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Investing in rural people

President's report

Proposed loan and grant to Nepal for the Agriculture Sector Development Programme

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

ADS	Agriculture Development Strategy
ASDP	Agriculture Sector Development Programme
EIRR	economic internal rate of return
M&E	monitoring and evaluation
OAGN	Office of the Auditor General of Nepal
PCO	programme coordination office
PIM	programme implementation manual
SDC	Swiss Agency for Development and Cooperation

Map of the programme area

Nepal Agriculture Sector Development Programme President's report



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 | 23-10-2017

Nepal

Agriculture Sector Development Programme

Financing summary

Initiating institution:	IFAD
Borrower:	Nepal
Executing agency:	Ministry of Agricultural Development
Total programme cost:	US\$68.1 million
Amount of IFAD loan:	SDR 27.2 million (equivalent to approximately US\$38.20 million)
Amount of IFAD grant:	SDR 1.3 million (equivalent to approximately US\$1.8 million)
Terms of IFAD loan:	Highly concessional: Maturity period of 40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum
Cofinancier(s):	Swiss Agency for Development and Cooperation (SDC)
Amount of cofinancing:	SDC US\$3 million
Contribution of borrower:	US\$11.5 million
Contribution of beneficiaries:	US\$6.7 million
Other financing:	US\$3.44 million (municipalities) US\$3.48 million (private sector)
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to Nepal for the Agriculture Sector Development Programme, as contained in paragraph 37.

Proposed loan and grant to Nepal for the Agriculture Sector Development Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Agriculture accounts for almost a third of Nepal's GDP. However, growth of the agricultural sector has fallen from 4.6 per cent in 2012 to 1.9 per cent in 2015. Nationally, agriculture suffers from low investment and inadequate commercialization and modernization. Two thirds of the labour force is engaged in agricultural production, but the majority are unskilled and lack knowledge of updated cultivation practices. Nepal also contends with vulnerability to extreme climate events and climate change, owing to variable geoclimatic conditions, unplanned settlements, degradation of natural resources and growing population pressure, leaving poor and marginalized people especially vulnerable. Poverty remains a rural problem and strongly associated with gender, ethnicity, caste and region. Additionally, food insecurity remains a key concern, with rates of stunting and wasting being the highest in the newly formed State 6.

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

2. The rationale of the Agriculture Sector Development Programme (ASDP) is that a market-driven approach will increase incomes and improve livelihoods (food security and nutrition). The ASDP begins at an important juncture in Nepal's shift to a federal-state-municipal structure. It is aligned with the recommendations of the Agriculture Development Strategy (ADS) 2015 to 2035 and will contribute directly to two of the main flagship programmes within the ADS: the Decentralized Science, Technology and Education Program and Value Chain Development Program.
3. The ASDP will contribute to all three objectives of the results-based country strategic opportunities programme (COSOP): (i) increased access to economic opportunities by poor farmers and producers in hill and mountain areas; (ii) community infrastructure and services improved in hill and mountain areas; and (iii) gender, ethnic and caste-related disparities reduced through greater inclusion of disadvantaged groups in development.

II. Programme description

A. Programme area and target group

4. The programme will be implemented in 10 districts of State 6 and will target smallholder producers and landless rural people interested in engaging in targeted value chain activities. Women will constitute two thirds of the programme beneficiaries and disadvantaged households specifically targeted for inclusion. It is expected that the ASDP will directly serve some 35,000 households and indirectly about 40,000 households.

B. Programme development objective

5. The development objective is to contribute to achievement of Nepal's target for Sustainable Development Goal 8 – Decent Work and Economic Growth. It will do this through sustainable improvement in the income and food security of smallholders and disadvantaged rural groups¹ involved in commercially oriented production and marketing systems in selected high-value agricultural value chains.

C. Components/outcomes

6. The programme will have two components: 1. Value chain development; and 2. Programme coordination.

Component 1 will include four subcomponents (outcomes):

- Subcomponent 1.1: Inclusive and sustainable agricultural value chains expanded and diversified – identifying financially and economically profitable agricultural value chain investment opportunities and providing risk-based cofinancing and institutional, technical and capacity-building support to strengthen value chain cohesion and stakeholder profits. The two outputs are: (i) identify and assess profitable high-value agricultural value chains; and (ii) cofinance agricultural value chain development.
- Subcomponent 1.2: Market-oriented infrastructure functional – supporting the construction of market-oriented infrastructure. The one output is: cofinanced public and community market infrastructure.
- Subcomponent 1.3: Rural financial services funding value chain development – facilitating financial linkages for agricultural producers and agribusinesses in value chains, including for each subproject under subcomponent 1.1. The two outputs are: (i) rural financial services development; and (ii) support to credit access.
- Subcomponent 1.4: Agriculture services sustainably support innovation and value chain development – supporting development of participatory, pluralistic extension and service delivery systems for the agriculture and livestock sectors at municipal and ward levels. The two outputs are: (i) participatory and pluralistic extension services and strengthened farmers' organizations; and (ii) women's empowerment and household nutrition.

Component 2 will have a single outcome: stakeholders manage and integrate programme outcomes creatively, efficiently and effectively.

III. Programme implementation

A. Approach

7. The ADS envisages accelerated agriculture sector growth through four strategic subcomponents, while promoting inclusion, sustainability, connectivity and private/cooperative development. The ASDP approach follows a parallel path – identifying financially and economically viable agricultural commodities with market growth and value addition potential across the main agroecosystems. This is facilitated by multi-stakeholder platforms designed to: (i) link key stakeholders along potential value chains; and (ii) identify opportunities and technical and capacity constraints that can then be addressed through programme-supported, outcome-based training and research.

B. Organizational framework

8. Overall responsibility for the ASDP will be assumed by the lead programme agency, the Ministry of Agricultural Development or any legal successor as authorized by the borrower/recipient. A programme coordination office (PCO) established in the Surkhet District will coordinate programme implementation, building on synergies

¹ Dalits, Janajatis, Muslims, youth, landless people and others.

with other ongoing programmes within the state. A programme steering committee will assist the Ministry of Agricultural Development and other stakeholders in ensuring achievement of programme objectives. A State 6-led technical advisory group, comprising federal and provincial agriculture, livestock, forestry, agribusiness and food technology/safety experts, will be established to advise the PCO on technical aspects of programme implementation. The programme will work with cooperatives and microfinance development banks in financing producers, and with commercial banks in facilitating credit linkages for agribusinesses. For subcomponent 1.4, the Government of Switzerland, represented by the Swiss Federal Department of Foreign Affairs, acting through the Embassy of Switzerland, will provide funding to Helvetas Swiss Intercooperation for technical assistance for the programme activities, formalized through a memorandum of understanding.

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

9. Planning. Successful ASDP implementation requires that the planning process for the annual workplan and budget effectively articulate the views of various public institutions (government and line agencies), private entities, individuals and community organizations and groups. The budget process will be conducted in line with national procedures, which require consultation with all stakeholders, including beneficiaries.
10. Monitoring and evaluation (M&E) framework. The M&E system will focus on activities/inputs, outputs, outcomes, performance and risks, while evaluation will assess the relevance, efficiency, effectiveness and impact on poverty reduction, the agribusiness environment and growth, empowerment and partnership, sustainability, replicability, lessons learned and knowledge uptake. The M&E system will cover both the operational and financial aspects of the programme. To a large extent the system will be participatory, involving the supported farmers' groups, wards and municipalities in data collection and management.
11. Knowledge management and learning. Knowledge management will be an essential element in delivery of programme objectives, and will focus on studying and researching the outcomes and impacts of programme investments. ASDP knowledge management activities will focus on five areas relevant to IFAD's investment portfolio in Nepal, including: (i) private-sector investment in hill area value chains; (ii) poor households' responses to business opportunities in agriculture; (iii) establishment and sustainability of pluralistic extension services; (iv) sustainable rural financial services; and (v) programme impact on women's empowerment and on household nutrition.

D. Financial management, procurement and governance

12. Financial management. IFAD-funded projects use national systems in the areas of budgeting, accounting, reporting, funds flow, and internal and external audit. However, extensive use of national systems exposes IFAD projects to fiduciary risks, given the relative weaknesses of certain public financial management features such as accounting and reporting. For the ASDP, a financial risk mitigation strategy has been prepared for these issues, aimed at facilitating timeliness of report submissions and ensuring appropriate use of funds. Procedures for financial management will be documented in the programme implementation manual (PIM) and consistently applied. During the design phase, the fiduciary risk of the ASDP was rated medium.
13. The PCO will be responsible for financial management of the programme. The finance unit will be staffed by a finance officer and a finance assistant. If cost centres are established in each rural municipality, additional finance assistants will be deployed to that level. The finance officer and finance assistant will be responsible for: finalizing annual budgets, maintaining accounting records in accordance with national accounting standards, preparing interim financial reports

and the programme's financial statements, monitoring the treasury single account, ensuring constant application of the internal control framework, and facilitating audit by the Office of the Auditor General of Nepal (OAGN) on the basis of international auditing standards. Nepal's accounting standards are acceptable to IFAD, subject to provision of minimum data and disclosures, which will be communicated to the programme at start-up.

14. The programme will establish a fully computerized accounting system using the national chart of accounts (cash basis). This system includes sorting of expenditure by category, component, financier and percentage of financing. It will automatically prepare withdrawal applications, monitor expenditures and generate trimester financial reports and annual financial statements, in accordance with IFAD guidelines. It will also report on and monitor beneficiary and counterpart in kind and cash contributions.
15. Flow of funds arrangement. Disbursement arrangements for the ASDP will employ the national system. The programme will be able to start its activities and spend funds once the first annual workplan and budget is approved and input into the Integrated Financial Management Information System, assuming that other disbursement conditions, if any, are also met. For execution of financial transactions, the programme will refer to the District Treasury Comptroller Office. IFAD funds will be transferred to two designated accounts opened at the central bank (Nepal Rastra Bank): one for the loan and one for the grant. The use of the treasury single account system will increase reliance on the internal control system, avoiding the need to open programme bank accounts and minimizing cash transactions.
16. Internal and external audit. In addition to the internal audit review conducted by the specialized section of the District Treasury Comptroller Office on a semi-annual basis, the ASDP will contract a private firm to review internal controls on a quarterly basis. This will include monitoring of financial procedures, adherence to the PIM and implementation of administrative efficiencies.
17. External audit will be performed by OAGN using principles of the International Standards for Supreme Audit Institutions. The statutory terms of reference of OAGN may be integrated with specific requests from IFAD, including timely submission of audit reports.
18. Procurement. The PCO will carry out all procurement according to government procedures and IFAD's Project Procurement Guidelines. It may delegate procurement to implementing agencies and, for community infrastructure, to municipalities that follow local regulations for decentralization of investment ownership.

E. Supervision

19. The programme will be directly supervised by IFAD, in accordance with ongoing arrangements in Nepal. IFAD staff and consultants will attend programme start-up workshops, and specialist consultants and staff will continue to be involved in annual supervision and implementation support. Supervision will be based on IFAD's operational modalities and practices. The lead programme agency and the Fund shall jointly carry out a review of programme implementation no later than the third anniversary of the date of entry into force (the midterm review).

IV. Programme costs, financing and benefits

A. Programme costs

20. Total investment and incremental recurrent programme costs, including physical and price contingencies, are estimated at US\$68.1 million (7.0 billion Nepalese rupees). The foreign exchange component is estimated at US\$5.7 million or about 8 per cent of total programme costs. Taxes and duties make up approximately

US\$8.3 million (12.1 per cent). Programme management costs amount to US\$7.6 million (about 11.2 per cent of the total).

B. Programme financing

21. IFAD financing includes an IFAD performance-based allocation system (PBAS) loan allocation of US\$38.2 million (including the reallocated US\$10 million) and a grant allocation of US\$1.8 million.
22. The recipient shall provide counterpart financing of US\$11.5 million. Smallholder beneficiaries and municipalities will contribute about US\$6.7 million and US\$3.44 million respectively (9.8 per cent and 5.1 per cent respectively of total cost) as cofinancing of community infrastructure and the value chain group. Private entrepreneurs will contribute US\$3.5 million (5.1 per cent of total cost) to finance value chain investment. The Government of Switzerland, represented by the Swiss Federal Department of Foreign Affairs, acting through the Embassy of Switzerland, will provide funding to Helvetas Swiss Intercooperation in the amount of US\$3 million, towards technical assistance.

Table 1
Programme costs by component and financier
(Thousands of United States dollars)

Component	Municipality		IFAD Loan		IFAD Grant		SDC		Beneficiaries		Private Sector		Borrower/ counterpart		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Value chain development																
1.1 Inclusive and sustainable agriculture value chains expanded and diversified	-	-	10 179	48.1	488	2.3	-	-	4 231	20.0	3 273	15.5	2 998	14.2	21 169	31.1
1.2 Market-oriented infrastructure functional	2 244	12.1	12 622	67.8	-	-	-	-	1 325	7.1	-	-	2 429	13.0	18 620	27.3
1.3 Rural financial services funding value chain development	-	-	3 464	75.1	332	7.2	-	-	-	-	215	4.7	601	13.0	4 613	6.8
1.4 Agriculture services sustainably support innovation and value chain development	1 196	7.4	8 183	51.0	851	5.3	3 000	18.7	1 125	7.0	-	-	1 703	10.6	16 059	23.6
Subtotal	3 440	5.7	34 448	57	1 671	2.8	3 000	5.0	6 681	11.1	3 488	5.8	7 731	12.8	60 461	88.8
2. Programme coordination	-	-	3 752	49.2	128	1.7	-	-	-	-	-	-	3 749	49.1	7 629	11.2
Total	3 440	5.1	38 200	56.1	1 800	2.6	3 000	4.4	6 681	9.8	3 488	5.1	11 480	16.9	68 090	100.0

Table 2
Programme costs by expenditure category and financier
(Thousands of United States dollars)

	<i>Municipality</i>		<i>IFAD Loan</i>		<i>IFAD Grant</i>		<i>SDC</i>		<i>Beneficiaries</i>		<i>Private Sector</i>		<i>The Government</i>		<i>Total</i>		
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	
I. Investment Costs																	
A. Consultancies																	
1. International consultancies	-	-	73	11.9	459	75.0	-	-	-	-	-	-	-	80	13.0	612	0.9
2. National consultancies	-	-	5 586	55.5	316	3.1	3 000	29.8	-	-	-	-	-	1 158	11.5	10 060	14.8
Subtotal	-	-	5 659	53.0	775	7.3	3 000	28.1	-	-	-	-	-	1 237	11.6	10 672	15.7
B. Equipment & materials	-	-	900	66.3	281	20.7	-	-	-	-	-	-	-	177	13.0	1 358	2.0
C. Goods, services & inputs	-	-	512	60.4	11	1.2	-	-	-	-	215	25.3	111	13.0	848	1.2	
D. Grants & subsidies	562	2.6	9 499	44.2	-	-	-	-	5 356	24.9	3 273	15.2	2 804	13.0	21 494	31.6	
E. Workshops	-	-	816	62.1	326	24.8	-	-	-	-	-	-	-	171	13.0	1 313	1.9
F. Training	634	7.0	6 845	75.5	408	4.5	-	-	-	-	-	-	-	1 183	13.0	9 068	13.3
G. Vehicles	-	-	474	62.5	-	-	-	-	-	-	-	-	-	284	37.5	758	1.1
H. Works	2 244	12.6	11 876	66.9	-	-	-	-	1 325	7.5	-	-	-	2 317	13.0	17 763	26.1
II. Recurrent Costs																	
A. Salaries & allowance	-	-	1 620	62.5	-	-	-	-	-	-	-	-	-	971	37.5	2 590	3.8
B. Operation costs	-	-	-	-	-	-	-	-	-	-	-	-	-	2 226	100.0	2 226	3.3
Total	3 440	5.1	38 200	56.1	1 800	2.6	3 000	4.4	6 681	9.8	3 488	5.1	11 481	16.9	68 090	100.0	

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C. Summary benefit and economic analysis

23. The ASDP assumes a 75 per cent success rate for 35,000 households, contributing to the reduction of poverty and food insecurity in about 26,250 households in the hill and mountain areas of State 6.
24. Economic indicators. The overall economic net present value (ENPV) is US\$95.61 million at a 10 per cent discount rate.² The economic internal rate of return (EIRR) is 24 per cent. The benefit-cost ratio (BCR) of 1.6 indicates a return of approximately 1.6 dollars for every dollar invested. Both results indicate that the programme is a worthwhile investment.³
25. Sensitivity analysis. An increase in programme costs by 10 per cent will reduce the EIRR to 21.1 per cent, while a decrease in overall programme benefits by 20 per cent will result in an EIRR of 17.2 per cent. A one-year delay in benefits reduces the EIRR to 18.7 per cent and a two-year delay to 15.3 per cent. These returns, based on the production modelling, are further supported by the additional non-quantified benefits derived from the establishment and/or improvement in public infrastructure, as well as the development of financial and agricultural extension services across the broader communities. Investment in the programme is thus viable from an economic perspective.

D. Sustainability

26. The programme emphasizes enhancement of private-sector activity and competitiveness in the specific subsectors targeted for investment. The most important determinant of sustainability of such investments and, by extension, provision of expected benefits, is their continued profitability. The approach adopted will provide strong support for the expectation that a large majority of investments will endure.

E. Risk identification and mitigation

27. At the programme goal level, the risk of external shocks to the macroeconomy has the greatest prominence. This risk is ever present in a relatively small and politically volatile economy such as that of Nepal, particularly given the ongoing constitutional change process. At the national level, sound macroeconomic policies and the continued tying of the Nepal rupee to the Indian rupee are the main means of mitigation of this risk. At programme and enterprise levels, the main mitigation measure is sound financial analysis of the subprogrammes, with emphasis on quality, high productivity and low cost per unit of output value.
28. At the development objective level, key risks are associated with the maintenance of stable socio-economic conditions in the programme area, involving business regulatory systems and effective communication of messages on nutrition. State 6 is enjoying economic growth leading to reduced poverty, with the biggest socio-economic risk associated with climatic disaster. The programme will advance the national agenda for climate change adaptation and will ensure that all programme-financed interventions are climate change adapted. The relatively weak private business environment in the States is a significant risk and State 6 and its municipalities will need to commit to an improved investment environment. Communication on nutrition-related behavioural change is now well established in Nepal, supported by the multisectoral nutrition strategy and plan, and should not be a high-risk activity in the State.
29. Fiduciary risk factors to be considered include the use of national systems, specifically accounting and reporting functions – to be mitigated by additional internal controls and checks – possible staff turnover and decentralization of activities. Regarding staff turnover, the systems and the PIM will be kept updated

² World Bank current practice in Nepal.

³ Decision criteria: ENPV > US\$0; EIRR > 10 per cent (discount rate) and BCR > 1.

to facilitate handover. In the case of decentralization of activities, IFAD will need to consider additional checks and balances, including staffing, if such activities are significant.

V. Corporate considerations

A. Compliance with IFAD policies

30. Design of the ASDP was guided by IFAD's policies and strategies on targeting, gender, indigenous peoples, environmental and natural resource management, and private-sector engagement. While the programme may have some environmental and social impacts on human populations or environmentally significant areas, these will be site-specific and less adverse than for a Category A programme. All potential adverse impacts can be adequately addressed through preventive action and gradual mitigation measures: avoidance, reduction/limitation/control measures as outlined in IFAD's Social, Environmental and Climate Assessment Procedures (SECAP). In line with SECAP, the programme is classified Category B.

B. Alignment and harmonization

31. The ASDP is aligned and harmonizes with the Government's ADS and ongoing value chain interventions by other development partners. It benefits from a number of elements: (i) a favourable policy and institutional framework established in the new Constitution and the 2014 ADS, which places greater emphasis on market (value chain)-driven agricultural development; (ii) a significant stock of knowledge on value chain development, produced by a number of projects most of which will be completed during 2018, as a source of good practices and lessons learned for this new operation; (iii) the opportunity to scale up a successful IFAD approach through its replication of proven value chain interventions in a larger, more remote geographical area (enabled by improved rural infrastructure, notably the expanding district road corridors) and to further expand the outreach of the activities underway while ensuring the sustainability of development results.

C. Innovations and scaling up

32. The ASDP builds on the successful interventions of the High-Value Agriculture Project in Hill and Mountain Areas and expands these through the following innovations: (i) multi-stakeholder platforms that will strengthen private and public/private relationships across value chains, promote innovation and provide a conducive environment/space for the brokerage of financial agreements between value chain stakeholders; (ii) competitive grant proposals with a basis in economic and financial viability; (iii) building of pluralistic extension services that support farmer innovations; and (iv) financial product innovations in value chain financing and loan risk management. Beneficiaries of the ongoing High-Value Agriculture Project in Hill and Mountain Areas will now have facilitated access to the financial market.

D. Policy engagement

33. The programme will work with smallholder producers, agribusinesses and provincial and ward-level delivery agents to ensure that potential policy engagements are pursued. The PCO has the unique task of capturing cross-sectional lessons and, through coordination, identifying those areas that can be pursued on a policy level. The multi-stakeholder platforms are also expected to emerge as the space in which policy issues are raised. Additionally, the municipality agriculture development committees will, among other things, assist in the formation of farmers' associations, strengthen farmers' perspectives on evidence-based policy formation, and inform farmers of services and entitlements.

VI. Legal instruments and authority

34. A programme financing agreement between Nepal and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached in appendix I.
35. Nepal is empowered under its laws to receive financing from IFAD.
36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Federal Democratic Republic of Nepal for the Agriculture Sector Development Programme in the amount of twenty-seven million two hundred thousand special drawing rights (SDR 27,200,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Federal Democratic Republic of Nepal for the Agriculture Sector Development Programme in the amount of one million three hundred thousand special drawing rights (SDR 1,300,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement

Agriculture Sector Development Programme

(Negotiations concluded on 24 November 2017)

Loan No: _____

Grant No: _____

Programme Title: Agriculture Sector Development Programme ("the Programme" or "ASDP")

Nepal (the "Borrower/Recipient")

and

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

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

WHEREAS, the Government of Switzerland represented by the Swiss Federal Department of Foreign Affairs (FDFA), acting through the Embassy of Switzerland, will provide funding to Helvetas Swiss Inter-Cooperation (HSI) for technical assistance towards the Programme activities.

WHEREAS, upon the Borrower/Recipient's request, the Fund has agreed to provide financing for the Programme;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and special covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan is twenty seven million and two hundred thousand Special Drawing Rights (SDR 27 200 000).

B. The amount of the Grant is one million and three hundred thousand Special Drawing Rights (SDR 1 300 000).

2. The Loan is granted on highly concessional terms, and shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.
3. The Loan Service Payment Currency shall be United States dollar.
4. The first day of the applicable Fiscal Year shall be on or around 16 July.
5. Payments of principal and service charge shall be payable on each 1 December and 1 June.
6. There shall be two Designated Accounts, denominated in United States dollar opened at the Nepal Rastra Bank through which the proceeds of the Loan and the Grant, shall be channelled.

Section C

1. The Lead Programme Agency (LPA) shall be the Ministry of Agricultural Development (MoAD) or any legal successor authorised by the Borrower/Recipient.
2. The Programme Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

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

Section E

1. The following are designated as additional conditions precedent to withdrawal:
 - (a) The Designated Accounts referred to in Sections B.7 above shall have been duly opened;
 - (b) The Programme Steering Committee (PSC) and the Programme Coordination Office (PCO) shall have been duly established in accordance with Schedule 1 Section II Paragraph 7 and 9;
 - (c) The Programme Coordinator and other PCO key staff as described under Schedule 1 Section II Paragraph 9 shall have been duly appointed/designated;
 - (d) A Programme Implementation Manual (PIM) shall have been prepared in form and substance satisfactory to the Fund; and
 - (e) The LPA and HSI shall have entered into an Agreement as outlined in paragraph 11.2 section II of Schedule 1 to this Agreement, in form and substance satisfactory to the Fund.

2. The following are designated as additional conditions for suspension:
 - (a) The PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consultation of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme.
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Ministry of Finance
Singha Durbar
Kathmandu, Nepal

For the Fund:

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

This Agreement, dated _____, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

NEPAL

Authorized Representative
(Name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. Target Population. The Programme will target smallholder producers and landless rural people interested to engage in targeted value chain activities. Women will be two thirds of the Programme beneficiaries with disadvantaged households including Dalits, Janajatis, Muslims, youth, landless and other disadvantaged groups specifically targeted for Programme inclusion. It is expected that the Programme will serve around 35,000 direct beneficiaries and about 40,000 indirect beneficiaries.
2. Programme Area. The Programme will be implemented in Surkhet, Dailekh, Salyan, Jajarkot, Kalikot, Jumla, Mugu, Dolpa, Humla and Rukum (western) districts in State 6 of Nepal.
3. Goal. Contribute to the achievement of Nepal's Sustainable Development Goals (SDG 1 - Poverty and SDG 2 – Zero Hunger) targets by reducing poverty and nutrition insecurity amongst women and men in hill and mountain areas.
4. Objectives. Contribute to the achievement of Nepal's SDG 8 – Decent Work and Economic Growth target through sustainable improvement in the income and food security of smallholders and disadvantaged rural groups involved in commercially-oriented production and marketing systems in selected high value agricultural value chains.
5. Components. The Programme will have two components:
 - 5.1 Component 1. Value chain Development
 - 5.1.1 Sub-component 1. Inclusive and sustainable agriculture value chains expanded and diversified. This sub-component aims at identifying financially and economically profitable agricultural value chain investment opportunities and provides risk-based co-financing and institutional, technical and capacity building support to strengthen value chain cohesion and stakeholder profits through the following activities: (i) identification and assessment of profitable high-value agriculture value chains by developing a Strategic Investment Plan (SIP) and the establishment of a Multi-Stakeholders Consultative Platform (MSPs) supporting specific value chain developments and strengthening public/private partnerships; and (ii) co-financing agricultural value chain development by establishing allocated Value Chain Development Mechanism (VCDM) to catalyse private investment into the SIP value chains, and developing Value chain-led participatory and applied technology development and multi-disciplinary capacity building.
 - 5.1.2 Sub-component 2. Market-oriented public and community infrastructure functional. This sub-component aims at supporting the construction of market-oriented infrastructure through co-financing of public and community market infrastructure targeting commodity chain engagement and/or climate change adaptation subject to the no-objection of the Fund depending on the thresholds defined in the PIM.
 - 5.1.3 Sub-component 3. Rural financial services for value chain development strengthened. This sub-component aims at facilitating financial linkages for agriculture producers and agri-businesses in value chains, through (i) the development of Rural financial services to provide Technical Assistance to Micro Finance Institutions (MFIs)/ private banks in order to implement value chains solutions and (ii) a support to credit access by training about 1,000 facilitators on business and financial literacy.

5.1.4 Sub-component 4. Agriculture services sustainably support innovation and value chain development. This sub-component shall focus on the implementation of (i) participatory and pluralistic extension services and strengthened farmer groups by supporting the establishment and capacitation of institutions such as the Nagarpalika and Gaunpalika (Municipality) Agricultural Units (MAUs) and Community Agriculture Extension Service Centers (CAESCs) to facilitate the delivery of extension services and fostering collaboration public/private sector in the delivery of agricultural services, and also (ii) women's empowerment and household nutrition through Business Literacy Facilitators (BLFs) to implement targeted interventions designed to empower women and adolescent girls, both within their households and in their wider communities.

5.2 Component 2. Programme Management. A PCO shall be established in order to facilitate the Programme implementation through (i) private and public-sector implementation agencies such as, MAUs, CAECs, Local Resource Persons (LRPs), and (ii) more direct implementation for activities such as rural financial services. HSI, funded by the FDFA, acting through the Embassy of Switzerland, will be an implementing partner for the Sub-Component 4. Key Programme staff, including inter alia a Programme Coordinator, a senior agriculture officer or equivalent, a funds and contract specialist, an account officer and support staff, shall be based at the PCO. Field teams working along the four main road corridors having business, engineering, social/gender, rural finance and Monitoring & Evaluation/Knowledge Management skills shall be established.

II. Implementation Arrangements

A. Organizational framework

6. Lead Programme Agency (LPA). The MoAD, or any legal successor authorised by the Borrower/Recipient, shall be the LPA and shall have the overall responsibility for the Programme.

7. Programme Steering Committee (PSC).

7.1 Establishment. A PSC chaired by the Secretary MoAD and composed inter alia of, other federal ministry representatives, State Secretary for Agriculture or equivalent for State 6. Additionally, the PSC shall, by nomination, include representatives of National Farmers Commission and private sector entities related to the Programme.

7.2 Responsibilities. Among other things, the PSC shall (i) ensure effective coordination/integration/cooperation among government and/or donor-funded Programmes, (ii) inform the LPA on matters concerning the strategic management of the Programme, including decisions such as approval of the PIM, AWPB, and other decisions related to Programme coordination, orientation and mobilization of resources. The PSC will meet at least quarterly to coordinate Programme implementation and make recommendations, to the LPA, as needed.

8. Technical Advisory Group (TAG). A TAG, chaired by the State Secretary for Agriculture or equivalent for State 6, with the Programme Coordinator as member secretary, federal, state and local government representatives of (rotating basis if needed) agriculture, livestock, forestry, agri-business and food technology/safety experts, shall be established to advise the PCO on technical aspects of the Programme implementation. This TAG shall meet as required to review (i) technical aspects of progress of implementation, (ii) the ASDP AWPB before submission and (iii) to liaise with Multi Stakeholder Platforms (MSPs) groups (which include local government representatives) to discuss technical constraints to efficient VC development.

9. Programme Coordination Office (PCO).

9.1 Establishment. A PCO shall be established and composed of a management team, a technical team of externally recruited experts, and support staff. Key Programme staff shall include a Programme Coordinator, with the relevant qualifications and experience, a senior agriculture officer, a funds and contract specialist and an account officer. The PCO, acting as its Secretariat, will report directly to the PSC.

9.2 Responsibilities. The PCO shall facilitate the Programme implementation by working with private and public-sector implementation agencies and through more direct implementation. The PCO shall have the responsibility to ensure: (i) the coordination and synergy of the co-implementing agencies and technical service providers, and the municipal level agencies, and grassroots communities; (ii) the contracting of suitable service providers to undertake various forms of research, studies, technical assistance and training; (iii) accountable for management of the financing, including preparation of the PIM, AWPBs, procurement plans, financial statements and submission of the same, selection of technical assistance, establishment and operation of M & E and Management Information Systems (MIS), and other functions related to operational and financial management of the Programme.

10. Technical Assistance (TA). The Grant proceeds shall specifically finance international and national TA to support the offices in municipality including wards by providing capacity development. TA activities under the grant financing shall include inter alia (i) the implementation of business development services offered by the Programme; (ii) the capacitation of the District Coordination Committees in convening the MSPs; (iii) the implementation of household methodologies towards the empowerment of women; and (iv) linking in with on-going nutritional interventions and building the Behavioural Change Communication.

11. Partnerships.

11.1 Government partners. The Programme will work with the ADS Coordination Unit within the MoAD to support a change in service delivery to coordinate, technically supervise and monitor a pluralistic extension system largely delivered through municipalities, MAUs and CAESCs. The Programme will also strengthen government partner skills in the fields of Programme management, M & E, gender mainstreaming, climate change adaptation and knowledge management.

11.2 FDFA TA. FDFA will support the Programme implementation by providing a grant of USD 3 million for TA implemented by HSI with specific focus on Sub-Component 4, in additional seven districts (Surkhet, Salyan, Jumla, Mugu, Dolpa, Humla and Rukum (western)) within State 6. The LPA shall have entered into an agreement with HSI to define the terms and conditions of such technical assistance.

11.3 NGOs and implementation support. The Programme will work closely with NGOs of proven competence and sustainability, particularly in supporting and capacitating the extension system, community participatory planning, cooperative and Micro Finance Institutions (MFI) institutional reform and gender development and nutrition support at municipal level.

11.4 Private sector. Private enterprises, cooperatives, farmers' organizations, lead farmers and farmers' groups engaged in commodity production, the supply of goods and services, commodity processing, marketing or related fields will participate in Programme implementation as co-financiers and/or service providers.

11.5 MAUs and CAESCs. The establishment of MAUs and CAESCs under Municipalities will strengthen the grassroots-level management and operational capacity, fostering community-governed and equitable representation and participation of the vulnerable groups in community decision making structure.

B. Programme Implementation Manual (PIM)

12. Preparation. The LPA shall prepare, in accordance with terms of reference acceptable to the Fund, a PIM, which shall include, among other arrangements: (i) institutional coordination and day-to-day execution of the Programme; (ii) Programme budgeting, disbursement, financial management, procurement monitoring, evaluation, reporting and related procedures; (iii) detailed description of implementation arrangements for each Programme component; and (iv) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Programme.

13. Approval and Adoption. The LPA shall forward the draft PIM to the Fund for comments and approval. The LPA shall adopt the PIM, substantially in the form approved by the Fund, and the LPA shall promptly provide copies thereof to the Fund. The Borrower/Recipient shall carry out the Programme in accordance with the PIM and shall not amend, abrogate, waive or permit to be amended, abrogated, or waived, the aforementioned manual, or any provision thereof, with the prior consultation of the Fund.

C. Mid-Term Review

14. The LPA, including State and Municipal representatives and the Fund shall jointly carry out a review of Programme implementation no later than the end of the third year of the Programme (the "Mid-Term Review") based on terms of reference prepared by the Borrower/Recipient and approved by the Fund. Amongst other things, the Mid-Term Review shall consider the achievement of Programme objectives and the constraints thereon, and recommend such reorientations as may be required to achieve such objectives and remove such constraints.

Schedule 2

Allocation Table

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

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage
1. Works	7 600 000	-	Loan 100% net of Government, beneficiaries, private sector and municipalities contribution
2. Training	8 550 000	1 000 000	Loan 100% net of Government contribution, Grant 100% net of Government contribution
3. Grants & Subsidies	6 100 000	-	Loan 100% net of Government, beneficiaries, private sector and municipalities contribution
4. Equipment and Materials	1 200 000	200 000	Loan 100% net of Government contribution, Grant 100% net of Government contribution
5. Salaries & Allowances	1 050 000	-	Loan 100% net of Government contribution
Unallocated	2 700 000	100 000	
TOTAL	27 200 000	1 300 000	

(b) The terms used in the Table above are defined as follows:

“Works” financed by IFAD includes public goods infrastructures.

“Training” financed by IFAD includes national/international capacity building, workshops and consultancies.

“Grants and Subsidies” financed by IFAD includes co-financing of investment costs and multi-stakeholder platforms.

“Equipment and Materials” financed by IFAD includes vehicles, goods, services and inputs.

“Salaries and Allowances” financed by IFAD includes staff costs.

2. Counterpart financing. The Borrower/Recipient shall provide counterpart financing for the Programme in the approximate amount of eleven million five hundred thousand United States dollars (USD 11 500 000) to mainly cover duties and taxes related to the Programme expenditures.

3. Start-up Costs. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of USD 400 000 equivalent and shall be charged under Category 2 (Training), Category 4 (Equipment and Material) and Category 5 (Salaries and Allowances).

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions:

1. The Borrower/Recipient shall ensure that the High Value Agriculture Project in Hill and Mountain Areas (HVAP) beneficiaries shall not be eligible to this Programme financing under the Value Chain Component.

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions (A) / Risks (R)
	Name	Baseline ⁴	Mid-Term	End Target	Source	Frequency	Responsibility	
Goal: To contribute to the achievement of Nepal's SDG 1 - Poverty and SDG 2 – Zero Hunger targets by reducing poverty and nutrition insecurity amongst women and men in hill and mountain areas of State 6	24,000 more women of 15-49 years of age, consume at least 5 out of 10 defined food groups daily ^{5 6}	TBD	+10,000	+24,000	Field survey	Mid-term and completion surveys	ASDP	
Development Objective: To contribute to the achievement of Nepal's SDG 8 Decent Work and Economic Growth target through sustainable improvement in the income and food security of smallholders and disadvantaged rural groups ⁷ involved in commercially-oriented production and marketing systems in selected high value agricultural value chains.(number of beneficiaries effectively reached assuming a 75 per cent success rate)	Reduction in poverty incidence amongst 35,000 Programme households (measured as a lower HFIAS ⁸ score)	TBD	-30%	-60%	Field survey	Mid-term and completion surveys	ASDP	Socioeconomic conditions remain reasonably stable and manageable climatic disasters. Macro-economy continues to improve New provincial and municipal administrative systems take time to stabilize Business regulatory system does not deteriorate with new Federal structure
	26,000 value chain linked farm households double their household income	0	10,000HH double income	26,000 HH double income	Field survey	Mid-term and completion surveys	ASDP	
Sub-components (Outcomes): Sub-component 1: Inclusive and sustainable agriculture value chains expanded and diversified	Amount of agribusiness and household investment leveraged by ASDP co-financing (USD million)	0	6.0	10.0	ASDP records	Annual	ASDP	Municipal governments committed to participatory, market-led development Elite capture/ disadvantaged groups unable to participate effectively
Outputs: 1.1 Strategic Investment Plans prepared.	12 commodity-based Value Chain strategic investment plans prepared	0	12	12	ASDP records	Annual	ASDP	Adequate skills available from local /national service providers
1.2 Agricultural value chain development co-financed	Profitable new agriculture value chains operating in Programme area at project-end (IRR>12%)	0	8	18	Field survey	Periodic surveys	ASDP	"Market gatekeepers" and farmers willing to invest in value adding agri-businesses
Sub-component 2: Market-oriented infrastructure functional	Percentage of households reporting satisfaction with Programme infrastructure development	0	70 per cent	80 per cent	Field survey	Mid-term and completion surveys	ASDP	Value chain infrastructure requirements align with municipal investment plans Municipalities willing to co-finance infrastructure needs
Outputs: 2.1 Co-financed public and community market	Kilometres of rural roads constructed	0	30	70	ASDP records	Annual	ASDP	Timely implementation of Infrastructure O&M
	Hectares of small-scale	0	400	1,000	ASDP	Annual	ASDP	

⁴ Baseline measures for several indicators will be established through the HVAP completion survey.

⁵ IFAD RIMS indicator

⁶ Agriculture Development Strategy indicator

⁷ Dalits, Janajatis, Muslims, youth, landless, others

⁸ Household Food Insecurity Access Scale (HFIAS), (http://www.fao.org/fileadmin/user_upload/eufao-fsi4dm/doc-training/hfias.pdf)

infrastructure	irrigation established				records			
2.2 Marketable skills development.	Number of youth and women trained	0	400(youth)	800	ASDP records	Annual	ASDP	Rural youth perceive better economic opportunities
		0	600(women)	1,200				
Sub-component 3: <i>Rural financial services for value chain development strengthened</i>	Increase in number of households using rural financial services	TBD	120 %	150 %	Field survey	Periodic surveys	ASDP	No major change in financial climate, lending terms
Outputs: 3.1 Rural financial services development	Number of financial service providers delivering innovative financial products and services	0	10	20	ASDP and financial service provider records	Annual	ASDP, MFIs, banks, credit coops.	Financial service providers not interested to invest in Programme-targeted value chains Borrowers divert loans for other purpose Insufficient historic weather data limits spread and quality of insurance products
3.2 Support to credit access	Number of persons in rural areas trained in at least two of the following capacities: (i) financial literacy; (ii) business development and (iii) use of financial products and services	0	15,000	35,000	Field survey	Mid-term and completion surveys	ASDP	Cooperatives not interested in amalgamation and increased business efficiency
Sub-component 4: Agriculture services sustainably support innovation and value chain development	Percentage of households reporting adoption of new / improved inputs, technologies or practices	0	50%	70%	Field survey	Periodic surveys	ASDP	Municipalities adopt ADS-recommended institutions and approaches for agricultural service governance and delivery
Output s: 4.1 <i>Participatory and pluralistic extension services and strengthened farmers organizations</i>	Number of community agricultural extension service centres (CAESCs) in Wards delivering pluralistic extension service delivery at producer level	0	100	400	ASDP records	Annual	ASDP	Technical service support system is pluralistic and responds to the grassroots level needs
	Number of new farmer groups linked to Value Chains	0	300	1,200	ASDP records	Annual	ASDP	
4.2 Women's empowerment and household nutrition ⁹	40 % improvement in Women's empowerment in agriculture index	TBD	110% of base	140% of base	Field survey	Mid-term and completion surveys	ASDP	Programme-promoted methodologies for women's empowerment successfully applied

⁹ The IFPRI-developed Women's empowerment in agriculture index measures the roles and extent of women's engagement in the agriculture sector in five domains: (i) decisions about agricultural production; (ii) access to and decision-making power over productive resources; (iii) control over use of income; (iii) leadership in the community; and (iv) time use.