

Document: EB 2012/105/R.18/Rev.1  
Agenda: 7(c)(ii)  
Date: 3 April 2012  
Distribution: Public  
Original: English

**E**



Enabling poor rural people  
to overcome poverty

## **President's memorandum**

### **Proposed supplementary financing to the Federal Democratic Republic of Nepal for the**

### **Leasehold Forestry and Livestock Programme**

#### **Note to Executive Board representatives**

##### Focal points:

##### Technical questions:

**Benoît Thierry**  
Country Programme Manager  
Tel.: +39 06 5459 2234  
e-mail: b.thierry@ifad.org

##### Dispatch of documentation:

**Deirdre McGrenra**  
Head, Governing Bodies Office  
Tel.: +39 06 5459 2374  
e-mail: gb\_office@ifad.org

Executive Board — 105<sup>th</sup> Session  
Rome, 3-4 April 2012

---

**For: Approval**

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed supplementary financing in the form of a loan and a grant to the Federal Democratic Republic of Nepal for the Leasehold Forestry and Livestock Programme, as contained in paragraph 17, and the modifications to the financing agreement, as contained in paragraph 16.

## **President's memorandum**

### **Proposed supplementary financing to the Federal Democratic Republic of Nepal for the Leasehold Forestry and Livestock Programme**

#### **I. Background**

1. The Leasehold Forestry and Livestock Programme was approved by the Executive Board in December 2004 (EB 2004/83/R.25). The approved total programme costs are US\$12.77 million. The sources of financing are: (i) IFAD, with a loan of approximately US\$10.49 million and a grant of approximately US\$1.22 million; (ii) the Government, with a contribution of US\$1.05 million; and (iii) the beneficiaries, with a contribution of US\$14,000.
2. Under the Debt Sustainability Framework (DSF), Nepal is eligible to receive financial assistance from IFAD on the basis of 50 per cent in the form of a grant and 50 per cent in the form of a loan on highly concessional terms.
3. This memorandum seeks approval for supplementary financing for the programme in the form of a loan in the amount of SDR 0.97 million (equivalent to approximately US\$1.5 million), on highly concessional terms, and a DSF grant in the amount of SDR 0.97 million (equivalent to approximately US\$1.5 million). The loan will have a term of 40 years, including a grace period of 10 years. It will be free of interest but bear a service charge of three fourths of one per cent (0.75 per cent) per annum and payable semi-annually.
4. The eight-year programme is being implemented in the mid-hill districts of Nepal. The programme area covers 22 of the 27 districts identified by the Government as priorities under its national leasehold forestry programme. Some 5.31 million people live in these 22 districts (about 1.0 million households) and 48 per cent, or 2.55 million people, are poor.
5. The programme has four components: (i) leasehold forestry and group formation; (ii) livestock development; (iii) rural financial services; and (iv) programme management and coordination. The objectives of the programme components are: (i) improved household forage and tree crop production from secure and sustainable management of leasehold plots; (ii) improved household production of small livestock (goats); (iii) viable microfinance institutions providing services to leaseholders; and (iv) enhanced government capacity to implement leasehold forestry activities at a national level.
6. The programme, currently in its sixth programme year (PY), has completed activities relating to the identification of new degraded forest areas and the formation of leasehold forest user groups (LFUGs). During the remaining two years, it will focus on group consolidation and implementation of the exit strategy. A total of 4,080 LFUGs have been formed, with a membership of 38,436 households, or 87 per cent of the target estimated at appraisal. The total forest area handed over to

the groups amounts to 19,900 hectares, or 64 per cent of the appraisal estimate. However, degraded forest availability has actually decreased since design. Goat distribution will continue in PY7 and has reached a total of about 70,000 heads, or 94 per cent of the target. Under the circumstances, the programme's achievements are considered commendable.

7. LFUG households before the programme start were classified as ultra-poor (57 per cent of all households in the groups); medium poor (31 per cent) or poor (12 per cent). Some 34.7 per cent of households were from Brahmin, Chetri and Newar groups, 10.7 per cent from Janjatis and 54.6 per cent from Dalits. A recent impact study of the programme, undertaken by the Technical Cooperation Programme of the Food and Agriculture Organization of the United Nations, found that, under the programme, Dalits had improved their farm income by 40.2 per cent per year, while farm incomes of higher caste groups in the LFUGs had grown by 14.0 per cent per year. Similarly, woman-headed households had improved their farm income by 36.8 per cent per year, while man-headed households had recorded an annual growth of 23.4 per cent.

## **II. Justification and rationale**

8. In the course of implementation, the Government and IFAD have identified, through the mid-term review and the annual joint review missions, the need to undertake additional and unforeseen activities to improve programme effectiveness at the level of the LFUG members. This has included training in goat management and in seed production, and the introduction of livelihood improvement plans. Upward adjustments in the salaries and allowances of national staff have also been necessary. All this has required programme resources that were not initially included in the budget.
9. Moreover, the actual inflation rates were higher than those estimated during design, whereas the Nepalese rupee exchange rate has not suffered from depreciation as assumed in the appraisal cost estimates. The combined effect of these two factors alone has created an estimated shortfall of up to US\$3 million.
10. Without supplementary financing, programme activities will have to be halted in first quarter of 2012. This would jeopardize the investments already made in physical and human assets, and affect the sustainability of programme results, which require the final two years of implementation (2012-2014) as envisioned in the original design. Particularly at risk would be not only the recently formed LFUGs but also the so-called "medium active" LFUGs that need additional support to become "active" and able to continue activities without further external backing. The credit and savings activities also require further support to ensure sustainability, as the recommended linkages with the Government's Poverty Alleviation Fund and the Nirdhan Utthan Bank have not yet become fully operational.
11. The policy mainstreaming and scaling up of leasehold forestry through the adoption of a new forest law, the establishment of a leasehold forestry division in the Department of Forests and the application of more appropriate guidelines for leasehold forestry would be difficult to achieve without the additional financing to enable the programme to complete the final two years of implementation as originally planned.
12. The programme has generated an extensive set of field experiences and lessons learned. Programme staff have recently been trained to use the IFADAsia portal as a place to capture knowledge, discuss experiences and share their work with others. The programme can now capitalize on this training and the existing programme website to further tap the experiences of programme staff and beneficiaries for the benefit of the larger community. It also needs to create a more effective link between monitoring and evaluation and knowledge management so that, as the programme draws to a close, its knowledge can be used for policy dialogue to open

the way for the scaling up of operations through government structures. In this connection, and in the interests of longer-term sustainability of the programme's benefits, during the remaining implementation period the programme will also implement a geographic information system to localize user groups and their land. This financial effort will therefore not only support the learning process but also strengthen policy dialogue and scaling-up activities.

### **III. Programme costs**

13. With these additional resources and a further contribution from the Government of US\$0.20 million, the total programme cost will increase from US\$12.77 million to approximately US\$15.97 million. The proposed financing falls within the total country allocation for Nepal and it has been agreed with the Government.
14. The expenditures categories for this supplementary financing will be: (i) equipment and materials (3 per cent); (ii) on-farm investments (15 per cent); (iii) service providers, studies (20 per cent); (iv) technical support (21 per cent); (v) workshops and training (24 per cent); (vi) salary and allowances (5 per cent); and (vii) operating and maintenance (12 per cent). An additional category "technical support" has been added to the supplementary financing for the purpose of knowledge management (to document lessons learned and prepare policy dialogue for further scaling up).

### **IV. Programme financing**

15. The revised total programme cost will be US\$15.97 million. The sources of financing will be: (i) IFAD, with initial financing of a loan of SDR 7.15 million (equivalent to approximately US\$10.49 million) and a grant of SDR 0.84 million (equivalent to approximately US\$1.22 million), and supplementary financing of SDR 1.95 million (equivalent to approximately US\$3.0 million), consisting of a loan on highly concessional terms (approximately US\$1.5 million) and a DSF grant (approximately US\$1.5 million); and (ii) the Government with an initial contribution of US\$1.05 million and an additional contribution of US\$0.20 million for a total of US\$1.25 million.

### **V. Proposed modifications to the financing agreement**

16. Upon approval by the Executive Board, the existing financing agreement will be amended to reflect the supplementary financing. This supplementary financing does not imply any modification of the programme description.

### **VI. Recommendation**

17. I recommend that the Executive Board approve the proposed supplementary financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a supplementary loan on highly concessional terms to the Federal Democratic Republic of Nepal in an amount equivalent to nine hundred and seventy-five thousand special drawing rights (SDR 975,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a supplementary DSF grant to the Federal Democratic Republic of Nepal in an amount equivalent to nine hundred and seventy-five thousand special drawing rights (SDR 975,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President