domestic use and export. Despite its potential, hydropower remains vastly underutilized. By attracting private sector investments and fostering innovation in the renewable energy sector, Nepal can build a more sustainable, resilient, inclusive, and diversified economy, promoting both environmental health and green investments. The potential for low-cost, low-carbon hydropower is one of Nepal's few competitive advantages given its landlocked geography. The greater development of these abundant resources would do more than provide revenue from energy export; it could

help provide the foundation for a broader transformation of the economy, particularly in the digital and tourism sectors.

The WBG is planning to support renewable energy to enhance reliable energy access and regional energy trade through the development of selected large-scale hydropower plants, designed to withstand natural disasters and remain functional in adverse conditions.

Taking advantage of Nepal's energy resources and fully developing them requires investment throughout the energy value chain – from generation to transmission to distribution – exceeding the capacity of any single financier. In the immediate term, the WBG will likely continue to support transformative investments in generation (complementing ongoing work to support distribution). However, given the uncertainties and long gestation periods associated with large generation projects, flexibility is needed to support the sector's investment needs. The WBG's ongoing program represents major commitments to engage in the development of hydropower in Nepal. This includes ongoing support for Upper Trishuli 1 – which received a MIGA guarantee, as well as financing from the WB, IFC, ADB, and other International Financial Institutions – and the proposed Upper Arun and Dudhkoshi Storage Hydroelectric Projects. Supported by upstream policy reforms, a continued focus on promoting private participation in hydropower generation, transmission, distribution, and regional power trade is critical to Nepal's climate change mitigation efforts and is central to the government's approach. WBG Guarantee Platform instruments could also facilitate increased private sector engagement in these areas. In addition to hydropower, other renewables will remain central to WBG engagement. MIGA and IFC will aim to utilize the IDA PSW for eligible projects to mitigate risk as required. Efforts will also be made to institutionalize a Public-Private Dialogue Platform on energy.

Digital Connectivity and Services

Broadened and deepened digital development, including broadband connectivity and enhanced digital government services, are crucial for growth, responsive governance, and effective citizen-focused service delivery. A focus on expanding reliable and high-speed broadband connectivity across the country, especially in rural and underserved areas, will be the cornerstone of the WBG's digital development plan for Nepal. Ensuring universal access to affordable broadband requires investments from various sources and significant mobilization of private capital. Another focus will be to increase access to digital services, and the WBG would support the efforts of the government to better utilize digital technologies in the provision of public services, an area where there has been little progress in Nepal compared to peer and neighboring countries. The WB's engagement in this area – which continues to be undertaken in close coordination with development partners – remains fully aligned with the Global Challenge Program on Accelerating Digitalization.

The WBG is advising the government on policy reforms to improve the enabling environment for investments in broadband infrastructure while also strengthening institutions to ensure competitive and inclusive markets. This focuses on regulatory changes to simplify the licensing process, encourage competition, and reduce the costs of deploying broadband infrastructure through initiatives such as infrastructure sharing. IFC is evaluating possible investment opportunities to expand broadband networks beyond the current areas to those that are traditionally underserved. These can potentially be supported by WBG Guarantee Platform instruments. The WB and

IFC are also working to promote investment in Nepal's data hosting capabilities to modernize the country's data infrastructure to encourage private firms to invest in data center operations. IFC is exploring investment opportunities in this sector, potentially supported by Guarantee Platform instruments. The collaboration also includes developing a policy framework that enables PPPs to open the market to private operators, supporting innovation in cloud services. Planned investments in digital government enablers and services will improve access to digital services for all people and businesses. To develop the digital innovation ecosystem, the WB and IFC are aligning efforts to address the talent gap as Nepal faces a shortage of skilled IT professionals. A One WBG joint action plan will support the coordination of these efforts toward maximizing finance for development.

CPF Outcome 3: Green Planet and Resilient Populations

As Nepal is prone to natural disasters, particularly those caused by, or whose impacts are exacerbated by, climate change, this Outcome will support strengthening resilience to these shocks, reducing risks, and preparing for crises. It focuses on: (i) strengthening the institutional framework for crisis and disaster preparedness at all levels of government; (ii) investing in risk reduction in the built environment; (iii) strengthening household and community resilience through the development of adaptive safety nets and resilience of the public service delivery system, and (iv) supporting more sustainable use of land and natural resources, including the transition of rural economies towards higher value-added agriculture. Progress in this area will be measured by the following indicators from the Corporate Scorecard:

Indicator 1: Millions of people with enhanced resilience to climate risk

Indicator 2: Percentage of people exposed to hazardous air quality (client context indicator)

Strengthening the Institutional Framework for Crisis and Disaster Preparedness and Investing in Risk Reduction in the Built Environment

Increased preparedness to handle shocks is crucial as Nepal faces recurrent natural disasters such as earthquakes, floods (including from glacier lake outbursts), droughts, heat waves, forest fires, and landslides. Compounding these inherent risks is Nepal's limited financial and other capacity to reduce, prepare for, respond to, and manage these events – which have a disproportionate impact on the most vulnerable, as well as women and girls. Risk reduction will be central to the WBG approach, and this requires investment and policy reform across the whole of the economy; assets like roads, bridges, irrigation systems, and other infrastructure investments are exposed to risk in urban and rural areas of the country. The WB estimates that every US\$1 investment in risk reduction could save US\$4 of expenditure in reconstruction or remediation. Therefore, a “build better before” approach, instead of having to “build back better”, will be central to the WBG's engagement.

Building on its previous substantial engagement, including support for reconstruction after the 2015 earthquake, the WBG is well-positioned to increase its support for climate and disaster-related risk preparedness. During the CPF period, the WB aims to focus on supporting the strengthening of the policy and institutional framework and its implementation capacity and making critical investments for crisis and disaster preparedness and response. The program is likely to include engagements in risk reduction (for example, in the safe schools' space), preparedness (for early warning systems including hydrometeorological systems, recognizing the importance of transboundary cooperation), and further support on disaster risk finance to help Nepal build a modern,

layered approach to managing the financial impacts of disasters. This is likely to include exploring sovereign risk transfer instruments (including through the capital markets).

IFC will continue to support the greening and increased resilience of Nepal's financial sector through advisory services and/or investments for financial institutions and regulators. This could entail credit lines for banks to on-lend for green initiatives, coupled with advisory services to the same banks to identify green assets and upgrade management information systems to accurately record pertinent information on their green portfolios. Other interventions could include supporting financial intermediaries to issue green bonds, partial credit guarantees, uptake in climate risk insurance products, and the adoption of integrated risk management frameworks that help banks comply with disclosure standards. WBG Guarantee Platform instruments could support such initiatives.

Strengthen Household and Community Resilience through the Development of Adaptive Safety Nets

Shock-responsive social protection (SRSP) programs and systems can improve household resilience to shocks before, during, and after disasters, helping maintain livelihoods and reducing instances of falling back into poverty. Despite high levels of vulnerability, only a third of Nepal's population and only about half of the poorest households are covered by social protection programs. Existing programs are not shock-responsive, and delivery systems are fragmented and nascent, in part because 82 percent of workers are in the informal sector with limited access to safety nets.

Contingent on client demand, the WB plans to expand its ongoing programmatic support to strengthen social protection delivery systems and support the implementation of shock-responsive social protection standards by

leveraging digital solutions, an area where it has a comparative advantage. Support would potentially include the development of an integrated social protection system, including an integrated social registry with demographic and socio-economic data of all households which can be used to identify beneficiaries for regular social protection programs as well as disaster relief. Support would aim to reorient social protection towards promoting household resilience and strengthening the institutional arrangements for more coherent social protection policies and delivery.

Support more Sustainable Use of Land and Natural Resources and Transformation of the Rural Economies towards Higher Value-added Agriculture

Managing the rural space as an integrated system and increased adoption of sustainable natural resource management can generate multiple benefits for people, prosperity, and the planet. Agriculture and livestock contribute to over 21 percent of Nepal's GDP, and agriculture employs 61 percent¹⁴ of the working population. It is also the largest employer of return migrants. A high percentage of women are engaged in unpaid low-productivity work in agriculture and informal jobs, highlighting the need for structural labor transitions for young women to high-productivity and paid jobs. Better management and use of resources coupled with sustainable development of value chains and local enterprises in agriculture and forestry – recognizing the importance of regional cooperation – can together increase growth, expand jobs, build resilience, and protect livelihoods, while also helping protect vulnerable infrastructure.

The WBG aims to harness opportunities to improve livelihoods associated with sustainable use of agricultural land and other natural capital such as forests and water, in

concert with other development partners, particularly ADB. Such support would require an integrated systems approach to build on ongoing engagements. Elements could include the expansion of year-round irrigated agriculture, local enterprise development, and shifting agricultural expenditures from subsidies to public goods provision. Support to improve agricultural practices, develop more resilient landscapes, and invest in a systemic animal health system – key for achieving sustainable food systems – will be considered over the course of the CPF, although no immediate investments are planned. IFC, through advisory services and investments in both real and financial sector clients, will aim to support increased productivity and sustainability in agribusiness. Private sector investments could be supported by WBG Guarantee Platform instruments. Given the program's focus on jobs and growth, the WB is likely to focus any future engagement in the forestry space in areas where economic development is central to harnessing the economic potential of forests. Given the selectivity embedded in the CPF, pure conservation efforts would likely not be part of the WB's IDA-funded program during the CPF period. Engagements will aim to increase the number of people with enhanced resilience to climate risk but are also designed to contribute to more and better jobs under Outcome 1.

Nepal ranks second globally for the share of population exposed to hazardous air pollution. The Indo-Gangetic Plains and Himalayan Foothills region, which Nepal shares with Bangladesh, India, and Pakistan, has the world's worst air pollution. Considering the need for transboundary, multisectoral, and coordinated solutions to address this issue, a series of regional and national interventions are planned, aiming to strengthen air quality governance and reduce air pollution in critical

¹⁴ ILO estimates, 2023.

sectors. The Series of Projects responds to evidence showing that coordinated, airshed-wide action is the cheapest, fastest, and most effective way to achieve cleaner air for residents in this sub-region. As part of this broader program, programmatic support to Nepal for clean air is planned, in partnership with ADB and other development partners, to address some of the main sources of pollution in Nepal.

Cross-cutting theme: Strengthening public sector institutions, accountability, and effectiveness

Strengthening public sector institutions, accountability, and effectiveness are central to achieving results across all CPF Outcomes.

Robust institutions serve as a vital bridge to ensure selected WBG interventions and the government's broader efforts translate into tangible development outcomes for Nepal. To help the public sector deliver services and be a credible partner to the private sector and civil society within Nepal's three-tiered system of public administration, the CPF identifies several priorities: (a) making further progress in defining the roles and responsibilities of the

levels of government; (b) putting in place a well-functioning fiscal system with credible budget and transfer mechanisms to ensure that capital and recurrent costs are properly funded; (c) enhancing the capacity of government to deliver citizen-centric services; (d) continuing to develop transparent and accountable management of public finances and results monitoring; and (e) continuing to support Nepal's commitment to inclusive public sector planning and execution approaches, with a focus on ensuring the voice, participation, and leadership of women and marginalized communities, consistent with the commitment to do so in Nepal's 16th Development Plan. Success here will require all three levels of government to become more efficient and effective in planning and execution, areas where there remain significant capacity and implementation challenges. Addressing these issues requires a good understanding of the political economy to ascertain what is realistically achievable within the country's constraints and these issues require stand-alone work but are also central to the success of any WBG-supported sectoral intervention. The CPF period will likely see continued





support through trust fund-funded technical assistance, analytics, and advisory support in these areas.

Gender, Social Inclusion, and Citizen Engagement

Promoting the economic empowerment of women and creating a more inclusive and supportive environment for their advancement in the economy and society is a central pillar of the 16th Development Plan, and the CPF is aligned with this vision.

In support of the three CPF Outcomes, the strategic priorities in this regard are to: (i) reduce barriers to women's productivity and economic participation; (ii) support women in high-growth sectors, opportunities, and entrepreneurship; and (iii) mitigate the impacts of shocks for women and girls and strengthen their adaptive capacities. The WBG will continue to support Nepal's ambitious efforts

to advance the economic empowerment of women, reduce gender-based violence, and support human capital accumulation, voice, and agency. This includes tracking progress on gender outcomes across the portfolio. Addressing gender-based violence is essential for female labor force participation and for broader social and economic empowerment. Considering Nepal's history of conflict and persistent multi-dimensional inequalities, and because social inclusion is a critical element of Nepal's 16th Development Plan, it remains an important element of WBG programming and engagement. Additionally, the Nepal Citizen Engagement Country Roadmap outlines a three-step strategy with actionable measures to create enabling conditions for citizen engagement, strengthen citizen engagement systems across the federal structure, and empower community-based participatory structures in the CPF priority areas.



IV IMPLEMENTING THE CPF

4.1 Financing Envelope

The CPF period straddles three IDA replenishment cycles – IDA20, IDA21, and IDA22. Regular IDA resources or performance-based allocation (PBA) available to Nepal are expected to be approximately SDR1,500 million, equivalent to US\$1,956 million in FY26-31 (using the IMF end-January 2025 valuation rate).¹⁵ Some IDA20 resources will be made available for commitment in the final months of FY25. Additional IDA resources can be sought through the Private Sector Window, Crisis Response Window, Scale Up Window, and the new Global and Regional Opportunities Window (GROW) for “projects that address climate adaptation and mitigation and/or address global challenges while contributing to cross-border externalities”, as well as trust fund resources. Nepal may transition from an IDA-only to an IDA “Gap country”¹⁶ or to IDA-blend status. This transition depends on Nepal’s creditworthiness in FY26 and will occur if its Gross National Income (GNI) per capita exceeds the IDA operational cutoff, assuming the same financing terms for IDA21 as IDA20.

The WBG anticipates robust engagement during the CPF period. Proposed interventions under the CPF will be delivered through development policy financing (approximately

one per year), performance-based operations, programmatic approaches (including relevant Global Challenge Programs), investment project financing, guarantees, analytical and advisory services, and technical assistance. Importantly, the WB envisages several critical programmatic engagements to underpin a significant part of the lending program – including, potentially, in (a) growth, jobs, and the business environment; (b) air quality; (c) integrated urban development; and (d) sustainable and job-creating tourism. The current active IDA portfolio in Nepal comprises 19 operations, including 12 investment projects, three program-for-results operations, and four Development Policy Credits (DPCs) including one with a Catastrophe Deferred Drawdown Option (Cat DDO). As of end-March 2025, net commitment is US\$2.0 billion, of which approximately US\$1.3 billion remains undisbursed. The recipient-executed trust fund portfolio is worth US\$141.25 million.

IFC investments are expected to be at least US\$750 million during the CPF period, but contingent on PCM enabling reforms that create markets and enable greater private sector participation. IFC intends to expand its pipeline by leveraging its advisory and upstream services and introducing innovative financing solutions into the Nepali market. IFC

¹⁵ Actual PBA is determined annually and will depend on: (i) total IDA resources available, (ii) the number of IDA-eligible countries, (iii) the country’s performance rating, per-capita gross national income, and population, (iv) implementation of IDA’s Sustainable Development Finance Policy (SDFP), and (v) the performance and other allocation parameters for IDA borrowers.

¹⁶ IDA-eligible countries that have a per capita GNI above the operational cut-off but are not creditworthy are “Gap countries” or those that have limited creditworthiness are “Blend countries.” Blend countries have eligibility for a blend of IDA and IBRD financing resources. The country’s creditworthiness is defined as “the ability to service new external debt at market interest rates over the longer term.” Conversely, a lack of creditworthiness implies a need for concessional resources as part of a sustainable longer-term financing package for a country’s development program.

will continue to leverage and efficiently utilize concessional finance to ensure necessary risk mitigation and that incentives are provided to clients to enable them to meet their development objectives. However, scaling up IFC's program in Nepal requires strengthening its upstream enabling environment with necessary reforms that open the market for private sector investments, leveraging public investment management frameworks to identify opportunities for private sector solutions, and complementing investments with relevant advisory services to build capacity.

MIGA does not have a predetermined envelope for guarantees over the CPF period. As of end-February 2025, MIGA's gross outstanding exposure in Nepal comprised the Upper Trishuli 1 Hydropower Project and stood at US\$87 million. MIGA provided guarantees against the Breach of Contract risk and utilized IDA PSW. Going forward, MIGA will seek to leverage the WBG Guarantee Platform, housed at the Agency, for additional opportunities to support private sector investment in Nepal, and potentially trade finance transactions, including those consistent with food and nutrition security. MIGA will also explore the use of IDA PSW and other first-loss facilities in its projects.

4.2 Operationalizing the CPF

The longer time horizon of the CPF is complemented by the WBG Business Planning approach to support implementation. Annual Business Planning exercises with the government and partners will inform pipeline programming, knowledge and analytical needs, and advisory services. These exercises will fully align with the government's annual work program and budget cycle, incorporating consultations with the Ministry of Finance and the National Planning Commission to ensure alignment with government programs

and plans. The process will follow a two-part approach. First, an annual portfolio review (jointly with the ADB) at the beginning of the FY (August-September) to address implementation bottlenecks and draw lessons from the ongoing program. Second, a planning and pipeline exercise in February-March to review progress toward results, reassess risks, and adjust the program and pipeline to respond to emerging opportunities and/or risks.

Addressing portfolio implementation challenges and utilizing more programmatic approaches to complex challenges will be front and center during the CPF period.

The disbursement ratio in FY24 dropped to below 9 percent, reflecting wider challenges in executing capital investment in Nepal. Nonetheless, it is significantly below investments financed by the government and ADB. Of the 19 projects in the portfolio, six are at risk and two are problem projects as of end-March 2025. In line with Principle 2 of the CPF – balancing ambition for transformation and the need for near-term results – efforts will be made to focus on development results and portfolio differentiation. Going forward, the portfolio will have a smaller number of complex and ambitious, high-risk/high-reward engagements (envisaged to be around 20 percent), such as the programs in tourism and hydropower. The remaining 80 percent of the program will be characterized by simplicity of design, fewer project activities, and will use phased approaches to divide complex development challenges into more “bite-sized” pieces, utilizing more programmatic approaches like Series of Projects and Multi-phased Approaches. This would allow the WBG and Nepal to embed individual operations in medium-term strategic frameworks, ensuring aggregate impact while allowing for progress to be made incrementally and for learning to be more central to WB operational engagement. A good example is the planned Series of Projects

to address Nepal's air quality challenge. An issue as complex as improving air quality requires a long-term commitment across sectors and instruments (with investment by both the public sector and private actors, policy reform, surveillance, enforcement, etc.), but showing progress and learning what does and does not work well requires an approach which sequences interventions. So, the medium-term commitment is likely to be critically important but a relatively limited piece of the puzzle – the replacement of highly polluting industrial boilers and the development of the institutional framework for air quality monitoring and management – would be the first element in a longer-term program.

In addition to program differentiation, the WB will address implementation challenges through a set of more granular portfolio management efforts aimed at improving the performance of the WB's operations. Ensuring alignment with the country context, appropriateness of design, and readiness for implementation will be ever more crucial elements of the WB's managerial approach to its program in Nepal. For example, the WB has eliminated the need for counterpart financing of IDA-financed operations, as budget system rigidities have been an element of the implementation challenges. Moving forward, if projects are not performing, greater and more immediate efforts for restructuring or closure will be pursued. The WBG will also support the government in developing operational frameworks to reduce the turnover of project-engaged staff. For example, the WB will now include explicit clauses on staff turnover in its financing agreements. Hands-On Expanded Implementation Support will be utilized for

both procurement and technical matters as appropriate. The WBG also intends to make greater use of the WB's risk assessment tools at the portfolio level. Ongoing efforts to use the WBG and ADB's convening power to address systemic implementation challenges will continue, including those related to financial management, procurement, and environmental and social risks.

Despite Nepal's robust legislative and institutional framework for public financial management (PFM), weaknesses in the system have contributed to the implementation challenges, including low absorption of capital budgets.¹⁷ The PEFA Assessment 2024 highlighted limitations in macroeconomic forecasting, public investment management, policy-based budgeting, the implementation of budgeting procedures, and delays in the scrutiny of audit reports. The budget modality in use for results-based operations affects budget utilization. Declining revenue and increased recurrent expenditure have also led to budget cuts, including for WB-financed projects. A major analytical effort to better understand the broad challenges with capital budget execution is underway – in coordination with the ADB – that is expected to provide a range of policy and institutional recommendations to improve the government's capital budget utilization, an issue which both affects the WB's portfolio performance but is equally macro critical and is widely recognized as a drag on Nepal's overall economic performance. Additionally, the WB aims to establish specific provisions for results-based operations within national systems and continue working with development partners on technical assistance for PFM reform.

¹⁷ As per the Nepal PEFA Assessment 2024, 15 out of 31 indicators were scored at a level of C or below. These indicators include Expenditure Outturn (D), Expenditure Composition Outturn (D+), Revenue Outturn (D+), Central Government Operations Outside Financial Reports (D), Fiscal Risk Reporting (D), Public Asset Management (D+), Macroeconomic and Fiscal Forecasting (D+), Fiscal Strategy (D), Internal Audit (D+), External Audit (D+), Budget Documentation (C), Procurement Management (C), Public Access to Fiscal Information (C), and Legislative Scrutiny of Audit Reports (C).

Nepal's public procurement system faces several weaknesses. This includes a disjointed legal framework inconsistent with international standards, which needs to be updated, a lack of a dependable procurement information system, and weak procurement planning and execution processes. Moreover, the underutilized electronic government procurement (e-GP) System and shortage of qualified staff further undermine procurement performance. The WB and ADB are seeking to assess Nepal's procurement system using the OECD's Methodology for Assessing Procurement Systems (MAPS) to guide future reforms. The WB is also initiating dialogue with oversight agencies (such as the Office of the Auditor General and the Commission for Investigation of Abuse of Authority) to facilitate consistent interpretations of public procurement laws and regulations.

Nepal has national laws, regulations, and institutional setups to manage environmental and social (E&S) risks and impacts of development projects, but their implementation is weak. Challenges such as regulatory gaps, capacity issues, funding, and E&S staffing shortages hinder effective project preparation and implementation. For instance, in infrastructure-heavy sectors, issues like land acquisition, forest clearance, community health and safety, and right of way further exacerbate institutional capacity gaps, delay projects, and cause cost overruns. Additionally, limited human resources and weak contract management capacity impede environmental protection agencies and project E&S personnel from effectively overseeing and monitoring compliance. At the provincial and local levels, the institutional setup and capacity remain nascent.

The WB, together with ADB and other development partners, has supported reforms, capacity building, and harmonization efforts to streamline compliance with

multiple donors' requirements and strengthen E&S systems in Nepal. Given the Environmental and Social Framework (ESF) simplifications and the reliance on Nepal's E&S system for IPF projects with low and moderate risk, addressing key gaps in government E&S systems is important. This will require a strategic shift towards programmatic capacity building, professionalizing the E&S risk management practice, strengthening the country's E&S approval processes, ensuring adequate E&S staffing based on risk levels, and building on the ESF Overview Assessment for project-level E&S due diligence among other things. The WB will prioritize scaling up ongoing training for the provincial and local levels, incorporating Environmental, Social, Health, and Safety capacity-building and ESF components in projects to strengthen institutional capacity, supporting policy reforms, enhancing digital tools for effective E&S monitoring and reporting, and working with academic institutions and policy think tanks to develop a cadre of skilled E&S professionals.

4.3 Partnerships

Now more than ever, sustaining and strengthening collaboration is essential. This includes expanding the close partnership between the IFC, MIGA, and the WB to work as 'One WBG'. IFC will continue to work with the WB, MIGA, and other development partners to ensure its program delivery is in line with government priorities and the CPF objectives. Likewise, MIGA will seek stronger collaboration with the WB and IFC through WBG Guarantee Platform instruments to support the private sector. To this end, MIGA will leverage its regional representation for South Asia. In addition to the close collaboration with ADB outlined throughout the CPF, collaboration with other development partners is critical. The WBG will continue to work closely with development partners (Table 2) through joint

policy dialogue, existing platforms, trust funds, and in specific operations, for example, the ongoing sector-wide approach in the education and health sectors and the PFM Multi-donor Trust Fund. Collaboration among partners in supporting the government in improving service delivery, air quality management, digital development, and disaster risk management is also strong and will continue.

the environment. Advisory services will play a central role in supporting policy reform and designing and implementing operations and investments in areas such as growth, jobs, and investment climate. Efforts will continue to help build the capacity of clients in project implementation by disseminating knowledge and experiences related to procurement,

Table 2. Partnerships and Links to CPF Indicators

CPF Results Indicators	WBG	ADB	FCDO	SDC	Others
1.1: Increased waged employment	✓	✓	✓	✓	KWPF, ILO
1.2: Increased private investment-to-GDP	✓	✓	✓	✓	GIZ
1.3: More students with better education	✓	✓	✓	✓	Joint Financing Partners: ADB, EU, FCDO, GPE, Finland, Norway, UNICEF Non-Joint Financing Partners: JICA, WFP, UNESCO
1.4: Increased usage of financial services	✓	✓	✓	✓	KFW (GIZ), UNDP/UNCDF, AIIB
2.1: Improved access to transport infrastructure and services	✓	✓			JICA
2.2: Improved access to electricity	✓	✓	✓		KFW, FCDO, ADB, AIIB, JICA
2.3: More people using digitally enabled services	✓				
3.1: More people resilient to climate risk	✓	✓	✓	✓	KWPF, Australia, JICA, UNDP
3.2: Better air quality	✓				Green Climate Fund

4.4 Knowledge and Data

The CPF will implement the current WB Knowledge Strategy for Nepal to ensure that knowledge activities are strategic, prioritized, and focused on key development challenges. The Knowledge Strategy envisions focusing on the generation, sharing, and application of knowledge, including global knowledge, related to (i) growing the economy to deliver productive jobs and (ii) improving development effectiveness, in full alignment with identified development challenges. In addition to the core analytical products informed by global knowledge, strong client demand will guide the selection of knowledge activities and priority will be put on just-in-time delivery that can respond to changes in

financial, and environmental and social risk management. Exchange programs will also be part of enhancing the client's global knowledge and best practices. The knowledge program will engage not only the government, but also think tanks, academia, and other development partners. The WB and IFC will collaborate on advisory services, and the annual business planning, involving WB, IFC, and MIGA, will determine specific activities. In FY26, knowledge gaps across sectors will guide the selectivity of new knowledge platforms in support of CPF outcomes. To support policy development and results monitoring in line with the Corporate Scorecard, the CPF will also focus on supporting the generation of data to measure results under the chosen indicators.



V

MANAGING RISKS TO THE PROGRAM

The overall risk to the CPF program is ‘Substantial’ (Table 3). The political and governance, macroeconomic, institutional

capacity for implementation and sustainability, fiduciary, environment and social risk categories are all rated as *Substantial*.

Table 3. Risk Rating for CPF FY25-31 (SORT)

Risk Categories	Rating	Risk Categories	Rating
Political and governance	Substantial	Institutional capacity for implementation and sustainability	Substantial
Macroeconomic	Substantial	Fiduciary	Substantial
Sector strategies and policies	Moderate	Environment and social	Substantial
Technical design	Moderate	Stakeholders	Moderate
Overall: Substantial			

Political and governance (Substantial). Nepal’s political situation and political volatility pose substantial risks to CPF implementation, particularly with the protracted transition to a fully functioning federal state. Delays in clarifying responsibilities, funding, and accountability for local projects and services are leading to increasing tension between the national and subnational levels of government. The continued high turnover of government officials also remains a substantial challenge. The WBG will seek to address these risks by sustaining its dialogue with the government and major political parties and through regular engagement with line ministries to ensure the continuity of strategic dialogue during government transitions. The WBG is also strengthening its dialogue at the subnational levels, including through the provincial consultations undertaken for this CPF. Efforts are also being made to better consider political economy challenges and adapt interventions to the context of federalism. However, some

risks, especially those related to the political economy, are exogenous and can only be partially mitigated.

Macroeconomic (Substantial). While Nepal remains at low risk of debt distress and has demonstrated consistent, if slightly anemic, growth, its dependence on remittances and the widening trade deficit pose significant risks to the economy. Any slowdowns in growth in partner economies would weigh on the incomes of Nepali workers abroad and reduce remittances, stall the post-pandemic recovery in tourism, and slow already sluggish exports. Higher commodity prices of key imports would slow the recovery in energy-intensive sectors, aggravate food insecurity, and impose fiscal costs. Susceptibility to environmental- and climate-related disasters could result in high fiscal costs of reconstruction and recovery. To mitigate these risks, the WBG is supporting the government in addressing regulatory barriers and persistent infrastructure gaps that

impede private sector growth and domestic job creation, and in strengthening fiscal management that can withstand shocks.

Institutional capacity for implementation and sustainability (Substantial). Nepal's weak capacity is exacerbated by the incomplete transition to a three-tiered system of public administration that is causing uncertainty in collective and individual responsibility for implementation and results, leaving many critical positions vacant (especially at the subnational level), and has manifested as stagnation in decision-making and execution at all levels of government. In addition to working to deepen its understanding of political economy challenges that impact engagement in the federal context, the WBG will also continue to enhance its coordination with the Ministry of Finance to more consistently ensure project quality at entry and focus on the joint monitoring and periodic review of the portfolio to identify measures to improve implementation. Realism and simpler design, balanced with efforts to enhance the capacity of the implementing agencies, and closer results monitoring will be more systematically built into new projects.

Fiduciary (Substantial). Weak procurement and financial management capacity and systems as well as vested interests continue

to pose substantial risks. To mitigate these, the WBG is supporting the strengthening of public financial management at the national, provincial, and local levels as well as procurement capacity. The next phase of the WB's PFM MDTF-funded project is under preparation to support the implementation of the government's forthcoming PFM Reform Strategy. The WB is also leveraging its influence to convene implementation and oversight agencies to enhance the quality of project audits. Procurement guidance notes on the application of procurement rules to clarify ambiguities and accelerate execution are being developed for each level of government.

Environment and social (Substantial). Regulatory gaps in E&S systems, inadequate technical capacity and commitment, and risks associated with the tendering of PPPs (particularly transparency and openness in the tendering and management of PPPs) present a substantial risk to the CPF. To mitigate this and support the transition to the use of country systems for low- and moderate-risk projects, a WB-supported capacity-building program focuses on ESF requirements and strengthening country systems. Additionally, ongoing WBG and ADB coordination will be further deepened to address regulatory gaps and build government capacity where possible.



Annex

Annex: CPF Results Framework

Mapping of CPF Outcomes to WBG Scorecard

Scorecards Outcomes	CPF Outcome 1: More and Better Jobs	CPF Outcome 2: Connected Communities	CPF Outcome 3: Green Planet and Resilient Populations
2. No Learning Poverty	■ 1.3 Millions of students supported with better education		
5. Green and Blue Planet and Resilient Populations			■ 3.1 Millions of people with enhanced resilience to climate risk ❖ 3.2 Percentage of people exposed to hazardous air quality
8. Connected Communities		■ 2.1 Millions of people that benefit from improved access to sustainable transport infrastructure and services	
9. Affordable, Reliable and Sustainable Energy for all		■ 2.2 Millions of people provided with access to electricity	
10. Digital Connectivity		■ 2.3 Millions of people using digitally enabled services	
14. More and Better Jobs	❖ 1.1 Wage and salaried workers (% of employment), of which (%) are women		
12. Gender Equality	■ 1.4 Millions of people and businesses using financial services, of which (%) are women.		
15. More Private Investment	❖ 1.2 Private Investment as a percentage of GDP		
■ WBG Results Indicator		❖ Client Context Indicator	

CPF Outcome 1: More and Better Jobs (CS)**Client Context Indicator 1.1: Wage and salaried workers (% of employment), of which (%) are women**

Baseline: 21.5% (2022), of which 8.4% are women Contribution

Client Context Indicator 1.2: Private investment as a percentage of GDP

Baseline: 21.1% Contribution

WBG Results Indicator 1.3: Millions of students supported with better education

Baseline: 0 FY31 Target: 0.51 million (WB)

WBG Results Indicator 1.4: Millions of people and businesses using financial services, of which (%) are women

Baseline: 0 FY31 Target: 0.74 million (WB), 2.2 million (IFC), of which 20% are women

Intervention Logic: Nepal has made little progress on jobs and private sector investments. Domestic labor markets are unable to provide productive opportunities for domestic workers, including for return migrants and more educated and qualified youth. Labor productivity is low, particularly in agriculture and services. It is crucial for the WBG to support the growth foundations that create more and better jobs. This includes fostering a better business environment for private sector growth and investment, supporting urban centers and critical job-creating sectors like tourism, as well as better-quality education and skills for the labor market. This also includes creating job and investment opportunities for qualified migrants to return home to contribute to economic growth.

1.1. Wage and salaried workers (% of employment), of which (%) are women. The WBG will focus on addressing challenges in the enterprise landscape including a focus on MSMEs, which contribute to 22 percent of Nepal's GDP and over 45 percent of all jobs and provide potential opportunities to returnee migrants. Support will also focus on urban centers and job-creating sectors like tourism as growth engines.

1.2. Private investment as a percentage of GDP. The WBG will support regulatory and policy reform, including monetary and trade policy, to promote competitiveness, FDI, and productivity growth. These initiatives will be complemented by potential guarantees from the MIGA/WBG Guarantee Platform to encourage private investment in Nepal. IFC investments (with mobilizations) across the real and financial sectors will also contribute to this.

1.3. Millions of students supported with better education. Improved access to secondary and tertiary education and skills training has not resulted in an increase in formal sector jobs. With ADB, the WB plans to support a comprehensive skills development agenda. To boost the efficiency and productivity of working populations, including informal workers, youth, and women, efforts will focus on strengthening foundational, digital, and soft skills.

1.4. Millions of people and businesses using financial services, of which (%) are women: Focus will be on improved access to financial services for individuals and MSMEs, including for women and underserved segments, as access to credit remains a binding constraint. The WBG plans to support improved access to financial services through investments and capacity building for financial institutions to improve access to credit and digital financial services.

Lessons Learned and Knowledge: A renewed emphasis on policy changes required to facilitate private sector-led job creation is needed, especially to help students develop market-relevant skills, and expedite slow progress in strengthening regulation, reduce government intervention in markets, reduce tariffs and increase FDI. Scaling up the 'One WBG' approach, including through joint WB/IFC/MIGA teams that work toward agreed outcomes is critical to supporting government efforts to create more and better jobs by encouraging private sector investment. New knowledge is encapsulated in the Country Private Sector Diagnostic which identifies tourism, agribusiness, education, health, and IT as instrumental to enabling private sector growth, which will inform engagement.

Risks and Mitigation: There is a risk of policy reversals in response to entrenched interests. This risk will be mitigated through public-private sector dialogue and a focus on supporting quick wins with widespread support while continuing dialogue on other policies.

***LEGEND:** **RED** indicates more complex, higher risk – higher reward operations; and **GREEN** indicates operations characterized by simplicity of design, building on current engagements and hence lower risk.

<p>Key ongoing engagements</p> <p>IDA:</p> <ul style="list-style-type: none"> ▶ Sustainable entrepreneurship ecosystem and rural market linkages ▶ Support youth employment services and labor market outcomes ▶ Equitable Access, and quality higher education focused on access, labor market needs, innovation, and support to governance of School Education ▶ Strengthen financial sector stability and TA ▶ Business renewal and job creation TA 	<p>Potential new engagements (18-24 months)^{1*}</p> <p>IDA:</p> <ul style="list-style-type: none"> ▶ Jobs and Growth/Business Environment DPC (FY26) ▶ Sustainable and Inclusive Finance project (FY26) ▶ Tourism engagement Phase 1 (FY27) ▶ Youth Employment Phase 2 (FY27) ▶ Integrated Urban Development engagement (FY27/28) <p>IFC:</p> <ul style="list-style-type: none"> ▶ IFC investments/PPP in tourism, manufacturing, Banking for Women, Digital Finance ▶ Global Trade Finance Program (GTPF) to support SMEs ▶ Advisory support to financial institutions and DFS provider and capital market development ▶ Sustainable Tourism advisory <p>MIGA:</p> <ul style="list-style-type: none"> ▶ WBG Guarantee Platform engagements, including in PPPs, trade finance guarantees, FDI etc.
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CPF Outcome 2: Connected Communities (CS)

WBG Results Indicator 2.1: Millions of people that benefit from improved access to sustainable transport infrastructure and services

Baseline: 0 FY31 Target: 9 million (WB), 0.7 million (IFC)

WBG Results Indicator 2.2: Millions of people provided with access to electricity

Baseline: 0 FY31 Target: 0.46 million (WB), 0.06 million (IFC)

WBG Results Indicator 2.3: Millions of people using digitally enabled services

Baseline: 0 FY31 Target: 4 million (WB), 0.8 million (IFC)

***LEGEND:** **RED** indicates more complex, higher risk – higher reward operations; and **GREEN** indicates operations characterized by simplicity of design, building on current engagements and hence lower risk.

Intervention Logic: Considering Nepal's diverse geography and topography and vulnerability to climate and environmental risks, connectivity is crucial for growth, jobs, and services. To this end, WBG support will focus on resilient roads, bridges, and transportation systems, access to reliable electricity and improved digital connectivity. Interventions under this Outcome will also contribute to improved access to markets and economic and education opportunities, supporting CPF Outcome 1. Additionally, they will provide a foundation for enhanced service delivery and disaster response, promoting resilience and supporting CPF Outcome 3.

1.5. Millions of people that benefit from improved access to sustainable transport infrastructure and services.

Transport connectivity is critical to job creation and facilitating private sector activity and productivity. The WBG will focus on national, provincial, and local connectivity. Resilient roads, bridges, and transportation systems will be designed to withstand disasters, ensuring continued functionality even in adverse conditions.

1.6. Millions of people provided with access to electricity. Energy connectivity and resilience are important for market access for businesses, economic opportunities for local communities, and tourism. To this end, WBG support will focus on renewable energy to enhance reliable energy access and regional energy trade, including through large-scale hydropower projects.

1.7. Millions of people using digitally enabled services. Broadened and deepened digital development, including broadband connectivity and enhanced digital government services, is a crucial element for growth, responsive governance, and effective citizen-focused service delivery. A focus on expanding reliable and high-speed broadband connectivity across the country to enable digital services, especially in rural and underserved areas, will be the cornerstone of the WBG's digital development plan for Nepal. This includes addressing three areas within the digital economy: broadband policy reforms, data hosting, and innovation ecosystem development. Another focus will be to increase access to digital services. The WB and IFC are also working to promote investment and use in Nepal's data hosting capabilities, which could be supported by MIGA guarantees.

Lessons Learned and Knowledge: Nepal's mountainous terrain and vulnerability to natural disasters necessitate infrastructure that can withstand and respond to natural hazards and climatic events such as floods, landslides, and earthquakes. Although private investment in hydropower has a limited direct potential for jobs, it has strong potential for private sector investment due to more reliable and cheaper electrification and other positive spillovers. New knowledge from the Nepal Digital Diagnostic points to regulatory and policy barriers, including an outdated legislative framework, weak enforcement of laws and regulations, and complex licensing schemes.

Risks and Mitigation: In addition to procurement risk, more specifically, there is a risk of enduring inadequate coordination between the implementing agencies, utility relocation, tree cutting and replenishment and permitting for quarries and concrete and asphalt plants, that could continue to cause significant delays in infrastructure development. This risk will be mitigated by the set-up of interministerial bodies tasked with expediting decision making.

***LEGEND:** **RED** indicates more complex, higher risk – higher reward operations; and **GREEN** indicates operations characterized by simplicity of design, building on current engagements and hence lower risk.

<p>Key ongoing engagements</p> <p>IDA:</p> <ul style="list-style-type: none"> ▶ Transport infrastructure, strategic and rural roads, regional connectivity ▶ Construction and maintenance of resilient bridges ▶ Cross border trade and competitiveness ▶ Rural Infrastructure management, capacity building and governance support ▶ Energy sector reforms, renewable and hydropower energy generation. ▶ Inclusive Digital Transformation policy support and TA ▶ TA on Urban and E-mobility ▶ TA for operational support on Social Protection and Jobs to address knowledge gaps <p>IFC and MIGA:</p> <ul style="list-style-type: none"> ▶ Upper Trishuli 1 Hydropower (with IDA PSW) 	<p>Potential new engagements (18-24 months)</p> <p>IDA:</p> <ul style="list-style-type: none"> ▶ Electricity Supply Reliability Improvement Project (FY25) ▶ Digital Nepal Project, digital government services and broadband access (FY26) ▶ Upper Arun Hydroelectric Project (FY27/28) <p>IFC:</p> <ul style="list-style-type: none"> ▶ Investments and PPPs in hydropower, transport, including for electric vehicles. ▶ Investments and PPPs for digital connectivity ▶ Advisory on environment and social advisory on bankability and improvement of standards in hydropower <p>MIGA:</p> <ul style="list-style-type: none"> ▶ Potential WBG Guarantee Platform engagements in energy and infrastructure
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CPF Outcome 3: Green Planet and Resilient Populations (CS)

WBG Results Indicator 3.1: Millions of people with enhanced resilience to climate risk

Baseline: 0

FY31 Target: 11 million (WB), 0.8 million (IFC)

Client Context Indicator 3.2: Percentage of people exposed to hazardous air quality

Baseline: 70.3% (2023)

Contribution

***LEGEND:** **RED** indicates more complex, higher risk – higher reward operations; and **GREEN** indicates operations characterized by simplicity of design, building on current engagements and hence lower risk.

Intervention Logic: Nepal faces recurrent natural disasters with limited financial capacity to manage these risks. Enhancing the sustainability of infrastructure and natural resources and building resilience to shocks for communities and the economy are critical. The WBG plans to support the strengthening of the institutional framework for crises and disaster preparedness at all levels of government, more sustainable use of land and natural resources, and the transformation of the rural economies towards higher value-added agriculture, and, provided there is demand, the development and institutionalization of shock-responsive social protection.

1.1. Millions of people with enhanced resilience to climate risk. The WB will support policy and institutional reforms to strengthen disaster risk preparedness and response capacity, as well as risk reduction and community resilience. A Cat-DDO and related programmatic support will help improve Nepal's preparedness for climate and disaster-related risks. Support in the areas of resilient infrastructure, irrigation, and sustainable landscapes, including forests, also contribute to this indicator target. IFC will continue to support the greening of Nepal's financial sector through advisory services and/or investments for financial institutions and/or regulators.

1.2. Percentage of people exposed to hazardous air quality. Nepal ranks second globally for the share of population exposed to hazardous air pollution. Addressing the air quality in Nepal is crucial for people, climate, and livability, and hence by extension, for jobs and growth. A series of regional and national interventions are planned, aiming to strengthen air quality governance and reduce air pollution in critical sectors.

Lessons Learned and Knowledge: Critical for building resilience is an approach that reduces risk exposure through the direct mitigation of disasters and climate hazards and strengthens the financing and coping mechanisms for when they do occur. Risks related to recurrent disasters exacerbated by climate change vary across Nepal's diverse terrain and mitigation requires a spatially differentiated approach. Inclusive forest user groups have been critical to the equitable sharing of the benefits of improved forestry productivity and environmental sustainability. New knowledge relevant to this outcome comes from the 2022 CCDR which emphasizes an integrated network approach to water, forests, and agriculture.

Risks and Mitigation: The risk of opposition to climate-smart agriculture and changes in forestry and water management practices will be mitigated by dialogue with all stakeholders and by supporting policies that help ensure that the benefits of changes are retained within the communities and businesses that implement them.

Key ongoing engagements	Potential new engagements (18-24 months)
IDA: <ul style="list-style-type: none"> ▶ Policy support to Green, Resilient, and Inclusive Development including climate resilience, forest management and Carbon Financing TA ▶ Governance in Water and Urban Sectors and TA ▶ Sustainable entrepreneurship ecosystem and rural market linkages ▶ Irrigation, agriculture productivity, food and nutrition security and water management and TA ▶ Disasters including climate induced disasters and health emergency support ▶ Forestry Management and TA 	IDA: <ul style="list-style-type: none"> ▶ Modernization of Rani Jamara Kulariya Irrigation Project - Phase 3 (FY25) ▶ Nepal Clean Air and Prosperity Project (FY26) and subsequent phases in FY27/28 ▶ Social Protection Phase 2 (FY27) IFC: <ul style="list-style-type: none"> ▶ IFC investments to support greening of financial sector and farmers (e.g. climate smart agriculture) ▶ Investments in agribusiness and IFC Advisory related to agribusiness and climate smart agriculture. ▶ Investments in infrastructure and transport that support reduction in emissions MIGA: <ul style="list-style-type: none"> ▶ Potential WBG Guarantee Platform engagements in projects that support climate risk resilience and/or contribute to emissions reduction

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