

Document: EB 2012/106/R.21/Rev.1
Agenda: 11(c)(iv)
Date: 21 September 2012
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

President's report

Proposed loan and grant to the Government of Nepal for the

Kisankalagi Unnat Biu-Bijan Karyakram (Improved Seeds for Farmers Programme)

Note to Executive Board representatives

Focal points:

Technical questions:

Benoit 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 — 106th Session
Rome, 20-21 September 2012

For: Approval

Contents

Abbreviations and acronyms	ii
Map of the programme area	iii
Financing summary	iv
Recommendation for approval	1
I. Strategic context and rationale	1
A. Country and rural development and poverty context	1
B. Rationale and alignment with government priorities and RB-COSOP	1
II. Programme description	2
A. Programme area and target group	2
B. Programme development objective	2
C. Components/outcomes	2
III. Programme implementation	4
A. Approach	4
B. Planning, monitoring and evaluation, and learning and knowledge management	5
C. Financial management, procurement and governance	5
D. Supervision	6
IV. Programme costs, financing, benefits	6
A. Programme costs	6
B. Programme financing	6
C. Summary benefit and economic analysis	7
D. Sustainability	8
E. Risk identification and mitigation	8
V. Corporate considerations	8
A. Compliance with IFAD policies	8
B. Alignment and harmonization	9
C. Innovations and scaling up	9
D. Policy engagement	9
VI. Legal instruments and authority	10
VII. Recommendation	10
Annex	
Negotiated financing agreement	11
Appendix	
Logical framework	

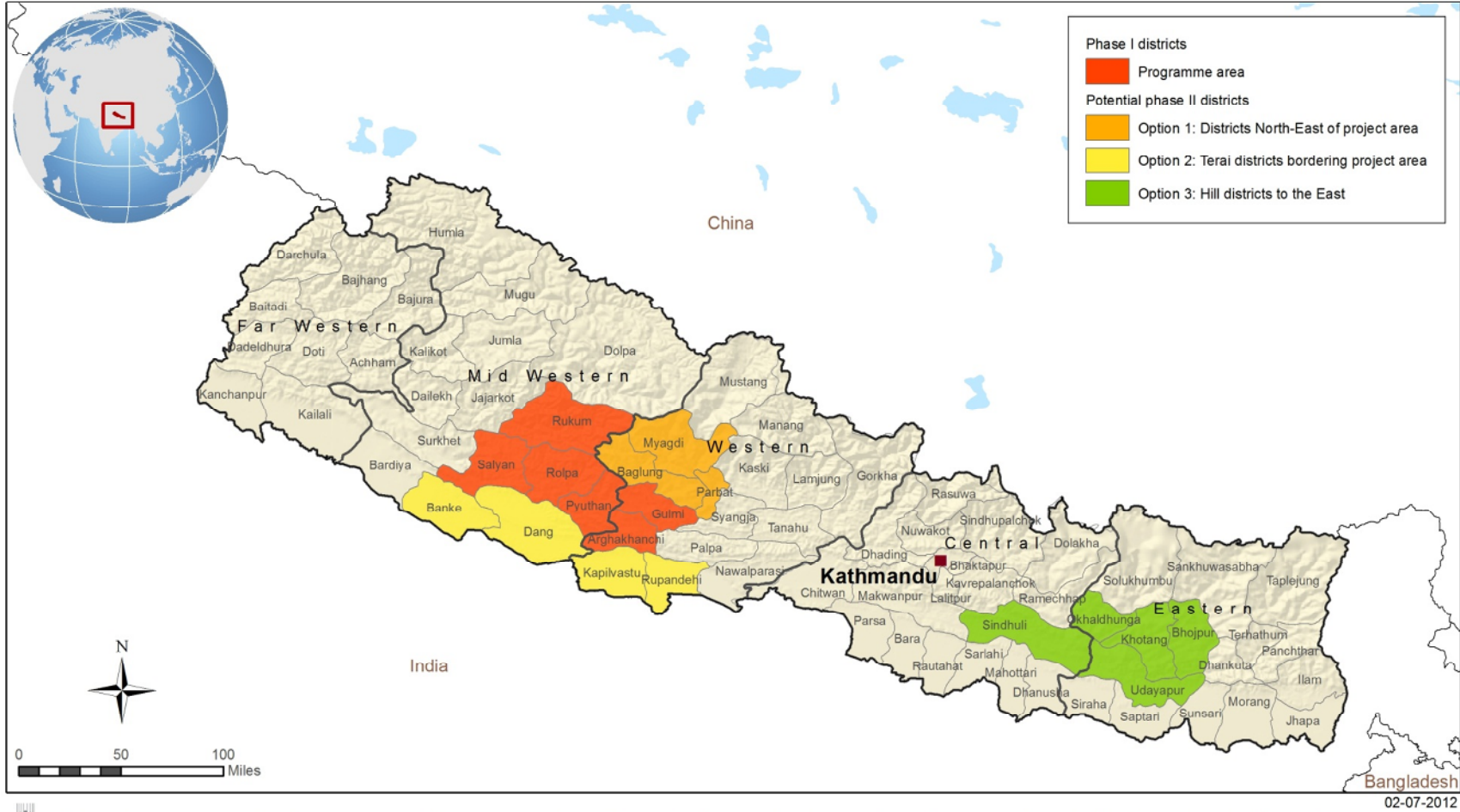
Abbreviations and acronyms

ADS	agricultural development strategy
FIRR	financial internal rate of return
GESI	Gender Equality and Social Inclusion Strategy
M&E	monitoring and evaluation
PMO	programme management office
PY	programme year
TL	truthfully labelled
VDC	village development committee

Nepal

Kisanka Lagi Biu-Bijan Karyakram

Map of the programme area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.



Map compiled by IFAD

Government of Nepal

Kisankalagi Unnat Biu-Bijan Karyakram (Improved Seeds for Farmers Programme)

Financing summary

Initiating institution:	IFAD
Borrower:	Government of Nepal
Executing agency:	Ministry of Agriculture Development
Total programme cost:	US\$59.7 million
Amount of IFAD loan:	SDR 12.85 million (equivalent to approximately US\$19.5 million)
Amount of IFAD grant:	SDR 12.85 million (equivalent to approximately US\$19.5 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier(s):	Heifer International US\$2.5 million
Contribution of borrower:	US\$7.3 million
Contribution of beneficiaries:	US\$10.9 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Government of Nepal for the Kisankalagi Unnat Biu-Bijan Karyakram (Improved Seeds for Farmers Programme), as contained in paragraph 45.

Proposed loan and grant to the Government of Nepal for the Kisankalagi Unnat Biu-Bijan Karyakram (Improved Seeds for Farmers Programme)

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Nepal is classified as a low-income food-deficit country. Agriculture is central to the national economy, with nearly 80 per cent of all households (3.4 million) and 66 per cent of the national labour force depending principally on the sector for their livelihoods. Overall, the agriculture sector contributes 33 per cent of national GDP. Nevertheless, in per capita terms cereal production has declined by 8 per cent and livestock production has remained stagnant over the past decade.
2. The national poverty level fell by almost one third from 1995/96 to 2003/04 (from 42 to 31 per cent), but urban-rural disparities are high. Poverty rates remain significantly higher in rural areas and access to services and infrastructure is much lower. Farm holdings are small, averaging only 0.8 hectare (ha) of land with nearly half less than 0.5 ha, and have gotten smaller (the average holding size decreased by 28 per cent between 1961 and 2001). Some 78 per cent of farm holdings are reported to produce primarily for home consumption, while only 1 per cent produce primarily for commercial sale. In 60 per cent of holdings, annual production is not sufficient to feed the household over the year; and in 20 per cent of holdings, households are deficient in food for more than half the year. With an estimated 2 million workers abroad (whose remittances make up 20 per cent of the GDP), migration for employment now affects more than half of all Nepalese households. This has led to the progressive "feminization" of agriculture in Nepal, with women increasingly taking responsibility for both household and farm management.
3. The approach of the Kisankalagi Unnat Biu-Bijan Karyakram (Improved Seeds for Farmers Programme) takes into account (i) the need for collaboration and harmonization with other government and internationally funded efforts in order to benefit from their experience and complementary activities; (ii) the national agricultural development strategy (ADS), expected to be completed by the end of 2012, which will make seeds a national priority; and (iii) the existence of significant risks, including possible political instability, and the degree to which collaboration with other development initiatives is likely. Such considerations strongly suggest the need for any proposed investment to maintain implementation flexibility while also allowing for future expansion in both geographical area and scale, if warranted. The specific assessment on social and geographical targeting provides an initial analysis of potential geographical expansion options, which could be reconsidered at the midterm review.

B. Rationale and alignment with government priorities and RB-COSOP

4. The programme responds to the above trends and has been designed within the framework of IFAD's results-based country strategic opportunities programme (RB-COSOP) and the forthcoming ADS. It advocates an approach that specifically targets private initiatives in order to achieve sustainable productivity increases.

Social inclusion is built into programme design at all levels through a variety of measures and mechanisms. Productivity gains are based on the identification of areas of clear competitive advantage for farmers in different farming systems and poverty contexts. In particular, the programme has identified two subsectors – agricultural inputs (especially seeds) and small-scale livestock (especially goats) – as key entry points for stimulating growth and productivity in hill areas. Both are essential in these areas' farming systems but are currently performing poorly, in part due to the lack of effective farmer-to-market linkages.

5. The programme aims to develop smallholder-based commercial agriculture and to ensure that a fair share of the value added in the value chain accrues to producers and creates opportunities for agribusiness companies to develop activities within the target area. With regard to sustainability, the programme will invest considerably in developing local leadership and planning capacities, and in regenerating and protecting natural resource bases, building on the livestock experience of the IFAD-funded Leasehold Forestry and Livestock Programme and other donors' experience in improved seeds dissemination. The primary rationale for the programme is the continued existence of widespread poverty in the country, particularly in rural target areas where poverty levels are estimated to exceed 45 per cent of the population.

II. Programme description

A. Programme area and target group

6. Following the corridor approach already tested in the IFAD-financed High Value Agriculture Project in Hill and Mountain Areas, the programme will target an area that combines high poverty levels and relatively elevated population densities with significant agricultural potential for seed and livestock production, as well as the possibility of complementary activities with other development initiatives. The first-phase target area encompasses four districts in the Mid Western Region (Pyuthan, Rolpa, Rukum and Salyan) and two districts in the Western Region (Arghakhanchi and Gulmi) (see map). The total estimated cultivated area of the target area will exceed 220,000 ha. Productivity of all major crops in this area is below national average. All targeted districts are in hill areas, some with the lowest Human Development Index rankings in Nepal and poverty levels that are considerably above national rural averages. Household consumption and income in the targeted regions are less than 70 per cent of national levels, while perceived inadequacy of food consumption is 60 per cent higher. Additional districts will be selected for the programme's second phase, from the fourth programme year (PY) to PY7, depending on additional cofinancing from other donors.
7. The target group will comprise nearly 350,000 households out of a total population of about 1.5 million (2010). Two principal types of beneficiaries are envisaged: (i) groups and cooperatives engaged in seed and livestock production or the provision of financial services; and (ii) individual farmers adopting the improved seeds resulting from the programme. The programme will benefit some 150,000 households directly and, as a result of the investment in the seed industry, an additional 200,000 farmers in hill areas indirectly.

B. Programme development objective

8. The programme's goal is to promote competitive, sustainable and inclusive agricultural growth in the target area in order to contribute to overall economic growth. Its development objective is to create sustainable productivity improvements through market-led demand for improved seeds and livestock with an aim to testing and scaling up an agriculture-led growth model.

C. Components/outcomes

9. In addition to programme coordination and management, the seven-year programme is composed of three components:

10. **Component 1: Support to expansion of the formal seed sector.** The programme will address the very low seed replacement rates and often poor quality of both cereal and vegetable seed found in hill areas. It will build on improved “truthfully labelled” (TL) seed production through closer linkage of producers to the formal sector and through support for related infrastructure. The participation of seed companies will be facilitated by a competitive grant scheme to reduce the costs of establishing operations in the target area, and by support for the formation and operations of contracted seed production groups.
11. In addition, the programme will support strengthened legislation, the upgrading of regional Seed Quality Control Centre offices, and the licensing of local agents to ensure adequate quality control. It will also assist input suppliers (“agrovets”) and input traders who are key intermediaries in the seed value chain (see component 3).
12. Local improved seed production for both cereals and vegetables will be substantially expanded, displacing informal production and often poor quality imports. The programme will ensure the participation of disadvantaged groups as per the Gender Equality and Social Inclusion Strategy (GESI) adopted by the Government. It will produce at least 3,250 tons of cereal seed and has also set an overall production target of 500 tons of vegetable seed.
13. An anticipated 7,200 households, organized in 720 groups and involving up to 13 private seed company operations, will participate in the production of approximately 760 tons of TL paddy, 830 tons of TL maize, 1,660 tons of TL wheat and 500 tons of a range of TL vegetable seeds. This is expected to generate overall net margins worth US\$3.15 million for the seed groups and US\$2.9 million for the seed companies. Improved TL seed production will be sufficient for the sowing of some 15,000 ha of paddy, 41,000 ha of maize, 14,000 ha of wheat and 65,000 ha of vegetables in the agroecological hill areas.
14. **Component 2: Smallholder livestock commercialization.** Livestock, and in particular goats, are a key asset for poorer farm households, especially for women, caste members and indigenous populations with limited resources. Despite the widespread distribution of livestock, earnings in Nepal from livestock production are low. The goat sector, in particular, offers a significant opportunity for accelerated productivity. Dairy production has seen an expansion, but still lacks support in the strengthening of commercial supply chains.
15. The programme will address these issues in both dairy and goat production, building on the success of the Leasehold Forestry and Livestock Programme. This will include attention to breed improvement, nutrition and management; veterinary services development; farmer training; and market linkage development. Key activities will include importing improved breeding stock and semen, establishing community-based breed selection, extending plantings of forage species, managing both on-farm and within-community forests, developing fodder tree nurseries, improving livestock sheds and expanding access to livestock insurance schemes. Improved veterinary services will involve training village animal health workers, extending existing vaccination programmes and creating group veterinary funds. The programme will adhere to the GESI to ensure that disadvantaged groups are included in and share the benefits from these activities.
16. The programme will support groups, cooperatives and communities in establishing 28 milk chilling centres under public-private partnership. It will also promote 15 local private dairy enterprises under a competitive grant system. Under the goat subcomponent, the programme will support the establishment of 26 goat collection hubs/livestock markets. During the programme period, 57 butcheries will be improved. Given the anticipated 8,900 participants in the goat component, farmers are expected to realize a total benefit of US\$5.14 million, with incremental meat production of 1,346 tons, within the implementation period of the subcomponent.

Similarly, the anticipated 8,550 dairy households will, on average, expand their herd size to four adults and produce an additional 85,930 tons of milk.

17. **Component 3: Local institutional and entrepreneurial development.** The programme will promote a favorable and conducive environment for sustainable private-sector enterprise development. Activities will target public institutions such as village development committees (VDCs) and district representations of local government, public-private institutions such as the district Chambers of Commerce and Industry, or private service providers, and financial institutions. Programme beneficiaries will be able to access adequate and sustainable financial and non-financial services required by their activities. The component is divided into the following three subcomponents:
- (a) **Institutional strengthening.** This subcomponent will target VDCs, local government institutions, and farmer groups and cooperatives. District agriculture coordination committees will provide the entry point for most component activities. Approximately half of all VDCs (312) in the programme area will participate. Some 1,722 producer groups and 49 cooperatives will receive training and support in areas such as management, business planning, accounting and marketing, including training in GESI awareness and analysis.
 - (b) **Access to non-financial services.** The programme will focus on two types of non-financial services benefiting programme-supported value chains: (i) creation of an investment window at the district Chamber of Commerce and Industry; and (ii) support to 25 agrovets to expand their outreach beyond district centres and provide services to programme-supported groups.
 - (c) **Increasing outreach of microfinance institutions.** The programme will explore two parallel approaches to develop the outreach of microfinance in rural areas. Under the first approach, it will assist the cooperative movement in increasing the number of its affiliates in the target area by supporting the development of Small Farmer Agro-Cooperative Limited (SFACL) units, seven in the programme area and two regional offices, and strengthening their parent organization, the Nepal Agriculture Cooperative Central Federation Limited. The additional SFACL units created will also benefit from financing from the Small Farmers Development Bank. The second approach will be based on non-cooperative microfinance institutions. It will assist development banks in increasing their outreach in the programme area primarily by setting up a network of six branches and service points. The programme will also support selected development banks in examining the possibility of developing branchless microfinance activities based on mobile phone technology.

III. Programme implementation

A. Approach

18. Programme success will depend heavily on the participation of the private sector in promoting and expanding the formal seed and goat trade, and on the programme's ability to collaborate effectively with other relevant rural development initiatives underway or planned in Nepal. The programme will be under the overall direction of a programme steering committee, chaired by the Ministry of Agriculture Development, with the participation of other public and private-sector agencies, including the Ministry of Finance. The committee's principal role will be to evaluate and approve annual workplans, reports and budgets; provide directives on strategic aspects of programme activities; and approve major competitive and matching grant agreements. The committee will be supported at national level by an advisory programme partnership forum encompassing key seed subsector representatives from the public, private and cooperative sectors together with civil society organizations and donors. The forum, which will meet at least annually, will ensure

smooth collaboration with other agencies and provide recommendations on programme activities to the programme steering committee.

19. A programme management office (PMO), to be established in a major centre close to the programme area, will carry out a range of functions including planning, training, monitoring and evaluation (M&E), knowledge management and governance. A programme management team will support coordinators for each technical component and will include a competitively selected director, a deputy director, an accounts officer, an M&E/knowledge management officer, a planning officer, a contracts and procurement manager, and a GESI advisor. The director, accounts officer and planning officer are expected to be seconded from the Ministry of Agriculture Development, while all other PMO staff will be recruited by the programme as national technical assistance. In addition to collaboration with local and national-level agencies and companies, PMO professional staff will supervise and support a number of field staff contracted through the other components. Considering the innovative features of the public-private partnership, the PMO will be supported during key phases by dedicated national and international technical assistance.

B. Planning, monitoring and evaluation, and learning and knowledge management

20. M&E and management information systems will be developed at the beginning of the programme and will be central to all activities. Selected indicators from IFAD's Results and Impact Management System (RIMS) together with other indicators included in the programme's logical framework will provide underlying guidance for programme planning and monitoring for each year. As part of annual local-level consultations, an annual workplan and budget will be prepared in a participatory way for each target district. These plans will then be integrated into the overall programme workplan and budget. M&E and management information systems will include a mobile phone-based monitoring system for use by participating groups, enterprises and field staff. Knowledge management activities will include holding briefings and discussions with programme partnership forum members, organizing annual district- and national-level workshops, producing studies and case histories on specific programme elements, and disseminating them through both the IFADAsia portal and a dedicated programme website.

C. Financial management, procurement and governance

21. The programme will consistently maintain accounts and record books in accordance with appropriate accounting practices. The ongoing IFAD-funded projects in Nepal maintain their account books following a double-entry bookkeeping system, which the programme also plans to follow. In addition to the Government's accounting system, a separate ledger and register/record will be maintained to capture programme expenditures in categories and programme component/subcomponent activities. Accounting software will be installed at the beginning of the programme.
22. **Flow of funds.** The programme will be funded from five different sources: (i) an IFAD loan; (ii) an IFAD grant; (iii) the Government; (iv) beneficiaries; and (v) other donors. In addition, there may be occasional flows from other sources such as private-sector institutions and companies. The IFAD and Government funds will flow to the PMO and its programme offices in accordance with the Government's customary procedures of budget release. All other funds, either cash or in kind contributions, will flow directly to the respective activities.
23. **Audits.** IFAD requires that programme accounts be audited by independent auditors acceptable to the Fund and in accordance with auditing standards acceptable to the Fund and in line with the IFAD Guidelines on Project Audits.
24. **Procurement** of goods, works and services financed by IFAD will follow the Government's procurement act and regulations to the extent that they are consistent

with IFAD's Procurement Guidelines and with the guidelines of other cofinancing partners. Any future amendment of the Government's procurement act and regulations will be subject to IFAD review. Whenever possible, procurement of goods and works will be bulked into sizeable bid packages to attract competitive bidding processes and make procurement more cost-effective.

25. **Governance** activities will focus on the development and implementation of an anticorruption action plan, which will include guidelines and procedures for issuing requests for proposals for competitive and matching grants, their evaluation and selection, and for the contracting of consultants, the selection of beneficiaries and the contracting of other services.

D. Supervision

26. The programme will be directly supervised by IFAD. Supervision will include the following key activities: (i) ensuring that annual workplans and budgets are prepared and monitored; (ii) ensuring that all required staff are recruited, mobilized and, where applicable, trained; (iii) checking the finalization and issuance of contracts for service providers, including making sure that terms of reference are of an adequate technical quality and provide detailed specifications for any procurement processes involved; (iv) monitoring the development of training and outreach materials; (v) checking that appropriate M&E and management information systems have been implemented, including the baseline study; and (vi) ascertaining the mobilization of participating Ministry of Agriculture Development field staff.
27. Key supervision tasks in PY1 will include: (i) preparation and mounting of the initial outreach and identification exercise, to promote awareness of the programme and identify potential participating groups; (ii) identification of potential commercial partners for seed and dairy production, and negotiation of support to these companies; (iii) rapid and effective selection of PY1 participating producer groups; (iv) financing and coordination of foundation seed production to supply participating seed groups; (v) import of buffalo and goat breeding stock and semen, and their distribution to breeders; and (vi) negotiations with district agriculture coordination committees and VDCs within each district to provide the basis for future institutional support and infrastructure development.

IV. Programme costs, financing, benefits

A. Programme costs

28. Total investment and incremental recurrent programme costs, including physical and price contingencies, are estimated at about US\$59.7 million. Funds allocated to programme coordination and management total US\$5.2 million and represent about 8.7 per cent of the total programme costs. The expansion of the formal seed sector accounts for US\$23.3 million (39 per cent), smallholder livestock commercialization US\$20.5 million (34.3 per cent), and local institutional and entrepreneurial development a further US\$10.7 million (17.9 per cent). Physical contingencies make up around 3 per cent of the total programme costs. The foreign exchange component is estimated at US\$19.6 million, or approximately 32 per cent of the total programme costs. Taxes amount to approximately US\$6.8 million (see table below).

Nepal
Kisankalagi Unnat Biu-Bijan Karyakram
Programme components by year - Base costs

	Base costs (US\$ '000)							Total
	2013	2014	2015	2016	2017	2018	2019	
1. Support to expansion of formal seed sector	2 792.6	5 590.9	5 772.3	6 170.8	790.3	483.7	164.5	21 765.0
2. Smallholder livestock commercialization	1 384.2	3 544.0	3 136.7	2 649.7	2 936.8	1 899.1	1 098.6	16 649.1
3. Local institutional and entrepreneurial development	1 134.1	1 386.5	1 499.6	1 603.4	1 282.6	1 348.8	1 477.0	9 732.0
4. Programme coordination and management	1 245.7	635.5	590.6	655.6	595.2	503.8	502.4	4 728.7
Total baseline costs	6 556.6	11 156.9	10 999.2	11 079.5	5 604.9	4 235.4	3 242.5	52 874.9
Physical contingencies	229.3	324.3	277.5	254.8	200.0	124.9	65.4	1 476.2
Price contingencies								
Inflation								
Local	215.1	628.9	817.1	999.5	948.2	679.0	411.5	4 699.3
Foreign	34.6	90.8	113.7	141.7	145.7	110.1	64.3	701.1
Subtotal inflation	249.7	719.7	930.8	1 141.2	1 094.0	789.2	475.8	5 400.4
Devaluation	-	-	-	-	-	-	-	-
Subtotal price contingencies	249.7	719.7	930.8	1 141.2	1 094.0	789.2	475.8	5 400.4
Total programme costs	7 035.5	12 201.0	12 207.4	12 475.5	6 898.9	5 149.5	3 783.7	59 751.5
Taxes	678.7	1 393.9	1 437.5	1 490.6	793.3	588.4	423.2	6 805.6
Foreign exchange	2 466.3	4 130.7	4 046.5	4 138.4	2 077.0	1 575.8	1 144.1	19 578.8

B. Programme financing

29. An IFAD loan and an IFAD grant, both of US\$19.5 million (each 32.6 per cent of the total programme costs), will together finance: 67 per cent of the support to expansion of formal seed sector component (each US\$7.8 million); 65.6 per cent of the smallholder livestock commercialization component (each US\$6.7 million); 51.2 per cent of the local institutional and entrepreneurial development component (each US\$2.7 million); and 85 per cent of programme management (each US\$2.2 million). The Government contribution is estimated at US\$7.3 million (12.2 per cent of the total) and includes contributions from its budget and from forgone taxes and duties. Beneficiaries will provide approximately US\$10.9 million, or 18.3 per cent of the total programme costs and Heifer International will contribute with US\$2.5 million to the smallholder livestock commercialization component (4.2 per cent of total programme costs).
30. A table summarizing the programme's financing plan by component is provided below. Part of the Government contribution (US\$0.11 million) will finance the salaries of the programme director and accounts officer who are expected to be seconded from the Government. The remaining share of the Government's contribution will be in the form of forgone taxes and duties on all programme inputs that involve funding from the IFAD financing or any other external source of funding associated with the IFAD financing. In conformity with the principle that no taxes or duties will be financed out of the proceeds of the IFAD financing, any future changes in the rates and/or structures of taxes and duties will apply to the programme.

Financing plan by components

Nepal
Kisankalagi Unnat Biu-Bijan Karyakram
Components by financier

	(US\$ '000)											
	IFAD loan		IFAD grant		The Government		Beneficiaries		Heifer International		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Support to expansion of formal seed sector	7 814.9	33.5	7 814.9	33.5	2 805.1	12.0	4 887.8	21.0	-	-	23 322.7	39.0
2. Smallholder livestock commercialization	6 726.0	32.8	6 726.0	32.8	2 435.9	11.9	2 106.2	10.3	2 500.0	12.2	20 494.2	34.3
3. Local institutional and entrepreneurial development	2 743.9	25.6	2 743.9	25.6	1 268.6	11.8	3 951.0	36.9	-	-	10 707.4	17.9
4. Programme coordination and management	2 216.1	42.4	2 216.1	42.4	794.9	15.2	-	-	-	-	5 227.1	8.7
Total programme costs	19 500.9	32.6	19 500.9	32.6	7 304.5	12.2	10 945.1	18.3	2 500.0	4.2	59 751.5	100.0

C. Summary benefit and economic analysis

31. Models were constructed to assess the impact of programme activities on seed and goat production groups, participating trading companies, and smallholders adopting the improved seeds. Financial benefits (the financial internal rate of return – FIRR) were positive in all cases, ranging from 15 per cent to 21 per cent for production groups and from 14 per cent to 22 per cent for companies, and averaging approximately 21 per cent for farm communities adopting the improved seed. Returns to livestock groups range from 18 per cent for goat producers to nearly 70 per cent for dairy buffalo operations. Overall, programme investments generate a

FIRR of 27 per cent and an economic rate of return of 23 per cent. Sensitivity analysis indicates resilience to increases in programme costs but substantial declines in returns where benefits decline or delays occur in benefit receipt. The results of the sensitivity analysis demonstrate that the overall programme remains attractive when the investment costs increase by 20 per cent with a FIRR of 23 per cent. The programme's sensitivity to changes in benefits deriving from the adoption of the improved seeds is moderate, with the FIRR reducing to 20.3 per cent in response to a 20 per cent decline in benefits. The impact of the 20 per cent decline in benefits deriving from the adoption of improved breeds of livestock increases the FIRR to 32.1 per cent.

D. Sustainability

32. Two key aspects affect the sustainability of benefits arising from programme implementation. The first relates to the financial sustainability of the economic activities promoted and fostered by the programme, such as seed and goat production, livestock markets, and rural financial and related services. In these cases, sustainability is largely ensured by the high levels of national demand foreseen for the output, and by the financial viability of the operations over the long term. Moreover, because producers are directly linked with private-sector buyers through purchasing contracts, both producers and buyers will have an incentive to maintain a trading relationship and respond to market requirements. Second, private companies establishing operations within the target area will make substantial infrastructure and related investments from their own resources, and this provides a further incentive for their continued operations in the area. The models prepared for both producers and traders indicate that the economic activities proposed under the programme are financially sustainable. In the case of the livestock markets, it is expected that the charges levied on animals brought to the markets will generate sufficient income to cover the market's maintenance and operating costs.

E. Risk identification and mitigation

33. Risks have been identified at the systemic and component level. Overall, deteriorating macroeconomic conditions, political uncertainty, natural disasters, limited local institutional capacity and weak collaboration with other relevant rural development initiatives are the most important risks. Among seed production risks, failure to establish sufficient producer groups and a lack of interest among private companies are key concerns, whereas limited access to forest areas, insufficient private-sector participation, poor adoption of a commercial approach by herders and problems arising from the introduction of cross-bred stock are important for the smallholder livestock commercialization component. For local entrepreneurial development, elite capture and inadequate financial services governance are the principal risks. In particular, significant changes in the country's constitution are expected to be defined in the near future, including the establishment of a federal system centred on several states, each likely to be based on a dominant ethnic or other group. The principal mitigation measure adopted by the programme with respect to all the above risks is the use of a flexible programme approach that will facilitate the adaptation and modification of activities if required.

V. Corporate considerations

A. Compliance with IFAD policies

34. The private sector will play a key role in the programme, in terms both of achieving programme development objectives and of ensuring the sustainability of benefits beyond the implementation period. In particular, the private sector will adhere to the following key principles of engagement set out in IFAD's Private-Sector Development and Partnership Strategy: interests of small farmers and producers paramount; evidence of country ownership and support; compliance with social and environmental standards; sustainability of impact; and transparency.

35. Support to rural finance services through cooperatives comprises a major element of the entrepreneurship development component. No financing will be provided to enterprises (beyond those that may be members of a microfinance institution). In line with the guidelines provided in the IFAD Rural Finance Policy, the programme emphasizes the following aspects: the importance of savings; customer education and protection; client participation; institutional stability; and interest rates.
36. The programme's primary target will be smallholder farmers, goat owners and members of local production groups and financial service cooperatives. Programme components have been chosen not only to result in increases in sector productivity, but also to be of particular relevance to these groups. The programme specifically targets women, caste members and indigenous populations who are disadvantaged and poor, and will ensure that they form at least 50 per cent of all beneficiaries. Indigenous groups such as the Magar and Kami are expected to constitute a significant minority of beneficiaries under the programme, and their participation will be measured under the requisite M&E procedures. Most programme-supported development activities will be group or community-based, in line with the IFAD Policy on Engagement with Indigenous Peoples. Adaptation and resilience to climate change comprises one of the elements of programme activities. Empowerment of poor people through better control of their own livelihoods is inherent in the programme design, including the strengthening of groups engaged in economic activities.
37. Like any other operation focused on agriculture, the programme will have implications for the environment and for natural resources management. These impacts are, however, considered minor. Consequently, pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation. Among the core principles set out by IFAD in this respect, the following are of particular relevance to the programme: sustainable agricultural intensification; value and governance of natural assets and a "climate-smart" approach; and livelihood diversification and value chains.

B. Alignment and harmonization

38. The programme is aligned with the national poverty reduction strategy and is using national systems. It takes into account the main thrusts of the forthcoming ADS. The programme will be instrumental in establishing a subsector technical working group on seeds and on livestock. Its second phase will be cofinanced by other donors working in the sector.

C. Innovations and scaling up

39. The major innovation promoted by the programme is to link farmers' groups to the private sector both in the seed sector (by organizing seed multiplier groups into cooperatives and facilitating their engagement in contract farming) and in the goats and dairy sector (by strengthening value chains).

D. Policy engagement

40. The Government prepared a 20-year agriculture perspective plan in 1995 to aid agriculture-led economic growth and poverty reduction, but no pipeline of investment projects was created to focus on these priorities. As a result, investment in the agriculture sector in recent years has been largely driven by donor priorities. To streamline investment in the agriculture sector, the Government, with support from the Asian Development Bank and IFAD, has embarked on the preparation of an ADS. This strategy will incorporate an investment plan for specific subsectors.
41. The programme will assist the National Seed Board and all stakeholders in finalizing and implementing amendments to the Seed Act and its regulations. It will also support the Ministry of Agriculture Development in the contracting of farming texts.

VI. Legal instruments and authority

42. A programme financing agreement between the Government of Nepal and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
43. The Government of Nepal is empowered under its laws to receive financing from IFAD.
44. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Government of Nepal in an amount equivalent to twelve million eight hundred and fifty thousand special drawing rights (SDR 12,850,000), 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 grant to the Government of Nepal in an amount equivalent to twelve million eight hundred and fifty thousand special drawing rights (SDR 12,850,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Kisankalagi Unnat Biu-Bijan Karyakram – Improved Seeds for Farmers Programme"

(Negotiations concluded on 5 September 2012)

Loan Number:

Grant Number:

Programme Title: Kisankalagi Unnat Biu-Bijan Karyakram – Improved Seeds for Farmers Programme (the "Programme")

The Government of Nepal (the "Borrower/Recipient")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1.
 - A. The amount of the Loan is SDR 12.85 million.
 - B. The amount of the Grant is SDR 12.85 million.
2. The Loan is granted on Highly Concessional Terms as defined in section 5.01(a) of the General Conditions.
3. The Loan Service Payment Currency shall be the US dollar.
4. The first day of the applicable Fiscal Year shall be 16 July.
5. Payments of principal and service charge shall be payable on each 1 December and 1 June.

6. Counterpart financing shall be provided for the Programme in the amounts of approximately USD 7.3 million from the Borrower/Recipient and approximately USD 10.9 million from beneficiaries both in cash and in kind. The contribution of the Borrower/Recipient shall cover (i) taxes and duties foregone on all the Programme inputs, (ii) the salaries of the Programme Manager and Accounts Officer and other deputed staff, and (iii) audit fees for the Programme. It is also expected that Heifer International will provide additional financing for activities related to the Programme in the amount of USD 2.5 million.

Section C

1. The Lead Programme Agency shall be the Borrower/Recipient's Ministry of Agriculture Development (MOAD).
2. The following are designated as additional Programme Parties: Ministry of Federal Affairs and Local Development, Ministry of Finance, Ministry of Cooperatives and Poverty Alleviation, Federation of Nepalese Chambers of Commerce and Industries, Nepal Agricultural Cooperative Central Federation, Small Farmer Development Bank , District Agricultural Development Offices , District Livestock Service Offices , District Development Committees, Village Development Committees, Heifer International and Agro Enterprise Center.
3. The Programme Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Programme supervised by the Fund.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
 - (i) The Programme Steering Committee and the Programme Management Office (PMO) shall have been established and the members designated;
 - (ii) the Programme Manager and the Accounts Officer, both acceptable to the Fund based on the approved terms of reference, shall have taken up their posts;
 - (iii) the Programme Implementation Manual shall have been approved by the Programme Steering Committee after non-objection by the Fund.
2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Joint Secretary, Foreign Aid Coordination Division
Ministry of Finance
Singha Durbar
Kathmandu, Nepal

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

GOVERNMENT OF NEPAL

Authorized Representative
Title

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme shall benefit about 150,000 households, including those participating in production groups and farming households that adopt improved seed and livestock, in four districts in the Mid-Western Development Region (Rukum, Salyan, Rolpa, and Pyuthan) and two districts in the Western Development Region (Gulmi and Arghakhanchi) (the "Programme Area") during the first phase and additional districts (to be determined) in the second phase.
2. *Goal.* The goal of the Programme is to promote inclusive, competitive and sustainable agricultural growth within the target area so as to contribute to overall economic growth.
3. *Objectives.* The objective of the Programme is to improve household incomes through sustainable, market-drive productivity improvements, with the aim to scale-up an agriculture-led growth model.
4. *Components.* The Programme shall consist of the following Components and their associated sub-components:

4.1 Component 1: Support to the Extension of the Formal Seed Sector

- a) The *Ensuring an Effective Enabling Environment* sub-component will promote policy and regulations improvements, increase the capacity of District Agricultural Development Offices, and improve the seed quality control system;
- b) The *Improved Seed Production* sub-component will assist in increasing output of improved seed, including facilitating participation of seed companies through a Competitive Grant Scheme;
- c) The *Promoting Farmer Demand for Truthfully Labelled (TL) Seed* sub-component will promote awareness of improved seeds among disadvantaged groups and people in remote areas.

The expected results of Component 1 are at least 7,200 households supported, organized around 720 groups and involving up to 13 private seed company operations participating in the production of approximately 760 metric tons (MT) of TL paddy; 830 MT of TL maize; 1660 MT of TL wheat; and 500 MT of a range of TL vegetable seeds. This is expected to generate overall positive net margins for both the seed groups and the seed companies. TL improved seed production is expected to lead to the increase of its utilisation coverage for the related varieties and be sufficient for the sowing of some 15,000 hectares of paddy; 41,000 hectares of maize; 14,000 hectares of wheat; and 65,000 hectares of vegetables in the agro-ecological hills zone.

4.2 Component 2: Smallholder Livestock Development

This Component aims to increase income from livestock production through breed improvement; nutrition and management; veterinary services development; farmer training; and market linkage development, including establishment of livestock markets, in three sub-components:

- a) The *Improving Dairy Productivity* sub-component will focus on breed improvement, nutrition and management, veterinary services development, farmer training, and market linkage development;
- b) The *Improving Goat Productivity* sub-component will include the same main areas of focus as the dairy sub-component, but with the addition of Farmer Field Schools;
- c) The *Strengthening of District Livestock Service* sub-component will improve the mobility and equipment of district offices, including creating an expanded artificial insemination capacity.

This Component will support groups/cooperatives/communities to establish at least 28 milk chilling centres under public-private partnership. It will also promote at least 15 local private dairy enterprises under a competitive grant system. Under the Improving Goat Productivity sub-component, the Programme will support establishment of 26 goat collection hubs/livestock markets, which in their turn stimulate the private investments in meat processing and detail sales. With the implementation period of the sub-component, it is expected that increase of milk and meat production will yield substantial financial income among the 8,900 beneficiaries households.

4.3 Component 3: Local Entrepreneurship and Institutional Development

This Component aims to support Components 1 and 2 by providing a conducive environment for their activities at the institutional, household, production and commercialization levels.

- a) The *Institutional Strengthening* sub-component will include both local bodies and producer groups and cooperatives;
- b) The *Access to Non-financial Services* sub-component will support the Programme-supported value chains by creating an Investment Window at the District Chambers of Commerce and Industry and supporting agro-vets to expand their outreach to Programme-supported groups;
- c) The *Increasing Outreach of Microfinance Institutions* sub-component will promote microfinance outreach in the target area, including assisting the cooperative movement to increase the number of its affiliates and assisting development banks to set up points of service and explore the use of microfinance activities based on mobile phone technology.

This Component will provide a conducive environment for activities undertaken under components 1 and 2: (i) 156 Village Development Committees (VDCs) will be strengthened; (ii) 24,810 households will adhere to producers' cooperatives and will benefit from technical and management training; (iii) 30,000 households will have access to financial services through the creation of at least 30 Small Farmer Agriculture Cooperatives and 6 local banks' branch extension. They will benefit from loans amounting to USD 8 million and improved financial services from the strengthened financial institutions.

4.4 Component 4: Programme Management Office

This Component aims at ensuring effective and efficient management of the Programme through planning, training, monitoring and evaluation, knowledge management and governance.

II. Implementation Arrangements

1. The Programme shall be implemented under the overall direction of a Programme Steering Committee (PSC), chaired by the Secretary of the Lead Programme Agency. The PSC shall evaluate and approve annual work plans, reports, and budgets; provide directives on strategic aspects of Programme activities; and approve major competitive and matching grant agreements.
2. The Programme Management Office (PMO) shall include a Programme management team comprised of a Programme Manager, Deputy Programme Manager, Senior Programme Advisor, Accounts Officer, Monitoring and Evaluation/Knowledge Management Officer, Planning Officer, Contracts and Procurements Manager, Financial Management Specialist, Crops/Seed Development Officer, Livestock/Veterinary Officer and a Gender and Social Inclusion (GESI) Advisor and other staff. The Programme Manager, Deputy Programme Manager, Accounts Officer, Planning Officer, Crops/Seed Development Officer and Livestock/Veterinary Officer will be deputed MOAD personnel. All other PMO staff will be recruited by the Programme.
3. Main Implementing Agencies and Roles:
 - - (a) MOAD shall assume overall management and implementation responsibility for the Programme.
 - - (b) Programme staff and experts, other than deputed MOAD personnel (as referred to in paragraph 2), will be recruited from the local market through a contracted recruitment agency following a competitive selection process in order to assist the PMO team for key managerial tasks.
 - - (c) HEIFER International shall be a key implementation partner of Component 2 and provide support, technical advice and backstopping for the livestock development initiatives in accordance with an MOU, satisfactory to the Fund, between it and the Borrower/Recipient.
 - - (d) Agro Enterprise Center (AEC) shall be the institution charged with facilitating business development in the agricultural sector nationally, linked to the Federation of Nepalese Chambers of Commerce and Industry (FNCCI). It shall also fulfil this role in the Programme in accordance with an MOU, satisfactory to the Fund, between it and the Borrower/Recipient.
 - - (e) Development partners providing additional funding may, with the approval of the Fund, be designated by the Borrower/Recipient as implementing agency for specific Programme activities.
4. Programme Implementation Manual. The PMO shall finalise the Programme Implementation Manual ("PIM") and shall submit the PIM to the Fund for no objection and to the PSC for approval.
5. Mid-Term Review. A Mid-Term Review ("MTR") shall be conducted at the end of Programme Year three to prepare Phase II of the programme. The MTR shall assess the progress, achievements, constraints, and emerging impact and likely sustainability of the programme and make recommendations and necessary adjustments for the remaining period of disbursement. The MTR shall be carried out jointly by the Lead Programme Agency and IFAD. The MTR shall take into account additional amounts provided by other donors and recommend appropriate changes to the Allocation Table in Schedule 2.

Schedule 2

Allocation Table

1. *Allocation of Loan and Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage (all net of taxes)
I Funds	2 320 000	2 320 000	100% net of beneficiaries' contribution
II. Technical Assistance	550 000	550 000	100% net of other donors' contribution
III. Studies, Surveys, Training and Workshops	3 420 000	3 420 000	100% net of other donors' contribution
IV. Goods and services (including vehicles)	3 720 000	3 720 000	100% net of beneficiaries and donors' contributions
V. Operating Costs	1 590 000	1 590 000	100% net of government's contribution
Unallocated	1 250 000	1 250 000	
TOTAL	12 850 000	12 850 000	

(b) *Apportionment of Expenditures.* All expenditures shall be apportioned between the Loan and the Grant at the ratio of 1:1

Logical framework

Objective Hierarchy	Key Performance Indicators and Targets (by end of programme)	Monitoring and Information Sources	Assumptions and Risks
<p>Goal Increased competitive, sustainable and inclusive rural growth</p>	<ul style="list-style-type: none"> Value of agricultural & livestock production in target area increases by at least 15% and 10% respectively. At least 150,000 families(including among disadvantaged groups) increase household food security [RIMS] At least 20 percent of Programme area HHs show improvement of more than 10% in household assets ownership index [RIMS] Reduction of at least 20% in prevalence of child malnutrition among participating HHs [RIMS] 	<p>Baseline, midterm and completion surveys and impact studies that contain disaggregated data based on sex, ethnicity, caste and geographical remoteness</p>	<p>Macro-economic and political conditions do not deteriorate further No major natural disasters affect target area</p>
<p>Development Objective Create sustainable productivity improvements driven by market demand</p>	<ul style="list-style-type: none"> Productivity in beneficiary HHs increases by (a) goat meat : 25%; (b) milk production: 50%; (c) crop yields using improved seeds: 15 % [RIMS] At least 70% of supported production groups actively functioning at the end of the implementation period [RIMS] Private purchase contracts established with at least 50 % of supported seed and dairy production groups [RIMS] 75 % production groups receiving infrastructure support sign production contracts within 2 years [RIMS] 	<p>DADO & DLS records Outcome studies with data disaggregated (ethnicity, sex, caste and remoteness). Periodic surveys & reports part of the monitoring RIMS reports at 2nd level</p>	<p>Participation in, and support for, programme activities from relevant local-level GON agencies Ability of Programme to collaborate with other projects.</p>
<p>Output 1. Expansion of formal seed production sector Increased production of TL seeds within the target area and marketed locally and beyond</p>	<ul style="list-style-type: none"> Strengthened NARC and SQCCs able to produce required foundation seed and perform adequate seed quality control functions, respectively Truthfully labeled seed production , formal marketing and distribution system to meet GON recommended SRRs At least 7,000 farmers participate in at least 700 seed producer groups [RIMS] At least 5 seed companies establish cereal and/or vegetable seed purchasing operations in the target area At least 25,000 farmers participate in more than 1,000 seed demonstrations for improved seeds [RIMS] At least 240,000 ha sown with TL seed for cereals and vegetables 	<p>District DLS reports Programme annual and trimester reports as part of the regular programme monitoring RIMS 1st level annual reports</p>	<p>Target households willing and able to utilize improved seed Private companies involved in seed sector interested and willing to participate in sector growth Adequate capital base or financing access to permit private sector firms to invest in required assets</p>
<p>Output 2. Small Scale Commercial Livestock Development Animals with improved genetic potential result in improved growth of animal products</p>	<ul style="list-style-type: none"> At least 550 dairy and goat new and existing groups supported by the programme [RIMS] At least 80 % of the participating HHs have improved animals through breed improvement program At least 60 % of dairy group HHs produce forage At least 50 % dairy and goat HHs use stall-feeding At least 80 % of animals in dairy HHs covered by routine vaccination against HS, BQ and FMD [RIMS] At least 15 local livestock collection centres/markets and 25 milk chilling centers established and functioning [RIMS] 60 % of dairy groups and 25 % of goats groups are engaged in marketing activities. 	<p>District DLS reports Programme annual and trimester reports as part of the regular programme monitoring RIMS 1st level annual reports</p>	<p>Sufficient forest areas approved for goat production Cross breeds improve growth rates Demand for goat meat and dairy products in Nepal continues Private companies willing to participate in sector growth</p>

<p>Outcome 3. Entrepreneurship & Institutional Development Strengthened capacity of rural institutions to provide services to smallholder farmers</p>	<ul style="list-style-type: none"> • Strengthening of participating local institutions through training: (a) participating VDCs - 80 %; (b) participating Production groups and Cooperatives – 70% ; (c) participating Agrovets – 80%. [RIMS] • At least 50 % of groups formed/strengthened with women in leadership position [RIMS] • At least 80 % of members of new SFACLs and bank branches access production loans • At least 5 multi-stakeholder platforms functioning in the programme area. 	<p>VDC and DACC records SFDB and SFACL reports and records. Programme annual and trimester reports as part of the regular programme monitoring RIMS 1st level annual reports.</p>	<p>Active collaboration will be possible with government and other agencies Collaborating agencies will have sufficient staff and resources to provide effective services.</p>
--	---	--	--