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Enabling poor rural people  
to overcome poverty

## **Comments of the Independent Office of Evaluation of IFAD on the country strategic opportunities programme for Nepal**

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**For: Review**

# Comments of the Independent Office of Evaluation of IFAD on the country strategic opportunities programme for Nepal

## General comments

1. The Independent Office of Evaluation of IFAD (IOE) finds that the country strategic opportunities programme (COSOP) is well prepared and an improvement over past COSOPs. An inclusive and participatory approach was taken to its preparation, and the process involved a lessons learned exercise. Overall, the COSOP addresses the recommendations of the country programme evaluation (CPE) undertaken in 2012-2013 and draws on the lessons of past experience. IOE also recognizes that the development of a joint strategic framework with the Government of Nepal is a major challenge given the unpredictable and volatile political situation and may demand flexibility and adaptation over the COSOP implementation period.
2. Generally speaking, the strategic directions are consistent with the portfolio pipeline and non-lending activities. As recommended by the CPE, the COSOP has been aligned with the performance-based allocation cycle and the pipeline is well defined and supported by detailed concept notes that should provide the basis for an adequate formulation and approval process. This will circumvent the need to utilize the performance-based allocation (PBA) in the last months of the cycle, which has been an issue in the past.
3. Recognizing the political volatility and governance problems, the COSOP rightly emphasizes increased cooperation with civil society organizations and private service providers as well as the promotion of accountable and responsive rural institutions. One challenge will be to ensure that central government partners involved in COSOP implementation fulfil the commitment to outsource a substantial part of implementation to civil society and private organizations. With respect to promoting responsive local governments, the challenge will be how to achieve this in a context where there are no elected local governments and the functions of local government are handled by government officers, often frequently rotated and with limited links to and engagement in local culture and development challenges.
4. For programme management, the COSOP introduces an interesting innovation in the form of a country programme implementation support unit (CPISU), which would be established in the Ministry of Finance to strengthen monitoring and evaluation functions and fiduciary aspects across the entire portfolio. The CPE indicated that there was significant need for such a mechanism. IOE welcomes this initiative and assumes that agreement has been obtained with the Government to finance the CPISU on a sustainable basis through contributions from the budgets of loan-supported projects.
5. The CPE found that sustainability was in the unsatisfactory zone and the COSOP addresses this issue by introducing institutional assessments of future partners combined with capacity development support and elaboration of exit strategies for all interventions. The COSOP also attempts to address another factor that contributed to low sustainability according to the CPE: the emphasis on creating project beneficiary groups for the primary purpose of distributing project benefits and subsidies. This led to a situation whereby, as the project and its subsidies ended, such groups often disintegrated as they had no sustained income stream on their own. Rather than creating aid-dependent groups, the CPE recommended a paradigm shift that would place the emphasis on promoting viable rural enterprises, and this indeed is the focus of the second pipeline programme whose working title is "rural enterprises and remittances".

6. While these initiatives will no doubt make an important contribution to improving sustainability prospects, the COSOP only partly addresses another underlying factor of the low sustainability achieved. According to the CPE this relates to the spread and dilution of resources over many districts and thousands of beneficiary groups. Given the modest capacity for implementation management in the country, this broad coverage also reduced efficiency and effectiveness. The CPE recommended that support be targeted geographically, for example by promoting viable rural enterprises and strong value chains along selected road corridors. This would imply a much more focused and substantial level of support, i.e. a project would target fewer districts and fewer enterprises or beneficiary units. This approach is not in evidence in the outlined pipeline; for example, the concept note for the programme on adaptation in mountain and hills ecosystems indicates that roughly 20 districts will be covered. While any design process may be subject to pressure from government and districts to ensure large geographical coverage, it is important to resist this pressure if the new paradigm is to succeed.

### **Specific comments**

7. **Targeting strategy.** IOE finds that the geographical targeting strategy of the COSOP overall is in line with the recommendations of the CPE, including the COSOP's proposal to place more emphasis on the Central and Eastern Development Regions. However, there seems to be some inconsistency between the strategy (paragraph 20) and the pipeline. The targeting strategy appears to exclude the sparsely populated mountain regions as it proposes a "focus on areas affected by poverty, but that also combine higher demographic density, agroecological or off-farm potential, and reasonable access. Eastern, Western and Far-West Terai and the Central Hills combine large numbers of poor people with good potential for on- and off-farm activities". In contrast, the concept note on adaptation in mountain and hills ecosystems includes the mountain regions.
8. The target group definition includes three groups: (i) households with sufficient land; (ii) land-poor households, and young unemployed/underemployed people and migration returnees, who will be supported in developing microenterprises in the off-farm sector and in accessing forestry leaseholds; and (iii) less vulnerable farmers and small enterprises (the non-poor), defined as a secondary target group who could be important drivers of change and of value chain development and contribute to job creation.
9. This definition raises two sets of issues. First, the macro-level topographical classification - Terai, Hills, Mountains - is not always usable when defining the socio-economic context and support interventions relevant to the context; neither is the distinction between "land-poor" and "land-rich". Two communities in the same hill district a few kilometres apart may face completely different challenges and opportunities, as highlighted in the CPE. For example, a community located near a road, close to fertile soils and a river, and with market access and a predominantly monetized economy is vastly different from a community living in very remote areas with poor soils (though plenty of land in some cases) and no water, limited integration into the market and largely a subsistence economy. With the exception of a few high-value-to-weight products, the latter has limited scope for enterprise development and monetary activities such as savings and credit schemes. Therefore, classifying communities/target groups in terms of their level of market access or integration may provide a better foundation for designing relevant support interventions. However, for certain interventions (e.g. leasehold forestry), it may also be opportune to go a step below the community level and define target households based on household socio-economic characteristics.
10. The second issue relates to the non-poor or "drivers of change" in rural communities, who are defined as a secondary target group. It could be argued that these should be the primary target group and partners in support interventions aimed developing value chains and viable rural enterprises. Although they are not poor, they are

generally not wealthy and they do need support in the form of access to finance, in particular investment finance, and specialized technical and business services. The poor will benefit indirectly, through employment, by being suppliers to the enterprises or members of the cooperatives that the drivers of change help to establish and develop. Furthermore, active engagement with large buyers and agribusinesses (rich and often urban-based) as partners is often a key to successful value chain development.

11. **Coordination challenges.** Both pipeline operations are outlined as multi-component programmes with several implementing partners. For example, the programme on rural enterprises and remittances is envisaged for implementation by the Ministry of Industry "in partnership with the Ministry of Education" but it has many more partners. One lesson of the past is that both coordination and partnership between government agencies is a significant challenge and that multi-component programmes work best when each partner is assigned full implementation responsibility for its specific component, thereby developing ownership. IOE suggests that this aspect be carefully addressed in the formulation and design process.
12. **Policy dialogue and partnerships.** The COSOP (paragraphs 23-24) rightly emphasizes policy-relevant issues emerging from project implementation but limits the approach to helping organizations of rural poor people and producers voice their concerns and influence policy. This approach is likely to require grant support as the Government may be unwilling to use its loan proceeds to support advocacy against itself. However, the COSOP is silent on plans and budgets for grants.
13. Similarly, the COSOP makes no mention of engagement by IFAD and the country programme management team in policy dialogue and does not specify plans and budgets for such engagement. For example, in addition to IFAD's financial contribution to the formulation of the agricultural development strategy, it could be relevant for IFAD to provide a more substantial policy and technical input to the formulation process, which is led by the Government and the Asian Development Bank (ADB).
14. On a related matter, IOE welcomes the recently signed memorandum of understanding (MOU) to strengthen the partnership between IFAD and the ADB. In this regard, it is suggested that all future COSOPs in the Asia and the Pacific region - including the one under consideration for Nepal - clarify how Management intends to operationalize the MOU at the country level.
15. **Financial and human resources.** The CPE noted that the budget and resources allocated for country programme management were in the normal range for medium-sized IFAD programmes but that the Nepal programme was extremely resource-demanding given the governance problems and volatile political situation. The COSOP does not address this issue or attempt to estimate the financial and other resources required to achieve the COSOP objectives.
16. **COSOP completion review.** IOE suggests that the COSOP make provision for a COSOP completion review, in line with best practice observed by other international financial institutions in their self-evaluation systems. Such completion reviews should be introduced as a regular feature in all COSOPs.

### **Final remarks**

17. With the above qualifications, IOE wishes to reiterate its overall appreciation of the document and the efforts made, in a highly complex and challenging political context, to follow up on the CPE recommendations and agreement at completion point. Revision of the COSOP may be required during implementation to adapt the strategy to changes in the policy and institutional context, for example if and when the process of developing a new Constitution and an agricultural development strategy come to a conclusion.