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Enabling poor rural people
to overcome poverty

Nepal

Country strategic opportunities programme

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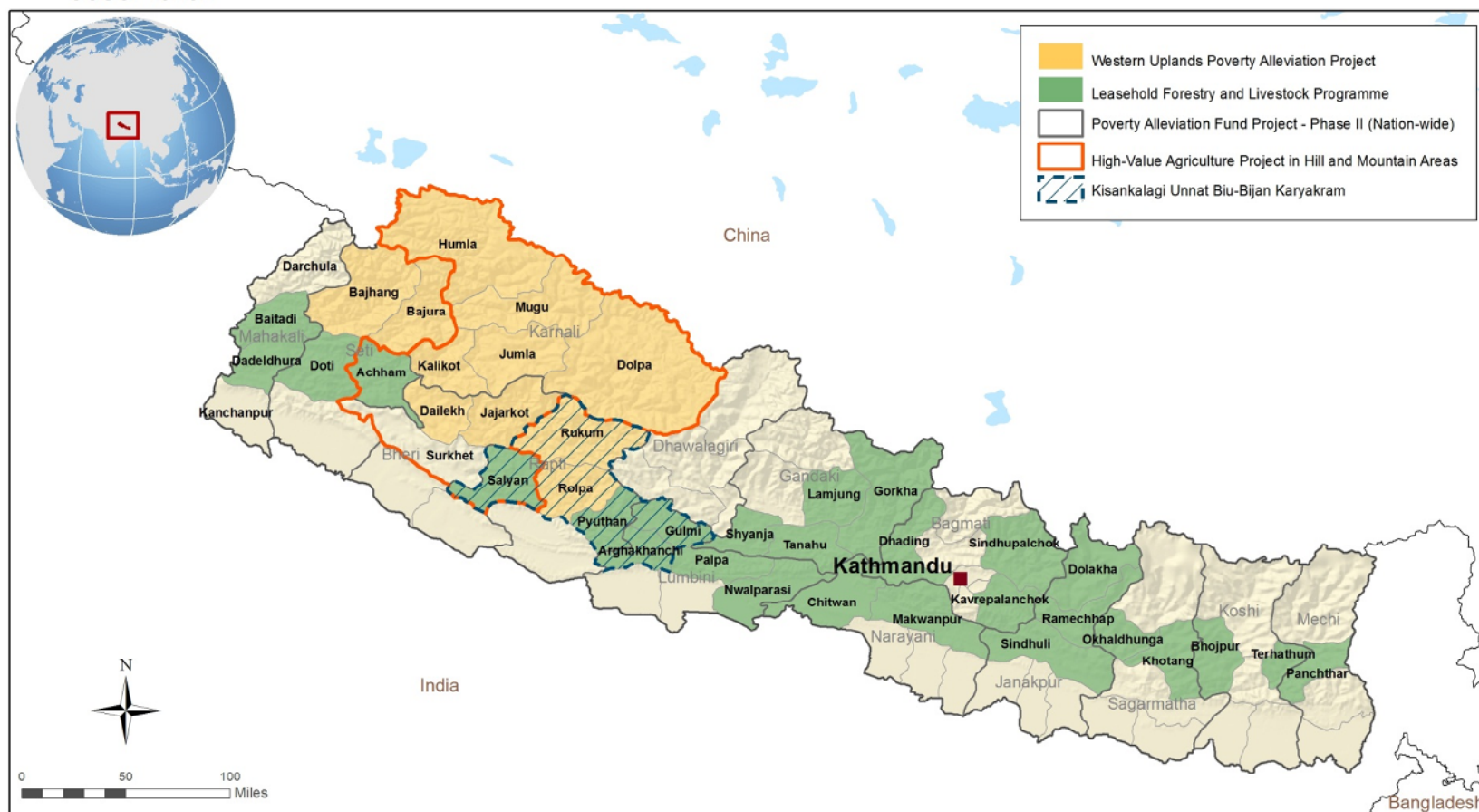
Abbreviations and acronyms

ADS	Agricultural Development Strategy
APP	Agricultural Perspective Plan
ASAP	Adaptation for Smallholder Agriculture Programme
CFUG	community forest user group
CPE	country programme evaluation
CPISU	country programme implementation support unit
DDC	district development committee
HVAP	High-Value Agriculture Project in Hill and Mountain Areas
ICIMOD	International Centre for Integrated Mountain Development
IFC	International Finance Corporation
ISFP	Improved Seeds for Farmers Programme
LFLP	Leasehold Forestry and Livestock Programme
M&E	monitoring and evaluation
NAP	National Agricultural Policy
NAPA	National Adaptation Plan of Action
PBAS	performance-based allocation system
RIMS	Results and Impact Management System
VDC	village development committee
WUPAP	Western Uplands Poverty Alleviation Project

Nepal

IFAD-funded ongoing operations

COSOP review



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 | 30-10-2012

Map of IFAD-funded operations

Summary of country strategy

1. **Context.** This COSOP supports the relevant government policies and is consistent with the IFAD strategic framework. It is based on an analysis of the current national context, and in particular of the challenges linked to: slow economic growth, climate change, low returns from agriculture, limited alternative employment opportunities in rural areas, demographic growth and migration, disparities in poverty alleviation and the fragility of the political environment. It builds on the achievements of and lessons learned from IFAD investments, as well as the recommendations of the country programme evaluation (CPE) carried out in 2012, and is the result of a participatory design process that gave particular prominence to small producers.
2. **Comparative advantage.** IFAD's comparative advantage stems from its long-term involvement in rural areas experiencing the highest poverty incidence, where it has combined support to developing economic opportunities with community-based mechanisms aimed at ensuring that disadvantaged groups are included in development efforts and have equitable access to services and investments.
3. **Goal and objectives.** The overall goal of IFAD's country programme is to promote inclusive and resilient growth in rural areas and contribute to peace consolidation by pursuing three strategic objectives (SOs). First, IFAD will stimulate income diversification and productive employment by promoting a range of economic opportunities that can bring equitable benefits to different socio-economic categories in both the agriculture and the off-farm sectors. Second, to unleash investment by poor rural people in market-oriented activities, it will reduce their vulnerability to climate and other shocks by supporting instruments that can mitigate their risks. Third, it will strengthen rural institutions to enable them to deliver effective, accountable and climate-smart services to on- and off-farm producers on an equitable and sustainable basis. IFAD recognizes that sustainable livelihoods improvement and the building of rural institutions that can support them – particularly in a fragile political and biophysical environment – is a long-term effort that requires extended implementation support, efficient knowledge management, flexibility to adapt, and prolonged commitment to supporting institution-building. For this reason, portfolio development will be balanced between interventions to consolidate ongoing projects and those to develop the portfolio in line with CPE recommendations and with the new Agricultural Development Strategy.
4. IFAD investments will target two main groups: (i) vulnerable farm households with sufficient land to develop on-farm activities as their main source of livelihood. They will be assisted in developing sustainable agricultural intensification and diversification, and in improving their ability to commercialize their products along selected value chains, in accordance with their capacity to support interaction with markets; and (ii) land-poor households and young unemployed/underemployed men and women, including migration returnees, who cannot earn a living from agriculture. They will be supported in developing microenterprises in the off-farm sector.
5. The indicative allocation for the COSOP period (2013-2018) is about US\$84 million, and IFAD will mobilize further cofinancing for its investment. Under the first performance-based allocation system cycle (2013-2015), IFAD will allocate some US\$32 million to a new project, which will promote rural small and microenterprises and support vocational skills for employment, as well as tapping into the potential of migration remittances to support productive rural investment. Additionally, US\$25 million will be made available to ongoing projects, so they can improve smallholder adaptation to climate change. In the following cycle, IFAD will finance a second new project for an estimated US\$30 million to develop a diversified and

sustainable offer of agriculture support services for smallholders. Additionally, it will allocate about US\$12 million to an ongoing project as supplementary funding, thus reflecting its long-term commitment to the strategic areas in which it is currently involved.

Nepal

Country strategic opportunities programme

I. Introduction

1. Since 1978, IFAD has supported 13 projects and programmes, approving loans and Debt Sustainability Framework grants for a total of US\$146 million, with a total cost of US\$363 million. This new COSOP sets out the framework for the partnership between IFAD and the Government of Nepal over the next six years. It is the outcome of a participatory design process that gave particular prominence to small producers and builds on the recommendations of the 2012 country programme evaluation (CPE).

II. Country context

A. Economic, agricultural and rural poverty context

Country economic background

2. **Slow economic growth, growing migration.** Nepal has a population of 26.6 million people, of whom 83 per cent are concentrated in rural areas and 56 per cent are 20-40 years of age. It is a low-income country with a per capita GDP of US\$642, which is the second lowest in South Asia. Since the end of the decade-long internal conflict in 2006, insecurity and political instability have contributed to relatively slow GDP growth. The declining agriculture sector (36 per cent of GDP) and stagnating industry (15 per cent of GDP) are constrained by low rates of domestic investment, challenging regulatory requirements, a risky business environment, limited connectivity and lack of support services. The development of the service sector is partly due to the boom of migration remittances, which now constitute about 25 per cent of a GDP of about US\$17 billion.
3. **Decreasing poverty with disparities.** Poverty incidence decreased from 42 per cent in 1996 to 25 per cent in 2010, primarily due to the impact of remittances. Poverty remains overwhelmingly rural, with this population accounting for 88 per cent of the poor and a poverty gap index in rural areas that nearly doubles that of urban areas (6.0 to 3.2). Deeper poverty, but lower density, is a feature of remote hill and mountain zones, whereas due to higher population density, the Central to Mid-Western Hills and the Terai have a much larger concentration of poor people. Dalits and Janajatis (indigenous peoples) suffer from higher poverty rates. Several institutional improvements have not achieved a significant reduction in socially embedded discrimination.

Agriculture and rural poverty

4. **Low returns from agriculture and limited alternative employment opportunities.** Agriculture employs 80 per cent of the active population, but only accounts for one third of GDP, reflecting overall low productivity of the 4 million small farms. Due to rapid population growth, landholding size has declined to an average of 0.7 hectares (ha) per household, with 55 per cent having less than 0.5 ha, including 50 per cent of landless families. While changing urbanization patterns (growing market centres and new transport corridors) create new demand for goods and services, low access to support services and credit, limited access to vocational training and a cumbersome business environment constrain the development of alternative employment opportunities. The first coping strategy is migration – at least one third of the working population of men has gone abroad, sending remittances to about 56 per cent of the households. Other coping strategies further reduce households' ability to pull themselves out of poverty, including the reduction of meals, which leads to alarming rates of child malnutrition

and hunger. However, despite poverty reduction, food insecurity and malnutrition have remained a major concern. Some 60 per cent of farming households cannot produce enough for more than six months of food consumption and 42 per cent of children are undernourished.

5. **Women and other disadvantaged groups.** Despite the overall reduction of the gender gap, revealed by a steadily increasing gender development index, discrimination persists. About 90 per cent of women do not own land or a house, and only 39 per cent of rural women are literate (against 67 per cent for men). Widespread migration has led to a feminization of agriculture. While remittances provide women with cash for household consumption, they have to take on the additional burden of both running the farm and heading the household.
6. **Trends and challenges.** Commercial agriculture, particularly in the horticulture and dairy sectors, is picking up, and an agribusiness sector is emerging to meet the demand of growing urbanization. The coverage of economic infrastructure is improving, with increased access to paved roads, electricity, mobile phones and the Internet. Migration offers an untapped potential to capitalize on remittances to support productive investment, and to make use of the skills and knowledge brought back by returnees to develop on- and off-farm employment. Meeting the growing domestic demand for food products will require increased agricultural productivity and competitiveness of domestic production. The impact of climate change is already experienced in the hills and mountains, putting fragile agricultural ecosystems at risk and further aggravating the effects of rapid population growth and shrinking farm sizes on declining food security. To reduce their vulnerability, farmers will need to build new capacities to cope with adverse weather events and manage increased risks, which in turn will call for adapting support services and investments. Finally, demographic growth leaves young people without any prospects for employment in agriculture sector and compels them to move to urban areas or out of the country to find employment opportunities. Migration offers a security valve, but it also entails a social and financial cost and brings limited returns to poorer families. On- and off-farm employment need to be promoted as alternatives to migration, building on the potential offered by the country's diverse landscapes and climates, growing urban markets with increased demand for goods and services, and developing agriculture-based value chains.

B. Policy, strategy and institutional context

National institutional context

7. **Public sector.** The agriculture sector is managed by four different ministries and multiple government bodies, which has affected the implementation of past policies. Nepal ranked 139th out of 176 countries in the 2012 Corruption Perceptions Index. Although the decentralization policy has devolved many responsibilities to district development committees (DDCs), effective progress has been slow because of insufficient financial resources devolved to local levels, lack of human resources, limited skills and weak financial management. DDCs are responsible for extension services, but resources are still controlled by the central level. Public extension is further constrained by poor linkages between district and village levels, limited skills, poor transport facilities and low involvement of non-public actors, despite the official policy promoting institutional pluralism.
8. **Farmers' organizations.** Small producers' groups are widespread, but limited membership, low business volume and poor technical and management skills often restrict their chances of becoming sustainable. The country also has 27,000 primary cooperatives of varying levels of capacity, and commodity-based apex organizations providing services to members, yet with an outreach largely contingent on access to external resources. The Small Farmers Development Bank, jointly owned by cooperatives, banks and the Government, provides financial and capacity-building services specifically to savings and credit cooperatives. In addition, Nepal has four

major national farmers' organizations, with diverse levels of structuring, evolving towards more professional objectives. IFAD has supported these organizations through the regional Medium-term Cooperation Programme with Farmers' Organizations in Asia and the Pacific.

9. **Private sector and NGOs.** Cottage and small enterprises dominate the private sector. Private agribusiness is still in an incipient form, but positive initiatives have developed in dairy processing, poultry, tea, flowers, and vegetable seed, which have demonstrated potential. Agroveterinary networks are also expanding. Despite considerable government investment, only 30 per cent of households are served by financial institutions. District Chambers of Commerce and Industry are directly responsible for promoting small and microenterprises in the country. The Federation of Nepal Cottage and Small Industries, with 40,000 members and a chapter in every district, also provides support services and represents members' interests in consultative bodies. A few large national NGOs, with strong implementation capacities, demonstrated their ability to maintain services at the community level even during the conflict, when government agencies were unable to continue normal operations.

National rural poverty reduction strategy

10. **National policies.** Government policies for poverty reduction and rural development are outlined in national development plans. The current three-year plan (2010-2011 to 2012-2013) aims to promote employment opportunities, particularly in the agriculture sector. The 2004 National Agricultural Policy (NAP) is still the main national policy for this sector and seeks to contribute to food security and poverty alleviation. However, the NAP covers too many areas, with no targeting or plan of action, and implementation is further constrained by a lack of resources and operational modalities. The Ministry of Agricultural Development (MoAD) is currently finalizing a long-term Agricultural Development Strategy (ADS) with support from a range of donors, including IFAD. It is expected to have four strategic components: governance, productivity, commercialization and competitiveness.

Harmonization and alignment

11. Since 2006, official development assistance to Nepal has almost doubled, reaching US\$1,080 million in 2010-2011. Aid for agriculture and forestry (9 per cent of the total, of which IFAD disbursed US\$7 million) is mainly provided as stand-alone projects and is highly fragmented, which further affects already-limited institutional capacities. IFAD supports stronger coordination and harmonization through its financing of the ADS. It participates in the Nepal Portfolio Performance Review (NPPR), in which the Government and development partners review development projects' performance and key related management issues, and which is part of the United Nations Development Assistance Framework.

III. Lessons from IFAD's experience in the country

A. Past results, impact and performance

12. IFAD's activities over the last decade were guided by two strategic orientations: community-based development in marginal areas of the western hills and mountains (2000); and farmers' integration into markets along north-south corridors with road and market access (2010). The 2012 CPE considered that the programme was relevant overall, but had underestimated the need for building responsive local government to implement activities. The CPE also found that a disconnect existed between the COSOP and the projects. Programme efficiency was assessed as moderately satisfactory, with good quantitative achievements, particularly with regard to community-based social and economic infrastructure. The main problem areas related to a lack of sustainability of "beneficiary groups", which had limited incentives for continuing beyond project completion, and of most of the rural finance schemes, which focused on savings and credit groups that

never reached sufficient maturity. Recently approved projects were considered to have better chances of success, thanks to their focus on developing commercially viable groups. The effectiveness of the loan portfolio was rated moderately unsatisfactory, mostly because of weak government structures that contributed to slow implementation and disbursement. Partnerships with civil society organizations worked well when facilitated by grants, but could not be continued in loan-financed, government-executed programmes, partly due to public procurement rules. Overall, the CPE noted that the programme had made only a modest contribution to poverty reduction, mainly due to the lack of sustainability of most projects' achievements.

B. Lessons learned

13. Key lessons derived from the CPE, annual COSOP reviews, the country programme management team (CPMT) and local consultations held during preparation of the new COSOP point to the following issues:
 - New projects should include measures to strengthen local government capacities to provide responsive and inclusive services to the rural population, which would improve project performance and contribute to peace consolidation by restoring public trust in government institutions;
 - Building on past successful examples, new projects should build more on partnerships with non-governmental players, including NGOs and the private sector;
 - Grass-roots groups are not sustainable when created for the sole purpose of channelling project services. They need to establish clear objectives, build their capacity to achieve these objectives autonomously, and develop networking in order to obtain continued access to services once the project is over;
 - Migration of men places additional demands on women. This must be reflected in the organization of support services and project activities, which must be compatible with women's time constraints and preferences;
 - Monitoring and evaluation (M&E) should become a management tool that assesses project outcomes within communities and groups, and between genders and different social groups; detects successes and shortcomings; and facilitates the adoption of solutions to improve performance. It needs to be complemented by knowledge management to track innovative practices, fuel policy dialogue and support scaling up;
 - Project management is affected by the unsustainable turnover of civil servants, who compose project teams exclusively. Mixed teams composed of hired staff supporting civil servants would be an effective solution for IFAD projects.

IV. IFAD country strategic framework

A. IFAD's comparative advantage at the country level

14. IFAD's comparative advantage in Nepal stems from its long-term involvement in rural areas that experience the highest poverty incidence. Over the last 35 years, it has financed programmes combining support to developing economic opportunities, with community-based mechanisms aimed at ensuring that disadvantaged groups have equitable access to services and investments. In line with national policies, recent projects have moved from a focus on isolated communities to areas located along north-south transport corridors, which can more easily reach out to markets and where population density is higher. Despite a limited presence in the country, IFAD is regarded as a trustworthy and respected government partner.

B. Strategic objectives

15. **Strategic goal.** The central challenge for rural development in Nepal is to facilitate the transformation of a subsistence-based rural economy into a sustainable market-driven productive sector generating equitable benefits for poor rural people and disadvantaged groups – in a context of climate change and a fragile and politically unstable environment. IFAD's programme will promote inclusive and resilient growth in rural areas and contribute to peace consolidation through a three-pronged approach aimed at: (i) stimulating income diversification and productive employment by promoting a range of economic opportunities that can bring equitable benefits to diverse socio-economic categories in both the agriculture and off-farm sectors; (ii) reducing the vulnerability of poor rural people to climate and other shocks to unleash their investment in market-oriented activities; and (iii) strengthening rural institutions so they can deliver accountable and inclusive services to on- and off-farm producers. IFAD recognizes that sustainable livelihoods improvement and the building of rural institutions to support them is a long-term effort that requires extended implementation support, efficient knowledge management, flexibility to adapt and prolonged commitment to supporting institution-building. Portfolio development will thus be balanced between interventions to consolidate ongoing projects and those to develop new projects, in line with the new ADS and CPE recommendations.
16. **SO1: Promote rural income diversification and stimulate employment.** This will be achieved through the promotion of self-employment and of small and microenterprises that can generate jobs in both the on- and off-farm sectors. Interventions will be organized around three strategic thrusts. First, they will promote a sustainable offer of social and gender-equitable support services, so as to enable timely delivery of larger volumes and adequate quality of products in accordance with market requirements. This will rest on the promotion of a diversified range of service providers and of sustainable business models building on public/private partnerships, including innovative uses of mobile phones and the Internet, and peer-to-peer approaches. Second, they will support the development of market linkages to bring equitable shares of profit to small producers, in accordance with their varying capacities to engage with the market. Interventions will be based on sound value chain analysis and will promote value chain linkages, equitable business partnerships between small-scale producers and agribusiness, storage and market infrastructure, and market information and promotion. Particular attention will be given to ensuring that services are adapted to women's constraints and are responsive to their specific needs, including with regard to labour-saving technologies. Third, they will promote a more productive use of migration remittances by supporting cost-effective and easily accessible remittance services.
17. **SO2: Strengthen food security and resilience to climatic and other risks.** Interventions will focus on three areas. First, they will contribute to improving food and nutrition security. IFAD will support productivity increases for diversified food crops through the promotion of sustainable agriculture techniques, improved access to land and natural resources for landless families through leasehold forestry and small-scale irrigation schemes, and nutrition training. Improved access to support services and markets planned under SO1 will also benefit food security by raising incomes. Second, they will reduce climate- and environment-related risks by building the adaptive capacity of smallholders in selected districts across ongoing projects. Third, they will expand access to inclusive financial services and products, thereby reducing risks to self-help groups not connected to the formal finance system. This will require harmonized efforts by all projects to strengthen the sustainability of existing savings and credit groups by linking them with formal financial institutions. Finally, it is expected that initiatives supported under SO3 will directly contribute to building confidence in public institutions and to decreasing the risk of instability and conflict.

18. **SO3: Promote inclusive, accountable and sustainable rural institutions.** All projects will support a solid fabric of rural organizations (including cooperatives, local government and private service providers). They should be able to deliver equitable and responsive services meeting the expectations of the poor, with a view to improving their livelihoods, contributing to socio-economic justice and building public trust. This will be achieved through three sets of interventions. First, institutional analysis will be built into project design and throughout implementation. This will ensure that project frameworks are aligned with the actual capacities of rural institutions and will include capacity-building measures to address major gaps. Second, tailor-made capacity-building and scaling-up plans will be developed for each participating institution. Regular participatory capacity assessments and systematic use of social accountability mechanisms will enable progress monitoring and the adaptation of project support to actual performance and to changing local dynamics. Clear exit strategies will be built into project design and will be regularly monitored to ensure that the responsibility to take over project services is gradually assumed by local players. Third, IFAD will support policy dialogue through the development of linkages between grass-roots organizations and national institutions and will foster dialogue among rural stakeholders. Specific attention will be devoted to building institutional capacities to provide services that are gender-equitable and that respond to the needs of caste/ethnic-based disadvantaged groups.

C. Opportunities for innovation and scaling up

19. Through the IFAD-financed Leasehold Forestry and Livestock Programme (LFLP), IFAD has successfully developed a forestry leasehold model, which has been mainstreamed in government policies and legislation. The experience will be integrated into an innovation and scaling-up framework. The framework will aim to systematically mainstream innovation and scaling up in the programme, in the four broad areas identified for policy dialogue (discussed below). It will be tested during the design of the project financed through the Adaptation for Smallholder Agriculture Programme (ASAP), which will develop successful models for climate adaptation in selected districts across ongoing agriculture projects, and will include a strong knowledge management component to support replication on a larger scale. Country and regional grants will be used primarily as a tool to support innovation, knowledge management, South-South cooperation and policy dialogue.

D. Targeting strategy

20. **Geographic focus.** In order to generate impact at the largest possible scale, in line with its corporate strategy, and to stimulate linkages with the wider economy, IFAD will continue to 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. IFAD will primarily invest in areas that are not yet saturated with donor presence and where it can develop synergies with existing initiatives.
21. **Target groups.** IFAD projects will target two main groups of poor rural people: (i) vulnerable farm households with sufficient land to develop on-farm activities as their main source of livelihood; and (ii) land-poor households and young unemployed/underemployed men and women, including migration returnees, who cannot earn a living from agriculture and will be supported in developing microenterprises in the off-farm sector and in accessing forestry leaseholds. A secondary target group will consist of less-vulnerable farmers and small entrepreneurs, who can be important drivers of change and value chain development, and can contribute to job creation.
22. **Mechanisms.** Every project will be requested to prepare a gender equality and social inclusion (GESI) strategy to ensure access by women and poorer/socially

disadvantaged groups to project benefits, specifying expected outcomes and related indicators. In order to promote organizational change, GESI capacity-building will be organized for project staff and key stakeholders involved in implementing and monitoring strategy implementation. Collaboration with the Poverty Alleviation Fund (PAF) – currently covering 40 districts and planning expansion – will be promoted in ongoing and new projects to build on its targeting approach and its knowledge base of poor households and social disadvantaged groups.

E. Policy linkages

23. IFAD's engagement in policy development will be driven by policy-relevant issues that emerge from project operations. It will primarily consist of facilitating the participation of poor rural people in policy processes by promoting platforms of dialogue at local and national levels, where they can be represented. It will enhance their capacities so they can voice their concerns and actively participate in policy dialogue, and will bring analysis and knowledge to all participants. Activities to be developed as part of SO3 will include building the capacity of national and district policymakers to mainstream recognized good practices in their regular activities. Project-supported producers' organizations will be encouraged to participate in policy dialogue and to liaise with major national organizations.
24. Priority will be given to four areas related to programme objectives and that will also be the focus for innovation: (i) inclusive business partnerships for accessing services and markets (SO1); (ii) use of migration remittances for productive investment (SO1); (iii) adaptation to climate variability through climate-smart investments and natural resource management (NRM) arrangements (SO2); and (iv) leasehold forestry (SO2).

V. Programme management

A. COSOP monitoring

25. A participatory process begun in 2012 to set up a country programme M&E/knowledge management system will allow for regular programme monitoring by: (i) measuring programme performance against the COSOP results management framework; (ii) providing project stakeholders, the Government and IFAD with data and analyses aiming at improving programme performance; and (iii) documenting good practices with a view to contributing to the formulation of national pro-poor rural policies and to scaling up. The system will include three operational levels: (i) an e-library providing user-friendly online access to project and programme documents; (ii) standard IFAD monitoring and evaluation sheets (SIMES) – a common M&E tool – will capture project-level information on both outputs and outcomes and will be complemented by a systematic use of surveys and social accountability mechanisms and by simple household income monitoring; and (iii) knowledge management and communication will be mainstreamed in project and programme management to share achievements, lessons learned and good practices.
26. An IFAD financial management assessment (September 2012) underlined the need to improve information flow and expenditure reporting, develop computerized accounting, and adequately train project staff. the country programme implementation support unit (CPISU) will include a financial officer, who will provide support to project teams in this respect and ensure that adequate, harmonized procedures are implemented throughout the programme.

B. Country programme management

27. Recently initiated efforts to strengthen programme cohesion and improve project delivery will be continued. First, the country programme management team will enable programme stakeholders to exchange information on programme achievements and to develop synergies. It will also directly provide advice and

direction on programme implementation. Second, the CPISU will be established to provide joint services to projects. Priority will be given to two areas in which improved project performance and programme coherence are needed: M&E and fiduciary aspects. Third, common implementation and management frameworks will secure increased harmonization and synergies throughout the programme. Such common frameworks will include: (i) the country programme M&E/knowledge management system and the programme knowledge management and communication strategy; (ii) the methodological framework for innovation; (iii) the common strategy on microfinance; and (iv) a common approach to promoting smallholders' capacities to adapt to climate change.

C. Partnerships

28. **Government.** IFAD will continue its cooperation with the Ministry of Finance and the line ministries, with a particular focus on supporting development of a comprehensive policy framework for the agriculture sector by: (i) providing support to ADS implementation, including steps towards progressively setting up a flexible sector-wide approach; and (ii) supporting development of multistakeholder consultation and coordination platforms at national and local levels. A new partnership will be initiated with the ministry in charge of rural microenterprises. Partnerships with local government will be strengthened and matched with appropriate capacity-building. In response to aid fragmentation, IFAD will support the aid effectiveness agenda through better alignment of project implementation modalities with national strategies and systems and with district periodic plans, as well as better integration with national institutions.
29. **Civil society and the private sector.** In line with the CPE agreement at completion point, IFAD will open programme development to stronger participation by civil society organizations where they have comparative advantages, with a view to improving project responsiveness to the needs of the groups they represent. Capacity-building will be provided where required to sustain performance. In addition, national and international NGOs with recognized technical knowledge and experience will be asked to provide technical assistance to project implementation, particularly in areas linked to economic inclusion, gender equity and empowerment of rural organizations of poor people. Increased involvement of agribusiness and financial institutions will also be sought to develop small producers' access to services and markets through equitable and profitable business partnerships. IFAD will also strengthen its connections with the cooperative sector, with a view to raising the capacity of cooperatives to deliver responsive services to smallholders and to strengthen the sustainability of community-based groups.
30. **Development partners.** The programme M&E/knowledge management system will strengthen IFAD's capacity to provide evidence-based information on programme achievements and innovations. This in turn will increase IFAD visibility and will facilitate the development of stronger partnerships with locally active donors so as to develop synergies, facilitate the identification of complementarities and opportunities for joint action, and pave the way to scaling up and increased cofinancing. In particular, cofinancing will be sought for infrastructure development. Moreover, technical partnerships will continue to be developed through the IFAD grant programme.

D. Knowledge management and communication

31. IFAD will support the development of a knowledge value chain, through which a sequence of harmonized steps will provide added value to the quantitative and qualitative information collected through project and programme M&E systems. First, information will be processed and analysed in order to: generate lesson learning; identify good practices, successful innovations and potential for developing synergies and scaling up; detect gaps and weaknesses; and propose adaptations to project/programme operations. Second, knowledge will be captured

through appropriate instruments (case studies, business model canvases, manuals, maps and audio-visual tools) and will be stored in e-libraries hosted on IFAD programme/project websites and the IFADAsia platform. Third, knowledge will be shared in accordance with the interests of different stakeholders and with the facilitation of replication and scaling up. The CPISU will bear overall responsibility for developing the knowledge value chain and for ensuring that knowledge management and communication are mainstreamed in projects.

E. PBAS financing framework

32. If IFAD maintains the current level of fund replenishment over the second performance-based allocation system (PBAS) cycle, and if Nepal maintains an even performance, some US\$84 million will be available for programming over the six years covered by the COSOP (2013-2018). In the first three-year cycle, IFAD will allocate an estimated US\$32 million to a new project (to be approved in April 2015). This project will promote rural small and microenterprises and support vocational skills for employment, particularly to the benefit of young men and women, and will also tap into the potential of migration remittances to support productive rural investment. Additionally, US\$25 million will be made available to ongoing projects (US\$15 million from the IFAD-managed ASAP and US\$10 million from the PBAS), so they can improve smallholder adaptation to climate change (to be approved in September 2014). In the second three-year cycle, IFAD will allocate US\$42 million (base-case scenario), of which about US\$30 million would be allocated to a new project, the focus of which will be determined by the 2015 COSOP midterm review, and about US\$12 million would accrue to ongoing projects as supplementary funding, thus reflecting IFAD's long-term commitment to the strategic areas in which it is currently involved. In the high-case scenario, improved performance assessment would grant Nepal additional resources in the amount of about US\$11.76 million, to be used to expand project areas or activities. In the low-case scenario, degradation of project performance, increased political instability or increased corruption would reduce the new financial allocation by 28 per cent to about US\$31.5 million.

Table 1
PBAS calculation for COSOP year 1

<i>Indicators</i>		<i>COSOP year 1</i>
Rural sector scores		
A(i)	Policy and legal framework for rural organizations	3.88
A(ii)	Dialogue between Government and rural organizations	3.13
B(i)	Access to land	3.50
B(ii)	Access to water for agriculture	3.56
B(iii)	Access to agricultural research and extension services	3.33
C(i)	Enabling conditions for rural financial services development	3.88
C(ii)	Investment climate for rural businesses	3.83
C(iii)	Access to agricultural input and produce markets	3.33
D(i)	Access to education in rural areas	3.88
D(ii)	Women representatives	3.75
E(i)	Allocation and management of public resources for rural development	3.75
E(ii)	Accountability, transparency and corruption in rural areas	2.88
Sum of combined scores		156.50
Average of combined scores		3.56
Project-at-risk (PAR) rating		4
Country policy and institutional assessment (CPIA) rating		3.28
Country score		5 952
Annual allocation (US\$)		13 945 026

Table 2
Relationship between performance indicators and country score

<i>Financing scenario</i>	<i>PAR rating (+/- 1)</i>	<i>Rural sector performance score (+/-0.3)</i>	<i>Percentage change in PBAS country score from base scenario</i>
Hypothetical low case	3	3.26	-25%
Base case	4	3.56	0%
Hypothetical high case	5	3.86	28%

F. Risks and risk management

33. The main risk that could undermine the achievement of COSOP objectives comes from political instability and government fragility. IFAD will contribute to defusing this risk by carrying out institutional assessments through project designs and supervision missions, by building the capacities of local government institutions to deliver efficient and inclusive services, by empowering poor rural people and their organizations to participate in policy dialogue and decision-making processes, and by developing mechanisms to improve access of marginalized groups to development benefits. Another major risk is related to extreme climatic events, which are already noticeable in the hills and mountains. By matching ASAP financing with PBAS funds to develop project response throughout the programme, IFAD will increase smallholder adaptive capacities so they can minimize these risks.

COSOP design consultation process

A. Objective

1. This note describes the various steps to be followed in the preparation of the new Country Strategic Opportunities Programme (COSOP) until its approval by IFAD Executive Board in September 2013, which are in accordance with the Updated Guidelines and Source Book for Preparation and Implementation of a Results-Based Country Strategic Opportunities Programme (RB-COSOP). The new COSOP will cover 2013-2018 and two Performance-Based Allocation System (PBAS) cycles. It should reflect the views of IFAD partners in Nepal from the public, private and civil society sectors. An important participation of grassroots organisations (farmers, indigenous people, *dalits*) as well as of the private sector will be a key element of the preparation process.

B. Institutional Framework

2. The COSOP preparation process will be led by the IFAD Country Programme Manager (CPM) for Nepal and the IFAD Country Programme Officer (CPO) in Nepal. The Country Programme Management Team (CPMT) will provide contributions at key steps in the preparation process and will have an enlarged composition specifically for the COSOP design process. The CPMT will constitute a resource group of COSOP stakeholders, who will participate in the entire country programme design and implementation. The CPMT will have an in-house based element and an in-country element and will be managed by the CPM and the CPO.

3. The core of the CPMT in-house element will comprise the CPM, the CPO, as well as IFAD legal counsel and loan officer. Other members could be added as appropriate if deemed necessary by the CPM.

4. The in-country element of the CPMT will include representatives from: (i) government institutions involved in the implementation of IFAD activities in Nepal; (ii) farmer/civil society organisations; (iii) private sector representatives, including from the finance sector; (iv) development NGOs/research institutions; (v) project coordinators of ongoing IFAD projects; and (vi) donors. The core CPMT would comprise around 25-30 people, with participation as gender balanced as possible. Where appropriate, additional resource persons could be invited to participate in specific sessions. Smaller working groups could also be established to review cross-programme specific issues, for example rural finance or the promotion of producer associations. The list of participants in the core CPMT is attached in Annex 1.

C. First Step: first CPMT Meeting and start of preparatory studies (October-November 2012)

5. **CPMPT.** During this first meeting, members of the CPMT will be briefed about the purpose of the COSOP and its role within the IFAD programme. They will review the present note and the methodology proposed for COSOP design, and they will provide improvements to be further incorporated in the note. They will agree on the timeframe proposed for the various steps of COSOP design. Finally, they will also decide whether CPMT sub-groups should be created on specific areas and define their mandate.

6. **Studies.** Studies will focus on three areas :

- *Geographic targeting:* a review of existing available secondary data from government, UN agencies and other partners information, will be carried out to establish clear guidance on geographic priorities for IFAD. A key source of information will be the Nepal Living Standard Survey 2009/2010. The review will provide guidance to define target areas for future IFAD-financed projects. Main criteria to be addressed will

include poverty, food security, demography, natural resource endowment and other economic opportunities (including remittances and improved road access), as well as partner programme and planned project allocations till 2018. This study will help in deciding, jointly with the government, on the key areas for IFAD investments during the COSOP period, and will further feed into the preparation of a Geographic Information System to support the monitoring of the programme.

- *Social targeting*: an assessment of the effectiveness of IFAD's previous targeting will be developed and, combined with the outcomes of the geographical targeting study, it will generate recommendations for future targeting, with regard both to target groups and to the methodology to be applied to identify them. Recommendations will be developed in close consultation with CSOs, farmer and indigenous organisations and women groups, and build on the findings of the IFAD Country Programme Evaluation (CPE – see below). The social targeting will take into account not only current poverty assessments, but also available data on the dynamics of poverty (poverty cycles and vulnerability to falling back into poverty trap), as well as changes induced by remittances and improved road access to the districts.
- *Environment and Climate Change Assessment (ECCA)*: The ECCA will detail the following: (i) key environmental and climate change challenges and opportunities influencing the agriculture and rural development (ARD) sector, with a special emphasis on the rural poor and marginalised groups; (ii) assessment of the national and subnational policies, programmes and plans in responding to challenges and opportunities related to environment and climate change with a view to aligning IFAD interventions with country frameworks and IFAD's own environment, climate change and disaster risk reduction policies; (iii) gaps and priorities in existing climate change and environment policy, programme and planning frameworks related to ARD for defining areas of policy dialogue IFAD should engage with; (iv) environment and climate-related challenges and opportunities faced by IFAD-financed on-going projects, lessons learnt and measures for improvement; (v) environmentally sustainable and climate resilient development pathways and interventions to address issues of poverty, and vulnerability to climate change and natural disasters; and (vi) activities that would be funded through the Adaptation for Smallholder Agriculture Programme (ASAP) grant. It is envisaged that the environment and climate change consultant recruited for this work will also accompany the design mission. The ECCA will be financed by IFAD/ECD.
- *Sector/technical priorities*: a review will identify key sector priorities for IFAD future country programme, based on the recommendations of the CPE as well as on the Agriculture Development Strategy (ADS) currently under formulation and on GoN demand. It will also build on a set of specific studies aimed at assessing investment opportunities for IFAD in a number of possible innovative areas, including: (i) crops and livestock improvements, (ii) access to financial and non-financial support services; (iii) youth employment and the development of off-farm economic activities (rural enterprises); (iv) the use and strategies around migrant workers and household remittances, as well as opportunities for developing the productive use of such resources in households; (v) a rapid assessment of IFAD investment options in the light of climate change and climate smart options, particularly examining the LFLP, and the applications from its considerable natural resources benefits. This would include some retroactive, but also ex-ante analysis of project effects on carbon sequestration, using such tools such as the FAO developed Ex-Act; and (vi) any other sector of interest.
- *Two concept notes*, one for each new project.

7. Studies and main related information sources will be posted on asia.ifad.org (free access, registration required).

8. **Outcome.** The expected outcome of this first step is: (i) a methodology for COSOP preparation that is agreed upon by major IFAD stakeholders; (ii) launching of the set of studies.

9. **Implementation.** The CPMT will be convened by IFAD CPM and/or CPO. Studies will be carried out by FAO consultants in the framework of the IFAD-financed Leasehold Forest and Livestock Project (LFLP) Unilateral Trust Fund, in partnership with ICIMOD for specific areas to be further refined. Specifically, studies on both social and geographic targeting should make use of the body of information gathered by ICIMOD in preparing the Poverty and Vulnerability Assessment tool (PVAT) in the framework of the regional grant financed by IFAD. The PVAT was developed to capture the micro level perspective of mountain peoples' experiences with poverty and vulnerability and to monitor poverty and vulnerability trends on the ground with current data. Furthermore, the review on the use of remittances and the promotion of remittance-based productive investments should draw on a considerable body of work done by ICIMOD. Collaboration will also be sought with WFP to set up the GIS.

D. Second Step: Annual COSOP Review and second CPMT Meeting (November-December 2012)

10. The annual review of the implementation of the current COSOP (2006-2012) will be carried out in the course of November 2012, with a view to assess progress and relevance, and to make recommendations to support the design of the new COSOP. The document will be circulated to the CPMT and it will be discussed in a second CPMT Meeting to be held in December 2012.

11. **Outcome.** The expected outcome of this second step is a COSOP review report and recommendations for the new COSOP that are validated by the CPMT.

12. **Implementation.** The COSOP annual review will be carried out by an independent consultant hired by IFAD, in collaboration with the IFAD country team and IFAD-financed project teams.

E. Third Step: CPE National Roundtable Workshop, Consultation at the Local Level and COSOP Design Mission and drafting (January - March 2013)

13. **CPE.** IFAD conducted a Country Programme Evaluation (CPE) in Nepal from 22nd March to 20th April 2012. The CPE aims at assessing the performance of IFAD portfolio over 2000-2012 (including loans and non-lending activities such as policy dialogue, knowledge management, partnership development and technical assistance grants), and at providing recommendations for the preparation of the new COSOP. The draft CPE report will be submitted for comments to partners in Nepal by mid-September 2012, further to which a National Roundtable Workshop hosted by the government of Nepal will be hosted end of November 2012 with national stakeholders, including all the members of the country CPMT, and will be geared towards discussing orientations for the new COSOP. Discussions and recommendations will lay the basis for the Agreement at Completion Point to be signed between IFAD and the government of Nepal. It will also provide key orientations for the preparation of the COSOP.

14. **Local consultation.** Prior to the CPE workshop, a local consultation farmers' structures and other key local stakeholders (including private sector, finance institutions, local governments, local civil society organisations and development projects) will be held in Nepalgunj. The objective will be to gather the view of participants on the conclusions and recommendations of the CPE, and to discuss specific strategic issues related to the preparation of the new COSOP.

15. The meeting should gather a maximum number of 60 participants, with a balanced representation of farmers. The assembly should be gender-balanced, socially representative, and also include a good representation of youth groups. Participants should be informed well in advance about the objective of the meeting and what would be expected from them, so that they would be ready to actively participate.

16. The first part of the meeting will be devoted to the presentation of the main results of the CPE, under a form easily accessible by all the participants, followed by a discussion to gain participants' feedback. In the second part of the meeting, participants will break into working groups to discuss a limited number of key issues and to provide their strategic orientations as to how they should be addressed in the new COSOP. Finally, the working groups would convene in a plenary session and come up with the group's conclusions and recommendations to IFAD.

17. **COSOP design mission.** Further to the CPE workshop, and in accordance with its orientations, a consultancy mission will be carried out to complete data collection, further discuss strategic orientations with key stakeholders, and draft a first version of the COSOP.

18. **Outcome.** The expected outcomes of this third step are: (i) the ACP and a set of recommendations to support programme design validated by IFAD stakeholders at the local and national level and by the country CPMT; and (ii) the first COSOP draft.

19. **Implementation.** The design mission will be carried out by a team of consultants mixing international and national competences, and involving the consultant responsible for doing the COSOP review. The local consultation will be organised by the IFAD country team with support from IFAD-financed project teams and from the team of consultants hired to design the new COSOP. It is expected that the main analysis, conclusions and recommendations of the preparatory studies will be available in January to be reflected in the COSOP drafting, while detailed studies (to be presented as part of the COSOP Mandatory Appendixes, Key File Tables or specific working papers) will be finalised at the latest end of February.

F. Fourth Step: Design Workshop and COSOP Validation (April-June 2013)

20. The first draft of a results-based, gender-sensitive, inclusive and climate-smart COSOP will be submitted to the CPMT, who will discuss it, ensure that it is in line with the national poverty reduction strategy and ADS and that it fits into the overall donor assistance, propose improvements as required and validate it.

21. **Outcome.** The expected outcome of this fifth step is a second COSOP draft reflecting the views of IFAD stakeholders in Nepal and endorsed by the CPMT.

22. **Implementation.** The CPMT will be organised by IFAD CPO and will count on the participation of IFAD CPM. It will be organised after the elections (currently planned for April) to make sure that IFAD proposed strategic orientations are in line with the new government agenda.

G. Fifth Step: IFAD Review, Submission to the Executive Board and Approval (June-September 2013)

23. Once endorsed at country level, the COSOP document will first go through a peer review at IFAD Headquarters and then be submitted to IFAD Operational Strategy and Policy Guidance Committee (OSC), chaired by IFAD, President in June. In case of significant changes, the revised COSOP would draft would be submitted again to the in-country CPMT. and IFAD EB Secretariat in July. It will be presented to the Executive Board for discussion and approval in September. It will then be widely disseminated to

IFAD stakeholders in Nepal, starting with CPMT members. A Nepali version of the COSOP will be prepared to facilitate distribution and to support knowledge sharing.

H. Timeframe

STEP		PERIOD
1	First CPMT meeting and preparatory studies	October-November 2012
2	Annual COSOP review and Second CPMT Meeting	November-December 2012
3	CPE National Roundtable Workshop, Consultation at the local level, COSOP design mission and COSOP drafting	January-February 2012
4	Design Workshop and COSOP validation	April-June 2013
5	IFAD review, submission to the Executive Board and approval	June-September 2013

IFAD Nepal (2013-2018) – COSOP DESIGN CPMT

CPMT Members in House (Rome)

1. Dina Nabeel, NEN	10. Edward Heinemann, PTA
2. Jesus Quintana, LAC	11. Pedro De Vasconcelos, PTA
3. Mylene Kherallah, PTA	12. Claus Reiner, ESA
4. Antonio Rota, PTA	13. Roshan Cooke, ECD
5. Rudolph Cleveringa, PTA	14. Sheila Mwanundu, ECD
6. Marco Camagni, PTA	15. Elisa Distefano, ECD
7. Roberto Longo, PTA	16. Sunae Kim, ECD
8. Soma Chakrabarti, PTA	17. Irene Li, CFS
9. Cordone, PTA	18. Eirini Georgiou, LEG

CPMT Members in Country (Nepal)

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NEPAL COSOP FORMULATION PLAN

Steps	Sep-12		Oct-12		Nov-12		Dec-12		Jan-13		Feb-13		Mar-13		Apr-13		May-13		Jun-13		Jul-13		Aug-13		Sep-13	
	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II
1. Planning COSOP process																										
2. First incountry CPMT meeting																										
3. Preparatory studies																										
4. Annual COSOP review																										
5. Second CPMT meeting and 2012																										
6. CPE Roundtable Workshop																										
7. Local stakeholders' consultation																										
4. COSOP design mission																										
2. Third incountry CPMT meeting + CPE workshop																										
5. Preparation COSOP																										
6. QE																										
7. OSC review																										
8. Design workshop/In country validation & Government approval																										
9. QA																										
10. Submission to SEC																										
12. Board presentation																										

Country economic background

Land area (km² thousand) 2010 1/	143	GNI per capita (USD) 2011 1/	540
Total population (million) 2011 1/	30	GDP per capita growth (annual %) 2011 1/	2
Population density (people per km²) 2010 1/	209	Inflation, consumer prices (annual %) 2011 1/	10
Local currency	Nepalese rupee (NPR)	Exchange rates: USD/LCU	74
Social Indicators		Economic Indicators	
Population growth (annual %) 2012 1/	2	GDP (USD million) 2011 1/	18 884
Crude birth rate (per thousand people) 2012 1/	23	GDP growth (annual) 1/	
Crude death rate (per thousand people) 2012 1/	6	▀ 2000	6.2
Infant mortality rate (per thousand live births) 2011 1/	39	▀ 2011	3.9
Life expectancy at birth (years) 2012 1/	69		
		Sector distribution of GDP 2011 1/	
Total labor force (million) 2005-2010 1/	16.04	% agriculture	32
Female labor force % of total 2005-2010 1/	49	% industry	15
		% manufacturing	6
		% service	53
Education		Consumption 2011 1/	
School enrolment, primary (% gross) 2002 1/	115	General government final consumption expenditure (as % of GDP)	10
Adult illiteracy rate (% age 15 and above) 2010 1/	59	Household final consumption expenditure etc (as % of GDP)	82
		Gross domestic savings (as % of GDP)	9
Nutrition		Balance of Payment (% of GDP)	
Daily calorie supply per capita	2 443	Merchandise exports 2011 1/	940
Malnutrition prevalence, height for age (% of children under 5) 2011 1/	16	Merchandise imports 2011 1/	5 770
Malnutrition prevalence, weight for age (% of children under 5) 2011 1/	8	Balance of merchandise trade	-4 830
Health		Current account balance (USD million)	
Health expenditure, total (as % of GDP) 2010 1/	5.5	before official transfers 2011 1/	289
Physicians (per thousand people) 2004 1/	0	after official transfers 2011 1/	-4 489
Population using improved water sources (%) 2010 1/	89	Foreign direct investment, net 2011 1/	94
Population using adequate sanitation facilities (%) 2010 1/	31		
Agriculture and Food		Government Finance	
Food imports (% of merchandise imports) 2010 1/	14	Cash surplus/deficit (as % of GDP) 2011 1/	-1.0
Fertilizer consumption (hundreds of grams per ha of arable land 2009 1/)	177.0	Total expenditure (% of GDP) 2007 1/	16.0
Food production index (1999-01=100) 2010 1/	112	Present value of debt (as % GNI) 2011 1/	15.3
Cereal yield (kg per ha) 2010 1/	2 295	Total debt service (as % GNI) 2011 1/	9.5
Land Use		Lending interest rate (%) 2010 1/	8.0
Arable land as % of land area 2009 1/	17	Deposit interest rate 2010 1/	3.6
Forest area as % of total land area 2010 1/	25		
Irrigated land as % of cropland 2008 1/	28		

COSOP results management framework

COSOP strategic objectives	Outcome indicators related to the strategic objectives ¹	Milestone indicators showing progress towards strategic objectives	COSOP institutional/policy objectives
COSOP Goal: promote inclusive growth in the rural areas and contribute to peace consolidation			
Number of households with improved household asset ownership (RIMS, LFLP, WUPAP, HVAP) <ul style="list-style-type: none"> WUPAP: 134,000 HH have improved their asset base (over 71,000) HVAP and LFLP: percentage of HH with improved asset ownership – no target 			
Length of hungry season (RIMS, WUPAP, LFLP, ISFP) <ul style="list-style-type: none"> WUPAP, LFLP and HVAP: No. of HH experiencing one/two hungry season + No. of months of each hungry season – no targets HVAP: No. of HH reporting improved food security – no target LFLP: No. of leasehold households with improved food security and months per year of adequate food ISFP: 150,000 families improved food security 			
Level of child malnutrition (RIMS, LFLP, WUPAP, HVAP) <ul style="list-style-type: none"> WUPAP: 10% reduction of children malnutrition LFLP and HVAP: % of malnourished children – no targets 			
Youth employment rate			
Percentage of representatives of disadvantaged groups and women in local decision making bodies and multi-stakeholder platforms			

¹ Where relevant, indicators will be disaggregated by gender, ethnic group, region and value chain.

COSOP strategic objectives	Outcome indicators related to the strategic objectives¹	Milestone indicators showing progress towards strategic objectives	COSOP institutional/policy objectives
SO1: Promote income diversification and stimulate employment	<p>Number of farmers reporting increased yield for selected crops/increased livestock production/increased forestry production in programme areas (LFLP, WUPAP, ISFP) LFLP: No. of farmers reporting increased yields: 20,590 ISFP: 15% average increase of yields</p> <p>Number of farmers reporting increased marketed volume and value of agricultural products (HVAP, ISFP) ISFP 15% increase of total value production</p> <p>Average % increase of farmer/entrepreneur revenue (RIMS, WUPAP, HVAP)</p> <p>Number of jobs generated (RIMS)</p> <p>Volume of remittances mobilised for productive investment</p>	<p>Number of people adopting recommended technologies (RIMS, LFLP, WUPAP, HVAP) LFLP: 44,300</p> <p>Number of marketing groups formed/strengthened (RIMS, HVAP) and number of members (RIMS) HVAP: 1,000</p> <p>Number of partnership arrangements passed between small producers and private sector operator/producers' organisations for the provision of support services/marketing (HVAP, ISFP) ISFP: 50% of seed groups/35% of livestock groups establish private contracts</p> <p>Number of people trained in business and entrepreneurship (RIMS, HVAP, ISFP)</p> <p>Volume of remittances channelled through participating financial institutions in target areas and derived volume of savings</p> <p>Enterprises/farmers accessing non- financial services (RIMS)</p>	<p>Economic and institutional models for inclusive business partnerships, including for the provision of support services and for marketing are tested, documented and disseminated</p> <p>Seed Act and its regulations are amended to develop seed quality control system based on licensed service providers (ISFP)</p> <p>Models for the optimisation of migration remittances for productive investment are tested, documented and disseminated</p>
SO2: Strengthen food security and resilience to climatic and other risks	<p>Common-property-resource land under improved management/climate resilient practices (ha) (RIMS, LFLP, WUPAP) LFLP 31,000 ha</p> <p>Number of smallholder households whose climate resilience has been increased (ASAP)</p> <p>Number of farmers with secure access to water resources (RIMS)</p> <p>Number of operational NRM groups, including leasehold groups (RIMS, ASAP, WUPAP, LFLP)</p>	<p>Number of environmental management plans, including forest management systems (RIMS, LFLP, WUPAP) LFLP: 3,300</p> <p>Number of climate smart agricultural and natural resources investments tested, climate adaptation benefits validated and replicated (ASAP)</p> <p>Number of people trained in community management topics (ASAP, WUPAP, LFLP)</p> <p>Number of active borrowers (RIMS, LFLP, ISFP) ISFP: 26,000</p>	<p>Successful models for developing smallholders' capacity to climate change are tested, documented and disseminated</p> <p>Policy lessons are documented and disseminated, based on retrospective assessment of leasehold forestry model developed in IFAD projects</p>

COSOP strategic objectives	Outcome indicators related to the strategic objectives ¹	Milestone indicators showing progress towards strategic objectives	COSOP institutional/policy objectives
	<p>LFLP: 3,300</p> <p>Clients of rural financial services in the programme areas are multiplied by xxx and include 40% of women</p>	<p>Value of loans and savings mobilised (RIMS, WUPAP, LFLP, HVAP)</p> <p>Number of enterprises/farmers accessing financial services (RIMS)</p> <p>Value of total gross loan portfolio in programme areas is increased by xxx% (RIMS, LFLP)</p> <p>On time repayment rate is above 95% (HVAP)</p>	<p>Successful models for the integration of savings and credit groups into the financial markets and innovative financial products are tested, documented and disseminated</p>
<p>SO3: Promote inclusive, accountable and sustainable rural institutions</p>	<p>No. of farmers reporting access to services (WUPAP, HVAP) HVAP: 15,300</p> <p>Average rate of satisfaction of service users (HVAP)</p> <p>Number of new service providers offering effective and cost-recovered services</p> <p>Number of operational/sustainable producers' organisations (including coops) (LFLP, HVAP, ISFP) LFLP: 2723 in 2011 + 500/yr but flat from 2010 to 2011 HVAP: 500 in total (?) ISFP: 15,000 farmers organised in seed producer groups and linked to the formal seed sector - + (?) 95 farmers groups + 80 coops (but another indicator says 37 increase) + 40 women coops</p> <p>Number and type of partnerships established by producers' organisations</p> <p>30% of decision-making positions in farmers' groups occupied by women/disadvantaged groups</p>	<p>Number of multi-stakeholders' consultative platforms established at local/national level</p>	<p>Consultation mechanisms gathering producers, public authorities, the private sector and NGOs involved in programme related fields¹ are set up and mainstreamed into public investment planning, implementation and M&E processes</p>

Previous COSOP results management framework

Country Alignment	Strategy	Key Results Framework for COSOP			Institutional/Policy Objectives	Summary of Key results
Poverty Strategy Targets	Reduction Strategy Targets	Strategic Objectives ¹	Outcome Indicators ²	Milestone Indicators ²	Specific Policy/Institutional Ambitions	
<p><u>Pillar I: High and Broad-Based Economic Growth</u></p> <p>Implementation of the APP to achieve >4 per cent agricultural sector growth, including: development of rural financial services, research and technologies and creation of a better environment for private sector development and participation in order to improve agricultural productivity and market access</p>		<p>SO I: Increased access to Economic Opportunities by poor farmers and producers in hill and mountain areas</p>	<p>OC 1.1 Percentage increase in volume and value of agricultural, livestock or forestry output in the project districts in hills and mountain areas (<i>X % of farmers report increased volume and value in output based on the selected high value commodity</i>)</p>	<p>MS 1.1 Number of commercial linkages and partnerships between farmers, input suppliers and downstream markets. (<i>min 1- 2 private sector partnerships created in the form of cofinancing of rural commercial activities by COSOP mid-term review; X% of farmers report on new partnerships created</i>)</p>	<p>Enabling regulatory framework for rural financing developed and enforced to support the development of a self-sustaining financial service delivery in the hills and mountains. (<i>Dialogue related to the review of microfinance service delivery mechanisms, including legal framework, management capacity and supervision and linking of the savings and credits groups to formal financial system.</i>)</p> <p>Agricultural research and extension system established and supporting high value agriculture production (<i>Dialogue on the research priorities, pro-poor research and partnerships with NGOs and private</i></p>	<p>HVAP</p> <ul style="list-style-type: none"> MS 1.2 Market Information Service System established in 7 project districts by involving District Chamber of Commerce and Industries (DCCIs) to increase the access of farmers in market information. OC 1.3 10% farmers involved in project activities have increased the income by 16% <p>LFLP</p> <ul style="list-style-type: none"> OC 1.1 About 60% of farmers report increased production/yields from the handed over leased lands/leasehold forests. MS 1.2 LFUGs are getting the concerned information on market through DLSOs, DFOs, Goat Resource Centres as well as staff mobilized. MS 1.3 Out of 3188 LFUGs formed during 2006-2012, all LFUGs have their own saving and credit schemes and 90% farmers are getting the micro-credit facilities from their own group fund. In addition, there are 54 LFUGs Cooperatives formed for the service. MS 1.3 About NRs 62million has been
			<p>OC 1.2 Percentage increase in trade flows to/from project districts in hills and mountain areas (<i>X % of farmers, cooperatives and private sector operating in the project report increased annual trade flows</i>)</p>	<p>MS 1.2 Improved access to market information. (<i>Regular information available on the market prices of the selected high value commodities in the project districts; new technologies introduced to facilitate access to information; further market research based on demand carried out by COSOP mid-term review</i>)</p>		
			<p>OC. 1.3 Increased incomes by farmers from selected high value commodity in the project districts in hills and mountain areas (<i>X % of farmers in the project area report increased incomes</i>)</p>	<p>MS 1.3 Improved access to financial services. (<i>financial services developed for rural</i></p>		

¹ Strategic Objectives for IFAD activities in the new investment programme area and in the districts of the ongoing programmes addressing the SOs I-III (WUPAP SO I-III, LFLP SO III and the Local Livelihoods Programme SO I-II).

² Key performance indicators for the new investment programme and the ongoing programmes addressing the SO I-III. Target indicators of the new investment programme will be updated following the sub-sector and value-chain assessments carried out for the design of the project. Indicators will be monitored as part of project's M&E activities and annual reporting, including RIMS monitoring. The country programme will also link with the GON PRSP monitoring of production in high value crops/ livestock commodities (responsibility by the MOAC) and other M&E efforts by the GON and donor agencies.

			<p><i>business initiatives and communities; at least 100 community organizations reporting improved access to finance annually by the COSOP mid-term review)</i></p> <p>MS 1.4 Innovative institutional arrangements and incentives promoting pro-poor market development. <i>(At least one major non-traditional contractual or institutional arrangement linking small farmers or communities with national or international markets created by the end of the COSOP cycle.)</i></p> <p>MS 1.5 Skills development training organised on high value agriculture <i>(min 100 persons trained annually by the COSOP mid-term review)</i></p>	<p><i>sector in agricultural research and service delivery.)</i></p> <ul style="list-style-type: none"> • Development and enforcement of policies to support private sector involvement in developing agro or forest based enterprises in hills and mountains. <i>(Dialogue on the incentives for establishing agro or forest-based enterprises in the hills.)</i> 	<p>accumulated in LFUGs fund and out of which more than 70% have been mobilized among farmers as soft loan for different IGAs including immediate/emergency needs.</p> <ul style="list-style-type: none"> • MS 1.5 All 3188 LFUG groups were regularly capacitated, coached and supervised and mobilized more than 195 Group Promoters and District based Supervisors across the 22 districts. • MS 1.5 More than 600 LFUG members/farmers have been trained on skill development like NTFPs, Bee keeping and other IGAs. <p>WUPAP</p> <ul style="list-style-type: none"> • MS 1.1 Contract with DABUR Nepal for the supply input and technology to the farmers and consumption of their material. • Partnership with NARC for research in various material= 10 research in rice, apple and livestock conducted • MS 1.2 Established a mobile based market information system in Dailekh in partnership with ICIMOD. • MS 1.5 Skill development training provided to the 10,177 farmers for off-season cultivation farming.
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<p>Pillar II: Social Sector Development (Including Human Development)</p> <p>Give priority to education, health, drinking water, sanitation and infrastructure in remote rural areas.</p> <p>Decentralise responsibilities for education, health and infrastructure.</p> <p>Promote greater involvement of the private sector, INGOs, NGOs and CBOs.</p>	<p>SO II: Community infrastructure and services improved in hill and mountain areas.</p>	<p>OC 2.1 Availability of rural infrastructure and services in poor rural communities. <i>(Number of secondary roads developed in the project districts; population with more than hour's walk or travel to rural health facilities in the selected project area³.)</i></p> <p>OC 2.2 Greater involvement of NGOs, CBOs and private sector in development work in the project area <i>(Established NGO, CBO and private sector partnerships with clear contractual arrangements)</i></p>	<p>MS 2.1 Improved transport and communication linkages to facilitate commercial activity and access to services by rural communities. <i>(min 40 community infrastructure projects implemented annually).</i></p> <p>MS 2.2 Greater engagement with NGOs, CBOs and private sector in development activities <i>(number of NGOs, CBOs and private sector implementing the project activities)</i></p>	<p>Increased investments to the development of road connectivity in hill and mountain areas. <i>(Dialogue on the infrastructure development and maintenance in particular related to the project districts.)</i></p> <p>Decentralization of services to local bodies. <i>(Support to decentralization and coordination of development activities at local level.)</i></p>	<p>HVAP</p> <ul style="list-style-type: none"> MS 2.2 Seven NGOs and 27 CBOs (Value chain groups and cooperatives) now implementing the project activities <p>LFLP</p> <ul style="list-style-type: none"> MS 2.1 Around 119 small infrastructures like foot trail, drinking water scheme, small irrigation systems have been constructed/supported to the LFUG farmers/communities. MS 2.2 Mainly two national NGOs ECARDS and FriPAD have supported LFLP in delivering social mobilization and rural finance services to LFUGs respectively. MS 2.2 A total of 3188 LFUGs with area 16, 425 ha were formed, handed over and supported during 2006-2012. <p>WUPAP</p> <ul style="list-style-type: none"> MS 2.1 490 small-scale infrastructures were constructed during the period which includes small trails, birthing canters, drinking water, irrigation. MS 2.2 2594 CBOs, 490 Construction committee and 887 LFUG group were formed.
<p>Pillar III: Social Inclusion and Targeted Programmes</p> <p>III A: Mainstream efforts to address gender and ethnic/caste-related disparities and facilitate social inclusion.</p> <p>III B: Targeted Programmes financed through the Poverty Alleviation Fund (PAF).</p>	<p>SO III: Gender, ethnic, and caste-related disparities reduced through greater inclusion of disadvantaged groups to development.</p>	<p>OC 3.1 Level of participation of disadvantaged groups in local decision-making and governance processes increased <i>(Number of new representatives by the disadvantaged groups in local decision making bodies.)</i></p> <p>OC 3.2 Higher standards of health and education among women and other disadvantaged groups. <i>(Sick individuals, %, who visited rural health centres last month⁴.)</i></p>		<p>Development of an integrated and coherent forest policy, with sufficient legal framework for the pro-poor leasehold forest policy. <i>(Dialogue on the development of the Forest Act with regards tenure rights and inheritance of leasehold land, development and implementation of district forest plans and the development of synergies between three different forest development approaches.)</i></p>	<p>HVAP</p> <ul style="list-style-type: none"> MS 3.1 52% of women are receiving the project services. 24% Dalits and Janajatis are receiving the project services MS 3.2 26% CBOs (Value chain groups and cooperatives) lead by women MS 3.2 Women and 18% Dalits and Janajatis have successfully participated in income generating activities <p>LFLP</p> <p>MS 3.1 Based on implementation experiences, a set of policy and legal recommendations has been submitted to the government for necessary amendments in existing Forest Act and Regulations.</p> <ul style="list-style-type: none"> MSS 3.3 Of the LFUG farmers there are

³ PRSP indicator (Responsible agency DDCs and VDCs, MOH)

⁴ PRSP indicators (Responsible agency DDCs and VDCs, MOH)

					<p>around 53% beneficiaries from indigenous/Janajatis and 15% from Dalits/untouchable castes.</p> <ul style="list-style-type: none"> • OC 3.1 About 39% of committee members are women farmers. • Among all poor LFUG farmers, 29% are poorest (ultra-poor), 49% are poorer and 22% are poor. • OC 3.1 The proportion of female, Dalits, and Janajatis in key positions (Chairperson, Secretary and Treasurer) are 36%, 12%, and 54%, respectively. • Two persons (one male and female) from each family were trained. <p>WUPAP</p> <ul style="list-style-type: none"> • OC 3.1 Dalit and Indigenous group representation in decision making -CBOs chair= 897 CBOs secretary= 855 LFUG chair= 269
<p><u>Pillar IV: Good Governance</u> Make the civil service efficient, accountable and transparent.</p> <p>Ensure greater participation of people in governance through fiscal devolution.</p>	<p>Support improvement of local governance and peace-building.</p>	<p>OC 4.1 Progress in the achievement of a sustained reconciliation and reconstruction process in project areas (<i>number of employed persons in productive work; number of IDPs returning to project areas</i>).</p> <p>OC 4.2 Level of inclusiveness and transparency of local governance processes (<i>activities successfully carried out in order to improve local governance, including greater transparency in decision making and fund flows</i>).</p>	<p>MS 4.1 Re-integration of former combatants into rural communities and productive work (<i>progress made in the skills enhancement programmes targeting former combatants and conflict affected people; conflict sensitive development approaches and techniques applied in the development work</i>).</p> <p>MS 4.2 Improved governance capacity at local level. (<i>activities, such as training programmes carried out in order to improve local governance, including greater transparency in decision making and fund flows</i>) .</p>	<p>Dialogue on the impact of conflict on the development activities in the field.</p>	<p>HVAP</p> <ul style="list-style-type: none"> • MS 4.1 Public audit of activity conducted by project first at field level and at district level • MS 4.2 The project drafted TORs of Public Audit Group which is being formed in each program districts to maintain the transparency in project funds at district level <p>LFLP</p> <ul style="list-style-type: none"> • MS 4.1 LFUGs have been regular in conducting monthly meeting and carrying out their planned activities. On average LFUGs conduct 9 meetings per year (of 12 monthly meetings). <p>WUPAP</p> <ul style="list-style-type: none"> • MS 4.1 Public audit of activity conducted by project first at field level and at District level

CPE agreement at completion point

A. Background and Introduction

1. The Independent Office of Evaluation (IOE) of IFAD undertook a Country Programme Evaluation (CPE) in Nepal in 2011-2012. This was the second CPE in Nepal. The first CPE was completed in 1998 and provided foundations for the first Country Strategic Opportunities Paper (COSOP) prepared in 2000. The 2011-2012 CPE had two main objectives: (i) to evaluate the performance and impact of IFAD's operations in the country; and (ii) to generate lessons and recommendations to inform the next country strategic opportunities programme (COSOP) for Nepal, planned for 2013.

2. The Agreement at Completion Point (ACP) reflects the understanding between the Government of Nepal (represented by the Ministry of Finance) and IFAD Management (represented by the Programme Management Department) on the main evaluation findings (see section B below), as well as the commitment by IFAD and the Government of Nepal to adopt and implement the CPE recommendations within specific timeframes (see section C of this ACP). The implementation of the recommendations agreed upon will be tracked through the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions, which is presented to the IFAD Executive Board on an annual basis by the Fund's Management. In addition, this ACP will be submitted to the Executive Board of IFAD as an annex of the new COSOP for Nepal.

B. Main Evaluation Findings

3. Overall, this CPE assessed the IFAD/Nepal partnership for the period 1999-2012 to be moderately satisfactory (4 on a scale of 1 to 6).

4. IFAD's presence in Nepal (since 1978) can be generally described as productive and beneficial for the client country yet somewhat weakened by poor program design and implementation; and frequent changes in the staff responsible for Nepal program and projects; almost non-existent policy dialogue with the authorities in pertinent areas; and lack of coordination with donor partners.

5. IFAD strategies in Nepal (as reflected in two COSOPs, 2000 and 2006) were generally relevant to the needs and priorities of the country, but their actual implementation followed the old project-centric model and lacked strategic coherence.

6. Moving forward, IFAD will need to capitalize on the generally solid foundation of its partnership with the Nepali authorities that earned IFAD the respect and trust it generally enjoys in the country. It will need to solidify these achievements and develop a new model of partnership, that will take into account the quickly evolving economic and political realities in the country and the sub-region. Nepal is changing at a fast pace and IFAD needs to avoid the "business-as-usual" approach and come up with a strategy that will reflect the main transformational factors, such as the large-scale migration (internal and external); the leading role of remittances in the overall economic growth and poverty reduction; emergence of new opportunities for private sector development along the quickly growing road corridors, etc.

C. Recommendations

7. The CPE offers recommendations in three broad areas: (1) overall partnership strategy; (2) policy dialogue; and (3) operational and management issues. The recommendations below have been agreed by the Government of Nepal and IFAD.

8. **Recommendation 1:**

- a) **Develop new partnership paradigm and pipeline based on a two-pronged strategy.** The development scene in Nepal's rural areas is characterized by an abundance of project-created beneficiary groups but a shortage of profitable enterprises that create income for the owners/members and employment for the poor. Many development partners, including IFAD, contributed to this situation, based on the broadly accepted paradigm at the time that targeted beneficiaries need to be organised in groups for distribution of project services, goods and resources. Few of the groups developed the cohesion, capital and income stream needed to continue after termination of project support. Nepal's agribusiness and agro-industries are at an infant stage, but rapid urbanisation and neighbouring markets offer opportunities for improving market linkages, including by developing smallholder's linkages with enterprises engaged in various simple (packaging, semi-processing) and more advanced (processing of agricultural commodities and forest products) activities. This would contribute to creating jobs for landless and near-landless who will not be able to escape poverty without off-farm income. If priority is given to value chains of high-value crops suited for intensive cultivation (or intensive animal husbandry), it will also generate jobs in small and medium-sized farms. Pilot projects funded by IFAD grants have demonstrated the potential for cultivation, some processing and marketing of selected products (e.g. off-season vegetables) in the hills and mountains close to the road network. IFAD's recent project, HVAP, is designed to follow up on these opportunities but it is still based on the past tradition of promoting hundreds of groups with little prospects of sustainability. Sustainable poverty reduction would also involve the development of business-minded, profitable producers' groups and cooperatives in key value chains accessible to smallholders, as well as the development of partnerships with private service providers, buyers and input suppliers where they are available. Based on PPPs, public sector agencies would be engaged in addressing bottlenecks of a public goods nature (roads, electricity etc.). Projects will take advantage of clusters or growth nodes along the road corridors. A complementary approach should be developed for remote and isolated communities in the mountains and on the hill tops, far from the road network, with limited access to water and poor soils and conditions for agricultural production. Given IFAD's mandate, such communities should not be neglected in the future portfolio and should be helped in increasing food production and improving their livelihoods. Relevant to IFAD's mandate, sector interventions may include leasehold and community forestry, livestock, improvements in food production, commercial production of high-value-to-weight produce for niche markets, such as MAPs and vegetable seeds, and access to water and possibly also energy (e.g. solar units).
- b) **Proposed follow-up:** the COSOP will describe how IFAD projects will support this dual approach by: (i) improving existing projects dealing with the promotion of better livelihoods, to strengthen sustainability; (ii) increasing IFAD participation to PAF to improve the sustainability of local groups through enhanced financial management, developing linkages to the mainstream financial system and improved knowledge management; (iii) building on HVAP and Biu Bijan to support the development of key inclusive value chains, including by extending HVAP for a second phase to scale up most successful achievements; and (iv) developing a new project to promote rural farm and off-farm micro-enterprises (including cooperatives) and related business development services, providing jobs to rural youth and taking advantage of remittances for productive investment. This could also include the provision of institutional support to relevant public agencies to support a favourable business environment.
- c) **Deadline:** COSOP completed by May 2013 including these elements.
- d) **Responsible entities:** Ministry of Finance, line ministries, IFAD Country Office.

9. **Recommendation 2:**

- a) **Factoring in the conflict dimension and its impact.** IFAD's essential strategy for Nepal was appropriate for a country defined by institutional fragility, but it underestimated what was required to deliver such a strategy effectively. In framing the next COSOP, IFAD may wish to consider drawing on an approach which draws on the analytical logic of the 2011 WDR and the g7+ New Deal. It is intended to support processes of strategic thinking by governments and takes political instability and institutional fragility as the principal constraints to socio-economic development, and draws on the experiences of countries that have registered some success in moving away from repetitive, ingrained insecurity and violence. At the core of the approach is a clear (and continuous) diagnosis of the 'stress factors' that animate instability and fragility – an understanding of which can help identify the combination of confidence-building measures and institutional strengthening programs needed to 'change the narrative' of mistrust in the state. Although this kind of macro-institutional analysis is more appropriate for government and MDB strategic planning than it is for IFAD, there is much to gain from focusing the next COSOP on a clear delineation of the exclusionary factors that hamper access of the poor to productive economic activity, and on what is needed for IFAD is to work effectively through weak partners to create, and sustain the community institutions that will help the poor move into the socio-economic mainstream. Protracted civil conflict resulted in massive migration from rural areas to the cities and abroad. This, in turn, drastically changed the social composition and the economy of the rural areas, increased the share of female-led households, and made the increasing flow of remittances the main driver of poverty reduction and better livelihoods. IFAD strategies will need to take both these factors into account and consider reflecting them in programs and policy dialogue, preferably in cooperation with other development partners.
- b) **Proposed follow-up:** IFAD will ensure that all projects, on-going and new, build on institutional analysis to support the institutional strengthening of community organisations, so that these do not remain project creations but are actively linking to mainstream public institutions and civil society organisations. This will be reflected in the COSOP, together with strong attention to operational strategies to ensure improved inclusion and targeting. Civil society organisations will be recognised as key partners in IFAD operations and in policy dialogue, by including them in project steering committees, and by tapping their experience to improve project implementation. Specifically, each project will develop a range of partnerships with civil society as well as with private sector entities. Furthermore, civil society organisations will be invited to participate in the CPMT and to provide inputs in the COSOP design process. Due consideration will be given in the course of COSOP preparation to modalities geared towards making use of remittances for productive investment.
- c) **Deadline:** June 2013.
- d) **Responsible entities:** CPMT, technical line ministries, project teams.

10. **Recommendation 3:**

- a) **Strengthening the link between policy dialogue agenda in strategy (COSOP) and portfolio (programmes).** The ambitious agenda for policy dialogue included in previous COSOPs was not implemented. This may be due to insufficient time and resources and probably also it was not reflected in project design. Many stakeholders are unaware of COSOP strategic directions, and IFAD-Government partnership has been driven by projects. Given IFAD's limited resources for country programme management and further expected reductions, it is recommended that IFAD and Government jointly identify relevant policy issues in COSOP and embed them within project design and implementation,

including necessary resource allocation. For financing the related work, and to the extent feasible, IFAD will complement loan with grant resources to support policy development and dialogue. As an example, in 2012 IFAD and the Government designed a project to support the seed sub-sector, Biu Bijan (or ISFP). As part of the design process, partners identified policy issues in the seed sub-sector and agree that a seed sub-sector policy or strategy needs to be strengthened with ADS. ISFP should finance related work, as envisaged in the final design document, thus providing an example of a participatory policy dialogue. Within forest product processing and marketing and rural finance there could also be policy issues of relevance to IFAD and the portfolio performance, and where relevant and agreed, loan budgets should make provisions for financing work related to these policy areas. In Nepal, as well as in most other countries where it operates, IFAD does not have the comparative advantage in producing analytical work – an important underpinning for higher quality policy dialogue. However, this gap could be easily filled by closer cooperation with many international and local think-tanks, research centres, and universities – possibly through better-targeted grants programme. Cooperation with ICIMOD is a good example of such productive partnership that could be further expanded in the future.

- b) **Proposed follow-up:** IFAD has limited resources to take up a leadership role among donors supporting the rural sector. However projects constitute powerful tools to develop policy lessons based on successful achievements, and to promote policy dialogue. This will be implemented by building on existing projects (Biu Bijan on the seed sub-sector, WUPAP and PAF on sustainable livelihoods, HVAP on inclusive value chains) to develop knowledge management (tapping on the achievements of both loan and grant projects), to identify policy lessons and to channel them into policy dialogue, including by linking with specialised institutions (such as the Farmers' Forum, ICIMOD, AIT, WOCAN, and other civil society organisations). Policy development and dialogue will also be systematically embedded in new projects design. Furthermore, project-supported farmers' organisations will be encouraged to participate in policy dialogue at the local level, and to liaise with major national organisations so as to increase their efficiency in defending farmers' agendas. Finally, after having supported the formulation of the Agriculture Development Strategy, IFAD will contribute to decreasing current aid fragmentation and dispersion, by improving coordination in implementing the strategy, in line with the aid effectiveness agenda. To this effect, it will support the creation of multi-stakeholder consultation platforms gathering public institutions, farmers' organisations, private sector, NGOs, CBOs and civil society organisations (including both right-based and need-based organizations) to forge partnerships and to support policy dialogue in the agriculture sector at large, as well as in key sub-sectors.
- c) **Deadline:** during COSOP cycle.
- d) **Responsible entities:** IFAD CPM, Government, Foreign Aid Division Ministry of Finance.

11. **Recommendation 4:**

- a) **Appreciating local context; providing adequate implementation support.** There appears to be a disconnection between IFAD corporate policies requiring attention to local context, and actual provisions to make this happen in Nepal. While the CPE recognises that the allocation for country programme management and implementation support in Nepal is in line with IFAD norms for medium-sized programmes, it also highlights that the semi-fragile and volatile Nepalese context does demand resources above the average. Allowing for local realities is only in part a project preparation/appraisal issue, but also requires to adapt project design to take account of the lessons of experience and to adjust to changing local

dynamics. This in turn requires more implementation support resources than IFAD has normally provided to Nepal. It is further recommended that Government engage external technical support from specialised service providers in the private sector and civil society to address three problem areas that are common in a significant part of the portfolio: (i) implementation driven by quantitative targets rather than being responsive to the demand and problems of beneficiaries; (ii) monitoring systems that do not capture livelihoods changes and indicators for objectives; and (iii) sub-standard financial management. IFAD may help to mobilise grants to finance such support but when this is not possible, projects should include resources to hire external.

- b) **Proposed follow-up:** In order to strengthen projects performance and to save costs of operation, possibility of establishment of a country program support unit (SSU) will be explored with further information from the point of view of cost saving, coordination and its detail architecture and to identify lead agency. IFAD will provide such information and Government will discuss on it to explore as the objective is to facilitate for effective implementation of the project in cost effective manner.
- c) **Deadline:** February 2013.
- d) **Responsible entities:** CPM, CPO, Project Managers, Ministry of Finance.

12. **Recommendation 5:**

- a) **Addressing disadvantage.** Nepal's history of identity group exclusion would seem to argue for the creation of groups consisting of the most excluded castes and ethnicities. However: (i) differences in economic status are widespread but they not always parallel caste/ethnic specificities; (ii) long-established barriers to cooperation between castes/ethnicities are becoming more permeable; and (iii) while the national debate has recognised the rights of marginalized groups, it has been so far unable to device matching practical solutions. Group formation should rather be based on a thorough analysis of prevailing economic and social conditions and on an identification of the various categories of poor, and project support should be geared towards facilitating inclusion. When supporting value chain and rural enterprise development, projects may also provide support to other value chain stakeholders (such as entrepreneurs and less poor farmers) provided this in turn brings increased benefits to smallholders. Mechanisms to ensure that the poor and socially excluded households also have access to project benefits will also be required.
- b) **Proposed follow-up:** the COSOP will support improved targeting as well as the inclusion of disadvantaged categories into project-supported economic dynamics. To this end, the COSOP preparation process will include a specific study on social targeting, which will orient strategic provisions in the main text, in support to both new and on-going projects.
- c) **Deadline:** February 2013 for the study, June 2013 for COSOP.
- d) **Responsible entities:** CPM, CPMT and line ministries.

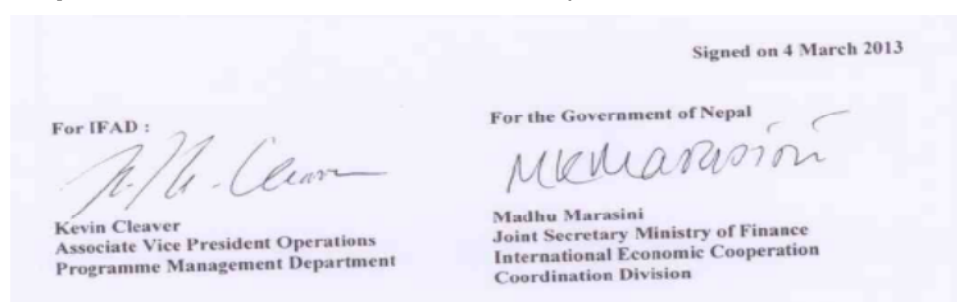
13. **Recommendation 6:**

- a) **Measuring and communicating impact.** Significant effort has gone into measuring outputs. Rather less attention has been given to assessing impact – and relatively little to communicating lessons in ways that can capture the attention not only of busy policy makers, but also of farmers and their organisations, and of other relevant project stakeholders. Two important evaluation techniques that deserve wider use in the coming COSOP cycle are case studies of outcomes (encompassing both successes and failures), and opinion polling (perhaps the most objective way to measure the extent to which institutions are achieving popular legitimacy).

- b) **Proposed follow-up:** M&E systems will be improved so that they can be used as a management tool towards improved results and impacts. This will include: (i) improved progress reporting so that it be more informative on qualitative aspects, outcomes and impact as well as on lessons learnt and potential for upscaling; and (ii) a more systematic use of surveys (baseline, income, annual outcome, impact...) and opinion polling in on-going and new projects; (iii) simplified reporting systems and formats. Furthermore, a country programme ME system to be managed by the country programme support unit (see Recommendation 4) will be set up so as to monitor the implementation of COSOP orientations. Annual project and COSOP monitoring notes will be published to ensure maximum transparency. Knowledge management will be developed and project outcomes and good practices will be disseminated both at the national, policy-making level, and at grassroots, implementation level. Knowledge management and communication will be further enhanced through IFAD Asia and ifad.org, based on a communication strategy for the country programme, to be implemented by projects.
- c) **Deadline:** Every year for Annual COSOP and project monitoring notes. COSOP mid-term review in 2015.
- d) **Responsible entities:** CPM , project teams, line ministries.

14. **Recommendation 7:**

- a) **Aligning COSOP and PBA cycle management.** Although it would be useful to harmonise the COSOP cycle with the Government planning period, given the political uncertainties, it is recommended that IFAD and Government prepare the COSOP to cover two 3-year performance-based allocations (PBAs) according to IFAD's funding cycle. For the first PBA cycle, the COSOP should contain a relatively detailed outline of the pipeline, based on identification undertaken as part of the COSOP preparation. Pipeline project(s) should be comprehensively described in a Concept Note agreed to by IFAD and Government, to support project design and approval during the first two years of the COSOP implementation period. As for the second PBA, a comprehensive COSOP review combined with project identification should be undertaken in COSOP year 3 to allow for design and approval in COSOP year 4 and 5. By implementing this recommendation, IFAD and Government will not take last moment decisions on utilisation of the PBA as is currently the case and which in a political volatile situation has high risk. Planning ahead will facilitate the mobilisation of co-financing and other joint financing arrangements with development partners.
- b) **Proposed follow-up:** the COSOP will cover six years (2013-2018) and will be aligned with two PBAS cycles. It will include concept notes for two projects to be financed under the 2013-2015 Performance Based Allocation (PBAS-around USD 40 million) and climate change Adaptation for Smallholder Agriculture Programme (ASAP fund - around USD 15 million through NGOs). Two additional concept notes for new projects will be prepared further to the COSOP mid-term review in 2015. which could also include a top-up financing to an existing, successful project, in line with COSOP orientations
- c) **Deadline:** June 2013 and June 2015.
- d) **Responsible entities:** CPM, CPO, Ministry of Finance.



Project pipeline during the COSOP period

CONCEPT NOTE 1: ADAPTATION IN MOUNTAIN AND HILLS ECOSYSTEMS (AIMHE) (2013)

A. Justification and rationale. Climate model projections for Nepal indicate a rise in annual mean temperature by an average of 1.2°C by 2030, 1.7° C by 2050 and 3° C by 2100 compared to a pre-2000 baseline. As a result, agro-ecological zones will shift upwards altitudinally, as is already being experienced by mountain farmers in Nepal. Currently, rainfall patterns have become erratic and a decreasing annual trend has been noted primarily in the mid-Western region during the critical agricultural period of June, July and August. Conversely, increasing intensity of summer monsoon rain events are causing flash floods, erosion and landslides. Rapid retreat of glaciers is leading to the formation of new glacial lakes with potential for catastrophic outbursts. Shifts in precipitation patterns, longer droughts, more severe floods and deficit in the recharge of groundwater are major factors affecting mountain farming as noticed by IFAD projects on the ground.

In order to reduce vulnerability and enhance adaptive capacities of local communities to contend with climate change impacts, IFAD's adaptation to climate change interventions will focus on building resilience of agricultural production and ecological systems, diversification of income generating opportunities, strengthening governance mechanisms and capacitating institutions with climate risk management tools. IFAD has been engaged in such work over the years and the current COSOP provides an opportunity for further scaling-up and enhancing some of the innovations, as well as, introduction of new adaptation elements. For example, the Leaseholder Forestry and Livestock Programme (LFLP) and the Western Uplands Poverty Alleviation Project (WUPAP) are covering a number of areas such as, sustainable agricultural intensification, leaseholder forestry, livestock improvement and microenterprise development. The best practices from these projects such as, forest land lease registration, non-timber forest product (NTFP) cultivation and livestock and fodder improvement, can be scaled-up and specific activities that address climate risk management and enhancement of landscape level ecological resilience will be introduced. While the focus of the project is to build adaptive capacity and resilience to climate change, much of the on-going work of IFAD also contributes substantially to reducing greenhouse gas emissions (GHGs). The reversion of land degradation through the LFLP and WUPAP (largely from their leaseholder forestry components) is leading to the reduction of 207t of CO₂ -e per hectare or 131t of CO₂-e per farmer respectively². Scaling up this work provides an opportunity for potentially activating a supplementary stream of carbon finance in the future.

B. Geographic area and target groups. The project will cover roughly 20 districts made up of approximately 500 villages and 200,000 households (HHDs) associated with on-going IFAD projects areas (a cluster approach will be adopted in order to reduce transaction costs and build on social assets) in the Mid-Western, Western and Central Regions of the country and based on a vulnerability to climate change assessment. In addition, villages and farmers groups will be selected on the basis of the following main criteria: (i) poverty rates and number of poor and female-headed HHDs in each district; (ii) commitment and readiness of farmers and HHDs in implementing sustainable land management (SLM) and climate change adaptation interventions; (iii) performance of IFAD funded on-going projects; and (iv) district and local government endorsement of programme support.

² FAO (2013) The Impact of the IFAD country portfolio Nepal on climate change mitigation.

C. Key Project objectives. The proposed goal of the project is to improve resilience and reduce vulnerability of poor smallholder farmers to climate change impacts. The objectives are the following: (i) capacitate local communities and institutions to better contend with climate variability and change; (ii) improve the resilience of agricultural and ecological systems; and (iii) enhance the policy and institutional frameworks for building resilience to climate change. This project will scale up successful findings and approaches from the Nepali portfolio as well as from the larger Himalaya region. It will enhance as well partnership effort undertaken by climate changes operations and enable the NAPA and LAPA to roll out at scale.

D. Ownership, harmonization and alignment. Nepal developed its National Adaptation Programme of Action (NAPA) in 2010, which identifies six priority themes: (i) agriculture and food security; (ii) water resources and energy; (iii) forests and biodiversity; (iv) public health; (v) urban settlements and infrastructure; and (vi) climate-induced disasters. Furthermore, as a means to facilitate the disbursement of funds to the local level a national framework was developed for setting up Local Adaptation Plans of Action (LAPAs). The LAPA is intended to be a practical way to integrate national top-down assessments with bottom up planning of adaptation needs and priorities. The proposed IFAD intervention is fully aligned with this approach and will make a tangible contribution in advancing the implementation of the NAPA via LAPAs.

E. Components and activities. The proposed project is comprised of three complementary and mutually reinforcing components that scale up on-going IFAD project achievements that will be identified during project design. Furthermore, the ECCA background document provides a list of potential activities that assist with building adaptive capacity and resilience to climate change. At the local level, the project will design adaptation responses that include sustainable agricultural intensification, integrated watershed management for improving hydrological functions, soil fertility and biodiversity. At the national level, a structured policy dialogue on building resilience to climate change in the rural development sector will be facilitated using evidence from IFAD's field level activities.

Component 1: Participatory Assessments and Planning for Climate Change will focus on establishing the basis for an integrated approach to the management of soil fertility, vegetation and water resources at the village level. Such an approach will increase agricultural productivity and enhance ecosystem management. Locally tailored adaptation strategies will be developed using gender sensitive vulnerability analysis, and participatory scenario development and community planning processes. The following activities are envisaged: (i) *Biophysical and socio-economic resource mapping* to better understand the environmental issues at the village level (scale of resource use, existing dependencies, extent of land degradation and unsustainable resource use, resource use conflicts, village infrastructure, farm level economics and nature of support systems); (ii) *Vulnerability assessment and participatory scenario development* to better define gender sensitive adaptation responses and engagement of local communities in identifying practical actions for building resilience to predicted future climate impacts; (iii) *Gender-Equitable Local Adaptation Plans of Action* to channel adaptation investments at a watershed or village level to build climate resilience. The design process of the LAPAs will provide a vehicle for building knowledge among local communities of climate change impacts and for developing their planning capacities for dealing with the envisaged changes. The LAPAs will also form the basis for funding activities under Component 2 and where they have already been developed, activities consistent with IFAD programming will be financed; and (iv) *Monitoring climate resilience* to assess efficacy of the proposed integrated approach.

Component 2: Sustainable Land and Water Management and Livelihood Improvement will contain two mutually linked and complementary sub-components under existing IFAD projects. *Sub-component 2.1: Improving vdc*

and Water Management to Enhance Agricultural Productivity and Diversity will support the optimization of natural ecosystem benefits through incremental technologies and investments aimed at scaling up sustainable land and forestry management practices, integrated water resource management, agro-forestry and tree planting on degraded lands, sustainable harvesting of non-timber forest products (NTFPs), and diversified natural resources based income streams to provide sources of livelihood and food products during lean periods. Capacity building and training will facilitate community management of the watershed. *Sub-Component 2.2 Livelihood Improvement through Climate Resilient Agriculture and Community Development* will improve access to basic agricultural goods and services, and knowledge on climate resilient agricultural practices and technologies; the use of more resistant and diverse crops for economic diversification; improved local and district seed storage systems; diversification of the forest economy; and training women and poor farmers to adjust cropping patterns based on climate variability.

Component 3: Knowledge Management, Dissemination and Adaptation Policy Formulation will facilitate a horizontal and vertical exchange of information and knowledge to strengthen informed decision making, contribute to the formulation of effective local adaptive strategies and enhancing responsiveness of local, district and national administration. The approach will first seek to extract the tested and proven innovations in the Nepal portfolio for scaling up. Many of the innovations constitute excellent no-regret or low-regret adaptation responses to climate change. Furthermore, new activities from Components 1 and 2 will be monitored and evaluated for generating further knowledge on good practices for scaling up. Second, the tried and tested SLM technologies and approaches will be disseminated through different non-state channels, such as NGOs, farmer groups, farmer field schools and private service providers, as well as public extension services. Concurrently, efforts will be taken to equip key local, district and national institutions with tools to better assess risk and plan adaptation responses. The project will strengthen institutional mechanisms at the district and local levels for effective coordination and extension of climate change related tasks by improving operational and technical capacities of local government staff on climate change adaptation and integrated management of natural resources. Training and sensitization of policy makers and sector staff on climate related impacts and adaptation measures will be undertaken. The knowledge management work will also distil and document good practices for integration of adaptation into sector policy formulation and will contribute to promotion of dialogue between research institutions, community institutions and policy makers to build linkages between practice and policy. More specifically, it will support policy dialogue with the government to scale up the successful innovations and best practice for wider national coverage.

F. Cost and financing. The project will be financed by IFAD PBAS for USD 10 million and IFAD's Adaptation for Smallholder Agriculture Programme (ASAP), which has allocated USD15 million in grant financing for advancing climate change adaptation in Nepal. External financing will be sought for scaling up geographically and co-financing is expected from government and communities. It is anticipated that the total project cost will be around USD40 million.

G. Organisation and management. The 5 year project will be located in the Ministry of Finance under the new IFAD Country Programme Joint Implementation Support Unit (CPISU). The CPISU will provide implementation support services to IFAD funded projects in Nepal; in particular, it will provide support with fiduciary management, procurement, monitoring and evaluation, knowledge management and communication, and supervision oversight. A unit within the CPISU will provide direct management of the ASAP supported project. Specialized NGO services for mapping and vulnerability assessments, planning, social mobilization, capacity building and training, implementation support, and documentation and monitoring will complement existing staff capacities for implementing ASAP activities. Partnership will be established with

DFID (NCCSP), GIZ (NAPA Climate investment fund), IFC (Agricultural Knowledge System), Worldbank and ADB, ICIMOD (HimalAdapt, Adaptation to Change programme), PROCASUR (innovation. Learning).

H. Monitoring and evaluation indicators. The project M&E system will be developed in line with the ASAP system. Main indicators will be gender-disaggregated and will include: (i) increased household and community assets; (ii) improved household income; (iii) number of tonnes of greenhouse gas emissions (CO₂e) avoided and/or sequestered; (iv) number of hectares of land under sustainable land management; (v) number of hectares of sustainable and diversified agricultural cropping areas; (vi) number of farmers who have adopted climate resilient livestock, irrigation and agricultural practices; (vii) number of good practices documented and disseminated; and (viii) number of policy processes launched and changes leveraged.

I. Risks. Risks identified in the COSOP also apply to this project. A major risk lies in the enduring political instability and government weakness, which is likely to persist over part of the COSOP period. The strong involvement of private service providers and specialised NGOs in project implementation is also meant to mitigate adverse impact.

CONCEPT NOTE 2: RURAL ENTERPRISES AND REMITTANCES (2014)

A. Context and justification. While the plains (Terai) and central hills are fertile regions holding favourable conditions for agriculture, because of demographic pressure and landlessness they also experience the highest poverty density rates in the country. In recent years, donors' assistance (including IFAD) has been focusing on the Mid and Far Western region, with local absorption capacities now reaching saturation. Central and Eastern plains and hills host areas of intense poverty, particularly along the Indian border and among marginalised castes. Families that cannot live on agriculture have limited alternatives, combining wage labour and widespread migration. Migration offers a security valve and allows migrants to learn new skills, but it also entails a social and financial cost and brings limited returns to poorer families. The project will diversify the range of economic activities (on farm and off farm) accessible to poor rural households and unemployed young men and women by promoting rural entrepreneurship and employment, tapping on the potential offered by good road connections, a dense network of small towns and markets with a growing demand for goods and services, and opportunities to develop profitable, agriculture-related activities (support services and processing). It will offer new livelihood opportunities as an alternative to migration and to families that are too poor to migrate, and it will also help returnees to build on their skills and resources to start a profitable economic activity.

B. Geographic area and target groups. The programme will be implemented in selected plain and hill districts of the Central and Eastern regions combining: (i) high poverty and unemployment rates; (ii) high population density; (iii) existing density of micro and small enterprises and potential for further development, including the possibility to develop rural-urban linkages; and (iv) complementarities with other related development programmes. The primary programme target group will be constituted by: (i) existing formal or informal rural micro-entrepreneurs/enterprises that have a potential for development, and will access support to consolidate and expand their activity; (ii) poor households for whom agriculture cannot be a main source of income (in particular landless or close to landlessness families, families resorting to migration, young unemployed or underemployed men and women, returnees from migration) and will either access support to create their own micro-enterprise, or will be offered employment by programme-supported small enterprises; (iii) small enterprises that either play a key role in securing microenterprise access to inputs, services and markets, or have a potential to generate employment, which will have access to business development services and adequate financial products supporting sustainable growth.

C. Key project objectives. The project goal matches the national strategic objective of reducing poverty and achieving sustainable peace through employment-focused, equitable and inclusive economic development. The purpose is to promote increased income and employment of poor households. This is to be achieved by: (i) promoting self-employment and micro and small enterprises that can generate jobs; (ii) ensure sustainable access to business development and financial services, as well as to vocational training in direct connection with job placement; and (iii) setting up a conducive policy and institutional environment. The project would directly contribute to the achievement of COSOP objective 1.

D. Ownership, harmonization and alignment. Project design will be developed in line with the Industrial Policy, the Agri-Business Promotion Policy and the Technical and Vocational Education and Training Policy. It will be steered by the Country Programme Management Team, which will be enlarged to include relevant key stakeholders (such as the Federation of Chambers of Commerce and Industry, the Federation of Nepal Cottage and Small Industries, the Council for Technical Education and Vocational Training) as well as relevant development partners such as SDC, World Bank, DFID and UNDP. Project design will be harmonised with existing initiatives in the rural enterprise/employment

sector, and will build on lessons learnt from the Skills Enhancement for Employment Project (SEEP) financed by an IFAD grant and implemented by ILO over 2008-2009.

E. Components and activities. Project activities will be organised in five components.

- *Component 1 - Enterprise promotion and job development* will aim at (i) identifying and disseminating opportunities for micro-enterprise development in the target areas, through market/value chain assessments, inventory of existing micro-enterprises and opportunities in selected sectors, information and mobilisation; (ii) facilitate access to employment through market surveys to identify job opportunities/requirements, skills development, mentoring and social and counselling skills, and labour intermediation and (iii) strengthening professional organisations pooling services and representing the interests of micro and small entrepreneurs, through capacity and institution building at the local and national level.
- *Component 2 - Services for Employment* will develop access to a range of services in support of (self)employment, including: (i) business development services , including technical, marketing, business management and legal services, business incubation, assistance to access financing, applied research and innovation, business literacy; (ii) short/long term vocational training, in partnership with training institutions and private businesses, facilitation of apprenticeship, job placement and counselling. Services will be demand-driven, cost-effective and cost-recovery based. Capacity building will be made available to enhance service providers' performance.
- *Component 3 - Financial Services* will facilitate the access to credit and other financial products through a range of facilities aiming at: (i) supporting micro enterprise creation and development, including financial incentives for young entrepreneurs; (ii) promoting the use of migration remittances for productive investment, by facilitating their channelling through the formal financial system (including through mobile phone banking), promoting savings and adequate investment products (including equity financing and co-financing for disadvantaged groups such as entrepreneurial women lacking collateral resources), and offering investment advisory services; and (iii) making available investment credit for small and medium enterprises that either create employment or offer market outlets for small farm and off-farm producers.
- *Component 4 - Support Infrastructure* will finance collective infrastructure such as access roads, access to power supply, storage and market infrastructure (through co-financing arrangements). *Component 5 - Institutional Support and Project Management* will promote a favourable policy and institutional environment, organise knowledge management (identification of good practices, monitoring of innovative business models and dissemination of knowledge to stakeholders at the local and national level), and set up a programme coordination structure to secure overall project implementation.

F. Costs and financing. IFAD will contribute for approximately USD 35 million over seven years. Additional contributions are expected to be provided by the government and the private sector (including banks and participating enterprises). Furthermore, IFAD and the government will actively seek co-financing from interested development partners, particularly for the financing of infrastructure.

G. Organisation and management. The project will be implemented by the Ministry of Industry (MOI), in partnership with the Ministry of Education. A Steering Committee headed by MOI will provide the oversight and guidance for smooth implementation of the project. It will include representatives of the Ministry of Agriculture Development, the Federation of Nepalese Chambers of Commerce and Industries, the Cottage and Small Industry Development Board, financial institutions and cooperatives.

H. Monitoring and evaluation indicators. The project M&E and knowledge management system will be developed in line with the Country Programme M&E/knowledge management System including the use of SIMES and the connection to IFADAsia). Participating Chambers of Commerce and other relevant stakeholders will be associated in the definition of indicators and in the design of processes for data collection, analysis and dissemination of results. Main indicators will be gender-disaggregated and will include: (i) enterprise/entrepreneur revenue; (ii) employment; (iii) marketed volume of agricultural products; (iii) added value of marketed production and share accruing to smallholders; (iv) number of entrepreneurs that have access to financial and non-financial services.

I. Risks. Risks identified in the COSOP also apply to this project. A major risk lies in the enduring political instability and government weakness, which is likely to persist over part of the COSOP period. The strong involvement of non-governmental and private institutions in project implementation is also meant to mitigate adverse impact. With regard to institutional issues, there is a risk that the Federation of Chambers of Commerce be overburden with an increasing participation in the implementation of development projects, including under IFAD financing. A thorough institutional assessment of the Federation and relevant members, as well as of other players expected to participate in programme implementation will be carried out as part of programme design and measures aiming at strengthening capacities will be included in programme activities. Limited purchasing power in rural areas may also constitute a risk, which will be mitigated by ensuring that selected target areas offer a mix of rural and urban markets and by developing instruments to orient entrepreneurs' investments. Returnees constitute a mobile population that is easily attracted to resuming migration. The range of business development services offered will include coaching and close monitoring of new enterprises until they become profitable and reach conditions required for sustainability.

J. Timing. The detailed design of the programme is scheduled to start end 2013. The programme will be presented to the IFAD Board in September/December 2014 so as to be effective in January 2015.

Key file 1: Rural poverty and agricultural/rural-sector issues

Priority Area	Major Issues	Actions Needed
Rural Poverty	<ul style="list-style-type: none"> • More than one-quarter (27 per cent) of rural population lives below poverty line • Nearly half of the rural poor are agricultural wage workers (47 per cent) and farmers (27 per cent) • The poorest are dalits (42 per cent) and households headed by agricultural wagedworkers (47 per cent). • Landless and small and marginal farmers with less than 1 ha of land constitute nearly three-quarters (74 per cent) of the rural poor. More than one-fifth (21 per cent) of Nepali population is landless • Poverty incidence is highest in mountain areas (42 per cent) and in the far-western (46 per cent) and mid-western (32 per cent) regions • Poverty incidence is positively related to the size of the family and negatively related to the education level of the household head 	<ul style="list-style-type: none"> • Adopt pro-poor rural development policies • Promote agribusiness and agro-processing activities and non-land wage employment opportunities in rural areas • Implement targeted programs for economic and social empowerment of Dalits and small and marginal farming communities • Promote livestock, non-timber forest products (NTFPs), agribusiness and non-farm microenterprises among the landless and near-landless families • Devise and implement a comprehensive lagging-regions development policy • Implement effective family planning, health care and female literacy programs
Rural Finance	<ul style="list-style-type: none"> • Limited presence and coverage of formal sector financial institutions in remote rural areas • Lack of access to financial services for the hard core rural poor • Limited applicability of the Grameen bank model in the hills and in financing agriculture • Limited access to credit for marginal and small farmers, and small rural entrepreneurs from either banks or NGOs • Lack of a clear microfinance policy and regulatory environment 	<ul style="list-style-type: none"> • Develop and engage NGOs, CBOs and cooperatives as microfinance providers • Promote community-based, self-help savings and credit organizations • Develop mechanisms to enable microfinance to reach the hard-core poor • Support expansion of innovative and well managed small and medium NGOMFIs • Develop an appropriate policy and regulatory framework for microfinance
Agriculture	<ul style="list-style-type: none"> • Small and fragmented holdings, with low economies of scale in production, processing and marketing • Largely traditional, food crops-dominated and subsistence-based production • Lack of access to markets • Limited coverage of year-round irrigation and water control facilities • Weak agricultural research and extension systems • Unreliable input supplies and service delivery system • Poor plant quarantine facilities and services 	<ul style="list-style-type: none"> • Promote large production pockets or clusters by organizing farmers into groups/cooperatives • Shift to commercial, high-value agriculture production, focusing on commodities of natural comparative advantage • Develop collection centres, information and communication networks, etc. • Promote micro-irrigation technologies in the hills and mountains • Develop partnerships with NGOs and private sector in research and extension • Engage farmers' organisations/coops, NGOs, CBOs and private sector organizations in input supplies and marketing • Develop well-equipped plant quarantine check-posts
Priority Area	Major Issues	Actions Needed

Livestock	<ul style="list-style-type: none"> • Poor health and low-productivity breed of livestock • Lack of proper and timely veterinary and animal health services • Shortage of milk (55,000 liters per day) • Lack of adequate facilities for monitoring and quality control of imported animals and animal products • Unhygienic meat production and marketing system • Inactive status of NDDB and lack of implementation of Dairy Policy • Limited research in livestock sector 	<ul style="list-style-type: none"> • Introduce improved breeds in accessible areas and launch massive artificial insemination programs in remote areas • Support milk processing facilities under the management of dairy cooperatives • Develop and train local-level veterinary technicians/animal health workers in rural areas • Develop quarantine services and strengthen the institutional capacity of Department of Food Technology and Quality Control • Build slaughter-houses and enforce safety regulations for quality meat production • Activate NDDB and effectively implement Dairy Policy • <u>Increase budget allocation for livestock research</u>
Forestry	<ul style="list-style-type: none"> • Inequitable access to and control over CF resources by the poor, landless, dalits and disadvantaged groups • Limited technical, managerial and organizational capacities of CFUGs • Limited pro-poor orientation of CFUGs • Lack of a legal framework for leasehold forestry program 	<ul style="list-style-type: none"> • Sensitize CFUGs and develop their capacity to address equity issues • Work with Federation of Community Forest User Groups of Nepal (FECOFUN) to enhance overall institutional capacity of CFUGs • Provide part of CF land for NTFP farming as a source of income to the poor • Implement appropriate legislation for the LHF and CF
Horticulture and other high-value commodity	<ul style="list-style-type: none"> • Great untapped potentials for commercial cultivation of fruits, off-season vegetables, NTFPs and other high-value commodities in the hills • Lack of market access for high-value agricultural products in the hills • Lack of certification system within Nepal for domestic organic produce • Limited capacity and resources for the development of commercial high-value agriculture and agro-processing in the hills 	<ul style="list-style-type: none"> • Implement the North-South Corridor development approach envisioned by the Tenth Plan and the NAP to link production in the hills with the markets in the Terai and in the adjoining states of India • Provide incentives for establishing agro-processing industries in the hills • Develop organic certification system within Nepal • Develop public-private-NGO partnership in research and development
Gender	<ul style="list-style-type: none"> • Women lag behind men in all major indicators of development • Women are often paid lower wages than men • A number of laws and regulations discriminate women • Limited access to assets and employment opportunities • Limited access to services 	<ul style="list-style-type: none"> • Implement programs for social, economic, political and legal empowerment of women • Expand education, health and skill-enhancement opportunities for women • Facilitate women's access to services through modalities that suit their needs and reflect their preferences • Remove or amend discriminatory laws and regulations • Increase awareness amongst men and women regarding gender issues and legal rights.
Rural/Community Development	<ul style="list-style-type: none"> • Poor and underdeveloped physical infrastructure, including road connectivity • Weak or non-existent linkages between agriculture and agro-industry sectors • Lack of a conducive policy and regulatory environment for increased private sector investment in agro-processing and agribusiness activities • Lack of productive employment opportunities for youth 	<ul style="list-style-type: none"> • Develop rural infrastructures – roads, electricity, telecommunication, IT centers, etc. • Implement measures to promote farm-corporate linkages (e.g., contract farming) • Implement an Agribusiness Policy with clear incentives for private sector participation • Provide vocational and technical skill enhancement training to promote self-employment of youths in rural areas

Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats)

Strengths	Weaknesses	Opportunities/Threats	Remarks
Ministry of Agriculture Development (MOAD) <ul style="list-style-type: none"> Country wide district network of agricultural extension and livestock services Network of district cooperative offices Well trained and experienced staff in agronomic issues 	<ul style="list-style-type: none"> Limited outreach Extension system oriented towards traditional food grain crops not high value agriculture and livestock Limited knowledge of issues relevant to agro-processing, markets etc. Bureaucratic and hierarchical institution Serious budgetary and manpower constraints – about 70 per cent of budget goes to salaries etc. leaving little for transport of field staff or development programmes Inadequate plant, quarantine and phyto-sanitary facilities impeding exports 	<ul style="list-style-type: none"> Apparent willingness of the government to contribute more resources to agriculture and rural development Agriculture Development Strategy being prepared Initiatives towards responding to stakeholder needs and potential for MOAD to build better working relationships with NGOs Potential to improve phyto-sanitary services to remove technical barriers to trade Political instability and <i>bandhs</i> (strikes) may adversely affect mobility and marketing of farm produce 	<p>MOAD is a key institution in any efforts to address rural poverty through agricultural production and value chain improvement</p>
Ministry of Local Development (MLD) <ul style="list-style-type: none"> Strong and relevant legislative mandate – 1999 Decentralization Act empowers MLD to coordinate and regulate all local level development activities Decentralization process accepted and being implemented Local Development Officer is a Member-Secretary of the District Development Committees (DDCs) 	<ul style="list-style-type: none"> Elected DDCs have lapsed and elections to replace them have not yet taken place – functions are being fulfilled by Government staff who are less sympathetic to devolution principles Weak coordination between DDCs and the NGO sector Problem of dual accountability of staff at district and village levels. Vertical accountability to central government ministries conflicts with horizontal accountability to DDCs and VDCs Limited capacity of DDCs due to very limited financial resources 	<ul style="list-style-type: none"> It will be possible to re-establish elected DDCs and VDCs if the political situation stabilizes Potential to build better working relationships with NGOs Continued political instability and chaos will affect the reflection and functioning of DDCs and VDCs 	<p>MLD and the DDCs and VDCs are key players in all rural poverty reduction initiatives</p>

Strengths	Weaknesses	Opportunities/Threats	Remarks
Ministry of Forest and Soil Conservation <ul style="list-style-type: none"> • Good district network with well qualified and trained staff • Very strong regulatory mandate for forest resource management • Asset rich (but income poor) - owner of all government forest land which covers 29 per cent of Nepal • Master Plan for the Forestry Sector provides a sound guiding policy framework 	<ul style="list-style-type: none"> • Confusing three-pronged approach to forest management with tensions between advocates of the different approaches • Limited financial and human resources, but unable to retain and utilize revenue generated from utilization of assets • Non-Timber Forest Product (NTFP) policy is not being implemented effectively • The institutional culture not supportive to innovation 	<ul style="list-style-type: none"> • Potential for intensified promotion of NTFPs • Potential to generate more income from the Ministry's asset base and improve services • Continued political instability will impede efforts to improve sustainable management of forest resources 	<p>Leasehold and community forestry are important instruments of rural poverty reduction and are an important part of several previous and ongoing IFAD projects</p>
Ministry of Industry and Commerce <ul style="list-style-type: none"> • Responsible for regulation of domestic and international trade and administration of the Company Act • Industrial policy, including the SME policy, in place • Administers commercial law and contributes to the enabling environment for rural commerce • Responsible for overseeing WTO matters 	<ul style="list-style-type: none"> • No significant weaknesses relevant to the COSOP Strategic Objectives • Weak business environment 	<ul style="list-style-type: none"> • Potential partner in implementation of IFAD's forthcoming project in support to micro and small enterprises 	<p>Ministry has a role in the development of an enabling environment for private sector and markets development</p>
Ministry of Social Welfare and Women <ul style="list-style-type: none"> • Has women development officers in all districts who are very strongly committed to women's issues • Ministry has a strong and relevant mandate for women's welfare issues 	<ul style="list-style-type: none"> • Small and relatively weak ministry with lack of experienced professional staff • Limited influence relative to thousands of NGOs • Very limited implementation capacity – main function is to influence policy • Women's Commission, Dalit Commission and the Indigenous People's Academy have only policy and advisory functions 	<ul style="list-style-type: none"> • Potential to mainstream gender concerns into government programmes at district level • Improve staff capability to develop strong policies which influence other ministries • Potential to strengthen policy and implementation capacities 	<p>Ministry should become one of IFAD's key partner institutions, but needs significant strengthening</p>

Strengths	Weaknesses	Opportunities/Threats	Remarks
National Planning Commission <ul style="list-style-type: none"> NPC is the apex planning and policy making body with overarching responsibility for national development planning Long history of establishment and credibility – responsible for formulation of five-year plans and periodic plans The Commission is chaired by the Prime Minister Strong role in donor coordination: responsible for coordination of all externally funded projects and programmes 	<ul style="list-style-type: none"> Commission members are politically appointed and are often subject to change with change in government Monitoring capabilities are weak 	<ul style="list-style-type: none"> Vehicle for coordination of IFAD – supported activities within overall development programmes Likely to have a continuing leading role in development planning – even if system of government becomes federal Potential to elevate activities into high level policy formulation and monitoring rather than detailed implementation planning Could devolve some functions to ministries and strengthen focus on macro-level policy issues 	<p>Close liaison with NPC is essential in order to harmonize IFAD supported strategies and activities with the successive development plans</p>
Council of Technical Education and Vocational Training (Ministry of Education) <ul style="list-style-type: none"> Autonomous policy body responsible for technical and vocational education Network of regional training institutes 	<ul style="list-style-type: none"> Directly engaging in implementation of skills training rather than policy and quality control Quality control standards need strengthening 	<ul style="list-style-type: none"> Increase role in quality control, accreditation and skill testing and reduce direct involvement in training Increase role of private sector and NGOs in provision of training 	<p>Potentially a powerful force in economic regeneration in rural areas by providing technical and vocational training to rural poor and former combatants</p>
Local Government (DDCs, Municipalities and VDCs) <ul style="list-style-type: none"> Directly elected devolved local government organizations VDCs receive block grants from central government DDCs have the right to raise revenue locally and often receive strong support from donors as well Coordinate, regulate and evaluate all development activities within their jurisdiction 	<ul style="list-style-type: none"> Elected representation has been absent since the early 2000, and positions filled by nominated persons Limited number of own staff to undertake development activities Inadequate and variable resource base: remain partly or mainly dependent on resources provided by the central government Conflict of interest when involved in both financing and implementation of development activities 	<ul style="list-style-type: none"> Potential to act as a local level planning commission Would be more effective by contracting out implementation of development activities rather than self-implementing Risk of becoming non-functional due to political infighting when elected bodies resume 	<p>MLD and the DDCs and VDCs are key players in all rural poverty reduction initiatives</p>

Strengths	Weaknesses	Opportunities/Threats	Remarks
Cooperatives <ul style="list-style-type: none"> Membership-based organizations, locally accountable and transparent 	<ul style="list-style-type: none"> Technical and managerial capacity is generally weak 	<ul style="list-style-type: none"> Potentially strong participants in development service delivery 	Strongest cooperatives are in the dairy and savings and credit sectors – but there is potential to adopt similar models in other commercial agricultural sectors
<ul style="list-style-type: none"> Both single and multi-purpose cooperatives About 27,000 cooperatives in existence of which 12,000 are savings and credit coops (excluding forest user groups) Strong network with three tiers: primary, district and central level cooperative organizations 	<ul style="list-style-type: none"> Marginal farmers and very poor and disadvantaged families generally not members of cooperatives Many cooperatives facing shortage of funds to meet the credit needs of their members 	<ul style="list-style-type: none"> Potential to encourage greater participation in cooperatives by poor and marginal farmers 	
Financial Institutions <ul style="list-style-type: none"> Many projects and programmes have savings and credit groups Range of financial institutions: Agricultural Development Bank, financial intermediary NGOs and cooperatives are major providers of rural finance Grameen replicators work satisfactorily in the Terai but not in hill and mountain regions because of lower demographic density Nearly 12,000 cooperatives are exclusively engaged in financial service delivery to members Thousands of informal self-help savings and credit organizations Informal sector remains an important source of rural finance, but is not accessible to all 	<ul style="list-style-type: none"> Many banks have withdrawn from rural areas during the period of conflict Bank lending to rural and agricultural sectors has declined over the years Poorest farmers still lack access to finance, especially in remote areas Self-help groups tend to be large and not well equipped to serve their members Smaller savings and credit groups have weak management and accounting capacity 	<ul style="list-style-type: none"> Potential for banks to return to rural areas in post-conflict situation Opportunity to expand functions of savings and credit groups into health, literacy and other social sectors Use of remittances for productive investment 	Microfinance is an essential element of efforts to reduce economic isolation and promote economic integration of disadvantaged groups

Strengths	Weaknesses	Opportunities/Threats	Remarks
Private Sector Organizations <ul style="list-style-type: none"> Private sector agribusiness is responsive to new market and investment opportunities Representative organizations include Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and Federation of Nepalese Cottage and Small Industries (FNCSI) 	<ul style="list-style-type: none"> Larger scale agribusiness may bypass small farmers and microenterprises Agribusiness enterprises have weak connections to regional and global markets 	<ul style="list-style-type: none"> Industry organizations (federations) could play a major role in certification and marketing of organic produce Agribusiness enterprise have potential for linking modern/commercial sectors to small farmers and for creating jobs Potential for community-based tourism Risk that Nepalese agribusiness firms will find it difficult to compete with much larger regional competitors 	<ul style="list-style-type: none"> Forming closer commercial linkages between farmers and agribusinesses is key to reducing economic isolation and develop employment
International NGOs (INGOs) <ul style="list-style-type: none"> Over 100 INGOs operating in Nepal Well funded with substantial implementation capacity 	<ul style="list-style-type: none"> INGOs compete with National NGOs for staff and other resources including donor funds Mandatory provision to engage in partnerships with National NGOs 	<ul style="list-style-type: none"> Need to form stronger partnerships with National NGOs 	<ul style="list-style-type: none"> IFAD programmes and projects have so far tended to partner with national NGOs
NGOs <ul style="list-style-type: none"> Around 1000 national NGOs operating throughout the country NGOs have been able to maintain services at community level during the conflict when government has been unable to operate 	<ul style="list-style-type: none"> Very few National NGOs with sound track record in rural development and poverty reduction Managerial capacity of most NGOs requires strengthening Generally weak functional relationships with Government – Government often reluctant to work with NGOs Government procurement policies constrain partnership with NGOs 	<ul style="list-style-type: none"> Need to develop simplified guidelines for government agencies to contract services from NGOs Potential for National NGOs to work more closely with local NGOs and CBOs 	<ul style="list-style-type: none"> IFAD programmes and projects will very likely continue to work closely with NGOs
Farmer Organizations <ul style="list-style-type: none"> Ten commodity based federations promoted by the Agro-Enterprise Centre (AEC) of FNCCI through a USAID- 	<ul style="list-style-type: none"> Commodity-based organizations all involve commercial enterprises and small/poor farmers are not generally represented 	<ul style="list-style-type: none"> Potential for IFAD to assist in formation of grassroots Farmer Organizations that are inclusive of the poor and disadvantaged groups 	<ul style="list-style-type: none"> IFAD policies favour engagement with small and resource-poor farmers via effective small farmer

Strengths	Weaknesses	Opportunities/Threats	Remarks
<p>assisted project</p> <ul style="list-style-type: none"> • Sixteen agricultural commodity-based central union of cooperatives • All political parties have representatives claiming to represent farmers 	<ul style="list-style-type: none"> • Commodity-based central union of cooperatives lack resources and capacity to serve their members 		<p>organizations</p>

Key file 3: Complementary donor initiative/partnership potential

<i>Donor/Agency</i>	<i>Priority Sectors</i>	<i>Area of focus</i>	<i>Period of current country strategy</i>	<i>Potential for partnership with IFAD</i>
Asian Development Bank	<ul style="list-style-type: none"> • Agriculture and rural development • Water supply and sanitation • Education 	<ul style="list-style-type: none"> • Public and private sector • Governance • Infrastructure (transport and energy) 		<ul style="list-style-type: none"> • Agriculture infrastructure • Rural development
World Bank	<ul style="list-style-type: none"> • Agriculture • Agribusiness • Tourism • Livelihoods safety nets • Energy • Roads and bridges • Education • State building 	<ul style="list-style-type: none"> • Infrastructure (transport and energy) • Market linkages • Irrigation 		<ul style="list-style-type: none"> • Market linkages for smallholders • Social Inclusion and targeted Programmes for poor (Poverty Alleviation Fund)
DFID (UK)	<ul style="list-style-type: none"> • Peace building • Rural development • Basic services (health, education, water supply and sanitation) • Adaptation to climate change 	<ul style="list-style-type: none"> • Social inclusion • Governance 		<ul style="list-style-type: none"> • Improve and diversify livelihoods options for the rural poor • Financing and access mechanisms to increase access for poor farmers to markets • Rural infrastructure services • Rural employment and enterprise development
Netherlands	<ul style="list-style-type: none"> • Collaborative forest management • Renewable energy • Market access for the poor • 	<ul style="list-style-type: none"> • Governance, pro poor local governance • Social inclusion • Pro-poor sustainable tourism 		<ul style="list-style-type: none"> • Pro poor local governance • Collaborative forest management • Market access for the poor • Social inclusion
European Union	<ul style="list-style-type: none"> • Renewable energy • Education • Health • Rural infrastructure 	<ul style="list-style-type: none"> • Consolidation of democracy and rule of law • Community development • Trade 	2014-20120 in preparation	<ul style="list-style-type: none"> • Rural infrastructure and • Community development
SDC (Switzerland)	<ul style="list-style-type: none"> • Harmonised bi-& multilateral Framework and Management • Livelihood and Inclusion 	<ul style="list-style-type: none"> • Natural Resources Management • Health promotion • Occupational skills 		<ul style="list-style-type: none"> • Livelihood and Inclusion • Rural infrastructure • Occupational skills development

Donor/Agency	Priority Sectors	Area of focus	Period of current country strategy	Potential for partnership with IFAD
	<ul style="list-style-type: none"> • Rural infrastructure • 	<ul style="list-style-type: none"> • development <ul style="list-style-type: none"> • Humanitarian aid • Meaningful dialogue and conflict transformation 		<ul style="list-style-type: none"> • Meaningful dialogue and conflict transformation • Natural resources management
USAID	<ul style="list-style-type: none"> • Democracy and human rights, rule of law • Commercial agriculture • Environment • Forestry 	<ul style="list-style-type: none"> • Gender, inclusion • Market linkages and value chain development 		<ul style="list-style-type: none"> • Agriculture and rural markets development

Key file 4: Target group identification, priority issues and potential response

Typology	Poverty level and causes	Coping actions	Priority needs	Support from other initiatives	COSOP responses
Destitute poor	Includes disabled people, HIV/AIDS affected, abandoned children, homeless and displaced persons	Eating less, begging, prostitution. Limited support from relatives who are often similarly affected	Social welfare measures, feeding programmes (esp. for children), community-based shelter with safety net, group-based production assets, education and medical care.	Anti-trafficking initiative HIV/AIDS programmes Food programmes	IFAD not engaged in humanitarian aid
Extreme poor	Mostly illiterate, landless or near landlessness households who have few other assets. Many are seasonal migrants, wage earners. Includes <i>Dalits</i> , Janajatis and many women. Access only to informal credit at high interest rates	Seasonal migration for low paid access, work, bonded labour, domestic service, sex trade, collection from open resources, pawning household possessions	Employment, support for representation on groups and governance structures, citizenship rights, housing/shelter	Existing IFAD portfolio partly targets this group, particularly PAF Programme giving income support, social support to excluded groups	Micro-enterprise development Improved access to and control over common property resources Facilitate access to savings and loans groups Job creation in agribusiness enterprises
Moderate poor	Very small farms, generally with some livestock, and own some form of dwelling. Often heavily indebted. Lack access to irrigation water. Generate small surpluses of agricultural produce for selling	Seasonal migration, borrow from relatives and money lenders, mortgage land, forward sell crops at low prices, reduce farm inputs, sell livestock	Employment and self-employment, access to improved technologies and support services, better linkages with markets, health care and education, vocational skills and inclusion in local and national governance	Targeted by IFAD programme Agricultural extension and support programmes Microfinance programmes	Support for agriculture diversification and commercialisation of higher value crops Gender-equitable access to services Promotion of market linkages
Near poor	Small farms. Own with livestock. Suffer from low financial returns and lack of access to credit and markets. Women suffer from lack of education and lack of access to support services and credit	Seasonal migration, borrow from relatives and money lenders, mortgage land, sell livestock, small businesses	Agricultural technology and gender-equitable access to services, mechanisms to cope with price fluctuations, skill development for value addition	Agricultural extension programmes Smallholders' inclusion in value chains	Small business promotion Empowerment of rural women and disadvantaged minorities