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| Document:     | <u>EB 2006/89/R.14/Rev.1</u> |
| Agenda:       | <u>11(b)</u>                 |
| Date:         | <u>13 December 2006</u>      |
| Distribution: | <u>Public</u>                |
| Original:     | <u>English</u>               |

**E**



Enabling the rural poor  
to overcome poverty

## **Nepal**

### **Country strategic opportunities programme**

Executive Board — Eighty-ninth Session  
Rome, 12-14 December 2006

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For: **Review**

## **Note to Executive Board Directors**

This document is submitted for review by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

**Kati Manner**

Associate Country Programme Manager

telephone: +39 06 5459 2790

e-mail: [k.manner@ifad.org](mailto:k.manner@ifad.org)

Queries regarding the dispatch of documentation for this session should be addressed to:

**Deirdre McGrenra**

Governing Bodies Officer

telephone: +39 06 5459 2374

e-mail: [d.mcgrenra@ifad.org](mailto:d.mcgrenra@ifad.org)

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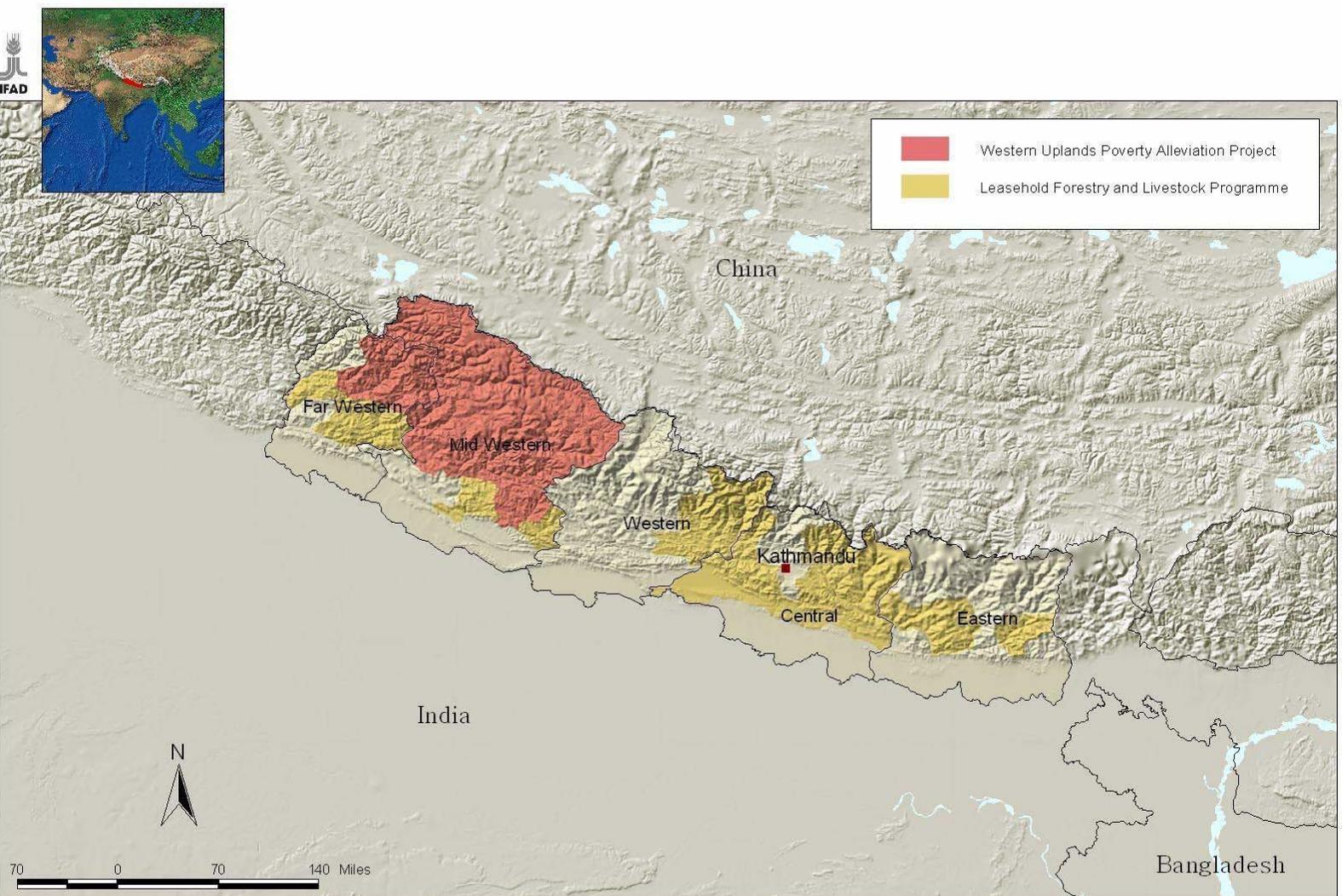
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## Abbreviations and acronyms

|       |  |
|-------|--|
| APP   | agricultural perspective plan                    |
| CBO   | community-based organization                     |
| CFUG  | community forest users' group                    |
| COSOP | country strategic opportunities programme        |
| CPE   | country programme evaluation                     |
| CPR   | country portfolio review                         |
| DDC   | district development committee                   |
| LFLP  | Leasehold Forestry and Livestock Programme       |
| LLP   | Local Livelihoods Programme in Mid-Western Nepal |
| MDG   | Millennium Development Goal                      |
| PAR   | project at risk                                  |
| PBAS  | performance-based allocation system              |
| PRS   | poverty reduction strategy                       |
| SO    | strategic objective                              |
| VDC   | village development committee                    |
| WUPAP | Western Uplands Poverty Alleviation Project      |

## Map of IFAD operations in the country



**Source:** IFAD

*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.*

## Summary of country strategy

1. This country strategic opportunities programme (COSOP) is the second for Nepal and provides a review of opportunities for IFAD's contribution to poverty reduction, reconciliation and post-conflict reconstruction over six years (2007-2012). The COSOP reflects on the challenges of dealing with acute rural poverty in a conflict-affected country with high levels of rural poverty, especially in the hill and mountain areas that have poor access to infrastructure, services and markets.
2. Nepal is one of the poorest countries in the world, with a population of 24 million and GDP per capita of only US\$312 (2005). During the years of conflict from 1996 to 2006, economic performance declined markedly. The conflict has caused the loss of more than 14,000 lives and resulted in up to 600,000 people being internally displaced or made homeless; in addition, more than two million people are believed to have fled to India. Infrastructure has been destroyed, mobility restricted, business investment halted, and development and service delivery disrupted. Real GDP growth has been negative in two of the past five years. The conflict has occurred largely in rural areas, with agriculture particularly hard hit.
3. The overall poverty rate is 31 per cent, but this increases to 45 per cent and 41 per cent in the Mid- and Far-Western Regions, respectively. In contrast, the urban poverty rate is only 10 per cent. Urban poverty is declining faster than rural poverty – from 21 per cent to 9 per cent during the 1995/96 to 2003/04 period compared with 43 per cent to 35 per cent for rural areas during the same period. The poor are mostly illiterate, tend to come from large families that are landless or have very small landholdings, and are also concentrated in specific ethnic, caste and minority groups, particularly those of the lowest caste (*dalits*), and indigenous peoples.
4. The COSOP seeks to identify areas where IFAD can support and add value to Government and other development partners' policies and programmes in rural poverty reduction, within the context of ongoing peace-building and economic recovery efforts, bringing with it experience and lessons learned from the Fund's experience in Nepal and other very poor and conflict-affected countries. IFAD's **strategic goal** is to contribute to the Millennium Development Goal (MDG) of halving the incidence of extreme poverty by 2015 in rural areas where more than a third of households are unable to meet their basic needs. Within this overall goal there are three **strategic objectives**, each of which corresponds to one of the pillars of the poverty reduction strategy (PRS). The framework also indicates the backward linkages to the PRS and forward linkages to possible policy and institutional interventions. Reconciliation and post-conflict reconstruction are implicit in each of the strategic objectives, recognizing the strong causal linkages between poverty, social exclusion, inequity and conflict.

| <i>PRS pillar</i>                             | <i>Strategic objective</i>   |
|---|--|
| I. High and broad-based economic growth       | I. Increased access to economic opportunities by poor farmers and producers in hill and mountain areas                     |
| II. Social sector development                 | II. Community infrastructure and services improved in hill and mountain areas  |
| III. Social inclusion and targeted programmes | III. Gender, ethnic and caste-related disparities reduced through greater inclusion of disadvantaged groups in development |
| IV. Good governance                           | Cross-cutting theme: support improvement of local governance and peace-building  |

5. IFAD will continue to focus its support on the poorest regions in the hill and mountain areas in collaboration with other donors and building on its earlier investments and experience. The COSOP seeks to contribute to the processes of

reconciliation and post-conflict reconstruction in areas severely affected by the conflict by addressing the causes of poverty, inequality and social exclusion, and by supporting interventions that promote community cohesion and resilience.

6. There are four potential target groups: the destitute, extreme poor, moderate poor and near poor; each with different characteristics, coping mechanisms and needs. Women, *dalits*, indigenous peoples and other minority groups are over-represented in all of these groups. Although the COSOP will focus resources on the moderate and extreme poor, it will not deny the opportunity for the better-off to benefit.
7. Nepal's performance-based allocation system ranking indicates a US\$21 million allocation for the three-year period 2007-2009. Formulation of a new loan programme in 2007-2008 is subject to the progress made in the establishment of the new political rule in the country and the peace process. In the short term it would appear preferable to utilize grant resources to focus on supporting the implementation of the ongoing programmes in the identified problematic areas, pilot some direct interventions related to conflict reconciliation and strengthen the alignment of current programmes with the COSOP.

# Nepal

## Country strategic opportunities programme

### I. Introduction<sup>1</sup>

1. This country strategic opportunities programme (COSOP) is the second for Nepal and provides a review of opportunities for IFAD's contribution to poverty reduction, reconciliation and post-conflict reconstruction over six years (2007-2012). It articulates how IFAD might complement the efforts of the Government of Nepal and other development partners in reducing rural poverty. The COSOP seeks to define IFAD's role and the potential for strategic alliances, to position IFAD in relation to government policies on rural poverty and post-conflict recovery, and provide a platform for dialogue with the Government and other stakeholders. Preparation of the COSOP was a participatory process involving a review of the IFAD portfolio, studies on rural poverty, conflict/post-conflict, gender relations and social exclusion, consultations with national and local-level institutions, civil society and development partners, and two stakeholder workshops (Nepalgunj, 17-19 July 2006, and Kathmandu, 24 July 2006). This process has achieved a strong consensus on the way forward.
2. The COSOP considers the challenges of dealing with acute rural poverty in a conflict-affected country characterized by inequalities and social disadvantage, and very high levels of rural poverty, especially in the hill and mountain areas that have poor access to infrastructure, services and markets. The strategy that emerges builds on the experience of IFAD and its partners in Nepal, as well as lessons learned in other geographically challenged, socially heterogeneous and conflict-affected areas. The strategy embodies the country programme approach contained in IFAD's emerging new operating model, the Policy on Targeting, the Policy on Crisis Prevention and Recovery, the Strategic Framework, the Regional Strategy for Asia and the performance-based allocation system (PBAS).
3. The COSOP defines a strategy for IFAD to add value to the Government's and other development partners' policies and programmes in rural poverty reduction as contained in the country's poverty reduction strategy (PRS) and other key policy documents. It recognizes the difficulty of dealing with acute rural poverty in a small country between the two fast-growing giants of Asia – India and China – as well as the uncertainties inherent in the very early stages of resolving a decade-long armed conflict. As such, the COSOP seeks to contribute to the processes of reconciliation and post-conflict reconstruction by addressing the causes of poverty, inequality and social exclusion that lie at the heart of the conflict, and by supporting interventions that promote community cohesion and resilience.

### II. Country context

#### A. Economic, agricultural and rural poverty context

##### Country economic background

4. Nepal is one of the poorest countries in the world, with a population of 24 million and GDP per capita of only US\$312 (2005). Before 1985 the economy was predominantly agrarian and development policies were essentially interventionist, protectionist and State-led. The pace of development was far below the level of other countries in the region. Economic reforms began in 1985 with the liberalization of imports and financial markets. Following the re-establishment of democracy in 1990, further reforms were undertaken. Real GDP growth increased from 2.6 per cent during the pre-reform period (1965-1985) to 4.8 per cent during the reform period (1985-

<sup>1</sup> See appendix I for additional information.

2001). Over the entire period (1965-2001), real GDP grew at 3.8 per cent. However, growth of the agricultural sector, which employed on average 86 per cent of the population, was only 2.5 per cent – only slightly higher than the population growth of 2.2 per cent. Economic performance declined markedly after 2001, due to the civil conflict that started in 1996, and then intensified between 2003 and the ceasefire in April 2006. The conflict has caused the loss of more than 14,000 lives and resulted in up to 600,000 people being internally displaced or homeless; more than two million people are believed to have fled to India. Infrastructure has been destroyed, mobility restricted, business investment and operations halted, and development and government service delivery disrupted. Real GDP growth has been negative in two of the last five years. The conflict has occurred largely in rural areas, with agriculture particularly hard hit.

### **Agriculture and rural poverty**

5. **Overview.** Nepal is basically a rural economy with over 84 per cent of the population in rural areas. Over the last three decades the pace of development in rural areas has been slow and variable. In general the Mid- and Far-Western Regions have the lowest population densities and are far behind the other three regions in almost all development indicators. These two regions have the lowest access to health, education, roads, telephones, radio, electricity, water supply and sanitation services. Nepal's overall poverty rate is 31 per cent, but this increases to 45 per cent and 41 per cent in the Mid- and Far-Western Regions, respectively. In contrast, the urban poverty rate is only 10 per cent. Over time the gap between rich and poor regions has widened, adding to the social and political tensions that underlie the armed conflict. Conflict and poverty have caused the most productive people to leave the villages. This has generated a rising trend in woman-headed households and the feminization of agricultural labour. In response to the deteriorating economic conditions, more than a million Nepalese are now working abroad – with one in three households sustained by remittances.
6. **Agricultural employment.** Agriculture dominates the rural economy and is often the only source of employment for rural people. Women, who constitute about 60 per cent of the agricultural workforce, have little access to, or control over land, production technology, training and employment opportunities. Around 70 per cent of the rural population is engaged in agriculture – 63 per cent self-employed and 6 per cent as wage labourers. Although the share of agriculture in GDP has fallen from 72 per cent in 1975 to 40 per cent in 2005, the great majority of rural people continue to rely on agriculture, livestock and forestry for their livelihood needs.
7. **Land use.** Small, fragmented subsistence farming is a key feature of Nepalese agriculture. The average holding is only 0.8 hectares. Forests (29 per cent) and farmland (21 per cent) together occupy half the country's total land area of 14.7 million hectares. Grasslands comprise 12 per cent, shrub lands and degraded forest lands 11 per cent, and uncultivated land 7 per cent. Water and other lands occupy the remaining 20 per cent. Over the past four decades, agricultural land expanded from 1.68 million to 2.65 million hectares, despite a trend towards urbanization of productive land. However, population rose faster, resulting in an increase in the number, and a decline in the size of holdings from 1.1 hectares to 0.8 hectares. Food grain production has fallen short of population growth, resulting in reduced per capita food availability, which is particularly acute in remote hilly districts.
8. **Environment.** With increasing population pressure, more and more steeply sloping marginal lands have been brought under cultivation, causing severe soil erosion, deforestation and declining crop yields. Nepal's forest area, which was 45 per cent in 1954, fell to 29 per cent in 1998. This was attributable to the expansion of agriculture as well as demand for forest products including timber, fuelwood, fodder and many other products necessary for household and agricultural use. More than three quarters of all households, and almost all households in the hill and mountain regions, depend on fuelwood for cooking and heating. Climate change also has

significant implications through changing patterns of precipitation and surface hydrology.

9. **Agricultural production.** Crops, livestock and horticulture contribute 46 per cent, 32 per cent and 14 per cent, respectively, of agricultural GDP. Cereals (rice, maize, wheat, millet and barley) account for nearly 90 per cent of the cropped area and 56 per cent of all agricultural production. Marginal and small farmers operate nearly 90 per cent of the 3.4 million agricultural holdings. Agricultural productivity growth has been modest. Over the past 40 years, during which the region enjoyed the benefits of the green revolution, rice (the most important crop) yields increased at only 1.6 per cent per annum. Crop yields are now among the lowest in the region and explain why Nepal has gradually turned into a food deficit country. Livestock and horticulture productivity have also been disappointing. Livestock are an integral part of the farming system but poor breeds, health and nutrition all contribute to low productivity. Similarly, despite considerable potential for horticultural crops, particularly in hill and mountain regions, lack of markets and road networks has constrained growth. The major exception to sluggish performance is the poultry industry where output has been boosted by private investment in modern facilities. Dairy production has also increased in conjunction with rapid growth in the number of dairy cooperatives. The floriculture, tea and coffee industries have also performed strongly with the latter two targeting export markets.
10. **Forestry.** Nepal experienced massive degradation and loss of forest lands during the pre-1990 period when legislation was enacted to provide a legal framework for community forest users' groups (CFUGs) to take over the management of forests. By 2005 there were nearly 14,000 CFUGs, representing 44 per cent of rural households that were managing well over one million hectares out of 6.3 million hectares of forest land. The CFUGs have been effective in halting and reversing the degradation process, providing increased access to timber and non-timber forest products and reduced frequency of natural disasters such as landslides. The concept of leasehold forestry, that is, leasing of degraded forest land for poor households on a 40-year renewable basis, was also institutionalized in the 1990s as a specific strategy for improving access of poor and landless families to land and forest resources. There are now more than 2,000 leasehold forestry groups.
11. **Trade.** The great majority of agricultural production is either consumed for subsistence or traded locally. Agricultural trade accounts for only 15 per cent of total exports in value terms. Nepal joined the World Trade Organization in 2004 and is a party in regional trading blocs such as the South Asian Free Trade Area and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). More than 95 per cent of two-way trade is with India and other member countries of the South Asian Association for Regional Cooperation. Agricultural exports have been reduced in recent years mainly due to more stringent quarantine, phytosanitary and quality requirements in importing countries. Nevertheless, the proximity of India and China offers opportunities for access to huge markets for agricultural products in which Nepal has a natural comparative advantage such as fruits, vegetables, spices, herbs and a range of other high-value commodities including non-timber forest products.
12. **Constraints.** Nepal has a high level of agroecological diversity that provides unique opportunities for high-value commercial agriculture. However, there are a number of constraints that hinder the realization of this potential. These include (i) the lack of roads connecting farmers to input supplies and markets; (ii) weak supply chain connections between farmers and markets; (iii) the low availability of production technologies and inputs; (iv) undeveloped and poorly maintained irrigation facilities; and (v) a weak agricultural research and extension system. Growth of the sector will be dependent on improved transport infrastructure, extension services, credit, market information, communications and technologies, as well as improved

organization of production and marketing through strengthening of cooperatives and other forms of farmers' organizations.

13. **Rural poverty.** Nepal achieved remarkable progress in poverty reduction even during the period of conflict. The poverty level declined from 42 per cent in 1995/96 to 31 per cent in 2003/04. The severity of poverty also declined during this period, indicating that those who remain poor are nevertheless becoming less poor. A number of other socio-economic indicators also improved during this period, including access to roads, health services, schools and banks. The factors contributing to the improvements include remittance incomes, non-farm incomes, a rise in agricultural wages, urbanization and a decline in the dependency ratio. Urban poverty is declining faster than rural poverty – from 21 per cent to 9 per cent over the nine-year period compared with 43 per cent to 35 per cent for rural areas. The benefits of growth have not been distributed equally across social groups classified by gender, caste and ethnicity.
14. **Characteristics of poverty.** Wage earners and self-employed agricultural households comprise 69 per cent of the population and 81 per cent of the poor. The poor are mostly illiterate, tend to come from large families that are landless or have very small landholdings and are also concentrated in specific ethnic, caste and minority groups, particularly those of the lowest caste (*dalits*) and indigenous peoples (*janajatis*). The poor are predominantly in rural areas, with the highest concentration in the Mid- and Far-Western Regions of the country. Gender is also a significant factor in poverty, including intra-household inequalities that favour male family members. Women lag behind men in most aspects (economic, social, political and legal) and at all levels of society. Rural women work longer hours than men, but have little control over assets and incomes or decisions affecting their lives. Two out of three women are illiterate and receive wages less than half the male rate. Over the years there have been a number of legal and policy reforms to improve the position of women but effective implementation of these reforms has a long way to go.
15. **Food security.** Up until the early 1980s, Nepal was a food surplus country and a rice exporter, but increasing population and slow agricultural productivity growth have seen the situation deteriorate, with food deficits emerging during the 1980s. Since 2000, there have been small surpluses. Despite the positive trend in poverty reduction, household food security and the low nutritional status of the population is a major concern. Nearly 25 per cent of families are landless, and the majority of those that own land do not produce enough to meet their own food requirements. Even the larger farmers (defined as those working more than four hectares) tend to run short of food for part of the year. An estimated 40 per cent of the population, mostly in the hills and mountains, suffer from inadequate access to food. The World Food Programme estimates that 39 of the 75 districts are food-deficient. Overall, more than half the children under five are underweight or undersized, with much higher proportions in the hills and mountains.
16. **Immediate needs.** Recent political events have raised hopes for sustainable development and peace. The greatest challenge is to implement relief, rehabilitation and reconstruction programmes that can respond to immediate needs and aspirations, lead to durable peace, and demonstrate the Government's commitment to a just and equitable society. Immediate opportunities include (i) reconstruction and/or rehabilitation of rural infrastructure; (ii) promotion of underdeveloped regions, particularly remote areas where armed conflict was initiated; (iii) poverty reduction in rural areas – particularly for the poorest, socially excluded and disadvantaged people of both the hills and the Terai foothills; (iv) realization of rural and agricultural development potential; (v) creation of productive employment opportunities for youth; (vi) relief and rehabilitation support to conflict-affected people – most urgently the homeless and internally displaced; and (vii) development of policy, legal and regulatory instruments to accelerate social reintegration.

## **B. Policy, strategy and institutional context**

### **National institutional context**

17. During 28 years of partnership with the Government, IFAD has forged strong working relations with key central government agencies. At the policy and planning level, the major partners are the Ministry of Finance and the National Planning Commission, both of which contributed to the current COSOP. The current portfolio involves partnerships with the Ministry of Forests and Soil Conservation, the Ministry of Local Development and the Ministry of Agriculture and Cooperatives. IFAD-financed activities rely heavily on partnerships with local government: the district development committees (DDCs), village development committees (VDCs) and community groups, and aim to support the Government's decentralization policy. Various microfinance initiatives have involved partnerships with the Agricultural Development Bank of Nepal, the Nepal Rastra Bank and a number of Grameen replicators as well as formal and informal savings and credit groups. IFAD grant programmes have tended to involve partnerships with NGOs and research institutions. Across the full spectrum of institutions, there are major financing and capacity constraints, exacerbated by weak rural infrastructure and mobility restrictions related to the conflict. Effective decentralization through devolution of functions, responsibilities and resources to the local bodies has not taken place. Public sector institutions and service delivery have been weak, especially in the rural areas.

### **National rural poverty reduction strategy**

18. Nepal's poverty reduction strategy (PRS) is embedded in the Tenth Plan (2002-2007), which is built on four pillars.

**Pillar I. High and broad-based economic growth.** Agriculture and rural development are key themes of pillar I and are intended to support implementation of the agricultural perspective plan (APP) to increase rural incomes and improve food security. Pillar I incorporates a number of policies and activities in agriculture, irrigation, forestry and rural electrification with emphasis on food crops in the Terai and livestock and high-value crops in the hills. These aim to achieve agricultural sector growth of at least four per cent per annum – well above the long-term trajectory.

**Pillar II. Social sector development** gives priority to primary education, vocational and technical training, health and family planning, drinking water and sanitation in rural areas, and rural infrastructure such as roads, electricity and telephone communications, together with mechanisms to ensure equitable access to these services and facilities. It envisages devolution of responsibilities for services and facilities to local governments and communities, starting with education, health, rural roads and agricultural extension, together with greater involvement of the private sector, international and national NGOs, and community-based organizations (CBOs).

**Pillar III. Social inclusion and targeted programmes** includes two parts. The first involves mainstreaming efforts to address gender and ethnic/caste-related disparities and facilitate social inclusion. The second part recognizes that, despite efforts to mainstream social inclusion, there will be specific groups that are unable to escape poverty. This requires specific targeting of disadvantaged groups via the Poverty Alleviation Fund. Targeted programmes include (i) area development programmes for the construction of infrastructure, plus training, credit and technical support activities; and (ii) group programmes, aimed at improving access to resources, skills and opportunities for income generation.

**Pillar IV. Good governance** is essential to achieve the objectives of the first three pillars of the PRS. This will involve making the civil service efficient, accountable and

transparent, and ensuring greater participation of people in governance through fiscal devolution.

19. **Agricultural policy.** The Government launched the APP in 1997 as a strategy for agriculture-led economic growth and poverty reduction. The goal of APP is to achieve an agricultural sector growth rate of 5 per cent and reduce the poverty level from 42 per cent at the time of APP formulation to 14 per cent by 2017. APP identifies livestock, high-value crops, agribusiness and forestry as priority sectors, with irrigated cereal production concentrated in the Terai, and upland regions focusing on high-value commodities. APP has formed a core component of the Ninth (1997-2002) and Tenth (2002-2007) Plans, but implementation has been constrained by an inadequate budget and weak public institutions. In 2004 the Government introduced a new National Agricultural Policy with a view to improving the competitiveness of the sector. Its objectives are to (i) increase agricultural production and productivity; (ii) expand commercial agricultural production; and (iii) promote sustainable use of natural resources.
20. **Millennium Development Goals (MDGs).** Over the past decade expenditure on social sectors (education, health, water supply and local development) has increased as a proportion of the total budget in line with the MDGs. Nepal adopted the MDGs in 2002 with a set of targets covering three Plan periods (Tenth, Eleventh and Twelfth Plans). Progress has been encouraging with improvements in school enrolments and gender disparities in enrolments, literacy, child and infant mortality, and access to safe drinking water. The recent MDG progress report shows that, except for universal primary education and HIV/AIDS, Nepal is making solid progress towards meeting the goals – although there are concerns about the quality of some of the achievements.

#### **Harmonization and alignment**

21. The COSOP has been designed in alignment with the current PRS. IFAD will engage in dialogue with the Government and development partners on the review of the PRS. The alignment with the new PRS, including harmonization of future COSOPs with the government's five-year planning cycle, will be assessed in context of the annual review of the COSOP. IFAD is a partner in the United Nations Development Assistance Framework that is currently under preparation and a member of the forestry sector donor coordination forum and the basic operational guidelines framework, which is a donor-coordinating body for conflict-related collaboration and information-sharing. There is also a recent donor coordination initiative by the Ministry of Local Development, related to the decentralization process, to coordinate development activities at local level in which IFAD participates.

### **III. Lessons from IFAD's experience in the country**

#### **A. Past results, impact and performance**

22. Recommendations of the country programme evaluation by the IFAD Office of Evaluation in 1998 guided the preparation of the 2000 COSOP (2000-2006) and the projects designed thereafter. IFAD has financed eleven loan projects in Nepal, four of which have been active since the last COSOP. The goal of the 2000 COSOP was to provide improved and increasingly resilient livelihoods to indigenous people and other marginalized poor.
23. A country portfolio review (CPR) was undertaken in May-June 2006 to inform the current COSOP process. The CPR considered four loan projects, two of which were designed before the 2000 COSOP and two after. The two pre-2000 projects, both of which have subsequently been completed, were the Hills Leasehold Forestry and Forage Development Project and the Poverty Alleviation Project in Western Terai. The two post-2000 projects that remain open are the Western Uplands Poverty-Alleviation Project (WUPAP) and the Leasehold Forestry and Livestock Programme (LFLP). Since 2000 IFAD has also provided three country grants including a small

country grant to the Society for Partners in Development and two large country grants to LFLP and the Center for Environmental and Agricultural Policy Research, Extension and Development. IFAD also provided four small and eight large regional grants in which Nepal participated. In addition, four large regional grants were managed by IFAD's Technical Advisory Division.

24. The projects implemented during 2000-2005 had three major components: (i) provision of access to natural resources in the form of 40-year leasehold forest land allocation; (ii) rural financial services using three different modes of delivery; and (iii) community infrastructure. The projects targeted *dalits*, *janajatis*, women and the poorest sections of the society. The 2006 CPR made the following key observations: (i) the four projects have been highly relevant to the portfolio's focus and strategic thrusts; (ii) the portfolio has been successful in terms of effectiveness and moderately successful in terms of efficiency; (iii) although portfolio impact is difficult to quantify, there has been positive impact on the physical assets and productivity of the target group; (iv) financial services delivery has contributed to reducing the high cost of borrowing despite doubtful sustainability of the providers; (v) IFAD has been innovative in supporting cost-effective ways to address the constraints of the target group, in partnership with NGOs and community groups; (vi) the projects have addressed gender issues and contributed to a gender-balanced accrual of benefits; and (vii) performance of the Government in terms of budget allocation and release of funds has been good, although procurement remains problematic. The grant projects have been largely successful in establishing linkages with loan programmes to further IFAD objectives and pilot and scale up strategic initiatives.
25. However, the project status reports from the period July 2005 to March 2006 reflect several operational difficulties in the two ongoing projects. The uncertain political and security situation with institutional challenges have constrained project implementation. The project at risk (PAR) ratings for the two current projects indicate less than satisfactory performance in procurement, disbursements and achievement of physical targets, and for one of them there are concerns about institution-building and the level of expected benefits. With regards to the policy and legal framework for rural development as identified in the PBAS, the areas that require specific attention include farmers' organizations, research and extension services, accountability and transparency in rural areas, access to markets, and access to land and water.

## **B. Lessons learned**

26. The most important lesson from the 2006 CPR is that, even in the most adverse conditions, given sufficient time, projects can be successfully implemented. The relatively slow pace of implementation is attributable to the disruption caused by conflict, weak communications and infrastructure, and capacity constraints – realities that must be addressed in the implementation of the current portfolio as well as factored into future programme design. IFAD's experiences indicate that, in order to be sensitive to conflict and resistant to difficult implementation environment, the programmes should rely on local communities, organizations and resources in the implementation and allocate resources to be managed directly by the communities; apply transparent financial, operational and targeting practices; be pro-poor and inclusive; advocate rights-based development and the basic operational guidelines as operational principles and promote social harmony and empowerment. Sustainable resolution of the conflict coupled with economic recovery would greatly improve the operating environment; however, for the time being it is better to err on the side of caution in establishing objectives and targets.
27. The 2006 CPR identified a number of valuable lessons learned that have been taken into consideration in the current COSOP process: (i) inclusive **household targeting** is essential to make interventions conflict-sensitive; this calls for one set of interventions to reach the entire community, another to target the poorest

households; (ii) there should be a more focused approach to **geographic targeting** involving clusters of VDCs within a limited number of districts that can be more easily serviced; (iii) the **leasehold forestry** concept needs to be fine-tuned and scaled up with regard to regulations for cultivation and inheritance, and there is a need to develop synergies between the three forestry management concepts (community, leasehold and collaborative); (iv) **financial services** in the hills and mountains suffer from inadequate capacity of financial institutions, and an inadequate legal framework has constrained the growth of savings and credit services; (v) there is strong demand for community and household **infrastructure** in the uplands. These activities bring about social inclusion and are conflict sensitive. Even during the height of conflict, infrastructure development activities were implemented without much hindrance; (vi) high **youth unemployment** has contributed to conflict. There is a need for technical and vocational training to prepare young people, including former combatants, to take up better jobs; (vii) the **private sector** needs to be more closely involved in providing sustainable access to market and other services for rural households to support value addition and job creation; and (viii) **civil society** in general is better equipped than the Government to deal with social mobilization and participatory approaches. The Government should continue to engage civil society organizations, but the relationship needs to be redefined from that of an employer and employee to one of partnership.

#### **IV. IFAD country strategic framework**

##### **A. IFAD comparative advantage at the country level**

28. IFAD's work in Nepal, covering almost 30 years, has allowed it to acquire strengths in a number of thematic and geographic areas. Specific areas of comparative advantage include (i) community-driven development, including natural resource management, community infrastructure, and facilitating access of the poor to productive assets; (ii) rural poverty alleviation through enhanced income-generating opportunities and associated microfinance services, with an emphasis on the areas of highest poverty incidence; (iii) a clear policy, mandate and extensive experience in targeting of the poor, specifically including women and members of disadvantaged castes and ethnic groups; (iv) well-established partnerships with key central and local government institutions, NGOs, research institutions and donors; and (v) the flexibility to pilot approaches and implementation modalities in order to continue working effectively in a conflict-affected environment (working in conflict), in ways that are sensitive to the causes of the conflict and that promote conflict reconciliation (working on conflict).

##### **B. Strategic objectives**

29. The Nepal COSOP seeks to identify areas where IFAD can support and add value to government and other donors' policies and programmes in rural poverty reduction, within the context of ongoing peace-building and economic recovery efforts, bringing with it experience and lessons learned from its experience in Nepal and other very poor and conflict-affected countries. Within this overall goal there are three **strategic objectives** (SOs), each of which corresponds to one of the pillars of the PRS (see appendix III: COSOP results management framework). The framework also indicates the backward linkages to the PRS and forward linkages to possible policy and institutional interventions. Reconciliation and post-conflict reconstruction are implicit in each of the SOs, recognizing the strong causal linkages between poverty, social exclusion, inequity and conflict.

| <i>PRS pillar</i>                             | <i>Strategic objective</i>  |
|---|---|
| I. High and broad-based economic growth       | I. increased access to economic opportunities by poor farmers and producers in hill and mountain areas                      |
| II. Social sector development                 | II. Community infrastructure and services improved in hill and mountain areas   |
| III. Social inclusion and targeted programmes | III. Gender, ethnic, and caste-related disparities reduced through greater inclusion of disadvantaged groups in development |
| IV. Good governance                           | Cross-cutting theme: support improvement of local governance and peace-building   |

30. **Strategic objective I. Increased access to economic opportunities.** Economic isolation has been identified as the cause of the very high levels of poverty and social disharmony in hill and mountain areas. Poverty levels have shown the least improvement in these areas due to poor access to infrastructure and services, and isolation from markets, exacerbated by the conflict and economic exclusion linked to gender, ethnicity, or caste. This situation amounts to a very weak enabling environment for rural commercial development in which most households struggle to meet their subsistence needs. There is a pressing need to forge stronger connectivity between farmers, input suppliers and downstream markets in order to increase agricultural diversification, productivity and incomes, with particular emphasis on high-value crops, livestock and forest products. IFAD-supported programmes under SO I will focus on the selection of value chains and market systems for high-value crops with the greatest potential in the hill and mountain areas, and their development through improved access to research and extension services, financial services, input supplies and market information, as well as with improved infrastructure (under SO II). The future loan programme will aim at connecting districts in the hill and mountain areas to markets with the support of wider road construction such as the north-south road corridor development under the Government's Priority Investment Plan, which seeks to link production in the hills with markets in Terai and in the adjoining states of India. From the ongoing programmes, WUPAP and in particular the grant-funded Local Livelihoods Programme in Mid-Western Nepal (LLP), which pilots the market development approach and links the villages along the mid-western road corridors to market centres in the region, contribute to the achievement of the targets under SO I. WUPAP, as currently designed, has a component to encourage non-timber forest products production with the support of the private sector. The project is funded under IFAD's flexible lending mechanism and is due for review in December 2006 prior to commencement of the second phase. This will allow for reorientation of the project to give greater alignment with the COSOP.
31. **Strategic objective II. Community infrastructure and services improved.** Consultations with remote communities consistently highlight the need for improved transport and communication linkages to facilitate commercial activity and access to services including health, education, credit and telecommunications. Under SO II, the aim is to develop secondary and tertiary roads and community infrastructure to improve access to markets and services by remote communities, complementing the interventions under SO I. Inevitably it is the poorest who have the lowest level of access to infrastructure and services. IFAD will continue supporting the Government's decentralization process because decentralizing infrastructure and services to district and village development committees would do much to improve the availability, quality and sustainability of rural infrastructure and services in poor rural communities. From the ongoing portfolio, WUPAP and the grant-funded LLP have community infrastructure development as a component and contribute to a great extent to SO II.
32. **Strategic objective III. Gender, ethnic and caste-related disparities reduced.** This SO addresses the structural causes of social isolation and conflict, and is consistent with IFAD's mandate to support the most disadvantaged people. It will

focus on improving access of women and other (ethnic/caste) disadvantaged groups to resources, infrastructure and services, and increase empowerment of such groups. It is expected to enable them to access income-generating programmes and vocational training and take a more active role in local decision-making and governance processes. The SO will mainstream efforts under all IFAD activities to address gender and ethnic/caste-related disparities and facilitate social inclusion; however, it recognizes that in some cases affirmative action may be needed through targeted programmes financed through specific mechanisms such as the Poverty Alleviation Fund, which aims at reaching the poorest people in selected districts through working with community organizations. In the current portfolio, LFLP addresses SO III in particular with the pro-poor leasehold forestry approach and is one of the key programmes under the third SO.

33. **Support improvement of local governance and peace-building.** Sustained peace and reconciliation is an essential element of the poverty reduction package, which must go hand in hand with devolution and improved governance at local level. Interventions under all SOs must be conflict-sensitive by being inclusive, transparent, impartial and accountable. IFAD's policy allows for flexibility in conflict or post-conflict situations to be built into activities under all SOs including (i) the design of new programmes specifically aimed at conflict mitigation or reconstructing and reactivating the development capabilities of target groups; (ii) modification of activities and projects to incorporate special measures not embraced in the original design; and (iii) utilizing other instruments such as grant funding and sharing experiences with development partners. The strategy will support a conflict-sensitive development approach in IFAD activities to build the capacity of communities to engage in development works through the adoption of techniques for peace/conflict assessment, community mediation, negotiation, human rights, communications and facilitation. A new grant project with an allocation of US\$700,000 will be developed in early 2007 to address skills development and employment needs by the conflict-affected people in remote areas, including former combatants. This project will aim at contributing to post-conflict reconciliation and reconstruction efforts and focuses in particular on the youth in the hill and mountain areas where unemployment is one of the main reasons for violence and insurgency. There exists a huge employment opportunity for trained masons, technicians and those with other vocational skills. Providing high-standard vocational training to youth with low educational qualifications and targeting poor communities in remote uplands are powerful tools for poverty alleviation. The new project aims to collaborate and link with programmes and initiatives by the Government and other development partners supporting vocational training.

### **C. Opportunities for innovation**

34. There is potential for innovations that build on the experience of IFAD and its partners in recent years, and the need to find solutions to long-standing issues of poverty and social exclusion that will work in a fragile and uncertain peace-building environment. Under SO I and SO II there are opportunities to use innovative targeting, partnerships and incentive mechanisms to develop markets that are inclusive and benefit the poor, test and demonstrate new means of connecting farmers to markets and services using a combination of information and communication technology for market and technical information, and improved physical infrastructure including marketing and storage facilities, and tertiary roads/trails linked to major road-building programmes (the "development corridor" concept). Greater involvement of farmers' organizations, microfinance institutions and private sector enterprises will be crucial to commercial integration. Some of these ideas are already being piloted under existing loan- and grant-funded programmes and offer potential for future scaling up. SO III presents perhaps the greatest challenge: to develop the means of overcoming the causes of social exclusion that are deeply rooted in rural communities. However, the time is right to move ahead, in a political climate where many disadvantaged groups are raising

their voices. Opportunities exist to build on the emerging developments with innovative targeting mechanisms.

35. The challenge is to map out a structured and seamless transition from the immediate post-conflict and peace-building approach to conventional development interventions while maintaining flexibility to revert to in-conflict modalities should the situation regress. The uncertainties of the situation call for an innovative and responsive strategy of working "in conflict" and "on conflict" at the same time. It is an approach that can switch between in-conflict, post-conflict and development mode while giving due attention to the principles of conflict-sensitivity to ensure that short-term strategies do not compromise longer-term development goals. One aspect of post-conflict reconstruction requiring particularly careful planning is the retraining and reintegration of former combatants into rural communities as well as supporting the internally displaced persons who wish to return to their home communities. The context also provides an opportunity to strengthen women's empowerment, which the conflict has engendered through women's involvement as combatants or by their taking a more prominent role in economic and community affairs.

#### D. Targeting strategy

36. **Target groups.** There are four potential target groups: the destitute, extreme poor, moderate poor and near poor; each with different characteristics, coping mechanisms and needs. Women, *dalits*, *janajatis* and minority groups are over-represented in all of these groups. The **destitute** include disabled and sick people, abandoned children and internally displaced persons who are in urgent need of emergency relief and welfare support. IFAD does not engage in humanitarian relief operations, but seeks to coordinate with organizations that specialize in this field by helping to bridge the gap between emergency relief and the restoration of development processes. The **extreme poor** are mostly illiterate, landless or near-landless households that have few other assets. They survive by seasonal migration, bonded labour, the sex trade, gathering from open access resources and pawning or selling possessions. The COSOP will assist this group by offering employment on labour-intensive rural infrastructure works, improving access to common property resources, land, microfinance and employment opportunities in agro-enterprises. **Moderately poor** households have small farms, generally with some livestock, and own some form of dwelling. However, they are often heavily indebted, lack access to irrigation, but can generate small surpluses of agricultural products for sale. Priorities for this group include measures to reduce economic isolation by strengthening linkages to markets, technologies and input supplies, including credit. The **near poor** include small farmers suffering from the impact of conflict, debt, land degradation etc., and are at risk of slipping backwards into deeper poverty. Although the COSOP will focus resources on the moderately and extremely poor it will not deny the opportunity for the better-off to benefit, recognizing that small-scale rural entrepreneurs and commercial farmers can provide employment opportunities for those in greater need.
37. The activities under SO I-SO III aim at addressing the needs of the identified target groups. SO I will mainly address the moderately poor and near poor who have the land and productive assets to benefit most from closer economic integration. The activities will therefore focus in particular on the self-employed in agriculture sector, which account for 62.7 per cent of the population and 69.9 per cent of the poor. Under SO II all target groups will benefit from improved infrastructure and services, but priority will be given to the destitute and extreme poor for employment on construction projects. Illiterate people, who account for 48 per cent of the population and 71 per cent of the poor, as well as the landless or near-landless, constituting 22.2 per cent of the rural population and 25 per cent of the rural poor, belong to the main target group under SO II. Across all target groups special measures will be taken under SO III to ensure full participation of *dalits* and *janajatis*, who together represent 35 per cent of the population and 47.9 per cent of the poor, as well as

women and other underprivileged minorities, including conflict-affected households. Following the recommendations from the CPR, the COSOP will also have a strengthened focus on youth.

38. **Geographic focus.** As recommended in the recent CPR, IFAD will continue to focus its support on the poorest regions in the hill and mountain areas in partnership with other donors. This will facilitate implementation support for ongoing programmes and is consistent with government priorities for the creation of north-south transport corridors. IFAD has a long record of experience in these areas and recognizes the considerable potential for agricultural diversification, commercialization and poverty reduction. Moreover, these are the areas where the underlying social and economic causes of the conflict must be addressed.
39. **Targeting methods.** In areas selected for IFAD support almost all households will be moderately or extremely poor. However, area-based targeting is a crude instrument. Special efforts are needed to ensure that those in most need obtain a fair share of the benefits. Possible targeting methods include (i) participatory well-being ranking to identify the poorest members of a community; (ii) special incentives to community organizations to engage participation of these people; (iii) participatory monitoring to assess the impact on target groups and identify reasons for failure to reach them; (iv) employment or food-for-work in infrastructure development; (v) providing the landless with access to resources (e.g. leasehold forestry); (vi) training to improve employment prospects; (vii) self-targeting activities that will make a difference to the lives of the poor but are unlikely to interest the better-off; (viii) literacy and numeracy training; (ix) pro-poor microfinance and marketing interventions; and (x) information and communication campaigns to promote awareness of project opportunities for the target groups.

## E. Policy linkages

40. The specific policy and institutional ambitions linked to each of the SOs are the following: **Strategic objective I.** The major policy challenge linked to SO I is related to the efficient implementation of an agriculture policy supportive to agriculture specialization, commercialization and trade. Under this broad framework, IFAD will focus on key elements of specific importance to the implementation of its programmes to achieve SO I. These include (i) the development and enforcement of an enabling regulatory framework for rural financial services; (ii) development of agriculture research supportive to high-value agriculture; and (iii) development and enforcement of policies to support private sector involvement in developing agro- and forest-based enterprises that benefit rural households. **Strategic objective II.** There is a need for policy dialogue in order to (i) increase access of hill and mountain areas through improved road connectivity – development and maintenance of the wider infrastructure is closely linked to the objectives of SO II to link remote areas to markets and services, through the development of complementary community infrastructure and services; and (ii) support decentralization of functions and responsibilities to local bodies in order to ensure more efficient service delivery in rural areas. **Strategic objective III.** Further reforms are needed to advance PRS social inclusion objectives by removing the remaining legal, regulatory and institutional barriers to social inclusion of women and disadvantaged groups. A specific policy ambition that IFAD will focus on under SO III is related to forestry policy where there remains a need for a more integrated approach to forest resource management that unifies the current three-pronged forestry policy and remedies remaining weaknesses in the legal foundations of leasehold forestry.
41. The dialogue on the key policies related to the SOs will take place in the context of the annual PBAS consultations carried out in conjunction with the annual review of COSOP indicators and country operations, and regular meetings undertaken jointly with other donors whenever possible. These consultations will provide an opportunity to engage in a policy dialogue with the Government on broader policy issues. In

addition to discussion on the key policies related the SOs, the PBAS consultations may cover other areas in which the PBAS rankings are lowest.

## V. Programme management

### A. COSOP management

42. The COSOP progress will be reviewed annually at a country programme review meeting in Kathmandu. The meeting will be hosted by IFAD and will include the key central government ministries, project staff, members of supervising institutions, cofinancing donors, NGOs and research institutions. The meeting will contribute to an annual COSOP implementation progress report based on the results management framework and its associated indicators. The report will include the annual project reports of the Results and Impact Management System (RIMS), the country programme issue sheets, the project status reports, the PBAS narrative summary and scores, and other project reports. The mid-term review of the COSOP will be in 2010.

### B. Country programme management

43. **Programmatic approach and in-country programme management.** The programmatic approach embodied in IFAD's new operating model is consistent with the fragile post-conflict situation in Nepal. This broadens the scope of activities beyond approval and management of projects, and responds to the need for a diverse and mutually supportive range of interventions including a mix of grant programmes and innovative projects, with the support of a knowledge and policy agenda, replication, scaling up and partnership goals. The programmatic approach also recognizes that, although there is an extensive menu of options for alleviating rural poverty, it is vital to select instruments that are responsive to stakeholder needs. Such needs, and the responses to them, differ markedly from place to place and from time to time within the country, and call for an approach that allows different instruments to be deployed in different circumstances. It also recognizes that the country strategy will be implemented during a period of ongoing uncertainty, and that an over-prescriptive programme runs the risk of rapidly becoming obsolete.
44. This requires keeping in closer contact with unfolding events in the country through a strengthened IFAD field presence arrangement or a more prominent country programme manager presence in Nepal to ensure active in-country management. The headquarters country programme management team (H/CPMT) will be established and comprise the country programme manager and selected members from IFAD's technical, legal and loans departments plus advisers from other divisions who can provide specialized support in key areas related to the SOs and cross-cutting issues. An in-country country programme management team (C/CPMT) will also be formed to support implementation of COSOP priorities. The C/CPMT will be coordinated by the IFAD field presence and/or the country programme manager together with the relevant project staff, and consist of the cooperating institution, Government officials, grant recipients, service providers, beneficiary representatives and other stakeholders/partners. The priority areas for support are related to the project implementation challenges as reflected in the project at risk (PAR) ratings. These will be addressed through strengthened implementation support and capacity-building, including training on IFAD procurement procedures, monitoring and evaluation, and financial management. Closer follow-up of project implementation, support provided through regular CPMT meetings, improved communication and information-sharing, as well as strengthened field presence and supervision arrangements are expected to support project implementation in the key areas.
45. **Supervision.** Following the 2006 Governing Council decision, IFAD's supervision options have been broadened and work is ongoing under the new operating model to develop the revised supervision policy and guidelines. The supervision modality recommended for Nepal is a flexible arrangement continuing with the current

cooperating institution (United Nations Office for Project Services) especially for fiduciary control and support, while IFAD could consider taking larger responsibility for regular implementation support, including engagement of national institutions or individuals.

### C. Partnerships

46. **Government partners.** The key partners within the central government include the National Planning Commission, and four Ministries (Local Development; Finance; Agriculture and Cooperatives; and Forests and Soil Conservation); and the DDCs and VDCs at the local level. As IFAD's focal point in the Government, the Ministry of Finance will maintain the role of overall coordination of the country programme across all three SOs. IFAD will also continue to build on its successful partnerships with key sectoral ministries and local government agencies at DDC and VDC level. IFAD will maintain liaison with the National Planning Commission during the formulation of the forthcoming Eleventh Plan to ensure harmonization of IFAD interventions with the Plan and the PRS.
47. **Donors.** Although the focus of the donors is on the current peace process, following the ceasefire many agencies are beginning to expand their programmes, often targeting similar regions and groups to IFAD. This makes the task of donor coordination both important and challenging, but also creates many opportunities for synergistic partnerships. IFAD will work closely with the two major multilaterals whose programmes complement the IFAD/Government partnership. The World Bank's country strategy is aligned with the PRS and includes objectives related to agricultural productivity and rural infrastructure as well as cross-cutting themes such as gender and social inclusion. The Asian Development Bank (AsDB) country strategy is linked to the agricultural perspective plan (APP) and concentrates on rural infrastructure (especially roads), irrigation and water resource management, and agricultural diversification and commercialization. In addition there are bilateral donors, such as the United Kingdom of Great Britain and Northern Ireland's Department for International Development, the German Agency for Technical Cooperation (GTZ), the Netherlands Development Organization (SNV), the Swiss Agency for Development and Cooperation (SDC) and the United States Agency for International Development, with experience of rural markets and enterprise development, and represent potential institutional collaboration. The current partnerships that will continue under the new COSOP involve cofinancing and technical assistance partnerships with the Danish International Development Assistance (DANIDA), SNV and the Japan International Cooperation Agency (JICA), and partnership with SDC related to the forestry sector. There is ongoing dialogue with the World Bank on the Poverty Alleviation Fund and agriculture sector development; AsDB on rural roads; the Food and Agriculture Organization of the United Nations on value-chain development and the forestry sector; and JICA on project implementation at community level and conflict/post-conflict environments. Dialogue with AsDB and the World Bank has also taken place on the issues related to results management and monitoring, which is an area where IFAD seeks to collaborate and coordinate with development partners. The AsDB has piloted a results-based approach in Nepal since 2004 and has shared valuable lessons and experiences related to the operationalization and management of a results-based strategy in the country.
48. **NGOs.** IFAD will continue to channel support via NGOs and CBOs across all of the SOs where Government and IFAD agree that this is the best approach. The NGOs and CBOs have proven to be more resistant to the conflict and better able to find space for the activities to continue in a difficult implementation environment. They also have potential to contribute to the conflict mitigation through their close contact with parties in conflict and the local population.
49. **Farmers' organizations.** In order to reach small farmers, IFAD aims to engage collaboration with their organizations. To this end, and subject to approval of a large

regional grant, IFAD will carry out a mapping of rural organizations to obtain further information, establish contacts with the organizations representing the rural poor and strengthen collaboration with them. The initiative is part of IFAD's wider Farmers' Forum framework.

50. **Private sector.** In pursuit of SO I, the COSOP proposes to build stronger linkages between rural households, the cooperatives and farmers' organizations that represent them, and private sector organizations engaged in input supply and marketing of agricultural products. The aim is to develop economic opportunities by building commercial bridges between producer and consumer groups using instruments such as market information, training, joint pilot programmes, contract growing, technology testing and contact farming.
51. **Academic and research organizations.** IFAD will continue to seek to link academic and research institutions with the country programme, maintaining partnerships with organizations such as the International Rice Research Institute, the International Centre for Integrated Mountain Development and the Center for International Forestry Research for both regional and country-based programmes.

#### **D. Knowledge management and communication**

52. Sharing IFAD's experience and lessons learned with other stakeholders has already begun through the consultation process of COSOP formulation, and will continue with circulation of the draft and final COSOPs. There is cooperation with partners in joint studies and workshops. Looking forward, knowledge management will be focused on activities related to IFAD's strategic objectives and used as a strategic tool for partnership-building around the chosen thematic areas. These priorities include forest policy development under SO III, linking with the key policy issues related to the ongoing Leasehold Forestry Programme, and experiences in conflict reconciliation and reconstruction at the community level. Donor groups, including the donor coordination group in forest sector and the basic operational guidelines group, will be important forums for sharing information and experiences with development partners. In addition to sharing knowledge between the projects and stakeholders in-country, the headquarters country programme management team will be used to support in-house knowledge exchange concerning these key thematic areas. In the course of the development and implementation of the activities under SO I, the knowledge management and communication strategy will also be expanded to include issues in high-value agriculture and rural market development focusing on information-sharing with key partners in this area. Future priority in IFAD's knowledge management and communication will also be in the engagement and communication on the revision of the PRS concerning the key thematic issues of importance to the SOs. The new projects will have knowledge management built into their implementation plans, supported with the information from the projects' monitoring and evaluation systems. Supervision missions, IFAD implementation support activities, mid-term reviews and project completion reviews will all generate additional knowledge to be shared with partners and stakeholders.

#### **E. PBAS financing framework**

53. Nepal's PBAS ranking was undertaken in July 2005 following detailed in-country consultation and production of a narrative report to elaborate on the rankings. Results are summarized in the table below. Together with the population and GDP rankings, these scores provide an indicative funding allocation of US\$21 million for the three-year period 2007-2009. However, it is possible that IFAD's commitment could vary, depending on whether the PBAS score declines or improves.

| <i>Indicator</i>                      |   | <i>Score</i>  |
|---------------------------------------|---|---|
| A (i)                                 | Policy and legal framework for rural organizations                  | 3.60  |
| A (ii)                                | Dialogue between government and rural organizations                 | 3.00  |
| B (i)                                 | Access to land  | 3.60  |
| B (ii)                                | Access to water for agriculture                                     | 3.57  |
| B (iii)                               | Access to agricultural research and extension services              | 3.00  |
| C (i)                                 | Enabling conditions for rural financial services development        | 4.05  |
| C (ii)                                | Investment climate for rural business                               | 4.25  |
| C (iii)                               | Access to agricultural input and produce markets                    | 3.50  |
| D (i)                                 | Access to education in rural areas                                  | 3.67  |
| D (ii)                                | Representation  | 4.25  |
| E (i)                                 | Allocation and management of public resources for rural development | 3.83  |
| E (ii)                                | Accountability, transparency and corruption in rural areas          | 3.22  |
| Average of combined scores            |   | 3.62  |
| PAR rating: 3<br>Country score: 6,085 |   | CPIA rating: 3.3<br>Annual allocation: US\$6.54 million |
|                                       |   | <i>Low case</i> <i>Base case</i> <i>High case</i>       |
| PAR rating                            |   | 2                      3                      4         |
| Rural sector performance score        |   | 3.32                  3.62                  3.92        |
| Per cent change in PBAS country score |   | -26%                  0%                    +31%        |

54. With many uncertainties in the current political, institutional and security environment, as well as implementation difficulties and delays being experienced in the current portfolio, IFAD will focus in the short term on utilizing grant resources to pilot interventions related to conflict reconciliation and reconstruction, identify entry points for future loan programmes as well as support the current programmes to reach the objectives as outlined in the COSOP results management framework (appendix III). Looking beyond grant-funded activities, if the political transformation and peace process take root, ongoing dialogue between IFAD and the Government will identify opportunities for a new loan programme to address one or more of the SOs within the framework of the poverty reduction strategy to be articulated in the Eleventh Plan. If there are no major setbacks in the peace process, this would suggest a new loan programme be formulated in late 2007/08.

## **F. Risks and risk management**

55. The risk that armed conflict will resume overrides all other risks and potentially affects all of the SOs. The ideological, social and economic causes of the conflict will not disappear overnight, and there is a high probability that progress towards a harmonious, just and peaceful society will be uneven. Although the resumption of hostilities would have serious implications for project implementation it is no reason for inaction. IFAD and the Government have demonstrated that they can work together "in conflict" while also working "on conflict", provided there is the flexibility to adapt to changing circumstances. Other risks that are specific to individual SOs are detailed below.

| <i>SO</i> | <i>Risks</i>   | <i>Mitigation measures</i>   |
|-----------|--|--|
| I         | <ul style="list-style-type: none"> <li>• the private sector (traders, agribusiness, etc.) may be difficult to attract to the more remote areas</li> <li>• farmers may find it difficult to meet increasingly demanding product quality standards</li> <li>• sluggish economic performance may constrain domestic demand for high-value products</li> </ul> | <ul style="list-style-type: none"> <li>• provide information on business opportunities, market information and marketing infrastructure</li> <li>• provide training to farmers, including market study tours to help improve understanding of quality needs</li> <li>• give increasing emphasis to export opportunities for items where Nepal has a comparative advantage</li> </ul> |
| II        | <ul style="list-style-type: none"> <li>• major road development programmes do not proceed as expected</li> <li>• slow progress in decentralization of responsibility for infrastructure and services</li> </ul>  | <ul style="list-style-type: none"> <li>• do not proceed with secondary and tertiary works until primary infrastructure is in place</li> <li>• increase emphasis on community-based self-help measures for infrastructure and services</li> </ul>   |
| III       | <ul style="list-style-type: none"> <li>• slow pace of reform in legal and institutional discrimination against disadvantaged groups</li> <li>• elite groups may resist implementation of legal reforms that aim to reduce social exclusion</li> </ul>  | <ul style="list-style-type: none"> <li>• intensify policy dialogue in order to push through the necessary reforms</li> <li>• introduce targeting strategy that includes affirmative action programmes to overcome or circumvent obstructions</li> </ul>  |

56. IFAD will be able to introduce mechanisms to project designs with the aim of reducing the possibility of the above risk scenarios occurring. Some of the risk elements can also be addressed through policy dialogue and strengthened collaboration with the private sector.



## **COSOP consultation process**

### **Country Portfolio Review**

An IFAD country portfolio review mission was undertaken in May 2006. The overall goal of the review was to learn from IFAD experience, together with partners, to improve the future performance of the country programme. The objective was to assess the results and impact of IFAD strategies and operations in Nepal from 2000 to 2006 in order to inform the COSOP process. A consultation was held on 1<sup>st</sup> June 2006 under the auspices of the Ministry of Finance with representation of other key sectoral ministries. The consultation reached agreement on the key findings of the review which were summarized in a document entitled "Agreement at Completion" (see appendix IV).

### **Background Papers**

To assist in formulating the COSOP a series of background papers was prepared. These included:

- Country Economic Background
- Conflict Analysis
- Rural Poverty Analysis
- Agriculture and Rural Development
- Gender, Social Inclusion and Targeting

### **COSOP Mission**

The COSOP mission visited Nepal from 9<sup>th</sup> to 27<sup>th</sup> July 2006 and comprised the following members: David Young (Mission Leader/Institutions Specialist); Hari Upadhyaya (Agriculture/Marketing/ Poverty Analyst); Poorna Adhikary (Conflict Specialist); Govind Kelkar (Gender Specialist); and Kati Manner (IFAD Associate Country Programme Manager). The mission was assisted by C.N. Anil, IFAD's in-country representative. Atsuko Toda (IFAD Country Programme Manager) joined the mission during its final stages and participated in drafting of the Aide Memoire.

The mission undertook extensive consultation with a broad cross section of government institutions, NGOs and CBOs, project management teams, bilateral and multilateral donors and other stakeholders, including representatives of private sector and rural organizations.

### **Post Conflict Workshop: Nepalgunj**

A Project/Community-Based Participatory Peace Conflict Assessment workshop was undertaken on 17<sup>th</sup>-19<sup>th</sup> July 2006 using the IFAD-supported Western Upland Poverty Alleviation Project (WUPAP) as a case study. The workshop considered how a project can cause conflict and promote peace; and how the conflict situation affects the project and existing capacity for peace in the community supports the project.

### **National Consultations: Kathmandu**

broadly-based consensus on the strategy for IFAD/GON partnership. The workshop was jointly convened by IFAD and the Ministry of Finance and attended by representatives from all relevant ministries, donors and NGOs. The first part of the workshop involved presentations by the COSOP team members on the findings of background studies and the Strategic Objectives and opportunities for IFAD-supported interventions which had been identified. The second part of the workshop involved working groups reviewing and evaluating the proposed interventions to guide the COSOP mission on the way ahead. The workshop reached general agreement on the main thrust of the COSOP and recommended a number of innovative approaches.

**Interim Wrap-up Meeting**

A draft Aide Memoire was submitted to GON on 25<sup>th</sup> July and discussed at a wrap up meeting hosted by the Ministry of Finance on 27<sup>th</sup> July. After minor adjustments to the draft the Aide Memoire was signed by both parties.

At the wrap-up meeting it was agreed that the draft COSOP would be subjected to internal review in IFAD before being forwarded to the Government for review and comment. It is proposed to undertake a follow-up mission to finalise the document during September-October 2006. A final wrap-up meeting will be held at this stage.

## Country economic background

### Nepal

|  |                      |   |            |
|--|----------------------|---|------------|
| <b>Land area (km<sup>2</sup> thousand) 2004 1/</b>                       | 143                  | <b>GNI per capita (US\$) 2004 1/</b>                            | 250        |
| <b>Total population (million) 2004 1/</b>                                | 27                   | <b>GDP per capita growth (annual %) 2004 1/</b>                 | 1.4        |
| <b>Population density (people per km<sup>2</sup>) 2004 1/</b>            | 186                  | <b>Inflation, consumer prices (annual %) 2004 1/</b>            | 3          |
| <b>Local currency</b>  | Nepalese Rupee (NPR) | <b>Exchange rate: US\$ 1 =</b>                                  | NPR 73.200 |
| <b>Social Indicators</b>   |                      | <b>Economic Indicators</b>                                      |            |
| Population (average annual population growth rate) 1998-2004 1/          | 2.2                  | GDP (US\$ million) 2004 1/                                      | 6 707      |
| Crude birth rate (per thousand people) 2004 1/                           | 29                   | GDP growth (annual %) 2/  |            |
| Crude death rate (per thousand people) 2004 1/                           | 8                    | 2003  | 3.1        |
| Infant mortality rate (per thousand live births) 2004 1/                 | 59                   | 2004  | 3.5        |
| Life expectancy at birth (years) 2004 1/                                 | 62                   | Sectoral distribution of GDP 2004 1/                            |            |
| Number of rural poor (million) (approximate) 1/                          | n/a                  | % agriculture   | 40         |
| Poor as % of total rural population 1/                                   | n/a                  | % industry  | 23         |
| Total labour force (million) 2004 1/                                     | 10.23                | % manufacturing   | 9          |
| Female labour force as % of total 2004 1/                                | 40                   | % services  | 37         |
| <b>Education</b>   |                      | Consumption 2004 1/   |            |
| School enrolment, primary (% gross) 2004 1/                              | 114                  | General government final consumption expenditure (as % of GDP)  | 11         |
| Adult illiteracy rate (% age 15 and above) 2004 1/                       | 51                   | Household final consumption expenditure, etc. (as % of GDP)     | 76         |
| <b>Nutrition</b>   |                      | Gross domestic savings (as % of GDP)                            | 13         |
| Daily calorie supply per capita  | n/a                  | <b>Balance of Payments (US\$ million)</b>                       |            |
| Malnutrition prevalence, height for age (% of children under 5) 2004 3/  | 51 a/                | Merchandise exports 2004 1/                                     | 756        |
| Malnutrition prevalence, weight for age (% of children under 5) 2004 3/  | 48 a/                | Merchandise imports 2004 1/                                     | 1 870      |
| <b>Health</b>  |                      | Balance of merchandise trade                                    | -1 114     |
| Health expenditure, total (as % of GDP) 2004 1/                          | 5 a/                 | Current account balances (US\$ million)                         |            |
| Physicians (per thousand people) /                                       | 0 a/                 | before official transfers 2004 1/                               | -1 039     |
| Population using improved water sources (%) 2002 2/                      | 84                   | after official transfers 2004 1/                                | 197        |
| Population with access to essential drugs (%) 2/                         | n/a                  | Foreign direct investment, net 2004 1/                          | 0.0        |
| Population using adequate sanitation facilities (%) 2002 2/              | 27                   | <b>Government Finance</b>                                       |            |
| <b>Agriculture and Food</b>  |                      | Cash surplus/deficit (as % of GDP) 2004 1/                      | n/a        |
| Food imports (% of merchandise imports) 2004 1/                          | 17 a/                | Total expenditure (% of GDP) 2004 1/                            | n/a        |
| Fertilizer consumption (hundreds of grams per ha of arable land) 2004 1/ | 377 a/               | Total external debt (US\$ million) 2004 1/                      | 3 354      |
| Food production index (1999-01=100) 2004 1/                              | 111                  | Present value of debt (as % of GNI) 2004 1/                     | 37         |
| Cereal yield (kg per ha) 2004 1/   | 2 279                | Total debt service (% of exports of goods and services) 2004 1/ | 6          |
| <b>Land Use</b>  |                      | Lending interest rate (%) 2004 1/                               | 9          |
| Arable land as % of land area 2004 1/                                    | 17 a/                | Deposit interest rate (%) 2004 1/                               | 3          |
| Forest area as % of total land area 2004 1/                              | n/a                  |   |            |
| Irrigated land as % of cropland 2004 1/                                  | 47 a/                |   |            |

a/ Data are for years or periods other than those specified.

1/ World Bank, World Development Indicators CD Rom 2006

2/ UNDP, Human Development Report, 2005

# COSOP results management framework

| Country Strategy Alignment   |                    |  | Key Results Framework for COSOP   |  |  | Institutional/Policy Objectives   |
|--|--------------------|--|---|--|--|---|
| Poverty Targets  | Reduction Strategy |  | Strategic Objectives <sup>1</sup>   | Outcome Indicators <sup>2</sup>  | Milestone Indicators <sup>2</sup>  | Specific Policy/Institutional Ambitions   |
| <p><b>Pillar I: High and Broad-Based Economic Growth</b></p> <ul style="list-style-type: none"> <li>Implementation of the APP to achieve &gt;4 per cent agricultural sector growth, including: development of rural financial services, research and technologies and creation of a better environment for private sector development and participation in order to improve agricultural productivity and market access</li> </ul> |                    |  | <ul style="list-style-type: none"> <li><b>SO I:</b> Increased access to <b>Economic Opportunities</b> by poor farmers and producers in hill and mountain areas</li> </ul> | <ul style="list-style-type: none"> <li>Percentage increase in volume and value of agricultural, livestock or forestry output in the project districts in hills and mountain areas (<i>X % of farmers report increased volume and value in output based on the selected high value commodity</i>)</li> <li>Percentage increase in trade flows to/from project districts in hills and mountain areas (<i>X % of farmers, cooperatives and private sector operating in the project report increased annual trade flows</i>)</li> <li>Increased incomes by farmers from selected high value commodity in the project districts in hills and mountain areas (<i>X % of farmers in the project area report increased incomes</i>)</li> </ul> | <ul style="list-style-type: none"> <li>Number of commercial linkages and partnerships between farmers, input suppliers and downstream markets. (<i>min 1- 2 private sector partnerships created in the form of cofinancing of rural commercial activities by COSOP mid-term review; X% of farmers report on new partnerships created</i>)</li> <li>Improved access to market information. (<i>Regular information available on the market prices of the selected high value commodities in the project districts; new technologies introduced to facilitate access to information; further market research based on demand carried out by COSOP mid-term review</i>)</li> <li>Improved access to financial services. (<i>financial services developed for rural business initiatives and communities; at least 100 community organizations reporting improved access to finance annually by the COSOP mid-term review</i>)</li> <li>Innovative institutional arrangements and incentives promoting pro-poor market development. (<i>At least one major non-traditional contractual or</i></li> </ul> | <ul style="list-style-type: none"> <li>Enabling regulatory framework for rural financing developed and enforced to support the development of a self sustaining financial service delivery in the hills and mountains. (<i>Dialogue related to the review of microfinance service delivery mechanisms, including legal framework, management capacity and supervision and linking of the savings and credits groups to formal financial system.</i>)</li> <li>Agricultural research and extension system established and supporting high value agriculture production (<i>Dialogue on the research priorities, pro- poor research and partnerships with NGOs and private sector in agricultural research and service delivery.</i>)</li> <li>Development and enforcement of policies to support private sector involvement in developing agro or forest based enterprises in hills and mountains. (<i>Dialogue on the incentives for establishing agro</i></li> </ul> |

<sup>1</sup> Strategic Objectives for IFAD activities in the new investment programme area and in the districts of the ongoing programmes addressing the SOs I-III (WUPAP SO I-III, LFLP SO III and the Local Livelihoods Programme SO I-II).

<sup>2</sup> Key performance indicators for the new investment programme and the ongoing programmes addressing the SO I-III. Target indicators of the new investment programme will be updated following the sub-sector and value-chain assessments carried out for the design of the project. Indicators will be monitored as part of project's M&E activities and annual reporting, including RIMS monitoring. The country programme will also link with the GON PRSP monitoring of production in high value crops/ livestock commodities (responsibility by the MOAC) and other M&E efforts by the GON and donor agencies.

| Country Strategy Alignment |           |          | Key Results Framework for COSOP  |  |   | Institutional/Policy Objectives  |
|----------------------------|-----------|----------|--|--|---|--|
| Poverty Targets            | Reduction | Strategy | Strategic Objectives <sup>1</sup>  | Outcome Indicators <sup>2</sup>  | Milestone Indicators <sup>2</sup>   | Specific Policy/Institutional Ambitions  |
|                            |           |          |  |  | institutional arrangement linking small farmers or communities with national or international markets created by the end of the COSOP cycle.)   | or forest based enterprises in the hills.)   |
|                            |           |          |  |  | <ul style="list-style-type: none"> <li>Skills development training organised on high value agriculture (min 100 persons trained annually by the COSOP mid-term review)</li> </ul>   |  |
|                            |           |          | <p><b>Pillar II: Social Sector Development (Including Human Development)</b></p> <ul style="list-style-type: none"> <li>Give priority to education, health, drinking water, sanitation and infrastructure in remote rural areas.</li> <li>Decentralise responsibilities for education, health and infrastructure.</li> <li>Promote greater involvement of the private sector, INGOs, NGOs and CBOs.</li> </ul> | <ul style="list-style-type: none"> <li><b>SO II: Community infrastructure and services</b> improved in hill and mountain areas.</li> <li>Availability of rural infrastructure and services in poor rural communities. (Number of secondary roads developed in the project districts; population with more than hour's walk or travel to rural health facilities in the selected project area<sup>3</sup>.)</li> <li>Greater involvement of NGOs, CBOs and private sector in development work in the project area (Established NGO, CBO and private sector partnerships with clear contractual arrangements)</li> </ul> | <ul style="list-style-type: none"> <li>Improved transport and communication linkages to facilitate commercial activity and access to services by rural communities. (min 40 community infrastructure projects implemented annually).</li> <li>Greater engagement with NGOs, CBOs and private sector in development activities (number of NGOs, CBOs and private sector implementing the project activities)</li> </ul>  | <ul style="list-style-type: none"> <li>Increased investments to the development of road connectivity in hill and mounting areas. (Dialogue on the infrastructure development and maintenance in particular related to the project districts.)</li> <li>Decentralization of services to local bodies. (Support to decentralization and coordination of development activities at local level.)</li> </ul>   |
|                            |           |          | <p><b>Pillar III: Social Inclusion and Targeted Programmes</b></p> <ul style="list-style-type: none"> <li>III A: Mainstream efforts to address gender and ethnic/caste-related disparities and facilitate social inclusion.</li> <li>III B: Targeted Programmes financed through the Poverty Alleviation Fund (PAF).</li> </ul>  | <ul style="list-style-type: none"> <li><b>SO III: Gender, ethnic, and caste-related disparities</b> reduced through greater <b>inclusion</b> of disadvantaged groups to development.</li> <li>Level of participation of disadvantaged groups in local decision-making and governance processes increased (Number of new representatives by the disadvantaged groups in local decision making bodies.)</li> <li>Higher standards of health and education among women and other disadvantaged groups. (Sick individuals, %, who visited rural health centres last month<sup>4</sup>.)</li> </ul>                         | <ul style="list-style-type: none"> <li>Improved access of women and other (ethnic/caste) disadvantaged groups to financial and natural resources and services. (Progress in leasehold forestry programme and approach by the COSOP mid-term review: i) min 160 leasehold forest user groups Formed annually ii) min 1500 ha of leasehold land handed over annually and iii) policies amended and enforced to support leasehold forestry.)</li> <li>Increased empowerment and social inclusion of such groups in rural communities. (Annual progress of the targeted new projects.)</li> </ul> | <ul style="list-style-type: none"> <li>Development of an integrated and coherent forest policy, with sufficient legal framework for the pro-poor leasehold forest policy. (Dialogue on the development of the Forest Act with regards tenure rights and inheritance of leasehold land, development and implementation of district forest plans and the development of synergies between three different forest development approaches.)</li> </ul> |

<sup>3</sup> PRSP indicator (Responsible agency DDCs and VDCs, MOH)

<sup>4</sup> PRSP indicators (Responsible agency DDCs and VDCs, MOH)

| Country Strategy Alignment |           |  | Key Results Framework for COSOP  |  |   | Institutional/Policy Objectives  |
|----------------------------|-----------|--|--|--|---|--|
| Poverty Targets            | Reduction | Strategy   | Strategic Objectives <sup>1</sup>  | Outcome Indicators <sup>2</sup>  | Milestone Indicators <sup>2</sup>   | Specific Policy/Institutional Ambitions  |
|                            |           |  |  |  | <ul style="list-style-type: none"> <li>Women and disadvantaged groups participate successfully in training and income generating programmes (<i>% of women, dalits and indigenous people participating in the programme</i>).</li> </ul>  |  |
|                            |           | <p><b>Pillar IV: Good Governance</b></p> <ul style="list-style-type: none"> <li>Make the civil service efficient, accountable and transparent.</li> <li>Ensure greater participation of people in governance through fiscal devolution.</li> </ul> | <ul style="list-style-type: none"> <li>Support improvement of <b>local governance and peace-building</b>.</li> </ul> | <p><b>Cross cutting theme<sup>5</sup></b></p> <ul style="list-style-type: none"> <li>Progress in the achievement of a sustained reconciliation and reconstruction process in project areas (<i>number of employed persons in productive work; number of IDPs returning to project areas</i>).</li> <li>Level of inclusiveness and transparency of local governance processes (<i>activities successfully carried out in order to improve local governance, including greater transparency in decision making and fund flows</i>).</li> </ul> | <ul style="list-style-type: none"> <li>Re-integration of former combatants into rural communities and productive work (<i>progress made in the skills enhancement programmes targeting former combatants and conflict affected people; conflict sensitive development approaches and techniques applied in the development work</i>).</li> <li>Improved governance capacity at local level. (<i>activities, such as training programmes carried out in order to improve local governance, including greater transparency in decision making and fund flows</i>).</li> </ul> | <ul style="list-style-type: none"> <li>Dialogue on the impact of conflict on the development activities in the field.</li> </ul> |

<sup>5</sup> Results monitoring will focus on the performance of the new grant programme related to support skills enhancement in the communities as well as activities to support good governance and peace building at community level by all ongoing projects.

## Previous COSOP results management framework

### Introduction

IFAD's first COSOP for Nepal was prepared in 2000 following a Country Portfolio Review in 1999. The overall goal was to provide improved and increasingly resilient livelihoods to indigenous people and other marginalized upland poor through secure and sufficient access to and control over resources. The major principles of this programme included: (i) promotion of regenerative agriculture and forestry; (ii) transformation of relations between the upland poor and outsiders from exploitation to empowerment and partnership building; (iii) transformation of gender relations in ways that emphasise women's control over resources and involvement in household and community decision making; (iv) focus on local institution building; (v) using indigenous knowledge as the starting point for blending local and new technologies; and (vi) promotion of participatory techniques including participatory monitoring and evaluation.

The 2000 COSOP provided the overall context within which IFAD's strategy to provide assistance to Nepal was grounded. The geographic focus was remote, isolated and disadvantaged areas of the Far and Mid-western Hill and Mountain regions with strategic thrusts of sustainable livelihoods and social justice. This was due to the fact that these regions constitute the least developed, poorest and most disadvantaged regions of Nepal based on the overwhelming evidence from numerous surveys and studies of poverty and social deprivation. In addition, the rationale for geographic focus included: (i) considerable investment from other multi-lateral lending institutions and bilateral donors in Terai with little room for further IFAD investment in the medium term; (ii) IFAD's then prevailing commitment in Western Terai Project; and (iii) the need for a more focused and geographically concentrated strategy.

In addition, the Mid-West and Far-Western Hills and Mountains were also the core areas of insurgencies (particularly the Mid-Western Hills), where movements calling for an end to social, economic and political discrimination were strong. It was also expected that the long term rural development strategy for this area would be further complimented by the plans to construct a North-South transport corridor from Simikhot to Jumla.

IFAD's operations in Nepal over the life of the first COSOP were reviewed in May-June 2006 in order to inform the preparation of the current COSOP (2007-12). The key findings of this Country Portfolio Review are reported in this Appendix. Points of agreement at completion are presented in Appendix V.

### Implementation Context: Overall Economic Performance and Political Developments

The COSOP has been implemented during a period of widespread civil conflict and economic stagnation. Economic performance declined markedly after 2001 due to the civil conflict which started in 1996 and intensified between 2003 and the ceasefire of April 2006. The decade-long conflict has taken more than 14,000 lives, rendered up to 600,000 internally displaced or homeless, and more than two million are believed to have fled to India. Infrastructure has been destroyed, mobility restricted, business investment halted, and development and service delivery disrupted. Real GDP growth has been negative in two of the last five years. The conflict has been largely in rural areas, with agriculture particularly hard hit.

Despite the adverse circumstances, Nepal has achieved remarkable progress in poverty reduction. The poverty headcount declined from 42 per cent in 1995-96 to 31 per cent in 2003-04. The severity of poverty also declined during that period, indicating that those who remain poor are becoming less so. A number of other socio-economic indicators also improved during that period including access to roads, health services, schools and banks. The factors contributing to the improvements include remittance incomes, non-farm incomes, a rise in agricultural wages, urbanisation and a decline in the dependency ratio. Urban poverty is declining faster than rural poverty – from 21 per cent to

9 per cent over the nine-year period compared with 43 per cent to 35 per cent for rural areas. Over the same period the benefits of growth accrued more to the upper income groups and disparities widened.

### **IFAD's Lending Programme**

IFAD implemented four projects during the period 2000-2006. Poverty Alleviation Project in Western Nepal (PAPWT) and the Hills Leasehold Forestry and Forage Development Project (HLFFDP) became effective prior to and closed after the formulation of COSOP 2000. The other two projects Western Uplands Poverty Alleviation Project (WUPAP) and Leasehold Forestry and Livestock Development Project (LFLP) formulated and implemented during the COSOP were based on the strategic focus and thrusts articulated in the COSOP. The total loan approved by IFAD for four projects including that of PAPWT and LFLP was US\$52.96 million (see table below).

| <i>Project</i> | <i>Regional Focus</i>               | <i>Date of Loan Closure</i> | <i>Loan Amount (US\$ million)</i> |
|----------------|-------------------------------------|-----------------------------|-----------------------------------|
| PAPWT          | Western Terai                       | Dec 2005                    | 9.73                              |
| HLFFDP         | Mid Hills                           | Dec 2005                    | 12.80                             |
| WUPAP          | Far-Mid Western Hills and Mountains | On-going                    | 19.94                             |
| LFLP           | Mid Hills and Mountains             | On-going                    | 10.49                             |

### **Progress towards Strategic Objectives**

The COSOP identified hills and mountains as the strategic focus of IFAD projects and the strategic thrusts included sustainable livelihoods and social justice with three spearhead activities. The spearhead activities identified as entry points for project interventions were: (i) income/employment generating activities through the promotion of natural resource based microenterprises; (ii) local capital formation and empowerment; and (iii) community-based natural resource management.

The projects implemented during 2000-2005 had three major components: (i) provision of access to natural resources to target group members in the form of 40 year leasehold forest land allocation; (ii) provision of rural financial services using three different modes of delivery; and (iii) community infrastructure. The projects targeted dalits, women and the poorest sections of the society. The COSOP articulated community based natural resource management as one of its strategic thrusts. But, the projects designed subsequent to the COSOP 2000 did not have any intervention related to community based natural resource management. The projects designed subsequent to the formulation of COSOP are highly relevant to the strategic focus and strategic thrusts articulated in the COSOP.

### **IFAD Performance**

The Country Portfolio Review considered that the portfolio is successful in terms of effectiveness. All the four projects implemented during the review period have largely achieved their objectives and outreach of beneficiaries met the expectations of the appraisal. The country portfolio is moderately successful in terms of efficiency. The impact of the country portfolio is difficult to quantify. There has been positive impact on the physical assets and productivity of the target group. The financial services delivery in the projects has significantly contributed to reduction in high cost debt of rural households in the project area and enhanced access of the target group to financial assets despite doubtful sustainability at the financial service provider level.

Evidence of innovation where IFAD supported the development of improved and cost effective ways to address the constraints of the target group that others had not used previously is evident. The projects have been able to address the gender issues and to a large extent contributed to a gender balanced accrual of project benefits.

IFAD and UNOPS have successfully internalised the learning from portfolio implementation. The performance levels of the government in terms of budget allocation and release of funds have been good. However, procurement procedures in general and procurement procedures for services in particular have faced continued problems.

The grant programs have been evolving over a period. Direct implementation of a large grant by local civil society organization and greater coordination between IFAD projects in Nepal and local focal point of the grant recipient in identifying research issues have been the major improvements.

**Household Targeting:** Inclusive household targeting is essential to make the project interventions conflict sensitive. The projects need to develop two different types of interventions. One set of interventions to reach the entire community and the other to target the poorest households to avoid leakages.

**Geographic Targeting:** Projects cover large number of districts and village development committee (VDC) coverage remains limited. In addition, selection of VDCs based on poverty profile poses logistic problems and makes it difficult to develop sustainable service delivery mechanisms. Introduction of a concept of growth nodes with service delivery outposts and covering VDCs in a contiguous fashion around the growth nodes need to be the important elements of geographic targeting.

**Access to Natural Resources:** Poor households have limited access to natural resources. The leasehold forestry concept has provided an opportunity to provide degraded forest land to poor households on 40 year renewable lease. This concept needs to be fine tuned with regard to regulations for cultivation, and inheritance procedures. In addition, there is a need to develop synergies between the three forestry management concepts to ensure that the targeting becomes inclusive and at the same time to ensure that there is no leakage of interventions identified for the poorest.

**Access to Financial Resources:** Financial services delivery to the rural poor is essential to facilitate local capital formation, empowerment and microenterprise development. Inadequate local capacity, inability of formal financial institutions including development banks to establish viable outreach mechanisms, and inadequate legal and regulatory framework have hampered the growth of savings and credit service in the hills and mountains. There is a need to develop a self sustaining financial service delivery in the hills and mountains that places little emphasis on outside capacity. In addition, outreach facilities of formal financial institutions need to be promoted.

**Infrastructure:** There is huge demand for community and household infrastructure in the uplands. These activities bring about social inclusion and are conflict sensitive. Even during the height of Maoist insurgency, the project funded infrastructure development activities were implemented without much hindrance. There exist several competing community infrastructure projects at the district development committee level using different management structures and guidelines and synergy between these needs to be developed.

**Skills Development:** Poverty and inadequate school infrastructure forces most young people to discontinue their studies. These young people can neither go back to the family vocation due to limited resources nor have the skills to take up a vocation. Most have to start as unskilled labour. Unemployment amongst youth has contributed to intensification of insurgency in the hills and mountains. There is a need for developing international standard skills development training to prepare the young people to take up better jobs.

**Private Sector Involvement:** Involvement of private sector is needed to provide sustainable access to market and other services. The absence of government policies on support that can be extended to private sector to establish enterprises that would lead to farm-gate value addition and job creation in the remote areas has greatly reduced the impact of private sector initiatives. A strategy and a framework for private sector involvement in developing agro-based enterprises that benefits rural households need to be formulated.

**Human Resource:** Human resource with adequate capacity to manage the complexities of project management is vital. The Project Management needs to have the flexibility to engage advisors / experts in the fields where the implementing department has no core competence. Policies relating to transfer of staff remain contentious. GON is developing a framework for developing Local Government Civil Service. This would address building capacity of district level staff and also frequent transfer of district level staff.

**Procurement of Services:** GON guidelines on bid evaluation are mainly designed to engage contractors for supply of goods and civil works contractors. The guidelines are inadequate to engage service providers such as NGOs and consultancy companies. Absence of a detailed pre-approved standard evaluation procedure, the evaluation criteria with a scoring system to be adopted in procurement of services and reporting formats that is acceptable to IFAD and its cooperating institutions hinder speedy procurement. IFAD and UNOPS need to facilitate the process of developing detailed guidelines indicated above and training the project staff in procurement.

**Engagement of Civil Society:** Civil society in general is better equipped to deal with social mobilization and participatory approaches to poverty alleviation. Government would continue to use the civil society organizations in project implementation. But, the relationship of this engagement needs to be redefined from that of an employer and employee relationship to that of partnership. Modalities of such an engagement need to be worked out.

**Monitoring and Evaluation:** The current generation of projects has enough capacity to undertake activity monitoring that comprises physical and financial progress monitoring. In order enhance the capacity of projects to move towards results based performance assessment, capacity to undertake process, outcome and impact monitoring needs to be strengthened. The Ministry of Local Development has a system of public audit that enhances transparency. Along the same lines, it would be appropriate to develop mechanisms to engage NGOs and other civil society organizations to monitor the project outcomes and impact.

## **CPE agreement at completion point**

### **Introduction**

An IFAD country programme review mission took place in May 2006. The overall goal of the review was to learn from IFAD experience, together with partners, to improve the future performance of the country programme. The specific objective of the country programme review was to assess the results and impact of IFAD strategies and operations in Nepal from 2000 – 2006 as input to the new framework for future cooperation between Nepal and IFAD. A consultation was held on 1 June 2006, organized by the Ministry of Finance, with representatives of the Ministry of Forests and Soil Conservation, Ministry of Agriculture and Cooperatives and Ministry of Local Development. The following findings, issues and recommendations were agreed upon by all partners.

### **Overview of the main findings**

Hills and Mountains are the poorest eco-zones and special focus is required for poverty alleviation in these areas. IFAD strategic focus on this area continues to be relevant and effective. It is coherent with the strategic focus as articulated in the IFAD Country Strategic Opportunities Paper (COSOP) 2000. Escalation of insurgency during the last five years made it extremely difficult to implement IFAD supported projects in these remote areas. With a solution to insurgency being worked out, there exist a strong need to focus poverty alleviation efforts on to the households in the hills and mountains. Inclusive household targeting is essential to make future IFAD project interventions conflict sensitive. The primary focus of IFAD needs to be the poorest comprising landless, women headed households and indigenous and ethnic groups.

### **Issues and recommendations agreed by all partners**

#### **(i) Geographical Targeting**

Higher VDC coverage in a limited number of districts based on funding availability is required as against small number of VDCs in large number of districts. In addition, a growth node centric approach covering all VDCs around selected growth nodes in a contiguous fashion is required to provide better access of markets and services to rural households.

#### **(ii) Household Targeting**

IFAD projects need to develop two types of interventions. First set that benefits the entire community in the selected geographical area and the second set of interventions that target only the poorest sections of community comprising landless, women headed households and indigenous and ethnic groups. Household targeting is closely linked to social mobilization and participatory wealth ranking and resultant group formation. Distortions in group formation need to be addressed and the capacity of existing groups need to be built rather than mobilizing new groups.

#### **(iii) Access to Natural Resource**

GON implements three forestry programs that tend to operate in isolation. There is a need to build a forestry development approach that is holistic in nature that provides implementation of community forestry that targets the entire community, leasehold forestry that targets poorest households and also the collaborative forestry in an integrated manner. Future interventions need to be in the form of support for developing and implementing District Forestry Development Plans that are holistic.

#### **(iv) Access to Financial Resource**

Inadequate local capacity, inability of formal financial institutions including development banks to establish viable outreach mechanisms, and inadequate legal and regulatory framework have hampered the growth of savings and credit service in the hills and mountains. Financial services delivery to the rural poor is essential to facilitate local capital formation, empowerment and microenterprise development. In the hills and

mountains, focus needs to be on developing sustainable savings and credit service with minimum external support. There is a need to review and assess the following:

(i) comparative advantage of using savings and credit groups of 10-15 self selected women members as against promotion of large community organizations of more than 50 members managed mostly by men; and (ii) mandate, roles and responsibilities of Local Development Fund Board (LDFB) and possibility of it emerging as a sustainable rural financial institution.

#### (v) Infrastructure

There is a strong demand for community and household infrastructure in the all poor regions including hills and mountains. The current situation requires reconstructing a number of infrastructures and entails substantial further investments in community, household and marketing infrastructure. Community infrastructure can be used as a tool to bring about inclusiveness in the targeting process as it benefits the entire society. There are several competing community infrastructure projects at the District level using different management structures and guidelines; there is a need to integrate these activities to enhance the efficiency of delivery.

#### (vi) Skills Development

Human resource needs to be harnessed to alleviate poverty of the rural households by imparting skill training to youth. The current formal educational system does not encourage youth with primary and secondary education to go back to the family vocation or to obtain a job elsewhere. Providing international standard vocational training to youth with low educational qualification with affirmative action to target youth from poor communities from remote uplands and indigenous people would be a powerful tool for poverty alleviation.

#### (vii) Private Sector Involvement

Private sector needs to be involved in providing sustainable access to market and other services to the rural households. The absence of government policies on establishing an enabling environment for private sector to establish enterprises that would lead to farm-gate value addition and job creation in the remote areas has greatly reduced the impact of private sector initiatives. A strategy and a framework for private sector involvement in developing agro-based enterprises that benefits rural households need to be formulated.

#### (viii) Engagement of Civil Society

Civil society is better equipped to deal with social mobilization and participatory approaches to poverty alleviation. Government would continue to use the civil society organizations in project implementation. The relationship of this engagement needs to be redefined from that of an employer and employee relationship to that of partnership. Modalities of such an engagement need to be worked out.

#### (ix) Human Resource Management

Project Management needs to have the flexibility to engage advisors/experts in the fields where the implementing department does not have core competence. GON is developing a framework for developing Local Government Civil Service including issues of transfer of staff. This would address building capacity of district level staff and frequent transfer of district level staff.

#### (x) Procurement

GON guidelines on bid evaluation are mainly designed to engage contractors for supply of goods and civil works contractors. The guidelines are inadequate to engage service providers such as NGOs and consultancy companies. Experience with regard to engagement of NGOs indicates the absence of a detailed pre-approved standard evaluation procedure, evaluation criteria with a scoring system to be adopted in procurement of services and reporting formats acceptable to IFAD and its cooperating institutions. It is therefore necessary to develop guidelines for evaluating the bids of

service providers including NGOs with scoring systems and formats / examples of the reports to be submitted for review by the project officials to the Cooperating Institution. IFAD and UNOPS need to facilitate the process of developing detailed guidelines indicated above and training the project staff in procurement.

(xi) Monitoring and Evaluation

IFAD projects have enough capacity to undertake activity monitoring that comprises physical and financial progress monitoring. In order to enhance the capacity of projects to move towards results based performance assessment, capacity to undertake process, outcome and impact monitoring needs to be strengthened. It would be appropriate to develop mechanisms to engage NGOs and other civil society organizations to monitor project outcomes and impact and to ensure a system of public audit that enhances transparency

## Key file 1: Rural poverty and agricultural/rural sector issues

| <i>Priority Area</i> | <i>Major Issues</i>   | <i>Actions Needed</i>  |
|----------------------|---|--|
| Rural Poverty        | <ul style="list-style-type: none"> <li>• More than one-third (35 per cent) of rural population lives below poverty line</li> <li>• Vast majorities of the rural poor are self employed (70 per cent) and wage earners (11 per cent) in agriculture</li> <li>• Dalits, janajatis and Muslim communities are the poorest accounting for 57 per cent of the poor and 42 per cent of the population in Nepal</li> <li>• Marginal and small farmers with less than 1 ha of land constitute 76 per cent of the rural poor. More than a quarter of Nepali households (4.2 million) are landless</li> <li>• Poverty incidence is highest in the mid-western (45 per cent) and far-western (41 per cent) development regions</li> <li>• Poverty incidence is positively related to the size of the family and negatively related to the rate of female literacy</li> </ul> | <ul style="list-style-type: none"> <li>• Adopt pro-poor rural development policies</li> <li>• Effectively implement the National Agriculture Policy (NAP) and the Agricultural Perspective Plan (APP)</li> <li>• Promote agribusiness and agro-processing activities and non-land wage employment opportunities in rural areas</li> <li>• Implement targeted programs for economic and social empowerment of Dalits, janajatis and Muslims communities</li> <li>• Promote livestock, non-timber forest products (NTFPs), agribusiness and non-farm microenterprises among the landless and near-landless families</li> <li>• Devise and implement a comprehensive lagging-regions development policy</li> <li>• Implement effective family planning, health care and female literacy programs</li> </ul> |
| Rural Finance        | <ul style="list-style-type: none"> <li>• Absence of formal sector financial institutions in remote rural areas</li> <li>• Lack of access to financial services for the hard core rural poor</li> <li>• Limited access to credit for marginal and small farmers, and small rural entrepreneurs from either banks or NGOs</li> <li>• Lack of a clear microfinance policy and regulatory environment</li> </ul>  | <ul style="list-style-type: none"> <li>• Develop and engage NGOs, CBOs and cooperatives as microfinance providers</li> <li>• Promote community-based, self-help savings and credit organizations</li> <li>• Develop mechanisms to enable microfinance to reach the hard-core poor.</li> <li>• Support expansion of innovative and well managed small and medium NGO-MFIs</li> </ul>  |
| Agriculture          | <ul style="list-style-type: none"> <li>• Small and fragmented holdings, with low economies of scale in production, processing and marketing</li> <li>• Largely traditional, food crops-dominated and subsistence-based production</li> <li>• Lack of access to markets</li> <li>• Limited coverage of year-round irrigation and water control facilities</li> <li>• Weak agricultural research and extension systems</li> <li>• Unreliable input supplies and service delivery system</li> <li>• Poor plant quarantine facilities and services</li> </ul>   | <ul style="list-style-type: none"> <li>• Develop an appropriate policy and regulatory framework for microfinance</li> <li>• Promote large production pockets or clusters by organizing farmers into groups/coops</li> <li>• Shift to commercial, high-value agriculture production, focusing on commodities of natural comparative advantage</li> <li>• Develop collection centres, information and communication networks, etc</li> <li>• Promote micro-irrigation technologies in the hills and mountains</li> <li>• Develop partnerships with NGOs and private sector in research and extension</li> <li>• Engage NGOs, CBOs and private sector organizations in input supplies and marketing</li> </ul>  |
| Livestock            | <ul style="list-style-type: none"> <li>• Poor health and low-productivity breed of livestock</li> <li>• Growing market constraints for fresh milk due to milk-holidays and competition from imported powder milk and milk products</li> <li>• Lack of proper and timely veterinary and animal health services</li> <li>• Lack of adequate facilities for monitoring and quality control of imported animals and animal products</li> <li>• Unhygienic meat production and marketing system</li> <li>• Policy biases against domestic poultry industry</li> <li>• Limited research in livestock sector</li> </ul>  | <ul style="list-style-type: none"> <li>• Develop well-equipped plant quarantine check-posts</li> <li>• Introduce improved breeds in accessible areas and launch massive artificial insemination programs in remote areas</li> <li>• Support milk processing facilities under the management of dairy cooperatives</li> <li>• Develop and train local-level veterinary technicians/animal health workers in rural areas</li> <li>• Develop quarantine services and strengthen the institutional capacity of Department of Food Technology and Quality Control</li> <li>• Build slaughter-houses and enforce safety regulations for quality meat production</li> <li>• Remove policy biases against domestic poultry sector</li> </ul>   |

| <i>Priority Area</i>                        | <i>Major Issues</i>  | <i>Actions Needed</i>  |
|---|--|--|
| Forestry                                    | <ul style="list-style-type: none"> <li>• Inequitable access to and control over CF resources by the poor, landless, dalits and disadvantaged groups</li> <li>• Limited technical, managerial and organizational capacities of CFUGs</li> <li>• Limited pro-poor orientation of CFUGs</li> <li>• Lack of a legal framework for leasehold forestry program</li> </ul>  | <ul style="list-style-type: none"> <li>• Increase budget allocation for livestock research</li> <li>• Sensitize CFUGs and develop their capacity to address equity issues</li> <li>• Work with Federation of Community Forest User Groups of Nepal (FECOFUN) to enhance overall institutional capacity of CFUGs</li> <li>• Provide part of CF land for NTFP farming as a source of income to the poor</li> <li>• Implement appropriate legislation for the LHF and CF</li> </ul>   |
| Horticulture and other high-value commodity | <ul style="list-style-type: none"> <li>• Great untapped potentials for commercial cultivation of fruits, off-season vegetables, NTFPs and other high-value commodities in the hills</li> <li>• Lack of market access for high-value agricultural products in the hills</li> <li>• Lack of certification system within Nepal for domestic organic produce</li> <li>• Limited capacity and resources for the development of commercial high-value agriculture and agro-processing in the hills</li> </ul>  | <ul style="list-style-type: none"> <li>• Implement the North-South Corridor development approach envisioned by the Tenth Plan and the NAP to link production in the hills with the markets in the Terai and in the adjoining states of India</li> <li>• Provide incentives for establishing agro-processing industries in the hills</li> <li>• Develop organic certification system within Nepal</li> <li>• Develop public-private-NGO partnership in research and development</li> </ul>  |
| Gender                                      | <ul style="list-style-type: none"> <li>• Women lag behind men in all major indicators of development</li> <li>• Women are often paid lower wages than men</li> <li>• A number of laws and regulations discriminate women</li> <li>• Limited access to assets and employment opportunities.</li> </ul>  | <ul style="list-style-type: none"> <li>• Implement programs for social, economic, political and legal empowerment of women</li> <li>• Expand education, health and skill-enhancement opportunities for women</li> <li>• Remove or amend discriminatory laws and regulations</li> <li>• Increase awareness amongst men and women regarding gender issues and legal rights.</li> </ul>   |
| Rural/Community Development                 | <ul style="list-style-type: none"> <li>• Poor and underdeveloped physical infrastructure, including road connectivity</li> <li>• Large number of conflict-affected internally displaced people (IDP)</li> <li>• Massive destruction of existing rural infrastructures</li> <li>• Weak or non-existent linkages between agriculture and agro-industry sectors</li> <li>• Lack of a conducive policy and regulatory environment for increased private sector investment in agro-processing and agribusiness activities</li> <li>• Lack of productive employment opportunities for youths in rural areas</li> </ul> | <ul style="list-style-type: none"> <li>• Develop rural infrastructures – roads, electricity, telecommunication, IT centres, etc</li> <li>• Implement effective rehabilitation and relief programs for IDP</li> <li>• Repair and rebuild the infrastructures</li> <li>• Implement measures to promote farm-corporate linkages (e.g., contract farming)</li> <li>• Implement an Agribusiness Policy with clear incentives for private sector participation</li> <li>• Provide vocational and technical skill enhancement training to promote self-employment of youths in rural areas</li> </ul> |

## Key file 2: Organizations Matrix (Strengths, Weakness, Opportunities and Threats [SWOT] analysis) of key partner organizations

| <i>Strengths</i>  | <i>Weaknesses</i>   | <i>Opportunities/Threats</i>   | <i>Remarks</i>  |
|---|---|--|---|
| <b>Ministry of Agriculture and Cooperatives (MAC)</b>   |   |  |   |
| <ul style="list-style-type: none"> <li>Country wide district network of agricultural extension and livestock services</li> <li>Network of district cooperative offices</li> <li>Well trained and experienced staff</li> </ul>   | <ul style="list-style-type: none"> <li>Training and experience of staff not reflected in delivery of services: delivery of extension services weak</li> <li>Extension system oriented towards traditional food grain crops not high value agriculture and livestock</li> <li>Limited knowledge of issues relevant to poverty, markets etc.</li> <li>Bureaucratic and hierarchical institution</li> <li>Serious budgetary and manpower constraints – 70 per cent of budget goes to salaries etc. leaving little for transport of field staff or development programmes</li> <li>Inadequate plant, quarantine and phytosanitary facilities impeded exports</li> </ul> | <ul style="list-style-type: none"> <li>Apparent willingness the government to contribute more resources to agriculture and rural development</li> <li>APP review study recently completed – action plan being developed</li> <li>Initiatives towards responding to stakeholder needs and potential for MAC to build better working relationships with NGOs</li> <li>Potential to improve phytosanitary services to remove technical barriers to trade</li> <li>Resurgence of rebel activity - Maoists not supportive of agricultural extension activities</li> </ul> | <ul style="list-style-type: none"> <li>MAC is a key institution in any efforts to address rural poverty through agricultural production and supply chain improvement</li> </ul> |
| <b>Ministry of Local Development (MLD)</b>  |   |  |   |
| <ul style="list-style-type: none"> <li>Strong and relevant legislative mandate - Decentralisation Act empowers MLD to coordinate and regulate all local level development activities</li> <li>Decentralisation process accepted and being implemented</li> <li>Local Development Officer is a member and secretary of the DDCs</li> </ul> | <ul style="list-style-type: none"> <li>Elected DDCs have lapsed and elections to replace them have not yet taken place – functions are being fulfilled by Government staff who are less sympathetic to devolution principles</li> <li>Weak coordination between DDCs and the NGO sector</li> <li>Problem of dual accountability of staff at district and village levels. Vertical accountability to central government ministries conflicts with horizontal accountability to DDCs and VDCs</li> <li>Limited capacity of DDCs due to very limited financial resources</li> <li>Collaboration and willingness to with NGOs has been inadequate</li> </ul>            | <ul style="list-style-type: none"> <li>It will be possible to re-establish elected DDCs and VDCs if the security situation stabilises</li> <li>Potential to resolve ambiguities in the legal framework governing local government</li> <li>Potential to build better working relationships with NGOs</li> <li>Resurgence of conflict would further erode capacity of DDCs and VDCs – local government is disproportionately affected by conflict</li> </ul>  | <ul style="list-style-type: none"> <li>MLD and the DDCs and VDCs are key players in all rural poverty reduction initiatives</li> </ul>  |

| <i>Strengths</i>  | <i>Weaknesses</i>  | <i>Opportunities/Threats</i>   | <i>Remarks</i>  |
|---|--|--|---|
| <b>Ministry of Forest and Soil Conservation</b>   |  |  |   |
| <ul style="list-style-type: none"> <li>• Good district network with well qualified and trained staff</li> <li>• Very strong regulatory mandate for forest resource management</li> <li>• Asset rich (but income poor) - owner of all government forest land which covers 29 per cent of Nepal</li> <li>• Master Plan for the Forestry Sector provides a sound guiding policy framework</li> </ul> | <ul style="list-style-type: none"> <li>• Confusing three-pronged approach to forest management with tensions between advocates of the different approaches</li> <li>• Limited financial and manpower resources, but unable to retain and utilise revenue generated from utilisation of assets</li> <li>• Non-Timber Forest Product (NTFP) policy is not being implemented effectively</li> <li>• The institutional culture not supportive to innovation</li> </ul>   | <ul style="list-style-type: none"> <li>• Creation of a separate legal framework for leasehold forestry would improve the performance of the leasehold forestry sub-sector</li> <li>• Potential for intensified promotion of NTFPs</li> <li>• Potential to generate more income from the Ministry's asset base and improve services</li> <li>• Resurgence of conflict would impede efforts to improve sustainable management of forest resources</li> </ul> | <ul style="list-style-type: none"> <li>• Leasehold and community forestry are important instruments of rural poverty reduction and are an important part of several previous and ongoing IFAD projects</li> </ul> |
| <b>Ministry of Industry and Commerce</b>  |  |  |   |
| <ul style="list-style-type: none"> <li>• Responsible for regulation of domestic and international trade and administration of the Company Act</li> <li>• Administers commercial law and contributes to the enabling environment for rural commerce</li> <li>• Responsible for overseeing WTO matters</li> </ul>   | <ul style="list-style-type: none"> <li>• No significant weaknesses relevant to the COSOP Strategic Objectives</li> </ul>   | <ul style="list-style-type: none"> <li>• Potential to address constraints in the enabling environment for rural commercial development</li> <li>• Potential partner in implementation of IFAD's private sector policy</li> </ul>   | <ul style="list-style-type: none"> <li>• Ministry has a role in the development of an enabling environment for private sector and markets development</li> </ul>  |
| <b>Ministry of Social Welfare and Women</b>   |  |  |   |
| <ul style="list-style-type: none"> <li>• Has women development officers in all districts who are very strongly committed to womens' issues</li> <li>• Ministry has a strong and relevant mandate for womens' welfare issues</li> </ul>  | <ul style="list-style-type: none"> <li>• New, small and relatively weak ministry with lack of experience professional staff</li> <li>• Limited influence relative to thousands of NGOs</li> <li>• Very limited implementation capacity – main function is to influence policy</li> <li>• Women's Commission and Dalit Commission both non-functional at present – only have policy and advisory role when functioning</li> <li>• Indigenous People's Academy only has policy and advisory functions</li> </ul> | <ul style="list-style-type: none"> <li>• Potential to mainstream gender concerns into government programmes at district level</li> <li>• Improve staff capability to develop strong policies which influence other ministries</li> <li>• Potential to strengthen policy and implementation capability</li> </ul>   | <ul style="list-style-type: none"> <li>• Ministry should become one of IFAD's key partner institutions, but needs significant strengthening in order to do so</li> </ul>  |
| <b>National Planning Commission (NPC)</b>   |  |  |   |
| <ul style="list-style-type: none"> <li>• NPC is the apex planning and policy making body with overarching responsibility for national development</li> </ul>  | <ul style="list-style-type: none"> <li>• Secretariat remains operational but the Commission is currently vacant under interim government</li> </ul>  | <ul style="list-style-type: none"> <li>• Vehicle for coordination of IFAD – supported activities within overall development programmes</li> </ul>  | <ul style="list-style-type: none"> <li>• Close liaison with NPC is essential in order to harmonise IFAD-supported strategies and activities</li> </ul>  |

| <i>Strengths</i>  | <i>Weaknesses</i>   | <i>Opportunities/Threats</i>  | <i>Remarks</i>  |
|---|---|---|---|
| <p>planning</p> <ul style="list-style-type: none"> <li>• Long history of establishment and credibility – responsible for formulation of five-year-plans and the PRSP</li> <li>• The Commission is chaired by the Prime Minister</li> <li>• Strong role in donor coordination: responsible for coordination of all externally funded projects and programmes</li> </ul>  | <ul style="list-style-type: none"> <li>• Commission members are politically appointed</li> <li>• Monitoring capabilities are weak – partly because of conflict</li> </ul>   | <ul style="list-style-type: none"> <li>• Likely to have a continuing leading role in development planning – even if system of government becomes federal</li> <li>• Potential to elevate activities into high level policy formulation and monitoring rather than detailed implementation planning</li> <li>• Could devolve some functions to ministries and strengthen focus on macro-level policy issues</li> </ul> | <p>with the successive five-year development plans and the NPRS</p>   |
| <p><b>Council of Technical Education and Vocational Training (within Ministry of Education)</b></p> <ul style="list-style-type: none"> <li>• Autonomous policy body responsible for technical and vocational education</li> <li>• Network of regional training institutes</li> </ul>  | <ul style="list-style-type: none"> <li>• Directly engaging in implementation of skills training rather than policy and quality control</li> <li>• Quality control standards need strengthening</li> </ul>   | <ul style="list-style-type: none"> <li>• Increase role in quality control, accreditation and skill testing and reduce direct involvement in training</li> <li>• Increase role of private sector and NGOs in provision of training</li> </ul>  | <ul style="list-style-type: none"> <li>• Potentially a powerful force in economic regeneration in rural areas by providing technical and vocational training to rural poor and former combatants</li> </ul> |
| <p><b>Local Government (DDCs, Municipalities and VDCs)</b></p> <ul style="list-style-type: none"> <li>• Directly elected devolved local government organizations</li> <li>• Recent budget has doubled financial allocations to VDCs</li> <li>• DDCs have the right to raise revenue locally and often receive strong support from donors as well</li> <li>• Coordinate, regulate and evaluate all development activities within their jurisdiction</li> </ul> | <ul style="list-style-type: none"> <li>• Elected representation has been absent during the last five years – positions filled by nominated persons</li> <li>• Governing bodies only – do not have their own staff to undertake development activities</li> <li>• Inadequate and variable resource base: remain partly or mainly dependent on resources provided by the central government</li> <li>• Conflict of interest when involved in both financing and implementation of development activities</li> </ul> | <ul style="list-style-type: none"> <li>• Potential to act as a local level planning commission</li> <li>• Would be more effective by contracting out implementation of development activities rather than self-implementing</li> <li>• Risk of becoming non-functional due to political infighting when elected bodies resume</li> </ul>  | <ul style="list-style-type: none"> <li>• MLD and the DDCs and VDCs are key players in all rural poverty reduction initiatives</li> </ul>  |
| <p><b>Agricultural Cooperatives</b></p> <ul style="list-style-type: none"> <li>• Membership-based organizations, locally accountable and transparent</li> <li>• Both single and multi-purpose cooperatives</li> <li>• Cooperatives formed since the 1990s</li> </ul>  | <ul style="list-style-type: none"> <li>• Technical and managerial capacity is generally weak</li> <li>• Smaller and poorer farmers generally not members of cooperatives</li> </ul>   | <ul style="list-style-type: none"> <li>• Potentially strong participants in development service delivery</li> <li>• Potential to encourage greater participation in cooperatives by small farmers</li> </ul>  | <ul style="list-style-type: none"> <li>• Strongest cooperatives are in the dairy sector – but there is potential to adopt similar models in other commercial agricultural sectors</li> </ul>                |

| <i>Strengths</i>   | <i>Weaknesses</i>   | <i>Opportunities/Threats</i>  | <i>Remarks</i>   |
|--|---|---|--|
| <p>have been bottom-up initiated and generally successful</p> <ul style="list-style-type: none"> <li>• About 7,400 cooperatives in existence (excluding forest user groups)</li> <li>• Strong network with three tiers: primaries, district and central level cooperative organizations</li> <li>• Involved in savings and credit activities (in effect non-bank financial institutions)</li> <li>• Small Farmer Cooperative Ltd represents farmers with less than 1 ha</li> </ul> <p><b>Financial Institutions (including Rural Microfinance Development Centre)</b></p> <ul style="list-style-type: none"> <li>• Many projects and programmes have savings and credit groups</li> <li>• Range of financial institutions: Agricultural Development Bank is a major provider of rural finance</li> <li>• Grameen replicators work satisfactorily in the Terai (but not in hill and mountain regions)</li> <li>• Many NGOs have registered microfinance units</li> <li>• Around 2,200 cooperatives are providing financial services to members</li> <li>• There are many thousands of un-registered micro credit organizations</li> <li>• Informal sector lending is declining and becoming more competitive – but not accessible to all</li> </ul> <p><b>Private Sector Organizations</b></p> <ul style="list-style-type: none"> <li>• Private sector agribusiness is responsive to new market and investment opportunities</li> <li>• Representative organizations include</li> </ul> | <ul style="list-style-type: none"> <li>• Many banks have withdrawn from rural areas during period of conflict</li> <li>• Grameen replicators are not yet sustainable</li> <li>• Poorest farmers still lack access to finance, especially in remote areas</li> <li>• Self help groups tend to be large and not well organised</li> <li>• Smaller savings and credit groups have weak management and accounting capacity</li> <li>• Larger scale agribusiness may bypass small farmers and microenterprises</li> <li>• Agribusiness enterprises have weak connections to regional and global markets</li> </ul> | <ul style="list-style-type: none"> <li>• Potential for banks to return to rural areas in post-conflict situation</li> <li>• Opportunity to expand functions of savings and credit groups into health, literacy similar to Grameen model</li> <li>• Use of remittances to provide capital for self help/savings and credit groups</li> <li>• Industry organizations (federations) could play a major role in certification and marketing of organic produce</li> <li>• Agribusiness enterprise have</li> </ul> | <ul style="list-style-type: none"> <li>• Microfinance is an essential element of efforts to reduce economic isolation and promote economic integration of disadvantaged groups</li> <li>• Forming closer commercial linkages between farmers and agribusinesses is key to reducing economic isolation</li> </ul> |

| <i>Strengths</i>   | <i>Weaknesses</i>   | <i>Opportunities/Threats</i>   | <i>Remarks</i>  |
|--|---|--|---|
| Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and Federation of Nepalese Cottage and Small Industries (FNCSI)   | <ul style="list-style-type: none"> <li>• Small scale relative to Indian agribusiness ventures</li> <li>• Lack of a favourable enabling environment for rural agribusiness development</li> </ul>  | <ul style="list-style-type: none"> <li>• potential for linking modern/commercial sectors to small farmers</li> <li>• Potential for community-based tourism</li> <li>• Risk that Nepalese agribusiness firms will find it difficult to compete with much larger regional competitors</li> </ul> |   |
| <p><b>International NGOs (INGOs)</b></p> <ul style="list-style-type: none"> <li>• Over 100 INGOs operating in Nepal</li> <li>• Well funded with substantial implementation capacity</li> </ul>   | <ul style="list-style-type: none"> <li>• INGOs compete with National NGOs for staff and other resources including donor funds</li> <li>• Often reluctant to engage in partnerships with National NGOs</li> </ul>  | <ul style="list-style-type: none"> <li>• Need to form stronger partnerships with National NGOs</li> </ul>  | <ul style="list-style-type: none"> <li>• IFAD programmes and projects have so far tended to partner with national NGOs</li> </ul>                                 |
| <p><b>NGOs</b></p> <ul style="list-style-type: none"> <li>• Around 100 national NGOs operating throughout the country</li> <li>• NGOs have been able to maintain services at community level during the conflict when government has been unable to operate</li> </ul> | <ul style="list-style-type: none"> <li>• Very few National NGOs with sound track record in rural development and poverty reduction</li> <li>• Managerial capacity of most NGOs requires strengthening</li> <li>• Generally weak functional relationships with Government – Government often reluctant to deal with NGOs</li> <li>• Tendency of some NGOs to push their own agendas</li> </ul> | <ul style="list-style-type: none"> <li>• Need to develop simplified guidelines for government agencies to contract services from NGOs</li> <li>• Potential for National NGOs to work more closely with local NGOs and CBOs</li> </ul>  | <ul style="list-style-type: none"> <li>• IFAD programmes and projects will very likely continue to work closely with NGOs</li> </ul>                              |
| <p><b>Farmer Organizations</b></p> <ul style="list-style-type: none"> <li>• Ten commodity based organizations promoted and supported FNCCI (formerly USAID assisted)</li> <li>• All political parties have representatives claiming to represent farmers</li> </ul>    | <ul style="list-style-type: none"> <li>• No federation of commodity-based farmer organizations</li> <li>• Commodity-based organizations all involve commercial enterprises and small/poor farmers are not generally represented</li> </ul>  | <ul style="list-style-type: none"> <li>• Potential for IFAD to assist in formation of grassroots Farmer Organizations that are inclusive of the poor and disadvantaged groups</li> </ul>   | <ul style="list-style-type: none"> <li>• IFAD policies favour engagement with small and resource-poor farmers via effective small farmer organizations</li> </ul> |

### Key file 3: Complementary donor initiative/partnership potential

| <i>Donor/Agency</i>           | <i>Priority sectors and areas of focus</i>   |   | <i>Period of current country strategy</i> | <i>Potential for partnership with IFAD</i>   |
|-------------------------------|--|---|---|--|
| <b>Asian Development Bank</b> | <ul style="list-style-type: none"> <li>• Agriculture and rural development</li> <li>• Water supply and sanitation</li> <li>• Education</li> </ul>                          | <ul style="list-style-type: none"> <li>• Infrastructure (transport and energy)</li> <li>• Public and private sector governance</li> </ul>   | • 2005-2009                               | <ul style="list-style-type: none"> <li>• Agriculture infrastructure</li> <li>• Rural development</li> </ul>  |
| <b>World Bank</b>             | <ul style="list-style-type: none"> <li>• Governance</li> <li>• Agriculture</li> <li>• Irrigation</li> <li>• Trade</li> <li>• Labor</li> </ul>                              | <ul style="list-style-type: none"> <li>• Infrastructure (transport and energy)</li> <li>• Information and communication</li> <li>• Education and health care</li> <li>• Water and sanitation</li> </ul> | • 2004-2007                               | <ul style="list-style-type: none"> <li>• Agriculture policy</li> <li>• Social Inclusion and Targeted Programmes for poor (Poverty Alleviation Fund)</li> </ul>   |
| <b>DFID (UK)</b>              | <ul style="list-style-type: none"> <li>• Peace building</li> <li>• Rural development</li> <li>• Basic services (health, education, water supply and sanitation)</li> </ul> | <ul style="list-style-type: none"> <li>• Social inclusion</li> <li>• Governance</li> </ul>  | • 2004-2008                               | <ul style="list-style-type: none"> <li>• Improve and diversify livelihoods options for the rural poor</li> <li>• Financing and access mechanisms to increase access for poor farmers to markets</li> <li>• Rural infrastructure services</li> <li>• Rural employment and enterprise development</li> <li>• Social inclusion</li> <li>• Pro poor local governance</li> <li>• Collaborative forest management</li> <li>• Market access for the poor</li> <li>• Social inclusion</li> <li>• Forest sector</li> <li>• Community development</li> </ul> |
| <b>Netherlands</b>            | <ul style="list-style-type: none"> <li>• Collaborative forest management</li> <li>• Renewable energy</li> <li>• Market access for the poor</li> </ul>                      | <ul style="list-style-type: none"> <li>• Governance, pro poor local governance</li> <li>• Social inclusion</li> <li>• Pro-poor sustainable tourism</li> </ul>   | • NA                                      | <ul style="list-style-type: none"> <li>• Pro poor local governance</li> <li>• Collaborative forest management</li> <li>• Market access for the poor</li> <li>• Social inclusion</li> </ul>   |
| <b>DANIDA</b>                 | <ul style="list-style-type: none"> <li>• Education</li> <li>• Environment, energy and sustainable use of natural resources</li> </ul>                                      | <ul style="list-style-type: none"> <li>• Human Rights, good governance, democratisation</li> </ul>  | • 2005-2008                               | <ul style="list-style-type: none"> <li>• Community development</li> </ul>  |
| <b>Finland</b>                | <ul style="list-style-type: none"> <li>• Water supply</li> <li>• Education</li> </ul>  | <ul style="list-style-type: none"> <li>• Democracy, human rights, good governance</li> <li>• Conflict Resolution</li> </ul>   | • NA                                      | <ul style="list-style-type: none"> <li>• Rural infrastructure</li> </ul>   |
| <b>Norway</b>                 | <ul style="list-style-type: none"> <li>• Hydropower</li> <li>• Education</li> </ul>  | <ul style="list-style-type: none"> <li>• Good governance, human rights, education</li> </ul>  | • From 1996                               | <ul style="list-style-type: none"> <li>• Limited –possibly in the form of coordination of activities related to good governance</li> </ul>   |
| <b>EU</b>                     | <ul style="list-style-type: none"> <li>• Renewable energy</li> <li>• Education</li> <li>• Health</li> <li>• Rural infrastructure</li> </ul>                                | <ul style="list-style-type: none"> <li>• Consolidation of democracy and rule of law</li> <li>• Community development</li> <li>• Trade</li> </ul>  | • 2002-2006                               | <ul style="list-style-type: none"> <li>• Limited, possibly related to Rural infrastructure and Community development</li> </ul>  |

| <i>Donor/Agency</i>        | <i>Priority sectors and areas of focus</i>  |   | <i>Period of current country strategy</i>                      | <i>Potential for partnership with IFAD</i>  |
|----------------------------|---|---|--|---|
| <b>Japan (JICA / JBIC)</b> | <ul style="list-style-type: none"> <li>Improvement of people's living status by betterment of social services and empowerment of people</li> <li>Improvement of living standard by increasing agricultural production and income</li> </ul> | <ul style="list-style-type: none"> <li>Promotion of industry and upgrading living standard through improvement of social and economic infrastructure</li> <li>Environmental conservation through sustainable development</li> <li>Post-conflict revitalization and conflict management</li> </ul> | <ul style="list-style-type: none"> <li>2003-2006</li> </ul>    | <ul style="list-style-type: none"> <li>Rural development</li> <li>Post conflict revitalization</li> <li>Education support</li> <li>Women and social empowerment</li> </ul>  |
| <b>SDC (Switzerland)</b>   | <ul style="list-style-type: none"> <li>Harmonised bi-&amp; multilateral Framework and Management</li> <li>Livelihood and Inclusion</li> <li>Rural infrastructure</li> </ul>   | <ul style="list-style-type: none"> <li>Natural Resources Management</li> <li>Health promotion</li> <li>Occupational skills development</li> <li>Humanitarian aid</li> <li>Meaningful dialogue and conflict transformation</li> </ul>  | <ul style="list-style-type: none"> <li>2005 to 2008</li> </ul> | <ul style="list-style-type: none"> <li>Livelihood and Inclusion</li> <li>Rural infrastructure</li> <li>Occupational skills development</li> <li>Meaningful dialogue and conflict transformation</li> <li>Natural resources management</li> <li>Agriculture and rural markets development</li> </ul> |
| <b>USAID</b>               | <ul style="list-style-type: none"> <li>Democracy and human rights, rule of law</li> <li>Agriculture</li> <li>Environment</li> <li>Forestry</li> </ul>   | <ul style="list-style-type: none"> <li>Population and health</li> <li>Gender, inclusion</li> <li>Hydropower</li> </ul>  | <ul style="list-style-type: none"> <li>2001-2006</li> </ul>    | <ul style="list-style-type: none"> <li>Agriculture and rural markets development</li> </ul>   |
| <b>Australia</b>           | <ul style="list-style-type: none"> <li>Natural Resource Management,</li> <li><i>Livelihood development</i></li> <li>Health</li> </ul>   | <ul style="list-style-type: none"> <li>Community Development</li> <li>Environment</li> </ul>  | <ul style="list-style-type: none"> <li>NA</li> </ul>           | <ul style="list-style-type: none"> <li>Natural Resources Management</li> </ul>  |
| <b>GTZ (Germany)</b>       | <ul style="list-style-type: none"> <li>Local self governance</li> <li>Energy</li> </ul>   | <ul style="list-style-type: none"> <li>Health</li> </ul>  | <ul style="list-style-type: none"> <li>NA</li> </ul>           | <ul style="list-style-type: none"> <li>Activities related to non focal sectors such as rural markets development</li> </ul>   |
| <b>CIDA (Canada)</b>       | <ul style="list-style-type: none"> <li>Community health</li> </ul>  | <ul style="list-style-type: none"> <li>Community agriculture</li> </ul>   | <ul style="list-style-type: none"> <li>NA</li> </ul>           | <ul style="list-style-type: none"> <li>Small enterprise development</li> <li>Microfinance</li> </ul>  |

## Key file 4: Target group identification, priority issues and potential response

| Typology       | Poverty Level and Causes   | Coping Actions   | Priority Needs   | Support from Other Initiatives  | COSOP Responses   |
|----------------|--|--|--|---|---|
| Destitute Poor | Desperate poverty. Includes disabled people, HIV/AIDS affected, abandoned children, homeless and displaced persons, and those otherwise affected by armed conflict   | Migration, begging, prostitution, eating less. Limited support from relatives who are often similarly affected   | Social welfare (safety net) measures, feeding programmes (particularly for children), community based shelter with safety, group-based production assets, education and medical care                                     | Anti-trafficking initiative<br>Anti HIV/AIDS programmes<br>Group-based distribution of assets in certain areas  | IFAD will not engage in humanitarian relief operations, but seeks to coordinate with organizations which specialise in this field by helping to bridge the gap between emergency relief and restoration of development processes  |
| Extreme Poor   | Mostly illiterate, landless or near-landless households who have few other assets. Many are seasonal immigrants and have been affected by conflict. Includes <i>Dalits</i> , <i>Janajatis</i> and many women. Few able-bodied household members. Access only to informal credit at high interest rates | Seasonal migration for low-paid agricultural work, bonded labour, domestic service, sex trade, gathering from open access resources, pawning household possessions                       | Employment (including food for work), support for representation in project management and governance structures, citizenship rights, housing/shelter, and protection from domestic violence                             | Existing IFAD portfolio mainly targets this group<br>Programmes giving income support, grants, gender sensitisation (eg UNIFEM's work with police and judges), social support to excluded groups such as <i>Dalits</i> and <i>Janajatis</i> | Priority for employment on infrastructure development – water, energy, feeder roads, local markets etc<br>Improved access to and control over common property resources<br>Facilitate greater land ownership and access to financial services<br>Employment in agriculture and agribusiness enterprises                                     |
| Moderate Poor  | Very small farms, generally with some livestock, and own some form of dwelling. However they are often heavily indebted, lack access to irrigation water, and generate small surpluses of agricultural products for sale   | Seasonal migration, borrow from NGOs, relatives and money lenders, mortgage land, forward sell crops at low prices, reduce farm inputs (fertiliser etc), sell livestock, sex trade       | Employment and self-employment, livestock, access to improved agricultural technologies, better linkages with external markets, health care, education, vocational skills and inclusion in local and national governance | Mainstream microfinance programmes<br>Agricultural extension and livestock support services   | Support for agricultural diversification and commercialisation with higher value products<br>Empowerment of rural women and disadvantaged minorities with education, healthcare and proportional inclusion in economic and political governance   |
| Near Poor      | Small farms, vulnerable to the effects of conflict, debt, price fluctuations. Suffer from low financial returns, and lack of access to credit and markets. Women suffer from lack of education   | Seasonal migration, although generally to better paid jobs, credit from relatives and moneylenders, mortgaging land, sale of livestock, small businesses. Some single women in sex trade | Agricultural technology, mechanisms to cope with price fluctuations, skill development for value addition, small business promotion, allocation of land and assets to women, and credit for excluded groups and women    | Agricultural extension programmes<br>Support for commercialisation of non-timber forest products<br>ADB's economic programme for rural women  | Women farmers will be the target group for agricultural extension and technology support<br>Small rural entrepreneurs will be the target group for enterprise development<br>Individual capability development of women and men in literacy, numeracy, healthcare, vocational skills and asset management linked to microfinance programmes |