

Nepal Country Programme Evaluation

Extract from the Agreement at Completion Point

1. This section details the evaluation recommendations, based on the present report (see chapter VIII), that the Government of Nepal and IFAD Management agree to adopt and implement within specific timeframes. It is extracted from the agreement at completion point (ACP) document,¹ signed between the parties.

2. The Independent Office of Evaluation does not sign the ACP but facilitates the process leading up to its conclusion. The recommendations agreed upon will be tracked through the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions. In addition, the ACP will be submitted to the Executive Board of IFAD as an annex, along with the new country strategic opportunities programme for Nepal.

3. The country programme evaluation (CPE) offers recommendations in three broad areas: (1) overall partnership strategy; (2) policy dialogue; and (3) operational and management issues.

4. Recommendation 1:

a) **Develop new partnership paradigm and pipeline based on a twopronged strategy.**

The development scene in Nepal's rural areas is characterized by an abundance of project-created beneficiary groups but a shortage of profitable enterprises that create income for the owners/members and employment for the poor. Many development partners, including IFAD, contributed to this situation, based on the broadly accepted paradigm at the time that targeted beneficiaries need to be organized in groups for distribution of project services, goods and resources. Few of the groups developed the cohesion, capital and income stream needed to continue after termination of project support. Nepal's agribusiness and agro-industries are at an infant stage, but rapid urbanisation and neighbouring markets offer opportunities for improving market linkages, including by developing smallholder's linkages with enterprises engaged in various simple (packaging, semi-processing) and more advanced (processing of agricultural commodities and forest products) activities. This would contribute to creating jobs for landless and near-landless who will not be able to escape poverty without off-farm income. If priority is given to value chains of high-value crops suited for intensive cultivation (or intensive animal husbandry), it will also generate jobs in small and medium-sized farms. Pilot projects funded by IFAD grants have demonstrated the potential for cultivation, some processing and marketing of selected products (e.g. off-season vegetables) in the hills and mountains close to the road network. IFAD's recent project, the High Value Agriculture Project in Hills and Mountain Areas (HVAP), is designed to follow up on these opportunities but it is still based on the past tradition of promoting hundreds of groups with little prospects of sustainability.

Sustainable poverty reduction would also involve the development of business-minded, profitable producers' groups and cooperatives in key value chains accessible to smallholders, as well as the development of partnerships with private service providers, buyers and input suppliers where they are available. Based on public-private partnerships, public sector agencies would be engaged in addressing bottlenecks of a public goods nature (roads, electricity etc.). Projects will take advantage of clusters or growth nodes along the road corridors. A complementary approach should be developed for remote and isolated communities in the mountains and on the hill tops, far from the road network, with limited access to water and poor soils and conditions for agricultural production. Given IFAD's mandate, such communities should not be neglected in the

future portfolio and should be helped in increasing food production and improving their livelihoods. Relevant to IFAD's mandate, sector interventions may include leasehold and community forestry, livestock, improvements in food production, commercial production of high-value-to-weight produce for niche markets, such as medicinal and aromatic plants (MAPs) and vegetable seeds, and access to water and possibly also energy (e.g. solar units).

b) **Proposed follow-up:** the country strategic opportunities programme (COSOP) will describe how IFAD projects will support this dual approach by: (i) improving existing projects dealing with the promotion of better livelihoods, to strengthen sustainability; (ii) increasing IFAD participation to the Poverty Alleviation Fund (PAF) to improve the sustainability of local groups through enhanced financial management, developing linkages to the mainstream financial system and improved knowledge management; (iii) building on HVAP and Biu Bijan to support the development of key inclusive value chains, including by extending HVAP for a second phase to scale up most successful achievements; and (iv) developing a new project to promote rural farm and off-farm micro-enterprises (including cooperatives) and related business development services, providing jobs to rural youth and taking advantage of remittances for productive investment. This could also include the provision of institutional support to relevant public agencies to support a favourable business environment.

c) **Deadline:** COSOP completed by May 2013 including these elements.

d) **Responsible entities:** Ministry of Finance, line ministries, IFAD Country Office.

5. Recommendation 2:

a) **Factoring in the conflict dimension and its impact.** IFAD's essential strategy for Nepal was appropriate for a country defined by institutional fragility, but it underestimated what was required to deliver such a strategy effectively. In framing the next COSOP, IFAD may wish to consider drawing on an approach which draws on the analytical logic of the 2011 WDR and the g7+ New Deal. It is intended to support processes of strategic thinking by governments and takes political instability and institutional fragility as the principal constraints to socio-economic development, and draws on the experiences of countries that have registered some success in moving away from repetitive, ingrained insecurity and violence. At the core of the approach is a clear (and continuous) diagnosis of the 'stress factors' that animate instability and fragility – an understanding of which can help identify the combination of confidence-building measures and institutional strengthening programs needed to 'change the narrative' of mistrust in the state.

Although this kind of macro-institutional analysis is more appropriate for government and MDB strategic planning than it is for IFAD, there is much to gain from focusing the next COSOP on a clear delineation of the exclusionary factors that hamper access of the poor to productive economic activity, and on what is needed for IFAD is to work effectively through weak partners to create, and sustain the community institutions that will help the poor move into the socio-economic mainstream. Protracted civil conflict resulted in massive migration from rural areas to the cities and abroad. This, in turn, drastically changed the social composition and the economy of the rural areas, increased the share of female-led households, and made the increasing flow of remittances the main driver of poverty reduction and better livelihoods. IFAD strategies will need to take both these factors into account and consider reflecting them in programs and policy dialogue, preferably in cooperation with other development partners.

b) **Proposed follow-up:** IFAD will ensure that all projects, on-going and new, build on institutional analysis to support the institutional strengthening of community organizations, so that these do not remain project creations but are actively linking to mainstream public institutions and civil society organizations. This will be reflected in the

COSOP, together with strong attention to operational strategies to ensure improved inclusion and targeting. Civil society organizations will be recognised as key partners in IFAD operations and in policy dialogue, by including them in project steering committees, and by tapping their experience to improve project implementation. Specifically, each project will develop a range of partnerships with civil society as well as with private sector entities. Furthermore, civil society organizations will be invited to participate in the country programme management team (CPMT) and to provide inputs in the COSOP design process. Due consideration will be given in the course of COSOP preparation to modalities geared towards making use of remittances for productive investment.

c) **Deadline:** June 2013.

d) **Responsible entities:** CPMT, technical line ministries, project teams.

6. Recommendation 3:

a) **Strengthening the link between policy dialogue agenda in strategy**

(COSOP) and portfolio (programmes). The ambitious agenda for policy dialogue included in previous COSOPs was not implemented. This may be due to insufficient time and resources and probably also it was not reflected in project design. Many stakeholders are unaware of COSOP strategic directions, and IFAD-Government partnership has been driven by projects. Given IFAD's limited resources for country programme management and further expected reductions, it is recommended that IFAD and Government jointly identify relevant policy issues in COSOP and embed them within project design and implementation, including necessary resource allocation. For financing the related work, and to the extent feasible, IFAD will complement loan with grant resources to support policy development and dialogue. As an example, in 2012 IFAD and the Government designed a project to support the seed sub-sector, Biu Bijan (or Improved Seeds for Farmers Programme [ISFP]). As part of the design process, partners identified policy issues in the seed subsector and agree that a seed sub-sector policy or strategy needs to be strengthened with agricultural development strategy. ISFP should finance related work, as envisaged in the final design document, thus providing an example of a participatory policy dialogue. Within forest product processing and marketing and rural finance there could also be policy issues of relevance to IFAD and the portfolio performance, and where relevant and agreed, loan budgets should make provisions for financing work related to these policy areas.

In Nepal, as well as in most other countries where it operates, IFAD does not have the comparative advantage in producing analytical work – an important underpinning for higher quality policy dialogue. However, this gap could be easily filled by closer cooperation with many international and local think-tanks, research centres, and universities – possibly through better targeted grants programme. Cooperation with the International Centre for Integrated Mountain Development (ICIMOD) is a good example of such productive partnership that could be further expanded in the future.

b) **Proposed follow-up:** IFAD has limited resources to take up a leadership role among donors supporting the rural sector. However projects constitute powerful tools to develop policy lessons based on successful achievements, and to promote policy dialogue. This will be implemented by building on existing projects (Biu Bijan on the seed sub-sector, Western Uplands Poverty Alleviation Project (WUPAP) and PAF on sustainable livelihoods, HVAP on inclusive value chains) to develop knowledge management (tapping on the achievements of both loan and grant projects), to identify policy lessons and to channel them into policy dialogue, including by linking with specialised institutions (such as the Farmers' Forum, ICIMOD, Asian Institute of Technology [AIT], Women Organizing for Change Agriculture and National Resource Management [WOCAN], and other civil society organizations). Policy development and dialogue will also be systematically embedded in new projects design. Furthermore, project-supported farmers'

organizations will be encouraged to participate in policy dialogue at the local level, and to liaise with major national organizations so as to increase their efficiency in defending farmers' agendas. Finally, after having supported the formulation of the Agriculture Development Strategy, IFAD will contribute to decreasing current aid fragmentation and dispersion, by improving coordination in implementing the strategy, in line with the aid effectiveness agenda. To this effect, it will support the creation of multi-stakeholder consultation platforms gathering public institutions, farmers' organizations, private sector, NGOs, community-based organizations and civil society organizations (including both right-based and need-based organizations) to forge partnerships and to support policy dialogue in the agriculture sector at large, as well as in key sub-sectors.

c) **Deadline:** during COSOP cycle.

d) **Responsible entities:** IFAD CPM, Government, Foreign Aid Division Ministry of Finance.

7. Recommendation 4:

a) **Appreciating local context; providing adequate implementation**

support. There appears to be a disconnection between IFAD corporate policies requiring attention to local context, and actual provisions to make this happen in Nepal. While the CPE recognises that the allocation for country programme management and implementation support in Nepal is in line with IFAD norms for medium-sized programmes, it also highlights that the semi-fragile and volatile Nepalese context does demand resources above the average. Allowing for local realities is only in part a project preparation/appraisal issue, but also requires to adapt project design to take account of the lessons of experience and to adjust to changing local dynamics. This in turn requires more implementation support resources than IFAD has normally provided to Nepal. It is further recommended that Government engage external technical support from specialised service providers in the private sector and civil society to address three problem areas that are common in a significant part of the portfolio: (i) implementation driven by quantitative targets rather than being responsive to the demand and problems of beneficiaries; (ii) monitoring systems that do not capture livelihoods changes and indicators for objectives; and (iii) sub-standard financial management. IFAD may help to mobilise grants to finance such support but when this is not possible, projects should include resources to hire external.

b) **Proposed follow-up:** In order to strengthen projects performance and to save costs of operation, possibility of establishment of a country program support unit (SSU) will be explored with further information from the point of view of cost saving, coordination and its detail architecture and to identify lead agency. IFAD will provide such information and Government will discuss on it to explore as the objective is to facilitate for effective implementation of the project in cost effective manner.

c) **Deadline:** February 2013.

d) **Responsible entities:** CPM, country programme officer (CPO), project managers, Ministry of Finance.

8. Recommendation 5:

a) **Addressing disadvantage.** Nepal's history of identity group exclusion would seem to argue for the creation of groups consisting of the most excluded castes and ethnicities. However: (i) differences in economic status are widespread but they not always parallel caste/ethnic specificities; (ii) long-established barriers to cooperation between castes/ethnicities are becoming more permeable; and (iii) while the national debate has recognised the rights of marginalized groups, it has been so far unable to device matching practical solutions. Group formation should rather be based on a thorough analysis of prevailing economic and social conditions and on an identification of the

various categories of poor, and project support should be geared towards facilitating inclusion. When supporting value chain and rural enterprise development, projects may also provide support to other value chain stakeholders (such as entrepreneurs and less poor farmers) provided this in turn brings increased benefits to smallholders. Mechanisms to ensure that the poor and socially excluded households also have access to project benefits will also be required.

b) **Proposed follow-up:** the COSOP will support improved targeting as well as the inclusion of disadvantaged categories into project-supported economic dynamics. To this end, the COSOP preparation process will include a specific study on social targeting, which will orient strategic provisions in the main text, in support to both new and on-going projects.

c) **Deadline:** February 2013 for the study, June 2013 for COSOP.

d) **Responsible entities:** CPM, CPMT and line ministries.

9. Recommendation 6:

a) **Measuring and communicating impact.** Significant effort has gone into measuring outputs. Rather less attention has been given to assessing impact – and relatively little to communicating lessons in ways that can capture the attention not only of busy policy makers, but also of farmers and their organizations, and of other relevant project stakeholders. Two important evaluation techniques that deserve wider use in the coming COSOP cycle are case studies of outcomes (encompassing both successes and failures), and opinion polling (perhaps the most objective way to measure the extent to which institutions are achieving popular legitimacy).

b) **Proposed follow-up:** M&E systems will be improved so that they can be used as a management tool towards improved results and impacts. This will include: (i) improved progress reporting so that it be more informative on qualitative aspects, outcomes and impact as well as on lessons learnt and potential for upscaling; and (ii) a more systematic use of surveys (baseline, income, annual outcome, impact...) and opinion polling in on-going and new projects; (iii) simplified reporting systems and formats. Furthermore, a country programme ME system to be managed by the country programme support unit (see Recommendation 4) will be set up so as to monitor the implementation of COSOP orientations. Annual project and COSOP monitoring notes will be published to ensure maximum transparency. Knowledge management will be developed and project outcomes and good practices will be disseminated both at the national, policy-making level, and at grassroots, implementation level. KM and communication will be further enhanced through IFAD Asia and ifad.org, based on a communication strategy for the country programme, to be implemented by projects.

c) **Deadline:** Every year for Annual COSOP and project monitoring notes. COSOP mid-term review in 2015.

d) **Responsible entities:** CPM , project teams, line ministries.

10. **Recommendation 7:** a) **Aligning COSOP and PBA cycle management.** Although it would be useful to harmonise the COSOP cycle with the Government planning period, given the political uncertainties, it is recommended that IFAD and Government prepare the COSOP to cover two 3-year performance-based allocations (PBAs) according to IFAD's funding cycle. For the first PBA cycle, the COSOP should contain a relatively detailed outline of the pipeline, based on identification undertaken as part of the COSOP preparation. Pipeline project(s) should be comprehensively described in a Concept Note agreed to by IFAD and Government, to support project design and approval during the first two years of the COSOP implementation period. As for the second PBA, a comprehensive COSOP review combined with project identification should be undertaken in COSOP year 3 to

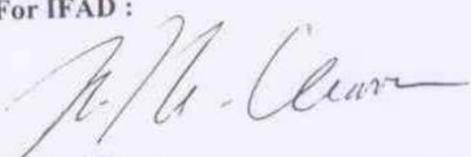
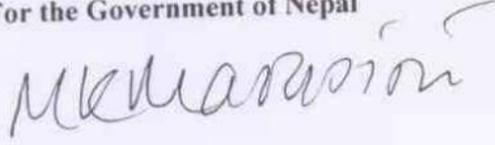
allow for design and approval in COSOP year 4 and 5. By implementing this recommendation, IFAD and Government will not take last moment decisions on utilisation of the PBA as is currently the case and which in a political volatile situation has high risk. Planning ahead will facilitate the mobilisation of co-financing and other joint financing arrangements with development partners.

b) **Proposed follow-up:** the COSOP will cover six years (2013-2018) and will be aligned with two PBAS cycles. It will include concept notes for two projects to be financed under the 2013-2015 Performance-Based Allocation (PBAS around USD 40 million) and climate change Adaptation for Smallholder Agriculture Programme (ASAP fund - around USD 15 million through NGOs). Two additional concept notes for new projects will be prepared further to the COSOP mid-term review in 2015. which could also include a top-up financing to an existing, successful project, in line with COSOP orientations.

c) **Deadline:** June 2013 and June 2015.

d) **Responsible entities:** CPM, CPO, Ministry of Finance.

Signed on 4 March 2013

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