

# The Federal Democratic Republic of Nepal

## Country Programme Evaluation

### Executive Summary

#### A. Country Context and background

1. **Country context.** Nepal is a low-income country with a population of 30.49 million and a per capita Gross Domestic Product (GDP) of US\$642. The population is mainly concentrated in rural areas (about 83 per cent). Nepal's economy is dominated by agriculture, which accounts for over one third of GDP and employs more than two thirds of the population. This population comprises significant ethnic diversity, with many different languages and cultures. Population density varies considerably, as large parts of the country are too harsh for human settlement. The natural resource environment is rich and diversified, but also highly fragile, following reduction of the forest cover.
2. Widespread disappointment with the state's failure to provide better services and livelihoods provided the basis for an armed conflict in the 1990s led by the Communist Party of Nepal (Maoist). The Comprehensive Peace Agreement in 2006 did not end the political instability, but provided the basis for a transition period emphasizing reconciliation, rehabilitation and reconstruction. In 2008, elections for the Constituent Assembly were held, with the Maoist party winning the largest share of seats. In the same year, the new Constituent Assembly abolished the monarchy and declared a secular republic in an Interim Constitution. The Constituent Assembly failed to agree on a new constitution before the extended deadline of 27 May 2012, dramatically adding to the uncertainty of the medium- term outlook.
3. In spite of moderate economic growth, Nepal has achieved gains in poverty reduction, from a poverty incidence of 42 per cent in 1996 to 31 per cent in 2006, and to 25 per cent in 2010. This was mainly driven by increased remittances, greater connectivity and urbanization, and a decline in the dependency ratio. However, poverty remains severe, with serious problems of food security and malnutrition.
4. Remittances have increased from US\$83 million in 1999 to US\$4.07 billion in 2011, comprising about 22 per cent of GDP. Some 56 per cent of all Nepali households are today receiving remittances, 79 per cent of which are used for daily consumption. More than 2 million people are working abroad (in the Gulf countries, India, Malaysia, etc.). In addition, there is considerable internal migration for work, from rural areas in the hills and mountains to major towns, and from west to east. As a consequence, many villages in the mid- and far-western regions, where IFAD's support is concentrated, have few men of working age. For many families in these regions, agriculture does not provide sufficient food and money to feed the family for more than six or nine months of the year, and thus migration has become their main survival strategy.
5. **IFAD-supported programme.** Since 1978, IFAD has provided a total of US\$146 million in loans and grants under the Debt Sustainability Framework. Over the evaluated period, 1999-2012, IFAD's support has concentrated on: (i) rural poverty alleviation through three integrated agricultural and rural development programmes; (ii) leasehold forestry, through two programmes that also included rural finance; and (iii) more recently, agricultural value chain development along road corridors (one programme). In 2012, a new programme supporting the seed subsector and animal breeding was approved. During the armed conflict, IFAD approved some important NGO-executed country-specific grants piloting pro-poor value chain development. In politically tense areas, NGOs had better working conditions than government agencies. In total, IFAD has approved country-specific grants for about US\$3 million, including a recent grant of US\$500,000 to develop an agricultural development strategy. Nepal has also benefited from IFAD regional grants amounting to US\$32 million.

## **B. Assessment of the partnership**

6. **Portfolio of mixed performance.** Overall, portfolio achievement is assessed as moderately satisfactory, primarily owing to recent improvements in support for leasehold forestry and the satisfactory performance of the Government of Nepal/World Bank-financed Poverty Alleviation Fund (PAF), to which IFAD has made a relatively small cofinancing contribution (US\$4 million). While the overall portfolio is relevant and many quantitative targets were achieved, sustainability and innovation are assessed as moderately unsatisfactory overall.
7. Until recently, IFAD-funded programmes had a very wide spread, geographically and thematically. The Integrated Rural Development and Poverty Alleviation Projects in Western Terai (PAPWT, closed) and the Western Uplands (WUPAP, ongoing) had both features. This resulted in dilution and major management and governance challenges: weak government implementing institutions worked in conflict or in an unstable political situation. Implementation and supervision of many small infrastructure investments and agricultural support activities, scattered over large and hard-to-access areas, proved difficult. Moreover, both programmes were influenced by the supply-driven culture of government agencies, where the focus was on delivering the activities and outputs targeted in annual workplans, rather than on working on household demand and ensuring sustainable impact. In
8. 2011, when approaching its final phase, WUPAP was considered at risk of not achieving its objectives. However, a major 'rescue operation', launched by the Government and IFAD in 2012, was able to achieve a certain degree of turnaround, giving cause for some optimism. More value was obtained from IFAD's small contribution to the PAF, a successful nationwide programme, mainly owing to its demand-driven approach to rural development.
9. IFAD has led efforts to support the introduction of leasehold forestry for the poorest rural households in Nepal. The two IFAD-supported programmes have contributed to poverty reduction, in particular by distributing livestock (goats), as well as by improving the environment. Forest cover has been re-established in some areas, although in many cases leasehold forests can only meet a limited share of the needs for fodder, fuelwood and timber. Many leasehold forest users' groups remain weak, with few common activities.
10. Support to rural finance, as part of the leasehold forestry programmes and PAPWT and WUPAP, overall has failed to achieve its objectives. This support has generally been designed and implemented as an appendix to other main programme areas, rather than as a comprehensive and systemic effort to improve rural financial services. As in other aid programmes, beneficiary groups have been motivated to establish informal rotating savings and credit schemes, partly to ensure sustainability, but saving and lending were often negligible.
11. IFAD-funded programmes, as with many other aid-supported programmes, have created thousands of 'beneficiary groups', which primarily served to facilitate delivery of project services and goods. The groups depended on aid and thus often became dormant after termination of project support, except for some informal savings and credit groups. Nepal has few commercial farmers' organizations that are self-reliant and have turnover and equity of any significance. Even in the case of cooperatives, there are few with joint purchase of inputs and joint marketing of members' produce.
12. The design of the recent High-Value Agriculture Project in Hill and Mountain Areas (HVAP) has considered some of these issues. Geographically, it concentrates its support on the road corridors of the mid- and far-western regions. It focuses on commercialization along selected agricultural value chains with market potential and on developing commercially viable rural enterprises/groups/cooperatives. The project intends to create up to 500 new groups and does not include an ad hoc

rural finance component, instead planning to help partners access the rural finance system.

13. **COSOPs and country programme management.** Over the evaluated period, the programme was guided by two country strategic opportunities programmes (COSOPs – 2000 and 2006), which overall are assessed as relevant, albeit with different emphases. The 2000 COSOP prioritized socio-economic development in poor and socially excluded communities in remote hill areas of the western regions, while the 2006 COSOP had a more growth-oriented agricultural commercialization strategy, focusing on areas with easier market access.
14. The COSOPs somewhat underestimated the challenges of building responsive local government for implementing activities in conflict and post-conflict situations. Despite the fact that the Fund's proxy field presence was upgraded to an IFAD country office in 2008, with a national country programme coordinator, the COSOPs did not seem to have allocated sufficient resources to maintain an appropriate level of knowledge management, policy dialogue and participation in donor coordination.
15. **Non-lending activities and grants.** Non-lending activities are overall assessed as moderately unsatisfactory. IFAD did not have sufficient resources to effectively participate in policy dialogue, and the regular performance-based allocation (PBA) consultations did not provide sufficient space for this. Knowledge management received attention only in the last years of the evaluated period, focusing on sharing knowledge of IFAD-supported activities. Obtaining an overview of what other partners are doing in the agriculture and rural development sector, where aid is highly fragmented and poorly coordinated, remains a major challenge.
16. IFAD emphasized partnerships with civil society organizations that were well positioned to work in conflict and post-conflict situations. Such partnerships worked well when facilitated by grants, but it was difficult to continue to build on them in loan-financed and government-executed programmes, partly due to public procurement rules.
17. A number of country-specific grants delivered good results and impact, notably those for local livelihoods and high-value agriculture based on an inclusive business approach. These grants contributed to development of the recent government-executed HVAP.
18. Regional grants generated knowledge and, in some cases, also results and impact at the grass-roots level, but overall, synergy with the country programme was modest.
19. **Conclusions.** Overall, for the period 1999-2012, the IFAD/Nepal partnership is assessed to be moderately satisfactory, considering improvements in the later part of the period and combining the moderately satisfactory performance of the COSOP and portfolio with the moderately unsatisfactory performance of non-lending activities.
20. IFAD's country programme has contributed to alleviation of rural poverty (making many rural households less poor), but it has made only a relatively modest contribution to poverty reduction (helping people escape poverty for good). The programme has contributed to the formation of thousands of beneficiary groups, but the majority are still weak, institutionally and financially, with limited management capacity, capital and turnover, and they depend largely on project support.

## Summary of the CPE overall assessment

Assessment	Rating <sup>a</sup>
Portfolio performance	4
Non-lending activities	3
COSOP performance	4
<b>Overall IFAD/Government partnership</b>	<b>4</b>

<sup>a</sup> Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory.

## C. Recommendations

21. The country programme evaluation offers recommendations in three broad areas: (i) overall partnership strategy; (ii) policy dialogue; and (iii) operations and programme management. The following paragraphs summarize key recommendations.
22. **IFAD/Nepal partnership strategy.** A paradigm shift is recommended. Nepal's rural areas have an abundance of project-created and project-dependent beneficiary groups, but a shortage of profitable enterprises that create income for 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 the distribution of project services, goods and money.
23. Nepal's agribusinesses and agro-industries are at an infant stage, but rapid urbanization and neighbouring markets offer opportunities for introducing a new approach in which the focus would be on developing profitable enterprises of economic scale, engaged in various simple (packaging, semi-processing) and more-advanced activities (processing of agricultural commodities and forest products). Such enterprises will generate employment for landless and near-landless people, 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), jobs will also be created in small and medium-sized farms.
24. The ambition and goal of this new paradigm would be reduction of poverty, not merely alleviation. The implications for specific project design would include focus on the development of 10-50 profitable agroenterprises of economic scale, with backward contractual linkages to farmers' groups, instead of targeting large numbers of small groups (e.g. 500 planned groups under HVAP, or several thousand under the Leasehold Forestry and Livestock Programme). It also implies development of partnerships with private service providers, buyers and input suppliers. Based on public-private partnerships, public-sector agencies would be engaged in addressing bottlenecks of a public goods nature (roads, electricity, etc.). To avoid past geographical dilution, focus would be on clusters or growth nodes along the road corridors.
25. Obviously, this paradigm is not appropriate to remote and isolated communities in hill and mountain areas, 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, and thus a two-pronged strategy is recommended, with the second prong being based on a 'basic needs paradigm', where the realistic ambition would be to alleviate poverty and meet basic needs during a long-term process in which youth gradually leave the communities, as they have been doing for the last decades. Targets may include improving food sufficiency from 5-7 to 8-10 months of the year. Interventions may include

leasehold and community forestry, livestock, some improvements in subsistence agriculture (food crops) and access to water and possibly also energy (e.g. solar units).

26. When designing and implementing this two-pronged strategy, IFAD needs to factor in the conflict dimension and its impact, taking political instability and institutional fragility as the principal constraints on socio-economic development and programme results and impact. This requires diagnosis of the 'stress factors' that animate instability and fragility, with a view to identifying a combination of confidence-building measures and institutional strengthening programmes needed to 'change the narrative' of mistrust in the country.
27. Protracted civil conflict resulted in massive migration from rural areas to the cities and abroad. This, in turn, increased the share of woman-led households, and made remittances the main driver in improving livelihoods. IFAD needs to better reflect these developments in strategies, programmes and policy dialogue.
28. **Policy dialogue.** The ambitious agenda for policy dialogue of previous COSOPs has not been implemented. Given IFAD's limited resources for country programme management, it is recommended that IFAD and the Government jointly identify relevant policy issues and embed them within the design and implementation of projects, allocating the necessary resources. To finance the related work, IFAD may help mobilize grant resources, but partners should also consider funding part of the policy agenda from project budgets.
29. **Operations and program management.** While the CPE recognizes 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 demands resources above the average. In this context, the CPE recommends that the Government engage external technical support from specialized service providers in the private sector and civil society to address three problem areas common to 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 livelihood changes and indicators for objectives; and (iii) substandard financial management. IFAD may help mobilize grants to finance such support, but when this is not possible, projects could include resources to engage the external expertise required to assist with improvements in these three areas.
30. Significant effort has gone into measuring outputs, while less attention has been given to assessing impact – and relatively little to communicating lessons in ways that can capture the attention of busy policymakers. 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).
31. **COSOPs and PBAS cycle management.** In the past, decisions on use of the three-year performance-based allocation system (PBAS) cycle have been made at the last moment, which has high risks in a politically volatile situation. It is thus recommended that IFAD and the Government prepare the COSOP to cover two PBAS cycles (i.e. six years), according to IFAD's funding cycle, where the COSOP includes a relatively detailed outline of the pipeline for the use of the first PBA, based on identification undertaken as part of the COSOP preparation. The pipeline project(s) should be comprehensively described in a concept note agreed to by IFAD and the Government. This will allow design and appraisal during the first two years of the COSOP implementation period. For the second PBA period, a comprehensive COSOP review and revision, combined with project identification, should be undertaken in COSOP year 3 to allow for design and appraisal in COSOP

years 4 and 5. This would also afford time and space to mobilize cofinancing and explore joint financing arrangements with other development partners.