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Investing in rural people

## President's report

### Proposed grants to the Republic of Nepal for Adaptation for Smallholders in Hilly Areas Project (ASHA)

#### Note to Executive Board representatives

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For: **Approval**

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## Abbreviations and acronyms

ASAP	Adaptation for Smallholder Agriculture Programme
ASHA	Adaptation for Smallholders in Hilly Areas Project
CC	climate change
COSOP	country strategic opportunities programme
DDC	district development committee
DPCU	district project coordination unit
LAPA	Local Adaptation Plan of Action
M&E	monitoring and evaluation
MoAD	Ministry of Agricultural Development
MoFSC	Ministry of Forests and Soil Conservation
MSFP	Multi Stakeholder Forestry Programme
MTR	midterm review
NAPA	National Adaptation Programme of Action
NARC	Nepal Agriculture Research Council
NCCSP	Nepal Climate Change Support Programme
PCU	project coordination unit
PIM	project implementation manual
PSC	project steering committee
VDC	village development committee

# Map of the project area

## Nepal

Adaptation for Smallholders in Hilly Areas

President's Report



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

## Republic of Nepal

### Adaptation for Smallholders in Hilly Areas Project (ASHA)

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Recipient:</b>	Republic of Nepal
<b>Executing agency:</b>	Ministry of Forests and Soil Conservation
<b>Total project cost:</b>	US\$37.68 million
<b>Amount of IFAD grant:</b>	SDR 6.47 million (equivalent to approximately US\$10 million)
<b>Amount of Adaptation for Smallholder Agriculture Programme (ASAP) grant:</b>	SDR 9.71 million (equivalent to approximately US\$15 million)
<b>Contribution of recipient:</b>	US\$6.66 million
<b>Contribution of beneficiaries:</b>	US\$6.02 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Nepal for Adaptation for Smallholders in Hilly Areas Project, as contained in paragraph 49.

## Proposed grants to the Republic of Nepal for Adaptation for Smallholders in Hilly Areas Project (ASHA)

### I. Strategic context and rationale

#### A. Country and rural development and poverty context

1. Building on the successes of IFAD's community development, agricultural production and environmental protection projects in Nepal, the Adaptation for Smallholders in Hilly Areas Project (ASHA) aims to strengthen the adaptive capacity of communities and institutions to better contend with climate change risks in six to ten vulnerable districts over the next six years. ASHA is being supported by US\$15 million from IFAD's Adaptation for Smallholder Agriculture Programme (ASAP) fund. The ASAP is a global grant fund currently engaged in 22 countries, and is dedicated to building the resilience of poor smallholder farmers to negative climate change effects.
2. The primary rationale for this investment is the continuing existence of widespread poverty, especially in the IFAD-assisted project areas of the Central, Western and Mid-Western Regions, which are home to 22.6 per cent of the total national population of roughly 27.5 million and 21.36 per cent of poor people in Nepal. The Far-Western Region has the worst poverty, malnutrition, human and gender development statistics in the country. Economic growth slowed to 3.6 per cent in fiscal year (FY) 2013 compared with 4.9 per cent in FY2012, principally due to depressed agricultural production and low investment. Moreover, the Government of Nepal's progress in poverty alleviation over the last few decades is now under threat due to the increasing impact of climate change. If gains made thus far are to be consolidated and further successes with poverty achieved, targeted interventions are necessary to build the capacity of smallholder farmers to deal with current and future climate change challenges.

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

3. The ASHA project was identified during the development of the Nepal country strategic opportunities programme (COSOP) 2013-2018, which included strategic objectives for contending with climate change risks and shocks, and was included in the pipeline of projects that received government approval. During COSOP development, an in-depth environment and climate change assessment was undertaken to clearly define poverty reduction actions in the context of climate change. Thus the ASHA design is responsive to both current climate variability and future change.
4. The ASHA project is fully aligned with the government policies on poverty reduction and rural development outlined in national development plans, as well as with the National Climate Change Policy and the National Adaptation Programme of Action (NAPA). The NAPA has identified, among other things, the integrated management of agriculture, water, forests and biodiversity as a key priority for development, along with building the capacity of vulnerable communities and households to better adapt to climate change. A budget of US\$350 million was projected to implement the NAPA through Local Adaptation Plans of Action (LAPAs) developed at

the village development committee (VDC) level. The ASHA project thus aligns with government policies and plans that seek to reduce vulnerability and enhance adaptive capacities of local communities, while building government capacity to absorb global climate and environment financing. ASHA also provides the opportunity to leverage both ongoing and planned funding under IFAD's performance-based allocation system (PBAS) by improving the resilience of IFAD's investments to climate change.

5. The Ministry of Science, Technology and Environment initiated the Nepal Climate Change Support Programme (NCCSP) for the development and implementation of LAPAs in selected VDCs of 14 districts in the Mid- and Far-Western Regions. It is funded by the United Kingdom's Department for International Development (DFID) and the European Union, and technically backstopped by the United Nations Development Programme (UNDP). Initial experiences from the first LAPAs developed under the NCCSP, as well as from the Hariyo Ban Programme (WWF and CARE Nepal), show that the LAPA is a valuable instrument in creating greater focus on and understanding of local climate change impacts (through a targeted climate vulnerability assessment) and in identifying community adaptation and resilience measures. As such, LAPA development processes, as well as LAPAs themselves, are useful in channelling climate adaptation finance to the local level.
6. ASHA will thus work in close coordination with the NCCSP to learn from their work during the first phase and to support further strengthening of LAPA development methodology through integration of spatial and temporal elements. Nepal's Strategic Programme for Climate Resilience, amounting to approximately US\$110 million in financing, has yet to begin work in the Mid-Western Region. Thus NCCSP's and ASHA's work in developing credible LAPAs will not only initiate financing of immediate adaptation priorities, but also identify second-tier priorities for additional donor funding. In this regard, ASHA provides a crucial input into the Government's efforts to increase finance flows to the poorest communities to better contend with climate change.
7. The ASHA approach involves building the knowledge and methodologies needed to improve participatory planning and facilitate adaptive change. It will promote strategic government cofinancing of investment in climate-resilient livelihoods at household and community levels. ASHA seeks to reduce climate change vulnerability and raise the resilience of highly vulnerable households as defined under the NAPA by strengthening the natural, physical, social, human and financial capital of their communities. In this regard, a resilient household is expected to exhibit the following characteristics: (i) diversified livelihood and income streams; (ii) improved natural resource and risk management, based on better access to knowledge about adapting to climate change; (iii) membership in social networks, particularly farmer groups; (iv) protection from some climatic hazards as a result of community infrastructure; and (v) direct engagement in village-level planning, and influence on district and national financial allocations.

## **II. Project description**

### **A. Project area and target group**

8. In line with the vulnerability mapping of Nepal's NAPA and the UNDP Human Development Report – Nepal 2014, and building on the presence of ongoing IFAD projects, phase I (project years [PYs] 1-3) will focus on six Mid-Western Region districts: Jajarkot, Kalikot, Dailekh, Salyan, Rolpa and Rukum. At midterm review, it will be decided whether to intensify project activities in the existing districts or to scale up to other districts of the Central and Eastern Regions in phase II (PYs 4-6), subject to trigger indicators stipulated in the financing agreement.
9. Within the selected districts, up to 200 VDCs will be selected based on the following criteria: (i) the most vulnerable VDCs, based on climate-change vulnerability scores

of V4 and V3, collectively classified as climate vulnerable people in the LAPA/NCCSP methodology; (ii) clustering of VDCs based on identified sub-watersheds and vulnerability "hotspots, to allow for the development of a strategic district sub-watershed/landscape approach to climate change adaptation; and (iii) where feasible in terms of household vulnerability, targeting an overlap with existing IFAD project VDCs to leverage resources.

10. The project targeting strategy takes a household- and community-based approach and, in particular, will meet the specific needs of poor women and men, landless households, *Dalits*, *Janajatis* and other ethnic minority and socio-economically marginalized groups.

## **B. Project development objective**

11. The goal of the project is that rural poverty is reduced in the hilly regions exposed to climate change. The anticipated main outcomes at the goal level are: (i) 100,000 direct beneficiary households (70 per cent of target households) reporting at least a 25 per cent improvement in the household asset index compared with the baseline (disaggregated by gender, caste and ethnicity of household head); and (ii) a 15 per cent reduction in the prevalence of child malnutrition compared with the baseline.
12. The development objective is that vulnerability of local communities to climate-related risks is reduced, and the enabling institutional environment for climate change adaptation strengthened. The anticipated main outcomes at the development objective level are: (i) 100,000 direct beneficiary households (70 per cent of target households) moved down the climate change vulnerability scale by at least one step (disaggregated by gender, caste and ethnicity of household head); (ii) targeted districts and project-relevant ministries have climate-informed policies, programmes, plans and staff capacity; (iii) each US\$1 of ASAP financing leverages at least US\$2 from other sources for LAPA implementation in at least six ASHA districts; and (iv) 560,000 tons of greenhouse gas emissions (CO<sub>2</sub>e) avoided and/or sequestered.

## **C. Components/outcomes**

13. The project will have two main components: (i) the framework for local-level climate adaptation strengthened; and (ii) the climate resilience of vulnerable people improved. These components are closely interlinked and phased across the life of the project. Component 1 activities focus on building capacity within participating institutions and developing LAPAs in the most climate-vulnerable communities, while component 2 will invest in implementation of these LAPAs. While the NAPA was developed in 2010, its practical implementation only began in 2013 through the NCCSP, which to date has had limited engagement by technical line ministries, particularly the Ministries of Forests and Soil Conservation (MoFSC) and of Agricultural Development (MoAD). The ASHA project will rapidly assess climate-change adaptation gaps in the policies, programmes and staff capacities of these ministries – and of technical and planning departments in participating districts – and will implement a programme to mitigate these gaps, beginning with staff capacity-building. It is anticipated that climate-aware ministries will be more likely to direct national resources towards climate-related interventions, thus scaling up project impact.
14. Through the phase I piloting of tools for landscape-based climate adaptation and participatory scenario development, the project will better address the multidimensional risks associated with climate vulnerability and will provide a set of tools for mainstreaming this approach across the NAPA/LAPA process during phase II. This will be one component of a project knowledge management programme, which will both inform and be informed by networks such as the Climate Change Network Nepal and will support existing IFAD investment projects in being more climate responsive. The resulting improved human and institutional



capacities, strengthened methodologies and knowledge will feed into activity 1.1.3 (see next paragraph) and component 2, resulting in vulnerability reduction and resilience enhancement among participating households and communities.

15. **Component 1: Framework for local-level climate adaptation strengthened.** The objective of this component is a scalable agriculture sector climate-change-adaptation management framework operating within participating institutions, districts and communities. Component 1 will include two subcomponents: 1.1 Strengthened LAPA development process implemented; and 1.2 Enhanced climate-adaptation knowledge disseminated. Subcomponent 1.1 will include three activities: 1.1.1 Participating ministries and districts climate informed; 1.1.2 Planning done holistically; and 1.1.3 Participatory LAPAs prepared. Subcomponent 1.2 includes two knowledge management activities: 1.2.1 Building an evidence base for adaptation; and 1.2.2 Knowledge management and dissemination. Subcomponent 1.2 will be strongly linked to the NCCSP, both to promote the results of the project and to receive technical solutions applicable to ASHA.
16. **Component 2: Climate resilience of vulnerable people improved.** The objective of this component is that climate-informed and gender-sensitive natural resource management and climate-resilient agricultural practices and technologies are implemented. The focus will be on cofinancing community infrastructure for climate adaptation (public goods) and for household adaptation needs identified by communities and district authorities through the LAPA. ASHA will cofinance two subcomponents: 2.1 Small-scale climate-adapted community infrastructure operational; and 2.2 Smallholder climate-adapted production profitable.

### III. Project implementation

#### A. Approach

17. **From NAPA to LAPA.** In the context of Nepal, the diversity of landscapes and agroecological zones and limited human and institutional capacity leave the poorest groups most vulnerable to the impacts of climate change, with limited access to the resources, services and systems that will enable them to cope with and adapt to these impacts. The LAPA framework supports operationalization of the policy objectives outlined in the NAPA by facilitating the integration of climate change vulnerability assessments and adaptation into local-to-national development planning processes and outcomes.
18. **From LAPA to ASHA.** It is in this context that the ASHA project proposes its investments. It will finance the agriculture, forestry, water management and watershed development priorities identified by beneficiaries in the LAPA development process. The project is aligned with the government approach to climate change adaptation, using the community-based LAPA process as the primary mechanism for investing in climate adaptation at community and smallholder group/household levels. This approach will support the reduction of climate vulnerability and build climate change adaptation into complementary, ongoing IFAD-funded interventions in Nepal.

#### B. Organizational framework

19. Overall responsibility for ASHA will be assumed by MoFSC, which is the lead project agency. It will establish a project coordination unit (PCU) and a project steering committee (PSC), which will assist MoFSC in guiding government agencies, NGOs, service providers, the private sector and communities in achieving project objectives.
20. **Project steering committee.** The PSC will be established by MoFSC to inform it on the overall execution of project implementation and to ensure effective coordination, integration and cooperation among parallel government and donor-

funded projects. The PSC will meet each semester to coordinate project implementation, guide planning, review progress, and make recommendations for any modifications to the annual workplan and budget as needed.

21. **Project coordination unit.** A PCU will be established at the central level to assist the PSC in coordination of the participating line agencies and districts and in management of government and IFAD resources. The PCU will be under the Department of Forests to facilitate management and efficient action. It will include a management team of government-deputed officers, a technical team of externally recruited experts, and support staff hired by the PCU. The mandate of the PCU will be to ensure: (i) coherence of project approaches and strategies; (ii) coordination and synergy among the co-implementing agencies; (iii) contracting of suitable service providers; (iv) accountable management of IFAD and government resources; and (v) knowledge-sharing.

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

22. **Planning.** Successful ASHA implementation requires the LAPA and project annual workplan and budget planning processes to effectively articulate the views of various public institutions (government and line agencies), individuals, community organizations and groups. This requires building consensus around common objectives, constant communication and flexible decision-making structures. The seven-step LAPA development and implementation process is the Government's principal planning vehicle for orienting the majority of ASHA and public financing.
23. **Monitoring and evaluation (M&E) framework.** The M&E framework will monitor performance and assess the impact of project activities. The PCU will establish a comprehensive M&E framework and reporting system that are responsive to project management needs and in line with: current IFAD country project M&E systems in Nepal (SIMES in Excel), the standard IFAD M&E system, IFAD's Results and Impact Management System (RIMS) and government requirements. The project M&E framework will be designed to measure project indicators specified in the logical framework and to track and verify levels of achievement of project outputs, associated outcomes, and success in achieving the project goal and its development objective (impact). These levels are all causally connected as set out in the project logical framework, and will be connected to the country programme COSOP M&E system.
24. **Knowledge management and learning.** Project knowledge management (KM) will form an essential element of project performance and learning, especially related to climate change adaptation, maladaptation and mitigation practices. With a view to effective learning and KM, the project will differentiate between two approaches: (i) action-based learning and KM that takes place within and during the project in order to facilitate project performance and management through immediate responses and corrective actions; and (ii) learning and KM for informed government and IFAD decision-making and policy dialogue.

### **D. Financial management, procurement and governance**

25. **Financial management.** The PCU will be responsible and accountable to the Government and IFAD for the proper use of funds apportioned to them, in line with the respective legal agreements, subsidiary financing agreements with financial institutions, and contractual arrangements with service providers. As fiduciary risks are rated high, a number of mitigation methods will be applied: (i) procurement of accounting software and associated capacity-building; (ii) competitive recruitment of a financial management specialist; (iii) preparation of a financial management manual; (iv) capacity-building support and oversight by external specialists; and (v) adoption of a good governance and mutual accountability framework to strengthen accountability and transparency.

26. **Flow of funds arrangement.** IFAD will make funds available to the Government under the terms and conditions specified in the financing agreement. Immediately after its entry into force, two designated accounts will be established for the purposes of receiving and channelling the proceeds of the IFAD and ASAP grants. Both designated accounts will be opened and maintained by the recipient in the Nepal Rastra Bank and will be denominated in United States dollars. The accounts will be administered following imprest fund arrangements.
27. Government counterpart contribution payments will be made, by arrangement with the Ministry of Finance, from a budget to be used specifically for Nepalese contributions to the project. These contributions will be received annually in accordance with normal budget procedures.
28. **Procurement.** Procurement of goods, works and consulting services financed by IFAD under ASHA will be carried out in compliance with the IFAD Project Procurement Guidelines (as approved by IFAD in September 2010 and which may be amended from time to time). The national procurement procedures, processes and regulations under the Procurement Law could be applied to the extent that they are consistent with IFAD's procurement guidelines.
29. **Audit.** In line with article IX, section 9.03 of the General Conditions for Agricultural Development Financing and the IFAD Guidelines on Project Audits, the Auditor General of Nepal is considered an independent auditor acceptable to the Fund. Audits will be carried out in compliance with International Financial Reporting Standards and IFAD's audit guidelines. Audit reports will be submitted to IFAD within six months of the end of the relevant fiscal year.

#### **E. Supervision**

30. The project will be directly supervised by IFAD, in accordance with ongoing arrangements in Nepal. IFAD staff and consultants will attend project start-up workshops, and specialist consultants and staff will continue to be involved in annual supervision and implementation support. Supervision will be based on IFAD's operational modalities and practices. As far as possible, the personnel engaged in supervision and implementation support will not be changed frequently, unless there are compelling reasons to do so. The frequency and composition of supervision missions will be determined in light of actual requirements and in accordance with IFAD and government policies.

### **IV. Project costs, financing, benefits**

#### **A. Project costs**

31. The main assumptions underlying the derivation of project costs and the financing plan are: (i) project costs are based on June 2014 prices; (ii) the proposed project will be financed over a six-year period (2015-2020); (iii) consumer price inflation in 2015-2018 is an average of 9 per cent, and this rate was set as a base for analysis for the project period 2015-2020; (iv) the base exchange rate for this analysis has been set at 94.5 Nepalese rupees (Nr) to US\$1, the official exchange rate prevailing in June 2014 (rounded). The Government will finance the cost of all taxes on goods and services procured under the project.
32. Total investment and incremental recurrent project costs, including physical and price contingencies, are estimated at US\$37.7 million. Price contingencies constitute about 10 per cent of total project costs. The foreign exchange component is estimated at US\$1.4 million or 4 per cent of the total project costs. Taxes and duties make up about US\$1.3 million (3 per cent). Project management costs amount to US\$3.5 million (about 9 per cent of total project costs).

#### **B. Project financing**

33. IFAD financing includes an IFAD PBAS grant allocation of approximately US\$10 million (27 per cent of total project costs) and an ASAP grant of

approximately US\$15 million (40 per cent of total project costs), as detailed in table 2.

34. The recipient shall provide counterpart financing of some US\$6.66 million, in order to finance, inter alia: the cost of all taxes that may be due in connection with the project; 20 per cent of total eligible expenditures incurred related to investment grants under component 2; and salaries of project staff, except for the technical team referred to in paragraph 4 of part II of schedule 1 to the financing agreement (see annex). Beneficiaries shall contribute in kind in an amount of about US\$6.02 million under component 2.

Table 1  
**Indicative project costs by component and financier**  
(Thousands of United States dollars)

<i>Component</i>	<i>Recipient</i>	<i>ASAP grant</i>	<i>IFAD grant</i>	<i>Beneficiaries</i>	<i>Total</i>
	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
<b>1. Framework for local-level climate adaptation strengthened</b>					
<b>1.1. Strengthened LAPA development process implemented</b>					
1.1.1. Participating ministries and districts climate informed	244.4	783.1	1 672.6	-	2 700.1
1.1.2. Planning done holistically	242.8	1 390.2	331.3	-	1 964.3
1.1.3. Participatory LAPAs prepared	82.2	-	1 562.6	-	1 644.9
<b>Subtotal Strengthened LAPA development process implemented</b>	<b>569.4</b>	<b>2 173.3</b>	<b>3 566.5</b>	<b>-</b>	<b>6 309.3</b>
<b>1.2. Enhanced climate-adaptation knowledge disseminated</b>					
1.2.1. Building the evidence base for adaptation	102.7	582.1	-	-	684.8
1.2.2. Climate adaptation knowledge managed and disseminated	281.2	968.4	838.5	-	2 088.1
<b>Subtotal Enhanced climate adaptation knowledge disseminated</b>	<b>383.9</b>	<b>1 550.5</b>	<b>838.5</b>	<b>-</b>	<b>2 772.9</b>
<b>Subtotal Framework for local-level climate adaptation strengthened</b>	<b>953.4</b>	<b>3 723.8</b>	<b>4 405.0</b>	<b>-</b>	<b>9 082.2</b>
<b>2. Climate resilience of vulnerable smallholders improved</b>					
2.1. Small-scale climate-adapted community infrastructure operational	2 680.1	6 313.7	2 048.1	2 673.8	13 715.7
2.2. Smallholder climate-adapted production profitable	2 210.4	3 247.5	2 534.7	3 306.1	11 298.7
<b>Subtotal Climate resilience of vulnerable smallholders improved</b>	<b>4 890.5</b>	<b>9 561.2</b>	<b>4 582.8</b>	<b>5 979.9</b>	<b>25 014.4</b>
<b>Project management</b>					
Project coordination unit	560.1	1 315.8	407.2	-	2 283.1
District project coordination office	234.5	398.3	604.9	-	1 237.6
<b>Subtotal Project management</b>	<b>794.5</b>	<b>1 714.0</b>	<b>1 012.1</b>	<b>-</b>	<b>3 520.7</b>
<b>Total project cost</b>	<b>6 638.4</b>	<b>14 999.0</b>	<b>10 000.0</b>	<b>5 979.9</b>	<b>37 617.3</b>

Table 2  
**Indicative project cost by expenditure category and financier**  
(Thousands of United States dollars)

<i>Expenditure category</i>	<i>Recipient</i>		<i>ASAP grant</i>		<i>IFAD grant</i>		<i>Beneficiaries</i>		<i>Total</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>
<b>I. Investment costs</b>									
Works	3.0	25.0	-	-	8.9	75.0	-	-	11.9
Vehicles	49.9	15.0	-	-	282.5	85.0	-	-	332.4
Equipment and materials	286.4	15.0	779.8	40.8	843.4	44.2	-	-	1 909.6
Grant fund	4 877.8	20.0	8 948.7	36.7	4 582.8	18.8	5 979.9	24.5	24 389.2
Training	204.9	5.0	171.8	4.2	3 721.7	90.8	-	-	4 098.4
Workshop	62.3	10.0	-	-	560.6	90.0	-	-	622.9
Consultancies, studies and TA	485.4	15.0	2 750.8	85.0	-	-	-	-	3 236.2
Salaries and allowances	474.6	50.0	474.6	50.0	-	-	-	-	949.3
Travel and allowances	-	-	233.2	100.0	-	-	-	-	233.2
Operating costs	194.0	10.6	1 640.0	89.4	-	-	-	-	1 834.0
<b>Total project costs</b>	<b>6 638.4</b>	<b>17.6</b>	<b>14 999.0</b>	<b>39.9</b>	<b>10 000.0</b>	<b>26.6</b>	<b>5 979.9</b>	<b>15.9</b>	<b>37 617.3</b>

### C. Summary benefit and economic analysis

35. It is estimated that the project will include a minimum of 200 VDCs and 150,000 smallholder households. Assuming a 70 per cent success rate, it will directly benefit at least 100,000 households and 600,000 people. Better-off households in selected VDCs not directly targeted by the project will benefit indirectly through access to ecosystem services and through improved capacities, methodologies, systems and technologies adopted within their VDC and district. A scaling-up strategy will be developed to achieve this.
36. The expected benefits of project investments are inextricably linked to the ability of farm households to realize potential increases in incomes through investment in climate-adapted technologies, supported by additional infrastructure investments necessary to on-farm development, including the purchase of inputs and sale of outputs. Thus benefits accruing as a result of "productive good" infrastructure investments and other incomes from enterprises are accounted for and included in the increases in farm household incomes. The analysis includes all incremental costs and incremental benefits that are quantifiable and associated with the project's development investments. According to the economic and financial analysis, the overall project internal rate of return (IRR) is 25 per cent. The estimated net present value (NPV) for a 9 per cent discount rate is Nr 2,305 million, and the cost-benefit ratio 1.46. A positive NPV under the current opportunity cost of capital of 9 per cent indicates that the project investments are robust.

### D. Sustainability

37. Project sustainability will be achieved by building the adaptive capacity – of local communities, public institutions and service providers from village and district to national levels – to develop sound planning, policy and response capability for advancing climate change adaptation. This investment in participatory planning processes and public capacity enhancement will ensure that the mechanism to influence an effective response to climate change remains embedded within the civil service and the society it serves. It is expected that the following can be scaled up nationally: LAPA planning processes, Geographic Information System-equipped planning units of the District Energy, Environment and Climate Change Sections of programme districts, and enhanced planning capacity. Through this, a more rational allocation of national and external financing can be achieved.

### E. Risk identification and mitigation

38. Risks associated with the project relate to the uncertainties caused by climate changes, and the fast-changing socio-economic environment. Several risk factors have been reviewed in accordance with their relevance to the project.
39. **Component 1:** (i) A lengthy process of assessment and planning saps dynamic momentum. Using community mobilizers from ongoing IFAD projects will help offset some of this risk; and (ii) affordable provision is lacking of technical services on climate change adaptation to respond to identified needs. This can be mitigated through technical training of line agencies in methods and technologies related to climate change adaptation.
40. **Component 2:** (i) Natural calamities including flood and drought can lower the output of farm production. Improvement in productive infrastructure and adoption of climate-resilient technologies and crop varieties, as well as changes in the crop calendar, will help ease this risk; (ii) lack of smallholder capacity to negotiate fair deals with private investors can be mitigated through market information, improved technology advice, promotion of producers' groups and market linkages.

## **V. Corporate considerations**

### **A. Compliance with IFAD policies**

41. Design of ASHA was guided by IFAD's policies and strategies on: targeting, gender, indigenous peoples, environmental and natural resource management, and private-sector engagement. Moreover, ASHA is fully compliant with the objectives of ASAP. In terms of environmental impact, the majority of activities fall under Category C. However, considering that the aggregate impact of small-scale infrastructure may have inadvertent negative consequences, the project is conservatively classified for the purposes of environmental scrutiny as Category B.

### **B. Alignment and harmonization**

42. The concept note for ASHA was included in the 2013-2018 COSOP project pipeline and, as such, is aligned with the Government's development and climate change priorities. ASHA is also compliant with the three strategic objectives of the COSOP: (i) "promote rural income diversification and stimulate employment" by promoting a range of economic opportunities that can bring equitable benefits to different socio-economic categories in both the agriculture and off-farm sectors; (ii) "strengthen food security and resilience to climatic and other risks" to unleash investment by poor rural people in market-oriented activities; and (iii) "promote inclusive, accountable and sustainable rural institutions" so they can deliver accountable and inclusive services to on- and off-farm producers.
43. In addition to the NCCSP, ASHA will seek alignment and synergies with several national programmes. MoFSC hosts and implements the Multi Stakeholder Forestry Programme (MSFP), financed by the Government of Finland, DFID and the Swiss Agency for Development and Cooperation (SDC), which will progressively cover 62 districts. This primary forestry-sector programme emphasizes climate change and sustainable development. MoFSC also manages the IFAD-financed Leasehold Forestry and Livestock Programme (LFLP), which was to end in June 2014 after two phases and 18 years of implementation in 22 districts (leasehold was also implemented by the Western Uplands Poverty Alleviation Project (WUPAP) in 10 additional districts). The MSFP is being implemented under the Department of Forests, which is expected to host the PCU, providing opportunities for leveraging project benefits through the MSFP.

### **C. Innovations and scaling up**

44. The following are important innovations and areas for scaling up:
- (a) Holistic planning through the introduction of spatial and temporal elements into LAPA development;
  - (b) Strengthening ecological resilience through adoption of a landscape approach to climate-change adaptation planning;
  - (c) Building the capacity of key ministries, departments and line agencies to respond to local climate-change adaptation needs;
  - (d) Improving water management at the family level (drip irrigation, domestic water); and
  - (e) Scaling up of leasehold forestry.

### **D. Policy engagement**

45. The Climate Change Network Nepal, a platform established through the regrouping of all key stakeholders involved in climate change in the country, coordinates its members' engagement in such roles as information and KM, capacity-building, and advocacy leadership on climate change adaptation. ASHA will establish a regular consultation mechanism with the Network and will work closely with its members in exploring collaborative opportunities in the areas of policy discussion, sharing of

experiences, and lessons learned from implementation of LAPAs, particularly concerning financing, replication and scaling up.

## **VI. Legal instruments and authority**

46. A project financing agreement between the Republic of Nepal and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the negotiated financing agreement is annexed.
47. The Republic of Nepal is empowered under its laws to receive financing from IFAD and the IFAD Adaptation for Smallholder Agriculture Programme Trust Fund, acting through IFAD in its capacity as Trustee of the ASAP Trust Fund.
48. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the policies and criteria for IFAD financing.

## **VII. Recommendation**

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

RESOLVED: that the Fund shall provide a Debt Sustainability Framework grant to Nepal in an amount equivalent to six million four hundred and seventy thousand special drawing rights (SDR 6,470,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide an ASAP grant to Nepal in an amount equivalent to nine million seven hundred and ten thousand special drawing rights (SDR 9,710,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President

## Negotiated financing agreement

IFAD Grant Number: [...]

IFAD ASAP Trust Grant Number: [...]

Project Title: Adaptation for Smallholders in Hilly Areas (ASHA) (the "Project")

Nepal

and

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

and

The Adaptation for Smallholder Agriculture Programme Trust Fund ("the ASAP Trust")

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

WHEREAS the Executive Board of the Fund, at its 105<sup>th</sup> Session, approved the establishment of the ASAP Trust and further approved that the Fund be the Administrator of the ASAP Trust, acting through its President,

WHEREAS the Fund has agreed to extend a grant to the Recipient for the purpose of financing the Project, on the terms and conditions set forth in this Agreement,

WHEREAS on the basis of the above and other considerations, the ASAP Trust has agreed to extend an ASAP grant to the Recipient for the purpose of increasing the financing for the Project, on the terms and conditions set forth in this Agreement,

WHEREAS the commitment of the ASAP grant is subject to availability of funds in the ASAP Trust,

hereby agree as follows:

### Section A

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

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

3. The Fund shall provide a grant (the "IFAD Grant") and the ASAP Trust shall provide an ASAP grant (the "ASAP Grant") (both grants collectively the "Financing") to the Recipient, which the Recipient shall use to implement the Project in accordance with the terms and conditions set forth in this Agreement.



**Section B**

1. (a) The amount of the IFAD Grant is six million four hundred and seventy thousand Special Drawing Rights (SDR 6 470 000).

(b) The amount of the ASAP Grant is nine million seven hundred and ten thousand Special Drawing Rights (SDR 9 710 000).

2. Two (2) Designated Accounts denominated in United States dollar shall be opened in accordance with Section 4.04(d) of the General Conditions with the Nepal Rastra Bank to receive resources from the IFAD Grant and ASAP Grant respectively for the implementation of the Project.

3. The first day of the applicable Fiscal Year shall be 16 July.

4. The Recipient shall provide counterpart financing for the Project in the amount of approximately USD 6.66 million, in order to finance, *inter alia*, the cost of all taxes that may be due in connection with the Project, twenty per cent (20%) of total eligible expenditures incurred related to investment grants under Component 2, and the salaries of Project staff except for the technical team referred to in paragraph 4 of Part II of Schedule 1 to this Agreement. The beneficiaries of the Project shall contribute in kind in the amount of approximately USD 6.02 million under Component 2.

**Section C**

1. The Lead Project Agency shall be the Ministry of Forests and Soil Conservation (the "MoFSC") of the Recipient.

2. Additional Project Parties shall include, *inter alia*, service providers and other institutions referred to in Schedule 1 to this Agreement.

3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

**Section D**

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

**Section E**

1. (a) The following are designated as additional general conditions precedent to withdrawal:

(i) the Project Steering Committee (the "PSC") and the Project Coordination Unit (the "PCU") referred to in paragraphs 2 and 3 of Part II of Schedule 1 to this Agreement respectively shall have been duly established and the members thereof selected;

(ii) the Project Coordinator (the "PC") for the PCU referred to in paragraph 3 of Part II of Schedule 1 to this Agreement shall have been deputed, and shall be acceptable to the Fund;

(iii) a final draft version of the Project Implementation Manual (the "PIM") referred to in paragraph 7 of Part II of Schedule 1 to this Agreement shall have been duly prepared, and no objection to the PIM from the Fund and approval of the PIM by the PSC shall have been obtained;

(iv) the Recipient shall have allocated, and the Project shall have received, adequate counterpart financing for the first Project Year;

(v) service providers bidding processes shall have been duly completed and related documents signed; and

(vi) a computerized accounting system acceptable to the Fund shall have been identified and selected by the Project.

(b) The following are designated as additional grounds for cancellation of the Financing:

(i) any changes to the institutional setting of the PSC or key personnel of the Project have been made without the prior consent of the Fund, and the Fund has determined that such changes have had, or are likely to have, a material adverse effect on the Project.

(ii) the PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.

(iii) any delays in the Recipient's allocation of counterpart financing for a specific Project Year have occurred, and the Fund has determined that such delays have had, or are likely to have, a material adverse effect on the Project.

2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Recipient:

Secretary  
Ministry of Finance  
Singhdurbar, Kathmandu  
Nepal

For the Fund:

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

For the ASAP Trust:

President of the International Fund for Agricultural  
Development in its capacity as Trustee of the  
Adaptation for Smallholder Agriculture Programme  
Trust Fund  
International Fund for Agricultural Development  
Via Paolo di Dono, 44  
00142 Rome, Italy

This agreement, dated [\_\_\_\_\_], has been prepared in the English language in six (6) original copies, three (3) for the Fund and the ASAP Trust and three (3) for the Recipient.

NEPAL

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[Name of the Authorized Representative]  
[Title]

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

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Kanayo F. Nwanze  
President

ADAPTATION FOR SMALLHOLDER  
AGRICULTURE PROGRAMME TRUST FUND

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Kanayo F. Nwanze  
President of the International Fund  
for Agricultural Development in its capacity as Trustee  
of the Adaptation for Smallholder Agriculture Programme  
Trust Fund

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. The Adaptation for Smallholders in Hilly Areas Project (ASHA), aims at strengthening the adaptive capacity of communities and institutions to better contend with climate change risks in six (6) districts (prior to the Mid-Term Review) to twelve (12) districts in total during the six (6) years' Project Implementation Period. This will be achieved through (i) strengthening the framework for local-level climate adaptation and (ii) improving the resilience of climate vulnerable people through government co-financing of adaptive investments at household and community/landscape levels that expand and diversify agricultural and other livelihood options.

2. *Target Population.* The Project shall initially target climate vulnerable households of six (6) mid-western districts including Jajarkot, Kalikot, Dailekh, Salyan, Rolpa and Rukum (the "Project Area"). At Project Mid-Term Review (the "MTR"), a decision shall be made as to whether to intensify Project activities in the existing districts or to expand to other districts and/or Central and Eastern Development Regions of Nepal. It is estimated that the Project will directly benefit at least 100 000 households (500 000 people). Women shall account for at least fifty per cent (50%) of the direct participating beneficiaries.

3. *Goal.* The Project shall sustainably reduce rural poverty in the hilly regions facing consequences of climate change (the "CC") in the Project Area.

4. *Objective.* The Project shall reduce the vulnerability of target communities to climate-related risks and strengthen the enabling institutional environment for CC adaptation.

5. *Components.* The Project shall consist of the following Components:

##### 5.1 Component 1: Strengthened Framework for Local-level Climate Adaptation

The objective of this Component shall be the development of a scalable agriculture and forestry sectors' CC adaptation framework supported by participating government agencies, districts, communities and other institutions. This Component shall include two (2) sub-components: (i) Implementation of a strengthened Local Adaptation Plan of Action (the "LAPA") development process; and (ii) Dissemination of enhanced climate adaptation knowledge.

##### Sub-component 1.1: Implementation of a strengthened LAPA development process

This sub-component shall include three (3) activities:

Activity 1.1.1: Climate informed participating Ministries and districts. The Project shall conduct a "CC adaptation screening" of the Ministry of Forests and Soil Conservation (the "MoFSC") and Ministry of Agricultural Development (the "MoAD") to assess the alignment of their policies, major programmes and staff capacities with national CC policies and plans of action. As per Nepal Country Strategic Opportunities Programme (IFAD, EB 2013/109/R.17) the review shall also screen for Gender Equality and Social Inclusion (the "GESI"). In Project districts, staff capacity to support climate resilient agricultural and forestry development and alignment with the principles and procedures of national policies and plans, such as the National Adaptation Programme of Action (the "NAPA"), LAPA, and National Climate Change Policy 2011 (the "NCCP"), shall be assessed to identify gaps and remedial actions.

Activity 1.1.2: Holistic planning of watershed and forecast approaches. This activity consists of two (2) parts: (i) Development of a landscape based approach to LAPA preparation; and (ii) Use of participatory CC forecasting. A landscape or sub-watershed approach supported by Geographic Information System (the "GIS") tools will be used for determining upstream and downstream linkages between Village Development Committees (the "VDCs") while formulating LAPAs. This approach will allow for the aggregation of LAPAs within a district into an integrated and coherent District Development Plan. Areas for treatment at the landscape level that go beyond the LAPAs will be clearly identified for defining national and external investments for strengthening ecological resilience.

The District Energy, Environment and Climate Change (the "DEECC") section within the District Development Committees (the "DDC") will play a supportive role in developing the GIS-based sub-watershed approach, together with the MoFSC, the MoAD and other technical line agencies. LAPA development at community level will adopt Participatory Scenario Development (the "PSD") through the engagement of key stakeholders in an exercise of envisioning future vulnerability under different plausible CC scenarios. Using PSD will allow the exploration of future development choices and pathways, as well as, to inform investment choices needed to facilitate effective adaptation.

Activity 1.1.3: Preparation of Participatory LAPAs. The Project shall fund the development of LAPAs in all participating VDCs following the 7-step approach approved and guidelines developed by Ministry of Science, Technology and Environment (the "MoSTE"). Competitively selected service providers working in partnership with local community groups shall undertake this work. In preparing LAPAs, the Project shall draw on the knowledge, group dynamics and technologies developed under ongoing IFAD and other donor funded projects in the districts, recognising that the key criteria of CC vulnerability may target a wider range of stakeholder groups rather than existing poverty-targeted projects. In the process of LAPA preparation, Community Investment Plans (the "CIPs") and Livelihood Improvement Plans (the "LIPs") of current IFAD projects shall be enhanced to include CC concerns, thereby leveraging LAPA-based Project investments in vulnerability reduction and resilience enhancement.

#### Sub-component 1.2: Dissemination of enhanced climate adaptation knowledge

This sub-component shall include two (2) knowledge management activities: (i) Building an evidence base for adaptation; and (ii) Management of dissemination of climate adaptation knowledge. This sub-component will be strongly linked to the national programme on CC adaptation of the Recipient, both to promote the results of the Project as well as to receive technical solutions applicable by ASHA.

Activity 1.2.1: Building an evidence base for adaptation. The Project shall identify a core set of climate adaptation research topics that need to be addressed, both through Participatory Action Research (the "PAR") and applied research, and shall support the Nepal Agriculture Research Council (the "NARC") to develop PAR/applied research processes with smallholder groups (representative of the gender and ethnic mix in the community) identified through LAPA preparation. The NARC shall monitor, evaluate and promote appropriate adaptation responses being practiced by smallholder farmers, as well as, test and promote resilience building measures identified by communities and sub-sector experts. In partnership with international collaborators, the NARC shall also evaluate climate adaptation technologies and approaches that show potential for scaling up.

Activity 1.2.2: Management of dissemination of climate adaptation knowledge. This activity shall include: (i) the Geographical Information System-based monitoring of

CC conditions and impacts at community level, including local weather conditions; (ii) an inventory of existing CC adaptation knowledge, practices and technologies from other organizations and projects in Nepal and the systematisation of knowledge outputs in formats readily accessible to different audiences, including the preparation of a "toolbox" of adaptation technologies and approaches, designed for use by vulnerable farm households; (iii) the Training-of-Trainers, including Lead Farmers (representative of the gender and ethnic mix in the community), for the replication and scaling up of successful technologies and approaches for pro-poor, CC-adapted systems; and (iv) the collation and dissemination of results through farmer-to-farmer extension, learning events, field visits and study tours and presentations of results at national CC forums and international conferences and events, and the reporting of lessons learned.

## 5.2 Component 2: Improved Resilience of Climate Vulnerable Smallholder Farmers

This Component aims to implement climate informed and gender-sensitive natural resource management and climate smart agricultural and forestry practices and technologies. The focus shall be on financing climate adaptation/mitigation infrastructure that generate public goods and household adaptation needs identified in the LAPA. This Component shall cofinance two (2) sub-components: (i) Operational climate adapted community infrastructure; and (ii) Profitable smallholder climate adapted production.

### Sub-component 2.1: Operational climate adapted community infrastructure

Climate adaptation infrastructure investment grants shall be made available to beneficiary communities for the construction of prioritised infrastructure items normally considered to provide public benefit, including, *inter alia*, potable water supply; marketing infrastructure for new climate adapted products; soil and water conservation for improved hydrologic functioning and soil fertility, watershed protection, slope stabilisation, and flood control; water-use-efficient irrigation; renewable energy supply; and maintenance of village access roads to withstand minor landslips. Infrastructure investment schemes shall be identified and prioritised during the LAPA process and necessary engineering support shall be verified by the district line agencies.

### Sub-component 2.2: Profitable smallholder climate adapted production

Under this sub-component, vulnerable household groups shall make investments in resource management systems adapted to CC impacts, agriculture, livestock and forestry production, labour efficient farm equipment, on-farm renewable energy technologies, and collective marketing, particularly for new climate adapted products, that significantly increase household income. The Project shall provide co-financing to cover up to seventy per cent (70%) of the costs of each investment, with a maximum co-financing amount of USD 55 000 per LAPA (including beneficiaries' contribution). Beneficiaries' co-financing of thirty per cent (30%) shall be made through in-kind contributions. Beneficiaries shall receive technical support from the technical centres and be able to use up to thirty per cent (30%) of the LAPA grant to purchase: (i) private technical support through performance-based contracts with trained lead farmers, village animal health workers, or civil society support organizations in the district; (ii) numeracy or literacy training for group members through local education providers; (iii) livestock insurance; and/or (iv) market services.

## **II. Implementation Arrangements**

1. *Lead Project Agency.* The MoFSC shall have the overall responsibility for the Project as the Lead Project Agency.

2. *Project Steering Committee (the "PSC")*. The PSC shall be established and chaired by the Secretary, MoFSC to ensure overall execution of the Project and effective coordination among and coherent inclusion of the government agencies, civil society and the private sector. The PSC shall serve as the decision maker for strategic management of the Project, including approval of the Project Implementation Manual (the "PIM"), Annual Workplan and Budget (the "AWPB"), and other decisions related to the Project coordination, orientation and mobilization of resources. The membership of the PSC shall be composed of the PC (Member Secretary of the PSC), Director General, Department of Agriculture (the "DoA"); Director General, Department of Forests (the "DoF"); Director General, Department of Livestock Services (the "DoLS"); Director General, Department of Soil Conservation and Watershed Management; Representative, Ministry of Finance (the "MoF") – International Economic Cooperation Coordination Division (the "IECCD"); Joint Secretary, MoFSC – Foreign Aid Coordination Division (the "FACD"); Representative, Ministry of Federal Affairs and Local Development (the "MoFALD"); Representative, MoSTE; two (2) representatives of Project districts (rotating annually); two (2) representatives of civil society organizations working in Project districts, including one from the NGO Federation of Nepal (the "NFN"); and two (2) representatives of agriculture and/or forestry business enterprises and non-governmental organizations (the "NGO") working in Project districts, including one from the Federation of Nepalese Chambers of Commerce and Industry (the "FNCCI"). The PSC shall meet semi-annually.
  
3. *Project Coordination Unit (the "PCU") and Project Coordinator (the "PC")*. The PCU shall be established within the MoFSC. It shall operate under the leadership of the PC. It includes a management team of government-deputed officers, a technical team of externally recruited experts, and support staff hired by the PCU. Reporting directly to the PSC, the PCU shall assume the overall responsibility for the day-to-day Project implementation including financial management, reporting, coordination among Project Parties and other Project implementation activities. The PCU shall mainly carry out planning, coordinating, monitoring and reporting of the Project. The PC, as the Head of PCU, shall work full-time for the Project, and shall have no additional responsibilities within any other government agency. The major responsibilities of the PC shall be to ensure that the involved government agencies, districts, and VDCs carry out the Project activities in line with this Agreement and applicable operating schedules and procedures. The PC shall be provided with adequate executive authorities and accountabilities through a Decision of the Secretary, MoFSC. The PC shall execute the PSC decisions on its behalf.
  
4. *Staffing of the PCU*. The PCU shall be composed of the PC, Planning and Administrative Officer, Accounts Officer and Monitoring & Evaluation ("M&E") Officer deputed from the Government and assisted by support staff. A technical team of sectoral specialists (contracted positions) composed of, *inter alia*, a Financial Management Specialist, Procurement Management Specialist, a Livestock Specialist, an Agriculture Specialist, a CC Specialist, an Engineer, a Knowledge Management Specialist and a Gender and Social Inclusion Specialist as needed would assist the PCU and District PCUs and line agencies in the areas of their expertise. The technical team shall be based in the Office of Regional Director of Forests. The CC Specialist shall be located in the SahaYatri, to provide CC support to all IFAD projects in Nepal. The deputation of the PC and the appointment of all other key personnel of the PCU shall be acceptable to the Fund in accordance with Section 7.11 of the General Conditions.
  
5. *District-level Project Implementation*. Local steering committees shall be established when needed at the district level to ensure proper consistency and integration of Project activities. Each participating district shall have a Ministry-staffed District PCU (the "DPCU") within the District Forests Office, led by a District Project Coordinator

(the "DPC") and supported by national finance, procurement and contract management, engineering and M&E specialists. Under the overall direction of the PCU, the DPCUs shall be responsible for, *inter alia*, coordination and monitoring of the Project activities implemented by the district Project line agencies, non-governmental organizations and contracted service providers. It shall collect physical and financial periodic progress reports from Project implementation parties, maintain district consolidate records, prepare reports and deliver them to the PCU. The District Forests Office shall provide suitable office accommodation for the DPCU. Under the overall direction of the PSC and guidance of the PCU, the District Forests Coordination Committee will act as the District Project Coordination Committee (the "DPCC"). The DPC or an officer appointed by the DPCC shall serve as the DPCC Secretary. The committee shall, *inter alia*, (i) review the district AWPBs and recommend them to the PCU; (ii) review the progress reported by the implementing agencies in the districts; and (iii) synchronize inter-agency efforts for effective implementation and problem solving.

6. *Village Development Committees (the "VDCs")*. The VDCs shall be involved in the Project implementation in the target villages. The VDCs' community resource person shall be the focal point for coordinating the overall implementation of the Project interventions and activities by the related implementing agencies. An Agriculture, Forestry and Environment Committee (the "AFEC") shall be set up under each Project VDC. It will be composed of lead farmers, households of all categories, ongoing-project farmers' groups or cooperatives, women and vulnerable ethnic groups. Women shall constitute no less than forty per cent (40%) of the farmer representatives.
7. *Project Implementation Manual (the "PIM")*. A PIM shall be drafted and finalised by the PCU and shall be submitted to IFAD for no objection and to the PSC for approval. The PIM shall include, *inter alia*:
  - (i) Qualifications, terms of reference and implementation responsibilities of Project parties including, *inter alia*, the PSC and PCU, key personnel of the PCU, consultants and service providers;
  - (ii) Recruitment procedures for international experts/consultants when technical expertise in CC adaptation and other areas cannot be obtained from regular government staff and other citizens of the Recipient;
  - (iii) Criteria for the performance appraisal of the Project professional staff and adequate internal control system;
  - (iv) Anti-corruption action plan at the time of Project appraisal;
  - (v) Targeting and selection criteria for participating beneficiaries;
  - (vi) Project operational, financial and procurement procedures, including an accounting procedure for bookkeeping and reporting, implementation and monitoring procedures;
  - (vii) Financial management mechanism and flow of funds for all outputs and activities;
  - (viii) The GESI mainstreaming modalities in all Project activities;
  - (ix) M&E system and procedures including the Results and Impact Management System (the "RIMS"); and
  - (x) Implementation modalities for all modules.
8. *Mid-Term Review (the MTR)*. An MTR at the midpoint of the Project Implementation Period shall be conducted to assess the Project implementation progress and to determine appropriate revisions to the Project design, implementation arrangements



and resource allocations in order to ensure successful Project completion and possible scaling-up to new districts and new technical solution for agriculture and forestry adaptation to CC. The MTR's decision on scaling-up shall be subject to, *inter alia*, conditions as follows:

- (i) more than sixty per cent (60%) of one hundred (100) LAPAs shall have been formulated and operationalized in at least six (6) Districts;
- (ii) at least sixty per cent of Target Population (60% of 50 000 households prior to the MTR) shall have been reached;
- (iii) on average at least seventy per cent (70%) of the AWPBs shall have been delivered; and
- (iv) main service providers and NGOs shall have been selected and contracted in Project Years 1 and 2.

**Schedule 2**  
*Allocation Table*

1. *Allocation of Financing Proceeds.* (a) The Tables below set forth the Categories of Eligible Expenditures to be financed by the IFAD Grant and the ASAP Grant; the allocation of the amounts of the IFAD Grant and the ASAP Grant to each Category; and the percentages of expenditures for items to be financed in each Category:

<b>IFAD Grant:</b>		
Category	Amount Allocated (SDR)	% of Eligible Expenditures to be Financed
I-G. Goods, Services and Inputs	500 000	100% net of Taxes
II-G. Grants and Subsidies	2 660 000	74% of the total cost net of Taxes and beneficiaries' contributions
III-G. Vehicles	160 000	100% net of Taxes
IV-G. Training	2 510 000	100% net of Taxes
Unallocated	640 000	
<b>TOTAL</b>	<b>6 470 000</b>	
<b>ASAP Grant:</b>		
Category	Amount Allocated (SDR)	% of Eligible Expenditures to be Financed
I-A. Goods, Services and Inputs	480 000	100% net of Taxes
II-A. Grants and Subsidies	5 290 000	74% of the total cost net of Taxes and beneficiaries' contributions
III-A. Consultancies	1 600 000	100% net of Taxes
IV-A. Operating Costs	1 370 000	100% net of Taxes and contributions by the Government of the Recipient
Unallocated	970 000	
<b>TOTAL</b>	<b>9 710 000</b>	

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

"Goods, Services & Inputs" under Category I-A shall mean eligible expenditures incurred related to equipment, material and training for establishment of GIS landscape analysis at District level under activity 1.1.2.

"Goods, Services & Inputs" under Category I-G, shall mean eligible expenditures incurred related to equipment and material except for those expenditures financed under Category I-A.

"Grants & Subsidies" under Category II-A and "Grants & Subsidies" under Category II-G, shall mean eligible expenditures incurred related to investment grants under Component 2. Beneficiaries shall contribute twenty-five per cent (25%) of the total cost in kind under both Categories. The cost net of beneficiaries' contribution shall be shared between the Financing (74%) and the Government of the Recipient (26%). Withdrawals shall be made initially from the ASAP Grant. When the ASAP Grant is exhausted, withdrawals will be made from the IFAD Grant.

"Vehicles" under Category III-G, shall mean eligible expenditures incurred related to the purchase of Project vehicles including motor cycles.

Operating Costs under Category IV-A, shall mean eligible expenditures incurred related to

- (i) Project recurrent operating and maintenance costs such as utilities, vehicle maintenance, office supplies and travel allowances, the total amount of which (approximately SDR 970 000) shall be financed by the ASAP Grant.
- (ii) salaries and allowances for the technical team referred to in paragraph 4 of Part II of Schedule 1 to this Agreement (contracted positions), the total amount of which (approximately SDR 400 000) shall be financed by the ASAP Grant.

2. *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs under Categories IV-A and IV-G (such as preparation of the PIM and installation of accounting software and the training therefor) incurred after the entry into force of this Agreement and before the satisfaction of the conditions precedent to withdrawal shall not exceed an aggregate amount of fifteen thousand Special Drawing Rights (SDR 15 000).

## Logical framework

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions
<b>Goal:</b>			
<i>rural poverty reduced in the hilly regions exposed to climate change</i>	<ul style="list-style-type: none"> <li>▪ 100,000 direct beneficiary households (HHs) (70% of target HHs) reporting at least 25% improvement in HH asset index, as compared to baseline (disaggregated by gender, caste and ethnicity of HH-head) (RIMS)</li> <li>▪ 15% reduction in the prevalence of child malnutrition, as compared to baseline (RIMS)</li> </ul>	<ul style="list-style-type: none"> <li>▪ RIMS and baseline surveys;</li> <li>▪ LAPA preparation, implementation and M&amp;E</li> </ul>	
<p><b>Development Objective:</b> Vulnerability of local communities to climate-related risks reduced and enabling institutional environment for climate change adaptation strengthened</p>	<ul style="list-style-type: none"> <li>▪ 100,000 direct beneficiary HHs (RIMS) (70% of target HHs) moved down the CC vulnerability scale by at least one step (disaggregated by gender, caste and ethnicity of HH-head)(RIMS)</li> <li>▪ Targeted Districts and program relevant Ministries have climate-informed policies, programmes, plans and staff capacity.</li> <li>▪ Each US\$1 of ASAP financing leverages at least US\$2 from other sources for LAPA implementation in at least six districts (RIMS)</li> <li>▪ 560,000 tons of greenhouse gas emissions (CO<sub>2</sub>E) avoided and/or sequestered (RIMS)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Climate responsiveness audits of Districts and relevant Ministries</li> <li>▪ Ministry policies and plans</li> <li>▪ DDC plans</li> <li>▪ Sector studies</li> <li>▪ Technical agencies' reports and studies</li> <li>▪ Research and academic studies</li> <li>▪ Project M&amp;E</li> </ul>	<p>No major socio-economic slow down, political upheaval or natural disasters Stability of government policies and donor investments in CCA "Toolkit" technologies primarily remain profitable Project investments are realized as design</p>
<p><b>Component 1: Framework for local-level climate adaptation strengthened.</b></p> <p>A scalable climate change adaptation framework for the agriculture sector supported by participating institutions, districts and communities</p>	<ul style="list-style-type: none"> <li>▪ At least 150 LAPAs incorporated into district development plans</li> <li>▪ GIS-based sub-watershed management plans covering at least 10 VDCs developed<sup>1</sup></li> <li>▪ At least 8 new profitable (IRR &gt;12%) climate resilient farming systems tested with at least 100 farmers each</li> <li>▪ Spatially and temporally enhanced LAPA development methodology adopted by GoN</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project M&amp;E reports</li> <li>▪ Contracted studies</li> <li>▪ RIMS and benchmark</li> <li>▪ GoN circular on adoption of enhanced LAPA methodology</li> </ul>	<p>Stability of government policies and donor investments in CCA Project financing is disbursed in time to support field implementation LAPAs are prepared and implemented at field level Farmers are willing to adopt recommended methods and technologies Technical service support system is strengthened and responds to the grassroots level needs</p>

<sup>1</sup> This refers to the pilot phase; if proven successful, all 200 VDCs will have GIS-based sub-watershed management plans.

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions
<p><b>Sub-components:</b></p> <p>1.1 Strengthened LAPA development process implemented</p> <p>1.2 Enhanced climate adaptation knowledge disseminated</p>	<ul style="list-style-type: none"> <li>▪ At least 100,000 beneficiary households participate in LAPA preparation (disaggregated by gender, caste and ethnicity of HH-head)</li> <li>▪ Policies, programmes and staff capacities of MoFSC and MoAD enhanced to improve LAPA implementation</li> <li>▪ GIS-referenced ASHA planning and M&amp;E system established in new target areas</li> <li>▪ At least 100,000 HHs with access to knowledge of climate resilient farming practices and diversified livelihood options</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project progress report</li> <li>▪ Line agencies' reports</li> <li>▪ Climate adaptation screening and capacity-building reports</li> </ul>	
<p><b>Component 2: Climate resilience of vulnerable smallholders farmers improved</b></p> <p>Climate informed and gender-sensitive natural resource management and climate resilient agricultural and forestry practices and technologies implemented</p>	<ul style="list-style-type: none"> <li>▪ At least 150 VDCs commit at least 80% of their ASHA LAPA financial allocation.</li> <li>▪ At least 150 VDCs mobilize at least 20% co- or parallel financing<sup>2</sup> for implementation of LAPA priorities</li> <li>▪ 100,000 beneficiary households adopting at least one climate resilient agriculture practice.</li> <li>▪ 70% of beneficiary households report satisfaction with climate adaptation technical service support provided through line agencies and lead farmers (disaggregated by gender, caste and ethnicity headed hhs)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project M&amp;E reports</li> <li>▪ RIMS and benchmark</li> <li>▪ Line agencies' reports</li> <li>▪ Sector studies and reports</li> <li>▪ Statistically significant sample survey of beneficiaries</li> </ul>	<p>As above in Component 1 project financing is disbursed in time to support field implementation LAPAs continue to be prepared and implemented at field level</p>
<p><b>Outputs:</b></p> <p>2.1 Community infrastructure for climate adaptation operational</p> <p>2.2 Smallholder climate adapted production profitable</p>	<ul style="list-style-type: none"> <li>▪ At least 40,000 ha of land managed under climate-resilient micro-watershed management practices, such as terracing, slope stabilisation, land rehabilitation, reforestation etc.</li> <li>▪ At least 25,000 households adopting livestock<sup>1</sup> stall-feeding with adapted forage and fodder trees</li> <li>▪ At least 22,000 households apply efficient water use techniques and methods introduced by the project, including ponds, drip or sprinkle systems</li> <li>▪ At least 7,500 households adopt renewable energy technologies for domestic purposes</li> <li>▪ At least 400 lead farmers are contracted by LAPA beneficiary groups (disaggregated by gender, caste and ethnicity of HH-head)</li> <li>▪ A profitability analysis is undertaken to determine the IRR of LAPA investments in a representative sample</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project progress report</li> <li>▪ Sector and LAPA reports and studies</li> </ul>	<p>As above</p>

<sup>2</sup> Includes co- or parallel financing from IFAD non-ASAP funds (on-going projects), and other donor climate financing