

The International Fund for Agricultural Development

GOVERNMENT OF NEPAL

KISANKALAGI UNNAT BIU-BIJAN KARYAKRAM
(Improved Seeds for Farmers Programme)

DESIGN REPORT

(APPROVED AT IFAD EXECUTIVE BOARD SEPTEMBER 2012)

Main Report and Annexes

Asia and the Pacific Division
Programme Management Department

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CURRENCY EQUIVALENTS

Currency Unit = Nepalese Rupee (NPR)

US\$ 1.00 = NPR 80

NPR 1.00 = US\$ 0.0125

WEIGHTS AND MEASURES

International metric system, unless specifically described in text; except:

1 acre (ac) = 0.4047 hectares (ha)

1 hectare = 2.47 acres

FISCAL YEAR

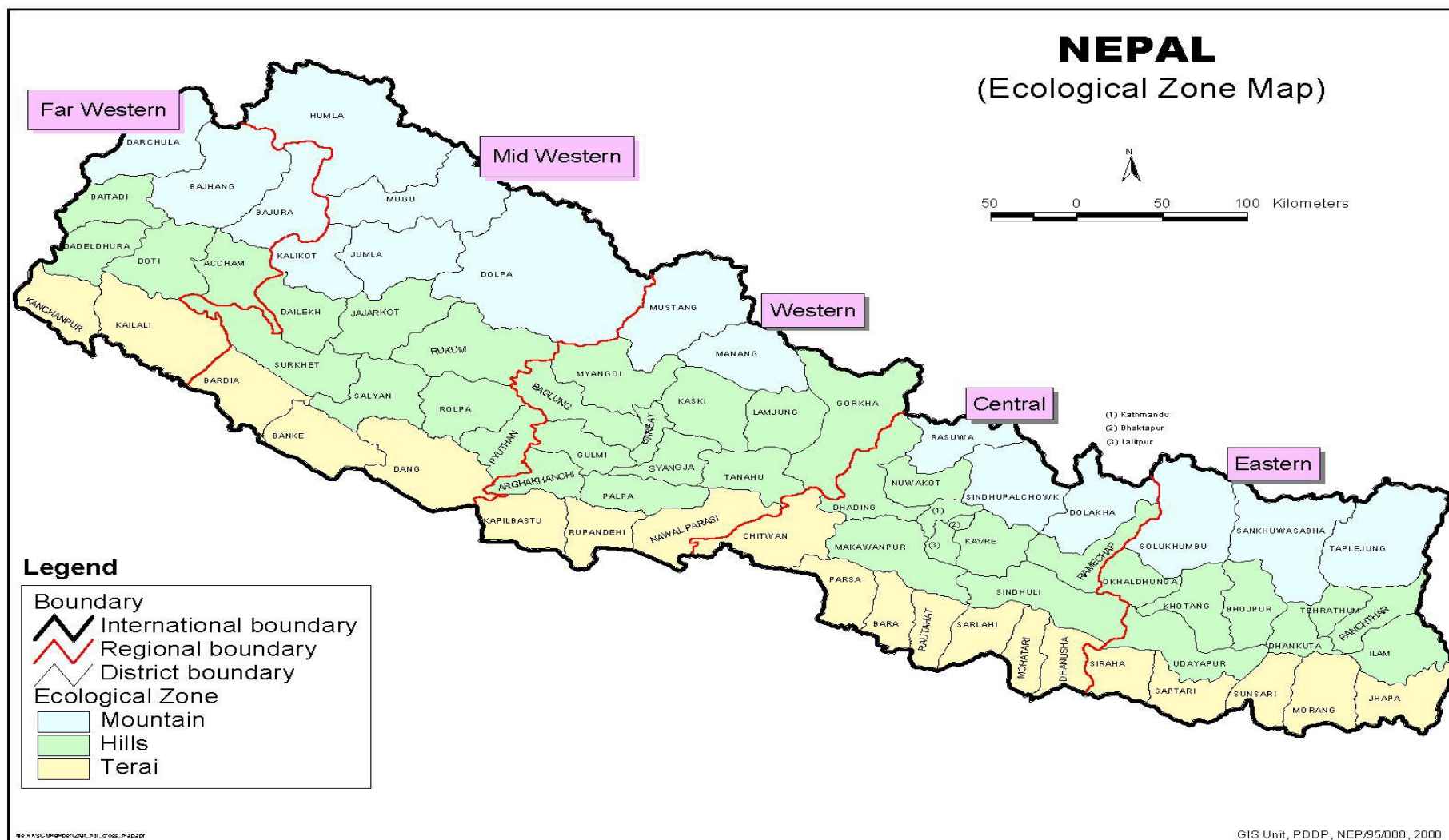
2011/2012

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ADBL	Agricultural Development Bank Limited
ADS	Agricultural Development Strategy
ASC	Agriculture Service Centre
CBSP	Community Based Seed Production
CLDP	Community Livestock Development Project
CGS	Competitive Grant Scheme
DADC	District Agricultural Development Committee
DADO	District Agriculture Development Office MOAD
DCCI	District Chamber of Commerce and Industry
DLS	Department of Livestock Services MOAD
DISSPRO	District Seed Self-Sufficiency Programme
DoF	Department of Forests
FFS	Farmer Field School
FSC	Financial Services Coordinator
GDP	Gross Domestic Product
GON	Government of Nepal
HIMALI	High Mountain Agriculture & Livelihood Improvement Project
HVAP	High Value Agriculture Project in Hill and Mountain Areas

LIFDC	Low-Income Food Deficit Country
LFLP	Leasehold Forestry and Livestock Project
LSC	Livestock Service Centres
NLSS II	Nepal Second Living Standards Survey
masl	Metres above sea level
M&E	Monitoring & Evaluation
MoFSC	Ministry of Forests and Soil Conservation
MG	Matching Grant
MOAD	Ministry of Agriculture Development
MOF	Ministry of Finance
MT	Metric Ton
NACCF	National Agricultural Cooperative Central Federation
NARC	Nepal Agricultural Research Council
NFCCI	Nepal Federation of Chambers of Commerce and Industry
NGO	Non-governmental Organization
NSC	National Seed Company
PMO	Programme Management Office
PDO	Programme Development Objective
PIM	Programme Implementation Manual
PVS	Participatory Varietal Selection
RIMS	Results and Impact Management System
SFACL	Small Farmer Agro Cooperative Limited
SFDB	Small Farmer Development Bank
SRR	Seed Replacement Rate
TL	Truthfully Labelled
VDC	Village Development Committee

Map 1: Nepal Agro-Ecological Zones

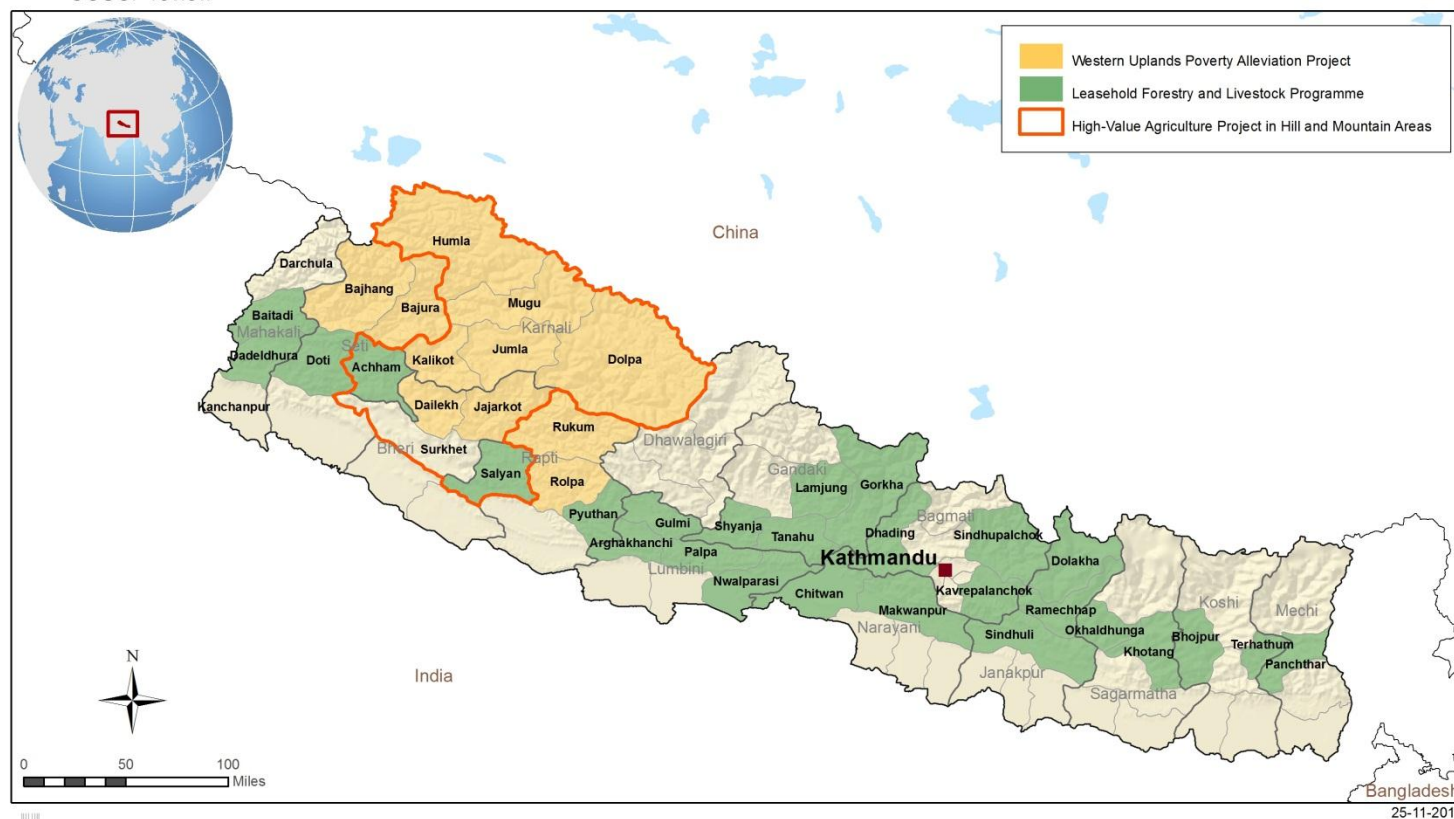


Map 2: IFAD funded ongoing Operations in Nepal

Nepal

IFAD-funded ongoing operations

COSOP review



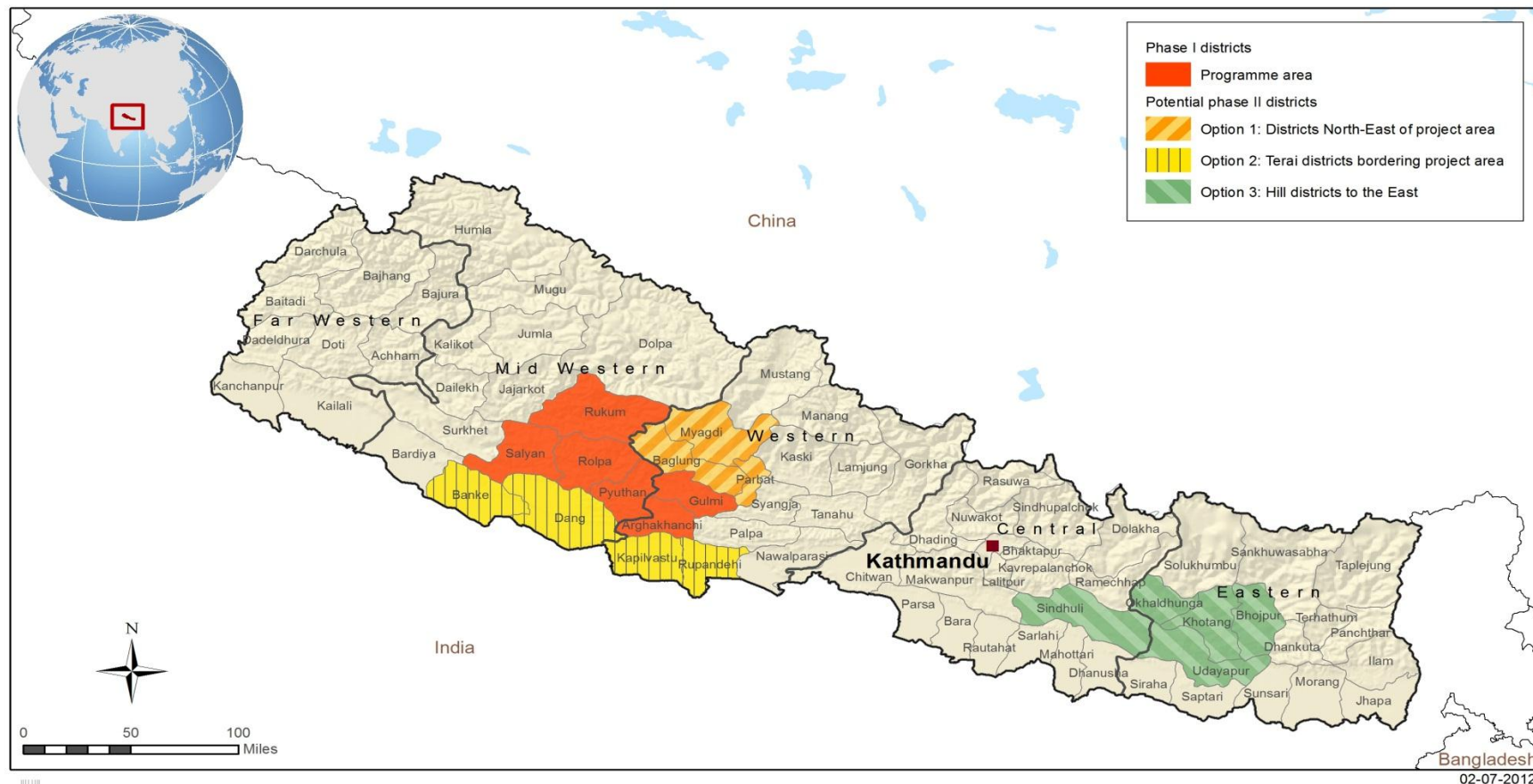
The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

Map 3: Programme area - Phase 1 and Phase 2 districts

Nepal

KisanKa Lagi Biu-Bijan Karyakram



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

Map compiled by IFAD

02-07-2012

EXECUTIVE SUMMARY

1. **Kisankalagi Unnat Biu-Bijan Karyakram¹ is an IFAD funded operation to support accelerated agricultural growth. It aims at developing the formal seed sector as well as improving smallholder livestock through improved partnership with the private sector in the hills of Nepal.** The Programme is designed to support two key aspects of agriculture sector hampering productivity: the improvement of formal seed (cereals and vegetables) and improvement of smallholder livestock (goats and dairy) in order to increase income of the poor rural households (hhs). This will be achieved by developing the partnership between farmer organisations and the private sector.
2. The Programme is a USD 59.7 million operation to be implemented on for seven years in two phases: the first phase will target six districts and 150,000 hhs (750,000 people) in the mid-west and west regions. The second one will upscale results achieved to more districts from year 4 onwards, after the mid-term review and subject to availability of co-financing raised during phase one. During phase one, a total of 150,000 hhs from vulnerable groups are expected to be moved out of poverty. As a result of the investment in the seed and livestock industry, the potential impact on the wider farming community of the hills region is considered to comprise an additional 200,000 hhs.
3. The expected results of Component 1 (Seed) are at least 7,200 households supported, organized around 720 groups and involving up to 13 private seed company operations participating in the production of approximately 760 metric tons (MT) of TL paddy; 830 MT of TL maize; 1660 MT of TL wheat; and 500 MT of a range of TL vegetable seeds. This is expected to generate overall positive net margins for both the seed groups and the seed companies. TL improved seed production is expected to lead to the increase of its utilisation coverage for the related varieties and be sufficient for the sowing of some 15,000 hectares of paddy; 40,000 hectares of maize; 13,000 hectares of wheat; and 65,000 hectares of vegetables in the agro-ecological hills zone. Component 2 (Livestock) will support groups/cooperatives/communities to establish at least 28 milk chilling centres under public-private partnership. It will also promote at least 15 local private dairy enterprises under a competitive grant system. Under the Improving Goat Productivity sub-component, the Programme will support establishment of 26 goat collection hubs/livestock markets, which in their turn stimulate the private investments in meat processing and detail sales. With the implementation period of the sub-component, it is expected that increase of milk and meat production will yield substantial financial income among the 8,900 beneficiary households. Component 3 (Entrepreneurship) will provide a conducive environment for activities undertaken under components 1 and 2: (i) 156 Village Development Committees (VDCs) will be strengthened; (ii) 24,810 households will adhere to producers' cooperatives and will benefit from technical and management training; (iii) 30,000 households will have access to financial services through the creation of at least 30 Small Farmer Agriculture Cooperatives and 6 local banks' branch extension. They will benefit from loans amounting to USD 8 million and improved financial services from the strengthened financial institutions.
4. In the framework of the 2006-2012 COSOP, the Government of Nepal (GoN) requested IFAD to design an agriculture and livestock project to be implemented by the Ministry of Agriculture Development. The full design from concept to final report was completed between September 2011 and May 2012, with three missions conducted jointly by GoN, IFAD and the FAO investment center. These missions visited the programme area twice in depth in 2011 (September, November-December) and the third mission in April 2012 focussed on the programme implementation aspects. Consultations were held with the Government, the donor community, and the Civil Society Organisations (NGOs, Farmer organisations and Indigenous People Organisations). The Programme will be presented to IFAD Executive Board of September 2012 and aims at starting activities by January 2013.

Strategic Context and Rationale

5. Nepal is classified as a Low-Income Food Deficit Country (LIFDC) and agriculture is central to the national economy, with nearly 80 percent of all households (3.4 million) and two-thirds of the national labour force depending principally on the sector for their livelihoods. Overall, the agricultural sector contributes 33 percent of national GDP, but in per capita terms cereal production has declined by 8 percent and livestock production has remained stagnant over the last decade.
6. Although Nepal's poverty level declined by almost one third since 1995 (from 42 percent in 1995/96 to 25 percent in 2010/11), it remains significantly higher in rural area, and access to services and infrastructure in rural areas is much difficult. With an average holding size of only 0.8 ha (and nearly half of all farms have less than 0.5 ha of land) farms are getting smaller, (average holding size declining by 28 percent between 1961 and 2001). Some 78 percent of farm holdings are reported to produce primarily for home consumption, while only one percent produce primarily for commercial sale. For 60 percent of holdings, annual production is not sufficient to feed the households over the year and 20 percent of holdings are food deficient for more than half the year. Migration for employment now affects more than half of all Nepalese families (two million workers abroad, their remittances contribute for 20% of the GDP) and has led to an increasing 'feminization' of agriculture in Nepal, with women increasingly taking responsibility for both household and farm management.
7. **Kisanka Lagi Biu-Bijan Karyakram concept**, within the framework of the IFAD COSOP responds to the above trends by advocating an approach that specifically targets the inclusion of private initiatives to increase productivity in a sustainable manner. Social inclusion is built-in into programme design at all levels through a variety of measures and mechanisms. Productivity gains are based on the identification of areas of clear competitive advantage for farmers in

¹ (Kisan : Farmer-, ka lagi : for, Biu-Bijan: Seed and Breed, Karyakram : Programme-)

different farming systems and poverty contexts. In particular, it is considered that two sub-sectors – agricultural inputs (especially seeds) and small scale livestock (especially goats)– offer key entry points for stimulating growth and productivity in this region. Both are essential elements in the farming systems prevalent within the hills zone, and are characterised by poor performance and a lack of effective articulation with the market.

8. The recommendation for a programmatic approach arises from a number of factors, including: (a) past experiences and complementary activities available from other Government and internationally-funded efforts which would render collaboration and complementarity with such efforts of considerable benefit; (b) the upcoming national Agricultural Development Strategy (ADS), currently in preparation, yet strongly anticipated to identify seeds as an area of national priority, and; (c) the existence of significant risks in areas such as possible political instability, and the degree to which possible collaboration with other development initiatives can be effected. Such considerations strongly suggest the need for any proposed investment to maintain implementation flexibility while also allowing for future expansion in both geographical area and scale, if warranted. The specific assessment on Social and Geographical Targeting provides an initial analysis of potential geographical expansion options which could be reconsidered at the Mid-Term Review.

Programme Area and Target Group

9. Following the corridor approach already tested with HVAP, the proposed geographical target area (see map) combines high poverty levels and relatively elevated population densities with significant agricultural potential for seed and livestock production, as well as the possibility of complementary activities with other development initiatives. The target area **encompasses four Districts in the Mid-Western Region (Rukum, Salyan, Rolpa and Pyuthan) and two Districts in the Western Region (Gulmi and Arghakhanchi)**. All target districts are in the hills zone, and they include areas with the lowest Human Development Index in Nepal, as well as poverty levels that are considerably above national rural average. Household consumption and income in the target regions are less than 70 percent of national levels, while perceived inadequacy of food consumption is 60 percent higher. Additional districts will be selected for phase two (Year 4-7).
10. It has to be noted that the country is preparing its new constitution at the time of the programme design and will certainly move to a federal republic. The selected districts may therefore be part of different states with their own institutions and governance. These institutional changes are build-in the flexibility of the programme and operational details will be taken into consideration at the start-up of the programme. Access to facilities within the target regions is also much poorer than even in other rural areas of Nepal, especially in the availability of health posts, agricultural service centres, commercial banks and market centres. However, the number of households without land, at five percent, is almost one fifth of national levels (24 percent).
11. It is estimated that the total number of households encompassed by the target area totals nearly 300,000 with a projected 2010 population of approximately 1.5 million. The total estimated cropped area of the targeted districts would exceed 220,000 hectares. Productivity of all major crops in this area is below national average. Two principal types of beneficiaries are envisaged: (a) groups and cooperatives engaged in seed and livestock production or the provision of financial services, and; (b) individual farmers adopting the improved seeds resulting from the Programme. **A total of 150,000 direct beneficiaries are anticipated. As a result of the investment in the seed industry the potential impact on the wider farming community is considered to comprise an additional 200,000 farmers.**
12. Particular emphasis will be given to ensuring the full participation of indigenous, dalits and other vulnerable groups, including women as target beneficiaries at the various stages of Programme cycle and in all activities. Overall, a minimum of 50 percent of programme beneficiaries would be women. A minimum of 50 percent of all beneficiaries would have family holdings not exceeding 0.5 ha, which would place them within the more disadvantaged households. For the goat production groups, a minimum of 30 percent of all beneficiaries would be from indigenous or lower caste families.
13. **Development Objective:** The goal of the Programme is to promote inclusive, competitive and sustainable agricultural growth within the target area such as to contribute to overall economic growth. **The development objective** of the Programme can be defined as to improve rural household incomes through sustainable, market-driven agricultural productivity improvements.
14. **Component and Outcomes:** The Programme will have a duration of seven years and comprise three technical components, plus a component for Programme Management and Coordination (PMO). The three technical components are: (i) Support to the Extension of the Formal Seed Sector; (ii) Smallholder Livestock Development, and; (iii) Local Entrepreneurship and Institutional Development.
15. **Component 1: Support to the Extension of the Formal Seed Sector.** This component will address the very low seed replacement rates and often poor quality of seed found in the hills zone for both cereals and vegetables. It will build on past successes in improved 'Truthfully Labelled' (TL) seed production through closer linkage of producers to the formal sector and through support for related infrastructure. The participation of seed companies (currently not active in the Programme area) would be facilitated through a Competitive Grant Scheme to reduce the costs of establishing operations within the target area, as well as support for the formation and operations of contracted seed production groups.
16. To facilitate this transformation, the Programme will support improvements to ensure an effective enabling environment for seed production and trading, assist in increased output of improved seed and stimulate market demand

for such seed, especially within remote or disadvantaged communities. Support will be provided for strengthened legislation, while regional offices of the seed testing laboratories will be upgraded and local agents licensed to ensure adequate quality control. Assistance will also be given to Agro-vets and input traders who are key intermediaries in the seed value chains.

17. Local improved seed production for both cereals and vegetables will be substantially expanded, displacing informal production and often poor quality imports. An estimated 720 seed production groups will be established or strengthened within the target area through technical assistance and partial grants for production and post-harvest infrastructure such as irrigation, mechanization and seed handling. The Programme will ensure the participation and inclusion of the DAGs in the groups as per the GESI Strategy. The Programme will produce at least, 3,250 tons of cereals seeds (maize, paddy and wheat). An overall seed production target of 500 tons of vegetable seed has also been set. This entails the availability of about 380 tons of cereals crop and 4-5 tons of vegetables crops related foundation seed.
18. Existing seed companies active elsewhere in Nepal will be assisted to establish operations within the target area through a system of competitive grants for infrastructure establishment and linkage to supported production groups. Market demand will be promoted through 1,200 demonstration groups comprising smallholder households and through an equal number of participatory varietal selection trials and 200 Farmer Field Schools (FFS). Use will also be made of the annual Agricultural Fairs.
19. An anticipated 7,200 households, organized around 720 groups and involving up to 13 private seed company operations would participate in the production of approximately 760 MT of TL paddy; 830 MT of TL maize; 1660 MT of TL wheat; and 500 MT of a range of TL vegetable seeds. This would generate overall net margins worth USD3.15 million for the seed groups and USD2.9 million for the seed companies. TL improved seed production would be sufficient for the sowing of some 15,000 ha of paddy; 41,000 ha of maize; 13,000 ha of wheat; and 65,000 ha of vegetables in the agro-ecological hills zone.
20. **Component 2: Smallholder Livestock Development.** Livestock, and in particular goats, are a key asset for poorer farm households, particularly among women, dalits and indigenous populations with limited resources. Despite their widespread distribution, earnings in Nepal from livestock production are low, and the goat sector in particular has shown little growth in recent years, offering a significant opportunity for accelerated productivity. Dairy production has seen an expansion, but still lacks support in the formation of commercial supply chains.
21. The component would address these issues for both dairy and goat production building on the success of Leasehold Forestry and Livestock Programme (LFLP) funded under IFAD loan, and include attention to breed improvement, nutrition and management, veterinary services development, farmer training, and market linkage development. In total, 3,550 hhs will be organized into 135 groups/cooperatives in the dairy productivity improvement sub-component. Two pockets in each district, covering 600 hhs, will be supplied with buffalo bulls and bucks for upgrading of the local herds, primarily to the 8,450 hhs to be involved in goat productivity enhancement programme. Among others, the key activities will include: import of improved breeding stock and semen, community-based breed selection, extended plantings of forage species, both on-farm and within community/leasehold forests, development of 67 fodder tree nurseries, improved livestock sheds and expanded access to livestock insurance schemes. Improved veterinary services will involve training of Village Animal Health Workers (VAHWs) and Para-vets, an extension of existing vaccination programmes and creating group veterinary fund. A variety of farmer training will be provided, including dairy animal husbandry, record keeping and tree nursery operations, while 96 FFSs will also be implemented. The Programme will adhere to the GESI strategy to ensure inclusion and benefit sharing from these activities to DAGs.
22. Traditionally, livestock has been held by smallholders as a form of savings rather than a source of income. Increased household earnings can only be realized if animals are treated as a source of income by providing better nutrition and genetic potential. This aspect would be addressed by establishing district level livestock markets (currently absent in the target area) which would also form the nucleus for additional value-added activities (slaughter and processing). Private sector participation would be promoted through support for production contracts with herders, the provision of competitive grants for livestock related infrastructure (including dairy collection centres) and annual agricultural fairs.
23. The Programme will support groups/cooperatives/communities to establish 28 milk chilling centres under public-private partnership. It will also promote 15 local private dairy enterprises under a competitive grant system. Under the goat sub-component, the Programme will support establishment of 26 goat collection hubs/livestock markets. During the programme period, 57 butcheries will be improved. Given the anticipated 8,450 participants in the goat component, farmers are expected to realize a total benefit of USD 5.14 million, with incremental meat production of 1,346 MT, in the implementation period of the sub-component. Similarly, the anticipated 3 550 dairy hhs will on average expand their herd size to 4 adults and produce an additional 85,930 MT of milk.
24. **Local Entrepreneurship and Institutional Development.** The objective of the component is to promote a favorable and conducive environment for sustainable private sector enterprise development. Activities will target public institutions such as VDCs and district representations of local government, public-private institutions such as the District Chamber of Commerce and Industries (DCCI) or private service providers, and financial institutions. Each of these stakeholders will play an important role in the successful implementation and development of the other programme components as well as enabling programme target beneficiaries to access to adequate and sustainable financial and non-financial services required by their activities. The component is divided into three sub-components: (i) Institutional Strengthening; (ii) Access to Non-financial Services, and (iii) Increasing Outreach of microfinance institutions.

25. *The institutional strengthening sub-component would target VDCs, local government institutions, and farmer groups and cooperatives. District Agriculture Development Committees (DADCs) would provide the entry point for most component activities. Approximately half of all VDCs (312) in the programme area would participate. Some 1,722 producer groups and 49 cooperatives would receive training and support in areas such as management, business planning, accounting and marketing, including training on GESI awareness and analysis.*
26. *Access to non-financial services is a key factor of success for the implementation of viable and sustainable investments. The Programme will focus this sub-component on two types of non-financial services as a support to the Programme-supported value chains: (a) creation of an Investment Window at the DCCI, and (b) support to 25 agro-vets to expand their outreach beyond district centers and provide services to Programme-supported groups. In this third sub-component, the Programme will explore two parallel approaches to develop the outreach of microfinance in rural areas. Under the first approach, the Programme will assist the cooperative movement to increase the number of its affiliates in the target area by supporting the development of Small Farmer Agro-Cooperative Limited units (SFACLs), currently seven in the programme area and two regional offices, and the strengthening of their parent organization, the Nepal Agriculture Cooperative Central Federation Limited (NACCFL). The additional SFACLs created, 30 in number, will also benefit from financing from the Small Farmers Development Bank (SFDB). The second approach will be based on non-cooperative microfinance institutions. It will assist development banks to increase their outreach in the Programme area primarily through the setting up of a network of six branches and points of services. The Programme will also assist selected development banks to test out the possibility of developing branchless microfinance activities based on mobile phone technology.*
27. *Activities under component 3 will provide a conducive environment for activities undertaken in components 1 and 2: (i) at institutional level: the capacity of 162 local government institutions will be strengthened (156 VDCs and 6 DADCs) for a more efficient and transparent use of public funds when investing in agriculture sector; (ii) at household level: an anticipated 24,810 household members will adhere to producers' groups and cooperatives and will benefit from a wide range of technical and management training; (iii) at production and commercialization levels: linkages with the private sector will be facilitated through an investment window created and staffed in each of the six DCCIs. At least 13 private seed companies will engage with 720 programme-supported groups (component 1), at least 15 private dairy companies will engage with 171 cattle groups, and 25 slaughterhouses and butchers will engage with 338 goats' groups (component 2). 25 agro-vets will also be supported to increase access of local population to improved agricultural inputs and vet medicine (components 1 and 2), and (iv) at financial level: an anticipated 30 000 households members will have access to financial services through the creation of 30 SFACLs and six branches of non-cooperative financial institutions. They will benefit from 37 200 loans amounting to USD 7.92 million and will mobilize USD 2.78 million in savings and deposits in those institutions.*
28. **Programme Management Office (PMO):** *A PMO would be established in a major centre close to the Programme area and would undertake a range of functions including planning, training, M&E, knowledge management and governance. The PMO Team will include competitively selected Programme Manager, Deputy Programme Manager, Senior Programme Advisor, Accounts Officer, M&E/KM Officer, Planning Officer, Funds and Contracts/Procurement Manager, and a GESI Advisor who will support the Managers for each technical component. The Programme Manager, Deputy Programme Manager, Accounts Officer Planning Officer the two development officers for components 1 and 2 are expected to be MOAD personnel on secondment (further to an internal selection process), while all other PMO staff would be recruited by the Programme as national technical assistance. In addition to collaboration with local and national level agencies and companies, PMO professional staff would supervise and support a number of field staff contracted through the other components. Considering the innovative features of the public-private partnership, the PMO will be supported during key phases by dedicated national and international technical assistance as required.*
29. **Lessons learned and IFAD policies:** *The Programme design draws heavily from prior experience in a number of initiatives and projects undertaken over the last decade, both within Nepal and beyond. Of particular importance have been a number of prior IFAD, ADB, DFID, SDC and nationally funded projects addressing seed and livestock production issues. The Programme will directly contribute to three of the four Strategic Objectives laid out in the current IFAD COSOP, including the development of high value agriculture, improved access to markets and services and improving the participation of poor women, ethnic groups and dalit members in income generation and local decision making.*
30. **Programme implementation:** *The success of the proposed Programme will depend heavily on the participation of the private sector in promoting and expanding the formal seed and goat trade, and the ability to collaborate effectively with other relevant rural development initiatives underway or planned in Nepal.*
31. *The Programme would be under the overall direction of a Programme Steering Committee (PSC), chaired by MOAD, with the participation of other participating public and private sector agencies, including the Ministry of Finance. The principal role of the PSC would be to evaluate and approve annual work plans, reports and budgets, provide directives on strategic aspects of programme activities and approve major competitive and matching grant agreements. The PSC would be supported at national level by an advisory group (partner forum) in the framework of the Agriculture Development Strategy encompassing key seed sub-sector representatives from the public, private and cooperative sectors as well as civil society organizations and donor representation..*

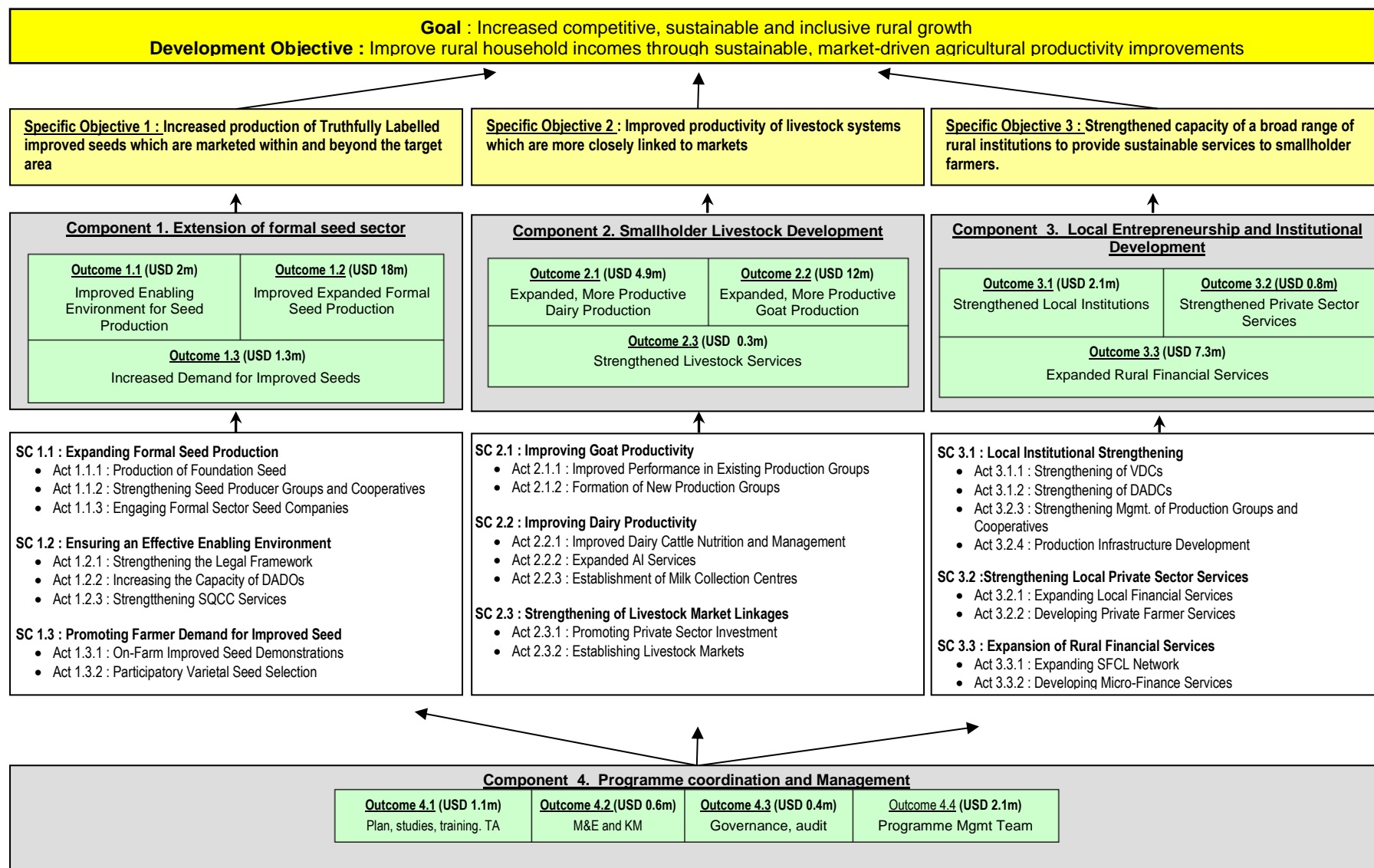
32. *The Programme will be supported by Heifer International with a specific focus on the goat breeding production sub-component and AEC (from FNCCI) for the support of the enterprises and private sector. Technical assistance will be recruited through a competitive selection process to support the PMO.*
33. *District level authorities, producer groups and civil society organizations are expected to play a central role in determining the nature and extent of implementation activities at the local level. Through annual review and planning workshops, mediated by the DADCs, district representatives would assess past progress and identify key implementation targets for the coming year. Day-to-day coordination and management would be the responsibility of the PMU, working in close collaboration with District level authorities, NGOs and companies engaged in Programme activities, as well as with the DCCIs.*
34. **Planning, M&E and Knowledge Management:** *M&E and MIS systems will be developed at Programme commencement and will be central to all activities. Selected Results and Impact Monitoring System (RIMS) and other indicators included in the Programme Logical Framework will provide underlying guidance for project planning and monitoring for the year. As part of annual local level consultations, an annual work plan and budget will be prepared in a participatory way for each target District. These plans will then be integrated into the overall Programme work plan and budget. M&E and MIS system will include a mobile phone based monitoring system for use by participating groups, enterprises and field staff. Knowledge management activities will include briefing and discussions with ADS subsector group members, annual District and national level workshops, the production and dissemination of studies and stories on specific Programme elements and their dissemination through IFADAsia portal as well as a dedicated Programme web site.*
35. **Risk identification and mitigation:** *Risks were identified at the systemic and component level. Overall, deteriorating macroeconomic conditions, political uncertainty, natural disasters, limited local institutional capacity and weak collaboration with other relevant rural development initiatives are the most important, and are addressed by Programme flexibility. Among seed production risks, failure to establish sufficient producer groups and a lack of interest among private companies are key, while limited access to forest areas, limited private sector participation, poor adoption of a commercial approach by herders and problems arising from the introduction of cross-bred stock are important for the smallholder livestock commercialization component. For local entrepreneurial development, elite capture and financial services governance are the principal risks.*
36. *In particular, significant changes in the Constitution of Nepal are expected to be defined in the near future, including the establishment of a federal system centred on several states. The principal mitigation measure adopted by the Programme with respect to this risk is the use of a flexible programme approach which will facilitate the adaptation and modification of activities if required.*
37. **Programme costs and financing:** *Total investment and incremental recurrent Programme costs, including physical and price contingencies, are estimated at about USD 59.70 million (NRs 4,780 million). Funds allocated to coordination and management total USD 4.72 million and represent about 9 percent of the total Programme costs. Support to Extension of Formal Seed Sector accounts for USD 21.7 million (41 percent of base cost), Smallholder Commercial Livestock Development USD 16.6 million (31 percent of base cost) and Local Entrepreneurship and Institutional Development a further USD 9.7 million (19 percent). Physical and price contingencies make up around USD 6,800.. The Programme's summary and detailed cost tables are presented in Working Paper 4.*
38. *An IFAD loan and an IFAD grant, both of USD 19.50 million equivalent (each 32.7% of the total Programme costs), will be provided to finance the Programme. Heifer International will financially contribute USD 2.5 million. The Government contribution is estimated at USD 7.3 million (12.2%) and includes contributions from its budget² and from foregone taxes and duties. Approximately USD 10.9 million or 18.3% of the total Programme costs of USD 59.71 million would be provided by the beneficiaries.*
39. **Financial and economic analysis:** *A number of models were constructed to assess the impact of Programme activities on seed and goat production groups, participating trading companies, and smallholders adopting the improved seeds. Financial benefits (FIRRs) were positive in all cases, ranging from 15-21 percent for production groups, 14-22 percent for companies and approximately 21 percent for farm communities adopting the improved seed. Returns to livestock groups range from 18 percent for goat producers to as high as nearly 70 percent for dairy buffalo operations. Overall, Programme investments generate an FIRR of 27.0 percent and an ERR of 23.0 percent. Sensitivity analysis indicates resilience to increases in programme costs but substantial declines in returns where benefits decline or delays occur in benefit receipt.*
40. **Sustainability:** *Kisanka Lagi Unnat Biu-Bijan Karyakram (Seeds for Farmers Programme- SFP) is considered to have strong sustainability due to the strong comparative advantages offered to both seed and goat development, the close involvement of the private sector, which should not decline with the completion of implementation, and the strong attention to institutional capacity development.*

² The Government covers salaries of some Programme Coordination and Management deputed to the Programme.

LOGICAL FRAMEWORK (SUMMARY): IMPROVED SEEDS FOR FARMERS PROGRAMME

Objective Hierarchy	Key Performance Indicators and Targets (by end of programme)	Monitoring and Information Sources	Assumptions and Risks
Goal Increased competitive, sustainable and inclusive rural growth	<ul style="list-style-type: none"> Value of agricultural & livestock production in target area increases by at least 15% and 10% respectively. At least 150,000 families(including among disadvantaged groups) increase household food security [RIMS] At least 20 percent of Programme area HHs show improvement of more than 10% in household assets ownership index [RIMS] Reduction of at least 20% in prevalence of child malnutrition among participating HHs [RIMS] 	Baseline, mid-term and completion surveys and impact studies that contain disaggregated data based on sex, ethnicity, caste and geographical remoteness	Macro-economic and political conditions do not deteriorate further No major natural disasters affect target area
Development Objective Improve rural household incomes through sustainable, market-driven agricultural productivity improvements	<ul style="list-style-type: none"> Productivity in beneficiary HHs increases by (a) goat meat : 25%; (b) milk production: 50%; (c) crop yields using improved seeds: 15 % [RIMS] At least 70% of supported production groups actively functioning at the end of the implementation period [RIMS] Private purchase contracts established with at least 50 % of supported seed and dairy production groups [RIMS] 75 % production groups receiving infrastructure support sign production contracts within 2 years [RIMS] 	DADO & DLS records Outcome studies with data disaggregated (ethnicity, sex, caste and remoteness). Periodic surveys & reports part of the monitoring RIMS reports at 2 nd level	Participation in, and support for, programme activities from relevant local-level GON agencies Ability of Programme to collaborate with other projects.
Output 1. Extension of formal seed sector Increased production of Truthful Labelled seeds within the target area and marketed locally and beyond	<ul style="list-style-type: none"> Strengthened NARC and SQCCs able to produce required foundation seed and perform adequate seed quality control functions, respectively Truthfully labeled seed production, formal marketing and distribution system to meet GON recommended SRRs At least 7,000 farmers participate in at least 700 seed producer groups [RIMS] At least 5 seed companies establish cereal and/or vegetable seed purchasing operations in the target area At least 25,000 farmers participate in more than 1,000 seed demonstrations for improved seeds [RIMS] At least 240,000 ha sown with TL seed for cereals and vegetables 	District DLS reports Programme annual and trimester reports as part of the regular programme monitoring RIMS 1 st level annual reports	Target households willing and able to utilize improved seed Private companies involved in seed sector interested and willing to participate in sector growth Adequate capital base or financing access to permit private sector firms to invest in required assets
Output 2. Smallholder Livestock Development Animals with improved genetic potential result in improved growth of animal products	<ul style="list-style-type: none"> At least 550 dairy and goat new and existing groups supported by the programme [RIMS] At least 80 % of the participating HHs have improved animals through breed improvement program At least 60 % of dairy group HHs produce forage At least 50 % dairy and goat HHs use stall-feeding At least 80 % of animals in dairy HHs covered by routine vaccination against HS, BQ and FMD [RIMS] At least 15 local livestock collection centres/markets and 25 milk chilling centers established and functioning [RIMS] 60 % of dairy groups and 25 % of goats groups are engaged in marketing activities. 	District DLS reports Programme annual and trimester reports as part of the regular programme monitoring RIMS 1 st level annual reports	Sufficient forest areas approved for goat production Cross breeds improve growth rates Demand for goat meat and dairy products in Nepal continues Private companies willing to participate in sector growth
Outcome 3. Local Entrepreneurship & Institutional Devt Strengthened capacity of rural institutions to provide services to smallholder farmers.	<ul style="list-style-type: none"> Strengthening of participating local institutions through training: (a) participating VDCs - 80 %; (b) participating Production groups and Cooperatives – 70% ; (c) participating Agrovets – 80%. [RIMS] At least 50 % of groups formed/strengthened with women in leadership position [RIMS] At least 80 % of members of new SFACLs and bank branches access production loans At least 5 multi-stakeholder platforms functioning in the programme area. 	VDC and DADC records SFDB and SFACL reports and records. Programme annual and trimester reports as part of the regular programme monitoring RIMS 1 st level annual reports.	Active collaboration will be possible with government and other agencies Collaborating agencies will have sufficient staff and resources to provide effective services.

PROGRAMME OVERVIEW: Nepal - KisanKaLagi Unnat Biu-Bijan - (USD 59.7m)



LOGICAL FRAMEWORK : NEPAL - KISANKALAGI UNNAT BIU-BIJAN

Objective Hierarchy	Key Performance Indicators and Targets (by end of programme)	Monitoring and Information Sources	Assumptions and Risks
Goal Increased competitive, sustainable and inclusive rural growth	<ul style="list-style-type: none"> • Total value of agricultural and livestock production within the target area increases by at least 15 percent and 10percent respectively. • At least 150,000 families increase household food security • Household income of direct participants increased by at least 25 percent in real terms • Small farmers (less than 0.5 ha) comprise at least 50 percent of programme beneficiaries • At least 50 percent of programme beneficiaries are women 	<ul style="list-style-type: none"> • RIMS survey (baseline, midterm and end of project) • Annual sample household surveys of production and consumption 	<ul style="list-style-type: none"> • Macro-economic and political conditions do not deteriorate further • No major natural disasters affect target area
Development Objective Improve rural household incomes through sustainable, market-driven agricultural productivity improvements	<ul style="list-style-type: none"> • Average crop yields (cereals and vegetables) among farmers adopting improved seeds increase by at least 15 percent • Off-season vegetable production in target area increases by at least 10 percent • Recorded sale of goats from programme area increases by at least 40,000/annum • Private purchase contracts established with at least 50 percent of all supported seed and goat production groups • Financial services provided to at least 20,000 households throughout the Programme area 	<ul style="list-style-type: none"> • RIMS Survey • M&E reports • Annual sample household surveys of production and consumption • FNCCI reports 	<ul style="list-style-type: none"> • Adequate participation in, and support for, programme activities from relevant local-level GON agencies • Ability of the programme to collaborate effectively with other relevant rural development initiatives

Outputs	Key Performance Indicators and Targets (by end of implementation)	Monitoring and Information Sources	Assumptions and Risks
Output 1. Expansion of formal seed production sector Increased production of Truthful Labelled improved seeds occurs within the target area and is marketed locally, nationally and internationally	<ul style="list-style-type: none"> Seed production entering the formal marketing and distribution system within the programme area meets suitable Seed Replacement Rates At least 15,000 farmers are organised in seed producer groups and are linked to the formal seed sector At least 5 major national seed producing companies have established cereal and vegetable seed businesses in the programme area National vegetables seed imports reduced by at least 20 percent and exports increased by at least 5 percent At least 240,000 ha sown with TL seed for cereals and vegetables Cereal crop productivity in target area increases by at least 15 percent 	<ul style="list-style-type: none"> RIMS Survey M&E reports National trade statistics 	<ul style="list-style-type: none"> Target households willing and able to utilize improved seed Private sector companies involved in seed sector interested and willing to participate in sector growth Adequate capital base or financing access to permit private sector firms to invest in
Output 2. Small Scale Commercial Goat Development Animals with improved genetic potential result in improved growth and output of animal products	<ul style="list-style-type: none"> At least 12,000 persons (60 percent women) complete group forest/forage management training and receive 2 goats each Goat productivity achieves significant gains, with average 1 year weight of offspring of programme supplied animals averaging 25 kg and sales of animals per reproductive female reaching 1 per year Five livestock markets established and functioning in target Districts At least 35 percent of goat groups reach supply 	<ul style="list-style-type: none"> Surveys and monitoring of target group members and control families District DOL and DoF reports M&E reports 	<ul style="list-style-type: none"> Sufficient forest area available for planned groups and local communities willing to approve its use for goat production Commercially oriented breeders available in or close to programme area and willing to undertake cross-breed multiplication Cross breeds result in improved growth rates and live weight with

	agreement with buyers		no increase in mortality <ul style="list-style-type: none"> • Strong demand continues to exist for goat meat in Nepal • Suitable space available for market creation • Private sector companies involved in livestock sector interested and willing to participate in sector growth
Outcome 3. Strengthened capacity of a broad range of rural institutions to provide services to smallholder farmers.	<ul style="list-style-type: none"> • At least 95 farmer production groups and 80 cooperatives strengthened through training in improved business and financial management. Of these, at least 40 cooperatives would be exclusively women's cooperatives and women would comprise 50 percent of the total membership of 18,000 households. • VDC planning and investment capacity for agriculture sector strengthened in at least 156 VDCs in the programme districts. • Improved access to productive physical and marketing infrastructure for 32,000 households in the programme districts. • Increase in the number of Small Farmer Cooperatives to 37 from the existing 7 SFCLs which provide a wide range of services including savings to 18,000 households, loans to 26,000 borrowers, remittance services to 19,000 households and insurance to 1,300 households. At least 60 percent of the members of the SFCLs would be women. 	<ul style="list-style-type: none"> • M&E reports. DADC and VDC records. • SFDB and SFCL reports and records. • Participatory beneficiary assessments. • External assessment of beneficiary support organizations 	<ul style="list-style-type: none"> • Active collaboration will be possible with government and other agencies • Collaborating agencies will have sufficient staff and resources to provide effective services

REPUBLIC OF NEPAL
KISANKA LAGI BIU-BIJAN KARYAKRAM

Design Completion Report

1. In the framework of the 2006-2012 COSOP, the Government of Nepal (GoN) requested IFAD to design an agriculture and livestock project to be implemented by the Ministry of Agriculture Development (MOAD)
2. The full design from concept to final report was completed between September 2011 and May 2012, by three joint GoN/IFAD missions implemented together with the FAO investment center³. The main design missions visited the programme area in depth twice (September, November-December) and the third mission for design completion fielded in April 2012 focussed more on the programme organisation. Consultations were held with the Government, the private sector as well as with Civil Society Organisations (NGOs, Farmer organisations and Indigenous People Organisations). The Programme will be presented to IFAD's Executive Board of September 2012 and it is planned to start activities by January 2013. This Programme aims at developing the formal seed sector (cereals and vegetables) as well as improving livestock (goats and dairy value chain) through improved partnership with the private sector, especially with the Seed Entrepreneurs' Association of Nepal (SEAN) and its members in the programme area. During its seven years' duration, the Programme will target the vulnerable people of initial 6 districts in mid-west and west development region (150 000 households), and will be further extended in year 4 subject to availability of additional partnerships and co-financing, with the approval of the Government. The Programme is a key-element of the sub-programme defined in the national Agriculture Development Strategy (ADS) under development.
3. This main report presents the Programme in general, its rationale and structure, as well as partnerships, implementation modalities, management and risks. Working papers are available in Volume 2 describing component per component the detailed activities and implementation process.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and rural development and poverty context

4. Nepal is classified as a Low-Income Food Deficit country (LIFDC) and agriculture is central to the national economy, with nearly 80 percent of all households (3.4 million) and two thirds of the national labour force depending principally on the sector for their livelihoods. Nepalese agriculture is heavily influenced by altitude, with three major agro-ecological zones recognized, each running East-West across the length of the country: (i) the lowland *terai*, predominantly between 300-800 masl; (ii) the intermediate hills zone, and; (iii) the upland mountain zone (see Map 1, Main Report). Each zone is characterized by a different combination of crop and livestock activities, as well as different levels of population density and availability of infrastructure and services.
5. Overall, the agricultural sector contributes 33 percent of national GDP (ADB 2010), but recent sector growth of between 2.5-3.0 percent per annum has been well below the 4.2 percent level forecast for the 10th Five Year Plan (2002-2007). Although the overall agricultural sector grew by

³ Members of the various design missions : Mr. Khalid el Harizi (2011) and Mr. Benoît Thierry (2012) (IFAD Country Programme Managers), Mr. Bashu Babu Aryal (IFAD Country Programme Coordinator. Mr. Aidan Gulliver (FAO TCIS Leader/Senior Economist), Mr. Turi Fileccia (Senior Agronomist) and Ms. Kunduz Masyilkanova (Financial Analyst), all of the FAO Investment Centre. The missions also comprised Mr. Mahesh Nath Shrestha, National Seed Sector Expert, Mr. Thierry Mahieux, Private Sector Specialist, Ms. Dibya Gurung, Gender Specialist, Mr. Arendt Van Riessen, Targeting Specialist, Mr. Amar Mishra, Financial Management Specialist, Mr. Surya Singh, Livestock Specialist, Ms. Eeva Maijala, Monitoring and Evaluation Specialist and Irshad Khan, Knowledge Management consultant.

6 percent from 2000-2009, in per capita terms cereal production has declined by 8 percent and livestock production has remained stagnant.

6. Crops account for around 65 percent of agricultural GDP, but average cropping intensity is relatively low at 180 percent. More than 75 percent of total cultivated area is planted to cereals. Nationally, irrigation is fairly widespread, accounting for over 54 percent of all agricultural land in 2010-11. Paddy dominates in the terai and hills zones, accounting for 45 percent of the area under cereals overall, followed by maize (26 percent) and wheat (20 percent). Pulses (6.5 percent), vegetables (5.25 percent) roots & tubers (4.75 percent) and fruit (2.7 percent) contribute most of the remaining planted area. Paddy and winter vegetables are the most widely grown crops, being sown by 72 percent of all farmers in 2010-11.

7. Yields of major crops are poor by regional standards, with Nepalese paddy rice yields in 2010 being the lowest recorded in South Asia, while wheat yields were lower than for any other country except Afghanistan. Maize yields were lower than for all other regional countries except India. In part this performance can be linked to the very low proportion of improved seed used by Nepalese farmers (only exceeding 15 percent for vegetables in 2010-11). Fertilizers were used by over 70 percent of all paddy producers, half of all wheat producers and one third of maize producers. Despite of the popular use of fertilizers by the farmers, productivity remains mediocre. Access to quality seeds by remote farmers is viewed as one of the constraints. In addition, mechanization levels are very low, with only one percent of all agricultural households possessing either a tractor or a power tiller. In view of the characteristic of small pockets of lands owned by the farmers in the remote and hilly areas, potential of improved productivity relies primarily on access to consistent supply and use of quality seeds.

8. Livestock is important throughout the country, particularly in the mountain zone, with an estimated national population of 8.5 million goats, 4.7 million cattle and 4.7 million buffaloes in 2009. An estimated 65 percent of all agricultural households held both goats and cattle.

9. Although Nepal's poverty level declined from 42 percent in 1995/96 to 31 percent in 2003/04, it remains significantly higher in rural areas, and access to services and infrastructure in rural areas is more difficult. In part, this is attributable to the predominance of smallholders and marginal farms in Nepalese agriculture, with an average holding size of only 0.7 hectares in 2010-11. Nearly a half of all farms have less than 0.5 ha of land, while those with less than 1 ha of land constitute nearly three-fourths of all holdings. Furthermore, farms are getting smaller; the average holding size declined by 28 percent between 1961 and 2001. Nationally, the proportion of landless farmers is gradually increasing, growing from 17 percent in 1995-96 to 24 percent in 2010-11. This is occurring despite the movement of rural populations to the more productive terai zone or urban areas. Total reliance on rented land remains rare, with only just over five percent of holdings using only this source. However, almost one third of all farm households do rent some land.

10. Much agricultural production is predominantly of subsistence nature. Some 78 percent of farm holdings are reported to produce primarily for home consumption, while only 1 percent produces primarily for commercial purpose. For 60 percent of holdings, annual production is not sufficient to feed the household over the year and 20 percent of holdings are deficient in food for more than half of the year. Additional income to meet household needs derives primarily from migration labour (seasonal or long term) and associated remittances (2 million workers abroad, their remittances contribute for 20% of the GDP). The prolonged absence of male household members who have migrated for work has led to an increasing 'feminization' of agriculture in Nepal, with women increasingly taking responsibility for both household and farm management.

11. The Government of Nepal (GON) prepared a 20-year Agriculture Perspective Plan in 1995 to aid agriculture-led economic growth and poverty reduction, but no pipeline of investment projects focusing on these priorities was prepared. In order to streamline investment into the agriculture sector, GON, with support from ADB and IFAD, has embarked on the preparation of an Agriculture Sector Development Strategy (ADS). This strategy incorporates an investment plan for specific sub-sectors and is expected to be ready by the end of 2012.

B. Rationale

12. The Programme concept, within the framework of the IFAD COSOP and Nepal/ADS, responds to the above trends by advocating an approach that specifically targets the inclusion of private initiatives to increase productivity in a sustainable manner. Social inclusion is built into the programme design at all levels through a variety of measures and mechanisms. Productivity gains are based on the identification of areas of clear competitive advantage for farmers in different farming systems and poverty contexts. The ultimate measurement of productivity increase is not the physical yields achieved but rather the real income increase by unit of labour invested, recognizing that farming households will not produce more if they do not earn more. The Programme creates opportunities for agribusiness companies to develop their activities within the target area and, equally importantly, it aims to develop smallholder-based commercial agriculture and to ensure a fair share of the value added in the chain accrues to the producers. Finally, with regard to sustainability, the Programme will invest considerably in building local leadership and planning capacities and in regenerating and protecting the natural resource bases.

13. The primary rationale for this investment programme is the continued existence of widespread poverty in the country, particularly in the target rural areas, where it is estimated to exceed 45 percent of the population. Despite significant improvements in rural access in many areas, expanding market opportunities, and an increased private sector role, growth in the agricultural sector has been disappointingly low in recent years (averaging less than 3 percent per annum over the last two decades and under 2 percent per annum for rice, the dominant crop); far below expected potential and other countries within the region. With the contribution of agriculture to GDP estimated at 32 percent in 2008/09, this has significant implications for the economy as a whole.

14. Also of importance for the programme rationale is the significant agricultural potential of the Hills agro-ecological zone of the country. In particular, it is considered that two sub-sectors – agricultural inputs (especially seeds) and smallholders livestock (especially goats)– offer key entry points for stimulating growth and productivity in this region. These are discussed in more details below, but both are essential elements in the farming systems prevalent within the Hills zone, and both are characterised by their poor performance and a lack of effective articulation with the market and, indeed, the commercial sector in general. Both components would focus on improved market linkage as driving force for enabling productivity and growth.

15. The inclusion of women within programme activities is important not only for reasons of equity, but also for the effective implementation and sustainability of the programme activities as well. Data from the 2010/11 Nepal Living Standards Survey III (2010/11) indicates that 56 percent of households in Nepal have at least one family member absent on seasonal or long term migratory labour. Accelerated agricultural growth and productivity will therefore depend heavily on the participation of women.

16. In order to ensure the sustainability of programme benefits and contribute to economic growth throughout the sector, it is also essential to strengthen the long-term capacity of local institutions and organizations (including private sector participants) to provide essential services and promote entrepreneurship in such areas as technical assistance, planning, infrastructure, processing and marketing. The Programme will therefore also address these needs in order to ensure the necessary institutional base.

17. Finally, the considerable degree of both political and sectoral uncertainty currently present in the country strongly suggest the need for any proposed investment to maintain implementation flexibility, while also allowing for future expansion in both geographical area and scale, if warranted. It is for this reason that the use of a flexible programme approach has been proposed including phasing and scaling-up.

II. PROGRAMME DESCRIPTION

A. Programme Area and Target Group

18. Following the corridor approach already tested with HVAP and promoted by the Government, the proposed geographical target area combines high poverty levels and relatively elevated population densities with significant agricultural potential for seed and goat production, as well as the possibility of complementary activities with other development initiatives. The target area of the first phase (Year 1 to 3) encompasses four Districts in the Mid-Western Region (Rukum, Salyan, Rolpa and Pyuthan) and two Districts in the Western Region (Gulmi and Arghakhanchi) – see Map 2. All targets Districts are in the Hills zone; they include areas with the lowest Human Development Index in Nepal, as well as poverty levels that are considerably above national rural average. Additional districts will be selected for phase 2 (Year 4-7) of the Programme depending on additional co-financing from other donors.

19. Household consumption and income in the target regions are less than 70 percent of national levels, while perceived inadequacy of food consumption is 60 percent higher. Access to facilities within the target regions is also much poorer as compared to the other rural areas of Nepal, especially in the availability of health posts, agricultural service centres, commercial banks and market centres. However, the number of households without land, at five percent, is almost one fifth of national level (24 percent).

20. On the basis of projections derived from the Agricultural Census, it is estimated that the total number of households encompassed by the target area totals nearly 300,000 with a projected 2010 population of approximately 1.5 million. The total estimated cropped area of the targeted districts would exceed 135,000 hectares. Productivity of all major crops in this area is below national average. Wheat and maize yields are only 60 percent of the national average while paddy and vegetables yields are lower by almost 20 percent. A contributory factor is likely to be the lower proportion of irrigated land in the target area; in the Mid- Western regions where four of the six target districts are located, irrigated land accounts for less than 30 percent of agricultural land, compared with almost 55 percent nationally. The negative performance of the wheat crop is quite significant as one fourth of the entire hills' wheat area is cropped in the target districts.

21. In addition to the target area districts, the Programme would establish linkages with the Terai districts of Banke and Rupandehi where many seed companies are based as well as GON regional seed testing laboratories and the National Agricultural Research Council (NARC) and DoA.

22. With respect to target groups and population, as well as support to institutions and agencies providing services within the target area, the Programme will impact two main types of beneficiaries:

- **Groups and cooperatives** engaged in supported seed and livestock production, as well as households participating in improved seed demonstrations and variety trials. This category will also include those benefiting from expanded financial services, although many will also be members of production groups, and only individual households are counted. The participation of the poorest, as well as of the indigenous people, in these groups is expected to be higher than their proportion of the population. **This category will account for an estimated 75,000 beneficiary households or 375,000 persons;**
- **Farmers** – including both within and beyond the Programme's target area - who will benefit from greater crop and animal yields through use of the improved seed and livestock. While such adopting farmers within the programme area will likely be those too poor or remote to have considered joining a seed or dairy production group (however most goat producers will be from disadvantaged groups) those purchasing the improved seed in other Hills zone area beyond the programme districts are likely, at least initially, to be wealthier farmers, who afford to experiment and have knowledge of what has occurred within the Programme. There will also be some indirect beneficiaries in the seed and livestock supply business. **In all, it is estimated that this group will amount to a further 75,000 households or 375,000 individuals.**

23. The Programme is therefore expected to impact approximately 150,000 households, or 750,000 persons; some 50 percent of the total target area population.

24. A beneficiary incorporation matrix (in Annex 2 of the main report) has been prepared, showing the distribution by year of households anticipated to benefit both directly and indirectly from the Programme. Direct beneficiaries are those who will receive support from the Programme and include members of seed production groups (cereal and vegetable), members of livestock production groups (goats and dairy) and those participating under the Entrepreneurial and Institutional Development activities. As most of the beneficiaries of this last component will likely participate in programme activities under the other two components, only few incremental beneficiaries for entrepreneurial and institutional activities will be accounted to avoid overlapping.

25. In total there will be over 75,000 incremental direct beneficiary households, peaking at 18,300 in year 5 of implementation. Estimating indirect beneficiaries is considerably more difficult, because it is dependent upon the number of households who are not direct beneficiaries, but which purchase improved seed for their own use. On the basis of pessimistic estimate, no indirect beneficiaries are accounted prior to year 3, when improved seed starts to be available in significant amounts. Nevertheless, it is possible to estimate that an uptake of no more than 20-25 percent of improved seeds by non-participating households would generate the figure of 75,000 households presented elsewhere.

Table 1 : Beneficiaries incorporation matrix

Beneficiaries	Unit	PY 1	PY2	PY3	PY4	PY5	PY6	PY7
Incremental Direct Beneficiaries								
Seed Productivity								
Cereal Seed Group 1	HH		90	720	810	900		
Cereal Seed Group 2	HH		45	225	225	225		
Cereal Seed Group 3	HH		9	90	135	126		
Vegetable Seed Group 1	HH		150	1 350	1 500	1 800		
Seed Demonstrations	HH		2 500	3 750	6 250	10 000	7 500	
Participatory Variety Selection	HH		2 500	2 500	2 500	2 500	2 500	2 500
Subtotal for Seeds		0	5 294	8 635	11 420	15 551	10 000	2 500
Livestock Productivity								
Goat - 2 goats per HH	HH		80	160	400	1 520	2 640	3 760
Dairy - 2 cows per HH	HH		0	200	433	1 231	2 576	4 742
Subtotal for Livestock		0	80	360	833	2 751	5 216	8 502
Entrepreneurial & Institutional								
VDCs	HH	468	468	468				
Incremental SFACL members	HH	600	900	1500	1500			
Subtotal for E & I Development		1 068	1 368	1 968	1 500	0	0	0
Total Direct Beneficiaries		1 068	6 742	10 963	13 753	18 302	15 216	11 002
Incremental Indirect Beneficiaries								
Improved Seed Adoption (see below)	HH			796	28 095	7 391	33 988	4 214
Total Indirect Beneficiaries		0	0	796	28 095	7 391	33 988	4 214
Total Beneficiaries		1 068	6 742	11 759	41 848	25 693	49 204	15 216

B. Development Objective and Impact Indicators

26. The goal of the Programme is to promote inclusive, competitive and sustainable agricultural growth within the target area such as to contribute to overall economic growth. The programme development objective (PDO) can be defined as to improve household incomes through sustainable, market-driven productivity improvements, with the aim of scaling-up an agriculture-led growth model.

27. The proposed PDO has four key indicators: (a) increased productivity for specific crops and livestock; these vary from 50 percent increase in milk yield and 25 percent in goat off-take to 15 percent increase in crop yield; (b) at least 70 percent of supported production groups are still active at the end of the implementation period; (c) private-sector operated purchase contracts are established

with at least 50 percent of all supported seed and dairy groups, and; (e) 75 percent of production groups sign production contracts within 2 years of receiving infrastructure grants through the Programme.

C. Components/Outcomes

28. The Programme will comprise three technical components, supported by a fourth component of Programme Management Office (PMO). The three technical components are: (i) Support to the Extension of the Formal Seed Sector; (ii) Smallholder Livestock Development, and; (iii) Local Entrepreneurship and Institutional Development. Each is discussed below. Further details can be found in Working Papers 1-3.

Component 1: Support to the Extension of the Formal Seed Sector (USD 23.3 million)

29. Given the high percentage of the Nepali population dependent upon agriculture, the need to accelerate agricultural productivity as a means to address food security of a growing population is clear. The main vehicles to sustain productivity include irrigation, fertilizers and quality seed. Considering the low seed replacement rates (SRRs) prevailing in Nepal, and in particular in the hills zone (ranging from 1.5 – 3 percent across the main cereal crops), even modest increases in SRRs using improved seeds would have a major impact on yield levels and productivity. Seeds are also the most cost-effective means for sustained productivity, representing only 8 percent of all direct expenses for inputs and materials and 3 percent of the overall production cost. Despite these benefits, improved seeds are currently used only for major cereal crops (paddy, maize and wheat) and vegetables while the production is largely underdeveloped regarding the improved oilseed, pulses, other minor field crops and fodder crop seeds.

30. Based upon recommended SRRs, seed use per hectare, and the cropped areas within the target districts, it is estimated that nearly 2,900 MT of improved maize, paddy and wheat seed would be required on an annual basis. Currently, only slightly more than 200 MT of improved seed is supplied for all three cereal crops, more than 90 percent of this from informal sources⁴, where quality control is a major concern. Improved seed requirements would rise significantly if it was also distributed in other hill zone Districts and even exported.

31. Vegetable production is also an important activity in the target districts as a source of income for farmers, although it accounts for only 3 percent of the national production. The vegetable seed trade has been increasing in recent years and there is a huge potential in both export and domestic markets. Against a current annual demand of 2,000 tons of vegetable seed in Nepal, only about half is produced domestically. For export markets, the hills zone can produce vegetable seed during the monsoon season in India, when vegetable production is much reduced, providing an important source of demand and a strong comparative advantage.

32. Current regulation in Nepal allows the production and distribution of two kinds of improved seed: certified seed and truthfully labelled (TL) seed. However, GON's capacity is inadequate to monitor the seed production process and is unable to enforce overall seed quality assurance in the market.

33. Formal seed is a technology for enhanced productivity through guaranteed and acknowledged quality seed delivered by an established supply chain and market. The availability of improved seed is coupled with the requirement for appropriate and specific agro-ecological conditions, where production is to occur. Private seed companies (PSCOs) in Nepal are contributing to suitable SRRs more than any other player of the supply chain. However, PSCOs - which do not have land of their own - need to partner with small scale producers to ensure the required resource base.

34. The primary actor of the seed value chain is the private seed production companies, which work with the farmers' specialised groups and cooperatives, and with a loose network of individual traders and agrovets for collection, distribution and retails.

⁴ In fact, from organized informal sources (DISSPRO and CBSP), as compared to the 'true' informal farmer-to-farmer exchange.

35. The Seed Entrepreneurs Association of Nepal (SEAN) is a non-government and sector umbrella association regrouping more than 200 private seed producer companies in the country, dedicating itself in promoting regularized and standardized quality assurance for seed production in a competitive market environment. At least 10 of the SEAN member seed companies are active in the six programme districts and they are working closely with the local network of agrovets, introducing and applying a process of quality control with their local production base which is constituted of the seed producer groups or cooperatives at community level.

36. There are currently some 55 seed producer groups and 3 seed cooperatives active within the target area, but as many as 250 production groups exist per district, which may offer a wider potential base for seed production. Seed producer groups generally comprise 15-30 members, are seed-type specialized, and have an average experience of 5 years. The gender ratio of members averages 70 percent male and 30 percent female, although there are groups with only female members. The seed area generally represents 20 to 50 percent of the total land cultivated per producer. Only a few groups have irrigation facilities. This limits both cropping intensities and higher yield gains.

37. There are nearly 2,000 registered seed traders in Nepal. However, these traders overwhelmingly trade exclusively imported seed. Only around 25 companies produce their own seed, mainly through contract farming arrangements with seed producer groups (see list in Working Paper 1). Most sales of seeds (both imported and nationally sourced) occur through a network of independent Agro-vets, largely based in District headquarters, which handle crop inputs and animal health products. Increasingly, the Agro-vets act as agents of the seed companies by identifying and organizing interested producing groups, setting up contract farming arrangements, provide foundation seed and other inputs to the producers, collect the seed at farm gate and then deliver the seed produce to the seed factory gate.

38. The District Agriculture Development offices (DADOs) are key resources for any development of the formal seed sector. All groups under the two main national seed production programmes - District Seed Self Sufficiency Programme (DISSPRO) and Community Based Seed Production (CBSP) - have been initiated with technical and often financial support from the DADOs. However, DADO capacity in all target districts is very limited in terms of trained human resources, office equipment and mobility. Their ability to properly monitor on-going development programmes and projects is low. The closest regional MOAD Regional Seed Testing Laboratories (RSTL) MOAD (located in two Terai districts adjoining the target area) are mandated to conduct field inspections (required for seed certification) as well as to collect seed samples for laboratory testing (required for all Truthfully Labelled seed). However, due to mobility and staffing constraints, these activities are adequately carried out only in the Terai. Significant infrastructural upgrading is required at both laboratories, and increased trained human resources is essential to conduct field inspections, sample collection and analysis, and market quality monitoring. Similarly, for increased production of source seed, area competent NARC stations and DOA farms also require substantial infrastructural upgrading and scaling up of source seed production of suitable varieties.

Strategy and Objective

39. The component strategy is to build upon the existing achievements of the domestic seed sector and ensure the availability of appropriate seeds to small farmers within the target area and, eventually, throughout the entire hills zone. It specifically targets full involvement of the private sector to increase improved seed availability in a sustainable manner. The strategy seeks increased and combined private sector and small scale farmer involvement, as well as for the pivotal role of a better public sector providing needed services. Importantly, support needs to be provided to consolidate the achievements of the domestic private seed sector and enable its capacity to challenge the domination of international seed companies.

40. In line with its 'accelerated growth' thrust, the Programme intends focusing on those steps through which, with relatively small investments, it can build on the existing capacity and make a real move towards expanding the formal seed sector as a major means for enhanced crop productivity. For this reason, while the Programme acknowledges the importance of crop variety development including the development of hybrid seed, it will not invest in hybrid seed related areas at this stage.

A separate research and development oriented investment will be required to address this crucial issue. It is likely that this area will be recommended for future investment by the forthcoming Seed Vision 2025⁵ and ADS documents.

41. At the top end of the seed supply chain, Nepal has a reasonable enabling legal framework that is being further improved. Source seed of the required varieties grown and demanded in the Hills is currently insufficient but the authorized source seed producers could organize a streamlined scheme to increase output.

42. Within the target area of the Programme an important, although limited, quality-oriented seed production base has been created by past and ongoing government and donor efforts (DISSPRO, CBSP). This base can be organized, strengthened and scaled up for transition into the formal sector. However, in all cases, existing local seed producer groups lack sufficient storage facilities, and even more importantly, the financial capacity that would allow them to keep the seed from harvesting to marketing time (5 to 6 months). These constraints will also be addressed by the Programme.

43. Despite the high seed market potential that exists in the target area, private seed companies are nevertheless still reluctant to enter production in this area because of infrastructural constraints, limited connections to producer groups, and the relatively high investments required. On the demand side, target area farmers - particularly those in the remote areas - have not been exposed to demonstrations confirming the benefits of periodic seed replacement (once every three to four years depending on crop type) with TL seed.

44. The objective of the component is to increase crop productivity by expanding the activities of the formal seed sector in Nepal. To this end the strategic focus of the Programme will be in the Hills area of Nepal where the SRR is lowest. Synergies will be sought with all major and relevant projects and programmes that are on-going in the Mid-western and Western regions. The initial focus would be upon cereals and vegetables; subsequently pulses, fodder and crops may also be supported. Similarly, a suitable SRR, as envisioned in Seed Vision 2025, of the six target districts will be first met and subsequently surplus seed production would be also pursued to satisfy the needs of other Hill districts. The implementation strategy foresees that major seed companies will undertake direct or agent-mediated contract farming schemes with farmer seed groups or cooperatives, building on and expanding the existing group/cooperative seed production capacity. Well-established seed groups/cooperatives would also be encouraged to expand and formalize their businesses.

Component Activities

45. The component is organized around three sub-components following a supply chain development approach. The sub-components are: (a) Ensuring an Effective Enabling Environment; (b) Improved Seed Production, and; (c) Promoting Farmer Demand for TL Seed. Each of these is briefly discussed below but explored in more detail in Working Paper 1. Sub-component cost estimates include only investment costs.

(a) Sub-component 1.1: Ensuring an Effective Enabling Environment (Investment cost of USD 2.0 million)

46. *Improving Policy and Regulations.* The Programme would assist the National Seed Board (NSB) and all stakeholders to finalize and implement amendments to the Seed Act and its Regulations. Many amendments have been already prepared and are pending final approval. The Programme will sponsor a consultative process with both the public and private sector (including SEAN and other sector representative actors) to determine priorities. More sustainable mechanisms should be introduced in the seed quality control system including licensed service providers to conduct field inspections and seed sample collection and to control seed quality at market level. The involvement of the private sector should be promoted under such enabling environment, providing competitive market conditions for genuine entrepreneurship development. In addition, the creation of a 'Contract Farming' act that is acceptable to all concerned parties would also be important to the expansion of the formal seed sector. The component would provide resources for specialized national and/or international technical assistance to help design and prepare the legal elements required.

⁵ Seed vision 2025 – Seed Sector Development Strategy – MOAD - Draft April 2012

47. In view of the multi-facet nature of such technical assistance, it is crucial to recruit qualified service providers with proven sound records in the related technical areas.

48. *Increasing the capacity of the DADOs.* The six District Agricultural Development Offices (DADOs) will each receive support and assistance as well as part-time advisory services during the first two years of the Programme. Support elements per district would include: improved mobility for HQ office and for an average of 6 Agriculture Service Centres (ASCs); office and ITC equipment; training, and; increased operational budgets to undertake Programme coordination and monitoring services within each district. Similarly, SQCC, the Crop District Directorate (CDD) and the Vegetable District Directorate (VDD) would be supported to expand back up services to the districts.

49. *Improving the seed quality control system.* The two RSTL laboratories closest to the target area will be supported through the renovation and expansion of infrastructure and technical equipment. Staff would also receive training on up-to-date quality control methodologies. SQCC delegation of functions, coupled with training, would be extended to DADO-approved district-level service providers. The Programme will also provide required operational budget and mobility to the Regional Laboratories to enable field inspection and seeds sample collection and testing for certification and TL needs of the seed producers; and seed market level quality control. Additional human resources, two RSTLs will be placed for effective implementation of testing and inspection programme. (phase I only and financed by GON).

(b) Sub-component 1.2: Improved Seed Production (Investment cost of USD 18.4 million)

50. Based on current cropped areas in the six target districts, the specific annual needs (allowing for some surplus) have been estimated at about 3,250 tons of maize, paddy and wheat seed. An overall seed production target of 500 tons of vegetable seed has also been set. This entails the availability of about 380 tons of cereals crop and 4-5 tons of vegetables crops related foundation seed. Other seed types may be multiplied should a specific demand arise during Programme activities.

51. As recommended by IFAD Quality Assessment committee, before starting implementing activities related to the improvement the seed production, the programme will recruit qualified technical assistance (national and international) to carry out a value chain analysis on both the cereal and vegetable seed production. This analysis would be national in scope but will firstly focus on the six districts of the programme area. The analysis will provide the price and value added structures of both value chains, identify the type of contractual relationships among chain actors as well as possible actions to further involve the private sector in a sustainable and cost and risk-sharing manner. The value chain analysis will be contracted by the Programme Management Team either on the basis of particular contract or on term-associated technical assistance with record-proven service provider; it will also include workshops in each district and for each value chain. As a result of this value chain analysis, the Programme Management Team will be able to fine tune the activities of the Programme so as to improve the sector and the relationships between seed producers and other stakeholders while influencing the governmental policy for both sectors. In addition, training and capacity building will be provided to all stakeholders.

52. *Production of required foundation seed.* The Programme's goal of ensuring the availability of TL seed within the target area (and, as available, in other hills districts) requires sufficient foundation seed of the varieties that are preferred and grown in this agro-ecological area. The Programme will support⁶ the improved capacity (equipment and infrastructure) of specific NARC stations and DOA farms which will be in charge of programme-required foundation seed. The Programme would also provide the necessary operational budget for foundation seed production. While vegetables foundation seed will be likely produced directly by NARC, cereal foundation seed would be produced through contract farming arrangements with authorised seed companies with whom about 70 farmer groups, each with an average membership of 25 farmers will be attached (cropping in average 0.2 ha each).

⁶ Complementing actions currently being undertaken by other donor supported initiatives e.g. World Bank financing of Social Safety Net Programmes to the IWRMP; CIMMYT's Hills Maize Research Project-Phase IV.

53. *Strengthening seed producer groups and cooperatives.* The defined seed production requirements would require an estimated 400 cereal seed producer groups (with an average membership of 25 farmers cropping in average 0.2 ha each) and 320 vegetable seed producer groups (with an average membership of 25 farmers in each group and with every farmer cropping some 1,000 m²). Some producer groups are expected to produce exclusively under contract, while others would sell also independently. A few may develop into *bona fide* small seed companies in their own right..

54. As a first step, the Programme will strengthen existing seed producer groups and cooperatives which demonstrate interest in participating in component objectives. An average of 15-20 seed production groups currently exist in each district. At the same time, new groups will be identified and mobilized from amongst other existing agricultural groups in the district which are willing to undertake formal seed production. The Programme will make efforts to ensure inclusion of DAG (including women) farmers to participate in the groups and achieve the GESI targets. It is estimated that an average of 120 groups per district (approximately 65 cereal and 55 vegetable) will need to be organized to meet the TL seed production targets of the Programme. Although needs have been computed for design purposes, actual group strengthening investment will be determined during implementation and would be demand driven. These would likely entail a mix of irrigation facilities, storage facilities, and equipment for threshing and farm mechanization. Groups would also be encouraged to use organic fertilizer and to characterize (by labeling) in such a manner their seed production. Mobilization and training of new groups will take place with DADO and NGO assistance and use Field Technician Mobilizers employed by the Programme, who will provide regular contact and monitoring for all participating groups. Group strengthening will be supported through the use of Matching Grants (MG) for irrigation and marketing infrastructure. District level Engineers, recruited by the Programme will provide assistance in the design, costing and implementation supervision of these investments.

55. The criteria for selecting seed producer groups will ultimately depend on the requirements of the PSCOs contracting them, but would likely entail a combination of appropriate land resources, irrigation potential, prior capacity building through the Programme, and an interest in engaging in long term contract farming arrangements.

56. Since SEAN's member companies are already working with a number of existing groups and cooperatives, the business and the financing of supporting the groups and cooperatives in storage facilities, equipment, application of production standard will fully or partly be embedded in the SEAN's member companies' business being accepted for the Competitive Grant System (CGS, see paragraphs below) to help strengthen the contract farming linkage and to promote quality assurance of production. Non-SEAN member PSCO need to commit themselves to the required quality assurance for certified seed and TL seed while accessing to the CGS and benefit from the financing for the same business embedded service.

57. *Engaging formal sector seed companies.* During Programme launch workshops, qualified seed producing companies will be invited to make awareness of the Programme-supported investment, provided they result in expanded formal seed production operations in the target area based upon agreed production contracts with Programme-strengthened producing farmer groups or cooperatives. SEAN will assist in bringing and recommending its eligible members active in the programme areas. It is anticipated that at least some twenty national PSCs, including the state National Seed Company (NSC), could show an interest in engaging with the Programme. It is envisaged that the PSCs that will eventually be awarded a contract agreement, will each address a portion of the Programme total target TL seed requirements. Seed Entrepreneurs' Association of Nepal, its members, and other seed producing companies will be invited to allow them understand the working modality of the Programme. The PMO will organize tailor-made information events for them, if required, to explain the details on operational procedures.

58. In view of SEAN's past experience in working closely with the government support system and in support of the seed sector in quality standard advocacy and technical training, it will receive programme assistance in further strengthening its service capacity, and play a catalyser role in bringing in the PSCOs into the process of application for access to the Competitive Grant Scheme,

either the latter are its existing members or not. With its strengthened capacities, SEAN will assist the candidate PSCOs in preparing their application for the CGS support from the programme.

59. Interested PSCOs will need to undertake their own assessments and feasibility studies at the district level and provide viable technical and financial proposals, after procedural training from SEAN. Investment requirements will arise from the PSCO business plans, but are likely to include: processing equipment and facilities; storage capacity; quality control labs and systems; transportation, and; working capital. Agreements with the PSCOs will be awarded through a Competitive Grant Scheme (CGS) mechanism providing 50 percent of the approved investment for selected proposals. Programme support to operational budgets would be for no more than three years. Provisional estimates suggest that nine cereal seed and four vegetable seed production operations would be supported. The applicant PSCOs need to explain how they will work with the production bases and the existing or future arrangements with the producer groups and cooperatives in terms of contract farming, business embedded services support, and cost and risk sharing mechanism.

(e) Sub-component 1.3.: Promoting Farmer Demand for TL Seed (Investment cost of USD 1.3 million)

60. It is widely accepted among all participants within the sector that demand for improved seed of a guaranteed quality is strong, but that currently supply is limited, varieties may be inappropriate and quality is often lacking. However, for the benefits of the new seeds to reach those households belonging to disadvantaged groups and, in particular, those living in more remote areas and settlements, an educational and awareness campaign will be undertaken. Promotion of farmers' demand for TL seed is foreseen through different initiatives of the Programme. In addition, for the larger farming community, the institution of Agricultural Fairs (see Component 3) to be held annually in the target area, will also contribute to knowledge sharing and to expand Programme's technology adoption by farmers. In each of the six districts, an average of 5,000 smallholder households would be specifically targeted to promote use of TL seed. The Programme will support the cost of Demonstrations and Participatory Variety Selection (PVS) trials with the targeted households.

61. A total of 1,200 group demonstrations will be conducted to compare the relative performance of TL improved seed with farmer-saved seed of the same varieties. Such demonstrations will be organized using a Farmers' Field School (FFS) approach. In average 200 FFS will be facilitated in each District by ASC staff of the DADO as well as through NGOs, interested Agro-vets and lead farmers from Seed Producer Groups strengthened by the Programme. A total of 300 facilitators are required (50 per District). The facilitators will undergo a short but intensive training of trainers (TOT) course that will be organized by the SQCC and DCC.

62. With the support of NARC, a similar number of PVS trials would be conducted to assist in identifying the best and most demanded varieties to be multiplied as foundation seed and subsequently as TL improved seed. Site selection will be done with the help of concerned DADO and research outreach staff of Agriculture Research Stations. Focus group discussion with the farmers of the site will be carried out by the team of scientists and other staff to identify the farmer's choice for the crops or the variety. In working on the PVS trials, climate change adaptation practices would also be pursued.

Component 1: Organization and Implementation

63. The component will support the technical staffing within the PMO and to be located in the district level where necessary,. Costs related to travel and mobility as well as those of District level workshops are also considered.

64. The costs related to the running of support committees at different levels for the technical evaluation (including peer reviewing) and appraisal of CGS proposals will be also borne by the Programme. Evaluation of MG proposals will be evaluated by the PMO. The CGS will be regulated by a specific Manual that will be part of the Programme Implementation Manual

65. The implementation responsibilities, under the overall coordination of the PMO, of each sub-component and activity have been described separately, which are:

Activity	Implementation Responsibility and Involvement	Action
Enabling Environment	NSB, SQCC, CDD and NSC, PSCO, SEAN	Technical Assistance, Workshops, Consultations, overall policy guidance SEAN to promote application of amendments and new guidelines
Value Chain Analysis	Qualified technical service provider	Cereal and vegetable value chains are assessed, Programme activities are fine-tuned, and policy dialogue with GoN is engaged
Foundation Seed Production	NARC (Seed Science and Technology Division), DOA farms and private seed companies with NARC stations and involvement of, CIMMYT, DADOs, and target Seed Producer Groups	Annual production of required cereal and vegetable seeds
Groups Strengthening	DADO, SEAN and its member PSCOs, Agrovets, NGOs, Seed Groups/Cooperatives	Capacity building of Seed Producer Groups through MG scheme SEAN guide its member PSCOs in BBD
Seed Company Engagement	SEAN, PSCOs (as awarded by PMO/Programme Steering Committee after CGS screening and approval), with Agrovet involvement	PSCOs (as per approved business plans) capacity is improved and annual action plans to produce TL seed are implemented SEAN to guide and assist PSCOs in application preparation
DADO	DADO and PMO	Capacity building, infrastructure
SQCC	Regional Laboratories, DADO staff, private-community service providers	Capacity building, infrastructure
Demonstration with Farmers	DADO, NGO, Agrovet and Lead Farmers facilitation (+ TOT)	FFS are implemented
PVS	ABD coordination and NARC stations facilitation, CIMMYT and NGOs	PVS trials
Coordination	PMO, DADO, DOA, NARC and SQCC	Coordination

Estimated Component Benefits

66. An anticipated 7,200 households, organized around 720 groups and involving up to 13 private seed company operations would participate in the production of approximately 760 MT of TL paddy; 830 MT of TL maize; 1660 MT of TL wheat; and 500 MT of a range of TL vegetable seeds. This would generate overall net margins worth USD3.15 million for the seed groups and USD2.9 million for the seed companies. TL improved seed production would be sufficient for the sowing of some 15,000 ha of paddy; 40,000 ha of maize; 13,000 ha of wheat; and 65,000 ha of vegetables in the agro-ecological Hills zone.

Component 2: Smallholder Livestock Development (Investment cost: USD 20.5 million)

67. Livestock is an integral part of the Nepalese farming system. Livestock are raised for meat, milk, manure and draught power. The sector has been designated as strategic in the Three Year Interim Plans and the National Agriculture Sector Development Priority (NASDP) for the medium term (2010/11–2014/15).

68. Goats and buffalo are the most important livestock, with the marginal increase of local cattle population from 7.1 to 7.2 million heads. The sheep population has been declining due to increasing grazing controls in the community forests. Pigs are limited to specific ethnic communities, and rural poultry is being replaced by commercial poultry production system, which is led by the private sector. Buffalo contributed 71% of national milk production (1.496 million MT) and 65% of total national meat production of 250,000 MT in 2010. Goats contributed more than 20% of national meat supply. However, urban milk and meat demand has outpaced the sector growth. In 2010/11, a total of 10,500 MT of dairy products were imported with a value of NRs 896 million (US\$12.6 million)⁷ and large numbers of animals are imported for slaughter purposes. In 2010/11, a total of 401,892 goats and 52,805 sheep were imported for slaughter; equivalent to NRs 484.6 million (US\$6.8 million) and NRs 53 million (US\$0.75 million) respectively (TPEC 2010/11). The import of slaughter buffalo is in the range of 12,000 heads per annum, but this has been declining due to increasing home processing in India for beef export and there is an increasing gap in supply and demand of buffalo meat in Nepal. The export of animal products from Nepal is insignificant.

69. Despite such a large gap in supply of milk and goat meat, sector growth has remained at an average of no more than 3.35%, mainly due to inadequate nutrition, poor genetic quality and inadequate advisory services. The dairy sector has also suffered from the scattered nature of milk production; large dairies often either operate at half their operational capacity, or rely on imports of fluid milk or skim milk powder.

Component Approach

70. The component will focus on increasing productivity in specific key livestock production areas ('pockets') through improved genetic potential, feed supplies, health care and herd management, and linking participating production groups more closely to private sector buyers. It comprises three sub-components: (i) Improving Dairy Productivity; (ii) Improving Goat Productivity, and; (iii) Strengthening of District Livestock Services (DLSO Offices). Provision is also made for expanded goat related infrastructure at the main NARC experimental station and for implementation management.

71. Prior to the implementation of activities in both the cattle/dairy and goat value chain, the Programme will finance a thorough value chain analysis aiming at determining the price and value added structure, market and contractual relationships between stakeholders, as well as possible improvements. The value chain analysis would be national in scope but its first part will focus on the Programme area. It will be carried out by qualified technical assistance contracted by the Programme Management Team for the dairy/cattle value chain and by Heifer International for the goat value chain and involving all local stakeholders including producers, processors, local authorities, vets, community livestock workers. Field studies, interviews and workshops will be organized. As a result of studies on the dairy/cattle and goat value chains, the Programme Management Team will have the possibility to fine-tune its activities, influence the governmental policy and strengthen the relationship

⁷ Trade Promotion and Export Centre.

between producers and other stakeholders of these value chains (notably to facilitate access of smallholders and producers to improved supplies, to more remunerative markets and to advisory services and technical assistance).

72. In view of the multi-facet nature of such technical assistance, it is crucial to recruit qualified service providers with proven sound records in the related technical areas.

Sub-component 2.1: Improving Dairy Productivity (Base cost: USD 4.9 million)

73. Improving Dairy Productivity comprises attention to: (a) breed improvement; (b) nutrition and management; (c) veterinary services development; (d) farmer training, and; (e) market linkage development. Among key activities under this sub-component will be import of cattle/buffalo semen and selection of improved bulls, while nutrition and management will focus on extended plantings of forage species, both on-farm and within community forests, the development of fodder tree nurseries, improved livestock sheds and expanded access to livestock insurance schemes. Improved veterinary services will involve training of Village Animal Health Workers (VAHWs) and Paravets, an extension of existing vaccination programmes and creating group veterinary funds. A variety of farmer training will be provided, including dairy animal husbandry, record keeping and tree nursery operations, while market linkage will include the provision of partial or competitive grants towards the cost of establishing chilling centres and training of operators. National Livestock Breeding Centre (NLBC), Animal Health Directorate and Animal Production Directorate would be and strengthened for long term sustainability and maintaining the impact of the project even after the project period.

74. Sustainability-driven piloting in livestock insurance was reported in Nepal, with the solidarity seed funds from the farmers matched by the Agricultural Development Bank (ADB NP). The Programme will invest in adapting such model of livestock insurance among the livestock farmer groups or cooperatives. The introduction of such accessible livestock insurance will be supported with capacity building at household level, accompanied by technical resources from the ADB NP livestock insurance scheme. The PMO will liaise with the ADB NP to materialise such technical adaptation and model transfer into the Programme. Agreed actions will then be programmed into the AWPB as part of the capacity building and TA investment under the sub-component.

75. Under this sub-component, the Programme will focus on Gulmi, Arghakhanchi and Pyuthan districts which have good road access and are within reach of the milk collection network of the large dairies. The priority pockets will be those along the road head and the priority communities will be the ones that have already sold milk through groups/ cooperatives. Subsequently, dairy production will be expanded through adjacent communities to ensure efficiency in input supply and milk collection. Interested dairy companies will be invited to participate in the selection of priority pockets. In the other three target districts, more distant from existing milk networks, priority will be given instead to communities selling milk to local markets. These activities will be expanded as local dairy enterprises emerge or upon entry of large dairy industries for milk collection. **In total, at least 8,000 households will be organized into 135 groups/cooperatives in the dairy productivity improvement sub-component.** The participation of women will be at least 35%.

Subcomponent 2.2: Improving Goat Productivity (USD 12.4 million)

76. Improving Goat Productivity includes the same main activity groups as described above for dairy, but with the addition of Farmer Field Schools (FFS) from the second year of implementation. The sub-component will selectively work with groups and communities where agencies such as ADB, IFAD and Heifer International have previously implemented goat distribution programmes for poverty alleviation purposes. This will help to directly target the poor and women. However, since the Programme will have a strong focus on community managed breed improvement, which requires a large number of goats, the sub-component will be implemented in an inclusive manner, i.e. all households in the pockets (even outside the groups). The participation of women in this sub-component will be at least 60%. The Programme will develop two specific pockets - one each in Gulmi and Arghakhanchi district - as Boer cross-bred goat breeder herds covering about 200 HHs, using imported Boer bucks. Semen will also be imported for use by NARC. The breeder herds will be the part of NARC's open nucleus breeding program and will supply bucks of desired genetic mix to

multiplication herds. The degree of exotic genes within the animals will be selected jointly by participating farmers and NARC, with NARC selection based primarily on performance records. **Two pockets in each district, covering more than 1,500 hhs, will be developed as Boer multiplication herds. These pockets will supply bucks for upgrading of the local herds, primarily to the 15,100 hhs** to be involved in goat productivity enhancement pockets/groups promoted by the Programme. Surplus bucks or crossbred animals will be supplied to other project beneficiaries.

77. Heifer International Nepal will provide USD2.5 million in support of the implementation of the sub-component; it will also be the implementing agency in activities related to improving goat productivity, mainly focusing on building the social capital of the beneficiary groups at community level with its success-proven model.

Sub component 2.3: Strengthening of District Livestock Service (DLSOs)

78. Strengthening DLSOs will be the third sub-component (USD 0.34 million), and will involve improving the mobility and equipment of district offices, creating an expanded AI capacity and training of staff, particularly in goat AI.

Implementation approach

79. DLSOs in the Programme districts will have overall responsibility for coordinating component implementation, providing technical services and monitoring and supervision. The Livestock Component Coordinator at the PMO will prepare Programme-wide plans based on district level activities and have the prime responsibility for technical support in program implementation. Five Subject Matter Specialists, hired by Programme, will support farmer groups to implement dairy and goat productivity activities at district and lower level. The Programme will also hire one Goat Breeding Assistant for each district to provide intensive support in the community level goat breeding programme. Production groups will be further supported by 10 Community Dairy Assistants and 15 Community Goat Assistants. These community assistants will be required to be residents of one of the selected dairy or goat pockets. The Programme will also implement 96 Farmer Field Schools (FFS) in the programme area for farmer empowerment, knowledge development and adoption at community level.

80. Farmers will be trained in livestock productivity improvement through improved breeding, nutrition, health and management. They will also be provided with exposure to good practices in goat and dairy production elsewhere in the country. Farmers will be supported in shed/shelter improvement, forage production on the terrace risers and bunds, parasite control, livestock insurance, rain water harvesting and bio gas installation. The Programme will also support the establishment of 67 fodder tree nurseries.

81. For breed improvement, activities will be financed jointly by Heifer and by IFAD. They will finance the acquisition of buffalo bulls and goat bucks as a one-time investment. They will also support the import of buffalo and Boer goat semen. The breeder and multiplication herd groups will be supported with all necessary equipment and materials during the process of animal selection. To maintain Boer cross nucleus herds at the NARC station, they will contribute to goat pen construction at Bandipur Goat Research Station. Heifer International and NARC, in close coordination with DLS/DLSOs, will provide overall technical support to the farmers in the establishment of Boer goat breeder and multiplication herds in the programme area. To expand AI in dairy cattle, DLSOs will be equipped with AI sets, liquid nitrogen containers and semen refries. Veterinary services will be strengthened through promotion of private Paravets and the Village Animal Health Workers (VAHWs), and the establishment of veterinary medicine revolving funds at cluster level.

82. The Programme will support groups/cooperatives/communities to establish 28 milk chilling centres under public private partnership. It will also promote 15 local private dairy enterprises under a competitive grant system. Under the goat sub-component, the Programme will support establishment of 26 goat collection hubs/livestock markets in both district centers and other major villages of each district. During the programme period, 57 butcherries will be improved, 23 of which will be piloted for the operation of meat chilling system. Demonstration of cold storage (meat) will also be established in two slaughtering places. DLSO staff will be trained in AI and heifer rearing, and provided with exposure visits. All DLSOs will be supported with infrastructure and motorcycles.

Motorcycles have been provisioned also for the TA teams for programme implementation support at field level.

Estimated Component Benefits

83. Given the anticipated 8,450 participants in the goat component, farmers are expected to realize a total benefit of USD 5.14 million, with incremental meat production of 1,346 MT, in the implementation period of the sub-component. Similarly, the anticipated 3,550 dairy hhs will on average expand their herd size to 4 adults and produce an additional 85,930 MT of milk, with a total benefit of USD 45 million over the implementation period.

84. Risks in goat productivity improvement: The major risk affecting the goat sub-component is delays in obtaining suitable Boer bucks. This would hold back the goat breeding program and affect programme outcomes and impact. Although Indian animals will be preferred for reasons of cost, the Programme will consider importing from Australia if necessary, where supplies are more readily available. A second risk is that farmers with increased herd sizes fail to adequately improve their feed supply. This could have a significant negative impact on growth rates for Boer cross-bred animals. However, farmers in a number of communities will be encouraged to undertake experimentation on stall feeding versus forest grazing under the FFS program. The benefit obtained from stall feeding will motivate farmers to increase on-farm forage production and promote stall feeding system. Nepal has experience of importing live animals especially from Australia- importing flocks of Polworh sheep during 70's and 80's. Moreover, Boer goat is known for its capacity to quickly accommodate agro-climatic diversity. For example, a small flock of 20-25 Boer goats was introduced from South Africa some 10 years back. The seeds of these goats (though genetically degraded due to continuous inbreeding), could be seen even now in some pockets in Lamjung and Lalitpur hill districts.

85. Rainwater Harvesting: The programme will support the needy dairy and goat groups to construct rain water harvesting system. This is expected to benefit farmers from increased and easy access of drinking water for livestock, and watering the fodder plantations for their normal establishment.

Sustainability

86. The proposed activities are considered to be strongly sustainable, as the capacity of DLSOs will be enhanced, farmers will increase their knowledge of improved production practices, the expanded Paravet/VAHW network will provide enhanced veterinary services, and most importantly, farmers will be connected more directly with the private sector. The breeder herds will be maintained as these herds will be the part of the NARC's nucleus herd, and the marketing of improved animals will be tied up with the multiplication herds and the development partners. Similarly, the multiplication herds will sustain as there is money in maintaining these herds – they will be in business with the development partners and other line agencies supporting goat programs.

Component 3: Local Entrepreneurship & Institutional Development (Invest cost: USD 10.7 million)

87. The objective of the component is to promote a favorable and conducive environment for sustainable private sector enterprise development. Activities under the Programme will target several stakeholders: a) public institutions such as Village Development Committees and district representations of local government; b) public-private institutions such as the District Chamber of Commerce and Industry or private service providers, and c) financial institutions. Each of these stakeholders will play an important role in the successful implementation of the other components, enable the target beneficiaries in their access to adequate and sustainable financial and non-financial services required by their activities. The component is divided into three sub-components: (i) Institutional Strengthening; (ii) Access to Non-financial Services, and (iii) Increasing Outreach of microfinance institutions.

Sub-component 1: Institutional Strengthening (Investment cost: USD 2.14 million)

88. The institutional strengthening component will include both local government institutions and producer groups and cooperatives.

89. ***District Agriculture Development Committees.*** The ability to assess overall issues and constraints in the crop and livestock sector will be strengthened, in order to enable the more effective use of local resources in the agriculture sector. The DDAC will participate in monitoring and coordinating programme activities and in the preparation of the annual work plan for specific programme activities such as institutional strengthening of the VDCs, infrastructure schemes and in organizing annual agricultural fairs, thus fostering links between smallholder farmers and a range of private sector partners in rural areas.

90. ***Village Development Committees.*** The Programme will involve 156 VDCs from the 312 existing VDCs in the target area, and will provide VDCs with orientation sessions on Government agriculture policy as well as on crop and livestock activities and issues awareness; with training on planning, and on project identification and evaluation. Priority will be given to those VDCs which are relatively isolated, where poverty rates are high and where agriculture potential can be developed. To ensure accountability by VDCs members, the Programme will finance participatory meetings at the end of each fiscal year where year-end results will be evaluated against budget.

91. ***Producers' groups and cooperatives.*** The Programme will strengthen producers' groups and production cooperatives by providing opportunities for capacity building in: (i) cost/benefit analysis to identify profitable activities and to assess current production for producers' groups, and (ii) cooperative management and governance; business development; book-keeping/ accounting, and financial and cash-flow management for production cooperatives, including training on GESI awareness and analysis. All producers' groups formed under Components 1 and 2 of the Programme will access the above-mentioned training. Other producers' groups will be selected on the basis of their involvement with cereal, vegetable, fodder and livestock production as well as with their growth potential. The Programme will support 1,230 groups with a total membership over 25,000 people as well as about 70 production-oriented cooperatives. In addition, all groups and cooperatives supported by the Programme will benefit from gender and social inclusion awareness orientation and training. Finally, the support of the Programme to all 70 cooperatives will also include: a) the financing of equipment (office equipment, productive equipment and material); b) the financing of exposure visits, and c) the financing of participation of selected members of cooperatives and producers' groups to national and international fairs.

Sub-component 2: Access to Non-financial Services (Investment cost: USD 0.87 million)

92. Access to non-financial services is a key factor of success for the implementation of viable and sustainable investments. The Programme will focus its activity on two types of non-financial services as a support to the Programme-supported value chains: (a) creation of an Investment Window at the District Chamber of Commerce and Industry (DCCI), and (b) support to agro-vets to expand their outreach beyond district centers and provide services to Programme-supported groups.

93. ***Investment window at the DCCI.*** To facilitate the relationship between producers' groups and other value chain stakeholders, the Programme will finance the implementation and operation of an Investment Window in each DCCI staffed with one advisor. Its role will be to facilitate the implementation of productive investments by identifying all potentially concerned stakeholders and assisting them to develop a joint-business plan. Advisors in DCCI will assist producers' groups and entrepreneurs to elaborate their business and investment plans according to specific requirements from the Programme-funded Investment Fund, from financial institutions and from public sector grant financing agencies. Finally, DCCI advisors will scout for potential investment opportunities outside the Programme area including investors willing to either develop their own business or to invest in new ones. The Programme will finance the hiring of advisors and related operating expenses with resources attributed to consultancies and capacity building, on a decreasing trend. In addition, the Programme will finance some office equipment, and training courses focusing on: a) business identification; b) legal, social and tax aspects of investments; c) agricultural activities awareness; d) financial, credit, cash-flow management; e) business planning and projections, and f) marketing.

94. AEC is part of FNCCI and it has built its institutional competence in business development and market information service. AEC will support the Programme and DCCI in setting up its business advisory service to the private sector, implementing the capacity building of DCCI in operating the

investment window both with its own technical resources and by bringing external expertise where required.

95. **Support to agro-vets.** Multi-services facilities are available at district centers for both producers and raisers. However, these services are not generally available beyond district centers. These facilities are essential to provide farmers and herders with the necessary agricultural inputs and veterinary medicines to ensure a successful activity. To this end, as well as to increase the outreach of existing private farmer services, the Programme will support 25 agro-vet operations to promote best practices in the agriculture/seed value chain as well as to improve animal husbandry and health. In addition to financing implementation costs, training and capacity building will be provided for the 25 selected agro-vets in the following areas: a) agricultural and livestock activities; b) veterinarian protocols; c) artificial insemination; d) agricultural protocol; e) health and epizootic disease.

Sub-component 3: Increasing Outreach of Microfinance Institutions (Investment cost: USD 7.3 million)

96. There are a broad range of financial institutions in the Programme districts including local commercial banks, local development banks, microfinance institutions, remittance agencies, multipurpose cooperatives which are engaged in savings and credit activities, and specialized savings and credit cooperatives. However, as for agro-vet services these facilities are largely confined to district centres. The Programme will explore two parallel approaches to develop the outreach of microfinance in rural areas. Under the first approach, the Programme will assist the cooperative movement to increase the number of its affiliates in the target area by supporting the development of Small Farmer Agro-Cooperative Limited units (SFACLs) and the strengthening of their parent company: the Nepal Agriculture Cooperative Central Federation Limited (NACCFL). The additional SFACLs created will also benefit from financing from the Small Farmers Development Bank (SFDB). The second approach will be based on non-cooperative microfinance institutions. It will assist development banks to increase their outreach in the Programme area primarily through the setting up of a network of branches and points of services. The Programme will also assist selected development banks to test out the possibility of developing branchless microfinance activities based on mobile phone technology.

97. Strengthening the microfinance and rural finance sector. The Programme will contract a technical consulting service to assess the financial and outreach performances of the microfinance and rural finance sector in Nepal, its related governmental policy as well as its supervision by the Central Bank. The main objectives of this assessment is: a/ to further improve the legal framework for microfinance and rural finance, and b/ to enable both cooperative and non-cooperative models of microfinance institutions as well as commercial banks to improve the design of their products and services so as to effectively match the requirements and needs from the Programme target population and rural population in general.

98. **SFACLs/NACCFL/SFDB model development and strengthening.** With a total of 236 cooperatives nationally (including 7 within the target area) this model is unique in Nepal and has won a number of international awards. The Programme will support the creation and development of 30 new SFACLs within the target districts. Since SFDB receives funds from a range of sources, no additional Programme resources are required for the financing of the new SFACLs. The Programme will instead finance: (i) training of SFACLs governing bodies and management team; (ii) operationalization costs; (iii) computerization of the SFACLs network and its linkage with NACCFL regional offices, and (iv) limited operating losses during the first three years of operations (except for those losses resulting from the provision of a non-performing portfolio above current performance of SFACLs; PAR at 90 days at 3.5%). The Programme will also finance the capacity building of supervisors at NACCFL regional offices responsible for the supervision of the 30 newly created SFACLs (2 regional offices will be strengthened).

99. **Non-cooperative model development and strengthening.** Several development banks have expressed their interest in increasing their presence and outreach in rural areas. In part, this is a response to Central Bank regulation on financing deprived sectors. No additional resources are required by these banks to lend to rural households, entrepreneurs and micro- and small enterprises.

However, they will only invest in rural areas when sufficient lending activity can be developed with a diversified range of borrowers. The Programme's activities in strengthening the capacity of producers' groups (cereal seed and vegetable seed groups, goats and cattle groups) represent an opportunity for these banks. The Programme will finance: (i) training course for the management team of 6 new branches or points of services; (ii) operationalization costs, and (iii) losses incurred during the first two years of operations (with the exception of losses resulting from the provision of non-performing portfolio above the current performance: PAR at 90 days around 1.85% as of mid-March 2012). Supervision carried out by regional inspectors will also be financed by the Programme on a decreasing level over a period of 5 years. Activities financed for supervisors will include: training (refresher course) and operating expenses (mainly transportation).

100. For both the cooperative-type institution and the non-cooperative ones, the Programme will assist them to further post their results on the MixMarket.

Component 3: Implementation Arrangements

Sub-component 1: Institutional Strengthening

101. The Institutional strengthening sub-component will be implemented by a service provider contracted by the PMO following an invitation to tender issued during the first months of implementation. The selected institution will provide training, technical assistance and advisory services to: 6 district agriculture coordination committees; 156 villages development committees, 1,722 producers' groups and 49 cooperatives over the 7 years of the Programme. Organization(s) will be selected on the following criteria: a) capacity to mobilize trainers and provide training sessions in rural areas (trainers could be in-house or short-term contracted ones); b) proven experience in institutional capacity training and strengthening; c) description of training content and methodology; d) submitted training plan for public sector and private sector institutions, and e) financial cost.

102. Public, private/public (such as the Agro Enterprise Centre of the Nepal Federation of Chamber of Commerce and Industries), and private institutions and civil societies organisations will be invited to the tender. Bidders' proposals will be evaluated by a selection committee composed of representatives from the Ministry of Agriculture Development and the Programme Manager based on the above criteria. The contract with the selected organization will be performance-based using annual beneficiary focus groups which have participated in training. A positive evaluation will trigger the renewal of the contract while negative evaluation will lead to the suspension or the cancelation of the contract until the organization has modified its methodology and training contents in accordance with remarks formulated by trainees.

103. The selected organization will need to assign one coordinator in charge of the implementation, and at least 6 trainers (two per corridor). These trainers will also be responsible for the supervision of additional experts contracted by the organization. Skill areas could include agro-vets, seed producers and buyers, goat breeders, dairy companies and researchers from the National Agriculture Research Centre.

Sub-component 2: Access to Non-financial Services

104. Investment windows at district level will be implemented by the District Chambers of Commerce and Industry following selection of suitable candidates for the advisor positions. Once advisors are selected, training and capacity building will be provided by a team of national and/or international consultants contracted by the PMO under a consultants' qualification procedure. The Programme will assist the DCCI to elaborate a mechanism enabling the coverage of these newly recruited staff's salaries. Two advisors will be recruited by the DCCI during the first year of the Programme and the four others will be recruited during the second year of the Programme.

105. The implementation of support for agro-vets facilities will be carried out by the PMO following the issue of a call for expressions of interest to all existing agro-vets operating in the Programme area. 25 agro-vets will be selected and will receive updated training on such areas as agricultural and veterinary protocols, artificial insemination, health and epizootic disease, and seed quality. After training the agro-vets will receive support for equipment and implementation costs to work with the programme target groups.

Sub-component 3: Increasing Outreach of Microfinance Institutions

106. Implementation arrangements will include at least two different financial institutions: (i) the NACCFL for the cooperative model with the financial involvement of the SFDB, and (ii) one or two development banks or microfinance institutions for the non-cooperative model.

107. Prior to the implementation of these activities, the PMO will contract an record-proven consulting firm to carry out the assessment of both the microfinance and rural sectors, to assist the government in fine-tuning its policy and to assist commercial banks and financial institutions to develop products and services meeting the requirements and needs of the rural population.

108. The NACCFL model will include an awareness campaign and identification of potential communities. Basic training will be provided to the whole community by NACCFL regional supervisors and a MoU signed between all parties detailing the role and responsibilities of each. Each SFACL will be established with the assistance of NACCFL regional supervisors and further training provided to the governing body and management team of each SFACL. Management would be under external control until mandatory performance criteria are met, at which time responsibility is handed over to the SFACL's own management team. Additional funds would also be provided by SFDB in the form of a loan equivalent to resources mobilized by SFACL members after the first year of operation. The SFACLs will be created in accordance with NACCFL's internal procedures and methodology, which require either a sponsoring existing SFACL operating in a neighboring VDC or the transformation of an existing farmers' group or cooperative into an SFACL. Close consideration will also be given to including some of the existing women's institutions within the Programme area. However, the triggering factor for the creation of a new SFACL will be the assessment of the demand for financial services emanating from the local community.

109. In addition to training, the Programme will also finance the equipment required for the operationalization of the SFACL. Particular attention will be given to the selection of the accounting, MIS and M&E software. Finally, the Programme will assist NACCFL to reinforce its regional supervision structure through the financing of three new supervisors. The supervision capacity of NACCFL will also be strengthened through the contracting of a financial institution with experience in cooperative-based microfinance activity such as the World Council of Credit Unions (WOCCU) to provide training to NACCFL supervision team and adapt their working methodology so as to comply with the microfinance industry standards, regulations and supervision.

110. **Non-cooperative model.** This activity will be implemented by one or two selected development banks or microfinance institutions following a careful review of proposals by a panel including the Central Bank. The PMO will issue a call for expression of interest which will be submitted to all development banks and financial institutions (microfinance institutions) operating in Nepal.

111. The financial institutions will determine the best locations to implement their branches or point of services within the programme area, with target segments covering the programme beneficiaries groups such as farmer households, producer groups or cooperatives, or PSCOs engaging in the sector value chain development that the Programme has selected and supporting. The Programme will finance training to newly recruited staff, adequate equipment for the new branches or points of services, and will cover deferred operating losses for a maximum of two years of operations, except when resulting from a higher non-performing loan portfolio ratio than current when the MoU is signed. Operating costs of regional supervisors will be borne by the Programme on a decreasing trend over a period of maximum 4 years.

112. Interested financial institutions will have to provide: a) a technical proposal describing their *modus operandi* for both lending and savings activity; b) a financial proposal detailing such aspects as the cost of the implementation and operationalization of the six branches; the amount that would be sought from the Programme; the financial resources available for on-lending purposes, and; financial projections for the six branches/points of services indicating break-even point and financial sustainability; c) an investment plan detailing the approach and methodology to identify the six locations in the Programme district and their perspective in terms of outreach to women and dalits and

indigenous people, and; d) audited financial statements. The PMO will undertake the due diligence exercise of potential candidates.

Estimated Component Benefits

113. Activities under component 3 will provide a conducive environment for activities undertaken in components 1 and 2: (i) at institutional level: the capacity of 162 local government institutions will be strengthened (156 Village Development Committees and 6 District Agriculture Development Committee) for a more efficient and transparent use of public funds when investing in agriculture sector; (ii) at household level: an anticipated 24,810 household members will adhere to producers' groups and cooperatives and will benefit from a wide range of technical and management training; (iii) at production and commercialization levels: linkages with the private sector will be facilitated through an investment window created and staffed in each of the six DCCIs of the programme area. At least 20 private seed companies will engage with 720 programme-supported groups (component 1), at least 4 private dairy companies will engage with 171 cattle groups, and 35 slaughterhouses and butchers will engage with 338 goats' groups (component 2). 25 agro-vets will also be supported by the programme to increase access of local population to improved agricultural inputs and vet medicine (components 1 and 2), and (iv) at financial level: an anticipated 30,000 households members will have access to financial services through the creation of 30 SFACLs and 6 branches of non-cooperative financial institutions. They will benefit from 37,200 loans amounting to USD 7.92 million and will mobilize USD 2.78 million in savings and deposits in those institutions.

Programme Coordination and Management (Total cost: USD 5.2 million)

114. Costs and activities related to Programme coordination and management are grouped within a single PMO and six Programme Implementation Units (PIUs) in the programme districts. The Programme will support in: (a) vehicles and office equipment, (b) planning, studies, training and technical support; (c) monitoring, evaluation and knowledge management, and; (d) governance. PMO staffing and related costs fall under recurrent costs and are detailed separately.

(a) Planning, studies, training and technical support

115. Allowance is made under the Programme budget for launch workshops and annual public planning and review meetings, for both national and district level, as well as for other training workshops (to be determined as part of the annual work planning process) and logistical support. Funds are also allocated annually for studies and technical assistance – both national and/or international – which would also be determined as part of the annual work planning exercise.

(b) Monitoring, evaluation and knowledge management

116. Funds are allocated for a range of M&E and knowledge management tasks including: establishing and operating M&E and MIS systems; developing a mobile phone based monitoring system; annual national stakeholder workshops; baseline, mid-term and completion studies; thematic impact studies; development of a communications strategy, and; training and short-term consultants. It is expected that MIS and, to some extent, M&E systems will be able to take advantage of work already undertaken by other recent IFAD funded projects, thus reducing the complexity and cost of development work. Further details of M&E and Knowledge Management aspects are provided in Section 3C.

(c) Governance, Audit and Steering committee

117. This PMO element will include the development and implementation of an anti-corruption plan, resources for governance support, the annual audit, and costs associated with steering committee meetings.

(d) Programme Management Team

118. The Programme Management Team will be further described under the chapter of Programme Implementation.

D. Lessons learned and adherence to IFAD policies

119. The Programme design draws heavily from prior experience in a number of initiatives and projects undertaken over the last decade, both within Nepal and beyond⁸. It also embodies a strong coherence with IFAD policies with respect to Nepal as embodied in the COSOP and, at a wider level, with IFAD strategic framework and policies on gender and poverty.

120. A number of prior and current projects are of relevance to the Programme. Among the most important for seed production are: the DFID-supported Seed Sector Support Project (SSSP) and two nationally-funded programmes - the District Seed Self-sufficiency Programme (DISSPRO) and the Community-based Seed Production (CBSP).

121. Major lessons learned from the SSSP, which was completed in 2004, include the driving role of the market and of the private sector, including its capacity to supply source seed and the role of the government ought to be limited to providing a favorable environment in terms of regulatory and trade policy through a properly equipped quality guarantor. In addition, the project concluded that farmers need to form groups which should gradually upgrade in more commercially oriented organizational forms.

122. DISSPRO, initiated in 2003 in 15 districts, has now become one of the most popular seed multiplication programs of the Department of Agriculture. It is currently implemented in more than 80percent of the total districts in Nepal (63 districts). The program has utilized the strengths of the informal seed multiplication system and is run by the DADOs. The DADOs provide technical support and coordination in producing, processing, storing and distribution of seed. Farmer groups participating in this programme are provided with subsidized source seed and other inputs as well as free transport of these items to their villages. The programme has been successful in expanding the use of new varieties and quality seed. However, it is small in scale and has perhaps discouraged spontaneous expansion of the formal seed sector.

123. The Community-based seed production (CBSP) programmes began in 1997 by producing and distributing seeds using farmers' groups. Seed producer farmer associations are formed to multiply the seed of farmer-preferred varieties using a cost-effective approach having several unique features. It is market-oriented and places emphasis on developing skills in marketing. The entire seed system is taken into account, from the identification of new varieties through participatory varietal selection (PVS) to commercial seed production. It involves all stakeholders, and develops strong linkages between the private sector and the community-based groups. The experiences gained from these two initiatives have significantly influenced the design of this Programme.

124. Considerable experience has also been gained by prior projects supporting intensified goat production in the hills zone through the use of forestry resources. Two ADB-financed livestock related projects and programmes in recent years have provided considerable experience of relevance to the current programme. The ADB's Third Livestock Development Project (TLDP) was implemented between 1997-2004 with a coverage including some of the Districts proposed for the Programme and focused primarily on fodder and forage production, the strengthening of both public and private livestock services (including credit) and the expansion of livestock related enterprises. The more recent Community Livestock Development Project (CLDP) was initiated in 2004 and ran until late 2010. Covering 48 Districts, the project aimed to reduce poverty among target populations primarily through a focus on livestock production and related enterprises. Overall, the project focused

⁸ Among existing and planned activities which are seen as relevant to the programme are: the Government-funded District Seed Self-sufficiency Program (DISSPRO) and Community Based Seed Production (CBSP); the Leasehold Forestry and Livestock Project (LFLP), High Value Agriculture Project (HVAP) and the Western Uplands Poverty Alleviation Project (WUPAP), all IFAD financed; the USAID-financed Nepal Economic Agriculture and Trade Project (NEAT); the Project for Agricultural Commercialization and Trade (PACT), the Irrigation and Water Resource Management Project (IWRMP), and the Social Safety Net Project (SSNP), all under World Bank financing; the Community Livestock Development Project (CLDP), Raising Incomes for Small and Medium Farmers Project (RISMFP), funded by ADB, and; the Vegetable Seed Programme (VSP) funded by the Swiss Agency for Development and Cooperation (SDC).

on support to livestock owning groups, improvement of feed supplies and the promotion of small and medium enterprises related to livestock.

125. Both ADB projects were assessed at completion as successful, with FIRR of 24 percent and approaching 50 percent respectively. The experience of both projects in supporting farmer groups over the implementation period demonstrates the effectiveness of this methodology, although the CLDP achieved much higher rates of inclusion for both poor and indigenous households and for women than the earlier intervention, largely due to better selection and poverty assessment. However, both projects focused on a wide range of domestic livestock, thus reducing the emphasis on goats. Although there was considerable attention to the promotion of small and medium enterprises, it is not clear to what extent market linkages were developed within supported groups. In addition, although resources were allocated to breed improvement, this consisted primarily of artificial insemination facilities for cattle and buffalo, and the selection of improved Khari stock for goat producing groups.

126. The IFAD-financed Leasehold Forestry and Livestock Project (LFLP) was initiated in 2005 and is scheduled for completion in 2013. Two of the 22 Districts covered by LFLP are also target areas for the Programme (Pyuthan and Salyan). The LFLP has four components: leasehold forestry and group formation; livestock development; rural financial services; and programme management and coordination. In contrast to the ADB livestock projects, LFLP focuses specifically on leasehold rather than community forest areas. In other respects, however, it follows the well-tested model developed in previous projects, comprising the formation of farmer groups, the development of forage resources and the provision of goats to participants. However, it lacks a specific focus on market linkages or any attention to genetic improvement of goats held by participants.

127. A further recent IFAD-financed project of relevance to the livestock sector is the High Value Agriculture Project (HVAP). HVAP focuses on a number of thematic areas projected to generate increased incomes but works primarily through value chains and along key transport corridors. Covering both mountain and hills zones, HVAP is operational in one District (Salyan) targeted under the Programme. Initiated in June 2011, it has a projected implementation duration of six years. Development of goat value chain comprises one activity in the overall project, but is not central to the projects goals or targets.

128. The Western Uplands Poverty Alleviation Project (WUPAP) is the final major current IFAD-financed project in Nepal. Initiated in 2002, the project is expected to extend over 11 years and cover 11 Districts, including both mountain and hills zones. Two of these Districts (Rukum and Rolpa) are also within the Programme target area. As is the case for HVAP, WUPAP is only peripherally concerned with livestock, with a central focus on infrastructure development, leasehold forestry, crop and livestock production, rural microfinance and institutional strengthening.

129. In the present post-conflict context, IFAD's strategy in Nepal is focused on supporting the development policies and programmes of the government and other partners, especially in relation to peace-building, reconciliation, reconstruction and economic recovery. In particular the organization continues to direct its support towards the hill and mountain areas, where poverty levels are very high and access to infrastructure, services and markets is extremely limited.

130. The COSOP Strategic Objectives (SOs) were defined in relation to the four pillars of Government's Poverty Reduction Strategy (PRS) and IFAD's strategic framework (2007-2012). The COSOP was last updated in 2011, including detailed reviews of the agriculture and rural sectors, poverty analysis, and gender and social inclusion issues.

COSOP stated relations between PRS Pillars and Strategic Objectives

PRS Pillar	COSOP Strategic Objective
I. High and broad-based economic growth	I. Increased access to economic opportunities by poor farmers and producers in hill and mountain areas
II. Social sector development	II. Improved community infrastructure and services in hill and mountain areas

III. Social inclusion and targeted programmes	III. A reduction in gender-, ethnic- and caste-related disparities through greater inclusion of disadvantaged groups in development
IV. Good governance	IV. Cross-cutting theme: support improvements in local governance and peace-building

131. To achieve each strategic objective, the COSOP proposes the following type of projects and programmes:

- For SO1 it suggests the development of high value agriculture through research, extension, inputs supply, market information and infrastructure;
- Under SO2, the aim is to develop secondary and tertiary roads and community infrastructure to improve access to markets and services by remote communities, complementing the interventions under SO1;
- SO3 focuses on improving access of poor women and poor members of ethnic and caste groups to resources, infrastructure and services, and on increasing empowerment of the poor through income-generating programmes, vocational training, and more active participation in local decision-making and governance processes, both through mainstreaming and targeted programmes;
- Under SO4, the COSOP supports a conflict-sensitive development approach to build the capacity of communities to engage in development works through the adoption of techniques for peace/conflict assessment, community mediation, negotiation, human rights, communications and facilitation.

132. The proposed programme will directly contribute to the achievement of the first three strategic objectives mentioned above.

133. In relation to gender, the proposed Programme would be heavily targeted towards women, who comprise the majority participants in many financial services groups and almost all the goat production groups. Existing seed production groups present a more mixed gender pattern, but at least 50 percent of new seed production groups would be composed of women. Neither seed nor goat production groups are expected to result in significant increases in labour demand for the participants, as seed production will generally replace crop production, while increased goat production will be coupled with improved fodder resource availability, thus reducing labour requirements for fodder collection and transport. Overall, a minimum of 50 percent of Programme beneficiaries would be women.

134. A focus on reaching poorer households through the programme would be achieved principally through the requirement that participants must have family holdings of less than 1 ha, including those participating in demonstration programmes for improved seed. A minimum of 50 percent of all beneficiaries would have family holdings not exceeding 0.5 ha, which would place them within the more disadvantaged households. For the goat production groups, a minimum of 30 percent of all beneficiaries would be from indigenous or dalit families.

III. PROGRAMME IMPLEMENTATION

A. Approach

135. The Programme implementation approach is based upon accelerating productivity and growth within the agricultural sector through support to two key drivers of sector development – cereal and vegetable seeds and goat and dairy production. This support will encompass both technical and organizational aspects of production, primarily through groups of small producers. Technical support will increase productivity through such aspects as the availability of improved genetic material, improved supporting infrastructure and more efficient use of natural resources, while sector growth

will be facilitated through linking participating producers more closely with the market, and increasing the organizational and institutional capacity of both the groups themselves and those entities (both public and private sector) supporting their activities.

136. In practical terms, efforts will be made to issue a small number of significant contracts for substantive pieces of the technical assistance incorporated into the Programme, including: (a) the planning and undertaking of the baseline, mid-term and completion surveys; (b) the Outreach and Identification campaign over approximately 7 months at Programme launch; (c) the provision of non-financial business services, and; (d) the management of the rural finance sub-component. Other activities undertaken initially by the Programme are expected to later be taken over by participating companies (in seed and dairy particularly), or to result in the development of private sector services, e.g. for irrigation or machinery maintenance and animal health services.

137. The success of the proposed Programme will depend heavily on the participation of the private sector in promoting and expanding the formal seed and livestock trade (dairy and meat), and the ability to collaborate effectively with other relevant rural development initiatives underway or planned in Nepal. The first consideration renders it essential that ownership of the Programme does not rest solely with GON, but also substantially involves the private sector and local-level organizations. The fact that this Programme has been developed in parallel, and in close consultation with the preparation of the ADS ensures its relevance to future GON strategy within the sector. Furthermore, the adopted approach should enable the programme to orient its actions in support of the implementation of the ADS while providing input to the design of future IFAD investments that will form part of the ADS investment plan.

138. The recommendation for a programmatic approach arises from a number of factors, including: (a) the availability of experience and complementary activities available from other Government and internationally-funded efforts which would render collaboration and complementarity with such efforts of considerable benefit; (b) the upcoming national Agricultural Development Strategy (ADS), currently in preparation, yet strongly anticipated to identify seeds as an area of national priority, and; (c) the existence of significant risks in areas such as possible political instability, and the degree to which possible collaboration with other development initiatives can be effected. Such considerations strongly suggest the need for any proposed investment to maintain implementation flexibility while also allowing for future expansion in both geographical area and scale, if warranted. The Working Paper on Social and Geographical Targeting (WP 6) provides an initial assessment of potential geographical expansion options which could be reconsidered at the Mid Term Review (end of year 3).

139. In general terms, the purpose of the Programme can be viewed as both to enable IFAD to support the forthcoming national ADS, as well as to provide empirical evidence of the feasibility of the seed and goat based approach to accelerated productivity and growth, so as to permit its future expansion where proven.

140. The proposed programme structure closely adheres to several Strategic Objectives defined in the 2006-2012 COSOP. The COSOP was in turn subsequently harmonized with the current Poverty Reduction Strategy of Nepal which is embedded in the 5 Year Development Plans issued by GON. The proposed programme also responds to the comparative advantages for IFAD identified in the current COSOP including: (i) community-driven development; (ii) rural poverty alleviation through enhanced income-generating opportunities and associated microfinance services, with an emphasis on the areas of highest poverty incidence; (iii) a clear policy, mandate and extensive experience in targeting of the poor, specifically including women and members of disadvantaged castes and ethnic groups; (iv) well-established partnerships with key central and local government institutions, NGOs, research institutions and donors.

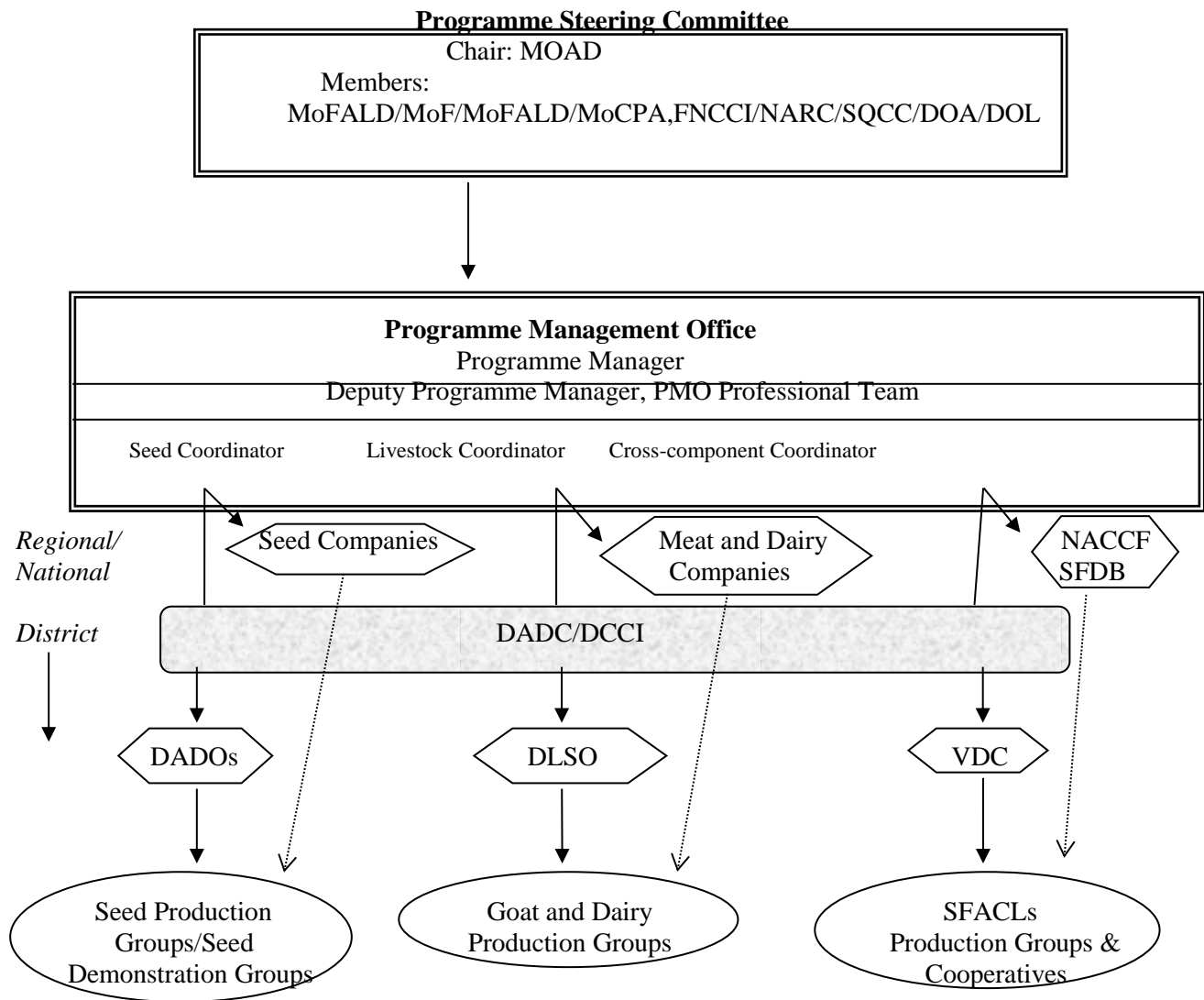
141. Given the number of development initiatives, and the experience that they have accumulated (including the current WUPAP and HVAP, both active in some portions of the proposed target area) there is much to be gained in effective coordination mechanisms. Equally, however, the proposed programme does not address a number of rural development elements that may be essential for long term sustainability, including road access and crop production technologies. Development in these

thematic areas will, of necessity, fall to other donors or GON programmes. It is therefore essential that the proposed programme be able to influence and promote those developments under other financing.

B. Organizational framework

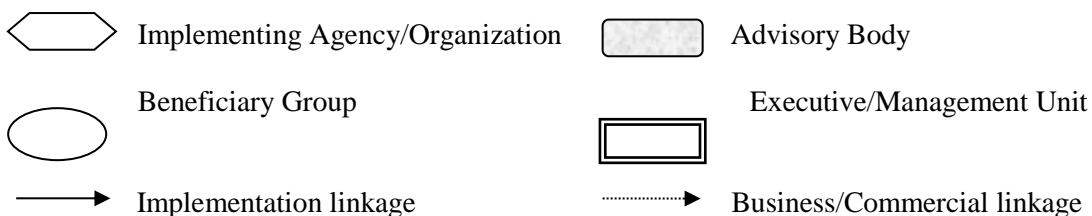
142. The organizational framework of the Programme is presented in Chart 1 below. The Programme would be under the overall direction of a Programme Steering Committee (PSC), chaired by MOAD, with the participation of MoF, MoFALD, MoCPA, FNCCI, NARC, SQCC and the Directors of Agriculture and Livestock, SFDB. In addition, the PSC would include the PMO Manager as *ex-officio* member. The PSC would meet at least annually to approve AWPB and annual report, although more frequent meetings may be required, particularly in the first year of implementation. The principal role of the PSC would be to evaluate and approve annual work plans, reports and budgets, provide directives on strategic aspects of Programme activities and approve major competitive and matching grant agreements.

Chart 1: Organizational Structure



KEY

DADO – District Agriculture Department Office NACCF – Nepal Agricultural Coop Central Federation
 DAO – Department of Agriculture NARC – Nepal Agricultural Research Council
 DCCI – District Chamber of Commerce & Industry FNCCI – Fed Nepalese of Chambers of Commerce & Industries
 DLS – District Livestock Services Office SFACL – Small Farmer Agro-Cooperative Ltd.
 MOAD – Ministry of Agriculture Development SFDB – Small Farmer Development Bank
 MoF – Ministry of Finance VDC – Village Development Committees
 MoFALD – Ministry of Federal Affairs and Local Development



143. **The PSC** would be supported at national level by an advisory ADS subsector partners group encompassing key Programme related representatives from the public, private and cooperative sectors. The purpose of the advisory group, which would meet at least annually, would be to ensure a smooth collaboration with other agencies and to provide recommendations on Programme activities to the PSC. To this end presentations would be made to advisory group members at an annual workshop by PMO and District staff concerning activities and progress over the last year and plans for future years. Agencies which would be invited to participate in the advisory group would include technical divisions of the PSC Ministries, international development financing agencies such as the World Bank, ADB, USAID, etc., international research organizations (e.g. IRRI, CIMMYT, and ICIMOD), a range of private sector organizations, and relevant national and international NGOs.

144. **PMO.** Under the overall direction of a Programme Steering Committee (PSC) chaired by MOAD, a Programme Management Office (PMO) will be created and it will be located in Butawal to manage and coordinate the operational implementation of the Programme. The PMO will be composed of senior programme managers, a technical management team and an operational team, assisted by support staffs.

145. The PMO will constitute of government-assigned officers, independently hired professionals and support staffs. In accordance with required criteria of IFAD and GON per related TORs, the MOAD will depute:

- a. One Programme Manager,
- b. One Deputy Programme Manager,
- c. One Accounts Officer,
- d. One Planning Officer,
- e. One Crops/Seed Development Officer, and
- f. One Livestock/Veterinary Officer.

146. All other PMO staff will be recruited by the Programme in line with the qualifications agreed by IFAD and GON per related TORs. They include:

- a. One Senior Programme Advisor,
- b. One M&E/KM Officer,
- c. One Funds and Contract/Procurement Officer,
- d. One Financial Management Officer,
- e. One Cross-Component Liaison/GESI Advisor
- f. Three Technical Assistants (M&E, finance, and contract and procurement),
- g. One Administrative Assistant,
- h. One Secretary, and
- i. Other support Staffs.

147. **PMO main functions.** The PMO will assume the actual programme management and coordination. Its focuses on planning, coordinating, monitoring and reporting of the Programme.

148. Reporting directly to the PSC, PMO will be responsible for the overall operational management of the programme implementation. Its specific responsibilities are as following:

- a. Ensure that the programme strategy is applied through the implementation of all activities,
- b. Coordinate the programming of planned activities under the Programme,
- c. Prepare and consolidate AWPBs,

- d. Coordinate the timely and proper implementation of approved AWPBs by each of the implementing line agencies,
- e. Consolidate programme-related budgets, statements of expenditure and progress reports,
- f. Ensure timely programme M&E and progress reporting,
- g. Preparing withdrawal applications, and timely processing of repayments of principals and interests of the IFAD Loan,
- h. Ensure the undertaking of the annual auditing of the Programme, and
- i. Other mandates and tasks that the GON and IFAD agree to assign

149. Implementation of some technical activities will be delegated to the line agencies at different levels, depending on their operational implications, when the ones are at the national level with organisations such as NACCF, SEAN and SQCC, others may at district or lower levels. Implementation delegated at district level or lower will be under the coordination of the PIUs in each programme district.

150. Within each District, planning and supervision of overall Programme activities would be coordinated with the DADC, an existing body which includes representatives of all line agencies relevant to the Programme. The District Chamber of Commerce and Industry (DCCI) would also be invited to participate..

151. **District-level PIU.** At the district level, most field activities would fall under the responsibility of MOAD's District Agricultural Development and District Livestock Service Offices and MOLD's DDC. Those field offices would be supported by the PMO-based component coordinators. The Programme Implementation Units (PIU) will therefore be created within the District Agricultural Development Offices (DADO) or District Livestock Service Offices (DLSO), depending on the weight and importance of the sector investments among other factors in each district. The selection of locating the district PIU either in DADO or in DLSO needs to be decided by the MOAD once the Financing Agreement is signed between IFAD and GON. The PIUs will mainly be headed by a senior officer from the host office, composed of technical focal persons from all the line agencies relevant to the Programme, including representatives from the key players of the private sector. Those line agencies are namely and not exclusively: DADO, DLSO, DDC, DCCI, SFDB, SFACLS, NLBC, and regional and district branches or extensions of some national organisations involved in the implementation, such as SEAN, SQCC and NACCF.

152. Since the Programme will provide institutional and operational support to the related agencies under the three technical components, no other provision will be made to support the equipments, salaries and operating expenses of the focal persons constituting the PIU; only one district-level coordinator will be hired by the PMO and located in the PIU to ensure the functions of M&E and operational financial management, which is mainly linked to the data management of financial planning, reporting and withdrawal application. The vertical and horizontal coordination function of PIU will be assumed by the host office.

153. PIUs will work through and closely with the line agencies, VDCs and the selected service providers in reaching the community-level target groups.

154. **PIU main functions.** The PIU will therefore utilise the existing and strengthened facilities, and staffs of the line agencies on a part-time basis. Its functions will be more on management, planning, monitoring, and coordinating the executing agencies and service providers in implementing the programme activities at the district level and lower. Key responsibilities will include:

- a. overseeing work of executing agencies and service providers and the selection of the target groups that will participate in programme activities;

- b. facilitating district and lower levels' participatory planning activities to determine which activities will be implemented in which communities,
- c. reviewing and recommending to the PMO the community-level implementation work plans prepared by the line agencies,
- d. coordinating the involvement of district technical agencies and their grassroots-level extension, private sector players, as well as farmers' groups/cooperatives, and
- e. facilitating liaison with target communities, assisting with the collection of M&E data, and documentation of programme activities.

155. **Technical Assistance:** considering the innovative features of the public private partnership, the PMO will be supported during key phases by dedicated national and international technical assistance where necessary. During the early phase I and early phase II, specific technical assistance will be recruited to address the PMO needs in capacity building of operational management. Terms of Reference for will be developed in accordance with TA needs.

156. With regards to the goat breeding improvement sub-component, the PMO will be supported by Heifer International which will be at the same time a service provider and a co-financier for an amount of USD 2.5 million. In addition to this co-financing, the Programme will develop synergies with Heifer International programmes implemented in the same districts. Heifer International key expertise also lies in producers/farmers groups' support and strengthening. Provision has been made by Heifer International to include producers' groups capacity building and strengthening after evaluation of the performance and impact of the activities related to goat breeding improvement (Phase I).

157. The PMO will also need support on the following aspects: (a) policy dialogue and value chain analysis for the cereal and vegetable seed production and the cattle/dairy value chains, and b/ assessment of the microfinance and rural finance sectors as well as strengthening supervision capacity of the Central Bank and assistance to microfinance institutions to fine-tune their products and services.

158. In addition to a national-level start-up workshop and the ADS subsector partner group workshop, annual public presentations and discussions would also be held in each District in collaboration with the DADC and would be attended by all senior PMO staff.

C. Planning, M&E, learning and knowledge management

159. Performance based management. Management of the programme would be organised along the lines of Managing for Development Results. This will encompass a proper integration of the various tools available: planning with Annual Workplans and Budgets (AWPB), monitoring with logframe indicators (from objective level down to components and activities level), integrate physical progress analysis together with financial aspects and finally a proper reporting system designed to make appropriate management decisions. All staff of the project will be subject to performance based contract with regular evaluation.

160. **Planning.** Following annual local level consultations, an Annual Work Plan and Budget will be prepared for each target District based upon Programme costs at appraisal adjusted for current market prices for the year, as well as a report on progress made in the District to date. These plans will then be integrated into the overall Programme work plan and budget that follows the Results-based Workplan and Budget template of IFAD, which will include a number of activities which are not District based (e.g. provision of foundation seed, PSCO and SFDB operations, and commercial goat breeder supplies). A PMO based Planning Officer will take primary responsibility.

161. **M&E System.** The objective of the M&E system will be to promote critical reflection, and to both collect and provide information and analyses necessary from/to stakeholders to assist in the strategic management of the project, and to involve them in learning processes to improve project implementation linking the M&E to Knowledge Management. The M&E system of the project will be based on a simple three-level framework (impact, outcome and outputs) reflected in the logical framework through which progress towards the different level results is monitored and evaluated and

need for changes in the project implementation identified. The function of the M&E system is to provide reliable information on the effectiveness and impact of project activities in achieving Programme development objectives. It will be closely linked to the Programme MIS system, under the responsibility of the M&E/KM Officer and the MIS Officer based within the PMO. While collecting of required M&E data will be coordinated at field level by corridor (two districts) level M&E/KM Coordinators, the collection of data itself will rely heavily on Programme beneficiaries and field staff, using in part a mobile phone based system that will be developed.

162. The M&E system will provide data not only on planned outputs for the period being considered, but also on the performance of external partners participating in Programme implementation (e.g. PSCs, NARC) in achieving their targets, FFS activities, beneficiary groups (e.g. seed and goat production groups), and the development and operation of Programme supported infrastructure. Overall, the M&E system will measure the contribution of the Programme to the programme development objectives and RIMS criteria, with a particular emphasis on providing the information required to determine the effectiveness of the innovative elements of the Programme, including such aspects as the gender and poverty status of beneficiaries, the functioning of private sector/production group contracts, performance of cross-breed goat stock, and the development of new financial service providers.

163. The M&E system will be developed according to the following principles that derive from lessons learnt from previous IFAD funded projects in Nepal: i) simple M&E processes and methods ii) clear roles and responsibilities for stakeholders iii) harmonization of information and reporting requirements of the stakeholders through alignment to the existing planning, monitoring and reporting processes iv) sufficient capacity building on M&E and KM through targeted trainings; and finally v) strong linkages between planning, M&E and knowledge management.

164. **Indicators** are in place for each of the three levels that take into account IFAD's Results and Impact Management System (RIMS) requirements. At start up the Programme will review the logical framework through a participatory process to ensure that stakeholders own and agree on the results-chain. The Programme will ensure identification of COSOP indicators during the review. To operationalise the indicators the project will develop a detailed M&E plan and a basis for a management information system (MIS) including pilot activities for mobile phone monitoring. A draft outline for the M&E plan is presented in the Annex 6 to this report. Each component will monitor its key indicators. In addition, private sector organizations participating in Programme activities would be required to provide periodic reports on their activities and performance. In particular, the Programme will assist SFDB to establish an independent computer-based MIS system to monitor key indicators regarding financial service provision. Key output and outcome indicators are given in the Logical Framework at the beginning of this document.

165. **Reporting, surveys and studies.** The Programme will prepare regular progress reports on trimestral basis following the reporting cycle of the Government of Nepal. The Programme will conduct baseline, mid-term and completion studies integrating the RIMS impact surveys and project specific needs and requirements during the survey. The Programme is required to report on the RIMS on annual basis to IFAD and on the COSOP indicators on trimestral basis in conjunction with the regular progress reporting. In addition, the Programme should conduct separate impact and outcome surveys as per identified need. It is to be noted that all reports and studies conducted by the Programme should disaggregate data by gender, ethnicity and caste. A baseline survey will be conducted at the beginning of the programme (within 6 months from the start-up) and results combined with available data from national and local institutions. Two impact surveys will be conducted at mid-term and at the end of the Programme.

166. **Roles and responsibilities.** The planning and M&E function as a core management function should be overseen by the Programme Manager and should be considered to be responsibility of all key staff of the project. The M&E/KM Specialist based in the PMO will however be the main responsible person to ensure the functionality and effectiveness of the M&E system. Coordination of collection of required M&E data will be the responsibility of the corridor based M&E/KM Support coordinators. The M&E/KM Support Coordinators will ensure that programme staff at local level, as well as the participating GoN staff, and private sector organizations participating in the Programme

provide the required periodic reports on their activities and performance. The Planning Officer based in the PMO will be the main responsible person for the Planning functions. MIS specialist based in the PMO under overall guidance from the M&E/KM Specialist will be responsible for development and implementation of main tools for data collection, recording and management in a feasible way.

167. **Knowledge Management.** Given the innovative nature of the Programme and the need to collaborate with other development activities within the country, as well as the aspiration to scale up geographical coverage through follow-on investments if Programme objectives are largely met, the development of an effective knowledge management system is essential. Although a number of personnel involved in the Programme will be expected to contribute to the collection, analysis and dissemination of knowledge developed in the course of implementation, overall responsibility for knowledge management will rest with the M&E/KM Officer under the supervision of the Programme Manager.

168. Following an initial Outreach and Identification campaign, which will spread knowledge of the Programme among potential beneficiaries and commence the identification of participating groups, knowledge dissemination will take place through a number of channels, including: (a) annual briefings to the Programme Partnership Forum; (b) annual District and target area events with line Ministry staff, producers and private sector organizations (including the projected annual agribusiness fair); (c) the establishment of corridor centred Multiparty Commodity Platforms which would bring together producers, buyers and relevant public sector participants for key commodities; (d) the preparation of posters, briefing documents and printed descriptive materials; (e) press releases and contacts with media organizations, and; (e) the establishment and operation of a Programme web site, as well as linkage to the IFADAsia web site. Resources will also be allocated under the Knowledge Management activity for a number of detailed studies which will both provide input to the M&E process and provide a basis for publications. Topics to be covered by these studies will be determined during implementation. All documents produced under the programme funding will be regularly uploaded on the programme website which will serve as electronic library and repository of documents, making them available worldwide through the web as well as locally for reprinting for local communities.

D. Financial management, procurement and governance

169. The following provisions are preliminary and will be reviewed in detail, and modified as required, during start-up process.

170. Under the supervision of the Programme Manager, the Accountants Officer, Financial Management Specialist and Contracts and Procurement Specialist, would have primary responsibility for financial management, including: funds disbursement, preparation of withdrawal applications, management of the Designated Loan and Grant Accounts and local currency accounts, financial reporting, and arrangement for audits. A financial management manual acceptable to IFAD would be developed and form an integral part of the Programme Implementation Manual based on the May 2012 draft attached to this report.

171. Service providers (private sector, NGOs, CSOs, consultants, technical assistance) contracted by the Programme would be required to submit reports on a physical and financial basis to the PMO. They would also be required to adhere to the financial management procedures developed within the Programme's financial management manual, the details of which would be included in the contract between the PMO and the service provider.

172. Based on the financing agreement between IFAD and the Government of Nepal, the Programme's disbursement and financial management procedures will be outlined in a Letter to the Borrower (LTB) agreed between Government and IFAD. The LTB will specify procedures for the mode of payment for disbursement, audit procedures, opening of accounts and procurement procedures.

173. **Financial Management.** The Programme would maintain separate accounts and book of records in accordance with consistently maintained appropriate accounting practices. The ongoing IFAD projects are maintaining their book of accounts following double entry cash basis accounting system, and will be continue in this Programme too. In addition to GON accounting system, a separate

ledger and register/record will be maintained to capture IFAD expenditures in categories and programme component/sub-component/activities. An accounting software will be installed at the beginning of the programme.

174. **A Designated Account** in USD for loan and grants will be opened in Nepal Rastra Bank, Thapathali and a local currency Programme Account (if applicable) opened with a bank in the location of the PMO and the programme district offices, Signatory of Designated Account in USD and local currency account opened by PMO would be Programme Manager, with counter-signing by the Accounts Officer. To maintain efficiency, there would be two cost/payment centers in each district located in the District Agriculture Office and supported by an Accountant deputed from the FCGO.

175. **Funds Flow.** The Programme would be funded from five different sources – IFAD Loan, IFAD Grant, Government, beneficiaries and other donors. In addition there may be occasional flows from other sources i.e. private sector institutions and companies. Other than the IFAD and GON, the funds would flow directly to the respective projects or activities; it would be either on the form of physical contribution (labour) or cash contribution. IFAD fund and Government fund would flow to the PMO and its programme offices i.e. DADO, DLSO through Government customary procedures of budget release. An initial advance would be transferred by IFAD in the Designated Account opened in USD on the request of PMO through withdrawal application supported by approved AWPB to cover roughly six months of anticipated expenditures of the first year. The disbursement of the Grant and Loan funds would be in 50:50 ratios.

176. **Audits.** IFAD requires that the programme accounts be audited in accordance with auditing standards acceptable to the Fund and the IFAD's Guidelines for Project Audits (for Borrower's use) by independent auditors acceptable to the Fund. In Nepal, the Office of the Auditor General under the terms of reference satisfactory to the IFAD, will carry out audits of the account related to the programme annually. The auditors will 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 will also determine the adequacy of supporting documents and controls on the use of Statement of Expenditures (SOEs) as a basis for disbursement. The auditors will also furnish a separate Management Letter which will 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. A certified copy of the annual audit report of the Programme together with the PMO's replies to the management Letter will 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.

177. **Procurement.** Procurement of goods, works and services financed by the IFAD would follow the Government of Nepal's procurement act and regulations. Any of future amendment on GON's procurement act and regulations is public and will be communicated to IFAD. . For the selection of appropriate procurement method, the Programme would follow the procurement thresholds of GON procurement act, regulations and guidelines. Procurement of all goods and services, outside of those that form part of the service provider contracts, will be managed directly by the PMO Procurement Specialist.

178. Whenever possible, procurement of goods and works will be bulked into sizeable bid packages to attract competitive bidding process and make more cost-effective. The procurement of goods above USD 200,000, works above USD 1,000,000 and services above USD 100,000 will follow the International Competitive Bidding. The IFAD prior review threshold for goods and works would be USD 50,000 and above, for services it would be USD 20,000. Contracts valued less than USD 50,000 for goods and works and USD 20,000 for services would be subject to ex-post review of supervision missions.

179. The responsibility of programme implementation and procurement of works, goods and consulting services rest with the programme authority. The PMO and its line agencies will follow the following basic principles while processing the procurement activities (i) economy and efficiency, (ii) giving equal opportunities to all eligible bidders, (iii) encouraging the development of domestic

capacity to provide goods, works and consulting services, (iv) fairness, integrity, transparency and good governance, and (v) selecting the most appropriate method for the specific procurement.

180. The procurement process of studies, survey, vehicles, motorcycles, equipment, service provider private seeds companies, National NGO and recruitment process of contracted positions are detailed in Annexes 7, 8 and 11 (draft Programme Implementation Manual) to this report.

181. **Governance** activities would focus on the development and implementation of an anti-corruption action plan, which would include guidelines and procedures for issuing requests for proposals for competitive and matching grants, their evaluation and selection, as well as for contracting of consultants, the selection of beneficiaries (for the formation of new groups and similar), and the contracting of other services (e.g. commercial goat breeders). Resources are also provided for the annual review and verification of compliance of these guidelines.

E. Supervision

182. The Programme will be directly supervised by IFAD in cooperation with the Government (joint reviews). Programme supervision by IFAD will focus on the state of the achievement of programme goal and objectives, expected outcomes, implementation progress and performance, targeting and gender empowerment, partnership, innovations and learning. Supervision on management and administration issues will proceed, beyond the loan covenants and fiduciary issues, by focusing on key activities, including: (a) ensuring that the annual work plan and budget are prepared and monitored; (b) that all required staff are recruited, mobilized and, where applicable, trained; (c) finalization and issuance of contracts for service providers, including ensuring that terms of reference are of an adequate technical quality and provide detailed specifications for any procurement processes involved; (d) development of training and outreach materials; (e) implementation of appropriate M&E and MIS systems, including the baseline study, and; (f) mobilization of participating MOAD field staff.

183. Internal supervision will be the direct responsibility of the Programme Manager under the supervision of the Programme Steering Committee along the lines of managing for development results. The Manager will be supported in this task chiefly by the Deputy Manager, Accounts Officer, Contracts and Procurement Specialist and M&E/KM Officer, although the three component coordinators will also provide support and assume responsibility for supervising technical operations.

184. IFAD supervision exercise is annual. Implementation support missions will be organized when necessary. Each IFAD supervision mission delivers an aide-memoire jointly approved by Government and IFAD and a set of recommendations to be implemented by the Programme and the line ministries/agencies.

F. Risk identification and mitigation

185. The innovative nature of many of the proposed Programme activities, together with relatively high levels of political uncertainty and weak local level government institutions as a result of the past civil conflict in Nepal, clearly presents a number of significant risks. Among the systemic risks facing the Programme, the following can be identified:

- **Deteriorating Macroeconomic and Political Conditions.** The recent civil conflict (1996-2006), which affected many rural areas of Nepal, renders this risk higher in Nepal than in many other countries. Local bodies were weak during this period and serious political and constitutional issues still remain unresolved. In particular, significant changes in the Constitution of Nepal are expected to be defined in the near future, including the establishment of a federal system centred on eleven states, each likely to be based upon a dominant ethnic or other group. The principal mitigation measure adopted by the Programme with respect to this risk is the use of a flexible programme approach which will facilitate the adaptation and modification of activities if required.
- **Natural Disasters and Climate Change.** As a Himalayan country, Nepal is exposed to serious risks arising from such events as earthquakes and changes in precipitation and glacier run-off levels as a result of climate change. While earthquakes are a constant threat, the

apparently accelerating rate of climate change poses a new type of risk. Key risk mitigation measures being applied by GON relate to improved management of forest resources and an increasing development of irrigation systems to ensure adequate water for crops during key periods of growth. Both of these risk mitigation measures are incorporated into the Programme.

- **Lack of Collaboration with other Relevant Rural Development Initiatives.** Given that the Programme will not be addressing all factors of importance for economic growth and development within the target area, the risk exists that otherwise successful Programme activities will be constrained by required supporting infrastructure. This will particularly be the case for upgrading and construction of roads and bridges. The risk also exists that other GON programmes or donor activities may duplicate Programme investments in such areas as irrigation. In response, the Programme design includes an ADS seed sector group which will provide the principal formal structure for liaison with other agencies active in the target area, or in thematic areas of relevance to the Programme. In addition, a key responsibility of the Programme Manager will be to establish and maintain informal communications with these agencies to ensure that current and future planned activities of both parties are discussed and coordinated.
- **Limited Local Institutional Capacity.** The lengthy civil conflict, which was particularly severe in a number of the target area Districts, has left a legacy of weak management and often inadequately trained staff in many local level GON institutions. This carries with it the risk that these agencies will be unable to adequately perform their tasks as foreseen under the Programme design. This risk will be mitigated by the activities within the Programme to strengthen a range of local institutions, including VDCs and line Ministry offices at District level, and will be supported by the PMO. In addition, Ministry staff participating in Programme activities at field level will receive subject-specific training (e.g. FFS facilitation) and, in some cases, motorbikes and other equipment.

186. Under Component 1, three primary risk areas may be foreseen:

- **The required number of Seed Producer Groups is not found.** The number of seed production groups anticipated is substantial and there are currently insufficient to meet the needs of the target Districts. However, the organizational efforts and significant resources to be made available by the Programme, and the existence of numerous non-seed agricultural groups currently active within the target area offer a high probability of achieving the final objective during the six years of Programme implementation. An early start with widespread awareness raising campaigns on Programme objectives is crucial.
- **PSCOs are not sufficiently interested in seed production engagement in the Mid-hills.** Targets for the number of participating PSCOs are high, and foreseen seed operations may not find sufficient entrepreneurial seed companies. However, there appears to be a sufficient degree of interest from PSCOs in the opportunities offered by the potential seed market in the mid-hills zone. The highly facilitated financing offered by the Programme through the Competitive Grant Scheme mechanism is anticipated to attract a sufficient number of seed companies. Some PSCOs may even take up more than one operation at the same time.
- **DADO capacity and resources are inadequate** to effectively operationalize Programme activities. This risk and associated mitigation measures forms part of the systemic local institutional capacity risk discussed above.

187. Under Component 2, although a number of aspects of component activity have been extensively tested and proven over a number of years, other facets – particularly those relating to the utilization of Boer cross-breed stock – are completely new in the Nepalese context and do pose risks to the component. Among these risks, the following can be identified:

- **Lack of interest among commercial dairy companies in extending operations into the Programme area.** This is not considered a high risk, given the chronic underutilization of Nepalese dairy manufacturing plants, the expanding urban demand for milk and the rapid

extension of the improved road network in the Programme area. However, should collection costs prove too high, despite the development by the Programme of chilled collection centres, the resulting lack of market would severely depress the attractiveness of this sub-component.

- **Private Sector Participation.** Some degree of risk is also associated with the market linkage subcomponent. Given the significant levels of import of both live animals and meat into Nepal, it is likely that there is a strong interest among traders, slaughterhouses, processors and wholesale buyers in the purchase of nationally sourced goat meat. Nevertheless, as is the case for improved seeds established patterns of trading may make it more attractive and easier for current market participants to continue to rely on imported product. This risk can be reduced by the establishment of livestock markets within the programme area (increasing the volume of supply available at a single location) and by the planned annual agricultural fairs which the programme will support within the target area under Component 3.
- **Adoption of a Commercial Approach by Producers.** There is some risk that participant goat herders, while achieving productivity gains through better management and the improved genetic capabilities of cross-bred stock, will simply hold on to their animals instead of selling them. Such an outcome would be negative for the overall programme goal of increasing incomes and food security in the target area, as well as opening up the possibility of environmental damage to forest areas assigned to herders under the programme. Such risks can be reduced by showing beneficiaries during the FFS the strong financial benefits of maintaining a sustainable herd size and supporting their linkage to buyers.
- **Introduction of Exotic Genetic Material.** Probably the greatest risk associated with the component is that arising from the use of Boer cross-breeds. The adoption of larger, faster growing and more productive crossbred stock offers major advantages. Nevertheless, although Boer goats and their cross-bred offspring have been widely adopted in many countries around the world with great success there is little experience in Nepal related to the use of Boers, and only limited current experience among national breeders.

188. The main risks identified under Component 3 include:

- **Elite Capture.** The risk of favouritism in the selection of schemes by the VDCs and scheme allocation on political grounds is real. However, this risk is not considered high as the Government has been successfully disbursing a significant share of its own resources through them. This risk would be further mitigated by taking measures which would include: (i) widespread dissemination of information on the availability of these funds so local communities are kept well informed and can apply for financing; (ii) strict adherence to the selection criteria, and; (iii) GESI strategy and approach and iv) oversight mechanisms which would ensure that schemes are equitably allocated in the programme districts.
- **Governance of Financial Services Organizations.** A second major risk under the component relates to the provision of financial services; previous experience with locally managed rural financial institutions raises the possibility of a threat to member savings as well as the funds lent to such institutions. While it is true that some of the cooperatives have experienced elite capture in which small savers have lost their savings, this generally tends to happen with those institutions which are not well supervised by an external agency. This risk is being mitigated by the following measures (i) comparison of two distinct approaches; one cooperative and one using a more standard bank approach; (ii) linking of SFACL support to direct supervision by NACCF (ii) capacity building of the management, and; (iii) independent audit.

IV. PROGRAMME COSTS, FINANCING, BENEFITS AND SUSTAINABILITY

A. Programme costs

189. Total investment and incremental recurrent Programme costs, including physical and price contingencies, are estimated at about USD 59.70 million (NRs 4,780 million). Funds allocated to coordination and management total USD 4.72 million and represent about 9 percent of the total Programme costs. Support to Extension of Formal Seed Sector accounts for USD 21.7 million

(41 percent of base cost), Smallholder Commercial Livestock Development USD 16.6 million (31 percent of base cost) and Local Entrepreneurship and Institutional Development a further USD 9.7 million (19 percent). Physical and price contingencies make up around USD 6,800.. The Programme's summary and detailed cost tables are presented in Working Paper 4.

Table 1: Programme Costs by Component

Nepal Improved Seeds for Farmers Programme (Sept. 2012) Components Project Cost Summary								
	(NRs '000)			(US\$ '000)			% Foreign Exchange	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
1. Support to Extension of Formal Seed Sector	1,107,897.9	633,304.2	1,741,202.1	13,848.7	7,916.3	21,765.0	36	41
2. Smallholder Livestock Development	851,406.6	480,522.2	1,331,928.9	10,642.6	6,006.5	16,649.1	36	31
3. Local Institutional and Entrepreneurial Development	490,059.6	288,503.0	778,562.6	6,125.7	3,606.3	9,732.0	37	18
4. Programme Coordination and Management (PMO)	313,106.7	65,190.4	378,297.1	3,913.8	814.9	4,728.7	17	9
Total BASELINE COSTS	2,762,470.8	1,467,519.8	4,229,990.6	34,530.9	18,344.0	52,874.9	35	100
Physical Contingencies	75,393.6	42,701.9	118,095.5	942.4	533.8	1,476.2	36	3
Price Contingencies	375,946.5	56,084.7	432,031.2	4,699.3	701.1	5,400.4	13	10
Total PROJECT COSTS	3,213,810.9	1,566,306.4	4,780,117.3	40,172.6	19,578.8	59,751.5	33	113

Table 2: Programme Components by Year – Totals Including Contingencies

Nepal Improved Seeds for Farmers Programme (Sept. 2012) Project Components by Year -- Totals Including Contingencies								
	Totals Including Contingencies (US\$ '000)							Total
	2013	2014	2015	2016	2017	2018	2019	
1. Support to Extension of Formal Seed Sector	2,929.4	5,864.1	6,095.8	6,611.3	989.9	622.7	209.4	23,322.7
2. Smallholder Livestock Development	1,513.7	4,080.1	3,747.2	3,300.6	3,827.8	2,533.7	1,491.2	20,494.2
3. Local Institutional and Entrepreneurial Development	1,247.8	1,573.4	1,720.0	1,821.2	1,403.9	1,431.1	1,510.0	10,707.4
4. Programme Coordination and Management (PMO)	1,344.6	683.4	644.4	742.3	677.3	562.0	573.1	5,227.1
Total PROJECT COSTS	7,035.5	12,201.0	12,207.4	12,475.5	6,898.9	5,149.5	3,783.7	59,751.5

B. Programme financing

190. An IFAD loan and an IFAD grant, both of USD 19.50 million equivalent (each 32.7% of the total Programme costs), will be provided to finance the Programme. Heifer International will financially contribute USD 2.5 million. The Government contribution is estimated at USD 7.3 million (12.2%) and includes contributions from its budget⁹ and from foregone taxes and duties. Approximately USD 10.9 million or 18.3% of the total Programme costs of USD 59.71 million would be provided by the beneficiaries.

191. Part of the Government contribution would finance (i) the salaries of the Programme Manager, Deputy Programme Manager, Accountants Officer and Planning Officer, Crops/Seed Development Officer, Livestock/Veterinary Development Officer, who are expected to be seconded from the Government as well as (ii) the Programme audit cost. The remaining share of the Government contribution would come in forms of foregone taxes and duties on all Programme inputs that involve funding from the IFAD Loan or any other external source of funding associated with the IFAD loan. In conformity with the principle that no taxes or duties would be financed out of the proceeds of the IFAD Loan, any future changes in the rates and/or structures of taxes and duties would have to apply to the Programme.

192. Below summarizes Programme components and expenditure accounts of the proposed financing arrangement. The other summary financing tables are provided in the appendices section.

⁹ The Government covers salaries of some Programme Coordination and Management deputed to the Programme.

Table 3: Financing Plan by Components

Nepal Improved Seed for Farmers Programme Components by Financiers												
(US\$ '000)												
	IFAD Loan		IFAD Grant		The Government		Beneficiaries		HEIFER		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Support to Expansion of Formal Seed Sector	7,814.9	33.5	7,814.9	33.5	2,805.1	12.0	4,887.8	21.0	-	-	23,322.7	39.0
2. Smallholder Livestock Commercialization	6,741.3	32.9	6,741.3	32.9	2,435.9	11.9	2,068.2	10.1	2,507.4	12.2	20,494.2	34.3
3. Local Institutional and Entrepreneurial Development	2,743.9	25.6	2,743.9	25.6	1,268.6	11.8	3,951.0	36.9	-	-	10,707.4	17.9
4. Programme Coordination and Management	2,216.1	42.4	2,216.1	42.4	794.9	15.2	-	-	-	-	5,227.1	8.7
Total PROJECT COSTS	19,516.2	32.7	19,516.2	32.7	7,304.5	12.2	10,907.1	18.3	2,507.4	4.2	59,751.5	100.0

Table 4: Financing Plan by Categories (expenditures accounts)

Nepal Improved Seed for Farmers Programme Expenditure Accounts by Financiers	(US\$ '000)											
	IFAD Loan		IFAD Grant		The Government		Beneficiaries		HEIFER		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment Costs												
A. Funds												
Competitive Grant Scheme	949.1	22.3	949.1	22.3	553.8	13.0	1,808.0	42.4	-	-	4,260.0	7.1
Matching Grant Scheme	2,283.8	26.0	2,283.8	26.0	1,142.7	13.0	3,079.8	35.0	-	-	8,790.0	14.7
Other Investments Fund	627.1	39.7	627.1	39.7	128.0	8.1	-	-	197.7	12.5	1,579.9	2.6
Loans	-	-	-	-	590.4	13.0	3,951.0	87.0	-	-	4,541.4	7.6
Subtotal	3,859.9	20.1	3,859.9	20.1	2,414.9	12.6	8,838.8	46.1	197.7	1.0	19,171.3	32.1
B. Technical Assistance												
International	527.6	50.0	527.6	50.0	0.0	-	-	-	-	-	1,055.2	1.8
National	402.3	50.0	402.3	50.0	-	-	-	-	-	-	804.6	1.3
Subtotal	929.9	50.0	929.9	50.0	0.0	-	-	-	-	-	1,859.8	3.1
C. Studies, Surveys, Training and Workshops												
Training	4,956.5	41.9	4,956.5	41.9	1,537.7	13.0	-	-	378.0	3.2	11,828.8	19.8
Workshops	426.2	43.5	426.2	43.5	127.4	13.0	-	-	-	-	979.8	1.6
Studies and Surveys	598.0	43.5	598.0	43.5	178.7	13.0	-	-	-	-	1,374.8	2.3
Subtotal	5,980.8	42.2	5,980.8	42.2	1,843.8	13.0	-	-	378.0	2.7	14,183.4	23.7
D. Goods and Services	6,075.0	32.4	6,075.0	32.4	2,617.5	13.9	2,068.2	11.0	1,931.7	10.3	18,767.4	31.4
Total Investment Costs	16,845.6	31.2	16,845.6	31.2	6,876.2	12.7	10,907.1	20.2	2,507.4	4.6	53,982.0	90.3
II. Recurrent Costs												
A. Operating Costs												
Salaries	1,979.0	47.3	1,979.0	47.3	221.6	5.3	-	-	-	-	4,179.7	7.0
Travel and per diem	296.5	43.5	296.5	43.5	88.6	13.0	-	-	-	-	681.6	1.1
Vehicle O&M	351.4	43.5	351.4	43.5	105.0	13.0	-	-	-	-	807.9	1.4
Office equipment O&M	10.7	43.5	10.7	43.5	3.2	13.0	-	-	-	-	24.7	-
Office rent and utilities	28.8	43.5	28.8	43.5	8.6	13.0	-	-	-	-	66.2	0.1
Other operating costs	4.1	43.5	4.1	43.5	1.2	13.0	-	-	-	-	9.5	-
Total Recurrent Costs	2,670.6	46.3	2,670.6	46.3	428.3	7.4	-	-	-	-	5,769.5	9.7
Total PROJECT COSTS	19,516.2	32.7	19,516.2	32.7	7,304.5	12.2	10,907.1	18.3	2,507.4	4.2	59,751.5	100.0

C. Summary Benefits and Economic Analysis

193. A number of models were constructed to assess the impact of Programme activities on seed and goat production groups, participating trading companies and smallholders adopting the improved seeds. Financial benefits (FIRRs) were positive in all cases, ranging from 15-21 percent for production groups, 14-22 percent for companies and approximately 21 percent for farm communities adopting the improved seed. Returns to livestock groups range from 18 percent for goat producers to as high as nearly 70 percent for dairy buffalo operations.

194. Overall, Programme investments generate incremental financial returns with a FNPV of NRs 2,500.0 million and a FIRR of 27.0%. The benefit to cost ratio would be 1.5.

Table 5: Financial Result for the Programme

Indicators	Results
FNPV, mln NRs	2,500
FIRR, %	27.0
B/C ratio	1.5

195. The results of the sensitivity analysis demonstrate that the overall programme remains attractive when the investment costs increases by 20% with the FIRR of 23.0%. The Programme is

highly sensitive to the changes in benefits deriving from seed production and adoption of improved seeds. The 20% decline in these benefits drops the FIRR to 12.6%. It is also highly sensitive to the two year delays in benefits accumulation implying that any delays in the Programme implementation would make the Programme financially unfeasible. The Programme's sensitivity to changes in benefits deriving from the adoption of the improved seeds is moderate with the FIRR reducing to 20.3% in response to the 20% declines in benefits. The impact of the 20% decline in benefits deriving from the adoption of improved breeds of livestock increases the FIRR to 32.1%. This is mainly due to the declining profitability of Boer goat production as a result of increased incremental labour use. A 20% decline in all types of benefits reduces the FIRR to 14%. The results are presented in the following table:

Table 6: Results of Sensitivity Analysis

Variables	FIRR	EIRR
Baseline results	27.4%	23.0%
1. Programme cost increase by 20%	22.0%	18.4%
2. A 20% decline in benefits deriving from the seed production and improved seed adoption	12.6%	11.0%
3. A 20% decline in benefits deriving from the improved seed adoption	20.3%	15.7%
4. A 20% decline in benefits deriving from adoption of the improved livestock breeds	32.1%	21.7%
5. A 20% decline in all benefits	14.0%	9.1%
6. Two year delay in benefit accumulation	n/a	n/a

196. The Programme as a whole yields an economic net present benefit (ENPV) of NRs 1,600 million and an economic internal rate of return (EIRR) is estimated at 23.0%. The benefit to cost ratio is 1.5.

Table 7: Economic Results for the Programme

Indicators	Results
ENPV, mln NRs	1,600
EIRR, %	23.0
B/C ratio	1.5

D. Sustainability

197. Two key aspects are of importance in considering the sustainability of benefits arising from Programme implementation. The first relates to the financial sustainability of the economic activities promoted and fostered by the Programme, such as seed and goat production, livestock markets, and rural financial and related services. In these cases, sustainability is largely ensured by both the high levels of national demand foreseen for the output, as well as through the financial viability of the operations over the long term. By linking producers directly with private sector buyers through purchasing contracts, both producers and buyers will have an incentive to maintain a trading relationship and respond to market requirements. Private companies establishing operations within the target area will make substantial infrastructure and related investments from their own resources and this provides a further incentive for their continued operations within the area. The models prepared for both producers and traders indicate that the economic activities proposed under the Programme are financially sustainable. In the case of the livestock markets, it is expected that charges levied on

animals brought to the markets will generate sufficient income to cover the maintenance and operating costs of the market.

In addition, however, it is accepted that producers and those managing cooperatives and other producer organizations will require a management capacity and frequently external technical support beyond the Programme implementation period. In order for this to be available, not only will individual groups and cooperatives receive training in such areas as planning, financial management and related areas, but key line Ministries operating within the Districts, as well as the VDCs and SFDB, will require strengthening and capacity building and this is provided through the programme.

Annex 1

Country and Rural Context Background

1. Nepal is classified as a Low-Income Food Deficit country (LIFDC) and agriculture is central to the national economy, with nearly 80 percent of all households (3.4 million) and two thirds of the national labour force depending principally on the sector for their livelihoods. Nepalese agriculture is heavily influenced by altitude, with three major agro-ecological zones recognized, each running East-West across the length of the country: (i) the lowland *terai*, predominantly between 300-800 masl; (ii) the intermediate hills zone, and; (iii) the upland mountain zone (see Map 1, Main Report). Each zone is characterized by a different combination of crop and livestock activities, as well as different levels of population density and availability of infrastructure and services.
2. Overall, the agricultural sector contributes 33 percent of national GDP (ADB 2010), but recent sector growth of between 2.5-3.0 percent per annum has been well below the 4.2 percent level forecast for the 10th Five Year Plan (2002-2007). Although the overall agricultural sector grew by 6 percent from 2000-2009, in per capita terms cereal production has declined by 8 percent and livestock production has remained stagnant.
3. Crops account for around 65 percent of agricultural GDP, but average cropping intensity is relatively low at 1.8. More than 75 percent of total cultivated area nationally is planted to cereals. Nationally, irrigation is fairly widespread, accounting for over 54 percent of all agricultural land in 2010-11. Paddy dominates in the *terai* and hills zones, accounting for 45 percent of the area under cereals overall, followed by maize (26 percent) and wheat (20 percent). Pulses (6.5 percent), vegetables (5.25 percent) roots & tubers (4.75 percent) and fruit (2.7 percent) contribute most of the remaining planted area. Paddy and winter vegetables are the most widely grown crops, being sown by 72 percent of all farmers in 2010-11.
4. Yields of major crops are poor by regional standards, with Nepalese paddy rice yields in 2010 being the lowest recorded in South Asia, while wheat yields were lower than for any other country except Afghanistan. Maize yields were lower than for all other regional countries except India. In part this performance can be linked to the very low proportion of improved seed used by Nepalese farmers (only exceeding 15 percent for vegetables in 2010-11). Fertilizers were used by over 70 percent of all paddy producers, half of all wheat producers and one third of maize producers. However, in 2010-11 mechanization levels were very low, with only one percent of all agricultural households possessing either a tractor or a power tiller.
5. Livestock is important throughout the country, particularly in the mountain zone, with an estimated national population of 8.5 million goats, 4.7 million cattle and 4.7 million buffaloes in 2009. An estimated 65 percent of all agricultural households held both goats and cattle.
6. Although Nepal's poverty level declined from 42 percent in 1995/96 to 31 percent in 2003/04, it remains significantly higher in rural, rather than urban, areas and access to services and infrastructure in rural areas is much lower. In part, this is attributable to the predominance of smallholders and marginal farms in Nepalese agriculture, with an average holding size of only 0.7 hectares in 2010-11. Nearly a half of all farms have less than 0.5 ha of land, while those with less than 1 ha of land constitute nearly three-fourths of all holdings. Furthermore, farms are getting smaller; the average holding size declined by 28 percent between 1961 and 2001. Nationally, the proportion of landless farmers is gradually increasing, growing from 17 percent in 1995-96 to 24 percent in 2010-11. This is occurring despite the movement of rural populations to the more productive *terai* zone or urban areas. Total reliance on rented land remains rare, with only just over five percent of holdings using only this source. However, almost one third of all farm households do rent some land. The number of permanent agricultural workers has declined by 41 percent over the same period, to 179,000 persons.

7. Much agricultural production is predominantly subsistence in nature. Some 78 percent of farm holdings are reported to produce primarily for home consumption, while only 1 percent produce primarily for commercial sale. For 60 percent of holdings, annual production is not sufficient to feed the household over the year and 20 percent of holdings are deficient in food for more than half the year. Additional income to meet household needs derives primarily from migration (seasonal or long term) and associated remittances. The prolonged absence of male household members who have migrated for work has led to an increasing 'feminization' of agriculture in Nepal, with women increasingly taking responsibility for both household and farm management.

Development Strategies

8. In the present post-conflict context, IFAD's strategy in Nepal is focused on supporting the development policies and programmes of the government and other partners, especially in relation to peace-building, reconciliation, reconstruction and economic recovery. In particular the organization continues to direct its support towards the hill and mountain areas, where poverty levels are very high and access to infrastructure, services and markets is extremely limited.

9. The COSOP Strategic Objectives (SOs) were defined in relation to the four pillars of Government's Poverty Reduction Strategy (PRS) and IFAD's strategic framework (2002-2006). The COSOP was last updated in 2010, including detailed reviews of the agriculture and rural sectors, poverty analysis, and gender and social inclusion issues.

COSOP stated relations between PRS Pillars and Strategic Objectives

PRS Pillar	COSOP Strategic Objective
I. High and broad-based economic growth	I. Increased access to economic opportunities by poor farmers and producers in hill and mountain areas
II. Social sector development	II. Improved community infrastructure and services in hill and mountain areas
III. Social inclusion and targeted programmes	III. A reduction in gender-, ethnic- and caste-related disparities through greater inclusion of disadvantaged groups in development
IV. Good governance	IV. Cross-cutting theme: support improvements in local governance and peace-building

10. To achieve each strategic objective, the COSOP proposes the following type of projects and programmes:

- For SO1 it suggests the development of high value agriculture through research, extension, inputs supply, market information and infrastructure;
- Under SO2, the aim is to develop secondary and tertiary roads and community infrastructure to improve access to markets and services by remote communities, complementing the interventions under SO1.
- SO3 focuses on improving access of poor women and poor members of ethnic and caste groups to resources, infrastructure and services, and on increasing empowerment of the poor through income-generating programmes, vocational training, and more active participation in local decision-making and governance processes, both through mainstreaming and targeted programmes.
- Under SO4, the COSOP supports a conflict-sensitive development approach to build the capacity of communities to engage in development works through the adoption of techniques

for peace/conflict assessment, community mediation, negotiation, human rights, communications and facilitation.

11. The Government of Nepal (GON) prepared a 20 year Agriculture Perspective Plan in 1995 to aid agriculture-led economic growth and poverty reduction, but no pipeline of investment projects to focus on these priorities was prepared. As a result, investment into the agriculture sector in recent years has been largely driven by donor priorities. In order to streamline investment into the agriculture sector, GON, with support from ADB and IFAD, has embarked on the preparation of an Agriculture Sector Development Strategy (ADS). This strategy incorporates an investment plan for specific sub-sectors and is expected to be ready by the end of 2012.

12. There is considerable donor activity on-going in Nepal, with the World Bank, the Asian Development Bank (ADB) and USAID all important players, while the German Agency for Technical Cooperation (GTZ), the Netherlands Development Organization (SNV), the Swiss Agency for Development and Cooperation (SDC) and the Japanese International Cooperation Agency (JICA) are all active. The resurgence of donor activity following the signing of the peace accords in 2006 has presented both challenges and opportunities for Nepal. While there are risks of overlap and duplication of services, there are also important potentials for collaboration with other agencies, and these potentials have been addressed in the Programme design.

13. The World Bank is financing a large, country-wide, irrigation and water management programme, while ADB is leading the development of the national Agricultural Development Strategy and is planning a major initiative in fertilizer supply. National rural investments have emphasized rural road upgrading and electrification in recent years.

Annex 1: DISTRICT SOCIO-ECONOMIC PROFILES

Characteristic	GULMI	ARGHAKH ANCHI	PYUTHAN	ROLPA	RUKUM	SALYAN	TOTAL/ AVE	NATIONAL	Notes
Total Population (2011 projection)	329 675	239 966	256 292	244 737	227 847	212 279	1 510 796	28 986 373	76.3% rural according to NLSS (2011)
Total Households (2011 projection)	69 303	48 395	48 431	44 837	38 316	38 455	287 737	5 434 484	
Female Headed HH								26.6%	Estimated by NLSS (2011)
Average Number of Persons/HH (2011 Projection)	5	5	6	6	7	6	5.8	6	Estimated at 4.9/HH in NLSS (2011)
Population Density/Sq Km	287	201	196	130	79	145	173.0	197	
Number of VDCs/Municipalities	79	42	49	51	43	47	311	3 913	
Percentage of marginal farm households	37.1	53.9	39.1	58.4	54.4	40.8	47.3		
Road Density (per 100 Sq Km)	14.9	17.9	12.5	3.4	0.0	14.0	10.4	12.0	
Cooperative Density	1.8	0.8	0.7	0.1	0.8	1.1	0.9		
Poverty Deprivation Index Rank	38	50	54	65	55	40			
Per Capita Food Production (Kcal)	2 178	2 474	1 511	2 086	3 169	3 480	2 483		

Source:

Unless otherwise specified, all data is for 2010, from 'District Development Profile of Nepal 2010/2011'. Mega Publication and Research Centre. Kathmandu

National Road density estimate from TradingEconomics.com/nepal and refers to 2005

National average annual household income in 2010 - NRp. 202,374 (NLSS, 2011). National average per capita annual income for poorest 20% of population: NRp. 15,888

Nationally, self-employed agriculture accounted for 61.3% of employment (wage agriculture a further 2.8%) - NLSS

2011

Population of District headquarters: 57 697 5. of total population 8%

Annex 1- Appendix 1

Country Data Sheet – NEPAL¹⁰

Land Area (km ² thousand)	143.4	GNI per capita (USD) 2009	440
Total Population (million)	30	GDP per capita growth (annual %)	3.0
Rural population (million)	24.5	Inflation, consumer prices	10
Population Density (people per km ²)	209	Exchange rate: USD 1 Dec 2011	80
Local Currency	Nepalese Rupee		
Social Indicators		Economic Indicators	
Average annual population growth	1.8	GDP (USD million) 2009	12,897
Crude birth rate (per thousand people) 2009	25	GDP growth (annual %)	4.6
Crude death rate (per thousand people) 2009	6	GDP per capita at PPP (current USD)	1,199
Infant mortality rate (per thousand live births)	41		
Life expectancy at birth (years) 2009	68	Sectoral distribution of GDP	
Poor as % of total rural population 2004	34.6	% agriculture	36
Male labour force participation (% age 15 and above) 2009	80	% industry	15
Female labour force participation (% age 15 and above) 2009	72	% manufacturing	7
		% services	48
Education		Consumption (as % of GDP)	
School enrollment (1st year of primary) 2009	80	General government final consumption expenditure	11
Adult literacy rate (% age 15 and above) 2009	59	Household final consumption expenditure	82
		Gross domestic savings	7
Nutrition		Balance of Payments (USD million)	
Depth of hunger (Kcal per day) 2007	220	Merchandise exports	860
Malnutrition prevalence, height for age (% of children under 5) 2006	49.3	Merchandise imports	5,280
Malnutrition prevalence, weight for age (% of children under 5) 2006	38.8	Balance of merchandise trade	-4,420
Health		Current account balance	-128
Health expenditure per capita (USD) 2009	25	Foreign direct investment, net	87.8
Physicians (per thousand people)	n.a.		
Population using improved water sources (%) 2008	88	Government Finance	
Population with access to essential drugs	n.a.	Cash surplus/deficit (as % of GDP)	n.a.
Population using improved sanitation facilities (%) 2008	87	Gross national expenditure, including investment (as % of GDP)	127
Agriculture and Food		Present value of total external debt (USD million)	2,752
Food imports (% of merchandise imports)	14	Present value of debt (as % of GNI)	20
Fertilizer consumption (Kg. per hectare of arable land) 2008	7.7	Total debt service (% of exports of goods and services)	10.5
Food production index (1999-01=100) 2009	130		
Cereal yield (Kg. per hectare) 2009	2,374	Lending interest rate (%)	8.0
		Deposit interest rate (%)	3.6
Land Use			
Arable land as % of total land area 2009	16.7		
Forest area as % of total land area	25.4		
Irrigated land as % of cropland 2008	27.7		

Source: World Bank, *World Development Indicators* database (December 2011)
All data for 2010 unless otherwise specified

¹⁰ Some Nepalese source indicates 147.1 thousand KM²

ANNEX 2: POVERTY, TARGETING AND GENDER

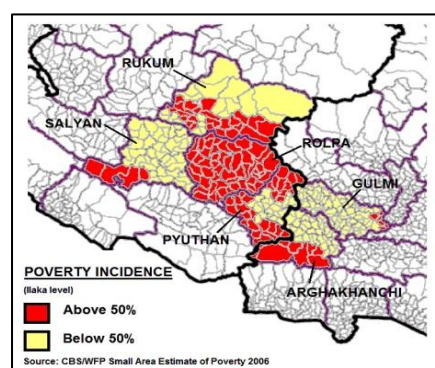
I. INTRODUCTION AND BACKGROUND

1. Both GON and IFAD aim to have the incidence of extreme poverty reduced by 2015 and in recognition of the fact that Dalits, Indigenous people, remote areas and female-headed households are all over-represented among the poorest, both include reduction of gender, ethnic and caste-related disparities in development among their priorities (PRSP; IFAD Country Strategic Opportunities Programme, 2006). They recognize that inclusion of disadvantaged groups and women not only addresses inequalities, but also helps building viable production systems, markets and other elements of the value chains.

II. DISADVANTAGED GROUPS (DAGS)

Poverty in Nepal

2. Poverty incidence has decreased in the last decade from 42% in 1996 to 31% in 2004 mainly due to increased remittances, greater connectivity and urbanization. Lack of land, water, road and market access remain key causes of poverty, but a key issue is highlighted by poverty trends during this same period: disparities have remained equal or have even grown between rural and urban areas (35% vs. 10%), between the central and mid-/far-western areas (27-29% vs. 41-49%), and between dominant caste groups (14-18%) and socially excluded Dalits (46%), indigenous people (35-44%) and Muslims (41%). Nepal's GINI coefficient increased from 34% in 1996 to 41% in 2004. The Programme area has above average poverty incidence levels, especially in the more remote and resource poor areas, including Rolpa District.



DAG Definition

3. Poverty has many facets and no single definition covers all poverty. It comprises income poverty, resource poverty, food insecurity, social exclusion and remoteness, and these all may overlap. As the Programme requires a realistic and measurable definition, it is proposed to work with the term “disadvantaged groups” (DAGs); an accepted term in Nepal development. Working with DAGs as a poverty proxy indicator also helps the Programme to address inequalities. DAGs include: 1. Poorest 40% households, 2. Dalits, 3. IPs, 4. Female-headed households, 5. Remote Areas. It is estimated that the poorest 40% of the population overlap 80% with smallholders (<0.5ha), food insecure (<6 months), and those earning less than US\$2/d/hh. It is proposed to define these terms for district, VDC and village level:

Table 1: Programme Definition of Disadvantaged Groups

Level	Poorest	Remotest	Dalits	Indigenous People	FHHs
1) Programme :	40% hh	50% remotest VDCs	All Dalit	All IP	All FHHs
2) District: Ilakas (9)	Three poorest (DDC, CBS'06)	Three remotest	Three with highest Dalit %	Three with highest IP %	
3) VDC: Wards (9)	Three poorest (VDC ranking)	Three remotest	-Three highest Dalit% -Dalit villages	-Three highest IP % -IP villages	
4) Community: households	40% HH ranked poorest by village	Isolated Households	All Dalit households	All IP households	All FHHs

National Policies and Priorities related to DAG and Poor

4. International and GON policies and guidelines that form the policy framework for the Programme include the Government of Nepal's Interim Constitution 2007, the PRSP, and the Interim Plan, and the GoN-ratified ILO Convention 169, UNDRIP, IFAD's Nepal Country Technical Note on Indigenous Peoples' Issues, 2010, as well as various of MOAD's agricultural policy instruments like Agricultural Policy 2004, Agricultural Development Strategy 2012 (under preparation), Agribusiness Promotion Policy 2006, NARC Vision 2021 (20 yr), and Agriculture Extension Strategy 2006, which all emphasize participatory development, social inclusion, gender equality and targeting the poor.

Poverty

5. Lessons from numerous projects have shown that in order to reduce poverty, a trickle-down effect is seldom achieved and that projects have to specifically target the poor. Identification of the poor by applying a single criterion is not possible. Income is an inadequate criterion, especially in a country where some households live hours travel from the nearest road and others, days. The Programme therefore uses a combination of various poverty indicators, which if applied lead to groups that greatly overlap, but not 100%. These indicators include land size (<0.5ha), food insecurity (<6 months food), social exclusion, remoteness, and absence of males over 15 years of age.

Table 2: Main Poverty Categories (2003 figures)

Poverty categories	Mean Income	Mean Income	Majority hhs Land size	Majority hhs Irrigated Land size	DAG presence (estimate)		Remot e	<i>Food inse curi ty</i> (<6m)
	Nepal	Nepal	West hills/ mountain s	West hills/ mountains 29%	Dali t	IP (non-Newar)	Progra mme Area	Program me Area
	Rs/hhs/ yr	US\$/d/ hhs	Ha	Ha	% hhs	% hhs	%hhs	%hhs
Poorest 20%	37,243	1.4	0 - 0.25	<0.07	5%	10%	14%	20%
Second poorest 20%	49,240	1.8	0.2 – 0.5	0.06-0.12	5%	8%	13%	15%
Median 20%	54,348	2.0	0.25 - 1.0	0.07-0.3	1.5 %	5%	12%	10%
Second richest 20%	75,076	2.7	0.5 – 1.0	0.15-0.3	0.4 %	2%	7%	5%
Richest 20%	156,486	5.7	> 1.0	>0.3	0.1 %	1%	4%	0%
Total	80,111	2.9			12 %	26%	50%	50%

Source: NLSS 2003 (category, income and land data); AAGP interpretation of CBS data

Indigenous People (IPs)

6. The six programme districts are home to 355,000 indigenous people (IP) or 27% of the population (2001: 1,329,471). 93% of which are Magar, the original inhabitants of the area. As per the government-recognised NEFIN categorisation, the Magar belong to the so-called disadvantaged IP category. The highly marginalised and highly vulnerable IP categories form less than 0.1% of the population, none of them originating from the area. There are no major IP issues like traditional access to common resources and language as all IPs of the area have long been integrated in the mainstream, with increasing numbers losing their mother tongue. Although many IPs are highly integrated and successful in society, on average their levels of participation in government, civil

society, industry, trade and development programmes is much less than that for Brahmins, Chhsetris and Newars, mainly due to marginalisation by dominant groups, lower education levels, inhabitation of more remote areas, less access to water and land, and because those implementing agricultural programmes (government, NGOs and private sector) are predominantly from dominant caste groups. Moreover, IPs are in general more oriented towards their own communities, and more hesitant in dealing with outsiders. IP issues like access to common resources or language are not major issues in the area.

Dalits

7. Dalit is the term which the so-called occupational castes use themselves. It signified oppression, as they have been oppressed and discriminated against by other castes and IPs. The six Programme districts are home to 166,000 Dalits (12%), numbers varying from 7000(4%) in Salyan to 48,000 (16%) in Gulmi. The caste based discrimination and untouchability have officially become illegal and punishable practice is gradually decreasing, However, it is argued that cast-based discrimination still persists. Nevertheless, theGoN is fully committed to eliminate such type of discrimination. Dalit participation in agricultural development and agribusiness is minimal, not only due to the type of constraints listed for IPs above but also because traditionally they were not agriculturists but craftsmen like tailors, smiths and shoemakers.. Most are now landless day labourers and many Dalit livelihoods depend on migrant labour.

Female-headed Households (FHHs)

8. About 20% of households are female-headed, but only an estimated 5% are without any male above 15 years of age and thus can be viewed as really disadvantaged. Such households face not only labour shortage and an inability to participate in community activities, but also frequently social exclusion and sometimes expropriation by the husband's/father's family.

Remote areas

9. Remoteness is probably the most important determinant for participation in commercial agriculture. Not only does remoteness make most commercial agriculture unprofitable due to transport problems, it also results in very weak or no coverage by government extension services, private sector service providers, financial services and development projects. An added disadvantage is low population density, which makes service delivery extra expensive. Remote area dwellers are probably the only DAGs that might have an advantage over non-DAGs, namely higher altitudes and more common natural resources that facilitate certain types of vegetable and livestock production.

DAG Participation in Agriculture and Agricultural Development

10. Successful participation in the Programme's activities depends on access to land, water, skills, male labour, money, services, information, markets, as well as on linkages, negotiation power, mobility and discrimination. Participation of DAGs is affected by numerous obstacles, which vary by DAG category and subsector. Table 3 provides a rough estimate of which obstacles affect participation, or in reverse which asset (land, mobility, etc.) participants should have for successful participation. E.g. landless can graze their goats in the forest as much as landowners, but a shift to stall-feeding from forage grown on own land will put them at a disadvantage. The table also explains the normally very low participation by Dalits, landless, smallholders and remote areas in dairy and seed multiplication or by female-headed households and isolated communities/households in marketing and group work.

Table 3: Obstacles to DAG Participation in KisanKa Lagi Biu Bijan Programme

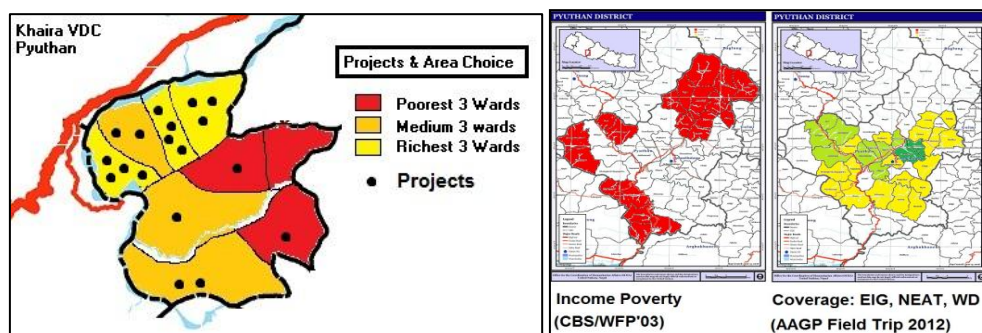
Constraint/Criterion	Constraint affects	Affects participation in:		
		Seed	Livestock	Market/Instit.

	these more than other DAGs:	Veg	Cerea	Demo	Goat	Dairy	Mark	Finan	Grou
1. Land	Dalit, poor	-	--	-	-	-			
2. Water	Dalit, poor, IP	--	--	-					
3. Skills and education	Dalit,	--	--				-	-	-
4. Money and risk taking ability	Dalit, poor, FHHs	-	--			-	-	-	
5. Linkages (government, private sector)	All DAGs	-	-	-	-	--	--	--	--
6. Access to information and services	All DAGs	-	-	-	-	-	--	-	-
7. Road and market access	Remote areas, IP		--	-		--	--	--	-
8. Equality (non-discrimination)	Dalits, FHHs	-	-	-	-	--	-	-	-
9. Male labour availability	FHHs, Dalits	-	-		-	-	-		-
10. Mobility	FHHs, remote areas						-	-	-

11. Projects often fail to address the obstacles that DAGs face, not only because of a disconnect between DAGs and projects or government agencies that lack DAG-staff and resources, but in particular because transaction costs for development actors are much higher in remote, uneducated or poor villages where most men are absent migrants, than in an accessible, educated and not-so-poor community where the men are home. The pattern shown Figure 1 below, for Khaira VDC (Pyuthan) and for Pyuthan district, is typical. In Khaira, VDC key informants were asked where the poorest wards were, where the most Dalits and IPs lived (mostly in the same poorest wards) and then, which agricultural project or agency worked in which ward (the dots). The Wards with lowest income levels are compared to those where three randomly encountered projects actually work. All these projects and agencies¹¹ make an extra effort to reach poor communities. Yet they end up working in wards where road access, educated farmers, land and irrigation availability was highest, as well as population density. Thus, with the same resources they could reach more people with a higher chance of success and a lower risk of failure.

Figure 1: Where the Development Actors Go: Khaira VDC and Pyuthan District

¹¹ DADO, District Soil Conservation Office, , Women Development Office, NEAT, EIG, Heifer, local NGOs



Disaggregated Programme Beneficiary Estimates

12. Table4 provides a summary of Programme beneficiary estimates, which are based on a combination of population size, location, DAG obstacles/assets, specific targeting by the Programme (e.g. goats and vegetables seed in remote areas), limited GESI action and that the Programme will allow minimal beneficiary overlap between main components (goats, dairy, vegetable and cereal seed) and maximum overlap between these and component 3 activities. It is estimated that the Programme will directly benefit about 75,000 unique households.

13. Table 4 also shows that the overall beneficiary count and benefit distribution will depend heavily on quality seed reaching poor and remote communities through the seed extension and marketing programme, and indirectly on the proper set-up and implementation of this subcomponent. Indirect beneficiaries are estimated to equal the number of direct beneficiaries, i.e. another 75,000 households. **In total 150,000 households or about 750,000 people will directly or indirectly benefit from the programme.**

Table 4: Summary Beneficiary Estimate Table

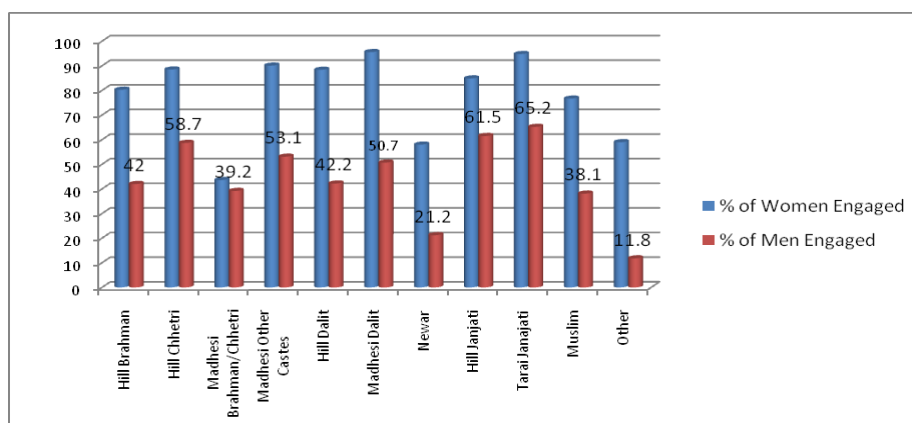
Sector, subsector	Poorest 40%	Dalit	IP	Brahmin- Chhetri	Remote Areas	Total
Seed Multiplication	1,320	328	1,493	5,411	1,360	7,232
Seed Extension	23,055	5,655	14,790	23,055	27,405	43,500
Goat raising	4,183	1,869	3,560	3,471	4,628	8,900
Dairy	2,480	214	1,710	6,626	0	8,550
Enterprise/services incomes	0	5	28	169	23	200
Labour Jobs	84	18	33	51	11	100
Financial Services unique hh (20% of 30,000hh total)	2,727	709	1,894	3,398	2,929	6,000
Total	33,849	8,798	23,508	42,181	36,356	74,482
Share of Beneficiaries	45%	12%	32%	57%	49%	100%
Share of Population	40%	12%	26%	62%	50%	100%

III. GENDER

Women and Agriculture

14. About 70% of the total labor in agriculture work is done by women; however they own only 10% of land. Moreover, due to male labor migration, agriculture in Nepal (NLSS 2011: 2 million migrants, from 55% of households) is increasingly feminized and in many farms women work alone. Even in an agriculture project aimed at young men, like EIG (Education for Income Generation Programme/USAID) ultimately 83% of participants were women.

Figure 2: Women and Men Engaged in Agriculture by Caste/Ethnicity and Regional Identity



Source: DHS 2006 Survey Data

15. In the six Programme districts about 52.5% of the population (689,782) are women (Projected Population -District Profile 2010) with numbers varying from 33,196 (49%) in Salyan to 175,603 (55%) in Gulmi. However, both the Gender-related development index and empowerment measures (2006) for the hill districts of the Mid-Western region where four of the Programme districts falls are very low (0.439 and 0.410). The socio-economic conditions of women from Dalit and IP groups and women-headed households are the worst. The agricultural policies and programmers of Nepal such as the National Agriculture Policy (2004), Livestock Master Plan (1996-2015), Agricultural Perspective Plan (APP), the Agricultural Extension Strategy (2005), Agro-business Promotion Policy and the Gender Mainstreaming Strategy (2006), all focus on improving access to agricultural resources and benefits for women, the poor and excluded. But the mechanisms to understand, analyse and address gender equality and social inclusion issues are very poor at the implementation and monitoring levels.

16. Women face several more obstacles in effectively participating in agriculture projects:

- a. Cultures, beliefs, social norms and practices related to the farming system and handling and management of money, and the social power and identity created through the caste and patriarchal system, restrict women in accessing opportunities, particularly in community leaderships, policy decisions and program implementations.
- b. Women are forced through male absence to do even more than their traditional 70% of agriculture workloads, restricting the time available to invest in new ventures.
- c. Agricultural decision makers, service providers and technicians are nearly all (non-DAG) males (94% technicians in government) and prefer to talk and visit (elite) male farmers and prefer to focus on technical issues. They generally lack skills in working effectively with women and socially excluded groups. Also often men have been trained in skills that women require. Government of Nepal has addressed this issue partly by a policy that 40% participants of all agricultural training must be women.
- d. In practice the GESI related training for staff and producer groups is often included as an ad – hoc topic and limited to one hour or half a day session included within technical training courses. This is often too short for them to achieve GESI objectives in their work
- e. Women and priority for women's concerns are mostly lacking within the agencies' and projects' structure and senior staff and this affects effective service delivery to women, although several projects, including the Rural Women's Leadership Project (IFAD/WOCAN, 2011) showed that developing women's leadership skills helps women to access, utilize and mobilize agricultural resources, negotiate and engage with men to support and accept their leadership.

IV. OVERALL GESI APPROACH

Targeting, General

17. The Programme works on improved supply and marketing of quality seed, goat breeds, dairy and fodder. The input producers and suppliers will not always belong to the poorest and most disadvantaged groups, but the Programme will ensure that they will form a substantial part of the ultimate buyers and users, notably in goats and seeds. The following broad steps are proposed to achieve optimal DAG and women's participation and benefit. They are outlined in detail in the working paper and Programme Implementation Manual (PIM).

1. Target areas within districts:

Remote areas: seed demos, vegetable seeds, goats, finance

Medium remote areas: vegetable seeds, goats, finance

Accessible Areas: dairy, cereal seeds

Bazaars, Markets: Market development, linkage

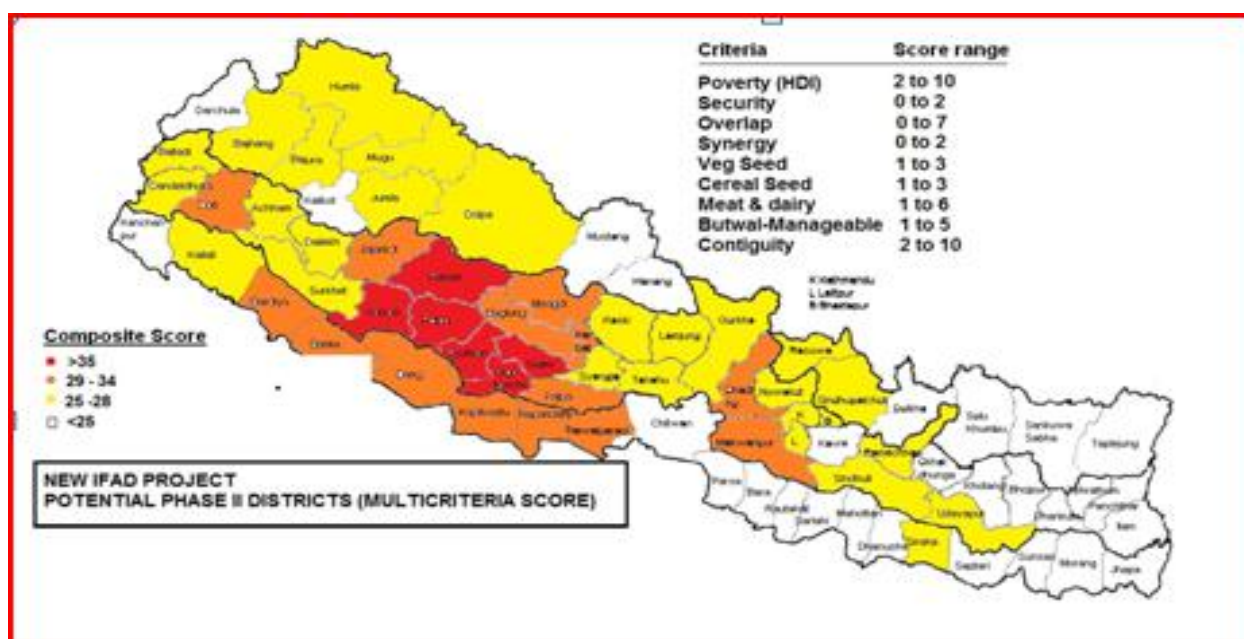
2. Overlap. To maximize benefit distribution seed, goat and dairy beneficiaries will not overlap
3. Minimum participation targets per DAG-subgroup and component will be as shown in Table 5 below.
4. Selection of Ilakas (>30) and VDCs(156): at least two poor (>50% poverty incidence) and two remote Ilakas per district
5. GESI mainstreaming and Leadership. The Programme will provide GESI mainstreaming training to staff and groups and Leadership training for selected Women and DAGs (>1000).
6. DAG and women representation. Programme will ensure DAG and women representation in Programme related bodies (National Steering Committee, Multi-stakeholder Platforms, VDC Agriculture Forestry and Environment Committees-AFEC and staff teams (PMU, district/corridor, field) at all levels

Table 5: GESI Indicators/Targets

Sector, subsector	Poorest 40%	Dalit	IP	Remote Areas	Women (participants)
Vegetable Seed Multiplication	25%	5%	25%	30%	50%
Cereal Seed Multiplication	10%	5%	15%	5%	40%
Seed Extension	40%	5%	30%	40%	50%
Goat raising	50%	20%	40%	50%	50%
Dairy	30%	10%	20%	0%	40%
Enterprise/services incomes	15%	10%	15%	10%	33%
Labour Jobs	30%	50%	20%	20%	33%
Financial Services unique hh (20% of 30,000hh total)	45%	15%	35%	50%	50%
Share of Beneficiaries	45%	12%	32%	49%	50%
Share of Population	40%	12%	26%	50%	50%

7. Group short listing. During VDC assessments and short listing of potential groups(>1000), DAG groups will be mapped and assessed for inclusion as ready-to-start groups or as starter groups
8. GESI support to DAG and women. DAG and women's groups will get priority in technical and GESI support, e.g. irrigation, financial services, facilitation of land lease,
9. VDC-level AFE Committee (156) will include DAGs and women, and do VDC-level GESI monitoring.
10. GESI Targets. Each team, office, staff, group and enterprise will develop and achieve its own GESI targets and plan. District GESI focal point and PMU GESI specialist will assist as well as monitor. High achievers will receive incentives like and training and conference opportunities

11. Anti-Discrimination. Dairies and cooperatives are only supported on condition that they proactively engage and support Dalit participation. For this purpose equipment grants will only be provided as conditional loans that will be converted to grants after two years of effective Dalit participation.
12. Monitoring. All data will be DAG and gender disaggregated. Groups, value chain actors and VDCMCs will all monitor a set of four indicator (numbers), including one GESI indicator, as per their plans, and periodically submit results (four numbers) per SMS through the M&E in-charge.
13. Contingency. Budget will be reserved to create a fund to support DAG women's participation in the Programme with as yet unidentified activities. If the Programme fails to achieve GESI targets, it will review and adjust all its activities and activity designs to DAG and women priorities, capabilities and limitations.



- Option 1: Expansion - Myagdi, Baglung and Parbat Districts
 Option 2: Expansion - Dang, Kapilbastu, Rupandeh Districts
 Option 3: Phase II – Eastern Region Districts

Additional co-financing and partnerships would be required for expansion

BENEFICIARIES INCORPORATION MATRIX

A beneficiary incorporation matrix has been prepared, showing the distribution by year of households anticipated to benefit both directly and indirectly from the Programme. Direct beneficiaries are those who will receive support from the Programme and include members of seed production groups (cereal and vegetable), members of livestock production groups (goats and dairy) and those participating under the Entrepreneurial and Institutional Development activities. As only incremental beneficiaries are shown, and most beneficiaries of this last component are also beneficiaries under the other two components, there are relatively few incremental beneficiaries for entrepreneurial and institutional activities.

In total there are just over 75,000 incremental direct beneficiary households, peaking at 18,300 in year 5 of implementation. Estimating indirect beneficiaries is considerably more difficult, because it is dependent upon the number of households who are not direct beneficiaries, but which purchase improved seed for their own use. No indirect beneficiaries are expected prior to year 3, when improved seed starts to be available in significant amounts. Nevertheless, it is possible to estimate that an uptake of no more than 20-25 percent of improved seeds by non-participating households would generate the figure of 75,000 households presented elsewhere.

Beneficiaries	Unit	PY 1	PY2	PY3	PY4	PY5	PY6	PY7	TOTAL
Incremental Direct Beneficiaries									
Seed Productivity									
Cereal Seed Group 1	HH		90	720	810	900			
Cereal Seed Group 2	HH		45	225	225	225			
Cereal Seed Group 3	HH		9	90	135	126			
Vegetable Seed Group 1	HH		150	1 350	1 500	1 800			
Seed Demonstrations	HH		2 500	3 750	6 250	10 000	7 500		
Participatory Variety Selection	HH		2 500	2 500	2 500	2 500	2 500	2 500	
Subtotal for Seeds		0	5 294	8 635	11 420	15 551	10 000	2 500	53 400
Livestock Productivity									
Goat - 2 goats per HH	HH		80	160	400	1 520	2 640	3 760	
Dairy - 2 cows per HH	HH		0	200	433	1 231	2 576	4 742	
Subtotal for Livestock		0	80	360	833	2 751	5 216	8 502	17 742
Entrepreneurial & Institutional									
VDCs	HH	468	468	468					
Incremental SFACL members	HH	600	900	1500					
Subtotal for E & I Development		1 068	1 368	1 968	1 500	0	0	0	5 904
Total Direct Beneficiaries		1 068	6 742	10 963	13 753	18 302	15 216	11 002	75 978
Incremental Indirect Beneficiaries									
Improved Seed Adoption (see below)	HH			796	28 095	7 391	33 988	4 214	
Total Indirect Beneficiaries		0	0	796	28 095	7 391	33 988	4 214	74 484
Total Beneficiaries		1 068	6 742	11 759	41 848	25 693	49 204	15 216	150 462

	Year					
	3	4	5	6	7	Total Sown Area in Programme Districts

Possible planted area from improved seed per annum (Ha)

Wheat	1 964	17 679	35 357	55 000	55 000	55 268
Paddy	2 143	19 286	38 571	60 000	60 000	40 659
Maize	4 286	38 571	77 143	120 000	120 000	100 752
Vegetables	2 031	20 313	40 625	65 000	65 000	7 619
	10 424	95 849	191 696	300 000	300 000	204 298

Possible number of households which could utilize improved seed (calculated from average planted area/HH)

	Average Ha/HH	3	4	5	6	7
Wheat	0.35	5 611	50 511	101 020	157 143	157 143
Paddy	0.35	6 123	55 103	110 203	171 429	171 429
Maize	0.25	17 144	154 284	308 572	480 000	480 000
Vegetables	0.25	8 124	81 252	162 500	260 000	260 000
		37 002	341 150	682 295	1 068 571	1 068 571

Estimated number of indirect incremental beneficiary households per annum

	3	4	5	6	7	Total	Notes
Total number of possible adopting HHs/yr:	37 002	341 150	682 295	1 068 571	1 068 571		Total from table above
After allowance for duplication of seed types (HH):	18 501	170 575	272 918	427 429	427 429	1 316 851	Assumed as 50% (Yrs 3-4) or 60% (Yrs 5-7) duplication rate
Assumed % up-take of seed within Programme area	100%	25%	20%	20%	22%		Proportion of available seed utilised by area producers/yr
Assumed up-take HH within Programme area	18 501	42 644	54 584	85 486	85 486	286 700	
Less Programme direct beneficiaries:	17 705	13 753	18 302	15 216	11 002	75 978	From main table above
Total adopting HH/year:	796	28 891	36 282	70 270	74 484		
Total adopting incremental HH/year:	796	28 095	7 391	33 988	4 214	74 484	Total HHs adopting improved seeds less previous adopters

Annex 3. Country Performance and Lessons Learned

Country Performance

An assessment of the sectoral framework for rural development was carried out under the Performance Based Allocation System (PBAS) in 2010 and updated in 2011. A summary of the results is provided in Table 1. A brief assessment of the main findings and conclusions of the exercise are presented below.

Table 1: Summary of the Assessment of Sectoral Framework for Rural Development

Indicator	Combined Score	Average
A. Strengthening the capacity of the rural poor and their organizations		
(i) Policy and legal framework for rural organizations	15.5	3.87
(ii) Dialogue between government and rural organizations	13.0	3.25
B. Improving equitable access to productive natural resources and technology		
(i) Access to land	14.0	3.50
(ii) Access to water for agriculture	17.0	4.25
(iii) Access to agricultural research and extension services	11.0	3.66
C. Increasing access to financial services and markets		
(i) Enabling conditions for rural financial services development	16.0	4.00
(ii) Investment climate for rural business	13.0	4.33
(iii) Access to agricultural input and produce markets	10.0	3.33
D. Gender issues		
(i) Access to education in rural areas	16.0	4.00
(ii) Women Representation	12.0	4.00
E. Public resources management and accountability		
(i) Allocation and management of public resources for rural development	15.0	3.75
(ii) Accountability, transparency and corruption in rural areas	13.0	3.25
Total	165.5	45.19

Strengthening the Capacity of the Rural Poor and their Organizations. Government policy in this area was judged to be somewhat or broadly supportive, with a relatively simple, albeit sometimes slow, registration process for rural organizations and only occasional intervention in organization activities by Government. However, the study determined that the rural poor have little representation or role in such organizations. Performance in the area of dialogue between Government and rural organizations was generally disappointing, with only weak representation of rural organizations in executive or advisory bodies, little influence on decision making, and a consultation process hampered by major deficiencies. Some exchange of views does, however, take place.

Improving Equitable Access to Productive Natural Resources and Technology. The assessment noted some attempts by Government to improve access to land for poor rural households and develop appropriate regulations, but land tenure and land markets were judged to be largely informal and land administration weak. A more positive view was taken of water issues, with the establishment and operation of Water Users' Associations being adequately supported and policies (not always fully effective) in place for allocation, management and pricing of water. Agricultural research was considered to be somewhat responsive to the needs of poor farmers.

Increasing Access to Financial Services and Markets. Enabling conditions for rural financial services development were considered moderately positive, with Government policies, legal framework and inspection and supervision procedures in place, if not always effective and rural financial services largely privatized. The investment climate for private business was generally

considered positive, with a framework in place that generally encourages private sector development, despite cumbersome registration procedures, and partly liberalized markets. However, agricultural input and produce markets were assessed as showing major weaknesses, with only intermittent market information available. Rural market access roads were improving from a previously poor situation.

Gender Issues. Access to education in rural areas was judged moderate overall, with some Government efforts to improve the participation of girls in education through a policy with some weaknesses. The participation and representation of women in rural decision making bodies and organizations was also judged to be moderate, with women generally slightly under represented and rarely in leadership positions.

Public Resources Management and Accountability. The allocation and management of resources for rural development was once again judged to be moderately positive, with a partially decentralized administrative and fiscal authority, budgets that partly respond to policy priorities and adequate budget execution. Release of information on budgets was considered largely inadequate, however. Accountability, transparency and corruption in rural areas was considered moderately weak, with little accountability to constituents, lack of participation of rural poor and frequent corruption. Decision making was partially transparent.

Country Programme Issues

The Country Programme Issues Sheet for Nepal was prepared in 2011 and examined the performance of all current IFAD projects (six, with HVAP having started too recently to be included) against COSOP Strategic Objectives. The contribution of IFAD investments to the achievement of the Results Management Framework was judged as moderately satisfactory for all indicators. The document noted that client survey ratings for IFAD had improved in Nepal, but expressed some concerns over the sustainability of project achievements.

With respect to **Increased Access to Economic Opportunities by Poor Farmers** (COSOP Strategic Objective 1), the document identifies a number of achievements across the projects reviewed but identifies problems in attracting private enterprises to remoter areas, and the need for more focus on market information and training.

For **Community Infrastructure and Services** (Strategic Objective 2), the concerns were centred primarily upon roads development, with problems encountered in major road development, which in turn impacted the development of secondary and access roads. Other types of infrastructure raised fewer worries.

In relation to the reduction in **Gender, Ethnic and Caste Related Disparities** (Strategic Objective 3), no specific risks were noted, although the participation of women and minorities in IFAD projects was mixed.

With respect to **Cross Cutting Issues, Peace Building and Local Governance** (Strategic Objective 4), the study flagged the slow pace of reform in reducing legal and institutional discrimination against disadvantaged people and recommended intensifying policy dialogue. Targeting policies which include affirmative action to overcome existing discrimination were recommended.

Lesson Learned

The Country Programme Issues Sheet identified a number of implementation issues which are of relevance for current and future investments. These include:

- **Institutional Environment** – Including the unfinished recovery from the civil conflict, frequent changes of senior Government officers and recurring strikes. While largely outside of the control of the Programme design team, agreement has been reached with GON on minimum assignment

times for seconded Government staff to the Programme and performance incentives for these staff.

- **Institutional sustainability** – The common practice of supporting groups to upgrade into associations and cooperatives is supported, but the risk of elite capture and poor sustainability are highlighted. The Programme will reduce these risks through the strong involvement of the private sector with such groups, thus maintaining the pressure for effective delivery and performance, and through the use of supervision mechanisms operated by the Small Farmers Development Bank (SFDB) to strengthen and provide long term assistance to financial services cooperatives.
- **Disbursement** – Nepal is identified as the worst performing country in the region with respect to disbursements, in part because of pre-financing by GON. However the Issues Sheet notes that problems in this area have been reduced recently. The Programme design will stress financial flow of funds procedures that facilitate and promote regular withdrawal applications.
- **Monitoring and Evaluation** – All projects evaluated by the Issues Sheet have struggled with the establishment of effective M&E systems, in part due to inexperienced staff and inadequate resources. The Programme design stresses a strong M&E capability within the Coordination and Management Unit; two externally contracted staff with resources for additional technical assistance. This would be linked with early attention to the baseline study, a coherent monitoring strategy and participatory monitoring by beneficiaries, local implementing agencies and involved private sector enterprises.
- **Project Management and Staffing** – The report stresses the importance of an effective and qualified Programme Manager, as well as the need for appropriate incentives and clear terms of reference. Agreement has already been reached with the MOF to allow performance incentives (of up to 200% of salaries) to seconded GON staff, and MOAD has agreed to assign any staff for a minimum period of two years.
- **Financial Management** – The report notes that the ability of GON to operate and maintain a decentralized financial management system is limited and that basic accounting practices are weak with inexperienced staff. The quality of financial reports and withdrawal applications is often inadequate. The Programme design incorporates a two person accounting group in the Coordination and Management Unit and will prepare strong and clear guidelines for financial processes during Appraisal.
- **Audit** – Past and current IFAD projects in Nepal have suffered a number of problems in relation to audit procedures, including delays in submission and lack of follow up on recommendations. The Programme design includes resources for an independent audit..

Appendix 1 : Ongoing and Recently Completed Agriculture Sector Related Projects Implemented by Different Ministries

S. N.	Project / Program	Duration	Major Activities	Amount of Assistance	Development Partners / Institutions
	Ministry of Agriculture Development				
1	Olive Production and Processing Program	August 2004 - December 2009	<ul style="list-style-type: none"> Commercial farming, processing and promotion of Olive 	US\$ 1,042,419	FAO
2	Promotion of Quality Cocoon Production and Processing Project	December 2006 - November 2011	<ul style="list-style-type: none"> Promoting quality cocoon production and processing 	Japanese ¥ 120,000,000	JICA
3	Standards and Trade Development Facility	March 2008 - February 2010	<ul style="list-style-type: none"> Preparation of training materials and user guidelines/manuals covering food security, animal and plant health and agricultural trade Organization of various training programme for more than 600 government officials on the SPS measures 	US\$ 347,900	WTO
4	Strengthening Capacities for Disaster Preparedness and Climate Risk Management in the Agricultural Sector	April 2008 - March 2010	<ul style="list-style-type: none"> Strengthening technical and institutional capacity of the Department of Agriculture Strengthening basic services system for DRM in pilot districts 	US\$ 470,000	FAO
5	Dairy Cattle Improvement	April 2008 – November 2009	<ul style="list-style-type: none"> Strengthening existing laboratories facilities Establishment of pilot performance recording scheme with modern analytical methods 	US\$ 360,000	FAO
6	Complimentary Assistance to the Collaboration Program in Pro-poor Policy Formulation, Dialogue and Implementation at the Country Level	December 2008 - November 2010	<ul style="list-style-type: none"> To conduct training and workshops for pro-poor policy formulation, dialogue and implementation at the national level 	US\$ 438,000	FAO
7	Community Livestock Development Project (CLDP)	2005 - 2010	<ul style="list-style-type: none"> Reducing poverty amongst poor rural people through gender and socially inclusive development and to improve the levels of food security, nutrition, incomes, and employment for 164,000 families through increased productivity of the livestock sub-sector 	US\$ 20,000,000	ADB /FAO
8	Leasehold Forestry and Livestock Project (LFLP)	2005 – 2013	<ul style="list-style-type: none"> Reducing poverty in the area by allocating leasehold forestry plots to poor families to enable them to increase income from forest products and livestock 	US\$ 12,800,000	IFAD
9	Community Managed Irrigated Agriculture Sector	2006 - 2010	<ul style="list-style-type: none"> Improved access to Irrigation 	US\$ 20,000,000	ADB
10	Improving the Livelihoods of Poor Farmers and Disadvantaged Groups in EDR	2007 - 2010	<ul style="list-style-type: none"> Poverty reduction 	US\$ 1,000,000	ADB/JFPR

11	Hill Maize Research Project (HMRP) Phase III	2007 - 2010	<ul style="list-style-type: none"> ▪ Increase productivity and sustainability of maize-based production technologies for improved food security and livelihoods of farm families 	US\$ 1,030,000	SDC
12	Hill Maize Research Project (HMRP) Phase IV	2010-2014	<ul style="list-style-type: none"> ▪ To enhance seed production, technology dissemination, and marketing. Additional focus areas will be the facilitation of seed licensing procedures and increased private sector involvement in the production and marketing of new seed varieties. 	US\$ 5,630,000	SDC/USAID
13	Sustainable Soil Management Programme (SSMP) Phase III	2007 - 2010	<ul style="list-style-type: none"> ▪ Productive and sustainable management of soil to have improved food security and increased income of woman and man farmers in bari-dominated farming systems of Nepal's mid-hills 	US\$ 4,570,000	SDC
14	Avian Influenza Control Project (AICP)	2007 – 2011	<ul style="list-style-type: none"> ▪ Minimizing the threat posed by highly pathogenic avian influenza (HPAI) to humans in Nepal by controlling such infections among birds, especially domestic poultry, and preparing for, controlling, and responding to possible human infections, especially an influenza epidemic and related emergencies. 	US\$ 18,200,000	IDA / FAO
15	Irrigation and Water Resource Development Project (IWRMP)	2007 - 2013	<ul style="list-style-type: none"> ▪ Improving irrigated agriculture productivity and management of selected irrigation schemes, and enhance institutional capacity for integrated water resources management. 	US\$ 60,000,000	IDA
16	Social Safety Net Project (SSNP)	2007 - 2013	<ul style="list-style-type: none"> ▪ Ensure access to food and basic needs in short term 	US\$ 3,000,000	IDA
17	Commercial Agriculture Development Project (CADP)	2007 - 2013	<ul style="list-style-type: none"> ▪ Commercialization of agriculture 	US\$ 18,000,000	ADB
18	IPM Phase II	2008 - 2013	<ul style="list-style-type: none"> ▪ Pest management 	US\$ 4,030,000	NORAD / FAO
19	Emergency Flood Damage Rehabilitation Project	2009 - 2011	<ul style="list-style-type: none"> ▪ Flood damage rehabilitation 	US\$ 25,600,000	ADB
20	Project for Agricultural Commercialization and Trade (PACT)	2009 - 2015	<ul style="list-style-type: none"> ▪ Agriculture and rural business development; support for sanitary and phyto-sanitary facilities and food quality management; and project management, monitoring and evaluation 	US\$ 10,500,000	World Bank
21	High Value Agriculture Project in Hill and Mountain Areas	2009 -	<ul style="list-style-type: none"> ▪ To integrate into the local rural economy through initiatives that develops small businesses and increase trade by building the capacity of rural institutions. 	US\$ 18,900,000	IFAD (US\$ 7.6m)
22	High Mountain Agri-Business and Livelihood Improvement (HIMALI) Project	2011-2017	<ul style="list-style-type: none"> • To reduce poverty in highland areas, by improving income, employment opportunities and the nutritional status of poor farm families and women in particular; and by increasing the productivity of the livestock subsector, if found feasible. 	US\$ 20,000,000	ADB

23	Raising Incomes of Small and Medium Farmers Project	2011-2017	<ul style="list-style-type: none"> Reduce the market and business risks for small and medium farmers who diversify into high-value commodities (HVCs) in 10 districts of Nepal's Mid-Western Development Region and Far-Western Development Region. 	US\$ 20,100,000	ADB
24	Nepal Economic, Agriculture and Trade Activity (NEAT)	2011-2014	<ul style="list-style-type: none"> To foster a conducive business environment for private sector-led growth, encourage competitiveness and exports in selected agriculture and non-agriculture commodities or services, initially targeting lentils, ginger, orthodox tea and vegetables 	US\$ 30,000,000	USAID
	Ministry of Environment				
1	High Altitude Technological Research Project in Nepal	April 1990 - December 2012	<ul style="list-style-type: none"> Research and Evaluation 	US\$ 220,000	Italian National Research Council
2	Strengthening Capacity for Managing Climate Change and Environment	January 2009 -	<ul style="list-style-type: none"> To strengthen country's capacity for environment and climate change management 	US\$ 500,000	ADB
	Ministry of Forests and Soil Conservation				
1	Western Terai Landscape Development Project	August 2005 - July 2012	<ul style="list-style-type: none"> Support in the preparation of national policy on Western Terai landscape, integrated landscape management, sustainable management and conservation of bio-diversity, etc. 	US\$ 10,494,838	SNV / UNDP GEF
2	Conservation and Sustainable Use of Wetland in Nepal	March 2007 - February 2012	<ul style="list-style-type: none"> To support in enhancing capacity, and legal and policy framework for the development of ecosystem by conserving and sustainably using wetland 	US\$ 4,061,969	UNDP
3	Terai Arc Landscape Program	2007 - 2011	<ul style="list-style-type: none"> Sustainable forest management 	US\$ 5,824,000	WWF / USAID Finland / DFID
4	Sacred Himalaya Arc Landscape Program	2007 - 2011	<ul style="list-style-type: none"> Sustainable forest management 	US\$ 3,445,000	WWF / USAID Finland / DFID
5	Northern Hills Conservation Project	2007 - 2011	<ul style="list-style-type: none"> Sustainable forest management 	US\$ 731,000	WWF / USAID Finland / DFID
6	A Grant Assistance for Research Center Project of National Trust for Nature Conservation	December 2007 -	<ul style="list-style-type: none"> To construct Research Center and Headquarter Office of National Trust for Nature conservation 	RMB Yuan 35,000,000	China

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7	National Action Plan on CBD on Protected Area	November 2008 - October 2010	<ul style="list-style-type: none"> Capacity building training for protected area staff and community 	US\$ 150,000	GEF
8	Biological Management, Rhinoceros, Grass Land and Public Engagement	April 2009 - March 2010	<ul style="list-style-type: none"> Rhinoceros monitoring and public awareness 	GBP 36,462	ZSL
9	Bagmati Action Plan	April 2009 - December 2010	<ul style="list-style-type: none"> Prepare Bagmati action plan and public awareness 	US\$ 100,000	UN Habitat
	Ministry of Local Development				
1	Decentralized Rural Infrastructure and Livelihood Project (DRILP) –Operation and Advisory Technical Assistance	November 2006 - December 2009	<ul style="list-style-type: none"> Coordination of the strategic action plan of the project 	US\$ 100,000	ADB
2	Rural Poverty Alleviation Program in Selected Rural Areas of Nepal	2008 - 2010	<ul style="list-style-type: none"> Empowerment of target group through social mobilization Rural infrastructure development and income generation programs for the upliftment of target group's income Strengthening of local service and local bodies 	Euro 1,700,000	Germany
3	Urban Development through Local Efforts (UDLE)	2008 - 2010	<ul style="list-style-type: none"> Urban poverty reduction and social inclusion Urban governance and planning Technical assistance for financial management of Municipalities and Town Development Fund Preservation and development of archeology Capacity development of Municipalities 	Euro 1,600,000	Germany
4	Support for the Local Governance and Community Development Programme	April 2009 - December 2011	<ul style="list-style-type: none"> Enhance the capacity of central government and national non-government institutions to provide appropriate support to local government Develop financial management procedures and processes Strengthen the capacity of DDC/LDF etc. 	US\$ 1,130,000	UNDP
5	Support for the Local Governance and Community Development Programme	April 2009 - December 2011	<ul style="list-style-type: none"> To provide support to the ongoing local Governance and Community Development Program under the Ministry of Local Development 	US\$ 25,820,000	UNCDF / UNV / UNICEF / UNFPA

Source: *Statement of Technical and Other Assistance*, FY 2009/10, Ministry of Finance, Government of Nepal. Updated by mission.

Appendix 2
INGO Supported Ongoing and Recently Completed Projects with the Ministry of Agriculture Development

S. N.	Projects/Programmes	Duration	Amount of Assistance (NRs in million/Annum)	Development Partners / Institutions	INGOs
1	Nepal Nutrition Intervention Project : Sarlahi	2003 - 2010	42,931	USA	John Hopkins University
2	Poverty Eradication (32 Districts)	2004- 2009	372,554	UK	Action Aid Nepal
3	Food Security, Water, Sanitation and Nutritional Assistance				
4	Poverty Alleviation via Housing and Micro-Finance (Jhapa, Morang, Mahottari, Kailali, Kaski, Surkhet, Dhanusha, Kabhre, Lamjung, Bara and Ilam districts)	2005 - 2010	16,730	USA	Habitat for Humanity International
5	Mainstreaming people with disabilities into disaster management (Kathmandu, Kanchanpur, Dang, Baglung, Gorkha, Palpa, Nawalparasi, Sarlahi and Morang districts)	2005 - 2011	77,070 (for three projects)	France	Handicap International
6	Improving Livelihood Security of Socially Excluded Communities in Nepal, Integrated Approaches to Improving the Urban Environment in Asia, Main streaming Livelihood-Centered Approaches to Disaster Management (Doti, Kailali, Surkhet, Banke, Rupandehi, Nawalparasi and Chitwan districts)	2006 - 2010	92,690 (for three projects)	UK	Intermediate Technology Development Group
7	Access to Opportunities and strengthen Local Capacities in Integrated Sustainable Waste Management in Small and Medium Municipalities of Nepal (Gorakha, Achham, Kalikot, Chitwan, Tanahun, Surkhet and Banke districts)				
8	Sustainable Agriculture with market for Advancing Livelihoods of Conflict Affected Poor people (Doti, Kailali and Achham districts)				
9	Terai Arc Landscape Program, Himalayan Landscape Program and Northern Mountains Conservation (36 Districts)	2006 - 2011	10,000	USA	World Wildlife Fund
10	Community Based Multi Hazard Risk Reduction Program (Kabhre, Udayapur, Sindhuli, Lalitpur, Kathmandu and Bhaktapur districts)	2007 - 2009	16,473	Denmark	Danish Red Cross Society
11	Disaster Preparedness and Sustainable Livelihood Development Project (Chitwan district)	2007 - 2009	3,617	Japan	Shalpa Neer
12	Poverty Reduction through the organization of Farmers (Saptari, Siraha and Dhanusha districts)	2007 - 2010	6,377	USA	International Development Enterprise Nepal
13	Increasing Access of Poor Nepali Communities to Biogas Technology to	2007 - 2010	1,114	USA	Winrock International

	Strengthen Livelihoods and Enhance Environment Management (Dailekh, Surkhet, Salyan, Gorakha, Sindhupalchok and Dolakha)				
14	Karnali Support Programme (Water and sanitation, long-term food security and capacity building) (Mugu and Humla districts)	2007 - 2012	3,478	Denmark	Mission East
15	Community Based Management of Acute Malnutrition Project (Surkhet, Dailekh, Mugu, Kalikot, Jumla, Dolpa, Humla, Jajarkot and Bardiya districts)	2008 - 2009	115,231	Ireland	Concerned Worldwide
16	Rights Based Safe Migration and Disaster Risk Reduction Program : 15 Districts	2008 - 2010	7,668	Denmark	Dan Church Aid
17	Forestry Extension Service in Central Terai (Dhanusha, Mahottari and Sarlahi districts)	2008 - 2010	6,408	Denmark	Danish Forestry Extension
18	Fostering Health and Livelihoods of Conflict Affected People in Nepal (11 districts)	2009 - 2012	2,824	UK	The Britain Nepal Medical Trust

Source: *Statement of Technical and Other Assistance*, FY 2009/10, Ministry of Finance, Government of Nepal.

Annex 4

Detailed Programme Description

1. The Programme will comprise three technical components, plus a Programme Management Office (PMO). The three technical components are: (i) Support to the Extension of the Formal Seed Sector; (ii) Smallholder Livestock Commercialization, and; (iii) Local Entrepreneurship and Institutional Development. Each is discussed below. Further details can be found in the relevant Working Papers.

Component 1: Support to the Extension of the Formal Seed Sector (USD 23.2 million)

2. Given the high percentage of the Nepali population dependent upon agriculture, the need to accelerate agricultural productivity as a means to address food security of a growing population is clear. The main vehicles to sustain productivity include irrigation, fertilizers and quality seed. Considering the low seed replacement rates (SRRs) prevailing in Nepal, and in particular in the hills zone (ranging from 1.5 – 3% across the main cereal crops), increases in SRRs using improved seeds would have a major impact on yields and productivity. Seeds are the most cost-effective technology for sustained productivity, representing only 8% of all direct expenses for inputs and materials and 3% of the overall production cost. Despite these benefits, improved seeds are currently used only for major cereal crops (paddy, maize and wheat) and vegetables while the production of improved seeds for other crops is largely undeveloped.

3. It is estimated that nearly 2,900 MT of improved maize, paddy and wheat seed would be required on an annual basis to meet improved seed needs. Currently, only 200 MT of improved seed is available for all three cereal crops; more than 90% of this from informal sources, where quality control is a major concern. Improved seed requirements would rise significantly if it was also distributed in other hill zone Districts and even exported. Vegetable production is also an important activity in the target districts as a source of income for farmers. Only about half of the current annual demand of 2,000 tons of vegetable seed is produced domestically. There is a huge potential in both domestic and export seed markets, particularly during the monsoon season in India, when vegetable production is much reduced.

4. Current regulation in Nepal recognizes two kinds of improved seed: certified seed and truthfully labelled (TL) seed. However, GON lacks the capacity to monitor the seed production process and is unable to enforce overall seed quality assurance in the market. Formal seed provides guaranteed quality delivered by an established supply chain and market. Improved seed must be appropriate for the specific agro-ecological conditions where production is to occur. Private seed companies (PSCOs) do not have land of their own and need to partner with small scale producers to ensure the required resource base.

5. There are currently some 55 seed producer groups and 3 seed cooperatives active within the target area, but as many as 250 crop production groups exist per district which offer a wider potential base for seed production. Seed producer groups generally comprise 15-30 members, are seed type specialized, and have an average experience of 5 years. The seed area generally represents 20 to 50% of the total land cultivated per producer. Only a few groups have irrigation facilities, which limits both cropping intensities and higher yield gains.

6. There are over 1,000 registered seed companies in Nepal. However, these companies overwhelmingly trade exclusively imported seed. Only around 25 companies produce their own seed, mainly through contract farming arrangements with seed producer groups. Most sales of seeds (both imported and nationally sourced) occur through independent Agrovets, largely based in District headquarters, which handle crop inputs and animal health products. Increasingly, they act as agents of PSCOs by identifying and organizing interested producing groups, setting up contract farming arrangements, providing foundation seed and other inputs to the producers, collecting the seed and delivering it to the seed factory gate.

7. The Districts Agriculture Development offices (DADOs) are key resources for any development of the formal seed sector. All groups under the two main national seed production programmes - District Seed Self Sufficiency Programme (DISSPRO) and Community Based Seed Production (CBSP) - have been initiated with technical and often financial support from the DADOs. However, DADO capacity in all target districts is very limited in terms of trained manpower, office equipment and mobility and their ability to properly monitor on-going development programmes and projects is low. MOAD seed testing laboratories located in two Terai districts adjoining the target area are mandated to conduct field inspections (required for seed certification) as well as to collect seed samples for laboratory testing (required for all TL seed). However, due to mobility and staffing constraints, these activities are adequately carried out only in the Terai. Significant infrastructural upgrading is required at both laboratories and increased trained manpower is essential to conduct field inspections, sample collection and analysis, and market quality monitoring. Similarly, for increased production of source seed, area competent NARC stations and DoA farms also require substantial infrastructural upgrading and scaling up of foundation seed production of suitable varieties.

Strategy and Objective

8. The component strategy is to build upon the existing achievements of the domestic seed sector and ensure the availability of appropriate seeds to small farmers within the target area and, eventually, throughout the entire hills zone. It specifically targets full involvement of the private sector to increase improved seed availability in a sustainable manner, as well as a pivotal role for better public sector services. Past and ongoing government and donor efforts to support improved seed production can be adapted, strengthened and scaled up for transition into the formal sector. However, existing local seed producer groups lack sufficient storage and financial capacity to permit them to keep the seed from harvest to marketing time (5 to 6 months). Despite the high seed market potential that exists in the target area, private seed companies are reluctant to enter local production because of infrastructural constraints, limited connections to producer groups, and the relatively high investments required. On the demand side, target area farmers - particularly those in more remote areas - have not been exposed to demonstrations showing the benefits of periodic seed replacement with TL seed, although all sector participants interviewed stressed that demand for improved seed of guaranteed quality was high.

9. The objective of the component is to increase crop productivity by expanding the activities of the formal seed sector. To this end the strategic focus of the Programme will be in the Hills area of Nepal where the SRR is lowest. Synergies will be sought with all major and relevant projects and programmes that are on-going in the Mid-western and Western regions. The initial focus would be upon cereals and vegetables; subsequently other crops may also be supported. The implementation strategy foresees that major seed companies will undertake direct or agent-mediated contract farming schemes with farmer seed groups or cooperatives, building on and expanding the existing production capacity. Well-established seed groups/cooperatives would also be encouraged to expand and formalize their businesses.

Component Activities

10. The component comprises three sub-components following a supply chain development approach: (a) Ensuring an Effective Enabling Environment; (b) Seed Production, and; (c) Market Development. Each of these is briefly discussed below but explored in more detail in Working Paper 1. Sub-component cost estimates include only investment costs.

(a) Ensuring an Effective Enabling Environment (USD 2.1 million)

Improving the legal framework. The Programme would assist the National Seed Board (NSB) to finalize and implement amendments to the Seed Act. Consultations will be sponsored to determine priorities. More sustainable control mechanisms such as licensed field and market level quality control inspectors are needed. The creation of a suitable ‘Contract Farming’ act would also be important. The component would provide resources for specialized national and international technical assistance to help design and prepare the legal elements required.

Increasing the capacity of the DADOs. The six District Agricultural Development Offices (DADOs) will each receive support and assistance as well as part-time advisory services during the first two years of the Programme. Support elements per district would include: improved mobility for HQ office and an average of 6 Agriculture Service Centres (ASCs); office and ITC equipment; training, and; increased operational budgets to undertake coordination and monitoring.

Improving the seed quality control system. The two regional seed testing laboratories will be supported through improvement of infrastructure and technical equipment, as well as through operational budget and mobility. Staff would receive training on quality control methodologies and enable field inspection, seed sample collection and testing, and quality control. SQCC delegation of functions, coupled with training, would be extended to district-level service providers.

(b) Seed Production (USD 18.2 million)

Based on current cropped areas in the six target districts, the specific annual needs (allowing for some surplus) have been estimated at about 3,250 tons of maize, paddy and wheat seed. An overall seed production target of 500 tons of vegetable seed has also been set. This entails the availability of about 380 tons of foundation seed for cereals and 4-5 tons for vegetables.

As recommended by IFAD QA before starting implementing activities related to the improvement the seed production, the programme will recruit international technical assistance to carry out a value chain analysis on both the cereal and vegetable seed production. These analysis would be national in scope but will firstly focus on the six districts of the programme area. These analysis will provide the price and value added structures of both value chains, identify the type of contractual relationships between stakeholders as well as possible improvements. These value chain analysis will be carried out by international consultants contracted by the Programme Management Team and will also include workshops in each district and for each value chain. As a result of these value chain analysis, the Programme Management Team will be able to fine tune the activities of the Programme so as to improve the sector and the relationships between seed producers and other stakeholders while influencing the governmental policy for both sectors. In addition, training and capacity building will be provided to all stakeholders.

Production of required foundation seed. The Programme’s goal of ensuring the availability of TL seed within the target area requires sufficient foundation seed of the varieties that are preferred and grown in this agro-ecological area. The Programme will finance¹² the procurement of equipment and infrastructure for specific NARC stations and DoA farms, and will provide necessary resources for foundation seed production. While vegetable foundation seed will be likely produced directly by NARC and DoA farms, cereal foundation seed would be contracted to about 70 groups.

Strengthening seed producer groups and cooperatives. Projected TL seed requirements would necessitate an estimated 400 cereal seed producer groups (with an average membership of 25 farmers cropping in average 0.2 ha each) and 320 vegetable seed producer groups (with an average membership of 25 farmers in each group and with every farmer cropping some 1,000 m²). Some producer groups are expected to produce exclusively under contract, while others would sell also independently. A few may develop into *bona fide* small seed companies in their own right. Some groups would produce foundation seed under contract to NARC.

¹² Complementing actions currently being undertaken by other donor supported initiatives e.g. World Bank financing of the IWRMP; CIMMYT’s Hills Maize Research Project-Phase IV.

11. The Programme will strengthen existing seed producer groups and cooperatives which demonstrate interest in participating in component objectives. An average of 15-20 seed production groups currently exist in each district. At the same time, new groups will be mobilized from other existing groups which are interested in formal seed production. It is estimated that an average of 120 groups per district (approximately 65 cereal and 55 vegetable) will need to be organized and strengthened. In addition to management support (provided under Component 3), this would likely entail a mix of irrigation facilities, storage facilities, and equipment for threshing and farm mechanization. Groups would also be encouraged to use organic fertilizer. Mobilization and training of new groups will take place with DADO and NGO assistance and use Field Technician Mobilizers employed by the Programme. Group strengthening will be supported through the use of partial grants for irrigation, production and marketing infrastructure, which will be supported by District Engineers, recruited by the Programme. Financing for irrigation infrastructure may also be available through VDC funds.

12. The criteria for selecting seed groups will depend on the PSCs contracting them, but would likely entail a combination of appropriate land resources, irrigation potential, prior capacity building through the Programme, and an interest in engaging in long term contract farming.

Engaging formal sector seed companies. During Programme launch workshops, qualified seed producing companies will be invited to undertake Programme supported investment, provided they result in expanded, area-based formal seed production operations under production contracts with farmer groups or cooperatives. It is anticipated that at least twenty national companies could eventually be awarded a contract agreement to each address a portion of the total target TL seed requirements. Interested PSCOs will undertake their own assessments and feasibility studies and provide viable technical and financial proposals. Investment requirements will differ, but are likely to include: processing equipment and facilities; storage capacity; quality control labs and systems; transportation, and; working capital. Support would occur through a Competitive Grant Scheme (CGS) mechanism providing 50% of the investment for approved proposals. Support to operational budgets would be for no more than three years. Provisional estimates suggest that nine cereal seed and four vegetable seed production operations would be supported.

(e) Market Development (USD 1.3 million)

13. *Promoting farmers demand for TL seed.* A total of 1,200 group demonstrations will be conducted to compare the relative performance of TL improved seed with farmer-saved seed of the same varieties using a Farmers' Field School (FFS) approach. On average 200 FFS will be facilitated in each District by ASC staff of the DADO as well as through NGOs, Agro-vets and lead farmers from Seed Producer Groups strengthened by the Programme. A total of 300 facilitators are required (50 per District) who will receive a training of trainers course organized by the SQCC, CDD. In addition, for the larger farming community, Agricultural Fairs (see Component 3) will be held annually in the target area, to contribute to knowledge sharing, technology adoption and market linkages. In each district an average of 5,000 smallholder households would be specifically targeted to promote use of TL seed. The Programme will also support the cost of demonstrations and Participatory Variety Selection (PVS) trials with the support of NARC, to assist in identifying the best and most demanded varieties to be multiplied as foundation seed and subsequently as TL improved seed. In working on the PVS trials, climate change adaptation practices would also be pursued.

Component Organization and Implementation

14. The component will recruit a Seed Coordinator, supported by a Technical Support Supervisor and a Supervising Engineer, all based in the Project Management Office (PMO), who will be responsible for overall component planning, monitoring, supervision and resource allocation. The costs of support committees at different levels for the technical evaluation (including peer reviewing) and appraisal of competitive grant proposals (CGS) will be borne by the Programme; partial grant proposals will be evaluated by the PMO. The CGS will be regulated by a specific manual that will be part of the Programme Implementation Plan.

15. The PMO will also be supported by FAO mainly on policy dialogue and value chain analysis for the cereal and vegetable seed value chain production. and the cattle/dairy value chains, and b/ assessment of the microfinance and rural finance sectors as well as strengthening supervision capacity of the Central Bank and assistance to microfinance institutions to fine-tune their products and services.

Component 2: Smallholder Livestock Commercialization (USD 12.5 million)

16. Livestock is an integral part of the Nepalese farming system. Livestock are raised for meat, milk, manure and draught power. The sector has been designated as strategic in the Three Year Interim Plans and the National Agriculture Sector Development Priority (NASDP) for the medium term (2010/11–2014/15).

17. Goats and buffalo are the most important livestock, with the local cattle population declining as it is replaced by buffalo. The sheep population has also been declining due to increasing grazing controls in the community forests. Pigs are limited to specific ethnic communities, and rural poultry is being replaced by commercial poultry production system, which is led by the private sector. Buffalo contributed 71% of national milk production and 65% of total national meat production in 2010. Goats contributed a further 20% of national meat supply. However, urban milk and meat demand has outpaced sector growth and significant amounts of livestock and dairy products are imported. The export of animal products from Nepal is insignificant. Despite such a large gap in supply of milk and goat meat, sector growth has remained at an average of no more than 3.35%, mainly due to inadequate nutrition, poor genetic quality and inadequate advisory services. The dairy sector has also suffered from the scattered nature of milk production; large dairies often either operate at half their operational capacity, or rely on imports of fluid milk or skim milk powder.

18. The component will focus on increasing productivity in specific key livestock production areas ('pockets') through improved genetic potential, feed supplies, health care and herd management, and linking participating production groups more closely to private sector buyers. It comprises three principal sub-components: (i) Improving Dairy Productivity; (ii) Improving Goat productivity, and; (iii) Strengthening DLSO Offices. Provision is also made for expanded goat related infrastructure at the main NARC experimental station and for implementation management.

19. Prior to the implementation of activities in both the cattle/dairy and goat value chain, the Programme will finance a thorough value chain analysis aiming at determining the price and value added structure, market and contractual relationships between stakeholders, as well as possible improvements. The value chain analysis would be national in scope but its first part will focus on the Programme area. It will be carried out by an international technical assistance contracted by the Programme Management Team for the dairy/cattle value chain and by Heifer International for the goat value chain and involving all local stakeholders including producers, processors, local authorities, vets, community livestock workers. Field studies, interviews and workshops will be organized. As a result of both studies, the Programme Management Team will have the possibility to fine-tune its activities, influence the governmental policy and strengthen the relationship between producers and other stakeholders of these value chains.

20. Both the **Improving Dairy Productivity** (USD 4.9 million) and the **Improving Goat Productivity** (USD 5.1 million) sub-components comprise attention to: (a) breed improvement; (b) nutrition and management; (c) veterinary services development; (d) farmer training, and; (e) market linkage development. For goats, 96 Farmer Field Schools (FFS) will also be implemented. Among key activities under these sub-components will be the import of improved breeding stock and semen, community-based breed selection, extended plantings of forage species, both on-farm and within community forests, the development of fodder tree nurseries, improved livestock sheds and expanded access to livestock insurance schemes. Improved veterinary services will involve training of Village Animal Health Workers (VAHWs) and Paravets, an extension of existing vaccination programmes and creating group veterinary funds. A variety of farmer training will be provided, including dairy animal husbandry, record keeping and tree nursery operations, while market linkage

will include the provision of partial or competitive grants towards the cost of establishing chiller collection centres and the establishment of livestock markets.

21. For dairy, the geographical focus will be on Gulmi, Arghakhanchi and Pyuthan districts which have good road access and are within reach of the milk collection network of the large dairies. The priority pockets will be those along the road head and the priority communities will be the ones that have already sold milk through groups/ cooperatives. Subsequently, dairy production will be expanded through adjacent communities to ensure efficiency in input supply and milk collection. Interested dairy companies will be invited to participate in the selection of priority pockets. In the other three target districts, more distant from existing milk networks, priority will be given instead to communities selling milk to local markets. These activities will be expanded as local dairy enterprises emerge or upon entry of large dairy industries for milk collection.

22. The goat sub-component will selectively work with groups and communities where agencies such as ADB, IFAD and Heifer International have previously implemented goat distribution programmes for poverty alleviation purposes. This will help to directly target the poor and women. However, since the project will have a strong focus on community managed breed improvement, which requires a large number of goats, the sub-component will be implemented in an inclusive manner, i.e. all households in the pockets (even outside the groups). The participation of women in this sub-component will be at least 60%. The Programme will develop both cross-bred breeder herds and multiplication herds operating at community level. The degree of exotic genes within the animals will be selected jointly by participating farmers and NARC, with NARC selection based primarily on performance records.

23. District Livestock Services Offices (DLSOs) will be the strengthened through improved mobility and equipment for district offices, the creation of an expanded AI capacity and training of staff, particularly in goat AI.

24. DLSOs in the Programme districts will have overall responsibility for coordinating component implementation, providing technical services and monitoring and supervision. The Livestock Component Coordinator at the PMO will prepare Programme-wide plans based on district level activities and have the prime responsibility for technical support in program implementation. Two Dairy Development Specialists and three Goat Development Specialists, hired by Programme, will support farmer groups to implement dairy and goat productivity activities at district and lower level. The Programme will also hire one Goat Breeding Assistant for each district to provide intensive support in the community level goat breeding programme. Production groups will be further supported by 10 Community Dairy Assistants and 15 Community Goat Assistants and 67 fodder tree nurseries will be established. To maintain Boer cross nucleus herds at the NARC station, the Programme will contribute to goat pen construction at Bandipur Goat Research Station. NARC, in close coordination with DLS/DLSOs, will provide overall technical support to the farmers in the establishment of Boer goat breeder and multiplication herds in the programme area.

25. The project will support groups/cooperatives/communities to establish 28 milk chilling centres under public private partnership. It will also promote 15 local private dairy enterprises under a competitive grant system. Under the goat sub-component, the Programme will support establishment of 12 goat collection hubs/livestock markets. During the project period, 25 butcherries will be improved, 10 of which will be piloted for the operation of meat chilling system. Demonstration of cold storage (meat) will also be established in two slaughtering places.

26. With regards to the goat breeding improvement sub-component, the PMO will be supported by Heifer International which will be at the same time a service provider and a co-financier for an amount of USD 2.5 million. In addition to this co-financing, the Programme will develop synergies with Heifer International programmes implemented in the same districts. Heifer International key expertise also lies in producers/farmers groups' support and strengthening. Provision has been made by Heifer International to include producers' groups capacity building and strengthening after evaluation of the performance and impact of the activities related to goat breeding improvement

(Phase I). The PMO will also be supported by FAO mainly on policy dialogue and value chain analysis for cattle/dairy value chain production. As for the cereal and vegetable value chain analysis, these studies will be national in scope but their first part will focus on the Programme area. They will provide necessary information to fine-tune Programme's activities with regards to the situation of each stakeholder in the value chain, to enable further structuring the value chain and to analyze the possibility of engaging contractual arrangements between stakeholders to ensure proper access to improved supplies, to markets and to technical assistance and advisory services.

27. Given the anticipated 8,900 participants in the goat component, farmers are expected to realize a total benefit of USD5.14 million, with incremental meat production of 1,346 MT, in the implementation period of the sub-component. Similarly, the anticipated 8,550 dairy HHs will on average expand their herd size to 4 adults and produce an additional 85,930 MT of milk, with a total benefit of USD45 million over the implementation period.

28. The proposed activities are considered to be strongly sustainable, as the capacity of DLSOs will be enhanced, farmers will increase their knowledge of improved production practices, the expanded Paravet/VAHW network will provide enhanced veterinary services, and most importantly, farmers will be connected more directly with the private sector. The breeder herds will be maintained as these herds will be the part of the NARC's nucleus herd, and the marketing of improved animals will be tied up with the multiplication herds and the development partners. Similarly, the multiplication herds will sustain as there is money in maintaining these herds – they will be in business with the development partners and other line agencies supporting goat programs.

Component 3: Local Entrepreneurship & Institutional Development Component (USD 10.1 million)

29. The objective of the component is to promote a favorable and conducive environment for sustainable private sector enterprise development. Activities under the Programme will target several stakeholders: a) public institutions such as Village Development Committees and district representations of local government; b) public-private institutions such as the District Chamber of Commerce and Industries or private service providers, and c) financial institutions. Each of these stakeholders will play an important role in the successful implementation and development of the other Programme components as well as enabling Programme target beneficiaries to access adequate and sustainable financial and non-financial services required by their activities. The component is divided into three sub-components: (i) Institutional Strengthening; (ii) Access to Non-financial Services, and (iii) Increasing Outreach of microfinance institutions.

Sub-component 1: Institutional Strengthening (USD 2.0 million)

30. The institutional strengthening component will include both local institutions and producer groups and cooperatives.

31. ***District Agriculture Coordination Committees.*** The ability to assess overall issues and constraints in the crop and livestock sector will be strengthened, in order to enable the more effective use of local resources in the agriculture sector. The DDAC will participate in monitoring and coordinating Programme activities and in the preparation of the annual work plan for specific Programme activities such as institutional strengthening of the VDCs, infrastructure schemes and in organizing annual agricultural fairs, thus fostering links between smallholder farmers and a range of private sector partners in rural areas.

32. ***Village Development Committees.*** The Programme will involve 156 VDCs from the 312 existing VDCs in the target area, and will provide VDCs with orientation sessions on Government agriculture policy as well as on crop and livestock activities and issues awareness; with training on planning, and on project identification and evaluation. Priority will be given to those VDCs which are relatively isolated, where poverty rates are high and where agriculture potential can be developed. To ensure accountability by VDCs members, the Programme will finance participatory meetings at the end of each fiscal year where year-end results will be evaluated against budget.

33. **Producers' groups and cooperatives.** The Programme will strengthen producers' groups and production cooperatives by providing opportunities for capacity building in: (i) cost/benefit analysis to identify profitable activities and to assess current production for producers' groups, and (ii) cooperative management and governance; business development; bookkeeping/ accounting, and financial and cash-flow management for production cooperatives. All producers' groups formed under Components 1 and 2 of the Programme will access the above-mentioned training. Other producers' groups will be selected on the basis of their involvement with cereal, vegetable, fodder and livestock production as well as with their growth potential. In addition, all groups and cooperatives supported by the Programme will benefit from gender and social inclusion awareness orientation and training. Finally, the support of the Programme to all 70 cooperatives will also include: a) the financing of equipment (office equipment, productive equipment and material); b) the financing of exposure visits, and c) the financing of participation of selected members of cooperatives and producers' groups to national and international fairs.

Sub-component 2: Access to Non-financial Services (USD 0.8 million)

34. Access to non-financial services is a key factor of success for the implementation of viable and sustainable *investments*. The Programme will focus its activity on two types of non-financial services as a support to the Programme-supported value chains: (a) creation of an Investment Window at the District Chambers of Commerce and Industry (DCCI), and (b) support to agro-vets to expand their outreach beyond district centers and provide services to Programme-supported groups.

35. **Investment window at the DCCI.** To facilitate the relationship between producers' groups and other value chain stakeholders, the Programme will finance the implementation and operation of an Investment Window in each DCCI staffed with a full time advisor. Its role will be to facilitate the implementation of productive investments by identifying all potentially concerned stakeholders and assisting them to develop a joint-business plan. Advisors in DCCI will assist producers' groups and entrepreneurs to elaborate their business and investment plans according to specific requirements from the *Programme*-funded Investment Fund, from financial institutions and from public sector grant financing agencies. Finally, DCCI advisors will scout for potential investment opportunities outside the Programme area including investors willing to either develop their own business or to invest in new ones. The Programme will finance the Advisors' salaries and operating expenses on a decreasing trend. In addition, the Programme will finance some office equipment, and training courses focusing on a range of business and financial management topics.

36. **Support to agro-vets.** Multi-services facilities are available at district centers for both producers and raisers. However, these services are not generally available beyond district centers. These facilities are essential to *provide* farmers and herders with the necessary agricultural inputs and veterinary medicines to ensure a successful activity. To this end, as well as to increase the outreach of existing private farmers services, the Programme will support 25 agro-vet operations to promote best practices in the agriculture/seed value chain as well as to improve animal husbandry and health. In addition to financing implementation costs, training and capacity building will be provided for the 25 selected agro-vets.

Sub-component 3: Increasing Outreach of Microfinance Institutions (USD 6.6 million)

37. There are a broad range of financial institutions in the Programme districts including local commercial banks, local development banks, microfinance institutions, remittance agencies, multipurpose cooperatives which are engaged in savings and credit activities, and specialized savings and credit cooperatives. However, as for agro-vet services these facilities are largely confined to district centres. The Programme will explore two parallel approaches to develop the outreach of microfinance in rural areas. Under the first approach, the Programme will assist the cooperative movement to increase the number of its affiliates in the target area by supporting the development of Small Farmer Agro-Cooperative Limited units (SFACLs) and the strengthening of their parent company: the Nepal Agriculture Cooperative Central Federation Limited (NACCFL). The additional SFACLs created will also benefit from financing from the Small Farmers Development Bank (SFDB). The second approach will be based on non-cooperative microfinance institutions. It will assist

development banks to increase their outreach in the Programme area primarily through the setting up of a network of branches and points of services. The Programme will also assist selected development banks to test out the possibility of developing branchless microfinance activities based on mobile phone technology.

38. Strengthening the microfinance and rural finance sector. The Programme will contract an international consulting firm to assess the financial and outreach performances of the microfinance and rural finance sector in Nepal, its related governmental policy as well as its supervision by the Central Bank. The main objectives of this assessment is: a/ to further improve the legal framework for microfinance and rural finance, and b/ to enable both cooperative and non-cooperative models of microfinance institutions as well as commercial banks to improve the design of their products and services so as to effectively match the requirements and needs from the Programme target population and rural population in general.

39. **SFACLs/NACCFL/SFDB model development and strengthening.** With a total of 236 cooperatives supported nationally (including 7 within the target area) this model is unique in Nepal and has won a number of international awards. The creation and development of 30 new SFACLs will be supported within the target districts. Since SFDB already receives funds for lending from a range of sources, no additional Programme resources are required for this purpose. Instead, the Programme will finance training of SFACL governing bodies and management, establishment costs, computerization of the SFACL network and its linkage with NACCFL regional offices, and cover limited operating losses during the first three years of operations. The Programme will also finance the capacity building of supervisors at NACCFL regional offices responsible for the supervision of the new SFACLs (2 regional offices will be strengthened).

40. **Non-cooperative model development and strengthening.** Several development banks and micro-finance agencies have expressed their interest in increasing their presence and outreach in rural areas. In part, this is a response to Central Bank regulations on financing deprived sectors. No additional resources are required by these banks to lend to rural households and entrepreneurs. However, investment in rural areas is only seen as possible where sufficient lending activity can be developed with a diversified range of borrowers. Programme activities in strengthening producers' groups thus represent an opportunity for these institutions. The Programme will support the establishment of 6 new branches or points of services, covering the costs of training staff, establishment and limited losses incurred during the first two years of operations. Operating costs for regional inspectors will also be financed on a decreasing level over a period of 5 years.

41. For both the cooperative-type institution and the non-cooperative ones, the Programme will assist them to further post their results on the MixMarket.

IMPLEMENTATION ARRANGEMENTS

42. **Sub-component 1: Institutional Strengthening.** This sub-component will be implemented by a PMO contracted service provider following an invitation to tender issued during the first months of implementation. The selected institution will provide training, technical assistance and advisory services to: 6 district agriculture coordination committees; 156 VDCs, 1 722 producers' groups and 49 cooperatives over the 7 years of the Programme. Organization(s) will be selected on the basis of their capacity to mobilize trainers and provide training sessions in rural areas, their proven experience in institutional capacity training and strengthening and their submitted training plan for public sector and private sector institutions, as well as the financial cost. Public, private/public (such as the Agro Enterprise Centre of the NFCCI), and private institutions will be invited to the tender. Procedures for evaluation and selection are provided in the PIM (Annex 11).

43. The contract with the selected organization will be performance-based drawing on the assessment of groups which have participated in training. A positive evaluation will trigger the renewal of the contract while negative evaluation will lead to the suspension of the contract until the organization has modified its methodology and training contents in accordance with remarks

formulated by trainees. The selected organization will operate with one coordinator and at least 6 trainers (two per corridor). These trainers will also be responsible for the supervision of additional experts contracted by the organization. Skill areas could include agro-vets, seed producers and buyers, goat breeders, dairy companies and researchers from the National Agriculture Research Centre.

44. **Sub-component 2: Access to non-financial services.** Investment windows at district level will be implemented by the District Chambers of Commerce and Industries following selection of the advisor. Training and capacity building will be provided by a team of local and international consultants contracted by the PMO under a consultants' qualification procedure. The Programme will assist the DCCIs to elaborate a mechanism enabling the coverage of these newly recruited staff's salaries. Two advisors will be recruited during the first year of the Programme and the four remaining ones will be recruited during the second year of the Programme. Support for the extension of agro-vets services will be carried out by the PMO following a call for expressions of interest to all agro-vets operating in the Programme area. 25 agro-vets will be selected and will receive updated training on such areas as agricultural and veterinary protocols, artificial insemination, health and epizootic disease, and seed quality. After training the agro-vets will receive support for equipment and implementation costs.

45. **Sub-component 3: Increasing Outreach of Microfinance Institutions.** Implementation will involve at least two different financial institutions: (i) the NACCFL for the cooperative model with the financial involvement of the SFDB, and (ii) one or two development banks or microfinance institutions for the non-cooperative model. The NACCFL model will include an awareness campaign and identification of potential communities. Basic training will be provided to the whole community by NACCFL regional supervisors and an MoU will be signed between all parties detailing the role and responsibilities of each. Each SFACL will be established with the assistance of NACCFL regional supervisors and further training provided to the governing body and management team of each SFACL. Management would be under external control until mandatory performance criteria are met, at which time responsibility is handed over to the SFACL's own management team. Additional funds would also be provided by SFDB in the form of a loan equivalent to resources mobilized by SFACL members after the first year of operation. The SFACLs will be created in accordance with NACCFL's internal procedures and methodology, which require either a sponsoring existing SFACL operating in a neighboring VDC or the transformation of an existing farmers' group or cooperative into an SFACL. Priority will be given to including existing women's institutions within the Programme area, however the triggering factor for the creation of a new SFACL will be the assessment of the demand for financial services emanating from the local community.

46. Prior to the implementation of these activities, the PMO will contract an international consulting firm to carry out the assessment of both the microfinance and rural sectors, to assist the government in fine-tuning its policy and to assist commercial banks and financial institutions to develop products and services meeting the requirements and needs of the rural population.

47. In addition to training, the Programme will also finance the equipment required for the functioning of the SFACL, including accounting, MIS and M&E software. Finally, the Programme will assist NACCFL to reinforce its regional supervision structure through the financing of three new supervisors. The supervision capacity of NACCFL will also be strengthened through the contracting of a financial institution with experience in cooperative-based microfinance activity such as the World Council of Credit Unions (WOCCU) to provide training to NACCFL supervision team and adapt their working methodology so as to comply with the microfinance industry standards, regulations and supervision.

48. **Non-cooperative model.** This activity will be implemented by one or two selected development banks or microfinance institutions following a careful review of proposals by a panel including the Central Bank. All development banks and financial institutions (microfinance institutions) operating in Nepal will be invited to express interest. The selected institutions will determine the locations to implement their branches or point of services. The Programme will finance training to newly recruited staff, adequate equipment for the new branches or points of services, and

will cover defined operating losses for a maximum of three years of operations. Operating costs of regional supervisors will be borne by the Programme on a decreasing trend over a period of maximum 4 years.

49. Interested financial institutions will have to provide: a) a technical proposal describing their modus operandi for both lending and savings activity; b) a financial proposal detailing such aspects as the cost of the implementation and start-up of the six branches; the level of support that would be sought from the Programme; the financial resources available for on-lending purposes, and financial projections for the branches indicating break-even point and financial sustainability; c) a description of the approach and methodology to be used to identify the branch locations and to ensure outreach to women, dalits and indigenous people, and; d) audited financial statements. The PCO will contract a local partner of an international audit network to undertake a due diligence exercise of potential candidates.

Programme Coordination and Management (USD 4.3 million)

50. Costs and activities related to Programme coordination and management are grouped within a single PMO and comprise, in addition to vehicles and office equipment: (a) planning, studies, training and technical support; (b) monitoring, evaluation and knowledge management, and; (c) governance. PMO staffing and other recurrent costs are detailed separately.

(a) **Planning, studies, training and technical support** (USD 0.63 million). Annual public planning and review meetings, for both national and District level launch workshops, as well as for other training workshops and logistical support. Studies and technical assistance – both national and international – would also be supported.

(b) **Monitoring, evaluation and knowledge management** (USD 0.625 million). M&E and knowledge management tasks would include: establishing and operating M&E and MIS systems; annual national stakeholder workshops; baseline, mid-term and completion studies; thematic impact studies; a communications strategy, and; training and short term consultants. It is expected that MIS and, to some extent, M&E systems will be able to take advantage of work already undertaken by other recent IFAD funded projects, thus reducing development work.

(c) **Governance, audit and steering committee** (USD 0.48 million). This PMO element will include the development and implementation of an anti-corruption plan, resources for governance support, the annual commercial audit and steering committee meetings.

(d) **Programme management team** (USD 1.75 million). Component coordinator costs are contained within the budgets for each component. PMO staffing costs, however, include the Programme Manager and Senior Accountant; both to be assigned by MOAD but who would receive performance incentives under a pilot scheme agreed with MOF. All other PMO staff would be contracted directly by the Programme, including the Funds and Contract Procurement Specialist, the M&E Officer, the MIS/Database Specialist, a GESI Advisor, an Assistant Accountant, an Administrative Assistant and support staff. The budget also provides for office rental and utilities, travel and vehicle operations.

(e) **Technical Assistance:** considering the innovative features of the public private partnership, the PMO will be supported during key phases by dedicated national and international technical assistance. During the early phase I and early phase II, specific technical assistance will be delivered to the PMO by a recruited firm or NGO (both international and national TA). This TA funded through IFAD loan/grant could be improved by co-financing of the service provider.

Annex 5

Institutional Aspects and Implementation Arrangements

The Programme would be under the overall direction of a **Programme Steering Committee (PSC)**, chaired by MOAD, with the participation of MoF, MOFALD, FNCCI, NARC, SQCC, DOA, DLS, IFAD. The implementing agency will be the MOAD. In addition, the PSC would include the PMU Programme Manager as *ex-officio* member and member-secretary. The PSC would meet at least bi-annually, although more frequent meetings may be required in the first year of implementation. The principal role of the PSC would be to evaluate and approve annual work plans, reports and budgets, provide directives on strategic aspects of Programme activities and approve major competitive and matching grant agreements. The organizational framework of the Programme is presented in Appendix 1 to this annex.

The PSC would be supported at national level by an advisory **ADS subsector partners group** encompassing key seed and livestock sub-sector representatives from the public, private and cooperative sectors. The purpose of this group, which would meet at least annually, would be to ensure a smooth collaboration with other agencies and to provide recommendations on Programme activities to the PSC. To this end presentations would be made to the group members at an annual workshop by PMU and District staff concerning activities and progress over the last year. Agencies which would be invited to participate in the group would include technical divisions of the PSC Ministries, international development financing agencies such as the World Bank, ADB, USAID, SDC and SNV, international research organizations (e.g. IRRI, CIMMYT, and ICIMOD), a range of private sector organizations, and relevant NGOs.

The PMO, headed by the MOAD appointed Programme Manager, would be established in a major centre close to the target geographical area (possibly Butwal) and would be responsible for day-to-day management of Programme activities. The PMO would include a Senior Accountant (also MOAD appointed), as well as a Monitoring and Evaluation (M&E) Officer, a Procurement Officer, a GESI Adviser and Coordinators for each technical component (all contracted by the Programme). All senior staff would be linked to professional officers at district and corridor level who support the project partners with implementation. Under a pilot agreement with MOF, Government appointed staff would be eligible for performance incentive payments (based upon annual supervision reports) of up to 200 percent of salary. It is, however, essential that seconded staff meet agreed levels of qualification and experience as a condition of their appointment and be retained within the Programme for a minimum of three years before any transfer occurs.

Because the districts, corridors and commodities lack mechanisms and platforms where all the stakeholders can link and coordinate value chain development, the Programme will initiate within each of the three corridors (Gulmi-Argghakhanchi, Pyuthan-Rolpa and Rukum-Salyan), so-called **Multi-stakeholder Platforms (MSP)** for each of the seed, goat and dairy value chains (total nine MSPs). These MSPs would bring all the stakeholders together for a coordinated approach to value chain development. Stakeholders include companies, local service providers, cooperatives, government research, quality control and extension agencies, NGOs, and projects. See also Appendix 1. The MSPs would choose a chairperson from their midst. The project's business development officers would play key support roles during the initial years, but gradually phase out their roles. It cannot be foreseen exactly how the MSPs develop, but experience from other projects and countries suggests that successful MSPs will continue after the project and that in other cases MSPs at lower levels (Ilaka, road corridors) will evolve.

The planning and supervision of programme activities which would be partly the result of MSP planning would within each district be coordinated with the **District Agricultural Development Committee (DADC)**, an existing body which includes representatives of all line agencies relevant to the Programme and falls under the District Development Committee (DDC).

Most field activities would fall under the responsibility of MOAD's **District Agricultural Development and District Livestock Service Offices** and MOLD's **DDC** (development coordination at district and VDC-level, support to infrastructure and marketing). These technical offices would be augmented by project-paid technical, business development, social mobilisation and M&E staff, and be supported by the PMO-based Component Coordinators. For each district either the DADO or the DLSO will be made the district level coordination office which will coordinate planning, implementation, M&E, fund flow, accounting and reporting. From among the district's DADO, DLSO and TA officers the project will appoint focal points for GESI who will be trained and supported to coordinate and support each staff's and office's GESI planning, targeting and monitoring.

Technical Assistance: considering the innovative features of the public private partnership, the PMO will be supported during key phases by dedicated national and international technical assistance. During the early phase I and early phase II, specific technical assistance will be delivered to the PMO by a recruited firm or NGO (both international and national TA). This TA funded through IFAD loan/grant could be improved by co-financing of the service provider.

In addition to a national-level launch workshop and the annual ADS seed sector group workshop, annual public consultations, planning and reviews sessions would also be held in each District in collaboration with the DADC and would be attended by all senior PMO staff.

Institutional Analysis of Key Implementing Agencies

The main Government Ministry for the implementation of the Programme will be the Ministry of Agriculture Development (MOAD) as lead implementing agency, with at district level the involvement of the Ministry of Federal Affairs and Local Development's (MOFALD) District Development Committee (DDC) for development planning and coordination and the Ministry of Finance's (MoF) District Treasury Controller Office (DTCO). The District Chamber of Commerce and Industry (FNCCI) would play the coordination role for the private sector.

MOAD

The Ministry of Agriculture Development comprises four principle Departments (see Appendix 2), of which two – the Department of Agriculture and the Department of Livestock Services – would participate extensively in the Programme at local level. In addition two specialized units within MOAD, the National Agricultural Research Council (NARC) and the Seed Quality Control Centre (SQCC) would also be of importance for implementation through their mandates for the provision of foundation seed and seed quality control, respectively. Similarly, SQCC, CDD, VDD, RADS, RLSD, AHD, APD will be responsible for monitoring and supervision.

MOAD operates at local level through District Agricultural Development Offices (DADOs) and District Livestock Service Offices (DLSOs). Each, in turn operates a number of Service Centres manned by one or two technicians within each District. District level coordination within the agricultural sector is the responsibility of the DDC's District Agricultural Development Committee (DADC) which includes members from all agencies active within the District in the rural sector and is chaired by the DADO.

The DADOs would play a key role in the implementation of the Seed Component, as would the two closest regional offices of the Seed Quality Control Centre. The DLSO would implement the Smallholder Goat Commercialization and the Dairy components.

Although MOAD has considerable experience in implementing development projects, including a number funded through IFAD (e.g. the High Value Agriculture Project – HVAP – currently in

implementation)¹, it does face a number of severe constraints. At the national level, MOAD sees regularly a rapid turnover of senior MOAD management, leaving Ministry strategy uncertain. Professional staff salaries are low, and although GON offers a number of additional benefits, they do not adequately compensate for the large gap with private sector salaries. A number of the specialist Divisions within the Ministry are also relatively weak, and MOAD has expressed a strong interest in the Monitoring and Evaluation Division, in particular, participating in Programme activities to strengthen their capacity. At the District level, particularly in the Programme target area, weaknesses arise from the long term underfunding of operations, leaving MOAD field staff with little mobility, limited data handling capacity and the same problems of rapid staff reassignment seen at national level.

A number of measures have been taken in Programme design to compensate for these constraints. At district and corridor level the project added technical and non-technical staff who will work jointly with DADO and DLSO staff, and increased their reach by linkage to companies, local service providers, cooperatives, chambers of commerce and beneficiary organisations through the Multi-Stakeholder Platforms(MSP).

Further, it has been agreed that the government will provide six deputed staffs, and all other staff being contracted directly. The programme has reserved a budget to provide extra incentives for PMU and possibly other MOAD staff, the detailed procedures for which will be finalised at project start. In addition, MOAD has agreed that any staff entitled to incentives must meet the qualifications and experience required under the draft terms of reference (see Appendix 3) for the two posts and that all assigned staff will be guaranteed a minimum of two years with the Programme before any reassignment is considered. Strengthening of MOAD operations at District and Service Centre levels would comprise part of the Programme and would include the provision of vehicles (with operating budget), computer equipment and training.

In terms of overall strategy and planning for the Programme, the Programme Steering Committee, chaired by MOAD, will have a range of members from other participating ministries, MoF and IFAD, as well as from the NFCCI, representing the private sector. In addition the Programme design includes not only corridor level MSPs, but also a national-level Programme Partnership Forum, which would meet at least annually, and comprise representatives from other development agencies and international research agencies active in Nepal, as well as relevant private sector and civil society organisations that are relevant either to the subsectors or to specific beneficiary categories (e.g. women, Dalits). This forum would provide the PSC with recommendations as to possible changes in strategy or implementation approach in response to Programme performance and activities of other bodies.

Other Ministries

The Ministry of Federal Affairs and Local Development is chiefly of importance because of its responsibilities for supporting and overseeing the activities of the District and Village Development Committees within each District, through its Local Self Governance Coordination Division. The Programme's annual plans will be incorporated by the DADC in the DDC's annual plans and budgets. The DDC and its line agencies can decide to support and co-finance these activities. These budgets will be based on regular VDC (and Ilaka) planning exercises, which again are both guided and reviewed by MSP-consultations and initiatives.

Although the VDCs were considerably weakened when their elected councils' tenure was not extended by the government during the civil conflict, leaving the government employee VDC Secretary as the only official, the present ad-hoc arrangements with representatives from political parties is the closest to a local governance structure that can guide, fund and coordinate local development. The project proposes to use the provisions of the Local Self-Governance Act 1999 and

¹ See Annex 3, Appendix 1 for a list of projects implemented by MOAC

to institute VDC level consultative councils, which are basically VDC-level mass meetings initiated at start-up, and a VDC-level Agriculture, Forestry and Environment Committee (AFEC), similar to the one used in several SDC-funded programmes running partly in the same districts. It will, as per the Local Self-Governance Act mandate, execute the agriculture-related functions, duties and powers of the Village Development Committee under the directions of VDC Councils and coordinate and support 1) agricultural development activities, 2) marketing activities, and 3) animal health and forage-related activities. This arrangement will also help VDCs to channel the mandatory 15% budget-share for agricultural development towards the Programme activities through the Grant Scheme.

The AFEC would ideally have 7 to 15 members and include VDC Secretary, few local leaders, representatives from agriculture sector actors (agro-vets, production cooperatives and groups, marketing committees), agriculture-related NGOs and government (ASC/LSC staff), if available. If these members do not include a least one Dalit, IP, woman, or inhabitant from the poorest three wards, representatives from each of these subgroups should be added. Each VDC AFEC will be trained by the project in agriculture policy, value chain development and development planning.

The VDC-level council that will act as a VDC Council directing the AFEC would be formed and regulated by a VDC mass meeting with representatives from all nine wards and DAG and women subgroups of the VDC during the start-up phase of the programme.

The AFEC is project-related and will last at least as long as the project lasts. In case local governance structures get rehabilitated during the course of the project, AFECs will be formally embedded in the VDC structure and VDC Councils replaced by whatever Council will be formed then. The skills and processes developed and used during the Programme are expected to become assets in the new set-up.

Small Farmer Development Bank

The SFDB is one of two key private sector institutions participating in the Programme, through its technical, administrative and financial support to Small Farmer Cooperatives Limited (SFCLs) which provide financial service throughout Nepal. The SFDB or Sana Kisan Bikas Bank, as it is locally known, was registered in July 2001 with the company registrar office. The bank received its operating license from the Nepal Rastra Bank in March 2002 and started its lending operations in November 2002. The SFDB is owned jointly by the Agricultural Development Bank of Nepal (ADBN), the Government, two private banks - Nepal Bank Limited and Nabil Bank - and member SFCLs. The SFDB makes loans for agriculture and livestock investments through SFCLs. Given the high transaction costs in microfinance lending, the SFDB acts as a wholesale lending institution which operates through SFCLs. While ADBN continues to serve the standard retail customers in rural areas, SFDB is able to serve through its special delivery mechanisms the poor segment of the population. Thus, the two organizations address two different segments of the rural finance market by using different methodologies, i.e. retailing and wholesaling.

SFDB's outstanding loan portfolio at the end of November 2011 was USD 25 million and it had 237 SFCL partners, 30 of them in the Programme area. Its current sources of finance include its share capital, ADBN, a commercial bank pool of directed lending, Government of Nepal for livestock, and a recent loan from the Asian Development Bank. SFDB has contributed positively to enhancing income-generating activities and employment opportunities through expanded rural finance outreach to poor small farmers, who otherwise would have been outside the reach of institutional financial services. In addition to receiving tangible economic benefits, SFDB members have benefited from leadership development, group solidarity, empowerment, financial literacy, and skills development. Some of the SFCL members are emerging as viable credit cooperatives and replicating institutional development processes on their own. SFCL and SFDB are likely to play a significant role in reducing rural poverty. The vision of the SFDB is "to become one of the leading financially viable wholesale banks for the microfinance sector, owned by SFCLs and similar grassroots-level MFIs, to substantially improve the life of the rural poor. Thus, another distinguished feature of the bank is not to create merely a subsidiary of ADBN, but to establish a refinance institution which should be driven and guided in the

long run through its members, i.e. SFCLs and similar organizations.

The Asian Development Bank has helped the SFDB through its Rural Finance Sector Cluster Program (RFSDCP) to achieve a high rate of operational and financial sustainability as is evident from the table below. Equity and Reserves of SFDB as on July 16, 2011 stood at NPR 398 million and its loan outstanding (net) was NPR 1832 million.

Federation of Nepalese Chambers of Commerce and Industry

The FNCCI is a national federation of District Chambers of Commerce and Industry (DCCI), present in all Districts of Nepal, including within the Programme area. FNCCI currently implements projects with a number of international and bilateral agencies and receives support from USAID for the operations of the Agro Enterprise Centre (AEC). The AEC, established in 1991, represents the agricultural sector within FNCCI and plays a role in export development and is an implementing partner with IFAD (HVAP), ADB (HIMALI project) and DFID (MASF), among others. It is seen as a strong partner for the Programme in terms of its contacts with, and knowledge of, the private sector in Nepal. Its members will be key players in the value chain Multi-stakeholder Platforms.

The FNCCI will play a coordinating and policy role at central level, and support DCCIs within the Programme area in activities such as the annual agricultural fairs (to be established and supported by FNCCI with Programme funding), in disseminating information on business opportunities arising from the Programme (e.g. Competitive Grants).

Heifer International

Heifer International will provide technical assistance and support services to the Programme focusing on the goat breeding improvement sub-component. Heifer International's assistance will be based on their internationally recognized experience. Summarized below are the interventions that Heifer International will carry out within the Programme:

A. Building social capital: In VDCs with potential for goat commercialization through intensive focus

- i. Facilitation for formation and operation of about 460 SHGs mainly involving woman as the family representative
- ii. Formation of Mentoring Team and Pass on Groups
- iii. Heifer cornerstones and gender justice training
- iv. Training of trainers on social capital
- v. Group management trainings
- vi. Participatory self-review and planning
- vii. Promotion of group savings and its mobilization
- viii. Pre-cooperative training

B. Technical activities on goat productivity and production will be implemented concurrently in the SHGs prepared following the process mentioned in A (building social capital) above

Additional activities:

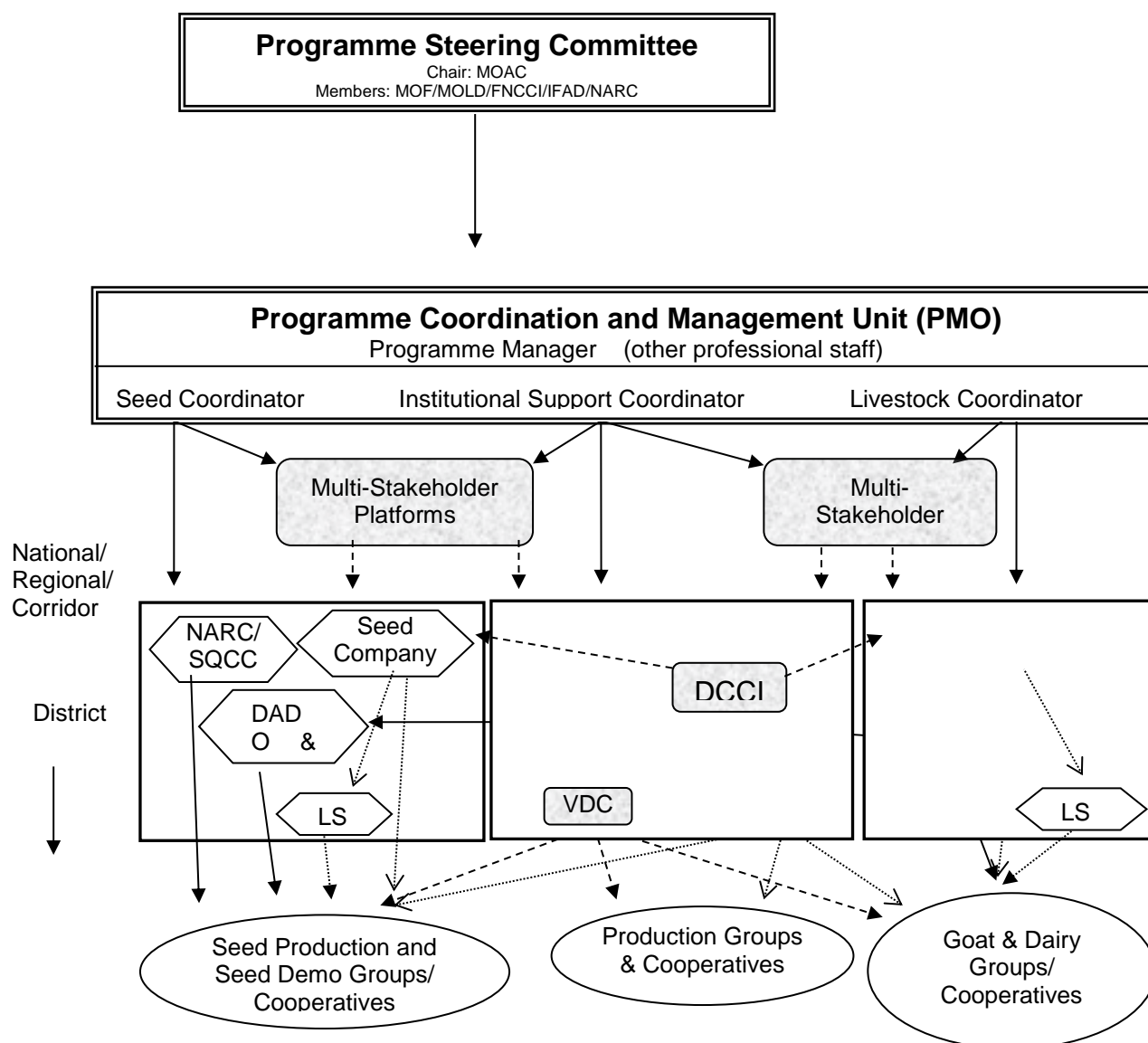
- i. Goat placement (7,200 heads + breeding bucks) in passing on the gift (POG) approach:

C. Market development

- i. Feasibility studies
- ii. Form and facilitate operation of market/collection centers - facilitate to form management committees and capacitate them.

- iii. Technical support to formulate long term business plan, economic studies at regional and district market centers.
- iv. Create innovative platform and facilitate interaction workshops among market stakeholders/goat value chain actors to build trading trust and reciprocity

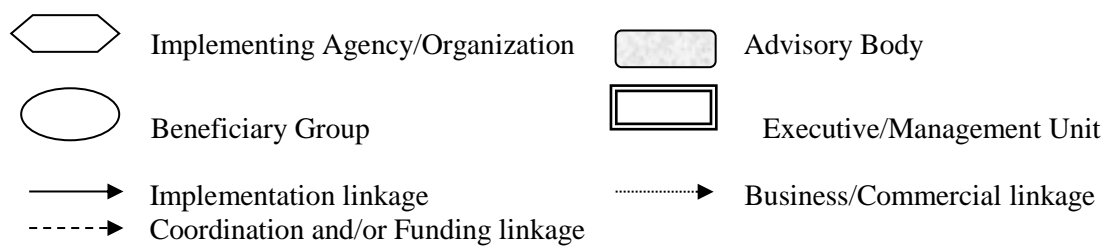
Appendix 1: Programme Organizational Chart



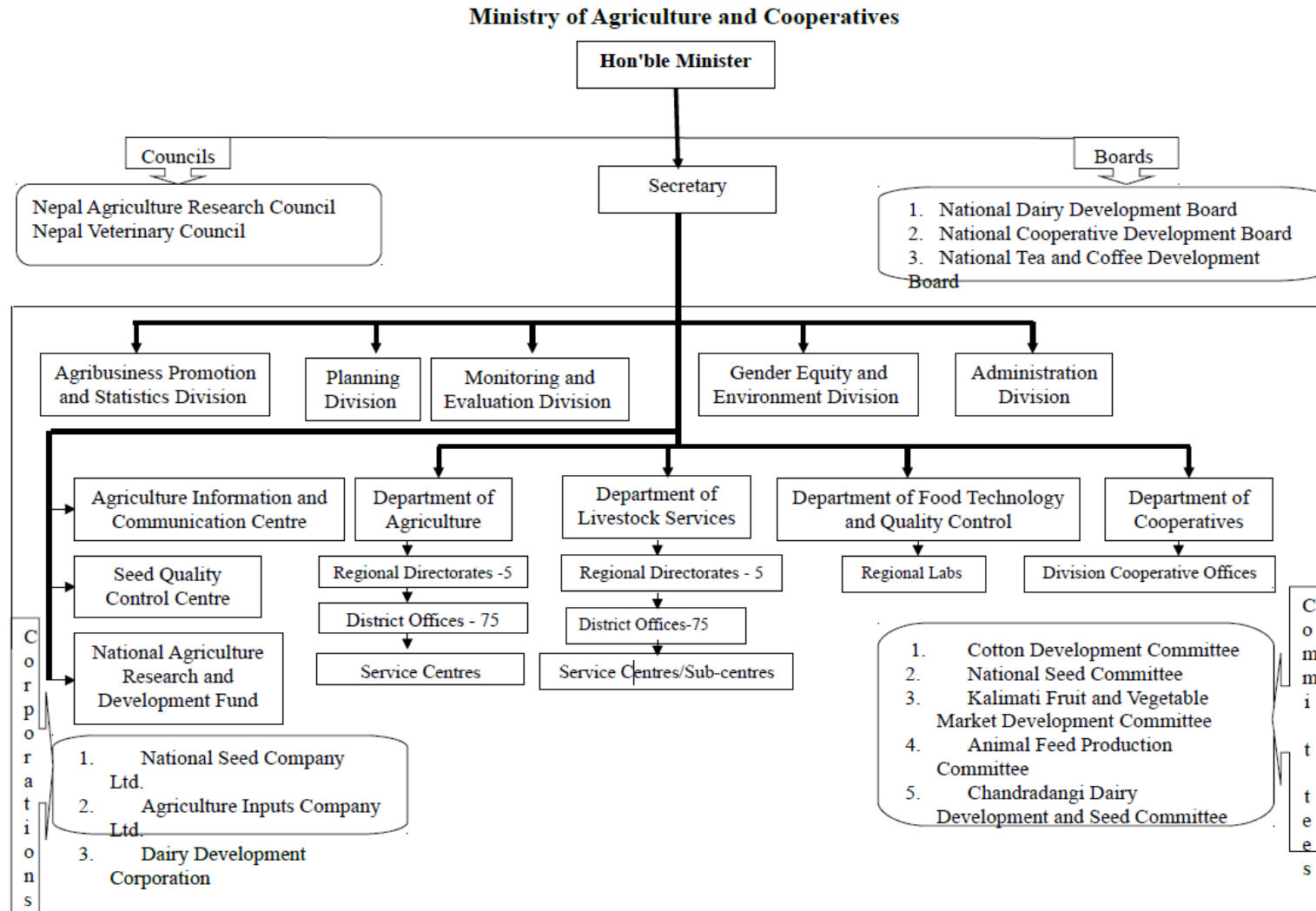
KEY

DADO – District Agricultural Department Office
 DADC- District Agricultural Development Committee
 DCCI – District Chamber of Commerce & Industries
 DDC – District Development Committee
 DLSD – District Livestock Services Office
 FNCCI – Fed of Nepalese Chambers of Commerce & I.
 LSP – Local Service Provider (Agrovet, etc.)
 MOAD – Ministry of Agriculture Development
 MOF – Ministry of Finance

MOLD – Ministry of Local Development
 NACCF – Nepalese Agricultural Coop Central Federation
 NARC – National Agricultural Research Council
 SFCL – Small Farmer Cooperative Ltd
 SFDB – Small Farmer Development Bank
 SQCC – Seed Quality Control Centre
 TA - Technical Assistance
 VDC – Village Development Committees



Appendix 2: MOAD Organizational Structure



Appendix 3: Terms of Reference for Key Programme Staff

1. All staff including government staff will be recruited under a selection process and for the later their performance evaluated on a yearly basis to enable the pay for performance agreement.
2. The PMO will be composed by key Programme managerial and technical staffs as following:
 - Programme Manager
 - Deputy Programme Manager
 - Senior Programme Advisor
 - Accounts Officer
 - Planning Officer
 - M&E/KM Officer
 - Financial Management Specialist Funds, Contracts and Procurement Manager
 - Crops/Seed Development Officer
 - Livestock/Veterinary Development Officer
 - Cross-component/GESI Advisor
 - Local Support Coordinators

Following are the outlined terms of reference for the principal managers deputed from the GON. Detailed TORs should be developed and agreed between the GON and IFAD for recruiting the professional and technical staffs.

Programme Manager

Reporting directly to the PSC of which he or she will be an ex-officio member, the Project director will assume the overall responsibility of the PMO operations. He or she will ensure that the programme strategy is applied through the implementation of all activities in line with the expected goals and objectives. He or she will assume the programme's official representativity in the country and in international occasions, liaising with the government agencies and the international community in Nepal. He or she will directly supervise the work of all the senior officers working within the PMO and take personal responsibility for the overall performance of the Programme, as well as ensuring that all the financial and technical reports are accurate, completed and disseminated in due time.

Qualifications and Other Issues

The appointed Programme Manager will have a postgraduate degree from a reputable university in an area of direct relevance to the Programme (e.g. finance, economics, rural development, administration) and have at least ten years of experience in the application of rural development. At least three years of that experience must have included a management position in which he/she was responsible for the administration and control of budgets and disbursements.

The person recruited to the post of Manager must guarantee that they will remain in the post for a minimum of two years, unless asked to resign by the PSC, and must be able and willing to take up residence in the location where the PMO is sited.

Deputy Programme Manager

The Deputy Programme Manager will report to the Programme Manager and assist the latter in daily operational management of the PMO. He will take the overall responsibility of supervising all the professional staffs in their assigned tasks and responsibilities, ensuring the effectiveness and efficiency of the PMO operations in accounts and financial management, planning, M&E, reporting, knowledge

management, handling of funds, contracts and procurement, component-wise operations with due targeting and gender and minority sensitivity, coordination with programme districts and related stakeholders and players involvement in the implementation of the Programme.

The appointed Deputy Programme Manager will have a postgraduate degree or equivalent from a reputable university in an area of direct relevance to the Programme (e.g. finance, economics, rural development, administration) and have at least seven years of experience in the application of rural development. At least three years of that experience must have included a management position in which he/she was responsible for the administration and control of budgets and disbursements.

The person recruited to the post of Manager must guarantee that they will remain in the post for a minimum of two years, unless asked to resign by the PSC, and must be able and willing to take up residence in the location where the PMO is sited.

Accountants Officer

Under the leadership of the Programme Manager and the direct supervision of the Deputy Programme Manager, the Accounts Officer will be responsible for all the financial aspects related to the Programme Account. He or She will manage the Programme in the way that IFAD financing and the government matching funds will provide sufficient cashflow to timely support the programme implementation, transfer in due time the required financing to the executing line agencies at all levels, prepare required supporting documents to obtain the PSC and IFAD approval for funding utilisation, finalise the withdrawal applications in accordance with the IFAD guidelines and requirements and submit them periodically in a timely manner with all required supporting documents, maintain an effective financial control on the budget planning and disbursement to ensure the due financial and physical progress of the implementation. He or she will be responsible for establishing and operating the disbursement operations including salaries, per diem travel costs and other expenses of PMO staff, as well as disbursements to outside parties for contracts, services and goods.

Qualifications and Other Issues

The appointed Accountants Officer will be a professionally qualified public accountant with at least eight years of experience in accounting and financial management, including at least three years of experience in the financial management of a sizeable unit or organization within Nepal.

The person recruited to the post of Senior Accountant must guarantee that they will remain in the post for a minimum of two years, unless asked to resign by the PSC, and must be able and willing to take up residence in the location where the PMO is sited.

Planning Officer

Under the leadership of the Programme Manager and the direct supervision of the Deputy Programme Manager, the Planning Officer will first ensure that the programme planning is an integrated part of the development financing and programming of the state development plan. He or she will consult with the government agencies and the other organisations mandated and participating in rural and agricultural development in order to build development synergy and avoid unnecessary overlapping. In collaboration with the Accounts Officer, the M&E/ME Officer and the Financial Management Specialist, he or she will guide the programme annual planning in an effective process with achievable results in both financial and physical terms.

The appointed Planning Officer will be preferably a qualified public accountant with at least eight years of experience in financial management and planning, including at least three years of experience in the planning management of a sizeable unit or organization within Nepal.

The person recruited to the post of Planning Officer must guarantee that they will remain in the post for a minimum of two years, unless asked to resign by the PSC, and must be able and willing to take up residence in the location where the PMO is sited.

Crops/Seed Development Specialist

3. The Crops/Seed Development Specialist will assume responsibility for the Support to the Extension of the Formal Seed Sector component, under the direction of the Programme Manager and the direction supervision of the Deputy Programme Manager. He/she will in turn supervise the activities of staffs and works related to the component development.

Overall, the responsibilities will focus on the planning, implementation and management of activities arising from the component, and it is expected that he/she will spend considerable time in the field visiting and consulting the seed production groups, public and private seed companies, local staff of the Agriculture departments, as well as with traders, dealers and Agro-vets. At regional level, he/she will coordinate activities concerning the regional seed testing laboratories, and research stations. At central level, he/she will interact with relevant sector stakeholders including the National Seed Board, the Seed Quality Control Center, National Agriculture Research Council and related divisions, and private sector representations. Specifically, their tasks will include:

- In coordination with relevant District-level staff and colleagues within the Programme Management Unit, preparation and dissemination of annual work plans for the component, launching and programme-life workshops, and facilitation during the implementation of all component activities;
- In collaboration with the Programme Monitoring & Evaluation Officer, the preparation of six monthly performance reports, indicating the achievement of work plan targets and expenditures made to achieve those results;
- Supervision of the activities of the Assistant Seed Sector Development Officer and ensuring their adequate performance against targets;
- In coordination with the relevant central institutions and stakeholders, the facilitation of all actions and activities to improve seed policies and regulations;
- In coordination with relevant DoA and District-level staff and colleagues within the Programme Management Unit, oversight of activities related with the operation of the Matching Grant Schemes (MGS) and Competitive Grant Schemes (CGS);
- Liaison with relevant NARC stations and divisions for the foreseen foundation seed production, including purchase of equipment and facilities
- Oversight of activities and procurement aimed at mobilizing and strengthening the new and at strengthening the existing seed producer groups (through MGS), including the purchase of equipment and the provision of technical training;
- Liaison with private seed companies who are awarded contracts (through CGS) in the implementation of the seed production schemes;
- In coordination with relevant DoA, District-level staff and colleagues within the Programme Management Unit, oversight of activities related with the strengthening of DADO offices; the regional seed quality laboratories; and the strengthening of the Agrovets network;
- In coordination with relevant DoA, District-level staff and colleagues within the Programme Management Unit, oversight of activities related with promotion of the farmer demand for seed, including the scheduling and functioning of the Farmer Field Schools; and with relevant NARC divisions, oversight of the activities related with the Participatory Variety Selection;

- Participation in annual or other periodic meetings with beneficiaries and other Programme stakeholders at District, Programme-area and National level in collaboration with the PMO Manager and other PMO staff.

Qualifications

The selected candidate will possess a minimum of a master degree in agriculture, crop science or a similar field, with at least eight years' experience of working in the field in the implementation of crop production activities, much of it in relation to seed production and marketing. Knowledge of extension methodologies and management would be a strong advantage.

Livestock/Veterinary Development Officer

4. The Livestock/Veterinary Development Officer will assume responsibility for the Smallholder Livestock Development component, under the direction of the Programme Manager and the direct supervision of the Deputy Programme Manager. He/she will in turn supervise the staffs and activities related to the component development.

Overall, the responsibilities will focus on the planning, implementation and management of activities arising from the component, and it is expected that he/she will spend considerable time in the field visiting and talking to goat production groups, local staff of the Forestry and Livestock departments, as well as private entrepreneurs active in the livestock sector.

Specifically, their tasks will include:

- In coordination with relevant District-level staff and colleagues within the Programme Management Unit, preparation and dissemination of annual work plans for the component, including scheduling of FFS group activities, the supply of cross-bred animals for graduating groups, market related activities etc.;
- In collaboration with the Programme Monitoring & Evaluation Officer, the preparation of six monthly performance reports, indicating the achievement of work plan targets and expenditures made to achieve those results;
- Supervision of the activities of the Assistant Livestock Development Officer and ensuring their adequate performance against targets;
- Oversight of activities and procurement aimed at strengthening the capacity of both DoF and Livestock officers working directly with FFS groups, as well as for District-level Livestock Offices, including the purchase of vehicles, equipment and the provision of technical training;
- Liaison with goat breeding farms participating in the receipt of Boer breeding animals through the Programme and the supply of cross-bred offspring to ensure that sufficient animals are available as required;
- Supervision of the selection and establishment process for District Livestock Markets, including preparation of market management procedures and guidelines, negotiations with Village Development Committees for their management, and oversight of market construction;
- Finalization of terms and conditions for component competitive grants, the insertion of announcements in relevant newspapers and electronic media, the initial review of proposals, and the provision of recommendations to the Competitive Grant Review Board;
- Participation in annual or other periodic meetings with beneficiaries and other Programme stakeholders at District, Programme-area and National level in collaboration with the PMO Manager and other PMO staff.

Qualifications

The selected candidate will possess a minimum of a master degree in animal science, animal production, veterinary or equivalent, with at least six years' experience of working in the field in the implementation of livestock and feed related issues including contact with small-scale livestock owners. Knowledge of extension methodologies and management would be a strong advantage.

Annex 6

Planning, Monitoring & Evaluation and Learning & Knowledge Management

1. The main approach, objectives and principles of Planning, M&E and Knowledge Management are discussed in the main report. Thus information on the processes to be followed is presented here. Likewise, the detailed Terms of References of the Planning, M&E and Knowledge Management staff of the project are presented separately, and not repeated here.

PLANNING AND M&E

Planning, Reporting and Studies

2. The planning and reporting will both follow the cycle of the GON. Final AWPB will be prepared according to the IFAD Results-Oriented Annual Work Plan and Budget guideline and format to be provided to the project by the IFAD country office. As to trimestral based reporting, separate standardised formats in consultation with the other IFAD funded projects should be developed. Below the expected annual planning process of the project is presented step-by-step:

ACTION	RESPONSIBILITY	DATE
Submission of 1 st Trimestral Report and Replenishment Request	M&E/KM Specialist, Chief Accountant	Mid-Nov
Preparation of Interim District Annual Review Document	Corridor-based M&E/KM Support Coordinators, Component Coordinators	Late Nov
District Level Annual Review Workshop	Planning Officer, Corridor-based M&E/KM Support Coordinators, Component Coordinators	Early Dec
Participation in VDC Participatory Planning Process (targeted VDCs)	Field level technicians	Dec/Jan
Participation in DDC Participatory Planning Process	Planning Officer, Corridor-based M&E/KM Support Coordinators, Component Coordinators	Early March
Submission of 2 nd Trimestral Report and Replenishment Request	M&E/KM Specialist, Chief Accountant	Mid-March
Finalization of proposed District level work plan for next FY	Planning Officer, Corridor-based M&E/KM Support Coordinators, Component Coordinators	Late March
Preparation of Draft Annual Review, Work Plan & Budget	Planning Officer, M&E/KM Specialist, Component Coordinators	April
Submission of Annual Review, Work Plan & Budget to steering committee	Programme Manager	Early May
Submission of Draft Annual Review, Work Plan & Budget to PSC	Programme Manager	Late May
Finalization of Annual Review, Work Plan & Budget	Programme Manager, Planning Officer	End May
Approval of Annual Review, Work Plan & Budget	PSC	June
Preparation of Disbursement Schedule and Replenishment Request	Chief Accountant	Early July
Submission of Annual Report (Review, Work Plan, Budget, Disbursement Schedule, Replenishment Request) to GON/IFAD	Programme Manager, Planning Officer, Chief Accountant	14 July

3. In addition to the steps described above, the project will conduct selected VDC and/or Ilaka level meetings to further validate the priorities defined, and to scope for further priorities to be included from the private sector and civil society to the project work plan.

4. In addition to the regular trimestral progress and financial reports the project is to conduct at least the studies listed below. It should be noted that the timing and details and methods of data collection in relation to the different reports and studies should be defined by the project while developing its M&E plan. A draft Terms of Reference for the baseline study is presented in the draft PIM. The project should ensure that all reports produced are disseminated and discussed through different critical reflection events to be organised both at local and national level. Such critical reflection events include the commodity and/or corridor-based multi-stakeholder workshops to be established, DADC meetings at district level, annual review meetings, public hearings at VDC level, the Program Partnership Forum, and finally the Project Steering Committee.

WHAT	WHO	WHEN	SOURCE	REPORTS
RIMS 1 st and 2 nd level	Project (M&E/KM Specialist to compile) reports on RIMS to IFAD Country Office (CO)	Annually after the end of fiscal year at the time of submission of annual reports	Part of regular monitoring data collection process	RIMS report in excel sheet developed by IFAD CO
RIMS 3 rd level (impact)	Project to outsource to a Service Provider that will conduct study together with project baseline.	Baseline, Mid-Term and completion. Mid Term RIMS 3 rd level before the Mid Term Review	RIMS impact study	RIMS report following IFAD guideline, and RIMS report in Excel Sheet developed by IFAD CO
COSOP monitoring	Project (M&E/KM Specialist to compile) as part of regular trimester reports	On trimester basis	Part of regular monitoring data collection process	Project trimester report Trimester COSOP notes prepared by country office
Baseline, Mid Term. Completion Studies	Project to outsource, to a university, research institution, consultancy company or NGO, or other such service provider	Together with RIMS 3 rd level	Household Survey	Baseline, Mid Term and Completion Study Reports
Specialist Studies and Participatory Studies	Consultants Research institutions Students Project staff	As per need identified	Outcome and impact studies conducted	Outcome and impact Study Reports Research Reports Thesis Case Studies

M&E Plan

5. At start-up the project is to conduct a participatory review of the project logical framework and develop a detailed M&E plan that will essentially be the M&E manual for the project. The M&E plan should be developed taking into consideration the lessons learnt from the other IFAD funded projects and other relevant projects in Nepal. The project should actively engage in discussions and sharing of knowledge with the other projects not only during the development of the plan, but also during implementation of the M&E plan.

- Purpose & Approach: i) Project overview and objectives; ii) Rationale for M&E system design; iii) Main Principles of M&E system; and iv) Participatory methods to be used
- Roles and Responsibilities: i) Clear responsibilities for stakeholders involved in M&E; and ii) Overview of how different stakeholders will be involved through participatory tools
- Key questions to be answered and indicators i) Define key questions to be answered to understand whether the Project is performing as planned and moving towards its objectives; ii) Definition of

indicators (possible review of logframe) and related information/data needs; and iii) Baseline data requirement (A draft ToR for Baseline study attached in the PIM)

- Data/Information Sources, Gathering Methods, and Responsibilities: i) Data and information sources, collection and storage; ii) Data Processing and Analysis; iii) How, who, when of data collection and analysis; iv) Design of Mobile Monitoring System; and v) Data collection formats and participatory monitoring mechanism description to be annexed to the M&E plan
- Reporting: i) Reports expected ii) Frequency and timing of reporting (following the above outlined frequency and timing; and iii) Responsibility for reporting
- Communication and Knowledge Management i) Communication and Knowledge Management strategy; and events for performance review and critical reflections to inform decision making

6. The M&E plan will also cover issues related to establishment of the MIS system and a mobile phone monitoring system to be piloted by the project. The mobile phone monitoring system will be piloted by the project to enhance the speed, accuracy, efficiency and to reduce the cost of reporting in selected VDCs with good network coverage and should be designed in a way that data is sent from the field by mobile phones to a database which then automatically processes it. As in the case of the M&E and MIS, to the extent possible the project should draw lessons from already existing systems established successfully. The project should also explore the possibility to use the already existing software for both the MIS and the mobile phone monitoring, and in the case of the mobile monitoring seek for potential partners from mobile phone operators in the country.

IFAD Country Level M&E

7. At country programme level of IFAD an M&E system is established based on the Results-Based Country Strategic Opportunities Programme (RB-COSOP), which is at the country level IFAD's main planning and monitoring instrument; and thus a framework for making strategic choices in Nepal, for identifying opportunities and for facilitating management for results. The country level M&E system is fed through COSOP indicators by the M&E of the projects.

8. The project is responsible for identifying COSOP related indicators in its logframe. In conjunction to the trimestral reports drafted the project will report on the indicators to the IFAD country office in Nepal. For this purpose, a standardized excel sheet, which covers both the RIMS indicators as well as the COSOP indicators has been developed by the country office.

Results and Impact Management System (RIMS)

9. The RIMS enables IFAD to assess the extent to which operations contribute to the Millennium Development Goals and supports and encourages result-based management by mainstreaming its methods and approaches to all IFAD funded projects. At the same time it is a source of accountability that shows how financial resources have been used and what results have been achieved by the project.

10. The project will report annually on the RIMS indicators to IFAD. The project reports to IFAD on the first level RIMS indicators (output) starting from project effectiveness following the guidelines available at IFAD website. After the mid-term the project will be required to report on the second level RIMS indicators (outcome). In addition, on the third level of RIMS (impact) project measured the impact it has on the livelihoods of the rural people in the target area through RIMS baseline, mid-term and completion impact surveys.

11. As the RIMS is integrated into the project M&E system, the quality and reliability of the RIMS data will depend on the M&E system of the project. The RIMS indicators must be linked to the Annual Work Plan and Budget of the project.

KNOWLEDGE MANAGEMENT

12. **Overview.** The KM strategy should be able to clearly define the contributing factors to the effective communication of knowledge between parties. This involves a structural analysis of the processes, actors, and modes of implementation involved, but especially must assess the environment it is meant to be applied in, in order to take into account the limitations inherent in the system and find effective means of addressing them.

13. **Factors and risk management.** For the above purpose, the following factors will be considered: a) which project component the knowledge refers to; b) what level of the project implementation does this knowledge apply to; c) where is this knowledge found, or where it is required; d) by which type of interaction may this knowledge be communicated between actors; e) by what media will this knowledge be transferred; f) what form will the knowledge take on that media g) how/where the content will be stored -this needs to be both secure, reliable and easily accessible. And for all of the above, risks and mitigation measures will be considered.

14. **Component.** The project is based on the following three components: a) Support to the extension of the formal seed sector (including value chain development and infrastructure); b) Smallholder livestock commercialization (including goat meat and dairy production); c) Local entrepreneurship and institutional development (including infrastructure and financial services).

15. **Focus.** The information may be differentiated according to what project aspect it relates to: a) Technical; b) Managerial; c) Institutional.

16. **Stakeholders (source or destination of information).** Stakeholders who may provide or require information include: a) Beneficiaries; b) Project staff; c) Line Agencies; d) Other projects in IFAD; e) People / institutions outside IFAD.

17. **Interaction.** People must necessarily interact in order to transfer information. This can be done personally, a) face to face, or b) via remote means. Alternatively, via c) an institutional link or d) general means such as conferences, TV, online.

18. **Media.** The following media are all expected to take part in the application of the KM strategy: a) Print; b) Online c) TV; d) Radio; e) People.

19. **Form.** The information carried by the media above may have several different forms: a) Text; b) Images; c) Video; d) Sound; e) Personal interaction.

20. **Storage.** The stored knowledge needs to be easy to keep, locate and share. The possible means are listed below, although eventually all knowledge should be stored according to the first option: a) Electronic format; b) Physical copies; c) Personal knowledge. Two websites should be set up: one for communicating general introductory information, the other dedicated to sharing more in-depth work-related information, relying on the IFADAsia portal.

21. **Implementation.** The implementation of this strategy needs to be adapted to the specific conditions found in the country, in terms of the following factors: a) Geography; b) Climate; c) Technology; d) Culture; e) Literacy. The solution devised must be adapted to the other party involved, in order to enable them to contribute to the transfer of knowledge as easily as possible.

22. **Language.** Both English and Nepali will be used. Due to the implications for an electronic information storage system, information stored in Nepali is encouraged, whereas it is mandatory to have all information available in English. It is important to implement an efficient translation system for this purpose.

23. **Methodology** The outline presented below provides a logical structure to facilitate the KM function:

Component		Seed	Livestock	Enterprise	
↓					
Focus		Institutional	Managerial	Technical	
↓					
Source / Destination	Beneficiaries	Project staff	Line Agencies	IFAD	Other
↓					
Interaction	Personal	Remote personal	Institutional	General	
↓					
Media	Print	Electronic	TV	Radio	People
↓					
Form	Text	Images	Video	Sound	Personal
↓					
Storage		Personal	Physical	Electronic ->Online	

24. **Collection.** Knowledge collected by the project will come from two principal sources: external sources, and project beneficiaries (including but not limited to the information required for M&E purposes). External sources will include: a) Websites; b) Print; c) People; d) Professionals.

25. **Distribution.** The following tools may be used by IFAD to share knowledge in its possession with stakeholders: a) Websites; b) Print; c) Video; d) Radio.

26. **Activities.** The following activities will take place: a) Meetings; b) Awareness campaigns; c) Workshops; d) Mapping; e) Exchange visits; f) Website creation and maintenance.

Annex 7: Financial Management

1. Detailed financial management procedures are provided in the draft Project Implementation Manual (Annex 11). This Annex provides a summary of that text.

Book of Accounts

2. The Programme would maintain accounts and book of records in accordance with consistently maintained appropriate accounting practices. The ongoing IFAD projects are maintaining their book of accounts following double entry cash basis accounting system, and will be continue in this Programme. In addition to GON accounting system, a separate ledger and register/record will be maintained to capture IFAD expenditures in categories and project component/sub-component/activities. It is proposed that the Programme will maintain its book of accounts and records using appropriate accounting software available in the market or other donor funded GON projects, preferably IFAD. This would be one of the pre-conditions for fund disbursement.

3. A Designated Account in USD for loan and grants would be opened in Nepal Rastra Bank, Thapathali and a local currency project account (if applicable) opened with a bank in the location of the PMO and the programme district offices, Signatory of Designated Account in USD and local currency account opened by PMO would be Programme Manager, with counter-signing by the Accounts Officer, both of whom are proposed to be government employees. There would be only one cost/payment center in the district located in the District Agriculture Office and supported by the Programme paid Accountant deputed from the FCGO. The cost center would maintain separate account for the Programme if applicable for each line agencies separately. The main signatory of the account would be the head of respective line agency (DAO and DLSO), with counter signing by the Programme Accountant.

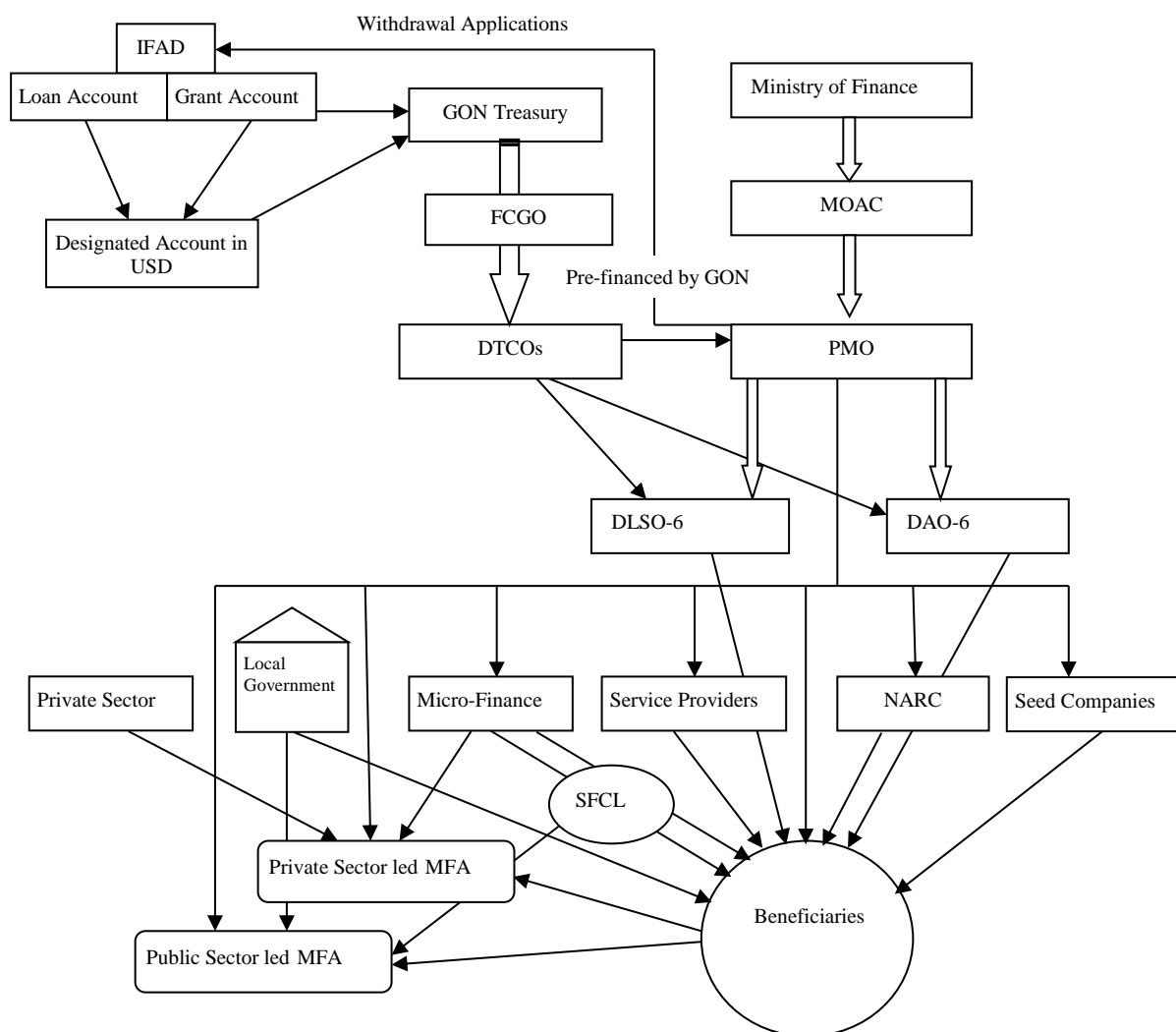
Funds Flow

4. The Programme would be funded from five different sources – IFAD Loan, IFAD Grant, Government, beneficiaries and Other Donors (after Year 3 of implementation), although other sources i.e. local government, private sector institution and companies may also occasionally arise. Other than the IFAD and GON sources, the funds would flow directly to the respective project or activities; it would be either in the form of a physical (e.g. labour) or cash contribution. IFAD fund and Government fund would flow to the PMO and its programme offices i.e. DADO, DLSO through Government customary procedures of budget release. The PMO will be responsible for preparing Annual Work Plan & Budget of each following fiscal year and submitting the same to the PSC and the IFAD. Normally, the Government of Nepal pre-finances the programme expenditures from its own resources/treasury and this policy will be continued for this programme.

5. An initial advance would be transferred by IFAD in the Designated Account opened in USD on the request of PMO through withdrawal application supported by approved AWPB to cover roughly six months of anticipated expenditures of the first year. The disbursement of the Grant and Loan funds would be in a 50:50 ratio. Replenishment of the Designated Account in USD would be based on Withdrawal Applications submitted by the PMO. The amount advanced to the Designated Account in USD will be used to reimburse the expenditures pre-financed by the Government. Additionally, IFAD will disburse the funds to the Service Provider/Contractor/Supplier directly or reimburse to Government treasury on the request of the PMO through withdrawal applications.

6. The flow of funds to the service provider, MFIs, seed companies, NARC, contractor/supplier etc. would be in accordance with the terms and conditions set out in agreements between the Government/PMO and the respective parties.

Funds Flow



7. As specified in the LTB, Programme disbursement would be based on approved Annual Work Plans and Budgets. Funds would be disbursed under the following categories: (i) Vehicles, Equipment & Furniture, (ii) Studies, Surveys, Training and Workshops, (iii) Service Provider Contracts, (iv) Seeds (v) Livestock (vi) Matching Grant (vii) Credit (viii) Salary and allowances, and (ix) Operating and Maintenance. The majority of IFAD funds will flow to Designated Accounts in USD; however, based on PMO payment requests through withdrawal application, funds could also be paid directly to service provider accounts.

8. The LTB will specify procedures for disbursement, opening of accounts, SOE facility, procurement thresholds, methods, audit procedures, reporting requirement and deadline to delivery IFAD as agreed between Government and IFAD.

Withdrawal Application

9. IFAD has an experience of notable delays on submission of withdrawal application in its ongoing projects in Nepal. The Financial Comptroller General Office (FCGO) has adopted a policy of granting a four month period for reimbursements of their pre-financed expenditures to all development projects implemented by the Government line agencies. If the project fails to reimburse the pre-financed expenditures within that time, the Programme will not be entitled to budget releases for the

following trimester. To ensure timely budget release from the treasury; the PMO will send at least one withdrawal application in each trimester.

Assets Management

10. A substantial amount of the Programme fund will be spent every year on procurement of vehicles, stationeries, office equipment, furniture and various kinds of assets. The expenditures incurred for such purposes reflect equivalent amounts of increases in the assets of the Programme. It is therefore important for the Programme to maintain an updated inventory of its assets at all times and ensure that those are properly maintained and utilized for rightful purposes, that their ownership do not get diluted, and that there is always an officer/staff to remain accountable in respect of assets.

11. The responsibility for the proper accounting, safeguarding and utilization of all Programme assets will primarily rest upon the Programme Manager at PMO and Head of respective district programme offices. The Programme Manager and Head of District Programme Offices, without disowning their own accountability, may delegate the authority and responsibility for safe custody and utilization of assets to subordinate officials. Transfer of custody of Programme assets will be carried out through proper handing and taking over mechanism. The records of assets will be maintained either in fixed assets register or consumable assets register depending on the nature of assets and its value.

12. Verification of the assets would be conducted at least once a year. The Programme Manager, either directly or through an authorized officer independent of the person responsible for inventory control will conduct a verification of PMO assets. For district offices, the Programme Manager will issue a letter and TOR to PMO staff to conduct assets verification. Such verifications will be undertaken in order to establish ownership of assets, to verify the actual existence of assets in accordance with the book balances, descriptions and existence of any lien or encumbrance on the assets and to identify the assets that are surplus, obsolete, damaged or unserviceable or no useable.

13. Maintenance of vehicles, motorcycle and office equipment will be carried out by a contracted service provider or workshop. The selection of a Service Provider/Workshop will follow competitive bidding process using an appropriate procurement method. The period of the service contract will be a minimum of one year. All the maintenance works will take place only after the confirmation of need of maintenance by the staff in-charge responsible and due approval from the Programme Manager/Head of Programme Offices in the district or authorized officer.

14. A register will be maintained to record maintenance costs and details of major replaced parts of office equipment and vehicles/motorcycles separately (by equipment/vehicle/motorcycle). At the end of each fiscal year an individual and collective (whichever will be applicable) assets maintenance assessment will be carried out by the respective offices. A report of such assessment will be delivered to the PMO, and PMO will prepare the consolidated report of this and deliver to IFAD within three months of the following fiscal year.

15. **DSA and Travel:** The DSA and travel funds will be utilized strictly only for programme related activities and the payments or advance adjustment will be processed only upon the submission of travel report in standard format. A register will be maintained to record the travel order, issued by a competent programme authority with the clear purpose of travel, the date and place. A standard travel report will be made mandatory for payment and adjustment of travel related expenses. All travel reports will be considered part of programme M & E. The quality of travel report and strictness on the proper use of travel budget will be considered part of the performance evaluation of individual staff.

Reporting

16. **Monthly reporting:** A copy of Ma. Le. Pa. Form numbers 13, 14, 15 and category wise breakdown of each payment along with bank statement and bank reconciliation statement will be sent by the District Programme Accountant to the PMO by the 15th day of the following month. The report will include line agency wise expenditure report and the consolidated report of the district; both in

categories and component/activities. In addition, record of the contracts awarded within a calendar month will be submitted to the PMO on the format for “Register of Contracts”. Activity and component wise expenditure report will follow the AWPB format to record the expenditures and physical progress. The reporting format will be sent by the PMO to the district.

17. **Financial Progress Reporting:** The PMO will prepare and furnish to the IFAD periodic consolidated progress reports of the expenditures, in such form and substance as the IFAD will reasonably request. At the minimum, such reports will address (i) the status of sources and uses of funds, (ii) Schedule of withdrawal application (ii) comparison of planned budget and actual expenditures (iii) Status of Designated Account in USD with reconciliation statement (iv) problems encountered during the reporting period, (iii) steps taken or proposed to be taken to remedy these problems, and (iv) the expected financial progress during the following reporting period. The PMO will deliver such report on trimester basis to the IFAD within 45 days of the end of each trimester.

Project Financial Statement

18. The PMO will deliver detailed unaudited financial statements of the operations, resources and expenditures related to the Programme for each fiscal year to the IFAD within four (4) months of the end of each Fiscal Year (Article IX of the General Conditions). An audited Programme Financial Statement will be delivered along with Audit report.

19. The project financial statements consist of:

- a. Yearly and cumulative statements of sources and application of funds by category and by component, which discloses separately IFAD’s funds, counterpart funds (government), other donors’ funds and beneficiaries’ funds; and
- b. The balance sheet, which disclose bank and cash balances that agree with the statement of sources and application of funds, fixed assets and liabilities.
- c. Comparison of budget and actual expenditure.
- d. SOEs Withdrawal Application Statement.
- e. Statement of Special Account movement/activities.
- f. Special Account/Project Account reconciliation.
- g. Note on the Project Financial Statements.

20. **Register of Contract:** The PMO and its implementing agencies will maintained and update a Register of Contracts in their respective offices and report to PMO within the 1st week of following month. The PMU will prepare/update consolidate Register of Contracts and deliver to the IFAD Country Project Manager on a monthly basis.

21. **Records of Assets:** The PMO will prepare consolidate records of its fixed assets with description, unit, quantity/numbers, location and user if possible. This report will be delivering to IFAD along with physical and financial progress report.

22. Service providers will be required to adhere to the financial management procedures developed within the project’s financial management manual, the details of which would be included in the contract between the PMO and the service provider.

Audits

23. IFAD requires that the programme accounts be audited in accordance with auditing standards acceptable to the Fund and the IFAD’s Guidelines for Project Audits (for Borrower’s use) by independent auditors acceptable to the Fund. In Nepal, the Office of the Auditor General under the terms of reference satisfactory to the IFAD, will carry out auditsof the account related to the programme annually. The auditors will 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 will also determine the adequacy

of supporting documents and controls on the use of Statement of Expenditures (SOEs) as a basis for disbursement. The auditors will also furnish a separate Management Letter which will 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. A certified copy of the annual audit report of the project together with the PMO's replies to the management Letter will 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.

24.

25. In addition, it will 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 PMO's replies to the management Letter will 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.

Annex 8: Procurement

1. Procurement conditions and procedures are described in detail in the draft Programme Implementation Manual (PIM) in Annex 11. This Annex provides a summary of that text.
2. Procurement of goods, works and services financed by the IFAD would follow the Government of Nepal's procurement act and regulations,. Any of future amendment on GON's procurement act and regulations is public and will be communicated to IFAD... For the selection of appropriate procurement method, the Programme would follow the procurement thresholds of GON procurement act, regulations and guidelines. Procurement of all goods and services, outside of those that form part of the service provider contracts, will be managed directly by the PMO Procurement Specialist.
3. Whenever possible, procurement of services, goods and works will be bulked into sizeable bid packages to attract competitive bidding process and make more cost-effective. The procurement of goods above USD 200,000, Works above USD 1,000,000 and services above USD 100,000 will follow the International Competitive Bidding. The prior review threshold for goods and works would be USD 50,000 and above; for services it would be USD 20,000. Contracts valued less than USD 50 000 for goods and works and USD 20,000 for services would be subject to ex-post review of supervision missions. This requirement would be stipulated in LTB.
4. The responsibility of programme implementation and procurement of works, goods and consulting services rest with the programme authority. The PMO and its line agencies will follow the following basic principles while processing the procurement activities:
 - Economy and efficiency.
 - Giving equal opportunities to all eligible bidders.
 - Encouraging the development of domestic capacity to provide goods, works and consulting services.
 - Fairness, integrity, transparency and good governance.
 - Selecting the most appropriate method for the specific procurement

Procurement Methods

5. International Competitive Bidding will be the mandatory method of procurement for contracts above the following value:
 - Goods: Above USD 200,000
 - Works: Above USD 1,000,000
 - Services: Above USD 100,000
6. None of the civil works packages will be suitable for International Competitive Bidding in this programme.
7. The methods which are permitted for the procurement of goods and works are:
 - International Competitive Bidding (ICB) or Open Competitive Bidding
 - Limited International Bidding (LIB) or Restricted Tendering
 - National Competitive Bidding (NCB) or Limited Tendering
 - International or National Shopping or Requests for Quotations
 - Direct Contracting or Single Sourcing or Sole sourcing
 - Procurement from commodity markets
 - Work by Force Account
 - Procurement with community participation
8. The methods which are permitted for the procurement of consulting services are:

- Quality and Cost-Based Selection
- Quality Based Selection
- Selection under a Fixed Budget
- Selection Based on Consultants' Qualifications
- Least Cost Selection
- Single-Source Selection
- Selection of Individual Consultants

Procurement under Service Provider Contract

9. Procurement of goods and services within the service provider contracts will be the responsibility of the Service Provider. Procurement of goods, works and services under the service provider contract would follow the procedures of partner organization as per the agreements between those organizations and the PMO/borrower, to the extent that they are consistent with the IFAD Procurement Guidelines. The service provider contracts once evaluated by the PMO will be submitted to the Project Steering Committee for approval and IFAD for "No Objection".

Procurement of Vehicles and Equipment

10. The vehicles, motorcycles, desktop computers, laptops, multimedia projectors, furniture, other office equipments and materials etc. will be procured through competitive bidding process; the procurement method will be proposed in respective year's annual procurement plan considering the budget allocation of year and estimated amount of each packages. Beside stationeries, fuel and small maintenance works, all procurement activities will be carried out in the PMO by bulking into sizeable bid packages.

Selection of Participating Private Companies

11. Individual Companies wishing to participate in the Programme and benefit from Competitive Grant awards will be evaluated following an EOI advertisement through comparison of their technical experience and strengths, proposed business approach, attention to the inclusion of disadvantaged groups, strength on seeds production and their financial position and requirements. Companies which have expressed interest and have scored the minimum mark required to qualify will be short listed by the PMO. Short-listed companies, whose EOI are successful, will be invited to submit a detailed business plan. The PMO will evaluate the business plans and select the best acceptable business plans for further negotiation and contract agreement. Before signing the contract the PMO will submit the successful business plan to the PSC for approval. The PMO will be assisted by an Evaluation Panel constituted with representation of private and Government evaluators. The prior review of IFAD will be applicable for this selection process.

Procurement of studies, survey, and other specialized services

12. A number of studies, survey and other specialized services like institutional development and delivery of specialized trainings would be implemented by contracting outside organisations. These tasks include baseline surveys, IFAD RIMS surveys, development and establishment of co-operatives, specialized training etc. Procurement of consultants/service providers to carry out those tasks will follow the Request for Proposals (RFP) method, with either QCBS or SFB to select successful bidder. SFB (Selection under Fixed Budget) may be useful for studies, surveys and trainings where the scope and cost is well defined – and the competition is for the firm who can make the best technical proposal within the fixed amount. In some cases Single Source Selection (SSS) may also be used if the topic is highly specialised and there is only a single qualified bidder. IFAD would make a prior review of the selection of firms to undertake this work (especially for the baseline survey and RIMS surveys).

Recruitment of Contracted Positions

13. Recruitment of contracted positions would be carried out by an external recruitment company. The selection of the recruitment company will follow the procurement method SFB (Selection under Fixed Budget). Under this method RFP would be issued to the companies to provide their best technical and financial proposals in separate envelopes, within the budget. Available budget will be indicated in the RFP. In this method terms of reference will be especially well prepared to make sure that the budget is sufficient for company to perform the expected tasks. Evaluation of all technical proposals will be completed first, as in the QCBS method. The price envelopes are then opened in public and the prices read out aloud. Proposals that exceed the indicated budget will be rejected. The company who has submitted the highest ranked technical proposal among the rest will be selected and invited to negotiate and contract agreement.

14. Written exams of the candidates will be conducted by the contracted recruiting company independently. The highest scoring 3 candidates will be invited for interview. The Programme Manager will chair the interview panel; the rest of the members will be individual professional experts (other than the borrower's employees) or from university professor/lectures. The combined (written exam and interview) highest scoring candidate will be selected and recommended to the PMO for appointment.

Hiring of NGO for Local Support and Mobilization

15. A National NGO will be contracted for the total period of 6 years with the terms and conditions of yearly renewal; the renewal will be subject to satisfactory performance and quality of service delivery assessed by the joint supervision of each year. The National NGO will have responsibility of technical support to the seeds, goats and dairy producer groups in field and campaigning awareness/participation at the beginning of the programme implementation. Two stages procurement process will be adopted to select the National NGO, in first stage; an advertisement for EOI will be published in widely circulated national newspapers. The National NGO who have expressed interest to participate in the programme and scored minimum marks to qualify will be short listed by the PMO. The number of short listed National NGO will be in between four to seven, the top scorer. In second stage, only the short listed National NGOs will be invited to submit the RFP, the QCBS method will be followed. The Bid evaluation committee will be constituted by the PMO with representation of independent professional experts.

Contract with Small Farmer Development Bank (SFDB) and Micro Finance Institutions

16. Access to financial services will have two models, (i) Cooperative model, (ii) Direct linkage model. The Cooperative model will be implemented through SFDB and the Contract will be in the form of Subsidiary Loan Agreement between Borrower and the Bank. Direct linkage model will be implemented through micro finance banks working in the programme districts or have planned to work in future. The selection of micro finance bank or institution (MFIs) will be in competitive basis. The procurement process will be similar to selection of seeds companies.

Procurement of works

17. The construction of infrastructures and procurement of production equipment will be implemented in two different modalities, (i) Public property, and (ii) private or private/public own property; with limited liabilities. Both will be implemented in cost sharing basis, the project fund will be disbursed on the form of matching grant. For both modalities, an advertisement will be published in the national newspaper requesting to the beneficiaries, production groups, local government, private sector, seed companies and all concern parties to submit their interest to participate in the programme along with business proposal or scheme. The best proposal or scheme will be selected for detail discussion and negotiation. Evaluation of the proposals, details discussion and negotiation will be conducted by independent evaluation committee formed by the PMO. Majority of the evaluation committee members would be from district level non-government organizations i.e. District Chamber

of Commerce, MFI, bank, DADC etc. This type of infrastructures will be constructed on community participation.

18. **Review of Procurement Decisions:** IFAD will review the arrangements for procurement of goods, works and consulting services proposed by the PMO, including borrower's procurement procedures, contract packaging including composition of bid evaluation committees, bid evaluations, award recommendations, draft contracts document, applicable procedures and the planning and scheduling of the procurement process to ensure their conformity with Financing Agreement, Borrower's Procurement Rules, Regulations & Guidelines, IFAD Procurement Guidelines and the proposed implementation and disbursement schedule.

19. **Thresholds for prior review from the IFAD:** The award of any contract for goods and works valued USD 50,000 or more and for consulting services valued USD 20,000 or more would be subject to prior review by the IFAD. The aforementioned threshold may be modified by the IFAD during the course of project implementation.

20. **Ex post review:** With respect to any contract not governed by prior review, the Programme will retain all documentation up to two years after the closing date of the loan agreement for examination by IFAD or by independent auditors. This documentation includes, but not be limited to, the signed original contract, the evaluation of the respective proposals and recommendation of award. IFAD does not finance expenditures for goods, works or consulting services that have not been procured in accordance with the procedures specified in the financing agreement. In such cases, IFAD may, in addition, exercise other remedies under the financing agreement, including cancellation of the amount in question from the loan account. Even if the contract was awarded after obtaining a "no objection" from IFAD, IFAD may still declare misprocurement if it concludes that the "no objection" was issued on the basis of incomplete, inaccurate or misleading information furnished by the Project or the terms and conditions of the contract had been modified without IFAD's approval.

21. **Register of Contracts** A record of the contracts awarded within a calendar month that are to be financed - in part or in full - by the proceeds of the Loan and Grant will be recorded in a separate register called "Register of Contracts". When a contract is amended, the amendment will be recorded in the Register of Contracts. If a contract is canceled or declared ineligible for financing by IFAD, this information will be written in the Register of Contracts. The PMO and its implementing agencies will maintained and update a "Register of Contracts" in their respective offices and report to PMO within the 1st week of following month. The PMU will prepare/update consolidate "Register of Contracts" and deliver to the IFAD Country Project Manager on a monthly basis.

Annex 9

Programme Costs and Financing

Programme Costs

Total investment and incremental recurrent Programme costs, including physical and price contingencies, are estimated at about USD 59.70 million (NRs 4,780 million). Funds allocated to coordination and management total USD 4.72 million and represent about 9 percent of the total Programme costs. Support to Extension of Formal Seed Sector accounts for USD 21.7 million (41 percent of base cost), Smallholder Commercial Livestock Development USD 16.6 million (31 percent of base cost) and Local Entrepreneurship and Institutional Development a further USD 9.7 million (19 percent). Physical and price contingencies make up around USD 6,800. The Programme's summary and detailed cost tables are presented in Working Paper 4.

Table 1: Programme Costs by Component

Nepal Improved Seeds for Farmers Programme (Sept. 2012) Components Project Cost Summary		(NRs '000)			(US\$ '000)			% Foreign Exchange	% Total Base Costs
		Local	Foreign	Total	Local	Foreign	Total		
1. Support to Extension of Formal Seed Sector		1,107,897.9	633,304.2	1,741,202.1	13,848.7	7,916.3	21,765.0	36	41
2. Smallholder Livestock Development		851,406.6	480,522.2	1,331,928.9	10,642.6	6,006.5	16,649.1	36	31
3. Local Institutional and Entrepreneurial Development		490,059.6	288,503.0	778,562.6	6,125.7	3,606.3	9,732.0	37	18
4. Programme Coordination and Management (PMO)		313,106.7	65,190.4	378,297.1	3,913.8	814.9	4,728.7	17	9
Total BASELINE COSTS		2,762,470.8	1,467,519.8	4,229,990.6	34,530.9	18,344.0	52,874.9	35	100
Physical Contingencies		75,393.6	42,701.9	118,095.5	942.4	533.8	1,476.2	36	3
Price Contingencies		375,946.5	56,084.7	432,031.2	4,699.3	701.1	5,400.4	13	10
Total PROJECT COSTS		3,213,810.9	1,566,306.4	4,780,117.3	40,172.6	19,578.8	59,751.5	33	113

A breakdown of annual costs of the Programme is shown in Table 2. Costs amount to USD 7.0 million in Year 1 and rise to a maximum of USD 12.5 million in Year 4 of implementation.

Table 2: Programme Components by Year – Totals Including Contingencies

Nepal Improved Seeds for Farmers Programme (Sept. 2012) Project Components by Year -- Totals Including Contingencies		Totals Including Contingencies (US\$ '000)						
		2013	2014	2015	2016	2017	2018	2019
1. Support to Extension of Formal Seed Sector		2,929.4	5,864.1	6,095.8	6,611.3	989.9	622.7	209.4
2. Smallholder Livestock Development		1,513.7	4,080.1	3,747.2	3,300.6	3,827.8	2,533.7	1,491.2
3. Local Institutional and Entrepreneurial Development		1,247.8	1,573.4	1,720.0	1,821.2	1,403.9	1,431.1	1,510.0
4. Programme Coordination and Management (PMO)		1,344.6	683.4	644.4	742.3	677.3	562.0	573.1
Total PROJECT COSTS		7,035.5	12,201.0	12,207.4	12,475.5	6,898.9	5,149.5	3,783.7

B. Programme financing

An IFAD loan and an IFAD grant, both of USD 19.50 million equivalent (each 32.7% of the total Programme costs), will be provided to finance the Programme. Heifer International will financially contribute USD 2.5 million. The Government contribution is estimated at USD 7.3 million (12.2%) and includes contributions from its budget¹ and from foregone taxes and duties. Approximately USD 10.9 million or 18.3% of the total Programme costs of USD 59.71 million would be provided by the beneficiaries.

Part of the Government contribution would finance (i) the salaries of the Programme Manager, Deputy Programme Manager, Accountants Officer and Planning Officer, Crops/Seed Development Officer,

¹ The Government covers salaries of some Programme Coordination and Management deputed to the Programme.

Livestock/Veterinary Development Officer, who are expected to be seconded from the Government as well as (ii) the Programme audit cost. The remaining share of the Government contribution would come in forms of foregone taxes and duties on all Programme inputs that involve funding from the IFAD Loan or any other external source of funding associated with the IFAD loan. In conformity with the principle that no taxes or duties would be financed out of the proceeds of the IFAD Loan, any future changes in the rates and/or structures of taxes and duties would have to apply to the Programme.

Below summarizes Programme components and expenditure accounts of the proposed financing arrangement. The other summary financing tables are provided in the appendices section.

Table 3: Financing Plan by Components

Nepal Improved Seed for Farmers Programme Components by Financiers	(US\$ '000)											
	IFAD Loan		IFAD Grant		The Government		Beneficiaries		HEIFER		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Support to Expansion of Formal Seed Sector	7,814.9	33.5	7,814.9	33.5	2,805.1	12.0	4,887.8	21.0	-	-	23,322.7	39.0
2. Smallholder Livestock Commercialization	6,741.3	32.9	6,741.3	32.9	2,435.9	11.9	2,068.2	10.1	2,507.4	12.2	20,494.2	34.3
3. Local Institutional and Entrepreneurial Development	2,743.9	25.6	2,743.9	25.6	1,268.6	11.8	3,951.0	36.9	-	-	10,707.4	17.9
4. Programme Coordination and Management	2,216.1	42.4	2,216.1	42.4	794.9	15.2	-	-	-	-	5,227.1	8.7
Total PROJECT COSTS	19,516.2	32.7	19,516.2	32.7	7,304.5	12.2	10,907.1	18.3	2,507.4	4.2	59,751.5	100.0

Table 4: Financing Plan by Categories (expenditures accounts)

Nepal Improved Seed for Farmers Programme Expenditure Accounts by Financiers	(US\$ '000)											
	IFAD Loan		IFAD Grant		The Government		Beneficiaries		HEIFER		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment Costs												
A. Funds												
Competitive Grant Scheme	949.1	22.3	949.1	22.3	553.8	13.0	1,808.0	42.4	-	-	4,260.0	7.1
Matching Grant Scheme	2,283.8	26.0	2,283.8	26.0	1,142.7	13.0	3,079.8	35.0	-	-	8,790.0	14.7
Other Investments Fund	627.1	39.7	627.1	39.7	128.0	8.1	-	-	197.7	12.5	1,579.9	2.6
Loans	-	-	-	-	590.4	13.0	3,951.0	87.0	-	-	4,541.4	7.6
Subtotal	3,859.9	20.1	3,859.9	20.1	2,414.9	12.6	8,838.8	46.1	197.7	1.0	19,171.3	32.1
B. Technical Assistance												
International	527.6	50.0	527.6	50.0	0.0	-	-	-	-	-	1,055.2	1.8
National	402.3	50.0	402.3	50.0	-	-	-	-	-	-	804.6	1.3
Subtotal	929.9	50.0	929.9	50.0	0.0	-	-	-	-	-	1,859.8	3.1
C. Studies, Surveys, Training and Workshops												
Training	4,956.5	41.9	4,956.5	41.9	1,537.7	13.0	-	-	378.0	3.2	11,828.8	19.8
Workshops	426.2	43.5	426.2	43.5	127.4	13.0	-	-	-	-	979.8	1.6
Studies and Surveys	598.0	43.5	598.0	43.5	178.7	13.0	-	-	-	-	1,374.8	2.3
Subtotal	5,980.8	42.2	5,980.8	42.2	1,843.8	13.0	-	-	378.0	2.7	14,183.4	23.7
D. Goods and Services												
Total Investment Costs	6,075.0	32.4	6,075.0	32.4	2,617.5	13.9	2,068.2	11.0	1,931.7	10.3	18,767.4	31.4
II. Recurrent Costs	16,845.6	31.2	16,845.6	31.2	6,876.2	12.7	10,907.1	20.2	2,507.4	4.6	53,982.0	90.3
A. Operating Costs												
Salaries	1,979.0	47.3	1,979.0	47.3	221.6	5.3	-	-	-	-	4,179.7	7.0
Travel and per diem	296.5	43.5	296.5	43.5	88.6	13.0	-	-	-	-	681.6	1.1
Vehicle O&M	351.4	43.5	351.4	43.5	105.0	13.0	-	-	-	-	807.9	1.4
Office equipment O&M	10.7	43.5	10.7	43.5	3.2	13.0	-	-	-	-	24.7	-
Office rent and utilities	28.8	43.5	28.8	43.5	8.6	13.0	-	-	-	-	66.2	0.1
Other operating costs	4.1	43.5	4.1	43.5	1.2	13.0	-	-	-	-	9.5	-
Total Recurrent Costs	2,670.6	46.3	2,670.6	46.3	428.3	7.4	-	-	-	-	5,769.5	9.7
Total PROJECT COSTS	19,516.2	32.7	19,516.2	32.7	7,304.5	12.2	10,907.1	18.3	2,507.4	4.2	59,751.5	100.0

Annex 10

Economic and Financial Analysis

1. The results of the financial and economic analysis of the Programme are detailed in WP 5. The following text provides a summary of those results.

2. Programme benefits have been analysed for both the seed and livestock components, as well as for the Programme as a whole.

Component 1 : Seeds.

3. For the seed production activities, four models have been analyzed:

- (a) new seed production groups (i.e. farmers previously producing crops for sale or consumption), selling all output under contract to a PSC;
- (b) existing seed production groups increasing their productivity through better management and improved infrastructure and selling some 20 percent of their output directly (the rest supplied under contract);
- (c) as in model *b* above, but retaining complete control of the output and selling it all directly, and;
- (d) new vegetable seed production groups currently growing vegetables for on-farm consumption and selling all output under contract.

4. Estimated FIRR for these models range from almost 15 percent to 21 percent for seed producing groups.

5. The analysis also examined benefits to seed producing individual households as well as the impacts on households' incomes deriving from different sizes of the landholding area that is dedicated to seed production. Results of the analysis suggest that there will be financial incentives to engage in seed production activities for all households regardless of the size of land contributed for the seed production. However, returns are higher the households with larger seed cropping areas. This suggests that the size of the seed cropping area would be an important aspect when sustainability of the seed production is concerned as benefits to individual households with larger seed cropping areas are expected to be sufficient to make investments with less financial constraints and to engage in the seed production in longer run.

6. Financial benefits were also modelled for three types of participating private seed company:

- (a) a large scale company handling cereal seed;
- (b) a medium scale company handling cereal seed, and;
- (c) a vegetable seed company. Estimated FIRR range from over 14 percent for large scale cereal seed companies to 21 percent for vegetable seed companies.

7. Financial benefits were also modelled for participating farmers using the improved seeds which would be made available as a result of Programme activities. For farmers participating in the Programme, the analysis assumes that the adoption of the improved seeds, improved availability of irrigation water, increased use of composts combined with better farm management practices will increase productivity for all crops by 20 percent. The analysis also conservatively assumes that only 80 percent of areas adopting the improved seeds will benefit from increased yields, and it does not assume crop diversification and intensification. Starting from the year 4, the Programme is expected to generate surplus seeds for the non-programme areas in the Hills zone and the returns to these producers are also estimated. FIRR are estimated at around 21 percent for both groups.

Component 2 : Livestock.

8. Finally, the financial benefits accruing to members of participating livestock production groups (diary buffalo and goat) are also modelled. The dairy model illustrates a farmer replacing two traditional buffalos with two Murrah crossbreed buffalos and investing in a barn improvement and production of forage plantation to improve livestock nutrition. The model assumes that with the adequate animal nutrition and management, the farmer will receive milk yield of 1,650 lt annually per Murrah cross-breed buffalo. The annual milk yield per traditional buffalo is assumed at 650 lt/head. Both traditional and Murrah buffalos are expected to have a calf mortality rate of 5 percent and adult cattle mortality rate of 2 percent. The calving intervals are assumed to be 14 months for the Murrah buffalos and 16 months for the traditional buffalos. Herd size is expected to be maintained at four milking buffalos, and calves are assumed to be sold before they reach one year old. Milking buffalos are assumed to be replaced after a fifth lactation. Prices for traditional and Murrah calves are expected to be NRs 5,000/head and NRs 7,000/head, respectively. The model assumes farmers will use the same amount of time for both traditional and Murrah buffalo productions. Financial results demonstrate that at full maturity, the investment would generate an incremental gross margin of NRs 99,700, a FNPV of NRs 435,800 per farmer and a FIRR of 69.3%. The benefit to cost ratio would be 4.0.

9. The goat model illustrates a farmer replacing her two goats of local Khari cross-breed with two goats of Boer cross breed, improving her goat pen, producing forage crops to improve goats nutrition, and adopting better animal nutrition and management practices. The local Khari goats are hardy and fertile but give maximum weight of 17-20 kg at one year old and a 25 kg at mature age. On the other hand, Boer goats can reach up to 35 kg at one year and about 80 kg at adult age. The model assumes that with the adequate animal nutrition and management, the farmer will obtain a live weight of 30 kg at one year for the cross-breed goat. The goats of both breeds are expected to give 1.75 kids per birth from the improved breed goats allocated by the Programme and have 3 births per 2 years. Mortality rates for kids and mature female goats of the Khari breed are assumed to be 12 percent and 2 percent respectively. Mortality rates for the improved goats are expected to be 2 percent for kids and 8 percent for mature females. The model conservatively assumes that both traditional and improved commercially oriented herds have four goats per farmer. Financial results demonstrate that the investment would increase the average gross margin for the farmer from NRs 1,400 to NRs 7,300 (before farm labour) and generate incremental returns with a FNPV of NRs 14,900 and a FIRR of 17.9%. The benefit to cost ratio is estimated at 1.25.

Conclusion:

10. For the entire Programme, investments generate incremental financial returns with a FNPV of NPR 2,500 million and a FIRR of 27.0 percent. The benefit to cost ratio would be 1.5

Table 1. Financial Result for the Programme

Indicators	Results
FNPV, mln NRs	2,500
FIRR, %	27.0
B/C ratio	1.5

11. The Programme as a whole yields an economic net present benefit (ENPV) of NPR 1,600 million and an economic internal rate of return (EIRR) is estimated at 23.0 percent. The benefit to cost ratio is 1.5.

Table2. Economic Results for the Programme

Indicators	Results
ENPV, mln NRs	1,600
EIRR, %	23.0
B/C ratio	1.5

12. The results of the sensitivity analysis demonstrates that the overall programme remains attractive when the investment costs increases by 20% with the FIRR of 22.0%. The Programme is highly sensitive to the changes in benefits deriving from seed production and adoption of improved seeds. The 20% decline in these benefits drops the FIRR to 12.6%. It is also highly sensitive to the two year delays in benefits accumulation implying that any delays in the Programme implementation would make the Programme financially unfeasible. The Programme's sensitivity to changes in benefits deriving from the adoption of the improved seeds is moderate with the FIRR reducing to 20.3% in response to the 20% declines in benefits. The impact of the 20% decline in benefits deriving from the adoption of improved breeds of livestock increases the FIRR to 32.1%. This is mainly due to the declining profitability of Boer goat production as a result of increased incremental labour use. A 20% decline in all types of benefits reduces the FIRR to 14%. The results are presented in the following table:

Table 3. Results of Sensitivity Analysis

Variables	FIRR	EIRR
Baseline results	27.4%	23.0%
1. Programme cost increase by 20%	22.0%	18.4%
2. A 20% decline in benefits deriving from the seed production and improved seed adoption	12.6%	11.0%
3. A 20% decline in benefits deriving from the improved seed adoption	20.3%	15.7%
4. A 20% decline in benefits deriving from adoption of the improved livestock breeds	32.1%	21.7%
5. A 20% decline in all benefits	14.0%	9.1%
6. Two year delay in benefit accumulation	n/a	n/a

Annex 11

Draft Programme Implementation Manual

Outline (available in volume 3)

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ANNEXES

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- Annex 6:** Programme Contributions and Procedures for Supported Investments

Annex 12

Compliance with IFAD Policies

1. The compliance of the Programme with current IFAD policy guidelines is briefly described below. The Economic and Social Review Note is attached as Appendix 1 to this Annex.

Private Sector

2. The private sector will play a key role in the Programme, not only in terms of achieving programme development objectives, but also in ensuring the sustainability of benefits beyond the implementation period. In particular, the role of the private sector will adhere to the following key principles of engagement:

- **Interests of small farmers and producers paramount.** The participation of the private sector in the programme results solely from the need for small farmers within the hills zone of Nepal to increase the productivity (yields and growth rates) of their crop and livestock operations. Many private sector operations supported by the Programme will be producer groups and cooperatives, and thus directly represent small producers. The companies playing a role in the programme will provide small producers with a critical link to the market, acting both as purchasers (where possible under contract) as well as sources of information as to market requirements (varieties demanded, post-harvest procedures etc.). Only those enterprises prepared to undertake this role will be supported by the Programme.
- **Evidence of country ownership and support.** The Ministry of Agriculture Development (lead implementing agency for the Programme) is fully in agreement with the proposed role of the private sector and concurs with the view that their participation is essential.
- **Compliance with social and environmental standards.** No international companies are expected to participate directly in Programme activities, but those enterprises receiving Competitive Grant awards will be required to meet all current social and environmental standards applicable to their activity.
- **Sustainability of impact.** The role of the private sector (companies, cooperatives and producer groups) is seen as critical precisely because it greatly increases the likelihood of the sustainability of benefit outcomes, through its effect on reducing dependence on public sector institutions.
- **Transparency.** The process of awarding Competitive Grants to private enterprises wishing to invest in Programme related activities will be carefully designed to ensure maximum transparency and to minimize the opportunities for corruption and rent seeking. Several layers of evaluation will be used, including independent professional evaluation of proposals and final approval by the Programme Steering Committee.

Rural Finance

3. Support to rural finance services through cooperatives comprises a major element of the Entrepreneurship Development component. No finance will be provided to enterprises (beyond those who may be members of an MFI). Among the key guidelines for rural finance which are relevant to the Programme are the following aspects:

- **The importance of savings.** The provision of additional financing to target area financial services cooperatives will be tied to the amount of savings generated by the organization. It is also worth noting that financial support to participating MFIs will derive from a blend of Programme and Small Farmer Development Bank savings, and will not be more than 50% externally funded.

- **Customer education and protection.** All financial services supported by the Programme will be supervised and provided with training by the Small Farmer Development Bank which has developed and applied a well-tested set of procedures. Cooperative oversight and monitoring may be further strengthened by the use of the FAO-GTZ Microbanker software package. This will be confirmed with SFDB during Appraisal.
- **Client participation.** Only cooperatives, providing services to their members will be supported, and SFDB procedures outline membership participation requirements.
- **Institutional stability.** The SFDB is a permanent financial organization, not a project-related institution and currently support approximately 237 financial services cooperatives in Nepal. This provides a high level of assurance of institutional stability for both SFDB and partner organizations.
- **Interest rates.** Funding to participating MFIs, as well as loans from MFIs to their clients will be at current market rates. No subsidy element has been requested or considered.

Targeting

4. The primary target of the Programme will be smallholder farmers, goat owners and members of local production groups and financial service cooperatives. Programme components have been chosen specifically to not only result in increases in sector productivity, but to be of particular relevance to these persons. The programme particularly targets women, ethnic minorities and caste members who are disadvantaged and in poverty and they will be required to form at least 50% of all beneficiaries (often more). Monitoring procedures will specifically include measurement of the participation and leadership of these persons in groups participating in Programme activities

Indigenous People

5. Indigenous groups such as the Magar and Kami are expected to constitute a significant minority of beneficiaries under the Programme, and their participation will be measured under required M&E procedures. Most of the development activities supported by the Programme will be group or community based, in line with IFAD Guidelines for indigenous people, and adaptation and resilience to climate change comprises one of the elements of Programme activities (through, for example, a focus on sustainable group management of forest resources, improved access to, and management of, water resources). Empowerment through better control of their own livelihoods is inherent in the Programme design, including the strengthening of groups engaged in economic activities.

Environment and Natural Resources Management

6. As in any agriculturally focused programme or project, the Programme will have implications for the environment and natural resources management. These impacts are considered minor and the project is classified in category B by the February 2012 IFAD QE. Among the core principles laid out by IFAD in this respect, the following are of particular relevance to the Programme:

- **Sustainable agricultural intensification.** Considerable attention has been paid to ensuring that the intensification of production proposed under the programme will be sustainable in environmental and economic terms.
- **Value and governance of natural assets and a ‘climate-smart’ approach.** This applies particularly to the livestock component which will be based on improved nutrition of goats on sustainable long term utilization of forest resources.
- **Livelihood diversification and value chains.** The development of both formal seed production and improved goat production within the Programme area will allow smallholder producers to diversify their income sources, and both will be closely linked to the development of value chains, through contract production for commercial enterprises.

Land

7. The programme will not deal directly with access to land or land tenure. Nor will it involve any change in land rights or access. Nevertheless, the ability of smallholders to significantly increase their earnings from their very small land holdings as a result of participation in Programme activities, will increase food security and income and contribute to a reduction in pressure for land clearance and deforestation. Importantly, the benefits arising from improved seed production will be available not only to those directly engaged in seed production, but also (through the demonstrations which form part of the Programme) to smallholder producers of cereals and vegetables throughout the target area and, indeed, the hills zone as a whole.

8. The range of productive activities handled under the Programme (including paddy, maize, wheat and goats) ensure that the benefits will be applicable to a wide range of farming systems as almost all smallholders will be engaged in the production of at least several of these products. Market linkages comprise a core element of the Programme.

Appendix 1

Environment and Social Review Note (programme rated category B by February 2012 IFAD QE)

Brief Description of the Programme

1. The objective of the proposed Programme is to promote inclusive, competitive and sustainable agricultural growth within the target area through productivity improvements based upon market-led demand. The Programme will have a duration of seven years and will focus on six selected districts within the hills agro-ecological zone of Nepal during the first phase, although there will be some activities undertaken at regional and national level. It will comprise three technical components, as well as the establishment and operation of a Programme Coordination and Management Unit (PMO). The three technical components are outlined briefly below

2. **Expansion of the Formal Seed Sector:** A major factor in the low crops yields recorded in the hills zone is the very low seed replacement rates and often poor quality of seed for both cereals and vegetables. The component will build on past advances in improved seed production through linkage of producers to the formal sector. Seed company participation (currently absent in the zone) would be facilitated through a Competitive Grant Scheme to reduce establishment costs, as well as through support to contracted seed production groups. Improvements to the legal framework for seed production and trading and the increased output of foundation seed would also be supported. An estimated 720 seed production groups will be established or strengthened. Assistance will also be given to Agrovets, input traders who are often key intermediaries in the seed value chain, as well as to local level Ministry of Agriculture Development staff and offices. To ensure the quality of seeds produced through the Programme, regional offices of the Seed Quality Control Centre (SQCC) will be upgraded and local agents licensed. Market demand will be promoted through demonstrations of improved seeds to smallholder households and the establishment of annual Agricultural Fairs.

3. **Smallholder Livestock (goats and dairy):** Goats are a key asset for poorer farm households, particularly among dalit and indigenous populations with limited resources. However, the sector has shown little growth in recent years, offering a significant opportunity for accelerated productivity. Three key constraints would be addressed: poor management and nutrition; genetic limitations of the indigenous breed, and; lack of linkage to markets. Building on prior experience, the sustainable utilization of forest resources for fodder and forage would be supported through almost 500 Farmer Field Schools. Genetic constraints have received little past attention but are considered critical to productivity. The programme would import a globally successful breed (Boer) for cross-breeding and subsequent provision to graduating FFS members. Goats are generally held by smallholders as a form of savings and increased earnings require stronger market linkages. District level livestock markets (currently absent in the target area) would be established and form the nucleus for additional value-added activities. Private sector participation would be promoted through support for production contracts with herders, the provision of competitive grants for livestock related infrastructure and the annual agricultural fairs.

4. **Local Entrepreneurship Development:** In order to support increased production over the long term, both Government and private sector service providers will need the capacity to provide the services essential to the creation and development of viable small scale businesses. The component would comprise three principal sets of activities: (i) institutional strengthening (ii) productive infrastructure development and (iii) financial services. The institutional strengthening component would target local government institutions, farmer groups, and both production and financial services cooperatives. Half of all Village Development Committees (VDC) in the target area would participate and some 175 groups would receive training and support in areas such as management, business planning, accounting and marketing. The component would support 1,000 physical and marketing infrastructure schemes which can be managed by local groups, using a matching grant scheme also

financed from VDC resources. The Programme would collaborate with the Small Farmers Development Bank (SFDB) to expand SFDB's support of financial services cooperatives. In addition to existing cooperatives under the supervision of SFDB in the Programme area, an additional 30 would be created, providing services to an estimated 26,000 borrowers.

Major Site Characteristics

5. Nepal is overwhelmingly an agricultural country, with an estimated 80 percent of households depending on agriculture for their livelihood. Nationally, the average land holding size is only 0.8 hectares and farms are getting smaller, emphasizing the need for productivity gains, while only one percent of farms produce primarily for commercial sale. Output is insufficient to meet family needs year round on 60 percent of smallholdings.

6. The proposed geographical target area extends over nearly one million hectares and combines high poverty levels and relatively elevated population densities with significant agricultural potential for agricultural growth. All targets Districts are in the Hills zone, and they include areas with the lowest Human Development Index in Nepal, as well as poverty levels that are considerably above national rural averages. It is estimated that the total number of households encompassed by the target area totals nearly 300,000 with a projected 2010 population of approximately 1.5 million. The total estimated cropped area of the target area would exceed 220,000 hectares. Productivity of all major crops in this area is significantly below national average. Nationally, almost 27 percent of households are headed by women and although there is no specific data on the target area, discussions with local groups and government suggest that it equals or exceeds these numbers while the proportion of farm households classified as marginal within the zone reaches almost 50 percent.

7. The Programme target area comprises a series of hills and valleys ranging from a few hundred metres above sea level close to the terai, to as much as 2,000 metres before the transition to the mountain zone. Forest is still widespread in the area, amounting to almost 500,000 hectares (approximately 14 percent of the national total) and more than 50 percent of households are classified as forest users, reaching 85 percent in some districts. Some 145,000 hectares have been identified by the Department of Forestry as suitable for community or leasehold management and currently more than 210,000 households (over 70 percent) belong to community forest groups. Although much of the forest area is degraded to some extent, less than one percent is categorized as suitable for leasehold forestry; such land cannot have more than 20 percent forest cover.

8. No data is available specifically for the target zone, but across the Hills zone, it is estimated from National Census data that almost 90 percent of the population is classified as either 'caste' or 'ethnic' (janajatis). Magar and Kami are the most common ethnic group within the target area. Members of Hill zone ethnic and dalit groups (the lowest caste group) have the lowest life expectancy in Nepal, as well as the lowest per capita incomes and least schooling.

9. Migration – either seasonal to the terai zone or India, or long term to the Persian Gulf or South East Asia – is very widespread throughout Nepal and more than 50 percent of households have at least one member absent for this reason.

Issues in Natural Resources Management

10. Population density varies considerably across the target area, from well below the national average (197 persons per square km) to as high as 287/km² in Gulmi District, although there is a longer term trend of outmigration from the Hills zone to urban areas and the *terai*. Among the key environmental/social issues of importance within the area are:

11. **Size of land holdings** – With an average landholding within the target area of less than 0.8 ha per farm, productivity is a major issue for natural resources management. While there are relatively few landless households, the small holding size (half of all farms have 0.5 ha or less) combined with low productivity of both crops and livestock, forces many families into seasonal or

long term migration and increases pressure on forest resources. In addition to migratory work, a major coping strategy is the holding of livestock (cattle, buffalo and goats), although limitations of rangeland and pasture limits the expansion of grazing species.

12. **Limited water availability** – Water, particularly outside of the rainy season, represents a significant constraint to agriculture within the target area. Irrigation is scarce and some crops, such as wheat, may fail in low rainfall years. However, numerous streams and rivers provide opportunities for small scale irrigation development, which will be supported in collaboration with local Village Development Committees.

13. **Utilization of forest areas** – Given the small land holdings and low yields predominant in the area, the exploitation of forest areas is an essential part of livelihood and coping strategies for most households and many areas are degraded. However, the Government has for some years adopted the community management approach to a significant portion of these forest areas and this has been successful in promoting replanting and more sustainable usage. The use of forest resources for goat feeding has been part of this approach and will be built upon in the Programme.

Potential Social and Environmental Impacts and Risks

14. The principal social risk arising from the Programme is capture of benefits by elite groups. This can be minimized by strong targeting of all participating groups and cooperatives, but cannot be excluded altogether. For example, agreement is essential from local communities before any allocation of forest area to goat owning groups can take place. Such approval will be much harder to obtain if at least some upper caste or well-connected families are not involved. The critical element is to ensure that the participation of such persons is kept to a minority level. Similarly, decisions as to where joint Village Development Committee (VDC) and Programme funds will be spent (for small scale irrigation development etc.), will be influenced by the membership of the VDC. Again, any risks of elite capture can be minimized by specifying clearly the conditions (such as proportion of lower caste or minority ethnic participation) under which the Programme will participate in the financing.

15. Other social risks include the political and policy uncertainties arising from the past civil conflict, and how these uncertainties will affect future economic development. The Programme target area was one of the worst affected areas within Nepal and the local VDCs, for example, have not had elections for more than 15 years. While there is little the Programme can do to reduce such systemic risk, the use of a Programme design is intended to ensure maximum flexibility to any unforeseen changes, and would be linked to a strong M&E operation so as to receive accurate and timely feedback on progress.

16. As the Programme will not be active in road construction, large scale infrastructure or expansion of cultivated areas, no major areas of environmental risk are foreseen from the Programme, and the increased productivity which forms the central goal of the Programme, together with the expansion of current efforts to involve local communities and groups in forest management, are expected to have positive environmental impacts. Nevertheless, environmental risks remain, including increased use of fertilizers and agrochemicals (as a concomitant of increased use of improved seed), poor selection and management of local irrigation, expansion of goat populations and ability to respond to climate change. Economic growth itself – through increased traffic, incomes and demand for goods and services – is also expected to have some potential negative environmental impact.

17. Support will be provided to participating seed groups in effective water management and use of agrochemicals (including an emphasis on organic fertilizers), while sustainable use of forest resources will be central to the Farmer Field Schools established for future recipients of improved goats. In addition, environmentally appropriate use of water resources will comprise part of the planning process for selection of small scale irrigation infrastructure.

18. It is expected that improved productivity and water management, as well as better forest management should all contribute to reducing risks arising from climate change impacts within the Programme area.

Environmental Category

19. Given the relatively low, albeit existing, environmental risks posed by the Programme, it has been approved by IFAD QE of February 2012 that the investment be classified as Category 'B'. In order to ensure that any negative environmental impacts are detected at an early stage, and appropriate mitigation measures are put in place in a timely fashion, the Programme will include environmental indicators within the M&E process (e.g. use of agrochemicals, changes in condition of utilized forest areas) using external assessment by national level consultants. Environmental impact assessment would also be a specific element in the Mid Term Review, conducted at the end of Year 3 of implementation, and recommendations would be required – if necessary – as to modifications in Programme activities to limit or mitigate any such impacts.

Further Information Required to Complete Screening and Scoping

20. During appraisal, a number of tasks will be undertaken relevant to environmental and social screening and scoping. These will form part of the final Programme Implementation Manual (PIM) and include further refinement of: (a) terms of reference for environmental and social aspects of the baseline and mid-term studies, as well as for the M&E officer; (b) procedures for the selection of beneficiary groups and cooperatives, as well as for the evaluation of irrigation and other infrastructure proposals; (c) definition of environmental and social teaching/learning areas for groups involved in seed production, goat husbandry or use of improved seeds, and; (d) terms of reference for external contractors undertaking social and environmental assessments.

Recommended Features of Programme Design and Implementation to Improve NRM and Mitigate Environmental Concerns

21. During appraisal an environmental and social impact assessment specialist will join the design team to undertake the tasks specified above in relation to the PIM, as well as to ensure that sufficient resources are allocated under Programme design to ensure the undertaking of effective monitoring and mitigation measures. The specialist will also ensure that all procedures are coherent with national environmental and social regulations and guidelines and endeavour to further refine local level data on ethnic minorities and dalit groups in order to ensure that beneficiary guidelines are both realistic and feasible.

22. The specialist will also review all component activities to assess whether additional safeguards or incentives would be necessary or useful in ensuring adequate attention to environmental and social risks arising from the Programme or other factors (e.g. climate change).

Monitoring Aspects

23. Monitoring of environmental and social aspects of implementation will occur through three mechanisms: (a) **participant monitoring** through required reporting procedures for beneficiaries (including groups, cooperatives and enterprises) on aspects such as membership, use of agrochemicals, planting of trees and bushes in forest areas and water use for irrigation; (b) Programme **M&E activities** carried out by the Programme Coordination and Management Unit (PMO), including adherence to specified evaluation and contracting procedures, public opinion within the Programme area (as identified during public access workshops and other events, liaison with national environmental authorities, and; (c) **external social and environmental assessment** conducted by a contracted national agency. This external monitoring will provide independent 'ground validation' of other monitoring data. Among the aspects to be verified by the external monitor will be forest cover and health in areas being used for improved goat production, impact of small scale irrigation schemes, and membership and leadership of beneficiary groups by dalit and minority ethnic individuals.

Components Requiring ESA and Scope of Assessment Needed

24. On the basis of the potential social and environmental risks and mitigation measures outlined above, it is not considered necessary to undertake an Environmental and Social Assessment for any component of the Programme.

Record of Consultations with Beneficiaries, Civil Society, General Public etc.

25. During identification and design of the Programme the six Districts comprising the target area were visited twice (each time for approximately one week) and a large number of meetings (typically from four to six meetings per District) were held with the membership of producer groups and cooperatives, including seed production groups, goat groups and financial services cooperatives. Many of those participating were from minority ethnic or dalit communities. In these meetings, which often extended over several hours, attending members were asked their opinion of key constraints and opportunities, areas where they felt that additional external support was needed, and their knowledge of, and interest in, commercial markets for their output. Information was also gathered on costs, prices input usage and yields for productive activities. For those groups which had participated in previous projects (whether internationally or nationally financed), participants were asked their views on the strengths and weaknesses of the approach used in these projects and the changes they would seek in any future activity building upon these approaches.

26. In addition, meetings were also held at local level with entrepreneurs, Government field staff, and NGO officers to determine their views on constraints – financial, human resource and external – as well as priorities and the success or failures of previous projects implemented in their geographical and/or sectoral area. Discussions with private sector participants (including local input traders, as well as suppliers and purchasers of seed, cereals, vegetable and livestock products, were seen as particularly important, given the key role of the private sector in ensuring effective market linkages and participation.

Annex 13

Contents of the Project Life File

Volume 2 : list of Working Papers

- WP1: Component 1: Support to the expansion of the formal seed sector
- WP2: Component 2 : Smallholder livestock commercialization
- WP3: Component 3 : Local entrepreneurship and institutional development component
- WP4: Programme cost and financing
- WP5 :financial and economic analysis
- WP6: social and geographical targeting
- WP7: is missing: Monitoring and Evaluation and Knowledge Management

Volume3 : WP7: Programme Implementation Manual

DVD: (available as well on xdesk)

Electronic library of all resources used during the project design and reference documents on seeds production and livestock worldwide, as well as IFAD previous projects in the same sector.

