



Enabling poor rural people
to overcome poverty

Nepal

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Asia and the Pacific Division
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Western Uplands Poverty Alleviation Project

Supervision Report

Main report and appendices



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Abbreviations and acronyms

BOB	Beneficiaries' Oversight Board
C-PCU	Community Project Coordination Unit
CIP	Community Investment Plan
CO	Community Organization
DDC	District Development Committee
DECOS	Development Concern Society
DFO	District Forest Office
DPC	District Project Coordinator
DPCU	District Project Coordination Unit
FCGO	Financial Comptroller General Office
IFAD	International Fund for Agriculture Development
LDF	Local Development Fund Board
LDO	Local Development Officer
LFUG	Leasehold Forest User Group
LRP	Local Resource Person
MAPs	Medicinal and Aromatic Plants
MCPA	Ministry of Cooperatives and Poverty Alleviation
MFALD	Ministry of Federal Affairs and Local Development
MOU	Memorandum of Understanding
MFSC	Ministry of Forestry and Soil Conservation
NGO	Non-governmental Organization
NTFPs	Non-timber Forest Products
PAN	Permanent Account Number
PCU	Project Coordination Unit
POSC	People oriented Service Center
PRA	Participatory Rural Appraisal
Rs	Nepalese Rupee
RUDAS	Rural Development Awareness Society, Nepal
TOR	Terms of Reference
VAHW	Village Animal Health Worker
VAT	Value added tax
VDC	Village Development Committee
WUPAP	Western Uplands Poverty Alleviation Project

A. Introduction¹

1. WUPAP is being implemented in three phases² under the Flexible Lending Mechanism of IFAD with a loan effectiveness date of 01 Jan 2003, revised completion date of 15 Jul 2016 and is currently in its final Phase III. Phase I was completed in FY 2006/07 in four districts. Phase II extended project coverage to eleven Districts and was completed in Jul 2012. Phase III began in Jul 2012 and is working in eight districts, following a Phase III design mission in Apr 2012. The total project budget across the three phases is USD32.75 million, of which IFAD Loan is USD20.13 million and IFAD Grant USD0.36 million (total IFAD allocation = SDR15.6 million). The total budget for Phase III is USD14.82 million of which the IFAD Loan is SDR 6.60 million.
2. IFAD is currently preparing the 2013-2018 Country Strategic Opportunity Programme (COSOP) with GoN which also foresees the allocation of USD15m from IFAD's Adaptation of Smallholder Agriculture Programme (ASAP) funds to improve climate change resilience of smallholders in Nepal. These forthcoming initiatives and the on-going IFAD supported projects in the Mid- and Far-Western regions on high value agriculture (HVAP) and improved seed for farmers (ISFP – "Biu-Bijan") create a useful additional context to WUPAP Phase III.
3. Phase III adopts important changes in the project modality designed to address implementation weaknesses evident in Phase II, and was explicitly designed to work within the structures of the Ministry of Federal Affairs & Local Development (MFALD - formerly Ministry of Local Development (MLD)) at the District and National Level. However, after the signing of the loan amendment to approve Phase III, GoN unilaterally transferred management of the project to the newly created Ministry of Cooperatives and Poverty Alleviation (MCPA).
4. In light of this, the mission objectives are: 1) Assess progress in implementation of the new Phase III modalities and provide support to the project team to address any bottlenecks or emerging issues; 2) Assess the viability of project implementation under the MCPA and make recommendations to IFAD and MoF on how to move forward in light of this assessment; 3) Agree with MoF and FCGO how to resolve the long running issues of financial management and financial staffing within the project, and 4) Complete the regular fiduciary and supervision responsibilities in line with IFAD's current supervision policies.
5. This Aide Memoire and Report specifically deal with the implementation of Phase III. Except where specifically stated otherwise, progress is assessed against plans for Phase III only.

B. Overall assessment of project implementation

6. Overall implementation has declined to *moderately unsatisfactory* at the time of the mission and risks declining further if immediate actions are not taken. The momentum established through the leadership of MLD and the reinvigorated PCU and District teams since late 2011 leading to the successful completion of Phase II in Jul 2012 has all but disappeared since Aug 2012. As a result, limited progress has so far been made in launching Phase III, especially in the Districts.
7. The primary cause of the loss of momentum is considered by the mission to be the unilateral decision by GoN to remove MFALD from the leadership of the project and transfer the project to the newly created MCPA. This has been particularly damaging given the budget uncertainty throughout FY2012/13 due to the on-going political crisis in Nepal. The combined effects have included deep uncertainty within the project at all levels, de-motivated project teams, heavy

1 Mission composition: Nigel Smith - Mission Leader; Mukunda Dev Adhikari - Financial Management Specialist; Surya Singh - Community Participatory Planning & Investment Specialist; Rudolph Cleveringa, PTA Water and Rural Infrastructure Senior Technical Advisor, Ms Kiran Hunzai - M&E and Knowledge Management Specialist; Bashu Aryal - IFAD Country Programme Officer, Benoit Thierry - IFAD CPM, Irene Li - IFAD Manager of Loan & Grant Administration and Amedeo Paglione - IFAD Senior ICT specialist, joined the mission in Nepalgunj and participated in briefings with the Project Coordination Unit. The mission was joined in the field visits by Mr Biju Kumar Shrestha, Under Secretary MCPA and Mr Thag Bahadur Mahorta of the National Planning Commission. A one day management meeting in Nepalgunj was chaired by Mr Sudarshan Prasad Dhakal - Joint Secretary MCPA with participation of Narayan Niraula - Deputy Financial Comptroller General, Kailash Pokharel - Under Secretary MoF, Mr Prem Kumar Shrestha - Under Secretary MFALD. The meeting was attended by 5 Local Development Officers at the request of the Mission.

2 Phase I Districts: Bajhang, Bajura, Jumla and Humla, Phase II additional Districts: Dailekh, Jajarkot, Dolpa, Kalikot, Rolpa and Rukum, In addition Mugu was initially included in Phase II but then withdrawn due to implementation difficulties. Phase III Districts: Bajhang, Bajura, Dailekh, Humla, Jajarkot, Kalikot, Rolpa and Rukum

delays in recruitment of essential new staff, existing contract staff worked unpaid for six months and, most critically, a loss of project leadership at the Districts by the Local Development Officers under MFALD. In addition to the internally created problems, in one District (Humla), violent civil unrest and a resulting curfew on the District headquarters was triggered due to local political tensions surrounding the selection of WUPAP project staff in the District. This led to a temporary suspension of the project in the District which was ultimately resolved by a Supreme Court order with project activities now due to be restarted in Humla.

8. In practical terms, at the time of the mission the first testing and training on the Community Investment Plan process (CIP) was ongoing in the first District, six of eight Deputy District Project Coordinators (the day-to-day coordinators of project activity in each District) had been recruited but only some of these had taken up their post, the fulltime accounting posts in the PCU had not been filled and there were no fulltime project accounts in any districts. All of these activities and more should have been completed by Aug 2012 to properly launch Phase III, yet all are still some way from being completed.
9. In summary, WUAPAP has been pushed into a second crisis in as many years. Phase III is now at least 9 months behind already, having only been running for 9.5 months, and urgent action is needed at all levels to get the project back on track.
10. Despite the serious situation, a degree of optimism and confidence can be drawn from the strong support received by the mission from senior members of MCPA, MFALD, MOF, FCGO and senior project staff in setting-out a roadmap for rescuing the project. This same group also successfully rescued the project in Phase II. However, GoN and IFAD will need to provide intensive implementation support for at least the next 18 months until the situation is stabilized.

Agreed action	Responsibility	Agreed date
Leadership & management: Loan Amendment to be signed formalizing MCPA as new host ministry with Project Co-chair and Co-Directors from MFALD with defined responsibilities as in Annex 1.	GoN - IFAD	15 Apr 2013
Leadership & management: PCU to implement revised internal management structure as in Annex 1, revising roles and recruiting additional contract staff as needed (incl. Senior District Coordinators)	MCPA - PCU	15 Apr onwards
Leadership & management: Mobilize additional highly experienced local TA to provide regular coaching and implementation support to key staff (especially SDCs and DDPCs) over the next 12 months	PCU	15 Apr onwards
Leadership & management: IFAD to mobilize short and medium term national and/or international technical assistance as required	IFAD	15 Apr onwards
Leadership & management: Progress with new leadership and internal management arrangements to be jointly reviewed in Aug/Sep and continuation of the project under these arrangements will be subject to satisfactory progress at that time.	GoN - IFAD	26 Aug – 6 Sep
Fiduciary: PCU existing Accountant to be immediately replaced by a capable accountant.	FCGO / MoF	30 Apr
Fiduciary: PCU Account Officer to be immediately appointed.	FCGO / MoF	30 Apr
Fiduciary: PCU to complete recruitment to PCU of: 1x Financial analyst (in process), 1x Compliance officer	PCU	15 May
Fiduciary: PCU to recruit 8 District Project Accountants – 1 per district – using a fast track recruitment and contracting process	PCU	15 May

C. Outputs and outcomes

11. **Component 1: Community empowerment** progress is *moderately unsatisfactory*. The project has only recently begun combined field testing and training of the CIP preparation processes in the villages in one lead District (Rolpa), originally scheduled for Aug 2012. The mission observed the last 2 days of the training process which highlighted a need for further clarity within the project on the full process to be followed. During the mission, the DDPC's and senior PCU technical staff have prepared more detailed implementation process plans at the District and village level for the completion of the CIP. These will need to be documented in an updated Project Implementation Manual / Project Handbook and activities incorporated into revised AWPB if necessary.
12. A staged rollout of the CIP preparation process is now planned by the project – Stage 1 until Jun 2013 for first 40 VDCs, followed by Stage 2 by Sep 2013 for remaining VDCs. This should allow experience from a lead batch of around 40 VDC CIP preparation processes (to be conducted in the strongest VDCs of Phase II) to be completed by early Jun 2013 to build confidence in implementing the process among the district teams and social mobilizers before rolling out to all VDCs to have their CIPs finalized by Sep 2013. This should also enable sufficient details of likely investments to be available in early Jun 2013 for preparation of a robust FY2013/14 AWPB.
13. The Mission noted a need to energize and strengthen the capacity of the network of social mobilizers (SMs) in the project. As well as the current training on the CIP processes, there is likely to be significant benefit from including focused local "learning routes" for both SMs and community members (selected by the community themselves) involved in the CIP process to increase awareness of opportunities of relevance to the communities and to see real good practice examples of possible investments under the CIPs.
14. No implementation of activities under the CIPs (e.g. infrastructure construction, farmer training) was scheduled for FY2012/13 but is expected to begin in FY2013/14 and mostly expected in Spring 2014 (as the main season for activities). As such, if the project can complete a good quality CIP preparation process in a majority of VDCs by Sep 2013, then much of the lost time so far may be recovered without lasting negative impacts on disbursement or the performance at the community level.
15. Other activities under Component 1 on strengthening / graduation of existing community organizations (CO) and nutrition awareness are expected to begin after Sep 2013 when there is a natural lull over the winter between the CIP finalization and the commencement of activities selected under the CIPs. The central involvement of MCPA within the project creates a good opportunity to link project activities on CO strengthening and graduation to wider government initiatives and resources for cooperative development.
16. **Component 2: District Service Delivery Improvement** progress is *moderately unsatisfactory* as engagement with local service providers has been limited in Phase III so far and clarification of their roles in the CIP preparation processes and service delivery, including through pre-feasibility technical advice to communities, was completed during the mission.
17. However, the Project Coordinator facilitated an encouraging meeting with six local services providers in Rolpa district. These included 3 public sector agencies (district offices of agriculture, livestock and forestry) and 3 local technical NGOs. The project modalities and mechanisms were introduced and there was strong interest from 5 of 6 service providers present to work with the project under the planned modalities. While only completed so far in one district, this positive response suggests the project innovations in service delivery may be feasible. There is however a need to accelerate the process of engagement and mobilization of local service providers in all district in support of the imminent CIP preparation activities. With this objective the DDPCs and PCU together with the mission have already prepared detailed process guidelines for district service delivery mechanisms, a draft of which is attached to the Mission Report and a final version will be ready for use in the field by 07 Apr.

Agreed action	Responsibility	Agreed date
CIP Preparation process to be implemented in 2 stages in calendar year 2013.	PCU / DPCU	40 VDC – 10 Jun All VDC – 30 Sep
CIP Preparation process to include effective pre-feasibility/feasibility technical advice to communities as well as inclusion of selected community members on local Learning Routes	PCU / DPCU	07 Apr onwards
CIP Preparation process: Senior District Coordinators to conduct systematic process of work with DDPC to implement first 1-2 CIPs in each district to ensure full DPCU team and SMs are familiar and clear on process – supported by highly experienced national TA if possible	PCU / DPCU	07 Apr onwards
Service providers: Immediate engagement to begin with district service providers and “selling of the project” (NGOs, public sector) as per the process outlined in the draft revised PIM	PCU (SDCs/DDPCs)	07 Apr onwards
Service providers: PCU to identify external service providers for vocational training and obtain suitable information on available courses, unit costs, timing etc. for inclusion in CIP preparation process	PCU	25 Apr
Service providers: Ensure selected district service providers have skills and resources and skills to deliver, including 1. ToT of local service provider staff on technical issues (production, post-harvest etc.) and training methods as needed 2. Training of DPCU sub-engineers on hydraulic design and surveying (min. 10 days including field work) and provision of complete set of necessary engineering survey instruments for all DPCUs.	PCU	Before service delivery 15 May
Social mobilizers: Reinvigorate network of SMs through strategies including – local learning routes, in-village coaching by Senior SMs, rewards/prizes for best performing SMs	PCU / DPCU	07 Apr onwards

D. Project implementation progress

18. **Project management** is *moderately unsatisfactory* despite significant efforts by the PCU team, primarily due to the delayed recruitment of the full team of Deputy District Project Coordinators which has delayed the launch of Phase III in the Districts. The delays in recruitment have been primarily driven by the change in lead Ministry and uncertain and late budget approval and release this financial year and the specific issues in Humla which have now been resolved. All DDPC are now either already in post or will shortly be in post.
19. Given the delays so far, the next 12 months is a critical period for project management to re-establish the momentum in the project that was achieved at the end of Phase II. The necessity for joint leadership of the project by MCPA and MFALD will place additional burdens on the PC. At the same time, the mission notes a need to increase the presence of senior project staff in the Districts to mentor and manage the delivery of the DPCUs and DDPCs and support the LDOs. However, the current PCU structure and staffing does not enable this. As such the project and mission teams have designed an improved management structure for the PCU to be implemented immediately – as shown in Annex 1. The main improvement is to create two new positions of “Senior District Coordinator” (SDCs) to drive implementation in the districts alongside the LDOs. To balance the need for quick action and budget issues, one additional contract staff will be recruited as SDC while one existing staff member will be re-assigned to this role. In addition, given the time pressure on the project, the Mission believes that additional

- short term senior level coaching of the SDCs and DDPC will also be necessary for critical period of the next 6-12 months during the first year of the CIP preparation and implementation.
20. The need for fast and efficient project delivery also requires increasingly disciplined time management within the DPCUs and PCU. As such the Mission believes the introduction of a process of individual monthly work plans for all staff will be of benefit.
 21. The mission also recommends that for management purposes the District are grouped into two clusters. For those Districts along the road corridors, this greater focus should enable the project to increasingly promote coordination with other IFAD supported and more market-oriented projects in these areas including HVAP and ISFP (Biu-Bijan).
 22. **Planning, monitoring & evaluation and knowledge management** remains *moderately satisfactory*. The improvements in PM&E achieved at the end of Phase II have been sustained with better information available on the status of infrastructure schemes as well as COs. The Planning, M&E team has been strengthened by the recent appointment of a Planning, M&E officer. The recruitment of an MIS Officer, which is in process, will further strength the team in the PCU. At the District level the DPCU M&E officers are all in post and work has begun on collecting baseline household survey data in the first District as part of the CIP process.
 23. For M&E, the project would benefit from increased use of ICT in the collection, compilation and analysis of monitoring data to make it more readily accessible for use in project management decisions at the district and PCU level. Similarly, the project would benefit from a more explicit focus on Knowledge management, for example through the use of tools such as “Learning routes” to actively drive the sharing of knowledge both within the project but also with other successful development initiatives of relevance.
 24. Knowledge management related to the new CIP processes provides an immediate opportunity for the project to document, ideally via one or more short videos, the experiences from introducing the new process this year. This could then be used immediately within the project to roll-out the CIP to all VDCs but also as a tool to share the experience more widely – to practitioners as well as policy makers. A specialist local communication/media consultant should be hired to coordinate the design, filming and production of the movies.
 25. **Gender focus** remains *moderately satisfactory*. As noted by the previous mission the project’s approach is to mainstream gender equity within project activities rather than provide separate gender specific activities. In previous Phases this has been demonstrated by the fact that 60% of all infrastructure schemes were water supply, school buildings, health posts and sanitation facilities which specifically address concerns of high priority for women who bear the principal burden for water collection and raising children.
 26. Phase III will more explicitly address gender equality through giving equal voting rights to the senior woman and man from target households as voting members of the CIP process. The CIP preparation process being implemented also includes the use of focus groups, including separate focus groups for women and youth, to create the social space for their priorities to be considered within the CIP process. The satisfaction of women with the CIP process and investments is included as a key indicator in the logframe for Phase III to increase the attention given to gender issues within the M&E and management of the project.
 27. **Poverty focus** remains *moderately satisfactory* as it was at the completion of Phase II. Phase III has maintained the same selection of the poorest VDCs in poor districts which structurally targets investment towards poor communities. This is further enhanced within the community by the use of participatory wealth ranking to identify the poorer household in the community as the primary direct beneficiaries of the project. For Phase III, the project is refreshing its targeting within the VDCs by conducting a new participatory wealth ranking in all VDC verified by household baseline surveys. Furthermore more, the proposed Phase III design includes a mechanism of positive discrimination for the very poorest household in the target VDC, giving them direct control of a disproportionately larger share of investment resources.
 28. **Effectiveness of targeting** remains *moderately satisfactory*. Through its previous Phases, the the project has been reasonably effective in reaching its target groups through a process of geographical targeting and further targeting of households within the selected communities.

The renewed participatory wealth ranking and specific targeting of the poorest 5% of households is expected to further strengthen the targeting effectiveness in Phase III.

- 29. Risk management:** The main external risk to the project (as highlighted in the Phase III logframe key assumptions) is the lack of stability in government / social / market structures due to the prolonged and on-going political crisis and uncertain outlook. With possible Constitutional Assembly elections in Jun 2013 and new constitution and government system within the remaining period of the project, the associated potential for disruption to the project at both local and national level is substantial – as is evident from the problems of the project in the last 9 months. There is therefore an immediate need to begin implementing effective mitigation strategies, including:
- (a) Strengthening the joint leadership role of MCPA and MFALD – to mitigate against possible changes in scope/power of one of these ministries at national and/or sub-national level;
 - (b) Strengthening the number and capacity of senior staff in PCU and more efficient management arrangements to allow greater senior staff presence in the districts as well as in Kathmandu to quickly deal with emerging issues which will inevitably arise;
 - (c) Strong joint support and monitoring between GoN and IFAD to quickly identify and resolve emerging issues as they occur;
 - (d) Ensuring DPCUs are widely seen to be running a highly transparent and impartial CIP processes that is genuinely empowering to target communities. As necessary, potentially sensitive decision (e.g. selection of staff or service providers or selection of candidates for the Service Excellence Challenge Fund) are to be taken by the PCU to reduce local politicization of the project.
 - (e) Continue with process of engaging with private (NGO) and public service providers at the district levels to provide credible alternatives service provision options to communities.
 - (f) Improved use of the Special Account (e.g. through dedicated project budget codes within national/district treasury system) should be explored to ensure better availability of approved budgets on timely basis.
- 30.** The two principal internal risks to the project are i) the limited remaining time for the community empowerment processes to take route in the communities (3 seasons) and ii) the capacity of the social mobilizers and districts teams to foster this process. These risks stem from the relatively innovative (for Nepal) community empowerment processes being applied. Immediately strategies to mitigate these risks are:
- (a) Intensive coaching and capacity development of district and SM teams, including by Senior District Coordinators and short term highly experienced national technical assistance
 - (b) Strengthening number and capacity of staff in PCU to be able to maintain high presence in all districts. (as above)
 - (c) Invigorating the SMs through strategies such as: local learning route, performances awards/prizes, “buddy” system for mutual support between SMs in nearby VDCs, on the job coaching of SMs by Senior SMs and other staff in the villages themselves (not only in the district centre), regular and meaningful feedback mechanisms to improve project processes at the VDC level.
- 31.** Major agreed actions are presented in Section B above. Additional detailed agreed actions are included below.

Agreed action	Responsibility	Agreed date
Project management: Monthly work plans for all Districts and PCU team members and teams. Progress reviewed weekly and new plans set at regular monthly meeting. SDCs to attend all DPCU monthly meetings	PCU – SDC and Deputy PC to lead this process	15 Apr onwards

Project management - PIM: Prepare updated Project Implementation Manual / CIP & District Guidelines for Phase III based on draft District/CIP process already prepared by project team.	PCU	07 Apr – Final Internal Draft 07 May – approved by GoN/IFAD
Planning, M&E: PCU (with support from IFAD ICT team) to develop an action plan to better exploit ICT within its PM&E at the community, district and PCU levels, and where possible coordinate with HVAP on approaches/technologies	PCU / IFAD ICT	30 Apr
Knowledge management: PM&E staff to be trained in design and use of Learning Routes as KM tool	PCU with external service provider/ partner (PROCASUR)	30 Apr
Knowledge management - CIP process: Produce video(s) of actual CIP process and various steps for use with communities, SMs and other stakeholders. Include a “how to” and “how not to” versions. Hire local communication consultant to lead process. Filming to be done now in first batch of CIPs being prepared covering all steps including roles of service providers.	PCU	7 Apr – 30 Jun

E. Fiduciary aspects

- 32. Financial management** is *unsatisfactory*. Staffing remains the major weakness.
- 33. Financial Staffing:** To improve the financial management in the project a proposed pre-condition to Phase III was the move to a single project expenditure account in each district with one fulltime accountant posted by FCGO to each District Project Coordination Unit to maintain and operate the district project account. The need for this was reaffirmed by all of the LDOs who attended the management meeting with the mission in Nepalgunj. Despite this, no fulltime accountants have yet been assigned to the project at the District level and only one of two accounting posts at PCU had been filled. At the PCU, the Account Officer post (senior position) remains vacant and the Accountant (mid-level position) appointed by FCGO to the PCU from Oct 2012 is suffering from mental health issues and is not fit to work and self- evidently should not have been posted to the PCU. Only one Accountant with limited experience has currently been deputed instead of posted to the PCU. This situation is unacceptable and immediate action is needed.
- 34.** At the PCU level, it was previously agreed that the fulltime Account Officer and Accountant posted by FCGO will be supported by an experienced contracted Financial Analyst. In addition, the mission considers it necessary for an additional fulltime Compliance Officer to be contracted to the PCU to increase the ability of the PCU to monitor and verify financial management and reporting at the District and VDC levels.
- 35.** At present, the PCU has made attempts to recruit the Financial Analyst, but none of the candidates qualified in the written test in the first recruitment effort. A second vacancy notice was published that expired on 11 Mar 2013. In both cases, it was noted that there were insufficient number of applicants for the post, primarily due to not highlighting the benefits of the post and criteria that were too specific, limiting the numbers of applicants.
- 36.** To resolve the financial staffing issues at the District level, the PCU should immediately recruit 8 fulltime District Project Accountants as contract staff to be assigned 1 to each DPCU.
- 37.** The PCU, if necessary with support of a specialist recruitment agency, should therefore immediately recruit the following contracted financial posts in the project: 1x Financial Analyst (PCU), 1x Compliance officer (PCU), 8x District Project Accountants. Updated Term of Reference for these posts are included in the annexes to the Mission Report.
- 38. Financial management – general:** The review and validation process for WA claims made by the project is lacking. PCU prepares WA by consolidating the financial reports from the district offices. Due to the lack of Account Officer in PCU, the withdrawal claims and reporting to IFAD is being done by the Planning, Monitoring & Evaluation Specialist and not by any account staff. The current practice also does not consider effective utilization of funds and monitoring the use of funds where programs are implemented through service providers. As such, a Compliance Officer in the PCU is considered essential. The Compliance Officer will be responsible for conducting regular verification of expenditures in the district level and VDC level (as appropriate), monitoring of fund utilization, compliance with project rules and regulations in project implementation and follow-up for the audit observations. The Compliance Officer shall have access to the books of accounts maintained by the PCU and the account officers in DPCU and shall be reporting to the Project Coordinator on monthly basis, and trimester report copied to IFAD as an Annex to the regular trimester project progress reports.
- 39. Phase II accounts:** Phase II of the project completed on 15 Jul 2012 and the project was required to submit the Withdrawal Applications of Phase II that occurred before 15 Jul 2012 within three months after the phase completion date. But the accounts of Phase II are not yet finalized. The records in FCGO account shows an amount of NPR156.20m (Approx. USD1.76m) is yet to be claimed for reimbursement by WUPAP from IFAD, as at 15 Jul 2012. The project has not maintained any accounting ledgers for Withdrawal claims and receipt and so the receipt of funds from IFAD is not accounted in the books of the project, thus creating difficulty in reconciliation of project accounts and records in FCGO. PCU is also not certain whether all expenditures from the districts have been sent to PCU for Withdrawal Claims. With the current financial management problems and lack of competent staff, the mission concludes

- that appointment of a consultant is essential for closure of Phase II accounts. The mission recommends the project to close the Phase II accounts and make the final withdrawal claims by 31 May 2013 at the latest. No withdrawal application claims for Phase II will be accepted after this date. If accounts are not closed by the deadline and final withdrawal claims are not made, IFAD shall consider the balances of Phase II towards disbursement for Phase III.
40. The project is also yet to make WA claim for Grant DSF 8010NP. The mission recommends the project to make the claim for Grant DSF 8010NP by 30 Apr 2013. No withdrawal application claims for Phase II will be accepted after this date.
 41. **Taxes:** The project has not claimed for Withholding taxes (WHT) on payments made to supplier, employees on ground that Withholding taxes falls within the definition of tax, which is considered ineligible as per Sec. 2.04 of the loan agreement. As WHT deductions are only made by the project acting as an agent and are deposited as income tax of the recipient, such WHT do not qualify as direct tax for IFAD and are eligible. So, the project is recommended to reclaim the amount of NPR 1,972,623.53 (paid out of loan funds and not claimed) in next Loan WA 39 and NPR 1,028, 582 (paid out of grant funds and not claimed) in next Grant WA 26.
 42. **Disbursement** was satisfactory as at 15 Jul 2012. For Phase II, disbursement was 91.09% of Phase II allocations (as of 17 Mar 2013). There is no disbursement of the funds available for Phase III, therefore the disbursement rate is *unsatisfactory*. The project is suggested to make WA for expenses incurred till date for Phase III and to prepare WA on regular basis.,
 43. **Phase II:** IFAD had allocated loan funds of SDR 7.31 million and against this allocation SDR7.49 million was disbursed by 17 Mar 2013. The balance fund available for disbursement is SDR0.30 m, apart from the unallocated fund of SDR 0.18m. This balance fund should be utilized to meet the disbursement requirements of Phase III after adjusting for the payment of final WA claim to be received from the project by 31 May 2013. No disbursement for Phase II shall be made for WA claim received after 31 May 2013.
 44. The project has received two IFAD grant allocations. The first grant allocation of SDR 290,000 has been fully utilized leaving a balance of SDR 21.88. The expenditure from the second grant allocation of USD 190,000 as at 17 Mar 2013 was US\$90,816.99, excluding advance of USD50,000. The mission recommends final deadline of 30 Apr 2013 for final WA of the grant and any balance of funds to be reallocated to new Phase III grant categories..
 45. **Phase III:** The outlook for disbursement through to project completion in 2016 still remains feasible, despite the delays so far in Phase III. Planned disbursement in the Phase III design for the current FY12/13 was USD1.89 million (12.8% of Phase III total). The latest revision of the FY12/13 AWPB envisages an expenditure of USD1.64 million - a reduction relative to the design expenditure of USD250,000 - equivalent to 1.7% of Phase III budget. As such the disruption to the project this year may have limited consequences on disbursement if the CIPs can be completed by Sep 2103 as now planned and community investments commenced in Spring 2014 as expected.
 46. **Counterpart funds** provision was *satisfactory* to end Phase II but is *moderately unsatisfactory* to date in Phase III. The government is pre-financing project activities with the exception of IFAD grant funds flow and as such adequate counterpart funds have generally been provided. However, due the current political crisis, the GoN budget allocation process in FY2012/13 has been severely disrupted. Initial budget approval was provided only for the first trimesters expenditure and there have needed to be multiple revisions of the AWPB with the incremental release of budget throughout the year. The Special Account for the loan has a balance of US\$635,372 at the beginning of FY2012/13, but despite the availability of fund within the Special Account, the beginning of Phase III operation was affected by the delayed budget approval and availability process.
 47. **Compliance with loan covenants** was *unsatisfactory* at the start of the mission due to the unilateral decision by GoN to transfer the project to the newly created Ministry of Cooperative and Poverty Alleviation. Further discussion among concerned Ministries and the Mission has identified an acceptable arrangement for on-going project management and leadership. The Mission therefore recommends that GoN and IFAD sign a Loan Amendment to confirm the transfer of the project to Ministry of Cooperatives and Poverty Alleviation subject to Ministry of Federal Affairs and Local Development acting as Co-chair of the Steering committee and Co-

National Project Directors being appointed from each of these two ministries with clearly defined roles as set-out in Annex 1. The effectiveness of these arrangements will be jointly reviewed in Aug/Sep 2013.

48. **Procurement** is *moderately satisfactory*. The majority of procurement on PCU comes under the direct procurement threshold of GoN regulations as the PCU has no big value procurement this year. The "Register of Contracts" of PCU has been prepared.
49. **Assets Management** is *moderately satisfactory*. The PCU has maintained separate records of assets showing its location and the user/owner. As noted in the previous mission, letters were sent to the district offices to furnish the list of assets procured from the project funds and received from the PCU through handover. Such details were mostly received from the districts and cross verified with the records maintained in PCU and was satisfactory.
50. The previous mission had recommended that a storekeeper with prior extensive knowledge on stock management be deputed instead of newly appointed storekeeper. Though the mission recommendation is not complied with, change in the storekeeper is not considered essential at this stage. However the PCU needs to strengthen proper record keeping in the store.
51. **Audit** is *moderately satisfactory*. The audit report for the financial year 2011/12 was issued on 20 Feb 2013 and the auditor has issued opinion with respect to the financial statements, SOEs and eligibility of expenditures claimed. The report contains follow-up of previous year reports, review of internal control system and the observation of few district offices. But the reports submitted to IFAD does not include the full audit observations and recommendations made by the auditor to the implementing agencies (DDC, LDFB, DAO, DLSO, DFO).
52. PCU has prepared a consolidated audit log of audit observations. But the status of audit observation and settlements is not compiled by PCU. The audit log provided by PCU shows 89 outstanding audit issue with a value of NPR 50,551,014. The settlement of audit issues can also pose a difficulty in case of implementing agencies because the cost centre for phase III is only DDC. So, PCU needs to coordinate with the OAG and implementing agencies for status of the audit issues and make strict follow-up for timely settlement.
53. Major fiduciary actions are listed in Section B (above). Further detailed fiduciary actions are summarised below with additional details in the Mission Report.

Agreed action	Responsibility	Agreed date
Phase II Accounts: Appoint a consultant for closure of Phase II accounts	PCU	15 Apr
Phase II Accounts: Project to make final withdrawal claim and close the accounts. If accounts are not closed by the deadline and final withdrawal claims are not made, the balances of Phase II shall be utilized towards disbursement of IFAD in Phase III	PCU	Final WA by 31 May Final Accounts by 31 May
Phase II Grant: Final WA to be processed and then balances reassigned to Phase III categories before closed	PCU	30 Apr
Tax: Reclaim eligible tax amount of NPR 1,972,623.53 (of loan) and NPR 1,028, 582 (of grant) in next WA.	PCU	Next WA
Public audit format: Standardized dual language cost and income report formats should be developed and used in all public audit events at District and VDC levels	PCU / DPCU	1 Jun onwards

F. Sustainability

54. Sustainability of WUPAP's impacts, from Phase III and previous Phases depend on 3 aspects:
55. **Sustainability of investments in the VDCs**, such as drinking water or farmer training. With the possible exception of the leasehold forestry activities, the sustainability of much of the investments under Phase I and II is not high. While there are some examples of success and no comprehensive data available on actual adoption rates of new technologies by trained

farmers, direct discussions with farmers in various project districts suggests that the overall effectiveness of much (but not all) of the training appears to be low. The quality and sustainability of the infrastructure constructed to date also remains a concern, despite the significant efforts made by the project to bring almost all schemes to working order by the end of Phase II and establish user groups and basic O&M funds for all schemes. However, the fact that so many schemes needed repair/maintenance so soon after construction indicates inadequate quality of design/construction which may suggest further problems will be encountered in the future and some “lapsing” or “fall back” relative to the Phase II trigger indicators. Similarly, the three user groups met by the current mission (one for drinking water, one vegetable garden irrigation, one for micro-hydro) were not yet fully functioning as user groups taking full responsibility for O&M. As is reported by the PCU for other user groups, two of these groups had collected an initial sum of 7000-9000 NPR (approx. USD 100) for maintenance but then not agreed with users how they would collect on-going usage and maintenance fees or finance future repairs. In the case of the micro-hydro scheme, there was clear evidence of elite capture of benefits and a lack of capacity and awareness of the user group to address this. There is clearly a need to continue to strengthen the capacity of the user groups to properly manage the O&M and benefits of their schemes.

56. Phase III adopts a more explicitly demand driven approach to all investments at the VDC level, be it farmer training or infrastructure or other investments, which is expected to increase ownership among beneficiaries and therefore contribute to greater sustainability of the investments. For training, this is expected to be achieved through greater interest of trainees in the specific training being provided combined with better quality training from local service providers. For infrastructure, the appointment of two junior engineers to each DPCU team should increase the quality of infrastructure works under the project. In addition, the requirement to have a functional user group and O&M plan before release of the funds for any infrastructure scheme should help strengthen O&M arrangements and sustainability of new schemes under Phase III.
57. **Sustainability of the community organizations**, including Leasehold Forest User Groups, is a critical aspect of the sustainability of WUPAP's impacts. In the last 18 months the project has made significant efforts to strengthen the COs and LFUGs it has been supporting. Some progress has been made, as reflected in the increasing overall ratings of the capacity of these groups. However, the design of Phase III also recognized that many of these groups are likely to be too small to continue entirely unsupported after the project withdrawal. Phase III therefore plans specific activities to strengthen and support the graduation/consolidation of the existing COs into larger and stronger groups including forming or linking to existing cooperatives. At the time of the mission, no specific activities on CO strengthen and graduation were planned nor have been completed. As such it is not possible to comment further on the effectiveness of these activities in fostering genuinely sustainable community organisations.
58. **Scaling up/mainstreaming of key elements of the CIP and empowerment processes** in local government planning and investments processes is potentially the most important mechanisms for achieving larger lasting impacts from the project. While it is too early to comment on the success or effectiveness of the CIP and empowerment processes, it may be prudent to maintain this as an option at this stage. The continued involvement of MFALD in the project leadership at both national and district levels is essential to this as is interest from IFAD in assessing the potential for scaling up once sufficient evidence from the field is available in 2-3 years' time.
59. No specific recommendations are made here on sustainability that are not already made above and in the Phase III design being implemented.

G. Other

60. **Climate change adaptation for smallholders.** The mission benefited from the participation of an IFAD Senior Advisor examining the potential strategies for use of the envisaged allocation for Nepal of USD15m from IFAD's Adaptation of Smallholder Agriculture Programme (ASAP) funds to improve climate change resilience among smallholders. Adaptation to Climate Change and building Climate Change resilience increasingly need to be considered as key issues that may limit progress and achievement of WUPAP's development objectives in the medium term.

61. The major associated opportunities for investments and capacity development via the projects are currently considered to include: (i) improved connectivity, e.g. micro-hydro and solar panels for productive (river lifting), processing (milling) and domestic use (cooking), (ii) enhanced water security through multiple use systems, e.g. domestic water for drinking, livestock and backyard gardening; strengthened technical design and use of existing farmer managed irrigation schemes and/or precision irrigation; water harvesting, and (iii) resilient farming systems (agriculture, livestock, forestry), e.g. securing access to inputs and implements (tools, animal shelter/sheds); improved post-harvest (drying/grading floors) and storage facilities for home consumption (bins, hermetic storage bags) and/or markets (local material and knowledge cold stores for apples, potatoes, etc.).
62. In addition to specific project level strategies, ASAP is also likely to priorities three other areas: i) knowledge management, ii) science-based informed policy and investment dialogue, and iii) partnerships and scaling up.
63. Many of the expected aspects of the ASAP in Nepal are likely to be of particular relevance to WUPAP and its supported communities. The specific approaches and modalities for ASAP will be further developed over the coming months through further consultations with key stakeholders. During this process, the potential collaboration and/or mainstreaming of climate resilience into WUPAPs activities, especially the community-level CIP process, will be explored.
64. **IFAD Joint Support Unit** is being developed collectively by the portfolio of IFAD supported-projects to provide additional back-up and support on common issues such as finance, M&E, knowledge management and ICT. WUPAP is likely to benefit considerably from the existence of such a unit and the mission therefore considers it appropriate for WUPAP to commit to finance one position within the Joint Support Unit, with the exact role to be financed to be determined.

Agreed action	Responsibility	Agreed date
WUPAP to finance one position within the emerging Joint Support Unit with role to be determined jointly with IFAD	GoN-IFAD	16 Jul onwards

H. Conclusion

65. Project performance has declined to *moderately unsatisfactory*, primarily due to the transfer of the project to the newly created Ministry of Cooperatives and Poverty Alleviation and the prolonged budget uncertainty this financial year resulting from the ongoing political crisis in Nepal. The momentum that was established in the final year of Phase II now needs to be urgently re-established to lift the project back out of its current crisis.
66. Financial management is *unsatisfactory* as critical issues, especially staffing, have repeatedly not been addressed. Immediate and conclusive action now needs to be taken.
67. Despite the current crisis within the project, the mission believes there are grounds for cautious optimism. The joint mission found genuine and strong commitment from MCPA, MFALD and MOF to put in place practical solutions to the problems that the project is facing, as set-out in this Aide Memoire and Mission Report. Critical actions include:
 - (a) formal establishment of joint leadership of the project between MCPA and MFALD with clearly defined responsibilities,
 - (b) re-organisation and strengthening of the PCU team to strengthen its capacity to support and manage project activity in all districts,
 - (c) recruitment of a team of contract financial staff to be based at both the PCU and District levels
 - (d) staged implementation of the core Community Investment Planning (CIP) processes across the 153 project VDC, supported by effective knowledge management and learning
 - (e) active engagement of local Service Providers in the CIP process and implementation
 - (f) close follow-up and support to be provided by GoN and Nepal with regular joint review and implementation support.

68. The mission believes that with the continued active support of MCPA, MFALD, MOF and IFAD the project can quickly recover from its current crisis with limited lasting damage to project performance and disbursement. The next Joint Review and Support Mission should therefore be conducted no later than Sep 2013 and earlier if needed.
69. Agreement was reached by all parties attending the wrap-up meeting co-chaired by Mr Ran Bahadur Shrestha, Secretary, Ministry of Co-operative and Poverty Alleviation, and Mr Shanta Bahadur Shrestha, Secretary, Ministry of Federal Affairs and Local Development, on the main findings and agreed actions from the mission.



In Rolpa WUPAP supported farmers of Gairigaon to develop micro-irrigation system. Each household has been earning at least Rs 30,000 to 35,000 (US\$350 to US\$400) per year from about 8-10% of a hectare of land. Market access is however a major challenge.



In Jupka, Budhagaon in Rolpa, the drinking water taps could not be installed in the centre of the village. The taps are located in the communal land where the surplus water is wasted. It is being used for human drinking water purpose only. Had it been installed in the centre of the village, it could have been used for livestock, kitchen gardening and cleaning and bathing. This indicates a lack of adequate community discussion on system establishment - a good lesson for future planning.



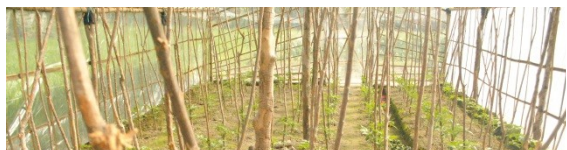
A micro solar panel powered mini-cooking stove can save up to 75% of fuel wood use. It has a significant implication on environment conservation and saving women work load. Badagaon, Rolpa.



Traditional system of rice seed treatment in the hills. Moist rice seed is covered with rice straw and green leaves for about a week before sowing in the seedbed. This helps timely and uniform seed germination. Technical intervention to improve the performance would be appreciated.



Traditional bamboo grain store in Jupka, Bidhagaon, Rolpa. Grain loss from insect infestation is up to 30-40%. Use of improved grain store can significantly save grain loss during storage.



Farmer working inside plastic tunnel



Irrigation channel after maintenance



Local gift shop set up by WUPAP to sell local products



People participating in planning process, Dailekh

Off-season farming in Bajhang



Constructed PVT





Female group members during PRA in Huyma, Rolpa
Minihydro powered maize wheat and mustard seed mill



Plantation in Leasehold Forest



Social map prepared by participants in
Rolpa



Traditional method to separate rice bran

Appendix 1: Summary of project status and ratings

Basic Facts

Country	Nepal			Project ID	1119	Loan/DSF Grant No.	576
Project	Western Upland Poverty Alleviation Project					Supp. Loan/DSF Grant	8010
Date of Update	12-Apr-2013					Financing terms	HC
Supervising Inst.	IFAD/IFAD						
No. of Supervisions	10	No. of Implementation Support/Follow-up missions	5				
Last Supervision	23-Apr-2012	Last Implementation Support/Follow-up mission	Jan-2012				
USD million Disb. rate %							
Approval	06-Dec-2001			Total costs	32.99		
Agreement	05-Feb-2002	Effectiveness lag	13	IFAD Total	20.49		
Effectiveness	01-Jan-2003	PAR value	Actual Problem	IFAD loan	20.13	66.1% ³	
MTR	23-Aug-2010			DSF grant	0.19	74.7%	
Current completion	15-Jul-2016	Last Amendment	02-Jul-2012	IFAD grant	0.58	95.7%	
Current closing	31-Dec-2016	Last Audit	20-Feb-2013	Domestic Total	8.24		
No. of extensions	1			Beneficiaries	0.08	n/a	
				Government (Local)	2.20	n/a	
				Government (National)	5.93	24.8%	
				Private Sector Local	0.04	n/a	
				Cofinancing Total	4.03		
				WFP	4.03	n/a	

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	3	2	1. Quality of project management	5	3
2. Acceptable disbursement rate	5	2	2. Performance of M&E	4	4
3. Counterpart funds	5	3	3. Coherence between AWPB & implementation	5	3
4. Compliance with loan covenants	5	2	4. Gender focus	5	4
5. Compliance with procurement	4	4	5. Poverty focus	4	4
6. Quality and timeliness of audits	4	4	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	4	4
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
Community Empowerment	n/a	3	1. Institution building (organizations, etc.)	4	4
District Service Delivery Improvement	n/a	3	2. Empowerment	5	5
Project management	n/a	3	3. Quality of beneficiary participation	4	4
			4. Responsiveness of service providers	4	4
			5. Exit strategy (readiness and quality)	5	4
			6. Potential for scaling up and replication	4	5

3

This disbursement rate refers to phase I and phase II of the project. Disbursement rate of phase III is 0%.

B.5 Justification of ratings

Overall implementation has declined to moderately unsatisfactory at the time of the mission and risks declining further if immediate actions are not taken. The momentum established through the leadership of MLD and the reinvigorated PCU and District teams since late 2011 leading to the successful completion of Phase II in Jul 2012 has all but disappeared since Aug 2012. As a result, limited progress has so far been made in launching Phase III, especially in the Districts.

The primary cause of the loss of momentum is considered by the mission to be the unilateral decision by GoN to remove MFALD from the leadership of the project and transfer the project to the newly created MCPA. This has been particularly damaging given the budget uncertainty throughout FY2012/13 due to the on-going political crisis in Nepal. The combined effects have included deep uncertainty within the project at all levels, de-motivated project teams, heavy delays in recruitment of essential new staff, existing contract staff worked unpaid for six months and, most critically, a loss of project leadership at the Districts by the Local Development Officers under MFALD. In addition to the internally created problems, in one District (Humla), violent civil unrest and a resulting curfew on the District headquarters was triggered due to local political tensions surrounding the selection of WUPAP project staff in the District. This led to a temporary suspension of the project in the District which was ultimately resolved by a Supreme Court order with project activities now due to be restarted in Humla.

In practical terms, at the time of the mission the first testing and training on the Community Investment Plan process (CIP) was on-going in the first District, six of eight Deputy District Project Coordinators (the day-to-day coordinators of project activity in each District) had been recruited but only some of these had taken up their post, the fulltime accounting posts in the PCU had not been filled and there were no fulltime project accounts in any districts. All of these activities and more should have been completed by Aug 2012 to properly launch Phase III, yet all are still some way from being completed.

In summary, WUPAP has been pushed into a second crisis in as many years. Phase III is now at least 9 months behind already, having only been running for 9.5 months, and urgent action is needed at all levels to get the project back on track.

Overall Assessment and Risk Profile

	Last	Current
C.1 Physical/financial assets	4	4
C.2 Food security	3	3
C.3 Overall implementation progress (Sections B1 and B2)	4	3

Rationale for implementation progress rating:

Overall project implementation has declined to moderately unsatisfactory, primarily due to the transfer of the project to the newly created Ministry of Cooperatives and Poverty Alleviation and the prolonged budget uncertainty this financial year resulting from the on-going political crisis in Nepal. The momentum that was established in the final year of Phase II now needs to be urgently re-established to lift the project back out of its current crisis. Financial management is unsatisfactory as critical issues, especially staffing, have repeatedly not been addressed. Immediate and conclusive action now needs to be taken.

C.4 Likelihood of achieving the development objectives (section B3 and B4)	4	3
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Rationale for development objectives rating:

Despite the current crisis within the project, the mission believes there are grounds for cautious optimism. The joint mission found genuine and strong commitment from MCPA, MFALD and MOF to put in place practical solutions to the problems that the project is facing, as set-out in the Aide Memoire and Mission Report. If this set of action are implemented as agreed then Phase III can still achieve its development objectives, but there remain notable risks to the project.

C. **Risks** Short description of major risks for each section and their impact on achievement of development objectives and sustainability

Fiduciary aspects	<ul style="list-style-type: none"> Financial management and control within the project has been persistently weak at all levels from PCU to Districts and VDCs. Phase III has significantly simplified the financial management reducing the number of cost centres to 9 from the previous 55. However, the critical issue is the lack of sufficient numbers of competent accounting staff in the PCU and DPCU. Despite repeated assurances from FCGO, appropriate accounting staff have not been assigned to the project as agreed. As such the project itself must now appoint a team of contract accounting staff to ensure proper financial management of the project.
Project implementation progress	<ul style="list-style-type: none"> A critical risk was previously identified as "any major changes, especially in the senior staff of the PCU and National Project Director over the next 2 years then this would create significant risks to project performance, especially given past experience in the project." This risk has indeed materialized with the unilaterally transfer of the project to MCPA. The mission agreed that the project would now have two National Project Co-Directors – one from the new MCPA and one from the former lead ministry – MLDFA. However, there remain notable risks to the project performance if this revised management arrangement does not function effectively or if there are significant changes in key personnel during the next 18 months. Revised implementation modalities for Phase III have been designed to address weaknesses in Phase I & II. However, the new modalities are still to be proven in the field and so present a risk to project performance. The PCU will need to provide intensive follow-up and support of DPCUs during the initial implementation of Phase III to ensure the modalities are made to work on the ground. The creation of two Senior District Coordinator posts and a Compliance Officer in the PCU will be necessary to achieve this, along with additional senior coaching/mentoring of PCU and DPCU staff. M&E within the project has improved since earlier stages. However, the internal re-organization

	<p>of the PCU to deal with the current project crisis will reduce the time and resources available to PM&E in the PCU compared to the PIII design (but still more than PII). Attention will need to be given to ensure the PM&E functions efficiently to allow it to perform adequately on reduced resources.</p> <ul style="list-style-type: none"> The greater use of NGOs/cooperative/private sector in delivery and/or support to field level activities needs to be effective as it is intended to address the lack of delivery capacity of district agencies in implementing critical project activities to the required standard and scale. If the project managers, at PCU and especially District level, cannot make this a success then there is a significant risk that the project would not be able to successfully implement Phase III. Initial meetings with service providers during the recent mission suggest this modality has the potential to be effective but the detailed mechanisms for this will still need to be tried and tested.
Outputs and outcomes	<ul style="list-style-type: none"> For Phase II achievements, the principal risk remains e that the outputs and outcomes which have been achieved to date, or are now in process, will not be sustained over the medium term due to weakness in the capacity of the groups and also the O&M arrangements for the infrastructure. Phase III will therefore need to continue to strengthen existing user groups and COs as well as adopting a different and improved approach to any community-led infrastructure investment. For Phase III, improved implementation modalities have been implemented from the start of Phase III and the Phase III extend to 4 years. However, the lack of progress in the first year of PIII now mean the project is under substantial time pressure if it is to have sufficient time for these changes in modality, especially in community empowerment and local service delivery, to take effect and become sustainable by the end of the project. Rapid action is needed over the next 4 months to get the CIP and local service delivery process back on track.
Sustainability	<ul style="list-style-type: none"> Phase III, if successful, has the potential to be a role model for changes in wider local government planning and investment process and local service delivery systems. However, the on-going political crisis in the country and IFAD own ambiguity to the project raise doubts about the future of these potentially valuable innovations beyond the end of the current project.

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
2013 Mar - Joint Review Mission			
Major actions	Leadership & management: Loan Amendment to be signed formalizing MCPA as new host ministry with Project Co-chair and Co-Directors from MFALD with defined responsibilities as in Annex 1.	15 Apr 2013	
	Leadership & management: PCU to implement revised internal management structure as in Annex 1, revising roles and recruiting additional contract staff as needed (incl. Senior District Coordinators)	15 Apr onwards	
	Leadership & management: Mobilize additional highly experienced local TA to provide regular coaching and implementation support to key staff (especially SDCs and DDPCs) over the next 12 months	15 Apr onwards	
	Leadership & management: IFAD to mobilize short and medium term national and/or international technical assistance as required	15 Apr onwards	
	Leadership & management: Progress with new leadership and internal management arrangements to be jointly reviewed in Aug/Sep and continuation of the project under these arrangements will be subject to satisfactory progress at that time.	26 Aug – 6 Sep	
	Fiduciary: PCU existing Accountant to be immediately replaced by a capable accountant.	30 Apr	
	Fiduciary: PCU Account Officer to be immediately appointed.	30 Apr	
	Fiduciary: PCU to complete recruitment to PCU of: 1x Financial analyst (in process), 1x Compliance officer	15 May	
	Fiduciary: PCU to recruit 8 District Project Accountants – 1 per district – using a fast track recruitment and contracting process	15 May	
Components	CIP Preparation process to be implemented in 2 stages in calendar year 2013.	40 VDC – 10 Jun	

Issue / Problem	Recommended Action	Timing	Status
		All VDC – 30 Sep	
	CIP Preparation process to include effective pre-feasibility/feasibility technical advice to communities and local Learning Routes for selected community members	07 Apr onwards	
	CIP Preparation process: Senior District Coordinators to conduct systematic process of work with DDPC to implement first 1-2 CIPs in each district to ensure full DPCU team and SMs are familiar and clear on process – supported by highly experienced national TA if possible	07 Apr onwards	
	Service providers: Immediate engagement to begin with district service providers and “selling of the project” (NGOs, public sector) as per the process outlined in the draft revised PIM	07 Apr onwards	
	Service providers: PCU to identify external service providers for vocational training and obtain suitable information on available courses, unit costs, timing etc for inclusion in CIP preparation process	25 Apr	
	Service providers: Ensure selected district service providers have skills and resources and skills to deliver, including 1. ToT of local service provider staff on technical issues (production, post -harvest etc.) and training methods as needed 2. Training of DPCU sub-engineers on hydraulic design and surveying (min. 10 days including field work) and provision of complete set of necessary engineering survey instruments for all DPCUs.	Before service delivery 15 May	
	Social mobilizers: Reinvigorate network of SMs through strategies including – local learning routes, in-village coaching by Senior SMs, rewards for best performing SMs	07 Apr onwards	
Project Implementation	Project management: Monthly work plans for all Districts and PCU team members and teams. Progress reviewed weekly and new plans set at regular monthly meeting. SDCs to attend all DPCU monthly meetings	15 Apr onwards	
	Project management - PIM: Prepare updated Project Implementation Manual / CIP & District Guidelines for Phase III based on draft District/CIP process already prepared by project team.	07 Apr – Final Internal Draft 07 May – approved by GoN/IFAD	
	Planning, M&E: PCU (with support from IFAD ICT team) to develop an action plan to better exploit ICT within its PM&E at the community, district and PCU levels, and where possible coordinate with HVAP on approaches/technologies	30 Apr	
	Knowledge management: PM&E staff to be trained in design and use of Learning Routes as KM tool	30 Apr	
	Knowledge management - CIP process: Produce video(s) of actual CIP process and various steps for use with communities, SMs and other stakeholders. Include a “how to” and “how not to” versions. Hire local communication consultant to lead process. Filming to be done now in first batch of CIPs being prepared covering all steps including roles of service providers.	7 Apr – 30 Jun	
Fiduciary	Phase II Accounts: Appoint a consultant for closure of Phase II accounts	15 Apr	
	Phase II Accounts: Project to make final withdrawal claim and close the accounts. If accounts are not closed by the deadline and final withdrawal claims are not made, the	Final WA by 31 May Final Acc 31	

Issue / Problem	Recommended Action	Timing	Status
	balances of Phase II shall be utilized towards disbursement of IFAD in Phase III	May	
	Phase II Grant: Final WA to be processed and then balances reassigned to Phase III categories before closed	30 Apr	
	Tax: Reclaim eligible tax amount of NPR 1,972,623.53 (of loan) and NPR 1,028, 582 (of grant) in next WA.	Next WA	
Other	Joint Support Unit: WUPAP to finance one position within the emerging Joint Support Unit with role to be determined jointly with IFAD	16 Jul onwards	
2012 Apr - Joint Review Mission			
Phase III Preparation: Design	Finalise agreed Phase III Design (GON / IFAD)	31 May 2012	Completed
Phase III Preparation: Loan amendment	Loan Amendment prepared and processed (IFAD)	05 July 2012	Completed, 02 Jul 2012
Phase III Preparation: GoN approval	Phase III plan submitted to NPC and MOF for approval (PCU)	05 July 2012	Completed
Phase III Preparation AWPB 2012/13	AWPB 2012/13 Prepared and submitted for approval by GONDraft - 31 May 2012 Final: - 05 July 2012		Not implemented AWPB revised multiple times during year, initial approval only for first trimester. Highly disruptive for project
- Phase III Preparation: Phase III Launch plan	Prepare and implement detailed Phase III Launch Plan (PCU)	15 May 2012 onwards	Not implemented – major disruption to launch due to change of Ministry and budget approval delays
Phase III Preparation: PCU staff	Maintain current PCU staff and contractors that have good performance for Phase III where their posts (or equivalent) continue from start of Phase III. (PCU)	15 May 2012 Onwards	Completed, but change of Ministry meant change in NPD
Phase III Preparation: Project coordinator	Appointment of PC for a minimum of 2 years guaranteed to 15 July 2014. Choice of PC subject to IFAD agreement. (Pre-condition for Phase III) (MLD)	15 Jul 2012	Not confirmed
Phase III Preparation: Phase III start	Start of Phase III (IFAD / MLD)	16 Jul 2012	Completed
Phase III Preparation: Accountant team	Appoint Accountants to all District Project Coordination Units as well as Accountant and Sub-accountant to PCU (Pre-condition for Phase III) (FCGO)	15 Sep 2012	Not implemented
Fiduciary: Financial staff to end Phase II	Financial staff: Competent accountant, if possible with donor funded project experience, to be immediately appointed to PCU fulltime by FCGO (FCGO)	31 May 2012	Not implemented
Fiduciary: Financial staff to end Phase II	Financial staff: PCU to contract experienced Financial Analyst to provide technical guidance and support to PCU account staff during remainder of Phase II (PCU)	31 May 2012	Not implemented but in process of recruitment with significant delay.
Fiduciary: Verification in Districts	Financial management: Conduct periodic visit by PCU accounting staff to all districts to assist district Project Accountants and expenditures tracking (PCU)	Min. one visit per district by 15 Jul 2012	Not implemented
Fiduciary: Withdrawal applications	Withdrawal application: submit regularly as per agreed schedule to minimize unclaimed amount by 15 July (see Annex for schedule) (PCU)	30 Apr 2012 onwards	Not implemented
Fiduciary: Phase II closure	Phase II account closure and clearing of expenditures (Pre-condition for Phase III) (PCU)	15 Oct 2012	Not implemented. PCU will now contract external accountant to assist in closing accounts.
Fiduciary: Audit observation log	Audit: Complete the consolidated Log of Audit Observations and Table of Summary Status of Audit Observations of PCU and all district line agencies (Pre-condition for Phase III) (PCU/ All district Project Offices)	31 May 2012	Partially implemented. PCU has prepared a consolidated audit log of audit observations. But the status of audit observation and settlements is not compiled by PCU.

Issue / Problem	Recommended Action	Timing	Status
Fiduciary: Asset log and verification	Asset Management: Collect the list of project assets from district offices, compile it and conduct physical verification of those assets (Pre-condition for Phase III) (PCU)	31 May 2012	Implemented, with some areas for improvement. PCU has compiled asset register. Details were mostly received from districts and cross verified with the records maintained in PCU and was satisfactory
Fiduciary: Register of contracts	Procurement: Accelerate the progress of collecting "Register of Contracts" from district line agencies, consolidate with PCU records and update the consolidated "Register of Contracts" in each month. (Pre-condition for Phase III) (PCU/All district Project Offices)	31 May 2012	Completed
2011 Dec - Joint Review Mission			
Project Coordinator	Current PC to be maintained in post to end Phase II as minimum (MLD)	Until July 2012	Completed
Revised AWPB	Rapid approval of revised AWPB by GON (MLD/MoF)	31 January 2012	Completed
Deputy Project Coordinator	Rapid appointment of competent Deputy Project Coordinator to PCU (MLD)	January 2012	Completed
Engineering staff	Appointment of three additional sub-engineers to PCU and extension of engineers contract to be full time to end Phase II (PCU)	15 February 2012	Completed
District senior staff turnover	Provide clear guidance and orientation to all newly appointed LDOs in project districts to rapidly implement the agreed action plan (MLD)	January 2012	Completed
Financial management: lack of capable account staff in PCU	Recreate Accounts Officer's post in PCU and appoint competent Accounts Officer with donor funded project experience (MLD/IFAD)	January 2012	Not resolved
Financial management: No expenditure verification of districts	Conduct periodic visit by PCU accounting staff to all districts to assist district Project Accountants and expenditures tracking (PCU)	At least two visits in each district in FY 2011-12	In process
Financial management: poor quality of account keeping and WA preparation	Maintain yearly consolidated project account by category, WA claim by category and reconcile outstanding WA claims with these. (PCU)	By February 2012	Completed & on-going
Asset Management: consolidated asset log and tracking system does not exist	Conduct physical verification of fixed assets procured by PCU and districts with the assets records maintained in PCU and district project offices, including assets transferred by PCU to district offices. Based on this verification prepare consolidated assets records and deliver to IFAD. (PCU)	By March 2012	Partially completed. Completed for PCU and in process for Districts
Audit: no consolidated log of audit observation and status	Collect audit observations from all the project districts and prepare consolidated Log of Audit Observations and Table of Summery Status of Audit Observation from the beginning of the project implementation (Project Year 1) to date and deliver to IFAD (PCU with implementing agencies of 11 project districts)	By March 2012	Partially completed. Completed for PCU and in process for Districts
Audit: Quality of audit is low	Audit (OAG) (i) Improve the quality of audit report in terms of opinion on the use of SAs, detail the shortcomings in the project's internal controls, procedures and practices, together with appropriate recommendations for improvement and recommendations. (ii) Include entire audit observations and recommendations of the project audit (including all implementing line agencies in the district and the PCU) in audit report of FY 2010-11	By 16 th January 2012	Improved quality of audit noted in 2010/11 audit report Partially completed. Completed for PCU and in process for Districts

Additional observations

Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs

Phase III Logical Framework

Phase III has a fully revised logical framework from previous Phases and has been under implementation for only 9 months. As such there is no specific progress against Phase III outcomes and outputs. The Phase III logical framework is included below for reference.

Results hierarchy	Indicators	Means of verification	Assumptions
Goal Strengthened livelihood systems and basic human dignity amongst the poor and socially disadvantaged people in the Mid and Far Western regions of Nepal	1 Improvements in household assets ownership index 70. Reduction in prevalence of child malnutrition, especially chronic malnutrition (height for age) 71. # of household directly participating in the project	<ul style="list-style-type: none"> RIMS plus - Phase III baseline & end-line Project activity reports 	Socio-economic stability maintained so as not to disrupt market or project implementation. Government administrative structures at national and sub-national levels remain stable and supportive of project
Development objective Improved living standard through sustained growth of employment, income and access to resources amongst the poor households in targeted area	72. % increase in average household net income 73. % increase in average HH production of crops, NTFF/MAFS 74. % increase in average household herd size (livestock index) 75. % of HH with >20% increase in physical (e.g. land, equipment) or financial resources	<ul style="list-style-type: none"> RIMS plus - Phase III baseline & end-line 	Government administrative structures at national and sub-national levels remain stable and supportive of project
Outcome 1 (Component 1) Community Empowerment	76. 70% of people who believe their priorities were equitably reflected in CIP plans and implementation 77. 70% of participants are satisfied with CIP process (planning, implementation and governance) 78. 70% of CIP implementation that exceeds 70% physical and financial progress against plan for each year 79. 70% of CO and other groups graduating to self-sustaining status 80. 70% of HH adopting improved nutrition practices	<ul style="list-style-type: none"> Annual VDC-level results monitoring survey RIMS plus - Phase III baseline & end-line 	Social environment within target villages is conducive to participatory investment processes
1.1 Social empowerment	81. 153 participatory Community Investment plans prepared 82. 70% of people are satisfied with the pre-feasibility technical advice on agriculture (incl. livestock and forestry) and infrastructure 83. 70% of identified target households in each VDC reporting active participation of women and men from the HH in participatory CIP process (Active = attending 2 or more meetings in the planning process where they either voted or spoke to raise an issue) 84. 90% VDC conducting public audit each year covering all project supported activities 85. 80% satisfaction with overall services, infrastructure and other investments under CIP	<ul style="list-style-type: none"> CIP feedback survey Annual VDC-level results monitoring survey VDC activity reports RIMS plus - Phase III baseline & end-line 	Social environment within target villages is conducive to participatory investment processes

Results hierarchy	Indicators	Means of verification	Assumptions
	(disaggregated by respondent) 86. Number of HH where men and women both receive nutrition training and/or awareness raising activities		
1.2 Economic Empowerment	87. # of investments completed for the five types of eligible investment 88. # of beneficiaries by each of the five types of investment <u>Farming improvement</u> 89. 80% satisfaction among farmers with farming improvement services and technical support/training 90. 80% of household adopt at least 50% of the technology components they receive training on for at least 2 production seasons after training <u>Market linkage</u> 91. Number of households reporting increase in unit sales price for produce above changes in local market prices <u>Vocational training</u> 92. % of vocational trainees receiving >25% increase in wage rate after training (corrected for inflation) <u>Infrastructure</u> 93. 80 % of infrastructure with appropriate design, construction and O&M system <i>Labour savings infrastructure</i> 94. No. of households using schemes 95. Average monthly time and/or cost savings per household <i>Productive infrastructure</i> 96. Increase in annual irrigated production area (=area of actual irrigated land X number of seasons irrigated) <u>Loan capital</u> 97. 70% of CO's planned in CIP to receive capital meet criteria and receive Loan Capital by end of 3 yr plan.	<ul style="list-style-type: none"> • VDC activity reports • Annual VDC-level results monitoring survey • D-PCU progress reports (CIP's submitted) • VDC Public Audit Report • Pre- and post-activity beneficiary surveys and group discussion 	Appropriate technical service providers can be identified and contract to work in project areas to complement Government technical line agencies
Outcome 2/ component2: District Service Delivery Improvement	98. 80% satisfaction of target people with farming improvement services and technical support/training provided by DADO, DLSO and DFO. 99. 80% of household trained by DADO/DLSO/DFO adopt at least 50% of the technology components they receive training on for at least 2 production seasons after training (monitor each season)	<ul style="list-style-type: none"> • Pre- and post -activity beneficiary surveys and group discussion • Annual VDC-level results monitoring survey • RIMS plus - Phase III baseline & end-line 	District agencies have sufficient numbers of appropriate skilled staff to deliver required service
Output 1: Service Excellence Challenge	100. 80% of district service improvement projects implemented meet the key implementation	<ul style="list-style-type: none"> • District Agencies progress 	District agencies are

Results hierarchy	Indicators	Means of verification	Assumptions
Fund	and impact targets set in their proposal	reports • PCU progress report	committed to participate in project
Output 2: Farm Field School Pilots & Rollout	101. 5 FFS training courses developed/adapted, including all training materials, approaches and ToT materials 102. At least 25 FFS pilot courses implemented 103. At least 40 technical staff trained in each successful FFS methodology	• FFS training materials and documents • FFS pilot activity and impact reports • ToT training records	

Appendix 3: Summary of key actions to be taken within agreed timeframes

Action Area	Action Agreed	Whom	Date	Progress
Major actions	Leadership & management: Loan Amendment to be signed formalizing MCPA as new host ministry with Project Co-chair and Co-Directors from MFALD with defined responsibilities as in Annex 1.	GoN - IFAD	15 Apr 2013	
	Leadership & management: PCU to implement revised internal management structure as in Annex 1, revising roles and recruiting additional contract staff as needed (incl. Senior District Coordinators)	MCPA - PCU	15 Apr onwards	
	Leadership & management: Mobilize additional highly experienced local TA to provide regular coaching and implementation support to key staff (especially SDCs and DDPCs) over the next 12 months	PCU	15 Apr onwards	
	Leadership & management: IFAD to mobilize short and medium term national and/or international technical assistance as required	IFAD	15 Apr onwards	
	Leadership & management: Progress with new leadership and internal management arrangements to be jointly reviewed in Aug/Sep and continuation of the project under these arrangements will be subject to satisfactory progress at that time.	GoN - IFAD	26 Aug – 6 Sep	
	Fiduciary: PCU existing Accountant to be immediately replaced by a capable accountant.	FCGO / MoF	30 Apr	
	Fiduciary: PCU Account Officer to be immediately appointed.	FCGO / MoF	30 Apr	
	Fiduciary: PCU to compete recruitment to PCU of: 1x Financial analyst (in process), 1x Compliance officer	PCU	15 May	
	Fiduciary: PCU to recruit 8 District Project Accountants – 1 per district – using a fast track recruitment and contracting process	PCU	15 May	
Components	CIP Preparation process to be implemented in 2 stages in calendar year 2013.	PCU / DPCU	40 VDC – 10 Jun All VDC – 30 Sep	
	CIP Preparation process to include effective pre-feasibility/feasibility	PCU / DPCU	07 Apr onwards	

Action Area	Action Agreed	Whom	Date	Progress
	technical advice to communities and local Learning Routes for selected community members			
	CIP Preparation process: Senior District Coordinators to conduct systematic process of work with DDPC to implement first 1-2 CIPs in each district to ensure full DPCU team and SMs are familiar and clear on process – supported by highly experienced national TA if possible	PCU / DPCU	07 Apr onwards	
	Service providers: Immediate engagement to begin with district service providers and “selling of the project” (NGOs, public sector) as per the process outlined in the draft revised PIM	PCU (SDCs/DDPCs)	07 Apr onwards	
	Service providers: PCU to identify external service providers for vocational training and obtain suitable information on available courses, unit costs, timing etc for inclusion in CIP preparation process	PCU	25 Apr	
	Service providers: Ensure selected district service providers have skills and resources and skills to deliver, including 3. ToT of local service provider staff on technical issues (production, post-harvest etc.) and training methods as needed 4. Training of DPCU sub-engineers on hydraulic design and surveying (min. 10 days including field work) and provision of complete set of necessary engineering survey instruments for all DPCUs.	PCU	Before service delivery 15 May	
	Social mobilizers: Reinvigorate network of SMs through strategies including – local learning routes, in-village coaching by Senior SMs, rewards for best performing SMs	PCU / DPCU	07 Apr onwards	
Project Implementation	Project management: Monthly work plans for all Districts and PCU team members and teams. Progress reviewed weekly and new plans set at regular monthly meeting. SDCs to attend all DPCU monthly meetings	PCU – SDC and Deputy PC to lead process	15 Apr onwards	
	Project management - PIM: Prepare updated Project Implementation Manual / CIP & District Guidelines for Phase III based on draft District/CIP process already prepared by project team.	PCU	07 Apr – Final Internal Draft 07 May – approved by GoN/IFAD	
	Planning, M&E: PCU (with support from IFAD ICT team) to develop an action plan to better exploit ICT within its PM&E at the community, district and	PCU / IFAD ICT	30 Apr	

Action Area	Action Agreed	Whom	Date	Progress
	PCU levels, and where possible coordinate with HVAP on approaches/technologies			
	Knowledge management: PM&E staff to be trained in design and use of Learning Routes as KM tool	PCU with ex service provider / partner (eg PROCASUR)	30 Apr	
	Knowledge management - CIP process: Produce video(s) of actual CIP process and various steps for use with communities, SMs and other stakeholders. Include a “how to” and “how not to” versions. Hire local communication consultant to lead process. Filming to be done now in first batch of CIPs being prepared covering all steps including roles of service providers.	PCU	7 Apr – 30 Jun	
Fiduciary	Phase II Accounts: Appoint a consultant for closure of Phase II accounts	PCU	15 Apr	
	Phase II Accounts: Project to make final withdrawal claim and close the accounts. If accounts are not closed by the deadline and final withdrawal claims are not made, the balances of Phase II shall be utilized towards disbursement of IFAD in Phase III	PCU	Final WA by 31 May Final Acc 31 May	
	Phase II Grant: Final WA to be processed and then balances reassigned to Phase III categories before closed	PCU	30 Apr	
	Tax: Reclaim eligible tax amount of NPR 1,972,623.53 (of loan) and NPR 1,028, 582 (of grant) in next WA.	PCU	Next WA	
Other	Joint Support Unit: WUPAP to finance one position within the emerging Joint Support Unit with role to be determined jointly with IFAD	GoN-IFAD	16 Jul onwards	

Appendix 4: Physical progress measured against AWP&B, including RIMS indicators

Ref No.	Objectives/Expected Results	Indicators	Timetable for implementation	Responsible	Implementation targets								Budget					
	(A)	(C)	(D)	(E)	(F)	(F.a)	(G)	(Ga)	(H)	(I)	(J)	(K)	(L)	(L.a)	(M)	(N)	(O)	
1	Community Empowerment																	
1.1	Social Empowerment																	
1.1.1	Participatory planning, investment, management and governance																IFAD 84% GoN 16%	
1.1.1.1	Pre-feasibility assessment and advice		*		PCU, DPCU	153		153	32.6				4971.5		3600	III2		
1.1.1.2	Participatory Community Investment Planning Process				PCU, DPCU	153		153	48.9				7498		6869	III2		
1.1.1.2.1	CIP format preparation		*		PCU, DPCU			1			1				150	III 2		Completed
1.1.1.2.2	2 days orientation training to S.M about the CIP		*		PCU, DPCU			8			1				1161	III 2		Initiated in Rolpa
1.1.1.2.3	Training to the CPCU members about the participatory planning for 2 days		*		PCU, DPCU			8							4908	III 2		
1.1.1.2.4	CIP preparation		*		PCU, DPCU			8			1				400	III 2		
1.1.1.2.5	CIP publication		*		PCU, DPCU			1							250	III 2		
1.1.1.3	Annual public audit and CIP updating				PCU, DPCU	459		0	24.4				11247		80	III 2	IFAD 84% GoN 16%	
1.1.1.3.1	Annual public audit				PCU, DPCU			8							80	III 2		
1.1.1.3.2	Updating of CIP		*		PCU, DPCU			0							0	III 2		
1.1.2	Graduation of existing COs and groups																IFAD 84% GoN 16%	
1.1.2.1	COs consolidation and link to MFI's/Banks				PCU, DPCU	460		77	16.3				7452		3200	III 2		
1.1.2.1.1	ToT training to Community members and SM on CO consolidation and graduation into cooperative		*		PCU, DPCU			3200							3200	III 2		
1.1.2.1.2	Support in linking CO's				PCU, DPCU			0					0		0			
1.1.2.2	Short term national TA for CO consolidation				PCU	24		0					4890		0			
1.1.2.3	CO's graduation grant				PCU	1500		0	32.6				48900		0			
1.1.3	Nutrition Awareness				PCU, DPCU													
1.1.3.1	ToT and refresher				PCU, DPCU	16		32	65.2				1059.5		1621	III 2	IFAD 84% GoN 16%	
1.1.3.1.1	Awareness training for 2 days to the S.M about the nutrition		*		PCU, DPCU			8							990	III 2		
1.1.3.1.2	Nutrition awareness program		*		PCU, DPCU			24							631	III 2		
1.1.3.2	Short term national TA for nutrition campaign				PCU	9		0	202.5				1874.5		0			

Ref No.	Objectives/Expected Results	Indicators	Timetable for implementation	Responsible	Implementation targets								Budget					
	(A)	(C)	(D)	(E)	(F)	(F.a)	(G)	(Ga)	(H)	(I)	(J)	(K)	(L)	(L.a)	(M)	(N)	(O)	
1.1.3.3	Campaign material			*	PCU, DPCU	459		153	374.1				7498		2000	III 2	IFAD 84% GoN 16%	
1.2	Economic Empowerment																	
1.2.1	Farming Improvement																	Targets & costs to be set by CIPs
1.2.2	Market linkage																	
1.2.3	Vocational training																	
1.2.4	Productive and labour saving infrastructure																	
1.2.5	Loan Capital																	
1.2.6	Social Mobilization																	
1.2.6.1	Social Mobilizers		x	x	x	DPCU, LDF	612		153	220.05		153	134638		28,560	III2	IFAD 84% GoN 16%	Target is in FTE years
1.2.6.2	ToT to SM on Appreciative Participatory Rural Appraisal & baseline survey (5 Days)			*		DPCU, LDF	800		8	652		1	4727		1800	III 2	IFAD 84% GoN 16%	
2	District Service Improvement																	
2.1	Service Excellence Challenge Fund																IFAD 84% GoN 16%	
2.2	Farm Field School Pilots & Rollout																IFAD 84% GoN 16%	
2.2.1	FFS Designed and material preparation			*		PCU	5		1	326			1630		300	III 2		
2.2.2	FFS Pilot			*		PCU	40		2	244.5		1	9780		400	III 2		
2.2.3	FFS roll out of capacity building			*		PCU	30		1	684.6			20538		300	III 2		1 activities in Bajhang
2.3	Human resource Development					PCU	32		0	733.5			23472		0			
3	Project management																	
3.1	Meeting and workshop at District level																IFAD 84% GoN 16%	
3.1.1	Beneficiaries Oversight Board (BoB) Event			*		DPCU	32		8	244.5			7824		400	III 2		
3.1.2	Project Meeting, Coordination committee and workshop					DPCU	32		193	163			5216		6708	III 2		
3.1.2.1	District Service Coordination Committee formation and Meeting			*	*	DPCU			32			6			400	III 2		Formed

Ref No.	Objectives/Expected Results	Indicators	Timetable for implementation	Responsible	Implementation targets								Budget					
	(A)	(C)	(D)	(E)	(F)	(F.a)	(G)	(Ga)	(H)	(I)	(J)	(K)	(L)	(L.a)	(M)	(N)	(O)	
3.1.2.2	Formation and meeting of Community Project Coordination Unit			*	DPCU		153								5508	III 2		
3.1.2.3	Orientation at the District level		*	*	DPCU		8				8				800	III 2		Completed
3.2	Meeting and workshop Ministry, PCU and Regional Level					4		326					1304		2245	III 2	IFAD 84% GoN 16%	
3.2.1	Orientation on project by PCU		*	*	PCU		24				5				400	III 2		Completed
3.2.2	PSC meeting		*	*	PCU		3				2				225			2 Completed
3.2.3	Regional Coordination Meeting		*	*	PCU		3				1				120	III 2		1 completed
3.2.4	Review Planning Workshop			*	PCU		1								1500	III 2		
3.3	Human Resource Development																IFAD 84% GoN 16%	
3.3.1	Professionals training and Exposure visits				PCU	12	6	815					9780		1100	III 2		
3.3.1.1	Professional training and workshop participation cost to project staffs		*	*	PCU		5				2				300	III 2		2 candidate send for the training
3.3.2	Training to the account staffs		*		PCU		1								800	III 2		
3.4	Monitoring & Evaluation Cost																IFAD 84% GoN 16%	
3.4.1	Project Monitoring Cost				PCU, DPCU, RD	36	56	6846					36512		13600	III 6		
3.4.1.1	Regional Directors operation and Monitoring Cost		*	*	RD		12				0				1200	III 6		
3.4.1.2	Monitoring and Supervision cost by Cooperative office for support in graduation of CO's into cooperatives		*	*	PCU		12				0				800	III 6		
3.4.1.3	Program Monitoring Cost by PCU, and District		*	*	Pcu and DPCU		32				6				9800	III 6		Ongoing
3.4.1.4	Knowledge Management System																	
3.4.1.4.1	Documentary preparation and WUPAP program awareness program through FM and radio		*	*	PCU		12								800	III 6		
3.4.1.4.2	MIS system preparation		*	*	PCU		1								300	III 6		
3.4.1.4.3	Accounting Software installation		*		PCU		1				1				300	III 6		Completed
3.4.1.4.4	Baseline analysis software		*		PCU		1				1				300	III 6		On process
3.4.1.4.5	CIP progress mapping tool		*	*	PCU		1								100	III 6		
3.4.2	Studies and software				PCU DPCU	5	1	7742.5					8965		8961	III 2		
3.4.2.1	Appreciative Participatory Rural Appraisal with wealth ranking		*	*	PCU, DPCU		1								5769	III 2		
3.4.2.2	Data collection for Baseline in each VDC		*	*	PCU, DPCU		1								1978	III 2		

Ref No.	Objectives/Expected Results	Indi- cator s	Timetable for imple- mentation	Respon- sible	Implementation targets								Budget					
	(A)	(C)	(D)	(E)	(F)	(F.a)	(G)	(Ga)	(H)	(I)	(J)	(K)	(L)	(L.a)	(M)	(N)	(O)	
3.4.2.3	Baseline data compilation and selection of core beneficiaries		*	*	PCU, DPCU		1								514	III 2		
3.4.2.4	Project implementation guideline		*		PCU		1								200	III 2		
3.4.2.5	Phase II completion report		*		PCU		1								500	III 2		
3.5	Equipment Purchase																IFAD 84% GoN 16%	
3.5.1	Motorbike purchase		*	*	PCU	9	9	244.5					2200.5		3375	III 1		Process initiated
3.5.2	Laptop Computer purchase		*	*	PCU	30	30	81.5					2445		2520	III 1		Process initiated
3.5.3	Office equipment and furniture				PCU	29		285.25					3423		1590	III 1		Process initiated
3.5.3	Audio Visual equipment Purchase		*	*	PCU	1	1								200	III 1		
3.5.4	Information Management related equipment purchase		*	*	PCU	L.S	L.S								1100	III 1		
3.5.5	Furniture purchase for new office establishment		*	*	PCU	L.S	L.S								290	III 1		
3.6	Local Technical Assistance				PCU, DPCU	55	8						25754		8607	III 3	IFAD 84% GoN 16%	
3.6.1	Staff hiring Cost		*	*	PCU	2	2				2				1300	III 3		Completed
3.6.2	LTA Cost		*	*	PCU	L.S	L.S								7207	III 3		On going
3.6.3	Subproject Account preparation		*	*	PCU	1	1				1				100	III 3		Completed
3.7	Admin and Management																	
3.7.1	Admin Cost		*	*	PCU, DPCU	9	9								11640	III 6	IFAD 84% GoN 16%	Ongoing
3.7.2	Salary to Staff		*	*	PCU DPCU	9	9								24426.64	III 8	GoN 100%	Ongoing
	Grand Total														133902.64			

Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

Table 5A: Financial performance by financier

Phase I (As at 15 July 2007)

Financier	Appraisal (USD '000)	Disbursements (USD '000)	Per cent disbursed
IFAD loan	2,921.00	2,549.34	87%
IFAD grant	292.00	232.54	80%
Co-financier Government	299.00	103.16	35%
Total	3,512.00	2,885.04	82%

Phase II (As at 17 March 2013)

Financier	Appraisal (USD '000)	Disbursements (USD '000)	Per cent disbursed
IFAD loan	10050.00	10,755.56	107%
IFAD grant	288.00	324.08	113%
Government	2243.00	1,367.57	61%
Local Government	501.00		0%
Beneficiaries	390.00		0%
Private Sector	14.00		0%
Total	13,486.00	12,447.21	92%

Table 5B: Financial performance by financier by component (USD '000)

Phase I

Component	IFAD loan			IFAD grant			Co-financier			Government			Domestic 1			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
Infrastructure		504.60			2.81											416.00	507.41	122%
Leasehold Forest and NTFP		348.95			0.69											677.00	349.64	52%
Crops and Livestock		332.59			4.90											428.00	337.49	79%
Microfinance and Marketing		111.61														238.00	111.61	47%
Institutional Development		1,251.59			224.13					299.00	103.16					1,753.00	1,578.88	90%
Total	2,921	2,549.34	87%	292.00	232.53	80%				299.00	103.16					3,512.00	2,885.03	82%

Phase II

Component	IFAD loan			IFAD grant			Local Government			Government			Beneficiaries & Private Sector			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
Community Infrastructure	3,106.00	3,250.97	105%				385			181.00			42			3714.00	3,250.97	88%
Leasehold Forest & NTFP	1,954.00	2,227.02	114%				116			132.00			362			254.00	2,227.02	87%
Crops and Livestock	1,442.00	1,615.56	112%							188.00						1630.00	1,615.56	99%
Microfinance & Marketing	1,325.00	443.78	33%							401.00						1726.00	443.78	26%
Institutional Support	1,786.00	3,218.23	180%	169.00	324.08	192				1,341.00	1,367.57	102				3,296.00	4,909.88	149%
Unallocated	437.00			119.00												556.00		
Total	10,050.00	10,755.56	107%	288.00	324.08	113	501.00			2,243.00	1,367.57	61	404.00			13,486.00	12,447.21	92%

Table 5C: IFAD Loan 576 disbursements (SDR, as at 17-03-2013)
Phase I

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
I	Civil Works for Part A (II) of Project	240,000	322,562	322,562	-	-	100%
II	Equipment, Materials & Vehicles	520,000	195,427	195,427	-	-	100%
III	Training & Studies & CSO Services	970,000	776,576	776,576	-	-	100%
IV	Credit	70,000	63,917	63,917	-	-	100%
Va	Institutional & Management Support	200,000	184,986	184,986	-	-	100%
VI	Incremental Operating Cost (Excluding Salaries and Allowances)	210,000	149,427	149,427	-	-	100%
	Unallocated	90,000					
	Initial deposit						
	Total	2,300,000	1,692,895	1,692,895			

Phase II

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
VIII	Community Infrastructure	2,060,000	2,060,000	2,021,840.13	-	38,159.87	98.15%
IX	LFUG Development Investments	470,000	900,000	862,064.12	-	37,935.88	95.78%
X	Equipment, Materials and Vehicles	870,000	80,000	75,572.63	-	4,427.37	94.47%
XI	Crop & Livestock Sub-projects	160,000	540,000	507,446.51	-	32,553.49	93.97%
XII	Training and Workshops	930,000	1,200,000	1,130,060.16	-	69,939.84	94.17%
XIII	Studies and Research	290,000	240,000	233,789.50	-	6,210.50	97.41%
XIV	Contract for NGO Services and Institutional and Management Support	500,000	1,750,000	1,750,130.35		(130.35)	100.01%
XV	Credit Capital	600,000	7,000	6,403.13		596.81	91.47%
	Unallocated	300,000	180,104			180,104	0.00%
	Initial deposit	-	-	667,227.11			
	Total	6,700,000	7,307,104	7,491,129.94		483,201.17	91.09%

Phase III

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
	Total	6,600,000					
	Unallocated						
	Initial deposit	6,600,000	-	-			
	Total	6,700,000	7,307,104	7,491,129.94		483,201.17	91.09%

IFAD Grant C 567 disbursements (SDR, as at 17-03-2013)

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
Phase I							
Vb	Technical Support for Training, Implementation Support and Travel Allowance for Part E of the project	230,000	156,957.46	156,957.46	-	-	100%
	Sub Total	230,000	156,957.46	156,957.46	-	-	100%
Phase II							
XVII	Local Technical Assistance Training, Implementation Support and Travel Allowance for Part E of the project	60,000	133,042.54	133,020.66	-	-	100%
	Initial deposit						
	Total	290,000	290,000	289,978.12			99.99%

IFAD Grant DSF 8010/NP- Disbursements (USD, as at 17-03-2013)

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
Phase II							
Vb	Local Technical Assistance	190,000	-	90,816.99	40,160.88	59,022.13	47.80%
	Sub Total	190,000	-	90,816.99	40,160.88	59,022.13	47.80%
	Initial deposit			50,000			
	Total	190,000	-	140,816.99			74.11%

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Status
1.05	<i>Appointment of the Cooperating Institution.</i> The Fund intends to appoint the United Nations Office for Project Services (UNOPS) as the Cooperating Institution, with the responsibilities set forth in Article III (The Cooperating Institution) of the General Conditions, to administer the Loan and supervise the Project, at the expense of the Fund, in accordance with the Cooperation Agreement. The Borrower hereby agrees to such appointment.	Complied with. IFAD now directly supervising
2.03	<i>Special Account.</i> (a) The Borrower shall open and thereafter maintain in the Kathmandu Bank Office of the Nepal Rastra Bank a Special Account denominated in US Dollars for the purpose of financing the Project.	Complied with
	(c) The Project Director shall operate the Special Account jointly with the Project Accounts Officer of the Ministry of Local Development in accordance with Section 4.08 of the General Conditions.	Being complied with
2.04	The Borrower and each Project Party shall use the proceeds of the Loan and the Grant exclusively to finance Eligible Expenditures in accordance with this Agreement and the General Conditions. Without limited the generality of the foregoing, it is agreed and understood that it is the policy of the Fund that neither the Loan nor the Grant proceeds be used to pay Taxes, including (but not limited to) any Taxes levied on the importation, procurement or supply of any goods, civil works or services financed by the Loan.	Complied with (The PCU communicated that taxes will be deducted while preparing WAs for disbursement)
3.01	The Borrower declares its commitment to the goals and purposes of the project as stated in Schedule 1	Being complied with
3.02	The PCU shall prepare a draft annual work plan and budget ("AWPB") for each Project Year in accordance with the procedure described in paragraph 17 of Schedule 3. Each draft AWPB shall include, among other things, a detailed description of planned project activities during the coming Project Year, and the sources and uses of funds therefore.	AWPB's are prepared at the DDC level in consultation with the VDCs and SMs with inputs from PCU and consolidated at the PCU.
	The PCU shall submit each draft AWPB through the PSC and the Lead Project Agency to the Fund, for their respective comments and approval, no later than 15 th April of each fiscal year. If neither the Fund nor the Cooperating Institution comments on the draft AWPB within 30 days after receipt, the AWPB shall be deemed approved.	Not complied. AWPB of FY 2012/13 was revised multiple time and the full year AWPB still had not been approved by Mar 2013
	The Lead Project Agency shall adopt each AWPB approved by the Fund and the Cooperating Institution, and the PCU shall provide copies thereof to the Fund and the Cooperating Institution, prior to the commencement of the relevant Project Year.	Not complied. AWPB not approved and available even after 9 months of the FY 2012/13
	If required, the PCU, through the Lead Project Agency, may propose adjustments to the AWPB during the relevant Project Year, which shall become effective upon approval by the PSC and the Fund.	Being complied with
3.03	The Lead Project Agency shall open and thereafter maintain in the Kathmandu Banking Office of the Nepal Rastra Bank a current account denominated in US Dollars for receiving Grant funds to partially finance the Institutional Support component. The Project Director and the Project Accounts Officer of the Ministry of Local Development shall each be fully authorised to jointly operate the Grant Project Account.	Complied with
	The Lead Project Agency shall open and thereafter maintain in the Nepalganj branch of the Nepal Rastra Bank a current account denominated in Nepalese Rupees to receive Loan proceeds for PCU support. The PCU Project Account shall be protected against set-off, seizure or attachment on terms and conditions proposed by the Borrower and accepted by the Fund. The Project Coordinator and the Project Accounts Officer of the Ministry of Local Development shall each be fully authorised to jointly operate the PCU Project Account.	Not complied. Not relevant to flow of funds within the Budget systems of Government of Nepal. A current account denominated in

Section	Covenant	Status
		Nepalese Rupees to receive Grant proceeds for PCU support is opened and maintained in Nepal Rastra Bank. Nepalganj Branch.
	The Lead Project Agency shall cause each DDC to open in the local branch of a commercial bank two current accounts in Nepalese Rupees for project operations one for funds for Green Road Sub-Component and the other for other project operations. The Local Development Officer and the Accounts Officer of the DDC shall each be fully authorised to jointly operate both the Green Road Project Account and the DDC Project Account.	Not complied. Not relevant to flow of funds within the Budget systems of Government of Nepal.
	The Lead Project Agency shall cause each LDFB to open in the local branch of a commercial bank a current account in Nepalese Rupees to receive funds from the DDC for project operations other than the Green Road Sub-Component. The Executive Secretary of the LDFB and the Team Leader of the District Team shall each be fully authorised to jointly operate the LDFB Project Account.	Complied with
3.04	The Borrower shall make the proceeds of the Loan available to the Lead Project Agency in accordance with the AWPBs and its national procedures for development assistance to carry out the Project.	Being complied with
3.05	In addition to the proceeds of the Loan, the Borrower shall make available to the Lead Project Agency and each other Project Party, promptly as needed, such funds, facilities, services and other resources as may be required from time to time to carry out the Project in accordance with this Agreement.	Not complied in FY2012/13 due to significant delays in approval and release of project operating budget and funds.
	The Borrower shall ensure that the State makes available to the Lead Project Agency during the Project Implementation Period counterpart funds in an aggregate amount of approximately USD 5 926 000. In accordance with its national procedures for development assistance. For such purpose, the Borrower shall make budgetary allocations, annually in advance for each Fiscal Year, in an amount equal to the estimated counterpart contribution called for in the AWPB for the relevant Project Year and make such allocations available to the Lead Project Agency every four months in advance.	Being complied with but far below than the agreed amount
	The Borrower shall also cause each DDC and VDC to make available to the LDFB during the Project Implementation Period counterpart funds in accordance with the relevant District Agreement as described in paragraph 9 of Schedule 3.	Being complied with
3.06	The Lead Project Agency shall transfer funds to the DDC and LDFB only if the relevant District Agreement is signed and delivered to the Fund and the Cooperating Institution.	Complied with
3.07	The PCU and each of the Project Parties shall procure all items financed by the Loan or Grant in accordance with Schedule 4	Being complied with
4.01	The PCU shall establish, as soon as practicable but in no event later than twelve months after the Effective Date, and thereafter maintain an appropriate information management system to enable it to continuously monitor the Project in accordance with Section 8.02 (Monitoring of Project Implementation) of the General Conditions, based on indicators selected by the PCU in consultation with the Participants and accepted by the Borrower and the Fund	Partially Complied with.
4.02	The PCU shall submit to the PSC, the Fund and the Cooperating Institution thrice-annual and annual progress reports on Project implementation, as required by Section 8.03 (Progress Reports) of the General Conditions, no later than two months after the end of each reporting period.	Being complied with
4.03	The Borrower, the Fund, the Cooperating Institution and the Participants shall jointly carry out a review of Project implementation at the beginning of the second half of each of the fourth and eighth Project Years. Each Phase Review shall consider progress as well as constraints regarding achievement of Project objectives, and recommend such reorientation as may be required to achieve such objectives. Such progress and / or constraints shall be evaluated based on terms of reference prepared by the PCU and approved by the Fund and the cooperating Institution. Specific trigger indicators, described in paragraphs 19 and 20 of Schedule 3 shall set the	Being complied with

Section	Covenant	Status
	<p>minimum threshold to be met before the Project may proceed to the following Phase. The Fund shall determine whether the trigger indicators have been met.</p> <p>The results of the Phase review and recommendations thereon shall be communicated to the Fund, and shall be the basis upon which (i) the Fund shall determine whether its funding for the Project shall continue during the following phase, and (ii) in the event that the Fund shall continue its funding for the Project, a mutually accepted Action Plan and Design for the following Phase shall be formulated. The Borrower hereby acknowledges that unsatisfactory performance during any Phase, as evaluated according to the terms of reference and trigger indicators described above, may result in the decision by the Fund to delay the commencement of, or cease funding for, the following phase.</p> <p>(i) cease funding for the Project, any unused Loan and Grant Proceeds shall be cancelled;</p> <p>(ii) delay the commencement of the following Phase of the Project, the Borrower agrees to take any action as recommended and communicated by the Fund. A second review shall be conducted in accordance with the procedures set out. The results of such review shall be communicated to the Fund, which shall then make a final determination as to whether to continue to the following Phase or to cease funding under the Project. The delay shall not extend beyond one year, during which period the Borrower shall not incur eligible expenditures; or</p> <p>(iii) proceed with the following Phase of the Project, the Borrower and the Fund shall agree on an Action Plan and Design for the following Phase, based on the findings of the current Phase Review. Such Action Plan and Design shall be finalised no later than two months prior to the end of the current phase, and shall result in reallocations of Loan and Grant Proceeds and/or other modifications to the Loan Documents.</p> <p>The Borrower shall ensure that, should the Fund decide the Project shall continue to the following Phase, the recommendations resulting from the current Phase Review are implemented within the time specified therefor and to satisfaction of the Fund. It is agreed and understood that such recommendations may result in modifications to the Loan Documents or cancellation of the Financing. It is further agreed and understood that failure to implement the recommendations resulting from any Phase Review within the time limits specified may result in cancellation of the Financing.</p>	
4.04	The PCU and the Cooperating Institution shall agree on the form and content of the Project Completion Report required by Section 8.04 (Completion Report) of the General conditions, and the PCU shall submit such Completion Report to the Borrower, the Fund and the Cooperating Institution for discussion no later than six months after the Project Completion Date. In addition to those minimum requirements specified in said Section 8.04, the completion report shall follow such relevant guidelines as the Fund may establish from time to time.	Not yet required
4.05	The Borrower and each Project Party shall facilitate all evaluations and reviews of the Project that the Fund may carry out during the Project Implementation Period and for ten years thereafter, as required by Section 10.05 (Evaluations of the Project) of the General Conditions.	Being complied with
5.01	The PCU shall prepare the financial statements of the operations, resources and expenditures related to the Project required by Section 9.02 (Financial Statements) of the General Conditions in respect of each Fiscal Year and deliver such financial statements to the Borrower, and the Fund within three months after the end of each Fiscal Year.	Complied with, delayed on submission.
5.02	<p>a) The Auditor-General of the Borrower or his or her designated representative shall audit the accounts relating to the Project for each Fiscal Year until the Closing Date.</p> <p>b) The Borrower shall have the financial statements relating to the Project audited each Fiscal year by the Auditor General in accordance with the International Standards of Auditing. In accordance with Section 9.03 of the General Conditions. The PCU shall deliver the audited accounts and reports as required to the Fund within six months of the end of each Fiscal Year</p>	<p>a) Being complied with.</p> <p>b) The submission of audit report for the financial year 2011/12 was delayed by more than a month.</p>
6.01	The Fund, after consultation with the Borrower, may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan and / or Grant Account in accordance with Section 12.01 of the General Conditions, upon the occurrence of any of the events set forth therein;	N/A
6.02	The Fund may terminate the right of the Borrower to request withdrawals from the Loan and / or Grant Account in accordance with Section 12.02 of the General Conditions upon the occurrence of any of the events set forth therein, or if any Phase Review has recommended that the Project be terminated.	N/A
6.03	The Fund may declare the outstanding principal amount of the Loan, together with all accrued and unpaid service charge thereon, immediately due and payable in accordance with Section 12.05 of the General Conditions, upon the occurrence of any of the events set forth therein.	N/A
6.04	If the Borrower does not timely furnish any audit report required by Section 5.02 and the Fund, after consultation with the Borrower, determines that the	N/A

Section	Covenant	Status
	Borrower is unlikely to do so within a reasonable period thereafter, the Fund, or the Cooperating Institution on behalf of the Fund, may engage independent auditors of its choice to audit the accounts relating to the Project. For such purpose, the Borrower and the Project Parties shall make their financial and other records available to such auditors promptly upon request, accord them full rights and privileges as agents of the Fund. The General Conditions and otherwise cooperate fully with such audit. The Fund shall make the audit report available to the Borrower promptly upon its completion. The Borrower hereby authorises the Fund to finance cost of such audit by withdrawal from the Loan Account on behalf of the Borrower.	
7.01	This Agreement shall become effective in accordance with Article XIII of the General Conditions	
SCH. 3 1.1	Ministry of Local Development in its capacity as the Lead Project Agency, shall have overall responsibility for the implementation of the project.	Not complied due to unilateral transfer by GoN of project to Ministry of Cooperatives and Poverty Alleviation
2.1	The Borrower shall establish and maintain throughout the Project Implementation Period a Programme Steering Committee ("PSC").	Complied with
3.1	The Borrower shall establish and maintain a Project Coordination Unit (the "PCU") within the Lead Project Agency. The PCU shall enjoy operational autonomy and, to this end, the Borrower shall issue a delegation of authority to the Project Coordinator to take any action necessary for Project implementation.	Complied with
4.1	The Borrower shall appoint a qualified and experienced Project Coordinator from among the civil servants of the Borrower with experience in managing people-centered poverty alleviation projects. The PC shall serve for at least two years and any successor shall be acceptable to the Fund.	Complied with
6.1	The Lead Project Agency shall establish maintain throughout the Project period a District Team in each District, which shall act as the executing arm of the LDFB.	Being complied with
7.1	The Borrower shall appoint and train a Local Development Fund Advisor to support the District Team. He/she shall remain in the Project at least until the formation of the District-level CO federations	Complied with
8.1	Each LDFB shall recruit Social Mobilizers who shall report to the Senior Social Mobilizer of each District Team.	Complied with. SMs contracted directly by DDPCU in Phase III
9.1	The Lead Project Agency and the LDFB and DDC of each District shall enter into a tripartite District Agreement for Project implementation at the District level	Complied with. In Phase III District PCU now under DDC. LDFB is not main project implementer in districts.
15.3	The Borrower shall prepare draft Micro-credit By-laws for the Micro-finance Component not later than 12 months after the Effective Date.	Complied with. Micro-credit activities now discontinued in Phase III
18.1	The PMU shall prepare draft Project Implementation Manual not later than 12 months after the Effective Date.	Partially complied with, PIM exists but must be updated for Phase III by Jul 2013
SCH. 3A 1	The Borrower shall : (a) Make available to the participants public land requested by the DFO within six months of such request, including ensuring that the RFD approves the DFO operational plans in a timely manner;	Being complied

Section	Covenant	Status
	(b) Lease the land to each LFUG for a period not less than 25 years, with a provision of additional 15 years and (c) ensure that each DDC establishes a leasehold oversight committee to ensure that leasehold lands are made available exclusively to the Target Group.	
2	Within six months of the date of effectiveness, the Borrower shall have obtained the grant funding necessary for the entire Project Implementation Period	Not complied
3	The Borrower shall ensure that the concerns of the women and dalits are integrated into all Project activities during Project implementation.	Women and dalits are encouraged to participate in CIP processes n Phase III and in LFUG and CO activities
4	Within six months of the Effective date the Borrower shall have concluded agreements with private companies for , inter alia, the Nursery and NTFP Marketing Sub Components on the terms and conditions accepted by the Cooperating Institution.	Complied with. Activities discontinued in Phase III
5	The Borrower shall ensure that the monitoring and evaluation system is established within 12 months of the Effective date	Complied with
6	The Borrower shall insure Project personnel against accident risks and shall insure all vehicles and equipment funded by the Project	Partially complied with
SCH 4 1	Procurement of goods and civil works financed by the Loan shall be subject to the provisions of the "Guidelines for Procurement under Financial Assistance from the International Fund for Agricultural Development of 1982", as such guidelines may be amended from time to time by the Fund (the "Procurement Guidelines").	Being complied with
2	Procurement of consultant services financed from the proceeds of the Loan shall be undertaken in accordance with procedures proposed by the Borrower and approved by the IFAD.	Being complied with
3	To the extent possible, the goods, civil works and services shall be bulked into sizeable bid packages in such a manner as to permit the optimal use of competitive bidding. Before the commencement of procurement, the Borrower shall furnish to the Cooperating Institution, for approval: (i) a list or lists of goods and services to be procured; (ii) the proposed grouping of these goods and services; and (iii) the proposed number and scope of civil works contracts to be awarded.	Being complied with
8	Local Competitive Bidding (LCB). Each contract for the supply of equipment, materials and vehicles estimated to cost USD 10000 equivalent or more but less than USD 1000000 equivalent shall be awarded on the basis of competitive bidding advertised locally, in accordance with procedures approved by the IFAD.	Being complied with
10	Local Shopping Each contract for the supply of goods, vehicles and equipment estimated to cost less than USD 10 000 equivalent may be awarded on the basis of evaluating and comparing bids invited from at least three suppliers, in accordance with procedures approved by the IFAD.	Being complied with
11	Procurement of civil works shall be conducted with the established national procedures of the Borrower.	Being complied with
12	Local Competitive Bidding (LCB). Each contract for consultant services estimated to cost USD 20 000 equivalent or more shall be awarded on the basis of competitive bidding procedures approved by the IFAD.	Being complied with
13	Direct Contracting. Each contract for consultant services estimated to cost less than USD 20 000 equivalent shall be awarded through direct contracting with the consultant, in accordance with the procedures approved by the IFAD.	Being complied with
14 & 15	Procurement of Goods and Services. In the procurement of goods and consultant services, everything else being equal, preference shall be given to goods manufactured in the territory of the Borrower and consultants from developing Member States of the Fund.	Being complied with
16	The award of any contract for goods, vehicles and equipment or civil works estimated to cost USD 50 000 equivalent or more shall be subject to prior review by the IFAD in accordance with the provisions of Annex 3 to the Procurement Guidelines.	Being complied with

Section	Covenant	Status
17	The award of any contract for consultant services estimated to cost USD 50 000 equivalent or more shall be subject to prior review by the IFAD.	Being complied with

Appendix 7: Knowledge management: Learning and Innovation

Learning

1. As WUPAP moves from Phase II to III, the following sections reflect on some of the main lessons to be drawn from the implementation of the project to date. It reviews the five key lessons registered in the Joint Review Mission: 4-23 April 2012- Supervision Mission Report and make sure that the Phase III design answers to these issues.

(a) Make the farmer the real centre of project activities – the project should be more demand driven

The design of the Phase III has an approach more based on the community level. The main objective is the empowerment of the community. The implementation of the activities' process is very different. A fund is given to the cluster from the project. Then the communities can freely decide how to use the fund. In consequence the activities will answer to their priority needs and will be more efficient. The community is free to select the activities they want, the modalities of implementation and the service providers to realize it. The community is the only decision maker. It ensures that the priorities of the beneficiaries are the basis for planning the delivery of services.

In another hand the project will not work through the government representatives. The project's procedure works without the line agencies. Indeed the decentralization process in has not been efficient and it is preferable for the quality of the project to use a different way giving directly the money to the cluster to select external providers either from public or private sector.

(b) Establish clear lines of accountability and performance delivery

The field accountability should be higher than before. The accountability will be structured at three levels: on the community, on the VDC and on the district. A new component has been added specially to ensure to the community a good delivery services. So the project could control if the service is well done or not. Actually, if the community is not satisfied with the service provider, it will not be paid of the total amount by the project. It represents a good way to improve the accountability to the project beneficiaries and also between the project implementers and the project beneficiaries.

Moreover a compliance officer will be hired in the project.

In another hand, to raise the overall quality and consistency within and between districts the project needs to have appropriate technical supervision, monitoring and quality assurance of service delivery. That is why a prefeasibility will be required before the implementation of a new infrastructure. This step will be carried out by the technical staff trained and present on the field to ensure the feasibility of the project.

(c) Establish a real core of the project

The phase III design recommends an approach different from the previous phases. In the last phases, the project was designed into five components which related to different activities implementation. This distribution couldn't give to the project a real core. It was too much split up between the activities. Within the new phase, there are less components, the project will be not disconnected into different activities. There is only one component which gathers all the activities. The designs suggest also two other components about the project management and to ensure the good quality of the service provided.

(d) Facilitate synergies among project activities

The synergies between the projects will be facilitated because the design is different and the community are the decision makers. Actually the community will ensure themselves the synergy of the project activities.

(e) Keep things as simple as possible.

The Phase III gives an approach more flexible of the project and we can hope that it will help to make easier the process and improve the quality of the activities implemented.

Innovation: Describe any interesting innovation noted during supervision

The modalities being implemented in Phase III – through the CIP-centre empowerment processes and local service delivery mechanism – are potentially innovate approaches in western Nepal. As Phase III is in its first year of implementing these approaches, it is too early to comment on the merit and any particular innovation in Phase III