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**WESTERN UPLANDS POVERTY ALLEVIATION PROJECT
LOAN 646-NP AND GRANT 727-NP
PHASE III - DESIGN REPORT**

Report and Annexes

Asia and the Pacific Division
Programme Management Department

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WUPAP Phase III Logical Framework

Results hierarchy	Indicators	Means of verification	Assumptions
Goal Strengthened livelihood systems and basic human dignity amongst the poor and socially disadvantaged people in the Mid and Far Western regions of Nepal	1. Improvements in household assets ownership index 2. Reduction in prevalence of child malnutrition, especially chronic malnutrition (height for age) 3. # of household directly participating in the project	<ul style="list-style-type: none"> RIMS plus - Phase III baseline & end-line Project activity reports 	Socio-economic stability maintained so as not to disrupt market or project implementation.
Development objective Improved living standard through sustained growth of employment, income and access to resources amongst the poor households in targeted area	4. % increase in average household net income 5. % increase in average HH production of crops, NTFF/MAFS 6. % increase in average household herd size (livestock index) 7. % of HH with >20% increase in physical (e.g. land, equipment) or financial resources	<ul style="list-style-type: none"> RIMS plus - Phase III baseline & end-line 	Government administrative structures at national and sub-national levels remain stable and supportive of project
Outcome 1 (Component 1) Community Empowerment	8. 70% of people who believe their priorities were equitably reflected in CIP plans and implementation 9. 70% of participants are satisfied with CIP process (planning, implementation and governance) 10. 70% of CIP implementation that exceeds 70% physical and financial progress against plan for each year 11. 70% of CO and other groups graduating to self-sustaining status 12. 70% of HH adopting improved nutrition practices	<ul style="list-style-type: none"> Annual VDC-level results monitoring survey RIMS plus - Phase III baseline & end-line 	Social environment within target villages is conducive to participatory investment processes
1.1 Social empowerment	13. 153 participatory Community Investment plans prepared 14. 70% of people are satisfied with the pre-feasibility technical advice on agriculture (incl. livestock and forestry) and infrastructure 15. 70% of identified target households in each VDC reporting active participation of women and men from the HH in participatory CIP process (Active = attending 2 or more meetings in the planning process where they either voted or spoke to raise an issue) 16. 90% VDC conducting public audit each year covering all project supported activities 17. 80% satisfaction with overall services, infrastructure and other investments under CIP (disaggregated by respondent) 18. Number of HH where men and women both receive nutrition training and/or awareness raising activities	<ul style="list-style-type: none"> CIP feedback survey Annual VDC-level results monitoring survey VDC activity reports RIMS plus - Phase III baseline & end-line 	Social environment within target villages is conducive to participatory investment processes
1.2 Economic Empowerment	19. # of investments completed for the five types of eligible investment	<ul style="list-style-type: none"> VDC activity reports Annual VDC-level results 	Appropriate technical service providers can

Results hierarchy	Indicators	Means of verification	Assumptions
	<p>20. # of beneficiaries by each of the five types of investment</p> <p><u>Farming improvement</u></p> <p>21. 80% satisfaction among farmers with farming improvement services and technical support/training</p> <p>22. 80% of household adopt at least 50% of the technology components they receive training on for at least 2 production seasons after training</p> <p><u>Market linkage</u></p> <p>23. Number of households reporting increase in unit sales price for produce above changes in local market prices</p> <p><u>Vocational training</u></p> <p>24. % of vocational trainees receiving >25% increase in wage rate after training (corrected for inflation)</p> <p><u>Infrastructure</u></p> <p>25. 80 % of infrastructure with appropriate design, construction and O&M system</p> <p><i>Labour savings infrastructure</i></p> <p>26. No. of households using schemes</p> <p>27. Average monthly time and/or cost savings per household</p> <p><i>Productive infrastructure</i></p> <p>28. Increase in annual irrigated production area (=area of actual irrigated land X number of seasons irrigated)</p> <p><u>Loan capital</u></p> <p>29. 70% of CO's planned in CIP to receive capital meet criteria and receive Loan Capital by end of 3 yr plan.</p>	<ul style="list-style-type: none"> • monitoring survey progress reports (CIP's submitted) • VDC Public Audit Report • Pre- and post activity beneficiary surveys and group discussion 	<p>be identified and contract to work in project areas to complement Government technical line agencies</p>
Outcome 2/ component2: District Service Delivery Improvement	<p>30. 80% satisfaction of target people with farming improvement services and technical support/training provided by DADO, DLSO and DFO.</p> <p>31. 80% of household trained by DADO/DLSO/DFO adopt at least 50% of the technology components they receive training on for at least 2 production seasons after training (monitor each season)</p>	<ul style="list-style-type: none"> • Pre- and post activity beneficiary surveys and group discussion • Annual VDC-level results monitoring survey • RIMS plus - Phase III baseline & end-line 	<p>District agencies have sufficient numbers of appropriate skilled staff to deliver required service</p>
Output 1: Service Excellence Challenge Fund	32. 80% of district service improvement projects implemented meet the key implementation and impact targets set in their proposal	<ul style="list-style-type: none"> • District Agencies progress reports • PCU progress report 	<p>District agencies are committed to participate in project</p>
Output 2: Farm Field School Pilots & Rollout	<p>33. 5 FFS training courses developed/adapted, including all training materials, approaches and ToT materials</p> <p>34. At least 25 FFS pilot courses implemented</p> <p>35. At least 40 technical staff trained in each successful FFS methodology</p>	<ul style="list-style-type: none"> • FFS training materials and documents • FFS pilot activity and impact reports • ToT training records 	

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Western Uplands Poverty Alleviation Project (WUPAP)
Loan: 576-NP Grant: DSF-8010NP

Phase III – Design Report

15 May 2012

A. Introduction¹

1. WUPAP is being implemented in three phases² under the Flexible Lending Mechanism of IFAD with a loan effectiveness date of 01 Jan 2003, current completion data of 31 Mar 2014 and is currently in Phase II. Phase I of the project was completed in FY 2006/07 in four districts. Phase II extended project coverage to the additional seven Districts, however one District was subsequently withdrawn giving a current coverage of ten active Districts. At the request of GoN a one year no cost extension for Phase II was approved by IFAD on 17 June 2011 giving a revised Phase II completion date of 15 Jul 2012. A final consolidation Phase III is envisaged subject to meeting the five triggers defined to progress from Phase II to Phase III, as per the Phase II Finance Agreement of 19 July 2007. The Joint Review Mission of December 2011 noted a significant improvement in the project management performance and an increasing likelihood that the project will have substantively met its five performance triggers by July 2012 and so progress to Phase III.
2. This Concept Note has been prepared in order to set-out a summary description of the proposed Phase III design and implementation arrangements as the basis for further detailed consultation and finalization of the design with the Government of Nepal and other stakeholders.

B. Rationale

3. The approach for Phase III must recognize the rapidly changing socio-economic context in many of the project target communities. Three major changes are notable:
 - (a) Rapidly increasing physical connectivity and communications in many villages with the expansion of the road network and telecoms services and the increasing penetration of the market. This is especially important in the mid-hill districts (especially Rukum, Rolpa, Jarjakot, Dailekh, Bahjiang, Kalikot). In contrast, other project districts such as Humla remain relatively disconnected both physically and from the market.
 - (b) Large number of development projects now active in project areas. At its beginning, WUPAP was one of very few development projects in its target districts. However there are now an average of 32 donor supported projects³ active in each WUPAP project districts (fiscal year 2010/11 - excluding nationwide projects). Among these are a new generation of pro-poor market development projects, such as HVAP (IFAD), HIMALI (ADB) and AAGP (IFAD, beginning in 2013). These create important opportunities for WUPAP supported communities to build on foundational investments under WUPAP, such as in irrigation, production training or LFUG set-up, to link to market opportunities and accelerate a process of inclusive rural growth if effective partnerships can be established between WUPAP and this new generation of pro-poor market projects with strong links to buyers.
 - (c) The ongoing national transition process and the imminent implementation of the new national constitution will lead to further substantial changes in government administrative arrangements and the operating environment in project areas in the next few years. While administrative changes are unlikely to happen quickly at the sub-national level, such changes can be expected to create increasing disruption and distraction for WUPAP's implementing agencies towards the later years of Phase III implementation.
4. Taking these major changes as a whole, WUPAP will be best placed to support its target communities in raising themselves out of poverty if it adopts a more focused approach in Phase

^{1/} Mission members: Nigel Smith - Mission Leader; Amar Mishra - Financial Management Specialist; Surya Singh - Project Management Specialist, and; Bashu Aryal – IFAD Country Operations Officer. IFAD CPM Benoit Thierry, briefed the mission in Kathmandu at the start of the mission and participated in the pre wrap-up meeting with Secretary, MLD.

² Phase I Districts: Bajhang*, Bajura*, Jumla* and Humla*, Phase II Districts: Dailekh*, Jajarkot*, Dolpa, Kalikot, Rolpa and Rukum, In addition Mugu was initially included in Phase II but then withdrawn due to implementation difficulties. Those marked with * are focus Districts for more intensive management support during the one year extension to Phase II, including the appointment of a District Project Manager, selected on the basis of the scale of project activities within these Districts.

³ Ministry of Finance, Nepal (Mar 2012) Development Cooperation Report – Fiscal Year 2010-11

- III, that addresses a small number of critical development issues and coordinates effectively with other projects to support target communities to profit from the improving connectivity and market opportunities in the Districts where these changes are happening.
5. Phase III must also build on the lessons learned from the previous two phases of the project and from other IFAD and development projects in Nepal, especially in terms of implementation modalities and management arrangements, if it is to continue its recent improvements in management performance. In this respect, key weaknesses from Phase II must be addressed in three areas:
 - (a) Empowering target communities to drive their own development processes at the centre of the project, for example by:
 - (i) Deciding how resources are invested and on what activities
 - (ii) Supervising and monitoring the delivery of activities
 - (iii) Taking responsibility for the impacts of their investments
 - (b) Substantially raising the quality, effectiveness and consistency of services provided to the community by both creating the structural incentives to encourage improved service delivery to target villages as well as investing in raising the capacity of district level service providers.
 - (c) Establishing efficient, impact-oriented project management in which timely and reliable information on the effectiveness of project activities is used to drive project management and resource allocation decisions.
 6. The core development strategy for Phase III can therefore be summarised as "Building community-led processes of social and economic empowerment that will increase the productivity of people and farming, and increasing access to productive and labour saving assets". This strategy furthers the original project strategy founded on the MLD agenda of decentralization and devolution.
 7. As such, the main adjustments required for Phase III are in the implementation modalities, which have been re-engineered to improve the responsiveness and quality of support provided to the target communities. The starting point for the design of Phase III is to place the target communities in each VDC at the heart of the investment planning, management and governance processes. Other modalities in the project, including the delivery of technical services and extension, are re-organised to fit with this community-led investment modality.
 8. Phase III of the project will maintain the same goal and purpose, the same target groups and work within the same VDCs⁴ in project districts. Technically, investment activities in the project will be similar, including: strengthening community institution; community infrastructure; investment to improve livestock, crops and forestry production and marketing, and; improving access to savings and credit. Importantly, however, the decisions on a large majority of investment in the project will be taken by the communities themselves. (see Annex 1 for relationship of Phase II and III components and IFAD "COSOP" pillars)

C. Phase III Goal and Strategy

9. The Goal and Purpose of the project remain relevant and unchanged and are, respectively: "Strengthened livelihood systems and basic human dignity amongst the poor and socially disadvantaged people in the Mid and Far Western regions of Nepal" and "Improved living standard through sustained growth of employment, income and access to resources amongst the poor households in targeted area". The two primary indicators of impact will also remain the same as in Phase II, namely:
 - (a) Improvements in household assets ownership index
 - (b) Reduction in prevalence of child malnutrition, especially chronic malnutrition (height for age)

⁴ In Nepal the term Village Development Committee has two meanings. Firstly it refers to the administrative territory at the level immediately beneath "district". Secondly it refers to the local executive branch of the government that administer the "VDC" territory. For the avoidance confusion in this report the following usage will be applied:

"VDC" = administrative territory, e.g. "Kalika VDC in Kalikot District has a population of 1500 households and a high poverty rate"
VDC (Executive) = executive government body at the VDC territory level

10. The approach will be to nurture social and economic empowerment within target communities centred around a participatory community-led investment processes in which the target community within each VDC decides for themselves how a Community Investment Fund provided by the project will be used to meet their own priorities for economic development. This will be complemented by: strengthening of existing grassroots organisations (Community Organisations, Leasehold Forest User Groups, Infrastructure User Groups); reorientation of technical service provision in livestock, forestry and agriculture to respond to the specific demands of each community paid for by their own Community Investment Fund, and; investment to raise the effectiveness and delivery capacity of district-level service providers.

D. Target groups and geographical coverage

11. Phase III will maintain the same primary focus on serving poor and disadvantaged households and individuals within the existing WUPAP supported VDCs in project districts. No new VDCs will be covered by the project in Phase III. The identification of target households within the VDC will be refreshed through a participatory wealth ranking exercise in each VDC at the start of Phase III. The target community within each VDC will then be more specifically defined as the poorest 25% of households identified through the participatory wealth ranking and all member households of active community organisations (COs) and leasehold forest user groups (LFUGs) previously supported by WUPAP.
12. Phase III activities will focus in 8 project districts to facilitate a strengthened management focus and intensity of investment. The two current districts from Phase II where activities will be suspended will be selected on the basis of:
 - (a) the district with the lowest poverty rate and/or highest per capita development project investment, (Dolpa – based on MoF Development Cooperation Report) and
 - (b) the district with the poorest management performance during Phase II as judged jointly by MLD and IFAD (Jumla)
13. There would be a total of 153 VDCs supported in the 8 continuing districts, assuming the two districts discontinued are a) Dolpa and b) Jumla. No further activities will be implemented in Mugu, which was already suspended in Phase II.
14. It is envisaged that all 8 districts in Phase III will remain active for the full duration of the phase. However, where a district fails to meet clearly defined performance targets it may be moved to an accelerated managed exit with early completion of activities in the district. The definition of the annual performance targets for each district and decision to move any non-performing district to an early exit will be taken jointly during the Annual Joint Review Mission by the Government and IFAD. In the event of an early exit in one or more districts, surplus funds will, in principle, be reassigned to the best performing districts.

E. Costs, financing and duration

15. The total budget for Phase III is expected to be approximately USD 14.8 million. This will be financed from the balance of approximately SDR 6.9 million of IFAD Loan 576-NP (equivalent to USD10.6 million) and the balance of the national government commitment equivalent to approximately USD 4.2 million.
16. From the IFAD Loan, the Phase III funds of SDR6,928,000 (equivalent USD10,643,000) consists of the original Phase III allocation of SDR6,600,000 plus the unspent balance from Phase I and II, projected to be SDR 328,000.
17. Government contribution is assumed to be the outstanding balance of the original committed funding amount from the national government. At Appraisal, government commitment was a total of USD5.9m from national level. The projected government contribution by end Phase II is equivalent to USD 1,720,000 giving an available balance for Phase III of USD 4,180,000.
18. It is recommended that Phase III run for 4 years with a revised completion date of 15 July 2016. This is necessary to allow sufficient time for the transition of the project to the improved implementation modalities proposed for Phase III, allowing one additional year to embed the change of modality down to the village level. In addition, extra time is realistically likely to be needed to effectively utilize the remaining funds as Phase I and II disbursed a combined total of roughly 50% of loan funds in more than 9 years since the start of the project. However, with simplified implementation arrangements for Phase III and the stronger project management demonstrated in the one-year Phase II extension, it is considered feasible to fully implement Phase III within 4 years.

Table 1: Phase III Financing

Financier	Commitment (Appraisal)		Disbursement to end Phase II - Projected		Disbursement in Phase III		
	SDR	USD	SDR	USD	SDR	USD	
IFAD Loan (576-NP)	15,600,000		8,672,000		6,928,000	10,643,000	71%
GoN		5,900,000		1,720,000		4,180,000	29%
Total						14,823,000	100%

F. Components and Major Investment Activities

19. Phase III will be organised into three components. Annex 1 illustrates the relationship between Phase II and III components.
20. **Component 1: Community Empowerment** will build social and economic empowerment among target communities. The central elements will be a multi-year participatory investment planning and management process backed by a Community Investment Fund (CIF) provided by the project. The CIF will be used, for example, to procure technical services (e.g. farmer training) or fund productive infrastructure according to the communities own wishes. The community will be accountable to themselves for the decisions they make and for ensuring that the investments deliver the expected benefits. To increase gender equality in decision making, the senior woman and senior man from each target households will have their own equal voting rights in community decisions on use of the CIF. The community will manage their own investment in productive infrastructure, with appropriate engineering and technical support, where as technical services such as on livestock or forestry will be provided by district service providers under performance-based contracts administered on behalf of the VDC by the District Project Coordination Unit (D-PCU) and Project Coordination Unit (PCU).
21. The rationale is to provide meaningful social and economic empowerment to the community through the community controlling their own pre-allocated CIF. The project will therefore invest in building the capacity of the target communities to manage these processes. The expectation is that by the end of the project the practical experience of managing their own investment plan, participatory decision making and supervision processes will have substantially raised the practical capacity and level of social empowerment among the target communities. This should then provide them the skills and confidence to take a leading role in driving their own development process into the future.
22. However, it is recognized that at the start of the process the communities will not necessarily have the all of the skills, knowledge and confidence needed to make well informed decisions and successfully manage the multi-year process. At the beginning of the process the project will therefore focus on providing good quality technical advice and exposure visits on technically and locally appropriate options, e.g. for farming or infrastructure, to the target communities before the planning processes begins in Year 1. Following this, close support and facilitation will then be provided throughout the process by village-based Social Mobilizers (SM) and district service providers.
23. To strengthen social inclusion and sustainable capacity building, the project target households within each VDC will select from among themselves a representative voluntary Community Project Coordination Unit (C-PCU) to work alongside the SM in facilitating the participatory investment planning, management and governance processes. In addition, one woman and one man from each C-PCU will represent their VDC target community within a district-level Beneficiaries' Oversight Board (BOB) in every district (see below).
24. In addition to the main community planning and CIF processes, the project will also continue to strengthen the capacity and sustainability of the community organizations/groups supported in earlier phases of the project as well as delivering a focussed programme on nutrition awareness to more directly address persistent problems of child malnutrition in the target communities.
25. Component 1 will be organized into two closely related sub-components:
 - Sub-component 1.1: Social empowerment (covering participatory planning, governance and investment management)*
 - Sub-component 1.2: Economic Empowerment (incorporating the Community Investment Fund)*

26. **Component 2: District Service Delivery Improvement.** A step-change is required in the quality, responsiveness and effectiveness of technical service delivery to villagers. Several aspects of the project will contribute to this by creating a more enabling framework and structural incentives, including:
- (a) giving beneficiary communities full decision making control on resource allocation for services and the creation of a Beneficiaries' Oversight Board (see below) will begin to address the responsive of service provision;
 - (b) involvement of the Regional Directorates (livestock, forestry, agriculture) will strength technical supervision and quality;
 - (c) use of district government line agencies and non-line agency service providers (e.g. NGOs, cooperatives or private businesses with suitable technical staff) to provide similar services in different VDCs in the same district will raise competition among service providers, provide a performance benchmark and establish a credible alternative delivery mechanism for the project in the event of underperformance of one of the service providers.
27. However, the main drive for service delivery improvement must come from the service providers themselves. Accordingly, the project will seek to empower the District line agencies (DLSO, DADO, DFO, LDF) to lead this process in their own area of expertise through the creation of a Service Excellence Challenge Fund as well as supporting capacity development of the institutions and individual staff. Three main activities will be implemented:
- (a) *Service Excellence Challenge Fund.* District line agencies which have demonstrated a strong performance in providing the services to the target communities under Component 1 will be eligible to submit proposal to a Service Excellence Challenge Fund managed centrally by the PCU. Proposals must aim to further strength the service delivery and overall development of their focus sub-sector in the district to the benefit of poor and near poor households.
 - (b) *Farm Field School development, piloting and rollout.* The project will support the development and piloting of Farm Field Schools for a small number of the most important crops, livestock, NTFP/MAF/forestry products. This will build on practical experience from elsewhere in Nepal and internationally. If successful, the project will then support a programme to rollout these approaches within the project, including ToT of line agency staff in all project districts.
 - (c) *Human resource development.* To further strengthen the individual capacity and commitment of technical staff in the district line agencies, the project will support professional training and coaching on both technical and management issues. In addition the project will support a small number of the best performing extension staff from the District line agencies to participate in regional (South Asia) professional development training or exposure visits in recognition of their performance (financed from government counterpart funds).
28. **Component 3: Project Management** covering all project management, coordination and reporting activities at district, regional and national levels.
29. At the District level this will involve the creation of a dedicate D-PCU lead by the Local Development Officer (LDO) under the District Development Committee (DDC).
30. A Beneficiaries' Oversight Board (BOB) within each district, with representatives from all C-PCUs, will provide regular oversight, review and monitoring of D-PCU and district service provider activities within the project to further strengthen accountability of district-level agencies to the project beneficiaries.
31. To improve coordination of delivery of services within each VDC, a Service Coordination Committee (SCC) of all district service providers will be created, chaired by the LDO, with regular meetings to plan coordinated activities and resolve issues related to service delivery. The SCC will be accountable to the BOB for project-related performance.
32. At the national/regional level the PCU will work with the Regional Directorates of Forestry, Livestock and Agriculture in providing overall management and coordination of the project.

G. Implementation arrangements

Component 1: Community Empowerment

33. Component 1 will principally operate at the village level, with service provision and technical support provided from the district level.

Sub-component 1.1: Social Empowerment

34. A Community Project Coordination Unit (C-PCU) will be elected in each VDC by target households with representation of all settlements, disadvantaged groups, COs, LFUGs, women and men following an initial participatory wealth ranking exercise to identify the target households from within the wider VDC. The C-PCU will operate on a voluntary basis. The C-PCU will, for nominal administrative purposes, be a dedicated unit under the VDC (executive) although the VDC (executive) will not have any management or decision making authority over the C-PCU.
35. The C-PCU, supported by the SM, will be responsible for facilitating the overall process of social mobilization, participatory planning and review of the implementation of all activities under the community investment plan. In addition to facilitating the development of the initial community investment plan, the C-PCU will facilitate a process of annual review of activities and updating of the plan for the following year through regular social and public audits covering all project supported activities in the village.
36. Social mobilizers in each VDC will support the C-PCU in all activities as well as working directly with the various community organisations, leasehold forest user groups and infrastructure user groups to support the delivery of activities and investments. The SM, on behalf of the C-PCU, will also have primary responsibility for coordinating the timing and delivery of services and support delivered by the district-level service providers.
37. **Participatory planning, investment management and governance** will be a multi-year activity and consist of four main activities:
- (a) *Community Investment Plan preparation*, covering 3 year investment period and full CIF allocation. Through a participatory planning process, an initial CIP will be developed in each village at the start of Phase III for the full allocation of the Community Investment Fund provided by the project. Decision-making on activities and resource allocation within the plan will be exclusively through the participatory process, with equal voting rights for the senior woman and senior man within each target household. The C-PCU and Social Mobilizer will facilitate this process but will not have any authority in terms of decision making beyond their equal rights as individual beneficiaries. The CIP participatory preparation process will be harmonized with the main VDC planning process with various discussion meetings and decision making at the settlement, ward and cluster level although participation and decision making will be strictly limited to only project target beneficiary households. The CIP will cover a period of 3 years but will be reviewed annually by the community to accommodate changing community priorities.
 - (b) *Ongoing supervision of implementation of activities under the CIP*. The C-PCU, with support from the SM, will be responsible for supervising the implementation of the planned activities in the VDC on behalf of the target community. They will focus on the quality, timeliness and effectiveness of activities and gain feedback from the direct beneficiaries of the various activities on their impacts. This feedback will be communicated to the D-PCU both directly during the regular field visits of the D-PCU staff, via the SM and through the regular Beneficiaries' Oversight Board meetings at district level. Any issues of concern to the C-PCU will be flagged to the D-PCU and agreement reached on any actions to be taken.
 - (c) *Annual social and public audit of activities, investments, supported groups and impacts* will be completed once per year with the full participation of all of the target community in the VDC, service providers and community organisations/groups that have been involved in project activities in the previous year. During the audit events all those involved in delivering project activities will be expected to provide a full report on what has been completed, costs and expenditures made, progress against plan and the performance and impacts of the specific activities. COs and LFUGs supported by the project will also be expected to provide a report on their activities, and their accounts for any savings and credit activities. The SM and the C-PCU will facilitate this process, with appropriate capacity building being provided to them beforehand. Representatives from the D-PCU will also attend these audit events which will be open to other stakeholders as well.

- (d) *Annual review and updating of the CIP.* Following on from the annual audit events, the SM and C-PCU will facilitate a shortened participatory process to review and updated the CIP and proposed CIF allocations. Amendments will only be possible for activities which have not already been contracted/begun.
- 38. **Graduation of existing Community Organisations and Groups** (Community Organisations – “CO”, Leasehold Forest User Groups – “LFUG” and Infrastructure User Groups – “IUG”) to self-sustaining independent organisation will be supported by the SM and project by focusing on three areas:
 - (a) Raising the *internal* management capacity, transparency and governance within the group. This will be through a process of individually tailored coaching and training to each group based on assessment of their particular strengths and weaknesses and the activities of the group.
 - (b) Establishing a reliable process for local *external* oversight and review to strengthen the accountability and governance of the group. This will primarily be achieved by establishing and extending a system of regular social and public audits of all project supported groups and activities.
 - (c) Where appropriate to the VDC, supporting a process of consolidation of the savings and credit activities of the various groups within the VDC into one or more larger savings and credit organisations (e.g. with 300-500 members vs around 20 in most current COs). As part of this process, these larger savings and credit organisations would be supported to develop links with mainstream banks, micro-finance institutions and/or existing regional/national associations of similar savings and credit organisations able to provide improved access to capital as well as provide governance and oversight mechanisms.
- 39. The rationale is that by the end of Year 3, all community organisation or groups with the potential to become self-sustaining will have become so with 3 years of additional, focussed capacity building and external oversight. Groups which have not reached that level by the end of Year 3 are unlikely to become sustainable. As such, support to the graduation of community organisations and groups will be concentrated in Years 1-3 only.
- 40. A performance incentive may be offered to all group that reach the level of being assessed as fully self sustained by the end of Year 3, subject to budget availability. This will be in the form of a one-off small grant to be used by the group for its core activities.
- 41. **Nutrition Awareness** campaigns and training will be provided to all target households in the VDC. This is expected to be delivered jointly by the existing government-backed Village Health Volunteers and SMs through dedicated nutrition training sessions as well as through short discussion sessions within the regular monthly meetings of the supported community organisations. The specific approach, key messages and materials to be used will be based on current best practice from elsewhere in Nepal and will, in principle, try to deliver the same messages and training to both men and women within the same household to increase the likelihood of behavioural change.

Sub-component 1.2: Economic Empowerment

- 42. A Community Investment Fund (CIF) will be the main instrument for investment in each VDC and will be used to finance the Community Investment Plan. The primary features of the CIF are that:
 - (a) allocation of the fund to VDCs will be proportional to need and costs of delivery in each VDC. This will be achieved by apply weighting criteria similar to those used by the government but adapted to the project's focus on poverty. The criteria for determining CIF allocations for each VDC will therefore be:
 - (i) number of poor households - based on recently completed national poor household identification process and data
 - (ii) cost factor - reflecting the higher relative costs of inputs in more remote locations
 - (iii) physical area covered by the VDC - as a measure of the physical concentration/dispersion of the community which affects the cost of infrastructure and services
 - (b) VDCs that have the strongest implementation performance over the first 3 years will be provided an additional budget for the final year of their CIP implementation in recognition of their strong performance (subject to budget availability)

- (c) it will be demand driven with decision making through a multi-year participatory planning and review process, with the target community able to decide on the relative allocation of funds between different types of investment within percentage limits (e.g. infrastructure vs production training)
 - (d) disbursement will be in annual tranches with not more than 60% in Year 1 of the CIP with release of funds in later years subject to satisfactory performance in previous years
 - (e) it can be used to fully fund or co-finance eligible investments. However, where co-financing is proposed the full co-financing amount for the full scheme (e.g. micro-hydro) must be deposited in the appropriate account before any funds are released from the CIF.
 - (f) it will incorporate five types of eligible investments, namely:
 - (i) *Farming improvement* (including livestock, forestry and crops): training (short courses, farmer field schools, follow-up), equipment, trails/demonstrations, inputs, exposure visits etc to improve farming activities
 - (ii) *Market linkage development and value addition*: possible investments may include market exposure visits, construction of improved storage facilities, equipment for primary processing to meet specific requirements of buyers, transportation crates and materials, working capital for a COs engaged in joint production, processing and/or marketing of products to meet specific demand.
 - (iii) *Vocational training*: focusing on trade skills with clear demand from employers for semi-skilled or skilled workers with these skills. Expected trades include: carpentry, welding, electrical, electronics, as well as selected skill for self-employment (hair dressing, tailoring). Anticipated employment maybe within or outside the district (e.g. for seasonal migratory workers going to India). In addition to the training itself, investment in the associated tools of the trade is also eligible. Note that training for driving will not be supported nor for other skills for which there is not a clear and credible demand for workers with vocational level skills.
 - (iv) *Productive and labour saving community infrastructure*, such as irrigation, drinking water, micro-hydro, improved water mills. Note that the following infrastructure is not eligible: social infrastructure (schools, health posts, community buildings etc), roads/trails/bridges.
 - (v) *Loan capital* to COs for on-lending to their members. This would be as a capital grant to the COs nominated by the community, but will only be eligible in the 3rd year of the CIP period and subjected to strict criteria on the capacity of the intended COs and the performance of the VDC in the implementation of the CIP in the previous years. It is included as an eligible use of the CIF in recognition of the acute shortage of access to savings and credit in many target communities combined with the importance of access to finance in household economic growth.
43. Usage of the CIF for the different eligible investments will be within the following guidelines and limits:
- (a) Not more than 60% of CIF can be disbursed in the first year of the 3 year plan
 - (b) Not more than 70% of the CIF can be used for infrastructure
 - (c) Not more than 30% of the CIF can be used for loan capital to savings and credit groups, and this is subject to additional strict conditions of capacity and performance of the intended recipient groups.
 - (d) 30% of the CIF must be used according to the explicit priorities of the poorest 20% of households from among the overall target group. Only these poorest 20% of target households will be able to decide on the allocation of this 30% of the CIF, although they can consent to part or all of this 30% being contributed to common priorities of the wider target households, such as larger irrigation schemes or water supply schemes. This dedicate allocation is intended to strengthen inclusion and poverty targeting within project implementation and also create additional empowerment for the poorest households. Note that the women and men from these poorest households will have a full and equal vote in the use of the mainstream 70% of the CIF.
44. Funds allocated under the CIF will then be used to pay for the activities and investments in the CIP, for example including paying for service providers (e.g. DLSO) to deliver production

training or to meet the costs of Technical Training Providers for individuals to attend vocational training courses. The specific arrangements for each type of eligible investment are:

(a) Farming improvement:

Step 1 is for a joint 3 person multi-disciplinary team of extensionists covering forestry, livestock and agriculture to conduct a 3 day rapid assessment and awareness raising visit to each VDC. The extensionist will be drawn from either the district line agencies or the non-line agency service providers (e.g. NGOs, cooperative, private businesses) with each assigned to support roughly 50% of the VDCs in each District according to their delivery capacity. During this visit the joint extension team will conduct an agro-ecological assessment of local production conditions and resources in each settlement. They will then present to the target communities, through community meetings in each settlement, a range of technical options for improved crop, livestock and forestry activities appropriate to the conditions in each settlement and the resources of the target households. The joint extension team will also provide advice on current market demand and prices for different products being discussed, typical costs and income from production, equipment and inputs required. Finally they will explain the different types of support and associated costs their agencies can provide on each of the livestock/forestry/crop products. The joint extension team will be supported during the visit by local resources people and the SMs in the VDCs. The joint extension team will prepare a short report on the agro-ecological assessment and farming improvement options to be provided back to the target community for future reference.

Step 2 is for the community to consider the options and support services offered against the other potential investments from the CIF and come to a decision through the participatory planning process on what if any farming improvement support and investments they require and when. Should the community wish to use an alternative service provider (e.g. a private business, cooperative, the district line agencies or NGO) then they will be free to do so. The community's decisions on what investments and which service provider to use will be included in the Community Investment Plan. The D-PCU will then arrange and administer the contract with the relevant service providers on behalf of the community.

Step 3 is for the chosen service providers to deliver the services as agreed. Monitoring of the service provision will be by the D-PCU with regular visits and spot checks by the Regional Directorates (forestry / livestock / agriculture) as well as by the C-PCU and SM on behalf of the wider target community.

Step 4 after the services have been delivered the D-PCU will obtain direct feedback from the communities on the quality and effectiveness of the services.

Step 5 at the end of the annual plan period, the services provided will be reviewed through a social and public audit at which the service providers as well as those receiving the support will be expected to attend and present their feedback along with representative of the D-PCU and other interested stakeholders. Following this review the community will then review its investment plans for the following year and make any changes as required, following Steps 2-5 above.

- (b) Market linkages and value addition: Where technical assistance is requested by communities wishing to invest in market linkages and/or value addition, for example in the purchase of processing equipment, this will be primarily delivered through co-operation arrangement with specialist market-development projects dealing with the specific product in the particular district. Such projects include HVAP, HIMALI and the forthcoming AAGP among others, which will collectively cover most of the main market-oriented agri-products relevant to project VDCs in a majority of districts. Where the products of interest are not covered by the specialist projects, the D-CPU and/or PCU will identify service providers that can provide the required technical assistance to the community concerned, paid for from the CIF.
- (c) Vocational training: Will follow a similar process to that for Farming Improvement but somewhat simplified. At the beginning of the participatory planning process the SM will communicate to households the range and costs of different vocational training courses available (based on the project's assessment of those courses most likely to be demanded that meet the project criteria). This will be considered by the community along with the other investment options, implemented and then reviewed as above. Where the community request vocational training for skills not initially included in the menu of training courses,

the PCU will confirm if this is eligible and if so will identify a reputable Technical Training Provider (TTP) and the costs per participant in the course and communicate this information via the D-PCUs to all villages for their consideration. The PCU will manage the selection of TTPs and associated contracts.

- (d) Productive and Labour Saving Infrastructure: Again, this will follow a similar process to Farming Improvement.

Step 1 - Where a potential investment in one or more infrastructure schemes is identified in preliminary discussions among the target community, the sub-engineer from the D-PCU will visit the specific settlements and conduct a brief pre-feasibility assessment. During this the sub-engineer will determine the range of technical options appropriate to the local conditions and requirements of the intended users and the indicative costs of each of the options. During the same visit the sub-engineer will hold a community meeting with the intended users of the infrastructure and the wider target community to explain the technical options, the typical costs and pros and cons of each. The sub-engineer will prepare a short report on the pre-feasibility assessment to be provided back to the target community for future reference.

Step 2 is for the community to consider the infrastructure options against the other potential investments from the CIF and come to a decision through the participatory planning process on what, if any, infrastructure investments they wish to include in the Community Investment Plan.

Step 3 once the CIP is finalized, is for the sub-engineer to return to the proposed site of the planned infrastructure and prepare a detailed technical design, costing and construction plan in consultation with the intended users. During this process, with the support of the SM, an Infrastructure User Groups will be elected from among the intended users of the scheme. This User Group will then work with the sub-engineer to finalize the design and construction plan and, before construction begins, agree with the wider user community on the operation and maintenance arrangements that will be put in place for the scheme, including how costs of O&M will be paid for.

Step 4 is for the District Technical Office (DTO) to review the design and proposed O&M arrangements and provide their technical approval on behalf of the D-PCU. The proposed arrangement for the management and financing of O&M will be subject to a second review and approval by the Senior Social Mobilizers in the D-PCU. Only when approval is gained from both the DTO and SSM will funds be transferred to the IUG to begin construction.

Step 5 is the construction of the infrastructure according to plan. The IUG will have primary responsibility for managing the construction, including procurement of materials, and be accountable to the wider target community. The IUG will be supported during construction by the sub-engineer and/or assistant sub-engineer from the D-PCU who will conduct frequent site visits before and during construction. During these inspection visits, the assistant/sub-engineers will also be expected to verify expenditure and materials used and sign-off any bills of quantities and progress. During construction, funds will be released in stages based on verified progress and expenditures.

Step 6 on completion of construction and commissioning of the works the District Technical Office will inspect the works and provide technical sign-off that the construction has been completed as per the plan and is in full working order.

Step 7 following completion of the scheme the SM and sub-engineer will provide capacity building support and technical training and coaching to the IUG in the management and technical aspect of effective O&M for the particular infrastructure. For the first 2 years of operation, the SM will attend the regular IUG meetings and the sub-engineer will conduct six monthly site visits and meetings with the IUG to provide any follow-up needed and resolve any issues that emerge.

Step 8 following completion of construction the investment will be reviewed during the annual social and public audit with the wider target community. The IUG and sub-engineer will be expected to participate and provide detailed reports, including financial reports, on the infrastructure investment, O&M arrangement and performance of the scheme to-date. Users of the scheme will also be expected to provide feedback.

- (e) Loan capital will be an eligible use of CIF at the end of the final 3rd year of the CIP but be subject to the intended recipient groups meeting strict capacity and performance conditions and also for the overall performance of the community in delivering the rest of its CIP.

Such loan capital would be provided as a capital grant from the CIF to the intended groups. To be eligible to receive the Loan Capital from the CIF the intended recipient group(s) must be able to clearly demonstrate that is active, self-sustaining and well managed with strong internal governance and appropriate external oversight. Where the allocation of Loan Capital is included in the CIP, the Senior Social Mobilizer (SSM) from the D-PCU will conduct a detailed capacity assessment of the intended recipient group(s) at the end of the second year of the CIP. At the same time the SSM will assess the overall performance of CIP implementation in the VDC. The SSM will then provide an initial indication to the community of the likelihood of the intended recipients groups meeting the required criteria and any improvements needed both within the CO as well as in the overall delivery of the CIP. Final approval of the release of CIF funds as Loan Capital will be taken by the Deputy District Project Co-ordinator at the end of the third year of the CIPs.

District Level support to Component 1

45. *Social mobilization* and facilitation of the participatory planning and investment process will be delivered by the social mobilizers in each VDC managed by the Local Development Fund Board according to the agreed project plan and under a performance based contract managed by the D-PCU.
46. *Technical service provision* will be based on specific demand from the target communities in each VDC and be paid for from their CIF. The D-PCU will contract and supervise the delivery of services to each target community according to the community investment plans using performance based contracts:
 - (a) Livestock / forestry / agriculture related services (e.g. training / technology transfer / exposure visits) will be delivered by either the relevant technical line agency or by a contracted NGO/co-operative/private service provider under performance-based contracts. Approximately 50% of VDC will be covered by the local technical line agencies and 50% covered by non-line agency service providers according to their respective delivery capacity. One or more non-line agency service providers will be contracted centrally by the PCU. Service providers will be supported by LRP / Lead Farmers / VAHW at the VDC level in delivery of services.
 - (b) Vocational Training will be provided by external specialist Technical Training Providers, not necessarily within the District, contracted centrally by the PCU.
 - (c) Market linkage support: will be provided through co-operation with specialist projects working on the particular product in the District including HVAP, HIMALI and AAGP among others or by local service providers where no suitable partner projects are available. Partnerships with other projects will be managed centrally by the PCU, but with district level coordination between the D-PCU and the respective district teams of the partner projects. Where additional market-related service providers are required, the PCU will identify and contract these as appropriate.
 - (d) Infrastructure support will be provided by the D-PCU sub-engineer / assistant sub-engineer in co-ordination with the Social Mobilizer in the VDC. In addition, the District Technical Office will be engaged in providing technical approval of the design and cost estimate for all schemes before construction work starts and upon completion carrying-out an inspection of the works to provide technical sign-off that construction has been done according to plan and is in full working order.
47. To ensure co-ordinated delivery of "packages" of support within each VDC according to their specific CIP, the technical service providers in each district will coordinate the delivery of their individual activities through a district Service Coordination Committee chaired by the LDO (see below). To strengthen service delivery accountability, the SCC will report to a Beneficiaries' Oversight Board on at least a six-monthly basis as well as being accountable to the D-PCU through the performance-based service contracts. Any actions or changes agreed at the BOB will be included by the D-PCU in future project plans and service contracts as appropriate.

Component 2: District Service Delivery Improvement

48. *Service Excellence Challenge Fund* will be managed by the PCU in coordination with the Regional Directorates. District line agencies which have demonstrated a strong performance in delivering good quality services to the target communities under Component 1 will be eligible to submit proposals to a Service Excellence Challenge Fund managed centrally by the PCU. Proposals must aim to further strength the service delivery and overall development of their focus sub-sector in the district to the benefit of poor and near poor households. Those District

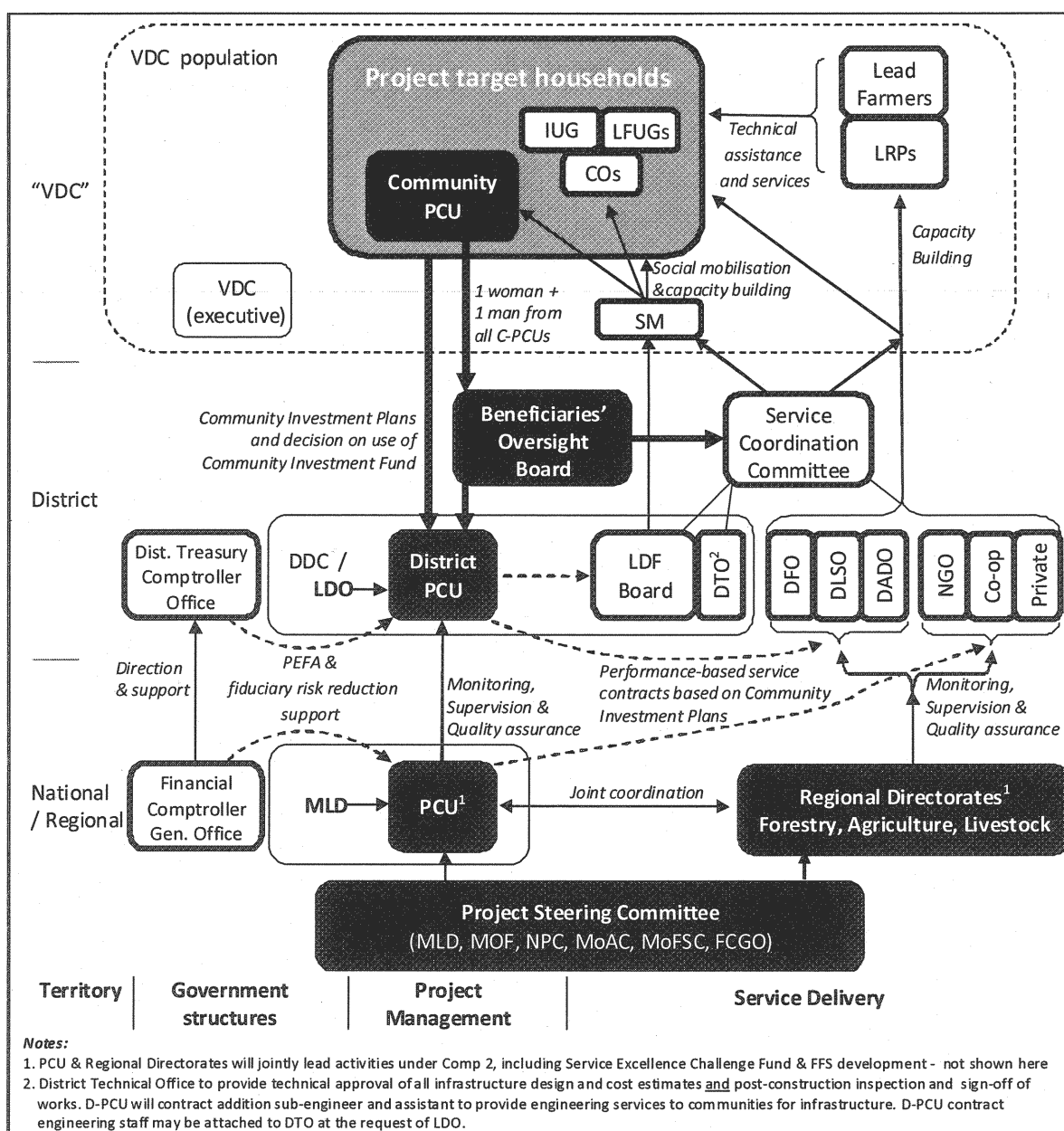
line agencies that have shown the very best performance in the quality and effectiveness of their service delivery to project communities will be entitled to submit proposals for larger, multi-year investments. Line agencies with good but less exceptional performance will be eligible to submit smaller one year proposals. The Service Excellence Challenge Fund will become active from end of Year 2 of Phase III, with eligibility based on the service delivery performance in Years 1 and 2 of Phase III. Where the total value of the proposals received exceeds the available budget, selection will be on a competitive basis judged in terms of the quality and expected impacts of the proposal.

49. *Farm Field School development and piloting.* The Mid Western Regional Directorates will lead this activity on behalf of the PCU. Collectively the three directorates will identify 2-4 products (crops/livestock/forest products) for which improved FFS would be appropriate. They will then identify 1-3 districts suitable for piloting Farm Field School training approaches for the selected products. FFS materials and approaches will then be developed and piloted in suitable and interested producers from among the project target beneficiaries. The initial pilots are envisaged to cover around 20 VDCs, including in some cases providing equipment and materials for simple farmers' schoolrooms to be used to compliment the main field-based learning activities. FFS training materials and approaches should build on successful FFS approaches from elsewhere in Nepal and internationally. Short term experts may be recruited to support this process and provide initial ToT training to extension staff in the pilot areas. Once the FFS have been proven, with any necessary refinements, and judged to be effective the project will support a programme of ToT of line agency staff in the project districts. During the development and piloting of the FFS, the costs will be funded from the PCU budget and will not need to be supported by the target communities themselves from their CIF. However, once the FFS are made available in all districts, this will then become an option under the standard CIF usage outlined above.
50. *Human resource development.* To further strengthen the individual capacity and commitment of technical staff in the district line agencies, the project will support professional training and coaching on both technical and management issues. The Regional Directorates (forestry/livestock/agriculture), in consultation with the district line agencies, will lead the process of identifying the appropriate areas of focus for professional development in each district. In addition, the project will support 2-3 of the best performing extension staff from the District line agencies to participate in regional (South Asia) professional development training or exposure visits in recognition of their performance (note that these will be financed from government counterpart contributions). Performance will be assessed based on their performance in delivering services to the target communities in Year 2 and 3 and will be assessed jointly by the D-PCU and the Regional Directorates) and subject to final approval by the PCU.

Component 3: Project Management

51. The project management arrangements are illustrated in Figure 1 below.

Figure 1: Project Management Arrangements



District Level

52. The Local Development Officer (LDO) will be the District Project Coordinator (DPC) and have overall responsibility for ensuring that the project meets its impact and outcome objectives in the district.
53. The LDO will be supported in day-to-day management, coordination and supervision of all project activities by a dedicated District Project Coordination Unit (D-PCU) formed under the District Development Committee (DDC). The D-PCU will be led by a Deputy District Project Co-ordinator (DDPC) and will consist of the following professional staff team in each District:
 - 1) Deputy District Project Co-ordinator (1 x senior contracted post)
 - 2) Senior Social Mobilizer (2 x contracted posts)
 - 3) Accountant (1 x posted for 3 year term by Financial Comptroller General's Office)
 - 4) Planning, monitoring and evaluation officer (1 x contracted post)
 - 5) Sub-engineer (1 x contracted post) – number of posts may be adjusted to reflect scale of demand from village plans
 - 6) Assistant sub-engineer (1 x contracted post) – number of posts may be adjusted to reflect scale of demand from village plans
54. A Beneficiaries' Oversight Board (BOB) within each district, will include one woman and one man from all C-PCUs as its members. The BOB will meet at least once every six months to provide regular oversight, review and monitoring of D-PCU and district service provider activities within the project. The BOB meetings will be attended by the LDO, DDPC and representatives from all service providers. During the BOB meetings all service providers involved in delivering services under the project in the district will provide detailed reports of completed and planned activities, including costs/expenditures, any problems, emerging issues and opportunities. Similarly, the D-PCU will report on overall completed and planned project activities, budgets and any issues. A particular point for review will be the effectiveness of coordination among different service providers and between WUPAP and other projects. The BOB members will provide feedback from their respective communities on overall project performance, service delivery performance, impacts and emerging issues. To ensure the issues and opportunities identified through the BOB lead to improved project performance, a set of agreed actions will be made at each BOB meeting, detailing responsibilities and deadlines for completion. The performance of the D-PCU and service providers in implementing the agreed actions from the BOB will be a key factor in assessing the performance of individual service providers (e.g. for eligibility for the Service Excellence Challenge Fund) and of the D-PCU and overall district project performance (e.g. affecting decisions on early exit and/or allocation of additional budget to the district). As such they will be closely monitored by the PCU. The BOB members will select a Chairperson from among themselves, which may change from time to time. The DDPC will act as secretary to the BOB.
55. The D-PCU will operate a single expenditure account for all project expenditures in the district, maintained by the Accountant of the D-PCU. The District Treasury Comptroller Office, under the guidance of FCGO, will provide public expenditure and financial accountability (PEFA) and fiduciary risk reduction support and advice to the D-PCU.
56. A district Service Coordination Committee (SCC), chaired by the LDO, will be formed in each District with representative from the main service providers supporting the project VDCs. The principal roles of the SCC are firstly, for the various services providers to be able to jointly plan and coordinate the delivery of services within each VDC and, secondly, to identify and resolve any issues related to the effective delivery of quality services as required by the various CIPs. The DSCC members will include representatives of:
 - (a) District Agriculture Development Office
 - (b) District Livestock Services Office
 - (c) District Forest Office
 - (d) Local Development Fund Board
 - (e) District Technical Office
 - (f) Non-line agency service providers (for crops / livestock / forestry etc.)

National Level

57. Implementation arrangements at the National level will remain broadly the same as in Phase II but with a strengthened role for the PCU and the inclusion of the Regional Directorates of

Livestock, forestry and Agriculture to provide technical supervision, quality control and improvement of service delivery within the project on behalf of the PCU. The main arrangements are summarized below.

58. The Project Steering Committee will be chaired by the Secretary, MLD and comprise:
- (a) Secretary, Ministry of Local Development (Chair)
 - (b) National WUPAP Project Director – Joint Secretary, Planning and Foreign Aid Coordination Division, MLD
 - (c) Representative of Ministry of Finance
 - (d) Representative of National Planning Commission
 - (e) Representative of Financial Comptroller General's Office
 - (f) Director General – Dept. of Agriculture, MoAC
 - (g) Director General – Dept. of Livestock, MoAC
 - (h) Director General – Dept. of Forest, MoFSC
 - (i) Director General – Dept. of Local Infrastructure Development and Agriculture Road, MLD
 - (j) Secretary to Steering Committee – Project Coordinator
59. The Joint Secretary, Planning and Foreign Aid Coordination Division of the Ministry of Local Development, will be the National Project Director and have overall responsibility for ensuring that the project meets its development impacts and outcome objectives.
60. The Project Coordination Unit, based in Nepalgunj, will support the NPD in the day-to-day management of the project. The PCU will have a core professional staff including:
- 1) Project Coordinator (posted by MLD)
 - 2) Deputy Project Coordinator (posted by MLD)
 - 3) Accountant (posted by FCGO)
 - 4) Sub-Accountant (posted by FCGO)
 - 5) Financial Analyst (senior contract staff)
 - 6) Community Empowerment Specialist (senior contract staff)
 - 7) Planning, Monitoring and Evaluation Specialist (senior contract staff)
 - 8) Planning, Monitoring and Evaluation Officer (contract staff)
 - 9) MIS officer (contract staff)
 - 10) Engineer (Yr 2-3 only, optional depending on need) (senior contract staff)
61. The Regional Directorates of Livestock, Forestry and Agriculture will act as the technical advisors within the PCU for their respective areas. The Regional Directorates will be responsible for the overall leadership and quality assurance of service delivery by the respective district line agencies in all project districts (Component 1) and of the District Service Delivery Improvement activities (Component 2). The project will support the costs (including salaries, allowances, travel etc) for the fulltime participation of 1-2 senior technical staff from each Regional Directorate to act as technical advisors within the mandate of the PCU as well as inputs from the Regional Directors themselves. This includes Regional Directorates from both Mid-Western and Far Western Regions, with the number of staff support proportional to the number of Districts covered by each.
62. FCGO will provide public expenditure and financial accountability (PEFA) and fiduciary risk reduction support and advice to the PCU.
63. The PCU staff, including the advisors from the Regional Directorates, are expected to conduct regular visits to all project districts to closely supervise overall activities and focus and provide guidance and advice on corrective measures needed to raise performance. An important aspect of this implementation support to districts is to maintain a strong focus on the delivery of project impacts and outcomes and not only on activities, inputs and outputs.
64. Planning, monitoring and evaluation systems will be substantially strengthened compared to Phase II and will be re-oriented to focus on impact and outcomes as well providing more regular, reliable and relevant management information to allow the project to be managed for results. As well as improved field monitoring and reporting, this will also require definition of a small set of targeted intermediate performance indicators against which progress can be more regular tracked, in addition to the main RIMS indicators. The PCU team will include an expanded P,M&E team with two professional P,M&E posts and a fulltime MIS Officer.
65. The project will conduct a new Phase III household baseline survey at the beginning of Phase III, incorporating RIMS but also other indicators. A further household survey will be completed

in the second half of year 4 of Phase III to allow an assessment of the impacts of Phase III as well as of the entire WUPAP project over all its three phases.

66. Human resource development among the PCU, D-PCU and other implementing agencies will be an important element of Phase III to raise the overall capacity to deliver improved services and decentralized community-led investment programmes. The PCU will manage a programme of human resource development at various levels in the project and across various disciplines including financial management, project management and planning, technical service delivery. Under this, the project will support ongoing professional training and coaching on both technical and management issues, delivered by external experts as well as senior project staff. In addition, the project will support the best performing staff from each Districts and within the PCU (including the Regional Directorates) to participate in regional (South Asia) professional development training or exposure visits in recognition of their performance. Note that such international training and visits will be financed from government counterpart contributions only.
67. Service Excellence Challenge Fund: The PCU will manage the SECF and, with support from the Regional Directorates, will be responsible for assessing the performance of the various district line agencies to determine eligibility and then to review and approve the proposals received and monitor their implementation.

H. Fiduciary Issues

68. The failure to establish an effective financial management, control and reporting system in the first 9 years of the project is a stark failure of project management by the responsible ministries and has greatly increased the fiduciary risks of the project to date, in what are acknowledged by the government itself as high fiduciary risk districts.
69. The following arrangement must therefore be put in place before further loan funds are released for Phase III. (pre-condition to disbursement)
 - (a) All accounting positions at PCU and D-PCU level filled with suitably experience staff posted for a minimum of 3 years by FCGO and attending their assigned place of work fulltime.
 - (b) Single project expenditure accounts set-up in each district, managed by the D-PCU accountant
 - (c) Contract log and Asset registers in-place and up to date within any items carried over from Phase 2
 - (d) Consolidated Audit Observation Log covering all project costs centres to date should be in-place and up-to-date.
70. **Book of Accounts.** The Project is ongoing and entering into the Phase III of implementation. Basically the books and ledgers used for Phase II accounting would be continued. In addition, a separate ledger and register/record would be maintained to capture IFAD expenditure categories and project component/sub-component/activities. The Project would maintained its book of accounts and records using appropriate accounting software available in the market or other donor funded GON similar projects, preferably IFAD. The project will coordinator with IFAD in the selection of suitable accounting software.
71. A Special Account opened in Nepal Rastra Bank, Thapathali in USD for loan and grants and the local currency Project Account opened in Nepal Rastra Bank, Nepalganj would be continued for Phase III. Signatory of both accounts would be Project Coordinator, with counter-signing by the PCU Accountant; both of them are proposed to be government employees. There will be only one cost/payment center in the district located in the DDC and supported by the D-PCU Accountant deputed from FCGO. The cost center would maintain separate accounts for WUPAP, and if applicable for each line agency separately. The main signatory of the account would be the head of respective line agency (LDO and head of each line agencies, if applicable), with counter-signing by the D-PCU Accountant.
72. **Staffing.** In summary the financial staffing of the project will be as follows: The PCU would have one Accountant with minimum 5 years of working experiences, two years in donor funded projects. There would be one Sub-accountant to support him in accounting and documentation. Each project district will have one Accountant attached to the D-PCU. All would be Government employees and posted from the FCGO. An experienced Financial Analyst would also be recruited to the PCU.

73. The Accountant at the PCU would have primary responsibility for overall Project financial management of the project, including: book keeping, operation and management of the Special Accounts for Loan and Grant and local currency account, funds disbursement, preparation of withdrawal applications, period visit of the district offices, internal control, monitoring and expenditure tracking, financial reporting, arrangement for audits, maintaining Summary of Audit Observation and Log of Audit etc. Other than the day to day operational level accounting he/she would be assisted by the Financial Analyst on entire fiduciary aspects of the project.
74. The Financial Analyst at the PCU would (i) assist on procurement process, (ii) assist the PCU Accountant on consolidation of reports received from the district, (iii) prepare periodic financial reports including project financial statement, (iv) prepare WA applications, (v) resolve the audit observations and recommendations, preparation of audit log and contract and stock management, (vi) support D-PCU Accountants by conducting training and (vii) for expenditure tracking and internal control. The Financial Analyst would assess PCU and district project accounting and stock records including ledgers, payment vouchers and procurement documents.
75. The D-PCU Accountant will have sole responsibility of WUPAP district level accounting, record keeping and reporting to the PCU. The PCU will deliver detailed unaudited financial statements of the operations, resources and expenditures related to the Project for each Fiscal Year to the IFAD within four (4) months of the end of each Fiscal Year (Article IX of the General Conditions). Audited Project Financial Statement will be delivered along with Audit report.
76. **Capacity Development.** The project would focus on Capacity development of the project accountants (PCU and D-PCU) as part of its regular activities. The training would be organized once a year in coordination and collaboration with FCGO and PEFA⁵. An exposure visit of accountant would be organized in the third years of project implementation. Half of the project accountants would have the chance to visit neighbouring countries to observe the financial management system of IFAD funded projects (funded from government counterpart contributions). The selection of accountant for the exposure visit would be based on first two year's performance rating. Only the best performing staff would be selected. The performance evaluation, marking and the list of selected candidate would be shared with IFAD and the suggestion of the IFAD would be consider for the final list of selected candidates. The indicator and mark allocation for the performance evaluation would be finalized by the next Joint Review Mission after the start of Phase III.
77. **Funds Flow.** The Project will be funded from the following sources – IFAD Loan, Government, VDC and contributions from beneficiaries. The PCU will be responsible for preparing the Annual Work Plan & Budget for the project and submitting the same to the PSC and the IFAD. After budget approval from the parliament, Ministry of Finance would pre-finance the funds to PCU and DDC of project districts to execute planned activities through its customary procedures of budget release.
78. An initial advance for loan would be remaining same for Phase III unless otherwise revised on the financing agreement or letter to borrower. Replenishment in the Special Account would be based on Withdrawal Applications submitted by the PCU. The advanced amount of the Special Account would be used to reimburse the expenditures pre-financed by the Government. Beside this, IFAD would disburse the funds to the Service Provider/Contractor/Supplier directly or reimburse to Government on the request of the PCU through withdrawal applications.
79. As specified in the Letter to The Borrower (LTB), project disbursement would be based on approved annual work plan and budgets. Funds would be disbursed under the following categories: (i) Vehicles and Equipment, (ii) Studies, Surveys, Training and Workshops, (iii) Service Provider Contracts, (iv) Challenging Funds, (v) Community Investment Fund, (vi) Salaries and allowances (vii) Operating and Maintenance (viii) Local Technical Assistance. The disbursement to the contracted service providers would be made on the basis of the targets being met (as set out in their contract)– preferably by applying six-monthly targets. The method of disbursement would depend on the agreements reached between the service provider and the PCU / D-PCU.
80. **Budget Release.** The release of funds from MOF/FCGO would be tied to the achievement of D-PCU on reimbursement to the government treasury of pre-financed expenditures. Those project districts who fail to submit expenditure reports to PCU within the given timeframe and in prescribed format for reimbursement claims to IFAD through withdrawal application would be

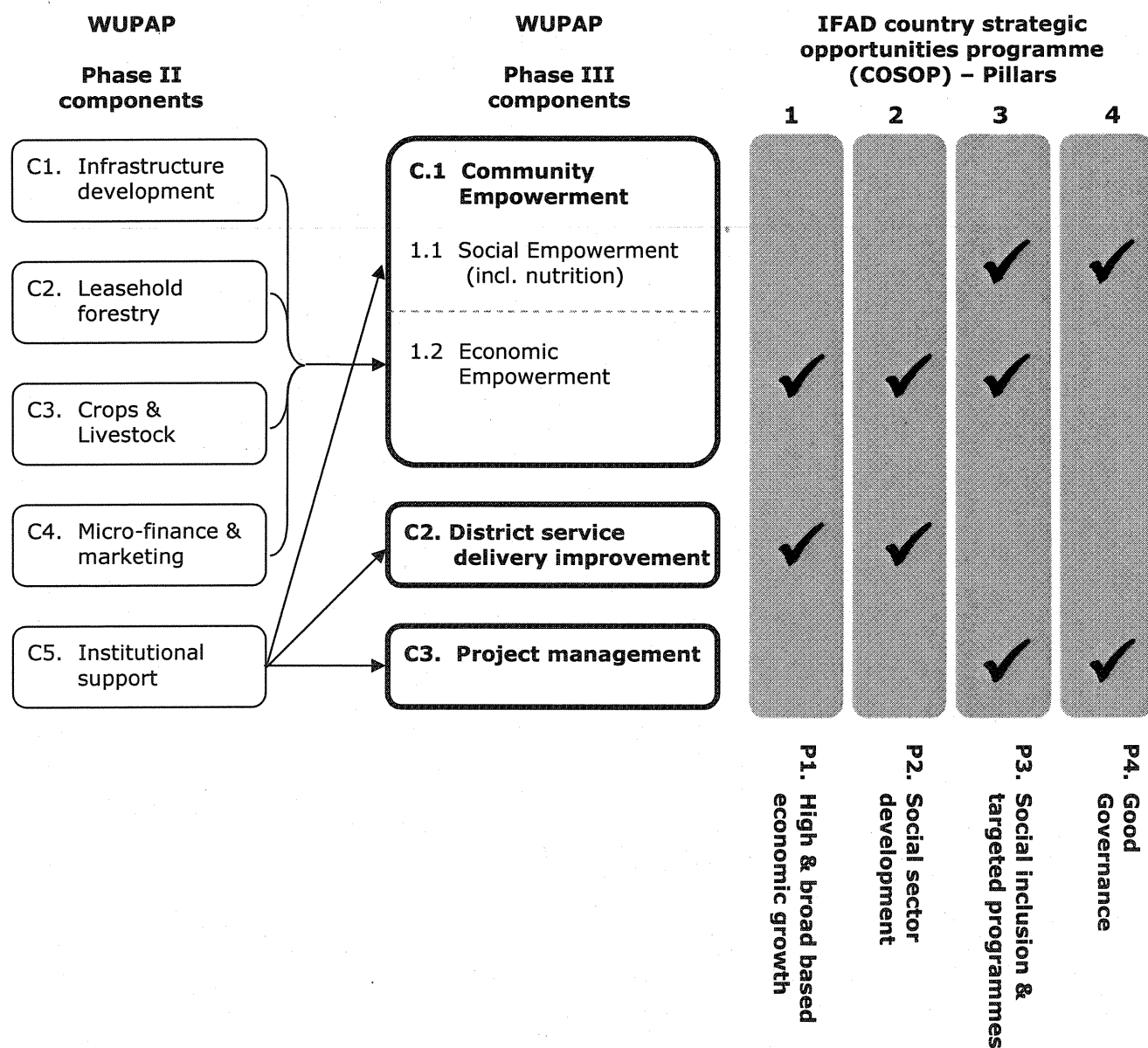
⁵ PEFA – Public Expenditure and Financial Accountability is the national programme of Public Financial Management improvement in NEPAL being led by FCGO.

- excluded from the budget release list. The MOF would assure that the best performing districts would not be penalized because of other low performing districts. The project districts who persistently failed to submit appropriate financial reports on time over the first two years of implementation could be considered for early exit and closure in year 3.
81. The fund disbursement from the DDC to the communities will be further detailed in the main design report. In principle, for infrastructure projects it will be on an instalment basis to the Infrastructure User Group. For service provision, monies will be paid directly from the district account to the service provider according to the deliverables agreed with the village. The C-PCU will be a signatory for the payments to the service providers for services delivered to their VDC. All payment/advances to the COs/LFUGs under the investment fund category would follow the account payee cheque on the name of respective COs/LFUGs. No payment would be made to the name of any officials of COs/LFUGs. The project adopts demand driven planning and fund allocation system for the activities that benefits the beneficiaries. In this system a budget ceiling per VDC will be communicated to the target communities for planning purposes. Within this ceiling the beneficiaries will deliver their planned activities in priority to the DDC via the D-PCU as part of their Community Investment Plan.
 82. Services provided by the other Government line agencies the fund disbursement would be (i) payment to the staff involved in the implementation of the activities or service delivery by the DDC or (ii) advance/payment to the line agencies by the DDC in the case of institutional service delivery through written proposal of service delivery with cost estimate. In both cases the certification of delivery of service would be mandatory by the service receiver/beneficiaries' organization.
 83. **Service Excellence Challenge Fund.** The project would establish and allocate funds under the category "Challenge Fund". For successful proposals, funds will be released directly from the PCU account to the relevant line agencies. Fund release will be in stages based on achievement of the agreed milestones in the proposal.
 84. **Audits.** IFAD requires that the project accounts be audited in accordance with auditing standards acceptable to IFAD and the IFAD Guidelines for Project Audits (for Borrower's use) by independent auditors acceptable to IFAD. In Nepal, the Borrower/Lead Project Agency would appoint the Auditor General of Nepal under terms of reference satisfactory to IFAD, to audit the account related to the project annually. The auditors would express an opinion on the annual consolidated financial statements and determine whether the designated Accounts have been correctly accounted for and have been used in accordance with the financing agreements. They would also determine the adequacy of supporting documents and controls on the use of Statement of Expenditures (SOEs) as a basis for disbursement. The auditors would also furnish a separate Management Letter which would identify any material weakness in accounting and internal controls at all levels and report on the degree of compliance of financial covenants of the IFAD financing agreement including procurement of goods, works and consultant services and IFAD no objection requirement.
 85. In addition, it would communicate matters that have come to the attention of the auditors which might have a significant impact on project implementation. A certified copy of the annual audit report of the project together with the PCU and National Project Director's replies to the Management Letter would be sent to IFAD within six months after the end of each fiscal year, i.e. before 15th January. This requirement would be stipulated in LTB.
 86. Procurement of all goods and services, outside of those that form part of the service provider contracts, would be managed directly by the PCU (Financial Analyst). Procurement of goods, works and services financed by the IFAD would follow the Government of Nepal's procurement act and regulations, to the extent that they are consistent with the IFAD Procurement Guidelines. Any future amendment on GON's procurement act and regulations will be subject to IFAD review. Annual procurement plan of each fiscal year will identify the method and procedures in order to ensure consistency with the IFAD Procurement Guidelines. For the selection of appropriate procurement method, the project will follow the procurement thresholds of GON procurement act, regulations and guidelines.
 87. **PEFA and Fiduciary Risk Reduction** support and advice will be provided by FCGO and DTCO to the PCU and D-PCU, respectively. In line with the ongoing reforms and good practice in these areas, the project should seek to incorporate such good practice into its regular financial management and control systems as they emerge.

I. Exit Strategy and Sustainability

88. Phase III represents a 4 year exit strategy for WUPAP and can be understood as follows:
89. Social empowerment activities are intended to deliver a lasting change in the capacity of women and men from the poorest households in the VDC to take a more leading role in their own development processes. The facilitation of a 4 year process of planning, management and governance of their own project investments is specifically intended to achieve these changes that will continue beyond the end of the project. A focus with the target communities in Years 3 and 4 of Phase III will be on how they will practically build on the social empowerment processes established under WUPAP in the future, especially given the evolving constitutional and administrative context for local government.
90. The process to support the graduation of community organisations and other groups to become self-sustaining will be completed by year 3, allowing for a managed exit from these activities within the project timeframe.
91. It is envisaged that a majority of the economic empowerment activities financed through the CIF will be implemented in Years 1 and 2 of the CIP period (equivalent to Yr 2 and 3 of Phase III). This allows sufficient time for additional support or services to be provided to increase the sustainability and scale of impacts of the initial activities according to the demands of the community. If successful, the modality of community-managed, demand responsive service delivery and investment would be an important model for future investments by GON and other projects.
92. At the District level, the new modalities that are intended to re-oriented service delivery, raising quality and accountability, may still be relatively new in the wider Nepalese context. However if successful they will provide a valuable model for future investments. Within the project districts themselves, the investments in raising the capacity of district service providers - through the capacity building on Farmer Field Schools and the service improvements financed through the Service Excellence Challenge Fund - can be expected to deliver lasting improvements in service delivery capacity that will be of benefit to the communities in the district long after the end of WUPAP.

Annex 1: Alignment of Phase II and Phase III Components and IFAD COSOP



Annex 2: Trigger Performance Technical Note

J. Introduction

93. WUPAP is being implemented in three phases⁶ under the Flexible Lending Mechanism of IFAD with a loan effectiveness date of 01 Jan 2003, current completion data of 31 Mar 2014 and is currently completing Phase II. Progression between Phases is based on project performance against clearly defined trigger.
94. The five triggers to move to Phase III in the Phase II Finance Agreement of 19 July 2007 are:
- detailed plans have been prepared and implemented or are under implementation for the active use of land for 70% of LFUGs which have held leases for three or more years
 - engineering assessment is that design, construction and maintenance standards for 80% of facilities constructed in Phase II are appropriate and adequate;
 - the recovery rate for loans extended from the Project and reflows is no less than 95%; [for lending capital loans made by Districts to community organizations for on-lending]
 - groups shall be graded on their capability and sustainability and agreed minimum of all groups operating for more than two years should be in Grades 1 and 2;
 - at least 75% of the Loan has been disbursed.
95. The Phase III Design and Joint Review Mission was tasked with providing an assessment of the project performance against these five trigger and, based on this assessment, make a recommendation if the project should be considered to progress to Phase 3. This Technical Note provides further data and analysis in support of this assessment for each trigger. Due to resource constraints this assessment relies on data compiled by the project itself. Direct field validation of data for a representative sample of sites has not been possible and the Mission has used experience from previous visits to project sites to provide a qualitative validation of the implied conclusion from the data.

K. Summary of assessment against triggers

96. Having reviewed detailed data provided by the project and based on prior field visits to project sites by mission members, the mission concludes that the project will have met its five performance triggers by the end of Phase II, having already met four of five triggers at the time of the mission as summarized below.

Trigger	Status & Outlook
Leasehold forestry: detailed plans have been prepared and implemented or are under implementation for the active use of land for 70% of LFUGs which have held leases for three or more years	Already met. Currently 82% of LFUG have some active use of land and plans
Community infrastructure: engineering assessment is that design, construction and maintenance standards for 80% of facilities constructed in Phase II are appropriate and adequate;	Expect that this will be met by Jul 2012 Currently 67%, expected to increase to 80%-90% based on current programme of work by July
Credit: the recovery rate for loans extended from the Project and reflows is no less than 95%	Already met Recovery rate reached 95.4% as of March 2012 and has been stable around this level since July 2011
Community organisations: groups shall be graded on their capability and sustainability and agreed minimum of all groups operating for more than two years should be in Grades 1 and 2. Recommend revision to 80%	Already met – based on revised target level Currently 87% of COs more than 2 years old are rated as Grade 1 or 2
Disbursement: at least 75% of the Loan has been disbursed	Already met 81.8% overall disbursement as of Mar 2012 with pending WA. Disbursement of Loan is 92%. Final disbursement likely to be 90-95% by end Phase II

97. **Recommendation:** The mission recommends that WUPAP be considered to progress to Phase III as from 16 July 2012 based on the above assessment.

⁶ Phase I Districts: Bajhang*, Bajura*, Jumla* and Humla*, Phase II Districts: Dailekh*, Jajarkot*, Dolpa, Kalikot, Rolpa and Rukum, In addition Mugu was initially included in Phase II but then withdrawn due to implementation difficulties. Those marked with * are focus Districts for more intensive management support during the one year extension to Phase II, including the appointment of a District Project Manager, selected on the basis of the scale of project activities within these Districts.

Trigger 1: Leasehold forestry

98. **Definition:** "detailed plans have been prepared and implemented or are under implementation for the active use of land for 70% of LFUGs which have held leases for three or more years".
99. **Data:** Between Dec 2011 and Mar 2012 the PCU and District teams completed a full re-survey of all LFUGs to provide a consistent data set of the status of the 887 existing LFUGs. A sample of the data now available for all LFUGs is shown in the table below. These data include details of the area of different quality of land handed over to each group and also the area being used for different purposes. This data is now being updated on a six monthly basis for all districts using a standard survey format.
100. Analysis of this data therefore allows for the direct assessment if an LFUG is actively using its leasehold land in one or more ways. It is notable that all LFUG have management plans in place as this is a mandatory requirement before the leasehold plots are handed over.
101. **Caveat:** The dataset now available is much improved in consistency and completeness across all districts compared to 2011. While much improved, the current mission has not been able to validate the data through field visits to a representative number sites due to resources constraints on the mission. However, the mission team members have visited numerous WUPAP LFUG on previous occasion and so are able to provide a qualitative validation of the overall conclusions from the data.
102. **Interpretation of data:** 588 of the 887 LFUGs will have held their land lease for more than 3 years by 15 July 2012. The assessment of "active use" therefore is restricted to this group of LFUGs.
103. For the purposes of this assessment, an LFUG is considered to have "active use of land" if it had planted area for one or more of the following:
 - (a) NTFP (non-timber forest product)
 - (b) MAP (medicinal and aromatic plants)
 - (c) Operating a nursery on their leasehold plot
104. These three activities typically require the LFUG to have been engaged in planting and management of some kind, and so provide a higher test for "active" use and so are expected to give a conservative assessment of the level of active land use. In addition to the three activities above, in many cases "active use" could reasonably be interpreted to include grazing control and collection of natural grasses either for use or sale or the use of timber and other tree products from natural forest already on the land.
105. Based on the definition of "active use" above and using the most recent dataset, a total of 484 LFUGs are actively using their leasehold plots. This is equivalent to 82% of LFUGs that will have had their plots for at least 3 years by July 2012.
106. **Assessment:** trigger already met, Actual performance: 82%, Trigger target: 70%
107. The performance by district is shown below:

District	Grand Total	>3yr old				<3yr old			
		Active land use	Inactive	Total	% Active	Active land use	Inactive	Total	% Active
Bajhang	119	77	1	78	99%	33	8	41	80%
Bajura	157	84	33	117	72%	12	28	40	30%
Dailekh	58	25	6	31	81%	19	8	27	70%
Dolpa	66	28	11	39	72%	6	21	27	22%
Humla	123	86	2	88	98%	35		35	100%
Jajarkot	67	39	12	51	76%	9	7	16	56%
Jumla	26					11	15	26	42%
Jumla	99	72	27	99	73%				-
Kalikot	42	14	7	21	67%	15	6	21	71%
Rolpa	49	17	5	22	77%	13	14	27	48%
Rukum	81	42		42	100%	37	2	39	95%
Total	887	484	104	588	82%	190	109	299	64%

Table: Extract from LFUG data set

District	Name of LFUG	Name of VDC	Chairperson		Land in use by type of use (ha.)						Land not in use by type of land (ha.)				Renewed action plan	Grazing control	LFUG have nursery	Income of LFUG	Dalit Woman	Dalit Man	Janajati Woman	Janajati Man	Other Woman	Other Man	Total	Three years old (yes = 1)	Date of Action Plan Approved			
			Gender	Ethnicity	NTFPs	MAPs	Grass	Forest	Other	Total	Rocky expose	Slope more than 60 di	Useable Land	Land slide area														Total		
Bajhang	Ramiko	Pawagadhi	Man	Dalit	2	1	1	3	0.8	7.8	2.5	4	0.5	0	7	14.8	52	0	1	0	0	8	2	0	0	1	4	15	1	2003-05-23
	Khare khola	Pawagadhi	Man	Other	1	1	1	1	0.5	0	3.5	2.5	1.2	0.5	4.7	8.2	42	0	1	1	0	0	0	0	9	2	11	1	2003-05-27	
	Tallachhanna	Pawagadhi	Man	Other	2	0.5	2	1	0	5.5	3.9	4	2	1.5	11.4	16.9	32	0	1	0	0	0	0	0	12	7	19	1	2003-05-25	
	Dani Sallo	Pawagadhi	Man	Other	1	0.5	0.5	1	1	4	2	2	1	0.6	5.6	9.6	41	0	1	0	0	0	0	0	5	4	9	1	2003-05-28	
	Parimela ka	Pawagadhi	Man	Other	7	3	2	1	0.3	13.3	3	4	2	0	9	22.3	59	1	0	1	0	0	0	0	10	11	21	1	2005-09-02	
	Parimela kha	Pawagadhi	Man	Other	5	2	4	1	0	12	2	7	1	0.1	10.1	22.1	54	1	0	1	0	0	0	0	10	11	21	1	2005-09-02	
	Khairan	Pawagadhi	Man	Other	4	1	4	1	0.1	10.1	5	6	2	0	13	23.1	43	0	1	0	0	0	0	0	13	7	20	1	2006-05-28	
	Jholsani	Pawagadhi	Man	Dalit	1	2	1	2	0	6	3	5	3	0.4	11.4	17.4	34	0	1	1	0	11	9	0	0	0	20	1	2006-05-22	
	Chulvakot	Pawagadhi	Man	Other	0	4	2	3	2.8	11.8	5	4	3	1	13	24.8	47	0	1	0	0	0	0	0	11	10	21	1	2007-01-05	

Trigger 2: Infrastructure

108. **Definition:** *"engineering assessment is that design, construction and maintenance standards for 80% of facilities constructed in Phase II are appropriate and adequate"*
109. **Data:** As at March 2012 the project had completed a review of the status of all 429 infrastructure schemes constructed in Phase II. This assessment has principally focused on the physical state of repair of the schemes in order identify those scheme in need of maintenance and repair to bring them back to an acceptable condition and working order. The status of infrastructure by district and type of scheme is shown in the table below.
110. A less thorough assessment has been done of O&M arrangement, although previous site visits by mission team members indicates that O&M needs strengthening in a majority of cases.
111. **Interpretation of data:** As at Mar 2012, overall 69% of Phase II schemes were functional while 31% were in need of repair. Performance varies greatly by district and by type of scheme. Problems of repair and maintenance are dominated by drinking water and irrigation where 40% of schemes need repair. By district, in Humla and Jumla more than 50% of the schemes are in need of repair, and Bajiang and Dailekh needing repair to 38% and 37% respectively. In contrast, no schemes need repair in Rukum and only 9% in Dolpa and 13% in Jajarkot. In terms of O&M, only a minority of scheme appear to have functional O&M arrangements in place at present but detailed data is not yet available on this.
112. The project is implementing a repair and maintenance programme to cover all 135 schemes in need of repair. At the same time project staff are remobilizing infrastructure user groups and establishing O&M funds to be managed by these group to strengthen O&M arrangements.
113. **Assessment:** **expected to be met by July 2012.** Trigger target: 80%, Current performance: 69%. However, if the programme of repair is implemented as plan the target will exceed the trigger performance by July 2012 in terms of the physical state of the infrastructure. While the O&M arrangement are also likely to have improved due to the ongoing activity programme, these are likely to need continued strengthening in Phase III.

Table: Phase II Infrastructure status by District and Type

Note: Shading indicates District/scheme type with high percentage in need of repair

District	Bajhang				Bajura				Humla				Jumla				Dailekh								
	Total	Functional	Needs repair		Total	Functional	Needs repair		Total	Functional	Needs repair		Total	Functional	Needs repair										
			#	%			#	%			#	%			#	%	#	%	#	%					
Scheme Type	#	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%						
	18	7	39	11	61	22	16	73	6	27	13	4	31	9	69	9	3	33	6	67	14	8	57	6	43
	14	13	93	1	7	6	5	83	1	17	6	5	83	1	17	5	5	100	0	0	1	1	100	0	0
	9	2	22	7	78	15	6	40	9	60	4	1	25	3	75	7	3	43	4	57	17	9	53	8	47
Community Building	1	1	100	0	0	0	0	-	0	-	2	2	100	0	0	0	0	-	0	-	0	0	0	0	-
Wooden bridge	1	1	100	0	0	0	0	-	0	-	1	0	0	1	100	0	0	-	0	-	0	0	0	0	-
Road	2	2	100	0	0	0	0	-	0	-	2	2	100	0	0	3	3	100	0	0	0	0	0	0	-
Toilet Block	1	1	100	0	0	0	0	-	0	-	1	1	100	0	0	0	0	-	0	-	1	1	100	0	0
School building	10	10	100	0	0	8	5	63	3	38	14	7	50	7	50	14	7	50	7	50	7	6	86	1	14
Improved Ghatta	0	0	-	0	-	1	0	0	1	100	5	0	0	5	100	6	0	0	6	100	0	0	0	0	-
Rural electrification	2	2	100	0	0	1	1	100	0	0	0	0	0	0	-	0	0	0	0	-	0	0	0	0	-
Health post	0	0	-	0	-	0	0	-	0	-	2	1	50	1	50	1	1	100	0	0	1	1	100	0	0
Trail bridge	0	0	-	0	-	0	0	-	0	-	0	0	-	0	-	0	0	-	0	-	0	0	0	0	-
Diesel plant (Generator)	0	0	-	0	-	0	0	-	0	-	0	0	-	0	-	1	1	100	0	0	0	0	0	0	-
TOTAL	58	39	67	19	33	53	33	62	20	38	50	23	46	27	54	46	23	50	23	50	41	26	63	15	37

Table: Phase II Infrastructure status by District and Type (continued)

District	Scheme Type	Dolpa			Jajarkot			Kalikot			Rolpa			Rukum			Grand Total													
		Functional		Needs repair	Functional		Needs repair	Functional		Needs repair	Functional		Needs repair	Functional		Needs repair	Total	Functional	Needs Repair											
		#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%											
	Drinking water	9	67	3	33	16	11	69	5	31	14	9	64	5	36	19	10	53	9	47	15	100	0	0	149	89	60	59	40	
	Micro hydro	2	2	100	0	0	5	5	100	0	0	2	2	100	0	0	6	5	83	1	17	0	-	0	-	47	43	91	4	9
	Irrigation	6	6	100	0	0	7	7	100	0	0	10	7	70	3	30	3	1	33	2	67	11	100	0	0	89	53	60	36	40
	Community Building	0	0	-	0	-	0	0	-	0	0	0	0	-	0	-	0	0	-	0	-	0	0	-	0	3	3	100	0	0
	Wooden bridge	3	3	100	0	0	1	1	100	0	0	0	0	-	0	-	0	0	-	0	-	0	0	-	0	6	5	83	1	17
	Road	1	1	100	0	0	1	1	100	0	0	0	0	-	0	-	1	1	100	0	0	0	0	-	0	10	10	100	0	0
	Toilet Block	0	0	-	0	-	0	0	-	0	-	0	0	-	0	-	0	0	-	0	-	0	0	-	0	3	3	100	1	33
	School building	6	6	100	0	0	5	5	100	0	0	10	8	80	2	20	9	8	89	1	11	8	100	0	0	91	70	77	21	23
	Improved Ghatta	5	5	100	0	0	0	0	0	-	0	0	0	-	0	-	0	0	-	0	-	0	0	-	0	17	5	29	12	71
	Rural electrification	0	0	-	0	-	0	0	-	0	-	0	0	-	0	-	0	0	-	0	-	0	0	-	0	3	3	100	0	0
	Health post	1	1	100	0	0	2	2	100	0	0	0	0	-	0	-	0	0	-	0	-	1	100	0	0	8	7	88	1	13
	Trail bridge	0	0	-	0	-	2	2	100	0	0	0	0	-	0	-	0	0	-	0	-	0	0	-	0	2	2	100	0	0
	Diesel plant (Generator)	0	0	-	0	-	0	0	-	0	-	0	0	-	0	-	0	0	-	0	-	0	0	-	0	1	1	100	0	0
	TOTAL	33	30	91	3	9	39	34	87	5	13	36	26	72	10	28	38	25	66	13	34	35	100	0	0	429	294	69	135	31

Trigger 3: Credit / Loan Repayment

114. **Definition:** "The recovery rate for loans extended from the Project and reflows is no less than 95%"
115. In addition, the Phase 2 appraisal report, provides further clarity on the intended definition of the trigger as it states (p8): "The recovery rate for credit extended by the LDFBs should be 95% for each project year". If it is assumed that all overdue amounts will be unrecovered, as the practice has not been to write-off any of these amounts to date, then the recovery rate is calculated as follows:

$$\text{recovery rate (e)} = \frac{\text{value of repayments made}}{\text{value of repayments due}} = \frac{\text{value of repayments made (b)}}{\text{value of repayments made (b) + overdue (d)}}$$

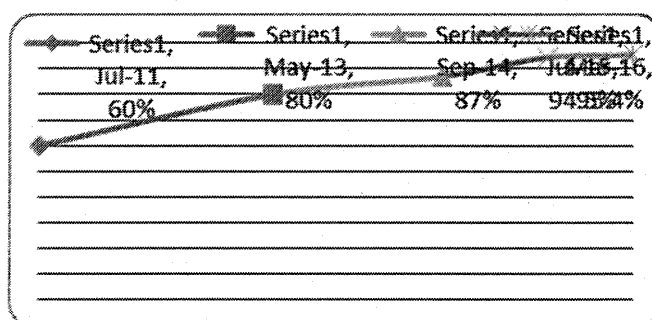
116. **Data:** The line of credit was only disbursed in Phase 1 and so only in Bajhang, Bajura, Jumla and Humla. Data is available over several years for repayment and overdue amounts for all the community organizations that have received capital loans from the project in these four districts. The position as at March 2012 is summarized in the table below.

Table: Line of Credit Loan Performance (NPR) (Mar 2012)

District	Loan disbursement	Repayment amount	Outstanding	Overdue	Recovery rate (%)
	a	b	c	d	$e = \frac{b}{b + d}$
Bajhang	2,789,000	1,865,597	923,403	105,982	94.6
Bajura	7,339,100	5,429,549	1,909,551	315,581	94.5
Humla	17,430,507	9,440,761	7,989,746	427,047	95.7
Jumla	4,232,000	3,149,130	1,082,870	111,301	96.6
Total	31,790,607	19,885,037	11,905,570	959,911	95.4

117. **Interpretation of data:** The above data provides a clear indication of the current recovery rate. However, given the poor performance during Phase I compared to the apparent strong current performance, it is prudent to review how this performance has changed over time.
118. Based on data reported by previous missions, it is possible to plot the gradual improvement of loan recovery performance, as shown in the figure below. At the start of Phase II in July 2007 the recovery rate was estimated as around 60%. By May 2009 the recovery rate on the loans extended and reflows had risen to 80%, and by Sep 2010 (MTR) to 87% and reached 94.5% by Jul 2011 and appear now to have stabilized at around 95%.

Figure: Time series change in Line of Credit Loan Performance (%) (2007-2012)



- 119.
120. **Assessment:** trigger already met, Actual performance: 95.4%, Trigger target: 95%
121. It is noted that the recovery rate is a dynamic measure and so while the current performance is above the trigger target the recovery rate can be expected to fluctuate over time. However, the steady improvement since July 2007 and the stabilization around 95% since 2011 means that the recovery is expected to remain close to the trigger level.

Trigger 4: Community Organization Sustainability

122. **Definition:** *"Groups shall be graded on their capability and sustainability and agreed minimum of all groups operating for more than two years should be in Grades 1 and 2" where, according to the Appraisal Report, "Grade 1" refers to COs that are currently, or very close to being, self-sustaining and can operate without project assistance in the foreseeable future and "Grade 2" are those that can be brought to Grade 1 status within a reasonable time with modest, targeted support".*
123. The 2011 Supervision Mission recommended that the 100% target of "all groups" was not appropriate in a practical project setting and should be reviewed. This was acknowledged by IFAD Quality Assurance Review of the Supervision. The performance of other projects in Nepal can provide useful reference points in determining a trigger performance that would be more appropriate. For example, in the case of the IFAD supported Leasehold Forest and Livestock Project a recent review of farmer groups found that 21% of groups were "active", 57% "medium" and 22% passive. Taking "active" and "medium" as equivalent to Grade 1 and 2, albeit with slight different criteria tailored to the specific focus of the respective groups, this suggest a trigger target of 80% may be appropriate.
124. **Data:** In Q1 2012 the project completed a full re-survey of all Community Organizations supported by the project using an improved criteria (see below) to assess the group capacity and sustainability that was developed during the 2011 Supervision Mission. The improved criteria provides a more direct assessment of key indicators of group performance that relate to the sustainability of the groups and has been applied consistently across all COs. A full data set for all CO is now available and was reviewed by the current mission and provides a good basis on which to assess performance against the trigger.
125. **Interpretation of data:** Of the 1,992 COs more than 2 years old, 87% (1740 COs) were graded as A or B. The PCU intends to update this grading on a six monthly basis to track progress of the individual COs and has begun to use it as the basis for a more targeted programme of support and individual coaching to the COs to address their individual strengths and weaknesses as well as providing improved insight into the likely sustainability of each CO were there to be no further external support
126. **Assessment:** trigger already met. Actual performance: 87%, Trigger target: 80% (Revised).
127. It is likely that the criteria for assessing the true sustainability of the COs could still be further improved as the project gains experience through the current programme of individual CO coaching. Thus, while the project can be reasonably considered to have met this trigger there is still a need for continued investment in capacity building to further raise the sustainability of most groups.

Table: Summary of grade for COs > 2years old, by district

# of COs	Grade	Jumla	Humla	Bajhang	Bajura	Kalikot	Jajarkot	Dailekh	Rukum	Rolpa	Dolpa	Total
	A or B	188	207	255	265	225	110	139	154	153	44	1740
	C or D	9	7	59	58	36	20	10	29	0	24	252
	Total	197	214	314	323	261	130	149	183	153	68	1992
% of CO	A or B	95%	97%	81%	82%	86%	85%	93%	84%	100%	65%	87%
	C or D	5%	3%	19%	18%	14%	15%	7%	16%	0%	35%	13%
	Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table: No. of COs by grade, age and district

Age of COs by July 12	Grade	Jumla	Humla	Bajhang	Bajura	Kalikot	Jajarkot	Dailekh	Rukum	Rolpa	Dolpa	Total
>4yrs old	A	88	77	77	153	103	29	0	2	0	15	544
	B	21	49	62	37	46	5	0	0	0	10	230
	C	6	1	42	31	18	1	0	0	0	12	111
	D	1	0	8	24	8	1	0	0	0	4	46
	Total	116	127	189	245	175	36	0	2	0	41	931
2-4yrs old	A	63	50	73	54	41	49	51	105	147	8	641
	B	16	31	43	21	35	27	88	47	6	11	325
	C	2	6	9	2	9	14	9	14	0	8	73
	D	0	0	0	1	1	4	1	15	0	0	22
	Total	81	87	125	78	86	94	149	181	153	27	1061
<2yrs old	A	16	18	34	31	28	16	13	63	64	6	289
	B	21	10	22	1	22	18	98	34	6	3	235
	C	6	0	0	2	0	8	46	3	0	7	72
	D	0	0	0	0	0	2	2	2	0	0	6
	Total	43	28	56	34	50	44	159	102	70	16	602
All COs	A	167	145	184	238	172	94	64	170	211	29	1474
	B	58	90	127	59	103	50	186	81	12	24	790
	C	14	7	51	35	27	23	55	17	0	27	256
	D	1	0	8	25	9	7	3	17	0	4	74
	Total	240	242	370	357	311	174	308	285	223	84	2594

Table: Improved CO Grading Criteria (from 2011 Supervision)

Grading Criteria		Score
A: Institutional Criteria (40 points)		
A1	Members Drop-out (other than from permanent migration)	
i	Less than 10%	10
ii	11-20 %	7
iii	More than 20%	0
A2	Meeting frequency (last one year)	
i	8 times or more	10
ii	5-7 times	7
iii	Less than 5 times	0
A3	Members Attendance in meetings- last six months	
i	Average attendance at meetings of 67% or more.	10
ii	Average attendance at meetings of 51%-66%	7
iii	Average attendance at meetings of less than 51%	0
A4	Leadership quality as reflected by:	
i	> 75% members understand and can explain the objectives and activities of the COs	10
ii	50%-75% members understand and can explain the objective and activities of the COs	7
iii	Less than 50% understand and can explain the objective and activities of the COs	0
B: Financial Indicators (40 Points)		
B1	Book keeping	
i	Updated and with accurate and complete yearly financial statement	8
ii	Updated but with some minor errors omissions	5
iii	Not updated with financial statements or with serious errors and omissions	0
B2	Regularity of Savings - last six months	
i	Average of more than 80% members save per meeting	8
ii	Average of 70%- 80% members save per meeting	5
iii	Average of <70% members save per meeting	0
B3	Repayment rate on loans to members	
i	More than 95%	8
ii	90 - 95%	5
iii	less than 90 %	0
B4	Idle funds	
i	Less than 11%	8
ii	11-20%	5
iii	More than 20%	0
B5	Loan Concentration & Risk	
i	No member has received a single loan amounting to more than 10% of the total loanable fund	8
ii	One or more members have received a single loan amounting to more than 10% of the total loanable fund but with security being taken	5
iii	One or more members have received a single loan amounting to more than 10% of the total loanable fund without security being taken	0

C: Wider Development Indicators (20 Points)		
C1	Coordination and linkage with other agencies	
I	Obtained support from other projects/donors (seeds/ animals, infrastructure, training, business development, cooperative development, adult literacy, HIV /AIDs, sanitation)	8
ii	Applied for support from other projects/donors (seeds/ animals, infrastructure, training, business development, cooperative development, adult literacy, HIV /AIDs, sanitation)	5
iii	No efforts made to access other support	0
C2	CO members' perceived benefits from being CO members	
i	More than 80% feel that they are benefiting	7
ii	70-80% feel that they are benefiting	4
iii	Less than 70% feel that they are not benefiting	0
C3	Schooling of Children of Members	
i	More than 90% of the school age children under 15 attending school	5
ii	80-90% of school age children under attending school	3
iii	Less than 80% school age children attending school	0

Grading bands

Band	Description of CO	Min
Grade A	CO is already self managing and sustainable without external support	80
Grade B	CO is functioning reasonably well although not yet fully self-sustaining, but could become self-sustaining with a relatively small amount of further external support	60
Grade C	CO is active but not self-sustaining and with few prospects to become sustainable in the short term, even with further support	40
Grade D	CO is weak and has very little activity or capacity and are unlikely to become sustainable	0

Trigger 5: IFAD Loan Disbursement

128. **Definition:** "at least 75% of the Loan has been disbursed."
129. **Data:** Financial performance by financier is routinely monitored and reported during the annual supervision missions. This data was updated during the current missions and is taken from the financial appendices of the Aide Memoire.
130. **Interpretation of Data:** IFAD loan is taken from IFAD disbursement report as at 5 April 2012 and the outstanding WA claim. Approval figures are taken from the Phase II Appraisal Report. Conversation rate for GON disbursement 1 USD= NPR 70 is taken from appraisal exchange rate. Conversation rate for outstanding WA claim of IFAD Loan disbursement is: 1 USD= 81.50 NPR (Nepal Rastra Bank, 5 April 2012). Grant is taken from IFAD disbursement report as at 5 April 2012.

Table: Phase II (As at 14 Mar 2012)

Financier	Approval (USD '000)	Disbursements (USD '000)	% Disbursed
IFAD loan	10,050	9,286.80	92%
IFAD grant	288	290.84	101%
Government	2,243	1,260.79	56%
Local Government	501		0%
Beneficiaries	390		0%
Private Sector	14		0%
Total	13,486	10,838.43	80%

131. **Assessment:** target already met. Actual performance: 92%, Trigger target: 75%

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Western Uplands Poverty Alleviation Project (WUPAP)
Loan: 576-NP Grant: DSF-8010NP

Annex 3: Cost Tables

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NEPAL
Western Uplands Poverty Alleviation Project: Phase
Table 1. Social Empowerment
Detailed Costs

Unit	Quantities			Unit Cost (USD)	Base Cost (USD '000)			
	2010	2011	2012		2010	2011	2012	2013
I. Investment Costs								
A. Participatory planning and governance								
Pre-feasibility assessment and advice /a	153	-	-	153	400	61	-	61
Participatory Community Investment Planning Process /b	153	-	-	153	600	92	-	92
Annual public audit and CIP updating /c	-	153	153	459	300	-	46	46
Subtotal Participatory planning and governance					153	46	46	291
B. CO Graduation								
CO consolidation and links to MFIs/Banks /d	77	153	153	460	200	15	31	15
Short-term national TA for CO consolidation /e	6	6	6	24	2,500	15	15	15
CO "graduation" grants /f	-	-	-	1,500	400	-	-	600
Subtotal CO Graduation					30	46	46	630
C. Nutrition awareness campaign and household training								
ToT and refresher	8	8	-	16	800	6	-	13
Short-term national TA for Nutrition campaign /g	3	2	2	9	2,500	8	5	5
Campaign Materials	153	153	153	459	200	31	31	92
Subtotal Nutrition awareness campaign and household training					45	42	36	127
D. Social mobilization and facilitation								
Social mobilizers /h	153	153	153	612	2,700	413	413	413
SM TOT and other training /i	24	16	16	72	800	19	13	13
Subtotal Social mobilization and facilitation					432	426	426	1,710
E. Community Investment Fund /j								
	-	153	-	153	35,000	-	5,355	-
Total					660	5,914	553	1,107
								8,235

/a Farming trip: multi-disciplinary team for 3-4 days in each VDC, fees, travel and logistics, infra: 1 sub-engineer from DPC for 3 days

/b Costs of materials, snacks etc for community meetings

/c Once per year in each VDC covering all project supported activities and groups from Yr 2. Cost to cover cost of meeting materials/drinks/snacks but not participants costs

/d Cost of meetings in VDC, exposure visits and meetings with MFIs/Banks/Associations

/e Unit cost include travel to districts. Assumes 0.75 months input per district in Yr 1-4, assuming cascade of TA via Senior SM and SMs. May be provided by institutional partner, e.g. MFI or Association

/f Assumes 60% of COs receive this grant based on reaching self-sustaining status. Awarded in Yr 4 only.

/g Unit cost include travel to districts. Assumes 0.25 months input per district in Yr 1 & 2 plus addition 0.5 month in Yr 1 for material prep. Assume cascade of TA via Senior SM and SMs. May be provided by institutional service provider, e.g. MFI or Association

/h Includes salary, local travel and allowances etc

/i All costs including allowances for trainees, materials and costs of trainers. 7 day District based courses.

/j actual allocation per VDC weighted to poor HHs and other factors

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NEPAL
Western Uplands Poverty Alleviation Project: Phase
Table 2. District Service Delivery Improvement
Detailed Costs

Unit	Quantities				Unit Cost (USD)	Base Cost (USD '000)			
	2010	2011	2012	2013		2010	2011	2012	2013
I. Investment Costs									
A. Service Excellence Challenge Fund									
Service Excellence Challenge Fund /a									
B. Farmer Field School Pilots & Rollout									
FFS design and material prep /b									
FFS pilot /c									
FFS roll-out of capacity building /d									
Subtotal Farmer Field School Pilots & Rollout									
C. Human resource development									
Professional training and development of service provider staff /e									
Total									

a Assume average of 2 best service providers per district get average grant of USD25,000/NPR2.1 million over 2 years
b To cover maximum of five Farmer Field School (FFS) - e.g. Goats raising, vegetables/home garden, MAF/NITP cultivation & nursery mgt
c Each FFS to be piloted in total of 6-8 locations in total of 2 Districts per FFS topic
d To T of service providers in all districts including running first 2 demo FFS. Excludes pilot districts
e Topics to be determined by Regional Directorates in consultation with District Line agencies

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Western Uplands Poverty Alleviation Project: Phase
Table 3.1. District Project Coordination Unit
Detailed Costs

Unit	Quantities				Unit Cost (USD)	Base Cost (USD '000)			
	2010	2011	2012	2013		2010	2011	2012	2013
I. Investment Costs									
A. District Project Coordination Unit									
1. Equipment									
Motorbikes	7	-	-	-	7	3,000	21	-	-
Laptops	24	-	-	-	24	1,000	24	-	-
Other IT, office equipment and furniture	8	-	8	-	16	2,000	16	16	32
Subtotal Equipment							61	16	77
2. Meetings and workshops									
Beneficiary Oversight Board events	8	8	8	8	32	3,000	24	24	24
Project meetings, coordination committees and workshops	8	8	8	8	32	2,000	16	16	16
Subtotal Meetings and workshops							40	40	40
3. Deputy District Project Coordinator	8	8	8	8	32	17,900	143	143	143
Total Investment Costs							244	183	183
II. Recurrent Costs									
A. District Project Coordination Unit									
1. Staff									
a. D-PCU									
M&E Officer /a	8	8	8	8	32	4,400	35	35	35
Senior Social Mobilizer /b	16	16	16	16	64	4,400	70	70	70
Accountant /c	8	8	8	8	32	4,000	32	32	32
Sub-Engineers /d	16	16	16	16	64	3,100	50	50	50
Computer Operator /e	8	8	8	8	32	3,100	25	25	25
Helper /f	8	8	8	8	32	1,900	15	15	15
Subtotal D-PCU							227	227	227
b. Other - District									
LDF Secretary /g	8	8	8	8	32	4,612	37	37	37
Subtotal Staff							264	264	264
2. Operating costs									
Travel (monitoring, supervision, coordination)	8	8	8	8	32	4,000	32	32	32
Vehicle O&M	8	8	8	8	32	1,000	8	8	8
Office operating costs, consumables incl printing	8	8	8	8	32	8,000	64	64	64
Support for IFAD supervision & support missions	8	8	8	8	32	500	4	4	4
Subtotal Operating costs							108	108	108
Total Recurrent Costs							372	372	372
Total							616	555	571

la Contract staff
 lb Contract staff
 lc GON staff
 ld Contract staff
 le Contract staff
 lf Contract staff
 lg GON staff

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Western Uplands Poverty Alleviation Project: Phase
Table 3.2. Project Coordination Unit
Detailed Costs

Unit	Quantities				Unit Cost (USD)	Base Cost (USD '000)				Total		
	2010	2011	2012	2013		2010	2011	2012	2013			
I. Investment Costs												
A. Project Coordination Unit												
1. Equipment												
Motorbikes	2	-	-	-	2	60,000	120	-	-	-	120	
Laptops	2	-	-	-	2	3,000	6	-	-	-	6	
Other IT, office equipment and furniture	6	-	-	-	6	1,000	6	-	-	-	6	
lumpsum-per district	2	1	1	-	-	5,000	10	5	5	-	20	
Subtotal Equipment							142	5	5	-	152	
2. Meetings and workshops												
Project meetings, coordination committees and workshops	1	1	1	1	4	4,000	4	4	4	4	16	
Human resource development	2	2	4	4	12	10,000	20	20	40	40	120	
3. Monitoring and evaluation												
Phase III Baseline survey	1	-	-	-	-	30,000	30	-	-	-	30	
Annual outcome survey	1	1	1	-	2	15,000	-	15	15	-	30	
Project completion report	-	-	-	-	-	20,000	-	-	-	20	20	
Impact study	-	-	-	-	-	30,000	-	-	-	30	30	
Subtotal Monitoring and evaluation							30	15	15	50	110	
6. Technical assistance												
Financial Analyst /b	1	1	1	1	4	17,900	18	18	18	72	72	
Community Development Specialist /c	1	1	1	1	4	17,900	18	18	18	72	72	
Planning, Monitoring and Evaluation Specialist /d	1	1	1	1	4	5,800	6	6	6	24	24	
MIS Officer /f	1	1	1	1	4	5,800	6	6	6	24	24	
Engineer /g	-	1	1	-	2	17,900	-	18	18	-	36	
Subtotal Technical assistance	0.25	0.25	0.25	0.25	1	17,900	70	68	68	70	313	
Total Investment Costs							266	132	152	164	713	
II. Recurrent Costs												
A. Project Coordination Unit												
1. Staff												
a. PCU - Nepalgunj												
Project Coordinator /i	1	1	1	1	4	5,100	5	5	5	5	20	
Deputy Project Coordinator /j	1	1	1	1	4	4,000	4	4	4	4	16	
Account Officer /k	1	1	1	1	4	4,000	4	4	4	4	16	
Sub-Accountant /l	2	2	2	2	8	3,100	6	6	6	6	24	
Administrative Assistant /m	1	1	1	1	4	3,100	3	3	3	3	12	
Computer Operator /n	2	2	2	2	8	3,100	6	6	6	6	24	
Driver /o	4	4	4	4	16	2,600	10	10	10	10	40	
Helper /p	2	2	2	2	8	1,900	4	4	4	4	16	
Gardner /q	1	1	1	1	4	1,000	1	1	1	1	4	
Security Guard /r	2	2	2	2	8	1,900	4	4	4	4	16	
Subtotal PCU - Nepalgunj							48	48	48	48	190	
b. Regional Directorate												
RD Forest Mid West	2	2	2	2	8	4,000	8	8	8	8	32	
RD Agriculture Mid West	2	2	2	2	8	4,000	8	8	8	8	32	
RD Livestock Mid West	2	2	2	2	8	4,000	8	8	8	8	32	
RD Forest Far West	1	1	1	1	4	4,000	4	4	4	4	16	
RD Agriculture Far West	1	1	1	1	4	4,000	4	4	4	4	16	
RD Livestock Far West	1	1	1	1	4	4,000	4	4	4	4	16	
Subtotal Regional Directorate							36	36	36	36	144	
c. Operating costs /t												
Travel (supplies, supervision, coordination)	1	1	1	1	4	80,000	80	80	80	80	320	
Vehicle O&M	1	1	1	1	4	16,000	16	16	16	16	64	
Office operating costs, consumables incl printing	1	1	1	1	4	10,000	10	10	10	10	40	
Support for IFAD supervision & support missions	2	2	2	2	8	5,000	10	10	10	10	40	
Subtotal Operating costs							116	116	116	116	464	
Total Recurrent Costs							465	331	331	331	1,517	
Total							731	468	487	495	1,930	

a Can be for any people working under the project. Managed by PCU.

b Contract staff (senior)

c Contract staff (senior)

d Contract staff (senior)

e Contract staff

f Contract staff - optional depending on need

g GoN

h GoN

i GoN

j GoN

k Contract Staff

l Contract Staff

m Contract Staff

n Contract Staff

o Contract Staff

p GoN

q PCU and RDs

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Western Uplands Poverty Alleviation Project: Phase III
Table 3.3. Unallocated
Detailed Costs

	Parameters (In %)										Unit Cost (USD)	Total					
	Summary Divisions					Other Accounts											
	Phy. Cont. Rate	For. Exch.	Gross Tax Rate	Component	Disb. Account	Fin. Rule	UNA_EA	UN_DA	IFADL (31.2%)								
Unit	2010	2011	2012	2013	Total												
I. Investment Costs																	
A. Unallocated																	
lumpsum	249	249	249	248	995	995	0.0	0.0	0.0	UNAL	UNA_EA	UN_DA	IFADL (31.2%)				
Total	249	249	249	248	995	995											

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Western Uplands Poverty Alleviation Project: Phase III
Disbursement Accounts by Financiers
(USD '000)

	IFAD(Loan)		IFAD(Grant)		GoN		Local Government		Beneficiaries		Cofinancier		Private Sector		Total		For.		Local	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	%	(Excl. Taxes)	Duties & Taxes
1. Equipment and Vehicles	273	84.0	-	-	-	52	-	16.0	-	-	-	-	-	-	325	2.2	-	2.2	277	49
3. Studies, Survey, Training and Workshops	3 417	84.0	-	-	-	651	-	16.0	-	-	-	-	-	-	4 068	27.4	91	3 723	254	
4. Local Technical Assistance	277	84.0	-	-	-	53	-	16.0	-	-	-	-	-	-	329	2.2	-	329	-	
5. Challenge Funds	359	84.0	-	-	-	68	-	16.0	-	-	-	-	-	-	428	2.9	-	364	64	
6. Community Investment Fund	4 651	84.0	-	-	-	886	-	16.0	-	-	-	-	-	-	5 537	37.4	-	5 537	-	
7. Unallocated	839	84.3	-	-	-	156	-	15.7	-	-	-	-	-	-	995	6.7	-	995	-	
8. Salaries and Allowances	-	-	-	-	-	2 156	-	100.0	-	-	-	-	-	-	2 156	14.5	-	2 156	-	
9. Operation and Maintenance	827	84.0	-	-	-	157	-	16.0	-	-	-	-	-	-	984	6.6	-	984	-	
Total PROJECT COSTS	10 643	71.8	-	-	-	4 180	-	28.2	-	-	-	-	-	-	14 823	100.0	91	14 365	367	

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Western Uplands Poverty Alleviation Project: Phase III
Components by Financiers
(USD '000)

	IFAD (Loan)		IFAD (Grant)		GoN		Local Government		Beneficiaries		Cofinancier		Private Sector		Total		For.		Local		
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	Taxes	Excl. Taxes	Duties & Taxes	
A. Community Empowerment																					
1. Social Empowerment																					
2. Economic Empowerment																					
Subtotal Community Empowerment																					
B. District Service Delivery Improvement																					
C. Project Management																					
1. District Project Coordination Unit																					
2. Project Coordination Unit																					
Subtotal Project Management																					
D. Unallocated																					
Total PROJECT COSTS																					

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Western Uplands Poverty Alleviation Project: Phase III
Expenditure Accounts by Financiers
(USD '000)

	IFAD (Loan)		IFAD (Grant)		GoN		Local Government		Beneficiaries		Cofinancier		Private Sector		Total		For.		Local	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	%	(Excl. Taxes)	Duties & Taxes
I. Investment Costs																				
A. Equipment and Vehicles	273	84.0	-	-	-	52	16.0	-	-	-	-	-	-	-	-	325	2.2	-	277	49
C. Studies, Survey, Training and Workshops	3 417	84.0	-	-	-	651	16.0	-	-	-	-	-	-	-	-	4 068	27.4	91	3 723	254
D. Local Technical Assistance	277	84.0	-	-	-	53	16.0	-	-	-	-	-	-	-	-	329	2.2	-	329	-
E. Challenge Funds /a	359	84.0	-	-	-	68	16.0	-	-	-	-	-	-	-	-	428	2.9	-	364	64
F. Community Investment Fund	4 651	84.0	-	-	-	886	16.0	-	-	-	-	-	-	-	-	5 537	37.4	-	5 537	-
G. Unallocated	839	84.3	-	-	-	156	15.7	-	-	-	-	-	-	-	-	995	6.7	-	995	-
Total Investment Costs	9 816	84.0	-	-	-	1 866	16.0	-	-	-	-	-	-	-	-	11 683	78.8	91	11 225	367
II. Recurrent Costs																				
A. Salaries and Allowances	-	-	-	-	-	2 156	100.0	-	-	-	-	-	-	-	-	2 156	14.5	-	2 156	-
B. Operating and Maintenance	827	84.0	-	-	-	157	16.0	-	-	-	-	-	-	-	-	984	6.6	-	984	-
Total Recurrent Costs	827	26.3	-	-	-	2 314	73.7	-	-	-	-	-	-	-	-	3 140	21.2	-	3 140	-
Total PROJECT COSTS	10 643	71.8	-	-	-	4 180	28.2	-	-	-	-	-	-	-	-	14 823	100.0	91	14 365	367

/a for the Service Excellence Challenge Fund

NEPAL

Western Uplands Poverty Alleviation Project: Phase III
Components Project Cost Summary

	(NPR '000)		(USD '000)		% Total	
	Local	Foreign	Local	Foreign	Exchange	Base Costs
A. Community Empowerment						
1. Social Empowerment	250 543	-	250 543	2 880	-	20
2. Economic Empowerment	465 885	-	465 885	5 355	-	38
Subtotal Community Empowerment	716 428	-	716 428	8 235	-	58
B. District Service Delivery Improvement	87 609	6 351	93 960	1 007	73	8
C. Project Management						
1. District Project Coordination Unit	199 942	-	199 942	2 298	-	16
2. Project Coordination Unit	130 265	1 218	131 483	1 497	14	11
Subtotal Project Management	330 207	1 218	331 425	3 795	14	27
D. Unallocated	86 565	-	86 565	995	-	7
Total BASELINE COSTS	1 220 809	7 569	1 228 378	14 032	87	100
Physical Contingencies	12 439	-	12 439	143	-	1
Price Contingencies	48 408	379	48 787	556	4	4
Total PROJECT COSTS	1 281 656	7 948	1 289 604	14 732	91	105

NEPAL
Western Uplands Poverty Alleviation Project: Phase III
Expenditure Accounts Project Cost Summary

	(NPR '000)		(USD '000)		% Foreign Exchange		% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total	
I. Investment Costs							
A. Equipment and Vehicles	27 910	-	27 910	321	-	321	2
C. Studies, Survey, Training and Workshops	329 469	7 569	337 038	3 787	87	3 874	27
D. Local Technical Assistance	27 396	-	27 396	315	-	315	2
E. Challenge Funds /a	34 800	-	34 800	400	-	400	3
F. Community Investment Fund	465 885	-	465 885	5 355	-	5 355	38
G. Unallocated	86 565	-	86 565	995	-	995	7
Total Investment Costs	972 025	7 569	979 594	11 173	87	11 260	80
II. Recurrent Costs							
A. Salaries and Allowances	170 832	-	170 832	1 964	-	1 964	14
B. Operating and Maintenance	77 952	-	77 952	896	-	896	6
Total Recurrent Costs	248 784	-	248 784	2 860	-	2 860	20
Total BASELINE COSTS	1 220 809	7 569	1 228 378	14 032	87	14 119	100
Physical Contingencies	12 439	-	12 439	143	-	143	1
Price Contingencies	48 408	379	48 787	556	4	561	4
Total PROJECT COSTS	1 281 656	7 948	1 289 604	14 732	91	14 823	105

/a for the Service Excellence Challenge Fund

Annex 4: Community Investment Fund – Fund Flow

Investment	Description	Fund flow
<i>Farming improvement</i> (including livestock, forestry and crops)	training (short courses, farmer field schools, follow-up), equipment, trails/demonstrations, inputs, exposure visits etc to improve farming activities	<p>For training/demonstrations:</p> <ul style="list-style-type: none"> D-PCU administers service contract on behalf of C-PCU Direct payment from D-PCU to contracted service provider under performance based contract. Payment split, with initial mobilization payment to meet costs of mobilization only. Subsequent payments based on milestones and satisfactory performance. C-PCU (on behalf of service recipients) is signatory for approval of release of all payments by D-PCU. <p>For inputs / equipment / exposure visits etc:</p> <ul style="list-style-type: none"> D-PCU will disburse funds to the nominated CO/LFUG/Cooperative on grant basis (via bank account), Disbursement may be one-off or split with later disbursements linked to milestones. Payments will follow the account payee cheque on the name of respective COs/LFUGs/Cooperative. No payment would be made to the name of any officials of COs/LFUGs/Cooperatives. Where the C-PCU or nominated CO/LFUG/Cooperative requests support from D-PCU or other service providers to arrange activities/inputs (e.g exposure visits, procurement of inputs) the agreed budget amount will not be disbursed to the VDC-level and will instead be directly disbursed by the D-PCU on behalf of the C-PCU or nominated CO/LFUG/Cooperative
<i>Market linkage development and value addition</i>	possible investments may include market exposure visits, construction of improved storage facilities, equipment for primary processing to meet specific requirements of buyers, transportation crates and materials, working capital for a COs engaged in joint production, processing and/or marketing of products to meet specific demand.	<ul style="list-style-type: none"> D-PCU will disburse funds to the nominated CO/LFUG/Cooperative on grant basis (via bank account), Disbursement may be one-off or split with later disbursements linked to milestones e.g. in construction of store. Payments will follow the account payee cheque on the name of respective COs/LFUGs/Cooperative. No payment would be made to the name of any officials of COs/LFUGs/Cooperatives. Where the C-PCU or nominated CO/LFUG/Cooperative requests support from D-PCU or other service providers to arrange activities/inputs (e.g exposure visits, procurement of packing crates) the agreed budget amount will not be disbursed to the VDC-level and will instead be directly disbursed by the D-

		PCU on behalf of the C-PCU or nominated CO/LFUG/Cooperative
<i>Vocational training</i>	focusing on trade skills with clear demand from employers for semi-skilled or skilled workers with these skills. Expected trades include: carpentry, welding, electrical, electronics, as well as selected skill for self-employment (hair dressing, tailoring). In addition to the training itself, investment in the associated tools of the trade is also eligible. Note that training for driving will not be supported nor for other skills for which there is not a clear and credible demand for workers with vocational level skills.	<ul style="list-style-type: none"> • PCU administers service contract centrally based on contract agreed with technical/vocational training providers • Direct payment from PCU to contracted training provider under performance based contract. • Provision of equipment/tools to enable trainee to apply skills will be directly by either D-PCU or training provider, according to the contract agreed with the training provider with corresponding fund flow.
<i>Community infrastructure</i>	including: irrigation, drinking water, micro-hydro, improved water mills. The following infrastructure is not eligible: social infrastructure (schools, health posts, community buildings etc), roads/trails/bridges.	<ul style="list-style-type: none"> • Construction managed by registered Infrastructure User Group • Payments by D-PCU direct to IUG on milestones basis
Loan capital to COs for on-lending to their members	as a capital grant to the COs nominated by the community, but will only be eligible in the 3 rd year of the CIP period and subjected to strict criteria on the capacity of the intended COs and the performance of the VDC in the implementation of the CIP in the previous years.	<ul style="list-style-type: none"> • Payments by D-PCU direct to nominated CO/LFUG/Cooperative, subject to recipient organizations meeting agreed maturity / capacity criteria.

Annex 5: Targeting and CIF Allocation Calculation

a) VDC Community Investment Fund Allocation Calculation Mechanism

The amount of CIF allocated to each VDC will be adjusted to take into consideration three factors:

1. No. of poor people in each VDC,
2. higher cost of inputs and service in some remote locations, and
3. physical concentration/dispersal of the settlements within the VDC which influences the cost of services and infrastructure provision.

These factors will be applied in a 2 step process.

Step 1: A "base allocation" will be calculated for each VDC based on factor 1 (poverty level) as shown below.

$$\text{Base allocation} = \frac{\text{USD35,000 (equivalent)} \times \text{Number of poor households in VDC}}{\text{Average number of poor household per VDC for 153 WUPAP VDCs}}$$

Example of "Base Allocation" calculation (for illustration purposes only)

Assume: Average no. of poor households per VDC among the 153 VDCs = 200 Households

A	B	C	D	E
Name of VDC	Total No. Households	No. of Poor Households	$\frac{\text{No. of poor households}}{\text{Average no. poor households}}$	Base allocation = D x USD35,000
VDC 1	600	150	$\frac{150}{200} = 0.75$	USD 28,125
VDC 2	1200	200	$\frac{200}{200} = 1.00$	USD 35,000
VDC 3	600	300	$\frac{300}{200} = 1.50$	USD 56,250

The PCU will use the most recent reliable secondary data available to estimate the number of poor households in each VDC. In the worst case this will be the 2001 census data but more up-to-date sources will be used if available at the time that the allocations are calculated, for example the 2011 census data.

Step 2: The "Base Allocation" for each VDC will then be adjusted up or down according to factors 2 and 3 by applying the current GON standard method for these factors that is already in use by MLD.

b) Number of households in "target" group within each VDC

To ensure that the project maintains its total outreach (174,000 people in FY 2011/12), the guideline percentage of VDC households to be included in the defined target population within each VDC is calculated as follows.

$$\begin{aligned} \text{Percentage of households in VDC to be PIII target group} &= \frac{174,000 \text{ people}}{\text{Total population of the 153 Phase III VDCs}} \\ &= \frac{174,000 \text{ people}}{549,000 \text{ people}} \\ &= 32\% \Rightarrow \text{approximately one third of households} \end{aligned}$$

Eligible households to vote in the participatory Community Investment planning process will therefore be selected as the poorest one third (33%) of household selected from the Participatory Wealth Ranking process at the start of Phase III in each VDC.

Eligible households to receive direct project support will be:

1. all household identified as eligible to vote in the Participatory Community Planning process (as above), AND
2. any additional households that are members of existing Community Organisations, LFUG or Infrastructure Users Groups that have already been supported under Phase II and for which further additional support is provided in Phase II.

COSOP indicators

Phase 3 indicators

Phase 1 and 2 indicators

