
President's report

Proposed loan

Nepal

**Resilient High-Value Agricultural Programme
(R-HVAP)**

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Action: The Executive Board is invited to approve the recommendation contained in paragraph 58.

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- I. Negotiated financing agreement (to be made available prior to the session)
- II. Logical framework
- III. Integrated programme risk matrix

Programme delivery team

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Map of the programme area



 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.
IFAD Map compiled by IFAD | 15-11-2023

Financing summary

Initiating institution:	IFAD
Borrower:	Government of Nepal
Executing agency:	Ministry of Agriculture and Livestock Development
Total programme cost:	US\$120.9 million
Amount of IFAD loan:	US\$70.935 million
Terms of IFAD loan:	Highly concessional: 40 years, with a grace period of 10 years and a service charge of 0.75 per cent per annum in SDR (adjustments for single-currency loans)
Cofinancier:	Micro, small and medium-sized enterprises
Amount of cofinancing:	US\$2.56 million
Contribution of borrower:	US\$24.6 million (Federal Government) US\$0.5 million (provincial government) US\$1.52 million (local government)
Contribution of producers' organizations:	US\$20.87 million
Amount of IFAD climate finance:	US\$19.947 million
Cooperating institution:	Directly supervised by IFAD

I. Context

A. National context and rationale for IFAD involvement

National context

1. The 2015 Constitution of Nepal established the country as a federal democratic republic with a three-tier government structure: one federal government, seven provincial governments and 753 local administrations (*palikas* or municipalities). With growth averaging 4.5 per cent per year over the last decade, Nepal achieved lower-middle-income country status in 2020 and is aiming for graduation from least-developed country status by 2026. In fiscal year 2022, the economy grew by an estimated 5.3 per cent, driven by hydroelectricity, manufacturing, construction and a gradual return of tourism.
2. Agriculture is still critical to the national economy. Nepal is an agrarian country with a large rural population dependent on agriculture for food, income and employment. Exports of agrifood products have increased, making them the highest export in terms of value. The agricultural trade deficit and growing dependence on food imports pose major challenges to national food security and sovereignty, while also putting foreign exchange reserves under stress. Import substitution remains a key priority for the Government of Nepal.
3. Nepal's Fifteenth Plan (Fiscal Year 2019/20-2023/24) calls for sustainable and inclusive economic growth and poverty alleviation; the modernization and commercialization of agriculture, with an emphasis on high-value production and processing; and sustainable natural resource management for improving ecosystem services to the agriculture sector. The Agriculture Development Strategy (2015–2035) envisions “a self-reliant, sustainable, competitive, and inclusive agricultural sector that drives economic growth, and contributes to improved livelihoods and food and nutrition security leading to food sovereignty.”

Special aspects relating to IFAD's corporate mainstreaming priorities

4. In line with IFAD's mainstreaming commitments, the programme has been validated as:
 - Gender-transformational
 - Youth-sensitive
 - Including adaptive capacity
5. Despite remarkable progress in protecting and promoting women's rights and gender equality, women in Nepal still lack access to key productive assets and services. Rural women are constrained by weak decision-making and bargaining power, a triple workload (productive, reproductive and community work), limited knowledge about market supply and demand, as well as few opportunities for setting up microenterprises and agricultural businesses. Women also have little household decision-making power, particularly in regard to agricultural investments, household income expenditure and the division of labour.
6. Despite Nepal having a young population, youth continue to face challenges in education, civic engagement, political participation, unemployment and underemployment and are employed mainly in agriculture as unpaid family workers or as low-wage employees. Youth outmigration is a major challenge in rural areas that affects agricultural activities in general.
7. Nepal is exposed to erratic and extreme rainfall (changes in the start of the monsoon season, changes in spatial patterns, an increase in consecutive dry days and a decrease in consecutive rainy days, an increase in precipitation extremes, a decline in winter or post-monsoon precipitation). Climate change is directly responsible for the equivalent of 10 to 30 per cent of annual production loss in the crop, livestock and

fishery sectors. Between 1971 and 2007, droughts were responsible for 38.9 per cent of climate-related production losses, and floods for 23.2 per cent.¹

Rationale for IFAD involvement

8. COVID-19, the war in Ukraine and increasing climate and other shocks have highlighted Nepal's heavy dependence on imports for food and nutrition security and exposed the vulnerability of Nepal's food systems. These vulnerabilities have been exacerbated by internal factors such as the political transition to a federal state, macroeconomic challenges such as the low contribution of manufacturing to GDP, high dependence on imports and the devaluation of the national currency. Thus, there is urgency to increase domestic food production and distribution and to generate foreign exchange from the agriculture sector to offset import expenditures.

B. Lessons learned

9. IFAD-financed projects have introduced a wealth of good practices over four decades of engagement in Nepal. The key good practices include: (i) the integration of agroecological technologies into subsistence and commercial production systems to revitalize farm ecological health to increase crop diversity and nutrition benefits, and build climate resilience; (ii) the strengthening of market orientation, economic viability and service linkages for agroecological production; (iii) climate-resilient infrastructure design, operation and maintenance for long-term sustainability; and (iv) training to enable producers' organizations (POs) to operate in export-oriented value chains to meet international standards for safe and organic foods.

II. Project description

A. Objectives, geographical area of intervention and target groups

10. The Resilient High-Value Agricultural Programme (R-HVAP) will be implemented over an eight-year period with the following programme goal: to reduce the poverty and improve the resilience of smallholder households. Its development objective is to support the transition of smallholder agriculture towards sustainable food systems that are profitable, inclusive and agroecological.
11. The programme covers Lumbini, Karnali and Sudurpashchim provinces in western Nepal and operates in 80 *palikas*. The selection of these provinces was based on the highest incidence of multidimensional poverty, the impact of COVID-19 on rural livelihoods, the location of the Semlar regional wholesale market for national and international distribution of agri-produce and a landscape perspective to facilitate the building of an agroecological foodshed.
12. R-HVAP will provide needs-based services for: (i) ultra-poor; (ii) poor (including both poor and medium-poor); and (iii) near-poor households. Together, ultra-poor and poor farmers will constitute 80 per cent of programme participants. Near-poor households will represent roughly 20 per cent of participants.

B. Components, outcomes and activities

13. R-HVAP is structured around the following four complementary and interlinked components.
14. **Component 1: Enhanced capacities for transitioning to market-oriented agroecological production systems**
 - (a) **Subcomponent 1.1: Decentralized agroecological planning and coordination**, which supports the preparation of five-year *palika* agroecological plans (PAPs) through a local planning process facilitated by decentralized provincial programme management offices (PPMOs) and corridor offices (COs). The PAPs will identify the following key elements: programme participants; high-value commodities that can be nested within an agroecological farming

¹ Ministry of Forests and Environment, Government of Nepal, 2021. Vulnerability and Risk Assessment and Identifying Adaptation Options: Summary for Policy Makers. Kathmandu, Nepal.

- system; farm-level agroecological best practices; market demands and compliance standards; agri-service and enterprise opportunities; and public goods and productive infrastructure needs.
- (b) **Subcomponent 1.2: Knowledge and capacity for establishing agroecological farming**, which will build on the existing knowledge base of sustainable agriculture, agroecology and permaculture by upgrading the agroecology curriculum to include farm economics. In-depth training will be provided on the different technical aspects of agroecological farming, together with financial education and business literacy (FEBL), as well as a shortened version of the Gender Action Learning System (GALS lite). Agroecology good practice will be disseminated through a training-of-trainer approach and the establishment of 80 lead farmer-managed agroecological demonstration farms. Youth agroecology apprenticeships will be provided for about 60 young agricultural trainees. Farmer-to-farmer exchanges will be undertaken, which will contribute to the development of a large community of practice.
 - (c) **Subcomponent 1.3: Market-oriented agroecological production expanded**. This subcomponent will train at least 1,600 POs, or about 45,000 farmers, to graduate into professional operations with business acumen for long-term sustainability. Business-to-business (B2B) and business-to-service (B2S) linkages will be established with POs to build profitable trading relationships. R-HVAP smallholders will be eligible for credit from IFAD's ongoing Value Chains for Inclusive Transformation of Agriculture Programme, implemented by the Agricultural Development Bank Limited.
 - (d) **Subcomponent 1.4: MSME ecosystem for agricultural service market strengthened**. This subcomponent will develop an ecosystem of micro, small, and medium-sized enterprises (MSMEs) to meet the upstream and downstream needs of agroecological multicommodity value chains. Co-investment support will be provided to decentralized, high-quality bio-input production and the MSME service market for post-harvest value addition. Agricultural technical and vocational education and training (Agri-TVET) and business incubation support for enterprise development will be provided to about 700 youth.
15. **Component 2: Improved access to climate-resilient productive infrastructure**. The PAPs will identify critical climate-resilient infrastructure for boosting smallholder and PO production. These will include: (i) small-scale irrigation systems, water storage facilities and multi-use water systems; (ii) aggregation and storage facilities; and (iii) post-harvest processing facilities managed by MSMEs. All infrastructure interventions will be synergetic with other programme interventions and include operation and maintenance measures. Renewable energy technologies will be supported for lift irrigation, primary processing and post-harvest handling activities.
 16. **Component 3: Improved wholesale aggregation and distribution of agroecological commodities for domestic and export markets**. R-HVAP will support the first phase of the construction of the Semlar agriculture regional wholesale market in Butwal Sub-Metropolitan City in Lumbini province. The market will facilitate the aggregation of commodities from a large catchment area, targeting R-HVAP-supported POs, to improve the distribution of agroecological commodities to both the domestic and export markets. The Semlar market will be constructed as a state-of-the-art market replete with wholesale stalls for fruit, vegetables, cereals and other priority commodities, and will facilitate the collection, processing and branding of agricultural products. The market is strategically located, about a 20-minute drive from the Gautam Buddha International Airport and around 40 km from the Indian border.
 17. **Component 4: Strengthened policies, regulations and institutions for smallholder agroecological production and trade**. R-HVAP will establish and strengthen enabling policies, regulations and other support frameworks for profitable

smallholder agroecological production, facilitated by participating institutions and communities. To support the export of agricultural produce, the programme will establish certification systems, boost the capacity for compliance with sanitary and phytosanitary measures, support trade facilitation and negotiations and participate in international trade events and ethical bio-trade fairs.

C. Theory of change

18. R-HVAP seeks to systematically transition smallholder agriculture towards commercial agroecological farming. The objective is to transition to an inclusive, self-reliant, resilient and profitable smallholder agriculture sector that increases its contribution to national food and nutrition security and hard currency reserves. Addressing the complex challenge of transitioning to commercial agroecological farming requires systematic, coordinated and complementary action in several key thematic areas at multiple geographic levels. It is estimated that it will take about 20 years for a complete transition, and R-HVAP constitutes the first foundational phase.

D. Alignment, ownership and partnerships

19. The programme goal aligns with Sustainable Development Goal (SDG) 1 (no poverty), SDG 2 (zero hunger), specifically SDG 2.3 (double the agricultural productivity and incomes of small-scale food producers), SDG 5 (gender equality), SDG 8 (decent work and economic growth), SDG 12 (responsible consumption and production) and SDG 13 (climate action). The programme fully aligns with the development objectives and strategies of Nepal's Fifteenth Plan, which calls for sustainable and inclusive economic growth and poverty alleviation; self-reliant modernization and the commercialization of agriculture, with an emphasis on high-value organic production and processing; and sustainable natural resource management for improving ecosystem services in the agriculture, industry and service sectors.
20. R-HVAP is fully aligned with IFAD policies and corporate priorities. R-HVAP contributes to the strategic objectives of the country strategic opportunities programme (COSOP).

E. Costs, benefits and financing

21. **The total cost of the programme** is estimated at US\$120.9 million. The financiers and contributions are the following: (i) US\$70.935 million (58.6 per cent) from IFAD; (ii) US\$24.6 million (20.3 per cent) from the Government of Nepal comprising: (a) US\$19.6 million (16.2 per cent), covering duties, taxes, salary and operational costs of deputed staff, and (b) a US\$5.0 million (4.1 per cent) cash contribution for the Semlar wholesale market construction; (iii) US\$0.5 million (0.4 per cent) from provincial governments; (iv) US\$1.52 million (1.3 per cent) from local government; (v) US\$20.87 million (17.3 per cent) from POs and households; and (vii) US\$2.56 million (2.1 per cent) from MSMEs.
22. **Programme cost by component and financier.** Of the total programme cost, US\$66.05 million (54.6 per cent) will be used for component 1, US\$10.08 million (8.3 per cent) for component 2, US\$31.25 million (25.8 per cent) for component 3, US\$1.37 million (1.1 per cent) for component 4, and US\$12.22 million (10.1 per cent) for programme management. Table 1 provides the breakdown by financier.

Programme costs

23. **Programme costs by expenditure category and financier:** Programme costs fall within four expenditure categories: (i) works (35.3 per cent); (ii) goods, services and inputs (54.0 per cent); (iii) training (2.7 per cent); and (iv) operating costs (8.0 per cent). Table 2 provides the expenditure categories and associated costs by financier.
24. Programme components 1, 2, 3 and 4 are partially counted as climate finance. As per the multilateral development bank's methodologies for tracking climate change adaptation and mitigation finance, the total amount of IFAD climate finance for this programme is estimated at US\$19.947 million.

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

Component	IFAD loan		Provincial / local government		Other cofinanciers		Beneficiaries			Borrower / recipient			Total	
	Amount	%	Amount	%	Amount	%	Cash	In-kind	%	Cash	In-kind	%	Amount	%
	1. Enhanced capacities for transitioning to market-oriented agroecological production systems	34 324	52	-	-	2 512	4	-	19 500	30	-	9 715	15	66 050
2. Improved access to climate-resilient productive infrastructure	5 682	56	1 518	15	-	-	-	1 368	14	-	1 512	15	10 080	8.3
3. Improved wholesale aggregation and distribution of agroecological commodities for domestic and export markets	22 000	70	-	-	-	-	-	-	-	5 000	4 255	30	31 255	25.8
4. Strengthened policies, regulations and institutions for smallholder agroecological production and trade	1 083	79	34	3	46	-	-	-	-	-	205	15	1 368	1.1
5. Programme management, monitoring and evaluation, knowledge management and learning	7 846	64	463	4	-	-	-	-	-	-	3 907	32	12 217	10.1
Total	70 935	58.6	2 015	2	2 558	2	-	20 868	17	5 000	19 594	20	120 970	100

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

Expenditure category	IFAD loan		Provincial / local government		Other cofinanciers		Beneficiaries			Borrower / recipient			Total	
	Amount	%	Amount	%	Amount	%	Cash	In-kind	%	Cash	In-kind	%	Amount	%
	Investment costs													
1. Works	27 391	64	1 496	3	2 055	5	-	1 350	3	4 624	5 839	25	42 754	35
2. Goods, services and inputs	35 236	54	56	0	457	1	-	19 518	30	343	9 711	15	65 322	54
3. Training	2 703	83	-	-	46	1	-	-	-	33	463	15	3 245	3
Total investment costs	65 330	59	1 552	1	2 558	2	-	20 868	19	5 000	16 013	19	111 321	92
Recurrent costs														
1. Operating costs	5 605	58	463	5	-	-	-	-	-	-	3 581	37	9 649	8
Total recurrent costs	5 605	58	463	5	-	-	-	-	-	-	3 581	37	9 649	8
Total	70 935	58.6	2 015	2	2 558	2	-	20 868	17	5 000	19 594	20	120 970	100

Table 3
Programme costs by component and programme year
(Thousands of United States dollars)

Component	24/25		25/26		26/27		27/28		28/29		29/30		30/31		31/32		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
	1. Enhanced capacities for transitioning to market-oriented agroecological production systems	3 325	5	14 997	23	25 273	38	18 239	28	1 846	3	1 216	2	1 149	2	6	0
2. Improved access to climate-resilient productive infrastructure	847	8	1 839	18	2 885	29	2 262	22	1 000	10	448	4	452	4	347	3	10 080
3. Improved wholesale aggregation and distribution of agroecological commodities for domestic and export markets	3 289	11	9 280	30	9 237	30	9 449	30	-	-	-	-	-	-	-	-	31 255
4. Strengthened policies, regulations and institutions for smallholder agroecological production and trade	36	3	325	24	304	22	173	13	121	9	208	15	125	9	76	6	1 368
5. Programme management, monitoring and evaluation, knowledge management and learning	2 363	19	1 387	11	1 336	11	1 471	12	1 451	12	1 468	12	1 496	12	1 244	10	12 217
Total	9 860	8	27 828	23	39 035	32	31 594	26	4 418	4	3 340	3	3 222	3	1 672	1	120 970

25. Programme costs will be incurred over the eight-year period. About 8 per cent of the cost will be incurred in year 1. The programme cost will be 23 per cent, 32 per cent, 26 per cent, 4 per cent, 3 per cent, 3 per cent and 1 per cent in years 2, 3, 4, 5, 6, 7 and 8, respectively. Table 3 provides programme cost by component and year.

Financing and cofinancing strategy and plan

26. The total budget for R-HVAP is US\$120.97 million over an eight-year period. The budget includes IFAD loan financing of US\$70.935 million (58.6 per cent) – US\$38.5 million from the Twelfth Replenishment of IFAD’s Resources (IFAD12) performance-based allocation system (PBAS), and US\$15.4 million and US\$17.0 million partially cancelled and recommitted from the Agriculture Sector Development Programme (ASDP) and the Value Chains for Inclusive Transformation of Agriculture Programme (VISTA), respectively. Government of Nepal contributions are estimated at US\$24.6 million (20.3 per cent), comprising US\$19.6 million (16.2 per cent) and covering duties, taxes, salaries and operational costs of deputed staff, and a US\$5.0 million (4.1 per cent) cash contribution for the construction of the Semlar wholesale market. Provincial and local government contributions amount to US\$0.5 million (0.4 per cent) and US\$1.52 million (1.3 per cent), respectively. In addition, PO, household and MSME contributions are estimated at US\$20.87 million (17.3 per cent, mostly in-kind), and US\$2.56 million (2.1 per cent), respectively.

Disbursement

27. IFAD funds will be disbursed to a designated account (DA) to be opened in the Nepal Rastra Bank. The Government of Nepal will pre-finance programme expenditures. R-HVAP will reimburse the Central Treasury for the expenditures pre-financed by the Government on a quarterly basis. The programme coordination office (PCO) will transfer funds from the DA to the Central Treasury to reimburse IFAD’s share of project expenditures, once IFAD clears the quarterly interim financial reports (IFRs). Project cost tables will serve as reference documents to check the eligibility of project expenditures for IFAD financing. Funds will be advanced to the DA based on cash forecasts in IFRs, and downstream fund flows will be managed by the programme management unit (PMU).
28. **Interim financial reporting.** The PCO will submit consolidated quarterly IFRs within 45 days of the end of the relevant quarter. Two withdrawal applications will be submitted each quarter – one for justification of the actual amount spent, and the other for requesting replenishment of the DA.

Summary of benefits and economic analysis

29. R-HVAP will benefit 60,000 smallholder farm households, or 258,000 individuals. Programme participants will receive co-investment support and access to rural finance to launch climate-resilient agroecological enterprises. Smallholders will obtain higher production of various agricultural commodities through the adoption of agroecological farming systems, improved technology and management practices, production and post-production infrastructure and greater access to other complementary services.
30. Based on the financial models of farm households, MSMEs, community infrastructure and the Semlar wholesale market, an economic analysis using economic prices yielded the following: the cost-benefit analysis yields an overall economic internal rate of return of 18.1 per cent; the estimated net present value (NPV) for a 9 per cent discount rate is NPR 21,267 million (US\$163.6 million) and the benefit-cost ratio is 8.52. The positive NPV under the current opportunity cost of capital of 9 per cent indicates that the programme investments are sound and worth investing in from a financial and economic perspective.

Exit strategy and sustainability

31. R-HVAP is designed as a medium-term initiative, with an initial phase of eight years, followed by a second phase. Therefore, the programme’s design is based on a scaling-up strategy that prioritizes sustained support over the medium term to ensure the sustainability of POs and related investments. The exit strategy will be adjusted by the PCO and implementing agencies during programme implementation to factor in contextual changes.

III. Risk management

A. Risks and mitigation measures

32. The programme has been designed considering institutional risks, especially in the context of the slow transition to federalism. The programme implementation structure shifts the implementation focus to the provincial and *palika* levels, with only a nominal role assigned to the federal level.

Table 4
Overall risk summary

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Country context	Moderate	Moderate
Sector strategies and policies	Moderate	Moderate
Environment and climate context	Substantial	Substantial
Project scope	Low	Low
Institutional capacity for implementation and sustainability	Substantial	Moderate
Financial management	Substantial	Substantial
Project procurement	Moderate	Moderate
Environment, social and climate impact	Moderate	Moderate
Stakeholders	Moderate	Moderate
Overall	Moderate	Moderate

B. Environment and social category

33. The environmental and social category for R-HVAP is determined as **substantial**. R-HVAP aims to generate positive environmental and social benefits in a comprehensive manner. The programme focuses on promoting agroecological farming systems, which will contribute to revitalization of the ecological health of farms, increase biodiversity and build climate resilience. R-HVAP is a gender-transformative, youth-sensitive programme that prioritizes social inclusion. The programme will increase women’s access to viable economic opportunities, generate economic and professional opportunities for youth and ensure collective engagement in decision-making processes.

C. Climate risk classification

34. The climate risk category of the programme is determined as **substantial**. The programme promotes agroecological farming, climate-smart agricultural practices and climate-resilient infrastructure for building resilience to climate change in the smallholder sector.

D. Debt sustainability

35. Nepal’s external public debt risk is very low,² although the debt has risen in recent years. Public debt is projected to stabilize (at about 50 per cent of GDP) in the medium term, and present values of both the public debt-to-GDP and external debt-to-GDP ratios are projected to remain below their indicative thresholds. The results are nevertheless sensitive to growth, export and natural disaster-related

² 2023 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director FOR Nepal, May 2023.

shocks, underscoring the importance of reforms to diversify Nepal's economy and increase its resilience.

IV. Implementation

A. Organizational framework

Programme management and coordination

36. The Ministry of Agriculture and Livestock Development is the lead programme agency and will work in coordination with the Ministry of Finance, the Ministry of Urban Development and the Ministry of Industry, Commerce and Supplies, and the ministries of agriculture, and forests and environment at the provincial level, and other relevant agencies and stakeholders.
37. A programme steering committee (PSC) at the federal level will be chaired by the Secretary of the Ministry of Agriculture and Livestock Development, with representatives from the pertinent line ministries. Three provincial programme steering committees will be established and chaired by the respective Secretary of the Ministry of Land Management, Agriculture and Cooperatives in each province.

Financial management, procurement and governance

38. **Financial management.** The PCO, each PPMO and corridor office will have government-deputed accounts officers and accountants. The project implementation manual (PIM) and financial management manual spell out the detailed roles and responsibilities of these personnel. The PCO will have the necessary technical experts and will coordinate all PPMOs for consolidating IFRs and allocating timely budgets.
39. **Planning and budgeting.** An annual workplan and programme budget (AWPB) will be prepared in conformity with the overall government budgeting process. The PCO will coordinate the preparation and submission of accurate and realistic budgets from PPMOs. Each province will prepare an AWPB informed by the activities detailed in the PAPs. A separate AWPB will be prepared by the special project implementation unit (SPIU) for the Semlar wholesale market. Upon endorsement of the provincial AWPBs, a consolidated programme AWPB will be prepared by the PCO, including activities at the federal level, for IFAD "no objection" and PSC endorsement.
40. **Internal control.** The programme will follow Government of Nepal regulations in payments, fund flow and treasury operations.
41. **Accounting systems, policies, procedures and financial reporting.** R-HVAP will adhere to Government of Nepal budgeting and accounting rules. The programme will work with the Financial Comptroller General Office to customize the centralized government accounting software for generating and automatically consolidating IFRs at the PCO level.
42. **Audits.** The Office of the Auditor General audits donor-funded projects in Nepal, in compliance with the IFAD Handbook for Financial Reporting and Auditing of IFAD-finance Projects. Efforts will be made to ensure timely submission of audit reports.
43. **Country systems.** Government staffing, budgeting, single treasury, fund flow, financial reporting, accounting and audit standards and the supreme audit institution will be used to implement R-HVAP.
44. **Lessons learned.** R-HVAP will have a critical mass of PPMOs and corridor offices in proximity to beneficiaries and suppliers to facilitate speedy disbursements, contracting and payments. R-HVAP has included a rapid start-up financing option to mitigate persistent delays in start-up.
45. The procurement of goods, works and services financed with programme resources will be undertaken pursuant to the provisions of the Public Procurement Act, Public

Procurement Regulations (2007) and IFAD's Project Procurement Guidelines and Handbook. The PCO will prepare an annual procurement plan (PP) in line with the procedures detailed in the PIM. The PP will be updated as necessary to reflect actual implementation needs. Procurement will be undertaken as per the consolidated PP submitted by the PCO, approval by the PSC and the no objection provided by IFAD.

Target group engagement and feedback and grievance redress

46. The programme approach is based on community consultation to identify priority needs for inclusion in the PAPs. Mobilization activities will follow the social inclusion strategy and include the following key steps: information dissemination, community consultation, engagement of all social actors and specific measures for social inclusion of the most vulnerable.
47. The programme will work with community members, community-based organizations and POs, including village elders and local leaders, to inform them about programme activities. Consultations will take place in all communities at the ward level to seek a consensus on the relevance of the planned activities and ascertain the community's interest in participating. Community meetings will include a minimum of 50 per cent women, 30 per cent youth and vulnerable social categories such as women-headed households, *Dalits*, *Janajatis*, Indigenous Peoples and persons with disabilities, where present in the community. Community focal points will be appointed to capture community feedback.
48. During implementation, regular community meetings will be held to inform community members about implementation status, with the participation of community facilitators and representatives of the programme and local administration.

Grievance redress

49. A grievance redress mechanism (GRM) will be set up to ensure that programme participants can convey their concerns to the local focal point or the central level. The GRM will be publicized at the local level in the local language. The GRM will follow established practices and provide multiple access points (telephone, complaints box, website, e-mail, postal address), so that beneficiaries will know whom to contact and how to convey their concerns.

B. Planning, monitoring and evaluation, learning, knowledge management and communications

50. R-HVAP will follow the Government of Nepal and IFAD AWPB planning processes. The five-year PAPs will be the key instrument for channelling R-HVAP financing in alignment with respective ward and municipal development plans and for formulating provincial AWPBs and PPs. Consistent with local planning processes, the PAPs will be endorsed by the respective municipalities and integrated into municipal and ward plans.
51. The monitoring and evaluation (M&E) system developed and managed by the PCO will cover the following: (i) implementation performance, execution of the AWPB, outreach and effectiveness of the targeting strategy; and (ii) periodic measurement of programme results (outputs, outcomes and impact) in relation to agreed targets. All provinces will contribute to a single M&E system and have access to the data generated. The M&E system will be platformed in a geographic management information system for access through various means (online and offline, internet and mobile devices). This will provide implementation teams with timely and reliable information to support adaptive programme management.

Innovation and scaling up

52. The programme's overall agroecological approach is the main driver of innovation. Its key innovative features are the participatory integrated planning process that facilitates the preparation of PAPs, technical innovations for agroecological production practices, the MSME ecosystem for supporting the agroecological farming system and renewable energy technologies at the production (solar pumps, solar incubators), post-harvest and processing levels (solar dryers, biogas, etc.). Based on the results of the first phase of R-HVAP, a consolidation of programme results and scaling up will be undertaken in phase two. The scaling up will be undertaken geographically and thematically.

C. Implementation plans**Implementation readiness and start-up plans**

53. The financing agreement includes a start-up financing provision of US\$1.0 million to finance the establishment of coordination and implementation offices/units, the launch of initial procurements, the recruitment of staff and preparatory studies such as the baseline survey.

Supervision, midterm review and completion plans

54. Annual programme supervision and implementation support missions, midterm reviews and completion reviews will be conducted jointly by the Government of Nepal and IFAD. IFAD will mobilize expertise to facilitate supervision and support missions. There will be a minimum of eight supervision and implementation support missions, respectively, over the programme period.

V. Legal instruments and authority

55. A financing agreement between the Government of Nepal and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement will be made available prior to the session.
56. The Government of Nepal is empowered under its laws to receive financing from IFAD.
57. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

58. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Government of Nepal in an amount of seventy million nine hundred and thirty-five thousand United States dollars (US\$70,935,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario
President

Negotiated financing agreement

(To be made available prior to the session)

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	1 Persons receiving services promoted or supported by the project				MIS	Rolling	PCO	
	Males - Males		18000	30000				
	Females - Females		18000	30000				
	Young - Young people		14400	24000				
	Indigenous people - Indigenous people		7200	12000				
	Total number of persons receiving services - Number of people		36000	60000				
	Male - Percentage (%)		50	50				
	Female - Percentage (%)		50	50				
	Young - Percentage (%)		40	40				
	1.b Estimated corresponding total number of household members				MIS	Rolling	PCO	
	Household members - Number of people		154800	258000				
	1.a Corresponding number of households reached				MIS	Rolling	PCO	
	Women-headed households - Households		5400	9000				
Non-women-headed households - Households		30600	51000					
Households - Households		36000	60000					
Project Goal Reduced poverty and improved resilience of smallholder households.	Smallholder households with improved resilience				RDMT Baseline/Mid-term/Endline Surveys	Baseline/Mid-term/Endline	PCO	(A) Continued social, political and economic stability in the country. (B) No major fluctuations in domestic and export demand/prices for agricultural products. (C) No major environmental or climate hazard events.
	Women-headed households - Households		1620	6300				
	Indigenous households - Households		2160	8400				
	Households - Households		10800	42000				
	Households (%) - Percentage (%)		30	70				
	Household members - Number of people		46440	180600				

Development Objective Transition smallholder agriculture towards sustainable food systems that are profitable, inclusive and agroecological.	Households achieving at least 35% increase in return on labour				Baseline/Mid-term/Endline Surveys; Annual Cluster Tracking Survey (ACTS)	Baseline/Mid-term/Endline; Annual	PCO	
	Women-headed households - Households		1620	5400				
	Indigenous households - Households		2160	7200				
	Households - Households		10800	36000				
	Households (%) - Percentage (%)		30	60				
	Household members - Number of people		46440	154800				
	IE.2.1 Individuals demonstrating an improvement in empowerment				Baseline/Mid-term/Endline Surveys	Baseline/Mid-term/Endline	PCO	
	Indigenous people - Percentage (%)		25	60				
	Indigenous people - Indigenous people		1800	7200				
	Young - Percentage (%)		25	60				
	Young - Young people		3600	14400				
	Total persons - Percentage (%)		30	70				
	Total persons - Number of people		10800	42000				
	Females - Percentage (%)		25	60				
	Females - Females		4500	18000				
Males - Percentage (%)		35	80					
Males - Males		6300	24000					
Persons with disabilities - Number		-	-					
Persons with disabilities - Percentage (%)		-	-					
Outcomes Outcome 1. Enhanced capacities for transitioning to market oriented agroecological production systems.	SF.2.1 Households satisfied with project-supported services				Baseline/Mid-term/Endline Surveys	Baseline, Mid-term, Endline	PCO	(A) No major fluctuations in domestic and export demand/prices for agricultural products. (B) Programme co-investments are not undermined by the provision of free or heavily subsidized services by other development partners and projects. (C)
	Household members - Number of people		126000	210000				
	Indigenous households - Households		5040	8400				
	Women-headed households - Households		3780	6300				
	Households (%) - Percentage (%)		70	70				
	Households (number) - Households		25200	42000				
	SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers				Baseline/Mid-term/Endline Surveys	Baseline, Mid-term, Endline	PCO	
	Household members - Number of people		61920	154800				
	Indigenous households - Households		2880	7200				
	Women-headed households - Households		2160	5400				

Households (%) - Percentage (%)		40	60				Participating smallholder producer organizations receive sufficient and timely services for professionalization and agroecological production to meet domestic and export market standards. (D) Producer organizations are effectively linked to premium markets.
Households (number) - Households		14400	36000				
2.2.1 Persons with new jobs/employment opportunities				Baseline/Mid-term/Endline Surveys; ACTS	Baseline/Mid-term/Endline; Annual	PCO	
Males - Males		7000	21000				
Females - Females		3000	9000				
Indigenous people - Indigenous people		2000	6000				
Young - Young people		6000	18000				
Total number of persons with new jobs/employment opportunities - Number of people		10000	30000				
Persons with disabilities - Number		-	-				
2.2.2 Supported rural enterprises reporting an increase in profit				Baseline/Mid-term/Endline Surveys; ACTS	Baseline/Mid-term/Endline; Annual	PCO	
Number of enterprises - Number		70	160				
Percentage of enterprises - Percentage (%)		30	70				
2.2.5 Rural producers' organizations reporting an increase in sales				Baseline/Mid-term/Endline Surveys; ACTS	Baseline/Mid-term/Endline; Annual	PCO	
Percentage of rural POs - Percentage (%)		30	70				
Number of Rural POs - Organizations		480	1100				
3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices				Baseline/Mid-term/Endline Surveys	Baseline/Mid-term/Endline	PCO	
Total number of household members - Number of people		58050	135450				
Households - Percentage (%)		30	70				
Women-headed households - Households		2025	4725				
Households - Households		13500	31500				
Number of households reporting market-oriented diversification of production				Baseline/Mid-term/Endline Surveys	Baseline/Mid-term/Endline	PCO	
Total number of household members - Number of people		58050	135450				
Households - Percentage (%)		30	70				
Women-headed households - Households		2025	4725				
Households - Households		13500	31500				
Total private investment in value chains by smallholder producers, MSMEs and other actors				MIS; ACTS	Rolling; Annual	PCO	
Private investment (USD thousand) - Money (USD' 000)		8000	20000				
Outputs	Number of Palika Agroecology Plans (PAP) formulated				Rolling	PCO	

	PAPs - Number		60	80	MIS; Programme Reports			
	Palikas covered - Number		60	80				
	Number of market oriented agroecological extension service providers trained				MIS; Training Records	Rolling	PCO	
	Lead farmers - Number		90	150				
	Households facilitated in establishing market and service linkages with traders and service providers				MIS	Rolling	PCO	
	Households - Households		36000	60000				
	Participatory agroecology research framework developed and implemented with programme participants				MIS; Programme Reports	Rolling; Annual	PCO	
	Number of research frameworks - Number		1	1				
	2.1.2 Persons trained in income-generating activities or business management				MIS; Training Records	Rolling	PCO	
	Males - Males		18000	30000				
	Females - Females		18000	30000				
	Indigenous people - Indigenous people		7200	12000				
	Young - Young people		14400	24000				
	Persons trained in IGAs or BM (total) - Number of people		36000	60000				
	3.1.4 Land brought under climate-resilient management				MIS; ACTS	Rolling; Annual	PCO	
	Hectares of land - Area (ha)		8100	13500				
	Number of MSMEs established				MIS	Rolling	PCO	
	Number of MSMEs - bio-inputs and tools - Number (2nd NDC target - 100)		30	95				
	Number of MSMEs - post-harvest processing - Number		20	50				
	Number of MSMEs with functional chain-of-custody traceability systems				MIS; ACTS	Rolling; Annual	PCO	
	Number of MSMEs - Number		5	10				
Outcome 2. Improved access to climate resilient productive infrastructure.	2.2.6 Households reporting improved physical access to markets, processing and storage facilities				Baseline/Mid-term/Endline Surveys	Baseline/Mid-term/Endline	PCO	(A) Municipal governments endorse PAPs and are willing to co-finance Programme infrastructure activities.
	Households reporting improved physical access to markets - Percentage (%)		30	70				
	Size of households - Number of people		77400	180600				
	Women-headed households - Households		1620	6300				
	Households reporting improved physical access to processing facilities - Percentage (%)		10	30				
	Size of households - Number of people		19350	58050				

	Women-headed households - Households		675	2025				
	Households reporting improved physical access to storage facilities - Percentage (%)		15	40				
	Size of households - Number of people		29025	77400				
	Women-headed households - Households		1200	2700				
	Households reporting improved physical access to markets - Households		18000	42000				
	Households reporting improved physical access to processing facilities - Households		4500	13500				
	Households reporting improved physical access to storage facilities - Households		6750	18000				
	Local governments co-financing Palika Agroecology Plans (PAP)				MIS; Programme Reports	Rolling	PCO	
	Co-financing - Number of municipalities - Number		30	50				
Output	2.1.6 Market, processing or storage facilities constructed or rehabilitated				MIS	Rolling	PCO	
	Total number of facilities - Facilities		54	135				
	Market facilities constructed/rehabilitated - Facilities		34	85				
	Processing facilities constructed/rehabilitated - Facilities		10	25				
	Storage facilities constructed/rehabilitated - Facilities		10	25				
	1.1.2 Farmland under water-related infrastructure constructed or rehabilitated				MIS	Rolling	PCO	
	Hectares of land - Area (ha)		1500	2400				
Outcome 3. Improved wholesale aggregation and distribution of agroecological commodities for domestic and export markets.	Number of supported commodities (agroecologically produced) accessing export markets through Semlar				MIS; Programme Reports	Rolling	PCO	(A) Backward and forward linkages in commodity markets are stable. (B) Organic and safe product regulations of the market are effectively enforced. (C) There is increasing demand for Nepali organic and safe products.
	Overall - Number		0	5				
	Through Semlar - Number		0	2				
Output	Semlar agricultural wholesale market constructed				MIS	Rolling	PCO	
	Number of infrastructure - Number		1	1				

Outcome 4. Strengthened policies, regulations and institutions for smallholder agroecological production and trade.	Policy 3 Existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment				Programme Reports	Annual	PCO	(A) Provincial and municipal governments are committed to transition to agroecological production.	
	Number - Number			3					8
Output	Policy 1. Policy relevant knowledge products completed				Programme Reports	Rolling; Annual	PCO		
	Number - Number			4					12
	Number of rural PO and MSME representatives participating in trade fairs and events				MIS; Programme Reports	Rolling	PCO		
	Domestic fairs - Number of events			8					16
	Domestic fairs - Number of Pos			40					80
	International fairs - Number of events			4					8
International fairs - Number of Pos			20	40					

Integrated programme risk matrix

Country Context	Moderate	Moderate
Political Commitment	Moderate	Moderate
<p>Risk:</p> <p>Nepal is at an advanced stage of transitioning from a unitary to a three-tier federal governance system. The second general elections were successfully held on 20 Nov 2022 with local election earlier in 2022 and a coalition government has been formed in December 2022. Despite the recent elections being completed without major incidents, the inherent level of risk is moderate due to frequent changes in the country's leadership. Since the end of monarchy in Nepal in 2008, the country has witnessed rise of 10 different governments. Additionally, the turnover of the ministers within the same government is also noticeable.</p> <p>Rural and agriculture development remains priorities for all major parties. However, smooth implementation due to constitutional arrangements, including the newly introduced system of federalism, is to be tested over time and required adjustments made. Overall, local government (municipalities) have started playing a more pro-active role in local development, including agricultural development.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>The Programme is executed by mainstream government ministries: MoALD as the LPA, in partnership with MoICS and Ministry of Urban Development at Federal level, work in close collaboration with Provincial Agriculture, and forest Ministries and Municipality level Agriculture and Livestock Unit having strong internal financing mechanisms. Following the decentralization, implementation offices will be established at the three provinces while the federal office will act as the coordination unit. Deputation of lead position will be from the provincial governments ensuring full time and long-term availability of the key positions. The Semlar Wholesale Market construction and operation will be led by Center for Agricultural Infrastructure Development and Mechanization Promotion (CAIDMP), a dedicated and experience division under the MoALD with the success of construction and operation of major markets. A dedicated Sub-Project Implementation Unit (SPIU) will be established at the Lumbini province in close coordination with Butwal Metropolitan City. Maximum collaboration will be ensured with local governments for the planning, quality implementation, and monitoring.</p>		
Governance	Moderate	Moderate
<p>Risk:</p> <p>The inherent governance risks to the Programme are moderate. Overall stemming from the effectiveness of the new constitutional arrangements, and assignment of powers across three tiers of government need to be tested over time and required adjustments made. Over time, ambiguities in the roles and responsibilities of different tiers have been reduced.</p> <p>Local government (municipalities) have started playing a more pro-active role in local development, including agricultural development. Significant changes have occurred, and the new generation of leaders are considered as more development oriented as observed in by Mission field visits.</p>	Moderate	Moderate

<p>Mitigations:</p> <p>The program's planning and implementation approaches will be participatory with meaningful multistakeholder consultation and engagement. The planning process will follow bottom-up approach assessing situation and need of local communities ensuring their participation in each step. The Municipal Agroecological Plans (PAPs) will conduct series of community consultation ensuring participation from Dalit, Janajati, women, youth-young girls, and marginalized people. Multi Stakeholder Platform (MSP) will be vibrantly unitized to discuss and draft PAPs. MSP will engage MSMEs, other private sectors, government line agencies, non-government agencies, while local governments will lead the overall process. PAPs will be integrated into the palika's planning process to increase participation, transparency and ownership. The beneficiary targeting will be clearly set to benefit targeted smallholders. Activities for the investment will be selected from participatorily prepared PAPs. Investment decision will be transparent. Joint monitoring, including private sector and media centres, will be organized to supervise activity implementation. As a regular practice, public auditing will be conducted to increase transparency. The programme implementation will be facilitated by service providers mobilised at PPMO and corridor office levels. The IFAD country office team will provide continued guidance and backstopping to the implementation agencies. Overall coordination will be provided by a Federal level Programme Steering Committee (PSC), which provides a forum for inter-provincial and inter-agency coordination, and the Provincial Programme Steering Committee (PPSC) that conducts intra-provincial coordination. The Semlar wholesale market bidding and construction will follow national and international standards, ensuring transparency and accountability.</p>		
Macroeconomic	Moderate	Moderate
<p>Risk:</p> <p>Movement restrictions with an almost complete shut-down of tourism during the COVID-19 pandemic resulted in Nepal's first economic contraction in almost 40 years in FY 2020 (-2.4 percent). In FY 2021, Nepal also witnessed: (i) increase in the current account deficit to \$2.8 billion —8.0% of GDP from 0.9% of GDP a year earlier; (ii) growth in exports by 31.0% but had a minimal impact on the trade deficit as they are relatively small at about 10% of imports; (iii) increase in workers' remittances by 8.2% to \$8.1 billion; (iv) marginal increase in foreign exchange reserves to \$11.7 billion (worth 10.2 months of current imports); (v) increase in government debt to 41.4% of GDP from an average of 25.1% during FY2016-FY2019. Despite the rise in debt, Nepal's risk of debt distress is low given the high level of official concessional borrowing at long maturity. GDP growth is likely to increase to 3.9% in FY2022 and slowing growth in advanced economies exacerbated by the Russian - Ukraine conflict along with disrupted trade flows and higher prices of oil and other commodities are expected to push inflation and exert pressure on the external sector. As imports outpaced foreign currency earnings during the recovery phase, Nepal used its reserves to finance imports, chipping away at the reserves stock until it was once again at pre-pandemic levels, slightly above optimal level recommended by IMF. Low budget execution rates and reduced intergovernmental transfers have kept the deficit in check, but structural problems remain unaddressed.</p>	Moderate	Moderate

Mitigations: Potential negative impacts on the Programme are reduced by: a) Encouraged the smallholder farmers in the project area to increase agricultural production and productivity of high value crops strongly supported through co-investments in strengthening resilience enabling market, technical services, financial and credit linkages; b) primarily focussed on agro ecological sustainable farming of high value crops/livestock for national & international market where demand is increasing with supply chains traceability in place, and also address the pertinent chemical fertilizer shortage concern; and c) central role of private investment which is not primarily reliant on the fiscal position of the government.		
Risk: There is a specific risk to the programmes potential for scaling-up of improved agricultural lending in the wider financial sector from the persistent periodic liquidity constraints leading high interest rates especially for term finance, which may discourage PFIs from expanding agricultural lending regardless of the market opportunity. The term liquidity issues are closely related to the structure of sources of funds in the sector and prudent term matching requirements.	Moderate	Moderate
Mitigations: Specific mitigation measures on the agriculture lending risks for investments are: a) Term loans will be made available to R HVAP beneficiaries via the VITA subsidiary loan either directly by ADBL or wholesale term loans from ADBL to partner FIs, who then lend to beneficiaries, ultimately enhanced financial inclusion; b) ADBL has launched an agricultural Bond for 2 successive rounds and generated deposit of NPR 1.2 billion. Bonds are currently offered for 7-year term with 4% interest; and c) Continued policy engagement with NRB and others on agriculture finance promotion policies		
Fragility and Security		No risk envisaged - not applicable
No risk envisaged		
Sector Strategies and Policies	Moderate	Moderate
Policy alignment	Low	Low
Risk: Overall risks are low as sector strategies and policy framework in both agricultural and financial sector are highly favourable to the Programme, as seen in the Agriculture Development Strategy (ADS – which IFAD is supporting the mid-term review and revision in 2023), the deprived/priority sector lending policies and financial inclusion road map and action plans. The transfer of substantial powers concerning the agriculture sector to province and municipal level are also expected to create increasingly accountable policy frameworks to the needs of rural people. Agriculture and rural development remain priorities for all major political parties.	Low	Low
Mitigations: No specific mitigation measures are required.		
Policy Development and Implementation	Moderate	Moderate

<p>Risk:</p> <p>Technical service provision to farmers – Municipalities have limited budget and inadequate & less-skilled human resources to facilitate Climate-Smart Agriculture / agroecological practices and services to farmers. This may affect the promotion /upscaling of agroecological farming at large. Development of Sustainable/Organic Farming Policy and its implementation will be a challenge.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>Experience from IFAD past and ongoing projects HVAP, ASDP and ASHA reveal that lead farmer and private service providers capacitated under the project can be mobilized; they are either embedded through Agribusiness/Cooperatives or fee-based or voucher-based payment mechanism by Local government following the pluralistic extension mechanism of inputs and services supporting sustainable farming, which suggests there is a low risk if properly managed by the Programme. Similarly, Programme partner with provincial Ministries of Land Management, Agriculture and Cooperatives (MoLMAC) to ensure that the AKCs and VHLSSCs, who have more higher qualified staff, are provide technical backstopping to the municipalities and local service providers supported by the municipalities and the Programme as per their mandate</p>		
Environment and Climate Context	Substantial	Substantial
Project vulnerability to environmental conditions	Substantial	Substantial
<p>Risk:</p> <p>Apart from significant seismic risks, agriculture-dependent populations in Nepal have inherent vulnerability to weather-related environmental conditions such as droughts, floods, landslide, rainfall, and temperature risks. While monsoon rainfall in 2022 was close to normal, fertilizer shortage in the main growing season of rice is expected to have some adverse impact.</p> <p>The Environmental and Social category is rated as substantial, primarily attributed to the community forest land's utilization for the Semlar Wholesale Market. The construction of the wholesale market is planned within the Ratanpur Community Forest, encompassing an area of 12.47 hectares.</p>	Substantial	Substantial

<p>Mitigations:</p> <p>Mitigation is by a) deploying agro-ecological farming packages developed by ASHA, b) appropriate screening and site selection for potential production clusters to avoid production on high-risk sites – informed by geospatial data and local knowledge, c) pre-engagement carrying capacity assessments – especially for livestock and fodder /forage promotion including e.g., making silage, hay etc., and d) promotion of water-efficient production practices as well as investment in small scale irrigation and multi-use water systems, with inbuilt climate proofing techniques.</p> <p>The Environmental Impact Assessment (EIA) for the construction and operation of the Semlar Wholesale Market has been completed, and the corresponding report has been submitted to the Ministry of Forest and Environment (MoFE) for final approval. The EIA report has been made available in the disclosed documents of the SECAP, as part of the advanced 120-day disclosure requirement (https://www.ifad.org/documents/38711624/47800070/secap-eia-2000003750.pdf/65c506a7-846e-36c5-8c32-928e44ee4ec6?t=1692016664474).</p> <p>The EIA findings confirm that the Ratanpur Community Forest, designated for the wholesale market construction, is a relatively young plantation forest of around 20 years, characterized by low biodiversity. This forest does not serve as a primary source of livelihood or economic activities for the local population.</p> <p>In accordance with Government of Nepal (GoN) regulations, the program has incorporated a provision for planting ten times the number of seedlings compared to the projected harvestable count of trees and poles from the construction zone. The program's budget covers the expenses for planting and maintaining the plantation site over a span of five years. The specific location for this plantation site, situated near the wholesale market construction area, is currently under discussion for finalization.</p> <p>According to the EIA, the residual environmental impacts resulting from the construction and operation of the Semlar Wholesale Market are assessed to be low.</p>		
<p>Project vulnerability to climate change impacts</p>	<p>Substantial</p>	<p>Substantial</p>
<p>Risk:</p> <p>Inherent climate change risks in Nepal are high and well documented, being among the most vulnerable countries to climate change. Climate trends and future projections for Nepal indicate that seasonal variations in temperature and precipitation will increase, resulting in more frequent and intensified extreme weather events and likely impacts such as i) increased incidences of new (and existing) agricultural diseases, pest and insects, especially at higher altitudes; ii) greater variability in rainfall patterns within the year – coupled with increased water demand – resulting in higher risks of temporary water shortages for rainfed agricultural production; iii) increased heat stress to livestock from a small increase in the number of warm days, especially in the lean season, resulting in reduced milk production and reduced growth in poultry during these periods.</p>	<p>Substantial</p>	<p>Substantial</p>

<p>Mitigations:</p> <p>Participatory preparation of PAPs, which will explicitly include climate risks as identification/prioritization criteria, and selection of climate-resilient commodities to be promoted in different locations and suitable to the agro-climatic condition; promoting and training small-scale producers and MSMEs on tools / increase their knowledge to help them factor in climate change considerations into their investment and production plans; promotion of agroecological/climate-smart agriculture technologies and management practices through strengthening of local support markets and investments along the value chain (particularly, for post-harvest management); and strengthening the capacity of staff in the area of climate change.</p> <p>The Programme will help to reduce climate-related risks and impacts by: improving farmers' understanding of climate risks to their farm business (increase availability and access to bio-inputs and climate resilient technologies and more importantly promote ago-ecological based farming practices); investing in climate proofing multi-use water system and small scale irrigation to reduce the risks from temporary water shortages, and upgrading processing, storage, and marketing facility.</p> <p>A preliminary climate risk assessment has been carried out for the Semlar Wholesale Market, and a collection of recommended mitigation measures has been incorporated into both the EIA report and the ESCMP.</p> <p>Considering the proximity of the construction area to the river, a comprehensive flood risk assessment has been scheduled, and Terms of Reference (ToRs) have been formulated. This assessment aims to enhance the design process by offering specific mitigation strategies tailored to the potential flood risks.</p> <p>The construction of the wholesale market will adhere to both national and international standards, inclusive of building codes that align with Nepal's regulations. These standards will ensure the market's resilience to earthquakes and will encompass climate-proofing measures within the design and operational framework of the wholesale market.</p>		
Project Scope	Low	Low
Project Relevance	Low	Low
<p>Risk:</p> <p>The programme serves Nepal's most disadvantaged province and is highly relevant to both the government agenda and priorities of its target groups. It is a scaling-up of best practice of HVAP, ASHA and other projects within the country that achieved strong impacts. With the enactment of an enabling act for local governance, the rationale has been further strengthened. Furthermore, the huge dependency of regular shortage of chemical fertilizer, significant disruptions in supply chains and high trade deficit provided further justifications for organizing these organic and resilience supply chains better and strengthen them in a way that minimizes future disruptions.</p>	Low	Low
<p>Mitigations:</p> <p>No specific mitigation required.</p>		
Technical Soundness	Low	Low
<p>Risk:</p> <p>Technical design risks are generally low as R-HVAP is principally a scaling-up Programme of proven best practice from past an ongoing IFAD funded projects within Nepal.</p>	Low	Low

Mitigations: No specific mitigation required.		
Institutional Capacity for Implementation and Sustainability	Substantial	Moderate
Implementation Arrangements	Substantial	Moderate
Risk: Inherent institutional capacity risks are high in Nepal, as evident in the recent country Programme performance. If not addressed both in design and implementation, these create significant risks of substantial delays in Programme delivery.	Substantial	Substantial
Mitigations: Several measures have been incorporated into the design to mitigate these, including setting up provincial management offices, cluster offices with cost centre, preparing participatory PAPs and including that into the palika's planning process, capacitating lead farmers and social mobilizers, supporting youths etc but the effectiveness of these measure must be continuously monitored by GON and IFAD, especially in the early years of implementation, with close implementation support.		
Risk: The new federal governance structure while evolving and maturing to an extent and will take time to gain full maturity and start delivering services. Coordination within and between the three tiers of government has emerged as a critical issue across multiple sectors. The risk is that this may create disjointed policies and public investment programmes between the three tiers – with potential gaps, duplications or contradictions. The Programme may be impacted by a lack of coordination within the government itself.	Moderate	Low
Mitigations: Measure for mitigation of coordination risks include: establishing a Province Programme Coordination Committee in each province to coordinate among Programme stakeholders within the province and similar Municipality coordination forum in each municipality; signing MoUs between Programme and each municipal government for preparing the Community investment Plan, collaboration on the Programme, setting out expected contributions and roles;, and; providing capacity building training to province and municipality staff on key Programme approaches to raise understanding.		
Monitoring and Evaluation Arrangements	Moderate	Moderate
Risk: M&E risks are moderate as the Programme will develop a GIS integrated robust MIS, built on best practices of ASHA & ASDP MIS, to collect individual HHs level data collection, management and reporting systems.	Moderate	Moderate
Mitigations: The RHVAP will use M&E and MIS system those are well proven in past and ongoing projects.		
Project Financial Management	Substantial	Substantial
Project Organization and Staffing	High	High

Risk: Provincial and Cluster PMUs will have government-deputed staff and recruited FM consultants. The government may not second Accounting Officers on time, the capacity of FM consultants may not be adequate for the needs of the R-HVAP	High	High
Mitigations: PCU at the federal level will monitor the secondment of government staff for provincial and cluster PMUs; PCU will also ensure that experienced FM consultants are recruited for them.		
Project Budgeting	Substantial	Substantial
Risk: - Government budgeting system will be used for the project budgeting. -PCU and all PMUs will need to separate budgets and get them included in the overall government budget. -low staff capacity to prepare realistic and accurate budgets	Substantial	Substantial
Mitigations: Central PCU will coordinate budgeting process and ensure timely and accurate budgets are included in the government overall budget		
Project Funds Flow/Disbursement Arrangements	Substantial	Substantial
Risk: -the government will pre-finance project activities and PCU will reimburse to Central Treasury every quarter. Inaccurate or insufficient budget allocations will have negative impact on project progress. - bureaucratic procedures within government institutions may delay the approval of payment orders	Substantial	Substantial
Mitigations: -PCU will need to play a key role in ensuring adequate budget allocations and timely approval of payment documents. -PCU will introduce a system to register and monitor approval and payment of all project related documents.		
Project Internal Controls	Substantial	Substantial
Risk: -project will follow Government regulations in the area of payments, funds flow and treasury. Without stronger controls however effective and efficient use of project funds maybe compromised.	Substantial	Substantial
Mitigations: -PIM of the project will include essential controls. -Project beneficiaries and local communities will play a key role in approving acts of work completed and goods delivered. -External consultants will be responsible for internal audit reports.		
Project Accounting and Financial Reporting	Substantial	Substantial
Risk: Centralized Government Accounting Software (CGAS) will be used for accounting record keeping and financial reporting. -CGAS does not generate IFAD required IFRs -CGAS can't consolidate financial reports for all PMUs and PCU	Substantial	Substantial

Mitigations: -Project will work with the MOF Treasury to customize CGAS so that it can generate IFRs and consolidate at PCU level automatically.		
Project External Audit	Substantial	Substantial
Risk: -Unaudited Financial Statements are not submitted on time to OAG -Office of the Auditor General (OAG) may not have enough resources to complete audit on time.	Substantial	Substantial
Mitigations: PCU will ensure project unaudited financial statements and notes are sent to OAG on time. - Efforts will be taken to ensure timely submission of audit reports.		
Project Procurement	Moderate	Moderate
Legal and Regulatory Framework	Moderate	Moderate
Risk: The risk that the Borrower's regulatory and institutional capacity and practices (including compliance with the laws) are inadequate to conduct the procurement in a manner that optimizes value for money with integrity.	Moderate	Moderate
Mitigations: (i) Review of procurement plans and ensure the use of competitive procurement method as mentioned in programme procurement arrangement (PPA) letter (ii) Programme to prepare General Procurement Notice - on start of Programme and disclose GPN in public websites. (ii) Procurement information and monitoring information to be publicly available in Programme website.		
Accountability and Transparency	Moderate	Moderate
Risk: The risk that accountability, transparency and oversight arrangements (including the handling of complaints regarding, for example, SH/SEA and fraud and corruption) are inadequate to safeguard the integrity of Programme procurement and contract execution, leading to the unintended use of funds, mis procurement, SH/SEA, and/or execution of Programme procurements outside of the required time, cost and quality requirements.	Moderate	Moderate
Mitigations: i). Established IFAD prior review and post review requirement relative to risk in PPA letter. ii). TA to support the review of technical deliverable and contract management and administration. iii). Maintain records and promote reporting of allegation to IFAD iv). Gather occasional feedback on Programme procurement staff (risk that specific skill enables the individuals to "rent seek" to manipulate results of evaluation service provider and consultancy contracts) (v) Adequate and timely access to information by the public (vi) Enabling environment for public consultation and monitoring (vii) Direct engagement of civil society		
Capability in Public Procurement	Moderate	Moderate
Risk: The risk that the implementing agency does not have sound processes, procedures, systems and personnel in place for the administration, supervision and management of contracts resulting in adverse impacts to the development outcomes of the Programme.	Moderate	Moderate

Mitigations: (i). Manage the recruitment and selection of a dedicated and experienced procurement officer in time (ii) provide training on the preparation of bid document, specifications, evaluation and award of contracts to the procurement staffs (iii) provide training on IFAD's OPEN online procurement End to End System. (iv). Support specialist through Technical Assistance - external consultant as and when needed.		
Public Procurement Processes	Moderate	Moderate
Risk: The risk that procurement processes and market structures (methods, planning, bidding, contract award and contract management) are inefficient and/or anti-competitive, resulting in the misuse of Programme funds or sub-optimal implementation of the Programme and achievement of its objectives.	Moderate	Moderate
Mitigations: i) Issue Programme Procurement arrangement (PPA) letter to mitigate the risk (ii) Preparation of PP based on collaborative realistic approach (iii) promote e-bidding (iv) Effective use of IFAD's OPEN online procurement End to End System. (v) Monitor procurement performance through ICP-CMT system, (vi) Review and update PIM to address weakness based on mitigation measure identified in the PRM (vii) perform procurement activities as per the approved program procurement strategy (PPS) and procurement arrangements. (viii) Adequate and timely access to information by the public (ix) Direct engagement of civil society		
Environment, Social and Climate Impact	Moderate	Moderate
Biodiversity Conservation	Substantial	Substantial
Risk: The project activities will not involve conversion or degradation of ecosystems or habitats. However, there is a risk that excessive production of livestock with open grazing system and collection of MAPs, especially in the hills, may expand to unsustainable levels damaging local biodiversity. The construction of the Semlar Wholesale Market in a young community forest will change the land use and might impact local biodiversity.	Substantial	Substantial

<p>Mitigations:</p> <p>Improved production systems will be widely promoted. For livestock, this includes (i) an exclusive focus on stall-based production systems with planting of additional fodder and forage crops (and ceasing open-grazing) and promotion of more productive herd (by improvement in genetics) to help increase production without corresponding increases in herd size, (ii) use of veterinary medicines under the proper guidance from experts, and (iii) cultivation of MAPs in agriculture and private fallow lands, and in community and leasehold forestry as per the approved operational plan.</p> <p>ASHA project contributed to increase local agro-biodiversity. Upscaling ASHA's best practices will enhance agro-biodiversity in program targeted provinces.</p> <p>The EIA for the Semlar Wholesale Market included an assessment of biodiversity (trees /vegetation, wildlife) in the proposed site (a young community forest). Since 702 trees will be removed in collaboration with DFO and Ratanpur CFUG, 7020 saplings will be planted. Other measures to minimize or avoid impacts on biodiversity include garbage management to reduce the potential for wildlife to be attracted to the market and incorporating existing trees into the design of the market and avoiding tree cutting. Since the procurement of saplings will be from MOFE managed nursery, there are no risks of invasive species introduction.</p>		
Resource Efficiency and Pollution Prevention	Moderate	Moderate
<p>Risk:</p> <p>There is an inherent risk of pollution from use of chemical fertilizer, pesticides and veterinary medicines or from poor management of livestock waste. As such, the intensity of chemical fertilizer and pesticide application is still low in Karnali and the two other target provinces and large-scale pollution is unlikely to occur within foreseeable future. However, some pockets may engage in intensive agricultural development for lack of proper guidance, and there might associated risks of overuse / run-offs / disposal and storage of containers.</p> <p>Poor management of solid waste generated by the Semlar Wholesale Market can introduce unpleasant odours or pollute soil and water. Similarly, there are inherent risks associated with wastewater generated by the market facilities.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>R-HVAP will promote good and sustainable agroecological / Climate-Smart Agriculture practices and technologies; enhancing homemade and commercial production of bio-inputs and liquid fertilizer (jholmol) to reduce use of pesticide / mineral fertilizer and promote recycling and reuse; and supplying quality organic inputs through private service providers as well as municipal agricultural extension staff. The Programme will also support better monitoring and enforcement of maximum residual level testing through an accredited laboratory.</p> <p>Waste management strategy for the market includes proposals for a wastewater treatment plant, a waste collection centre (with separation facility), and the engagement of a private contractor with extensive experience in bio-compositing to process the waste.</p>		
Cultural Heritage	Low	Low
<p>Risk:</p> <p>The construction of the Semlar Wholesale Market could potentially temporarily impact a few households' access to the shrine (adjacent to the identified market site) due to construction safety measures.</p>	Low	Low

<p>Mitigations:</p> <p>The small shrine belongs to 7/8 households, and they worship there once in a year. It is located at the edge of the community forest area. Access restrictions to the shrine might be proposed in line with SECAP-related safety norms for the construction site; the shrine is well-fenced and the eventual construction of the new access road to the market site will facilitate easier entry to the shrine. The probability of access restrictions (temporary in nature) was assessed to be low (page 121 of 200 of the EIA main report, section 7.2.3.2). The EIA has proposed to install clear signages and barriers around the construction area to alert people to potential hazards and indicate the correct pathway to the temple. EIA has also proposed to limit noise levels during prayers. These will be reflected in the procurement TOR and ESCMP. The integrity of the structure will not be impacted since it falls outside the market site. Nevertheless, the EIA proposed and the project will include regular inspection of structural integrity of the shrine/temple, which will also be included in the ESCMP.</p>		
Indigenous People	Moderate	Moderate
<p>Risk:</p> <p>The program will work in the areas of IPs. There might be risk of IPs exclusion from the program activity.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>i) Ensure meaningful IPs participation on agroecological cluster plan (PAP) preparation process, conduct separate IP focused group discussion where needed, ii) adopt proactive targeting strategies to benefit IPs, iii) collaborate with IP local to national organizations to update on issues and policies and to maximize benefits to IPs, and iv) ensure IPs are aware of and have adequate access to Grievance Redress Mechanisms.</p>		
Labour and Working Conditions	Moderate	Moderate
<p>Risk:</p> <p>Internationally funded and government-led development projects are well-regulated for labour conditions (forced labour, child labour, working conditions). There are no reports of forced labour or child labour in smallholder agricultural value chains of such projects. There are some reports of poor labour standards and working conditions in Nepal for private sector activities.</p> <p>It is possible that an agroecological approach might increase workload for women or youth, in some contexts, due to the nature of farming activities when combined with cultural norms on division of labour (e.g., increased need for weeding, gathering manure or managing vermicompost).</p>	Moderate	Moderate
<p>Mitigations:</p> <p>R-HVAP's procurement process and monitoring, particularly for the Semlar wholesale market, will require and ensure adherence to international norms, IFAD standards, and Government of Nepal. Such measures have proven to be adequate and effective in mitigating risks associated with poor working conditions, forced labour, and child labour in the past in Nepal (both IFAD and other donor projects implemented through the Government of Nepal).</p> <p>The project will take an adaptive management approach to monitor and manage emergent/unanticipated impacts on women and youth, drawing on lessons from HVAP and ASHA. This will be specified in the TOR for the GESI Specialist.</p>		
Community Health and Safety	Moderate	Moderate

<p>Risk:</p> <p>There are no envisaged risks of significant negative impacts on community health and safety. In fact, the Programme expects to have several positive impacts – through the promotion of agroecological farming as well as through greater availability of high nutrient value foods in households and communities, which are a key drivers of health and nutrition.</p> <p>The construction of Semlar wholesale market may pose minor risks to community health and safety through influx of outside labours, pollution, and waste generation.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>No specific mitigation measures are required for Component 1, Component 2 and Component 4 of R-HVAP, since agroecological approach (especially the use of bio-inputs) is promoted. Component 3 (the Semlar Wholesale Market) will take a proactive approach to community health and safety in its proposed design in a comprehensive manner, and several mitigation measures have been proposed in the EIA. For example, a wastewater treatment plant to reduce risk of contamination of surface/groundwater from market activities and accredited pesticide residue testing laboratory will be established. The contractor for the Semlar wholesale market will also be required to follow SECAP's Environment, Health and Safety requirements that will identify safety and mitigation measures during design, construction and operations. Finally, a detailed flood risk assessment, which will build on the preliminary flood risk assessment commissioned by Invest International, will also identify risks (if any) and propose measures for the market site design, construction and operations. GRM will monitor grievances and complaints, with a separate GRM process for Component 3.</p>		
Physical and Economic Resettlement	Moderate	Moderate
<p>Risk:</p> <p>This is rated as moderate to reflect the fact that the Semlar wholesale market site is currently a young community forest.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>The Semlar wholesale market site does not involve human resettlement, physical or economic displacement, and was selected out of 9 preliminary sites precisely because of this factor (among other criteria; EIA Section 6.2 on Alternative site locations). The land that will be identified by MoFE for compensatory afforestation (7030 tree saplings) will also not involve any physical or economic displacement. Extensive stakeholder engagements have occurred through consultations, household surveys and focus group discussions, and Public Hearing as a part of the Feasibility Study and EIA (funded by Invest International, service provider RHDHV). Explicit consent will be obtained during early implementation, as a part of stakeholder engagement and associated FPIC processes. A Grievance Redress Mechanism will be established for the market site.</p>		
Greenhouse Gas Emissions	Moderate	Moderate

<p>Risk:</p> <p>There is a moderate risk of the Programme significantly increasing greenhouse gas emissions. The promotion of bio-inputs (particularly bio-fertilizers as an alternative to mineral fertilizers), through increased production / enhanced quality and use by farmers, will help avert or avoid increased GHG emissions intensity of agricultural production.</p> <p>The Semlar wholesale market and Agricultural Cluster Plans are anticipated to contribute to reduced food loss and waste. New technologies introduced to enhance agroecological production, input-use efficiency, or post-harvest management will be renewable energy-based (e.g., solar pumps, solar incubators, solar dryers).</p> <p>In general, livestock activities contribute to emissions through enteric fermentation, manure, and land use change (feed, forage). However, the reduction in open grazing and damage to forest land through the promotion of stall-based production for goats, should reduce pressure on forests leading to some recovery. Other livestock production support activities such as manure management and forage/feed production will also reduce pressure on land; manure might also be utilized to produce bio-inputs for crops.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>No specific mitigation measures are required</p>		
Vulnerability of target populations and ecosystems to climate variability and hazards	Substantial	Moderate
<p>Risk:</p> <p>Rural populations in Nepal face inherent climate variability from the monsoon-based climate and geography of the country. As a result, they have developed their adaptive capacity. Compared to this inherent variability, expected climate change impacts of the 25-year Programme impact horizon are modest.</p>	Substantial	Moderate
<p>Mitigations:</p> <p>To reduce exposure to the inherent risks, the Programme will apply appropriate production site selection alongside promotion of climate resilience production technologies that reduce exposure to increased variability in rainfall – including poly-tunnels, mulching, liquid fertilizer, biochar water-efficient production practice as well as investment in multi-use and small-scale irrigation.</p>		
Stakeholders	Moderate	Moderate
Stakeholder Engagement/Coordination	Low	Low
<p>Risk:</p> <p>Engagement and coordination risks are low as the Programme widely leverages the participatory approach-based LAPA process and open multi-stakeholder platform (MSP) processes proven to be highly effective at stakeholder engagement in previous IFAD projects in Nepal (ASHA, HVAP and other Programmes). PAP will be prepared with wider stakeholder engagement and consultation and will be facilitated to endorse from the local government.</p>	Low	Low
<p>Mitigations:</p> <p>Stakeholder engagement plan has been prepared and will be implemented to ensure meaningful stakeholder engagement.</p>		
Stakeholder Grievances	Moderate	Moderate

<p>Risk:</p> <p>There is a risk that complaints and grievances, both legitimate and vexatious, if not appropriately handled could delay programme delivery – especially through delays in recruitment and key procurements – for example if cases are referred to the Commission for Investigation of Abuse of Authority (CIAA)</p>	<p>Moderate</p>	<p>Moderate</p>
<p>Mitigations:</p> <p>Consistent with prevailing laws and regulations, the Programme will establish a grievance process for Programme beneficiaries and stakeholders to be monitored by the PSC (Programme Steering Committee). For the Semlar Wholesale Market, extensive stakeholder engagements have occurred through consultations, household surveys and focus group discussions, and Public Hearing as a part of the Feasibility Study and EIA (funded by Invest International, service provider RHDHV). A separate Grievance Redress Mechanism will be established for the market site.</p> <p>The programme will also maintain a high degree of transparency in all aspects of its operation, regularly publishing information on its activities.</p> <p>Finally, by minimizing the use of direct grants and subsidies to individuals, POs and businesses, the Programme reduces the incentives for complaints and other disputes related to the allocation of resources.</p> <p>R-HAVAP will continue to implement best practices from previous projects such as ASHA and HVAP, as well as ongoing projects like ASDP and RERP. These practices include: i) Placing the contact details of the information officer in visible locations within all program offices, ii) Managing complaint boxes at easily accessible locations in the offices, iii) Using easily understandable templates in Nepali to register and update grievance details, and iv) Including grievance updates in periodic reports.</p>		