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Enabling poor rural people  
to overcome poverty

## **Nepal**

### **Country programme evaluation**

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**For: Review**

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## Foreword

*This country programme evaluation covers over a decade of IFAD's cooperation with Nepal (1999-2012). During this period, and in spite of moderate economic growth, Nepal has achieved visible gains in poverty reduction, mainly driven by increased remittances, greater connectivity and urbanization, and a decline in the dependency ratio. Despite these improvements, poverty remains severe, with problems of food security and malnutrition. IFAD's support during the evaluated period has concentrated on rural poverty alleviation through integrated agricultural and rural development programmes; leasehold forestry; and agricultural value chain development. The total amount of loans and grants provided by IFAD since engagement in 1978 is US\$146 million.*

*Overall, the IFAD/Nepal partnership for the period reviewed is assessed to be moderately satisfactory, considering improvements in the later part of the period. The IFAD-supported programme portfolio is rated moderately satisfactory mainly owing to recent improvements in support to leasehold forestry and the satisfactory performance of the IFAD-cofinanced Poverty Alleviation Fund. While the overall portfolio is relevant and many quantitative targets were achieved, sustainability and innovation were less successful, and IFAD-supported programmes had a very wide geographical and thematic spread. Rural finance was the least successful part of the overall portfolio.*

*The two country strategic opportunities programmes (COSOPs – 2000 and 2006) were relevant overall, although they somewhat underestimated the challenges of building responsive local governments in conflict and post-conflict situations. The COSOPs lacked sufficient resources to maintain an appropriate level of knowledge management, policy dialogue and partnership-building.*

*Looking forward, this evaluation offers recommendations in three broad areas: (i) overall country strategy, including a paradigm shift to a two-pronged strategy combining a focus on developing profitable enterprises of economic scale along road corridors with poverty alleviation and addressing basic needs in remote areas – as well as factoring in the role of remittances and the overall fragility of the country context; (ii) policy dialogue, including early identification of important policy issues; and (iii) operations and programme management, including finding alternative means (such as partnerships and project financing) to address common problem areas in IFAD-supported programmes, and aligning COSOP and performance-based allocation system cycles.*




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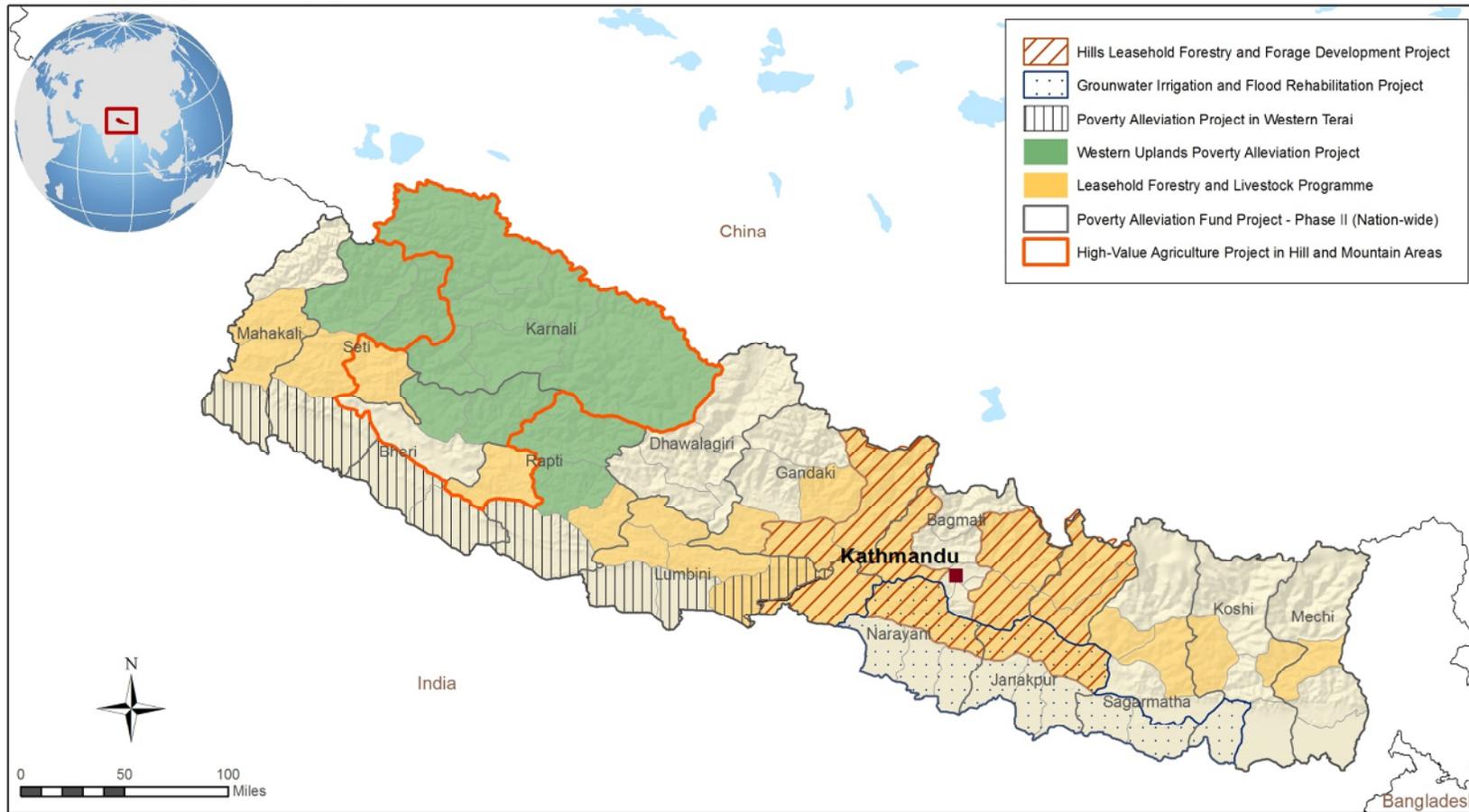
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# Map of IFAD-funded operations

## Nepal

IFAD-funded operations

Country programme evaluation



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

29-11-2011

## Executive summary

### A. Country context and background

1. **Country context.** Nepal is a low-income country with a population of 30.49 million and a per capita GDP of US\$642. The population is mainly concentrated in rural areas (about 83 per cent). Nepal's economy is dominated by agriculture, which accounts for over one third of GDP and employs more than two thirds of the population. The population comprises significant ethnic diversity, with many different languages and cultures. Population density varies considerably, as large parts of the country are too harsh for human settlement. The natural resource environment is rich and diversified, but also highly fragile, following reduction of the forest cover.
2. Widespread disappointment with the state's failure to provide better services and livelihoods provided the basis for an armed conflict in the 1990s led by the Communist Party of Nepal (Maoist). The Comprehensive Peace Agreement in 2006 did not end the political instability, but provided the basis for a transition period emphasizing reconciliation, rehabilitation and reconstruction. In 2008, elections for the Constituent Assembly were held, with the Maoist party winning the largest share of seats. In the same year, the new Constituent Assembly abolished the monarchy and declared a secular republic in an Interim Constitution. The Constituent Assembly failed to agree on a new constitution before the extended deadline of 27 May 2012, dramatically adding to the uncertainty of the medium-term outlook.
3. In spite of moderate economic growth, Nepal has achieved gains in poverty reduction, from a poverty incidence of 42 per cent in 1996 to 31 per cent in 2006, and to 25 per cent in 2010. This was mainly driven by increased remittances, greater connectivity and urbanization, and a decline in the dependency ratio. However, poverty remains severe, with serious problems of food security and malnutrition.
4. Remittances have increased from US\$83 million in 1999 to US\$4.07 billion in 2011, comprising about 22 per cent of GDP. Some 56 per cent of all Nepali households are today receiving remittances, 79 per cent of which are used for daily consumption. More than 2 million people are working abroad (in the Gulf countries, India, Malaysia, etc.). In addition, there is considerable internal migration for work, from rural areas in the hills and mountains to major towns, and from west to east. As a consequence, many villages in the mid- and far-western regions, where IFAD's support is concentrated, have few men of working age. For many families in these regions, agriculture does not provide sufficient food and money to feed the family for more than six or nine months of the year, and thus migration has become their main survival strategy.
5. **IFAD-supported programme.** Since 1978, IFAD has provided a total of US\$146 million in loans and grants under the Debt Sustainability Framework. Over the evaluated period, 1999-2012, IFAD's support has concentrated on: (i) rural poverty alleviation through three integrated agricultural and rural development programmes; (ii) leasehold forestry, through two programmes that also included rural finance; and (iii) more recently, agricultural value chain development along road corridors (one programme). In 2012, a new programme supporting the seed subsector and animal breeding was approved. During the armed conflict, IFAD approved some important NGO-executed country-specific grants piloting pro-poor value chain development. In politically tense areas, NGOs had better working conditions than government agencies. In total, IFAD has approved country-specific grants for about US\$3 million, including a recent grant of US\$500,000 to develop an agricultural development strategy. Nepal has also benefited from IFAD regional grants amounting to US\$32 million.

## **B. Assessment of the partnership**

6. **Portfolio of mixed performance.** Overall, portfolio achievement is assessed as moderately satisfactory, primarily owing to recent improvements in support for leasehold forestry and the satisfactory performance of the Government of Nepal/World Bank-financed Poverty Alleviation Fund (PAF), to which IFAD has made a relatively small cofinancing contribution (US\$4 million). While the overall portfolio is relevant and many quantitative targets were achieved, sustainability and innovation are assessed as moderately unsatisfactory overall.
7. Until recently, IFAD-funded programmes had a very wide spread, geographically and thematically. The Integrated Rural Development and Poverty Alleviation Projects in Western Terai (PAPWT, closed) and the Western Uplands (WUPAP, ongoing) had both features. This resulted in dilution and major management and governance challenges: weak government implementing institutions worked in conflict or in an unstable political situation. Implementation and supervision of many small infrastructure investments and agricultural support activities, scattered over large and hard-to-access areas, proved difficult. Moreover, both programmes were influenced by the supply-driven culture of government agencies, where the focus was on delivering the activities and outputs targeted in annual workplans, rather than on working on household demand and ensuring sustainable impact. In 2011, when approaching its final phase, WUPAP was considered at risk of not achieving its objectives. However, a major "rescue operation, launched by the Government and IFAD in 2012, was able to achieve a certain degree of turnaround, giving cause for some optimism.
8. More value was obtained from IFAD's small contribution to the PAF, a successful nationwide programme, mainly owing to its demand-driven approach to rural development.
9. IFAD has led efforts to support the introduction of leasehold forestry for the poorest rural households in Nepal. The two IFAD-supported programmes have contributed to poverty reduction, in particular by distributing livestock (goats), as well as by improving the environment. Forest cover has been re-established in some areas, although in many cases leasehold forests can only meet a limited share of the needs for fodder, fuelwood and timber. Many leasehold forest users' groups remain weak, with few common activities.
10. Support to rural finance, as part of the leasehold forestry programmes and PAPWT and WUPAP, overall has failed to achieve its objectives. This support has generally been designed and implemented as an appendix to other main programme areas, rather than as a comprehensive and systemic effort to improve rural financial services. As in other aid programmes, beneficiary groups have been motivated to establish informal rotating savings and credit schemes, partly to ensure sustainability, but saving and lending were often negligible.
11. IFAD-funded programmes, as with many other aid-supported programmes, have created thousands of "beneficiary groups", which primarily served to facilitate delivery of project services and goods. The groups depended on aid and thus often became dormant after termination of project support, except for some informal savings and credit groups. Nepal has few commercial farmers' organizations that are self-reliant and have turnover and equity of any significance. Even in the case of cooperatives, there are few with joint purchase of inputs and joint marketing of members' produce.
12. The design of the recent High-Value Agriculture Project in Hill and Mountain Areas (HVAP) has considered some of these issues. Geographically, it concentrates its support on the road corridors of the mid- and far-western regions. It focuses on commercialization along selected agricultural value chains with market potential and on developing commercially viable rural enterprises/groups/cooperatives. The project intends to create up to 500 new groups and does not include an ad hoc

rural finance component, instead planning to help partners access the rural finance system.

13. **COSOPs and country programme management.** Over the evaluated period, the programme was guided by two country strategic opportunities programmes (COSOPs – 2000 and 2006), which overall are assessed as relevant, albeit with different emphases. The 2000 COSOP prioritized socio-economic development in poor and socially excluded communities in remote hill areas of the western regions, while the 2006 COSOP had a more growth-oriented agricultural commercialization strategy, focusing on areas with easier market access.
14. The COSOPs somewhat underestimated the challenges of building responsive local government for implementing activities in conflict and post-conflict situations. Despite the fact that the Fund's proxy field presence was upgraded to an IFAD country office in 2008, with a national country programme coordinator, the COSOPs did not seem to have allocated sufficient resources to maintain an appropriate level of knowledge management, policy dialogue and participation in donor coordination.
15. **Non-lending activities and grants.** Non-lending activities are overall assessed as moderately unsatisfactory. IFAD did not have sufficient resources to effectively participate in policy dialogue, and the regular performance-based allocation (PBA) consultations did not provide sufficient space for this. Knowledge management received attention only in the last years of the evaluated period, focusing on sharing knowledge of IFAD-supported activities. Obtaining an overview of what other partners are doing in the agriculture and rural development sector, where aid is highly fragmented and poorly coordinated, remains a major challenge.
16. IFAD emphasized partnerships with civil society organizations that were well positioned to work in conflict and post-conflict situations. Such partnerships worked well when facilitated by grants, but it was difficult to continue to build on them in loan-financed and government-executed programmes, partly due to public procurement rules.
17. A number of country-specific grants delivered good results and impact, notably those for local livelihoods and high-value agriculture based on an inclusive business approach. These grants contributed to development of the recent government-executed HVAP.
18. Regional grants generated knowledge and, in some cases, also results and impact at the grass-roots level, but overall, synergy with the country programme was modest.
19. **Conclusions.** Overall, for the period 1999-2012, the IFAD/Nepal partnership is assessed to be moderately satisfactory, considering improvements in the later part of the period and combining the moderately satisfactory performance of the COSOP and portfolio with the moderately unsatisfactory performance of non-lending activities.
20. IFAD's country programme has contributed to alleviation of rural poverty (making many rural households less poor), but it has made only a relatively modest contribution to poverty reduction (helping people escape poverty for good). The programme has contributed to the formation of thousands of beneficiary groups, but the majority are still weak, institutionally and financially, with limited management capacity, capital and turnover, and they depend largely on project support.

**Summary of the country programme evaluation overall assessment**

<i>Assessment</i>	<i>Rating</i> <sup>*</sup>
Portfolio performance	4
Non-lending activities	3
COSOP performance	4
<b>Overall achievement</b>	<b>4</b>

\* Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory

**C. Recommendations**

21. The country programme evaluation offers recommendations in three broad areas: (i) overall partnership strategy; (ii) policy dialogue; and (iii) operations and programme management. The following paragraphs summarize key recommendations.
22. **IFAD/Nepal partnership strategy.** A paradigm shift is recommended. Nepal's rural areas have an abundance of project-created and project-dependent beneficiary groups, but a shortage of profitable enterprises that create income for 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 organized in groups for the distribution of project services, goods and money.
23. Nepal's agribusinesses and agro-industries are at an infant stage, but rapid urbanization and neighbouring markets offer opportunities for introducing a new approach in which the focus would be on developing profitable enterprises of economic scale, engaged in various simple (packaging, semi-processing) and more-advanced activities (processing of agricultural commodities and forest products). Such enterprises will generate employment for landless and near-landless people, 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), jobs will also be created in small- and medium-sized farms.
24. The ambition and goal of this new paradigm would be reduction of poverty, not merely alleviation. The implications for specific project design would include focus on the development of 10-50 profitable agroenterprises of economic scale, with backward contractual linkages to farmers' groups, instead of targeting large numbers of small groups (e.g. 500 planned groups under HVAP, or several thousand under the Leasehold Forestry and Livestock Programme). It also implies development of partnerships with private service providers, buyers and input suppliers. Based on public-private partnerships, public-sector agencies would be engaged in addressing bottlenecks of a public goods nature (roads, electricity, etc.). To avoid past geographical dilution, focus would be on clusters or growth nodes along the road corridors.
25. Obviously, this paradigm is not appropriate to remote and isolated communities in hill and mountain areas, 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, and thus a two-pronged strategy is recommended, with the second prong being based on a "basic needs paradigm", where the realistic ambition would be to alleviate poverty and meet basic needs during a long-term process in which youth gradually leave the communities, as they have been doing for the last decades. Targets may include improving food sufficiency from 5-7 to 8-10 months of the year. Interventions may include leasehold and community forestry, livestock, some improvements in subsistence agriculture (food crops) and access to water and possibly also energy (e.g. solar units).

26. When designing and implementing this two-pronged strategy, IFAD needs to factor in the conflict dimension and its impact, taking political instability and institutional fragility as the principal constraints on socio-economic development and programme results and impact. This requires diagnosis of the “stress factors” that animate instability and fragility, with a view to identifying a combination of confidence-building measures and institutional strengthening programmes needed to “change the narrative” of mistrust in the country.
27. Protracted civil conflict resulted in massive migration from rural areas to the cities and abroad. This, in turn, increased the share of woman-led households, and made remittances the main driver in improving livelihoods. IFAD needs to better reflect these developments in strategies, programmes and policy dialogue.
28. **Policy dialogue.** The ambitious agenda for policy dialogue of previous COSOPs has not been implemented. Given IFAD’s limited resources for country programme management, it is recommended that IFAD and the Government jointly identify relevant policy issues and embed them within the design and implementation of projects, allocating the necessary resources. To finance the related work, IFAD may help mobilize grant resources, but partners should also consider funding part of the policy agenda from project budgets.
29. **Operations and program management.** While the CPE recognizes 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 demands resources above the average. In this context, the CPE recommends that the Government engage external technical support from specialized service providers in the private sector and civil society to address three problem areas common to 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 livelihood changes and indicators for objectives; and (iii) substandard financial management. IFAD may help mobilize grants to finance such support, but when this is not possible, projects could include resources to engage the external expertise required to assist with improvements in these three areas.
30. Significant effort has gone into measuring outputs, while less attention has been given to assessing impact – and relatively little to communicating lessons in ways that can capture the attention of busy policymakers. 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).
31. **COSOPs and PBAS cycle management.** In the past, decisions on use of the three-year performance-based allocation system (PBAS) cycle have been made at the last moment, which has high risks in a politically volatile situation. It is thus recommended that IFAD and the Government prepare the COSOP to cover two PBAS cycles (i.e. six years), according to IFAD’s funding cycle, where the COSOP includes a relatively detailed outline of the pipeline for the use of the first PBA, based on identification undertaken as part of the COSOP preparation. The pipeline project(s) should be comprehensively described in a concept note agreed to by IFAD and the Government. This will allow design and appraisal during the first two years of the COSOP implementation period. For the second PBA period, a comprehensive COSOP review and revision, combined with project identification, should be undertaken in COSOP year 3 to allow for design and appraisal in COSOP years 4 and 5. This would also afford time and space to mobilize cofinancing and explore joint financing arrangements with other development partners.

## Extract from the Agreement at Completion Point

1. This section details the evaluation recommendations, based on the present report (see chapter VIII), that the Government of Nepal and IFAD Management agree to adopt and implement within specific timeframes. It is extracted from the agreement at completion point (ACP) document,<sup>1</sup> signed between the parties.
2. The Independent Office of Evaluation does not sign the ACP but facilitates the process leading up to its conclusion. The recommendations agreed upon will be tracked through the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions. In addition, the ACP will be submitted to the Executive Board of IFAD as an annex, along with the new country strategic opportunities programme for Nepal.
3. The country programme evaluation (CPE) offers recommendations in three broad areas: (1) overall partnership strategy; (2) policy dialogue; and (3) operational and management issues.
4. **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 organized 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, the High Value Agriculture Project in Hills and Mountain Areas (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 public-private partnerships, 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

<sup>1</sup> The full Agreement at Completion Point is available online at: [www.ifad.org/evaluation/public\\_html/eksyst/doc/agreement/index.htm](http://www.ifad.org/evaluation/public_html/eksyst/doc/agreement/index.htm).

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 medicinal and aromatic plants (MAPs) and vegetable seeds, and access to water and possibly also energy (e.g. solar units).

- (b) **Proposed follow-up:** the country strategic opportunities programme (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 the Poverty Alleviation Fund (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.

## 5. 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 organizations, so that these do not remain project creations but are actively linking to mainstream public institutions and civil society organizations. This will be reflected in the COSOP, together with strong attention to operational strategies to ensure improved inclusion and targeting. Civil society organizations 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 organizations will be invited to participate in the country programme management team (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.

#### 6. **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 Improved Seeds for Farmers Programme [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 agricultural development strategy. 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 the International Centre for Integrated Mountain Development (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, Western Uplands Poverty Alleviation Project (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, Asian Institute of Technology [AIT], Women Organizing for Change Agriculture and National Resource Management [WOCAN], and other civil society organizations). Policy development and dialogue will also be systematically embedded in new projects design. Furthermore, project-supported farmers' organizations will be encouraged to participate in policy dialogue at the local level, and to liaise with major national organizations 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' organizations, private sector, NGOs, community-based organizations and civil society organizations (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.

#### 7. **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, country programme officer (CPO), project managers, Ministry of Finance.

#### 8. **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 devise 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.

#### 9. **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 organizations, 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,

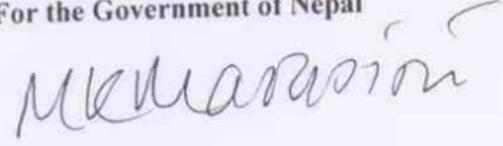
implementation level. KM and communication will be further enhanced through IFAD Asia and ifad.org, based on a communication strategy for the country programme, to be implemented by projects.

- (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.

10. **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.

**Signed on 4 March 2013**

<p>For IFAD :</p>  <p>Kevin Cleaver Associate Vice President Operations Programme Management Department</p>	<p>For the Government of Nepal</p>  <p>Madhu Marasini Joint Secretary Ministry of Finance International Economic Cooperation Coordination Division</p>
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Hills Leasehold Forestry and Forage Development Project. Women collecting firewood.  
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# Nepal

## Country Programme Evaluation

### Main report

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## Abbreviations and acronyms

ADB	Asian Development Bank
ADBN	Agricultural Development Bank (of Nepal)
ADS	agricultural development strategy
APP	agricultural perspective plan
APR	Asia and Pacific Division (IFAD)
ARRI	Annual Report on Results and Impact of IFAD Operations
CEAPRED	Centre for Environmental and Agricultural Policy Research, Extension and Development
CFUG	community forest user group
CIFOR	Centre for International Forestry Research
COCIS	Centre for Integrated Agriculture and Cooperative System
COSOP	country strategic opportunities programme
CPA	Comprehensive Peace Agreement
CPC	country programme coordinator (IFAD, Kathmandu)
CPE	country programme evaluation
CPM	country programme manager
DDC	district development committee
DSF	debt sustainability framework
FLM	flexible lending mechanism
GBR	Grameen Bank replicator
GESI	gender equality and social inclusion
HLFFDP	Hill Leasehold Forestry and Forage Development Project
HVAP	High Value Agriculture Project in Hills and Mountain Areas
ICIMOD	International Centre for Integrated Mountain Development
ICRISAT	International Centre for Crop Research in the Semi-Arid Tropics
ILO	International Labour Organization
IOE	Independent Office of Evaluation of IFAD
ISFP	Improved Seeds for Farmers Programme
LFLP	Leasehold Forestry and Livestock Programme
LFUG	leasehold forest user group
LLP	Local Livelihoods Project
MAP	medicinal and aromatic plant
MLD	Ministry of Local Development
MOAC	Ministry of Agriculture and Cooperatives
NLSS	Nepal living standards survey
NTFP	non timber forest product
ODA	official development assistance
PAF	Poverty Alleviation Fund
PAPWT	Poverty Alleviation Project for Western Terai
PBA	performance-based allocation
PBAS	performance-based allocation system
PCR	project completion report
PPLP	Pro-Poor Livelihoods Promotion through Commercial High Value Agriculture in the Mid-Western Development Region
RB-COSOP	results -based country strategic opportunities programme
SNV	Netherlands Development Organization
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VDC	village development committee
VFA	village finance association
WUPAP	Western Uplands Poverty Alleviation Project

# Nepal

## Country Programme Evaluation

### I. Background

#### A. Introduction

1. At the request of the Executive Board, the Independent Office of Evaluation of IFAD (IOE)<sup>1</sup> undertook a country programme evaluation (CPE) of Nepal in 2012, with a view to assessing the cooperation between the Government and IFAD during the period 1999-2012. Conducted prior to preparation of a new cooperation strategy – the country strategic opportunities programme (COSOP) – the Nepal CPE has been prepared based on the overall provisions of the IFAD Evaluation Policy<sup>2</sup> and follows IOE's methodology and processes for CPEs as per the Evaluation Manual.<sup>3</sup>
2. This is the second CPE on Nepal. The first CPE was conducted in 1998 to evaluate the Nepal/IFAD partnership from its start in 1978 until 1997, and to provide recommendations both for preparation of the 2000-2006 COSOP and for project design. In 2006, IFAD prepared its second and current COSOP following a country portfolio review of IFAD's operations in Nepal during the period 2000-2006 by IFAD's division for Asia and the Pacific Region (APR). A new COSOP is planned for 2013, following completion of the present CPE.
3. **Overview of IFAD's operations.** An overview of IFAD's operations in Nepal since 1978 is provided in table 1. Since 1978, IFAD has supported 13 projects/programmes and approved loans and Debt Sustainability Framework (DSF) grants in an amount of US\$146 million, with total project costs of US\$363 million<sup>4</sup> (see annex II). IFAD's contribution to the second phase of the Poverty Alleviation Fund (PAF-II)<sup>5</sup> was a 100 per cent DSF grant. Another DSF grant provided 50 per cent of IFAD's contribution to the High Value Agricultural Project (HVAP) approved in 2009. Ten projects are now closed, and four (including PAF-II) are ongoing. A new project/loan is under preparation.<sup>6</sup> In the overall portfolio, IFAD has financed approximately 40 per cent of total project costs.
4. The three-year performance-based allocation (PBA) for Nepal was US\$37 million for 2010-2012, and was reduced to US\$27 million for 2013-2015. The DSF grants are part of the PBA and are considered part of the project/loan portfolio when executed by government, as opposed to grants implemented by NGOs and other development partners. Over the period evaluated, IFAD approved five DSF grants of the latter type for a total of US\$1.8 million.
5. During the period covered by the CPE, the portfolio focused on two broad areas (see annex VIII for an abbreviated description): (i) leasehold forestry combined with livestock development, implemented by the Ministry of Forests and Soil Conservation in cooperation with the Department of Livestock of the Ministry of Agriculture and Cooperatives (MOAC); and (ii) integrated rural development for livelihoods improvement and poverty alleviation, implemented by the Ministry of Local Development (MLD) – with the exception of a relatively minor contribution (US\$4 million) to the World Bank-funded Poverty Alleviation Fund (PAF) implemented by the Prime Minister's Office. Development of grass-roots rural financial institutions was part of both intervention areas. In the more recent

<sup>1</sup> Following IFAD's Evaluation Policy, IOE provides an independent assessment of IFAD's operations and policies and reports directly to the Executive Board.

<sup>2</sup> Available at: [http://www.ifad.org/evaluation/policy/new\\_policy.htm](http://www.ifad.org/evaluation/policy/new_policy.htm).

<sup>3</sup> [http://www.ifad.org/evaluation/process\\_methodology/doc/manual.pdf](http://www.ifad.org/evaluation/process_methodology/doc/manual.pdf).

<sup>4</sup> Source: PPMS, 16 February 2012.

<sup>5</sup> IFAD contributed US\$4 million in addition to US\$100 million PAF-II funding from the World Bank/IDA.

<sup>6</sup> The Accelerated Agricultural Growth and Productivity Programme is planned to go to the Board in September 2012.

portfolio (e.g. HVAP), focus has shifted towards promoting the commercialization of agriculture, applying a value chain approach, with MOAC as implementing partner.

6. In addition to the DSF grants, during the period evaluated IFAD provided two country-specific and 33 regional grants that covered both Nepal and other countries (see annex III). These grants are provided from IFAD's normal grant budget and are not subject to the approval and accountability processes that apply to loans on highly concessional terms and DSF grants.
7. **Country presence and programme management.** In December 2008, the Executive Board approved the upgrading of Nepal's proxy field presence to a country office with one nationally recruited staff member – a country programme coordinator (CPC) appointed in 2007 – in order to deal with the workload of direct supervision and implementation support. The Nepal CPC was also assigned to support post-conflict recovery. The CPC is hosted by the World Food Programme (WFP) office in Kathmandu, and a host country agreement between the Government and IFAD is still pending.

Table 1

**Overview of IFAD operations in Nepal (1978-2011)<sup>a</sup>**

<i>First IFAD loan-funded project</i>	<i>1978</i>
Total loan-funded projects/programmes approved	13
Total amount of IFAD lending *	US\$146 million
Lending terms	Highly concessional/DSF grants
Counterpart funding *	US\$55 million
Cofinancing amount *	US\$162 million
Total portfolio cost *	US\$363 million
Number of beneficiaries (estimated direct)	659,853 households/3 383,765 persons
Focus of operations	Rural and agricultural development, irrigation, forestry, and rural finance
Cofinanciers (PPMS)	ADB, EU, UNDP, GTZ, FINNIDA, UNICEF, Netherlands, WFP, World Bank (IDA), Danida and SNV
Number of ongoing projects/programmes	4
Total grant amount**	Seven country grants - US\$2.8 million - including five DSF grants; 37 regional grants, total US\$32.2 million
Cooperating institution	UNOPS in four closed projects, ADB in five closed projects, and World Bank (IDA) in one ongoing project
Country office in Kathmandu	Executive Board decision of December 2008
Responsible IFAD division for operations	Asia and the Pacific Region
Country programme managers (CPMs); 1999 – 2001	Thierry (Present), El-Harizi (2011), Hartman (2009 – 2011), Manner (2006 – 2009), Toda (2004 – 2006), Brett (2001 -2004), Khadka (2001), and Toda (1999 – 2001)
Current CPM	Benoît Thierry
Lead agencies	Ministry of Agriculture and Cooperatives, Ministry of Finance, Ministry of Local Development, Ministry of Forest and Soil Conservation

Source: PPMS, LGS, Executive Board document.

<sup>a</sup> IFAD's Debt Sustainability Framework classification includes three categories: (i) highly indebted or "red" – 100 per cent grants; (ii) mixed financing or "yellow"; and (iii) loans only or "green". Nepal is currently listed as a "yellow" country.

\* Approved sum, as of PPMS November 2011.

\*\* Not including grants which are part of loans.

8. The Rome-based CPM for Nepal has changed seven times during the period evaluated. In most cases, the Nepal CPM has had other responsibilities, such as another country programme, and has therefore only been able to dedicate part of her/his time to Nepal.

## B. Objectives, methodology and process

9. **Objectives.** The CPE has two main objectives: (i) to assess the performance and impact of IFAD operations in Nepal; and (ii) to generate a series of findings and recommendations to serve as building blocks for formulation of the next results-based COSOP, to be prepared by IFAD and the Government following completion of the CPE. Based on the analysis of cooperation during the period 1999-2012, the CPE aims at providing an overarching assessment of: (i) the performance and impact of programmes and projects supported by IFAD grants and loans; (ii) the performance and results of IFAD's non-lending or non-project activities in Nepal such as policy dialogue, knowledge management and partnership building; (iii) the relevance and effectiveness of IFAD's COSOPs of 2000 and 2006, including strategic objectives, geographic and subsector focus, targeting approaches, and country programme mix; and (iv) overall management of the country programme. In addition, the CPE examines the "development in conflict" dimension of IFAD's strategic and operational engagement in Nepal, applying the methodology of the 2011 World Development Report (WDR) on Conflict, Security and Development.
10. **Methodology.** Table 8.1 in annex VIII illustrates the evolution in the Nepal/IFAD partnership over the CPE period (1999-2012). The CPE attempts to assess the evolution in the partnership and the relevance and effectiveness of IFAD's strategy and operations, taking into account the significant changes in the governance and rural context, as well as changes in IFAD's business model.
11. With regard to evaluation of the portfolio, the methodology reflects the different implementation stages of projects (table 8.1, annex VIII). Two projects are closed and can be assessed on all evaluation criteria, i.e. the Hills Leasehold Forestry and Forage Development Project (HLFFDP, closed in 2003), and the Poverty Alleviation Project in Western Terai (PAPWT, closed in 2005). For HLFFDP, an IOE interim evaluation was an important source, being the only project for which independent evaluative evidence was available, albeit without ratings. For PAPWT, a PCR and interviews were used, but overall information was scarce. All IFAD-supported interventions covered by the CPE are listed in table 2 below.

Table 2

### IFAD-supported projects/programmes covered by the CPE

<i>I</i>	<i>Name</i>	<i>Board approval</i>	<i>Loan signing</i>	<i>Loan effect.</i>	<i>Closing</i>	<i>IFAD approved financing (US\$m)</i>	<i>Disbursement per cent<sup>a</sup></i>
1030	Poverty Alleviation Project in Western Terai	11/09/1997	12/12/1997	10/03/1998	15/07/2005	8.9	100
1119	Western Uplands Poverty Alleviation Project	06/12/2001	05/02/2002	01/01/2003	31/03/2014	20.3	52
1285	Leasehold Forestry and Livestock Programme	02/12/2004	11/09/1997	02/12/2004	30/09/2013	11.7	96
1450	Poverty Alleviation Fund II	13/12/2007	08/05/2008	31/07/2008	30/09/2012	4.0	94
1471	High-Value Agriculture Project in Hill and Mountain Areas	17/12/2009	05/07/2010	05/07/2010	30/09/2017	15.3	11
1602	Improved Seeds for Farmers Programme	21/09/2012 (planned)	-	-	-	-	-

Source: PPMS, September 2012 (IFAD).

<sup>a</sup> Disbursements are calculated as percentages of total approved amount for loans, except for PAF-II where the calculation is based on total approved amount for grants.

12. Three interventions are ongoing and in the final stages of implementation, thus allowing for a tentative assessment to be made of their effectiveness, emerging impact and likely sustainability: Leasehold Forestry and Livestock Programme (LFLP, closing in 2014), Western Uplands Poverty Alleviation Project (WUPAP,

- closing in 2014) and the largely World Bank-funded PAF, phase II, where IFAD support ends in 2013. Project reports and information from the monitoring and evaluation (M&E) systems were used in combination with interviews with beneficiaries and stakeholders during the field mission.
13. HVAP was approved in 2009, but as implementation is just starting its assessment is limited to the relevance of design. A new intervention, the Improved Seeds for Farmers Programme (ISFP), supporting the seed subsector and animal breeding, is currently in the process of design and appraisal.
  14. The grant-funded projects are briefly assessed for their relevance and effectiveness based on project information and interviews with implementing agencies. However, in the case of the Local Livelihood Programme (LLP) and the High Value Agriculture Inclusive Business Pilot Project (HVAP-IB), field visits were also conducted to interview beneficiaries and local stakeholders as the two projects created the basis for development of HVAP and the reorientation of IFAD's strategy.
  15. **Process.** The main evaluation mission took place from 22 March to 20 April 2012. Prior to that, IOE undertook a preparatory mission (25 November- 8 December 2011), as well as preparing an approach paper and a desk review synthesis report and discussing them with IFAD's Programme Management Department and the Government. IOE also invited APR, the Ministry of Finance and the project coordination units (PCUs) in Nepal to undertake self-assessments, the reports of which provided valuable inputs to this evaluation.
  16. The main mission met with implementers, partners and stakeholders in Kathmandu, and visited project activities and beneficiaries in Surkhet, Salyan, Dailekh and Jumla districts in the Mid-West Development Region, and Kavre, Sindhupalchowk, Dolakha, and Dhading districts in the Central Development Region. The mission also worked with the PCU of WUPAP in Nepalgunj and the project management office (PMO) of HVAP in Birendranagar. A debriefing note was discussed at a wrap-up meeting on 19 April 2012, chaired by the Secretary of the Ministry of Finance. Comments received during and after the meeting have been considered in preparing the present report.

#### Key points

- This is the second CPE on Nepal; the first, conducted in 1998, evaluated the IFAD/Nepal partnership from its start in 1978 until 1997, and provided inputs for formulation of the 2000 COSOP.
- The main objectives of the CPE are to: (i) assess the performance and impact of operations in Nepal; and (ii) generate a series of findings and recommendations to support formulation of the forthcoming Nepal results-based COSOP (RB-COSOP), to be prepared by IFAD and the Government following completion of this CPE.
- The CPE assessed the performance of the project portfolio, non-lending activities and the COSOPs of 2000 and 2006, as well as overall country programme management. Five interventions financed by IFAD are covered, as well as selected grants.
- The CPE also assessed IFAD's engagement in Nepal in the context of prolonged civil armed conflict and its reflection in IFAD strategies, policy dialogue and projects in the country.
- Since 1978, IFAD has provided US\$146 million for 13 projects/programmes with total costs of US\$363 million, in the form of loans on highly concessional terms and DSF grants.
- Over the period evaluated, IFAD focused its support on promoting leasehold forestry in combination with livestock development and integrated rural development for rural poverty alleviation. More recently, IFAD support has shifted to facilitating the commercialization of agriculture, applying a value chain approach.

## II. Country context

17. This chapter is not intended to provide a general and comprehensive description of Nepal. Rather it focuses on selected parts of the context that, directly or indirectly, may influence IFAD's operations and the IFAD/Government partnership.

### A. Overview

18. **Demography and geography.** Nepal is a low-income country with a population of 26.6 million and a per capita GDP of US\$642. Population growth has slowed down significantly in recent years, from 2.25 per cent per year in 2001 to 1.4 per cent in 2011. About 17 per cent of the population lives in urban areas (up from 14 per cent in 2001). The country encompasses a total area of 147,181 square miles, population density in the country is less than 181 persons per square mile but varies considerably as large parts of the country are too harsh for human settlement. Only 16 per cent of the area is arable, and 39 per cent is covered by forest. Nepal's economy is dominated by agriculture, which accounts for more than one third of GDP and employs more than two thirds of the population. There is significant ethnical diversity among the population, with many different languages and cultures.
19. Nepal's nature and environment are highly diverse, rich in natural resources but also fragile. From south to north, conditions change from tropical plains to alpine mountains. Past deforestation, now reportedly halted, caused considerable erosion and loss of soil fertility. Known mineral resources are few but Nepal has a significant hydropower potential, of which only a fraction is utilized.
20. Administratively Nepal is divided into five development regions (Eastern, Central, Western, Mid-Western and Far-Western), 75 districts and three agroecological belts: the Terai, comprising the low plains and the foothills; the Hills, comprising medium-high and high hills, and the alpine Mountains.

Table 3  
Key features of geographic regions in Nepal 2004

Geographic regions	Districts (number)	Population (per cent)	Land area (per cent)	Population density (People/Km <sup>2</sup> )	Cultivated land (per cent)	Human poverty index
Mountains	16	6.8	35.2	29.8	1.7	49.8
Inaccessible hills	17	14.0	18.4	117.9	9.8	43.2
Accessible hills	22	30.1	23.3	200.2	19.5	36.7
Terai	20	49.1	23.1	329.2	70.0	39.6
Total	75	100.0	100.0	155.0	100.0	39.6

Source: Nepal Human Development Report 2004 and Central Bureau of Statistics, 2005.

21. **Historical context: feudal heritage and armed conflict.** Nepal was unified as a country in 1768 under King Prithvi Narayan Shah, but in 1846–1951 the country was ruled by the Rana dynasty of hereditary prime ministers that kept the Shah monarchs as figure heads only. The overthrow of the Rana regency in 1950 marked the country's emergence from feudalism, and the beginning of its participation in the post-World War II era of modern development. After return to power of the Shah monarchs, Nepal had a brief experiment with multiparty democracy during 1959–1960 but was ruled by the kings and a system of non-party *panchayats* (councils) until 1990 when it the system collapsed and was replaced by multiparty democracy.
22. Widespread unprecedented disappointment at the state's failure to provide appreciably better services or livelihoods in the 1990s generated radical action led by the Communist Party of Nepal (Maoist)<sup>7</sup> that used both the rural poor and caste-

<sup>7</sup> The predecessor of today's Unified Communist Party of Nepal (Maoist).

based/ethnic grievances to form militias that fought the state's police and army to a standstill by the early 2000s. The conflict was strongest in the poorest and less developed Mid- and Far-Western Development Regions. A clumsy attempt by King Gyanendra to re-establish palace/army power led to a rapprochement between the 'conventional' parties and the Maoists, and to the Comprehensive Peace Accord (CPA) of late 2006 that ended the civil war and the monarchy. A serious consequence of the war, however, was further disillusionment with the state as a service provider.<sup>8</sup>

23. Although the 2006 Comprehensive Peace Agreement (CPA) did not end the political instability, it provided the basis of a transition period with emphasis on reconciliation, rehabilitation and reconstruction. In 2008, elections for the Constituent Assembly resulted in the Maoist party winning the largest share of seats. In the same year, the new Constituent Assembly abolished the monarchy and declared a secular republic in an interim constitution. The Constituent Assembly failed to agree on a new constitution before the extended deadline of 27 May 2012, dramatically adding to uncertainties about the medium-term outlook.
24. The new constitution is expected to change the administrative system which, over the period covered by the CPE, comprised the five development regions, 14 zones and 75 districts governed by district development committees (DDCs), 58 municipalities and 3,912 village development committees (VDCs). There have been no local elections<sup>9</sup> since 2002, which complicates efforts with regard to decentralization.
25. Overall, Nepal has avoided major episodes of national violence over the past 60 years. The dramatic exception was the Maoist rebellion of 1996-2006, which resulted in over 14,000 deaths and the internal displacement and outmigration of 2 million people. Much of the country's human and economic potential remains untapped. Unlike most other Asian nations, the country's access to concessional foreign assistance, modern technology and expanding global trade has brought disappointing results. Today, Nepal is classified by most development agencies as a 'fragile' or 'quasi-fragile' state.
26. **Governance.** Poor governance and corruption have also hindered Nepal's political and economic development. During the last few years of political transition, governments and political parties have not been able to address issues related to corruption, lack of accountability and transparency. In 2011, the Corruption Perceptions Index (CPI), compiled by Transparency International, ranked Nepal 154<sup>th</sup> out of 183 countries, with a score of 2.2 out of 10, thus listing Nepal in the category of countries with 'rampant corruption'. The Worldwide Governance Indicators (collected by the World Bank) placed Nepal in the bottom third for all criteria.
27. **Human development and poverty reduction.** Nepal is a low human development country. Between 1980 and 2011, its Human Development Index (HDI) rose by 2.4 per cent annually from 0.242 to 0.458, which in 2011 ranked the country 157<sup>th</sup> out of 187 countries with comparable data. Over this 30-year period, life expectancy increased from 49 to 67 years. The HDI of South Asia as a region increased from 0.356 in 1980 to 0.548 in 2011, placing Nepal below the regional average. The last 10 years have witnessed a significant but uneven reduction in poverty. According to estimates of the three Nepal Living Standards Surveys

<sup>8</sup> An important consequence of the war was accelerated migration abroad in search of alternative livelihoods and protection against recruitment or human rights abuse by contending forces. Remittances now constitute a significant proportion of Nepal's GDP (22 per cent in 2009), and significantly offset any local decline in incomes consequent upon conflict. Ironically, this has led to a major decline in poverty (from 42 per cent of the population in 1996 to 31 per cent by 2006), and to an accelerated awareness of the shortcomings of the Nepalese state as a driver of economic change.

<sup>9</sup> VDCs and municipalities are supposed to be elected in direct popular elections while the DDCs are composed of those elected for VDCs and municipalities.

(NLSS), the incidence of poverty declined from 42 per cent in 1995/1996 to 31 per cent in 2003/2004 and to 25 per cent in 2010. The last NLSS has yet to publish poverty data disaggregated by agroecological zones and caste/ethnicity, but preliminary data suggest that the 10 per cent of households with the lowest consumption have shown the largest increase in consumption. This seems to indicate a trend that is different from the development between 1995/1996 to 2003/2004, when the high caste *brahmins* and *chhetris* showed the highest relative reduction in poverty incidence (from 34 per cent to 18 per cent, i.e. 46 per cent reduction) while the poverty incidence for *dalits* only declined by 21 per cent. By 2003/2004, the least poor group was the *newars* (14 per cent poverty incidence) while the highest poverty incidence was found among the *dalits* (46 per cent), the hill *janajati* (44 per cent) and the Muslims (41 per cent). In addition to the imbalances in poverty reduction, other social development indicators reveal unequal progress across gender, ethnicities and regions. HDI values vary significantly between the five development regions, with the Central Development Region having the highest and the Mid- and Far-Western Development Regions coming a distant last. The *brahmin* and *chhetri* castes as well as the *newars* (the original ethnic group in Kathmandu) generally have the highest indicators, with *dalits* ("untouchables"), the many different ethnic groups in the hills and mountains, referred to as *janajatis*,<sup>10</sup> and the *madhesi* groups in the Terai being the lowest.

28. Gains in poverty reduction have been mainly driven by the average per capita income growth of 4.5 per cent per annum, supported by increased remittances, greater connectivity and urbanization, and a decline in the dependency ratio. However, poverty remains severe in the country, with serious concerns in the areas of food security and malnutrition. According to the World Food Programme (WFP) (2011), 3.5 million people in Nepal were considered to be severely food insecure owing to the 2007-2008 food price increases and the 2008-2009 winter droughts, and an estimated 41 per cent of the population to be undernourished. In 2009, 49 per cent of Nepal's children under 5 years of age were stunted or chronically undernourished (WFP, 2009), making Nepal one of the world's worst (bottom five) performers in this regard (United Nations Development Programme (UNDP), 2009). Ongoing political instability, combined with frequent droughts and floods, and high food prices have compounded endemic factors, leading to increased vulnerability and food insecurity, especially in the poorest western parts of the country and in the mountains and high hills (table 3). While all five regions have shown a continuous decline in poverty rates, the data for 2010/2011 suggest that poverty has increased since 2003/2004 in the Far Western Development Region and in urban areas. Various factors may explain the increase in urban poverty, including very modest growth in the industrial sector and collapse of the labour-intensive carpet and textile industries.
29. Nepal has made progress in narrowing gender inequalities over the last 10 years. Its Gender Development Index (GDI) rating increased from 0.452 in 2004 to 0.499 in 2009, and for 2011, it is 0.558. The Human Development Report of 2009 ranks Nepal 83<sup>rd</sup> out of 182 countries on a gender empowerment measure of 0.486 (UNDP, 2009).
30. Nepal has made good progress towards achieving several of the Millennium Development Goals (MDGs) and the United Nations believes it likely that, by 2015, Nepal will have: (i) halved the proportion of people with an income of less than a dollar a day; (ii) reduced mortality in children under 5 years of age by two thirds; (iii) reduced the maternal mortality rate by three quarters; and (iv) halved the

<sup>10</sup> "*Janajatis*" is used as the common label for many highly different ethnic groups of mongoloid origin. Though they share a mongoloid origin, they have different languages, cultures and socioeconomic contexts. For example, the *Newars* are among the richest groups in Nepal while the *Tamang* are among the poorest.

proportion of the population without sustainable access to an improved water source (see annex XIII). Although it is considered less likely that Nepal will achieve universal primary education, the literacy rate has increased from 38 per cent in 1995/1996 to 61 per cent in 2010. Given the conflict and political instability, these are impressive achievements.

Table 4

**Poverty headcount ratio by development regions and rural/urban areas**

<i>Region</i>	<i>NLSS 1995/96</i>	<i>NLSS 2003/04</i>	<i>NLSS 2010/11</i>
Eastern	39	29	21
Central	33	27	22
Western	39	27	22
Mid-Western	60	45	32
Far-Western	64	41	46
Urban	22	10	15
Rural	43	35	27
Nepal	42	31	25

31. **Economic performance and structure.** Nepal has had three distinct phases of growth: slow in 1961–1980; high in 1981–2000; and again slow in 2001–2006 (Asian Development Bank [ADB], Department for International Development [United Kingdom], International Labour Organization [ILO], 2009). In 2005–2009, despite the difficult political environment for reforms and development activities, Nepal's GDP grew by an average of 3.8 per cent, helped by the ending of the decade-long insurgency in 2006 and underpinned by overall macroeconomic stability. The global financial crisis halted Nepal's growth in 2008–2009 owing to the fall in exports and sharp slowdown in remittances.

Table 5

**Annual indicators**

<i>Fiscal year</i>	<i>2006/07</i>	<i>2008/09</i>	<i>2010/11</i>
Real GDP growth (per cent)	2.8	3.8	3.5
Consumer price index (av; per cent)	6.4	13.2	9.6
Current accounts balance (NR bln)	-0.90	41.4	-5.5
Exchange rate (av) NR:US\$	70.49	76.88	72.39

*Source:* Ministry of Finance (2011).

32. At the present time, the economic growth revival hinges largely on the political situation because Nepal's security situation and political instability limit the state's capacity to spend money and boost rural incomes (EIU, 2011). In addition, crop-growing conditions are still the most important determinant of the country's overall rate of economic growth, given the large share of GDP contributed by the agriculture sector – estimated at 35.7 per cent in 2010/11 (Ministry of Finance, 2011) – and the fact that the farm sector employs the majority of the population. While Nepal has now reached a GDP per capita of about US\$630 (in current US dollars), the lower starting point and lower growth rate have significantly widened the gap between Nepal and other South Asian countries (table 6).

Table 6

**Per capita gross domestic product in South Asia, 1960–2011 (current United States dollars)**

	<i>1960</i>	<i>1980</i>	<i>2000</i>	<i>2007</i>	<i>2011</i>
Bangladesh	85	225	364	475	735
Bhutan	-	-	749	1,737	2,288
India	181	271	450	1,055	1,489
Maldives	-	271	2,285	5,080	6,405
Nepal	<b>52</b>	<b>129</b>	<b>225</b>	<b>362</b>	<b>619</b>

Pakistan	81	294	512	871	1,194
Sri Lanka	143	273	855	1,614	2,835

Source: World Bank.

33. The structure of the economy has changed significantly over the period evaluated. The most dramatic change was the inflow of remittances, from US\$83 million in 1999 to US\$4,070 million in 2011. Remittances now constitute about 22 per cent of the GDP of about US\$17 billion, implying a per capita GDP of about US\$630 but a per capita GNI of around US\$780. While Nepal has a significant trade deficit (around 24 per cent of GDP), remittances (22 per cent), receipts from tourism (US\$750 million, about 4 per cent of GDP) and official transfers (official development assistance (ODA) of about US\$1 billion) are contributing to a balanced, and in some years, positive current account.
34. At the present time, 56 per cent of all Nepali households receive remittances, of which 79 per cent is used for daily consumption. More than 2 million people are currently working abroad (in the Gulf, India, Malaysia, etc.). In addition, there is considerable internal migration for work, from rural areas in the Hills and Mountains to the major towns and from West to East. As a consequence, many villages in the Mid- and Far-Western Development Regions, where IFAD's support is concentrated, have few men of working age. For many families in these regions, agriculture does not provide sufficient food and money to feed the family for more than six or nine months in a year and therefore migration has become the main survival strategy.
35. Remittances have "compensated" for the collapse of Nepal's two traditional export industries, carpets and textiles, following labour market disturbances and unrealistic demands for wage increases. Generally, Nepal's manufacturing industries find it difficult to compete with the Asian export-oriented economies. The share of industry (including manufacturing, construction, power, mining, etc.) in GDP declined from 22 to 15 per cent, with construction (a non-tradable industry) comprising the major part. Agriculture, which 20 years ago accounted for about half of GDP, today contributes only about one third while engaging about two thirds of the labour force. The third NLSS found that, in 2010, farm income accounted for 28 per cent of total household income, down from 61 per cent in 1995/1995.

Table 7

**Nepal - Sectoral Composition of GDP**

Value Added as % of GDP	1990	1999	2006	2008	2010
Agriculture (incl forestry & fisheries)	52	41	35	33	36
Industry	16	22	17	17	15
Services	32	37	48	50	49

Source: World Bank, World Development Indicators

36. While the rate of inflation was maintained in the range of 4-6 per cent during the first part of the period evaluated, it accelerated to 8-12 per cent from 2006. The Nepali rupee is pegged to the Indian rupee. In spite of this and an open border with India, Nepal's food (and, to a lesser extent, non-food) price inflation has, over most of the period evaluated, been higher than that of India. According to the International Monetary Fund (IMF), the Nepali rupee (in real terms) is now significantly overvalued,<sup>11</sup> making it more difficult for agriculture and manufacturing to compete and create domestic jobs.

<sup>11</sup> The IMF 2011 Article Report provides three estimates of the overvaluation: 10 per cent according to the macroeconomic balance approach, 26 per cent according to the external sustainability approach, and 19 per cent using the purchasing power parity approach.

37. Nepal's financial sector has expanded rapidly since 2000 and the country is relatively highly ranked (67<sup>th</sup>) for the criterion "getting credit" in the World Bank's 2012 Doing Business Survey. The financial sector comprises a formal sector (table 8) of 272 institutions regulated by the central bank (Nepal Rastra Bank), and a semi-formal sector of more than 2,000 largely unsupervised savings and credit cooperatives as well as some 15,000 microfinance NGOs registered under various acts. There is a large informal sector of an unknown number (most likely in the order of thousands) of self-help groups that operate rotating savings and credit schemes, and many households take loans from moneylenders/traders and relatives.
38. The rural microfinance banks include the Grameen Bank replicators, "Grameen Bikas Banks", or regional rural development banks that are publicly owned and operate in all the five development regions. Most of the public Grameen Bikas Banks are loss-making and are therefore going through a restructuring/ privatization process. Among the banks (excluding the non-bank financial institutions), commercial banks account for 75 per cent of total assets/liabilities, followed by development banks (12 per cent), finance companies (11 per cent) and microfinance development banks (2 per cent). For formal and semi-formal rural finance, the Agricultural Development Bank of Nepal (ADBN), the Small Farmers Development Bank (Sana Kisan Bikas Bank Ltd.), and the regional development banks (Grameen Bikas banks) account for more than 60 per cent.

Table 8

**Number and type of formal sector and regulated financial institutions**

<i>Type of institution</i>	<i>2000</i>	<i>2006</i>	<i>2011</i>
Commercial banks	13	18	31
Development banks	7	28	87
Finance companies	45	70	79
Microfinance development banks	7	11	21
Savings and credit cooperatives	19	19	16
NGOs (financial intermediaries)	7	47	38

*Source: NRB, banking and financial statistics no 57.*

39. Although all 75 districts have some financial services, the areas with road access, high population density and economic activity are well covered with a diverse supply of financial services. During the Maoist insurgency, areas with high-intensity conflicts, including attacks on bank branches, had their access significantly reduced. Today, poor portfolio quality constrains improvement of access to finance. The portfolio at risk of microfinance institutions (MFIs) is reported to be about 11 per cent on average but may reach up to 33 per cent in the savings and credit cooperatives located in the inaccessible hills.

## **B. Agricultural and rural development**

40. **Subsistence-oriented agriculture.** Nepal's agriculture is dominated by small fragmented holdings producing food crops mainly for own consumption. Less than 20 per cent of agricultural production is commercialized, and Nepal has an agricultural trade deficit. Agriculture is more commercialized in the Eastern hills (milk, tea, etc.) and in the Terai, which produces a food surplus. Cereal production in the Terai, however, faces competition from India, which is subsidizing food crop production. Agriculture in the hills of the Mid- and Far-Western Development Regions, where much of IFAD's support is concentrated, is less commercialized but newly constructed road corridors offer opportunities for increased commercialization.
41. Holding size has declined over the last decades and today averages 0.7 ha (comprising three plots), but more than half are of less than 0.5 ha. While people

are migrating out of agriculture and household sizes are decreasing, the trend is towards smaller holdings. Between 1995/1996 and 2010/2011, the number of agricultural households operating less than 0.5 ha increased by 13 percentage points while those operating 2 ha or more decreased by eight percentage points to four per cent only. Average holding size is smallest in the hills of the three western regions. Land ownership is unequal and, as land is becoming scarce, there are issues of tenure security and absentee landlords.

42. Productivity is generally lower than in other Asian countries (comparing similar agroecological conditions) and the higher altitudes allow only one crop per year. Although about half of the farms have some irrigation access/structures, only about 17 per cent have irrigation throughout the year. Thus, production is still highly sensitive to changing weather conditions. More than 50 per cent of the holdings use fertilizer in their paddy and wheat production but for all other crops it is less than 50 per cent (NLSS III). Only a small proportion of farmers use improved seed in their cereal production and for all other crops it is less than 30 per cent. In rural areas, 55 per cent own a plough while less than 1 per cent owns a power tiller or tractor. With outmigration and declining fertility rates, labour productivity/scarcity will become an issue in some areas, despite the small farm size.
43. Cereals contribute about 46 per cent of agricultural GDP, livestock 24 per cent, vegetables, fruits and spices 24 per cent, and forestry about 6 per cent. Food crops (rice, maize, wheat, millet and barley) account for almost 90 per cent of the cropped area. However, since 1995/1996, the percentage of farms producing vegetables has almost doubled, indicating a trend towards a more commercial agriculture. While Nepalese producers find it difficult to compete with subsidized Indian production of cereals, producers in the hills do have a comparative advantage in producing vegetables for consumers in the plains during the monsoon when the plains are flooded and not suited for vegetable production.
44. Most rural households, also some landless, own livestock which provide nutrition and income for the family. About 64 per cent of agricultural households own cattle, 49 per cent own buffaloes, 67 per cent own goats and 54 per cent own poultry. The average number of livestock per household is estimated at 3.1 cattle, 2.1 buffaloes, 4.2 goats, 1.7 pigs and 7.9 poultry. Overall, the proportion of households with cattle, as well as the average number of cattle per holding, decreased between 1995/2006 and 2010/2011. However, there has been significant growth in the dairy sector (milk production, and dairy cooperatives and processing plants).

Table 9  
Selected agricultural indicators

	1995/96	2003/04	2010/11
Percentage of agricultural households owning land	83.1	77.5	73.9
Percentage of cultivated land under irrigation	39.6	54.3	54.4
Average size of agricultural holdings (ha)	1.1	0.8	0.7
Average number of parcels per holding	3.8	3.1	2.9
Percentage of holdings operating less than 0.5 ha	40.1	44.8	52.7
Percentage of holdings operating rented land only	4.8	7.3	5.4
Percentage of holdings with paddy as main crop	76	76.1	72.3
Percentage of holdings growing summer vegetables	35.6	60.8	68.8
Percentage of holdings with cattle	73.5	66.6	64.2
Percentage of holdings with poultry	49.9	52.7	53.6

Source: NLSS, 2010/2011.

45. Forests play a key role in the rural household economy by providing firewood, timber and fodder for livestock. In some areas, households also obtain a significant contribution to their income from non-timber forest products (NTFPs) and medicinal

and aromatic plants (MAPs). Most of the forest area is state-owned and was state-managed until the late 1970s when community forestry was introduced, handing back the management to the communities for part of the state forest. With few staff attempting to control vast forest areas (39 per cent of Nepal territory) and occasional governance issues, in many cases state management failed to stop the deforestation. Community forest user groups (CFUGs) have been more successful and in many areas have reversed the deforestation.<sup>12</sup> According to some studies,<sup>13</sup> between 1990 and 2010 the forest area in selected areas increased at a rate of almost 2 per cent per year, whereas the rate of conversion of non-forest areas into forests was significantly higher in the community-managed forests compared with government and private forests. About one third of all Nepali households are members of a CFUG and, today, about one fourth of the forest area is managed as community forests. Some CFUGs have developed a significant capital from sales of timber, NTFPs and MAPs. About 84 per cent of Nepali households use firewood for cooking and other purposes, and the community forest is where they mostly collect it.

46. In the 1990s, the concept of leasehold forestry was introduced with IFAD support. Under leasehold forestry, small, often degraded, plots of state forest were leased for 40 years to a group of 7-15 very poor and/or socially excluded households within the community. In order to ensure that members gain in the short and medium term, while the forest regenerates, in most cases goats were provided to the members. More recently, CFUGs have also been allowed to allocate/"lease" part of the community forest<sup>14</sup> to disadvantaged members.
47. Since 1995/1996 there has been an impressive improvement in infrastructure and services, and particularly in access to electricity and sanitation facilities and paved roads, with more modest improvements in access to water (table 10).

Table 10  
**Access to services**

	NLSS I 1995/96	NLSS III 2010/11
Per cent of households with access to piped water	33	45
Per cent of households with access to electricity	14	70
Per cent of households with own toilet facility	22	56
Per cent of households with access to paved roads (reachable within 30 minutes or less)	25	51
Per cent of households with access to a bank (reachable within 30 minutes or less)	21	40
Per cent of households with access to internet (reachable within 30 minutes or less)	-	43

Source: NLSS III, 2010/11.

### **C. Public policies and programmes for rural poverty reduction and donor assistance**

48. The central challenge to rural development in Nepal is to shift from a subsistence to commercial economy in an environment characterized by overall political uncertainty and instability. Government efforts to boost agriculture sector development have focused on easing dependence on weather conditions, increasing

<sup>12</sup> An improvement in forest cover following the introduction of community forestry in Nepal has been well documented in various parts of the middle hills (see for example Nagendra, et al (2008); Forest Fragmentation and Regrowth in an Institutional Mosaic of Community, Government and Private ownership in Nepal. *Landscape Ecology* 23:41-54).

<sup>13</sup> "Two Decades of Community Forestry in Nepal: What We Have Learned?" by Swiss Development Cooperation, Nepal-Swiss Community Forestry Project, 2011. Available at <http://www.swiss-cooperation.admin.ch>.

<sup>14</sup> A significant part of forest areas in Nepal fall under the "community forest" category, a completely separate category from "leasehold forestry", which was government-owned land leased to the poorest groups. Currently, it is allowed to lease parts of community forest to the poorest members of CFUGs, under the same conditions as in "leasehold forest".

productivity, and diversifying the range of crops for local consumption, export and industrial inputs.

49. **National plans.** For the period evaluated, the national policy framework was defined by two five-year plans (also serving as Nepal's poverty reduction strategy papers) and two three-year interim plans. The Ninth Five Year Plan (1998-2002) had poverty alleviation as its sole objective, targeting a reduction of poverty incidence from 42 to 32 per cent and defining targets for various human development indicators. It emphasized broad-based growth, development of rural infrastructure and social services, and specific programmes targeting the poor. The Tenth Five-Year Plan (2002-2007) had an ambitious target for economic growth (6.2 per cent per annum) and a 10 per cent improvement of Nepal's HDI. In addition, it emphasized good governance and promotion of income-generation, and included social protection programmes for disadvantaged groups and castes.
50. Since the CPA of 2006, the national policy framework has been defined by two interim three-year plans, both building on previous five-year plans and focusing on achieving the MDGs. The first one for 2007/2008–2009/2010 emphasized restoration of peace and reconstruction, and the reduction of inequality, unemployment and poverty.
51. The current three-year plan (2010–2013) emphasizes the promotion of employment opportunities internally and externally, according priority to agriculture, tourism, industry and the export trade. The plan aims to modernize and commercialize agriculture in order to improve food security, employment (poverty reduction) and the balance of trade. It includes priority programmes for quality seed production, and value chain development for commodities where Nepal has a comparative advantage. It states that contract farming will be encouraged and the cooperative sector strengthened. It prioritizes better product standards and quality as well as organic production and biodiversity.
52. Gender equality and social inclusion (GESI) received greater attention in government policy over the period covered by the CPE. While GESI issues are well addressed in the legal framework, it is recognized that special initiatives are required to stop discrimination and promote equality. A National Women's Commission and a *Dalit* Commission have been established; GESI units, replacing gender focal points, have been established in some ministries, e.g. MLD, and a National Strategy on Gender Equality (2011-2020) adopted.
53. **Agricultural sector policies.** While agricultural policy during the last decades has emphasized food security and productivity improvements (irrigation, seed and fertilizer), the emphasis on commercialization and market opportunities (including organic products) has become more pronounced in recent years. The Agricultural Perspective Plan (APP) of 1995, the later National Agricultural Policy (2006), and national plans defined the agricultural policy framework over the period evaluated. The National Agricultural Policy focused on commercialization and trade as well as on private sector-led development. In 2006, the Government launched an agribusiness promotion policy to promote commercial production of high-value crops in pocket areas. Currently, a new 20-year agricultural development strategy (ADS) is being developed with the support of ADB and several other development partners, including IFAD.
54. **Forestry sector policies.** In 1989, the Government approved the Master Plan for the Forestry Sector that provided a 25-year policy and planning framework. Based on the Master Plan, a Forest Act was adopted in 1993. The Master Plan prioritized community forestry for conserving the forest resources and meeting basic needs. It identified leasehold forestry as a priority programme for assisting the very poor and the socially excluded. However, despite the fact that national and forest policies continuously recognized leasehold forestry as a priority programme for poverty alleviation, the allocation of human and financial resources for the

programme was modest. As a consequence, IFAD financed the major part of the introduction and expansion of leasehold forestry, whereas most other donors' investments are directed to the area of community forestry.<sup>15</sup>

55. **Donor assistance.** Since 2006, ODA to Nepal has almost doubled. For fiscal year 2010/2011, multilateral and bilateral donors disbursed US\$1,080 million. World Bank (US\$256 million), ADB (US\$184 million) and the United Nations (US\$113 million - including IFAD's US\$7 million) were the largest multilateral donors. Agriculture, forestry and irrigation accounted for about US\$100 million (9 per cent) of the total.

Table 11

**Estimated disbursements (2010/2011) per development region**  
(excluding nationwide projects)

<i>Region</i>	<i>Estimated total disbursement US\$ million</i>	<i>Disbursement US\$ per capita</i>	<i>Poverty headcount ratio (2010)</i>
Central	141	15	22
Mid-Western	121	34	32
Far-Western	105	41	46
Eastern	90	15	21
Western	32	7	22

*Source:* Ministry of Finance, March 2012, Development Cooperation Report, 2010 -2011.

56. While the high incidence of poverty justifies donors' focus on the Mid- and Far-Western Development Regions, the large number of projects challenges the limited implementation capacity of district administrations and other local implementing agencies. The authorities in some of the districts supported by IFAD have to deal with a significant number of projects (e.g. Bajhang: 38 projects, Dailekh: 42, Jumla: 36, Kalikot: 37, and Surkhet: 43).
57. Aid for agriculture and forestry is mainly provided as stand-alone projects and is therefore highly fragmented. For example, the Ministry of Agriculture and Cooperatives (MOAC) and the Ministry of Local Development (MLD) have the highest degree of fragmentation<sup>16</sup> of all ministries and agencies, working with 14 donors in 33 projects.
58. In OECD's Paris Declaration monitoring, for 2007 Nepal scores "moderate" for criteria ownership, alignment and managing for results, and "low" for harmonization and mutual accountability.
59. The degree of coordination varies between sectors. It is relatively strong in sectors that have a sector-wide approach to planning, e.g. education and health, but relatively weak in those without such an approach to planning, i.e. agriculture, forestry and rural development.
60. The United Nations and its many agencies support 163 projects, working with 25 ministries. Being part of the United Nations family, IFAD is included in the United Nations Development Assistance Framework and participates in meetings organized by the UN Resident Coordinator.

<sup>15</sup> According to the Ministry of Forests and Soil Conservation, about 35 per cent of its total development budget is spent on the Community Forestry Programme. About 60 per cent of the total development budget of the program is funded through foreign assistance. The major donors are DfID, Swiss Development Cooperation, AusAID, USAID and GTZ.

<sup>16</sup> Measured by the Herfindahl Index, table 3 of the Development Cooperation Report 2010-2011, Ministry of Finance, March 2012.

### Key points

- A relatively small country of 27 million people, Nepal is characterized by high diversity in its natural resource environment and in the livelihoods, languages and cultures of its many different ethnic and social groups.
- Nepal entered a development path towards a modern society relatively late in its history (in the 1950s), starting with a highly feudal and caste-structured society and negligible human and physical capital.
- An internal armed conflict started in 1996 and lasted until the CPA of 2006. Since then, efforts have been going forward to repair the physical and social damage and to develop a new permanent constitution and governance framework.
- Economic growth was disappointing in the 1960s and 1970s, but moderate in the 1980s and 1990s. Armed conflict had a negative impact on growth, with a modest recovery after 2006.
- Despite modest-to-moderate growth and the 10-year armed conflict, poverty reduced from 42 per cent in 1995/1996 to 25 per cent in 2010/2011 and significant progress was made in achieving the MDGs for human development and in the social and economic infrastructure. Poverty distribution is highly uneven among ethnic, social, and gender groups.
- The economy has undergone major structural changes since the late 1990s. More than two million people, in particular young men from rural areas, have left their homes to find work abroad or in the towns of Nepal. From a negligible amount in 1990s, remittances now amount to about 22 per cent of GDP. This and a declining dependency ratio are the main factors behind the reduction of poverty.
- Over the last decade, agriculture growth has been moderate, albeit higher than industry. The average size of farm holdings continues to decline, often fragmented on several plots. Productivity is low and Nepal finds it difficult to compete with its neighbours in the production of main food crops.
- The financial sector has expanded significantly during the last decade but is challenged by many risks.
- Nepal has a relatively conducive policy framework for agricultural development and rural poverty reduction, but many policies and strategies have been only partly implemented.
- Nepal receives about US\$1 billion in ODA. Within agriculture and rural development, there are no sector-wide approaches or joint financing arrangements, and aid is highly fragmented.

### III. IFAD country strategies and operations

61. This chapter provides a brief description of IFAD's COSOPs of 2000 and 2006 (Section A); IFAD-funded projects and programmes (Section B); and IFAD's approach to operating in conflict and a fragile country environment, as applied in Nepal (Section C). Strategic decisions made beyond the COSOPs are also briefly described. The description of the COSOPs focuses on objectives, strategies and pipeline. The performance of the projects, programmes and COSOPs is assessed in Chapters IV and VII. The COSOPs also contain plans and guidelines for non-lending activities (policy dialogue, knowledge management, partnership-building and grants) and for country programme management. These plans and guidelines are described and assessed in Chapter VI (non-lending activities) and Chapter VII (COSOP performance).

#### A. Country strategies

62. **Evolution of COSOPs.** Over the period evaluated, cooperation between the Government and IFAD was guided by two COSOPs,<sup>17</sup> various strategic decisions and, since 2005, also by three-year PBAs. Both COSOPs were prepared on the

<sup>17</sup> In 2000, COSOP stood for country strategic opportunities paper whereas, since 2006, it stands for the country strategic opportunities programme.

basis of country portfolio reviews and, in the case of the 2000 COSOP, also on the basis of the 1999 CPE. Both COSOPs were prepared following a consultative process that involved all relevant partners.

63. The first COSOP covered the period 2000-2006 and was prepared according to guidelines of the time. The 2006 COSOP followed the new guidelines for results-based country strategic opportunities programmes (RB-COSOPs), requiring monitoring and annual reviews of progress in the general country programme and cooperation objectives. Furthermore, at the time of preparing the 2006 COSOP, IFAD introduced a system of three-year PBAs, providing an indicative funding allocation of US\$21 million for Nepal for the period 2007-2009. The 2006 RB-COSOP covered the six-year period 2007-2012, i.e. two PBA periods, and included a results management framework with milestone indicators. For each of its three strategic objectives, it defined the target groups, support strategies and interventions, and a policy dialogue agenda.
64. Apart from the differences in format and presentation, there were differences in substance. The 2000 COSOP focused on community-based natural resource management and natural resource-based microenterprises in isolated, remote marginal areas in the hills and mountains of the Mid- and Far Western Development Regions. The 2006 COSOP, while maintaining the poverty focus, prioritized commercialization of agriculture and high-value crops, and integrating farmers in the market. It advocated for concentrating the support in selected "growth nodes" or clusters in the poorest areas of the hills and mountains, mainly the road corridors with market access, while including more isolated communities through infrastructure investments such as community access roads. It also advocated for targeting the entire community, including the non-poor (termed "near poor"), but with special interventions for the poorest and socially excluded households.
65. **The 2000 COSOP** gave consideration to the Government's Ninth Plan and APP but was essentially inspired by the Programme for Enhanced Partnership for the Future of Asia's Upland Poor developed by APR following a review of the impact of the Asian crisis of 1997-1998. In line with the Programme for Enhanced Partnerships for the Future of Asia's Upland Poor, the 2000 COSOP's strategic thrust was "sustainable livelihoods and social justice" through a programme focused on "remote, isolated and disadvantaged areas of the Mid- and Far-Western Hills and Mountain regions".
66. Portfolio management. The 2000 COSOP observed that, during 1978-1997, 16 per cent of the total approved IFAD loans had been cancelled because of performance problems: "The projects have met with the following constraints: poor design, implementation delays, failure to follow design documents, lack of coordination between the implementing agencies, frequent staff transfers, weak institutional capacity, inadequate monitoring and evaluation systems, and limited outreach". To address these issues, the COSOP proposed that (i) "the government development administration needs to shift roles from one of implementing to facilitating .."; (ii) "IFAD will apply participatory consultative processes to engage government and stakeholders in design and implementation"; and (iii) "monitoring and evaluation will be strengthened to provide "a dynamic feedback system."
67. Pipeline. The 2000 COSOP defined the lending frame and rolling work programme as: "... financing of four projects totalling US\$60 million over the next seven years. The objective would be to gradually build a programme for the Hills and Mountains of the Mid-West and Far-West upland regions, implemented in a limited number of districts at a time and scaling up its scope based on a "listening and learning approach". The COSOP mentioned the use of the flexible lending mechanism (FLM) and emphasized strong M&E systems and action research to support implementation and decisions on moving from one phase to the next, stating "It

will be made clear to cooperating institutions and borrowers that continued programme funding is contingent on effective performance”.

68. **The 2006 COSOP** fully reflected the Tenth Plan (poverty reduction strategy paper) and the APP/National Agricultural Policy in its definition of three strategic objectives (SOs): (SO I) “increased access to economic opportunities by poor farmers and producers in hill and mountain areas” through increased incomes from production and sale of high-value agricultural, livestock and forest products; (SO II) “community infrastructure and services improved in hill and mountain areas” through construction of secondary roads to reduce the walking distance to the road network, thereby improving access to markets and health facilities; and (SO III) “gender, ethnic, and caste-related disparities reduced through greater inclusion of disadvantaged groups” through participation in local decision-making bodies and higher education and health standards among disadvantaged groups and women.
69. While the targeting strategy of the 2006 COSOP focused on hills and mountain areas, it did not explicitly (as did the 2000 COSOP) limit the focus to the Mid- and Far-Western Development Regions. At the same time, it stated that the targeted areas are those “where the underlying social and economic causes of the conflict must be addressed”. It referred to concentrating the support around the north-south transport corridors and to a lesson highlighted by the country portfolio review that focus should be on clusters of VDCs within a limited number of districts that can be serviced more easily.
70. With respect to socio-economic targeting, while the 2006 COSOP stated that the general approach would be to work with the entire community, it divided the community into four categories. The “destitute” (disabled, sick, orphans, displaced persons) would not receive direct IFAD support (“IFAD does not engage in humanitarian relief operations”) but the Fund would coordinate with relevant organizations to organize emergency relief and welfare support. The “extremely poor” (illiterate, with no or limited land/assets) would benefit from improved infrastructure and employment in construction projects (SO II). The “moderately poor” (farmers with some land, but often no access to financial services and irrigation) would be assisted by programmes under SO I, as would the “near poor” (actually non-poor) who would be included in the support because “small-scale rural entrepreneurs and commercial farmers can provide employment opportunities for those in greater need”.
71. Related to SO III, the 2006 COSOP stated: “... special measures will be taken ... to ensure full participation of *dalits* and *janajatis* ...as well as women and other minority groups”. In addition, there would be a strengthened focus on youth. The COSOP highlighted 10 different targeting methods that could be applied, from participatory well-being ranking to self-targeting interventions.
72. The strategy of focusing on the entire community while making special efforts for the poorest fits well with the strategic changes undertaken in community forestry, whereby parts of the community forest could be allocated (leased) for the poorest and most vulnerable households. However, this option was not pursued in the portfolio.
73. Portfolio management. The 2006 COSOP noted that the ongoing WUPAP and the grant-funded LLP in the Mid-Western hills were relevant to SO I but that WUPAP needed to be realigned in order to better contribute to this objective. This would be done in the review prior to commencement of Phase III of WUPAP.
74. The 2006 COSOP also noted “... several operational difficulties in the two ongoing projects [WUPAP and LFLP]. The uncertain political and security situation coupled with institutional challenges, had constrained project implementation. The project-at-risk ratings for the two current interventions indicate less than satisfactory performance in terms of procurement, disbursements and achievement of physical

targets; for one of them there are concerns about institution-building and the level of expected benefits.”

75. The pipeline of the 2006 COSOP was based on the PBA for 2007-2009 of US\$21 million, but also stressed that “IFAD’s commitment could vary, depending on whether the PBA score declines or improves”. Owing to uncertainties in the political and security situation, the pipeline was defined only vaguely: “IFAD will focus in the short term on utilizing grant resources to pilot interventions related to conflict reconciliation and reconstruction, identify entry points for future loan programmes as well as support the current programmes to reach the objectives as outlined in the COSOP results management framework. If there are no major setbacks in the peace process, this would suggest a new loan programme be formulated in late 2007/08.” However, other sections of the document mentioned concrete support options. For example, under support for local governance and peace-building, it was stated that a new grant project (US\$700,000) would be developed in early 2007 to address the skills development and employment needs of conflict-affected people in remote areas, i.e. the later grant of US\$870,000 for the Skills Enhancement for Employment Project implemented by the International Labour Organization (ILO). Reference was also made to the World Bank-financed PAF as an option for reaching the poorest, later realised in December 2007 with approval of an IFAD DSF grant of US\$4 million for PAF-II.

## **B. IFAD-supported operations**

76. **Development of the portfolio.** The time line and progression of the portfolio as well as its thematic focus are illustrated in table 8.1, annex VIII, which also provides an abbreviated description of projects covered by the CPE. From January 1998 to June 2012 (14.5 years), IFAD approved four projects, executed by the Government and supported by loans on highly concessional terms and/or DSF grants, with a total commitment of US\$51.3 million.
77. At the start of the period covered by this CPE, three interventions were ongoing: HLFFDP (closed in 2003), PAPWT (closed in 2005), and the Groundwater Irrigation and Flood Rehabilitation Project, closed in 2001 but not covered by this CPE. HLFFDP implementation was slow and problematic and, despite extension of the implementation period to 13 years, IFAD’s financing was reduced from the original US\$12.8 million to US\$5.9 million.
78. Over the seven-year period of the first COSOP (2000-2006), two projects were approved: WUPAP, approved in 2001 with an IFAD loan of US\$20.3 million applying the FLM;<sup>18</sup> and LFLP approved in 2004 with an IFAD loan of US\$11.7 million. Thus, US\$32 million was committed out the indicative lending frame of US\$60 million provided in the 2000 COSOP. HLFFDP closed in December 2003 and its successor, LFLP, became effective only in September 2005, thereby creating a gap of 20 months in IFAD’s support for leasehold forestry.
79. By the end of the first COSOP period, IFAD had approved a country-specific grant of US\$485,000 for LLP in the Mid-Western Development Region, implemented by the Centre for Environmental and Agricultural Policy Research, Extension and Development (CEAPRED), a national NGO. LLP’s successful results in developing commercial vegetable and other production along the road corridors inspired the next COSOP and the development of HVAP. While WUPAP, and to some extent LFLP, reflected the strategic thrust of the 2000 COSOP, LLP is more aligned with the strategy of the 2006 COSOP.

<sup>18</sup> The specifics of a flexible lending mechanism (FLM) loan include: (i) a continuous and evolving design process through implementation of distinct, three-to-four-year cycles; and (ii) clearly defined preconditions, or “triggers”, for proceeding to subsequent cycles. FLM is currently discontinued.

80. Under the second COSOP of 2007-2012, IFAD approved a DSF grant of US\$4 million in 2007 for the second phase of PAF-II. The PAF was initiated in 2004 by the Government in support of the poverty reduction strategy paper. World Bank provided the financial backing and has so far committed US\$215 million to it. Based on the demand of the poorest districts and communities, PAF is supporting community infrastructure and income-generating activities. IFAD's grant was earmarked for capacity development activities.
81. In December 2009, IFAD approved HVAP, committing US\$15.3 million in loans and DSF grants. HVAP fully reflected the strategic thinking behind the 2006 COSOP, focusing on developing commercial agriculture along the road corridors in the Mid-Western Development Region, and applying a value chain approach.
82. The commitments for PAF-II and HVAP utilized US\$19.3 million out of the PBA of US\$21 million for 2007-2009. An additional US\$1.3 million was committed as DSF grants for a vocational training project executed by ILO, and three pilot interventions executed by NGOs: Centre for Integrated Agriculture and Cooperative System (COCIS) (goat breeding), and CEAPRED and the Netherlands Development Organisation (SNV) (high-value agriculture).
83. With respect to the second PBA of US\$37 million for 2010-2012, by June 2012 IFAD had only committed US\$0.5 million for development of the ADS, where ADB is the main financier. The remaining US\$36.5 million is expected to be committed during the last months of 2012, for the new ISFP (Kisankalagi Unnat Biu-Bijan Karyakram) and supplementary loans for the ongoing projects.
84. **Contents and focus of the portfolio.** An overview of the contents and focus of the portfolio is provided in table 8.1, annex VIII. The main thematic areas included leasehold forestry, rural finance, infrastructure development and support for agriculture (crops) and livestock (goat breeding - often paired with leasehold forestry). GESI, income-generating activities and social development were the cross-cutting themes in all projects.
85. Leasehold forestry (including livestock development – goat breeding) was the focus area of HLFFDP and LFLP and a component of WUPAP. Small plots (4-10 ha) of degraded state forest were handed over to very poor and socially excluded households who were supported to form leasehold forest user groups (LFUGs, usually 7-15 members) which then received a renewable 40-year lease. LFUGs were supported in developing the institutional capacity to manage the forest and group-based rotating savings and credit schemes, with the goal of eventually linking them to financial institutions. LFUGs received saplings to plant and were supported to develop income-generating activities: NTFPs, MAPs and livestock. The main geographical focus of HLFFDP and LFLP were the hills of all five development regions, whereas WUPAP supports LFUGs only in the Mid- and Far-Western hills.
86. Rural finance was included in both leasehold forestry projects and in the two poverty alleviation projects - PAPWT and WUPAP. It was also indirectly an element of PAF – although IFAD's contribution to it was earmarked for capacity development. In PAPWT, rural finance included a credit line for income-generating activities and tube wells, and support for developing financially viable branches of the Grameen Bank system. Savings and credit associations were to be formed (with focus on women) and linked to Grameen Banks so as to make their operations sustainable. Furthermore, "Grameen Bank replicators" (GBRs) were to operate a revolving fund based on the Grameen Bank model of microcredit. In the leasehold forestry projects and WUPAP, the approach has mainly been to develop savings and credit activities within the beneficiary groups, LFUGs and community organizations, eventually linking them to financial institutions. Since LFLP (approved in 2004), IFAD has not provided direct support for rural finance. The latest intervention, HVAP, does not engage directly in rural finance, but provides financing to value chain investments through matching grants.

87. Some projects (HLFFDP, PAPWT and WUPAP) included rural infrastructure components, as well as support for agriculture (crops) and livestock (including leasehold projects – HLFFDP and LFLP). In addition, under the leasehold projects (HLFFDP and LFLP), each household member received about two goats (most of the project budget was in fact allocated for the purchase and distribution of goats, and development of animal health services). PAPWT had special focus on irrigation (shallow tube wells) while WUPAP supported many different types of small investments in community infrastructure, road rehabilitation in particular. Of the two leasehold forestry projects, HLFFDP had a slightly wider menu than LFLP and included a small village infrastructure component (village health services, village drinking water supplies, water harvesting, trails and bridges) as well as support for improved cooking stoves.
88. Design of HVAP, the most recent project in the portfolio, reflects the strategic thrust of the 2006 COSOP and, unlike the previous interventions, has a concentrated geographic focus on the north-south road corridors in the hills and mountains of the Mid-Western Development Region where there is potential for producing high-value crops and forest products for the market. It supports development of farmers' organizations, primary production, post-harvest and processing activities, and linkages to the market, but it also has a budget for rural infrastructure (mainly access roads) included under the subcomponent entitled "spatial inclusion".

### C. The conflict dimension

89. Most of the period covered by this CPE was characterized by the ongoing armed civil conflict (1996-2006) that irreversibly changed the political, social and economic fabric of Nepali society. It is therefore crucial to describe and assess<sup>19</sup> IFAD's cooperation with the Government and its overall engagement, taking into account the conflict dimension, including the post-conflict reconciliation.
90. **IFAD's approach to conflict, the 2011 World Development Report (WDR) and the g7+ agenda.** Various IFAD policy documents recognize that pursuing IFAD's mandate in conflict-prone environments is particularly difficult, that projects are unusually prone to failure, and that a "different business model" is required if interventions are to succeed.
91. The increase in international attention to conflict and fragility is recognized in the 2006 IFAD Policy on Crisis Prevention and Recovery and in the 2008 Issues Paper on Country Context and the Impact of IFAD-funded Activities, written in the context of that year's Annual Report on Results and Impact of IFAD Operations (ARRI). The 2006 policy asserts, importantly, that "... the 2005 principles of the Organisation for Economic Co-operation and Development for sound international engagement in fragile states put the focus on building the capacity of states to deliver public safety, security, good governance and poverty reduction for their citizens. IFAD experience suggests that such objectives cannot be achieved on a sustainable basis without creating an environment that enhances the power of rural communities vis-à-vis government administrations." The policy goes on to identify relevant institutional development competencies that IFAD has developed: a capacity to work through rural organizations and to mobilize NGOs, and "long experience in addressing issues of social cohesion and community resilience in rural areas". The 2008 Issues Paper emphasized that projects in fragile states cannot be dealt with on a 'business as usual' basis, but demand intensive contextual analysis and supportive supervision, simple and adaptable designs, and high-quality project managers and managing institutions. The paper acknowledges that IFAD faces significant problems in delivering on these requirements – it has limited resources for analytical work and supervision; its inclusion/empowerment mandate drives it

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<sup>19</sup> See chapter VII.

towards design complexity; and it relies heavily on weak government and NGO partner organizations to design and implement projects.

92. IFAD's Strategic Framework 2011-2015 (Principle 1) reiterates many of these key diagnostic markers. It identifies social fragmentation and "low institutional and governance capacity (which may also result in, or from, conflict)" as typical of "situations of fragility", and insists that meaningful interventions must be based on detailed local knowledge and on special efforts to improve institutional and governance capacity. The Strategic Framework embodies the recommendations contained in the Report on the Eighth Replenishment of IFAD's Resources: in fragile states, IFAD should ensure that its programmes are underpinned by strong analytical work, are flexible and simple, empower the poor, focus on building the capacity of government and local institutions – and seek to mitigate local conflicts, particularly around natural resources.
93. The 2011 World Bank WDR on Conflict, Security and Development argues that the donor community needs to make some important adjustments if it is to be more useful in these environments. Consistent with IFAD's policies, the basis for effective intervention is seen as careful, continuous analysis of the nature of important conflicts and contests, where possible through support of national or local conflict management strategies (of varying levels of sophistication). Other key policy implications for donors are rigorous selectivity and simple designs, intensive supervision, a willingness to accept risk, setback and failure – and extended commitment to supporting institutional development.
94. The work of the International Dialogue on Peacebuilding and Statebuilding/g7+, publicized as the "New Deal" at the recent Fourth High-Level Forum on Aid Effectiveness at Busan in 2011, also reinforces the importance of contextual analysis, confidence-building and the creation of legitimate institutions. The basis of the New Deal is a commitment by members of the g7+ to use a "country-led assessment of the causes and features of fragility and sources of resilience as a basis for one vision, one plan to propel "country-led and country-owned transitions out of fragility".<sup>20</sup> These plans should focus on a specific set of activities designed to prevent further instability and violence, adjust for limited institutional capacity and commit governments to greater transparency.
95. The WDR and the New Deal offer a simple but sometimes misunderstood insight. Working effectively in situations of conflict is, for donors, less a question of how to sustain operations during periods of open violence (how to "conflict proof" projects or work "in conflict") than an issue of how to grapple effectively with institutional fragility. Modern conflict thinking from several quarters now emphasizes the centrality of institutions, the arduous and contested nature of their development – and the need for intensive, sustained, aware, field-based involvement in their creation, and in the generation of enough interim results to sustain the hope that they will one day deliver better outcomes than the structures of exclusion.
96. **IFAD's work on conflict in Nepal: theory and practice.** The 2006 COSOP aspired to contribute to "reconciliation and post-conflict reconstruction", and refers to the Maoist insurrection as "the conflict". The tendency to see Maoist-related violence as a singular aberration, rather than a predictable outcome of Nepal's unfinished history of extreme exclusion, was widely shared among donors and led to over-optimistic assumptions about 'peace', and the motivations and capabilities of institutions in the "new Nepal". The COSOP's claim that "the challenge is to map out a structured and seamless transition from the immediate post-conflict and peace-building approach to conventional development interventions" embodies a false dichotomy between 'war' and 'peace', one that misconstrues the ingrained nature of the Nepalese struggle – as demonstrated by the events of the past six

<sup>20</sup> A *New Deal*, International Dialogue/g7+, Busan, December 1, 2011.

years. However, the essential strategy set out in the COSOP and in the choice of key IFAD investments is consistent with what has been done in countries that have made the most progress in settling deep-seated conflicts. The 2011 WDR argues that it is less poverty than active exclusion, or injustice, that provokes violence – and that true peace-building requires efforts be made, and be seen to be made, to redress blatant injustices. This is best done through a focus on creating institutions at the local, regional and national levels that can protect the population, provide better justice and foster improved livelihoods. The essential themes of IFAD Nepal programme were to enhance the connectivity, organizational capacity and economic status of the poorest – a group that in Nepal overlaps strongly with the most excluded; the means for achieving this combined the creation of viable local institutions (LFUGs, community organizations, cooperatives, savings and credit groups), and the enhancement of rural productivity and incomes (through access to forest lands, new crop technologies, livestock distribution, value chain development, improved rural infrastructure and youth employment).

#### **Key points**

- The 2000 COSOP targeted marginalized upland poor in remote and isolated communities in the hills and mountains in the Mid- and Far-Western Development Regions, defining a support strategy comprising income-generating activities, group-based savings and credit schemes, and community management of natural resources.
- The 2006 COSOP focused on commercialization of agriculture in “growth nodes” along the road corridors in the hills.
- Both COSOPs promoted gender equality and inclusion in mainstream development of groups that are marginalized and socially excluded because of caste and ethnicity. However, the 2006 COSOP applied an inclusive targeting approach: targeting the entire community while giving special priority to socially excluded groups.
- Both COSOPs highlighted problems in management of project implementation.
- The projects generally reflected COSOP strategies and pipelines.
- In the first COSOP period (2000-2006), two projects (HLFFDP and LFLP) supported leasehold forestry, including livestock (goat distribution) and informal group-based savings and credit schemes, while another two (PAPWT and WUPAP) supported poverty alleviation through rural and agricultural development in the Western Terai and Western Uplands.
- In the second COSOP period (2007-2012), IFAD contributed to the World Bank-financed PAF and approved a project for promotion of high-value agriculture (HVAP), applying a value chain approach and focusing on the road corridors of the Mid-Western hills. A new project supporting the seed subsector and animal breeding is being prepared for approval by the end of 2012.
- IFAD’s declared approach to dealing with the conflict dimension of development in Nepal was generally sound and reflected in COSOPs. There was however little evidence, if any, of practical application of these principles and declarations in its operational work, projects and policy dialogue.

## **IV. Portfolio performance**

97. This chapter provides an assessment of the performance of the projects supported by IFAD loans and grants and executed by the Government of Nepal.<sup>21</sup> It covers all six projects included in this CPE,<sup>22</sup> but is organized by thematic areas/sectors within relevant evaluation criteria (e.g. effectiveness, rural poverty impact, etc.),

<sup>21</sup> Projects supported by IFAD grants but executed by NGOs and international organizations are assessed in chapter VI.

<sup>22</sup> The six projects covered are the two leasehold forestry projects (HLFFDP and LFLP), the poverty alleviation projects in Western Terai and Western Uplands (PAPWT and WUPAP), the contribution to the Poverty Alleviation Fund (PAF-II) and HVAP.

as the CPE focuses on the strategic level of partnership. Hence, it does not cover all specific interventions and activities included in the projects.

98. Overall, the portfolio included four main subsector elements: (i) leasehold forestry, combined with livestock and NTFP (HLFFDP, LFLP and WUPAP); (ii) rural infrastructure (PAPWT, WUPAP, PAF and HVAP); (iii) rural finance (HLFFDP, LFLP, PAPWT and WUPAP); and (iv) crop production (PAPWT, WUPAP, and HVAP). In addition, three themes cut across the entire portfolio: (a) social development, through formation and development of beneficiary organizations (groups, cooperatives and community organizations); (b) promotion of income-generating activities and market linkages; and (iii) GESI.

## **A. Core performance**

99. The assessment of project performance is based on three key performance criteria: (a) relevance; (b) effectiveness; and (c) efficiency. These criteria are assessed for all projects, with the exception of HVAP for which only relevance is assessed as operations have just started. For the ongoing LFLP, WUPAP and PAF-II, the assessment is tentative as things may change during their last few years of implementation.

### **Relevance**

100. The assessment of relevance looks at the extent to which the objectives of IFAD interventions were consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies; it also includes an assessment of project design in achieving objectives.

#### **(i) Relevance of objectives**

101. **Overall relevant focus and objectives.** Overall, the IFAD projects in Nepal included in this CPE were defined with objectives that appear to be relevant to government priorities (as defined in various Government of Nepal programme documents and strategies), IFAD strategies (COSOPs), and the needs of the poor. In addition, according to the preliminary design documents for the new ISFP currently being prepared, it also appears that ISFP contains objectives that are relevant to government and IFAD policies. However, while the overall portfolio is defined with relevant objectives, most projects (including the new ISFP), had design issues that adversely affected their relevance.

#### **(ii) Relevance of design**

102. **Dilution and complexity.** Geographically, the portfolio (excluding PAF) was widely spread, covering 43 of Nepal's 75 districts, with current annual disbursements of about US\$8 million (up from less than US\$2 million at the start of the CPE period). In many cases, this implied that IFAD-supported development activities within a district constituted only a small fraction of the district's total development programme.
103. As a result, district administrations tended to give low priority to IFAD-supported interventions when they constituted a negligible fraction of their total work programme and budget, in particular within rural infrastructure. Given the difficulties of transport access in the Hills and Mountains, it was also costly and challenging for project management to maintain close contact with the project areas in order to identify and solve implementation problems. The latest project (HVAP) was designed with a more feasible geographical coverage, i.e. the road corridors in the Mid-Western hills. However, its design included an overly ambitious target to form and develop 500 new farmer groups, in addition to strengthening existing groups and cooperatives.
104. PAPWT and WUPAP were multisector and thereby multi-agency projects. This implied the need for close coordination and collaboration between ministries and local line agencies, which was a recurring problem throughout Nepal's development

history that led to under-performing projects. The first investment in leasehold forestry (HLFFDP) also had a complex design, with seven components and four implementing agencies.<sup>23</sup> The second investment (LFLP) reduced the complexity to two main components and somehow managed to facilitate relatively good collaboration between the two implementing agencies, the Department of Forests (Ministry of Forests and Soil Conservation) and the Department of Livestock (MOAC).

105. In sum, the design complexity of HLFFDP, PAPWT and WUPAP was not suited for weak and fragile governance systems and conflict situations. While IFAD recognizes<sup>24</sup> the need for simple and adaptable designs in such situations, it also acknowledges that its inclusion/empowerment mandate tends to drive it towards design complexity. In a fragile country context like that of Nepal, project design needs to reflect the importance of the long-term process of developing well-governed and responsive local government institutions and strong and sustainable community organizations, as well as harmonious and productive collaboration between the two.
106. The new ISFP, currently under design, is IFAD's first thematic programme with close to national coverage. While the original concept was to focus on the seed subsector, it is understood that an animal breeding (goats) component will now also be included. Though the design is still being developed and finalized, there is reason for concern that the coverage might be too ambitious. The seed subsector alone would be a major task for IFAD which, unlike other development partners, has no substantial prior experience in this subsector in Nepal. It might have been more relevant to pursue harmonized donor support for a seed subsector strategy, but such an endeavour would have required several years to reach maturity, time which IFAD did not have (see section VII.C).
107. **Quantitative supply targets versus demand.** In parts of the portfolio, quantitative targets were the main drivers behind project management and implementation. WUPAP (designed under FLM) defined the targets as triggers for moving from one phase to the next. Combined with an ingrained target-oriented culture in Nepal's public administration, implementers tend to focus on target delivery, being less concerned about outcomes and beneficiaries' problems and preferences. Thus, implementation became supply- rather than demand-driven. Many indicators were overly formalistic and unable to capture the progress (or lack thereof) in such areas as institutional development (e.g. number of groups formed, number of meetings held, etc.). PAF stood out from this general pattern by having a participatory demand-driven approach,<sup>25</sup> which was facilitated by a wide menu of support interventions that the community organizations could choose from.
108. **Ad hoc approach in rural finance.** Unlike IFAD's early rural finance projects<sup>26</sup> in Nepal, in the evaluated portfolio rural finance was addressed as components or "appendices", with the design geared towards servicing project needs rather than developing a solid rural finance system. PAPWT was the only one that clearly anchored implementation in financial institutions, but the GBR model was premature for the targeted areas and could not directly address the needs of the poor. WUPAP included a large credit fund (US\$4.6 million) but without having assessed the demand for it and the available capacity to manage it.

<sup>23</sup> The Department of Forest, Department of Livestock Services, Agricultural Development Bank of Nepal and National Agricultural Research Council.

<sup>24</sup> 2006 IFAD Policy on Crisis Prevention and Recovery and in the 2008 Issues Paper on Country Context and the Impact of IFAD-funded Activities, written in the context of that year's ARRI.

<sup>25</sup> The third phase of WUPAP (launched in 2012 and currently under implementation) anticipates a similar approach, according to the revised design document.

<sup>26</sup> The Small Farmer Development Projects and the Production Credit for Rural Women Project.

109. In WUPAP and LFLP, social mobilizers (with no microfinance skills) were assigned to assist the community organizations and LFUGs with establishing group-based savings and credit schemes, even though many of the households were already members of other project-created savings and credit schemes. Credit was mainly used for consumption or to address crisis situations and only to a limited degree for productive investments. The designs generally did not address the demand side, including development of entrepreneurship and viable investment opportunities in which the loans could be invested.
110. **Gender equality and social inclusion (GESI).** The GESI aspect of project design improved significantly over time. Analysis of GESI issues was limited in the early projects, PAPWT and HLFFDP. For example, there was no differentiated analysis of “the poor” and the HLFFDP appraisal document mentioned that there was no need to employ women extension workers. Later projects (WUPAP, LFLP and PAF) introduced a relevant GESI approach, especially PAF which specifically targeted groups traditionally excluded on the grounds of gender, ethnicity and caste. In LFLP, all social mobilizers working at the grass-roots level with LFUGs are women selected from households of LFUG members.
111. Overall, portfolio relevance is assessed as moderately satisfactory (4). This takes account of the fact that project objectives and focus were well aligned with government and IFAD policies, while a number of project design issues have generally improved over the period observed.

#### **Effectiveness**

112. This criterion assesses the extent to which the IFAD portfolio objectives were achieved, taking account of their relative importance. It also considers the extent to which the projects contributed to the achievement of sector objectives, especially in cases where information available was insufficient or attribution unclear. Effectiveness is not assessed for the recently launched HVAP, while for the three ongoing projects at an advanced stage of implementation (LFLP, PAF-II and WUPAP) the assessment is tentative.
113. Overall, IFAD’s projects in Nepal have often demonstrated achievements, although uneven in different sectors, and within the sectors there have been significant variations in terms of achievements by different projects. One of the most common hampering factors for higher effectiveness was lack of coordination among the key project implementing agencies. The implementation progress of IFAD projects in the initial period (until 2006-2007) was severely constrained by the insurgency. The security situation improved substantially in 2007 with installation of a coalition government, and project activities (especially under LFLP) visibly accelerated. This assessment follows the achievement of results in Nepal through IFAD-supported operations by main sectors/engagement areas: (i) leasehold forestry development activities, including livestock; (ii) rural development and poverty reduction, including infrastructure, agricultural development (crops, etc.), and community development; and (iii) rural finance.
114. **Leasehold forestry.** This area was covered by two leasehold projects (HLFFDP and LFLP) and also partly through WUPAP. The main objective was to improve forage and tree crop production through secure and sustainable management of leasehold plots. The first leasehold project (HLFFDP, 1989-2003) suffered from a delayed start and implementation was much slower than planned, partly owing to the insurgency. The project’s quantitative targets were achieved only partially, although regeneration of degraded forest and income generation was observed in most sites. Despite generally low achievements, HLFFDP successfully introduced and piloted a new concept for forest management with the intention of benefitting very poor and excluded households, and contributed to establishing leasehold forestry as a permanent element of Nepal’s forest management system, recognized in government plans as a high priority programme for rural poverty reduction.

115. The next leasehold project (LFLP, 2004-2013) is currently on track to achieve its quantitative targets for leasehold forestry. There is clearly an improvement in terms of tree cover and greenery in the leasehold forests, but the leasehold forest itself is far from sufficient to satisfy the needs for fodder and firewood. The benefits from forage seed distribution and planting material have varied from district to district, and even between different LFUG plots in the same district. The forages distributed were found to be performing well in sites below 1,700 m but were damaged by frost at the higher altitudes. The distribution of fodder tree saplings was successful, but not enough to supply green forages to the goat herds of LFUGs. The CPE mission observed significant variations in forest recovery during field trips: best in the Eastern and Central Development Regions with more reliable rainfall and where the forest plots handed over were not completely degraded; and very limited forest recovery in some observed clusters in the Mid- and Far-Western Development Regions, with less favourable climatic conditions. In some locations the saplings distributed did not survive, perhaps because the species were not suited to the microclimate and environment involved. The WUPAP leasehold component suffered from applying a similar approach to schemes in spite of the wide range in the quality of leasehold forestry land, from previously arable land to exposed, rocky land with limited remaining topsoil: there was little difference in budgets per hectare, despite substantial differences in the costs of developing the land.
116. Leasehold forestry activities were often accompanied by livestock development, whereby goats were distributed to families as an incentive to form leasehold groups and explore potential for goat breeding as a commercial activity. Goat distribution was only partially successful in improving household production of small livestock (see annex X). The programme also provided veterinary services through trained village livestock assistants (VLAs) and village animal health workers (VAHWs). However, owing to the unsatisfactory performance of VLAs, this initiative was discontinued. In 2007, IFAD provided a small grant facility to develop community-based goat breeding and a cooperative goat insurance mechanism. The programme did not succeed (see chapter VI, D). Overall, distribution of goats was a welcome incentive for the villagers and induced them to form groups and engage in leasehold activities, but its contribution to income generation was limited and sustainability is questionable.
117. Overall, effectiveness in this area is rated moderately satisfactory (4), taking into account the importance of leasehold forestry as an effective mechanism for poverty reduction and community development, and the progress made despite negative exogenous factors (insurgency) and weak institutional capacity.
118. **Rural development.** In addition to the two leasehold projects, IFAD financed two poverty reduction programmes (PAPWT and WUPAP) aimed at comprehensive rural development, including community development, infrastructure, and agricultural development activities (crops, etc.); it also contributed to World Bank's PAF-II that had similar objectives. The main challenge for assessing this area is the paucity (and often complete absence) of credible data on baselines, specific achievements, and impacts – with the only notable exceptions being PAF-II and LFLP.
119. Most IFAD projects in Nepal included formation of various groups as the main activity and indicator of social and community development. Group formation was overall a positive development in terms of community mobilization, although its effectiveness was often measured in a somewhat formalistic manner (number of groups formed, meetings held, etc.). According to the 2011 COSOP review, LFLP helped form 5,897 LFUGs with a total membership of 58,000 households. It is estimated that 33 per cent of the members were women, 9 per cent were *dalits*, 66

per cent *janajatis* and 25 per cent belonged to other social groups.<sup>27</sup> At the same time, many groups face sustainability risks and only a minority is currently classified as “active” (see a more detailed assessment of the “human and social capital and empowerment” criterion, paragraph 156).

120. PAF-II was perhaps the most successful contributor to capacity-building within target communities: 411 partner organizations were working with communities across 59 districts, of which 40 were categorized as the most deprived districts. By 2011, more than 17,000 community organizations with more than half a million members had registered with PAF. Communities started forming federations, networks of community organizations and cooperatives. Furthermore, PAF-II also facilitated marginalized communities’ access to schemes supported by other development programmes. Among community organization members, 66 per cent were classified as “hard-core poor”, 25 per cent as “medium poor”, 9 per cent as “poor” and 0.1 per cent as non-poor. *Janajatis* and *dalits* constituted 29 per cent and 33 per cent, respectively, of the membership while women accounted for 63 per cent. Apart from the highly satisfactory target achievement, there is evidence (survey results) demonstrating positive outcomes and impact of the support, such as increased consumption and improved food security.
121. As for infrastructure, most projects made notable achievements in terms of creating physical assets. In PAPWT the main infrastructure investment was in group shallow tube wells (GSTWs) provided to groups of 5-7 eligible small farmers with contiguous landholdings. In areas where shallow tube wells (STWs) were not feasible because of ground conditions and where surface water was available, the project installed shallow lift pump sets. The Government provided a subsidy of 75 per cent of the total cost for group-owned wells and pumps (but only 40 per cent for individually owned). The farmers contributed 10 per cent in cash or in kind, and ADBN provided credit for 15 per cent. However, in June 2000 the Government withdrew the subsidy, resulting in installation of only 267 (out of the planned 935) STWs, of which only 62 reached the targeted beneficiaries. This prompted project management to provide group shallow tube wells through the community development component. The achievement of targets for other water structures was also disappointing: nine lift pumps were installed against a target of 200, and 10 treadle/rower pumps were installed against a target of 200. The problems with group shallow tube wells were also related to design. The idea of providing one STW to a group of 5-7 farmers without prior group cohesion and history of collaboration was unrealistic in terms of effective operation and maintenance. Other parts of infrastructure investments under PAPWT - financing culverts, fish ponds, maintenance of trails etc. – appeared satisfactory as goals and targets were significantly surpassed. PAPWT documents also reported progress in rehabilitation of the *Kamaiya*<sup>28</sup> target group. Their livelihood was enhanced through the improvement of sanitation conditions, drinking water facilities and internal roads in the *Kamaiya* camps.
122. WUPAP has made a positive contribution in the area of community infrastructure, providing domestic water supply, school buildings and irrigation, micro-hydro and communications infrastructure, and water mills, exceeding the established target: 137 community infrastructure schemes, against the target of 75, were implemented. Despite overall positive results in terms of achieving the quantitative

<sup>27</sup> Including *brahmins* and *chetris*.

<sup>28</sup> The *ex-Kamaiyas* are people previously subjected to bonded labour. In Nepal, slavery was abolished in 1924 and the Constitution of 1990 banned the practice of bonded labour. The Muluki Ain (Civil Code) of 1963 and the Contract Act of 1964 also prohibit such contractual labour arrangements. Despite these legal provisions, bonded labour in the form of what is known as the *Kamaiya* system has been in practice in Nepal until recently, most prevalently in five districts in the Terai – Banke, Bardiya, Dang, Kailali and Kanchanpur – of the Mid-and Far-Western Development Regions. The *Kamaiya* system was overwhelmingly present (above 95 per cent) among the *tharus*, namely, the original inhabitants of the Terai of Nepal, highlighting the ethnic dimension of the system.

- targets, there were issues with having all schemes in operational standard; at the time of the CPE mission (April 2012) only 67 per cent met the WUPAP next phase "trigger" criteria ("engineering design, construction and maintenance standards for 80 per cent of the facilities constructed in phase II are appropriate and adequate"). The project was expected to meet the criteria by July 2012.
123. The PAF-II infrastructure component is making satisfactory progress. According to World Bank (Project Implementation Status Report, 14 March 2011), 11,810 subprojects have been implemented against a target of 2,500. Employment is being generated at the village level through income-generating activities and community infrastructure.
  124. Overall, the CPE rates effectiveness of rural development activities as moderately satisfactory (4). There were impressive quantitative achievements in group formation and infrastructure investments (in the later period), yet sustainability remains a consistent concern, especially regarding LFUGs. PAF-II stands out as the most successful on all fronts in terms of impacts/achievements and their actual documenting. It should be noted, however, that IFAD investment in PAF was relatively minor, and was earmarked for capacity-building.
  125. **Rural finance.** There was no dedicated rural finance project, but most active projects included a supplementary rural finance component that aimed to improve access to finance for poor farmers and facilitate institutional and capacity development in that area. The early leasehold project (HLFFDP) contained a credit scheme managed by ADBN under its Small Farmer Development Programme that was generally not successful and achieved only 56 per cent of targeted disbursements.
  126. The rural finance component in LFLP promoted informal rotating savings and credit schemes in the LFUGs, which would then be helped to join into village finance associations (VFAs) with a position to access funds from financial institutions. LFLP created 36 VFAs, which have mobilized capital of about US\$310,000. Results, however, remain unsatisfactory in terms of quality. The management committees, account committees and loan committees have modest capacity. The accounting and financial records are rudimentary, uneven, difficult to reconcile and do not allow easy assessment of financial performance of the VFAs. Members lack understanding of the basic principles of savings and credit operations. The training provided was only nominal (2-3 day seminars) and clearly inadequate. Many members were already part of other project-created savings and credit schemes, and their motivation to join the LFUG savings and credit scheme seems more related to the benefits they expect from other components of the project (e.g. goat distribution). The efforts to federate LFUGs into VFAs or cooperatives did not produce satisfactory outcomes, mainly because of shortcomings in the capacity of the selected service provider whose contract was terminated following the 2010 supervision mission. A recent LFUG categorization study carried by the Food and Agriculture Organization of the United Nations (FAO)<sup>29</sup> found that only 16.7 per cent of LFUGs are financially active and that average member deposits were only NR 12.6 per month (~US\$0.15).
  127. The rural finance component of PAPWT included a credit line for lending to the target group for income-generating purposes, which aimed at establishing and demonstrating a methodology for developing the Grameen Bank system in Nepal. GBRs were supposed to operate a revolving fund based on the Grameen model of microcredit and provide a sustainable rural finance service in the western Terai. Although many of the quantitative targets were achieved as planned, the quality of the portfolio and the viability of institutions were poor. Sixteen branches of different Grameen Banks were involved in credit operations and managed to

<sup>29</sup> FAO, March 2012: Leasehold Forest User Group Categorization – An Analysis of the Group Status.

mobilize a total of NR 132 million for lending to 21,627 poor households (i.e. 75 per cent of the target). None of the 16 GBRs ever achieved financial viability, and incurred big losses. The deteriorating security situation had been a contributing factor in this regard, as the GBRs were forced to reduce or even stop their visits to the interior parts of rural areas. An estimated 65 per cent of the loan portfolio was never recovered. There were also problems with targeting, as only 55 per cent of beneficiaries fell within the target group.

128. WUPAP's rural finance component included introduction of informal rotating savings and credit operations in the community organizations and a credit modality (line) for lending to community organizations once they graduated and became viable and creditworthy. The budget of the credit line was reduced from US\$4.6 million to US\$1.0 million due to lack of demand and capacity to handle it. NGOs were contracted to provide social mobilizers to help form community organizations, train community organization leaders (management and finance), attend meetings to ensure that the organizations were run correctly, and gather data on group activities. Given that each social mobilizer was responsible for up to 20 community organizations, there was little time available to ensure that community organizations were functioning well. Social mobilizers have limited experience in microfinance and receive only nominal training, which partly explained the poor results. Borrowers were few and only about half of the savings were used for lending in areas where the portfolio-at-risk has been unsustainably high. Default rates in some districts were as high as 47 per cent on the line of credit, and up to 26 per cent on the loans funded from internal savings. According to project documents (annex XI), this indicator improved substantially in the recent period, with recovery rates reaching 95 per cent. Most loans were used for immediate consumption and household crisis situations, and to finance migration travel. Other issues included poor record-keeping and substandard accounting.
129. Overall effectiveness of the rural finance components in IFAD projects is rated unsatisfactory (2). Rural finance components in all observed projects played a secondary role and suffered from inadequate design and resource allocations for capacity-building, and most loans served consumption purposes. Efforts to develop microfinance through introduction of the Grameen model were not successful.
130. **Overall effectiveness of the portfolio** is assessed as moderately satisfactory (4). The relatively positive results achieved in leasehold forestry and rural development, and especially under PAF-II, were a major factor in the overall positive rating. Rural finance was the weakest part of the portfolio. The overall positive ratings, despite the negative rating (2) for rural finance, reflects the following considerations: (i) greater weight given to the first two areas (leasehold forestry and rural development); (ii) the fact that the rural finance component in LFLP was discontinued; and (iii) visible improvements in the overall portfolio in recent years.

Table 12

**Portfolio effectiveness**

<i>Sector</i>	<i>Rating</i>
Leasehold forestry	4
Rural development	4
Rural finance	2
<b>Overall portfolio</b>	<b>4</b>

**Efficiency**

131. Efficiency refers to the extent to which the design and delivery of assistance were most cost-effective, and how economically resources/inputs (funds, expertise,

time, etc.) were converted into results.<sup>30</sup> The economic internal rate of return is sometimes used as an indicator, comparing its estimated value at design, and at the completion or post-project stages. However, owing to lack of data this has not been possible in this CPE. Instead, information on efficiency has been organized according to timeliness of project start-up, disbursements and implementation of components, and unit costs and management cost ratios.

132. In terms of delivering planned outputs and activities with satisfactory quality and according to schedule and budget, there is variation between the five projects. These may be explained partly by differences in the complexity of design and in the strengths and weaknesses of the PCUs, implementing partners and contracted service providers. Furthermore, a project's delivery performance may vary over the implementation period (e.g. WUPAP).
133. **Time lags.** The Nepal portfolio compares well with the IFAD regional and global averages for the time between approval by IFAD's Executive Board and declaration of effectiveness (table 13). With respect to extensions of the implementation period, the current average is also favourable in spite of a 71.5-month extension of HLFFDP. However, four projects are ongoing and the conclusion cannot be final in this regard.
134. **Disbursement rate.** The disbursement rate, adjusted for the percentage of the implementation period used, is highly satisfactory for PAPWT, LFLP and PAF-II but unsatisfactory for HLFFDP, WUPAP and HVAP. The latter has spent more than one year getting the PMO established but is now ready to enter into full-scale implementation. An opportunity to quick-start implementation was missed partly because the work done in the past by CEAPRED (under LLP and Pro-Poor Livelihoods Promotion through commercial high-value agriculture [PPLP], forming part of the basis for HVAP) was not utilized to the full extent. In addition, it was observed that some potential bidders among local NGOs were not allowed to participate in the bidding process because of government procurement regulations that did not allow the engagement of non-VAT paying entities.<sup>31</sup>
135. In the case of WUPAP, IFAD's project status report of June 2011 observed: "The difficult operational environment, including weak Government structures, have contributed to the slower than expected implementation and disbursement. The Government has so far not appointed counterpart officials to implement the project as agreed during the phase I review due to weak security situation in the project districts and uncertain political environment. Lack of sufficient human resources to implement the project is the single biggest constraint for the implementation."

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<sup>30</sup> Evaluation Cooperation Group: "Good Practice Standards for Country Strategy and Program Evaluations [CSPE]" (ADB, 2008) and "Good Practice Standards for Public Sector Evaluations" (ECG, 2012). The 2008 paper notes that "Measuring efficiency is difficult at the overall country programme level because of the difficulty of estimating the combined benefit flows of various categories of multilateral development bank (MDB) assistance (i.e. policy support, capacity-building, or aid coordination). Instead, CSPEs typically draw on proxy indicators of the efficiency of an MDB's support in comparison to cost .... Factors affecting the efficiency of resource use are identified in an MDB's CSPEs".

<sup>31</sup> According to some sources, these regulations are currently under review and this obstacle might be removed in the near future.

Table 13  
**Time to effectiveness, time overrun and adjusted disbursement rates**

<i>Project</i>	<i>Time between Executive Board approval and declaration of "effectiveness" (months)</i>	<i>Difference between original and actual project completion (months)</i>	<i>Adjusted disbursement rate<sup>a</sup> (per cent)</i>
Hill Leasehold Forestry and Forage Development Project	14.4	71.5	60
Poverty Alleviation Project in Western Terai	6.0	12.0	110
Western Uplands Poverty Alleviation Project	12.8	0.0	30
Leasehold Forestry and Livestock Programme	9.2	0.0	90
Poverty Alleviation Fund II	7.6	0.0	160
High-Value Agriculture Project in Hill and Mountain Areas	6.6	0.0	10
Average above projects	9.4	13.9 <sup>b</sup>	80
Average earlier projects in Nepal	10.3	16.3	120
Regional average	9.0	12.1	
IFAD average	12.2	15.3	

Source: CPE elaboration from PPMS (June 2012).

<sup>a</sup> Disbursement rate adjusted for project duration as of March 2011. For example, if a project has used 50 per cent of its implementation period and 50 per cent of its budget, the adjusted disbursement rate is 100 per cent.

<sup>b</sup> All projects except two considered by the current CPE are still ongoing and this estimate is likely to understate future overrun.

136. **Implementation performance.** The implementation performance of the two closed projects was not satisfactory considering the delays and cancellation of budgets/interventions, which may be explained by design problems. With respect to the ongoing projects, WUPAP's overall implementation progress and the coherence between actual implementation and the annual workplans and budgets was in the unsatisfactory zone until late 2011, but the "rescue operation"<sup>32</sup> undertaken by APR improved overall performance, as expected.<sup>33</sup> LFLP and PAF-II are in the satisfactory zone with respect to overall implementation progress and coherence between annual workplans and budgets and implementation.
137. Some of the key problems in implementation have been related to the accounting and M&E functions. The projects used manual bookkeeping, although modern accounting software is being slowly introduced. M&E systems have been generally weak and unreliable, although it should be noted that, lately, WUPAP and LFLP have been making progress in this area.
138. **Infrastructure - standards and unit costs.** PAPWT used the "old" MLD/DDC engineering norms and standards that were less efficient than current ones, particularly in terms of estimating the unskilled labour requirements. WUPAP and PAF applied the current improved norms and standards of MLD, which are more cost-effective than those used by other agencies (e.g. the irrigation and road departments still use the "old" norms that provide room for overestimation of unskilled labour requirements in particular, thus leaving ample space for misuse of resources). Field interviews with local government and WUPAP technical personnel suggest that the "technical wing" of WUPAP is inadequately equipped in terms of personnel, engineering equipment and technical training and supervision. In Jumla

<sup>32</sup> See chapter V, box 2.

<sup>33</sup> Confirmed during the 2012 Asia and Pacific Region (APR) Portfolio Review.

and Dailekh districts, the CPE mission observed cases of inefficient use of resources where DDC-commissioned roads destroyed a number of WUPAP-implemented infrastructure schemes.

139. **Cost of project management and coordination.** The cost of managing and coordinating project implementation in relation to total project budget/expenditure is also used as an indicator of efficiency, implicitly assuming that management does not create benefits and therefore the less one spends on management and coordination, the more efficient the project. This indicator may be measured ex ante based on the project design budget and ex post after project completion by considering what was actually spent during implementation. Unfortunately, both measurements are constrained by a number of factors, including: (i) budget/expenditure for project management and coordination is often defined as support for institutional development while it generally excludes the management costs and overheads of partners and subcontractors in implementation; and (ii) ex post figures are difficult to establish because in its design documents IFAD allocates resources to components while, during implementation and at completion, it only accounts for expenditure according to expenditure categories and not according to components.
140. These challenges imply that the estimated figures in table 14 below should be used with caution. For example, in the case of HLFFDP, the budgets allocated for institutional strengthening and M&E (Report and Recommendation of the President, December 1989) are used as the ex ante management costs. While the project completion report (PCR) does not provide figures on actual expenditure on these items, it does highlight that only 54 per cent of the design budget (US\$20.4 million) was disbursed and that only US\$5.9 million of IFAD's loan of US\$12.8 million was used. On the other hand, the grant from the Government of The Netherlands (US\$3.34 million) to finance FAO technical assistance to support implementation increased to US\$4.84 million (44 per cent of total expenditure). The PCR also states that the four implementing agencies engaged a total of 85 full-time and 257 part-time staff for implementation of HLFFDP - another indication of high management costs.
141. In contrast, PAPWT and PAF-II appear to have very modest management costs. However, in the case of PAPWT the budget for institutional strengthening does not include the management costs of the many different implementing agents. For PAF, the management costs of partner organizations are not included and the high volume of total disbursements also contributes to explaining the modest management cost percentage.

Table 14

**Project management cost as percentage of total project costs**

<i>Project</i>	<i>Ex-ante in project design budgets</i>	<i>Ex post at project completion</i>
	<i>Management costs as per cent of total base costs</i>	<i>Expenditure on management as per cent of total expenditure</i>
HLFFDP	25	44
PAPWT	4	-
WUPAP	22	<i>ongoing</i>
LFLP	12	<i>ongoing</i>
PAF-II	6	<i>ongoing</i>
HVAP	26	<i>ongoing</i>

*Source:* The ex ante figures are sourced from the Reports and Recommendations of the President to the Executive Board. The PCRs were used to estimate ex post figures for HLFFDP and PAPWT – however, for the latter without succeeding.

142. **Overall efficiency of the portfolio** for the period under review is rated moderately unsatisfactory (3). This takes into account of the low efficiency of early projects, in particular HLFFDP, and improvements in the more recent projects.

## B. Rural poverty impact

143. Impact is often the most challenging criterion to assess because of limited data and methodological issues such as attribution (implying that certain results are due to the IFAD-supported development intervention). For the evaluated portfolio, only PAF-II, LFLP and HLFFDP provided data that were useful for assessing impact.
144. Neither PAPWT nor WUPAP provided solid and reliable impact data. The PAPWT completion report<sup>34</sup> provided numbers on inputs, activities and targets only. Poverty impact assessment is further complicated by the fact that a substantial part of the inputs and outputs reached households not belonging to the target group.
145. Most importantly, the recent 'explosion' in the volume of remittances makes it extremely difficult to draw attribution lines from project interventions to household income and food security.
146. In addition, some evidence on impact of the current portfolio may only emerge in the future, as many projects are still ongoing and some impacts take time to materialize. This is particularly relevant for the support to leasehold forestry where it may take a generation before the forest is fully recovered.

### Household income and assets

147. The impact of IFAD projects on household income and assets varied across projects and was not always easy to quantify. For PAPWT, the overall impact on financial assets was modest. Although a large volume of credit has been dispersed through GBRs (NR 131.4 million against a target of NR 196.3 million), only 55 per cent went to the target beneficiaries. Nevertheless, the credit component was important for initiating income-generation activities and reducing borrowing from traditional moneylenders. Paucity of impact data for WUPAP implementation does not allow assessment of the project's impact on rural poverty, especially in terms of household income and assets (also highlighted in the 2010 mid-term review).
148. In the leasehold forestry activities, the main impact on household income and assets was achieved through distribution of goats: two female goats per household (~NR 5,000) and one buck per 10 households (~NR 7,000). There is some evidence<sup>35</sup> (albeit based on small samples) indicating positive impact on household income (table 15)<sup>36</sup>. It is noteworthy that members of LFUGs had higher levels of poverty at the group formation stage ("before") which may be interpreted as an indication that the poorest communities are being reached. However, despite noticeable improvements, some 72 per cent of the households were still food secure for less than seven months in a year.

Table 15

#### LFUG households - distribution by economic class/food security (per cent)

Economic class	Food secure N <sup>o</sup> months <sup>a</sup>	LFUG site		Control site	
		Before	After 2008	Before 5-10 yrs	Now 2008
Ultra poor	3 and less	57	34	32	29
Medium poor	4-6	31	38	40	41
Poor	7-9	12	17	16	16
Rich	10 and more	0	11	12	13

Source: Dr B. H. Pandit, March 2009: Effectiveness of Leasehold Forestry to Poverty Reduction - based on 2008 Household Survey.

<sup>34</sup> Inlogos for MLD, December 2005:PCR.

<sup>35</sup> Effectiveness of Leasehold Forestry to Poverty Reduction - based on 2008 Household Survey, by B. H. Pandit, March 2009.

<sup>36</sup> The number of months a household is food secure is often, in Nepal, used as an indicator of income category or poverty status.

<sup>a</sup> This indicates the number of months in a year that a household is food secure from its own food production and the income it obtains.

149. On average, LFUG members increased the number of goats from two or three to about five. It appears that there were very few households that continued the growth in herd size beyond that and became commercial goat farmers.
150. The contribution to household income from the leasehold forest was more modest and indirect in terms of time savings for households in the collection of fodder and firewood - time that may or may not be used to earn income. According to LFLP surveys, about 53 per cent of LFUG members spend less time collecting firewood while 65 per cent spend less time collecting fodder. LFUG members who introduced the practice of growing fodder trees also benefited from the sale of broom grass and thatching grass. Group savings and mobilization enabled many women to handle cash and allowed the community to avoid distress sales of their assets.
151. The most impressive results were generated by impact surveys<sup>37</sup> for PAF-II, indicating a 49 per cent increase in per capita consumption and 82 per cent increase in real household income among the beneficiaries, thanks to more than 17,000 income-generating "projects" and community infrastructure investments funded by PAF.
152. Overall, the household income and assets domain is rated moderately satisfactory (4).

#### **Human and social capital and empowerment**

153. Several IFAD projects claimed to have contributed to creating and developing community organizations and empowering the poor. PAPWT and WUPAP claimed achievements in several areas - formation of different community organizations, development of group capacity and participatory learning, decreasing the malnutrition and child mortality rates, and improved life expectancy - but there is little, if any, evidence to back up these claims, and attribution (e.g. life expectancy) is highly questionable.
154. LFLP supported the formation of over 5,000 LFUGs that comprised more than 30 per cent of women, and had numerous women, *dalits* and *janajatis* in leadership roles. Activities such as training, visits and other interaction programmes enabled them to become more vocal in defending their rights and welfare. It should be noted, however, that while it was the distribution of goats that provided the main incentive for households to form LFUGs, it is the leasehold forest that will determine the institutional development of the LFUGs because the distribution of goats was a one-time event. LFUGs are likely to become important institutions for poor household members when they feel that the forest they have leased is a valuable asset that provides them with benefits. However, there were also cases where LFUGs received completely degraded state forest which they had used (illegally) for grazing their animals before the lease.
155. The introduction of informal rotating savings and credit operations in the LFUGs may potentially motivate members to sustain the groups even if the benefits from the forest are negligible. However, this assumes that the savings and credit operations function effectively and provide them with important incremental benefits - which is yet to be seen.
156. In 2012, LFLP/FAO prepared a study<sup>38</sup> to categorize and analyse the status of the LFUGs. The study found that very few LFUGs from the first phase of LFLP were still active: "The overall status of LFUGs is determined on their performance on four aspects, i.e. institutional development, leasehold forest development, livestock

<sup>37</sup> Two surveys by the Department of Population Studies together with Tribhuvan University, and an assessment by World Bank.

<sup>38</sup> FAO TA for LFLP, March 2012: Leasehold Forest User Group Categorization - An Analysis of the Group Status.

development and rural finance. The analyses of all four aspects of 5,042 LFUGs shows that 1,103 LFUGs (21.9 per cent) are active and 1,057 (21 per cent) are passive. The rest (57.2 per cent) of the LFUGs are of medium category. Most of the groups formed during the first phase of the programme are either medium or passive category." The study also concludes that the institutional development status is good for only 19 per cent of the LFUGs, poor for 33 per cent, and medium for 48 per cent. With respect to the savings and credit operations of the LFUGs, the study states: "The rural finance status of half of the LFUGs is poor. Only 16.7 per cent of LFUGs are financially active."

157. However, in spite of the poor institutional development impact, it seems that leasehold forestry is making a positive contribution to the empowerment of socially excluded groups. The 2011 FAO Outcome Study Report indicated that *dalits* represent 16 per cent of the members (an increase from 11 per cent in 2000), *janajatis* 52 per cent and others 32 per cent. The level of involvement of *dalits* is increasing; though still under-represented in management positions (table 16), more and more *dalits* are becoming office bearers. During CPE mission interviews in the field, *dalit* respondents noted that, while still prominent, caste discrimination is gradually receding. Leasehold forestry has given *dalits* more access to resources than community forestry; in a CFUG they feel like "a minority" while in LFUGs they feel like "real" members. Most LFUG members are also CFUG members but for *dalits* it is very difficult to protect and claim their rights within the CFUG. In this way, leasehold forestry fulfils its initial objective of providing space for excluded groups.

Table 16

**Membership and management participation of women, *dalits* and *janajatis* in LFUGs**

	Women/ women- headed household	Dalits	Janajatis
Membership (as per cent of total)	39	16	52
Key positions held (as per cent of total)	36	12	54

Source: FAO 2011 Outcome Study Report.

158. There is no similar systematic study of the institutional development stage of the community organizations supported by PAF.<sup>39</sup> Nevertheless, the fact that the value of the revolving funds of the community organizations increased by an estimated 8 per cent does provide an indication of some degree of coherence and discipline in the community organizations. Members appear to repay the money they receive for their income-generating activities.
159. Overall, the effectiveness of the human and social capital and empowerment domain is rated moderately unsatisfactory (3).

**Food security and agricultural productivity**

160. There are very few quantitative data for PAPWT, but it is likely that provision of irrigation facilities and agricultural extension training increased productivity, and as a result, food availability. This was, however, undermined by the reduction in construction of STWs as a result of change in government policy (subsidies). WUPAP provided investments in seed, irrigation and livestock, but the corresponding technical support has been largely lacking, and there is little, if any, evidence of impact on food security and agricultural productivity.
161. LFLP contributed to improving forest and fodder productivity, although there is little quantitative data to back up this assessment. With regard to food security, the

<sup>39</sup> PAF Note on Monitoring and Impact Evaluation Results: "There is, as yet, no significant PAF impact evidence on indicators associated with community/social capital (trust, respect, relationships between different ethnic groups, community disputes, etc.), although the overall trend for both groups is positive".

increase of livestock as well as higher household income had a significant bearing on nutrition, with positive impact on food security and improved diets for children (table 15). The main contribution came from sales of livestock (goats), and forest products - NTFPs and MAPs.

162. Data from PAF-II shows significant improvement in food security. In particular, the share of households with food insufficiency of three months or less dropped from 13.8 per cent in 2007 to about 5.5 per cent in 2010 for the PAF beneficiary households (a 60 per cent reduction – compared to only 6.8 per cent for non-beneficiaries). Similarly, the share of households with food insufficiency of six months or less decreased from 40 per cent in 2007 to about 33 per cent in 2010, a reduction of about 17.5 per cent, for PAF beneficiary households. There was no reduction for non-beneficiaries during this period and, in fact, there was an increase of about 9 per cent in the food insufficiency of these households.
163. Overall, effectiveness of the food security and agricultural productivity domain is rated moderately satisfactory (4).

#### **Natural resources, the environment and climate change**

164. A large part of the IFAD portfolio in Nepal was neutral to or had only a limited impact on this domain (e.g. rural finance), with the exception of leasehold forestry, which had a generally positive impact (notwithstanding the potential risks for the environment posed by increasing the goat population). Overall, leasehold forestry was considered a successful programme in converting degraded forest lands into productive green areas within a year or two after free grazing and forest fires were controlled. As seen in annex X, the majority of the leasehold forests have experienced “improved greenery” but LFUG members still have to look for a large part of the fodder for their livestock outside the leasehold forest: in state and community forests, their own plots or other places. In some cases, these external resources are abundant and can easily accommodate the increased goat population. In other places, there is scarcity, and the increased goat population could have a negative impact if not stall-fed. The overall rating for this domain is moderately satisfactory (4).

#### **Institutions and policies**

165. This section addresses the impact on public institutions and policies, and not the beneficiaries’ organizations, addressed above. Generally, the support of the portfolio for institutional development has been limited to facilitating the implementing government partners to execute project activities (providing vehicles, office space, covering travel expenses and per diem). Although it is quite likely that many government officers have developed their skills and capacity by participating in project activities, the portfolio itself did not anticipate specific institutional strengthening, based on a strategic or organizational development plan. Therefore, the overall institutional development impact of the portfolio is relatively modest.
166. **Impact on central government capacity and national policies.** IFAD has been a strong supporter of leasehold forestry since the 1990s. The Government recognized leasehold forestry as a priority programme in rural poverty reduction, as reflected in poverty reduction strategy papers, but this recognition did not translate into establishment of an adequately resourced Division for Leasehold Forestry within the Department of Forests. The Government managed to continue some of the leasehold forestry activities during the two-year gap between HLFFDP and LFLP, but it is quite likely that, in the absence of a third phase or other form of support, leasehold forestry will receive low priority in the budget allocation.
167. **Impact on local government capacity.** There has been no dedicated support directly aimed at developing the capacity of local governments (DDCs and VDCs). However, some indirect improvements may be expected from projects’ engagement of NGOs to work in partnership with local administrations and support beneficiary groups. The LFUG categorization study found that about half of all LFUGs have

developed collaboration with agencies outside the project. However, there is no information to assess the impact of such developments on local government agencies.

168. The overall impact on institutions and policies is rated moderately unsatisfactory (3).

### C. Other evaluation criteria

#### Sustainability

169. The assessment of sustainability looks at the likely continuation of net benefits from IFAD interventions beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond a project's life. As relevant, it also involves issues of institutional, technical, financial and natural resources sustainability, which are addressed at two levels: (i) the sustainability of activities of beneficiaries and their organizations; and (ii) continued availability of key services once project support ends.
170. **Sustainability of benefit streams.** Overall, the sustainability of the benefit streams is endangered by considerable risks at the level of the supported beneficiary groups. If a group collapses or becomes dormant, several of the benefit streams will in most cases terminate, although some households will continue to reap their private individual benefits from the assets they have obtained, e.g. the goats or the apple trees. With the possible exception of the PAF-supported community organizations, there are very few LFUGs, other groups, community organizations and cooperatives with any substantial capital, turnover and profit, and most of them need continued support for management and institutional development. This is not surprising as most of the groups were not created for the purpose of becoming profitable self-reliant enterprises.
171. Sustainability prospects are particularly unsatisfactory in rural finance. Most of the rural finance schemes created or developed under IFAD projects did not reach a sufficient level of maturity. The informal savings and credit groups lack skills and management capacity. Not only is there a risk that large numbers of group members could lose their savings, but it could also result in withdrawal of many households from the groups.
172. LFLP's strategy to form larger groups at the cluster level, which later can become VFAs (or cooperatives) while district and regional level federations would work for cohesiveness and advocacy, has not yet been realised. In principle, VFAs could facilitate the financial sustainability of the LFUGs by providing them with rural financial services and management support.
173. The results of a recent study show that only a minority of LFUGs are fully active and only a few are from the first phase of the programme. The community organizations being supported by WUPAP have limited rationale and incentive for continuing once the project ends. Generally, they do not take full responsibility for maintaining the infrastructure schemes financed by WUPAP.
174. While there are considerable sustainability risks for the beneficiary groups, there are activities undertaken by individual beneficiaries and introduced with project support that have better sustainability prospects as long as they are profitable and generate attractive incomes for households. These include production of vegetables, certain MAPs and NTFPs, and goats. However, in certain cases sustainability is threatened by weak government support services, e.g. animal health services.
175. **Sustainability of service provision.** Some activities supported by the portfolio are standard or mandatory in the annual workplans and budgets of government agencies, such as agricultural support services and, to some extent, the

registration of LFUGs, and the mapping and lease-transfer of state forest land. These activities are likely to continue, albeit at a lower level, when project support terminates. Other activities, such as contracting of NGOs to support the formation and institutional development of beneficiary groups, including the savings and credit operations supported by the portfolio, are not a standard part of government budget and are likely to be discontinued. Under PAF, contracting of partner organizations appears to be an integral part of PAF's budget but this may change if, in the future, PAF were to depend entirely on government funding.

176. Outside of government, the microfinance institutions (GBRs) supported under PAPWT did not develop sustainable operations due to poor loan recovery and the high costs of serving a scattered rural clientele.
177. Overall for the portfolio, sustainability is assessed as moderately unsatisfactory (3) with main weaknesses identified in the area of rural finance and sustainability of beneficiary groups.

### **Pro-poor innovation and scaling up**

178. Assessment of pro-poor innovation and scaling up looks at the extent to which IFAD interventions have: (i) introduced innovative approaches to rural poverty reduction; and (ii) the extent to which these interventions have been (or are likely to be) replicated and scaled up by government authorities, donor organizations, the private sector and others agencies.

#### **(i) Innovation**

179. During the period covered by the CPE, IFAD projects introduced some innovative practices with potential for scaling up, although none of them stood out in particular. In Nepal, IFAD was largely profiled by its support for leasehold forestry and the small farmer development projects, both innovative approaches but introduced long before the period covered by this CPE. The idea of leasing forest to groups of poor households emerged within the ADBN in response to problems faced in rural finance programmes such as the small farmer development projects. It was observed<sup>40</sup> that while savings and credit groups functioned relatively well in the valley bottoms, close to the road network and markets, they functioned poorly on the hill tops and among communities far from roads and markets where, as a consequence, the economy is largely subsistence-based with few commercial investment opportunities. Households therefore mainly borrow for consumption but as the local economy is not very monetised they find it difficult to generate the cash required to repay the loans. Leasehold forestry was envisaged as a way of creating investment opportunities and increasing the monetisation of the local economy.
180. It can be argued that leasehold forestry has largely failed to achieve its original objective as the recent LFUG study found that only 17 per cent of the LFUGs are active savings and credit groups, and these are most likely the LFUGs close to the markets. Furthermore, the secondary level of associations of LFUG savings and credit groups (VFAs), linked to formal financial institutions, has not materialized. More recently, the specialized support of rural finance under LFLP and WUPAP has been discontinued. However, instead, leasehold forestry has contributed to reforestation and improved livelihoods of local communities.
181. HVAP's focus on supporting the development of commercial agriculture around the road corridors represents a move away from a geographically driven implementation approach and normal concentration of IFAD projects on staples and bulk markets. Its strategy is based on development around road corridors, production potential and improved market access. For IFAD, this may be considered as a new approach in the country context that relies on the value chain

<sup>40</sup> Based on interviews with former ADBN staff.

development which IFAD's main partner in this area, SNV, has been implementing in a number of countries. However, other development partners have explored these types of activities earlier.

### **(ii) Scaling up**

182. The concept of leasehold forestry had been scaled up significantly during the period covered by the CPE. LFLP endorsed the new pro-poor approach to forestry piloted by HLFFDP and aimed at assisting the Government in scaling up this approach to the national level. However, it seems that LFLP was too ambitious in scaling up a successful model without a well-designed and functional institutional and administrative structure. Some farmers started innovating by planting MAPs, grafting local fruit trees, introducing systematic protection of leasehold forest by watch and ward in rotation between households, and by introducing simple low-cost measures for protection against landslides.
183. Through its contribution to PAF-II, IFAD is associated (albeit as a late-comer and small cofinancier) with scaling up an innovative demand-driven model for supporting the poorest communities. PAF-II has a dedicated component on "innovation and special programmes" that includes innovative programmes such as the Nepal Development Marketplace (NDM) that captures replicable innovative initiatives to reach the rural poor.
184. Overall, IFAD's government-executed portfolio made a relatively modest contribution to this criterion and is rated moderately unsatisfactory (3) for the CPE period. At the same time, it contributed to introducing new approaches through some of its NGO-executed grants, notably LLP/Pro-Poor Livelihoods Promotion through Commercial High Value Agriculture (PPLP) (see chapter VI.D).

### **Gender equality and women's empowerment**

185. This criterion assesses the efforts made to promote gender equality and women's empowerment in the design, implementation, supervision and implementation support, and evaluation of IFAD-assisted projects. It specifically considers the contribution of the portfolio to IFAD's three strategic objectives as defined in the 2012 IFAD Policy on Gender Equality and Women's Empowerment, i.e. (i) economic empowerment of rural women; (ii) improved participation and representation of rural women in decision-making and in rural organizations; and (iii) a more equitable workload balance.
186. Despite recent efforts to improve the M&E systems by IFAD and the project teams, these have not yet generated the quality of data necessary to make fully informed judgements when it comes to gender and social equity issues. Monitoring systems usually focus on quantitative indicators that are target-driven (numbers of groups formed or numbers of training attended) rather than on documenting impact and change processes within communities, between genders and different social groups. So while it is often possible to have information such as the number of women attending meetings, it is almost impossible to know the quality of their participation and obtain a broader understanding of what is really changing, how and for whom. Another issue is that because of migration, men of working age have left the villages and therefore the increasing relative participation of women in LFUGs and community organizations may be explained by migration rather than specific efforts of the projects.
187. A study<sup>41</sup> by the International Centre for Integrated Mountain Development (ICIMOD) on gender-related progress concluded that WUPAP does make efforts to address women's needs but that the "[project team needed to] improve its understanding of the concept and practice of gender mainstreaming".

<sup>41</sup> Mainstreaming Gender in Mountain Development - from Policy to Practice. Lessons learned from a gender assessment of four projects implemented in the Hindu Hush-Himalayas, Leduc, B. 2011 Kathmandu: ICIMOD.

188. Women's engagement is increasing in leasehold forestry. The LFUG categorization study found that 38 per cent of members are women and that they attend training events and public meetings. The FAO Outcome Study Report found that 39 per cent of registered members are women (against 15 per cent in 2006) and about 36 per cent of key positions in the LFUGs are held by women. Where the forest cover has been re-established, the leasehold forests do in many cases reduce the time spent on collecting firewood and fodder, a traditional responsibility of women, thus contributing to improved workload balance.
189. During a field visit in Dhading district, women interviewed consistently reported that the benefits of LFLP go beyond finance. Women feel much more confident to speak in public; the LFLP has given them access to training and group loans and helped them to develop the habit of saving. Their awareness of working as a group has increased and this creates a momentum to go and ask for help outside. There are many such testimonies that are difficult to verify and quantify but nevertheless indicate some degree of empowerment and social change, which is important because of their longer-lasting effects.
190. In the PAF-supported community organizations, 75 per cent of all members are women who also hold 63 per cent of the management posts such as President, Treasurer and Secretary.
191. Overall, the portfolio performance on this criterion is assessed as moderately satisfactory (4), considering moderately unsatisfactory performance in the three early projects (HLFFDP, PAPWT and WUPAP), moderately satisfactory performance in LFLP and satisfactory performance in PAF.

#### **D. Overall achievement**

192. The ratings for the country portfolio take account of the performance of individual project and overall sector performance (as assessed in the section on portfolio effectiveness). Table 13 provides ratings for the overall portfolio of projects considered in this CPE, benchmarked against global ratings presented in IFAD's ARRI. The overall portfolio ratings are also consistent with the summary of individual project ratings (annex I).
193. In terms of contribution to rural poverty reduction, the highest impact has been demonstrated by IFAD's relatively small contribution to the World Bank-funded PAF (IFAD contributed US\$4 million and World Bank US\$215 million). This is followed by IFAD's support for leasehold forestry, which in spite of many challenges is contributing to restoration and preservation of forest resources and increased household incomes. The achievements and sustained outcomes of the poverty alleviation projects in the Terai (PAPWT) and Western Uplands (WUPAP) are more mixed and scattered and impact is not well documented, but WUPAP still has time left to improve results and outcomes.
194. Overall, the project portfolio is assessed as moderately satisfactory (4), which is slightly more positive than the assessment of the portfolio by the country programme management, as indicated in the 2011 COSOP review (box 1). This is partly due to a more positive assessment of leasehold forestry and PAF.

Box 1

**Assessment by the 2011 COSOP review of project performance****Selected findings of the 2011 COSOP review report**

"The performance rating for the projects in Nepal has not been very satisfactory. In the last three years at least one of the two projects that were rated as being at risk suffered an actual problem or was at risk of facing a potential problem. The scores show that WUPAP presents a mixed picture from unsatisfactory to moderately satisfactory but improving in 2011. LFLP was moderately unsatisfactory but improving in 2011; PAF and HVAP are moderately satisfactory. However, HVAP has only just started implementation on the ground."

"The aspects of the projects which performed moderately satisfactory were targeting and infrastructure. The performance of leasehold forestry aspects has shifted from moderately satisfactory to moderately unsatisfactory. Those aspects which have performed moderately unsatisfactorily are livestock and crop development; those that have performed unsatisfactorily are project management and coordination, and rural finance. This performance reflects negatively on the total level of assistance that IFAD has allocated to the country. ---- Rural finance components in particular need to be strengthened. Crop and livestock extension represent the second most important priority area for improvement after rural finance. Targeting the poor, infrastructure and leasehold forestry are on the positive side but require consolidation and upgrading."

*Source:* IFAD, December 2011: RB-COSOP annual review 2011, main report.

195. For the first part of the period evaluated, portfolio performance was in the moderately unsatisfactory zone but improvements are noted in the last few years, thanks to introduction of PAF and HVAP. Recent efforts to make a turnaround in the problematic WUPAP may also justify some hope for future improvements.
196. While the overall portfolio achievement is assessed as moderately satisfactory, there are special challenges in the areas of efficiency and sustainability, and within rural finance and development of viable institutions of rural households.
197. Comparing the percentage of projects in the Nepal portfolio that are rated in the satisfactory zone (4-6) with the corresponding percentage presented in the ARRI for IFAD's global portfolio, the Nepal portfolio has relatively more problems in three areas: (i) human/social capital and empowerment; (ii) institutions and policies; and (iii) sustainability. Given Nepal's historical heritage, and the armed conflict and political volatility during the period evaluated, this is not surprising.

**Key points**

- Overall, the objectives and strategies of IFAD-supported projects were relevant to IFAD and government policies and to the country context. However, some project designs were based on unrealistic assumptions and had overly ambitious geographical and thematic coverage, without proper consideration for the limited capacity of local government administrations, problems of coordination, and conflict and post-conflict issues.
- While many activities were carried out and quantitative targets were achieved (often with delays), most projects had problems in achieving their objectives. Nevertheless, the portfolio contributed to introducing and scaling up leasehold forestry, and IFAD's relatively small contribution to the PAF was a success.
- The poverty alleviation projects in the Western Terai and Uplands lacked systematic information and data to assess impact on par with other projects. Leasehold forestry, and PAF in particular, provided positive contributions to household income and food security. At the same time, leasehold forestry had challenges in developing strong and sustainable LFUGs and in influencing national and local government institutions.
- Sustainability is, overall, assessed as moderately unsatisfactory. It is a serious issue in rural finance and for many beneficiary organizations created with project support. Maintenance of community infrastructure is another area of concern.
- No major innovations were introduced during the period covered by this CPE but

leasehold forestry (introduced earlier) was significantly scaled up.

- Promotion of gender equality and social inclusion improved over the period evaluated, in design as well as implementation, but focus is still too much on numbers and quantitative targets, instead of qualitative and process aspects.
- Overall project portfolio achievement is assessed as moderately satisfactory, thanks to improvements over the period and inclusion of the satisfactory achievements of PAF with equal weight, despite a relatively small IFAD contribution. This assessment is tentative as some projects are still ongoing.

## V. Performance of partners

198. This chapter examines the performance of IFAD and government institutions in their respective roles related to the delivery of the IFAD-supported and government-executed portfolio. IFAD's performance in non-lending activities and in the grant-supported projects, executed by non-governmental partners, is not examined here. A detailed assessment of country programme management is given in chapter VII, C.

### A. IFAD

199. Over the period evaluated, IFAD led the identification, design and appraisal of projects and, from 2007, also started to directly supervise and provide implementation support for the projects. Some of the early project designs, PAPWT and WUPAP, had excessively ambitious geographical and thematic coverage, which was a challenge for weak government systems in implementation. In the more recent part of the portfolio, the design has become less complex and more focused (see also chapter IV, Relevance). The design process is usually led by international consultants on short missions, which makes it a challenge to capture all relevant ongoing and planned activities of other development partners as well as their lessons and experiences. Introducing "donor mapping" and engaging government officers in the design teams could improve the process - as demonstrated in the final design of the ISFP ("Biu Bijan") programme (seed subsector).
200. Since 2007, IFAD has assumed responsibility for supervising and supporting project implementation. This CPE finds that IFAD performed this function in a satisfactory manner and contributed to improving implementation performance. IFAD invested special efforts in improving the financial management and monitoring functions within projects, amongst other things placing expatriate interns in the monitoring units. Both IFAD and the Government should be commended for the "rescue operation" launched in 2011 to avoid the closure of WUPAP (see box 2).
201. During the period under review, the quality of IFAD's performance and continuous dialogue with the Nepali and donor counterparts were adversely affected by two factors: (i) frequent changes in CPM assignments and short tenure of CPMs in Nepal - eight CPMs during 2000-2011 - thus undercutting the continuity and stability of dialogue and country presence; and (ii) relative lack of attention from the senior management side (e.g. the CPE team was able to identify only one visit to the country by a Programme Management Department director, and none by a higher-level IFAD official).
202. Overall for the period, IFAD's performance is assessed as moderately satisfactory (4), with improvement to satisfactory at the end of the period.

### B. Government

203. Officials and professionals in Nepal's administration have traditionally been constrained in effectively executing their functions by limited budgets and incentives, and the armed conflict and political volatility made a bad situation worse. In recent years, ministers have changed frequently. Often, a new minister would replace not only the top management in the administration but also project

managers and staff in the PCUs/PMOs, which negatively affected project implementation.

204. Another general problem has been the public procurement rules that require contracted service providers to be VAT-registered. Many NGOs are not VAT-registered and do not wish to be so, and therefore it has been a problem to engage NGOs in loan-financed activities. During the CPE mission, the Government made a commitment to explore solutions to this problem.
205. There are three main problem areas in the Government's execution of projects. First, there is a tradition to focus on delivery of activities and quantitative outputs, defined without close consultation with the beneficiaries. Target achievement is more important than sustainable outcomes. However, in spite of this, IFAD's project status reports often observe that annual workplans and budgets are not implemented as agreed. Second, the monitoring systems are weak and tend to focus on quantitative indicators rather than indicators related to project objectives. And third, financial management (accounting) is often substandard. These weaknesses were frequently highlighted in IFAD (and UNOPS) supervision reports and in IFAD's internal project status reports, but the weaknesses are not specific to implementation of the IFAD-supported portfolio. For most of the period, there has been one project assessed at risk (refer to box 2).
206. Despite dedicated and often exemplary performance by many government staff members, observed by this CPE, the Government's overall performance in project execution has been negatively influenced by systemic constraints and exogenous factors, namely, the armed conflict and political volatility. Therefore, for the period, it is assessed as moderately unsatisfactory (3).

Box 2

**WUPAP "rescue operation"**

WUPAP (2001-2014) was designed with three phases under IFAD's FLM. Implementation performance and progress towards achieving the objectives has been subject to significant variations. The project appears to have performed well in phase I, exceeding several of the (modest) targets for this start-up phase, but then it fell back in phase II. At the time of the mid-term review (October 2010), two and a half years into the second phase, it seemed unlikely that the project could meet all five triggers necessary for moving to the third phase. If not, the project would have been closed which was the expectation at the time. In April 2011, the CPM reported (back-to-office report, April 2011): "WUPAP is underperforming in relation to the set objectives but it is not a "non-performing project". It is slow paced but has results to show. Simply, at the present stage, these results are not sufficient to trigger a third phase."

In order to 'save' the project, a management adviser was contracted to prepare an accelerated plan of action. The Government showed a clear intention to find a solution and put together an action plan, including replacement of the project manager, acceptance of the management adviser's lead role in rescuing the project, reduction of number of districts from 11 to six, introduction of competitive salaries and recruitment procedures for the PCU staff, increased mobility to reach remote communities, etc. When the CPE team visited the PCU in April 2012, all staff members except one were newly deployed.

According to data collected by project staff and presented to a "trigger workshop" in April 2012, within less than a year the project achieved a major turnaround, meeting all five triggers (see annex XI). It is expected that WUPAP will move into the third phase and be completed according to plans.

Source: CPE mission (April 2012).

Table 18

**Assessment of performance of partners in project portfolio delivery**

<i>Partner</i>	<i>Rating</i>
IFAD	4
Government	3

**Key points**

- IFAD's performance over the period under review is assessed as moderately satisfactory, with satisfactory performance in providing direct supervision and implementation support since 2007.
- Government performance is overall assessed as moderately unsatisfactory owing to systemic constraints, institutional weaknesses and the armed conflict factor. This, however, does not reflect on the satisfactory, and at times exemplary, contribution of many individual government officers.

**VI. Assessment of non-lending activities**

207. "Non-lending activities" refer to IFAD's engagement in policy dialogue, knowledge management and partnership-building outside the government-executed projects supported by IFAD loans and grants. However, in reality IFAD's engagement in these areas is either directly or indirectly related to projects. This chapter assesses, for each of the three types of non-lending activities, the relevance of what IFAD planned to do (e.g. as expressed in the COSOPs), and the effectiveness of IFAD's engagement – what was actually achieved. Finally, the chapter ends with a brief assessment of selected grants executed by agencies other than the Government.

**A. Policy dialogue**

208. **Relevance of plans and strategies for policy dialogue.** The 2000 COSOP identified three areas for policy dialogue in support of the strategy: (i) social justice, where "IFAD will be involved in a broad policy debate that raises issues of social justice and well-being across all social sectors, particular for poor and marginal groups, women and *dalits*" while emphasizing rights-based approaches; (ii) decentralization and good governance, where "IFAD will support a clear and effective policy on resource allocation and division of responsibilities between central (national) and local (district and village) government .."; and will promote the involvement of civil society and private organizations; and (iii) control of key natural resources where IFAD will advocate for the access thereto of disadvantaged groups and women.
209. This was an extremely ambitious agenda, particularly considering that at the time the burden of managing the agenda fell almost entirely on a Rome-based part-time CPM. The agenda was overall relevant to the context and the COSOP strategy but it was not specific about what IFAD wished to achieve and change in more concrete terms. Finally, it did not specify how IFAD planned to engage in these policy areas, i.e. with what resources, and in which policy reform processes, working groups and task forces would IFAD participate, etc. Nevertheless, the COSOP did boldly mention that IFAD would engage with political parties, trade unions and active social movements.
210. The agenda defined in the 2006 COSOP had similar deficiencies, although the COSOP did plan for establishment of a country office to engage in local policy processes. It also stated that the dialogue on key policy issues related to the strategic objectives (SOs) would take place in the annual performance-based allocation system (PBAS) consultations in conjunction with the annual review of COSOP indicators and country operations. It was expected that "these

consultations will provide an opportunity to engage in a policy dialogue with Government on broader policy issues.”

211. In support of its three strategic objectives, the 2006 COSOP defined an ambitious agenda for policy dialogue. For SO I (economic opportunities), (i) development and enforcement of an enabling regulatory framework for rural financial services; (ii) development of policies for involvement of the private sector in agro- and forest-based enterprises; and (iii) make agricultural research supportive of high-value agriculture. For SO II (community infrastructure), the agenda was less clear but mentioned advocacy for improving road access in hills and mountains. For SO III (inclusion), there was an argument for further reforms (not specified) to enhance gender equality and social inclusion. A more concrete recommendation was made for “a more integrated approach to forest resource management that unifies the current three-pronged forest policy and remedies remaining weaknesses in the legal foundations of leasehold forestry”.
212. However, even the latter recommendation failed to capture the more concrete context. In 2000, a joint technical review committee of government and development partners (without IFAD involvement) had been established to review policies and regulations for community forestry. The committee also addressed issues and made recommendations relevant to leasehold forestry, such as NTFPs, as well as a specific recommendation to allow CFUGs to lease up to 20 per cent of the community forest to up to 20 per cent of the members. The recommendation was partly implemented, contributing to the stated IFAD policy goal of unifying the three-pronged forest policy. This development provided IFAD with an alternative option for promoting leasehold forestry, i.e. leasehold forestry within the much larger and better resourced community forestry programme. However, so far, IFAD has refrained from exploring and deciding on this policy option.
213. More recently, in 2010 IFAD approved a DSF grant of US\$500,000 to support work on developing an agricultural sector strategy. ADB is the main financier while several other development partners are supporting the work. Overall, financial support for the formulation of a long-term (20-year) agricultural sector strategy was highly relevant to IFAD’s mandate, although IFAD’s engagement could have been more immediate and substantive (see also section D of this chapter).<sup>42</sup>
214. In summary, IFAD’s policy dialogue agenda included relevant but very ambitious intentions, but lacked specificity regarding objectives and the resources needed to achieve them.
215. **Effectiveness of policy dialogue.** This CPE was unable to identify concrete examples or evidence of IFAD’s influence and achievements in policy dialogue. There is barely any trace of active IFAD engagement in many agenda items identified in COSOPs, e.g. development of an enabling regulatory framework for rural financial services, etc. IFAD has reportedly attempted to convince the Government to increase resource allocation for the leasehold forestry programme and establish a leasehold forestry division, but the programme remains largely dependent on aid.
216. This CPE agrees with the COSOP review report for 2011, which states that: “it appears that the policy agenda was too ambitious and the projects and PBAS consultations do not always provide the space to engage in and bring about policy reform or policy dialogue. Lessons from project experience show that policy reform is possible only [when] projects are able to demonstrate the positive impact of a policy change and a concerted effort is exerted with key stakeholders to pursue the opportunity for policy reform.”

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<sup>42</sup> The CPE mission was told that, originally, MOAC contacted IFAD to lead the process.

217. In conclusion, the effectiveness of policy dialogue has been modest owing to an unspecified agenda, very limited IFAD resources, and a highly fluid and uncertain national context.

218. The overall rating for policy dialogue is moderately unsatisfactory (3).

## **B. Knowledge management**

219. **Relevance of plans for knowledge management.** The 2000 COSOP did not include any elaborate plan for knowledge management but, in an annexed action plan, it stated that documents on lessons learned, e.g. on innovative practices, would be prepared and shared with other stakeholders. It also addressed knowledge management in connection with considerations on partnership development. The United Nations is considered as a source of knowledge on rights-based approaches and World Bank on developments in the Terai; IFAD would contribute with a study on appropriate institutional arrangements for future rural investments in the hills and mountains (NGO/ECP grant for SAPPROS).
220. The 2006 COSOP devoted a specific section to knowledge management. It stressed that information sharing would take place around the strategic objectives, e.g. in the donor coordination group in the forest sector and in "the basic operational guidelines group". A commitment was made that "new projects will have knowledge management built into their implementation plans". This has been done in HVAP design.
221. In practice, IFAD provided major contributions to knowledge development through its grant programme. Sizeable grant support (US\$2.7 million) was included for ICIMOD for studies on livelihoods, ecosystems and indigenous people in the Himalayas. Grants were also provided to a number of regional and international research organizations for relevant studies.
222. More recently, the country programme management team invested in improving the knowledge about IFAD and its programme in Nepal. A folder on IFAD and its programme in Nepal was prepared and distributed, and supervision reports were presented in a format attractive for a wider audience. The country programme management also invested major efforts in improving M&E systems within government-executed projects, and hopefully these efforts will yield results in the future.
223. Overall, the relevance of knowledge management is assessed as moderately satisfactory (4), taking account of the modest attention given at the beginning of the period under review and visible improvements in recent years.
224. **Effectiveness of knowledge management.** Overall, ICIMOD and other IFAD partners produced relevant and high-quality outputs, but it is not clear whether these knowledge products were internalized and used in IFAD-funded projects.
225. With respect to M&E systems in the projects, including management of IFAD's Results and Impact Monitoring System (RIMS), the CPE mission observed many weaknesses that hopefully will be addressed by current efforts, which include the placement of expatriate interns in the M&E units and efforts to adapt the project monitoring systems in order to facilitate COSOP-level monitoring. M&E systems (partly because of RIMS) tend to become too complex and theoretical, with a wealth of indicators that would be too expensive to actually monitor.
226. While improvements in the monitoring units and internal monitoring processes should be pursued, the most useful information on impact and objective-level indicators is available where the projects have outsourced surveys and studies to third parties, e.g. in PAF, LLP and LFLP.
227. Another challenge in knowledge management in the Nepali context, besides limited and further shrinking IFAD resources, pertains to fragmentation of ODA and the

multitude of NGOs. This in turn complicates mapping of other relevant partners' activities, avoiding overlaps and identifying opportunities for synergies.

228. In conclusion, the effectiveness of knowledge management was limited in the first part of the period evaluated. Recent efforts demonstrated clear improvements but these are currently at risk after recent reduction in the budget for country programme management. Overall for the period, effectiveness is assessed as moderately unsatisfactory (3).
229. The overall rating for knowledge management is moderately unsatisfactory (3), being an aggregate rating for relevance (4) and effectiveness (3), with greater weight accorded to the latter.

### C. Partnership-building

230. **Relevance of plans for partnership-building.** The 2000 COSOP prioritized strategic partnership with the United Nations within the United Nations Development Assistance Framework, and with World Bank for promoting an enabling environment: "Moving together with the World Bank is one way to pursue the objective of scaling up best practices in institution- building and community-based institutional arrangements". For partnership development, the COSOP stated that IFAD would work with any organization relevant to the strategic objectives of the COSOP, including government, civil society and the private sector, but also political parties.
231. The 2006 COSOP stressed that, following the CPA, many donors were entering the Mid- and Far-Western Development Regions where IFAD was working, thus creating the need for coordination but also opportunities for synergies. The COSOP in particular prioritized partnerships with those agencies that supported agricultural commercialization, including World Bank, ADB, the Department for International Development (United Kingdom), German Agency for International Cooperation and the United States Agency for International Development (USAID). For cofinancing and technical assistance arrangements, the COSOP mentioned the Swiss Development Cooperation, USAID, Danish International Development Assistance (Danida) and SNV. It referred to ongoing dialogue with World Bank on the PAF, with ADB on rural roads and agricultural policy, and with FAO on forestry and value chains.
232. The COSOP also indicated an intention to start developing partnerships with farmers' organizations to reach small farmers and with private-sector companies in input supply and produce marketing for value chain development.
233. The 2006 COSOP gave special priority to engagement with NGOs: "IFAD will continue to channel support via NGOs and community-based organizations across all SOs where Government and IFAD agree that this is the best approach. The NGOs and community-based organizations have proven to be more resistant to conflict and better able to find space for the activities to continue in a difficult implementation environment. They also have potential to contribute to the conflict mitigation through their close contact with parties in conflict and the local population." The COSOP further stated: "The Government should continue to engage civil society organizations, but the relationship needs to be redefined from that of an employer and employee to one of partnership."
234. Overall, the CPE finds that, for the period evaluated, the relevance of the plans and strategies for partnership development have been satisfactory (5), in particular in the 2006 COSOP.

235. **Effectiveness of partnership-building.** Cofinancing partnerships have been few. Exceptions include IFAD's contribution to the World Bank-funded PAF,<sup>43</sup> and contributions of bilateral development partners to IFAD for financing technical assistance in support of leasehold forestry. Within agriculture, there are generally few cofinancing arrangements between development partners. The tendency is for each development agency to have its own projects, e.g. there are several similar projects in support of value chain development financed by individual agencies (including NEAT by USAID, PACT by World Bank, HIMALI and CADP by ADB, and HVAP by IFAD). One recent exception is the development of the ADS supported by a large group of development partners including IFAD.
236. IFAD has engaged with a number of high-quality and relevant national and international NGOs under its grant programme. In some cases, this made it possible to complete important work and achieve results in areas affected by conflict. However, IFAD's intentions of engaging NGOs in government-executed projects were at times constrained by government procurement rules which allow only organizations paying VAT to participate in tenders (most NGOs do not pay VAT). The 2006 COSOP highlighted, in appendix IV, that the Government's procurement guidelines "are inadequate to engage service providers such as NGOs". Indeed, this issue was faced during start-up of HVAP, when it proved impossible to engage CEAPRED and build on its past IFAD-supported work of developing high-value agriculture and marketing along the road corridors of the Mid-Western Development Region. The issue remains unresolved.
237. Within the United Nations system, IFAD is part of United Nations Development Assistance Framework and the Nepal-based CPC participates in meetings organized by the UN Resident Coordinator. FAO serves as a resource or service provider in the leasehold forestry project, but otherwise there is limited concrete collaboration with other United Nations agencies.
238. Considering IFAD's collaboration with NGOs, albeit mainly within the grant programme, the effectiveness of partnership-building is assessed as moderately satisfactory (4).
239. The overall rating for partnership is moderately satisfactory (4), an aggregate of 5 for relevance and 4 for effectiveness.

## D. Grants

240. This section provides a brief assessment of grants for projects which are not executed by the Government, but by national and international NGOs, multilateral agencies such as ILO, and international agricultural research institutions.
- (i) Country-specific grants**
241. **Satisfactory relevance.** Overall, the country-specific grants were relevant to the focus of IFAD's operations. Seven country-specific grants, approved during 2004-2010, are reviewed below; two are related to leasehold forestry and three to development of high-value agricultural value chains. IFAD also provided grant financing for development of a long-term ADS (led by ADB), an activity obviously very relevant to IFAD's mandate and future work in Nepal. The support for the ILO-executed Vocational Training Project may be considered as an outlier in this regard - despite that fact that it emerged from the 2006 COSOP, which stressed the importance of providing rural youth and ex-combatants with skills and jobs in order to promote the peace and reconciliation process.
242. **Gender sensitization – SPD.** In 2004, IFAD approved a grant of US\$46,000 for "Capacity-building for Gender-Sensitive Social Mobilization in the Leasehold

<sup>43</sup> World Bank (IDA) has provided US\$40 million for the first (pilot) phase of PAF and US\$175 million for the second phase.

Forestry and Livestock Programme”, implemented by the Society for Partners in Development (SPD). The grant targeted social mobilizers and gender focal points at the district level in order to increase their effectiveness in motivating women and championing gender issues at the grass-roots level. The objectives also included the formation of a grass-roots association of social mobilizers. The PCR includes very limited information on project outcomes. A number of one-day workshops were conducted in 10 districts, all addressing issues related to women’s rights and citizenship. It is difficult to assess the effectiveness. Allowing only one day of training appears insufficient given the limited capability at the grass-roots level. An association of social mobilizers was formed but it is not fully clear whether it is still functioning.

243. **LLP and PPLP – CEAPRED.** In December 2005, IFAD approved a grant of US\$485,000 for the LLP and in 2009 a DSF grant of US\$122,500 for a one-year follow-up project, PPLP. Both grants were implemented by CEAPREAD, a national NGO. The projects focused on getting smallholders, along the road corridors in the Mid-Western Development Region, into commercial production of alternative crops, mainly vegetables, developing marketing groups and cooperatives, and linking them to the markets. Support was also provided for the production and marketing of NTFPs and livestock, for establishment of two local market places (*hatbazaars*) and for group-based savings and credit schemes. The projects inspired the design of the large loan/grant project HVAP and most likely the support for agricultural commercial activities in WUPAP.
244. LLP had one of the best M&E systems in IFAD’s portfolio. For the assessment of outcomes and impact, CEAPREAD engaged a third party to undertake baseline surveys. The PCR (December 2009) was therefore able to provide a relatively comprehensive assessment of early outcomes, which in 2009 were on a rising trend. Over the three-year implementation period, LLP assisted in establishing and developing 229 farmer groups and 22 cooperatives, and helped members to engage in vegetable production. By 2009 this had reached about 4,000 mt, of which about 3,000 mt were sold in the market. This generated an average incremental income per household of an estimated NR 14,000, higher for *janajatis* (NR 18,900) than for *dalits* (NR 9,300). In the project areas, before the support there were 700 households cultivating vegetables on 15 ha while, after it, there were some 7,800 farmers cultivating vegetables on 361 ha. This resulted in incremental labour requirements for half of the year, corresponding to some 2,400 part-time jobs.
245. The livelihoods impact was measured in terms of how many months in a year a household had sufficient food for its needs (food sufficiency); significant improvements were recorded (table 19), mainly thanks to the income obtained from the sale of off-season vegetables.

Table 19

**LLP – Household food sufficiency before and after the support**  
(per cent of households in different categories)

<i>Months of food sufficiency</i>	<i>&lt;6 months</i>	<i>6-9 months</i>	<i>9-12 months</i>	<i>&gt;12 months</i>
Before support (2006)	80	14	6	0
After support (2009)	33	42	16	9

Source: CEAPRED, December 2009, PCR on LLP July 2006-June 2009.

246. In terms of relevance, the effectiveness, outcomes and early impact performance of LLP is assessed as highly satisfactory. However with respect to developing strong and viable farmer groups and cooperatives, the period was too short, even with the PPLP extension. Although CEAPRED applied a business development approach to development of enterprises and entrepreneurship, at the end of the project the groups and cooperatives were still in their early development stage. *Nevertheless*, LLP did demonstrate that there are potential entrepreneurs among poor

communities, that off-season vegetable production for the market is profitable, and that it is possible to develop permanent linkages between producers and buyers.

247. **High value agriculture – SNV.** In July 2009, IFAD approved a DSF grant of US\$199,992 for the High Value Agriculture Inclusive Business Pilot Project implemented by the Dutch NGO, SNV. The pilot was intended to test and refine innovative approaches and generate knowledge for the larger investment programme, HVAP, designed to introduce an innovative and inclusive business approach rather than applying a traditional value chain approach.
248. The pilot in particular focused on organic apple production in Jumla district, as well as vegetable seeds and *chiuri*.<sup>44</sup> SNV commissioned an impact evaluation and is currently preparing the PCR, which will provide the basis for an assessment. The information obtained so far suggests that a number of positive results and outcomes have been achieved in the field but, perhaps more importantly, the pilot is likely to generate lessons for HVAP. Households improved their income from the sale of apples and vegetable seeds but there were also challenges, such as dependence on a single buyer that controlled input supply and prices. For marketing of apples from the remote Jumla district, the Government provided a subsidy for airlifting, which may not be sustained; furthermore, farmers complained that the subsidy went mainly to the buyers.

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<sup>44</sup> The *chiuri* tree grows in tracts and on hill slopes, from 400m to 1,400 m. Its seeds are used to produce *chiuri* oil and ghee which represent an important NTFP and income source for many hill communities.

## Box 3

**A beneficiary of the local livelihoods project****The story of Prem Singali**

Prem lives in Amala Khali village, Kunatharri VDC, Surketh District, in the Mid-Western Development Region. She went to school until she was 18 years old, when she got married and moved to Amala Khali Village.

Up until a few years ago, Prem and her husband had a small piece of land with wheat and maize, which only allowed them and their two children to have food security for six months in a year. The remaining part of the year, Prem's husband migrated to India for work to maintain the family.

In 2006, the LLP formed a group of 16 members – all women. The technical adviser together with Prem and other group members looked for feasible vegetable farming possibilities. Soil tests were done and the climate was assessed (no irrigation is available) and, as a result, tomatoes were identified as the appropriate crop.

Initially, Prem and her husband were not convinced to change from wheat and maize to tomatoes. However, they decided to give it a chance when they received the assurance from LLP that if the tomatoes failed LLP would compensate them with an amount equal to the income they would have received from their wheat and maize production.

LLP provided Prem with tomato seeds and helped to set up a collection centre where the farmers could sell their produce. The farmers were assisted by the technical adviser who was permanently present in the village throughout LLP. In the first year of growing



**Prem with her husband, two children and father-in-law outside their new house.**

©IFAD/Linda Danielsson

tomatoes (2006), Prem earned NR 50,000 which was used to build the house where they now live together with Prem's parents-in-law. Furthermore, it allowed her husband Bhakta to stay home and help with the farming instead of migrating to India for work.

In 2007, their tomato production generated NR 36,000 which was spent on improvements to the house and to enrol their two children in a private school. The tomato cultivation also created seasonal employment for three landless persons. In 2008, with earnings of NR 45,000 and a small loan, they bought more land (3 *ropanis*) on the river bank (suitable for paddy). In addition, with earnings from the tomatoes, Prem also bought two goats and today has 12, which generate an income of NR 40,000.

Since 2007 Prem has worked as a village health worker, assisting pregnant women and children.

Today Prem is a leader farmer – one of the biggest farmers, in fact one of the biggest in the community, and she shares her technical knowledge with other farmers in the village. Though she is very happy with the way her business is going, she would still like to have more technical training in agricultural production, both for self-use and for sharing with other community members.

Source: CPE mission (April 2012).

249. **Skills Enhancement for Employment Project (SEEP).** In December 2007, IFAD approved a DSF grant of US\$870,000 for this two-year project, which was to be implemented by ILO. The aim of the project was to train conflict-affected youth (16-35 years of age), including the displaced, victims or ex-combatants – from eight districts of the Far-Western Development Region (later reduced to five), and help them to get jobs.

250. The grant was approved in December 2007, but actual operations started only in March 2009 when a national programme coordinator was recruited. An IFAD implementation support mission in January 2010 observed significant delays in ILO's submission of progress reports, annual workplans and budgets, and audited financial statements. The mission also noted: "The project management was not experienced enough to deal with the local government and also to devise dynamic operational strategy. Value addition from ILO to field-level operations remained weak. The technical backstopping from ILO to the project was also inadequate." Based on the mission's recommendations the completion date was extended to December 2011 and the closing date to September 2012.
251. While ILO is currently preparing the PCR, the following information has been obtained from the project-financed Employment Verification Report, prepared by an external consultant. A total of 608 youths from five districts were trained (against a target of "at least 1,200") by selected partner organizations in various vocational skills such as masonry, carpentry, brick moulding, plumbing, etc. The report did not analyse the current employment status of the youths trained but focused mainly on the number of participants completing the training. No real tracer study was implemented.
252. This CPE finds the overall performance of SEEP to be moderately unsatisfactory. Efficiency of implementation was unsatisfactory and effectiveness in achieving the objectives appears to be modest. Even relevance may be questioned. While the overall objective and rationale were relevant to the post-conflict context, it was not a priority area for IFAD to finance vocational training, with no links to agriculture and food security. In any event, financing of short-duration training for some 1,000 youths would hardly be noticeable in the context of substantial support for vocational training provided by World Bank (EVENT) and ADB (Skills for Employment Project). In addition, it did not appear that SEEP developed a "systemic approach" that could be replicated and scaled up.
253. **Goat breeding – COCIS.** In December 2007, IFAD approved a DSF grant of US\$116,000 for a two-year project entitled "Development of Supply and Markets for High Quality Breeding Goats through Strengthened Cooperative Goat Resource Centre", implemented by COCIS. The project was designed to strengthen the "goat component" under LFLP by helping to make good quality breeds available locally. Due to delayed start of operations, the project lasted for four years.
254. Based on a baseline study to identify goat producing pockets, 17 cooperatives (12 new and five old) were formed for marketing and development of quality breeds in five districts. Around 1,600 goat farmers participated in the cooperatives.<sup>45</sup> The cooperatives started supplying high-quality goats from the second year of operation but their supply was limited, on average 50 goats per cooperative in a year. This number was far too low to make any significant contribution to breed improvement in the five districts.
255. One important finding of the project was that the herd size per family needed to be around 10 female goats or more in order to attain the required economy of scale in goat rearing. This seriously questions the viability of goat rearing, as mostly practised in rural Nepal. A herd size of 10 goats or more is not very common, and may not be feasible in many areas due to socio-economic factors and limited availability of grazing and fodder resources.
256. While breed improvement is highly relevant, the grant was too small when considering the challenges. The results achieved were too limited to have any significant impact on breed improvement. Overall performance is assessed as moderately unsatisfactory.

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<sup>45</sup> PCR – Development of supply and markets of high quality goats through cooperative and resource centres.

257. **Agricultural development strategy – ADB.** In December 2010, IFAD approved a DSF grant of US\$500,000 to support the development of a 20-year ADS to replace the APP and the National Agricultural Policy. Several development partners are supporting the process, with ADB as the lead financier and coordinator of support for the Government. The process of developing the ADS has been criticised by some civil society organizations and farmer associations for not being inclusive and transparent enough and for lacking national leadership. During CPE mission interviews, some stakeholders raised the question of the timing of strategy development which seems to precede the development of a new Constitution and future structure of the country (federal, unitary, etc.).
258. This CPE finds that it was highly relevant for IFAD to contribute finance and knowledge to developing the Government's long-term strategy for agriculture. However, it is not clear whether IFAD is directly involved at a proper level in providing substantive contributions to the strategy, besides participating in broad donor meetings. IFAD will need to improve its direct participation in ADS development, as its next COSOP will have to be in line with the Government's long-term sector strategy.
- (ii) Regional grants**
259. **Income generation in forest communities – Centre for International Forestry Research (CIFOR).** In 2003, IFAD approved a regional grant of US\$900,000 for a study (covering China, India and Nepal) on how IFAD, through its loan programme, could improve income-generation in the forest communities in Asia, and promote more resilient livelihoods for poor and socially disadvantaged women and ethnic minorities that are dependent on forestry resources. The study was implemented by CIFOR.
260. In Nepal, the research team undertook a case study of the leasehold forestry programme. A scanning of the final technical report (Regmi et al, 2007) shows that the gender and social equity perspective was not the lens used for the research. Although the assessment was conducted with poverty in mind, and issues of gender inequality and the rigidity of social hierarchies are mentioned, these were not included in the analytical framework. The report focused on the mechanisms of exclusion which affected the poor but the category 'poor' is not deconstructed. Overall, the paper adds little to existing understanding of the mechanisms of exclusion.
261. **Agricultural productivity – International Centre for Crop Research in the Semi-Arid Tropics (ICRISAT).** In 2001, IFAD approved a regional grant of US\$1.3 million for a programme entitled "Farmer Participatory Improvement of Grain Legumes in Rainfed Asia", implemented by ICRISAT and covering China, India, Nepal and Viet Nam. In Nepal, ICRISAT collaborated with the Nepal Agricultural Research Council and two NGOs, FORWARD and LIBIRD, to introduce and test integrated crop management technologies that build synergies among pest, soil and nutrient management practices.
262. According to the PCR (2006), positive results were obtained in Nepal: "Integrated crop management technology gave 60-94 per cent higher yield and 75-168 per cent more income in different legume crops". The success of the project has influenced national policies. The Nepal Agricultural Research Council has developed a document on vision and strategies to improve grain legume production for livelihoods, food security and poverty alleviation in the country. This indicates satisfactory performance, impact and sustainability, but the CPE mission did not find evidence of the replication and scaling up of these positive results in IFAD's Nepal portfolio.
263. **Agricultural water management – International Water Management Institute (IWMI).** In 2008, IFAD approved a grant of US\$1.2 million for a programme entitled "Improving Sustainability and Impacts of Agricultural Water

Management Interventions in Challenging Contexts”, implemented by IWMI and covering Burkina Faso, Ethiopia, Ghana, Nepal and Sri Lanka, “Challenging Contexts” referred to fragile states, highly centralized states with absence of service delivery (e.g. extension) to the rural poor, land degradation and extreme microclimate variability. The programme focused on how IFAD might improve the design, implementation and evaluation of its support for agricultural water management interventions.

264. For Nepal, the design document stated that the activities would be relevant to IFAD’s support to PAF but during implementation it was decided to make a case study of the support for irrigation provided by WUPAP. The case study was undertaken in 2011 and included field work in Bajhang district in the Mid-Western Development Region, and Mugu district in the Far-Western Development Region. This CPE considers that the findings of the case study, summarized in box 4, appear highly relevant both to WUPAP and, more generally, also to IFAD’s future work in Nepal. However, the feasibility and likelihood of implementation of the recommendations in the real local context are questionable.

Box 4

**IWMI case study on irrigation interventions of WUPAP**

**Selected findings**

“The inequalities within communities, driven by caste and class relations, have limited the extent to which community organizations are able to mobilize the most marginalized community members in Mugu and Bajhang. It appears that better-off, politically powerful male farmers frequently play a more dominant role in decision-making. Furthermore, wealthier farmers benefit disproportionately from canal interventions, as they have larger holdings. Distributional inequalities verge on exploitative given that poorer households must contribute the same amount of labour to maintenance as their richer counterparts regardless of land holdings. Furthermore, geographically isolated low caste, or *dalit*, communities are excluded entirely. Further unequal power relations are evident with regard to water rights, whereby some lineages claim ownership to particular canals. --- The challenge of elite capture could have been reduced if more efforts were made to target not just marginalized communities but poor households within these communities. The ambiguous definition of terminology such as ‘marginalized’ and ‘pro-poor’ may have also made it more difficult for ground staff to identify their targeting strategy.”

“Furthermore, while projects are implemented usually through local NGOs, excessive politicization of the selection process has been highly disruptive, culminating in the eventual withdrawal of WUPAP from Mugu. Politicization, however, pervades even the implementation of the project, with contractors affiliated to political parties often taking control of construction works. The patronage they enjoy has reduced their accountability and encouraged the cutting of corners.”

“Another internal challenge to overcome is the technical capacity of implementers. There are inadequate mechanisms for ongoing maintenance of irrigation structures while user groups often have a short lifespan. Furthermore, there [is] need for stronger incentive systems for implementing staff. Government representatives at the district level have limited incentives to take on the additional workload of overseeing WUPAP interventions when it does not tie in directly with existing programme. At the same time, the pressure for competing NGOs to keep costs low and be selected means that social mobilizers are often poorly paid.”

“Finally, there are significant problems with the process of monitoring and evaluation, an issue which affects both WUPAP and IFAD more broadly. In particular the successes of projects are too often assessed by quantitative measures such as the number of interventions, the number of groups formed, and the type of membership. There is inadequate analysis of processes, such as who benefits, and the quality of the intervention.”

Source: IWMI 2012, Fraser Sugden, Floriane Clement and Luna Bharati, case study from Nepal.

## E. Overall assessment

265. Non-lending activities were pursued in an extremely difficult context. The period evaluated was dominated by political uncertainty and frequent changes of government officers, thereby reducing institutional memory and complicating policy dialogue and knowledge management. Furthermore on IFAD's side, the CPM changed seven times over the period evaluated. The main constant was the CPC, in place only since 2007. Finally, IFAD had a very limited budget for country programme management and non-lending activities in particular, and in 2012 this budget was significantly reduced.
266. Overall for the period evaluated, the performance of non-lending activities is assessed as moderately unsatisfactory (3), with partnership-building in the satisfactory zone and knowledge management moving towards the satisfactory zone, following recent efforts.
267. For policy dialogue, a more focused and less ambitious approach may produce better results. It will need to be based on concrete issues emerging from COSOP deliberations and project implementation, and that the Government would also be interested in addressing. In that way, a joint Government/IFAD agenda would justify the use of project financing for implementation of agreed policy work.

Table 20

### Assessment of non-lending activities

<i>Type of non-lending activity</i>	<i>Rating</i>
Policy dialogue	3
Knowledge management	3
Partnership-building	4
<b>Overall non-lending activities</b>	<b>3</b>

### Key points

- Both COSOPs included an ambitious agenda for policy dialogue but did not specify the activities and resources required for implementation. The regular PBAS consultations did not provide sufficient space for policy dialogue. Overall, achievements are moderately unsatisfactory.
- Knowledge management was introduced in the 2006 COSOP and more recently efforts were made to raise awareness about IFAD's operations and improve the monitoring systems in the projects. Some major grants, amongst others for ICIMOD, generated knowledge on livelihood issues in the Himalayas but the use of this knowledge in the country programme appears limited.
- In developing partnerships, IFAD emphasized partnerships with civil society organizations that were well positioned to work in conflict and post-conflict situations.
- A number of country-specific grants delivered good results and impact, notably grants for LLP and for high-value agriculture based on an inclusive business approach. These grants also contributed to development of the recent government-executed HVAP.
- Regional grants generated knowledge and in some cases also results and impacts at the grass-roots level but, overall, synergies with the country programme were modest.
- Non-lending activities are overall assessed as moderately unsatisfactory. A different approach to policy dialogue is required and the recent efforts in knowledge management need to be continued and expanded.

## VII. COSOP performance and overall assessment

### A. Relevance

268. **Alignment.** The 2000 COSOP focused on remote and isolated communities in the hills and mountains of the Mid- and Far-Western Development Regions. As such, it

- was in line with IFAD's thinking at the time and with the 2002 Regional Strategy for Asia and the Pacific. However, COSOP strategy was not fully consistent with the Government's Agricultural Perspective Plan and Ninth Five-Year Plan that prioritized commercial agriculture, as isolated remote communities were not the best choice to jumpstart commercialization of agriculture and integrate farmers in the market.
269. While the focus on isolated and remote rural communities with very poor and often socially excluded households was aligned with IFAD's mandate and strategic objectives, the COSOP did not clearly identify the concrete interventions that would lead to better livelihoods and escape from poverty for the targeted communities. COSOP referred to different productive activities, tried earlier in other programmes, but left the impression that the viability of these options still needed to be explored. The Government and development partners searched for the 'magic bullet' for decades, but with little success. In the meantime, the households found their own solution: migration for work and remittances.
270. The 2006 COSOP focused on commercial agriculture and was fully aligned with the APP and the Tenth Five-Year Plan. It applied an inclusive targeting approach, targeting the entire community while introducing special measures for the poorest and socially excluded. A corporate-level evaluation of IFAD's Regional Strategy for Asia and the Pacific (EVEREST) was undertaken in 2006. EVEREST advocated for concentration of IFAD's work in geographical areas where there was opportunity to promote innovations. It also argued for an inclusive approach to targeting, but with special attention to be given to indigenous and tribal peoples.
271. **Paris Declaration.** Overall, IFAD's financing was well aligned to the Government's policy framework. Most of the support was on-budget and applied government procurement and public financial management systems. Although IFAD accounted for less than 1 per cent of total ODA to Nepal, the Ministry of Finance<sup>46</sup> listed IFAD among 10 major development partners disbursing through the government systems. With respect to the agriculture sector, IFAD (including all disbursements) accounted for some 20 per cent of the ODA disbursed through government systems.
272. Effective monitoring of procurement and financial management through project supervision, and in particular consolidating physical and financial data, was a challenge for IFAD given the general governance problems and the extensive geographical and thematic coverage. IFAD and the Government did not follow up on the recommendation of the 1999 CPE: "Donors need to insist with the Government that renowned international firms be used to conduct substantive audits of project accounts."
273. IFAD's country programme was relatively weak on harmonization, but this applies to all development partners supporting agriculture for which a sector-wide approach to planning or other types of joint programmes have not yet been developed. One could argue that the new project being prepared in support of the seed subsector and animal breeding (ISFP) is well suited for a harmonized effort and could have been used as a platform for developing a joint multidonor programme. However, development of joint programmes is time-consuming, and IFAD is currently working under a time constraint to have ISFP designed and approved.
274. **Working in and on conflict.** The 2000 COSOP was prepared in the midst of the armed conflict and the 2006 COSOP adopted just after the CPA was signed, although at a time when it was highly uncertain whether peace would be sustained. Both COSOPs were therefore cautious about defining firm medium-term strategies;

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<sup>46</sup> Ministry of Finance, 2010: Nepal country evaluation – joint evaluation of the implementation of the Paris Declaration, phase II.

instead they allowed for a gradual flexible approach, in particular with respect to developing the loan and grant programme. They emphasized the importance of involving NGOs and building community organizations while developing the capacity of government and local institutions. The COSOPs somehow circumvent the fact that the major part of IFAD's programme was government-executed and they were not specific on how to improve governance and address the widespread disillusionment with the state as a service provider. The 2000 COSOP, emphasizing a rights-based approach, believed that projects (government-executed) would improve local government institutions by developing community organizations that demanded their rights.

275. The 2006 COSOP, issued in the same year as the IFAD Policy on Crisis Prevention and Recovery, addressed the conflict issue ambitiously, stating that "Interventions under all SOs must be conflict-sensitive by being inclusive, transparent, impartial and accountable". The proposed strategy had good intentions but did not take account of the weak capacity of local government administrations in charge of implementation, and lack of confidence of communities in these administrations: "The strategy will support a conflict-sensitive development approach in IFAD activities to build the capacity of communities to engage in development works through the adoption of techniques for peace/conflict assessment, community mediation, negotiation, human rights, communications and facilitation." Resources required to undertake the necessary analytical work and implement these intentions were not identified.
276. Overall, IFAD's basic Nepal strategy was sound from a conflict mitigation perspective, and the operations supported under it were consistent with it in terms of geographical location and efforts to target exclusion. The COSOP, however, was either silent or vague on what it would take to translate this strategy into effective action – and to ensure that the gains made are sustained, and used to help build institutional resilience outside IFAD programme areas. The essential analytical challenge – how to acquire and maintain local knowledge across a tremendous variety of subproject contexts – was not discussed. There was no clear acknowledgement of the scale of the implementation challenge that IFAD had set itself, of the challenges to the strategy posed by weak government partner institutions, or of the trade-offs that might be needed to sustain focus and ensure sufficiently intensive levels of support. While targeting was discussed at length, a key aspect of this in today's Nepal – the extent to which it should be based on poverty, or on caste/ethnicity – is mentioned only in passing.<sup>47</sup> One gets no sense of the unpredictable, experimental and extended process through which viable institutions form, or that it may not be reasonable to 'exit' the frame after one or two project cycles. Given IFAD's modest national presence and declared comparative advantages, particularly in working with rural organizations and addressing exclusion, the treatment of how lessons learned can be used to influence national or large donor policies was cursory, and excessive reliance seemed to be placed on routine interactions in various forums in Kathmandu. The strategy, in other words, was short on the specifics of how to turn good ideas into good programmes. The COSOP also claimed that it drew on "lessons learned in other geographically-challenged, socially heterogeneous and conflict-affected areas" outside Nepal, but did not specify what these were.
277. Some of the most profound outcomes of the conflict – massive outmigration from rural areas and a meteoric rise of remittance volumes and their role in poverty reduction – were not addressed or captured in any way in IFAD's COSOPs. How to

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<sup>47</sup> "Strategic objective 3 (gender, ethnic and caste-based disparities reduced) will mainstream efforts under all IFAD activities to address gender and ethnic/caste-related disparities, and facilitate social inclusion; however, it recognizes that in some cases affirmative action may be needed through targeted programmes financed through specific mechanisms such as the Poverty Alleviation Fund."

do it is indeed a major challenge, not only for IFAD but also for other, much larger organizations, both bilateral and multilateral. Nevertheless, in developing its future strategies, IFAD should account for these factors, especially in the areas of developing rural finance (the weakest part of IFAD's portfolio in Nepal) and group formation (gender balance and the growing role of woman-led households).

278. **Developing responsive local institutions.** Building legitimate local institutions that effectively respond to the needs and issues of local communities is globally recognized as one of the keys in the long-term process of addressing situations of conflict and fragility. The 1999 CPE raised the issue of the "centre-directed model" which failed to build on the demand and preferences of local communities. Central government agencies pursued quantitative targets that were often defined without any significant involvement of beneficiary communities. This has been a feature of IFAD's current portfolio, with the exception of PAF which applies a more participatory approach and has a wide menu from which communities can choose.
279. In the current context, with no elected local governments, public investments and operations in the districts are managed by officers temporarily (for 2-3 years) outposted by the central ministries (the district forest office, etc.). The district is "foreign" to many of them, and their standing with the local communities has only marginal importance for their career, if any. The same profile applies to outposted officers in the PCUs. Furthermore, the officers are only occasionally in direct contact with the communities. This is also true of the PCUs/PMOs, which cover large areas and often more than a thousand groups or community organizations. In order to mobilize and support the groups on a more permanent basis, a local NGO is in most cases contracted to provide group or community mobilizers who serve as the "face of the project". Changing this pattern is most likely beyond the reach of IFAD-supported projects and requires across-the-board public administrative reform.
280. **Focus on group formation.** Nepal has many rural beneficiary groups created by projects, but few profitable self-reliant rural enterprises that generate income for their members and employment for the rural communities. For decades, development partners and the Government formed groups of rural beneficiaries by providing a material incentive, such as goats for LFUGs or, more recently, a "cash prize" of NR 100,000 for forming one cooperative per VDC, which by itself is not an efficient way of ensuring development of viable cooperatives. In some communities, one household may be member of several groups. As the project and its benefits end, the group often disintegrates and disappears while new groups are being formed by new projects.
281. In some cases, attempts were made to promote the sustainability and cohesiveness of groups by creating rotating savings and credit schemes. However, with often only small amounts rotating and the credit being used mainly for consumption, these schemes did not generate assets and a continuous income stream for the group to get members out of poverty and make it viable and sustainable. Project "hand-outs" were relatively small and limited to the project period. However, there are exceptions, notably in community forestry where, in many cases, CFUGs and PAF-registered community organizations have control over significant assets, with potential for substantial income generation.
282. IFAD's portfolio does not differ from this general description. The LFUGs, community organizations, other groups and many of the cooperatives are not yet viable rural enterprises and do not have any significant assets and income streams. In many cooperatives, procurement of inputs and sale of produce is done individually and not collectively, although some cooperatives do have potential. The purpose and rationale of the group is often unclear, e.g. is an LFUG supposed to become a viable rural enterprise with income-generating activities, or a microfinance grass-roots institution, or a grass-roots structure to receive and

distribute goats to members and manage the forest and distribution of fodder? New groups are formed continuously, and even the recent HVAP has a target to develop 500 new groups which is likely to dilute the resources and efforts.

283. **Rural enterprises for value addition – a missed opportunity.** The 2006 COSOP focused on increasing farmers' production and sales of high-value crops, but did not consider the option of creating rural agro-based enterprises for value addition (although HVAP did include this element). Compared to many other developing countries, Nepal has very few agro-based rural enterprises that create profit for the owners, income for suppliers, and jobs and income for workers (e.g. landless or near landless households). Initially, the enterprise does not need to engage in very advanced raw material transformation. For example, with fruit and vegetables, there are options for simple value addition by sorting, cleaning and packaging the produce, and applying quality control procedures. This alone could be an important driver for improving productivity, quality and supply flow at the farm level.
284. So far, the approach and methodology for promoting viable rural enterprises has not been substantially different from what IFAD did earlier by promoting LFUGs, community organizations and farmer groups, supplying a few days of training and technical assistance for a social mobilizer or agricultural extension officer. First steps were taken in the direction of revising this approach, and instead investing in skilled business development experts and service providers from the private sector and civil society, needed on a permanent basis in the start-up and development phases. This was done under LLP and PPLP; and there has been clear evidence of a promising start in this area, including from beneficiary household interviews that indicated appreciation of having a qualified technician permanently available in the VDC.
285. **Geographic concentration and thematic focus.** During the period evaluated, IFAD focused on the Mid- and Far-Western Development Regions although other regions also benefit through IFAD's support for leasehold forestry and PAF-II. After PAPWT the support is concentrated in the hills and mountains. Nevertheless, given its modest size, the portfolio appeared diluted and dispersed. The 2011 COSOP review highlighted that the nine operations implemented during the 2006 COSOP period (including grant projects but excluding PAF-II) were designed to be implemented in 43 of Nepal's 75 districts and reach some 233,000 households (5 per cent of all rural households); of these, some 151,000 had been reached by end-2011. With annual disbursements of around US\$8 million, this implies annual average disbursements per district of about US\$186,000 and US\$53 per beneficiary household reached. Furthermore, the operations covered a wide range of different activities, themes and subsectors.
286. Such dilution is not helpful for the achievement of sustained reduction in poverty. In addition, local government administrations tend to give lower priority to projects that provide only small contributions to their budget. It is also a major challenge for IFAD's country programme management, which has limited resources for supervision and implementation support, to engage with 43 local governments. At the moment, IFAD's main partners are 2-3 central ministries, but in the future, particularly if and when elected local governments emerge (at the state or district levels), IFAD would need to engage more directly with its local partners. This is another strong reason for geographical concentration.
287. **A two-pronged strategy for the future?** The COSOPs of 2000 and 2006 had different strategic goals and focus: the former prioritized isolated marginalized communities in the hills and mountains of the Mid- and Far-Western Development Regions, emphasizing access to natural resources; whereas the latter focused on "growth nodes" along road corridors in the hills for commercialization of agriculture. From the perspective of IFAD's mandate and objectives, both are

relevant but issues emerge when the strategies and approaches are mixed. Two different strategies are required.

288. For the isolated communities in the hills and mountains, far from the road network, with limited access to water and poor soils and conditions for agricultural production, a realistic ambition would be to alleviate poverty and improve basic needs. Realistic targets may include improved food sufficiency from 5-7 to 8-10 months of the year. Sector interventions, relevant to IFAD's mandate, may include leasehold and community forestry, livestock, some improvements in subsistence agriculture (food crops), and access to water and possibly also energy (e.g. solar units). The main focus would be on subsistence production and improved livelihoods but, where feasible, it may also include some commercial production of high-value-to-weight produce for niche markets, such as MAPs and vegetable seeds. However, the experience from leasehold forestry suggests that it is difficult to make any substantial contribution to the monetisation and market integration of the local economy in these more remote communities.
289. For the growth nodes along the road corridors in the hills, the ambition should be poverty reduction rather than alleviation (i.e. beneficiary households achieve food sufficiency for 12 months and more), as well as economic growth, creating employment on-farm and off-farm through agroprocessing and marketing enterprises. Corporate social responsibility and GESI themes may be promoted in contract farming relationships. The overriding goal would be to create a limited number of profitable self-reliant units and systems with a commercial scale and turnover, rather than thousands of small aid-dependent beneficiary groups.
290. Interventions relevant to IFAD could be designed along value chains and include high-quality business development services for enterprises and cooperatives, specialized agricultural technology services and investment facilitation, either direct or indirect. This may also include some public infrastructure investments, e.g. in access roads and suspension bridges to include communities in the vicinity of the road network, and access to power for running processing facilities and irrigation schemes. Finally, it may include support for selected public services, such as agricultural research and product certification services (e.g. for organic produce).
291. Such a two-pronged strategy could provide the framework for utilizing future PBAs for Nepal, which is expected to allow for two projects in every six-year COSOP cycle. One project would then focus on the isolated communities while the other would be designed for the growth nodes. Preferably both projects should be concentrated in more or less the same 5-10 hill/mountain districts of the Mid- and Far-Western Development Regions where IFAD has already gained significant experience.
292. **More realistic strategy.** Overall, it appears that IFAD has not found a fiscal formula that matches design ambition to institutional reality – and that this issue should receive explicit treatment in the next COSOP. Available options include shifting corporate resources to the front line; providing more grants that are dedicated to funding NGO implementation support; and/or scaling back on the number of activities undertaken in any given project, and on projects' geographical coverage. Given that IFAD is a modest financial donor to Nepal's rural sector, its catalytic potential is very important – and a few striking successes are likely to be of much greater value in the long run than a multitude of unclear or mediocre outcomes.
293. **Reaching the disadvantaged – class or caste-based interventions?** At the centre of Nepali national debate today is the question of how identity and nationhood can be reconciled. How caste and ethnicity are handled in beneficiary organizations is, as a result, no trivial matter. There is wide disagreement in the development literature on how best to tackle "horizontal inequalities" – whether an oppressed identity group's rights are best advanced by ensuring that the group is

'mainstreamed' in development activities (using adequate legal and regulatory protections), or whether the disadvantages they have inherited are so deep and disempowering that distinct programmes of affirmative action are needed to lift them out of their excluded status. The pronounced nature of Nepal's history of identity group exclusion would seem to argue for the creation of groups consisting of the most excluded castes and ethnicities (with the *Kamaiya* programme under PAPWT a successful case in point). Three factors caution against applying any blanket prescription, however. The first is the variety of community structures. Significant differences in economic status are the norm within wards in Nepal, but they do not always parallel caste/ethnic power. The second is that long-established barriers to cooperation between castes/ethnicities are becoming more permeable, due in part to the Maoist war and the displacement/migration associated with it, and in part to decreasing physical isolation and modern communications. The third is the danger posed by a national debate in which the rights of marginalized groups have in principle been recognized – but which has been unable to devise practical solutions. As this gridlock continues, a toxic combination of frustration and apprehension is beginning to attach itself to notions of caste/ethnic preference, and could well infect efforts to organize rural groups on such a basis.

294. These factors suggest that it usually makes better sense in today's Nepal to base group formation on economic/class criteria, while ensuring that castes/ethnicities that face prejudice in a particular locale are properly represented in numerical terms, and that these prejudices are not replicated in the group. This, once again, is likely to require intensive facilitation.

## **B. Effectiveness**

295. **Management framework and monitoring.** Given the limited size of IFAD's financial support, changes in national macro level indicators and in COSOPs' strategic objectives (SOs) cannot be attributed to COSOP implementation; rather, as defined in the 2006 COSOP, it is a matter of IFAD operations' contribution to the outcome indicators defined in the results framework. These indicators were defined rather narrowly compared with the SOs but their successful achievement was likely to make a positive contribution to the SOs and to alleviating rural poverty.
296. Generally, there was a disconnect between the projects and COSOP. The management teams in the individual projects had limited awareness of the COSOP, and the M&E systems in the projects were not designed for providing information on COSOP indicators. Most of the project M&E systems were weak, as highlighted by the 2011 COSOP review report: "Monitoring and evaluation is generally very weak and reports generally only on activities or outputs. Few projects conduct proper baselines or impact studies" and "The RIMS indicators of each project are derived from its own project objectives and not from the SOs outlined in the COSOP". At the same time, it should be noted that the CPE mission (April 2012) observed some positive developments in this regard, as the country team was in the process of elaborating and introducing a number of simple yet effective reporting tools (M&E spread sheets, COSOP monitoring note, etc.).

Box 5

**Missing links between COSOP and project monitoring****Findings of the 2011 COSOP review report**

"The communication strategy of the COSOP appears to be rather ineffective given that not a single person involved in the implementation of the country programme in Nepal recalled seeing the COSOP document. Most were not aware of its existence and were certainly not aware that they had to report against its results framework. Even when specific recommendations had been made in the COSOP review with reference to the projects, there was little awareness that this entailed an action on the part of the respective projects. The only time that COSOP indicators are reported on is at the time of the COSOP annual review when the CPM commissions a consultant to examine the individual project reports and consolidate these in one matrix. There is no COSOP management arrangement that can independently, and based on each individual project's M&E work, ensure a comprehensive outcome analysis of the country portfolio. This weakness has been identified in earlier reviews as well but no specific solution has been identified to address this issue."

*Source:* IFAD, December 2011, Annual Review of the Implementation of the Results-Based COSOP, Main Report.

297. **Progress towards strategic objectives.** The 2000 COSOP was prepared before introduction of RB-COSOPs and did not have a monitoring framework. Instead, it included an action plan<sup>48</sup> with indicators such as "project for the upland poor (i.e. WUPAP) developed by 2001". The CPE finds that a major part of the action plan was implemented. However, there was no framework for assessing whether the partnership was making a contribution to the COSOP goal of "improved and increasingly resilient livelihoods of indigenous people[s] and the other marginalized upland poor, through secure and sufficient access to and control over their natural resources". Overall, this CPE finds that the contribution of IFAD's operations in 2000-2006 to the COSOP goals was relatively modest.
298. The 2006 COSOP, on the other hand, had a results management framework that defined outcome and milestone indicators. However, overall assessment of impact is still challenging as most projects did not consistently report on the COSOP outcome indicators and only rarely on the milestone indicators, and there were serious problems with attribution. Only PAF and LFLP tried to compare developments in communities with and without project support.
299. The majority of IFAD's operations since 2006 have focused on the COSOP's first strategic objective, "access to economic opportunities". On the "input side" some major achievements can be noted. Since 2006, about 80,000 animals (mainly goats) have been distributed to 36,000 households and 38,000 ha of forest land transferred on lease to 72,000 households. Information on the three outcome indicators is weaker.
300. The first outcome indicator was defined as: "percentage increase in volume and value of agricultural, livestock and forestry output in the project districts in hills and mountain areas". There was no information from two major projects, WUPAP and LFLP, to assess this indicator. Available information from the minor grant-funded operations (LLP and PPLP) and PAF suggested positive contributions.
301. None of the projects maintained data on trade for monitoring the second outcome indicator: "percentage increase in trade flows to/from project districts", a problematic definition inasmuch as it does not distinguish between total trade and trade generated by IFAD's operations.
302. The third outcome indicator was defined as "increased incomes by farmers from selected high-value commodity". Some indicative figures are available from LFLP (NTFPs and MAPs) and LLP (vegetables) which suggested positive contributions.

<sup>48</sup> COSOP annex: Replenishment Consultation Issues and Actions Proposed in the Nepal COSOP.

The most comprehensive information on income changes was available from PAF but these changes do not necessarily relate to "high-value commodities". PAF assessed income trends in beneficiary communities against income trends in non-beneficiary communities. In the beneficiary communities, per capita income rose by 11 per cent while in the control group it rose by 6 per cent.

303. With respect to the second strategic objective of "improved community infrastructure and services", information is available only on the number of structures constructed, and not on how the schemes benefited the households. Some information does, however, point to satisfactory contribution to the outcome indicator of "greater involvement of NGOs, community-based organizations and the private sector in development work".
304. On the third strategic objective of "reduced gender, ethnic and caste-related disparities", there is quantitative information on membership and participation in decision-making of women, *dalits* and *janajatis* that indicates progress. However, these data need to be combined with more qualitative assessments to determine if the support actually reduced social exclusion and inequalities.
305. Overall, this CPE assesses COSOP effectiveness as moderately satisfactory (4), with particular weight given to positive performance under the 2006 COSOP.

### **IFAD's country programme management**

306. **Resource allocation.** IFAD's programme in Nepal is of medium size, and the resources allocated for country programme management have been less than those normally available for larger country programmes. The CPM changed frequently during the period evaluated and, for most of the period, worked only part time on the Nepal programme. The current CPM has about 70 per cent of his time available for the Nepal programme. A Nepali CPC has provided a much-needed local presence since 2007, but he is often constrained by lack of support facilities.
307. As suggested by new plans for PBA management, the country programme management team will need to formulate one new project for every three-year PBA period, and supervise about two projects annually. A part-time CPM and a full-time CPC/officer would appear sufficient for that type of programme in a "normal" country, but the Nepal context is much more complex - a semi-fragile state in and out of conflict, and challenged by complex divisions in society where analytical work and policy dialogue are required for active engagement in development work. In this context, the addition of a local CPC position was a critically important decision that needs to be further built upon by strengthening capacity and support functions. Currently, the CPC is hosted by the local WFP office (while IFAD is negotiating a country host agreement with the Government), with a meagre operational budget of US\$20,000 per year and no secretarial or logistical support.
308. Overall, the CPE finds that current resources available for the Nepal programme do not allow for a sufficient level of analytical work and non-lending activities. According to their own estimates, the CPM and CPC can only allocate about 15 per cent of their time for such activities, whereas direct supervision and implementation support are the first priority. Furthermore, the already limited resources for country programme management have been significantly reduced in 2012 following the reduction in Nepal's PBA from US\$37 million for 2010-2012 to US\$27 million for 2013-2015. However, given that the PBA is used for one project, one can argue that a project of US\$27 million requires almost the same management resources (design, supervision, dialogue and coordination, knowledge management) as a project of US\$37 million. At the same time, there seem to be high and, given the drastically reduced budget, somewhat unrealistic expectations from IFAD's engagement in policy dialogue.
309. **Direct supervision and implementation support.** In 2007, IFAD took over supervision and implementation support of the government-executed portfolio.

Reflecting Nepal's generally weak governance system, the most frequent problems encountered relate to financial management, procurement, and M&E systems. There is an unrealistic expectation from the Government that IFAD will be able to finance the actions required to solve these problems through its budget for implementation support. An option to consider for the future would be to provide requisite financing from project funds (loans/grants) with IFAD identifying the problems and outlining the way forward through its direct supervision and implementation support.

310. **PBA management.** IFAD is behind the optimal schedule for managing the utilization of the PBA. Within the current PBA cycle (2010-2012), the utilization of the allocation will be decided in the last months. By June 2012, only US\$500,000 of the PBA of US\$37 million had been approved. Approval for the rest is expected to be obtained in the next few months: ISFP (US\$29 million, September 2012); supplementary financing for PAF-II (US\$5 million, December 2012); and LFLP (US\$3 million, April 2012). Likewise, in the preceding PBA period, 2007-2009, US\$15.3 million (for HVAP) of a PBA of US\$21 million was only approved by IFAD's Executive Board in December 2009, the last month of the PBA period.
311. The downside of this type of arrangement is that allocations still unallocated by the end of the PBA period can exert undesirable pressure on country programme management teams, thus potentially putting at risk the quality of decision-making and discouraging development of joint multidonor programmes - usually a time-consuming process.
312. Ideally, a COSOP should have a fairly well-defined pipeline, at least for the first PBA cycle, supported by project concept paper(s) on which there is consensus between the Government and IFAD. This would allow formulation/design in the first year and appraisal and approval in the second year, leaving the third year as contingency for unforeseen developments. This is especially relevant in the politically uncertain context of Nepal.
313. Mid-term reviews should include a COSOP revision, if required, and identification of the project(s) to be financed by the next PBA, preferably in terms of relatively detailed project concept paper(s). This has not been the case; the 2011 Annual COSOP review report noted: "The COSOP was not revised as a result of the far-reaching recommendations of the mid-term review .... The recommendation regarding the incorporation of different activities and implementation modalities into one with a single larger project absorbing the whole PBAS allocation does not seem to have been adopted either ... During discussion with Government during the current annual review, the Government did not indicate any knowledge of the recommendations."
314. Looking ahead, a mid-term review and COSOP revision would appear particularly pertinent in 2015, when Nepal's political situation and outlook may be considerably different.

Table 21  
Ideal schedule for COSOP/PBA cycle management

year -2	year -1	year 1	year 2	year 3	year 4	year 5	year 6
		<b>COSOP Period</b>					
		<b>PBA 1</b>			<b>PBA 2</b>		
CPE and ACP, and/or CPR	COSOP Prepared and Approved	Formulation of loan/grant projects for PBA 1	Project Approvals	Mid-term Review+ Pipeline for PBA 2	Formulation of loan/grant projects for PBA 2	Project Approvals +CPE and/or CPR	Formulation of next COSOP

315. **One project per PBA cycle?** The Asia and the Pacific Division decided that when a PBA for a country is less than US\$50 million, the entire PBA will be used for one project only, i.e. only one project per PBA cycle. In the case of Nepal and assuming six-year projects, this will eventually imply that one project would have to be prepared every three years and two projects would need supervision and implementation support annually. While this approach will help to reduce the costs of design, administration and supervision, it does involve risks.
316. First of all, in small countries like Nepal one government agency may find it difficult to effectively absorb a loan programme of US\$30-50 million unless it includes a major infrastructure department component (roads, irrigation). This may induce project designers to opt for a design with less focus and wider coverage geographically and thematically, including many different themes and several agencies as implementers, thereby creating coordination problems during implementation.
317. Alternatively, it may induce IFAD to prioritize fast-disbursing infrastructure investments (e.g. roads) over soft, slower disbursing investments with lower financial requirements, e.g. extension, development of rural grass-roots organizations, technical assistance for value chain development, etc. In rural finance, it may lead to emphasis on credit lines, even though the main constraint of financial institutions in Nepal is not shortage of liquidity but inadequate institutional and human capacity.
318. The other risk of this approach is that it may compromise innovation. One large loan will usually require one or two ministries as implementing agencies, whereas the NGOs, research institutions and similar organizations are often better placed and more likely to identify and promote innovations. One may argue that it is possible to include an innovation agenda in large projects executed by ministries, which then would engage or subcontract NGOs and research institutions for identification and piloting. However, ministries are usually reluctant to share their budget and, in Nepal, government procurement guidelines have constrained the engagement of NGOs. Finally, there may be some reluctance to engage in pilot projects. Pilots normally have relatively small budgets, but place significant demand on government and IFAD for management and monitoring.

Table 22

**Assessment of COSOP performance**

<i>Evaluation criterion</i>	<i>Rating</i>
Relevance	4
Effectiveness	4
<b>COSOP performance</b>	<b>4</b>

**C. Overall assessment**

319. The partnership between the Government of Nepal and IFAD was challenged by armed conflict and political instability, which had a negative impact on the already weak governance framework. On IFAD's side, limited resources for country programme management and frequent changes of CPM also played a negative role. Overall for the entire period of 1999-2012, the Government/IFAD partnership is assessed as moderately satisfactory (4), mainly owing to notable improvements in the last few years.
320. Performance of the government-executed portfolio was often problematic, but both sides recently took action to address some of the main problems. The reshaping of WUPAP, a project previously at risk, is expected to provide a turnaround that will justify continued financing. The CPE also recognizes the bright spots within the portfolio. Support for leasehold forestry in some areas turned degraded state forests into productive forests and contributed to increasing the incomes of very

poor households. IFAD's "cofinancing contribution" to PAF-II has been a worthwhile investment, as evaluations and surveys suggest a positive impact within some of Nepal's poorest communities. Overall achievement of the government-executed portfolio is rated moderately satisfactory (4).

321. Within non-lending activities, despite recent improvements in knowledge management, policy dialogue remains a challenge. Partnership-building is assessed as moderately satisfactory considering IFAD's efforts to engage with civil society and the private sector – notwithstanding the problems of involving NGOs in government-executed projects. Some of the grant-supported and NGO-executed minor projects delivered positive outcomes, notably LLP and PPLP executed by CEAPRED.
322. COSOP performance is assessed as moderately satisfactory, considering the relevance of both COSOPs, a well-designed 2006 COSOP, the realization of strategies and pipelines through projects and programmes, but also the failure of an ambitious agenda for policy dialogue. Significant reduction of rural poverty and improvements in social indicators took place over the period evaluated in spite of the armed conflict and social unrest. IFAD's operations undoubtedly contributed to this positive development, despite their relatively small size. IFAD's operations improved income and food security for tens of thousands of rural households, but most of the beneficiaries are still poor and unable to feed their families for all 12 months of the year without alternative survival strategies such as migration for work elsewhere in Nepal or abroad.

Table 23

**Overall assessment of the partnership**

	<i>Rating</i>
Portfolio performance	4
Non-lending activities	3
COSOP performance	4
<b>Overall Government-IFAD partnership</b>	<b>4</b>

### Key points

- IFAD's strategies were well aligned with government policies and the IFAD-supported government-executed projects applied the Government's financial management and procurement systems.
- Aid for agriculture and rural development was highly fragmented and the COSOPs did not outline strategies for harmonization.
- The COSOPs listed relevant strategies for working in conflict but did not specify the required modalities and resources.
- The main part of IFAD-supported activities in the field was executed by local government units characterized by low capacity. The COSOPs underestimated the challenges of building responsive local governments (through government-executed projects) while project designs often underestimated the difficulties of coordinating multisector programmes with wide geographical coverage.
- Rural Nepal has a large number of aid-dependent, project-created beneficiary groups but few viable rural enterprises that add value to agricultural and forestry commodities, and generate income and employment. Future IFAD strategies should address this situation; a paradigm shift is required.
- Agricultural commercialization, including promotion of profitable agribusinesses, will only marginally benefit remote and isolated communities far from the road network. A two-pronged strategy is required where the second part focuses on basic needs and on alleviating poverty in isolated communities.
- The COSOP project pipelines and strategies have more or less been implemented and followed. There are some risks associated with the last-minute use of the three-year PBAs and the plan to have only one project for each PBA.
- Project monitoring systems often did not provide data required for assessing the impact of achieving COSOP objectives, but overall it is estimated that the programme has made positive contributions.
- Considering relevance as well as effectiveness, COSOP performance is assessed as moderately satisfactory which is also the assessment of the overall Government/IFAD partnership combining portfolio performance (moderately satisfactory), non-lending activities (moderately unsatisfactory) and COSOP performance.

## VIII. Conclusions and recommendations

### A. Conclusions

323. **Summary.** IFAD's presence in Nepal (since 1978) can be generally described as productive and beneficial for the client country. At the same time, it was somewhat weakened by, at times, poor programme design and implementation; frequent changes in staff responsible for the Nepal programme, and hence lack of continuity in programme management; almost non-existent policy dialogue with the authorities in pertinent areas; and lack of coordination with donor partners. It should be noted in this context that the period reviewed by this CPE (1999-2011) was characterized by an unstable political situation, exacerbated by internal armed conflict throughout most of the decade (until late-2006). Years of civil unrest led to mass displacement of population, suffering and economic hardship. These exogenous factors had an immediate negative impact on the quality of IFAD's (and other donors') programme in Nepal.
324. IFAD was of the pioneers of an important and effective approach to combining poverty reduction with improved natural resources management in Nepal – leasehold forestry – which was and continues to be a flagship feature of IFAD's programme in the country. There had been clear improvement in many areas handled by leasehold projects: visible forest recovery, transformation of some leasehold groups into rural cooperatives with business potential, etc. At the same time, there were weaknesses that somewhat undermined the overall success: poor

performance of the rural finance components in almost all projects; overly and unnecessarily complicated design of most projects that tried to address too many issues with limited resources in large geographic areas; and lack of institutional sustainability in a large segment of groups formed. 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. There were few examples of successful partnerships with main donors present in the country – notwithstanding the very productive cooperation with World Bank on PAF-II. Another area with potential for improvement was the partnership with NGOs and research organizations, especially in advancing a policy dialogue agenda and improving the analytical underpinning of IFAD's programmes. There were successful examples in this regard (partnerships with CEAPRED and ICIMOD) that could have been further advanced.

325. Moving forward, the Fund will need to capitalize on the generally solid foundation of its partnership with the Nepali authorities, which has 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 account of the quickly evolving economic and political realities in the country and subregion. 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 large-scale migration (internal and external); the leading role of remittances in overall economic growth and poverty reduction; emergence of new opportunities for private-sector development along the quickly growing road corridors, etc.
326. **A challenging context: post-conflict reality and implications for IFAD.** Nepal's historical heritage and more recent political developments have had a profound influence on IFAD's country programme and the IFAD/Government partnership. After the CPA of 2006, the political situation has been volatile and governance has further deteriorated.
327. The post-CPA period (2006–2012) witnessed gridlock on the future structure of the state alongside an increased criminalization of political activity. The political question that has defied solution during the past six years is how a balance can be found between an equitable state, and broadening access to political and economic power to groups hitherto ignored by state patronage (in particular, the inhabitants of the Terai and various ethnic groups in the hills). The quest for a workable formula has been complicated by framing the issue in territorial terms in a country in which caste and ethnic groups are heavily co-mingled<sup>49</sup>, and by the low esteem accorded to the state and the political parties as guarantors of equity, effective services – and, latterly, basic security.
328. Nepal's struggle for a national identity is far from over, and today's focus on the rights and privileges of the marginalized, while eminently justified, promises further instability and carries the potential for ethnic violence. Waning belief in state institutions and elected parties has weakened the appeal of an alternative model of inclusiveness – i.e. national institutions that act in the broad public interest. Despite the fact that Nepal's economy remains torpid – with the majority of its population dependent on subsistence farming, inefficient rural enterprises and remittances from other countries – some significant positives balance this dismal picture. First of all, Nepali society has changed dramatically over the past 60 years. Displacement, external migration, intense urbanization, rising literacy and open political debate are breaking down traditional caste and ethnic boundaries; this

<sup>49</sup> Many ethnic state delineations have been suggested; in none of these, with the exception of various versions of a far-western Chetri or Brahmin/Chetri ethnic state, does the group after which the state is 'named' represent a majority.

increasing permeability between communities, allied with strong traditions of managing complex local conflict with minimal violence, suggests that Nepal will probably not face ethnic catastrophes of the type witnessed in the Balkans and Central Africa.

329. The implications of the above for donors like IFAD that wish to assist the country's transition away from instability and poverty are important. Instability at the state and local levels is likely to continue for some time to come. It is reasonable to expect the institutions of the state to remain captured, and corrupted, by personal and political agendas, and to continue offering sub-par services to the rural poor. Although traditional or spontaneous local institutions remain one of Nepal's great strengths, donor/NGO efforts to create purposeful institutions (such as savings and credit associations, or forest leaseholder groups) will be hampered by inconsistent government efforts and well-founded popular scepticism about donor commitment and staying power. Building local institutions in Nepal is arduous, and the best examples (e.g. the various tiers of the CFUG structure) are characterized by decades of knowledge acquisition, on-the-ground implementation support, ability to adapt – and willingness by financiers to see setbacks as an inevitable part of the country's broader process of socio-political evolution (see chapter II.A and B; chapter III.C)
330. **Remittances - a major driver for poverty reduction.** Economic growth has been overall modest, with Nepal unable to close the gap from other countries on the Asian subcontinent, and still remaining a low-income country with low human development. However, in spite of all odds, Nepal has achieved an impressive reduction of poverty since the 1990s, including rural poverty, largely due to a significant growth in remittances from a negligible base to more than 20 per cent of GDP. In rural hills and mountains, where many households do not have sufficient food supply, men and some women of working age have migrated to work in the Middle East, Malaysia, India and the cities of Nepal. Off-farm job opportunities in the local communities are extremely scarce. IFAD did not attempt to reflect on and capture in any way the flow of remittances in its poverty reduction and rural development efforts – something that it might consider doing in future strategies and programmes, given the large and growing share of remittances to the country's GDP – approaching the size of the whole agriculture sector (see chapter II.A).
331. **Gender implications of migration.** While migration from rural villages in hills and mountains used to be seasonal (during the agricultural off-season) it is now more permanent with the men working several years in, for example, the Middle East, leaving it to the women to do the farming. This places additional demands on women's already limited time. The fact that the majority of farmers in many communities nowadays are women has implications for extension services and various support programmes. Women's time constraints and preferences need to be considered and often female service providers are in a better position to work with women farmers (see chapter II.A).
332. **Relevant IFAD strategies.** Over the period evaluated (1999-2012), the country programme was guided by two COSOPs, prepared in 2000 and 2006, the latter being an RB-COSOP. The 2000 COSOP focused on the poorest and socially excluded groups in isolated and remote hill and mountain communities in the Mid- and Far-Western Development Regions; the 2006 COSOP included commercialization of agriculture in "growth nodes" along the road corridors in the hills. Despite the differences, both COSOPs are assessed to be relevant to government and IFAD policies in the country context. The 2000 COSOP is relevant to the remote hill communities far from roads and water where households may be assisted to remain and hang in or step out (migrate) while the 2006 COSOP is more relevant to communities close to the road network and water sources where there is a commercial potential. The strategies and pipelines outlined in the two COSOPs

were pursued in a generally satisfactory manner through loan- and grant-financed projects and programmes. At the same time, the ambitious agenda for policy dialogue was not implemented (see chapter VII.A).

333. **Need to diversify strategy - two-prong approach.** So far, IFAD's strategy in Nepal has put strong emphasis on group formation (LFUGs, community organizations, farmer groups) as the main institutional measure to promote rural development and agricultural production. Such approach has included supplying a few days of training and technical assistance for a social mobilizer or an agricultural extension officer. There seems to be scope for supplementing this approach with a rural enterprise-centred one, as there is evidence that some of the groups did in fact transform over time into cooperatives and viable businesses.
334. Such an approach would imply investment per enterprise as opposed to past investments in "project groups". Instead of investing US\$10 million in the creation of 2,000 beneficiary groups with limited viability and sustainability prospects, the investment may provide higher long-term benefits to the same number of households if used to promote 10-50 profitable rural enterprises (cooperatives, partnership companies, etc.) that buy produce from farmers and add value to it, while employing landless or near landless in the process. Furthermore, such enterprises will need educated staff for accounting and other management activities, providing job opportunities for better educated young people in the villages.
335. It is likely that such a rural enterprise-centred strategy might distribute the benefits unevenly. With the exception of products with high-value-to-weight ratio, it will mainly benefit communities along or close to the road network and, within these communities, the better-off members with entrepreneurial skills. Furthermore, those who cannot work are excluded from directly benefiting (although they may benefit indirectly from the increased income of family members working with the enterprise). A "social dimension" therefore will need to be part of this strategy - while maintaining the overriding objective of creating profitable and self-reliant enterprises (see chapter VII.A).
336. **Limited resources for country programme management.** Overall COSOP performance is assessed as moderately satisfactory, while IFAD's engagement in non-lending activities such as policy dialogue, knowledge management and partnership development is found to be moderately unsatisfactory, mainly owing to limited resources for country programme management and a volatile political situation.
337. Over the period covered by the CPE, the country programme has been managed by frequently-changing CPMs with only part of their time available for Nepal, and since 2007 supported by a Nepali CPC. Both CPM and CPC spend the major part of their time on providing valuable direct supervision and implementation support, introduced since 2007. With respect to utilization of the three-year PBAs, it is observed with concern that approvals of commitments for utilization of the allocations are obtained in the last months of the PBA periods, potentially putting at risk the quality of decision-making and discouraging development of joint multidonor programmes. It should be acknowledged, however, that this issue is not specific to Nepal but is a rather broad characteristic of PBA allocation in general (see chapter VI.A, B, and C; and chapter VII.A, B, and C).
338. **Weak but improving portfolio performance.** In the period covered by the CPE, the government-executed portfolio, supported by IFAD loans and grants under the DSF, focused on leasehold forestry, integrated rural development for poverty alleviation and, more recently, agricultural commercialization through promotion of high-value agriculture, with rural finance part of the first two areas.

339. Leasehold forestry. Back in the late 1980s, IFAD formulated support for the innovative forest management concept of leasing state forest to groups of 7-15 very poor and/or socially excluded households, LFUGs. IFAD has continued its support to leasehold forestry since then and a second leasehold programme (LFLP, ongoing) supports formation of groups; distribution of goats, tree saplings and fodder grasses; animal health services; and introduction of savings and credit schemes in the LFUGs.
340. More than 5,000 LFUGs were established under IFAD's two leasehold forestry projects and the poverty alleviation project for the western uplands (WUPAP). The main short-term benefit and incentive consisted of two goats given per household while the benefits from the regenerated forest emerged in the longer-term. Surveys demonstrated a positive impact on members' income but the majority are still poor and food-insecure for part of the year. Forest cover is gradually being re-established, slower in the western parts with less and more erratic rainfall. According to surveys of the institutional development status of the LFUGs, only a minority are still fully active. LFUGs have not, as originally planned, made any substantial contribution to creating viable investment opportunities and monetizing the local economy in remote communities, which are needed in order to make rural finance programmes succeed.
341. The poverty alleviation projects for Western Terai and Western Uplands were designed with excessively ambitious geographical and thematic/subsector coverage and required collaboration between many agencies, which was a challenge in Nepal. As in the support for leasehold forestry, implementation was driven by quantitative targets, with less attention given to beneficiary demands and problems. Many targets were achieved but the monitoring systems did not provide data to indicate the livelihood changes obtained from the results. Many beneficiary groups, community organizations, were formed but their sustainability prospects are limited.
342. In 2007, IFAD committed US\$4 million to a PAF implemented by the Prime Minister's Office and established with World Bank funding (US\$215 million). PAF applied a more participatory demand-driven approach in supporting community infrastructure and income-generating activities among the poorest communities. It had a wide support menu from which community organizations could select their preferred support. Implementation was relatively efficient and effective, and surveys indicated a positive impact on livelihoods.
343. Currently the Government is starting up implementation of HVAP, which focuses on agricultural commercialization in growth nodes along the road corridors in the Mid-Western hills. IFAD's support for HVAP was designed in line with the strategies set out in the 2006 COSOP.
344. In addition to leasehold forestry, community development and infrastructure, the main themes within programmes supported by IFAD in Nepal have included agricultural development and rural finance. Rural finance was the least successful area, as rural finance components in all observed projects played a secondary role and suffered from inadequate design and resource allocation for capacity-building; and most loans served consumption purposes. Efforts to develop microfinance through introduction of the Grameen Bank model were not successful. The most recent projects have not included support for rural finance – perhaps given the poor record and limited results achieved in this area. If IFAD is to re-engage in rural finance, it might need to reconsider the model of engagement – not through ad hoc components in selected projects, but rather through a systemic approach to developing the rural finance system, including policy dialogue, where IFAD most likely would need to join with other development partners.
345. Agricultural development for most of period evaluated included mainly livestock (goats). Goat distribution was an incentive to form community groups and a

welcome addition to the livelihoods of poor farmers. However, it was mainly a one-time occurrence and in most cases did not lead to development of commercial goat farming.

346. The overall achievement of the government-executed portfolio is assessed as moderately satisfactory (4), with the early period (1999-2006) rated lower (moderately unsatisfactory, or 3) than the period 2006-2011 (moderately satisfactory, or 4). The overall rating gives more weight to the later period and takes account of the overall observed trend for improving portfolio performance. In addition, the following should be highlighted: (i) inclusion of PAF-II achievements, in spite of the relatively small IFAD contribution, was an important factor in the overall positive rating; and (ii) paucity of data on the impact of the poverty alleviation projects in the Terai and Western Uplands was a significant constraint that informed the overall assessment.
347. Overall for the portfolio, other problem areas in the unsatisfactory rating zone include: "efficiency", largely due to weaknesses in implementation management; and "sustainability" due to weakness of many user groups and limited sustainability prospects of rural finance interventions. With respect to rural poverty impact, the domains of "human and social capital and empowerment" (rated 3) and "institutions and policies" (rated 3) are the most problematic, owing to challenges in building cohesive and sustainable grass-roots organizations and responsive and effective local governments.
348. Apart from the government-executed portfolio, IFAD has a relatively important portfolio of grant-financed projects, executed by NGOs and international organizations. Some of these projects, though small in volume, made important contributions, notably a local livelihoods project implemented by the national NGO CEAPRED, which produced positive livelihoods changes and laid the foundations for development of value chains in the Mid-Western Development Region.
349. Overall for the period 1999-2012, the partnership is assessed to be just within the moderately satisfactory zone, considering improvements in the later part of the period and combining the moderately satisfactory performance of the COSOP and the portfolio, and the moderately unsatisfactory performance of non-lending activities (see chapter IV.A, B, C; chapter VI.D; and chapter VII.D).
350. To conclude, IFAD's country programme has contributed to alleviating rural poverty and to making many rural households less poor, but it has made a relatively modest contribution to reducing poverty and helping people to escape poverty for good. The programme has contributed to the formation of thousands of beneficiary groups but the majority are still weak, institutionally and financially, with limited management capacity, capital and turnover, and largely dependent on project support.

## **B. Recommendations**

351. This CPE offers recommendations in three broad areas: (1) overall partnership strategy; (2) policy dialogue; and (3) operational and management issues. Priority is given to recommendations that are feasible to implement, also in an uncertain future context. The recommendations are addressed to IFAD as well as to the Government.
- (i) Strategic partnership**
352. **New partnership paradigm and pipeline development 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 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 organized into groups for distribution of project services, goods and

money. Few of the groups developed the cohesion, capital and income stream needed to continue after termination of project support. As found in surveys, this also applies to many IFAD-supported groups (LFUGs and community organizations). Apart from sustainability problems, this paradigm tends to help many households to become less poor only temporarily, with only a few households able to escape poverty for good.

353. Nepal's agribusiness and agro-industries are at an infant stage, but rapid urbanization and neighbouring markets offer opportunities for introducing a new paradigm where the focus would be on developing profitable enterprises of economic scale engaged in various simple (packaging, semi-processing) and more advanced (processing of agricultural commodities and forest products) activities. Such enterprises will offer employment for the 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), jobs will also be created 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. Moreover, IFAD's recent programme, HVAP, is designed to follow up on these opportunities but it is still based on the past tradition of promoting hundreds of project-created (and dependent) groups.
354. The ambition and goal of this new paradigm would be to reduce poverty, not merely alleviate it. The implications for project design include that a project would focus on the development of 10-50 profitable agroenterprises of economic scale, with backward contractual linkages to farmer groups, instead of targeting +500 small groups (HVAP) or several thousand groups (LFLP). It also implies the forging of partnerships with private service providers, buyers and input suppliers. Based on PPPs, public-sector agencies would be engaged in addressing bottlenecks of a public goods nature (roads, electricity etc.). Compared with small, poorly organized groups, a successful medium-sized enterprise (cooperative, private company, etc.) is more likely to stand up for its rights and keep public agencies accountable. To avoid past geographical dilution, focus would be on clusters or growth nodes along the road corridors.
355. Obviously, the paradigm is not appropriate for remote and isolated communities in the hills and mountains, 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. Under a "basic needs paradigm", the realistic ambition would be to alleviate poverty and improve basic needs during a long-term process while young people gradually leave the communities as they have for the last decades. Targets may include improved food sufficiency from 5-7 to 8-10 months of the year. Relevant to IFAD's mandate, sector interventions may include leasehold and community forestry, livestock, some improvements in subsistence agriculture (food crops), and access to water and possibly also energy (e.g. solar units). The main focus would be on subsistence production and improved livelihoods but, where feasible, it may also include some commercial production of high-value-to-weight produce for niche markets, such as MAPs and vegetable seeds.
356. IFAD's plans for PBA management imply that, at any time, there will be at least two ongoing projects, which would allow for a two-pronged strategy: one applying the new commercial paradigm and the other a more basic needs-oriented approach for remote and isolated communities. However, the two paradigms should not be mixed in the same project. Given IFAD's relatively modest lending frame, these two lending options could focus on the same selected (few) hill and mountain districts; within these, one programme could be designed for areas close to roads/markets and the other for remote communities (paragraphs 334-337).

357. **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 following an approach that 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, takes political instability and institutional fragility as the principal constraints to socio-economic development, and draws on the experience 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 programmes 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 to work effectively through weak partners to create, and sustain, the community institutions that will help the poor move into the socio-economic mainstream.
358. Protracted civil conflict resulted in massive migration from rural areas to the cities and abroad. This, in turn, drastically changed both the social composition and the economy of the rural areas, increased the share of woman-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 programmes and policy dialogue, preferably in cooperation with other development partners (paragraphs 331-332).

#### **(ii) Policy dialogue**

359. **Strengthening the link between the policy dialogue agenda in strategy (COSOP) and portfolio (programmes).** The ambitious agenda for policy dialogue included in previous COSOPs was not implemented. This could have been due to insufficient time and resources and probably also because it was not agreed between the partners within the framework of projects actually implemented. Many stakeholders were unaware of COSOP strategic directions, and the partnership programme was driven by projects. Given IFAD's limited resources for country programme management and further expected reductions, it is recommended that IFAD and the Government jointly identify relevant policy issues in the COSOP and embed them within the design and implementation of projects, allowing for necessary resource allocations. For financing the related work, IFAD may help to mobilize grant resources, but the partners should also consider funding part of the policy agenda from project budgets.
360. As an example, IFAD and the Government are currently engaged in designing support for the seed subsector under the new programme, ISFP. As part of the design process, the partners could identify policy issues in the seed subsector or agree that a seed subsector policy or strategy needs to be developed. ISFP should finance related work, as envisaged in the last design document, thus providing an example of 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, the loan budgets should make provision for financing work related to these policy areas.
361. In Nepal, and 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 a better-targeted grants programme. Cooperation

with ICIMOD is a good example of such a productive partnership that could be further expanded in the future (paragraphs 330, 333 and 337).

**(iii) Operations and programme management**

362. **Appreciating local context; providing adequate implementation support.** There appears to be a disconnect between IFAD's corporate policies that require attention to the local context and actual provisions made to ensure that this occurs in Nepal. While the CPE recognizes 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; what is much more challenging is to adapt project design to take account of what has been learned, and to adjust to changing local dynamics. This in turn requires more implementation support resources than IFAD has normally provided in Nepal – both to enable non-government implementation partners to deliver sufficient field support to beneficiary groups and government agencies, and to ensure adequate continuity and intensity by IFAD staff. Although grant resources can be used to finance NGO partner activities, augmenting the impact of IFAD's staff will require higher supervision coefficients alongside project designs that are less demanding (projects that cover smaller or more carefully-targeted areas, include fewer components and/or embody less ambitious output targets).
363. It is further recommended that the Government engage external technical support from specialized service providers in the private sector and civil society to address three problem areas common to a significant part of the portfolio:  
 (i) implementation driven by quantitative targets rather than being responsive to the demands and problems of beneficiaries; (ii) monitoring systems that do not capture livelihood changes and indicators for objectives; and (iii) substandard financial management. IFAD may help to mobilize grants to finance such support but when this is not possible, projects should as relevant include budgets to engage the external expertise required to assist with improvements in these three areas (paragraphs 327-330, 337-338).
364. **Addressing disadvantage: class or caste-based interventions?** It would be prudent in most instances to base group formation on economic/class rather than caste criteria – while making sure that disadvantaged castes/ethnicities are fully included in group activities. When supporting value chain and rural enterprise development, programmes will need to work with, and sometimes support, better-off entrepreneurs and leaders in the local community while ensuring that the poor and socially excluded households benefit (paragraphs 332, 334-336).
365. **Measuring and communicating impact.** It is clear that 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 of busy policymakers. Two important evaluation techniques deserving of 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 of measuring the extent to which institutions are achieving popular legitimacy).
366. **Aligning COSOP and PBA cycle management.** While it would be useful to harmonize the COSOP cycle with the Government planning period, given the political uncertainties it is recommended that IFAD and the Government prepare the COSOP to cover two three-year PBAs according to IFAD's funding cycle. For utilization of the first PBA, the COSOP should contain a relatively detailed outline of the pipeline, based on identification undertaken as part of COSOP preparation. The pipeline project(s) should be comprehensively described in a concept note agreed on by IFAD and the Government. This will allow design and appraisal during the first two years of the COSOP implementation period. For the second PBA period, a

comprehensive COSOP review and revision, combined with project identification, should be undertaken in COSOP year 3 to allow for design and appraisal in COSOP years 4 and 5. By implementing this recommendation, IFAD and the Government would not be forced to take last-minute decisions on use of the PBA, as is currently the case and which in a politically volatile situation involves high risk. Furthermore, this would create space to mobilize cofinancing and explore joint financing arrangements with other development partners (paragraphs 337-338).

## Ratings of IFAD-funded project portfolio in Nepal<sup>a</sup>

<i>Evaluation criteria</i>	<i>HLFFDP (closed)</i>	<i>PAPWT (closed)</i>	<i>WUPAP (ongoing)</i>	<i>LFLP (ongoing)</i>	<i>PAF-I (ongoing)</i>	<i>HVAP (starting)</i>	<i>Overall portfolio</i>
<b>Project performance</b>							
Relevance	4	4	4	5	5	5	4
Effectiveness	4	3	(3)	(3)	(6)	n/a	4
Efficiency	2	3	(3)	(4)	(5)	n/a	3
<b>Project performance<sup>b</sup></b>	<b>3.3</b>	<b>3.3</b>	<b>(3.3)</b>	<b>(4.0)</b>	<b>(5.2)</b>	<i>n/a</i>	<b>3.8</b>
<b>Rural poverty impact</b>							
Household income and assets	4	3	3	(4)	(5)	n/a	4
Human and social capital and empowerment	3	3	3	(4)	(4)	n/a	3
Food security and agricultural productivity	4	3	(3)	(4)	(5)	n/a	4
Natural resources, environment and climate change	4	4	(4)	(4)	(4)	n/a	4
Institutions and policies	3	2	(3)	(3)	(4)	n/a	3
<b>Rural poverty impact<sup>c</sup></b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>(4)</b>	<b>(5)</b>	<i>n/a</i>	<b>4</b>
<b>Other performance criteria</b>							
Sustainability	3	2	(2)	(3)	(4)	n/a	3
Innovation and scaling up	4	3	(3)	(3)	(4)	n/a	3
Gender equality and women's empowerment	3	4	(4)	(4)	(5)	n/a	4
<b>Overall project portfolio achievement<sup>d</sup></b>	<b>3</b>	<b>3</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<i>n/a</i>	<b>4</b>
<b>Performance of partners<sup>e</sup></b>							
IFAD	4	3	(3)	(4)	(5)	n/a	4
Government <sup>e</sup>	3	2	(3)	(4)	(5)	n/a	3

Notes: (i) Ratings for HLFFDP based on IOE's 2003 interim evaluation, which did not have ratings. Thus ratings provided in table are based on an interpretation of the verbal findings and conclusions of the evaluation. (ii) n/a: not applicable because implementation is just starting. (iii) Ratings in brackets (..) are tentative – for ongoing projects.

<sup>a</sup> Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory.

<sup>b</sup> Arithmetic average of ratings for relevance, effectiveness and efficiency.

<sup>c</sup> This is not an average of ratings of individual impact domains.

<sup>d</sup> This is not an average of ratings of individual evaluation criteria.

<sup>e</sup> The rating for partners' performance is not a component of the overall assessment ratings.

## IFAD-financed projects in Nepal

<i>Project name (number)</i>	<i>Project type</i>	<i>IFAD financing<sup>a</sup> (US\$'000)</i>	<i>Cofinancier total<sup>b</sup> (US\$'000)</i>	<i>Total cost (US\$'000)</i>	<i>Board approval</i>	<i>Loan signing</i>	<i>Loan effectiveness</i>	<i>Completion</i>	<i>Cooperating institution</i>	<i>Project status</i>
Integrated Rural Development Project, (Sagarmatha Zone) (10)	Rural Development	13 000	17 750	37 200	12 Dec 1978	12 Mar 1979	01 Nov 1979	30 Jun 1988	ADB	Closed
Small Farmer Development Project (57)	Credit and Financial Serv.	13 500	n/a	16 100	05 Dec 1980	17 Feb 1981	10 Jul 1981	30 Jun 1987	ADB	Closed
Command Area Development Project (82)	Irrigation	11 250	14 009	30 199	17 Dec 1981	02 Jul 1982	01 Oct 1982	31 Mar 1989	ADB	Closed
Second Small Farmer Development Project (166)	Credit and Financial Services	14 600	4 000	24 500	02 Apr 1985	09 Sep 1985	03 Mar 1986	30 Jun 1990	ADB	Closed
Aquaculture Development Project (191)	Fisheries	5000	11 960	23 000	18 Sep 1986	13 Nov 1986	15 Oct 1987	31 Dec 1991	ADB	Closed
Production Credit for Rural Women Project (208)	Credit and Financial Serv.	6000	4 010	12 030	10 Sep 1987	07 Apr 1988	30 Nov 1988	30 Jun 1997	UNOPS	Closed
Hills Leasehold Forestry and Forage Development Project (250)	Rural Development	12 800	3 360	20 407	07 Dec 1989	25 Jan 1990	18 Feb 1991	30 Jun 2003	UNOPS	Closed
Groundwater Irrigation and Flood Rehabilitation Project (352)	Irrigation	9884	1 894	13 048	19 Apr 1994	24 May 1994	01 Nov 1994	30 Jun 2001	UNOPS	Closed
Poverty Alleviation Project in Western Terai (1030)	Agricultural Development	8866	n/a	9730	11 Sep 1997	12 Dec 1997	10 Mar 1998	15 Jul 2005	UNOPS	Closed
Western Uplands Poverty Alleviation Project (1119)	Agricultural Development	20 297	4 026	32 564	06 Dec 2001	05 Feb 2002	01 Jan 2003	31 Mar 2014	IFAD/IFAD	Ongoing
Leasehold Forestry and Livestock Programme (1285)	Agricultural Development	11 710	n/a	12 772	02 Dec 2004	07 Jun 2005	07 Sep 2005	30 Sep 2013	IFAD/IFAD	Ongoing
Poverty Alleviation Fund Project II (1450)	Rural Development	4000	99 994	112 690	13 Dec 2007	08 May 2008	31 Jul 2008	30 Sep 2012	World Bank: IDA	Ongoing
High-Value Agriculture Project in Hill and Mountain Areas (1471)	Rural Development	15 282	696	18 872	17 Dec 2009	05 Jul 2010	05 Jul 2010	30 Sep 2017	IFAD/IFAD	Ongoing
Improved Seeds for Farmers (Kisankalagi Unnat Biu-Bijan Karyakram) (1602)	To be determined	n/a	n/a	n/a	21 Sep 2012	n/a	n/a	n/a	n/a	Under design
<b>TOTALS</b>		146 189	161 699	363 112						

<sup>a</sup> Includes approved grants, loans, and supplementary loans.

<sup>b</sup> Proposed approved total.

## IFAD-funded grants in Nepal

<i>Grant N°.</i>	<i>Recipient</i>	<i>Programme name</i>	<i>Approval date</i>	<i>Closing date</i>	<i>Grant amount</i>	<i>Countries</i>
<b>Closed grants:</b>						
484	CIMMYT	Rising Demand for Maize & Intensification of Asian Upland Farming Systems: Policy Options for Productivity Enhancement, Environmental Protection and Food Security	03/05/2000	30/06/2005	750 000	India, Indonesia, Nepal, Philippines, Thailand, Nepal, China
490	ICIMOD	Livelihood in Uplands & Mountains of Hindu-Kush Himalayas/technical innovation and implementation support to IFAD	03/05/2000	31/12/2005	1 000 000	Pakistan, India, Nepal, China, Bhutan, Bangladesh
651	CIFOR	Programme For Improving Income-Generation for Forest Communities through IFAD's loan portfolio in the Asia and the Pacific region	10/04/2003	22/08/2008	900 000	China, India, Nepal
706	IRRI	Programme for Managing Rice Landscapes in the Marginal Uplands for Household food security & Environmental sustainability	09/09/2004	31/12/09	1 190 000	India, Laos, Nepal and Nepal
257	CIFOR	International Network for bamboo and rattan (B&R) research and development and transfer of technologies for smallholder bamboo and rattan based producers from Asia to Africa	16/09/1993	31/12/1996	700 000	Nepal, Papua New Guinea, China, India, Philippines
330	ICRISAT	Development of integrated pest management (IPM) programme for the management of pulse pests in South Asia	11/09/1996	30/06/2001	500 000	India, Bangladesh, Nepal

<i>Grant N<sup>o</sup>.</i>	<i>Recipient</i>	<i>Programme name</i>	<i>Approval date</i>	<i>Closing date</i>	<i>Grant amount</i>	<i>Countries</i>
332	INBAR/IDRC	Development and transfer of technologies for smallholder bamboo and rattan producers from Asia to Africa	11/09/1996	30/09/2000	900 000	In Asia: Nepal, Philippines, India, China, Papua New Guinea
363	IJO (non-CGIAR)	Adaptive research on Improved varieties of jute and allied fibres and their Utilization for Enhanced Income Generation	30/04/1997	28/01/2008	376 000	Bangladesh, China, Indonesia, Nepal, Thailand, India
444	IFDC (non-CGIAR)	Part. Eval. Adapt. & Adopt. of Env. - friendly nutrient mgmt. tech. for Resources poor farmers (ANMAT phase I)	29/04/1999	16/07/2003	1 000 000	Bangladesh, Nepal, Nepal
532	ICRISAT	Programme For Farmer-Participatory Improvement Of Grain Legumes in Rainfed Asia	26/04/2001	18/01/2008	1 300 000	China, India, Nepal, Nepal
634	IRRI/CIMMYT	Multistakeholder Programme to accelerate Technology Adoption to Improve Rural Livelihoods in the Rainfed Gangetic Plains (builds on TAGs 148 and 263)	11/12/2002	20/11/2008	1 500 000	Bangladesh, Nepal, Pakistan, India (NARES)
654	IFDC (non-CGIAR)	Mitigating Poverty and Environmental degradation through nutrient managment. n South and South East Asia (ANMAT Programme Phase II)	10/04/2003	30/09/2007	1 000 000	Nepal, Nepal, Bangladesh
560	SAPNA	Appi: Pilot Capacity-building Programme to Enhance Implementation of Social mobilization Activities	02/10/2001	22/10/2004	98 450	Nepal, Sri Lanka
663	UNIFEM	Mainstreaming gender in poverty reduction in Asia: programme support for policy analysis advocacy and monitoring to address gender inequalities and the vulnerability of women	11/09/2003	23/05/2008	350 000	China, India, Bangladesh, Pakistan, Nepal, Sri Lanka, Laos, Cambodia, Nepal, Indonesia, Philippines

<i>Grant N<sup>o</sup>.</i>	<i>Recipient</i>	<i>Programme name</i>	<i>Approval date</i>	<i>Closing date</i>	<i>Grant amount</i>	<i>Countries</i>
663/JP 36	UNIFEM	Mainstreaming gender in poverty reduction in Asia: programme support for policy analysis advocacy and monitoring to address gender inequalities and the vulnerability of women	06/02/2003	23/05/2008	350000	China, India, Bangladesh, Pakistan, Nepal, Sri Lanka, Laos, Cambodia, Nepal, Indonesia, The Philippines
737	CIRDAP	Training course on RIMS for M&E staff of IFAD supported projects in South Asia	22/12/2004	07/03/2006	45 000	Bangladesh, Nepal, Pakistan, Sri Lanka, India, Bhutan
742	UNIFEM	Regional Conference in India on Development Effectiveness through Gender Mainstreaming lessons learned from South Asia	21/12/2004	23/05/2008	150 000	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka
763	ICIMOD & TEBTEBBA	Decade of Indigenous people in Asia (Assessment)	21/12/2004	11/07/2008	198 950	Bangladesh, Bhutan, China, India, Nepal, Cambodia, Indonesia, Philippines
839	IFPRI	Income Diversification and Remittances for Livelihood Security and Rural Development	09/01/2006	09/02/2009	200 000	Nepal, Philippines, Bangladesh, Sri Lanka
678	IFDC (non CGIAR)	Mitigating Poverty and Environmental Degradation through Nutrient Management for Paddy Production	29/09/2003	12/05/2005	60 000	Bangladesh, Nepal, Nepal
755	SPD	Capacity-building for gender sensitive social mobilization in leasehold forestry and livestock programme	21/12/2004	18/06/2008	46 000	Nepal
824	CEAPRED	Local Livelihoods Programme in Mid-Western Nepal	13/12/2005	09/09/2010	485 000	Nepal
821	FAO	Pro-Poor Policy Formulation, Dialogue and Implementation at the Country Level	13/12/2005	31/03/2011	1 500 000	China, India, Indonesia, Cambodia, Nepal, Nepal, Pakistan, Sri Lanka
8018	COCIS	Development of Supply and Markets for High Quality Breeding Goats through Strengthened Cooperative Goat Resource Center	13/04/2007	31/12/2010	115 731	Nepal

<i>Grant N<sup>o</sup>.</i>	<i>Recipient</i>	<i>Programme name</i>	<i>Approval date</i>	<i>Closing date</i>	<i>Grant amount</i>	<i>Countries</i>
8044	CEAPRED	Pro-Poor Livelihood Promotion through Commercial High-value Agriculture in the Mid-Western Region of Nepal	15/10/2009	30/09/2011	122 500	Nepal
824	CEAPRED	Local Livelihoods Programme in Mid -Western Nepal	03/04/2006	Closed	485 000	Nepal
<b>Ongoing Grants:</b>						
875	APRACA	Programme for Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific Through Rural Finance Innovations	14/09/2006,	30/09/2012	1 200 000	Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Kyrgyzstan, Laos, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Thailand and Nepal
1032	ICRAF (RUPES)	World Agroforestry Centre (ICRAF): Programme on Rewards for Use of and Shared Investment in Pro-poor Environmental Services (RUPES II)	25/04/2008	31/03/2013	1 500 000	China, India, Indonesia, Nepal, Philippines, Nepal
1034	FAO	FAO/Self Employed Women's Association (FAO/SEWA): Medium-term Cooperation Programme with Farmers' Organizations in Asia and the Pacific Region	25/04/2008	30/09/2013	1 083 000	India, Nepal, Sri Lanka, Cambodia, Indonesia, Laos, Myanmar, Philippines, Nepal, China
1108	IRRI	Enabling Poor Rice Farmers to improve Livelihoods and Overcome Poverty in South and South-East Asia through the Consortium for Unfavourable Rice Environments (CURE)	30/04/2009	31/03/2014	1 500 000	Nepal, India, Philippines, Indonesia, Nepal, Laos, Cambodia
1113	ICIMOD	Programme on Livelihoods and Ecosystem Services in the Himalayas: Enhancing Adaptation Capacity and Resilience of the Poor to Climate and Socio-Economic Changes	30/04/2009	31/03/2013	1 500 000	Bhutan, India, Nepal

<i>Grant N<sup>o</sup>.</i>	<i>Recipient</i>	<i>Programme name</i>	<i>Approval date</i>	<i>Closing date</i>	<i>Grant amount</i>	<i>Countries</i>
1239	CIP	Root and Tuber Crops Research & Dev. Programme for Food Security in the Asia and the Pacific Region	05/12/2010	30/09/2014	1 450 000	China, India, Indonesia, Philippines, Bangladesh, Nepal, Sri Lanka, Laos, Pacific, Maldives
1244	ESCAP	Leveraging pro-poor public private partnership for rural dev.-widening access to energy services for rural poor in Asia and the Pacific	05/12/2010	31/03/2016	1 350 000	Bangladesh, China, Indonesia, Lao PDR, Nepal
1286	FAO	Pro-poor Policy Approaches to Address Risk and Vulnerability at the Country Level	04/05/2011	31/12/2020	1 500 000	Cambodia, Laos, Nepal
655	FAO (non CGIAR)	Organic Production of Underutilized Medicinal, Aromatic & Natural Dye Plants (MADP) Programme for sustainable rural livelihoods in Southern Asia	10/04/2003	30/09/2009	1 400 000	India, Nepal, Sri Lanka, Bhutan
954	ICRISAT	Programme for Harnessing the True Potential of Legumes: Economic and Knowledge Empowerment of Poor Farmers in Rain fed Areas in Asia	18/04/2007	30/06/2012	1 400 000	India, Nepal
1037	INBAR	International Network for Bamboo and Rattan (INBAR): Programme for Enhanced Bamboo-based Smallholder Livelihood Opportunities - Phase II	25/04/2008	31/03/2012	1 250 000	India, Nepal, Philippines
1073	IWMI	International Water Management Institute (IWMI): Improving Sustainability of Impacts of Agricultural Water Management Interventions in Challenging Contexts	17/12/2008	31/12/2012	1 200 000	Nepal, Sri Lanka,

<i>Grant N<sup>o</sup>.</i>	<i>Recipient</i>	<i>Programme name</i>	<i>Approval date</i>	<i>Closing date</i>	<i>Grant amount</i>	<i>Countries</i>
1039	UNCDD	Programme for Designing Integrated Financing Strategies for UNCCD Implementation in Selected Countries of Asia and the Pacific, and Latin America and the Caribbean	25/04/2008	31/01/2011	1 250 000	Cambodia, Nepal, Sri Lanka, Thailand
1265	Min of Finance	Bhutan Climate Summit 2011	21/12/2010	30/06/2013	200 000	Bhutan, Bangladesh, Nepal and India
1216	FAO	South Asia Pro-Poor Livestock Policy Programme II	27/08/2010	30/09/2012	100 000	India, Nepal, Bhutan
1262	FAO	Study on water interventions for improving smallholder farming and rural livelihoods in Asia and the Pacific	17/12/2010	30/06/2013	250 000	Bhutan, Cambodia, Lao PDR, Nepal and the Philippines
8017	ILO	Skills Enhancement for Employment Project in Nepal	13/12/2007	30/03/2012	870 000	Nepal
8037	SNV	High Value Agriculture Inclusive Business Pilot Project	31/07/2009	30/06/2012	199 993	Nepal
8076	ADB	Nepal Agriculture Development Strategy	23/12/2010	30/09/2013	500 000	Nepal

## Methodological note on country programme evaluations

1. A country programme evaluation (CPE) has two main objectives: assess the performance and impact of IFAD-financed operations in the country; and generate a series of findings and recommendations that will inform the next results-based country strategic opportunities programme (COSOP). It is conducted in accordance with the directives of IFAD's Evaluation Policy<sup>1</sup> and follows the core methodology and processes for CPEs outlined in IOE's Evaluation Manual.<sup>2</sup> This note describes the key elements of the methodology.
2. **Focus.** A CPE focuses on three mutually reinforcing pillars in the IFAD/Government partnership: (i) project portfolio; (ii) non-lending activities; and (iii) the COSOP(s). Based on these building blocks, the CPE makes an overall assessment of the country programme achievements.
3. With regard to assessing the **performance of the project portfolio** (first pillar), the CPE applies standard evaluation methodology for each project using the internationally-recognized evaluation criteria of relevance, effectiveness, efficiency and rural poverty impact - including impact on household income and assets, human and social capital, food security and agricultural productivity, natural resources and the environment (including climate change<sup>3</sup>), and institutions and policies. The other performance criteria include sustainability, innovation and scaling up, and gender equality and women's empowerment. The performance of partners (IFAD and the Government) is also assessed by examining their specific contribution to the design, execution, supervision, implementation-support, and monitoring and evaluation of the specific projects and programmes. The definition of all evaluation criteria is provided in annex V.
4. The assessment of **non-lending activities** (second pillar) analyzes the relevance, effectiveness, and efficiency of the combined efforts of IFAD and the Government to promote policy dialogue, knowledge management, and partnership building. It also reviews global, regional, and country-specific grants as well as achievements and synergy with the lending portfolio.
5. The assessment of the **performance of the COSOP** (third pillar) is a further, more aggregated, level of analysis that covers the relevance and effectiveness of the COSOP. While in the portfolio assessment the analysis is project-based, in this latter section, the evaluation considers the overall objectives of the programme. The assessment of relevance covers the alignment and coherence of the strategic objectives - including the geographic and subsector focus, partners selected, targeting and synergies with other rural development interventions - , and the provisions for country programme management and COSOP management. The assessment of effectiveness determines the extent to which the overall strategic objectives contained in the COSOP were achieved. The CPE ultimately generates an assessment for the overall achievements of the programme.
6. **Approach.** In line with international evaluation practices, the CPE evaluation combines: (i) desk review of existing documentation - existing literature, previous IOE evaluations, information material generated by the projects, data and other materials made available by the Government or IFAD, including self-evaluation data and reports; (ii) interviews with relevant stakeholders in IFAD and in the country; and (iii) direct observation of activities in the field.
7. For the field work, a combination of methods are generally used for data gathering: (i) focus group discussions with a set of questions for project user groups and

<sup>1</sup> <http://www.ifad.org/gbdocs/eb/102/e/EB-2011-102-R-7-Rev-1.pdf>.

<sup>2</sup> [http://www.ifad.org/evaluation/process\\_methodology/doc/manual.pdf](http://www.ifad.org/evaluation/process_methodology/doc/manual.pdf).

<sup>3</sup> On climate change, scaling up and gender, see annex II of document EC 2010/65/W.P.6 approved by the IFAD Evaluation Committee in November 2010: <http://www.ifad.org/gbdocs/eb/ec/e/65/EC-2010-65-W-P-6.pdf>.

- linkages with other projects in the area; (ii) Government stakeholders meetings – national, regional/local, including project staff; (iii) random sample household visits using a pre-agreed set of questions to household members, to obtain indications of levels of project participation and impact; iv) key non-government stakeholder meetings – e.g. civil society representatives and private sector.
8. Evaluation findings are based on triangulation of evidence collected from different sources.
  9. **Rating scale.** The performance in each of the three pillars described above and the overall achievements are rated on a scale of 1 to 6 (with 1 being the lowest score, and 6 the highest), enabling to report along the two broad categories of satisfactory (4, 5, and 6) and unsatisfactory performance (1, 2 and 3). Ratings are provided for individual projects/programmes, and on that basis, for the performance of the overall project portfolio. Ratings are also provided for the performance of partners, non-lending activities, the COSOP's relevance and effectiveness as well as the overall achievements of the programme.
  10. In line with practices of international financial institutions, the rating scale, in particular when assessing the expected results and impact of an operation, can be defined as follows - taking however due account of the approximation inherent to such definition:
 

<i>Highly satisfactory (6)</i>	The activity (project, programme, non-lending, etc.) achieved - under a specific criteria or overall -strong progress towards all main objectives/impacts, and had best practice achievements on one or more of them.
<i>Satisfactory (5)</i>	The activity achieved acceptable progress towards all main objectives/impacts and strong progress on some of them.
<i>Moderately satisfactory (4)</i>	The activity achieved acceptable (although not strong) progress towards the majority of its main objectives/impacts.
<i>Moderately unsatisfactory (3)</i>	The activity achieved acceptable progress only in a minority of its objectives/impacts.
<i>Unsatisfactory (2)</i>	The activity's progress was weak in all objectives/impacts.
<i>Highly unsatisfactory (1)</i>	The activity did not make progress in any of its objectives/impacts.
  11. It is recognized that differences may exist in the understanding and interpretation of ratings between evaluators (inter-evaluation variability). In order to minimize such variability IOE conducts systematic training of staff and consultants as well as thorough peer reviews.
  12. **Evaluation process.** A CPE is conducted prior to the preparation of a new cooperation strategy in a given country. It entails three main phases: (i) design and desk review phase; (ii) country work phase; (iii) report writing, comments and communication phase.
  13. The *design and desk review phase* entails developing the CPE approach paper. The paper specifies the evaluation objectives, methodology, process, timelines, and key questions. It is followed by a preparatory mission to the country to discuss the draft paper with key partners. During this stage, a desk review is conducted examining available documentation. Project review notes and a consolidated desk review report are prepared and shared with IFAD's regional division and the Government. The main objective of the desk review report is to identify preliminary

hypotheses and issues to be analysed during the main CPE mission. During this stage both IFAD and the Government conduct a self-assessment at the portfolio, non-lending, and COSOP levels.

14. The *country work stage* entails convening a multidisciplinary team of consultants to visit the country, holding meetings in the capital city with the Government and other partners and travelling to different regions of the country to review activities of IFAD-funded projects on the ground and discuss with beneficiaries, public authorities, project management staff, NGOs, and other partners. A brief summary note is presented at the end of the mission to the Government and other key partners.
15. During the *report writing, comments and communication of results* stage, IOE prepares the draft final CPE report, shared with IFAD's regional division, the Government, and other partners for review and comments. The draft benefits from a peer review process within IOE including IOE staff as well as an external senior independent adviser. IOE then distributes the CPE report to partners to disseminate the results of the CPE. IOE and the Government organize a national roundtable workshop that focuses on learning and allows multiple stakeholders to discuss the main findings, conclusions and recommendations of the evaluation. The report is publicly disclosed.
16. A *core learning partnership*, consisting of the main users of the evaluation, provides guidance to IOE at critical stages in the evaluation process; in particular, it reviews and comments on the draft approach paper, desk review report and draft CPE report, and participate in the CPE National Roundtable Workshop. Each CPE evaluation is concluded with an *agreement at completion point* (ACP). The ACP is a short document which captures the main findings as well as the recommendations contained in the CPE report that IFAD and the Government agree to adopt and implement within a specific timeline.

## Definition of the evaluation criteria used by IOE

<i>Criteria</i>	<i>Definition<sup>a</sup></i>
<b>Project performance</b>	
Relevance	The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies. It also entails an assessment of project design in achieving its objectives.
Effectiveness	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
Efficiency	A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results.
<b>Rural poverty impact<sup>b</sup></b>	
	Impact is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions.
<ul style="list-style-type: none"> <li>Household income and assets</li> </ul>	Household income provides a means of assessing the flow of economic benefits accruing to an individual or group, whereas assets relate to a stock of accumulated items of economic value.
<ul style="list-style-type: none"> <li>Human and social capital and empowerment</li> </ul>	Human and social capital and empowerment include an assessment of the changes that have occurred in the empowerment of individuals, the quality of grassroots organizations and institutions, and the poor's individual and collective capacity.
<ul style="list-style-type: none"> <li>Food security and agricultural productivity</li> </ul>	Changes in food security relate to availability, access to food and stability of access, whereas changes in agricultural productivity are measured in terms of yields.
<ul style="list-style-type: none"> <li>Natural resources, the environment and climate change</li> </ul>	The focus on natural resources and the environment involves assessing the extent to which a project contributes to changes in the protection, rehabilitation or depletion of natural resources and the environment. It also assesses any impacts projects may have in adapting to and/or mitigating climate change effects.
<ul style="list-style-type: none"> <li>Institutions and policies</li> </ul>	The criterion relating to institutions and policies is designed to assess changes in the quality and performance of institutions, policies and the regulatory framework that influence the lives of the poor.
<b>Other performance criteria</b>	
<ul style="list-style-type: none"> <li>Sustainability</li> </ul>	The likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.
<ul style="list-style-type: none"> <li>Innovation and scaling up</li> </ul>	The extent to which IFAD development interventions have: (i) introduced innovative approaches to rural poverty reduction; and (ii) the extent to which these interventions have been (or are likely to be) scaled up by government authorities, donor organizations, the private sector and others agencies.
<ul style="list-style-type: none"> <li>Gender equality and women's empowerment</li> </ul>	The criterion assesses the efforts made to promote gender equality and women's empowerment in the design, implementation, supervision and implementation support, and evaluation of IFAD-assisted projects.
<b>Overall project achievement</b>	This provides an overarching assessment of the project, drawing upon the analysis made under the various evaluation criteria cited above.
<b>Performance of partners</b>	This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. The performance of each partner will be assessed on an individual basis with a view to the partner's expected role and responsibility in the project life cycle.
<ul style="list-style-type: none"> <li>IFAD</li> <li>Government</li> </ul>	

<sup>a</sup> These definitions have been taken from the Organisation for Economic Co-operation and Development/Development Assistance Committee *Glossary of Key Terms in Evaluation and Results-Based Management* and from the IFAD Evaluation Manual (2009).

<sup>b</sup> The IFAD Evaluation Manual also deals with the "lack of intervention". That is, no specific intervention may have been foreseen or intended with respect to one or more of the five impact domains. In spite of this, if positive or negative changes are detected and can be attributed in whole or in part to the project, a rating should be assigned to the particular impact domain. On the other hand, if no changes are detected and no intervention was foreseen or intended, then no rating (or the mention "not applicable") is assigned.

## List of key persons met

<i>Name</i>	<i>Position</i>	<i>Institution</i>
Acharya, Hiralal	VDC Manager	LDF, Dailekh
Adhikari, Bala Ram	Program Coordinator	IFAD/LFLP
Adhikari, Jaya Ram	Chairperson	Kuna Thari Livestock and Agriculture Cooperative, Baddichaur, Kunathari VDC 4, Surkhet, IFAD/LLP
Adhikari, Milan	Gender Specialist TA team, Leasehold Forestry project	MOFSC
Ale, Kul Bahaudr	Local Resource Person	Dandaparajab VDC-8, Dailekh
Ambar Bahadur Rawat	Secretary	Ghogesim CO
Ansari, Mohna	Commissioner	National Women's Commission
Aryal, Bashu	Country Officer	IFAD
Aryal, Jagadish	Internal Audit Officer	DDC, Dolakha
Aryal, Purusottam	DPM	WUPAP Jumla
Baan, Eelco	Senior Adviser	SNV
Balami, Tara	Member /Head Veg Collection Centre	Kuna Thari Livestock and Agriculture Cooperative, Baddichaur, Kunathari VDC 4, Surkhet, IFAD/LLP
Baskota, Krishna Hari	Secretary	MOF
BC Bal Bahadur	Teacher	Devstahal VDC 2, Malpe, Salyan, District – LFUG/LFLP//IFAD
BC Top Bahadur	Chairperson	Bhadra Kali LFUG/LFLP, Malpe Village, Salyan District
Bennett, Lynn	Anthropologist, Team Leader of GESI World Bank/Department for International Development (United Kingdom) Study	
Bhandari, Ram Kumar	Assistant Forest Officer	Dolakha District Forest Office
Bhandari, Rama	Chairperson	Laxmi Community Saving and Credit Cooperative, Urthu, Jumla
Bharati, Kamal	Member	Ghum Khola Multipurpose Cooperative, Ghum Khare 7, Surkhet,
Bhari, Rajendra	Project Manager	MOAC/HVAP
Bhattarai, Keshab	Secretary	MOFSC
Bikram Karki	Programme Officer	DDC, Dolakha
Bishnu Shahi	Member	Tribeni CO
BK, Sher Bahadur	Owner	Amrit Agrto Vet under Veri Cooperative , Manjh Kanda VDC 8, Bote Chaur, Surkhet – IFAD/LLP
Brett, Nigel	CPM	IFAD
Buda, Bir Man	Chairperson	Ram Janaki LFUG/LFLP, Devsthal VDC2, Malpe Village, Salyan District
Buda, Yadav	Chairperson	Thulo Dhunga LFUG/LFLP, Malpe Village , Salyan District
Budha, Geeta	NGO Coordinator	Forum for Community Support Programme
Budha, Thapa, Radha Krishna	Senior Social Mobilizer	WUPAP, Jumla
Budha, Top Bahadur	Monitoring Officer	Dailekh LDF

<i>Name</i>	<i>Position</i>	<i>Institution</i>
Chaudhari, Nathu Ram	Secretary	MOAC
Chaudhary, Ghanashyam	Agriculture Officer (M&E)	HVAP
Chhetri, Purna B.	Senior Rural Development Specialist	World Bank
Da Silva Cabral, Daniel	Intern, APR	IFAD
Dadhi, Knadel	Chief	District Forest Office, Dailekh
Dahal, Kedar	District Forest Officer	Dolakha District Forest Office
Damail, Naina	Vice Chair Person	Parishram Community organization, Rawatkot-2, Dailekh
Das, S. Prasad	Senior Livestock Dev. Officer	Dhading District Livestock Office
Dhakal, Nara Hari	Programme Coordinator Rural Finance Sector Specialist	MOF/ADB
Dhakal, Ram Prasad	CPRDC	PAF
Dhami, Rhandra Bamapur	Savings and Credit Facilitator	Jumla WUPAP
Dhan Bahadur Shahi	Chairman	C Tribeni CO
Dhungaba, Dirgha Nath	Chief	District Livestock Development Office, Dailekh
El Harizi, Khalid	CPM	IFAD
Gewali, Govinda P.	Senior Project Officer	ADB
Ghale, Yamuna	Sr. Project Officer, Gender specialist	Swiss Development Cooperation
Ghansashyam, Rijal	Social Mobilizer	Parisrum CO
Gharti, Bir Singh	Secretary	Hariyali Fresh Vegetable Producers' Group, Manjha Kanda VDC, Surkhet - IFAD/LLP
Ghimire, Lal Shanker	Chief/Joint Secretary	MOF
Gnyawali	Assistant Forest Officer	LFLP
Gupta, Prakash	DTO	Jumla
Guryawali, Lamapid	Programme Coordinator	SUDEC Nepal Dailekh
Hartman, Ronald	CPM	IFAD
Jha, Biswo	Engineer	WUPAP Nepalgunj Office
Jha, Chhaya	Gender Specialist	HURDEC
Jha, Rakesh Kumar	Community organization and Cooperative Development Specialist	IFAD/WUPAPU
Joshi, Surendra	Program Coordinator	SNV
Kafley, Govinda P.	Team Leader	IFAD/LFLP TA
Kandel, Bala Ram	Leasehold and Forest Specialist	LFLP TA
Kandel, Lok Raj	Member/Goat trader	Kuna Thari Livestock and Agriculture Cooperative, Baddichaur, Kunathari VDC 4, Surkhet, IFAD/LLP
Karki, Damber Bahadur	Programme Coordinator	SOSEC, Dailekh
Karki, Parbati	Ranger	Hub Office, Dolakha, LFLP
Kathayat, Dhan Bahadur	Extension Officer	District Agriculture Development Office, Jumla
KC, Ram Krishna	Hub Officer	IFAD/LFLP/Dolakha
Khadka, Bimala	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Bishnu Kala	Member	LFUG and community organization, Pusakot, Dailekh

<i>Name</i>	<i>Position</i>	<i>Institution</i>
Khadka, Chandra Bdr.	Executive Director	Everest Club, Dailekh
Khadka, Dhana	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Dharma Bahadur	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Ganga Ram	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Indra Kala	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Janak Bahadur	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Kamala	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Kul Bahadur	Chairperson	LFUG and community organization, Pusakot, Dailekh
Khadka, Lal Bahadur	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Laxmi	Chairperson	Devthali LFUG, Pusakot, Dailekh
Khadka, Man Bahadur	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Manohara	Gender specialist	ICIMOD
Khadka, Padam Bahadur	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Prem	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Raju	Member	LFUG and community organization, Pusakot, Dailekh
Khadka, Ram Bahadur	Member	LFUG and community Organization, Pusakot, Dailekh
Khadka, Shyam	Senior Portfolio Manager	IFAD, FPD
Khadka, Siddara	Member	LFUG and community Organization, Pusakot, Dailekh
Khadka, Surja	Member	LFUG and community Organization, Pusakot, Dailekh
Khan, Irshad	Consultant	IFAD
Koc, Tek Bahadur	Secretary	Everest Club, Dailekh
Koirala, Pashupati	Planning Officer	IFAD/LFLP
Korki, Krishna Bahadur	Chairman	Nova Nirman savings and credit cooperative
Koti, Narayam P Shiva	Engineer	DDC, Dolakha
Krishna, Ram K.C.	Hub Officer	Dolakha
Lama, Kanchan	Gender specialist, NEAT	USAID
Lama, Santan	Project Coordinator at GESI Unit	MOLD
Laudari, H.K.	M&E Specialist	LFLP
Limbu, Shanti	Social Mobilizer	IFAD/LFLP Devstahal VDC 2, Salyan District
Mahat, Hikmat	Member	LGCDP, Jumla
Mahat, Shyam Lal	Assistant Forest Officer	District Forest Office, Jumla
Mahatara, Dabal	Manager	Laxmi community savings and credit cooperative, Urthu, Jumla

<i>Name</i>	<i>Position</i>	<i>Institution</i>
Mahatara, Lal Bahadur	Farmer	Rautkot VDC, Dailekh
Mahatare, Chukki	Adviser	LAKSMI community savings and credit cooperative
Nagila, Uttam Prasad	Project Coordinator	IFAD/WUPAP
Nagrkoti, Ghanashyam	Chairperson	LF User Group, Jumla
Nepali, Karna	Chairperson	Ghum Khola Multipurpose Cooperative, Ghum Khare 7, Surkhet,
Neupane, Nita	Program Officer	ILO
Ojha, Uday	GESI officer	National Women's Commission
Pande, Ram Prasad	LDO	Dailekh DDC
Pandel, Surya	Director	WUPAP, Dailekh
Pant, Harihar Dev	Chairman	Nirdhan Utthan Bank Ltd.
Panta, Sheela	Veterinary Officer	Dhading District Livestock Office
Pariyar, Gita	Social Mobilizer	Dambardada Village Development Committee
Pariyar, Sanpari	Ms Social Mobilizer	Chainpuk Village Development Committee
Pariyar, Sita	District Supervisor	Dhading District Forest Office
Pathak, Prabhakar	Joint Secretary	MOAC
Paudel, Shankar Prasad	Livestock Development Officer	LFLP
Paudel, Surya Prasad	District Project Coordinator	WUPAP, Dailekh
Paudyal, Bimala Rai	Senior Programme Officer	Swiss Development Cooperation
Pokharel, Kailash Raj	Under Secretary	MOF
Rajbhandari, Monisha	Adviser	SNV
Rawal, Bhoj Bahadur	Junior Technician	District Livestock Development Office, Jumla
Rawal, Bir Bahadur	Animal Health Technician	Talium VDC, Livestock Service Subcentre
Rawal, Ratan Bahadur	Manager	Kulender CO
Regmi, Dhurba	Planning M&E Specialist	IFAD/WUPAP
Rijal, Ghanshyam	Social Mobilizer	Parishram Community Organization, Rawatkot-2, Dailekh
Rijal, Sita	Chairperson	Parishram Community Organization, Rawatkot-2, Dailekh
Sangiit Thami	Treasurer	Nova Nirman savings and credit cooperative
Sapkota, Ram Chandra	Vet Officer	Dolakha District Livestock Office
Sedai, Gropi Krishna	Junior technician	Dolakha District Livestock Office
Sedain Gopi Krishna, Dr.	Chairperson	COCIS
Sedhain, Narayan Prasad	Social Development Officer	DDC, Dolakha
Shahi, Bishnu	Agriculture Resource Person	Kudari VDC, Jumla
Shahi, Mandir	Manager	C Tribeni CO
Shahi, Nirmala	Social Mobilizer	Gamaudi VDC, Dailekh
Shahi, Padam Bahadur	Chairman of school building	C Tribeni CO
Shahi, Radhika	Member	C Tribeni CO
Shahi, Radhika,	Farmer	Kudari VDC, Jumla

<i>Name</i>	<i>Position</i>	<i>Institution</i>
Shahi, Rudra	Social Mobilizer	Chhiudi Pusakot VDC, Dailekh
Sharma, Bishnu	Local Resource Person	Chanuraka VDC-7, Dailekh
Sharma, Jalan Kumar	CEO	Sana Kisan Bikas Bank LTD. (Small Farmers' Development Bank)
Sharma, Ravindra Kumar	District Engineer	Dailekh
Shivakoti, Bhola	CLS	ECARDS
Shrestha, Raj Babu	Executive Director	PAF
Shrestha, Rekha	UN Coordination Analyst	UN Resident & Humanitarian Coordinator's Office
Siddique, Irshad Ali	Agro-tech entrepreneur	Nepalgunj
Sijapati, Chandra Bahadur	Member/head vegetable collection sub centre	Kuna Thari Livestock and Agriculture Cooperative, Kunathari 3, Aamla Khali Village, Surkhet, IFAD/LLP
Sikdel, Surya Kant	Assistant District Forest Officer	Dhading District
Silwal, Bishnu	Rural Finance Expert	IFAD
Silwal, Janak	Junior Technician	District Livestock Development Office, Jumla
Simkhada, Japat Bde	District Livestock Officer	Dolakha District Livestock Office
Singh, Vijaya	Assistant Country Director	UNDP
Smith, Nigel	Consultant	IFAD/WUPAP
Suwar, Pradeep Lal	Executive member	Ghum Khola Multipurpose Cooperative, Ghum Khare 7, Surkhet
Tamang, Chakra Bahadur	Member	Sokla Chakpa Community Group
Tamang, Dhana Laxmi	Member	Sokla Chakpa Community Raiser's Group
Tamang, Kanche	Chairperson	Sokla Chakpa Community Raiser's Group
Tamang, Laxmi	Member	Sokla Chakpa Community Raiser's Group
Tamang, Purna B.	Vice Chairman	Sokla Chakpa Community Raiser's Group
Tamang, Sita	Treasurer	Sokla Chakpa Community Raiser's Group
Tamang, Som Bahadur	Secretary	Sokla Chakpa Community Raiser's Group
Tara, Prakash C.	Livestock Specialist	LFLP
Thalu Tamang	Member	Sokla Chakpa Community Raiser's Group
Thami, Ram Bahadur	Secretary	Nova Nirman savings and credit cooperative
Thapa, Ganesh	Regional Economist	IFAD, APR
Thapa, Narendra	Junior Technician	District Agriculture Development Office, Dailekh
Thapa, Bharat Bir	Assistant Forest Officer	District Forest Office, Jumla
Thapa, Kham Bahadur	Acting Executive Secretary	Dailekh LDF
Thapa, Krishna	Monitoring & Evaluation Expert	HVAP
Thapa, Meena	Manager	Parishram Community Organsiation, Rawatkot-2, Dailekh
Thapa, Nirmala	GESI officer, GESI Unit	MOLD

<i>Name</i>	<i>Position</i>	<i>Institution</i>
Thapa, Usha Kumari	Member	Parishram Community Organsiation,Rawatkot-2, Dailekh
Thapa, Yam Bahadur	Social Mobilizer	Belpata VDC, Dailekh
Thierry, Benoit	CPM	IFAD
Tilak B. K.	Secretary	Local Development Fund, Dailekh
Tuladhar, Raju	Senior Programs Officer	ADB
Upadhyaya, Bharat Prasad	Executive Director	CEAPRED
Upadhyaya, Dharma Raj	Assistant Forest Officer	DFO, Dailekh
Upadhyaya, Hari K	Executive Chairperson	CEAPRED
Upadhyaya, Shree K.	Executive Chairman	SAPPROS
Uprety. Birendra Nath	Regional Manager	NEAT (CEAPRED)
Verna, Ritu	Head of gender and Governance Division	ICIMOD
Wanaraj Dahal	Junior Technician	Dolakha District Livestock Office
Yadav, Devendra	Monitoring &Evaluation Specialist and Livestock Coordinator	IFAD/LFLP
Yadav, Manoj Kumar	Special Administrator vet	Dolakha District Livestock Office
Yogi, Purna Nath	Program Coordinator	LDF, Dailekh

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Table 8.1

**Portfolio covered by the CPE - features and evaluation approach**

<i>Period</i>	<i>Approved before CPE period</i>		<i>COSOP 2000 – 2006</i>		<i>COSOP 2007 – 2012 (status by June 2012)</i>					
Lending frame – PBA			<b>2000 -2006</b>		<b>PBA 2007-2009</b>		<b>PBA 2010 – 2012</b>			
			<b>US\$60 m</b>		<b>US\$21 m<sup>a</sup></b>		<b>US\$37 m</b>			
Project	HLFFDP	PAPWT	WUPAP	LFLP	PAF-II DSF grant	HVAP 50 per cent DSF 50 per cent Loan	ADS DSF Grant	ISFP (being designed)	LFLP supple- mentary	PAF-II supple- mentary
IFAD financing US\$m	<b>12.8</b>	<b>8.9</b>	<b>20.3</b>	<b>11.7</b>	<b>4</b>	<b>15.3</b>	<b>0.5</b>	(29)	(3)	(4.5)
Year of Board approval – completion	1989-2003	1997-2005	2001-2014	2004-2013	2007–2012	2009–2017	2010-2013	2012-2019	2012 -2013	2012-2014
<b>Main elements/components</b>	Estimated share ( per cent) of total design budget (including government and other contributions) allocated to different components/themes									
Rural finance	20	40	22	9	Indirectly					
Rural infrastructure	2	26	39		27	8				
Leasehold forestry and NTFP	25		11	40		+				
Income generation and value chain development	3		+	+	31	52				
Crop, livestock production, NRM	15 (mainly goats)	+	7	39 (goats)		11				
Extension & skills training	10	11								+
Community development		18	+				+			+
Gender and social inclusion issues	+	+	+	+	+					3
Institutional/policy development and/or project coordination	25	4	22	12	28	26				100
<b>Evaluation criteria to be assessed and how</b>	<b>All IOE interim evaluation</b>	<b>All PCR + former staff</b>	<b>All Field visit +++</b>	<b>All but only tentative for impact &amp; sustainability Field visit +++</b>	<b>All but tentative World Bank/ PAF doc's, Interviews</b>	<b>Only relevance of design Desk study + interviews</b>	<b>Brief assessment Desk study and interviews</b>	<b>Only relevance of design concept Desk study</b>		

<sup>a</sup> For the PBA period 2007–2009, part of the PBA was allocated as DSF grants for ILO- and NGO-executed projects, viz.

ILO - Skills Enhancement and Employment Project 2007-2012, US\$870,000. SNV – High Value Agriculture Inclusive Business Pilot 2009 – 2012, US\$199,993. CEAPRED – Pro-poor Livelihoods Promotion through Commercial High Value Agriculture in Mid-Western Region 2009 2011, US\$122,500. This follows a grant of US\$485,000 funded outside the PBA for CEAPRED's Local Livelihoods Programme (LLP) in Mid-Western Nepal, 2005-2010.

## Abbreviated description of projects covered by the CPE

- A. Projects executed by the Government and supported by IFAD loans on highly concessional terms, and grants under the Debt Sustainability Framework (DSF)**
1. **Hills Leasehold Forestry and Forage Development Project (HLFFDP)** was approved in 1990 with an IFAD loan of US\$12.8 million. Despite extension of completion until 2003, IFAD financing had to be reduced to US\$5.9 million. The project covered 10 districts and targeted households with less than 0.5 ha of land and living below the poverty line. It handed over often degraded state forest to leasehold forest user groups (LFUGs) on 40-year renewable leases. Apart from project management, the project had seven components: (i) development of degraded forest lands; (ii) on-farm fodder and firewood development; (iii) livestock development; (iv) off-farm income-generating activities; (v) terrace development; (vi) cooking stove improvement; and (vii) access trails and foot-bridges.
  2. **Poverty Alleviation Project in the Western Terai (PAPWT)**, approved in 1997 with an IFAD loan of US\$8.9 million, targeted some 67 000 poor households in 10 VDCs in eight districts of the Terai zone of the three western development regions. It had five components: (i) credit services; (ii) group shallow tube wells; (iii) agricultural extension and skills development; (iv) community development; and (v) institutional strengthening, including project management. A sixth component was included during implementation to support the livelihoods of former bonded labourers, the *Kamaiya* rehabilitation programme. After extension, the project was completed in 2005.
  3. **Western Uplands Poverty Alleviation Project (WUPAP)** was approved in 2001 with IFAD financing of US\$20.3 million. Covering 11 districts, its goal is to improve the living standards of poor households in the project area. To that end, it implements a wide range of activities, structured around five components: (i) labour-intensive infrastructure development; (ii) leasehold forestry and NTFP production; (iii) crop and livestock production; (iv) microfinance and marketing; and (v) institutional support. The project is implemented by the Ministry of Local Development.
  4. **Leasehold Forestry and Livestock Programme (LFLP)**, approved in 2004 is financed by an IFAD loan and grant of US\$11.7 million. The objective is to sustainably reduce the poverty of 44,300 poor households to whom leasehold forestry plots are allocated for a period of 40 years in 22 districts through increased production of forest and fodder products and development of goat rearing. Since 2009, technical assistance is being provided by FAO through a grant of US\$3.5 million from the Government of Finland. The programme is implemented by the Ministry of Forestry and Soil Conservation.
  5. **Poverty Alleviation Fund, Project II (PAF-II)**, is implemented under the Prime Minister's Office with substantial support from World Bank: US\$25 million for PAF-I and US\$175 million for PAF-II. In December 2007, IFAD approved a DSF grant of US\$4 million earmarked for capacity-building. PAF-II aims at improving the livelihoods of marginalized groups through five components: (i) small-scale village and community infrastructure; (ii) income-generating projects targeted at the poorest and most excluded groups; (iii) innovations and special programmes; (iv) capacity-building; and (v) administration of PAF-II. It works with the poorest districts and VDCs, nationwide.
  6. **High-Value Agriculture Project in Hill and Mountain Areas (HVAP)**, approved in December 2009, is funded by an IFAD loan and a grant, each of US\$7.6 million, and a US\$0.7 million grant from SNV. Its goal is to improve the livelihoods of poor households in the Mid-Western Region through the development

of value chain activities in collaboration with private enterprises. Its components include:

(i) pro-poor value chain development; (ii) inclusion and support to value chain initiatives; and (iii) project management. It is implemented under the responsibility of the Ministry of Agriculture and Cooperatives.

**B. Main Projects executed by NGOs and others and supported by IFAD grants (DSF and country-specific grants)**

7. **Local Livelihoods Programme (LLP)** in Mid-Western Nepal, approved in December 2005 and closed in July 2009, was supported by a country-specific grant of US\$485 000. Its goal was to promote sustainable rural poverty reduction by piloting the north-south corridor development approach in the Mid-Western Development Region. It implemented a range of activities, including small infrastructure investments; agricultural extension; supply of inputs; microfinance services; marketing support; and local capacity-building. It was implemented by the NGO CEAPRED.
8. **Skills Enhancement for Employment Project (SEEP)**, approved in December 2007 with a DSF grant of US\$870 000 and implemented by the International Labour **Organization** (ILO), the project aimed to provide training and employment to about 1,200 conflict-affected youth in the Western Region. It was completed in 2011.
9. **Development of Supply and Markets for High Quality Breeding Goats** through strengthened cooperative goat resource centres, approved in 2007. It was supported by a DSF grant of US\$116 000 and implemented by the NGO COCIS. Project objectives included the improvement of goat supplies, and the establishment of institutional capacities (cooperatives) for goat production and marketing. The project was completed in 2010.
10. **Pro-poor Livelihood Promotion through Commercial High Value Agriculture in the Mid-Western Development Region (PPLP)**, approved in November 2009, with a DSF grant of US\$122 500, was implemented by CEAPRED. Its goal was poverty reduction for 5,100 rural poor families in five districts. This was to be achieved by building on the current state of the human, social and institutional capital generated by the previous LLP. Main activities included business plan development; microenterprise promotion and institutional capacity-building. This was meant as a bridging finance between LLP and HVAP. The project was completed in 2011.
11. **The High Value Agriculture Inclusive Business Pilot Project (HVAP-IB)** was supported by a DSF grant of US\$200,000 and implemented by SNV. It piloted the establishment of three pro-poor value chains in the Mid-Western Development Region and lessons learned are reflected in the High Value Agriculture Project. The project was completed in 2012.
12. **The agricultural development strategy (ADS)**. In 2010, IFAD approved a DSF grant of US\$500,000 for the purpose of developing the Government's 20-year ADS. The exercise is supported by numerous development partners, led by ADB.

## Portfolio assessment by the 2011 COSOP review

<i>Project name</i>		<i>2011 outputs and outcomes</i>								
		<i>Score</i>		<i>Score</i>		<i>Score</i>		<i>Score</i>		<i>Score</i>
WUPAP	Rural microfinance & marketing	2	Crop & livestock prod	3	Leasehold forestry & NTFP prod	4	Labour-intensive infrast. dev	4	Inst. support	2
LFLP	Proj. mgmt & coordination	3	RF services	2	Livestock	3	Leasehold forestry	3		
PAF-II	Admin. of PAF	4	capacity-building	4	Innov. & special progr.	4	IG proj. targeted at the poorest	5	Small-scale village & comm. infrastr	4
HVAP	Pro-poor VC dev.	4	Incl. & support to VC	4	Proj. management	4				
<i>Project name</i>		<i>2010 outputs and outcomes</i>								
		<i>Score</i>		<i>Score</i>		<i>Score</i>		<i>Score</i>		<i>Score</i>
WUPAP	Rural microfinance & marketing	2	Crop & livestock prod	3	Leasehold forestry & NTFP prod	4	Labour-intensive infrast. dev	4	Inst. support	2
LFLP	Proj. mgmt & coordination	3	RF services	2	Livestock	3	Leasehold forestry	3		
PAF-II	Admin. of PAF	4	Capacity-building	4	Innov. & special progr.	4	IG proj. targeted at the poorest	4	Small-scale village & comm. Infrastr	4
<i>Project name</i>		<i>2009 outputs and outcomes</i>								
		<i>Score</i>		<i>Score</i>		<i>Score</i>		<i>Score</i>		<i>Score</i>
WUPAP	Rural microfinance & marketing	3	Crop & livestock prod	2	Leasehold forestry & NTFP prod	2	Labour-intensive infrast. dev	4	Inst. support	4
LFLP	Proj. mgmt & coordination	3	RF services	3	Livestock	3	Leasehold forestry	2		
PAF-II	Admin. of PAF	4	Capacity-building	4	Innov. & special progr.	4	IG proj. targeted at the poorest	4	Small-scale village & comm. infrastr	4

Source: IFAD, December 2011: Annual Review of the Implementation of the Results-Based COSOP, -appendix 2.

## Assessment of the effectiveness LFLP's components - based on FAO outcome study, 2011

<i>Component/outcome indicator</i>	<i>Indicator Value</i>	<i>CPE assessment</i>
<b>LFLP Forest Component</b>		
Improved greenery in LF - per cent of LFUGs	76 per cent	Satisfactory (5)
Positive change in coverage of trees/poles - per cent of LFUGs	71 per cent	Moderately satisfactory (4)
LFs supplying 50 per cent or more of forage requirements - per cent of LFUGs	52 per cent	Moderately unsatisfactory (3) but forage production is still increasing
LFs supplying 50 per cent or more of fuel wood requirements - per cent of LFUGs	16 per cent	Highly unsatisfactory (1) but not expected that LF would cover all fuelwood needs – therefore 2
<b>Overall effectiveness of Forest Component</b>		<b>Moderately satisfactory (4)</b>
<b>LFLP Livestock Component</b>		
Two goats were given to each HH and one buck per LFUG, but number of goats per HH has only increased by two, from 3 to 5		Moderately satisfactory (4) – positive that the HHs did not “consume” the distributed goats, but disappointing that herd size is not increasing beyond 5, - given the distribution of bucks
Decreased mortality among goats - per cent of LFUGs reporting decreased mortality	44 per cent	Moderately unsatisfactory (3)
Animal health services through VAHWs and per cent of LFUGs reporting increased/improved services	30 per cent	Unsatisfactory (2)
Increased livestock production - per cent LFUGs reporting increase	58 per cent	Moderately unsatisfactory (3)
Increased income from livestock production - per cent of LFUGs reporting increased income	60 per cent	Moderately satisfactory (4)
<b>Overall effectiveness of Livestock Component</b>		<b>Moderately unsatisfactory (3)</b>

<i>Rating scale</i>	<i>Per cent of target/indicator achieved, or per cent of beneficiaries with positive change, or per cent....</i>
6 Highly Satisfactory	90 per cent and more (+ qualitative aspects)
5 Satisfactory	75 per cent-89 per cent (+ qualitative aspects)
4 Moderately Satisfactory	60 per cent-74 per cent (+ qualitative aspects)
3 Moderately Unsatisfactory	45 per cent-59 per cent (+ qualitative aspects)
2 Unsatisfactory	30 per cent-44 per cent (+ qualitative aspects)
1 Highly Unsatisfactory	<30 per cent (+ qualitative aspects)

## WUPAP's reporting to the trigger workshop 7-8 April 2012 on achievement of triggers for moving to phase III

**Trigger 1: Detailed plans prepared and implemented or are under implementation for the active use of land for 70 per cent of LFUGs which have held leases for three or more years;**

Duration of Estd. (yr.)	No. of LFUG		Total HHS.	LFUG social mobilization						
	Target	Progress		Plantation (NTFP/MAPs, other)	Valid license	Grazing control	Nursery	Income gen.	Avg.	per cent
>3 (before 1/4/2066)	500	574	8174	552	574	380	132	281	384	67
<3 (after 31/3/2066)	500	313	4187	255	313	214	44	102	186	59
<b>Total</b>	<b>1 000</b>	<b>887</b>	<b>12 361</b>	<b>807</b>	<b>887</b>	<b>594</b>	<b>176</b>	<b>383</b>	<b>569</b>	<b>64</b>
	<i>per cent</i>	88.7		91.0	100.0	73.6	19.8	64.5	64.2	

**Trigger 2: Engineering design, construction and maintenance standards for 80 per cent of the facilities constructed in phase II are appropriate and adequate;**

S.n.	District	Total VDC	Pgm VDC	Total constructed scheme(s) in II phase	Total functional scheme(s)	Rehab.in FY 2068/69	No. of project can't be maintenance	New in FY 2068/69
1	Jumla	30	22	46	23	23	0	0
2	Humla	27	22	49	22	27	0	0
3	Bajhang	47	23	58	39	19	0	0
4	Bajura	27	18	53	30	20	3	8
5	Dolpa	23	10	33	30	3	0	5
6	Kalikot	30	15	36	25	10	1	2
7	Jajarkot	30	15	39	33	6	0	4
8	Rukum	43	20	35	35	0	0	8
9	Rolpa	51	20	38	25	13	0	0
10	Dailekh	56	20	41	26	15	0	9
	<b>Total</b>	<b>364</b>	<b>185</b>	<b>428</b>	<b>288</b>	<b>136</b>	<b>4</b>	<b>36</b>
	<i>Target</i>			400				
	<i>per cent</i>			107	67	32	1	

**Trigger 3: The recovery rates for loans extended from the Project and reflows should be a minimum of 95 per cent;**

S.n.	District	Loan disbursement (NR)	Repayment amount		Outstanding		Overdue		Repayment rate
			Amount	per cent	Amount	per cent	Total	per cent	
1	Humla	17 430 507	9 440 761	54.16	79 89 746	45.84	427 047	2.45	95.67
2	Jumla	4 232 000	3 149 130	74.41	1 082 870	25.59	111 301	2.63	96.59
3	Bajura	7 339 100	5 429 549	73.98	1 909 551	26.02	315 581	4.30	94.51
4	Bajhang	2 789 000	1 865 597	66.89	923 403	33.11	105 982	3.80	94.62
	<b>Total</b>	<b>31 790 607</b>	<b>19 885 037</b>	<b>62.55</b>	<b>11 905 570</b>	<b>37.45</b>	<b>959 911</b>	<b>3.02</b>	<b>95.39</b>

**Trigger 4: Minimum of all groups operating for more than two years should be in Grades 1 and 2, and at least 60 per cent of the groups more than 4 years should belong to grade 1;**

Duration of estd. (yr.)	Total COs				Grade		Drop out (D)	
	A	per cent	B	per cent	C	per cent		
>4 (before 1/4/2065)	885	544	61.5	230	26.0	111	12.5	46
2-3 (1/4/065-31/3/67)	1 039	641	61.7	325	31.3	73	7.0	22
<2 (after 1/4/067)	596	289	48.5	235	39.4	72	12.1	6
<b>Total</b>	<b>2 520</b>	<b>1 474</b>	<b>58.5</b>	<b>790</b>	<b>31.3</b>	<b>256</b>	<b>10.2</b>	<b>74</b>

**Trigger 5: At least 75 per cent of scheduled IFAD loan should have been disbursed;**

Component	Allocated budget 4th year of 2nd phase				Expenditure 4th year of 2nd phase				Exp. per cent
	Government	IFAD (NR.000)		Total	Government	IFAD (NR.000)		Total	
		Loan	Grant			Loan	Grant		
Infrastructure	0	228 767	0.00	228 767	0	212 984	0	212 984	93.1
Leasehold forestry & NTFP	0	159 670	0.00	159 670	0	134 532	0	134 532	84.3
Agriculture	0	54 951	0.00	54 951	0	51 732	0	52 632	95.8
Livestock	0	52 428	0.00	52 428	0	50 941	0	50 941	97.2
Microfinance and marketing	0	75 375	0.00	75 375	0	23 034	0	23 034	30.6
Institutional development	87 004	225 935	25 755	338 694	70 038	182 627	16 982	269 648	79.6
<b>Total</b>	<b>87 004</b>	<b>797 126</b>	<b>25 755</b>	<b>909 885</b>	<b>70 038</b>	<b>655 852</b>	<b>16 982</b>	<b>743 773</b>	<b>81.7</b>
<b>Per cent</b>					<b>80.5</b>	<b>82.3</b>	<b>65.9</b>	<b>81.7</b>	

Source: The tables are provided by WUPAP and based on information collected by WUPAP staff from the districts using the latest forms.

## Nepal on international indices

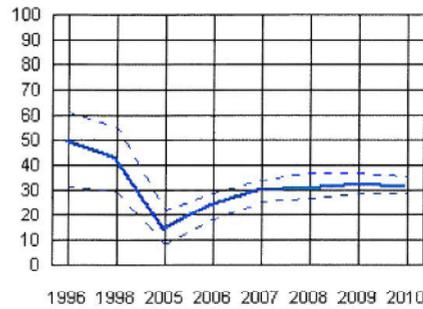
### 2010 IDA Resource Allocation Index (IRAI) - Nepal

<b>A. Economic Management</b>		
Macroeconomic Management	3.5	
Fiscal Policy	4.0	
Debt Policy	3.0	
<b>Average A</b>	<b>3.5</b>	
<b>B. Structural Policies</b>		
Trade	3.5	
Financial Sector	3.0	
Business Regulatory Environment	3.0	
<b>Average B</b>	<b>3.2</b>	
<b>C. Policies for Social Inclusion/Equity</b>		
Gender Equality	4.0	
Equity of Public Resource Use	4.0	
Building Human Resources	4.0	
Social Protection and Labour	3.0	
Policies and Institutions for Environmental Sustainability	3.5	
<b>Average C</b>	<b>3.7</b>	
<b>D. Public Sector Management and Institutions</b>		
Property Rights and Rule-based Governance	2.5	
Quality of Budget and Financial Management	2.5	
Efficiency of Revenue Mobilisation	3.5	
Quality of Public Administration	3.0	
Transparent Accounts and Corruption in the Public Sector	2.5	
<b>Average D</b>	<b>2.8</b>	
<b>IRAI Total for Nepal</b>	<b>3.3</b>	<b>107</b>
IRAI Total for		
<b>Bangladesh</b>	<b>3.5</b>	122
<b>Bhutan</b>	<b>3.9</b>	142
<b>India</b>	<b>3.7</b>	132
<b>Maldives</b>	<b>3.4</b>	81
<b>Pakistan</b>	<b>3.1</b>	105
<b>Sri Lanka</b>	<b>3.5</b>	89

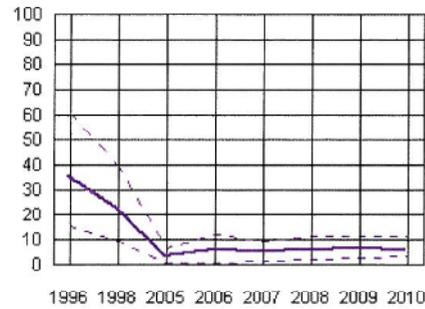
Note: 1=lowest, 6=highest

### Worldwide governance indicators: Nepal 1996 - 2010

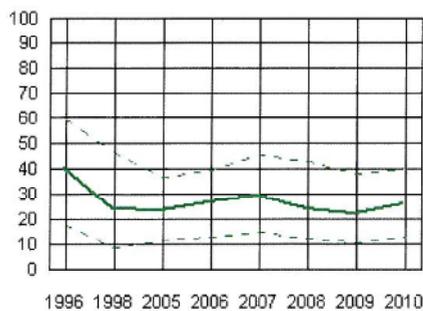
#### NEPAL



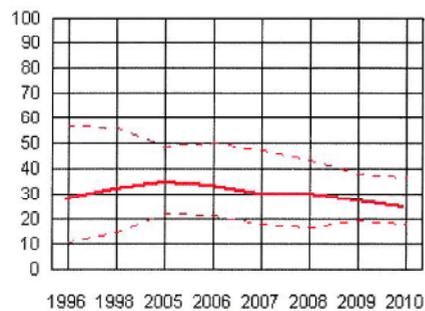
— Voice and Accountability



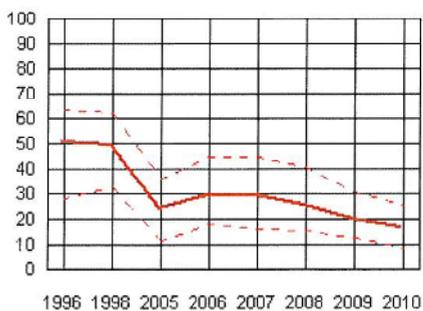
— Political Stability/Absence of Violence



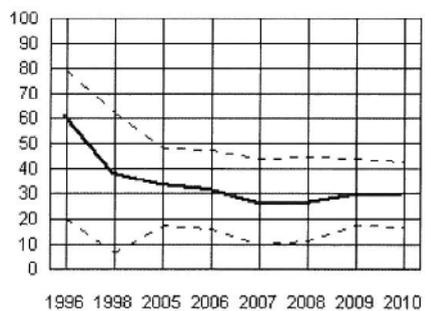
— Government Effectiveness



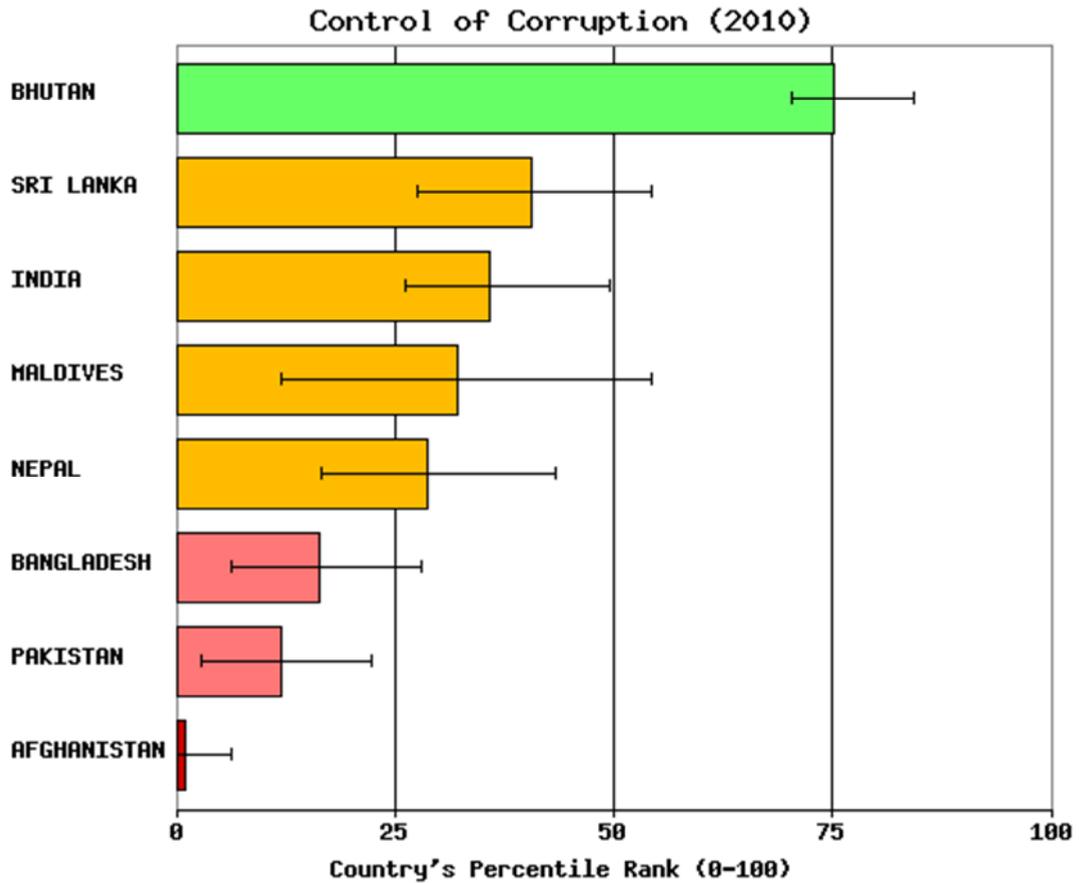
— Regulatory Quality



— Rule of Law



— Control of Corruption



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

## Achievement of the Millennium Development Goals

GOALS	Will MDGs be achieved?					Supportive Environment to achieve MDGs			
	Achieved	likely	potentially likely	Unlikely	Lack of data	Strong	Fair	Weak but improving	Weak
1 (a) Reduce poverty by half		✓				✓			
1 (b) Full and productive employment				✓				✓	
1 (c) Reduce hunger			✓				✓		
2 Achieve universal primary education			✓			✓			
3 Gender equality and empowerment of women			✓				✓		
4 Reduce child mortality		✓				✓			
5 Reduce maternal mortality		✓				✓			
6(a) Reduce the spread of HIV/AIDS		✓				✓			
6(b) Control malaria and other major diseases		✓				✓			
<b>7. Ensure Environmental Sustainability</b>									
7(a1) Control loss of forest			✓				✓		
7(a2) Climate change and GHG emission					✓				✓
7(b) Control Biodiversity loss		✓					✓		
7 (c) Halve the proportion of the population with sustainable access to an improved water source, and improved sanitation by 2015			✓				✓		
7(d) Improve lives of slum dwellers									
8. Develop a global partnership for development									

Source: National Planning Commission, August 2010: Three Year Plan Approach Paper, 2010/11 – 2012/13.

## Poverty rates in rural western hills and rural eastern hills

Poverty Rates, 1995/96 and 2003/04	1995/96		2003/04	
	Rural Western Hills	Rural Eastern Hills	Rural Western Hills	Rural Eastern Hills
Poverty Incidence: % of HHs in the area below the poverty line	55.0	36.1	37.4	42.9
Poverty density: the poor in the area as proportion (%) of total poor in Nepal	32.7	19.4	23.6	29.4

Source: Table 4.1 of "Nepal Critical Development Constraints", ADB/DFID/ILO, 2009

## Time use and budget of country programme management

Table 15.1  
Estimated time use of country programme coordinator

<i>Activity</i>	<i>Estimated time use (per cent of total)</i>	<i>Priority ranking</i>
Implementation support/project supervision	40 per cent	I
Policy dialogue, partnership development and donor coordination	10 per cent	III
Knowledge management	5 per cent	VII
Reporting to IFAD	10 per cent	IV
Administrative issues	10 per cent	V
Other please specify		
Coordination with government	20 per cent	II
Planning, M&E	5 per cent	VI
TOTAL	100 per cent	

Table 15.2  
Estimated time use of country programme manager

<i>Activity</i>	<i>Estimated time use (per cent of total)</i>	<i>Priority ranking</i>
Implementation support/project supervision	25	I
Policy dialogue, partnership development and donor coordination	05	V
Knowledge management	10	III
Reporting to IFAD	05	VI
Support to the community organization	10	II
Administrative issues	15	IV
Other, please specify (staff association)	30	VII
TOTAL	100 per cent	

Table 15.3  
Relative weights in provision of direct supervision and implementation support

	<i>CPM</i>	<i>CPC</i>
Technical and strategic issues	50	70
Fiduciary issues	50	30
Total	100	100

Table 15.4

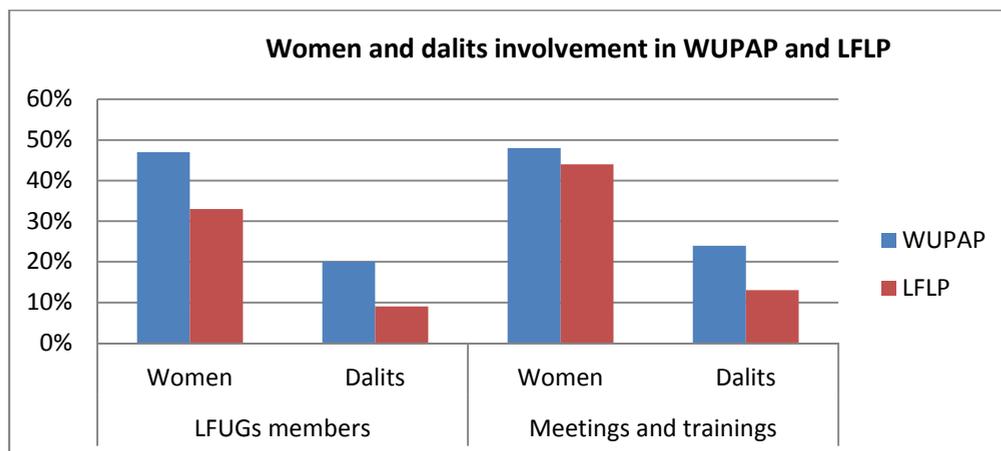
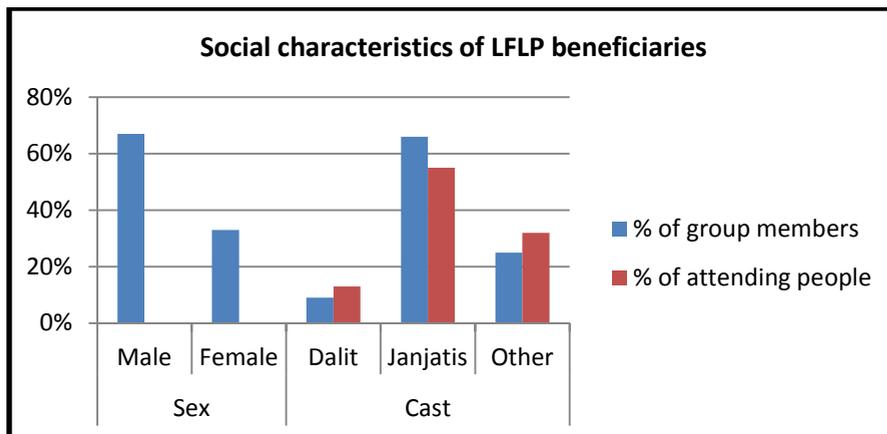
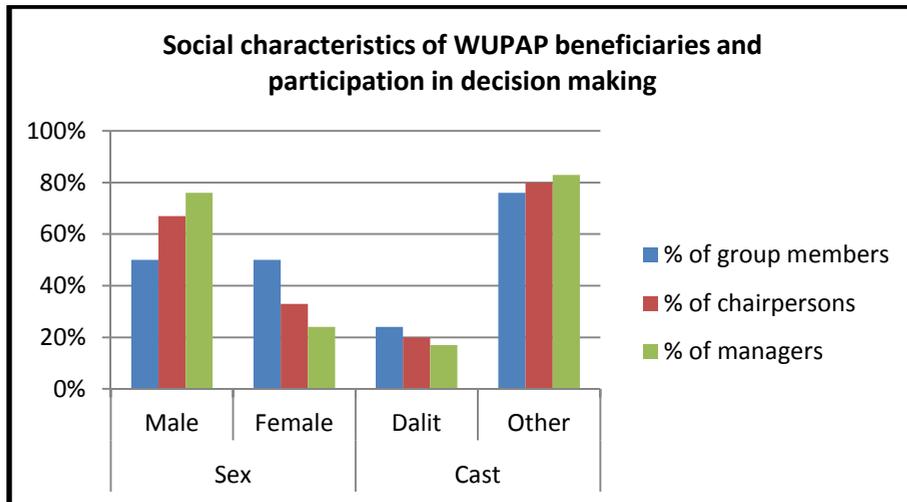
**Country Programme Management Budget, 2011 and 2012**

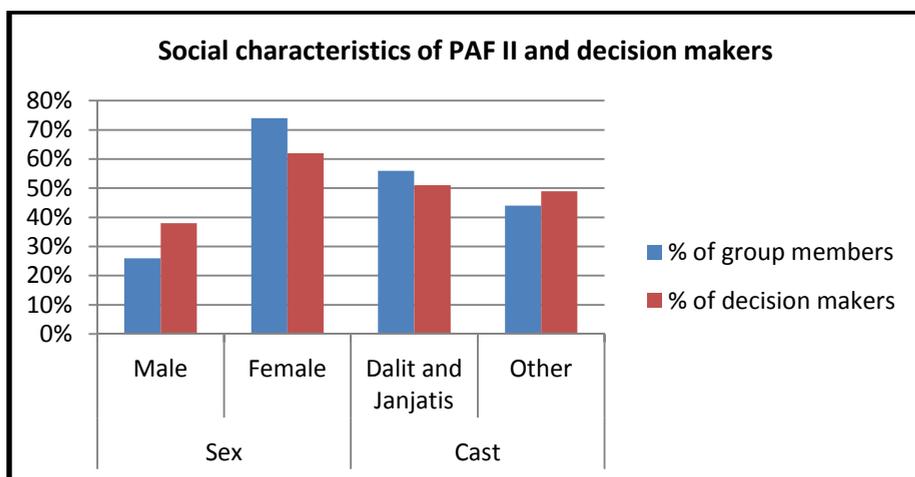
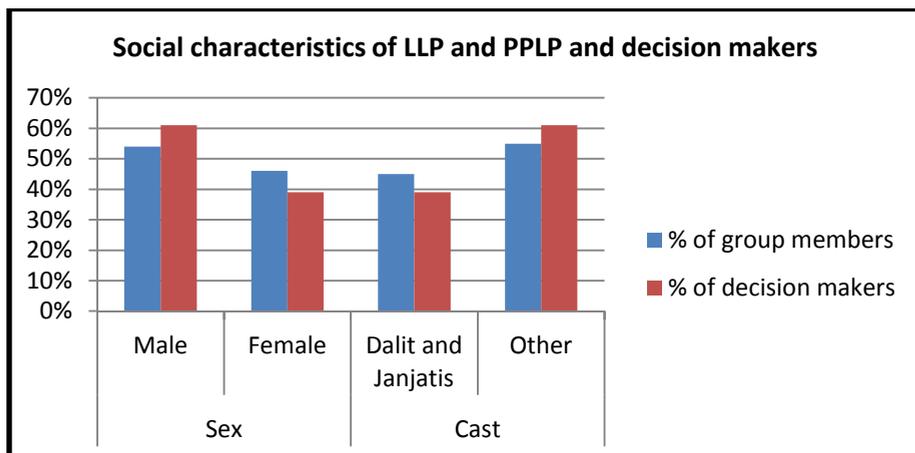
in US\$'000

	<b>2011</b>	<b>2012</b>
Country Programme Manager	262	262
Programme Assistant	41	41
Travel to Nepal	20	20
Direct Supervision and Implementation Support	150	90
Project Design (AAGPP)		
Country Programme Coordinator	34	34
Country Office operating costs	33	20
<b>TOTAL</b>	<b>540</b>	<b>467</b>

*Source:* CPM and CPC.

## Social characteristics of beneficiaries





Source: COSOP Annual Review Report, IFAD, December 2011.