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Nepal

Country Strategic Opportunities Programme

2021-2026

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Abbreviations and acronyms

ADBL	Agricultural Development Bank Limited
ADS	Agriculture Development Strategy
ASDP	Agriculture Sector Development Programme
ASHA	Adaptation for Smallholders in Hilly Areas Project
COSOP	country strategic opportunities programme
ICT4D	information and communications technologies for development
IFAD11	Eleventh Replenishment of IFAD Resources
KM	knowledge management
MSME	micro, small and medium-sized enterprises
PO	producer organization
RERP	Rural Enterprises and Remittances Programme
RPSF	Rural Poor Stimulus Facility
SDG	Sustainable Development Goal
SO	strategic objective
SSTC	South-South and Triangular Cooperation
VITA	Value Chains for Inclusive Transformation of Agriculture Programme

Map of IFAD-funded operations in the country



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 | 06-04-2020

Executive summary

1. Nepal's 2015 constitution introduced federalism with three tiers of government – federal, provincial and local. Together with the 2017 elections, this created much-needed stability and growth. In 2019, Nepal achieved a third consecutive year of above 6 per cent GDP growth. With COVID-19, growth projections are anticipated to decrease to 1.8 per cent in financial year 2020 and 2.1 per cent in FY 2021.
2. Prior to the COVID-19 pandemic, 8 per cent of people lived below US\$1.90 per day. However, 31 per cent lived between US\$1.90 and US\$3.20 per day and face significant risks of falling into extreme poverty due to COVID-19.
3. Nepal's Fifteenth Plan (2020–2024) (approved before COVID-19) aims for the country to graduate from least-developed to developing economy status by 2022 and achieve the Sustainable Development Goals by 2030. The road map includes the Agriculture Development Strategy and the financial inclusion road map. It envisions agriculture contributing to economic growth and contributing to improved livelihoods and food and nutrition security. Four main outcomes are envisioned: (i) improved governance; (ii) higher productivity; (iii) profitable commercialization; and (iv) increased competitiveness. Alongside these outcomes, the plan seeks to promote inclusiveness and sustainability.
4. In partnership with the government, IFAD has a comparative advantage as an agent of change for rural transformation, building on a solid record of successes that include: accelerating rural economic development in deprived areas through inclusive supply chain development; strengthening rural and community institutions; mainstreaming climate adaptation in local government and private investment plans; and expanding agricultural finance and financial inclusion for the poor.
5. The COSOP covers the 2021–2026 period and follows the 2013-2020 COSOP. It is guided by Nepal's Fifteenth Plan and the 2019 country strategy and programme evaluation, and the agreement at completion point.
6. Primary target groups are small-scale producers and workers in rural communities. The programme aims for at least 50 per cent of beneficiaries to be women and 30 per cent to be youth. A secondary target group will be producer organizations and micro, small and medium-sized enterprises active in supported supply chains.
7. The overarching goal is accelerated recovery and sustainable improvement of the incomes and nutrition of small-scale producers and the rural poor through market participation and increased climate resilience facilitated by accountable local institutions.
8. **Strategic objectives (SOs) are:**
 - SO1. Accelerated inclusive and sustainable rural economic growth and recovery through greater market participation;**
 - SO2. Improved resilience of rural communities to the impacts of climate change and to economic and other shocks; and**
 - SO3. Strengthened rural and community institutions to effectively meet development needs under the decentralized federal system.**
9. IFAD financing for the COSOP is envisaged in the range of US\$138 million to US\$177 million, expected to be on highly concessional terms. The Eleventh Replenishment of IFAD's Resources (IFAD11) allocations of US\$78.8 million for Nepal under the performance-based allocation system will be fully absorbed in the Value Chains for Inclusive Transformation of Agriculture programme. For IFAD12, high/low scenarios are assumed to be ± 25 per cent as against IFAD11 allocations.

10. To support priority areas in knowledge management, policy engagement, capacity-building and South-South and Triangular Cooperation, IFAD will seek to mobilize non-lending resources, including from its own Catalytic Initiatives Programme.

I. Country context and rural sector agenda: key challenges and opportunities

1. **Recent stability and growth upended by COVID-19.** The 2015 constitution introduced federalism with three tiers of government – federal, provincial and local. With the 2017 elections, this created much-needed stability and growth. In 2019, Nepal achieved a third consecutive year of over 6 per cent GDP growth for the first time in 50 years. However, due to COVID-19, recent projections anticipate growth to decrease to 1.8 per cent in FY 2020 and 2.1 per cent in FY 2021. Inflation has averaged 4.4 per cent since 2017 and is projected to average 6.6 per cent in the next two years. Fiscal and current account deficits are increasing significantly.
2. Poverty rates have been halved since 2010 despite seismic political change, a 7.8-magnitude earthquake and six-month border blockade with India. The 2019 poverty headcount ratio was 8 per cent at US\$1.90 per day, down from 15 per cent in 2010. However, 31 per cent of people live between US\$1.90 and US\$3.20 per day and face significant risks of falling into extreme poverty as a result of COVID-19. Multi-dimensional poverty rates are around four times higher in rural areas than urban areas. Provinces 2 and 5 are home to the most poor people. Karnali Province has the highest poverty headcount rate.
3. Remoteness and lack of connectivity have been key drivers of poverty in the hills and mountains. This is being tackled by expansion of road and telecommunications networks linking producers to markets, and by leveraging comparative advantages in livestock and counter-seasonal crop production (e.g. vegetables and seed potatoes). In the Terai lowlands, poverty is driven by high levels of landlessness and lack of employment opportunities outside agriculture. Other problems include fragmented farms, limited irrigation and mechanization, and lack of improved seeds and fertilizers leading to declining competitiveness of Nepalese cereals, pulses and oilseeds against subsidized Indian producers.
4. Agriculture, the second-biggest sector after services, is dominated by small-scale but increasingly market-oriented producers. Contributing 28.9 per cent to gross value added in 2019 (down from 38 per cent in 2000) agriculture is 97 per cent domestically oriented. Growth averaged 3.1 per cent between 2009 and 2019 (versus 4.6 per cent GDP growth) and is projected to average only 2.4 per cent through 2021, versus 5.1 per cent in 2019. The trade deficit in food and agriculture is large and increasing. Despite low labour productivity, 11.7 million working-age people (56.5 per cent of the working-age population) are involved in agriculture. Small-scale producers are increasingly market-oriented, with 52 per cent selling to market: three quarters of them sell the majority of their produce. Varied agroclimatic zones create profitable opportunities to meet market demand. Forests cover 25 per cent of all land and remain valuable sources of livelihoods. Remittances, a lifeline for many rural households, are used for consumption, savings and productive investments. Remittances and agriculture accounted for a similar share of GDP prior to COVID-19. Of Nepal's 28.6 million people, 80 per cent live in rural areas.
5. **Land.** Poverty in Nepal is correlated to landholdings. Past reforms had little success in equalizing holdings, reducing landlessness or improving tenure security. There are around 1.3 million landless and land-poor households. Women own land in only one in five households. The 2020 Lands Act offers improved opportunities for women and youth to secure land rights.
6. **Climate** projections indicate increasing seasonal variations in temperature and precipitation. Impacts include: increased diseases and pests; greater intra-year rainfall variability; and a small increase in warm days. Water-efficient production and irrigation are increasingly important. Farming of lower-value rainfed crops such

as cereals will become an ever more marginal source of livelihoods for small farmers.

7. **Youth** aged 15–29, represent around 33 per cent of Nepal’s population and 52 per cent of working-age people. Due to migration, however, they represent only 25 per cent of the rural population. Young people face challenges in education, civic engagement and unemployment. Economic opportunities are constrained by lack of business skills, financial literacy and capital. Challenges for young women are more pronounced, not least because 36 per cent of women have their first child before the age of 18.
8. **Gender and social inclusion.** With a 2019 Gender Inequality Index score of 0.476, Nepal ranks 115 out of 162 countries. Despite a narrowing gender gap, discrimination persists and results in women having scarce access to land, capital and assets. However, widespread migration has led to an increased feminization of agriculture.
9. **Nutrition.** Prevalence of stunting fell from 57 to 36 per cent between 2001 and 2016. High prevalence of adolescent pregnancies and underweight teens is a disturbing trend. Adolescent pregnancy is associated with a 50 per cent increased risk of stillbirth and neonatal death, and increased risk of low birth weight and maternal mortality. Young women should be a priority in the programme for unlocking issues of gender, youth and nutrition.

II. Government policy and institutional framework

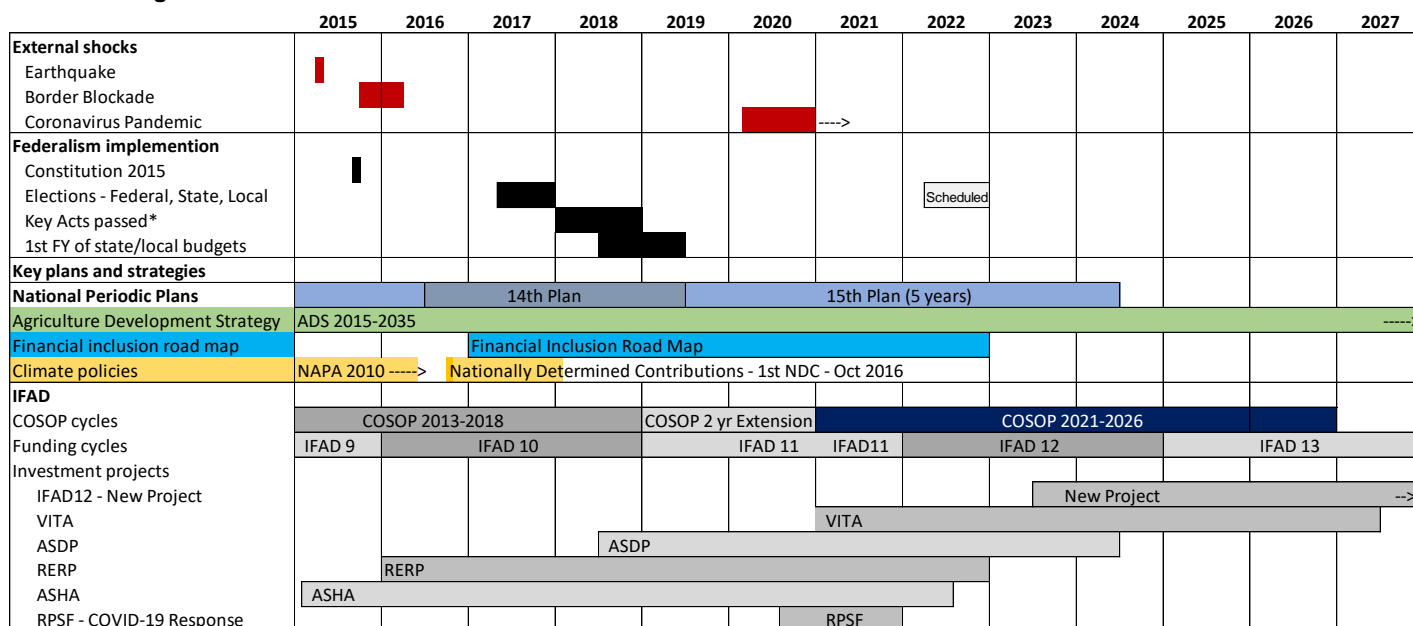
10. **Nepal’s Fifteenth Plan** (2020–2024) (approved before COVID-19) aims to reach developing-country status by 2022 and achieve the Sustainable Development Goals (SDGs) by 2030. The Plan sets a target of 9.6 per cent for annual economic growth, including 5.4 per cent for agriculture. With COVID-19, agriculture is increasingly important for rural recovery, absorption of returning workers, food security and economic growth.
11. **The Agricultural Development Strategy (ADS)** was approved in 2015 with broad donor support under the former unitary government system. Its vision is of “a self-reliant, sustainable, competitive and inclusive agricultural sector that drives economic growth and job creation, and contributes to improved livelihoods and food and nutrition security”. Four outcomes are projected: (a) improved governance, (b) higher productivity; (c) profitable commercialization; and (d) increased competitiveness. The ADS also promotes: (i) inclusiveness (social and geographic); and (ii) sustainability (natural resources and economic). The ADS’s Action Plan includes development of a gender and social inclusion strategy for agriculture. This promotes capacity-building of target groups for their meaningful participation in decision-making processes.
12. **Agriculture under federalism.** The constitution assigns few functions exclusively to federal government intervention, including major irrigations projects, land and water use policy, and quarantine. Many powers are assigned across multiple government tiers, leaving it unclear where responsibilities lie. For such concurrent powers, the principle of subsidiarity prevails, meaning the lowest government tier capable of performing a function should do so.
13. Public agriculture expenditure remains dominated at federal level (82.5 per cent) while the provinces’ and local government’s share respectively is 15.2 per cent and 2.1 per cent (2019–2020). Continuing dominance of federal expenditure contradicts the substantially devolved nature of the sector in the constitution and the principle of subsidiarity. The new structures are widely acknowledged to lack coordination and to be top-heavy, while agricultural units at local government level are often short of staff.

14. **The Monetary Policy 2020–2021 focuses on expanding credit to agriculture**, energy, tourism, and micro, small and medium-sized enterprises (MSMEs) for economic recovery from COVID-19. It requires commercial banks, accounting for 87 per cent of total assets/liabilities of the formal financial system, to invest at least 15 per cent of total credit in the agriculture sector by July 2023 and 15 per cent in MSMEs. Nepal Rastra Bank’s concessional credit programme is being simplified to widen coverage and promote productive activity. Agricultural Development Bank Limited (ADBL) is promoted as the lead bank to facilitate agricultural credit. ADBL will be allowed to issue agricultural bonds for long-term financing to the sector.
15. **The financial inclusion road map** aims to increase financial inclusion from 61 to 75 per cent with measures including unlocking constrained credit and savings markets.
16. **Nepal’s National Determined Contribution** (2016) focuses on: formulation of its National Adaptation Plan; strengthening implementation of environment-friendly local governance frameworks to complement climate change adaptation; promoting renewable energy technologies, water conservation and greenery development; implementing adaptation strategies for climate change-affected sectors; reaching 80 per cent electrification through renewable energy technologies; and maintaining 40 per cent forest area. While local adaptation plans of action have been supported by several projects, the framework is yet to be scaled up nationally. Capacity of local governments needs to be enhanced to mainstream mitigation and adaptation activities.

III. IFAD engagement: lessons learned

17. IFAD has three ongoing projects, and one recently approved, that are fully aligned with the Government’s rural and agricultural development strategies (Figure 1).

Figure 1
Strategic timeline



*Key acts include: i) National Natural Resources and Fiscal Commission; ii) Intergovernmental Fiscal Arrangements; iii) Local Government Operations

18. The COSOP is guided by Nepal’s Fifteenth Plan and the 2019 Nepal country strategy and programme evaluation (by the Independent Office of Evaluation of IFAD) and incorporates the recommendations made in the agreement at completion point (AAC). Lessons learned are presented below.

19. **Support to the federal system.** The AAC recommends supporting local governments in promoting rural development. Reflected in strategic objective 3, the COSOP will support provincial and local governments, building on positive experiences of the Agriculture Sector Development Programme (ASDP) and the Rural Enterprises and Remittances Programme (RERP).
20. **Continue support to agricultural value chain development with renewed emphasis on inclusiveness,** given positive results from the previous COSOP.¹ The COSOP, through RERP, ASDP and the Value Chains for Inclusive Transformation of Agriculture Programme (VITA), will scale up these successful approaches with focus on: (i) graduation approaches to ensure poor and vulnerable individuals can benefit from the programme by working with more able neighbours; (ii) affordable investment pathways for small-scale producers to grow their farm businesses without dependence on grants; and (iii) widespread provision of affordable finance via supply-side financial inclusion measures.
21. **Reintroduce funding support to community development, basic infrastructure and services.** The COSOP supports: (i) small-scale community infrastructure, including farm access roads, small irrigation and multi-use water infrastructure; and (ii) widespread financial literacy and business skills-training to empower small-scale producers.
22. **Integrate natural resource management and climate change adaptation in all project designs.** The COSOP mainstreams climate resilience, leveraging the experience from the Adaptation for Smallholders in Hilly Areas Project (ASHA), including: (i) screening supported commodities for potential exposure to climate change-related risks with mitigation strategies for small-scale producers; (ii) completing carrying capacity assessments in potential livestock production locations prior to interventions, and excluding expansion to unsustainable levels; and (iii) mainstreaming consideration of climate change into private investment decisions by producers, MSMEs and banks.
23. **Strengthen partnerships for specialized technical support and cofinancing.** ASDP and RERP encompass such partnerships with the Swiss development organization Helvetas. The VITA programme includes a technical implementing partner alongside its partnership with ADBL.
24. **Enhance portfolio management and implementation preparedness.** A key issue in the portfolio has been slow project start-up, diminishing wider programme credibility on which policy engagement is built. The COSOP completion review attributed the delay to disjointed project designs and lack of continuity between design and start-up, exacerbated by a challenging government administrative context in recent years. The COSOP addresses this by: (i) substantive technical engagement in project design by lead project agencies; (ii) greater continuity in teams between design and early years of projects from government and IFAD; (iii) integration of projects within a country programmatic approach; and (iv) having fewer but larger projects enabling closer supervision and support with available IFAD resources. These principles are reflected in the VITA programme, designed to complement ongoing projects (ASDP, RERP) providing credit to their beneficiaries and sharing substantive core approaches.
25. Grants for small-scale producer investments are not needed for inclusive growth in the current Nepal context, as RERP demonstrates. In line with government policy, COSOP eschews widespread use of grants in favour of affordable loan finance combined with the promotion of affordable investment pathways and graduation processes for poorer producers. By providing loan finance to beneficiaries in ASDP and RERP, the VITA programme will accelerate this transition. A small volume of targeted grants may be used where no credible alternative exists and where the

¹ High-Value Agricultural Project in Hill and Mountain Areas, Impact Assessment Report, 2018.

purpose is clear: e.g. enabling highly vulnerable women to take advantage of mainstream development opportunities.

26. Strategic knowledge management and country-level policy engagement has been ad hoc, limiting project successes from translating into wider systemic change and policies. This will be addressed through: (i) maintaining a strongly performing portfolio of projects and monitoring and evaluation systems; (ii) establishing a strategic knowledge management (KM) framework across the country programme; and (iii) implementing a country-level policy engagement plan. This should build on commitments in IFAD's new KM strategy.

IV. Country strategy

A. Comparative advantage

27. IFAD's comparative advantage builds on its combination of proven capacities, which include: accelerating rural economic development in deprived areas through inclusive supply chain and skills development; strengthening rural institutions; mainstreaming climate adaptation in local government and private investment plans; and expanding financial inclusion and rural finance. Successes working with new municipalities in ASDP and RERP are further advantages.

B. Target group and targeting strategy

28. Target groups are:
- (i) Poor, small-scale producers and workers in rural communities. The programme aims to ensure that more than 50 per cent of beneficiaries are women and 30 per cent youth. Dalits, Janajatis and other disadvantaged groups will be proactively targeted.
 - (ii) Producer organizations (POs) and MSMEs in supported supply chains.
29. Within this, two specific vulnerable groups will be supported with extra measures, including household methodologies:
- (i) Young women, who often have low nutritional status, high levels of teenage childbirth and are economically disempowered because of limited skills, powers of decision making and access to resources to build their own livelihoods.
 - (ii) Married women whose husbands are working overseas and who live with their husbands' families. These women may have limited control over the incomes and remittances earned by their husbands and have low status within their in-laws' household.
30. Targeting strategy will combine geographic targeting with self-targeting measures in provinces and rural municipalities with the highest poverty rates and largest numbers of poor. Self-targeting measures include: (i) supporting commodities that have credible market opportunities and where poor small-scale producers can profitably compete (e.g. vegetables, goats, fish); (ii) creating affordable investment pathways and financing plans for small-scale producers – which means starting with a small initial investment followed by a series of increasing investments over multiple production cycles each gradually increasing scale and profitability of their business; and (iii) small loan sizes. To ensure that people who live far from roads can benefit, the strategy will also target commodities that can be produced and transported over several hours on foot e.g. goats, honey, essential oils. Enabling measures include graduation strategies linked to inclusive POs, building on positive experiences in RERP and HVAP, and expanding pluralistic local service markets supporting producers. Empowering and capacity-building measures include business skills-training for POs and individuals to operate effectively in their chosen markets and participate in planning and decision-making.

C. Overall goal and strategic objectives

31. The COSOP supports the Government's development objectives in the Fifteenth Plan and COVID-19 pandemic recovery. It contributes to SDGs 1 (Poverty), 2 (Hunger), 5 (Gender), 8 (Decent work), 10 (Inequalities), 13 (Climate) and 15 (Life on land). It is aligned with the United Nations Socio-Economic Recovery Framework (UNSERF) pillars 3 (Economic response), 4 (Multilateral collaboration) and 5 (Social cohesion and resilience).

32. The COSOP goal is accelerated recovery and sustainable improvement of the incomes and nutrition of small-scale producers and the rural poor through market participation and increased climate resilience facilitated by accountable local institutions.

33. Strategic objectives are:

SO1. Accelerated inclusive and sustainable rural economic growth and recovery through greater market participation;

SO2. Improved resilience of rural communities to the impacts of climate change and to economic and other shocks; and

SO3. Strengthened rural and community institutions to effectively meet development needs under the decentralized federal system.

Theory of Change

34. Poor and vulnerable households in the hills and mountains could benefit from good opportunities in many higher-value products but face the challenges of lack of market participation and limited access to suitable production technologies and finance. In the more populous Terai, livelihoods are constrained by scarce non-farm, unskilled employment opportunities and declining competitiveness of lowland crops. The expected impacts of climate change, especially greater intra-year rainfall variability, require farm-level adaptation investments and diversification away from rainfed production. Delivery of public services and investments is inefficient and insufficient to meet the needs of small-scale producers and communities.

35. Inclusive rural growth will be facilitated by accelerating the growth of competitive, inclusive supply chains in and beyond agriculture. These include agroforestry and non-timber forest products, in which small-scale producers can compete and which create decent jobs. Such growth can be delivered by scaling up best practices from the country programme, including market-first, cluster-based approaches accompanied by graduation strategies – with local networks of competing buyers and service providers dealing with multiple inclusive POs through formal and ad hoc trading relationships. This will be complemented by expansion of agricultural and climate finance, and financial inclusion. Remittances are an important enabler of financial inclusion and will be leveraged: (i) by supporting expansion of digital remittances and other financial services linked to remittances; and (ii) by enhancing remittances-related services from partner banks, micro-finance institutions, cooperatives and Fintech providers.

36. Investment projects will emphasize: women's empowerment, leadership and labour productivity (also addressing workload); tackling specific barriers to youth; including the poorest and most vulnerable through graduation approaches and household methodologies; raising awareness of land rights, especially for women; and addressing issues of nutrition, especially for young women and children. A focus on affordable investment pathways for small-scale producers accompanied by access to affordable finance will enable wider scaling up. These measures will accelerate recovery from the COVID-19 pandemic.

37. Greater resilience to shocks and longer-term risks, especially climate change, will help secure impacts by:

- (i) Improving resilience of production systems through substantial expansion of private investment in climate adaptation; tackling supply- and demand-side constraints on investments by producers and MSMEs; complimented by promoting targeted public investment in climate-adapted infrastructure and services to enhance resilience to climate change;
 - (ii) Diversifying incomes in communities, supporting job creation and skills development beyond agriculture; and
 - (iii) Encouraging uptake among rural communities of savings, insurance and long-term investment products to increase recovery capacity (e.g. remittance-linked savings, private pensions for workers – as being developed by Citizens' Investment Trust with RERP).
38. Deepening networks of rural institutions under the federal system will strengthen the foundations for rural transformation and sustained inclusive growth. This will include direct capacity-building of POs, local and provincial governments, and private sector bodies. Good practices and policy measures will be developed with progressive local and provincial authorities before advocating for wider adoption. Strengthened POs will increasingly engage in policy processes, including through multi-stakeholder platforms.
39. Climate adaptation priorities include mainstreaming adaptation considerations into private investment and locally driven adaptation and resilience plans. The programme will significantly improve local supply of nutritious foods and increase financial resources of families so they can buy additional food. Nutrition awareness will be mainstreamed via enhanced business skills-training to producers, support to nutrition gardens and also via household methodologies. All projects focus on women's empowerment, leadership, labour productivity and use of time. Measures supporting youth include skills-training and job placement, promotion of modern agriculture as a desirable career with actions to improve access to land and finance.
40. Building on recent progress, information and communications technologies for development (ICT4D) will play an enabling role. Priorities include: (i) expert advisory apps and tools for technical service providers and producers; (ii) geospatial mapping and planning tools for municipal and provincial authorities; (iii) expansion of rural digital financial services in coverage and scope; and (iv) expanded use of both digital and non-digital farm diaries to facilitate links with banks and financial institutions.
41. In line with mainstreaming commitments under the Eleventh and Twelfth Replenishments of IFAD's Resources (IFAD11 and IFAD12), the programme includes climate finance and will be gender-transformational and nutrition- and youth-sensitive. All four commitments have been validated as addressed by the VITA programme. This will be the template for further mainstreaming.

D. Menu of IFAD interventions

42. **Loans and grants.** Four investment projects will be implemented during the first half of the COSOP. Three projects (ASDP, RERP, VITA) apply a common core of best practices concerning inclusive local economic development, strengthening of rural institutions, resilience and financial inclusion. Together, they cover 180 of all 460 rural municipalities (40 per cent). These are complemented by ASHA, which is demonstrating implementation of local adaptation plans of action and developing tools for climate-screening of public and private investment and local participatory planning processes. One additional loan project is envisaged under IFAD12, to be designed around COSOP midterm.
43. Opportunities for grants in support of COVID-19 recovery will be pursued, building on the recent Rural Poor Stimulus Facility (RPSF) grant. Partnerships and grants will be sought for:

- (i) South-South and Triangular Cooperation (SSTC) – especially regarding municipal administration in devolved government and climate-smart agriculture;
 - (ii) Strategic knowledge management for policy engagement;
 - (iii) Strengthening farmers’ organizations at provincial level for policy engagement, building on the success of the Medium-term Cooperation Programme with Farmers’ Organizations (MTCP2).
44. Priority will be given to mobilizing resources from the Green Climate Fund, with cofinancing from IFAD12 and IFAD’s private sector window. Project interventions will focus on enhancing the climate resilience of farmers and ecosystems.
45. **Country-level policy engagement**, KM and institutional capacity-building are integrated processes for delivering systemic change. There will be a continuous cycle of: (i) partnerships with progressive local and provincial governments to develop best-practice models; (ii) gathering evidence, including costs and benefits, and refining the models; (iii) policy engagement with other local and provincial governments for replication; and (iv) capacity-building of institutions. The entry point is an integrated set of policies and practices for resilient local economic development that scales up existing project practices on: (i) joint public- producer-private planning processes for local economic development, such as multi-stakeholder platforms (RERP, ASDP); (ii) participatory planning for local adaptation (ASHA); (iii) community-managed agricultural extension (ASDP); (iv) migration and employment (RERP); and (v) new activities on implementation of the Lands Act and land administration at local level.
46. Policy engagement will have strong local and provincial dimensions. Engagement will be closely linked to investment projects since each municipality and province is a policy-making body in its own right. Strengthening POs and establishing sustainable multi-stakeholder platforms will bring the voices of beneficiaries into policy processes, as in MTCP2.
47. Additional policy focus will be on financial inclusion and expansion of rural digital financial services. Policy engagement will link federal-level dialogue, e.g. regulations for e-banking, digital remittances and e-wallet services, with local-level engagement, e.g. credit cooperative supervision and financial and digital literacy programmes.
48. **Capacity-building** will include local and provincial governments, POs and local private sector bodies and service providers in supported subsectors. With local and provincial governments, this will present practical models for sustainable public services delivery e.g. agricultural extension and migrant, returnee and employment services. It will build capacity in government, the private sector and POs for effective policy dialogue.
49. **Knowledge management** will be structured in defined workstreams to include:
- SO1. Expanding pluralistic agricultural extension services; inclusive markets and local economic development processes; and agrifinance, rural financial inclusion and remittances;
 - SO2. Mainstreaming climate resilience in private investment; carrying out capacity/climate-proofing assessments in local planning; and mainstreaming local adaptation plans of action in local planning;
 - SO3. Public-private-producer partnerships and participatory planning processes for climate-resilient inclusive local economic development; geospatial mapping and planning tools for local authorities; sustainable models for public service delivery by municipalities; and local land administration.

50. **South-South and Triangular Cooperation** will have inbound and outbound dimensions. The programme has been a generator of good practices on inclusive market development and some ICT4D projects, and will expand efforts to share these. Inbound cooperation priorities include:
- (i) Local administration and service delivery in devolved systems;
 - (ii) Climate-smart agricultural practices – including via the grant entitled Consortium for Scaling up Climate-Smart Agriculture in South Asia, led by the South Asian Association for Regional Cooperation’s Agriculture Centre;
 - (iii) ICT4D tools; and
 - (iv) Digital rural financial services.
51. **Communication and visibility** will have two objectives: communicating credible economic and resilience opportunities to rural communities from real success stories to drive crowding in; and informing local and provincial governments of good practices and policy options relevant to their objectives. Wider visibility will ensue from this and the KM workstreams.

V. Innovations and scaling up for sustainable results

52. **Innovation** will include: (i) transition to loan-based financing for private investments by small-scale producers and MSMEs; (ii) large-scale mobilization of domestic private cofinancing from banks, businesses and beneficiaries, (iii) ICT4D-enabled product and service innovations; and (iv) institutional arrangements to adapt to federalism.
53. **Scaling up** is central to the COSOP, adopting a programmatic approach in support of government priorities. It ramps up best practices from recent country experience in inclusive market development; and it substantially advances best practices in new areas, including agricultural and adaptation finance (replacing grant financing), and institutional implementation arrangements under federalism, learning from ASDP and RERP. These will be implemented by investment projects in five of seven provinces and around 40 per cent of rural municipalities, providing the platform for wider systemic changes. The scaling-up agenda is enhanced by the ADBL partnership given its nationwide role in agricultural finance. Expected partnerships with other banks and financial institutions will support further expansion of agriculture and adaptation finance.

VI. COSOP implementation

A. Financial envelope and cofinancing targets

54. IFAD COSOP financing is envisaged in the range of US\$138 million to US\$177 million, on highly concessional terms, within a total funding envelope in the range of US\$300 million to US\$450 million. IFAD11 allocations of US\$78.8 million for Nepal will be absorbed in the VITA programme. IFAD12 high/low scenarios are assumed to be ± 25 per cent as against IFAD11 allocations.
55. Cofinancing is expected around a ratio of 1:1.15, ranging from 1.0 to 1.3, of which 50 per cent domestic and 50 per cent international. Domestic cofinancing is expected from government, banks, the private sector, and cash and in-kind beneficiary contributions. Cofinancing opportunities will be explored with the Asian Development Bank (ADB), European Investment Bank and Green Climate Fund, including private sector windows. Opportunities will be explored under IFAD’s private sector window and enhanced Adaptation for Smallholder Agriculture Programme (ASAP+), potentially leveraging external climate cofinancing.

Table 1
IFAD financing and cofinancing of ongoing and planned projects
(Millions of United States dollars)

Project	IFAD financing	Cofinancing		Cofinancing ratio
		Domestic	International	
Ongoing				
RERP	20.1	14.0	-	0.7
ASHA	25.0	12.7		0.5
ASDP	40.0	28.1		0.7
RPSF	0.5	-	-	-
VITA	97.7	93.2	6.0	1.0
Planned				
Project-IFAD12	80.0	54.0	54.0	1.35
Total				1:1.15

B. Resources for non-lending activities

56. IFAD's multi-donor Financing Facility for Remittances is expected to continue enhancing remittances as enablers of financial inclusion and investment. IFAD's Catalytic Initiatives Programme of grants will be leveraged where possible to provide support to SSTC, policy engagement and strategic communication as above.

C. Key strategic partnerships and development coordination

57. Key partnerships for all strategic objectives are with around 180 municipalities, five provinces and the federal Government with which investment projects will partner. The partnership with ADBL provides opportunities for scaling up cofinancing and policy engagement.
58. The programme will deepen collaboration with the German development agency GIZ on resilient local economic development and strengthening rural institutions and agricultural insurance, and with ADB on policy engagement and potential cofinancing of a joint project under IFAD12. Opportunities for cofinancing will also be explored with the European Investment Bank and climate funds including the Green Climate Fund and Adaptation Fund, and other development partners, including for scaling up private investment in climate adaptation.
59. Technical partnerships will be continued with leading international organizations such as Helvetas and Heifer International on skills and employment, agricultural extension and inclusive market development, among other areas.
60. The programme supports the UNSERF. Key partnerships will include: (i) Food and Agriculture Organization of the United Nations (FAO), World Food Programme (WFP) and UN Women through the Joint Programme on Accelerating Progress towards the Economic Empowerment of Rural Women (JP-RWEE) to scale up gender action learning system approaches; (ii) FAO's Building a Resilient Churia Region in Nepal project, with VITA offering market linkage and investment finance opportunities to its supported POs; (iii) WFP, expanding a series of collaborations including leveraging WFP nutrition expertise when developing interventions; (iv) International Organization of Migration to continue improvement of services to migrant workers and households, and (v) UN Habitat to move forward on rural land issues. IFAD will continue contributing to the development partners' food security group.

D. Beneficiary engagement and transparency

61. **Beneficiary engagement** is already strong in all projects (RERP, ASHA, ASDP). These are the template for the COSOP, for example, with regular beneficiary feedback via regular multi-stakeholder platforms setting project priorities.

62. **Transparency.** All projects will document and disseminate regular information on their performance, financial reports, outreach and results, and operate transparent feedback and grievance mechanisms.

E. Programme management arrangements

63. The country programme is managed by the Country Director, based in India, supported by the Country Programme Officer in Kathmandu, and the South Asia Regional Hub.

F. Monitoring and evaluation

64. Results and indicators in the COSOP results framework (appendix I) are aligned with IFAD's core indicators and Operational Results Management System. Monitoring of results is through project monitoring systems. Each project will report its contributions to COSOP targets annually. Monitoring and management information systems will be harmonized around good practices, especially for projects adopting the common core approach. Monitoring systems for supported public service will be established jointly with the relevant agencies. Widespread use of ICT and tablets for data collection and analysis, including by beneficiaries linked to farm business diaries, will improve quality, timeliness and scope of data available.

VII. Risk management

Table 2
Risks and mitigation measures

<i>Risks</i>	<i>Risk rating (inherent)</i>	<i>Mitigation measures</i>
Political/governance	Moderate	Engagement with elected governments at all three tiers, building broad ownership and alignment Support effective implementation of federalism Select appropriate project implementing agencies
Macroeconomic	High	Mobilize substantial private sector/banks and financial institutions' financing Reduced reliance on grant to lessen cost to public sector per beneficiary Focus on higher/return commodities
Sector strategies and policies	Low	Policy framework is favourable
Institutional capacity	High	Careful selection of project implementation agencies Substantial capacity-building within projects Close implementation support, especially in early years
Portfolio	Moderate	Scaling up good practices within a programmatic approach to reduce technical risks Address slow start-up in new projects
Fiduciary – financial management ²	Substantial	Training to Supreme Audit Institutions on IFAD auditing and reporting Financial management consultants provide continuous support to government finance staff Explore opportunity of utilizing government accounting software for IFAD reporting purpose to improve the accuracy and timeliness of interim and annual financial statements
Fiduciary – procurement	Moderate	Training project procurement staff Regular supervision by the Government of Nepal/IFAD on procurement practices
Environment and climate	High	Inherent climate change risks are high and well documented. Careful design of projects can largely mitigate these risks. Measures include: <ul style="list-style-type: none"> • Support diversification within and beyond agriculture • Increase access to climate-resilient technologies/advice • Provide insurance/loans for adaptation investments

² Refer to appendix X.

		<ul style="list-style-type: none"> Invest in multi-use water systems and small-scale irrigation to reduce risks from water shortages Upgrade roads for year-round access
Social	Low	<p>General social risks to/from the programme are low as seen in the recent COSOP</p> <p>Child labour: children in Nepal engage in agriculture</p> <ul style="list-style-type: none"> IFAD-funded projects will comply with international labour standards and assess and address potential risks of child labour in agriculture Increasing household incomes and returns on adult labour reduces financial pressures on families to use agricultural child labour
COVID-19	High	<p>Impact of pandemic is highly uncertain but substantial. Partial mitigation via:</p> <ul style="list-style-type: none"> Expanding rural finance coverage supporting adaptive investments, including via RPSF grant Support reintegration services for returning migrants Focus on higher return commodities/employment, mostly for domestic market, reducing exposure to supply chain disruption Graduation approaches and affordable investment pathways to expand coverage/reach Regularly review/adjust measures
Overall	Moderate	

COSOP results management framework

Country strategy alignment	Related SDG and UNSERF /UNDAF outcomes	Key COSOP results			
		Strategic objectives	Lending and non-lending activities for the COSOP period	Outcome indicators ³	Milestone indicators
	Goal: Accelerated recovery and sustainable improvement of the incomes and nutrition of small-scale producers and the rural poor through market participation and increased climate resilience facilitated by accountable local institutions.				
<p>Federalism</p> <ul style="list-style-type: none"> 2015 constitution National Natural Resources and Fiscal Commission; Intergovernmental Fiscal Arrangements Act Local Government Operations Act <p>15th Periodic Plan Key Targets by 2023</p> <ul style="list-style-type: none"> GDP growth +10% Poverty reduced to 9.4% <p>Agriculture:</p> <ul style="list-style-type: none"> Agriculture growth 5.4% p.a Sustainable, competitive and prosperous agriculture <p>Financial inclusion</p> <ul style="list-style-type: none"> increasing the outreach and bank and financial institutions, enhance resource availability to priority sectors <p>Agriculture Development Strategy 2015-2035 Pillars:</p> <ul style="list-style-type: none"> Improved governance of agriculture Competitiveness and Commercialization Inclusive growth 	<p>SDG1 Poverty SDG2 Hunger SDG8 Economic growth SDG5 Gender SDG10 Inequality SDG15 NRM – land degradation</p> <p>UNSERF Pillar 3: Economic response and recovery</p> <p>Pillar 5: Macro-economic and multilateral collaboration support measures (especially private sector collaboration)</p> <p>UNDAF Pillar 1: Sustainable and Inclusive Economic Growth</p> <p>UNDAF 2022 targets contributed to:</p>	<p>SO1: Accelerated inclusive and sustainable rural economic growth and recovery through greater market participation</p>	<p><u>Lending/investment activities</u></p> <ul style="list-style-type: none"> Ongoing <ul style="list-style-type: none"> ASDP RERP VITA IFAD12 New project <p><u>Non-lending/non-project activities</u></p> <ul style="list-style-type: none"> CLPE <ul style="list-style-type: none"> Focus as local/province level Combining institutional strengthening, ICT4D -enabled tools and demonstration of participatory policy development processes to coordinate public and private investment e.g. informed by MSPs Engagement related to rural economic transformation including diversification within and beyond agriculture Partnerships: <ul style="list-style-type: none"> Government: Federal, province and local Municipalities and Province Co-financing: ADBL, Heifer International Technical: Helvetas, Heifer International, FAO (incl. Building a Resilient Churia Region in Nepal Project), GIZ on policy/ Local and Provincial Economic Development 	<p>Number of individual small-scale producers increasing their real net farm income by at least 60%: ASDP: 26 000 RERP: 8 000 VITA: 70 000 Total: 104 000</p> <p>No. of individuals achieving a return on labour of at least 125% of official minimum wage in supported farm and non-farm enterprises within 4 years of project support VITA: 56 000 ASDP: 28,000 RERP: 10 000 Total: 66 000</p> <p>Percentage of women in genuine leadership roles of producer organizations > 50% whole programme</p> <p>IE.2.1 Individuals demonstrating an improvement in empowerment: ASDP: tbd% RERP: tbd% VITA: tbd% {Target to be determined after baseline in VITA with new indicator}</p>	<p><u>a) Inclusion & nutrition</u> Women's participation rate and share of programme benefits >50% whole programme</p> <p>Youth participation rate and share of programme benefits >30% whole programme</p> <p>2.1.4 Supported rural producers that are members of a rural producers' organization regularly represented in MSPs, business-to-business events and similar processes: ASDP: 35 000 RERP: 10 000 VITA: 90 000 Total: 135 000</p> <p>1.1.8: Households provided with targeted support to improve their nutrition. ASDP: 24,000 RERP: 10 000 VITA: 70 000 Total: 104 000</p> <p><u>b) Economic growth & private investment</u> Increase in total revenue from product and services sold by supported small-scale producers (in real terms) ASDP: 50% RERP: 40% VITA: 40%</p> <p>Private investment in priority supply chains by small-scale producers, POs and businesses facilitated by programme (US\$). ASDP: US\$ 10 million RERP: US\$ 4 million</p>

³ All people-indicators will be disaggregated by gender, age and socio-ethnic group

Country strategy alignment	Related SDG and UNSERF /UNDAF outcomes	Key COSOP results			
		Strategic objectives	Lending and non-lending activities for the COSOP period	Outcome indicators ³	Milestone indicators
<ul style="list-style-type: none"> Flagship programme on value chains <p>Financial inclusion road map</p> <ul style="list-style-type: none"> increasing financial inclusion from 61% to 75% unlocking constrained credit and savings market, improving payment systems, bolstering risk-mitigation capabilities, enhancing and leveraging locally based financial service providers, leveraging remittances to promote financial services, promoting digital financial services, including remittances, at the last mile, enhancing financial inclusion support in the national governance, and strengthening consumer empowerment, protection and education. <p>Climate change adaptation</p> <ul style="list-style-type: none"> Nationally Determined Contribution National Adaptation Plan of Action / Local Adaptation Plans of Action National Climate change policy (2019) <p>Job creation</p>	<ul style="list-style-type: none"> Proportion of population living below the national poverty line <i>Baseline: 21.6% (2017)</i> <i>Target: 13.8%</i> Employed people living below USD 1.25 per day in total employment <i>Baseline: 22%</i> <i>Target: 12.2%</i> Average hours spent in domestic work by women <i>Baseline: 14 hours per day</i> <i>Target: 10.27 hours per day</i> Share of bottom 40% in total income <i>Baseline: 11.90%</i> <i>Target: 15%</i> Households with inadequate food consumption <i>Baseline: 15.50%</i> <i>Target: 10.50%</i> 		<ul style="list-style-type: none"> UN –inclusion: with FAO, WFP, UN Women – building on Joint Project for Rural Women’s Economic Empowerment (JP-RWEE) UN – migration: IOM Banks/FIs: ADBL, SKBBL, Citizens Investment Trust SSTC <ul style="list-style-type: none"> Nepal as generator of good practice on inclusive market development and some ICT4D-> share knowledge and support to other countries with similar projects (Cambodia, Eswatini, Uganda etc) ICT4D tools Knowledge management, workstreams to include:: <ul style="list-style-type: none"> expanding pluralistic agricultural extension / CAESC services, inclusive markets and local economic development processes and tools agri-finance and rural financial inclusion, including digital rural financial services 	<p>1.2.8 Percentage of women reporting minimum dietary diversity (MDDW)</p> <p>ASDP: 70%</p> <p>RERP: 70%</p> <p>VITA: 90%</p> <p>80% of the small-scale producers effectively accessing agricultural advisory services at <u>ward level</u> of rural municipalities. (ASDP)</p> <p>Direct contribution is made to achieve ADS’s objective of developing a pluralistic community-owned & managed Agricultural Extension Service Centres (CAESCs) for scaling-up in the rest of the country.</p>	<p>VITA: US\$ 200 million</p> <p>Total: US\$ 214 million</p> <p>Small-scale producer trained in business skills, including climate considerations.</p> <p>ASDP: 35,000</p> <p>RERP: 10,000</p> <p>VITA: 90,000</p> <p>Total: 135,000</p> <p><u>c) Technical & financial service markets:</u></p> <p>Small-scale producers in supported PO who have in last 12 months:</p> <p>a) paid for or received embedded satisfactory technical services from commercial service providers, agribusinesses or POs.</p> <p>RERP: 50%</p> <p>VITA: 50%</p> <p>b) received satisfactory technical services facilitated or delivered via pluralistic public extension agencies</p> <p>ASDP: 80%</p> <p>1.1.6 Financial service providers (FSP) supported in delivering outreach strategies, financial products and services to rural areas</p> <p>ASDP: 20 FSPs</p> <p>RERP: 150 FSPs</p> <p>VITA: 20 FSPs</p> <p>Total: 190 FSPs</p>
	<p>SDG13 CC</p> <p>SDG6 Water</p> <p>SDG9 Infra.</p> <p>SDG15 NRM – land degradation</p> <p>UNSERF Pillar 4: Social cohesion and community resilience</p>	<p>SO2: Improved resilience of rural communities to the impacts of climate change and to economic and other shocks</p>	<p><u>Lending/investment activities</u></p> <ul style="list-style-type: none"> Ongoing <ul style="list-style-type: none"> ASDP ASHA RERP VITA IFAD12 New project <p>IFAD Private Sector Window to be explored, potentially as co-financing with climate finance</p>	<p><u>More resilient farms and infrastructure</u></p> <p>3.2.2 No. of small-scale producers adopting environmentally sustainable and climate-resilient technologies and practices</p> <p>ASDP: 20 000</p> <p>ASHA: 40 000</p> <p>RERP: 10 000</p>	<p><u>a) Resilient farms and infrastructure:</u></p> <p>At least 30 municipalities incorporate Local Adaptation Plans of Action (LAPA) into their local development plans (ASHA)</p> <p>1.1.4 People trained or accessing advice on environmentally sustainable and climate-resilient technologies and practices</p> <p>ASDP: 35 000</p> <p>ASHA: 75 000</p> <p>RERP: 10 000</p>

Country strategy alignment	Related SDG and UNSERF /UNDAF outcomes	Key COSOP results			
		Strategic objectives	Lending and non-lending activities for the COSOP period	Outcome indicators ³	Milestone indicators
<ul style="list-style-type: none"> National Employment Policy 2016 	<p>UNDAF Pillar 3: Resilience, Disaster Risk Reduction and Climate Change</p> <p>UNDAF 2022 targets contributed to:</p> <ul style="list-style-type: none"> No. of local climate adaptation plans adopted by new urban and rural municipalities <i>Baseline: 0</i> <i>Target: 52</i> 		<p>to expand private sector investment in adaptation.</p> <p><u>Non-lending/non-project activities</u></p> <ul style="list-style-type: none"> CLPE <ul style="list-style-type: none"> Focus as local/province level Combining institutional strengthening, ICT4D -enabled tools and demonstration of participatory policy development processes Engagement related to rural economic transformation /diversification beyond agriculture Partnerships: <ul style="list-style-type: none"> Government: Federal, province and local Co-financing: Heifer International, ADBL Technical: Helvetas ,Heifer International, FAO (incl. Building a Resilient Churia Region in Nepal Project) Banks/FIs: ADBL, SKBBL, Citizens Investment Trust DPs on insurance (e.g. GIZ via ADBL) SSTC <ul style="list-style-type: none"> Climate smart agricultural practices (via regional/ SSTC grants from IFAD – including via C-SUCSES grant to SAARC Agriculture Centre) ICT4D tools, e.g. expert systems for technical service providers Knowledge management workstream to include: <ul style="list-style-type: none"> Mainstreaming climate resilience in private investment, Carrying capacity/climate proofing assessments for use in local planning and policy processes 	<p>VITA: 45 000 Total: 115 000</p> <p>1.2.3 Percentage of households reporting reduced water shortage vis-à-vis production needs ASDP: 20% RERP: 20% VITA: 15%</p> <p><u>Increased diversification of incomes and capacity to recover from shocks</u></p> <p>People supported with skills training in gainful non-farm employment (earning >NPR10 000 per month over at least 6 months @ 2020 prices) RERP: 21 000 Total: 21 000</p> <p>1.2.5 No of individuals using financial services, including savings, insurance, pension and loans: ASDP: 25,000 RERP: 48,000 VITA: 100,000 Total: 173,000</p> <p>Percentage of small-scale producers who own an active savings account with a registered FSP, pension or long-term investment product: VITA: 60%</p>	<p>VITA: 90 000 Total: 210 000</p> <p>3.1.4: Number of hectares of land brought under climate-resilient management (ha.) ASDP: 2 000 ASHA: 15 000 RERP: 1 000 VITA: 2 000 Total: 18 000</p> <p>1.1.2 Farmland under water-related infrastructure constructed/ rehabilitated: ASDP: 1 000 ha ASHA: 1,000 ha RERP: 500 ha VITA: 900 ha Total: 3 400 ha</p> <p>2.1.5 Kilometres of roads constructed or upgraded using climate resilient design and construction ASDP: 70 km VITA: 75 km Total: 145 km</p> <p>Increase in small-scale producers using insurance (compared to baseline) >50% whole programme</p> <p><u>b) Income diversification and capacity to recover from shocks</u></p> <p>1.1.7 People trained in financial literacy ASDP: 35 000 RERP: 60 000 VITA: 90 000 Total: 185 000</p> <p>2.1.2 People trained in non-agriculture income generating activities and business management ASDP: 2,000 RERP: 30,000 Total: 32,000</p>

Country strategy alignment	Related SDG and UNSERF /UNDAF outcomes	Key COSOP results																																							
		Strategic objectives	Lending and non-lending activities for the COSOP period	Outcome indicators ³	Milestone indicators																																				
			<ul style="list-style-type: none"> ○ Mainstreaming LAPA in local planning 																																						
	<p>SDG16 Institutions</p> <p>UNDAF Pillar 4: Governance, Rule of Law, and Human Rights</p> <p>UNDAF 2022 targets contributed to:</p> <ul style="list-style-type: none"> • Quality of public administration (score out of 6) Baseline: 3.10 Target: 4.10 	<p>SO3: Strengthened rural and community institutions to effectively meet development needs under the decentralized federal system</p>	<p><u>Lending/investment activities</u></p> <ul style="list-style-type: none"> • Ongoing <ul style="list-style-type: none"> ○ ASDP ○ ASHA ○ RERP ○ VITA • IFAD12 New project <p><u>Non-lending/non-project activities</u></p> <ul style="list-style-type: none"> • CLPE <ul style="list-style-type: none"> ○ Focus at local/province government level. ○ Providing practical models for sustainable public services delivery ○ Engage in LED policy dialogues and demonstrate practical policy process for 4P engagement (producer, private, public partnerships). ○ Building capacity of staff and institutions of government, CCI and POs to enable effective 4P policy dialogues • Partnerships <ul style="list-style-type: none"> ○ GIZ: Policy and practice – Local & Provincial Ec. Dev. (initially Provinces 5+6) ○ Other partnerships to be explored (e.g. Asia Foundation) • SSTC 	<p>SF.2.2 Households reporting they can influence decision-making of municipalities and project-supported service providers >70% whole programme</p> <p>SF.2.1 Households satisfied with services supported by the programme in partnership with permanent institutions >80% whole programme</p> <p>Policy 3: Existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>ASDP:</td><td style="text-align: right;">2</td></tr> <tr><td>RERP:</td><td style="text-align: right;">8</td></tr> <tr><td><u>VITA:</u></td><td style="text-align: right;"><u>2</u></td></tr> <tr><td>Total:</td><td style="text-align: right;">12</td></tr> </table>	ASDP:	2	RERP:	8	<u>VITA:</u>	<u>2</u>	Total:	12	<p>No. of municipalities covered by supported Multi-stakeholder platforms (MSPs) in the economic sector that are functional and self-sustaining:</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>ASDP:</td><td style="text-align: right;">60</td></tr> <tr><td>RERP:</td><td style="text-align: right;">30</td></tr> <tr><td><u>VITA:</u></td><td style="text-align: right;"><u>90</u></td></tr> <tr><td>Total:</td><td style="text-align: right;">180</td></tr> </table> <p>Evidence-based participatory planning processes demonstrated and promoted to >40% of all 460 rural municipalities</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>ASDP:</td><td style="text-align: right;">60</td></tr> <tr><td>ASHA:</td><td style="text-align: right;">30</td></tr> <tr><td>RERP:</td><td style="text-align: right;">60</td></tr> <tr><td><u>VITA:</u></td><td style="text-align: right;"><u>90</u></td></tr> <tr><td>Total:</td><td style="text-align: right;">180 net of overlap</td></tr> </table> <p>Improved local public service delivery piloted in partnership with municipalities:</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>ASDP:</td><td style="text-align: right;">60</td></tr> <tr><td>RERP:</td><td style="text-align: right;">10</td></tr> <tr><td><u>VITA:</u></td><td style="text-align: right;"><u>30</u></td></tr> <tr><td>Total:</td><td style="text-align: right;">100</td></tr> </table> <p>No. of municipalities reporting effective community-owned & managed agricultural extension services at ward level.</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>ASDP:</td><td style="text-align: right;">60</td></tr> </table>	ASDP:	60	RERP:	30	<u>VITA:</u>	<u>90</u>	Total:	180	ASDP:	60	ASHA:	30	RERP:	60	<u>VITA:</u>	<u>90</u>	Total:	180 net of overlap	ASDP:	60	RERP:	10	<u>VITA:</u>	<u>30</u>	Total:	100	ASDP:	60
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		Strategic objectives	Lending and non-lending activities for the COSOP period	Outcome indicators ³	Milestone indicators
			<ul style="list-style-type: none"> ○ Local government administration, LED policies and service delivery in federal/devolved systems ● Knowledge management – key KM workstreams including: <ul style="list-style-type: none"> ○ “4P” and participatory planning processes for climate resilient inclusive local economic development; ○ geospatial mapping and planning tools for use by local and provincial authorities; ○ sustainable models for public service delivery by municipalities (e.g. migration/employment, pluralistic extension service) 		

Transition scenarios

1. Over the last decade Nepal achieved an economic growth of 4.6% - 3.2% for agriculture and 5% for non-agricultural sector. The average growth rate had increased further and reached to 7.3% in 3-years ending FY2018/19. With differential rate of growth, the share of agriculture is on decline and reported at 27.6% in fiscal year 2019/20. Of the remaining, bulk is from the service sector (50.6%). Nepal's GDP per capita reached to US\$ 1,126 in July 2020.
2. Overall, Nepal's growth rate over the past has not been transformational or job-intensive and economic transformation from agriculture to non-agriculture has been slow. As a result of jobless growth, lack of change in employment structures, casualisation and informalisation of jobs and a skills mismatch have acted as a push factor for youth to look for work overseas as distress employment. It is estimated that 3.5–4 million people are working abroad, generating remittances of more than 27% of gross domestic product.
3. As a result of the impact of mainly COVID-19, Nepal's economy has experienced substantial headwinds in the agriculture, manufacturing, and the service sectors in the first half of FY2019/20. Other factors that have contributed include a delayed monsoon, outbreak of armyworms, tightening domestic credit conditions, continued low execution rates of public investment projects, deceleration in remittances growth and slowdown in tourism receipts. In this backdrop, GDP growth in Nepal is estimated from 0.02% (IMF) to 1.8 percent (World Bank) in FY 2020. Moreover, services exports, goods exports, and remittances contracted by 57.4 percent, 62.1 percent, and 43.4 percent, respectively, between March and May 2020 compared to the same period in the previous year. The resulting pressure on foreign reserves was moderated by a substantial decline in goods and services imports, which decreased by 59.6 percent and 59.5 percent. Since government revenue is heavily dependent upon the customs collection through imports, public revenue collection between March and May 2020 was 51 percent lower than in the same period a year before.
4. Remittances have recovered strongly in the quarter to October 2020 since, with 12.6% growth compared to a 5.1% decrease for the same period the previous year. Having suffered substantial declines during the first half of 2020, the recovery has defied earlier expectations of prolonged severe disruption to remittance flows. Estimates for 2020 overall remittances vary, with the World Bank projecting a 12% drop vs 2019 but NRB considering this too pessimistic.
5. Even with the recent rise, Nepal's public debt remains low compared to other low-income countries. This, in part, reflects the assumed limited scaling up of capital spending due to weak implementation capacity as well as the assumption that the government would finance part of the higher spending by drawing on deposits at the central bank (about 5 percent of GDP in mid-2016). The debt service-to-revenue ratio is assessed to be stable over the projection period, and to remain within 10 percent of GDP in 2028/29.
6. The country's population is estimated 28.6 million in 2019, with growth rate of 1.35 percent per annum. Based on the most up-to-date projections, Nepal will transition to an "ageing society" in 2028, and into an "aged society" by 2054, making the transition from "ageing" to "aged" in just 26 years. Nepal is therefore facing a relatively short window of favourable demographics. This will create increasingly urgent policy and investment challenges over the next decade to take advantage the demographic dividend in order to catalyse both economic growth and social development.
7. Despite a relatively long political transition and frequent changes in the government, the proportion of population living below the poverty line has been decreasing steadily. It is estimated that around 16.7 % of the country's population remain below the national poverty line. This compares favourably with poverty incidence rate of 41.8% in 1996, 30.6% in 2004, and 25.2% in 2011. Multi-dimensional poverty has also seen significant reductions. The national-level multi-dimensional poverty index fell from 59.4% in 2006, to 39.1% in 2011, and 28.6% in 2014, and within this 33.2% in rural area

and 7% in urban area. Nepal has made impressive strides in reducing the prevalence of stunting (chronic undernutrition) nationally, which fell from 57% in 2001, to 36% in 2016. Stunting prevalence for children under 5 years does vary by region; it is 55% in state 6 and 29% in Gandaki Province. The COVID-19 induced lockdown has adversely affected the livelihoods of workers in the informal sectors who are most vulnerable to falling into extreme poverty. Loss of income source is more common for certain types of livelihoods, such as daily wage laborers, migrant workers, and households with a disabled person.

Table 1: Projections for key macroeconomic and demographic variables^a

<i>Case</i>	<i>Base</i>	<i>High</i>	<i>Low</i>
Average GDP growth (2021 - 2025)	4.75%	7%	1.2%
GDP per capita (2025) \$1,126 current	\$1,527	\$2,014	\$1,515
Public debt (% of GDP) (2021-2025)	46.1%	55%	50%
Debt service ratio (2021-25)			
Inflation rate (%) (2021-25)	5.6%	8%	2%
Rural population	Current: 28.6 million (End of COSOP period, 2025): 30.7 million Annual growth rate; 1.3%		
Investment climate for rural business ^b	The RSPA rating for Nepal's investment climate for rural business is 3.1, which is moderately unsatisfactory. Rural entrepreneurship has received increasing attention by GoN, and projects aimed at supporting rural entrepreneurship have been developed with the support of development partners. The IFAD-funded Rural Enterprise and Remittances Project, in particular, provides access to rural finance services via financial and business education and by strengthening cooperatives that in turn provide financial services to their members. Rural infrastructure remains a major constraint to a fully conducive climate for business. According to the World Bank's Enabling the Business of Agribusiness (2019), Nepal presents significant bottlenecks in the following areas: seed supply, securing water; machine registration, protecting plant health, and food trading. Accessing finance and sustaining livestock are instead moderately satisfactory and satisfactory, respectively.		
Vulnerability to shocks	<p>Political/governance. Nepal adopted federalism relatively recently as a framework for governance, away from a unitary and highly centralised governance structure. While it has introduced a lot of administrative instructions and legislations, roles, and responsibilities among various units with the hierarchy and horizontally across various ministries/ departments are still not fully clear.</p> <p>Macro-economic: Nepalese economy has been badly affected by COVID-'19. Its high dependence on remittance for livelihoods security of a large segment of population, foreign exchange earnings and for GDP makes it highly vulnerable to the contraction in the global economy.</p> <p>Weather/ climate change risk. Nepal heavily dependent on monsoon with high concentration of rainfall withing about 2 months. Also, the onset date and intensity of monsoon varies greatly, making agriculture highly vulnerable and natural disasters such as flooding common. Climate change risks in Nepal are high and well documented. While adaptation measures are being undertaken are far from adequate.</p>		

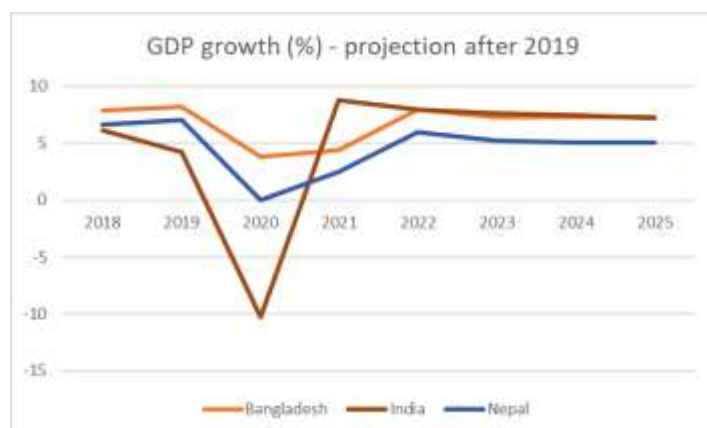
Scenarios:

8. The principal uncertainty driving the three scenarios is the trajectory and impact of the COVID-19 pandemic. The base scenario follows closely the most recent IMF projections. The high and low scenarios present credible scenarios for the trajectory of the pandemic both in Nepal and in the global economy – which has an outsized impact on Nepal through remittances and tourism among other areas. Given the substantial level of uncertainty around the pandemic and in order to test the credibility of the COSOP under different credible futures, there is a high variance between the high, base and low scenarios – all of which are considered feasible.

The Base case scenario:

9. The base case scenario assumes a modest turnaround in 2021 with the adverse impact of COVID-19 of global economy as well as on the Indian economy easing. Under this scenario, Nepal will achieve a growth rate of 2.5% in FY2021/22, followed by an increase to 6% in FY 2022/23 and stabilised at about 5% thereafter till 2025. This scenario follows closely the most recent GDP projections from the IMF form the October 2020 World Economic Outlook for Nepal. A relatively subdued growth prospect compared to the achievements of past 3 years is likely due to the challenging outlook on tourism and remittances and lower industrial and agricultural production due to lasting supply chain disruptions. Under this scenario inflation is expected to remain generally stable at 5.6%. This would in part depend on the inflation rate in India - Nepal's most important trading partner. With COVID-'19 ceasing to be a major factor, Nepal's import bill is likely to increase significantly. This is expected to be partly offset by increased remittance flow and receipt from tourism, over the reduced base caused by the COVID-19. With the increase in imports, government revenue from custom duties – a major source - will also increase and the fiscal deficits is likely to remain largely under control. Under this scenario debt-service ratio is likely to remain below the 70 -80% percent of benchmark or at about 30 to 35 percent of GDP over the COSOP period, due mainly to the assumed continued concessional nature of external borrowing.

Figure 1: GDP growth projections (Source: IMF World Economic Outlook, October 2020)



High case Scenario:

10. In a high case scenario, a fast retreat from the COVID-19 caused situation accompanied by the relatively high economic growth globally and more so among India, GCC countries and export-oriented economies such as Malaysia and South Korea creating buoyant demand for Nepalese labourers, favourable weather condition for agriculture, and enhanced ability to implement publicly-funded projects with concomitant increase in the level of public expenditure on capital goods is assumed. This will take Nepal's growth to that achieved during last 3 years prior to the onset of COVID-'9 pandemic. In addition, it will fuel consumption - both public and private, help increase government revenue, and put pressure on inflation to rise. With significant increase in public expenditure, government

borrowings is likely to increase and consequently the public debt. Illustratively, in 2019 an IMF-World Bank Mission estimated that growth shock (1 standard deviation from the baseline) in 2018/19–2019/20 would lead to a rise of the net present value of debt-to-GDP ratio to 38 percent of GDP in 2028/29. The debt service-to-revenue ratio would also be affected most by a growth shock, which is calculated to be 14.1 percent in 2028/29. With the factoring of adverse impact of COVID-19, this ratio is likely to increase further.

Low case Scenario:

11. With over 10 million infections, 400,000 deaths, and a global GDP contraction of 5.2 percent, the global impact of COVID-19 is unprecedented. The impact of the crisis is not temporary but is likely to induce lasting changes in the way that economies operate. If the situation continues to remain substantially the same as it is now and should cases in Nepal continue to rise and should a rebound in economic activity in the country's major trading partners and remittance-sending countries be delayed, growth in FY2021 is likely to turn negative. So, a contraction of about 2.8 percent possible. Due to the large share of the informal economy, an economic contraction will exacerbate poverty, inequality, and food insecurity. Furthermore, while the budget for FY2021 has proposed measures to manage an anticipated shortfall in revenue, a prolonged economic downturn risks reducing revenues further. Even worse, it will require an increase in spending to manage the socioeconomic fallout of the crisis. Such a situation could elevate the fiscal deficit to 11.5 percent of GDP.

12. In addition, substantial reduction in remittances due to COVID-19 in 2020 is likely to reach 14% (World Bank), given the severe economic contraction already experienced in India and economic contraction and stagnation being experienced in the countries hosting Nepalese labourers. It will lead to substantial, immediate and widespread negative impacts on the livelihoods of many households. There are also risks that this could also potentially continue over the medium term if there is a prolonged global economic slowdown, with many fewer jobs in key overseas employment sectors, such as the oil sector in the Gulf Cooperation Council (GCC) countries. The scale and widespread distribution of remittances makes them an important source of livelihoods for many households across the country with over 70% of remittances spent on consumption. The remaining 30% that is saved and invested represented US\$2.4 billion in 2019 – fully 20% more than the total combined ODA (US\$1.8 billion) and FDI inflows (US\$185 million).

13. The likelihood of occurrence of each scenario, the likely impact that on IFAD portfolio and how these potential risks associated with each scenario will be mitigated has been summarised below.

Table 1: Risks and mitigation measures under each scenario

Scenario	Likelihood of occurrence	Likely impact on IFAD's country programme	Mitigation measures
Base case	50%	a) The risks associated with this scenario match directly with the macroeconomic and COVID-19 related risks enumerated in the main text (Section VII).	The risks identified will be tackled by: a) Reducing the disruptions in the agricultural value chains promoted under ASDP, RERP, ASHA and VITA through targeted interventions both on input supply and marketing ends. b) Expanding rural finance coverage to: (i) support adaptive investments, and (ii) generally expand economic activities to counteract against contractionary effect of the pandemic. c) Focus on commodities whose VC is shorter that cater to local/ regional markets, the adverse impact of movement restriction will be reduced.
High case	30%	a) Under this scenario, IFAD-supported projects may suffer from inadequate	a) IFAD-projects in Nepal (ASDP, ASHA, RERP) are mostly in locales that suffer from a generally high level of

		<p>counterpart funds due to rising public debt. With a buoyant growth GoN may be prompted to accord less priority to agricultural and rural development (ARD).</p> <p>b) Interest rates will increase substantially reducing viability of small farms and MSMEs. This will reduce demand in the services offered by IFAD projects.</p>	<p>poverty and deprivation. So even if ARD receives less priority, these projects would still be in high priority.</p> <p>b) A more innovative KM approach will be adopted which will also help advocating continuation of GoN's support to IFAD-assisted projects.</p> <p>c) Counterpart funding arrangement under VITA – the largest project in the portfolio – is built around the lending terms and thus is essentially immune from annual government budgetary allocation. So, country portfolio management will focus heavily on keeping this insulation in-tact and providing adequate implementation support that will ensure smooth implementation of VITA.</p> <p>d) IFAD resources provided to VITA generally provides a more stable interest rate regime. This will help to dampen the effect of rising interest rate.</p> <p>e) Significant targeted resources for made available under VITA will try dampening the tightened liquidity of the banks.</p>
Low case	20% (keeping in view of the increasing probability of COVID-19 vaccine becoming widely available by mid-2021.	<p>a) Reduced government revenue and increased cost for public health management together will reduce the GoN's ability to provide adequate counterpart funds to IFAD-supported projects.</p> <p>b) Economic contraction increases morbidity/ mortality of farms and rural enterprises, increases non-performing loans of financial institutions, and reduces their ability to lend affecting the projects.</p> <p>c) Persistent contraction in the global, GCC and Indian economy will induce further increase in the migrant returnees and with limited employment opportunities may be socially and politically disruptive and create chaos and unrest which will also affect projects.</p>	<p>a) The effect and mitigation measures for reduced counterpart funds will be as described above in High case' scenario.</p> <p>b) Overall, Nepal's debt sustainability situation remains comfortable. So GoN can borrow from the IMF and ADB to compensate short-term shortfalls in revenue.</p> <p>c) Under VITA GON provides IFAD resources to ADBL with repayment period extending up to 35 years. This will allow ADBL to withstand current or future crisis lasting for short, medium and long term.</p> <p>d) With their operation concentrated mostly in deprived areas, ASDP, ASHA, RERP and VITA will contribute significantly in creating employment opportunities locally and maintain social/political stability. Admittedly, a widespread nation-wide social unrest, if it happens, will be beyond the scope of these projects.</p> <p>e) Use graduation approach and affordable investment pathways to expand coverage/reach of opportunities and increase no of households reached by IFAD portfolio.</p> <p>f) With emphasis on profitable and sustainable VCs, IFAD projects will try limiting the mortality/ morbidity among small farms/MSMEs as well as financial institutions.</p> <p>g) For FY 2021 the central bank has adopted an aggressively expansionary monetary policy. ADBL, using VITA platform, can keep on advocating for maintaining such policy till normalcy is restored. Its recognition by the Central Bank as a 'lead bank' for agriculture will be helpful.</p>

Agricultural and rural sector issues

A. Agricultural and rural sector setting in Nepal

1. Of Nepal's population of 28.6 million people, 80% live in rural areas in around 4.75 million rural households.
2. The agricultural sector remains important as the second biggest sector in the economy (after services) contributing 28.9% to Gross Value Added in 2019 (2000, 38%). It is dominated by small-scale producers and 97% domestically focused. Agriculture growth averaged 3.1% in the decade to 2019 (versus 4.6% GDP growth) and is projected to average only 2.4% in 2020 and 2021 versus 5.1% in 2019. There is a large and growing trade deficit in food and agricultural. Agricultural import growth is far higher than growth in domestic agricultural output. Imports are growing strongly, up 84% in the 5 years to NRs198 billion in 2017/18, while exports remained flat with growth of 11% in the same period to NRs 22.7 billion in FY2017/18. India's share of imports is stable at 52-53%. Imports are dominated by cereals (22%, principally rice and maize), vegetable oils (15%), pulses, potatoes and onions (12%), soyabean oil cake and animal feed (8%) – reflecting a lack of competitiveness of lowland agriculture in the terai versus highly subsidized India producers.
3. Despite low labour productivity, 11.7 million working age people (56.5%) are involved in agriculture. Small-scale producers are becoming increasingly market-oriented with 52% selling to the market and three quarters of these selling a majority of their produce. Among the 11.7 million people, there are 1.52 million employed – 94% in informal sector, 6% in formal sector – representing 21.5% of all people employed in Nepal (Central Bureau of Statistics, 2019). Labour productivity in agriculture was 39% of that in the overall economy in 2018 down from 43% in 2008. (World Bank)
4. Nepal has a comparative advantage for a range of agriculture products, though not generally lowland field crops. Varied agro-climatic zones allow tropical, sub-tropical and temperate crops to be produced and counter-seasonal production. There are varied opportunities for market-driven growth: spices, fruit juices, and tea are the largest export-generating and fastest-growing agribusiness subsectors. Nepal is the global market leader in large cardamom in terms of production and value. Fresh apples, coffee, honey, and cut flowers have the potential to leverage agri-climatic conditions and build on the perceived uniqueness of Nepalese products. Ginger is an export earner but volatile prices and an inability to comply with phytosanitary standards is constraining growth. Vegetables, a smallholder crop, are grown for the domestic market and has growth potential. Strengthening the supply chain from farm to retail is needed, but first-mover costs will be high. Poultry has been a growth sub-sector, for meat and eggs, benefiting from rising incomes and lower costs of poultry versus other meat, but there are signs of market saturation especially for commercial broilers and eggs. Other kinds of meat are also growing, particularly goat. Fresh meat dominates the industry, keeping it localized, with few larger players outside of poultry. Dairy also has opportunities for growth but must better manage natural differences in seasonal supply and demand. Rice and maize comprise the two largest cereal crops in terms of production and participation of small-scale producers. However, production of each crop is characterized by low yields and high costs of production. In cereals, access to reliable irrigation is likely to be a key factor in raising competitiveness. On the processing side, despite the presence of larger business houses with processing facilities, both subsectors are less competitive in efficiency and quality than competitors in India with around 80% of rice mills in eastern Nepal having shut down (World Bank, 2018).

5. The agribusiness sector is small and domestically focused. A few large business houses have stakes in larger traditional cereal crops, food and beverages and fast-moving consumer goods. Other subsectors are characterized by small firms and traders. There are only about 200 medium-sized (i.e. >US\$300,000 in fixed assets) and large firms. Three-quarters of these are in livestock, dairy, fruits, vegetables, medicinal and aromatic plant products (MAPS), coffee and tea. In recent years, several segments have had negative growth including rice mills in the east. (World Bank, 2018)
6. Major Constraints to agriculture include low productivity, attributable in large part to low use of fertilizer and certified high-yielding seed, as well as limited irrigation and mechanization. The government subsidizes these inputs however supply doesn't meet demand, distribution is ineffective, and provision is not based on the needs of the soil or crop. Government policy is limiting private sector participation in these markets. Limited agricultural insurance coverage and markets is also an impediment (World Bank, 2018).
7. Fragmented supply chains are typical, with many small producers and traders. Transaction costs are high while market signals and trust in the chains are low. Logistics in the chains are weak creating high access-to-market costs and increased levels of post-harvest losses.
8. The COVID-19 strictures on social distancing and travel restrictions, market closures and lack of storage facilities affected most type of agricultural activities in Nepal. During the periods of extensive movement restrictions in the first half of 2020, the pandemic related losses were largest for cut flowers (100%) followed by vegetables (30%), poultry (24%), fruits (15-18%) and dairy (13%). The pandemic's effect on fertilizer imports and supply had been particularly drastic, though fertilizer supply is a perennial problem in Nepal. The paddy value chain was hit additionally by lack of access to extension and agrochemicals for pest control as well as mechanized harvesting services and market. The vegetable value chain also suffered from loss of direct contracts with restaurants, schools and hotels due to their closure. The mango value chain suffered additionally from shortage of micronutrients and growth regulators. Since fishermen's access to inputs were disrupted, 41% of the ponds remained fallow. Production of goats, fruits and vegetables has mostly recovered while disruption to fish and dairy has been more prolonged – for dairy due to high stocks of milk powder and for fish due to disrupted supply of fingerlings.
9. Finance for private investment in agriculture is highly constrained. Nepal's financial system is relatively healthy but heavily bank dominated with 28 public and private Commercial Banks (Class A), accounting for 87% of total assets/liabilities of the formal financial system. The remaining assets are held by 40 Development Banks (Class B), 28 Finance Companies (Class C), 53 Microfinance Development Banks (Class D) and a large pool of savings and credit cooperatives (SACCO), financial non-governmental organizations (FINGOs) and MFIs (Sakcham Access to Finance Project, 2017). With the dominance of commercial banks, agriculture accounts for only 6.4% of their total lending (as of September 2019) against the minimum quota set by the Central Bank at 10%, which is in addition to 5% lending to be set aside to deprived sector. Among commercial banks only Agriculture Development Bank Ltd (ADBL) reported substantive share of agriculture – around 30% of its total lending.
10. Barring few exceptions, growths in financial institutions in recent decades have been private-sector-driven and most compete within the same business segments which are traditionally served by commercial banks and in urban areas. Despite the presence of many institutions, there are very few specialized financial institutions unlike, for example, in India or the Philippines. This lack of specifically mandated institutions may have made the banking system more efficient and competitive in traditional segments, but has made public policy interventions difficult, in particular

in giving access to institutional credit to small farmers and rural entrepreneurs. Currently, 9% of small and medium sized enterprises (SMEs) use banks while only 17% of all Nepalese have access to banking services mostly limited to urban area and better-off enterprises (World Bank, 2018).

11. For micro, small and medium-sized enterprises (MSME), the formal credit gap is estimated at US\$3.9-4.4 billion out of a total formal credit demand of US\$9.5 billion (Beed Management Pvt. Ltd , 2018). The agriculture sector accounts for 17% of credit demand, implying a sector credit gap of US\$0.7 billion. Heavy reliance on collateralized lending (by the banks/FIs) and lack of quality security (from farmers/MSMEs) are systemic constraints for lending to the sector with almost 76% of credit backed by a tangible collateral (>90% is land and/or buildings) (Sakchyam Access to Finance Project, 2017). Currently, the Deposit Credit Guarantee Fund (DCGF) has statutory responsibility to perform deposit and credit guarantees and its primary focus is on deposit guarantees. DCGF has a livestock insurance product and recently developed an agriculture credit guarantee product reported to have collectively already guaranteed/insured NR 2 billion (US\$18 million) in loans. While a positive first step, this is at a very limited scale, equivalent to <2.6% of the credit gap in the agricultural MSME sector. In addition, ADBL operates a community-based agricultural insurance programme which while generally effective needs further refinement and innovations followed by major upscaling, if agricultural sector as a whole is to be served.

B. Agricultural development policies

12. An Agricultural Development Strategy (ADS) was approved in 2015 with broad donor support and reflects government strategy for the next 20 years. Its vision is for "A self-reliant, sustainable, competitive, and inclusive agricultural sector that drives economic growth and contributes to improved livelihoods and food and nutrition security." This is to be achieved through substantial growth in the sector, rising from 3% to 5% per annum, and agro-based exports and defined in four main outcomes: i) Improved governance, ii) Higher productivity, iii) Profitable commercialization and iv) Increased competitiveness. Alongside these outcomes, the ADS seeks to promote: (i) inclusiveness (both social and geographic); (ii) sustainability (both natural resources and economic); (iii) development of the private and cooperative sectors, and connectivity to market infrastructure; (iv) information infrastructure and information and communication technology; and (v) power infrastructure. In terms of the enabling environment created by the public sector, the ADS notes that: "In spite of frequent pronouncements in support of the agriculture sector, policies to support the sector have either not been formulated or have not been implemented. Compounding the problem are the frequent changes in tenure of the key leaders for policy, program, and project implementation and issues of consistency of policy itself. The result has been a loss of credibility in policy that is responsible in part for the failure of previous programs. With the support of the European Union (EU), the federal Ministry of Agriculture and Livestock Development (MoALD) is currently engaging with province Ministries of Land Management, Agriculture and Cooperatives to raise understanding of the ADS and begin to clarify a way forward for it under federalism.
13. The ADS was approved under the former unitary system of governance. Immediately following its adoption, in 2015 the Government of Nepal ratified a new constitution that transformed its unitary structure into a federal one with three distinct levels of administration: a federal government, 7 provincial governments, and 753 municipal government units, including 460 rural ones. However, this system is not strictly hierarchical, and ambiguity remains in the exact division of responsibilities within and across different categories of activity in the public sector. In the context of the agricultural sector, the 2015 (2072) constitution delegates thematic responsibilities to all three levels of government, and exact mandates or areas of jurisdiction are still evolving. Extension services are defined as being the

sole responsibility of municipal governments, while the federal and provincial governments retain authority over agricultural R&D and issues in land use. Activities pertaining to forests, water and irrigation, and infrastructure are not clearly delineated across the three levels of government.

14. With respect to new structure, it is generally recognised that: (i): it is top-heavy and bottom-weak, with large numbers of trained and qualified agricultural manpower at federal and province levels; (ii) municipal agricultural units are meagrely staffed but directly face the clientele; (iii) agricultural programme activities of the three tiers lack coordination and conformity with the principle of subsidiarity; and (iv) concurrent agricultural powers, and the direct budget flow to Municipalities are contributing to lack of coordination among the provincial and municipal tiers. It is also recognised that: (i) the coordination between the Prime Minister Agricultural Modernization Project (PMAMP) and provincial/municipal agencies is generally weak, and its operation goes against the spirit of the Constitution; (ii) the provincial structures (e.g. Agriculture Knowledge Centers) are not adequately oriented and structured to serve their intended purposes and the mandate and modality of other province agricultural development agencies are unclear.

C. Entry points for Country-level policy engagement (CLPE)

15. Over time, IFADs engagement has helped creating policies and institutions that have become instrumental in assisting the poor, marginalised and most vulnerable segment of Nepalese population. The Small Farmers Development Bank and relatively large network of small farmers savings and credit cooperatives that the Bank supports and the GON's Women's Empowerment Division its field delivery structure trace their origin directly to such engagement. Keeping up with this spirit, under the current COSOP framework IFAD will undertake CLPE against the backdrop of the conclusions of IFAD's Rural Sector Performance Assessment carried out in 2018 which identified: (i) some significant gaps in rural governance, transparency and public administration, and (ii) policy frameworks that govern climate change and access to land.
16. In engaging in CLPE, reference, in particular will be taken with the policy measures adopted more recently. These include planning document adopted in 2019 that lays the foundations for a new Climate Change Adaptation Plan, the Local Governance Operations Act -2074 of 2017, and the 8th amendment of the Land Act adopted in 2020. The latter provides a legislative framework to achieve the policy goals set under the National Land Policy adopted by the Government of Nepal in March 2019 which commits to secure tenure and land ownership; protect land rights; rehabilitate the landless, squatters and informal tenure-holders for improved housing; and promoting equitable access to land for all, including women and vulnerable groups.
17. With the COVID-19 pandemic, agriculture is seen as increasingly important for rural economic recovery, not only for food security but as an economic engine that can absorb the returning labour force – especially given the expected slowdown in the service sector. Policy priorities for the agriculture sector at local and national level are expected to evolve accordingly. As a first step, budgetary allocation at the federal level has been increased significantly for FY 2020/21, complemented by an even larger increase by provincial governments. Importantly, the Central Bank has adopted a highly expansionary monetary policy for FY 2020/21 which inter alia requires banks and other financial institutions to increase the minimum lending ratio of directed credit for agriculture, energy and SMEs to 40% (from current 20%).
18. On the critical issue of technical services to farmers, prior to federalism public extension services were already over-stretched and unable to meet the scale of demand from farmers. Now municipalities hold the primary mandate for such services, also in a pluralistic model involving greater private delivery, yet have neither the staff nor resources to meet the demands of farmer (only 2.1% of sector budget is at municipal level). This reiterates the need to accelerate the development

of 'comunitised' pluralistic technical services to meet farmer demand, as envisaged in the ADS.

19. In the above backdrop, during this COSOP period, aiming at building institutional capacity in the context of newly introduced federal system to undertake development activities and thereby contribute mainly to inclusive and sustainable rural economic growth and recovery as well as improving resilience against various shocks, IFAD will actively engage in following policy arena:
- (i) Continue working closely with the municipal, provincial and federal governments and deepen the partnership in refining policies, processes and systems of governance of the municipalities for (a) developing communised pluralistic extension system (ASDP); (b) local level climate change adaptation (ASHA); and (c) remittances (RERP). Where opportunities arise, these projects will also assist the government agencies to implement the provisions of newly amended Land Act. Efforts will be made to mainstream these into government policies and programmes once up-scalable models become ready.
 - (ii) Assist ADBL and associated participating financial institutions to build capacity of the financial sector to help achieving the highly ambitious goals set by the Central Bank for agricultural and poverty-focused lending, by also developing new products at the scale required to increase rural financial inclusion.
 - (iii) In line with the programme activities of VITA, further complemented by the learning from COVID-'19 and supported by Rural Poor Stimulus facility already approved by IFAD, work on expanding digital banking operations for rural areas aiming both at expanding inclusion and building resilience of the financial system in the face of pandemics and other disasters. This will also involve designing new and refining existing financial products, mainly, micro-insurance as a mechanism for reducing the risks of smallholder producers. The latter will involve collaboration with the new project on insurance between ADBL and GIZ.

SECAP background study

Social, Environmental and Climate Assessment Procedures (SECAP) background study SECAP Preparatory Study

A. Objective

1. The Government of Nepal is committed to inclusive and sustainable development, climate adaptation and resilience, and sustainable growth in all sectors of the country's economy. A number of policies and strategies have been prepared and executed to support the green and inclusive economy. This SECAP background study is prepared to inform IFAD's investments under the new Country Strategic Opportunity Programme (COSOP) to ensure that they are and socially inclusive and resilient to climate shocks and to align with the government's policies on social development, natural resources management and climate resilience.

2. The 2021 COSOP covers the period from 2021 to 2026. Based on the lessons learned from the previous 2013 COSOP (2013-2020), the overall objective of this preparatory note is to ensure that the COSOP promotes social equity in rural communities, supports environment sustainable outcomes and promotes appropriate measures for adaptation to climate change.

3. During the coming COSOP period, IFAD's engagement with Nepal will focus on three (3) strategic objectives, (i) Accelerated inclusive and sustainable rural economic growth and recovery through greater market participation, (ii) Improved resilience of rural communities to impacts of climate change, economic and other shocks, and (iii) Strengthened rural and community institutions to effectively development needs under federalism. Ongoing and future programmes will scale up innovations and interventions on gender and youth empowerment, nutrition security, promote natural resources management and climate-smart investments and practices.

4. **Approach and methodology.** The SECAP preparatory study was informed by i) desk reviews of relevant national policies and strategies, ii) analysis of ongoing projects funded by IFAD and other development partners, and iii) consultations with national stakeholders, civil society organizations and farmers organizations through online surveys and phone calls. The report also assembles the analysis of existing institutional framework, country program evaluations and existing environmental, social and climate change studies and assessments.

Part 1 Situational analysis and main challenges

1.1 Socio-economic situation and underlying causes

5. The country's population is estimated at 28.6 million in 2019 (UN Population, 2020) with an estimated growth rate of 1.35 % per annum. As per the 2011 census, average household size was 4.88 and the rural population constituted 83 % of the total population. The census calculated 25.7 % household was led by female and about 57 % of the population was of working age between 15-59 years (CBS, 2011).

6. Nepal experienced a 4.6% average economic growth in the last decade where agricultural and non-agricultural sectors' average growth were 3.2% and 5% respectively. The last three years had a good economic growth with an average of 7.3%. Agricultural sectors contribution has recorded decreasing on Gross Domestic Product (GDP) in line with the wider transformation of the economy. It is predicted that this sector will only contribute 27.6% to the GDP in fiscal year 2019/20 (comparable in scale to international remittances). Moreover, service sector represents 50.6% of GDP and its share is increasing (MoF, 2020).

7. There is a substantial difference among the provinces in contribution to GDP. Bagmati province (which includes Kathmandu) had the highest contribution in fiscal year 2019/20 with 36% followed by province 1 (16%) and province 2 and 5 with 14% each. The remaining three provinces together contributed 20%: Gandaki (9%), Sudurpaschim (7%) and Karnali (4%). Table 1 depicts GDP per head for the provinces (MoF, 2020).

Table 1 Province-wise GDP

Province	GDP %	GDP (million US\$)	GDP USD/head
Province 1	16	4599.79	1014.3
Province 2	14	4024.82	744.8
Bagmati	36	10349.53	1871.7
Gandaki	9	2587.38	945.1
Lumbini	14	4024.82	978.3
Karnali	4	1149.95	708.3
Sudurpaschim	7	2012.41	788.4
Average			1085

Demographics

8. Fertility and mortality decline are key aspects of demographic transition. Nepal is facing a relatively short window of favourable demographics. Based on the most up-to-date projections, Nepal will transition to an “ageing society” in 2028 and into an “aged society” by 2054, making the transition from “ageing” to “aged” in just a span of 26 years. In terms of an ageing transition, from ageing to aged, Nepal’s duration is projected to be close to that of Japan’s, which at 26 years is among the fastest ageing transitions in the world. This will create increasingly urgent policy and investment challenges over the next decade to take an advantage of the demographic dividend in order to catalyse both economic growth and social development (NPC, 2017). Appropriately designed youth sensitive programmes are one mechanism for immediately leveraging the current demographic dividend of Nepal.

Poverty

9. **Overall poverty situation:** In July 2020, Nepal’s GDP per capita reached US\$ 1,085 - an all-time high – with real GDP growth of 7.5%. Despite a relatively long political transition and frequent changes in the government, the proportion of population living below the poverty line has been decreasing steadily. It is estimated that around 16.7 % of the country’s populations remain below the national poverty line (MoF, 2020). This compares favourably with poverty incidence rate of 41.8% in 1996, 30.6% in 2004, and 25.2% in 2011 (CBS, 2011).

10. Multi-dimensional poverty has also seen significant reductions. The national-level multi-dimensional poverty index fell from 59.4% in 2006 to 39.1% in 2011, and 28.6% in 2014. 33.2% reduction was observed in rural area, while it was 7% in urban area.

11. In terms of poverty rate for multi-dimensional poverty, Karnali Province and Province 2 have the highest rate of multidimensional poverty – with every second person being multidimensionally poor (50%) – followed by Lumbini and Sudurpachchim (approximately 30%) Provinces. The largest contributors to rural and national poverty are deprivation in years of schooling (17.7%) and nutrition (15.8% and 15.9%, respectively). It is noted that the most recent MPI use data are from 2014 (before the 2015 earthquake) t which demonstrates substantial impacts on many rural locations particularly in Bagmati Province (CBS, 2018). (See Table 2)

12. In terms of numbers of multi-dimensional poor people, provinces 2 and Lumbini have by far the highest numbers, together accounting for over 55% of all poor people in the country.

Table 2: Multi-dimension poverty headcount and population by Province (2014)

Province	MPI Poverty Population		MPI Poverty Headcount rate
	Number of people (000s)	% of poor people	%
2	2,935	35	47.89
Lumbini (5)	1,677	20	29.92
1	1,006	12	19.67
Sudurpaschim (7)	922	11	33.56
Bagmati (3)	755	9	12.24
Karnali (6)	671	8	51.22
Gandaki (4)	419	5	14.19
Total	8,386	100	28.62

13. The outbreak of COVID-19 and the subsequent nationwide lockdown has adversely affected the growth engines of the economy. Overseas remittances and the service sector, especially tourism have been hard hit.

14. Remittances have been severely affected in 2020, with remittance inflows during March to May 2020 declining markedly by 43.4%. Prior to COVID-19, remittances reached an estimated US\$ 8.06 billion in 2018 – equivalent to 28.0% of Nepal’s GDP (World Bank, 2019)– more than doubling since 2010 – and represented a similar share of GDP to agriculture (and substantially more than manufacturing). However, it is notable that the number of Nepali migrant workers taking up jobs abroad had already slowed since 2016 (IMF, 2019). The scale and widespread distribution of remittances makes them an important source of livelihoods for many households across the country with over 70% of remittances spent on consumption (Central Bureau of Statistics, 2012). The substantial reduction in remittances due to COVID-19 is therefore likely to have substantial, immediate and widespread negative impacts on the livelihoods of many households. There are also risks that this could also potentially continue over the medium term if there is a prolonged global economic slowdown, with many fewer jobs in key overseas employment sectors, such as the oil sector in the Gulf Cooperation Council (GCC) countries. For example, in May 2020, the Foreign Employment Board estimated that around 407,000 migrant workers may return in the long run from GCC countries and Malaysia where there were around 1.5 million Nepali migrant workers (Kathmandu Post, 2020).

15. Tourism, which constituted around 8% of GDP during pre-COVID 19 eras, has been severely affected by pandemic. The government had declared 2020 as Visit Nepal year and the arrangements were done accordingly to welcome a large number of visitors. International and domestic tourism has all but ceased since the initial restrictions were introduced in March 2020. With international arrival plummeting by 85.9% year on year between mid March and mid May 2020, it reached zero from April onwards.

16. For food and agriculture, the closure of international borders over COVID-19 concern has already increased food prices. Prior to the COVID-19 outbreak, agricultural output was already affected by delays in the monsoons; an outbreak of armyworms, which damaged crops in many parts of the country; and the proliferation of fake “Garima” paddy seeds, leading to a decline in paddy production by 1.7 %, which supplies nearly 7% of GDP (ADB, 2020; WB, 2020).

17. Indications are that widespread layoffs coupled with the return of labor migrants have increased unemployment and created an excess supply of labor. In addition, while an estimated 50 to 80 % of workers are still employed, not all of them work at full

capacity. The loss of livelihoods, including from both employment and remittances, has impacted on demand and consumption.

18. As a result of the impact of COVID-19, GDP growth in Nepal is estimated at 1.8 % in FY 2020, compared to 7 % in FY 2019. Growth in the service sector is now estimated at 1 %, the lowest since FY2002, while growth in the industrial sector is estimated at 3.2 %, a four-year low, due to the deceleration in overall growth. Moreover, services exports, goods exports, and remittances contracted by 57.4 %, 62.1 %, and 43.4 %, respectively, between March and May 2020 compared to the same period in the previous year. Following the COVID-19 outbreak, public revenue collection between March and May 2020 was 51 % lower than in the same period a year prior (WB, 2020).

19. Lockdown has adversely affected the livelihoods of workers in the informal sectors as well. The informal workers or those without social security or assistance are most vulnerable to falling in to extreme poverty. COVID 19 pandemic has caused widespread job loss resulting in economic strain for people. Financial hardship resulting from the pandemic has affected livelihoods, especially for those working in the informal sector. In Nepal, 62.3% of total employed people are engaged in the informal sector, which means they have little or no income security and social protection. Economic insecurity has been linked to poor coping strategies like substance use, taking on debt and engaging in risky behaviors, which may trigger for conflict, argument, and interpersonal violence. Violence against women and girls (VAWG) can be an outlet or a coping mechanism for some men who feel a loss of control and failure to fulfill traditional breadwinner role during this situation. The influx of thousands of jobless migrant workers from abroad and within the country poses an extra risk of violence against women and children in Nepal (Dahaletal, 2020).

20. A study conducted by WFP based on interviews conducted in April 2020 states that the COVID-19 crisis had already affected the livelihoods of Nepalese households within 1 month of lockdown measures being introduced in March. It found that 1 out of 10 households reporting a loss of livelihood and 3 out of 10 households a reduction in income at the time. Loss of income source was found to be more common for certain types of livelihoods, namely daily wage laborers, migrant workers, and households with a disabled person. Income reduction was relatively more common in Lumbini, Sudurpaschim, and Province 2, while loss of livelihood was more common in Lumbini, Karnali, and Sudurpaschim provinces (WFP, 2020). The situation is expected to have deteriorated substantially in the months since.

21. Similar to the global scenario, the lockdown and the economic downturn is exacerbating the challenges vulnerable communities face, heightening women and girls' risk of gender-based violence (GBV) among women and girls. Restricted mobility, fear of COVID 19, and reduced availability of public services during COVID have further trapped women and girls in a cycle of gender-based violence. Nationally, close to a third of women aged 15 to 49 have experienced physical or sexual violence (OPTIONS, 2020). Women and girls with disabilities are especially at risk. Options' DFID-funded Nepal Health Sector Support Programme (NHSSP3) piloted and scaled hospital-based One Stop Crisis Management Centres (OCMCs). The centres provide free health services, identify and treat survivors and offer them psychosocial counselling and medico-legal services. They also act as the coordination hub to multisectoral services including safe homes, personal security and rehabilitation programmes. From an initial seven in 2011, there are now 69 OCMCs across the country. The programme has also provided forensic training of doctors to improve the quality of medico-legal reporting and the strength of evidence taken to court, introduced psycho-social counselling training of health staff and strengthened the centres' reporting systems of cases.

22. In early 2020, Options supported the government to conduct a strategic review of the centres, including recommendations to address many of these challenges. The review fed into Nepal's COVID-19 response to GBV, informed emergency cluster coordination groups established by Government, and helped cement the coordination

across the many sectors involved, including the police, health, women's protection and rehabilitation. The international and national spotlight on the impact of COVID-19 on gender-based violence also raises political pressure to address the underlying social determinants of GBV in Nepal, and the structural challenges of responding to the needs of survivors. This created an enabling environment that sped up the approval for improvements that were recommended by the strategic review. Despite the enormous challenges COVID-19 pose for women and girls that are at risk of gender-based violence, the pandemic also presents an opportunity for the government to put measures in place that could help improve mechanisms to protect them in the future.

23. **Children:** Children up to 10 years represents 21% of the population. This subgroup represents the poorest age subgroup. There is decreasing and then flattening trend of MPI as age increases.

24. **Female headed household:** The data reflects male and female headed household face the same likelihood of being multidimensionally poor. Nearly 24% of the population live in female-headed households, and 28.6% of people are multidimensionally poor. While only 6.6% of people are poor and are living in female-headed households.

Gender empowerment

25. The 2018 Gender Inequality Index⁴ ranks Nepal 115 out of 162 countries. Women hold 33.5% of the country's parliamentary seats which shows greater participation of women than in South Asia in general. Only 29 % of adult women have reached at least a secondary level of education compared to 44.2% of their male counterparts; this is lower than the average for South Asia. The maternal mortality rate is high with 258 women dying from pregnancy related causes for every 100,000 live births, higher than the average for South Asia. The adolescent birth rate is 65.1 births per 1,000 women aged 15-19 also much higher than the average for South Asia. Female participation in the labour market is 81.7% compared to 84.4% for men and 25.9% of women in the overall South Asia region. Labour Force Survey Report 2017/18 has clearly mentioned about gender disparities, while population ratio of male to female is 100:125 in the working age population, it is 100:59 among the employed. Less than 1 in 7 managers in the country are women. Nepalese employees earned an average (mean) of Rs.17,809 per month. However, gender disparities were obvious in the mean monthly earnings as gap between male and female monthly income is of Rs. 5,834 which is in favour of men (CBS, 2019). The same report shows 56.8% of fully employed females and 40.6 % of fully employed males were involved in the production of goods for own final use. Similarly, 90.7 % of females participated in providing services for own final use while only 47.2 % of males participated. Females were disproportionately more (88 %) involved than males (38.5 %) in unpaid household work. Gender disparities further analysed and reported as 93.3 % of female who were fully employed were also involved in providing services for own final use, while only 46 % of their male counterparts were involved in these activities.

26. Nepal has one of the highest rates of women's participation in agriculture in the world. Outmigration of men for employment in urban centres and other countries drives the feminization of agriculture in rural areas. Such migration has also resulted in the proportion of female-headed households which grew from 14.9 % in 2001 to 25.7 per cent in 2011 (CBS, 2011). According to the 2011 National Demographic Health Survey (NDHS), 76.4 % of women aged 15-49 years engaged in agricultural work are not paid, compared to 15.9 % of women engaged in non-agricultural work. In 2011, 10.4 % of women employed in agricultural work received in-kind only payment while 7.3 % received cash and in-kind payments. The NDHS showed that 5.9 % of women in agricultural work received cash only compared to 80 % in non-agricultural work. Just over 82 % of women

⁴ The GII "reflects gender-based inequalities in three dimensions – reproductive health, empowerment, and economic activity. Reproductive health is measured by maternal mortality and adolescent birth rates; empowerment is measured by the share of parliamentary seats held by women and attainment in secondary and higher education by each gender; and economic activity is measured by the labour market participation rate for women and men. The GII can be interpreted as the loss in human development due to inequality between female and male achievements in the three GII dimensions." (UNDP, 2019).

in agricultural work are employed by family members, compared to 14.6 % by non-family members and 2.6 % self-employed. The proportion of women engaged in seasonal work in agriculture (47.4 %) is also significantly higher than in other sectors (8.6 %). In rural areas, due to migration and long-term absence of men from agricultural fields, women have now also taken up responsibilities that were traditionally performed by men, such as ploughing. As a result, it has not only increased the workload of women but also caused poor agricultural performance due to labour scarcity as well as lack of access to credit for agriculture inputs. The heavy burden of unpaid household responsibilities borne by women often leads to 'time poverty' (MoHP, 2012; FAO, 2019).

27. Inclusion in the civil service is yet to reflect Nepal's social diversity. Only 20% of the staff are women and more than 61% come from the Hill Brahmin and Hill Chhetri groups (vs 39% in the wider population). The inclusion in governance is improving but there is still more effort to put on for a meaningful power sharing. Women hold almost 41% of elected local government seats due to reservation; however over 97% of Chairperson/Mayors are men, while 94% of Deputy Mayors are women and 44% of them come from Hill Brahmin or Hill Chhetri group (TU, 2020).

28. The 2016 Demographic and Health Survey (Ministry of Health, ERA, & ICF, 2017) found that 52% of women decide independently how their earnings are used, while 35% decide jointly with their husbands. Only 11% of women reported that their husband mainly decides on the use of their earnings. The same survey reported that the women who are least likely to have independent control over their own earnings are those aged 15-19 (38%), those with five or more living children (42%), those in the mountain zone (42%), and those with no education (45%).

29. Despite a steadily increasing gender development index revealing an overall reduction of the gender gap, discrimination continues to persist in limiting women's equitable access to and control over productive resources such as land, capital—including credit, markets, and other available opportunities. Nearly 20 % of women own fixed assets of the household, which is higher in urban (26.77%) than rural areas (18.02%) (CBS, 2011). Socially, women and girls in Nepal are disadvantaged by traditional practices such as the dowry system, early marriage, son-preference, stigmatization of widows, seclusion of women (*pardah*), domestic violence, and segregation of women and girls during menstruation (*chhaupadi*, which has recently been banned but is still practiced in some communities). Women face an onerous burden of household work and role of caretaker while their role in economic activities is minimized and the value of unpaid work is largely unaccounted for both in the household and national economy. Consistent with widespread social patterns of male dominance of the public sphere and women being more limited to domestic sphere, there is far higher involvement of women in production of goods and provision of services for own final use - almost double that of men (Central Bureau of Statistics, 2019). The household-level planning process too often still lacks equitable participation from women as male are still found to dominate on decision making. Furthermore, at present women from poor and vulnerable sections of society and youths face particular problems in access to credit for investment in market-oriented agriculture production and supply chains and other enterprises. This is despite there being specific policies to promote such lending developed by Nepal Rastra Bank and issued to all the class A, B and C Banks and financial institutions. Effective implementation of the policy and loan products is still an issue to be resolved.

30. The time-consuming but unpaid tasks for own consumption by women in turn limit their involvement and productivity in economic activities. Women's involvement has therefore often been in informal/subsistence agriculture. Their engagement is typically in the production level which is generally labour intensive. Women in rural areas mostly stay at home, hence the workload increases if the cultivation or livestock rearing takes place near to the house. Men traditionally tend to dominate work in the more public sphere - on the processing and market linkage or the works related to outside the farmland. The out-migration leaves young women behind to care for husbands' households, limiting their ability to spend time on their own pursuits. The 2014 Women's Empowerment in

Agriculture Index (WEAI) baseline report for Nepal reflected that community leadership and time allocation are the areas where women are least empowered. These dynamics affect the aspirations and engagement of young women in agriculture and require intentional pathways be developed to ensure their meaningful participation (LEO U. &, 2016)

31. Women therefore face a series of obstacles to greater economic and personal empowerment – pressure on their time, low returns on their labour, access to information, knowledge on production technologies and also access to finance to invest in themselves and their farm to make their farming commercial and profitable.

32. In Nepal, there is a complex interaction of several factors that heavily influence an individual's situation and opportunities. Most notably these include socio-ethnic group, age, gender and wealth levels.

33. While these patterns remain, the increasing feminisation of agriculture resulting from the out-migration of men from rural areas has also created opportunities for women in some communities to taken on wider roles in agriculture. A transition to profitable commercial smallholder agriculture offers the opportunity to increase the household income and the financial returns on women's labour. This may sometimes increase total workload, but will often see the substitution of low or unpaid work for higher paying activities. With the additional earning and women's greater control of these earnings, household can manage better food, education, health to their family members, which are often high priorities for women, and thereby access more socially acceptable 'status' in society.

Indigenous people and marginalized groups

34. Nepal is a multi-lingual, multi-religious, multi-ethnic and multicultural country inhabited by over 125 caste/ethnic groups, 123 languages and 10 religious groups (Central Bureau of Statistics, 2012). National census of 2011 calculated 35.8% of the population comprises of indigenous people (IP) and the country has legally recognized 59 indigenous nationalities as an *Adivasi Janajati* and classified in different 5 categories as a) Endangered (10), b) Highly Marginalized (12), c) Marginalized (20), d) Disadvantaged (15) e) Advanced living in mountains (18), Hills (24), Inner Terai (7) and Terai (10) (NFDIN, 2004).

35. There is extreme variation on economic situation of indigenous people-from the *Rautes* who still make their livelihood through hunting and gathering, to the *Newars* and *Thakalis* who are well advanced in commercial and industrial activities. IPs have been adopting either one or more strategies for their livelihood, including foraging, horticulture, agriculture and industrial activities (Bhattachan, 2012).

36. More generally, a study (CDSA-TU, 2014)conducted in 2014 shows that levels of socio-economic exclusion in Nepal vary across indicators and across and within caste/ethnic groups. None of the groups has a significantly lower level of socio-economic exclusion across the broader social groups. Caste/ethnic groups that have high levels of exclusion in one indicator may face higher levels of inclusion in another indicator. However, Hill Brahman/Chhetris and Hill Janajatis have low rates of exclusion across a fairly high number of indicators. Within the broader groups, hill Brahmans, Newars, and Terai Brahman/Chhetris have similar scores. In contrast, hill and Terai dalits scored poorly across a number of indicators and often face higher levels of exclusion than other caste/ethnic groups. This above report further concludes on the poverty gap, it is narrowest among hill Brahman/Chhetris and Muslims, and widest among hill and Terai Dalits. Disaggregated figures show that the poverty gap is wider among hill Chhetris than it is among hill Brahmans and wider among other hill Janajatis than it is among Newars.

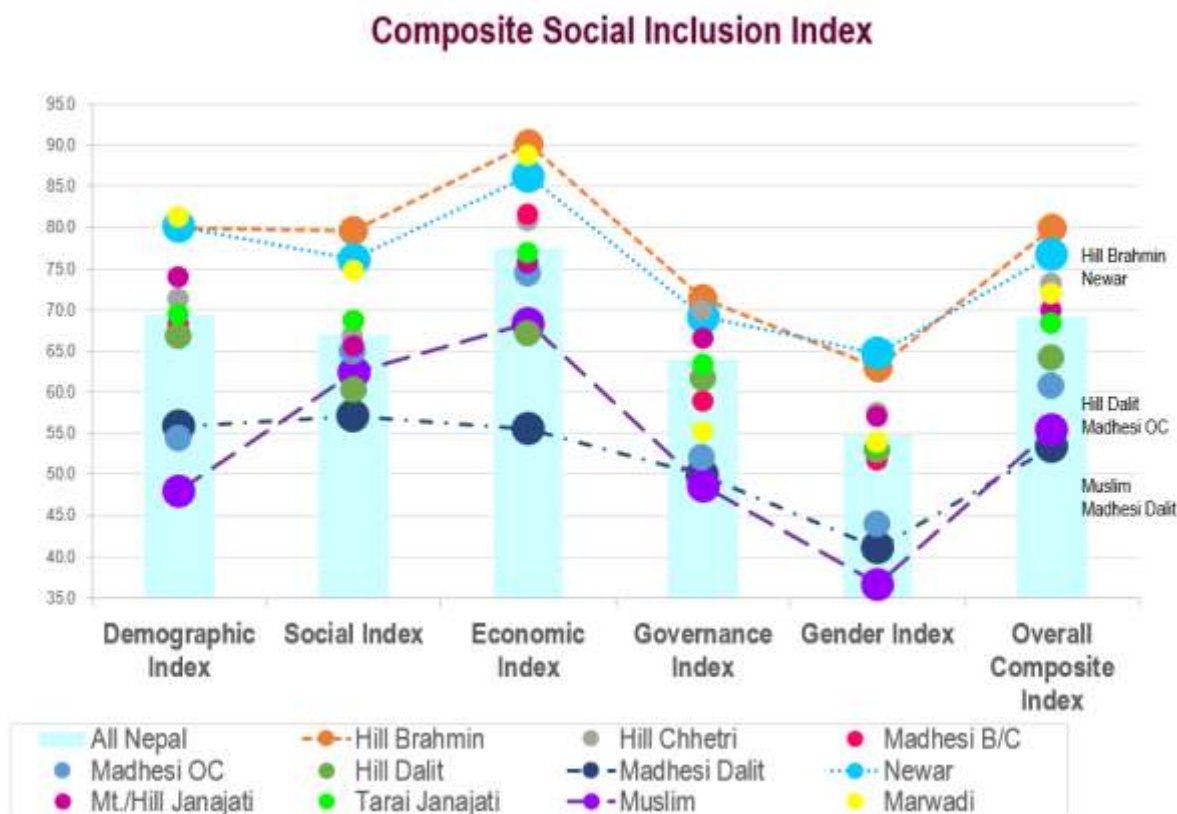


Figure 2 Composite Social Inclusion Index (TU, 2020)

37. Figure 2 illustrates the status of indigenous people and Dalits in the country. Mostly Dalits from both Hill and Terai region falls below on all index while Muslim and Madhesi also have low composite social inclusion.

Dalits

38. National *Dalits* Commission defines *Dalits* as the communities who, by virtue of atrocities of caste-based discrimination and untouchability, are most disadvantaged in social, economic, educational, political and religious fields, and are deprived of human dignity and social justice. Caste Based Discrimination and Untouchability (Offence and Punishment) Act 2011 has made such discrimination punishable in law. National *Dalits* Commission has scheduled 26 castes under Dalit including 7 Hill *Dalit* castes and 19 Terai/Madhesi Dalit castes⁵. Lack of productive resources and socio-cultural discrimination, lack of opportunities to advance the traditional skills of providing essential services such as tailoring, making shoes, making ornaments, preparing agriculture tools, mason and carpentry, and opportunities to acquire marketable skills are the factors that push Dalits in the highest poverty rates. Nepal Living Standard Survey III (2011), shows that poverty rate among Hill *Dalits* and Terai *Dalits* is 43.63 % and 43.16 %, respectively, while the average poverty rate is 25.16 (CBS, 2012). As mentioned above study conducted by Central Department of Sociology and Anthropology, hill and Terai Dalits scored poorly across a number of indicators and often face higher levels of exclusion than other

⁵ **List of Hill Dalit:** Gandharva (Gaine), Pariyar (Damai, Dargee, Suchikar, Nagarchee, Dholee, Hudke), Badi, Bishwokarma (Kami, Lohar, Sunar, Od, Chunanra, Parki, Tamata), Mijar (Sarki, Charmakar, Bhoor), Pode, (Deula, Pujari, Jalari) and Chyame (Kuchikar, Chyamkhal); List of Terai Dalit: Kalar, Kakaihiya, Kori, Khatik, Khatwe (Mandal, Khang) Chamar (Ram, Mochi, Harijan, Ravidas), Chidimar, Dom (Marik), Tatma (Tanti, Das), Dushadh (Paswan, Hajara), Dhobi (Rajak, Hindu), Pasi, Bantar, Musahar, Mestar (Halkhor), Sarbhang (Sarbariya), Natuwa, Dhandi and Dharikar/Dhankar

caste/ethnic group (CDSA-TU, 2014). Among *Dalits*, *Musahars* and *Doms* are most marginalized as well as landless Terai *Dalits*⁶.

39. Findings by recently conducted study 'State of social inclusion in Nepal' by the Central Department of Anthropology, Tribhuvan University emphasises targeted inclusion approach and meaningful power sharing; which are as follows (TU, 2020):

- i. While included groups are getting benefits, the excluded groups are becoming more excluded. All Dalits, Muslims and a section of Madhesi and Janajati are left behind.
- ii. A higher degree gender inequality still exists among the groups in the bottom.
- iii. Dalits are still facing severe discrimination as cast/ethnicity-based discrimination continues, however cross-cultural solidarity has improved
- iv. The meaningful power sharing is still missing although women's participation has been increasing in government and organizations.

Youth

40. The Government of Nepal defines 'youth' as people between 16-40 years which accounts 40.4% of total population. Population aged 15-29, represent approximately 33 % of the population of the country with over 61 % of them living in rural areas (CBS, 2011). Youth continue to face challenges related to education, civic engagement, political participation and unemployment. Youth migration is one of the major challenges in rural areas that affect agricultural activities at large. Limited economic opportunities in rural areas, high concentration of economic activities in urban areas, wider availability of low-skilled jobs in Middle East Countries, low economic return of traditional agriculture, and demographic changes are powerful push and pull factors affecting the movement of the youth.

41. Shifting workforce patterns out of low return primary agricultural production and into higher productivity sectors is an expected part of economic development process for a country. Yet the challenges in the sector mean that opportunities for interested youth to engage in higher return modern smallholder commercial agriculture and remain in their communities are being missed. This is even more relevant now with the large number of returning overseas workers. A recent rapid survey of around 750 returnee workers in Province 1 and 2 by an IFAD project (RERP) in August 2020 found that 58% were willing to invest in modern agricultural enterprises.

⁶ Human Rights Situation of Dalit Community in Nepal, Submission to the United Nations Universal Periodic Review of Federal Democratic Republic of Nepal for Second Cycle, Twenty Third Session of the UPR, Human Rights Council, 2-13 November 2015

42. As well as the well documented issues facing all smallholder agriculture, (fragmented production and supply chains, limited irrigation, access to credit, weak market linkages), youth face several additional specific challenges. Access to credit for investment is particularly challenging, where they have few assets of their own or other income sources. Other important push factors out of agriculture and rural areas include: lack of proper visioning and planning of life; insufficient mutual discussions and understanding among couples; over controlling attitude of parent; insufficient support system to promote youth in commercial agriculture and limited or poorly targeted public investment to promote economic activities and private investment in rural areas. In rural areas youth who are self-employed often have little to show in terms of income and market access. The status of farming is also an important factor – with the traditional farming of their parents seen as hard and un-glamorous work, with uncertain incomes and low social status (often affecting their marriage). Self-employment for youth is also constrained due to lack of knowledge and access to efficient production technology, lack of business skills and financial literacy and the inability of youth to access finance. Changing the perception of farming to be a respected modern profession, with farming as a business, is important in attracting youth. Real role models and success stories are critical.

43. The challenges of young women's participation in the labour force are even more pronounced. Newly married women in migrant families, whose husband have migrated overseas for work, often live with the husband's family, especially in the Terai and middle-class families. In many cases these women do not have proper communication with husbands and support system from parents-in-laws. They have little control over the own time or the resources and income of their husbands. Such women and their husbands are considered as high-risk households. The different groups within youth require specific attention with regard to the constraints and challenges of exclusion, inequality and discrimination. These groups include young women vulnerable to sexual abuse, trafficking and exploitation; historically marginalized indigenous youth; disadvantaged young women and girls; Dalit youth; young people with disabilities; youth without basic education; unemployed youth; migrant workers and their families; rural landless and land-poor youth; young bonded and forced laborers; young urban slum dwellers and squatters; conflict-affected youth; young people

YOUTH FACTS

- Youth population in Nepal is 40.3% of the total population. Among them, 45.8% are males and 54.5% are females.
- Out of the total youth population, 50.6% lives in Terai, whereas 43.4% and 6% live in Hill and Mountain regions respectively.
- In terms of usual activities performed by youth, the proportion of male population aged 16-25 years engaged in study is 50.06% whereas 37.21% of those in 26-40 years age group are engaged in waged/salaried work. However, the highest proportion of the female youth of 16-25 years and 26-40 years age group are engaged in study (37.53%) and household chores (39.2%) respectively.
- Nearly 50% of the total male population and 42% of the total female population aged 16-25 years is economically active whereas in the age group of 26-40 years the proportion of economically active population is nearly 94% for males and 66% for females.
- Around 40% males aged 16-25 years as well as 26-40 years, and 70% of the female populations from both age groups are engaged in agricultural, forestry and fishery related work.
- Education has been found as the major reason for 93.56% males and 60.67% females of 16-25 years age group, and 50.58% males of 26-40 years age group for not being economically active whereas household work is the main for 91.73% females of 26-40 years age group for not being economically active.
- Nearly 1.52% of the total youth have some kind of disability, of which 55% are males and 45% are females. Among the different types of disability, physical disability alone constitutes nearly 38.2% of the population with disability. (MoYS, 2014)

especially vulnerable to climate risks; sexual and gender minority youth; and young people living with HIV, among others (UNDP, 2018)

44. This situation calls for development programmes supporting agricultural value chain development, entrepreneurship skill enhancement and greatly increased access to institutional finance at rural areas. Promotion of competitive, smallholder-based agriculture supply chains will help create opportunities to utilize remittances and/or returnee labour more effectively for productive purposes and ultimately encourage increased private investment in rural areas, increasing the productivity of youths and profitability of agriculture.

45. Youth is one of the most affected groups by COVID-19. A large number of youths have lost their jobs in gulf countries and India and returning back to the country. Tourism, hotel and other production industries are almost closed since March lockdown and a large number of youths are unemployed.

Nutrition

46. Nepal has made impressive strides in reducing the prevalence of stunting (chronic undernutrition) nationally, which fell from 57% in 2001, to 36% in 2016. Stunting prevalence for children under 5 years does vary by region; it is 55% in Karnali and 29% in Gandaki Province . Moreover, the chronic undernutrition rate varies by maternal education and wealth levels, where, 23% of children whose mothers have secondary education are stunted, while the rate rises to 46% in children whose mothers had no formal education (USAID, 2018).

47. The high prevalence of adolescent underweight, combined with the persistent and high adolescent pregnancy rate, is a disturbing trend. Adolescent pregnancy is associated with a 50 % increased risk of stillbirth and neonatal death, and an increased risk of low birth weight, premature birth, asphyxia, and maternal mortality. Furthermore, the risk of stunting is 36% higher among first-born children of girls under 18 years in South Asia. (USAID, 2018) This suggests that young women should be a particular priority for the programme for unlocking issues of gender, youth and nutrition.

48. Nepal Demographic and Health Survey (NDHS), 2016 has shown that national household food security is only 48.2% whereas in rural areas the percentage is only about 38.8%. About 10% of households are severely food insecure. Geographically, the mountain regions suffer from more food insecurity where the percentage of food secure households is only 38.4% compared to Terai where 51% of households are food secure. Furthermore, the severely food insecure households in mountain region are about 13.8% compared to 9.2% of Terai region. Among the provinces with ongoing IFAD investment programme, Karnali province has the lowest level of food security with only 22.5% of household's food secure while severely food insecure households are about 17.5%. Province 2 has 43.1% food secure households and 10.7% households are severely food insecure. Food secure and severely insecure households for Lumbini and Bagmati are 48.4%, 55% and 10.2% and 8.5% respectively (Ministry of Health, ERA, & ICF, 2017).

Table 3 Provincial stunting status

Province	Stunning rate (%)
Province 1	33
Province 2	37
Bagmati	29
Gandaki	29
Lumbini	39
Karnali	55
Sudurpaschim	36
Overall	36

49. Poor nutrition, food insecurity, and malnutrition continue to pose risks to Nepal's population, despite the country's progress in reducing stunting in under five years' children from 57 % in 2001 to 37.3 % in 2014 and 36 % in 2016 (Ministry of Health, ERA, & ICF, 2017; CBS, 2015). There continues to be a need to accelerate the progress in this reduction in order to achieve the World Health Assembly target of relative reduction of 40% of the total number of children stunted compared to 2012 baseline by 2025 (WHO, 2017).

50. A recent study conducted by WFP highlighted increase of food insecurity compared to that of 3-4 years ago estimation. The study states that the 23 % of households had inadequate food consumption and 7 % of households had poor dietary diversity. 7.2 % adopted at least one negative coping strategy to address food shortages and about 5.7 % of households reported that the food they had in stock was insufficient to meet their needs. Minimum dietary diversity was not met by about 46 % of children between 6 and 23 months of age. In comparison, in the Annual Household Survey V (2016/17), 15 % of households reported consuming an inadequate diet, about 5 % of households had poor dietary diversity (WFP, 2020).

51. Current food insecurity status, measured as a combination of poor food consumption and poor dietary diversity, was more common in three provinces - Sudurpaschim , Province 2, and Karnali provinces. Similarly, more children with inadequate diet were in Sudurpaschim , Province 2 and Karnali Provinces(WFP, 2020).

52. Food insecurity was more prevalent among certain types of income sources, namely daily wage labourers, cash crop producers and less diversified livelihoods. Higher levels of food insecurity were also observed among households that source food in the market and households that did not have food stocks. In terms of the socio-economic characteristics, households with low education levels, a chronically ill member, or female-headed households were found to be more food insecure. A higher proportion of households that reported job loss had inadequate food consumption, compared to households that didn't report loss of income source (WFP, 2020).

53. Nepal continues to have a very high rate of child malnutrition despite recent progress - 36% and 27% of children under five are stunted and underweight, respectively. Poor dietary diversity is a major causal factor for these conditions. Poor maternal nutrition, especially among adolescent girls, significantly contributes to an intergenerational cycle of malnutrition and poverty. Inadequate infant and young child feeding (IYCF) practices also contribute to high prevalence of undernutrition. About 17% women of reproductive age have chronic energy deficiency (Body Mass Index less than 18.5) and 41% of those populations are anaemic (Ministry of Health, ERA, & ICF, 2017). Similarly, women and children also suffer from some of the world's highest levels of vitamin and mineral deficiencies. This can be emphasized by the fact that Vitamin A deficiency is the cause of death of approximately 6,900 children in Nepal annually . One in five (21%) children is born with low birth weight in Nepal reflecting malnutrition in the womb. As a result, 2 to 10 times the risk of death and at higher risk of diabetes and cardiovascular disease in adulthood is reported. Iodine deficiency in pregnancy causes more than 200,000 babies a year to be born mentally impaired and IQs that are 10 to 15 points lower than those with normal birth. About 2-3 % of GDP (US\$ 250 to 375 million) is lost every year in Nepal on account of vitamin and mineral deficiencies alone.

54. The National Planning Commission has set 5 targets with its benchmarks to meet the SDG-2, 'Ending hunger, achieve, food security and improved nutrition, and promote sustainable agriculture' (NPC, 2017). These are:

- i) to end hunger and ensure access by all people, in particular, the poor and people in vulnerable situations.
- ii) to end all forms of malnutrition, including stunting and wasting in children under five as well as provide sufficient nutrition to adolescent girls, pregnant and lactating women, and older persons.

- iii) to double the agricultural productivity and incomes of small-scale food producers, in particular women and indigenous peoples. This is to be achieved through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition.
- iv) for the food production systems to be sustainable and resilient agricultural practices that increase productivity and production along with strengthening capacity for adaptation to climate change, extreme weather, drought, flooding, and other disasters.
- v) to maintain the genetic diversity of seeds of both cultivated and wild plants and animals. This target also describes ensuring access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge.

55. The multidimensional poor population in Nepal are 28.6 %. The indicators that contribute most to multidimensional poverty in Nepal are undernutrition and households that lack any member who has completed five years of schooling (NPC, 2018). There are clear opportunities to further reduce these levels of multidimensional poverty by increasing availability and access to higher nutrient value foods for women and marginalized, especially in rural areas, through their own involvement in production and marketing of such products via systemically designed and implemented agriculture supply chain programmes. In addition, enhancing the attitudes, knowledge and practices regarding available nutritious products through peer-to-peer based mentoring, for example as planned under the new VITA programme to complement rural economic growth, appear to be important and practical opportunities for the coming COSOP.

56. The lessons from HVAP demonstrate that interventions in increasing production and marketing of food stuffs in supply chain process also increased the dietary diversity of the smallholder producers by a small but statistically significant amount of 1 % (Kafle, 2018). Increased access to nutritious diets through production of diversified high nutrient value food stuffs, including from horticulture and livestock products; wider exposure to markets; increased income and social mobilization along with a comprehensive package of financial knowledge and business skills; combined with good nutrition knowledge for a balanced diet; and use of household methodologies or similar approaches will facilitate improvements in the nutritional status of under 5 children, pregnant and lactating women.

57. The COVID 19 crisis has impacted livelihoods and incomes of Nepalese households. Reductions in income and loss of livelihood sources have impacted households with volatile income sources but also traditionally more stable livelihoods. In turn, this can have a detrimental impact on households' ability to access food, and also on their underlying vulnerability to shocks. This is particularly concerning as a majority of those who reported income reduction depend on income to access food (WFP, 2020).

Land rights and access

58. Poverty in Nepal is highly correlated to the size and quality of landholdings. The poorest are those land-poor families especially women, Dalits, ethnic minorities, economically poor people, and agricultural laborers. There have been past efforts at land reform mostly concentrated on securing land rights of the family, without much regard for differences in land ownership of individuals within households and with little success in equalizing highly skewed land holdings, reducing landlessness and improving security of land tenure. There is an estimate 1.3 million landless, land poor and other families holding nearly 10 million parcels of land without formal recognition and under continued threat to eviction (UN Habitat, 2020). These chronic land issues helped to fuel the years of conflict but the new approved Land Act of February 11, 2020 will contribute to change these issues.

59. There is a growing body of evidence linking women's land ownership and household welfare. However, according to the population census of 2011, women enjoy ownership over land and property in only 19.7 % of households in Nepal. While this is an increase over a 10-year period, it should be noted that 77 % of all households in the

country reported to have ownership of agricultural land but only 10.7 % of the households, had women with land in their names. So, while progress has been made, women still lag far behind as far as land ownership is concerned.

60. A study conducted in 3 districts reports that women face numerous gender-specific barriers to accessing, owning and controlling land including: i) the dominant patriarchal value in which the land is passed through the male line with the perception that daughters are sent off to her husband's house after marriage is a prime obstacles for women to be considered coparceners in family property; ii) the societal recognition that the husband is the sole decision maker and the presumption that women cannot handle property and land transactions as well as men do and should be relegated to doing household chores and taking care of the family; iii) Limited awareness of the legal provisions related to their rights to own land such as the tax exemption when registering land in the name of the woman, the minimal registration cost for joint ownership of spouses, or information on land transfer, registration and requirements primarily due to low level of education; iv) the mobility constraint and the long distances to the local land office; v) the process of land registration and transfer is male dominated, often lengthy and time-consuming which entails high administrative costs and require a lot of different documents (IOM 2016).

61. Women owning land is almost half (0.4) than that of men (0.7) according to the national statistics collected in 2014 by CBS. Female-headed households accounted for 19.7 % of the total agriculture landholders in 2011, a rise from 10.8 % in 2001 (SAHAVAGI, 2016). Land is the most important source of collateral, the lack of or small landholdings limit their access to credit and the purchasing of crucial inputs which ultimately results in low productivity.

62. When women take up the role of household head this does not translate into their decision-making power. With the exception of single women living alone or with young children, women do not necessarily have control over the property they own, and the decisions related to any kind of transaction of such property is taken by the men of the family, whether it is the father, husband or the son even when they are working abroad or outside the district. Men remain the decision-makers.

63. Paralegals and groups are very good sources of land related information for women interested in registering, owning or selling a piece of land. Paralegals are seen as helpful to help women and minority groups who arrange all the necessary documents and letters and complete all land related transactions. Upon completion of all the processes, service seekers pay certain fees to the paralegals. It is recognized that more female paralegals are needed in this field. Women also receive information on legal provisions on land ownership through the meetings of the groups they are members of such as Savings and Credit groups; Mothers groups, and Land Rights Forum. Other groups include forest groups, consumer groups, and land rights groups.

64. In terms of land for agriculture, around 84% of farms in Nepal are owner-operated and about 10% of land is held under some form of registered tenancy. The actual incidence of tenancy is significantly higher due to the presence of informal unregistered tenants. Sharecropping is the most common form of tenancy. Most leased land is worked by households that farm their own land and rent-in additional land when they have the capacity. Landless farmers work about 2% of total farm holdings. (USAID, 2018)

65. In Nepal, landless and land-poor youth is a major challenge. Youth's limited access to land, and most importantly their limited involvement in policy dialogues are some of the major challenges that restrict youth involvement in agriculture. The new land act of February 2020, offers new opportunities for youth land rights, along with land lease and rental. Unless youth centered policies and plans are in place and youth participate in policy dialogue, the youth potential in agriculture is unlikely to be realized.

66. The distribution of agricultural land is uneven as the majority of small farmers operate only 18 % of the total agricultural land with an average holding size of less than

0.5 hectare, less than the average national land holding size (0.7 hectare). On the other hand, 22 % of the land is operated by large farms with more than 2 hectares. The remaining 60 % of land is owned or operated by medium-sized farms with an average agricultural land between 0.5 and 2 hectares. The fragmentation of land is higher in rural as compared to urban areas, suggesting there may be challenges in the use of modern technologies.

67. Large areas of private rural holdings (an estimated 17%–60%, with the higher percentages in the hills and mountains) are uncultivated. Some land is unsuitable for farming, and some is left fallow under systematic crop rotation, but most of the land is idle due to lack of irrigation, low yields, or the absence of a family member able to farm the land (usually due to migration from rural to urban cities or foreign countries in search of employment). In some cases, landowners report not renting out idle land out of fear that tenants will claim rights under land legislation that grants tillers rights to claim a share of cultivated land. Although the legislation officially ended in 2001, fear remains that the law may be re-introduced and they feel vulnerable to unfair ownership claims. (USAID, 2018)

68. At the policy level, women's rights to land have been taking a progressive turn. New laws have been drafted to ensure that the legal framework improves and protects the rights of women. However, socio-cultural norms have prevented women, especially those in the rural areas, from benefitting from tax discounts and other incentives that the Government of Nepal (GoN) provides for joint/women registration, equal ancestral inheritance and spousal rights.

69. There has been significant progress at the policy level in recent years. Following the promulgation of the new Constitution in September 2015, the Government of Nepal amended the Lands Act of 1964 through enacting a Lands (Seventh Amendment) Act in 2018. This act provided a legal framework for implementation of Article 40 (5) of the Constitution on the provision of land to landless Dalits ("The State shall once provide land to the landless Dalit in accordance with law."). This was endorsed in September 2018 and paved way for yet another Bill for an 8th Amendment of the Land Act which proposed to allow ownership of land for "landless squatters" and "unmanaged dwellers". This 8th Amendment Bill to the Land Act was passed on September 19, 2019. The new Land Act finally came into force on February 11, 2020. The National Land Policy adopted by the Government of Nepal in March 2019 commits to securing tenure and land ownership, protection of land rights, rehabilitation of the landless, squatters and informal tenure-holders for improved housing, equitable access to land for all, including women and vulnerable groups. This policy is intended to support the achievement of the national goal of sustainable development through good land governance. The Land Act should provide a legislative framework to achieve these policy goals (UN Habitat, 2020).

70. The major highlights of the legislation are:

- i) The land authority shall distribute the land equally among the landlord and the tenant, thus protecting the land rights of the tenants and dispelling dual ownership over land.
- ii) Landless squatter families who have no land anywhere in the country and have no economic means to procure a piece of land will be provided with a parcel of land and land title free of cost for one-time up-to a designated size preferably at their original site of informal holding or relocated to any other appropriate site as deemed necessary in case they are currently residing in designated critical areas. The law provides for some restrictions to ensure the family does not become landless again.
- iii) In case of other informal tenure holder residing in government land for more than 10 years and who also have registered land elsewhere in the country, they may be provided with land title for the piece of land up-to a designated size upon payment of levy calculated on the basis of their economic status, residential

status, type of land, area of land, land value, duration of the informal landholding, and status of landholding elsewhere.

71. The law demands for a thorough assessment of the persons, families or households and land parcels for the identification, verification and recordation of landless squatters and informal tenure holders, their landholdings and information on different criteria to decide on the amount of levy to be imposed in case of non-landless informal tenure holders. In this process, more work on developing additional rules and regulations, and technical guidelines is necessary. Work has already begun on piloting practical tools in critical areas, including:

- i) The Social Tenure Domain Model (STDM), a pro-poor, gender responsive, participatory and affordable land information system for capturing person/s to land relationships cognizant of the land rights continuum, has been implemented in Nepal and has proven to be technically sound to generate the information required to implement on the new Land Act.
- ii) Fit-For-Purpose Land Administration (FFP-LA) strategy has been developed and FF-PA. STDM and FFP-LA application have been piloted together in several settlements.

72. The Land Policy is intended to directly address the issue of land administration and land management reforms under six major and key pillar objectives: Security of tenure; Access to land; Land Use; Land Valuation, taxation and land market; Land acquisition, and; Modernization of land administration services. It is underpinned by a strong inclusive agenda that considers the issues affecting the land rights of women and vulnerable groups. This includes: Rehabilitation of landless, squatters and informal tenure-holders for improved housing; Access to land and security of tenure; Tenure security for landless peasants for farming; Women's access to land ownership, and; Optimum use of land for sustainable housing. (Global Land Tool Network, 2020)

73. The policy also considers key environmental challenges related to food security, infrastructure development, and the application of Fit-For-Purpose techniques in land administration. In moving to implementation, there are a number of areas now expected to be prioritised, including (Ibid):

- i) Dialogue and capacity building with multiple stakeholders at provincial and local levels on the benefits of the land policy.
- ii) Capacity building on practical tools like the Fit-For-Purpose approach and how it can be used to address outstanding land administration challenges in line with federal restructuring.
- iii) Identification, Verification and Recordation (IVR) of informal tenure-holders covering approximately 25% of arable land.
- iv) Amendment and enactment of land legislation at the federal, provincial and local levels in line with the provisions of the new land policy.
- v) Training and implementation of Land Use Planning at the municipal levels.
- vi) Collaboration with national agencies, development partners and civil society organizations to fill the financial and technical gaps required to implement the policy.

1.2 Environment and Climate

Status

74. **Geography:** Nepal is a landlocked country with very high geographic diversity that ranges from tropical alluvial plains in the south area to the very rugged and permanently snow and ice capped Himalayan Mountains in the north. There are five major physiographic zones based on geology and geomorphology, from north to south: High Himal, High Mountains, Middle Mountains, Siwalik and Terai Plains. Lengthwise, all the zones extend from east to west across the country.

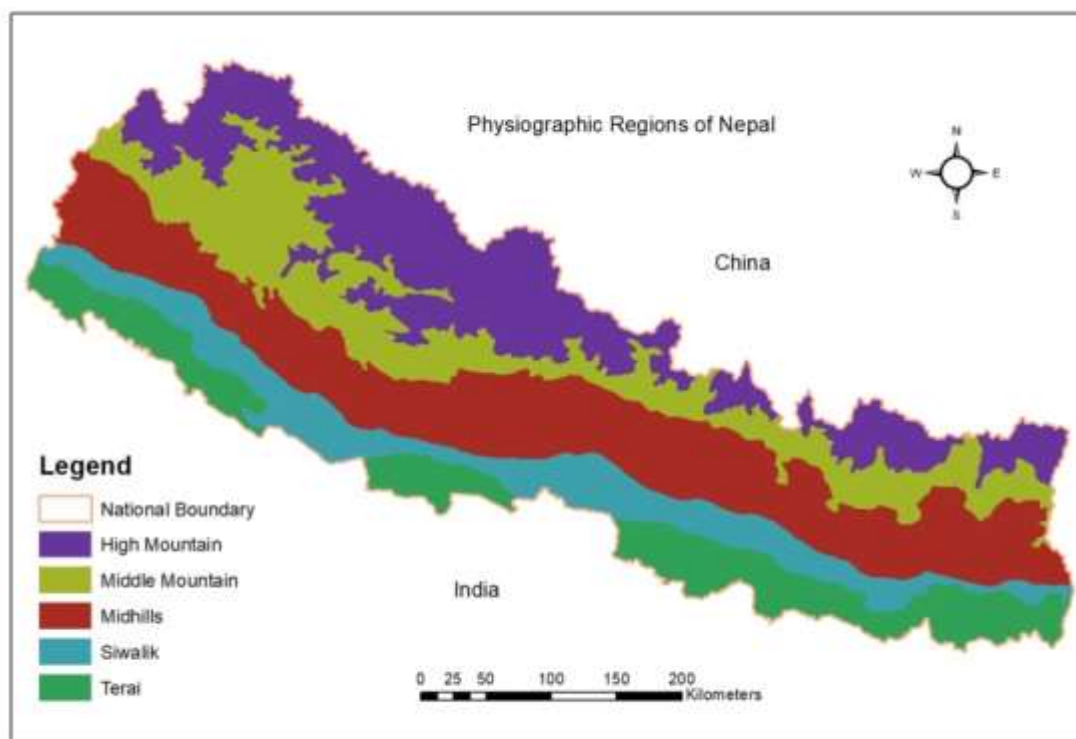


Figure 3 Physiographic regions of Nepal

75. The lowland Terai region – below 500m above sea level – is the northern part of Indo-Gangetic plain. The Terai extends nearly 800 km from east to west and about 30-40 km from north to south. The Siwalik, a narrow east-west belt of hills ranging between 500-1,000m asl and only 10-50 km in width, marking the northern boundary of the Terai plains and the southern boundary of the middle mountains. The middle mountains range from 1,000 to 3,000 m asl which is also called as Mahabharat range and is crossed in many places by antecedent rivers such as Koshi, Gandaki (Narayani), Karnali and Mahakali. The high mountains range from 3,000 to 5,000 m asl and the high Himal above 5,000 m asl. The climate also varies significantly. In general, climatic zones are categorized by temperature regimes based on altitudinal ranges. Tropical climatic zones occur below 1,000 m asl, sub-tropical to temperate climates between 1,000 – 3,000 m asl, sub-alpine to alpine climates between 3,000 – 5,000 m asl and tundra/arctic climates above 5,000 m asl (Dobremez, 1976; MoFSC, 2014) .

Table 4 Physiographic and Bioclimatic zones of Nepal

Physiographic Zone	Coverage (%)	Elevation (m)	Bioclimatic Zone
High Himal	23	Above 5,000	Nival (Tundra and Arctic)
High Mountains	19	4,000-5,000	Alpine
		3,000-4,000	Sub-Alpine
Middle Mountains	29	2,000-3,000	Montane (Temperate)
		1,000-2,000	Sub-Tropical
Siwalik	15	500-1,000	Tropical
Terai	14	Below 500	

76. **Biodiversity** (MoFSC, 2014): The unique geography with its spectacular changes in elevation within relatively short north-south span, and the associated high variability in eco-climatic conditions, has resulted in a very rich diversity of flora and fauna in the country. Nepal boasts 118 ecosystems, including forest ecosystem (112), cultivation ecosystem (4), water body ecosystem (1) and glacier/snow/rock ecosystem (1). Within 0.1 % of global area, Nepal harbours 3.2 and 1.1 % of world's known flora and fauna. A total of 284 species of flowering plants, 160 animal species, 1 species of bird, and 14 species of herpetofauna are recorded as endemic to Nepal. Nine species of plants, 55 mammals, 149 birds, 64 herpetofauna, and 21 fish are included in the International Union for Conservation of Nature (IUCN) Red List. Similarly, 15 groups and species of plants, 52 mammals, 108 birds and 19 reptiles and three insects have been listed in the Convention on International Trade in Endangered Species of Flora and Fauna (CITES) Appendices. Several species of plants and animals, including 27 mammals, 9 birds, 14 angiosperms, and 4 gymnosperms have been declared as protected species by the government.

77. Most of the Nepalese people are directly or indirectly linked to biodiversity for their livelihood and economic well-being. Biodiversity relates to every aspects of livelihood including agriculture productivity, food security, human health, nutrition, indigenous knowledge, gender equality, culture, climate, water recourses and aesthetic value to the society.

78. The predominant threats to biodiversity as a whole remain natural habitat degradation and loss due to expansion of settlements, agriculture, and infrastructure, overexploitation, and invasion by alien species, including pollution of water bodies. Agrobiodiversity has been threatened by improper use of insecticides and pesticides, and rapid expansion of hybrid varieties - for example in rice: Kaveri gold, Gangotri, Chandan, Khusi and Mamsa, and maize: 10V10, Sresta, Banni, 9081, Dragon, Rajkumar varieties. These varieties generally demand higher volumes of water, fertilizers, and pesticides and also have a shorter rotation period, thus increasing the use of soil nutrients and deteriorating soil quality if not properly managed. Widespread mining of gravel from streams and river beds for private and public construction and infrastructure development works has emerged as a major threat to aquatic biodiversity. Little attention has been given by a number of development projects in recent years to environmental management, posing a direct threat to diversity. This has caused considerable damage to biodiversity and local environment (MoFSC, 2014).

79. **Forestry:** Forest occupies 40.4% of the total area of the country while other wooded land covers 4.38% (DFRS, 2015). Forest and other wooded land occupy 20.9% of the Terai, 73.6% of the Siwalik, 53.8% of the Mid Mountain and 37.81% of the High Mountain and High Himal. The forest ecosystems are categorized into ten major groups: i) tropical, ii) subtropical broad-leaved, iii) subtropical conifer, iv) lower temperate board-leaved, v) lower temperate mixed broad-leaved, vi) upper temperate broadleaved, vii) upper temperate mixed board-leaved, viii) temperate coniferous, ix) subalpine, and x) alpine scrub (Stainton, 1972).

80. Forest biodiversity outside the protected areas falls under the six main types of management practices: i) community, ii) collaborative, iii) leasehold, iv) religious, v) protection, and vi) government-managed. Millions of households are now directly

benefiting from forest under the widely acclaimed community-based forest management and participatory protected area management programs.

81. Increasing high demand of agriculture land and high dependency on forests for meeting subsistence needs such as fuel, fodder, and construction material have caused substantial degradation of forests, particularly in the *Terai* and *Siwalik* regions.

82. Non-Timber Forest Products (NTFPs) together with Medicinal and Aromatic Plants (MAPs) play a critical role in meeting the food and healthcare requirement of a significant portion of rural people, mostly in the mountains. Several valuable herbs including *Swertia Chirata*, *Nardostachys grandiflora*, and *Cordyceps sinensis* have generated considerable employment opportunities and income for local people in remote areas. However, few commercially valuable NTFPs, especially medicinal plants such as *Aconitum species*, *Dactylorhiza hatagirea*, *Ephedra gardiana*, *Nardostachys grandiflora*, and *Valeriana wallichii* are facing unsustainable exploitation (Nepal, 2020).

83. **Water resources** (WECS, 2011): Nepal is rich in water resources. There are about 6,000 rivers draining an area of 191,000 sq. km, 74% of which lies in Nepal alone. There are 33 rivers with drainage areas exceeding 1,000 sq. km. If this natural resource is properly harnessed, it could generate hydropower, provide water for irrigation, industrial and domestic uses.

84. Rivers in Nepal can be broadly classified into three types according to their origins. The first category comprises of four main river systems of the country: Koshi, Gandaki, Karnali and Mahakali river systems, originating from the glaciers and snow-fed lakes. The second category comprises rivers originating from Mahabharat range which includes Babai, West Rapti, Bagmati, Kamala, Kankai and Mechi etc. Streams and rivulets originating mostly from the Chure hills make up the third category. These rivers cause flash floods during monsoon rains and remain without any flow or very little flow during the dry season.

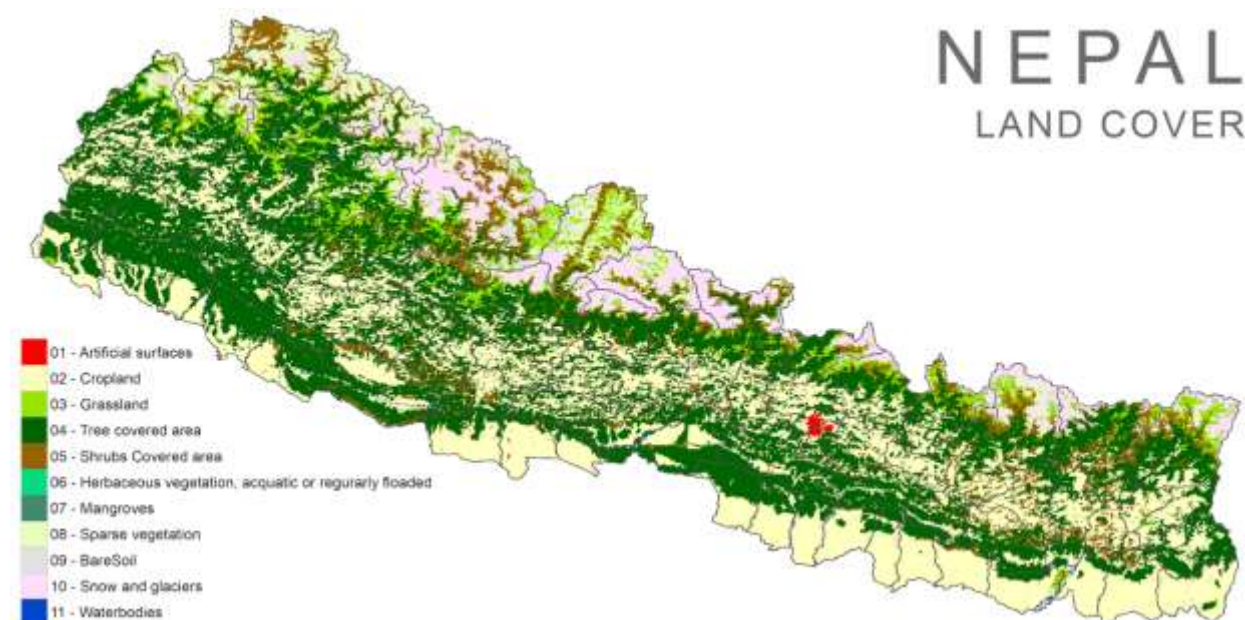


Figure 4 Land Cover⁷

85. Currently, about 10% of total precipitation in Nepal falls as snow, about 23% of Nepal's total area lie above the permanent snowline of 5000 m., about 3.6% of Nepal's total areas are covered by glaciers. There are 3,252 glaciers covering an area of 5,323 sq.km with an estimated ice reserve of 481 km³. There are 2,323 glacial lakes in Nepal covering an area of 75 sq.km. The surface water available in the country is estimated to

⁷ Developed by IFAD GeoSpatial group

be about 225 billion m³(BCM) per annum or equivalent to an average flow of 7,125 m³/s, out of which only 15 BCM per annum is in use. Around 95.9% of 15 BCM has been used for agriculture, 3.8% for domestic purpose and only about 0.3% for industry. It is observed that around 78% of the average flow of the country is available in the first category river basins, 9 % in the second category basins and 13 % in the numerous small southern rivers of the Terai. Studies have shown that the first Category Rivers have surplus flow but the second category rivers have deficit flow in the dry season.

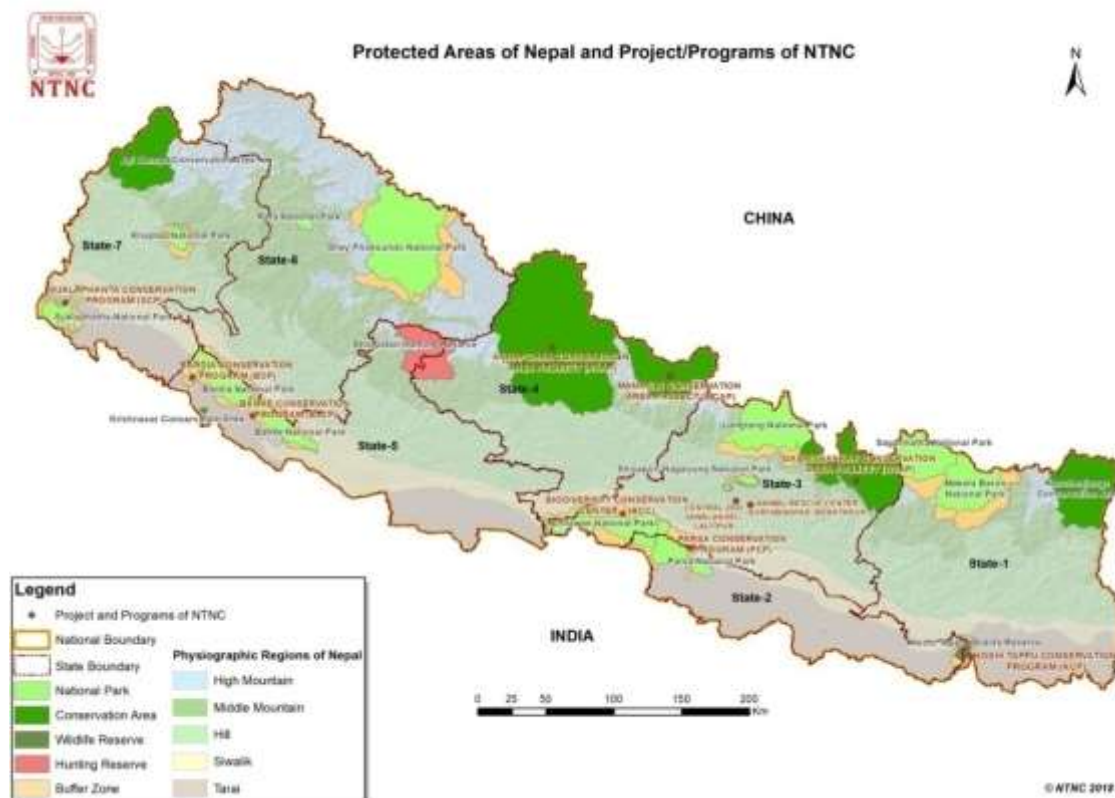
86. In addition to surface water, a large volume of water is available in the shallow and deep aquifers which are estimated to be 8.8 BCM annually which can be used for irrigation and domestic water supplies.

87. According to the precipitation trend analysis, the annual average precipitation over Nepal is decreasing at the rate of 9.8 mm/decade, however the Koshi basin shows increasing trend. Trend of the annual discharge of three major River basins Koshi, Gandaki and Karnali indicates that the discharges in these major basins are decreasing annually but, the annual discharges in southern basins were in increasing trend.

88. Analyses of monthly flow trend of some of the rivers indicate that the contribution of snow melt in runoff is in increasing trend for snow-fed rivers, similarly for non snow-fed rivers, dry season flows are decreasing and wet season flows are increasing. The impact on snow and glacier is found to be very high. Negative trends are observed in the glacier mass balance. Glacial Lakes are expanding and the threats of Glacial lake Outburst Floods (GLOF) are ever increasing.

89. **Protected Areas:** Protected areas remain the dominant approach to biodiversity conservation in Nepal. Out of the total forest area, 4.39 million hectares (82.68%) lie outside the Protected Areas (PA) and 17.32% inside the PAs together with core areas and buffer zones. These include 12 national parks, one wildlife reserve, one hunting reserve and six conservation areas, and buffer zones. The main focus of the national parks and wildlife reserves is conservation of flagship wild fauna, such as tiger, rhinoceros, Asian elephant, snow leopard and red panda. The key threatening reasons for the protected area biodiversity are i) illegal hunting and trade of important wildlife species, ii) human-wildlife conflict, iii) invasion by alien species of flora, iv) intrusion of tree species in to grassland, and v) encroachment of forest areas for cultivation and settlement (MoFSC, 2014).

Figure 5: Map - Protected Areas of Nepal (adapted from NTNC, 2018)



90. **Climatic zones:** Nepal's climate varies significantly from north to south and east to west. The climate zones in country are categorized by temperature regimes based on altitudinal ranges. These climatic zones are subtropical (less than 1,000-meter elevation), warm-temperate (1,000-2,000-meter elevation), cool-temperate (2,000-3,000 meter elevation), alpine (3,000-4,000 meter elevation) and arctic (more than 4,500 meter elevation) (DFRS, 2015). The climate is characterized into four different seasons: pre-monsoon (March-May), monsoon (June-September), post-monsoon (October-November) and winter (December-February). Central and mid hill areas have recorded highest rainfall, while the annual rainfall is approximately 1,800 mm. Temperature tends to decrease from south to north and decrease with altitude. The country faces the highest temperatures during the pre-monsoon period reaching over 40°C during the day in the Terai region and other lowlands. Winter is the coldest season with temperatures in the region of -10 °C in Himalayan areas to 15°C in Terai (MoE, 2010) .

Climate status and trend

91. The annual average precipitation from 1981 to 2010 shows Siwalik region has received the highest average rainfall of 1,700 mm per year followed by the Mid-Mountain region (1,627mm) and Terai (1,600mm). The High Himal region has least rainfall averaging slightly less than 700mm per year. More than two-third amount of annual rainfall occurs during the monsoon season for all regions. Both maximum and minimum annual temperature decreases with the increase in elevation from south to north. Terai and Siwalik regions are among the hottest regions with average annual maximum temperature with 30.8 and 28.5 degrees Celsius (°C), and minimum of 18.8 and 17.1°C respectively (MoFE, 2018).

92. The overall annual and seasonal maximum temperatures reported to have positive trend in the country. The annual maximum temperature is increasing at the rate of 0.056 °C and minimum temperature is rising at the rate of 0.02 °C per year. The minimum temperature, however, increases only during the monsoon season. The trend of

annual maximum temperature is increasing with the elevation from South to North. Terai and Siwalik regions have increasing trend of 0.021 and 0.03 °C while Mid-Mountain, High Mountain and High Himal regions are becoming hotter by 0.052, 0.068 and 0.86°C each year respectively. The minimum annual temperature has opposite trend with respect to increase in elevation, trend is higher in Terai (0.018 °C) and Siwalik (0.016 °C) than in the Mid mountain region (0.01°C), High Mountain (-0.005°C) and High Himal (-0.015°C); though trends in High Mountain and High Himal are insignificant⁸. Unlike the clear trend of temperature, the trend of overall precipitation is less clear. A few districts like Mahottari, Saptari in Terai, the pre-monsoon and monsoon precipitations show upwards trends by nearly 1.5mm per year while pre-monsoon precipitation shows a negative trend in the high Himalayan region. Comparing to the physiographic regions, only Terai shows a positive trend of 0.49 mm per year and other all regions have negative trends: Siwalik -1.48 mm/yr, Mid Mountain -1.58 mm/yr, High Mountain -3.17 mm/yr and High Himalays -1.46 mm/yr (DHM, 2017).

Average Monthly Temperature and Rainfall of Nepal for 1901-2016

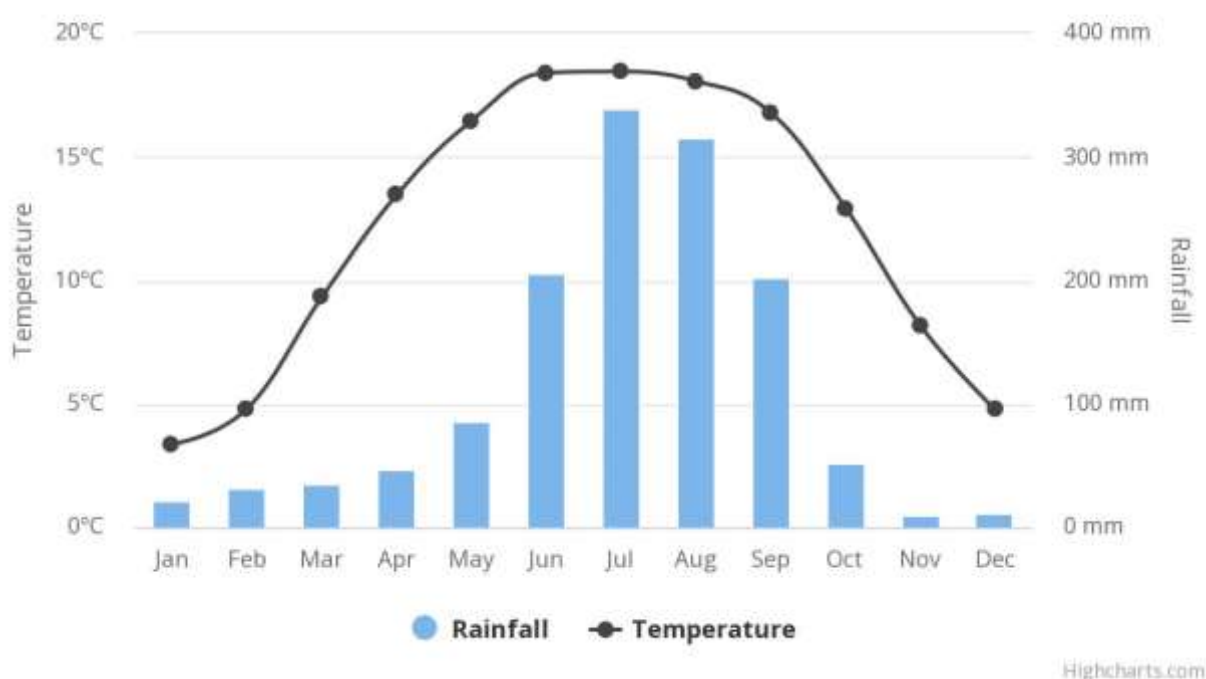


Figure 6 Temperature and Rainfall (WB, Climate Knowledge Portal, 2020)

93. MoFE, 2018 predictions for medium (2016-2045) and long (2035-2065) term climate change scenarios for Nepal corresponding to the 2030s and 2050s respectively. The findings indicate that temperature variables are expected to increase continuously throughout the twenty-first century. Mean temperature could rise by 0.9-1.1 °C in the medium-term and 1.3-1.8°C in the long-term periods. The temperature is projected to increase for all seasons, the highest rates of mean temperature increase is expected for the post monsoon and winter seasons. Average annual precipitation is likely to increase by 2-6% in the medium-term and 8-12% in the long term periods compared to reference period's (1981-2010) average of 1830 mm (MoFE, 2018).

⁸ all 'insignificant trend' are significant to 95% confidence level unless stated otherwise, same applies to the significant which is the significant to 95% or higher confidence level

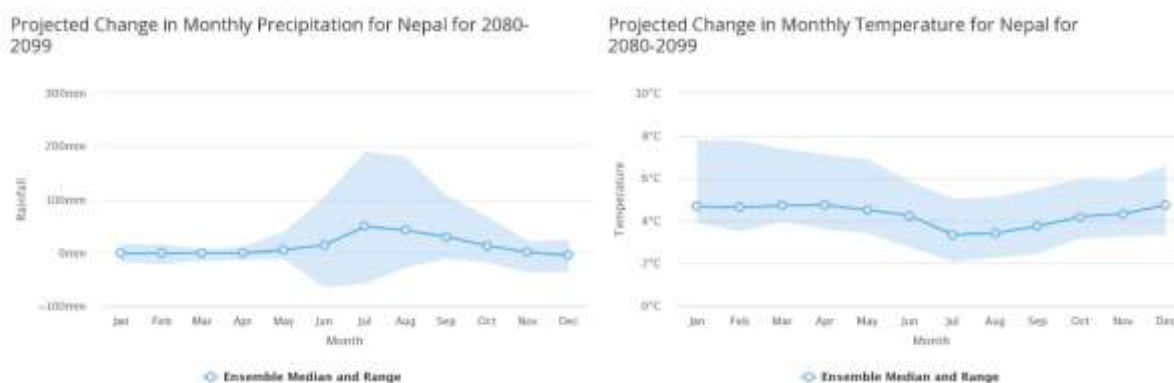


Figure 7 Rainfall and Temperature trend (WB, Climate Knowledge Portal, 2020)

94. Climatic variables projected by Organization for Economic Co-operation and Development (OECD) based on General Circulation Model (GCM) estimated that the mean annual temperature is likely to increase by an average of 1.20 C by 2030, 1.70 C by 2050 and 30 C by 2100 compared to a pre-2000 baseline along with Special Report on Emission Scenarios (SRES B2) scenario. Likewise, Regional Circulation Models (RCM) project the mean annual temperature to increase by 1.40 C by 2030, 2.80 C by 2060 and 4.70 C by 2090 (NCVST, 2009).

95. Climate extreme indices describe the changes in five extreme events for precipitation and six for the temperature. The number of very wet and extremely wet days has predicted to increase by 0.3 to 2.2 days and 0.9 to 1 day respectively in medium term. It may additionally support to current trend of landslide and erosion. The number of rainy days is decreasing in both scenarios by 3 to 1.6 days. Warm days, warm nights and warm spell duration are seemed to be increased in a good number of days which will attribute the overall rise in temperature in future periods. The prediction in decrease of cold nights and days might be associated with the increase in temperature.

Table 5: Extreme events scenarios

Indices	No of annual days in reference period (1981-2010)	RCP4.5		RCP8.5	
		Medium-term		Medium-term	
		%	Days	%	Days
Very wet (rainy) days	18.1	1.5	0.3	12.1	2.2
Extremely wet days	3.5	26.3	0.9	28	1
Number of rainy days	166.4	-1.8	-3	-0.9	-1.6
Consecutive dry days	45.3	6	2.7	-1.6	-0.7
Consecutive wet days	78.1	-4.2	-3.3	3.1	2.5
Warm days	36.5	64.5	23.9	71.4	26.4
Warm nights	36.5	81.4	30.5	101	37.8
Cold days	36.5	-42	-15.4	-55.8	-20.5
Cold nights	36.5	-40.7	-15	-54.1	-19.9
Warm spell duration	17.6	110	19.3	157.4	27.6
Cold spell duration	20.3	-51.8	-10.5	-55.1	-11.2

Conclusion on trend

96. Rainfall

- i) Over the 25-year time horizon of programme impacts, the expected cumulative total change in annual rainfall are very small to small – from +0.8% in the Terai to -4.9%

in the High Hills where annual rainfall would remain around 1,450mm per year. Only the Terai region shows a positive precipitation trend of 0.49 mm per year with respect to average rainfall of 1,600 mm per year. The rest of the regions have negative trend. The highest negative trend is in high-mountain (-3.17 mm/year versus 1,528 mm/year) followed by mid-mountain (-1.58mm/year versus 1,628/year average rainfall) and Siwaliks (-1.48 mm/year versus 1,708mm/year average rainfall). The pattern of decreasing rainfall trend with elevation is noticed in annual precipitation trend. In terms of the relative change, precipitation in the High Mountain area shows the greatest change at 0.021% decrease per year.

- ii) The people from the mountain region are among the highly vulnerable due to the climate sensitive farming practices and lack of adaptive capacity. The irrigation facility is minimal and the majority of smallholders rely on rain for the agriculture. People from the mountain regions has noticed decrease in winter and spring crop production due to decline in rainfall from November to April. The variation in seasonal rainfall has impacted agriculture production in other regions as well.

97. **Temperature**

- i) Maximum annual temperature is increasing. The temperature trend increases northward with the increase in elevation. Terai has the lowest positive trend (0.021 °C/year) while the High Himal region has the highest increasing trend of 0.086 °C per annum.
- ii) Minimum annual temperature is increasing in the Terai to mid-mountain districts. The annual minimum temperature trends show opposite to the pattern of maximum temperature trend in relation to elevation. The trends are positive in lower elevation districts and negative in higher elevation districts.
- iii) Average annual temperature will continue to rise by about 0.9-1.10C in the medium-term period and 1.2-1.80C in the long period. The rise in temperature will be sharper in the high mountains than lower elevation. Heat stress and projected increased intensity of the dry season adversely affect crop and livestock production in Nepal. Projected temperature increases reduce maize and wheat yields however they may also create opportunities for production of new crops at higher elevations particularly some vegetables. In addition, Increased temperature and humidity increase the risks of mortality and morbidity among the livestock and poultry. It increase the costs of veterinary medicines in livestock and poultry production.
- iv) It is estimated that the mean annual temperature is likely to increase by an average of 1.2⁰ C by 2030, 1.7⁰ C by 2050 and 3⁰ C by 2100 compared to a pre-2000 baseline. Shifting of climatic zones has been observed in the country due to increase in temperature. It has led to extinction of some local vegetation like local basmati rice varieties, some local wheat, maize and other agricultural crops. The increase in temperature is expected to trigger an upward expansion of plants in mountain regions and, although there is strong evidence that many native species have already shifted their distributions to higher elevations, for an example rice cultivation/yield increased in Jumla district, Citrus species getting better result in lower belt of mustang district, zinger performance is increased in Rukum district. Terai honey bees (*Apis mellifera*) well grazing and honey production increased during mustang season in midhills, the farmers bringing their bees to graze in Pyuthan district and getting good honey.

98. **Extreme events**

- i) The trends in extreme events are mixed in different districts. Rainy days are increasing in average 0.2-0.3 days except in few districts like Dang, Dhading and

Nuwakot where it is decreasing by 0.2 to 0.3 days a year. Consecutive dry days are decreasing in an average of 0.2-0.3 day per annum and consecutive wet days are increasing in same range. Very wet days are in nominal negative trend of 0.1-0.3 days per annual whereas extremely wet day shows neutral trend. Warm days are increasing by 0.2-1.3 days a year and cool days are decreasing by almost same trend. Warm nights are increasing with the average of 0.4-0.6 days a year and the cool nights have the same but decreasing trend. Warm spell is increasing by average 0.3-0.5 days per annum and cool spell duration has mixed trend in districts ranging between -0.2 to +0.2 days a year.

- ii) In the medium term (2016-2046), very wet and extremely wet days will increase by 0.3 to 2.2 and 0.9 to 1 days with respect to annual days of 18.1 and 3.5 days respectively. The number of rainy days will decrease by 1 to 3 days from the reference period of 166.4 days a year, and consecutive wet days is expected to change between -4.2 to + 2.5 days from 78.1 days.

99. **Vulnerability:**

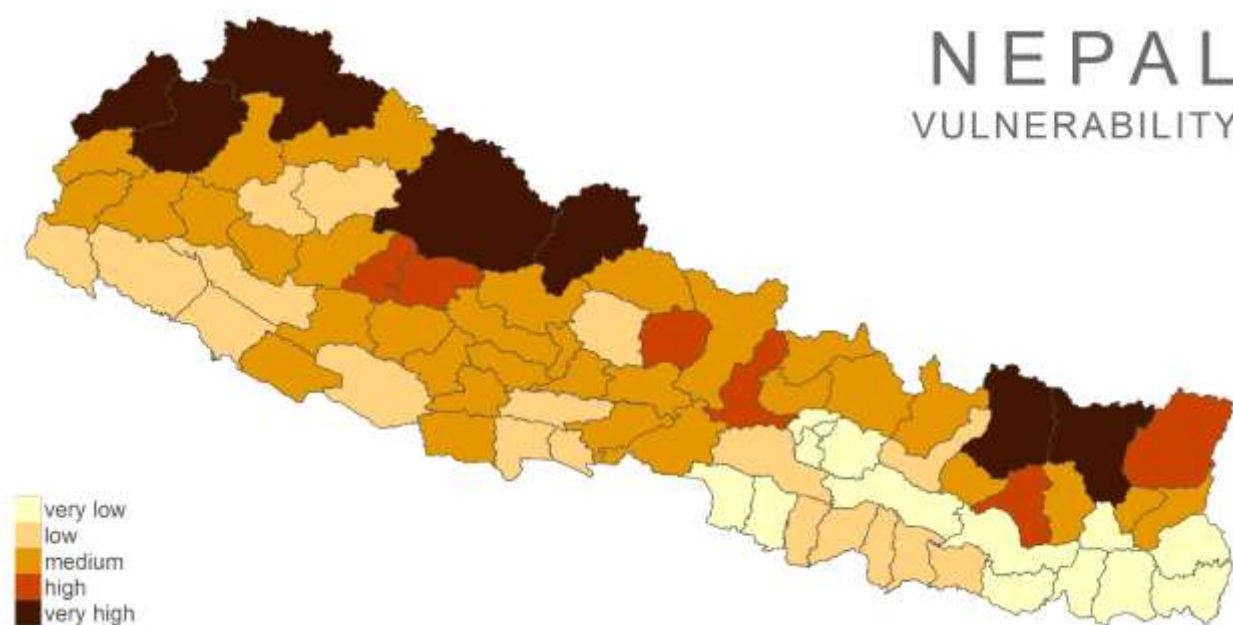


Figure 8 Vulnerability map⁹

- i) Nepal is exposed to various kinds of disasters. The young mountain geology, fragile ecosystems, poverty, lack of capacity and resources, and weak governance have made the country extremely vulnerable to environmental degradation and impacts of climate change and disaster risks. Nepal is most at risk to floods, including Glacial Lake Outburst Floods (GLOFS), landslides, droughts, and waterborne diseases. The climate change-driven events such as melting glaciers, degrading and eroding watersheds, drying water sources, and extreme precipitation pose a grave risk to Nepal's economy, and could cause losses equal to almost 2.2% of the country's annual GDP by 2050 and 9.9% by 2100. The impacts of disasters are most felt by the marginal populations, who are already hampered by poverty and disempowerment.

⁹ Developed by IFAD GeoSpatial Team

Average Annual Natural Hazard Occurrence for 1900–2018

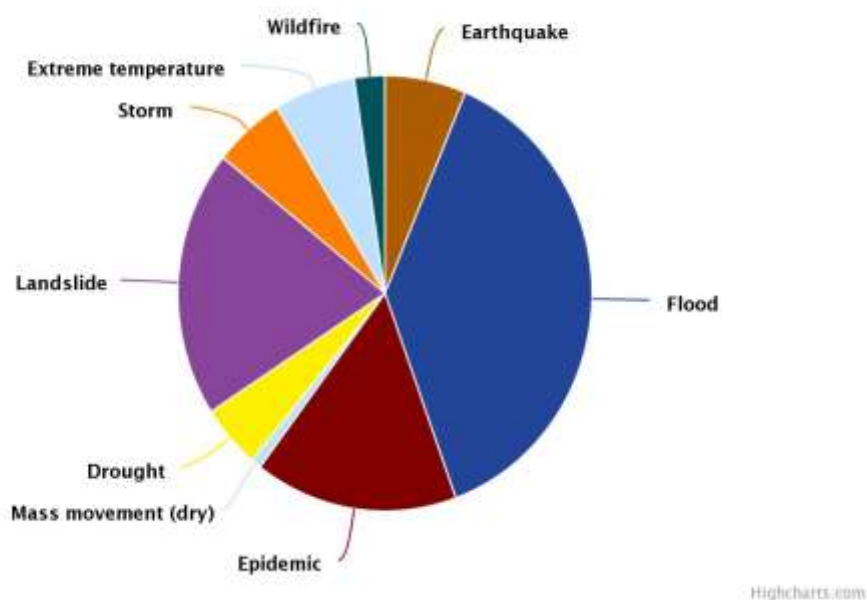


Figure 9 Types of hazard (WB, Climate Knowledge Portal, 2020)

- ii) Nepal is among the most vulnerable countries to climate change. Water induced disasters and hydro-meteorological extreme events such as droughts, storms, floods, inundation, landslides, debris flow, soil erosion and avalanches are frequent. Based on National Adaptation Program of Action (NAPA) 2010, out of 75 districts, 29 districts are highly vulnerable to natural hazard such as landslides, 22 districts to drought, 12 districts to glacier lake outburst flooding, and 9 districts to flooding.
- iii) Floods and landslides are the highest natural hazards comprising nearly 58% of total natural disasters in the country. This is mostly due to fragile mountain, unmanaged infrastructure development especially road construction in hilly areas, cultivation in the sloping land without proper management, combined with heavy rainfall. The current trend of landslides shows areas affected by 2015 earthquakes suffered the most. The epidemic disaster is about 16% of the disaster followed by earthquake and extreme temperature. Pre-monsoon storms are one of the challenging climate related disasters in Nepal.
- iv) The graph below shows the number of people affected by natural disaster. Flood affects densely populated Terai area, southern plain areas of Nepal, affecting a large population.

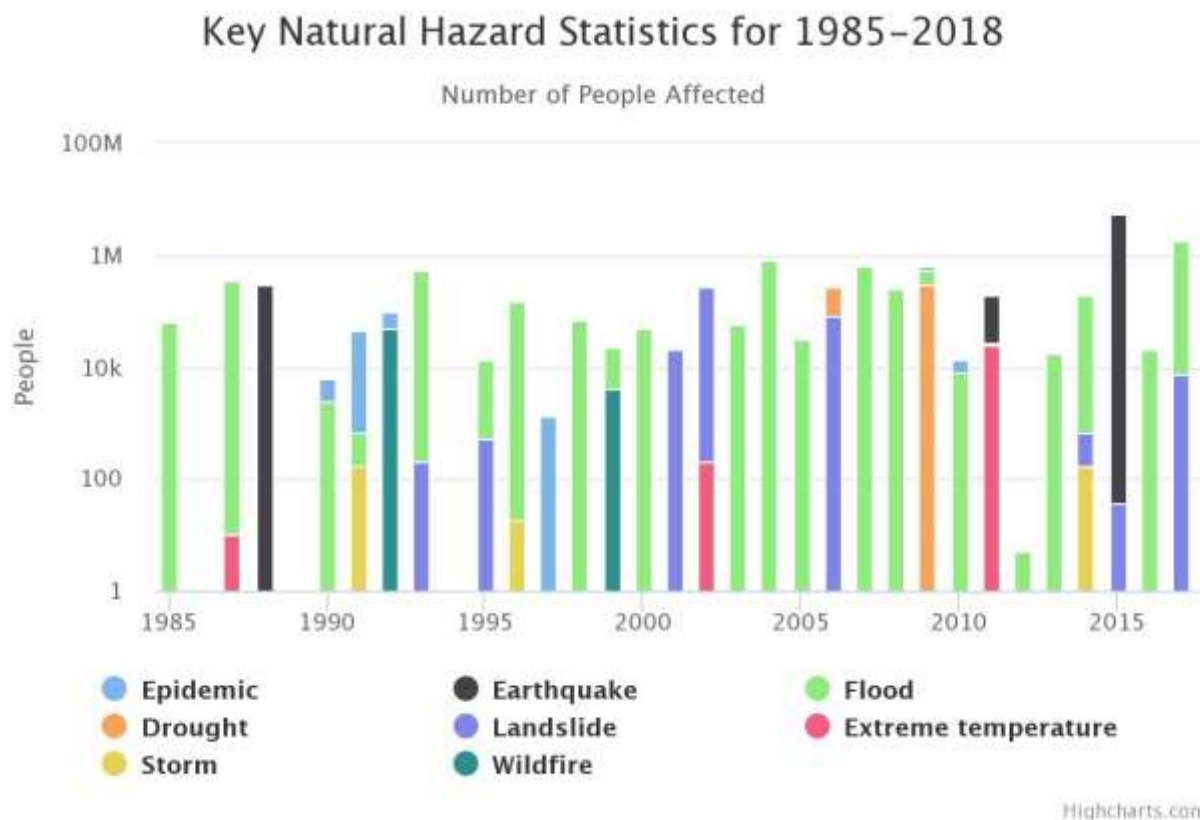


Figure 10 Damage by natural hazard (WB, Climate Knowledge Portal, 2020)

100. **Environmental degradation:** The environmental degradation has been caused both by the human-induced activities and natural processes. Deteriorating air quality, drying up of water sources and depleting groundwater, pollution of surface and groundwater, overexploitation of natural resources, deforestation, unmanaged solid waste, increase in emission of toxic pollutants, loss of biodiversity, unscientific agricultural practices, and harmful land use changes have been some of the major causes of environmental degradation. Some of the root causes of rapid environmental degradation are weak monitoring and enforcement, weak institutional capacity, scarce resources in public institutions, and inefficient interagency coordination (ADB, 2020).

101. **Impacts of climate change**

- i) The impact of climate change is high in Nepal due to its fragile topography, climate sensitive livelihood of the people and socio-culturally embedded poverty limited their adaptive capacity. Nepal's agriculture sector contributes to about 27.6 percent of the Gross Domestic Product (GDP) and employs almost 2/3 of the population. The adverse impact of climate change is high in this sector due to climate variability and related risks of natural disasters. Large proportion of marginal farmers with small landholding, limited irrigation, low-income level, limited institutional capacity, and greater dependency of agriculture on climate sensitive natural resources increase the degree of vulnerability. Total loss in agriculture due to floods, landslides, and drought was estimated to be about 2,360 million rupees for 2015 (AED, 2015), which was more than 10% of the total budget of the Ministry for that year. Increased variability and more extreme climatic events contribute to a loss of 2-3 % of GDP per year in water management and agriculture sectors, with much higher losses in extreme years (IDS Nepal, PAC, and GCAP, 2014).

- ii) Nepal has three agri-ecological zones – Terai, Hill and Mountain with only about 38% land arable. Most of smallholder farms depend on irrigation from pumping set (electrical/diesel) or rain water. Farmers from Terai region have somehow managed the facility of pumping set irrigation but the farmers from hilly and mountain regions have to mostly depend on irrigation. About 64% of country's farmers rely on water from monsoon rains. Reduced water availability during dry periods could exacerbate agricultural water needs. The shift in monsoon is gradually changing the planting and harvesting seasons, which are likely to become more erratic under a changing climate. Even high-input, irrigated wheat, maize, and sorghum yields show significant decreases in northwest Nepal under a changing climate in the 2020's, - 51.24%, -30.7%, and -25.93%, respectively. Figure 10 gives the overall idea on the major crops and seasons of Nepal.

Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Season
Mountain (Rainfed)												
		Mai-P	Mai-P				Mai-H	Mai-H	Mai-H			Summer
			Mil-P	Mil-P					Mil-H	Mil-H		Summer
	Pot-P	Pot-P					Pot-H	Pot-H	Pot-H			Summer
				Whe-H	Whe-H					Whe-P	Whe-P	Winter
			Bar-H	Bar-H						Bar-P	Bar-P	Winter
Hills (Partial irrigation/Rainfed)												
				Pad-TP	Pad-TP			Pad-H	Pad-H			Summer
		Mai-P	Mai-P				Mai-H	Mai-H				Summer
					Mil-P	Mil-P			Mil-H	Mil-H		Summer
		Pot-P	Pot-P				Pot-H	Pot-H				Summer
		Whe-H	Whe-H	Whe-H					Whe-P	Whe-P	Whe-P	Winter
		Bar-H	Bar-H						Bar-P	Bar-P	Bar-P	Winter
Hill (Irrigated)												
		Pad-TP	Pad-TP				Pad-H	Pad-H				Spring
	Mai-P	Mai-P			Mai-H	Mai-H						Spring
		Whe-H	Whe-H	Whe-H					Whe-P	Whe-P	Whe-P	Winter
Tarai (Rainfed)												
					Pad-TP	Pad-TP		Pad-H	Pad-H	Pad-H		Summer
			Mai-P	Mai-P			Mai-H	Mai-H				Summer
		Whe-H	Whe-H						Whe-P	Whe-P		Winter
Tarai (Irrigated)												
						Pad-Tp	Pad-Tp			Pad-H	Pad-H	Late-summer
	Mai-P	Mai-P			Mai-H	Mai-H						Spring
		Pad-Tp	Pad-Tp			Pad-H	Pad-H	Pad-H				Spring
	Mai-H	Mai-H							Mai-P	Mai-P		Winter

Mai-Maize, Mil-Millet, Whe-Wheat, Bar-Barley, Pad-Paddy, P-Plantation, Tp-Transplantation, H-Harvesting

Plantation/transplantation Crop growing phase Harvesting

Figure 11 Crop seasonal calendar

- iii) The declining forage production in natural pasture due to poor emergence of grasses, pastoral degradation and invasive species, increasing prevalence of animal parasites and vector-borne and parasitic diseases, heat stresses especially in pig, eroding breeds of sheep and pig, transhumance system loss, changes in animal reproductive behavior especially in terms of heat-period and fertility, shortage of feed ingredient and increased production/emission of Green House Gases (GHGs) due to animal health reasons have been major impacts and concerns of climate change in animal husbandry.
- iv) Various studies report that Nepal faces remarkable challenges due to climate change on lives, properties, infrastructure and the local economy. Recently published ADB report estimates climate change induced losses could equal almost 2.2% of annual GDP by 2050 and 9.9% by 2100.
- v) ADS has emphasized the prioritization of agricultural programmes that enhance resilience of smallholders to climate change. ADS has identified introducing stress tolerant varieties of major crops, developing early warning systems, and agriculture

insurance as measures to enhance resilience; and integrated water resource management, recharge basins, catchment management, and non-conventional irrigation as means that could help to boost production. Aligning with ADS, the COSOP has prioritize strengthening smallholders to climate shocks.

102. **Adaptation to Climate change**

- i) Adaptive capacity is influenced by multiple socioeconomic factors apart from physical circumstances. The socioeconomic factors include technology, resources, skills and governance. Adaptive capacity also includes enabling properties of both natural and societal assets, including financial, technological and information resources and the context within which these assets are held, including infrastructure, environment, political influence, social networks, public policy and institutional governance.
- ii) Adaptation for Smallholders in Hilly Area (ASHA) project's experience shows that adaptive capacity is locally specific and highly heterogeneous within a society. It is noted that mostly the poor, women and marginalised communities face the impact of climate change. The population who relies on agriculture as their main source of livelihood are impacted the most by climate change. In some aspects, the climate change impacts across all segments of the society. For example, the drying of spring and water sources has not only impacted the poor but also the rich families and households. However, the discussion with communities reveals that poor households are more vulnerable because they lack resources to effectively respond to the adverse impact.
- iii) The richer households, compared to the poor households, afforded to quickly switch from cereal crops to short term cash crops during drought. This implies that economically resourceful households tend to adapt quickly than poor households.
- iv) Effects of climate change tend to be more severe where people rely on weather dependent rain-fed agriculture for their livelihoods. In rural mountain communities with limited livelihood options, adaptive capacity is low due to limited information, poor access to services, and inequitable access to productive assets.
- v) The traditional practices are location specific and adapted by communities since generations to gradually adjust their livelihood in light to the adversities in weather and climate. Household level adaptation were mostly related to efficient water management, plantation and local bioengineering practices. Common practices of adaptation of agricultural production are crop diversification, adjustment of crop rotation, and selection of drought resistant crops. Smallholders are also conscious on the site selection but due to the limited land they are forced to do agriculture and tillage operation in slopy land as well. The smallholders needs the capacity building on climate smart agriculture practices supplemented by appropriate tools and technologies.
- vi) The climate induced natural disaster, particularly flood, landslide, windstorm are increasing. The newly endorsed Disaster Risk Reduction and Management Act (2017) has been formulated to address disaster risk management with a comprehensive approach, focusing on different stages of disaster management cycle from preparedness, mitigation response to rehabilitation. Furthermore, it provides a well-structured institutional set-up from the national to local levels for steering risk reduction activities. All three tiers of governments, federal-province-local, have structure on DRR. However, there is still lack of well understanding on integrating DRR in their regular planning process.
- vii) Early Warning Systems (EWS) for water-related hazards, developed since 2010, are active, utilizing automatic sensing and mobile communication technology for real-time climate and hydrological data acquisition and warning dissemination. For more than a decade, community-focused early warning systems have also been developed and tested in pilot areas for floods and landslides, in an attempt to bridge the gaps

between technological hazard early detection and local needs and capacity. However, Nepal Flood in August 2017 following incessant rainfall in Terai districts attests the dire need for more comprehensive preparedness and people centered EWSs which would guarantee that early warning reaches all communities. Equally important is to guarantee that the EWSs would instigate the uptake of safety measures and evacuation in timely manner.

103. **Climate finance for small-scale producers and MSMEs**

- i) Shortages of agricultural credit and insurance remain key constraints to widespread adaptation in the smallholder farming sector and limit farmers willingness and capacity to make adaptive investments in their farms – for example through diversification or investment in climate smart agricultural technologies to reduce their exposure to climate related risks (e.g. planting of additional fodder and shifting to stall-based goat raise, installing poly-tunnels, drip irrigation and mulch for more water efficient vegetable production). Such adaptation investments represent good value for money but also may take several production cycles to payback in full. However, the availability of suitable loans, especially for longer than 12 months, is extremely limited in Nepal.
- ii) There remains an estimated credit gap in the agriculture sector of around US\$750 million and severe limitations on term loans. The lack of term loans is primarily due to the dominance of short-term sources of funds for most banks and financial institutions which restricts their ability to provide more term lending given regulatory prudential lending requirements. For example, the Agriculture Development Bank Limited (ADBL) (a partially privatized state-owned commercial bank) is the largest lender to the agriculture sector in the country yet over 90% of its agricultural lending is for loans of <12 months. By providing additional term loan resources of around US\$60 million to ADBL, IFAD’s recently approved VITA programme will double the amount of term financing ADBL is able to provide to the sector. Similarly, a recent ADB project has provided around US\$40 million in term lending resources to Small Farmer Development Microfinance Financial Institution Ltd. (‘SKBBL’) – a former subsidiary of ADBL. Yet together, these represent less than 15% of the financing gap in the sector.
- iii) The Monetary Policy has for several years set minimum lending targets for the agriculture sector but there has only been a partial response from the banks and financial institutions. The Monetary Policy 2020/21 has taken further steps to address this and recognizes the importance of increasing lending and investment in the sector and focuses on expanding credit to agriculture, and micro-, small- and medium-enterprises (MSMEs) for economic recovery from COVID-19. It requires commercial banks, accounting for 87% of total assets/liabilities of the formal financial system, to invest at least 15% of their total credit in the agriculture sector by July 2023– yet actual achievement to date has been far lower, at less than 6% lending to agriculture (July 2020). ADBL is assigned the mandate by the government as the lead bank to facilitate agricultural credit – both directly through its nationwide branch network and as a wholesale financier to other banks and micro-finance institutions, such as SKBBL.
- iv) Agricultural insurance is also a key factor in providing farmers the confidence to upgrade and adapt their farms. There has been some progress in this area in recent years, including the availability of simple livestock and crop insurance products with government support (via the Deposit and Credit Guarantee Facility). Several BFIs, including ADBL, are now promoting these routinely with their lending. However, insurance coverage remains low.
- v) The policy and institutional framework for improved supply and distribution of finance for agriculture and adaptation investment is improving, though the systemic shortage of term finance remains a major constraint.

Part 2 Institution and legal framework

2.1 Institution

104. **Nutrition** and coordination mechanism: Nepal has developed a ten-year multi sector nutrition plan (2012-2022) led by National Planning Commission with close collaboration with ministries. The first five-year phase was completed in 2017 and the second phase has started from 2018 to 2022. Several ministries are taking lead on their thematic areas; i) Ministry of Agriculture and livestock development works for the agriculture and livestock related production and consumption, ii) Ministry of Women, Children and Senior citizen works on the behaviour communication change, and improve feeding habits, iii) Ministry of Education takes lead on awareness raising through different courses specially focusing adolescent girls, iv) Ministry of water supply looks after the post ODF activities, v) Ministry of Health works on health education with special focus on adolescent health issues vi) Ministry of federal administration and good governance supports on administration. Multi stakeholder nutrition coordination teams have been formed at the province, district and the municipality level.

105. **Gender:** Gender is not anymore crosscutting issue in Nepal. The Ministry of women, children and senior citizen leads the Gender issue; however, all the ministries have dedicated sections with certain human resources and a dedicated focal person. The national planning commission takes the lead on monitoring. The National Women Commission is dedicated commission to work on the Gender inclusion and equity.

106. **Youth:** The ministry of Youth and Sports is dedicated ministry to work on youth sector. It has various programs designed to youth like 'youth empowerment and development' and 'youth and small entrepreneurs self-employment fund'. National youth council is the organization chaired by honourable minister of Ministry of Youth and Sports which has vision as 'Making the Nepalese youth strong, competent, competitive and self-reliant, to build a modern, just and affluent Nepal through their meaningful participation and promotion of their leadership capacity'.

107. **Environment and Climate Change:** A higher level coordination mechanisms has been established at the highest political level for necessary policy guidance and coordination and at local level for implementation on the ground. A climate change division has been established in Ministry of Forest and Environment solely dedicated for the climate change related works.

2.2 Policy and regulatory frameworks

108. Nepal has transformed from a unitary administrative system to federal governance model. The new **constitution 2015** has provisioned three administrative levels – a federal, provincial and municipal levels. Elections of all three levels were successfully held in 2017 and 2018 and presently one federal government, 7 provincial governments and 753 municipal governments are functioning. The Constitution has provided a list of distinct and concurrent powers to all three governments. This also includes the mandates to each government to formulate and implement laws and policies on sustainable development and environment protection and conservation. The federal government has to formulate new laws and policies or amend existing laws and policies to make them coherent with new federal administrative system of the country. Concurrently, provincial and local governments are in the process of formulating laws and policies. Following are key laws and policies related to nutrition, youth, Environment and Climate change.

109. **Nutrition:** The first nutrition strategy was developed back in 1978 and the government initiatives have been underway since then. The Multi-Sectoral Nutrition Plan (MSNP) 2013–2017 served as a common results framework for improving nutrition outcomes and setting out plans of action for implementing nutrition-sensitive policies and strategies for key sectors, including agriculture, health, and education. On December 14,

2017, the Government of Nepal launched the MSNP II. The objectives of the MSNP II are to reduce the prevalence of stunting to 28 % and of wasting to 7 % among children under 5, and to reduce undernutrition (BMI < 18.5) to 12 % among women 15–49 years of age.

110. The Government of Nepal has formulated **Food and Nutrition Security Plan (FNSP)** that constitutes a chapter in the Agriculture Development Strategy (ADS) for the decade 2013-23. Similar to the ADS, FNSP has a vision to ensure national food and nutrition security with a specific focus on the agriculture sector as the main vehicle that can deliver it, as well as the main vehicle for economic growth and balance payments of the Nepalese economy as a whole. The key objective of the FNSP is to reduce hunger, malnutrition and poverty among the poorest households by improving sustainable agriculture-based livelihoods.

111. **Gender:** The Constitution of Nepal is a significant milestone for gender equality and social inclusion (GESI) and enshrines equal rights for women, the poor, the vulnerable and people from different social groups. Strategy against child marriage (2072 BS), National Policy on children (2069 BS), Single women protection fund regulation (2076 BS), Gender based violence mitigation fund regulation (2076 BS) emphasize participation of women, Dalits, Janajatis, Madhesis, Muslims, persons with disability and excluded communities in the formulation, implementation, monitoring and evaluation of sectoral policies, plans and programs. They recognize the need to identify the specific barriers faced by women, the poor, the vulnerable and the excluded in the sector concerned.

112. **Youth and Social protection:**

- i) Nepal is one of countries with highest proportion of youth covering 40.3% of the total population. Unemployment and less attraction towards the agriculture are forcing them to travel India and other countries to search job opportunities. The COVID-19 has impacted jobs of the youths in abroad and a large number of youths are travelling back to the country. This COSOP will have a great opportunity to support government to retain working human resources to the country.
- ii) The national youth policy 2015 has listed the major challenges faced by youth as lack of qualitative, timely and employment-oriented education, least access to vocational skills and techniques, unemployment, under employment, youths' flight, weak health, nutrition, mental strength, lack of environment of youth friendly investment and entrepreneurship, gender, religion and caste related inequalities and the negative impacts brought about by globalization and liberalization.
- iii) At the same time the federalism has also brought opportunities by easing to expand network of banks, cooperatives and micro-finance, expanding network of formal, vocational education, program relating to education for all, expansion of various programs focused on target groups and geographical areas, expanding network of development partners in awareness expansion, greater number of opportunities for foreign employment and the opportunities for the creation of internal employments by utilizing the skills, experiences and means and resources acquired from that in the productive sectors are the opportunities available in this regard.
- iv) The policy further explains the important role played by youth on national politics and stressed the role of youth in the process of transformation of the economic, social and governing system of nation. A number of policy areas have been listed as follows:
 - Education: Scientific, practical and skill-oriented technical education linking with labor market
 - Employment: Capacitate youth through skill oriented vocational training, promotion of youth entrepreneurship, creating employment emphasizing agriculture, agro industries, tourism, energy and development of infrastructure, linking youth to cooperatives.

- Health and Social Security: Ease health facility, include health education from the primary school, education about sexual health protection, health consultation services, maternity right of women, special financial opportunity to the sex trade victims and special priority groups.
- Youth Empowerment and Leadership Development: Training and exposures of youth.
- Participation and mobilization: Mobilization of youths in various nation building activities of social service and rescue operations.
- Arts, Literature, Culture, Sports and Entertainment: Promotion of related university, academy, and related organizations.
- Control of Drug Addiction
- Control of Human Trafficking and sale and purchase
- Freeing the youth involved in Crime and Violence
- Youth participation in environmental protection and sustainable employment
- Youths' access to science and information technology
- Youth participation in establishing sustainable peace and conflict resolution
- Equity in development
- Social sectoral priorities
- Partnership

113. **Environmental management and climate change policies**

- i) **Environment Protection Act 1996** and the corresponding **Environment Protection Rule 1997** regulate environmental issues. The act has listed the type of projects that require an Initial Environmental Examination (IEE) or Environmental Impact Assessment (EIA) in the prescribed manner. The act has the provision of a separate Environment Protection Council to issue guidelines and provide views and suggestions to the Government of Nepal. Similarly, various committees may also be formed to handle the technical work. An Environmental Protection Fund is also established by the Act. A provision is also provided in the Act for compensation to the persons affected by environmental pollution.
- ii) The Government of Nepal has formulated a **Climate Change Policy in 2019** with the aim to contribute to socio-economic prosperity of the nation by building a climate resilient society. The 2019 policy has the objectives of advancing capacity on CCA, developing ecosystem resilience, promoting green economy by adopting low carbon economic development concept, mobilizing national and international financial resources, making effective information service, mainstreaming climate change into relevant policy, strategy, plan and programs, and also mainstreaming gender and social inclusion, including in climate change mitigation and adaptation programmes. The policy follows theme-based approach and includes single policy with number of non-separated strategies and working policies in eight thematic areas and four cross-cutting areas. The picture below illustrates the key features of the CC 2019 policy.

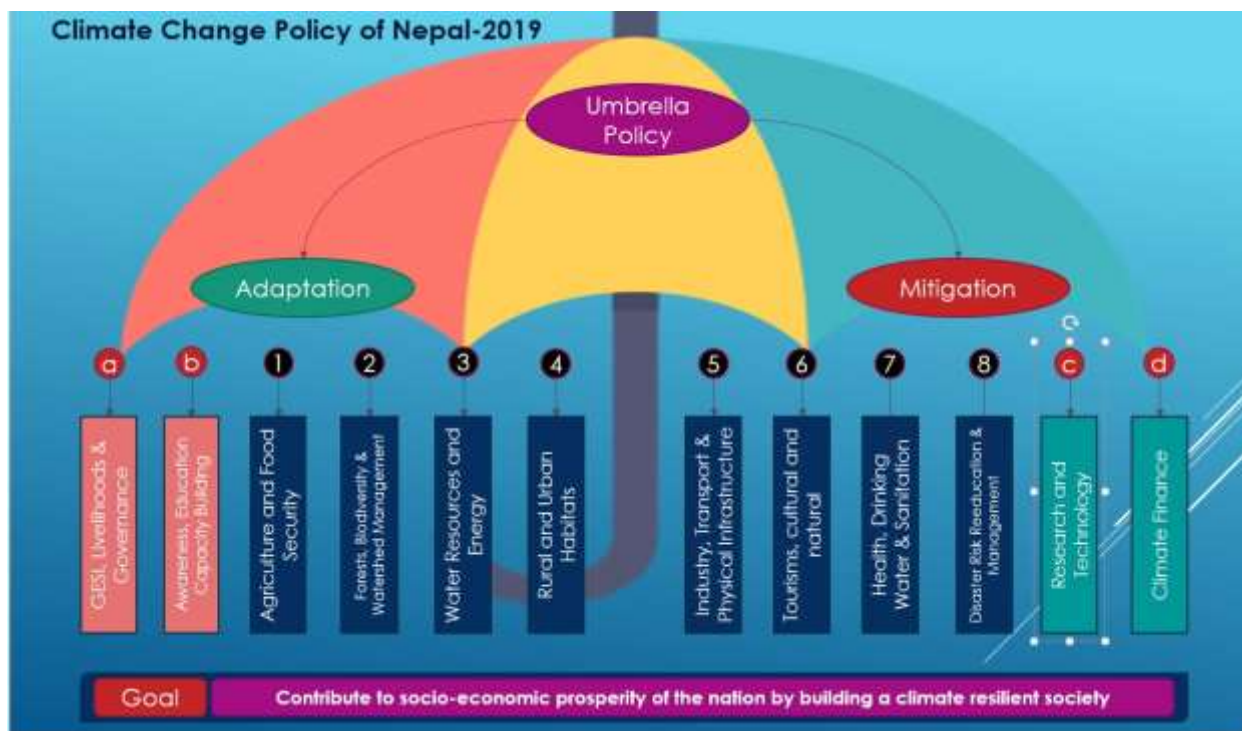


Figure 12 Pictorial presentation of CC Policy 2019¹⁰

- iii) The 2019 policy provides space to establish institutional linkages between three tiers of governments. The federal government is made responsible to formulate and implement policy, law and standards, national adaptation plan, access to and mobilise financial resources, prepare carbon registry, coordinate and facilitate carbon trade, and promote coordination, joint-action and participation. The Provincial Government is responsible to prepare and implement provincial policy, guideline, standard and plan, monitor mitigation and adaptation programs, and coordinate with Federal and Local levels. The Policy empowers the Local Governments to implement activities related to mitigation and adaptation, and carry out monitoring and evaluation and documentation of projects and programs within their jurisdiction¹¹.
- iv) The policy commits to revise or formulate and implement National Framework on Local Adaptation Plan for Action (LAPA), National Adaptation Plan (NAP), REDD Strategy, Climate Finance Framework and Budget Code, Green Growth Strategy, Gender Mainstreaming in Climate Change Action Plan, and other climate change documents

2.3 Programs and partners

114. On the partnership front, the CSPE notes that responsive partnership was maintained with the federal government. At the subnational level (states and local government), relationships were works in progress. With other development agencies (World Bank, SDC, SNV) there has been some cofinancing. Partnerships with the United Nations system were minimal. With the private sector, a beginning of partnership was initiated through contract-farming agreements as well as via the MSP under HVAP and RERP. Partnerships have been sufficient to support the implementation of the portfolio so far but lacked depth to foster a strategic agenda for policy influence.

¹⁰ Illustration made by Dr. Maheshower Dhakal, Under Secretary, MoFE

¹¹ <https://www.spotlightnepal.com/2019/09/29/climate-change-policy-2019-towards-climate-resilient-economic-prosperity/>

Country priorities and links to environmental and climate change regional and international policy, plans and program

115. In terms of private sector partnerships, these have been mostly driven at the project level through projects such as HVAP, KUBK/ISFP and RERP with local and national businesses, typically engaged through the multi-stakeholder platforms. Several projects have also engaged with and provided capacity building support to local Chambers of Commerce through partnerships with the Agro-Enterprise Centre of the Federation of Nepalese Chambers of Commerce and Industry. These have undoubtedly strengthened the local private sector bodies and their partnerships with small-scale producer. However, while effective at the project level, the partnership with AEC-FNCCI has not created a platform for more strategic partnerships with the wider private sector.

116. In 2016, Nepal ratified the Paris Agreement and submitted a Nationally Determined Contribution (NDC) that looked into clean energy development, afforestation measures, sustainable transport systems, climate friendly practices in agriculture, waste management and building codes. Nepal has submitted enhanced NDC on December 2020 under the Paris agreement for the period 2021-2030. It recognises Nepal's fragile topography, climate-sensitive livelihoods of the people and their limited adaptive capacity make it among the most vulnerable countries to climate change. The enhanced NDC has a strong commitment on clear energy generation, sale of e-vehicles, operation of 200 km long electric rail network, and wastewater treatment. Sector-wise GHG emissions reduction have been mentioned for the period of 2021-2030. In transport sector, the enhanced NDC commits to 'decrease 28% in fossil fuel dependency' by increasing sales of e-vehicles, and the same percent of emission reduction (1021 Gg CO₂ equivalent) by 2030. The enhanced NDC mentions to reduce about 23% of GHGs emissions (465 Gg CO₂ eq), by 2030, from residential cooking and biogas. Similarly, it commits to reduce 258 Gg CO₂-eq by treating 380 million litres/day of wastewater and managing 60,000 m³/yr of faecal sludge. In tourism sector, it targets to 'ensure at least 5 tourist destinations carbon neutral by 2030'.

117. The enhanced NDC also includes adaptation component in the spirit of the Climate Change Policy (2019) and commits to, inter alia, prepare and implement climate resilient and gender-responsive adaptation plans in all 753 local levels by 2030 and formulate National Adaptation Plan (NAP) by 2021. Some adaptation plans include enhancing knowledge on climate change including it in all secondary schools, strengthen climate-sensitive diseases surveillance system, and integrate climate risk assessment mechanisms into WASH program.

Table 6 Alignment between NDCs priorities actions and IFAD programmes

NDC programs relevant to IFAD mandate	IFAD contributes to the national NDC targets
Mitigation component	
Energy: Increase the reliable supply of clean energy ensuring access to all, develop enabling environment to provide power to small and mid-size enterprises using distributed renewable energy generation sources	Projects have provisions to support to the Renewable Energy Technologies. Ongoing project ASHA has the minimum target of RET support to 7,500 households.
Forestry: Include social and environmental safeguards, upgrade watershed health, inclusive/proportional representation in community forest, restore and manage degraded forest land	Projects have well spelled safeguard mechanisms and translated that to their AWPBs. ASHA has prepared 23 sub watershed assessment reports and adaptation plans are guided by the findings of assessment. Project are supporting to revise community forestry operational plans and integrate climate adaptation activities.

<p>Agriculture: Increase soil organic matter, expand fruit orchard area, improved cattle shed, increase number of organic fertilizer production plants, establish climate smart village and farms, promote sustainable agriculture practice, expand and ensure access of climate smart agriculture technologies to marginalized group, encourage community seed bank and national gene banks</p>	<p>All projects promote sustainable agriculture practices. Adequate site and crop selection practices are adopted to maintain soil health and quality. Promotion of biochemicals and biopesticides has been ensured. ASHA has established six permaculture demonstration sites and conducting permaculture farm field school. Support has been provided to practice and expand various climate smart tools and technologies. Trained lead farmers and climate smart agriculture farmer field school supported by ASHA project promoting tools and practices of climate smart agriculture. Permaculture farmers are also initiating seed bank.</p>
<p>Waste: promote 3Rs (Reduce, Reuse, Recycle) approach, focus on co-production of energy and organic fertilizer from solid waste, wastewater and faecal sludge</p>	<p>Waste management provisions has been incorporated in project supported interventions.</p>
<p>GESI: Develop specific programs with dedicated resources (human and financial) to ensure full, equal and meaningful participation of women, children, youth, Indigenous Peoples and marginalized groups in climate change-related policy development; and during the planning, monitoring and implementation processes at local, provincial and national levels; Promote the leadership, participation and negotiation capacity of women, Indigenous Peoples and youth in climate change forums; Ensure gender-disaggregated data when reporting on progress and achievements.</p>	<p>At least 50% beneficiaries will be women, adequate targeting strategies have been adopted to include most vulnerable communities/households. Provisions are made to ease the access of women in finance and other resources. Project support are conscious to reduce drudgery. Capacity building, business skill development, leadership development activities are provisioned in all projects.</p>
<p>Adaptation component</p>	
<p>all 753 local governments will prepare and implement climate-resilient and gender-responsive adaptation plans</p>	<p>ASHA has developed enhanced LAPA preparation manual and facilitated to develop 200 ward level LAPAs in 30 municipalities. Project is supporting to integrate climate adaptation plans to municipalities. Capacity building on climate adaptation has been ongoing to local to federal governments.</p>
<p>Mobilization of climate change adaptation resource person</p>	<p>ASHA is conducting Climate adaptation capacity building to the local to federal governments, stakeholders and other service providers. VITA will also capacitate stakeholder on climate smart agriculture.</p>

Increase population with access to the basic and improved water supply	ASHA is supporting integrated water supply management, from source protection to the waste water utilization.
Integrate climate risk assessment mechanisms into WASH program	ASHA is practicing climate risk assessment which are working as a baseline for the LAPA and municipal planning process.
NAP preparation process	ASHA project is supporting NAP preparation through sharing knowledge products, exchanging project's experience and sharing thematic presentation in different forums.

118. The Nepal **Biodiversity Strategy and Action Plan (2014-2020)** emphasizes biodiversity conservation and ecosystem resilience as keys to national prosperity. The Strategy recognizes legitimate rights of all Nepali people such as indigenous people and local communities, women, Dalits and other disadvantaged social groups over local biological resources.

119. Considering climate change mitigation and resilience as one of the major strategic pillars, the **Forestry Sector Strategy (2016-2025)** aims to enhance Nepal's forest carbon stock by at least 5 % by 2025 as compared to 2015 level, and to decrease mean annual deforestation rate by 0.05 % from about 0.44 % and 0.18 % in the Terai and Chure respectively. It also aims to put in place forest carbon trade and payment mechanism, protect 0.2 million ha of forests through the implementation of adaptation plans, and mainstream community/ecosystem-based adaptation by 2025.

120. Nepal's overarching **sustainable development goal by 2030** is to reduce poverty and ensure basic livelihood facilities for the present and future generation and offer opportunities for the citizens to participate in social, economic, political, cultural, and ecological development. The key SDGs related to environment are: (i) 95% of households have access to piped water supplies and improved sanitation, 100% free of open defecation, and 100% urban households connected to a sewerage system; (ii) 99% of households have access to electricity, 10% of the households use firewood, generate 3,000 MW in 3 years, 5,000 MW in 5 years and 15,000 megawatts of hydropower in 10 years, and limit fossil fuel consumption to 15% of total energy consumption; (iii) increase forest cover to 45% and protected areas to 25%; and (iv) undertake climate action for minimizing the impacts of climate change.

121. **Agriculture Development Strategy (2015), National Conservation Strategy Framework (2015), Disaster Risk Reduction Management Strategy** and periodical policies provide ample opportunities to help climate vulnerable to adapt and build resilience to climate change impacts.

Part 3 Strategic recommendations

3.1 Lesson learned from previous COSOP 2014-2018:

Completed projects

122. **Western Uplands Poverty Alleviation Project** was a long running project – first approved in December 2001 and closed in March 2017. The project goal was "to have more resilient livelihoods and basic human dignity of the poor and socially disadvantaged people" in the uplands of the Far and Mid-Western regions. It was an integrated community-based project. Activities included a mix of labour-intensive community infrastructure development, leasehold forestry and non-timber forest products, crop and livestock production, microfinance, and marketing and institutional support. The cost was US\$29.77 million, financed by an IFAD loan of US\$22 million, an IFAD grant of US\$0.6 million and contributions from the national and local governments. The project was initially under the Ministry of Local Development and later under the Ministry of the Cooperatives and Poverty Alleviation. The project performance evaluation report states WUPAP had effectively targeted poor and vulnerable people at a rate of 79-85 per cent of plan and largely met or exceeded output targets related to livelihood activities, including livestock and crop production as well as NTFP. Improved natural resources management was an identified outcome for WUPAP in its theory of change, which it largely achieved through its different activities, particularly IPM training and water infrastructure construction. The leasehold forestry activities in the first phases and the FFS training have enabled WUPAP communities to be more resilient to climate change. The project revised targeting strategy by adopting participatory poverty ranking to find the neediest household, which was later incorporated by government as a criterion for poverty card assessment. Another learning was the success of participatory need-based planning to identify the real need of the community. This practice is reflected in LAPA framework.

123. **Leasehold Forestry and Livestock Programme** was a long running project – first approved in December 2004 and closed in June 2016. The objectives were to improve: (i) forage and tree crop production from secure and sustainable management of leasehold plots; (ii) household production of small livestock (goats); (iii) provision of microfinance services to leaseholders; (iv) the Government's capacity to implement leasehold forestry nationally. Placed under the responsibility of the Ministry of Forestry and Soil Conservation, the project promoted the leasehold forestry approach. Project's interventions engage smallholders on degraded forest land management. This reduces the pressure on forest land and also found effective to control encroachment resulting supportive to the biodiversity conservation. The key learning from the project was degraded forest land could be supportive to the biodiversity conservation and generates alternative incomes if community ownership is established. The Government of Nepal is still continuing the best practices of LFFP through leasehold department.

124. **Poverty Alleviation Fund II** was a long running project, first approved in December 2007 and closed in June 2019. This was co-financed with the World Bank. The Poverty Alleviation Fund was a national institution, chaired by the Prime Minister. It was launched at the time of the internal conflicts. The main development objective was to improve rural living conditions, livelihoods and empowerment with particular attention to groups traditionally excluded due to gender, ethnicity, caste or location. It was a community-driven development project, including community-selected and -managed subprojects on socio-economic infrastructure and group-based savings and credit. It was financed by a US\$220 million DSF grant from the World Bank and a US\$9 million IFAD grant. During the critical situation of insurgency, PAF II practiced the approach of direct funding to the communities and it worked well. It upscaled the governance decentralization practice to the national level started by WUPAP.

125. **High Value Agriculture Project** was approved in December 2009 and closed in March 2019. It supported agricultural production and value chain development, aiming to integrate the rural poor, especially women and marginal groups, in high-value agriculture value chains to increase income and employment opportunities. The project was under the responsibility of the Ministry of Agriculture and Livestock Development

implemented with FNCCI-AEC and SNV. It had total costs of US\$18.9 million, of which US\$7.6 was from an IFAD loan, US\$7.6 million from an IFAD DSF grant, US\$1.7 million from the Government, US\$6.1 million expected from private entrepreneurs, and the balance from SNV. Previous projects were community driven; this was the starting project in Nepal portfolio to work on market driven approach. It worked to bring all stakeholder together in 'multi-stakeholder platform', together assessed need identification and jointly worked on production planning. The project worked to capacitate and engage private sectors in production, banking and business.

126. **Kisankalagi Unnat Biu-Bijan Karyakram/Improved Seeds for Farmers Programme** was approved in September 2012, completed in December 2019. It supported production of high-value products (seeds, livestock, dairy) and market linkages. It was under the responsibility of the Ministry of Agriculture and Livestock Development implemented with Heifer, AEC and Small Farmer Development Bank/Nepal Agricultural Cooperatives Central Federation Ltd. Total costs were around US\$65 million, financed by a US\$14.5 loan from IFAD, a US\$14.5 million IFAD grant, US\$7.9 million from the Government, US\$2.5 from Heifer International, and around US\$10.9 million from beneficiaries. The learning of HVAP was further upscaled in livestock sector in KUBK. It worked on livestock breeding center and market linkages.

Regular projects

127. **Samriddhi- Rural Enterprises and Remittances Programme** was approved in April 2015, with completion planned by December 2022. The project's development objective is to create viable rural micro, small and medium enterprises in the farming and non-farming sectors and provide sustainable sources of income to poor households, migrant families and returnees. It promotes: i) RMSEs and job creation – seeking to create sustainable economic opportunities for rural individuals, as producers in supply chains, micro-entrepreneurs or in skills-based employment, and 2) Productive Investment seeking to improve financial inclusion for productive investment and better mobilize resource and skills of migrant households. It is under the responsibility of the Ministry of Industry, Commerce and Supplies. After restructuring, the total estimated cost is around US\$25 million, financed by an IFAD loan of US\$2.5 million and an IFAD grant of US\$16.5 million, Government counterpart funding for around US\$4 million, and around US\$2 million foreseen from the private sector. This project upscaled learning of HVAP and KUBK in eastern side of Nepal improving service delivery and procedures.

128. **Adaptation for Smallholders in Hilly Area** was approved in September 2014, with completion planned by March 2022. The development objective is to reduce the vulnerability of local communities to climate-related risks and strengthen the institutional environment for climate change adaptation by introducing better climate-resilient production techniques. It is under the responsibility of the Ministry of Forests and Environment, formerly the Ministry of Forests and Soil Conservation. The total estimated cost is US\$37.6 million, financed by IFAD (US\$15.0 Adaptation for Smallholder Agriculture Programme (ASAP) fund and US\$10 million DSF grant), by the Government with US\$6.6 million, and beneficiaries' US\$5.9 million. This project piloted sub-watershed level risk assessment and development of LAPA beyond the administrative boundary. Project worked on sensitizing and capacity building of local governments on climate change adaptation, and the LAPAs are well owned by them. A few key learnings of project includes i) the vulnerability and adaptive capacity are heterogenous with in the small community hence the vulnerability assessment should be done in local level and adaptation planning should be based on that, ii) climate adaptation plan should be upscaled to the national level and the plan should be beyond the administrative boundary, iii) smallholders are attracted towards the climate smart agriculture practice, and iv) permaculture, field farmer school, and lead farmer approaches are successful ways to disseminate knowledge and learning on climate smart agriculture.

129. **Agriculture Sector Development Program** was approved in December 2017 and its completion is scheduled by June 2024. It is a successor project to HVAP. The

development objective is to sustainably improve 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. It is under the responsibility of the Ministry of Agriculture and Livestock Development. At design it had total estimated costs of US\$68 million, financed by a US\$38.2 million IFAD loan, a US\$1.8 million grant, US\$11.4 million contribution from the Government, US\$3 million from the Swiss Agency for Development and Cooperation (SDC), and the rest from private sector and beneficiaries' contributions. This was the continuation of experiences of HVAP and KUBK further improving service delivery and procedures.

3.2 Strategic orientation and strategic actions and targeting: Gender and Social Inclusion

- i. Renewed emphasis on proactive targeting of the most disadvantaged groups, especially Dalits, Muslims and specific sections of Madhesi (Dalit and poorest families) and Janajati (from the remote parts of Nepal and poor), and women within these groups. This may involve inclusion of specific measures/tools (e.g. household methodologies, GALS, WEAI etc) to increase their full participation and to benefit from mainstream programme interventions.
- ii. A particular focus on young women – to offset the double discrimination of gender and age for their social and economic empowerment and to begin to tackle systemic issues of poor maternal and early childhood nutrition.
- iii. Sustained efforts to establish women’s leadership in local economy, policy and governance process through capacity building and economic activities such as supported supply chains and enterprises - moving beyond high participation into genuine leadership in the local economic activities and institutions.
- iv. Deliberate selection of economic opportunities and supply chains to be promoted that are inherently attractive and accessible to women while delivering good returns on labour (e.g. small to medium livestock, fish ponds, vegetables).
- v. A deliberate focus on economic opportunities and technologies that deliver increased returns on labour and labour productivity to provide the opportunity for women to raise their incomes and/or reduce overall workloads as they choose.
- vi. Program will take actions for ‘do not harm approach’ when working areas includes indigenous people. Participatory discussions should be made with indigenous community to find more opportunities for them.

Recommendations to enhance food and nutrition security:

- i. Expand local supply and year-round availability of high nutritional value foods through promoting quality seed and breed, and development of competitive local supply chains for these products;
- ii. Promote supply chains of highly nutrient but neglected and underutilized crop varieties, for example: Chino, Buck-wheat, Fox and Finger Millets etc.
- iii. Increase families’ ability to access and buy nutritious food through increased household incomes and increased women’s incomes in particular.
- iv. Mainstream considerations of nutrition behaviour change, including mother and early childhood nutrition and micro-nutrients (e.g. vitamin and mineral deficiencies) into wider efforts of women’s and youth economic and social empowerment using the full suit of programme tools under COSOP.
- v. Coordinate with wider efforts of government and development partners on the above, especially at province and local-government level.

Recommendations to enhance youth employment and empowerment:

- i. Create credible attractive economic opportunities in modern agriculture and outside of agriculture e.g. in tourisms, light manufacturing, other MSMEs. This may include specific measures to increase youth interest and participation in the supported supply chains and cluster - both as producer but also as service providers or workers along the supply chains.
- ii. Key focus on skill development of youth and linking them to (self) employment.
- iii. Introduce specific measure to address the specific obstacles for greater youth involvement in the above opportunities, especially related to three area (to be deployed together) a) access to modern technical and business skills b) access to finance for investment, and c) access to land and other key resources for production
- iv. Focus on youth friendly communication and promotion of opportunities within programmes and projects, including the promotion of real role models.
- v. Specific measures need to be considered to address the double constraints faced by young women due to both their gender and age so they can achieve greater economic and social empowerment. This is vital also in address systemic malnutrition issues among young when and infants.

- vi. Attention given to measure to support the successful reintroduction of returning migrants into their household, taking this as an opportunity for household development and rebalancing of workloads and power dynamics within returnee households.

Recommendations to enhance Environment and Climate change adaptation

- i. Blended financing: Promote green financing by supporting public sector on creating enabling environment, encouraging public-private partnerships on financing mechanism such as green bonds, and mainstreaming climate consideration within private investments along priority supply chains. On the demand side, the programme should increase the access to, understanding and use of relevant climate-related information by producers and businesses in their production and business decisions. On the supply side, the programme should work with banks and other financial institutions to strengthen the screen and consideration of climate related risks within their loan appraisal and management systems.
- ii. Build the knowledge of farmers on the merit of Climate Smart Agriculture. Capacitate project and stakeholders to integrate climate smart agriculture and climate proofing elements in all ongoing projects. It may include climate smart agriculture practices like conservation agriculture, selection of drought tolerant crop varieties, stress and disease tolerant livestock varieties, hay and silage making, soil and water conservation, agroforestry etc; strengthening climate information systems, climate proofing rural infrastructure, water harvesting, small scale irrigation and climate smart aquaculture.
- iii. The environmental consequences on natural resources need to be monitored systematically, especially in the context of physical infrastructure development and substantial presence of livestock supply chains within the country programme.
- iv. Local Adaptation Plan of Actions (LAPA) framework needs to be scaled up and used beyond the certain projects. Capacity of the local governments needs to be enhanced to include climate mitigation and adaptation activities in their annual plan and budget.
- v. The ongoing National Adaptation Project (NAP) is conducting Vulnerability and Risk Assessment (VRA) at the province level. It needs to be brought down to Ward or municipality level to identify local level risk and vulnerability to select appropriate adaptation actions. Policy dialogue and engagement with central and province ministries is essential. Program needs to focus on to reduce the risk and vulnerability of local rural communities.

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Annexes

I, List of consultation

Personal meeting

SN	Name	Organization	Position/Expertise
	Thematic Experts		
1	Sanjeev Shrestha	IFAD	Value chain Consultant
2	Tribhuvan Paudel	IFAD	GESI expert consultant
3	Gyandendra Karki	NAP	Project Manager
4	Keshav Raj Gautam	MoFE, Climate Change Division	Under Secretary
5	BK Jammakatel	ASHA	CC specialist
6	Srikanta Adhikari	ASHA	Ag Specialist
7	Draupati Subedi	ASHA	GESI specialist
8	Basanta Acharya	ASHA	MEAL specialist
9	Bharat Gotame	WWF	Program Manager
10	Nabaraj Dahal	Practical Solution	Program Manager

Virtual consultation through Survey Monkey

SN	Category	Institution	Division	Position	Name
1	GON- Federal	MOF	International Economic Cooperation Coordination Division	Joint Secretary	Shreekrishna Nepal
2		MOALD		Secretary (Agriculture)	Rajendra Prasad Bharai
3					Rajenda Mishra
4		MOICS		Joint Secretary	Mr. Yagya Dhungel
5		MOFAGA		Joint Secretary	Mr. Basanta Adhikari
6		MOFE		Join Sec- Planning	Dr. Sindhu Prasad Dhungana
7		NPC		Joint Secretary	Mr. Biju Kumar Shrestha
8		MOLMCPA		Joint Secretary	Mr. Janak Raj Joshi
9		OPMCP		Joint Secretary	Mr. Kailash Raj Pokharel
10	GON - State	MOLMAC - State 5	MOLMAC	Secretary	Mr. Tej Bahadur Subedi
11		MOLMAC - State 6	MOLMAC	Secretary	Dr. Govinda Prasad Sharama
12		MOLMAC - State 1	MOLMAC	Secretary	Ms. Niru Dahal Pandey
13		MOLMAC - State 2	MOLMAC	Secretary	Dr. Bimal Kumar Nirmal
	Civil society				
14	National Farmers Commission			Chairperson	Mr. Chitra Bahadur Shrestha
				Under Secretary	Mr. Dal Prasad Pudasaini
15	National Peasants' Coalition			Chairperson	Mr. Hari Parajuli

SN	Category	Institution	Division	Position	Name
16	National Cooperative Federation			Chairperson	Mr. Min Raj Kadel
17	Nepal Agriculture Cooperatives Central Federation			General Manager	Mr. Rudra Bhattarai
18	Nepal Federation of Indigenous Nationalities (NEFIN)			President	Mr. Jagat Baram
19	National Youth Council			President	Mr. Saroj Baniya
20	LIBIRD			Executive Director	Dr. Balaram Thapa
21	ECARDS			Advisor	Mr. Ghan Shyam Awasthi
22	CEAPREAD			Executuive Chairperson	Dr. Hari Krishna Upadhyay
23	FECOFUN			Execuutive Chairperson	Bharati Pathak
24	Leasehold association			Chairperson	Deepak Bhandari
25	National Indigenous Women's Federation			Chairperson	Ms. Yasso Kanti Bhattachan
					Ms. Chinimaya Majhi
26	National Peasant Coalition				Mr. Nahendra Khadka
27	National Peasant Coalition				Mr. Bhanu Sigdel
	Private Sector bodies				
28	FNCCI	FNCCI	AEC	Chief Executive Officer	Dr. Hari Sharma Neupane
29	Local CCI	Surkhet (ASDP)	CCI	Chairperson	Mr. Dhan Bahadur Rawat
30		Jumla (ASDP)	CCI	Chairperson	Mr. Rajjab Ali Manihaar
31		Jajarkot (ASDP)	CCI	Chairperson	Mr. Karna Bahadur Khatri

SN	Category	Institution	Division	Position	Name
32		Salyan (ASDP)	CCI	Chairperson	Mr. Bir Bahadur Chalaune
33		Sunsari (RERP)	CCI	President	Mr. Giridhari Sapkota
34		Dhankuta (RERP)	CCI	President	Mr. Bijay Santoshi Rai
35		Dhanusha (RERP)	CCI	President	Mr. Lalit Kumar Sah
36		Bara (RERP)	CCI	President	Mr. Binod Prasad Sah
37		Province 1 (RERP)	PCCI	President	Mr. Narendra Kumar Khadka
38		Province 2 (RERP)	PCCI	President	Mr. Shiv Shankar Sah (Hira)
	Private businesses				
39		Everest Aroma Pvt. Ltd.	RERP-MAP	-	Mr. Sandip Baral
40		Laxmi Matsa Firm Bara	RERP- Fish		Mr. Tulashi Pd Chaudhary
41		Nepal Dairy Pvt.Ltd.	RERP-Milk	Director	Mr. Arniko Rajbhandari
42		Bimbika Taja Tarkari Tatha Phalphul Bikri Kendra, Itahari	RERP-Vegetable	Owner	Mr. Ram Bahadur Bhandari
43		Lumbini Seed Company	ISFP-Seed	Owner	Mr. Subhas Upadhaya
44		Organic Mountain Flavor Pvt. Ltd.	HVAP- Ginger/Turmeric	Owner	Mr. Sameer Newa
	Development Partners				

SN	Category	Institution	Division	Position	Name
45	WB			Senior Agricultural Specialist	Purna Bahadur Chhetri
46	ADB			Senior Project Officer	Arun Samsher Rana
47	EU			Prog Manager- Agriculture & Rural Development	David Stephane
48	SDC			First Secretary/Prog Manager, Economic Development	Blunier Coralie
49	GIZ				Roshan Shrestha
50	DFID			Livelihood Advisor	Rudriksha Rai Parajuli
51	UNWOMEN			Country Representative	Wenny Representative
52	FAO			FAO Representative	Dr. Somsak Pipoppinyo
53	WFP			Country Director	Pippa Bradford
54	IOM			Chief of Mission	Lorena Lando
55	UNDP			UNDP Representative	Ayshanie Labe
56	ICIMOD			Chief, Scaling Operations	Dr. Dhrupad Choudhury
57	SNV			Country Director	Mr. Peter Newsum
58	HELVETAS			Country Director	Dr. Bharat Pokharel
59	Heifer			Country Director	Dr. Shubh Narayan Mahato
60	Oxford Policy Management			Country Director	Dr Suresh Tiwari
61					Dr Bimal Regmi
62	IUCN			Coutry Representative	Prahlad Thapa
63	Forest Action Nepal			Executive Coordinator	Dr. Naya Sharma Paudel

SN	Category	Institution	Division	Position	Name
	Financial services sector				
64	ADBL			Chief Executive Officer	Anil Kumar Sharama
65	SKBBL			Chief Executive Officer	Dr. Siva Ram Prasad Koirala
	IFAD Project Managers				
66	RERP			Project Manager	Mr. Shalik Ram Dahal
67	ASHA			Project Coordinator	Mr. Krishna Prasad Osti
68	ASDP			Programme Coordinator	Mr. Jagannath Tiwari

Agreement at completion point

A. Introduction

1. This is the third country strategy and programme evaluation (CSPE) conducted by the Independent Office of Evaluation of IFAD in the Federal Democratic Republic of Nepal. The previous CSPEs were completed in 1999 and 2013, respectively. The main objectives of this CSPE are to: (i) assess the results and performance of the IFAD-financed strategy and programmes in Nepal; and (ii) generate findings and recommendations for the future partnership between IFAD and Nepal for enhanced development effectiveness, rural poverty eradication and rural transformation.
2. The present CSPE assesses the performance and results of the IFAD-funded operations in the period 2013-2019. This CSPE covers the full range of IFAD support to Nepal, including: (i) the lending portfolio; (ii) the non-lending activities; (iii) the performance of the main partners (the Government and IFAD); (iv) country programme management and strategic performance.
3. This agreement at completion point (ACP) contains the recommendations based on the evaluation findings and conclusions presented in the CSPE report, as well as the proposed follow-up actions as agreed by IFAD and the Government. It will be signed by the Government of the Federal Democratic Republic of Nepal, represented by the Ministry of Finance; and by IFAD Management, represented by the Associate Vice President, Programme Management Department.
4. The signed ACP is an integral part of the CSPE report in which the evaluation findings are presented in detail and will be submitted to the IFAD Executive Board as an annex to the new country strategic opportunities programme for Nepal. The implementation of the recommendations agreed upon will be tracked through the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions, which is presented to the IFAD Executive Board on an annual basis by the Fund's Management.

B. Recommendations

5. **Recommendation 1. Support federalization as an integral part of the preparation of the new COSOP and project design.** The new strategy and programme need to focus on supporting the federal system, including the federal, state and local governments but with special emphasis on the latter.
6. The focus should be not only on how to adapt the project architecture (e.g. budgeting, transfer of funds, monitoring and evaluation and fiduciary controls) to the new system, notably province and Palika governments, but also on how to support local governments in promoting rural development, including local infrastructure, extension and advisory services and economic opportunities. Key strategic challenges are how to help local government plan, implement and assess development interventions for smallholder farmers and small-scale producers (with priority for poor and marginalized groups).
7. In doing so, IFAD will need to collaborate with other like-minded development agencies to support in particularly the capacity building for Palikas.

Proposed follow-up

8. The new country strategy (COSOP 2021-2026) will address, among other important issues, the way in which IFAD's ongoing interventions, namely the Agricultural Sector Development Programme (ASDP) and pipeline interventions, namely the Value Chains for Inclusive Transformation of Agriculture (VITA) will support the government to adopt federal system and smooth transfer of management capacity and tools to provincial governments and municipalities (new COSOP is planned for approval in September 2020). IFAD will collaborate with like-minded development agencies in this regard.

9. IFAD and the government will support capacity-building of local governments where IFAD interventions will be implemented to introduce role-model for implementation under federalism and facilitate policy dialogue to strengthen the role of municipalities in promoting and implementing rural development projects (start by mid-2020).
10. The pipeline project (VITA) will support the development of infrastructure for value chains, from production to marketing, including water harvesting, storage and irrigation facilities, drinking water facilities, feeder roads and market infrastructure.
Partners responsible for follow-up: IFAD and the Government.
11. **Recommendation 2. Continue the support to value chain development with renewed emphasis on the inclusion of very poor groups.** The continuation of IFAD's support to pro-poor value chain development is well justified, given the good progress made by HVAP, and to some extent KUBK, and the priority of value chains for the Agricultural Development Strategy 2015-2035. IFAD needs to continue emphasizing the inclusion of poor and very poor small-scale producers (e.g. the Dalit, the Janajati and women) and the youth, by making special provision for them in the project design. In particular, the current pre-financing requirements for beneficiaries, that create disincentives for very poor producers, need revisiting.
12. Another priority is to strengthen the consultation fora between value chain stakeholders (e.g. multi-stakeholder platforms) so that they can become instruments to improve the value chain governance in a more inclusive manner. There is also a need to create incentives for longer-term engagement of private entrepreneurs and agribusinesses, relying less on lump-sum subsidies provided by projects and more on co-investment by agribusinesses and functional upgrading of cooperatives of small-scale producers.
Proposed follow-up
13. IFAD will continue to focus on the inclusion of small-scale poor and very poor producers by designing and implementing tailor-made activities, pro-poor targeting strategy, special financial services products and graduation pathways for them. The project design will ensure that these community segments will be heard in inclusive multi-stakeholder platforms for value chains (design is underway).
14. Co-investments by agribusiness and functional improvement of small producer cooperatives will be mainstreamed to reduce agricultural subsidies in line with government policy (starting with VITA design to be approved in September 2020).
Partners responsible for follow-up: IFAD and the Government
15. Recommendation 3. Bring back into the spectrum of IFAD funding the support to community development, basic infrastructure and services as a preparatory step for further economic opportunities. Projects such as WUPAP, LFLP and PAFP II are testimony to IFAD's experience and overall positive results. In areas where commercialization of agriculture has not yet emerged, working on local infrastructure (e.g. feeder roads, bridges, and drinking water), services and functional literacy can create the basis for further economic development. These can be further built upon, through a more pronounced market and value chain orientation in a follow-up project phase.
16. While some elements of IFAD 'traditional' support can be retained, such as intra-community targeting and empowerment of marginalized groups, group-based financial savings initiatives and fee-based social facilitation, the whole mechanism needs to be adapted to the new federal set-up, with greater involvement of local governments. Moreover, plans need to be prepared for management and maintenance of infrastructure by the users and with the support of Palikas for major maintenance and rehabilitation.

Proposed follow-up

17. IFAD will design and implement a new generation of projects that follow an integrated rural development approach based on smart agricultural interventions. The construction and development of local and "last mile" infrastructure will be sufficiently considered as the case of the current VITA design which will have dedicated component to rural infrastructure development.
18. Communities in the target provinces that do not benefit adequately from value chain development and commercialization will continue to be served by rural infrastructure services. The capacity of municipalities will be strengthened as part of IFAD's new interventions for participatory rural planning, implementation, operation and maintenance by communities and municipalities under the supervision of gradually capacitated provincial ministries (VITA implementation from 2021).

Partners responsible for follow-up: IFAD and the Government

19. **Recommendation 4. Integrate natural resource management and climate change adaptation in all project designs.** The Government and IFAD can build upon their collaboration experience in leasehold forestry and low external input agriculture. Based on the recent portfolio experience, two items need special attention. First, it may be more effective and efficient to include climate change proofing elements in all projects, in synergy with agricultural productivity supporting components, rather than funding a single dedicated project on this topic: this could avoid additional operational and administrative costs. Second, given the portfolio ubiquitous investment in livestock, the environmental consequences on forests and grasslands need to be monitored systematically.

Proposed follow-up

20. IFAD and the Government will not design standalone projects focusing solely on climate change resilience and environmental concerns, as in the case of the Adaptation for Smallholders in Hilly Areas Project (ASHA). On the contrary, VITA's current design takes into account value chain development with mainstreaming of climate change resilience and environmental conservations, among other IFAD mainstreaming themes (design is underway).

Partners responsible for follow-up: IFAD and the Government

21. **Recommendation 5. Strengthen partnerships for specialized technical support and for cofinancing.** IFAD should explore further cooperation opportunities with development agencies, non-governmental organizations and other development partners that have demonstrated technical experience in crucial portfolio topics (e.g. value chain development, support to decentralization, community-based development). This would enhance the quality and innovativeness of project design and implementation, but also build up opportunities for policy engagement and for scaling up of results. To facilitate these partnerships, IFAD could use country-specific grants as a funding modality.

Proposed follow-up.

22. IFAD will continue the dialogue and cooperation with the development partners to support interventions implementation in the context of federalism, focused on the implementation of the ASDP, and with NGOs for community mobilization and value chain development for both the ASDP and VITA implementation, building on their proven track record and success in decentralization support, community mobilization and value chain development (ongoing).

Partners responsible for follow-up: IFAD and the Government

23. **Recommendation 6. Enhance portfolio management and implementation preparedness.** The Government and IFAD should take measure to make portfolio management and project design more realistic, knowing that with federalization interactions with local governments will be more frequent. IFAD could aim at

approving a single new project (excluding loans for project top-up) in any given performance-based allocation cycle, so as to keep the number of ongoing projects in check. Moreover, at any point of time, the overall portfolio geographical coverage could be restricted to two or three provinces to avoid dispersion.

24. Project design will require a more pro-active role of the Government in the formulation process and in validating the technical proposals. In order to enhance implementation preparedness, IFAD could use of its newly introduced instruments for pre-financing project implementation and for building implementation capacity.

Proposed follow-up

25. IFAD's aim is to design a new single project per performance-based allocation cycle, using all or most of the allocation for more effective, efficient and focused management, covering a maximum of three provinces. The current design of VITA for IFAD11 is an example; it will be implemented in provinces 2, 3 and 5 (design is underway).
26. The project design, for example, again, the current case of VITA, is jointly carried out between IFAD's mission and a committee established by the lead implementing agency and line authorities; the committee fully participated in the concept development and currently in the design preparation (ongoing).
27. All IFAD instruments for project jump start-up will be used with particular regard to the pre-financing instrument.

Partners responsible for follow-up: IFAD and the Government

28. **Recommendation 7. IFAD should strengthen its Country Office in Nepal** and its corporate support to the country programme. The staffing of the Country Office needs strengthening, including, preferably, a resident country director.
29. In addition, thematic support from the sub-regional hub and the headquarters, combined with country-specific grants, could help IFAD engage in higher-level knowledge management and policy engagement. These activities need to be highlights, rather than subsidiary points.

Proposed follow-up

30. IFAD is strongly committed to strengthening its support to the Nepal country programme. The decentralized staffing structure is guided by the current corporate decentralization plan under which the Country Director for Nepal has been posted from headquarters to the sub-regional hub in New Delhi. The sub regional hub has also been significantly strengthened making it one of the largest of the IFAD hubs with a critical mass of operational and technical staff who can provide closer and regular support to the country programmes managed by the hub including Nepal. In addition, the sub regional hub model encourages cross-country cooperation and knowledge exchange within the region. As recommended, IFAD is also working on developing a country grant to support the new programme VITA. Strengthening country level policy engagement is a priority for IFAD and will be reflected in the new COSOP that will be developed in 2020. IFAD is confident that through the closer proximity of the Country Director and technical staff to Nepal, it will be able to strengthen its policy engagement and deliver on the COSOP policy objectives at the country level. Nonetheless, any potential future revisions to the staffing level of the IFAD Country Office in Nepal will be informed by the learning of this evaluation and will be done as part of the corporate decentralization approach.

Partners responsible for follow-up: IFAD and regional development partners and institutions

Signatures

For Ministry of Finance



Shreekrishna Nepal
Joint Secretary
Ministry of Finance of the Federal
Democratic Republic of Nepal

Date: Feb 10, 2020



For IFAD



Donal Brown
Associate Vice President
Programme Management Department of
IFAD

Date: 18/2/20

COSOP preparation process

1. COSOP preparation was informed by recent Nepal Country Strategy and Programme Evaluation (CSPE) of December 2019 and Agreement at Completion.
2. A COSOP Completion Review of the previous COSOP was completed as part of the process.
3. The COSOP preparation was conducted in parallel to the design of the new VITA programme and has substantially benefitted from the extensive stakeholder and government consultations conducted as part of the VITA design process.
4. The preparation process was conducted between March and November 2020. The planned COSOP design mission in March was replaced by a remote process due to COVID-19 movement restrictions, initially introduced in March 2020.
5. In lieu of face-to-face meetings, an online stakeholder feedback exercise, including an online survey, was completed in August 2020 which gained feedback from 51 stakeholders – from government, farmers’ representatives, civil society, private sector and development partners.
6. Consultation meetings were held with UNCT and development partners in November to gain feedback based on the circulated draft COSOP.
7. A draft COSOP was shared in December 2020 with government for feedback before finalization.
8. Meetings were primarily conducted online as part of this process.

Strategic partnerships

<i>Partnering objectives</i>	<i>Partners/networks/platforms</i>	<i>Partnership results and outcomes</i>	<i>Justification for partnership</i>	<i>Monitoring and reporting</i>
Engaging in policy and influencing development agendas	Federal, state and local government	Delivery of core COSOP objectives	Key counterparts	
	ADB	Delivery of VITA Expanded agriculture finance Policy influence on improved policies for financial inclusion and agri-finance	Strategic mandate of ADBL to be Lead Agriculture finance bank – as per GON Monetary Policy	
	GIZ	Wider mainstreaming on inclusive resilient local economic development / inclusive market development policies and plans by local and province governments as well as enhanced capacity of rural institutions in the above.	Like-minded agencies practicing similar resilient LED/cluster based approaches in some overlapping provinces. Complimentary as GIZ has strong TA plus covers all sectors, but with less investment resources. IFAD mostly on agriculture sector and more investment resources.	
		Improved framework for agricultural insurance	GIZ have insurance focused project with ADBL, from which the insurance products will be promoted via VITA. To farmers.	
	Chambers of Commerce and Industry - Local, province and federal	Improved coordination between public and private sector investment agendas in support of inclusive rural growth	Long term partners with notable success in role within MSPs and inclusive supply chain development	
	Un Habitat	Press on local implementation of 2019 Land Act/Policy	Key partner on land issues/reform in Nepal and in International Land Coalition.	
	Helvetas	Improved policy framework for technical skills development in support of job creation - at local, province and federal level	Leading NGO for technical skills development and with wide engagement. Existing partner of country programme	
Leveraging cofinancing	ADB	Large expansion of agri-financing, initially under VITA	Key partner for VITA	
	ADB	Joint investment project on inclusive and resilient agricultural market growth	Key DP partner on previous ADS development and ongoing discussion of co-financing	
	European Investment Bank	Joint investment project on inclusive and resilient agricultural market growth	Potential co-financier	
	Heifer International	Delivery of VITA	Key partner on VITA	
	Climate funds (GCF, Adaptation Fund, GEF)	Scaling-up of private investment alongside public investment in climate change adaptation	Climate financing would be major complement to country programme, especially via VITA with capacity to channel wholesale resources to small producers for private adaptation investments.	
Enabling coordinated country-led processes	Development Partners' Food Security Group	Policy dialogue and DP coordination	Main development partner coordination forum related to agriculture and rural sector	
	WFP	Improved delivery of nutrition activities within COSOP	WFP has extensive expertise on nutrition – especially in Karnali Province	
	FAO	Harmonized project activities in common locations between VITA and Building a Resilient	Common project locations and complementary approaches	

<i>Partnering objectives</i>	<i>Partners/networks/platforms</i>	<i>Partnership results and outcomes</i>	<i>Justification for partnership</i>	<i>Monitoring and reporting</i>
		Churia Region in Nepal (BRCRN)"		
	Citizens Investment Trust	Improved access and use of long-term savings, investment and pensions by rural people, migrants and remittance recipients	Mandated by GON to develop long term savings and private pensions products. Initial partnership already with RERP.	
Developing and brokering knowledge and innovation (including SSTC)	Strategic KM partner to be identified, including for Catalytic Grant Programme support			
	SAARC Agriculture Centre	Sharing of CAS models and best practices with Nepali producers	Aligned to recently approved C-SUCSES grant project	
	JP-RWEE partnership: FAO, IFAD, WFP, UN Women	Wider adoption of household methodologies and GALS to empower most vulnerable women and households to link to mainstream opportunities	Continuation of successful partnership introducing GALS	
Strengthening private sector engagement	Chambers of Commerce and Industry (CCI) - Local, province and federal	Strengthened CCIs with increased focus on agriculture sector and active brokering in supply chains.	Long term partners with notable success in role within MSPs and inclusive supply chain development	

South-South and Triangular Cooperation strategy

Introduction

1. South-South and Triangular Cooperation (SSTC) is an important instrument for IFAD to deliver on its mandate of increasing agriculture production and productivity, food security, nutrition and incomes of poor people living in remote rural areas in developing countries. In the context of the new Nepal COSOP for the 2021–2026 period, it is envisaged to play an important role in tackling specific development challenges.
2. In the COSOP, SSTC is expected to have both inbound and outbound dimensions. The Nepal programme has for several years been a generator of good practice on inclusive market development and some ICT4D. It is expected to expand effort on visibility and sharing of these

Opportunities for rural development investment promotion and technical exchanges

3. During the consultation process for the COSOP, four areas were identified as key priorities for technical exchange and learning in terms of 'inbound' SSTC:
 - (i) Local administration and service delivery in federal/devolved systems for inclusive and resilient local economic development
 - (ii) Climate smart agricultural practices
 - (iii) ICT for Development (ICT4D) tools e.g. expert systems for technical service providers
 - (iv) Digital rural financial services

SSTC engagement rationale

4. The rationale for each of the opportunities identified above is summarized below:

Local administration and service delivery in federal/devolved systems:
5. The adoption of Nepal's 2015 constitution created a federal system with three tiers of government at federal, province and local level – each with elected leaders and assigned powers. There are now 480 rural municipalities across the 7 provinces. Election were completed in 2017 and the new governments received their first budget in 2018/19.
6. While these entities are now established, there are many challenges for them in developing effectively policy and plans to fulfill their mandates. Similarly, government at the federal level is undergoing a corresponding process of restructuring. Links and coordination among the three tiers remains challenging in many sectors and entirely new systems and processes are having to be rapidly built created.
7. Opportunities to learn from successful systems in devolved/federal systems which create the enabling environment and incentives for improved local government administration and service delivery in particular related to inclusive and resilient local economic development would be high relevant in the coming years.

Climate smart agricultural (CSA) practices
8. Nepal's diverse agroecological systems, exposure to climate change risks and move to small-scale commercial farming creates a large and varied need for improved production practice that are both commercially competitive but equally resilient to the impacts of climate change. There are many such practices CSA practices around the world but identifying them, proving them in the Nepali context and then disseminating them is challenging. Some are within IFAD's network but many more are not.

9. One potential example is the Cambodian system for semi-intensive smallholder production of traditional breed poultry developed by Green Innovet Cam, a private service provider, and now widely adopted with support of the IFAD projects in the country. The system is highly profitable, with affordable initial investment pathways and reduced reliance on commercial feed, taking advantage of well-designed local feed resources. Such premium traditional breed chickens have good market demand in Nepal. Hence the testing and transfer of such system could provide important opportunities for Nepali women farmers to invest in profitable CSA practices.
10. For dissemination, the new COSOP will have a large implementation architecture, with reach to 40% of municipalities and powerful market-driven systems that could drive widespread adoption of suitable CSA when identified as suitable in Nepal.
11. The focus for the SSTC is to identify high potential candidate CSAs from around the world and IFAD's network that can then be imported and tested in Nepal, with the necessary technical support, covering the range of priority commodities for the country programme and wider economy.
12. The recently approved grant 'Consortium for Scaling-up Climate Smart Agriculture in South Asia' grant being led by the South Asia Association for Regional cooperation (SARRC) Agriculture Centre will be important in facilitating SSTC in this area.

ICT for Development (ITC4D) tools

13. Under the previous COSOP, the country programme had occasional successes with testing new ICT4D tools in support of the agriculture sector. Examples include the successful piloting of the e-Agriculture tool under the High Value Agriculture Project. However, this has been ad-hoc and not yet resulted in widespread adoption or more systemic changes.
14. With improving telecoms network coverage, a young population comfortable with technology and a growing tech-hub in Kathmandu, there are substantial opportunities for well-designed ICT tools to make a substantial contribution both to the cost and quality of service delivery to rural communities.
15. As with CSAs technologies, the focus for the SSTC is to identify high potential candidate ICT4D tools from around the world and IFAD's network that can then be imported and tested in Nepal, with the necessary technical support, covering the range of priority commodities for the country programme and wider economy, including for example expert systems for technical service providers.
16. Depending on the nature and business model for the specific tools, the SSTC may also facilitate investment opportunities for business that have such tools to launch them in Nepal.

Digital rural financial services

17. Expansion in the coverage and scope of rural digital financial services, including remittance transfers, is seen as an important pillar in the financial inclusion strategy and also for commercial banks themselves.
18. Two aspects of this are therefore of relevance for SSTC:
 - (i) Creating an appropriate regulatory and enabling environment for digital financial services, under the leadership of NRB. There is substantial experience internationally on a range of different approaches which would be of clear benefit to Nepal as it takes steps to expand digital services.
 - (ii) Technical and commercial design and operation of suitable digital rural financial services for banks and financial institutions. Many of the Nepal's commercial banks and financial institutions have only relatively recently started to expand their digital offering. As largely domestic operations, they also have

somewhat limited exposure to current best practice business models and services.

Partnerships and initiatives

19. On CSA, the programme will collaborate with the SAARC Agriculture Centre that is leading the implementation of the C-SUCSES project to scale up CSA best practice in the regions.
20. Additional specific partnerships and initiatives for each of the four areas have yet to be identified. The government and country programme will seek the support of the Asia and Pacific Division and wider IFAD network, including the SSTC Unit in the Global Engagement and Multilateral Relations Division (GEM), to identify appropriate partners and put in place arrangements for each SSTC initiative.

Conclusion

21. Priorities for SSTC have been identified. The next step will be for the country programme to deepen discussion on these with the relevant counter-parts in Nepal and then gain assistance from IFAD to identify suitable partners and initiative as well as funding sources to support the SSTC.

Country at a glance

Country Portfolio Summary

Region	Asia & the Pacific	Member of Country Groups :	
Country	Nepal	Least Developed country	Yes
Current Financing Terms	Highly Concessional	Low-income, food deficit	Yes
Ranking all Countries	19	HIPC DI Eligible	Yes
Ranking within region	7		

Country Indicator	Value	Year	Source
Agriculture, value added (% of GDP)	27.04	2017	World Bank
GNI per capita, Atlas method (current US\$)	790.00	2017	World Bank
Human development index (HDI) value	0.57	2017	UNDP
Population, total	29,304,998.00	2017	World Bank
Rural population	23,638,584.00	2017	World Bank

Key Dates			
Last RB-COSOP Approved AVP/PMD			
First Project Approved	12 Dec 1978		
Last Project Approved	18 Sep 2020		

IFAD Interventions		
	Number of Projects	IFAD Approved USD ('000)
Financial Closure	11	129,905
Board/President Approved	1	97,671
Project Completed	3	68,322
Available for Disbursement	3	103,610
	18	

Total IFAD commitment 399,508

IFAD Interventions Summary								
Project Number	Financing Instrument ID	Currency	Approved Amount	Disbursed	Loan/Grant Status	Project Status	Board Approval	Cooperating Institution
110000010	100001954	USD	13,000,000	89%	Closed	Closed	12 Dec 1978	ADB
110000057	100002475	XDR	9,800,000	100%	Closed	Closed	05 Dec 1980	ADB
110000057	100000489	XDR	800,000	100%	Closed	Closed	05 Dec 1980	ADB
110000082	100002836	XDR	9,800,000	62%	Closed	Closed	17 Dec 1981	ADB
110000186	100000471	XDR	110,000	56%	Closed	Closed	02 Apr 1985	ADB
110000186	100002027	XDR	15,150,000	100%	Closed	Closed	02 Apr 1985	ADB
110000191	100002055	XDR	4,200,000	15%	Closed	Closed	18 Sep 1986	ADB
110000208	100002074	XDR	4,750,000	100%	Closed	Closed	10 Sep 1987	UNOPS
110000250	100002121	XDR	10,000,000	38%	Closed	Closed	07 Dec 1989	UNOPS
110000352	100002234	XDR	7,000,000	46%	Closed	Closed	19 Apr 1994	UNOPS
1100001030	100002345	XDR	6,550,000	98%	Closed	Closed	11 Sep 1997	UNOPS
1100001119	100002482	XDR	15,600,000	95%	Closed	Closed	06 Dec 2001	IFAD
1100001119	100000485	XDR	290,000	100%	Closed	Closed	06 Dec 2001	IFAD
1100001285	100002560	XDR	7,150,000	100%	Closed	Closed	02 Dec 2004	IFAD
1100001285	100000493	XDR	840,000	74%	Closed	Closed	02 Dec 2004	IFAD
1100001285	100004243	XDR	975,000	66%	Closed	Closed	03 Apr 2012	IFAD
1100001285	100004244	XDR	975,000	77%	Closed	Closed	03 Apr 2012	IFAD
1100001450	100003036	XDR	2,500,000	100%	Closed	Completed	13 Dec 2007	WB
1100001450	200000459	XDR	3,270,000	66%	Closed	Completed	30 Dec 2013	WB
1100001471	100003804	XDR	4,750,000	100%	Closed	Completed	17 Dec 2009	IFAD
1100001471	100003805	XDR	4,750,000	100%	Closed	Completed	17 Dec 2009	IFAD
1100001602	100004340	XDR	12,850,000	72%	Expired	Completed	21 Sep 2012	IFAD
1100001602	100004341	XDR	12,850,000	62%	Expired	Completed	21 Sep 2012	IFAD
1100001602	200000460	XDR	3,270,000	100%	Expired	Completed	30 Dec 2013	IFAD
1100001723	200000756	XDR	6,470,000	41%	Disbursable	Disbursable	13 Sep 2014	IFAD
1100001723	200000755	XDR	9,710,000	77%	Disbursable	Disbursable	13 Sep 2014	IFAD
1100001724	200000702	XDR	11,950,000	23%	Disbursable	Disbursable	22 Apr 2015	IFAD
1100001724	200000701	XDR	15,500,000	99%	Disbursable	Disbursable	22 Apr 2015	IFAD
2000001418	200002118	XDR	27,200,000	8%	Disbursable	Disbursable	11 Dec 2017	IFAD
2000001418	200002117	XDR	1,300,000	30%	Disbursable	Disbursable	11 Dec 2017	IFAD
2000002697	200003563	USD	97,670,000	0%	Approved	Approved	18 Sep 2020	IFAD

Projects in Pipeline		
Current Phase	Number of Projects	IFAD Proposed Financing USD ('000)
Total	0	0

Financial management issues summary

COUNTRY	Nepal	CONCEPT NOTE	COSOP
A. COUNTRY PORTFOLIO PERFORMANCE			
Country – FM KPIs:			
<i>FM Inherent Risk:</i>	Substantial	<p>The TI Corruption Perception Index had rose from 27 in 2015 to 34 in 2019, positioning Nepal as 113 out of 198 countries. The RSP score is 3.2, a slight movement from 3.0 in previous years. Corruption continues to be perceived as a major obstacle to efficient and equitable development. The inherent FM risk is assessed as “Substantial”.</p> <p>Latest PEFA in May 2015 disclose, “the commitment to change and reform to PFM systems and process by the Government of Nepal has produced results. Among 28 performance indicators (PI), 16 indicators improved, 10 indicators remained unchanged, and 2 indicators deteriorated. However, compared to 2008 with improved systems, data availability has assisted to fine-tune the assessment and downgrade the rating of an indicator to reflect the current system. The absence of the parliament during the assessment period added to the downgrading of another indicator”, PEFA indicates weakness for Nepal in budget execution, accounting and reporting, Audit.</p> <p>In 2020, Nepal Government General Debt is 39.2% which is well below Emerging market and developing economies (61.4%), source - IMF. According to IMF the Debt Distress is rated “Low” as of 11 May 2020.</p> <p>IFAD funded project are using country FM system, government staff work for IFAD funded project with the support from contracted FM consultants. Staff capacity remains the weakness for utilizing country FM system.</p>	
¹ Country Disbursement Ratio (rolling-year)	10.30%		
Outstanding Ineligible Expenditure	No		
Outstanding Advances (Projects in Expired Status)	304,580 USD		
Applicable PBAS cycle:	IFAD11		
PBAS Available allocation 11:	-18,822,000 (18,822,000 was cancelled from RERP – PBAS10 to cover short funding in PBAS 11)		
<p>¹Corporate Disbursement Ratio Methodology considers ASAP, AFD, IFAD, KFW and SPA financing sources only.</p>			
CURRENT LENDING TERMS	Highly Concessional		

B. PORTFOLIO, FM RISK & PERFORMANCE**Existing Portfolio:**

Project	Financing instrument	FLX Status (2)	Lending Terms	Currency	Amount (million)	%Disbursed	Completion date
ISFP (KUBK)	200000046000	EXPD	HIGHLY CONCESSIONAL TERMS 0.75 pc	XDR	3.27	99.99	30/12/2019
ISFP (KUBK)	G-I-DSF-8106-	EXPD	DSF HC GRANTS	XDR	9.33	85.74	30/12/2019
ISFP (KUBK)	L-I--881-	EXPD	HIGHLY CONCESSIONAL TERMS 0.75 pc	XDR	9.29	100	30/12/2019
ASHA	200000075500	DSBL	ASAP GRANTS	XDR	9.71	76.88	30/03/2022
ASHA	200000075600	DSBL	DSF HC GRANTS	XDR	6.47	40.83	30/03/2022
RERP	200000070100	DSBL	HIGHLY CONCESSIONAL TERMS 0.75 pc	XDR	1.83	99.49	30/12/2022
RERP	200000070200	DSBL	DSF HC GRANTS	XDR	11.95	22.84	30/12/2022
ASDP	200000211700	DSBL	LOAN COMPONENT GRANTS	XDR	1.3	29.83	29/06/2024
ASDP	200000211800	DSBL	HIGHLY CONCESSIONAL TERMS 0.75 pc	XDR	27.2	8.09	29/06/2024
VITA	200000356300	APPR	HIGHLY CONCESSIONAL BY CURRENCY	USD	97.67	0	
APIA	200000346500	ENTF	SUPPLEMENTARY FUNDS GRANTS	USD	0.54	0	30/12/2021

Project	Project FM risk rating	Performance Score: Quality of Financial Management	Performance Score: Quality & Timeliness of Audit	Performance Score: Disbursement Rate	Performance Score: Counterpart funds
ISFP (KUBK)	Substantial	Moderately Satisfactory	Mod. satisfactory	Satisfactory	Satisfactory
ASHA	Substantial	Moderately Unsatisfactory	Mod. unsatisfactory	Moderately Unsatisfactory	Satisfactory
RERP	High	Moderately Satisfactory	Mod. satisfactory	Highly Unsatisfactory	Satisfactory
ASDP	Moderate	Moderately Satisfactory	Mod. satisfactory	Unsatisfactory	Satisfactory
VITA	Substantial	Not Specified	Not Specified	Not Specified	Not Specified
APIA	Substantial	Not Specified	Not Specified	Not Specified	Not Specified

Comments:

Nepal has made impressive strides in budget coverage, comparability, and its timely reporting. Weak technical capacity in the analysis of financial statements has lowered efficiency in public expenditure. Reconciliation of revenue accounts is an issue (PEFA May 2015). As of November 2020 ASHA, RERP and ADSP are under operation and VITA, APIA (RPSF) are in the pipeline. ICP was live in Oct 2019 and fully used by all projects from August 2020.

All projects use country FM system with the exception of VITA. ADBL is the bank owned by Government but FM system is separately managed as a banking institution.

RERP was restructured in May 2020, SDR 13 669 450 (around USD 18 822 000 million) was cancelled and transferred to VITA project.

Audit Reports:

Audit coverage and quality has improved. But the limited scope of performance audit and weak enforcement of corrective measures against flagged irregularities has lowered meaningful behavioural changes. Performance auditing coverage and involvement of civil society in auditing performances is expected to strengthen overall performance auditing.(PEFA May 2015)

Nepal portfolio audited by SAI and financial reporting is on cash basis, the performance of audit for all project are at the Mod.

Satisfactory score with an exemption of ASHA (Mod. Unsatisfactory) as the result of nearly 6 months delay of audit submission without request for exceptional extension (2018/2019 audit). Audit Financial Statements are furnished with unqualified opinions, and aligned with IFAD Financial Reporting and Auditing requirement. Management letters are issued with insufficient information on internal control and without response from management on the findings; there is no outstanding ineligible expenditure.

Audit report will be more complex when VITA project starts in 2021, the project structure requires a separate Auditor General's report for a component implemented by Government Agency and a consolidated audit report conducted by private firm for entire project.

Supervision Missions

Supervision missions are conducted on time, 3 remote SMs have been conducted during 2020 (ASHA is on-going) during the mission common issues are found for all projects: Staff capacity, delay in IFR, low disbursement rate.

Finance staff rotation causes delay in FM operation due to the gap of staff transition, staff capacity and orientation period. The support of contracted FM Consultant and IFAD Retainer Consultant is relieving staff and capacity constrain.

Most of expenditure pre-financed by GoN, and replenished from designated account or reimbursement from IFAD. CIGAS financial software has been newly developed and implemented to government agencies and funded projects, however the software doesn't meet IFAD reporting requirement, PASS accounting software therefore is used in parallel for IFAD portfolio. Despite the use of customized software, It is found that IFS extracted from accounting software to excel and further edits will be done prior to the release of IFS, this process causes delay and error in the financial statements.

Disbursement rates are generally low resulted from several factors: delay of project start-up, project performance, delay in submission of Withdrawal Application, Covid-19 Pandemic. Fully use of ICP in 2020 increased the frequency of WA claimed and timeliness of disbursement in second half of 2020.

Counterpart funding rate is low due to operational reason, however assessed as Satisfactory because the government secured the budget for project in AWPB which meets the SM's Performance Scores Descriptors. This indicator however need to be carefully examined in coming missions.

Mistakes are sometime found during SM but there are no significant issues on internal control, neither on ineligible expenditure.

Overall, FMAQ is rated "substantial" and reduced to "Moderate" after mitigation measures.

Debt Servicing

GoN pays IFAD instalments on time, no over-due debt.

Mitigation actions:

- (i) Training to SAI on IFAD auditing and reporting.*
- (ii) PMU Finance Officers undertake the APEX training in 2021.*
- (iii) FM Consultants continuously provide support to PMU Finance staff.*
- (iv) Explore the opportunity of utilizing government accounting software for IFAD reporting purpose, that would improve the accuracy and timeliness of IFS and annual FS.*
- (v) Encourage the utilization of retroactive financing and start-up expenditure to prevent the delay the project's operation after entry into force.*
- (vi) Intensively review counterpart funding in coming missions to ensure the budgeted counterpart fund is realistic.*