

Document: EB 2012/106/INF.5
Date: 31 August 2012
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

Nepal

Implementation of the 2nd cycle of the Western Uplands Poverty Alleviation Project financed under the flexible lending mechanism

Note to Executive Board representatives

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Executive Board — 106th Session
Rome, 20-21 September 2012

For: Information

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1. The purpose of this information note is to comply with paragraph 13 of the flexible lending mechanism (FLM) guidelines (EB/98/64/R.9/Rev.1), which stipulates that "... for each FLM loan and prior to the end of each cycle, IFAD management will decide whether to proceed, to cancel, or delay subsequent cycles. Management will inform the Board accordingly....."

I. Introduction

2. The overall objective of the FLM is to introduce greater flexibility into the Fund's project design and implementation in order to: match project time frames with the pursuit of long-term development objectives when it is judged that a longer implementation period will be required to meet those objectives; maximize demand-driven beneficiary participation; and reinforce the development of grass-roots capacities. The specifics of an FLM loan include: (i) longer loan periods (10-12 years to allow for the achievement of sustainable development objectives; (ii) a continuous and evolving design process through implementation of districts, three- to four year cycles; and (iii) clearly defined pre-conditions – or "triggers"- for proceeding to subsequent cycles.
3. This information note reports on the progress in achieving WUPAP's third-cycle triggers and the decision by IFAD to move to phase III of the project. The contents are based on the findings of an IFAD and the Government of Nepal joint review mission fielded in April 2012. In accordance with operational procedures for the FLM, the task of the Review was to assess WUPAP's progress and performance in Phase II, judge whether the criteria for IFAD approval of funding for Phase III have been satisfied, make recommendations on possible improvements to the project, outline the content of Phase III and propose any needed changes to the Loan Agreement between the Government of Nepal and IFAD.

II. Background

4. WUPAP is being implemented in three phases¹ under the Flexible Lending Mechanism of IFAD with a loan effectiveness date of 01 Jan 2003, current completion data of 31 Mar 2014 and is currently in Phase II. Phase I of the project was completed in FY 2006/07 in four districts. Phase II extended project coverage to the additional seven Districts, however one District was subsequently withdrawn giving a current coverage of ten active Districts. At the request of GoN a one year no cost extension for Phase II was approved by IFAD on 17 June 2011 giving a revised Phase II completion date of 15 Jul 2012. A final consolidation Phase III is envisaged subject to meeting the five triggers indicators defined to progress from Phase II to Phase III, as per the Phase II Finance Agreement of 19 July 2007.
5. The Supervision Mission of December 2011 noted a significant improvement in the project management performance and an increasing likelihood that the project will have substantively met its five performance triggers by July 2012 and so progress to Phase III.

¹ Phase I Districts: Bajhang*, Bajura*, Jumla* and Humla*, Phase II Districts: Dailekh*, Jajarkot*, Dolpa, Kalikot, Rolpa and Rukum, In addition Mugu was initially included in Phase II but then withdrawn due to implementation difficulties. Those marked with * are focus Districts for more intensive management support during the one year extension to Phase II, including the appointment of a District Project Manager, selected on the basis of the scale of project activities within these Districts.

III. Project Performance during the 2nd cycle

6. Project management performance and implementation progress have continued to improve in the past year which is an encouraging basis for Phase III as reflected in the improvements of the ratings in the Project Status report, i.e. Quality of financial management from Unsatisfactory to Moderately Unsatisfactory and Quality and timeliness of audits from Unsatisfactory to Moderately Satisfactory.
7. In particular, the recently strengthened management team at District and PCU levels have made good progress in implementing a revised AWPB aimed at raising project progress toward the five trigger indicators for Phase II. There have also been improvements in the quality of the audit and the PCU is taking action to address other fiduciary issues within their control.
8. Despite this recent improvement, the structural problems in the Phase II design and implementation modality will limit the extent to which the project could achieve its full potential; for these reasons, for Phase III, the entire arrangements for financial management will be redesigned, simplified and with a far stronger accounting team dedicated to the project.
9. The five triggers to move to Phase III are defined in the Phase II Finance Agreement of 19 July 2007. As of 15th June 2012, all triggers have been reached as follow:
 - a. **Leasehold forestry:** *detailed plans have been prepared and implemented or are under implementation for the active use of land for 70% of LFUGs which have held leases for three or more years. Trigger already met: currently 82% of LFUG have some active use of land and plans.*
 - b. **Community infrastructure:** *engineering assessment is that design, construction and maintenance standards for 80% of facilities constructed in Phase II are appropriate and adequate. Trigger already met: 85% met by end May 2012.*
 - c. **Credit:** *the recovery rate for loans extended from the Project and reflows is no less than 95% [for lending capital loans made by Districts to community organizations for on-lending]. Trigger already met: Recovery rate reached 95.4% and has been stable around this level since July 2011.*
 - d. **Community organisations:** *groups shall be graded on their capability and sustainability and agreed minimum of all groups operating for more than two years should be in Grades 1 and 2. Trigger already met: Currently 87% of COs more than 2 years old are rated as Grade 1 or 2.*
 - e. **Disbursement:** *at least 75% of the Loan has been disbursed. Trigger already met: 85% of the loan disbursement as of June 2012.* The total loan allocation for phase I and II is SDR 9 million and total disbursed amount is SDR 7 823 449.70 (including the advance payment in special account), 87% of the loan.

WUPAP Phase II under Flexible Lending Mechanism

(Amounts in SDR)

Category Description	Loan Amount Allocated	Loan Amount Disbursed	%
Community Infrastructure	2 060 000.00	1 699 138.28	82.48
LFUG Development Investments	900 000.00	675 495.84	75.06
Equipment, Materials and Vehicles	80 000.00	75 572.63	94.47
Crop and Livestock sub-projects	540 000.00	416 692.73	77.17
Training and Workshop	1 200 000.00	916 035.62	76.34
Studies and Research	240 000.00	193 784.96	80.74
Contract for NGO Services and Institutional and Management Support	1 750 000.00	1 286 006.90	73.49
Operations and Maintenance	350 000.00	194 196.66	55.48
Unallocated	180 104.22	-	0.00
TOTAL Phase II	7 300 104.22	5 456 923.62	74.75

IV. Recommendations for the implementation of Phase III

10. The Goal and Purpose of the project remain relevant and unchanged and are, respectively: "Strengthened livelihood systems and basic human dignity amongst the poor and socially disadvantaged people in the Mid and Far Western regions of Nepal" and "Improved living standard through sustained growth of employment, income and access to resources amongst the poor households in targeted area".
11. The two primary indicators of impact will also remain the same as in Phase II, namely: (i) Improvements in household assets ownership index, (ii) Reduction in prevalence of child malnutrition, especially chronic malnutrition (height for age).
12. The approach will be to nurture social and economic empowerment within target communities centred around a participatory community-led investment processes in which the target community within each Village Development Committee (VDC) decides for themselves how a Community Investment Fund provided by the project will be used to meet their own priorities for economic development. This will be complemented by: strengthening of existing grassroots organisations (Community Organisations, Leasehold Forest User Groups, Infrastructure User Groups); reorientation of technical service provision in livestock, forestry and agriculture to respond to the specific demands of each community paid for by their own Community Investment Fund, and; investment to raise the effectiveness and delivery capacity of district-level service providers.
13. The operational approach for Phase III recognizes the rapidly changing socio-economic context in many of the project target communities, and in particular: new roads, markets and peace building environment. WUPAP will be best placed to support its target communities in raising themselves out of poverty by adopting a more focused approach, that addresses a small number of critical development issues and coordinates effectively with other projects to support target communities to profit from the improving connectivity and market opportunities in the Districts where these changes are happening.
14. The core development strategy for Phase III can therefore be summarised as **"Building community-led processes of social and economic empowerment that will increase the productivity of people and farming, and increasing access to productive and labour saving assets"**. This strategy furthers the

original project strategy founded on the Ministry of Local Development agenda of decentralization and devolution.

15. As such, the main adjustments required for Phase III are in the implementation modalities, which have been re-engineered to improve the responsiveness and quality of support provided to the target communities. Phase III of the project will maintain the same goal and purpose, the same target groups and work within the same VDCs in project districts.
16. Components of the project are streamlined from 5 down to 3 as follow:
 - **Component 1 : Community Empowerment** will encompass 1.1 Social Empowerment (including nutrition) and 1.2 Economic Empowerment.
 - **Component 2 : District Service Delivery Improvement** will focus on institutional strengthening, and
 - **Component 3 : Project Management.**
17. **Component 1: Community Empowerment** will build social and economic empowerment among target communities. The central elements will be a multi-year participatory investment planning and management process backed by a Community Investment Fund (CIF) provided by the project. The CIF will be used, for example, to procure technical services (e.g. farmer training) or fund productive infrastructure according to the communities own wishes. The community will be accountable to themselves for the decisions they make and for ensuring that the investments deliver the expected benefits. To increase gender equality in decision making, the senior woman and senior man from each target households will have their own equal voting rights in community decisions on use of the CIF. The community will manage their own investment in productive infrastructure, with appropriate engineering and technical support, where as technical services such as on livestock or forestry will be provided by district service providers under performance-based contracts administered on behalf of the VDC by the District Project Coordination Unit (D-PCU) and Project Coordination Unit (PCU).
18. **Component 2: District Service Delivery Improvement.** A step-change is required in the quality, responsiveness and effectiveness of technical service delivery to villagers. Several aspects of the project will contribute to this by creating a more enabling framework and structural incentives, including:
 - giving beneficiary communities full decision making control on resource allocation for services and the creation of a Beneficiaries' Oversight Board (see below) will begin to address the responsive of service provision;
 - involvement of the Regional Directorates (livestock, forestry, agriculture) will strength technical supervision and quality;
 - use of district government line agencies and non-line agency service providers (e.g. NGOs, cooperatives or private businesses with suitable technical staff) to provide similar services in different VDCs in the same district will raise competition among service providers, provide a performance benchmark and establish a credible alternative delivery mechanism for the project in the event of underperformance of one of the service providers.
19. **Component 3: Project Management** covering all project management, coordination and reporting activities at district, regional and national levels.

Available investment funds for phase III

20. The proposed funding for Phase III is based on the original funding structure as presented in the project Appraisal Report. **No additional IFAD funding is envisioned or will be provided for phase III.**

21. **Phase III started as of 16 July 2012 for a 4 years duration up to 16 July 2016.**

V. Conclusions

22. The Government is highly committed to the programme's development objectives in the project districts which belong to the priority regions to be developed under the Government Medium Term Reconstruction and Development plans. Similarly, the PCU technical team has shown high dedication in performing their professional functions, resulting in the highly satisfactory performance.
23. The project has made significant progress during its 2nd cycle with regard to its specific development objectives and the expected outcomes/results despite of the considerable challenges in the operational environment. The project components contribute to the poverty alleviation in the poorest among the most conflict prone areas in Nepal.
24. IFAD Management is satisfied that there is a firm basis for proceeding to the third cycle. The project's design remains relevant and the overall loan agreement amendable with adjustments as detailed in the phase III design report. For these reasons, Management approved the initiation of phase III of the project as of 16 July 2012.

Appendix 1: Logframe

Results hierarchy	Indicators	Means of verification	Assumptions
Goal Strengthened livelihood systems and basic human dignity amongst the poor and socially disadvantaged people in the Mid and Far Western regions of Nepal	1. Improvements in household assets ownership index 2. Reduction in prevalence of child malnutrition, especially chronic malnutrition (height for age) 3. # of household directly participating in the project	<ul style="list-style-type: none"> RIMS plus - Phase III baseline & end-line Project activity reports 	Socio-economic stability maintained so as not to disrupt market or project implementation.
Development objective Improved living standard through sustained growth of employment, income and access to resources amongst the poor households in targeted area	4. % increase in average household net income 5. % increase in average HH production of crops, NTFP/MAFS 6. % increase in average household herd size (livestock index) 7. % of HH with >20% increase in physical (e.g. land, equipment) or financial resources	<ul style="list-style-type: none"> RIMS plus - Phase III baseline & end-line 	Government administrative structures at national and sub-national levels remain stable and supportive of project
Outcome 1 (Component 1) Community Empowerment	8. 70% of people who believe their priorities were equitably reflected in CIP plans and implementation 9. 70% of participants are satisfied with CIP process (planning, implementation and governance) 10. 70% of CIP implementation that exceeds 70% physical and financial progress against plan for each year 11. 70% of CO and other groups graduating to self-sustaining status 12. 70% of HH adopting improved nutrition practices	<ul style="list-style-type: none"> Annual VDC-level results monitoring survey RIMS plus - Phase III baseline & end-line 	Social environment within target villages is conducive to participatory investment processes
1.1 Social empowerment	13. 153 participatory Community Investment plans prepared 14. 70% of people are satisfied with the pre-feasibility technical advice on agriculture (incl. livestock and forestry) and infrastructure 15. 70% of identified target households in each VDC reporting active participation of women and men from the HH in participatory CIP process (Active = attending 2 or more meetings in the planning process where they either voted or spoke to raise an issue) 16. 90% VDC conducting public audit each year covering all project supported activities 17. 80% satisfaction with overall services, infrastructure and other investments under CIP (disaggregated by respondent) 18. Number of HH where men and women both receive nutrition training and/or awareness raising activities	<ul style="list-style-type: none"> CIP feedback survey Annual VDC-level results monitoring survey VDC activity reports RIMS plus - Phase III baseline & end-line 	Social environment within target villages is conducive to participatory investment processes
1.2 Economic Empowerment	19. # of investments completed for the five types of eligible investment 20. # of beneficiaries by each of the five types of investment <u>Farming improvement</u>	<ul style="list-style-type: none"> VDC activity reports Annual VDC-level results monitoring survey D-PCU progress reports 	Appropriate technical service providers can be identified and contract to work in

Results hierarchy	Indicators	Means of verification	Assumptions
	<p>21. 80% satisfaction among farmers with farming improvement services and technical support/training</p> <p>22. 80% of household adopt at least 50% of the technology components they receive training on for at least 2 production seasons after training</p> <p><u>Market linkage</u></p> <p>23. Number of households reporting increase in unit sales price for produce above changes in local market prices</p> <p><u>Vocational training</u></p> <p>24. % of vocational trainees receiving >25% increase in wage rate after training (corrected for inflation)</p> <p><u>Infrastructure</u></p> <p>25. 80 % of infrastructure with appropriate design, construction and O&M system <i>Labour savings infrastructure</i></p> <p>26. No. of households using schemes</p> <p>27. Average monthly time and/or cost savings per household <i>Productive infrastructure</i></p> <p>28. Increase in annual irrigated production area (=area of actual irrigated land X number of seasons irrigated)</p> <p><u>Loan capital</u></p> <p>29. 70% of CO's planned in CIP to receive capital meet criteria and receive Loan Capital by end of 3 yr plan.</p>	<p>(CIP's submitted)</p> <ul style="list-style-type: none"> VDC Public Audit Report Pre- and post activity beneficiary surveys and group discussion 	<p>project areas to complement Government technical line agencies</p>
Outcome 2/ component2: District Service Delivery Improvement	<p>30. 80% satisfaction of target people with farming improvement services and technical support/training provided by DADO, DLSO and DFO.</p> <p>31. 80% of household trained by DADO/DLSO/DFO adopt at least 50% of the technology components they receive training on for at least 2 production seasons after training (monitor each season)</p>	<ul style="list-style-type: none"> Pre- and post activity beneficiary surveys and group discussion Annual VDC-level results monitoring survey RIMS plus - Phase III baseline & end-line 	<p>District agencies have sufficient numbers of appropriate skilled staff to deliver required service</p>
Output 1: Service Excellence Challenge Fund	<p>32. 80% of district service improvement projects implemented meet the key implementation and impact targets set in their proposal</p>	<ul style="list-style-type: none"> District Agencies progress reports PCU progress report 	<p>District agencies are committed to participate in project</p>
Output 2: Farm Field School Pilots & Rollout	<p>33. 5 FFS training courses developed/adapted, including all training materials, approaches and ToT materials</p> <p>34. At least 25 FFS pilot courses implemented</p> <p>35. At least 40 technical staff trained in each successful FFS methodology</p>	<ul style="list-style-type: none"> FFS training materials and documents FFS pilot activity and impact reports ToT training records 	