Document:	EB 2020/130/R.24/Add.1
Agenda:	8(f)(ii)(b)
Date:	7 September 2020
Distribution:	Public
Original:	English

E

Investing in rural people

Nepal

Value Chains for Inclusive Transformation of Agriculture Programme

Addendum

Executive Board — 130th Session
Rome, 8–11 September 2020

For: **Approval**

Value Chains for Inclusive Transformation of Agriculture Programme (VITA)

Addendum

The attention of the Executive Board is drawn to the following addenda and modifications to the President's report on the Value Chains for Inclusive Transformation of Agriculture Programme (EB 2020/130/R.24). For ease of reference, the changes to the text of the report are shown in boldface, while strikethrough indicates deleted text.

The following terminology changes are to be applied throughout the document unless specifically stated otherwise elsewhere in this addendum.

Original term	to be replaced with;
~~Province~~	**State**
~~Municipal~~	**Local**
~~Municipality~~	**Local-level government**
~~Heifer~~	**Component 1 implementing partner**
~~Heifer International~~	**Component 1 implementing partner**

Page 5, paragraph 25

The first sentence should read:

"Harmonization and partnerships. **The component 1 implementing partner is expected to be** Heifer **International who will also finance some activities under component 1**~~will be a full implementing partner and cofinancier~~."

Page 5, paragraph 28 should read:

"Total programme financing of US$196.9 million is comprised of: IFAD funding of US$97.67 million (49.6 percent); government funding of US$9.9 million (5.1 percent); the ADBL,~~ and~~ banks **and others** with **US$38.67 million (19.6 percent)**~~ US$32.674 million (16.4 percent); Heifer with $6.0 million (3.0 percent)~~; the beneficiaries with US$33.8 million (17.1 percent); and private sector contributions of US$16.9 million (8.6 percent)."

Table 1 should be replaced with the below:

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

	IFAD loan		*ADBL CSR*		*Private sector*		*Benef-iciaries (cash)*		*Banks**		*Government: state/local*		*Total*	
Component	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1 Inclusive supply chain development														
1.1 Farm business capacity development	4 418	61	149	2					2 696	37			7 263	4
1.2 Brokering and investment facilitation	7 105	75	151	2					2 237	24			9 492	5
1.3 Supply chain knowledge and policy	276	75							92	25			368	-
Subtotal	11 799	69	300	2					5 025	29			17 123	9
2 Expanding financial services to agriculture														
2.1 Private investment financing	63 563	46			16 876	12	33 751	24	24 100	17			138 290	70
2.2 Capacity enhancement and policy support	1 458	87							218	13			1 675	1
Component implementation support (by banks)	439	8							4 858	92			5 297	3
Subtotal	65 459	45			16 876	12	33 751	23	29 176	20			145 262	74
3 Supply chain infrastructure	17 335	64									9 948	37	27 283	14
Programme management														
Monitoring and evaluation	1 082	83							230	18			1 312	1
Programme management office	1 995	34							3 941	66			5 936	3
Subtotal	3 078	43							4 171	58			7 249	4
Total	97 670	50	300	-	16 876	9	33 751	17	38 371	19	9 948	5	196 917	100

*Banks: includes ADBL, other partner banks/financial institutions and US$6 million Heifer International – the implementing partner.

Table 2 should be replaced with the below.

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

	IFAD loan		*ADBL CSR*		*Private sector*		*Beneficiaries (cash)*		*Banks**		*Government state/local*		*Total*	
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Works	17 335	63	-	-	-	-	-	-	-	-	9 485	37	26 820	14
2. Credit, guarantee funds	80 335	47	300	-	16 876	10	33 751	20	38 371	23	464	-	170 097	86
Total	97 670	50	300	-	16 876	9	33 751	17	38 371	19	9 948	5	196 917	100

*Banks: includes ADBL, other partner banks/financial institutions and US$6 million Heifer International – the implementing partner.

Page 7, paragraph 29 should read:

> "Withdrawal and use of funds by VITA from its loan from IFAD will be governed by IFAD's Loan Disbursement Handbook and by the financing agreement between IFAD and the Government of Nepal. The procedures for disbursement, financial reporting and keeping of appropriate project records will be described in detail in a letter to the borrower/recipient following signing of the financing agreement. ~~The ADBL shall open a designated bank account in United States dollars at NRB for the~~

~~loan to be provided by the Government,~~ **A designated account in United States dollars will be opened and maintained in NRB for the programme and will be operated as authorized by the borrower** into which IFAD will disburse an initial advance as specified in the letter to the borrower/recipient, subsequently reimbursing eligible expenditures on submission of a withdrawal application. The ADBL will open a separate programme bank account in local currency. Funds received from the ~~federal~~ government ~~as a grant~~ and from the ADBL in the form of a corporate social responsibility fund for non-lending programme activities will also be deposited in the programme bank account. **Component 3 will be pre-financed by the Government of Nepal (GoN) and claimed to IFAD for reimbursement.**"

Page 8, paragraph 37 should read:

"Substantial mitigation measures are incorporated in reference to institutional capacity, but must be monitored on an ongoing basis by the Government of Nepal and IFAD, especially in the early years. There is a simple implementation structure, with one lead programme agency (LPA) overseeing **components 1 and 2 and a single state-ministry overseeing component 3 coordinated by a state coordination committee** ~~all components~~. As LPA, the ADBL reduces capacity risks, due to its large capable agribusiness staff, including 500 staff with both agriculture and finance backgrounds. ~~Heifer brings~~ **The Component 1 implementing partner will bring** capacity in socio-economic mobilization and producer group development. The establishment of state/**local** ~~municipal~~ programme coordination **committees** ~~forums~~ will assist coordination. Internally, the ADBL has a strong senior management team that has been fully involved in programme design. The budget includes around US$2 million of institutional capacity-building for the ADBL and programme partners."

Page 9, paragraph 43 should read:

"The ADBL will be the LPA and cofinancier, accountable to the programme steering committee chaired by the Ministry of Finance. It will lead implementation of ~~all~~ components **1 and 2**. **State 5 Ministry of Land and Management, Agriculture and Cooperatives (MOLMAC) will lead the implementation of component 3.The component 1 implementing partner** ~~Heifer~~ will coordinate a network of local NGOs to deliver farmer-facing activities. The dedicated ADBL programme management unit (PMU) will be responsible for all aspects of programme management on behalf of the LPA. **A programme implementation unit will be established by State 5 MOLMAC to manage component 3, reporting to the Secretary of MOLMAC.**"

Page 9, paragraph 44 should read:

"State and municipal government will be closely involved via **state and local coordination committees, as participants in** MSPs and ~~under~~ in component 3 as **component managers and** subproject implementers and cofinanciers. A state and ~~municipal~~ **local**-level coordination **committee** ~~forum~~ will be established. VITA will provide capacity-building to state and local governments on programme approaches."

Page 9, paragraph 46 should read:

> "Financial management. The PMU will report to the Programme Director and be accountable to the programme steering committee for overall financial management, withdrawal applications, financial reporting and the compliance requirements for internal and external audit. **State 5 MOLMAC will utilize the government financial management system for financial report of component 3, audited by the Office of the Auditor General of Nepal. State 5 MOLMAC will provide a periodical financial report and an audited financial report to ADBL.** The inherent financial management risk is substantial, primarily due to this being the ADBL's first IFAD programme **since the 1980's**. ~~Heifer~~ **The expected component 1 implementing partner** has experience implementing the IFAD-funded Improved Seeds for Farmers Project. The risks would reduce to moderate level with the mitigating measures."

Page 10, paragraph 49 should read:

> "The monitoring and evaluation system will be inline with IFAD's Operational Results Management System and core indicator framework, and will be aligned with the ADBL's own systems. The ADBL and **the implementing partners**~~Heifer~~ will contribute to the unitary VITA monitoring and evaluation system. A baseline survey will be conducted at programme start among a representative sample of beneficiaries in each location, to be repeated at midterm and completion. An annual cluster tracking survey will be organized to regularly assess the performance of each cluster."

Page 11, paragraph 54 should be deleted:

> "~~Retroactive financing of US$500,000 is provisioned for expenditure between February 2020 and entry into force of the financing agreement. Retroactive financing shall be used for: recruitment and training of staff; purchase of programme office equipment; conducting baseline surveys and setting up management information system software; and any other activities for programme preparation. These expenditures would be reimbursed on submission of a separate withdrawal application, when the preconditions for first withdrawal application have been met.~~"

Page 11, paragraph 55

> The first sentence should read:
>
> "Supervision will be by IFAD, with annual missions jointly with the Government of Nepal and **implementing partners** ~~Heifer~~."

Appendix III. Detailed IPRM (note – there are no changes to the inherent /residual risk rating)

Implementation Arrangement

Risk:

Inherent institutional capacity risks are high in Nepal, as evident in the recent country programme performance. If not addressed both in design and implementation, these create significant risks of substantial delays in programme delivery.

Mitigations:

Substantial measures have been incorporated into the design to mitigate these, but the effectiveness of these measure must be continuously monitored by GON and IFAD, especially in the early years of implementation, with close implementation support. Mitigation is via the planned programme implementation arrangements and choice of partners by involving ADBL and Heifer as lead partners, as well as by creating State Programme Coordination **Committees** ~~Forums~~ and Municipal Coordination **Committees** ~~Forum~~ ~~in~~ **with** each state and ~~municipality~~ local government to coordinate among stakeholders. The programme adopts a simple implementation structure, with one LPA overseeing ~~all~~ components **1 and 2 and a single MOLMAC implementing component 3**. The choice of ADBL as the LPA reduces capacity risks due to its large and capable agri-business staff, with almost 500 staff with both an agricultural and finance background and a focus on agriculture as a business. In addition, in Nepal, the existence of substantial experience and domestic cadres familiar with the specific approaches should further reduce the start-up and operational risks if ADBL can draw on this practical experience and capacity. The implementation partnership with Heifer will bring valuable additional capacity, especially on market-oriented socio-economic mobilization and producer group development. Internally, ADBL currently have a strong senior management team under a recently appointed CEO which should provide stability during the critical first 3 years as will mainstreaming VITA in ADBL structures. This senior management team has been closely involved in all aspects of VITA design. In addition, there are around US$2 million of institutional capacity-building programmes planned for ADBL and programme partners across the three Components.

Risk:

Specific capacity risks within ADBL **and implementing partners** are into two areas:

• Component 2: The programme requires the upgrading of systems and processes required for ADBL's operational capacity to cost-effectively extend its coverage and outreach to larger numbers of small-scale producer in more remote areas. The risks here could be substantial if there are large delays in upgrading the required systems and processes, as without these systems it will be difficult for the ADBL branches to adequately serve the required numbers of programme beneficiaries.

• Component 3, **State 5 MOLMAC has untested capacity for implementing ODA-funded agricultural value chain infrastructure projects** ~~ADBL itself does not have in-house experience of administering an infrastructure finance facility~~, though there is available capacity in the market in Nepal.

Mitigations:

Component 2: Mitigation for delays in the upgrading of ADBL systems and processes is through the early commencement of such upgrading plans, prior to programme effectiveness –as they also form part of ADBL's own strategic development plans. VITA includes a substantial capacity-building programme of around $1.5 million in Sub-component 2.2 to address these and other risks. In addition, IFAD ~~is expected to approve~~ **approved** an Rural Poor Stimulus Facility in Q3 2020 to accelerate this upgrading activity –both for automatic loan processing and the development and deployment of a Kishan Card and App.

Component 3 management risk mitigation will be by the ~~PMU~~ **MOLMAC PIU** contracting a small team of infrastructure professionals to manage this facility and close supervision by IFAD of procurement and technical aspects of the Component implementation.

Risk:

Coordination within and between the three tiers of government has emerged as a critical issue across multiple sectors. The risk is that this may create disjointed policies and public investment programmes between the three tiers –with potential gaps, duplications or contradictions. While VITA implementation is not within these three tiers of government, it may be impacted by a lack of coordination within the government itself.

Mitigations:

The choice of ADBL as the LPA substantially reduces the programmes direct exposure to these risks –as it is a parastatal institution with a mandate to work equally with all branches of government. ADBL regional and branch managers have good working relationship with government officials in their area, not least as ADBL has long been an important partner for agriculture development. Heifer also brings strong networks in many locations, especially with municipal governments. Additional mitigation measure for coordination risks include: establishing a State Programme Coordination **Committee** ~~Forum~~ in each state to coordinate among programme stakeholders within the state and similar **local-level** ~~Municipality~~ coordination **committees** in each municipality; signing MoUs between ADBL and each State and ~~municipal~~ **local** government for collaboration on the programme, setting out expected contributions and roles; routine participation of relevant government staff in the MSPs at corridor and hub level for each commodity, and; providing capacity-building training to state and municipality staff on key programme approaches for inclusive supply chain development to raise understanding.

Financial Management

Organization and Staffing

Risk:

• The bank has not implemented the IFAD funded project **since the 1980s**.

• The bank has qualified professional accountants in the Finance and Account Department in the Head Office. Other bank staff in the Head Office, provincial and branch offices have adequate academic qualification and experienced in the maintaining accounts.

• The existing staff of the bank will be deputed for the project and one finance assistant will be recruited for the PMU.

• The existing staff do not have experience on IFAD funded projects but they can be trained for accounting and reporting requirement of the IFAD.

• There are written job description of each accounts staff.

- **Government partner (MoLMAC) shall be executing agency for component 3 with separate Programme Implementation Unit (PIU)**

Mitigation:

• One finance **Officer** ~~assistant with~~ required qualification for the PMU will be recruited.

• The accounts staff required for the project will be deputed and they will be made accountable for the project with clear written job description and accountability lines.

• Training will be provided to the finance staff to maintain accounts and prepare AWPB, withdrawal application and financial statements as per requirement of IFAD.

- **Adequate staff with strong capacity and experience shall be recruited for MoLMA PIU**

• Project implementation manual (PIM**s**) **for LPA and MoLMAC PIU** will be developed for effective financial management with clear procedures and controls, responsibilities of the project finance staff.

Funds Flow/Disbursement Arrangements

Risk:

• ADBL has implemented one ADB funded project having imprest fund but does not have **current** experience in preparing withdrawal application.

• Foreign currency exchange risk is borne by the government.

• The ADBL does not value and account counterpart funds.

• The ADBL did not have experience in implementing such projects as it provides loan to the borrower for their projects.

- **Component 3 will be pre-financed by MoLMAC and expenditure shall be claimed to IFAD for reimbursement, submission of withdrawal application shall comply with IFAD disbursement procedures and requirement.**

Mitigations:

• The designated bank account **in US$** will be opened **and maintained in NRB** ~~for the~~ grant ~~in US$~~. Two separate project accounts for loan and grant will be opened in the ADBL in Nepalese currency. The advance of US$10 million will be provided for loan to the loan project account and amount as specified will be transferred from designated account to the grant project account.

• The designated bank account and projects bank accounts will be maintained on imprest system.

• The counterpart funds received in cash or kind valued at the prevailing market price will be accounted separately to monitor counterpart funds and project expenditures.

• IFAD loan disbursement handbook and PIM developed for the project specify disbursement procedure, requirement and interval of submission of WA.

• Training will be imparted to finance on disbursement procedures **for ADBL and Implementing Partners**

Accounting and Financial reporting

Risk:

Accounting Systems, Policies & Procedures

• There are no accounting field in the chart of accounts for components, disbursement categories, and sources of funds.

• There is no accounting manual there are Payment Procedures and Financial Administration Bylaws for financial management.

• All invoices and supporting documents are not defaced with PAID stamp in few offices.

• There is no separate fixed assets accounting system. The fixed assets register is maintained in excel spreadsheet up to date and tallied with the fixed assets register on annual basis.

• Beneficiaries contribution are not accounted.

Reporting and monitoring

- ADBL does not have practice of reporting expenses based on categories, components and funding sources.
- The financial statements are not generated in the required format by the software.
- **Consolidation of financial reports from Implementing Partner might cause delay in submission of periodical financial report to IFAD**

Mitigations:

- The existing chart of accounts will be customized to record components, disbursement categories, and sources of funds.
- The policy of accounting counterpart funds received in cash and kind will be developed to report total cost of each project activity and total project expenses.
- Training will be provided to the project staff **and Implementing Partner** in project accounting policies and procedures.
- PIMs will specify detail reporting and monitoring requirements and templates for preparing financial statements in the format consistent with IFAD reporting requirements.
- Accounting fields will be incorporated in the existing chart of account to report expenses based on components, disbursement categories, and sources of funds.
- PMU staff **and Implementing Partners** are to be trained for financial monitoring and oversight on implementing agencies.

External Audit

Risk:

- Independent Chartered Accountant firms recommended by the Office of the Auditor General (OAG) and appointed by the annual general meeting (AGM) conduct audit of the ADBL. **Component 3 will be separately audited by the Auditor General. Independent Charter Accountant will audit component 1 and 2 and issue the Consolidated Financial Report for all components (including component 3).**
- Audit of the AD**B**L is being conducted within 6 months but the AGM used to be held after 6 months.
- The audit reports were qualified for unreconciled amounts in inter-branch account.
- The auditors have issued disclaimer of opinion due to non-compliance with all provision of the Nepal financial reporting Standards in FY 2015/16 and 2016/17.

Mitigation:

- A Chartered Accountant firms appointed for the ADBL will be hired for the project to conduct external audit.
- **Auditor General will conduct the Audit for component 3 as regulated by Nepal Audit regulation for Public sector.**
- Specific requirement of IFAD will be communicated to external auditors to deliver adequate audit report.
- Conduct audit**s** for submission of audit report to IFAD within 6 months after the end of each fiscal year.
- Implementation of auditor’s recommendations.