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**Report No. 45503-NP**

**EMERGENCY PROJECT PAPER**

**UNDER THE GLOBAL FOOD CRISIS RESPONSE PROGRAM**

**TO**

**NEPAL**

**ON A PROPOSED SOCIAL SAFETY NET PROJECT**

**CONSISTING OF**

**A PROPOSED CREDIT IN THE AMOUNT OF SDR 10.6 MILLION  
(US\$16.7 MILLION EQUIVALENT)**

**AND**

**A GRANT FROM THE FOOD PRICE CRISIS RESPONSE TRUST FUND  
FOR US\$5.0 MILLION**

**AND**

**AN ADDITIONAL FINANCING CREDIT TO THE  
IRRIGATION AND WATER RESOURCE MANAGEMENT PROJECT  
IN THE AMOUNT OF SDR 9.1 MILLION  
(US\$14.3 MILLION EQUIVALENT)**

**September 18, 2008**

**Sustainable Development Department  
Agriculture and Rural Development Unit  
Nepal Country Management Unit  
South Asia Region**

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective September, 2008)

Currency Unit	=	Nepalese Rupees (NRs)
1US\$	=	74 NRs.
1US\$	=	SDR 0.6347

## FISCAL YEAR

JULY 15 - JULY 14 (Nepali fiscal year)  
JULY 1 - JUNE 30 (World Bank fiscal year)

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ARCS	Audit Report Compliance System
BOQ	Bill of Quantity
CA	Constituent Assembly
CAP	Community's Consolidated Appeal
CFAA	Country Financial Accountability Assessment
CPI	Consumer Price Index
CPN-M	Communist Party of Nepal-Maoists
CQ	Consultant Qualifications
DDCs	District Development Committees
DFID	Department for International Development
DISSPRO	District Seed Self Sufficiency Program
DOs	Development Objectives
DOA	Department of Agriculture
DOI	Department of Irrigation
EMP	Environmental Management Plan
EPP	Emergency Project Paper
ESMF	Environmental and Social Management Framework
FAO	Food and Agriculture Organization
FAR	Financial Administration Regulations
FCGO	Financial Controller General's Office
FM	Financial Management
FPCRTF	Food Price Crisis Response Trust Fund
FPR	Financial Procedures Regulations
GDP	Gross Domestic Product
GON	Government of Nepal
GFRP	Global Food Crisis Response Program
GTZ	German Agency for Technical Cooperation
IBRD	International Bank for Reconstruction and Development
IC	Individual Consultants
ICB	International Competitive Bidding
ICWMP	Integrated Crop and Water Management Program
IDA	International Development Agency
IEE	Initial Environmental Examination
ILO	International Labor Organization

## FOR OFFICIAL USE ONLY

IPDP	Indigenous People Development Plan
IPR	Implementation Progress Report
ISE	Initial Social Examination
ISN	Interim Strategy Note
IWRMP	Irrigation and Water Resource Management Project
LOU	Letter of Understanding
MDG	Millennium Development Goals
MIS	Management Information System
MOF	Ministry of Finance
MOLD	Ministry of Local Development
MoAC	Ministry of Agriculture and Cooperatives
MOU	Memorandum of Understanding
MOWR	Ministry of Water Resources
NARC	Nepal Agriculture Research Council
NASC	Nepal Administrative Staff College
NCB	National Competitive Bidding
NDRI	Nepal Development Research Institute
NFCRP	Nepal Food Crisis Response Program
NFC	Nepal Food Corporation
NGO	Non-Governmental Organization
NIT	Non-conventional Irrigation Technology
NLTA	Non-lending Technical Assistance
NPC	National Planning Commission
NPSU	National Program Support Unit
NRB	Nepal Rastra Bank
NSC	Nepal Seed Company
OECD	Organization for Economic Cooperation and Development
OAG	Office of the Auditor General
OP/BP	Operational Policy/Business Policy
OPD	Office of the Project Director
PEFA	Public Expenditure Financial Accountability
PEM	Public Expenditure Management
PFAA	Public Financial Accountability Assessment
PFM	Public Financial Management
PCT	Project Coordination Team
PIM	Project Implementation Manual
PIP	Project Implementation Plan
PPRO	Protracted Relief and Recovery Operations
PSC	Policy Steering Committee
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
RAIDP	Rural Access Improvement and Decentralization Project
RAP	Resettlement Action Plan
RCIW	Rural Community Infrastructure Works
RFP	Request for Proposal
R & R	Resettlement & Rehabilitation
RPF	Resettlement Policy Framework
SDC	Swiss Agency for Development and Cooperation
SEMP	Social & Environmental Management Plan
SOEs	Statements of Expenditures

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SPP	Simplified Procurement Plan
SSMP	Sustainable Soil Management Project
TA	Technical Assistance
TFs	Trust Funds
TORs	Terms of Reference
TYIP	Three Year Interim Plan
UN	United Nations
UNICEF	United Nations Children's Fund
VAM	Vulnerability Analysis and Mapping
VAT	Value Added Tax
VC	Vice Chairman
VCDF	Vulnerable Communities Development Framework
VDC	Village Development Committee
VGDP	Vulnerable Group Development Plan
WFP	World Food Programme
WHO	World Health Organization

Vice President:	Isabel Guerrero, SARVP
Country Director:	Susan Goldmark, SACNP
Sector Managers:	Adolfo Brizzi, SASDA Mansoor Rashid, SASHD
Task Team Leaders:	Gayatri Acharya, SASDA Mohammed Ihsan Ajwad, SASHD Shyam Ranjitkar, SASDA

**Nepal**  
**Food Price Crisis Response Project**

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## Social Safety Nets Project – Project Paper Data Sheet

Date: 9/18/2008 Country Director: Susan Goldmark Sector Manager/Director: Adolfo Brizzi/ Constance Bernard; Mansoor Rashid/ Michal Rutkowski Lending instrument: Emergency operation (OP/BP 8.00)		Team Leaders: Gayatri Acharya/Ihsan Ajwad Sectors: Social protection, Agriculture Environmental category: B	
Type of Operation: New Operation <input checked="" type="checkbox"/> Additional Financing <input type="checkbox"/> Existing Financing (restructuring) <input type="checkbox"/>			
Financing type: Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> IDA Grant <input checked="" type="checkbox"/> Other <input checked="" type="checkbox"/>			
Project ID(s): P113002		Total Amount: SDR 10.6 Million (US\$16.7 Million Equivalent) plus US\$ 5 Million FPCR Trust Fund	
Proposed terms: IDA credit/grant		Expected implementation period: 36 months	
Expected effectiveness date: September 30, 2008		Expected/revised closing date: September 30, 2010	
Recipient: Government of Nepal		Responsible agency: Ministry of Local Development/Ministry of Agriculture and Cooperatives	
<p>Development Objective: Program Goal: To address the short and medium term implications of the global food crisis for the country by improving access to food and strengthening agricultural production, particularly for food insecure districts and smallholders.</p> <p>The project development objective of the <i>Social Safety Nets Project</i> is to ensure access to food and basic needs for vulnerable households in the short term in food insecure districts. The expected outcomes of the project are improved access to food in food insecure districts for poor households and vulnerable groups in the short term.</p>			
<p>Short Description: The project will provide financing food/cash for work programs and support for transporting critical agricultural inputs (seeds, fertilizer) to vulnerable populations and districts of the country.</p>			
Financing Plan (US\$m)			
Source	Local	Foreign	Total
Borrower	0	0	0
Total IBRD/IDA	0	16.7	16.7
FPCR TF	0	5.0	5.0
Others	0	0	0
Total	0	21.7	21.7
Estimated disbursements (Bank FY/US\$m.)			
	2009	2010	
Total IBRD/IDA Trust Funds	12.0	10.4	
Does the emergency operation require any exceptions from Bank policies?			Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Have these been approved by Bank management?			Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Are there any critical risks rated "substantial" or "high"?			Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
What safeguard policies are triggered, if any?			
<p>Significant, non-standard conditions, <b>if any</b>: Prior to effectiveness, Government of Nepal and WFP would conclude a Subsidiary Grant Agreement (SGA) setting forth the scope of the program and delivery modalities, targeting of beneficiaries and other matters. Ministry of Local Development and Ministry of Agriculture and Cooperatives would enter into an agreement with regard to project coordination, data sharing and beneficiary assessments.</p>			

## Irrigation and Water Resource Development Project – Project Data Sheet

Date: 9/18/2008 Country: Government of Nepal Project Name: Irrigation and Water Resources Management Project Project ID: P099296	Team Leader: Shyam Sundar Ranjitkar Sector Director/Manager: Constance Bernard/Adolfo Brizzi Country Director: Susan Goldmark Environmental Category: B							
Borrower: Government of Nepal Responsible agency: Department of Irrigation/Department of Agriculture								
Revised estimated disbursements (Bank FY/US\$m)								
FY	2009	2010	2011	2012	2013			
Annual	4	8	2.3					
Cumulative		12	14.3					
Current closing date: June 30, 2013 Revised closing date [if applicable]:								
Does the restructured or scaled-up project require any exceptions from Bank policies?							<input type="radio"/> Yes <input checked="" type="radio"/> No	
Have these been approved by Bank management?							<input type="radio"/> Yes <input type="radio"/> No	
Is approval for any policy exception sought from the Board?							<input type="radio"/> Yes <input checked="" type="radio"/> No	
Revised project development objectives/outcomes  The project development objective remains the same.  The additional financing supports the intermediate outcome of Component D: <i>farmers in selected districts adopt better agricultural production and water management techniques</i> . Additional monitoring indicators are however identified in Annex 2.								
Does the scaled-up or restructured project trigger any new safeguard policies? No.								
For Additional Financing								
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Credit <input type="checkbox"/> Grant For Loans/Credits/Grants: Total Bank financing (US\$m): SDR 9.1 Million (US\$14.3 Million Equivalent) Proposed terms:								
Financing Plan (US\$m.)								
Source				Local	Foreign	Total		
Borrower								
IBRD/IDA					14.3	14.3		
Water Users Associations								
Total					14.3	14.3		



## A. Introduction

1. This project paper proposes support for a Nepal Food Crisis Response Program (NFCRP) consisting of (i) a credit and grant totaling of US\$21.7 million for a new project on *Social Safety Nets* and (ii) US\$14.3 million of additional financing to the *Irrigation and Water Resource Development Project*. These funds are to be made available from the restructured and cancelled credits/grants under the Financial Sector TA Project (P071291); the Financial Sector Restructuring Project (P084219) and the Telecom Sector Reform Project (P050671), as well as a US\$5 million grant from the Food Price Crisis Response Trust Fund. The additional financing of the Irrigation and Water Resource Development Project and the financing of the new emergency project, in a total amount of US\$36 million. The proposed program is consistent with the framework set out in the Global Food Crisis Response Program and will constitute the Bank's overall support of the Government of Nepal's Food Crisis Response Program.

2. The proposed NFCRP will finance activities to mitigate both the short-term and the medium to long-term impact of rising food prices in Nepal as a result of the global food price trends. The proposed program will support the Government of Nepal's (GON's) national strategy to maintain and enhance food security. It includes support to the implementation of social safety net measures to maintain access to basic needs (mainly food) among vulnerable households in food insecure districts; and agricultural productivity activities to expedite a supply response through the implementation of measures to raise the yields and consequently the production of staples.

3. Specific interventions under the *Social Safety Nets Project* include: (a) a short term program for vulnerable districts through the food/cash for work program and (b) the provision of essential inputs (seeds/fertilizer) to remote districts. *Additional financing to the IWRMP* includes activities focused on: (a) small scale and non-conventional irrigation and (b) increased local production of improved seeds.

4. The proposed overall allocation is as follows:

Investment	Total cost (USD)	Responsible Agency	Implementing arrangements
<b>Social safety nets</b>	<b>New Project</b>		
Food/cash for work programs, including nutrition	16.2 million	MOLD	MOLD/WFP
Transport subsidy for seeds and fertilizer access to 23 remote districts	3.0 million	MoAC	DOA
Project Coordination, Impact evaluation and participatory beneficiary assessments, including assessments of existing cash transfer programs	2.5 million	MOLD	MoLD/DOA
<b>Agriculture Productivity</b>	<b>Additional financing</b>		
Small-scale and non-conventional irrigation	6.8 million	MoAC/MoWR	DOA/DOI
Scaling up community managed seed program and soil management activities	7.0 million	MoAC	DOA
Project Coordination, Impact evaluation and participatory beneficiary assessments	500,000	MoAC/MoWR	DOA/DOI
<b>Total</b>	<b>36 million</b>		

## **B. Emergency Challenge: Country Context, Recovery Strategy and Rationale for Emergency Program**

5. Increasing world food prices threaten to undermine recent progress towards the millennium development goals (MDGs) by reducing household and national food security and threatening macroeconomic stability. In post-conflict and fragile states, social unrest and instability is a real prospect. Food grain prices have more than doubled since January 2006 and over 60 percent of this increase has occurred since January 2008 alone. The impact of high world food prices is compounded by increases in fuel prices, which adds to distribution costs and is resulting in high food price inflation in many countries. There are strong indications that the volatility in global food prices will remain for the foreseeable future coupled with an upward shift to higher (real) prices in the medium term. The FAO-OECD Agricultural Outlook 2008-2017 forecasts that world prices will retreat from current highs but will remain firm over the medium term. This shift in food prices sharply focuses attention on reversing the declining trend of investments in agriculture, especially in agriculture dependent countries, as a pivotal strategy in addressing food security and poverty.

6. The Bank has recently put forward a Global Food Crisis Response Program (GFRP) which allows a comprehensive response to the crisis across a range of different instruments. GFRP provides an overall framework for the Bank to coordinate its own contribution to addressing the crisis in partnership with other multi-lateral organizations and donor agencies. The initial approach will be to facilitate a rapid Bank response with all available tools as soon as possible, while supporting the evolving coordination role of the United Nations Task Force on the Global Food Crisis established recently in Berne.

### **Country Context**

7. Targeted food assistance is immediately required for 2.5 million rural people severely affected by the price increases while a further 3.9 million rural poor will be at high risk of food insecurity if food prices continue to rise. An estimated 43 of 75 districts are reported to be food deficit. According to WFP, at least 23 districts Nepal are now chronically food insecure, with more than 6 million people food insecure of which 2.5 million are in immediate need of food assistance. Unlike the Terai area where markets are reasonably integrated both domestically and with India, poor road access in Mid and Western Nepal leads to high and increasing transportation costs (aggravated by serious fuel shortages) which in turn pushes grain prices up even further. Severe drought has aggravated the already precarious situation for many communities where crop production has decreased by as much as 70 percent in some areas.

8. In addition to the impact of higher food prices, the country is now facing a flood crisis as well. The districts of Sunsari and Saptari have been inundated by severe floods as a result of a catastrophic break in the embankments of the Koshi river<sup>1</sup>. Flood waters of the Koshi River in the eastern Terai have severely impacted several VDCs<sup>2</sup> in Sunsari and Saptari districts. Besides displacing over 50,000 people and resulting in subsequent food

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<sup>1</sup> The Koshi River broke through its eastern embankment on 18 August.

<sup>2</sup> 4 VDCs are completely flooded and 7 other VDCs are partially affected. The total population that has been affected is estimated to be 107,255.

shortages, the population has experienced severe losses in terms of livelihoods with loss of agricultural land totaling 6000 hectares and total loss of agricultural products totaling 3.7 million USD<sup>3</sup>.

9. The project will therefore target the chronic and marginally food deficit districts of Nepal as well as the severely affected districts of Saptari and Sunsari in the Terai, through the food/cash for work programs while the medium term agriculture production support would also include districts where remoteness creates a constraint for access to inputs.

10. During the first 7 months of FY08, food prices have grown at an average rate of 8.7 percent as compared to overall inflation of 6.3 percent but variation of increases across the country is considerable. However, the overall inflation rate is misleading because vulnerable districts have seen an increase of over 30 percent for cereals prices over the last year. Highest increases in real prices during the past six months were observed for cooking oil (26 percent), coarse rice (19 percent) and kerosene (13 percent). This has occurred during a period when rice prices normally declined by about 11 percent. In western Nepal where 5 out of every 6 households are poor, price inflation for coarse rice (the main food staple) has varied between 10 and 40 percent this year (2008).<sup>4</sup>

11. As a result, over the period May – August 2008, the number of people highly and/or severely food insecure has increased due to poor winter harvests in parts of the Far and Mid-west, rise in food prices and transportation costs, market closures due to syndicate strikes, inaccessibility of areas due to monsoon weather conditions, and flooding of agricultural land in the Koshi areas with subsequent loss of crops and destruction of livelihoods. The joint market assessment by WFP and Nepal Development Research Institute (NDRI) identified 2.5 million rural people across Nepal in immediate need of food support due to rising food prices. More than half of those (1.3 million) have currently been classified as highly to severely food insecure in the 39 WFP Food Security Monitoring and Analysis System (FSMAS) monitoring districts. In urban areas 525,000 vulnerable poor are at risk while 67,000 of these people may require immediate emergency support.

12. Nepal is also facing a serious fuel shortage, heavily affecting transportation costs, one of the most important factors in determining food prices. The average cost of transportation increased by almost 27 percent during the six months period covered by the survey and further increases are imminent. The chronic shortages of petroleum, cooking gas and diesel – due to a particularly debilitating combination of poor policies, inadequate revenue generation by the Nepal Oil Corporation, and frequent disruptions of supply due to strikes – have become a critical factor in food price inflation and impact transportation of food and agricultural inputs to remote parts of the country.

13. While high food price inflation forms a challenge for virtually every country, it presents particularly serious problems for Nepal in view of the following characteristics:

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<sup>3</sup> These are initial estimates provided by the District Agriculture Office

<sup>4</sup> Even though on average percentage price changes for coarse rice in the Terai and Hills have exceeded those in the Western Mountains, rice is more than twice as expensive in remote mountains compared to the Terai so the absolute price increases have been highest in the Mountains.

(i) low average per-capita income of \$363/year (2007); (ii) high overall poverty rate (31 percent in 2004); (iii) high child malnutrition rate (39 percent in 2006); (iv) lack of an institutionally well-established safety net program to effectively safeguard the impact of the crisis on poor and vulnerable populations; (v) small average farm size and low agricultural productivity, resulting in four out of every five households in Nepal being net food buyers; (vi) nominal wage rates for unskilled have risen but do not keep up with food price inflation (i.e. decreasing real wages); and (vii) fragile government and high political pressure to provide relief from high food prices and chronic fuel shortages.

14. Part of the problem is that productivity has remained very low and the supply response to higher prices is severely constrained. Three crops – rice (54 percent), wheat (19 percent), and maize (23 percent) – account for 96 percent of total cereal production and cultivated land. While production has generally kept pace with population growth, over the past 8 years (2000-08), rice yields have been stagnant and wheat and maize have shown limited growth in yields. Table 2 illustrates how low yields are in Nepal when compared with better performing states in India and with China and Vietnam. This emphasizes the need for improved technologies and farm practices by farmers including in the Terai, and a need to revisit the effectiveness of research, extension and input supply systems.

**Table 2: Crop Yields Compared for 2006/07**

	Crop Yields (mt/ha)	Rice paddy	Wheat	Sugarcane	Pulses	Maize
	Mountains	1.9	1.6	14	0.8	1.7
<b>Nepal</b>	Hills	2.5	1.8	23.7	0.8	2
	Terai	2.6	2.4	41.8	0.8	2.3
<b>India</b>	Uttar Pradesh	2	2.6	58.2	0.9	1.1
	Punjab	3.7	4.2	57.9	0.9	2.7
<b>Vietnam</b>		4.9		66	0.7	3.7
<b>China</b>		6.3	4.5	82.5	3	5.4

15. Even though costs of production in the Terai are generally low, difficult access in the hills and mountain areas greatly increases the costs of input delivery leading to low use of fertilizer and pesticides and low levels of mechanization. In the 23 most remote districts, where the private sector cannot profitably supply inputs, the government subsidizes the transportation of fertilizer and seeds. Rising energy prices will affect current costs of cultivation, both directly for the operation of machinery and indirectly for fertilizers and other chemicals. Fertilizer prices are estimated to have increased by 30 percent during 2007 and reduced use of fertilizers is a likely response. The supply of these inputs to district headquarters has been affected by fuel shortages and rising fuel prices.

16. Long-term declines in agricultural investment, leading to underperformance in the sector are having a severe impact on the ability of the sector to respond to increased demand and to capture the rise in prices. In Nepal, public spending in agriculture as a share of agriculture GDP is approximately 3 percent, lower than the average of 4 percent for agriculture based countries, and significantly lower than transforming countries which invested at least 10 percent during their agriculture growth spurt<sup>5</sup>. The result of this long

<sup>5</sup> World Development Report (2008), Agriculture for Development

period of underinvestment is that the supply response is severely constrained, with farmers being unable to take advantage of the high food prices.

17. Nepal also does not have a national safety net program that can be expanded rapidly to reduce the hardships that poor and vulnerable households face during the current food crisis. The main existing public social assistance programs comprising an elderly pension, a widow's pension and an allowance for severely disabled people have very low coverage (about half a million beneficiaries), with public expenditure on all three programs amounting to less than 0.14 percent of GDP (2006-07). The low coverage relative to the needs of the population and the limited target groups do not make it a useful candidate for providing benefits to vulnerable groups in the current food crisis. The program currently uses outdated paper-based and variable reporting standards/formats, incomplete information collection for oversight and policy purposes, a rudimentary payments system especially below the district level, and an unevaluated targeting system. Improving program administration could increase the efficiency of delivery of current programs and serve as a building block for an effective national safety net system that is fiscally viable and targets the chronic poor.

18. Given the low supply response to higher food prices and the chronic lack of adequate safety net measures, the Bank's response requires a combination of short and medium term interventions to address urgent requirements for food and to trigger a supply response, particularly in the remote and most vulnerable districts of the country.

### **Economic and Social Impact of the Crisis**

19. Nepal is one of the poorest countries in the world, with a GDP per capita of US\$363 in 2007, with low, though in some cases improving, social indicators. Despite this, the country has made substantial progress in poverty reduction in the last decade. Between 1996 and 2004 the headcount poverty rate fell from 42 to 31 percent. This is remarkable considering that an armed conflict ran from 1996 to 2006 which imposed a heavy toll in terms of human lives: over 14,000 people were killed, many displaced (with estimates over recent years ranging from around 25,000 to around 100,000 people), and others disabled or "disappeared".

20. Overall the poorer sections of society depend more on coarse rice, maize, and millet. 64 percent of total coarse rice consumed in the country is by the bottom 3 quintiles i.e. the poorest 60 percent. Similarly, the bottom 3 quintiles account for 69 percent and 66 percent respectively of total maize and millet consumption and 74 percent of total maize flour consumption. On average, rice constitutes about 67 percent of total grains and cereal consumption in Nepal<sup>6</sup> while wheat and maize constitute 12–15 percent each, and millet and barley make up 3–5 percent. Coarse rice makes up half of total grain consumption of the poor. Maize, particularly maize flour, is the next important food-item to the poor making up 17-19 percent of their consumption. Wheat makes up about 5 percent of the

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<sup>6</sup> In the NRB's CPI basket, rice makes up 78 percent of all grains and cereal consumption. According to NLSS-II, rice constitutes 67 percent of total grain consumption by households. The difference probably arises because the NRB's CPI only measures urban inflation. The NLSS-II data can be considered more representative of nationwide consumption pattern.

grain basket for the middle three quintiles. Millet makes up around 5 percent of the consumption of the poorer classes. Increases in the price of rice have a larger impact on both the rural and the urban consumer. Rice makes up 84 percent of the total grain basket of the urban consumer, compared to only 5 percent for maize and millet together. Maize and millet account for more than a fifth of the grain consumption of the rural population (96-97 percent of maize and millet is consumed in rural areas), while coarse rice accounts for 47 percent of total expenditure.

21. Given trends in consumption patterns, the policy implication is that rice cultivation and processing to maize flour have to be given due attention, as we can expect demand for these items to increase further assuming incomes continue to grow. From a regional perspective, it will be important to ensure adequate wheat supplies to the far-western region, while also supporting the production of local grains which can contribute to local food security and nutrition.

22. High and variable price rise will not only affect vulnerable people; but, could also wipe out most of the impressive reduction rate in poverty head count observed in the last decade<sup>7</sup>, unless price increases are successfully passed on to producers, and in particular, smallholders. Supporting farmers to increase production will be an important strategy. For the poorest households, on-farm income and agricultural wages account for 71 percent of the share of household income. In terms of livelihood strategies, approximately 29 percent of rural households are labour-oriented and are therefore likely to be net buyers of food. These households will be adversely affected by the higher food prices and associated increases in input costs. However, households which are market-oriented and are net sellers of food, could benefit from the higher food prices provided these are passed through to them<sup>8</sup>.

### **Government Response to the Crisis**

23. Nepal is coming out of a long period of conflict and internal strife and the political situation remains unsteady. Nepal's Poverty Reduction Strategy (PRS) is based on the Tenth Five-Year Plan 2002-07 and sets reduction of the overall poverty ratio as its main objective. A new strategy is expected to be prepared by the new government. Nepal's political landscape has changed considerably over the last three years. The ending of royal rule in April 2006 and immediate establishment of an interim Government opened a new chapter in the Nepal's history. The signing of a comprehensive peace agreement between the Government of Nepal (GON) and the Communist Party of Nepal-Maoists (CPN-M) in November 2006 laid out a roadmap to a lasting peace and the construction of a new governance structure. Constituent Assembly (CA) elections were peacefully held on April 10, 2008 and were judged by observers to have been credible. While the post-electoral

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<sup>7</sup> Poverty reduction of 1.4 percent per annum (period: 1996 – 2004).

<sup>8</sup> As defined in the WDR (2008): Market-oriented smallholders derive most of their income from engaging in agricultural markets. Subsistence farmers primarily depend on farming for their livelihoods, but use the majority of their produce for home consumption. Only a very small share of all agricultural products sold is produced by these households (less than 2 percent in Nepal). Labour oriented households derive the larger part of their incomes from wage work in agriculture or the rural nonfarm economy—or from nonagricultural self-employment.

period has seen delays in formation of a new Government, the CA is functioning and Cabinet has recently been appointed.

24. Box 1 summarizes the Government's proposed strategies for addressing food security. The impoverishment of households, as resultant of price increase, will be of serious concern to the new government. Any reduction in the welfare of the marginalized population may lead to another round of disturbances within the country. With 53 percent of the consumer basket made up of 'food and beverages', price rises will certainly impact the consumption of the marginalized groups more than others. The Government's response has been to request assistance to maintain the programs they have in place to address the most vulnerable groups and districts of the country and to support the food security strategy outlined in the 3 year interim plan. This program is geared towards assisting the Government of Nepal make the right policy choices that least distort price signals, provide effective safety nets and increase productivity.

### **Donor Strategies and Programs**

25. Extensive discussions on support for the government's efforts in responding to the crises have taken place among donor agencies and the Government. These have included primarily FAO, WFP, ADB and the World Bank. WFP and FAO have provided emergency assistance under on-going programs to support food/cash for work and seed supply to remote areas. Through a joint assessment of the food price crisis, agencies have contributed their particular perspectives and areas of comparative advantage to leverage synergies and avoid duplication<sup>9</sup>. The joint effort is reflected in this proposed World Bank support and is aligned with Donor and Government's response to the crisis and the Government's food security action plan outlined in the 3 year Interim Strategy.

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<sup>9</sup> A number of earlier assessments such as the Food Security Assessment Mission to Nepal (2007) and World Food Programme assessments of food insecurity in report districts have taken place. The World Bank prepared a policy note in June 2008 drawing on macro data, agriculture and vulnerability data shared by the Government and the WFP.

## **Box 1 – Proposed GON Response and Strategies for Soaring Food Prices**

### **Immediate Reponses (6 months – One Year)**

- Mobilization of food assistance
- Implementation of various support schemes to farmers to enhance productivity and production for the next crop season
- Distribution of improved seed kits to farmers on large scale
- Support to rehabilitation of micro-irrigation schemes
- Strengthening existing farmer managed irrigation schemes
- Implementation of pro-poor income enhancement programs to increase access of the poor to food
- Restriction of food grain exports from Nepal

### **Short Term Responses (1 to 3 Years)**

- Revise the domestic food procurement policy of the NFC to
  - Enhance national food production
  - Stabilize market prices
  - Estimation of cost of production of major food crops to be procured in different ecological zones
  - Differential procurement price for different ecological zones
  - Prepare a food grain distribution plan for different ecological belts
  - Domestic procurement and stocking of food through NFC to capacity
- Increase the supply of chemical fertilizers through the provision of soft loans for fertilizer import and transport subsidy
- Promotion of location specific product diversification e.g. bread, buckwheat, millet and oats etc
- Utilization of under and un used productive natural resources such as swamps, river sides, streams and forests
- Discourage conversion of staple foods into alcohol

### **Medium Term Strategies (3 – 5 years)**

- Strengthen the seed multiplication programs with farmer groups, the private sector and the Nepal Seed Company (NSC)
- Promotion of research and development of location specific and minor crops
- Whole sale lending at nominal interest rates to micro-finance institutions and cooperatives including small farmer cooperatives
- Increase investment in agriculture infrastructure development, processing, marketing and distribution
- Expansion of rural roads to production areas
- Reduction of post-harvest losses and the use of waste for compost and bio-gas
- Improve soil fertility management

### **Long Term Strategies**

- Development of a land utilization policy to reduce land fragmentation and use of agricultural lands for non agriculture purposes
- Enhance programs for the development of bio-diversity
- Crop insurance schemes
- Watershed conservation and management

*Source:* Govt of Nepal- FAO/WFP/IFAD/Asian Development Bank/World Bank Interagency Rapid Assessment Mission 21-31 July 2008 Draft Report of Mission Findings and Recommendations. Presentation by MoAC at Thematic Group Meeting



### C. Bank Response: The Program

26. The Bank's strategy for emergency support is aligned with the Government's strategic approach and takes place in the context of the agreed joint UN response. The Bank's emergency program focuses on measures to address the short and medium to long term implications of the global food crisis for the country, including on going efforts to strengthen agricultural production and safety net mechanisms on a broad scale. It is fully consistent with the Bank's Global Food Crisis Response Program (GFRP). The food crisis interventions will be financed out of the newly created Food Price Crisis Response Trust Fund and through the restructuring of the existing portfolio.

#### Project Development Objectives

27. Program Goal: To address the short and medium term implications of the global food crisis for the country by improving access to food and strengthening agricultural production, particularly for food insecure districts and smallholders.

28. The project development objective of the *Social Safety Nets Project* is to ensure access to food and basic needs for vulnerable households in the short term in food insecure districts. The expected outcomes of the project are improved access to food in food insecure districts for vulnerable groups in the short term.

29. The project development objective of the *Irrigation and Water Resource Management Project* remains unchanged and is to improve irrigated agriculture productivity and management of selected irrigation schemes and enhance institutional capacity for integrated water resources management. The additional financing supports the intermediate outcome of Component D in the parent project: *farmers in selected districts adopt better agricultural production and water management techniques*. Additional monitoring indicators are identified and included in Annex 2. The additional financing does not add new components to the IWRMP but provides financing to cover districts which are not currently included in the parent project.

#### Summary of Program Interventions

30. The NFCRP would help finance activities to mitigate both the short-term and the medium- to long-term impact of rising food prices in Nepal as a result of the global food price trends. The proposed interventions will support the Government of Nepal's (GON's) national strategy to maintain and enhance food security. It includes support to the implementation of social safety net measures to maintain access to food and basic needs among vulnerable households in food insecure districts in the short term; and agriculture productivity to expedite a supply response through the implementation of measures to raise the yields and consequently the production of staples. The program has an indicative outlay of USD 36 million.

31. Specific activities under the proposed new project include: (a) a short term program for vulnerable districts through the food/cash for work program and (b) improved fertilizer access and better targeting of fertilizer uptake by small holders. This project will focus its activities in food insecure and remote districts.

32. Under the additional financing, activities will support (a) rehabilitation of farmer-managed small scale irrigation schemes and non-conventional irrigation technologies; (b) increased local production of improved seeds and soil management. This additional financing will prioritize food insecure and remote districts thereby extending the geographical focus of the parent project in these activities and creating synergies with the food/cash for work and fertilizer access support under the Social Safety Nets projects.

### ***Social Safety Nets Project***

#### **Ensuring access to food and basic needs for vulnerable households in the short term**

33. ***Component 1 (US\$16.2 million):*** In the very short run, the project would, in food insecure districts, support food/cash for work programs. This will include WFP programs focused on critical infrastructure and livelihood activities and the Rural Community Infrastructure Works (RCIW) program, which is supported by the World Food Programme (and in the past has been supported by other donors such as GTZ and DFID)<sup>10</sup>. This support will provide food and basic needs in the short term to vulnerable households by providing 50 to 70 days of employment in public works to about 400,000 individuals. As such, the program has two layers of targeting: (i) geographic according to the level of food insecurity in districts; and (ii) at the household level, self-targeting of the poor within food insecure communities. Details of the components are listed in annex 1.

34. The public works activities will be of immediate relevance to communities, including rural roads in remote areas in 21 of the most food insecure districts. The rural roads identified are identified in the Roads Master Plan. The wage rate will be no higher than the market wage for unskilled labor (agricultural daily wage) in different locations. The wage will be paid in-kind (food, with added micronutrient supplementation) in regions where food is not available in the market, but cash will be paid out in regions where markets function well. In addition, the component will also promote livelihood/income generation activities in food insecure districts, thus contributing to improving temporary food/income security in these remote regions. For example, small-scale enterprise projects such as cultivation of medicinal and aromatic plants and high value cash crops in the Mountain regions can generate income and reduce community vulnerability to food insecurity, climatic variability and food price hikes, generally making households more resilient to external shocks.

35. Responding to Nepal's food price crisis through food/cash for work program is based on the specific request of GON, the logistical capacity of WFP in very inaccessible terrain and the possibility of rapid start-up of support. WFP has a good track record of providing immediate food assistance to vulnerable and marginalized communities under their food/cash-for-work programs.<sup>11</sup> In the most food insecure regions, WFP was able to

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<sup>10</sup> The RCIW gives cash and in-kind payments to the poor in return for work done in labor-intensive public works projects.

<sup>11</sup> Food/cash for work programs have the potential to alleviate family's basic needs but they also could distort markets when the program's impact on communities is very significant. Similarly, if the cash for work program is sufficiently large relative to the local economy, the program can cause inflation, which in turn can adversely affect non-beneficiary households. WFP has experience with food/cash for work

reach as many as 1.25 million households with food support. WFP's comparative advantage is its ongoing work that can easily adjust and expand to those high food insecure areas where the impact of consecutive crop harvest failures and food price hikes are greatest, including those areas heavily impacted by the conflict. A further advantage of the WFP program is that it has a robust field monitoring system which provides timely and reliable feedback both on food security and program coverage and impacts. As in the RCIW program, where WFP works closely with MoLD, close collaboration with WFP, MoLD and MoAC and local partners will be critical to target the most vulnerable.

36. In addition, MoLD and WFP have agreed to add micro nutrient supplementation (such as “sprinkles”) in the food that will be provided under the food/cash for work program to promote better nutrition outcomes. This aspect will also be monitored to track the added value of such interventions. WFP will work with partners such as UNICEF on the nutrition supplementation program, which will be approved by the Ministry of Health, and the program will add value to on-going discussions under the Health SWAp to include a larger nutrition program in the next phase of financing.

37. ***Component 2 (US\$ 3 million):*** This component will provide support for fertilizer use in remote areas<sup>12</sup>. The price of fertilizer has increased by 30 percent over the last 6 months and fuel shortages and rising fuel prices are placing additional constraints. In order to promote private sector development and distribution in remote districts where transportation costs combined with higher fertilizer prices results in low incentives for the private sector to attempt to distribute in these areas, the Government provides a transport subsidy for private sector transport fertilizers and seeds up to the district headquarters (mostly by road or animal, a few districts by air). As a result farmers in these districts pay the same price for fertilizer as farmers in other districts where transport costs are not excessive. The program has seen a 40 percent decrease in supply over the last 12 months due to increased transportation costs, thereby making local production even more unlikely to recover in the short run. The transport subsidy is aimed at providing an increased supply of fertilizer for the wheat crop in these districts and total budget provided by the GON is approximately USD 600,000 per annum. Fertilizer is provided by suppliers who sell the fertilizer at the market price (less transportation costs) and register the total amount sold at the district headquarters before they can claim the transport subsidy. The transport rates per unit of fertilizer are set by a district agriculture committee and suppliers are asked to bid against a stated target of fertilizer demand in each of the 23 districts. The responsibility of selling the fertilizer remains with the supplier.

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programs and is well aware of how to ensure that market distortions are minimized. In addition, WFP could pay wages with both food and cash to minimize the above issues.

<sup>12</sup> The GFRP states that targeted subsidy programs for inputs have a mixed tracked record. Targeted subsidy programs can greatly increase farmer access to and application of farm inputs, but their design should take into account the following principles: (i) ensure that the subsidy is transparent and fiscally capped at for example 25 percent of the Ministry of Agriculture budget, so that it does not crowd out other priority agricultural public investments or derail the overall national fiscal budget; (ii) ensure that the subsidy is targeted to those who cannot afford fertilizer to avoid displacing commercial sales; (iii) ensure that the administrative costs of the subsidy are kept to a minimum; (iv) ensure that the subsidy does not create the dependency syndrome; (v) ensure there is an exit strategy characterized by reduction of the subsidy element annually towards an explicit exit point and (vi) make the entire structure of the subsidy program, including its timeframe and allocation scheme, publicly known in advance.

38. The justification for supporting this program is to ensure a basic level of input supply and maintain local food production in the remote districts to abate the impact of food insecurity in these areas. However, the program also needs to be evaluated and eventually phased out. Supporting the program at this time can serve as an important demonstration effect but is a temporary solution to ensure access to fertilizer inputs in remote areas. Given the increase in food prices, fertilizer should eventually become affordable once farmers are able to see the productivity impacts of using these inputs. The Government would like to use this opportunity to assess the effectiveness of the program in reaching targeted farmers and farmer groups. Transporting the fertilizer to district headquarters is resulting in benefits to farmers in and around the headquarters but does not reach the more remote farmers. The next year's program (starting September 2008) would therefore require suppliers to transport fertilizer all the way to the service centers. From that point additional targeting will be required to ensure that small farmers are fully informed about the program and are given access to purchase the fertilizer. A pilot voucher scheme can also be developed as a part of this program following a full analysis of the program and detailed data on targeted beneficiaries.

39. Activities to be financed under this subcomponent will be a) increased budget for transport subsidy (to extend transport to service centers); b) data collection, monitoring and targeting activities to ensure small farmers are getting the subsidized fertilizer, including the design and piloting of a voucher scheme for poor farmers and farmer sensitization on the proper use of fertilizer. Activities under monitoring will include independent verification by an implementing partner (NGO). Linkages between these activities and the seed and extension services support under IWRMP will be emphasized and monitored in the programming of activities under the two projects.

40. **Targeting:** As with most food/cash for work programs around the world, the targeting mechanism adopted here is a combination of geographic targeting (according to the degree of food insecurity spatially) and self selection at the household level (through a lower-than-market wage rate in the program). Tentatively, 30 districts will be selected by MoLD/WFP using poverty maps and information from WFP's food security surveillance system and the recent WFP Market and Price Impact Assessment Report.<sup>13</sup> Within these, 21 districts will implement RCIW type (public works) activities, and livelihood activities will be launched in some or all of the districts. As for project selection for public works, WFP will seek to work with DDCs/VDCs and project activities will be chosen by the communities, prioritizing the most food insecure areas. A Subsidiary Grant Agreement will be entered into between WFP and the Government of Nepal, which will include an appendix containing detailed implementation modalities and the relative roles and responsibilities of WFP and the MoLD. A detailed monitoring plan will be agreed to between WFP and MoLD. The fertilizer support program is expected to reach 15,600 farmers across 23 districts (an average of 600 farmers per district). Expansion of the program to service centers will provide access to remote farmers within these districts.

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<sup>13</sup> Food/cash for work program districts: Acham, Baitadi, Bajhang, Bajura, Darchula, Dadelhdhura, Dailekh, Dolakha, Doti, Dhanusha, Dolpa, Humla, Jajrkot, Jumla, Kalikot, Kavrepalanchok, Makwanpur, Mugu, Pyuthan, Ramechhap, Rolpa, Salyan, Rukum, Saptari, Sindhuli, Sindhupalchok, Siraha, Sunsari, Surkhet and Udaypur.

Monitoring will be carried out in partnership with an established institution outside of government, which has a good network in these remote areas.

41. **Component 3 (US\$ 2.5 million):** Project coordination, monitoring and evaluation, beneficiary assessments will be financed under this component. Independent monitoring and beneficiary assessments will be emphasized to evaluate the impacts of all three earlier components of this project. Capacity building for central, district and village level administrative officers will also be supported under this component. This component will support a detailed evaluation of existing cash transfer programs. The focus of this analysis will be to identify specific actions the Government can take to strengthen the current social assistance programs. This should contribute in the medium term to enhancing state capacity to equitably and fairly deliver critical support that can help mitigate social tensions in a fragile and fluid environment. The financing would support activities including: (a) review of the existing program administration system (e.g. targeting, record keeping, payments, staffing and skills); (b) design of an improved program administration, including assessing the current targeting systems and payment methods. The assessment will propose how shifting from a paper based system to a computerized record keeping system can improve the efficiency and effectiveness of these programs.

### ***Irrigation and Water Resource Management Project***

#### **Enhancing agriculture production**

42. All activities identified below are taken to be sub-components of Component D in the parent project. Therefore the description below is meant to elaborate the activities and the geographical targeting expected from the additional financing.

43. **Component D1 (US\$ 6.8 million):** A primary area of support will be rehabilitation of farmer-managed small scale irrigation schemes and non-conventional irrigation technologies (for example, shallow tubewells, rainwater harvesting, lift irrigation, drip and sprinkler systems and small scale surface irrigation). This component would: (i) support quick turnaround physical investments in rehabilitation of existing small-scale irrigation schemes; (ii) finance technical support to carry out assessments of groundwater or surface water hydrology to ensure that the recharge is sufficient for anticipated usage, (iii) provide technical assistance and training in areas such as water harvesting and water resource management; (iv) finance investments in water pumping, storage and distribution, (v) finance training for local artisans, technicians, and water user groups on operation and maintenance of investments; (vi) finance investments in rehabilitation or development of field drainage and collector drains to reduce problems of water-logging and soil salinity, and to enable rapid increases in crop yields. Support under this area will help provide support to areas not covered by the current irrigation project and in particular address the needs of small holders in remote food insecure areas. Support will be channeled through the implementing arrangements in place under the irrigation and water resource management project but will target areas that are currently not covered by the project. Department of Irrigation and the Department of Agriculture will coordinate in the implementation of this component as currently expected under the existing modalities of the Irrigation and Water Resources Management Project.

44. **Component D2 (US\$ 7.0 million): Increase Local Production of Improved Seeds and Soil Fertility Management.** Poor quality seed is considered to be a binding constraint to improving productivity and overall production. The current seed replacement rate is about six percent. This has resulted in deterioration of seed quality leading to low crop production and productivity. The Nepal Agricultural Research Council (NARC) has released several crop varieties in the last 5 years, but adoption by farmers has been lower than expected. A significant yield impact can be expected from use of improved variety of seeds and a general improvement in seed replacement levels. Alternative approaches to raising soil fertility will be promoted alongside the seed program since the combined effect of increased replacement levels of seeds, access to irrigation and soil fertility programs can contribute significantly to the integrated crop and water management objectives of the sector. On-going programs within the DoA already provide these linkages. The integrated crop and water management sub-component in IWRMP also supports farmer to farmer extension activities which is the approach used by, among others, the long running Sustainable Soil Management Programme (SSMP) financed by the SDC and implemented by Helvetas and DOA.

45. Activities to be financed will include: (i) procurement and distribution (by project) of high-yielding varieties of foundation seeds from research stations, relevant market outlets; (ii) provision of basic training to local farmers in using these foundation seeds to produce improved seed varieties (segregation, more intensive weeding/management etc); (iii) support for forming relevant community groups for production, sharing and further propagation of these seeds; and (iv) complementary inputs to improve soil management practices. The project would support seed production at a local level for only a few seasons, and in this time will support the development of stocks of improved seeds as well as systems and capacities for continuing production and use of better seeds, which should provide a sustainable source of yield increase. The Ministry of Agriculture and Cooperatives would implement this component, using other service providers (including FAO, WFP and Helvetas) as required.

46. **Targeting:** Small scale and non-conventional irrigation is expected to reach 12,400 farming households. Farm sizes in target areas are on average 0.2 hectares while household sizes are on average 6.7. Priority will be given to areas inhabited by marginalized poor communities with no potential for future development of surface irrigation. The community seed program is expected to increase local production of quality seed by 30 percent and increase average replacement levels to 10 percent. Geographical targeting should be aligned with recent WFP-MoAC assessments where districts have been identified as particularly vulnerable to continuing food shortages, including the districts affected by the Koshi floods.

47. **Component D3 (US\$ 500,000):** The additional financing will include some financing for increased project coordination, monitoring and evaluation and beneficiary assessments. This is to augment project coordination and M&E financing already provided in the IWRMP.

## **Financing Instruments**

48. The proposed interventions will be financed by a US\$ 5 million grant from the Food Price Crisis Response Trust Fund (FPCRTF)<sup>14</sup> and through restructuring of the existing IDA portfolio resulting in an additional US\$ 31 million. The financing instrument will include an additional financing of the *Irrigation and Water Resources Management project* and a new credit/grant facility for the proposed Social Safety Net Project interventions.

## **Consistency with Country Strategy**

49. The proposed activities are consistent with the current Interim Strategy Note (ISN) and with the country's 3 year interim plan. This project will benefit from the forthcoming proposed non-lending technical assistance (NLTA) to support GON's Social Protection system. That social protection NLTA combines social protection program assessments, technical assistance to central and local tiers of government to improve data for implementation and evaluates existing social protection programs, and advisory support to central government as it develops its active labor market programs, amendments to social protection program eligibility and targeting mechanisms, and social care services and related implementation mechanisms.

50. The project also complements the planned support under IDA 15 for agribusiness development through farmer based organization and value chain development. The emergency response will also add value to the on-going irrigation project by providing support for complementary inputs such as seed and fertilizer. Taken together, these agriculture programs can address the needs of small scale farmers both with regard to supporting their basic production and consumption requirements and more efficient market integration to take advantage of higher prices and niche markets.

## **Expected Outcomes and Monitoring Arrangements**

51. The program's overall development objectives are: (i) to ensure access to food/basic needs and essential agricultural inputs for vulnerable households in food insecure districts in the short term; and (ii) to promote domestic food production by ensuring access to inputs and improved technologies. The expected outcomes of the program are: (a) improved access to food in food insecure districts for poor households and vulnerable groups in the short term; and (b) increased production of food crops.

52. Results frameworks and M&E arrangements are described in Annex 2; for the additional financing, monitoring arrangements are included in the existing project's M&E arrangements with measurable indicators to be added as described in Annex 2. Monitoring and oversight of the Government's overall food crisis response program will be carried out by the Ministry of Local Development together with the Ministry of Agriculture and Cooperatives through the DOA.

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<sup>14</sup>The FPCR TF was established in conjunction with the Bank's Global Food Crisis Response Program (GFRP), and is subject to Executive Directors' approval and funded out of IBRD surplus subject to the approval of the Board of Governors.

## Appraisal of Program Activities

53. **Technical:** In the short term, a scale up of the food/cash for work program would be important for households suffering from the food/commodity price crisis. Close collaboration with the MoLD, MoAC, WFP and local partners will be critical to target the most vulnerable. In this respect, WFP has a good track record in working with MoLD in implementing Rural Community Infrastructure Works (RCIW) program – a public works program and in providing food assistance to vulnerable and marginalized communities under their food-for-work and combined food-for-work and cash-for-work programs. In the most food insecure regions, WFP was able to reach as many as 1.25 million households with food support. WFP’s comparative advantage is that it can easily adjust its program to reach those high food insecure areas where the impact of consecutive crop harvest failures and food price hikes are greatest, and to areas also heavily impacted by the conflict. Evaluations of the RCIW public works program have shown positive impacts on food security of vulnerable households in times of need. In Dholaka, Ramechhap, Sindupalchowk, Kavre districts, 415 km of roads were completed. In addition, 20 percent of participating workers belonged to Dalit groups most frequently affected by social exclusion. Significant output indicators were also in evidence. Given the WFP’s comparative advantage in reaching the most food insecure regions and the vulnerable in such regions, and its past successful track record in working collaboratively with MoLD, the WFP and MoLD collaboration is likely to be particularly useful in the current food price crisis situation.

54. The lack of an effective safety net system makes it difficult for the Government to respond to this and other crises affecting vulnerable groups. At present, as in several other countries in the region, Nepal does not have a national safety net program that can be expanded rapidly to reduce the hardships that poor and vulnerable households face during the current crisis. The main existing public social assistance cash transfer programs comprise non-contributory pensions to the elderly, widows and the disabled. These programs have very low coverage, public expenditure on all three programs amounting to less than 0.14 percent of GDP (2006-07). While the program contains a small component that targets benefits to the disabled and widows, the bulk of program spending is on a social pension targeted to the elderly of age 75 or older. The program has been shown to be effective in meeting its objective of reaching the elderly,<sup>15</sup> but its small coverage and limited target groups do not make it a viable candidate for providing either cash or food based transfers to vulnerable groups during the current food price crisis. Moreover, the program’s administrative efficiency, e.g. record keeping, management information systems, payment systems and targeting are weak and could be significantly improved. Improving program administration could also allow the program to develop an administrative platform for benefit delivery that would contribute to an effective and efficient national safety net system that is fiscally viable and targets the poor, but also is capable of scaling up effectively in case of future crises. This system will therefore be analyzed and an action plan will be prepared for the proposed Local Government and Community Development Program.

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<sup>15</sup> See Palacios and Rajan (2004) for a survey-based assessment of program incidence.



55. The agriculture related activities are identified in various assessments as particularly important for Nepal to address food security in the medium to long term. The IWRMP has evaluated these activities (minor irrigation, non-conventional irrigation and community seed program) as technically sound<sup>16</sup>. District Seed Self Sufficiency Program (DISSPRO) currently covers 55 of the 75 districts in the country but coverage within each district is highly variable since it is a demand driven program. It has however been effective in expanding the reach of good quality seeds in these areas through farmer to farmer informal exchanges.

56. Component D of the IWRMP is also based on demand-driven principles. Support under this additional financing therefore creates additional space to invest in the improvement of irrigation schemes through small scale and non-conventional irrigation technologies which are appropriate for the difficult terrain and the scale of landholdings. The extension of these appropriate technologies will add significantly to the expansion of irrigated land but will focus on including small holders. Current reach by DOI for non-conventional irrigation schemes is 80 per year, largely in the mid hills and mountain areas, while demand is for around 200 schemes per year. Similarly, the DOA carries out very small scale repairs using a matching grant mechanism to help farmers address system failures (such as landslides which block irrigation canals) or extensions through additional pipes to direct water to where it is needed at the field level. 20-25 schemes per district per year is the typical outreach of the DOA.

57. Additionally, by linking these efforts with improvements in the seed supply chain and encouraging farmers and cooperatives to participate in the DISSPRO program, the integrated crop-water management approach supported by IWRMP will be strengthened. Water management at the farm level would be an integral part of each project scheme.

#### **Economic and Financial:**

58. The benefits from the proposed program are both direct and indirect as well as short- term and medium-term. The programs supported by this project are in line with the Framework Document and seek to mitigate the worst effects of food shortages and price increases on the poorest households through the rapid adoption of responses that will have immediate to medium term effects if implemented as soon as possible. These include measures to stabilize food prices and improve food policies, the strengthening of those aspects of social protection, human nutrition and health systems related to the price of food; and promotion of rapid responses in food supply chains.

59. Under the GFRP the following procedure is offered for the appraisal of specific investments proposed for funding in each country program. This rapid appraisal process will review the following factors, based on standard good practice for the economic evaluation of public investments: (1) the sector policy context; (2) the proposed target beneficiary group(s) (3) the expected effect, or benefit, and cost-effect and/or cost-benefit

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<sup>16</sup> In addition, an independent FAO assessment of the seed supply chain (and DISSPRO in particular) will be carried out in August 2008.

ratios; and (4) analysis of fiscal sustainability. The proposed program is consistent with the framework set out in the GFRP.

60. **The sector policy context:** The overall policy context recognizes the post-conflict nature of the country and fragile political situation, the market failures evident particularly for key agricultural inputs, and the absence of alternative budget resources.

61. **Targeting** is explicit in all components and focuses on food insecure populations/areas (in the new project), smallholder farmers (existing project receiving additional financing) and the most vulnerable (through geographical targeting in both projects and self-targeting of the poor within food insecure districts in the new project). Smallholder farmers and food insecure populations are targeted in both projects. Verification through GON and WFP monitoring and independent monitoring by partner organizations will be used.

62. **Expected benefits:** The combination of social protection and productivity-enhancing interventions will support immediate objectives of alleviating food insecurity and start addressing the longer-term agricultural productivity concerns. The added value of nutritional supplements to the food to be distributed will also be monitored and studied for possible replication in subsequent programs. The additional financing to the irrigation and water resources project is expected to result in longer term benefits by promoting appropriate irrigation technologies and local availability of improved seeds.

63. Over the longer term, a more effective and efficient safety net can help reduce the social and economic costs of instability and reduce adverse welfare impacts of both exogenous shocks and reforms on the poor. The proposed analysis of safety net delivery mechanisms will address ways in which we can help reduce household vulnerability to risks, cope with shocks of different forms, facilitate high risk/reward production decisions by poor households, and even facilitate structural reforms by cushioning their impacts on the poor. These effects can be both equity enhancing and contribute to dynamic efficiency, suggesting that greater attention to equity need not be a trade off, but can be a complement to growth. Detailed monitoring of the food/cash for work programs and investment projects under IWRMP, as well as improved targeting of the fertilizer subsidy program, together with this analysis will provide important data for improving targeting and service delivery in the subsequent Government programs.

64. **Fiscal sustainability.** The proposed program does not give rise to the creation of open-ended commitments of public resources (e.g. for price support or for subsidies). All proposed programs build on on-going Government programs and are aimed at providing short term financing and associated technical assistance to improve the efficiency and reach of these programs. Subsequent support, where needed, can be provided within the fiscal envelope of the country's macroeconomic program. The proposed program could also result in reducing the need for certain on-going government subsidized programs in the future, for example by improving local production of seeds. The absorption capacity of Government expenditure has improved with the peace agreement. Preliminary estimates indicate that 96 percent of the budgeted expenditure (19.8 percent of GDP) was realized in FY08 compared to 87 percent in FY05/06, the year conflict ended. Financial support to

conflict-affected people, liabilities of public enterprises, a rise in civil servant allowances, election and other conflict-management related costs pushed up current expenditures to 13.4 percent of GDP, an increase of 6 percent over FY05/06. Capital expenditure of 6.3 percent of GDP (in FY 05/06, capital expenditure was 4.6 percent of GDP) was achieved after the Maoists joined the government in January, as peace helped more construction related activities in the latter half of the fiscal year. With a more conducive environment for economic activities in FY08, revenue growth was an impressive 22 percent, the highest in fourteen year period. Reforms in customs, a widening of the tax-net, an increase in the excise duty rate, and a significant rise in income tax payments all contributed to this healthy rise. Consequently, total revenue stood at 13 percent of GDP (in FY06/07 it was 11.97 percent of GDP), a full one percentage of GDP increase in revenue collection. The estimated deficit financing is 3.9 percent of GDP financed by foreign loan of 1.4 percent of GDP and domestic borrowing of 2.5 percent of GDP, well within approved limits of the Three Year Interim Plan (TYIP).

### **Fiduciary Aspects**

65. The decision to align with the government's systems and procedures for implementing the project will contribute to enhancing institutional capacity. The overall fiduciary risk associated with the project is rated as "substantial" for financial management, the proposed risk mitigation action plans are deemed to be adequate (see Annex 4 for details). Efforts will be made to build capacity in project coordination including for financial management.

### **Financial Management**

66. *Social Safety Nets project*: One of the proposed implementing agencies, Ministry of Local Development (MoLD), has not directly implemented IDA-financed projects. Hence, the implementation capacity needs to be strengthened. However, since the major part of the Social Safety Nets project is being implemented through WFP, established guidelines and mechanisms provide adequate assurance to the implementation of the program.

67. *Additional financing for IWRMP*: Activities to be implemented through additional financing will follow the financial management procedures of the parent project. However, implementation of Component D of the IWRMP was planned to start only from FY2008/09. Due to the delay in the formation of a new government, the government has not yet announced the budget for FY2008/09. DOA/DOI will be required to revise the work program and budget for FY2008/09. In addition to this, actions related to improving procedures for financial management have been identified and are critical for the implementation of the new scope of work under this program. Other than these, implementation arrangements as agreed for IWRMP will apply. To address gaps in financial management capacity identified during the assessment for Component 1 and Component 2, risk mitigation action plans have been developed, and the risks will be reduced as the action plans are implemented.

68. With the recent enactment of the Rights to Information Act, 2007, disclosure requirements will be complied with to make information transparent and all information

readily available for public disclosure. MoLD and DOA will disseminate all available guidelines, procedures, and other key information related to respective programs through their websites and other communication means such as newspapers, radio broadcast, and site board. MoLD and DOA have specifically agreed to disclose the following items through their websites: Overall Nepal Food Crisis Response Program Budget, Allocation by Activity and Budget Line; Trimester Implementation Progress Reports (approved versions); and Annual Audited Financial Statements. At the decentralized level, details on recipients of food under the food/cash for work program will be displayed at site boards or by other means as per the existing procedure.

### Procurement Arrangements

69. Procurement for the two sub-projects of proposed project would be carried out in accordance with the World Bank’s “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004; and “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004, and the provisions stipulated in the Legal Agreement. General scope and procedure of the procurement would be as described in Annex 5 to this document. Procurement of the contracts listed in the procurement plan shall be carried out in the manner stated therein. Most of the contracts for works and goods would be of medium or small value and shall be procured through National Competitive Bidding (NCB) using national procedures and model documents agreed with or satisfactory to the Bank or through community contracting and where appropriate through quotations and shopping. Assignments that require the services of firms or individual consultants include studies and assessments, will be procured as stated in the approved procurement plan.

### Compliance with Safeguards Policies:

#### *Social Safety Nets Project*

<b>Safeguard Policies Triggered by the Project</b>	Yes	No
<u>Environmental Assessment (OP/BP 4.01)</u>	[x]	[ ]
Natural Habitats ( <u>OP/BP 4.04</u> )	[ ]	[x]
Pest Management ( <u>OP 4.09</u> )	[ ]	[x]
Cultural Property ( <u>OPN 11.03</u> , being revised as OP 4.11)	[x]	[ ]
Involuntary Resettlement ( <u>OP/BP 4.12</u> )	[x]	[ ]
Indigenous Peoples ( <u>OP/BP 4.10</u> )	[x]	[x]
Forests ( <u>OP/BP 4.36</u> )	[ ]	[x]
Safety of Dams ( <u>OP/BP 4.37</u> )	[ ]	[x]
Projects in Disputed Areas ( <u>OP/BP 7.60</u> )	[ ]	[x]
Projects on International Waterways ( <u>OP/BP 7.50</u> )	[ ]	[x]

70. Environmental concerns of the program are related to: i) dry-season rural roads, trails, and micro-scale critical infrastructure; ii) micro-scale irrigation schemes; and iii) improved access to seeds and fertilizer. All of these interventions will be small-scale and will be distributed in different places in the country. The rehabilitation/completion of roads (and trails), environmental risk of which is higher in comparison to other

interventions proposed under the project, will follow environment-friendly construction approach (“green road approach”) in which there is considerable experience in Nepal. Therefore, any adverse environmental consequence of the project supported activities would be minor, likely to be limited to the immediate vicinity of the sites, and can be managed easily by good construction and management practices. Some of the intervention such as promotion and conservation of indigenous crop variety, cultivation of herbs, protection of local water sources/ springs, conservation ponds etc would be environmentally positive.

71. *Social Safety Nets Project*: Overall the project is rated as environmental category B. However, a separate Environmental and Social Management Framework (ESMF) is not required because assessments made in the existing RAID project are valid to this project as well. The project implementation manual should refer to the guidelines under RAIDP ESMF. Management provisions of existing ESMFs need to be adapted to this project because the scales of the schemes to be supported under this project are smaller than those under RAIDP, and institutional modality for the project is different than those for RAIDP. Therefore, it is necessary to prepare operational procedures and an implementation manual for environmental and social management in this project drawing from the ESMF of RAIDP as well as environmental and social guidelines of the RCIW and the green road approach (See Annex 7 for more detailed description on safeguard). The guidelines can be incorporated into the existing RCIW and WFP guidelines for community works.

72. Capacity of the involved agencies, particularly the dry-road under RCIW food-for-work, to implement environmental and social requirements is weak. In the past, RCIW was availing of external support/TA which now is limited to few roads only. The project, therefore, has provided for additional TA for supporting the implementation of social and environmental safeguards. Also, a mechanism needs to be in place to assure quality and check compliance with the environmental and social requirements by a non-implementing party in order to ensure effective environmental and social management.

73. *Additional Financing through the IWRMP*: The ESMF for IWRMP remains valid for the additional financing activities. However agricultural seed technologies for increased production and productivity may require additional expenses for inputs. While it is anticipated that efforts will be focused on multiplication of existing varieties, crop budgets for new and improved varieties should be assessed to see if they are economically sustainable in the context of small marginal producers.

### **Implementation Arrangements**

74. Implementation arrangements will be simplified in two ways: Under the Social Safety Nets project, the food/cash-for-work programs will be implemented by MoLD in partnership with WFP and technical assistance while the agriculture production support will be carried out under the on-going World Bank IWRMP. This approach will ensure that the emergency responses are carried out efficiently and are well targeted to vulnerable areas and populations while the agriculture production support is embedded in existing modalities and builds synergies with on-going support.

75. The Safety Nets Project will be coordinated by the Ministry of Local Development, with primary responsibility for component 1 falling under MoLD and for component 2 under DOA/DOI. A Project Implementation Team (PIT) will be established with an adequate number of key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association, including: (i) a Project Manager; (ii) an Engineer; (iii) a Section Officer; (iv) an Overseer; and (v) an Accounts Officer. There will be representation from DOA in this team as an implementing department of MoAC.

76. Additional financing will be implemented under the existing implementation arrangements as described for Component D of the IWRMP. Both the DOA and the Department of Irrigation (DOI) will be the implementing agency. Existing project monitoring and evaluation modalities would be applied to additional activities proposed under the IWRMP.

77. The overall program (ie the Nepal Food Price Crisis Response Program) will be guided by a High Level Policy Steering Committee (SC) chaired by a nominee of the Vice Chairman (VC) of NPC. The SC will guide and monitor the implementation of the overall emergency response to rising food prices. The SC will meet at least twice a year or as required, and will include Secretaries (MoF, MoWR, MoAC and MoLD) and DGs (DoI, DoA) as members. The Secretary, Ministry of Local Development will be the member secretary. The SC will require the two Project Coordination Units (Social Safety Nets and IWRMP) to report to it in order to have a consolidated view of the country's response to rising food prices and impacts on food insecure districts.

## Program Risks and Mitigating Measures: Social Safety Nets Project

<i>Risk factors</i>	<i>Description of risk</i>	<i>Rating Of risk</i>	<i>Mitigation measures</i>	<i>Rating of residual risk</i>
<b>Program-specific Risks</b>				
Implementati on capacity and sustainability	Implementation capacity is weak and supervision will need to be strengthened. Two Ministries are responsible for the project.	S	A strong coordination mechanism will be developed to ensure close coordination between two line ministries - MoLD and MoAC. Capacity building efforts will also be put in place to strengthen capacity of MoLD. Local level implementation will be supported by the use of WFP for the food/cash for work program.	S
Technical	Risk that decisions regarding infrastructure projects to be built using the food/cash for work get delayed or are subject to local elite capture.  Geographical targeting may raise social/political tension in untargeted areas.	M	WFP will ensure that all proposed targeting is both clearly explained, through outreach activities by WFP and GoN  WFP district targeting will be transparent and fair	M
Financial management	MoLD has not implemented Bank financed projects and hence is not familiar with Bank policies and fiduciary requirements. Risk of insufficient coordination with DOA for managing transport subsidy, and hence risk of obtaining information on subsidy for the purpose of timely reporting. There is a risk of delayed reporting including submission of audit reports.	S	An Action Plan has been discussed and agreed which will be closely monitored during implementation. The Bank will ensure providing briefing and overview about the Bank's fiduciary requirements during project launch.	S
Procurement	Risk of intimidation of bidders or interference in bidding for public procurement contracts	H		H
Social and environmental safeguards	Implementation capacity is low, weak follow through of agreed actions.	S	Project will emphasize the use of safeguard approaches in on-going projects (for example rural roads, IWRMP) thereby building on on-going efforts and capacity building.	M
<b>III. Overall Risk (including Reputational Risks)</b>				M
Abbreviations: L =Low; LH = L with H/S Element; M =Moderate; S = Substantial; H =High Procurement Risk Ratings: L = Low, M= Medium; H = High				

### Program Risks and Mitigating Measures: IWRMP (updated)

Risk	Risk Mitigation	Residual Risk Rating
<b>Risks to Development Objectives</b>		
<p>Poor security situation impedes project implementation in various districts</p>	<p>Project design is flexible in order to allow project works to move between Districts or project areas depending on the situation                      Use local NGOs to undertake situation assessments in project Districts, develop communication strategies and outreach campaigns, and provide implementation support                      Foster wider community participation in planning, implementation, and monitoring through appropriate social mobilization                      Ensure transparency in contracting and use of funds</p>	S
<p>Greater emphasis is placed on physical improvements in irrigation schemes than on enhancement of community systems and capacities for better management of water resources and their more productive use</p>	<p>Project design emphasizes centrality of improved water management and use: physical investments will be explicitly linked to better water management arrangements and agricultural development plans at the scheme level                      Extensive awareness and capacity building efforts, at start-up and through implementation, would aim to induce communities to take ownership of local water resource management and distribution issues                      Multi-disciplinary implementation teams will aim to balance physical investments with social and economic interventions</p>	M
<p>O&amp;M of irrigation schemes suffers because of unwillingness of WUAs to assume responsibilities, or inadequacy of water charge collections by WUAs, or weakness on part of DOI to undertake complementary O&amp;M.</p>	<p>Proper training of WUA members; signed agreement with the farmers finalized before execution of the rehabilitation and improvement works                      The improvement work is carried out in stages depending upon the capacity of the WUA to organize and mobilize local resources                      Project will emphasize through awareness and training sessions the importance of timely O&amp;M and hence of water charge collections                      Project interventions that enhance irrigated agricultural production and productivity will strengthen incentive to pay water charges                      MOU to be signed between WUAs and government commits government to augment resources to undertake scheme repair and maintenance</p>	M
<b>Risks to Component Outcomes</b>		
<p>Lack of DoI and WUA capacity to manage/implement the IMT process</p>	<p>Project includes using local consultants for detailed design and specialized tasks                      Capacity building will strengthen the capacity of DoI and WUAs</p>	M
<p>Beneficiaries face technical problems with O&amp;M after project completion leading to continued dependence on government assistance and</p>	<p>Sub-projects with major technical challenges have been excluded                      The technology involved in the sub-projects will be simple and require the least amount of maintenance                      DoI will continue to advise the WUAs after the IMT Initial “consolidation” period ensured for providing sustainability of the project during the initial period of farmers operation after the IMT</p>	M



Risk	Risk Mitigation	Residual Risk Rating
subsidies.	Continued government support for technical backstopping and funding for major repair work provided for incidences of natural disaster	
Irregular or late flow of project funds from the government.	The project has been included in the list of Core Projects for which funding will be released on a priority basis. The government would release one-third of the approved budget to DoI and DOA as soon as the work program is approved during the first trimester and the other two-third during the second and third trimesters. DOI and DOA will monitor to ensure that trimester reports are timely submitted to ensure the flow of funds.	S
Coordination between DoI and DoA with regard to ICWM (Component D) is weak or ineffective, adversely impacting implementation	At the scheme level, DTT, comprising representatives from DoI and DoA, will jointly implement ICWM At the district level, ICWM activities will be planned and supervised by the DCC, comprising staff from DoI and DoA Joint structures/platforms for ICWM planning and implementation also provided at regional and central levels to ensure effective coordination between DoI and DoA	S
<b>Overall Risk Rating</b>		<b>S</b>



## Annex 1: Detailed Description of Projects and Components

1. The Bank's strategy for emergency support is aligned with the Government's strategic approach and takes place in the context of the agreed joint UN response. The Bank emergency program focuses on measures to address the short and medium to long term implications of the global food crisis for the country, including on going efforts to strengthen agricultural production and safety net mechanisms on a broad scale. It is fully consistent with the Bank's Global Food Crisis Response Program (GFRP). The food crisis interventions will be financed out of the newly created Food Price Crisis Response Trust Fund and through the restructuring of the existing portfolio.

### Project Development Objectives

2. Program Goal: To address the short and medium term implications of the global food crisis for the country by improving access to food and strengthening agricultural production, particularly for food insecure districts and smallholders.

3. The project development objective of the *Social Safety Nets Project* is to ensure access to food and basic needs for vulnerable households in the short term in food insecure districts. The expected outcomes of the project are improved access to food in food insecure districts for vulnerable groups in the short term.

4. The project development objective of the *Irrigation and Water Resource Management Project* remains unchanged and is to improve irrigated agriculture productivity and management of selected irrigation schemes and enhance institutional capacity for integrated water resources management. The additional financing supports the intermediate outcome of Component D: *farmers in selected districts adopt better agricultural production and water management techniques*. Additional monitoring indicators are identified and included in Annex 2. The additional financing does not add new components to the IWRMP but provides financing to cover districts which are not currently included in the parent project.

### Summary of Program Components

5. The NFCRP would help finance activities to mitigate both the short-term and the medium- to long-term impact of rising food prices in Nepal as a result of the global food price trends. The proposed interventions will support the Government of Nepal's (GON's) national strategy to maintain and enhance food security. It includes support to the implementation of social safety net measures to maintain access to food and basic needs among vulnerable households in food insecure districts in the short term; and agriculture productivity to expedite a supply response through the implementation of measures to raise the yields and consequently the production of staples. The program has an indicative outlay of USD 36 million.

6. Specific activities under the proposed new project include: (a) a short term program for vulnerable districts through the food/cash for work program and (b) improved fertilizer

access and better targeting of fertilizer uptake by small holders. This project will focus its activities in the food insecure districts.

7. Under the additional financing, activities will support (a) small scale and non-conventional irrigation; (b) increased local production of improved seeds and soil management. This additional financing will prioritize food insecure and remote districts thereby extending the geographical focus of the parent project in these activities and creating synergies with the food/cash for work and fertilizer access support under the Social Safety Nets projects.

**Safety Nets: Ensuring access to food and basic needs for vulnerable households in the short term.**

8. **Component 1 (US\$16.2 million):** In the very short run, the project would, in food insecure districts, support food/cash for work programs, including the Rural Community Infrastructure Works (RCIW) program, which is implemented by MoLD with support from the World Food Programme.<sup>17</sup> This support will provide food and basic needs in the short term to vulnerable households by providing 50 to 70 days of employment in public works to about 400,000 individuals. The projects are usually focused on rural road rehabilitation and community based projects such as irrigation, flood control, soil conservation structures. Beneficiaries are targeted within a 2 km corridor from the planned rural road.

9. This support will provide short term food security to vulnerable households by providing 50 to 70 days of employment in public works annually on activities of immediate relevance to communities, including rural roads in remote areas. WFP will support both programs under their protracted relief and recovery operations (PPRO).

10. The choice of WFP as the main implementing partner for the food/cash for work program is based on the specific request of GON, the logistical capacity of WFP in very inaccessible terrain and the possibility of rapid start-up of support<sup>18</sup>. The top-up would allow it to expand to additional food insecure districts for 3-4 months. The wage rate will be no higher than the market wage for unskilled labor (agricultural daily wage) in different locations. This sub-component will ensure continuation of this program in 21 districts experiencing vulnerability due to the food price crisis with WFP participation, using a food/cash for works modality, and complete critical community infrastructure projects. In addition, the component will also promote livelihood creation or income generation activities in food insecure districts, thus contributing to improving food security in these remote regions. For example, small-scale enterprise projects such as cultivation of medicinal and aromatic plants and high value cash crops in the Mountain regions will

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<sup>17</sup> The RCIW gives cash and in-kind payments to the poor in return for work done in labor-intensive public works projects.

<sup>18</sup> The Private Sector, the Nepal Food Corporation and other NGOs are also important players in food distribution. The Government provides transport subsidies for food distribution by NFC to remote areas. This program is expensive for the public sector, in particular since the cost of transportation has been increasing with fuel shortages and rising fuel prices. NFC distribution is estimated at 5-6 percent of the total food deficit in these areas.

generate income and reduce community vulnerability to food insecurity, climatic variability and food price hikes, making households more resilient to external shocks.

11. In addition, MoLD and WFP have agreed to add micro nutrient supplementation (such as “sprinkles”) in the food that will be provided under the food/cash for work program to promote better nutrition outcomes. This aspect will also be monitored to track the added value of such interventions. WFP will work with partners such as UNICEF on the nutrition supplementation program, which will be approved by the Ministry of Health, and the program will add value to on-going discussions under the Health SWAp to include a larger nutrition program in the next phase of financing.

12. **Targeting:** As with most food/cash for work programs around the world, the targeting mechanism adopted here is a combination of geographic targeting and self selection (through a lower-than-market wage rate). Tentatively, 30 districts will be selected for these programs using poverty maps and information from WFP’s food security surveillance system and the recent WFP Market and Price Impact Assessment Report, and will include the Koshi flood affected districts. Within these, 21 districts will implement infrastructure activities that are typically included in the RCIW program. As for project selection, WFP will seek to work with DDCs/VDCs and project activities will be chosen by the communities, prioritizing the most food insecure areas. A Subsidiary Agreement will be signed between the WFP and Government of Nepal, which will include an appendix containing detailed implementation modalities and the relative roles and responsibilities of WFP and the MoLD. A detailed monitoring plan will be agreed to between WFP and MoLD.

13. **Component 2 (US\$ 3 million):** This component will provide support for fertilizer use in remote areas<sup>19</sup>. The price of fertilizer has increased by 30 percent over the last 6 months and fuel shortages and rising fuel prices are placing additional constraints. In order to promote private sector development and distribution in remote districts where transportation costs combined with higher fertilizer prices results in low incentives for the private sector to attempt to distribute in these areas, the Government provides a transport subsidy for private sector transport fertilizers and seeds up to the district headquarters (mostly by road or animal, a few districts by air)<sup>20</sup>. As a result farmers in these districts pay the same price for fertilizer as farmers in other districts where transport costs are not excessive.

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<sup>19</sup> The GFRP states that targeted subsidy programs for inputs have a mixed tracked record. Targeted subsidy programs can greatly increase farmer access to and application of farm inputs, but their design should take into account the following principles: (i) ensure that the subsidy is transparent and fiscally capped at for example 25 percent of the Ministry of Agriculture budget, so that it does not crowd out other priority agricultural public investments or derail the overall national fiscal budget; (ii) ensure that the subsidy is targeted to those who cannot afford fertilizer to avoid displacing commercial sales; (iii) ensure that the administrative costs of the subsidy are kept to a minimum; (v) ensure that the subsidy does not create the dependency syndrome; (v) ensure there is an exit strategy characterized by reduction of the subsidy element annually towards an explicit exit point and (vi) make the entire structure of the subsidy program, including its timeframe and allocation scheme, publicly known in advance.

<sup>20</sup> Districts that receive the fertilizer transport subsidy are Darchula, Bajhang, Humla, Mugu, Bajura, Achham, Dailekh, Jajarkot, Rukum, Salyan, Rolpa, Mustang, Manang, Gorkha, Okhaldhunga, Solukhumbu, Khotang, Bhojpur, Sankhuwasabha, Terhathum, Taplejung, Ramechhap, Myagdi

14. The program has seen a 40 percent decrease in target rates over the last 12 months due to increased transportation costs, thereby making local production even more unlikely to recover in the short run. The transport subsidy is aimed at providing an increased supply of fertilizer for the wheat crop in these districts and total budget provided by the GON is approximately USD 600,000 per annum. Support for this program is included under the DOA budget line 40-3/4/-464. Fertilizer is provided by suppliers who must sell the fertilizer at the market price and register the total amount sold at the district headquarters before they can claim the transport subsidy. The transport rates per unit of fertilizer are set by a district agriculture committee and suppliers are asked to bid against a stated target of fertilizer demand in each of the 26 districts. Suppliers submit their bids based on these rates. The responsibility of selling the fertilizer remains with the supplier. Seeds are similarly transported under this program but the bulk of the effort and demand is for fertilizer. The demand for fertilizer is typically three times higher than the amount the GON can encourage suppliers to provide under this program due the limited transport budget.

15. An estimated allocation of 5-6 lakhs (NRS) per district is made through the GON budget. Expenditures can be tracked and will be assessed for each of the 23 districts to understand the level to which the demand for fertilizer is being met through this scheme. The MoAC has asked for the subsidy to be extended to cover transport to community or agriculture service centers (average of 4 per district) in order to be able to fully meet demand and encourage suppliers to bid for the contracts.

16. The justification for supporting this program is to maintain a basic level of local production in the remote districts to abate the impact of food insecurity in these areas. However, the program also needs to be evaluated and eventually phased out. The Government would like to use this opportunity to assess the effectiveness of the program in reaching targeted farmers and farmer groups. Transporting the fertilizer to district headquarters is resulting in benefits to farmers in and around the headquarters but does not reach the more remote farmers. The next year's program (starting September 2008) would therefore require suppliers to transport fertilizer all the way to the service centers. From that point additional targeting will be required to ensure that small farmers are fully informed about the program and are given access to purchase the fertilizer.

17. Activities to be financed under this subcomponent will be a) increased budget for transport subsidy (to extend transport to service centers); b) data collection, monitoring and targeting activities to ensure small farmers are getting the subsidized fertilizer, including the design and piloting of a voucher scheme for poor farmers and farmer sensitization on the proper use of fertilizer. Activities under (b) will include independent verification by an implementing partner (NGO). Linkages between these activities and the seed and extension services support under IWRMP will be emphasized and monitored in the programming of activities under the two projects.

18. **Targeting:** The fertilizer support program is expected to reach 15,000 farmers across 23 districts. Expansion of the program to service centers will provide access to remote farmers within these districts. Monitoring will be carried out with the help of

partner organizations such as FAO and CARE who are also working in these remote districts.

19. **Component 3 (US\$ 2.5 million):** Project coordination, monitoring and evaluation, beneficiary assessments will be financed under this component. Independent monitoring and beneficiary assessments will be emphasized to evaluate the impacts of all three earlier components of this project. Capacity building for district and village level administrative officers will also be supported under this component. This component will support a detailed evaluation of existing cash transfer programs. The focus of this analysis will be to identify specific actions the Government can take to strengthen the current social assistance programs. This should contribute in the medium term to enhancing state capacity to equitably and fairly deliver critical support that can help mitigate social tensions in a fragile and fluid environment. The financing would support activities including: (a) review of the existing program administration system (e.g. targeting, record keeping, payments, staffing and skills); (b) design of an improved program administration, including assessing the current targeting systems and payment methods. The assessment will propose how shifting from a paper based system to a computerized record keeping system can improve the efficiency and effectiveness of these programs.

#### ***Irrigation and Water Resource Management Project (additional financing)***

##### **Enhancing domestic food production and supply response**

20. Low productivity of food crops remains a serious constraint to increasing production and improving the income earning potential of small scale farmers. The Agriculture Perspective Plan, which remains the main agriculture strategy of the Government, places productivity improvements at the center of its framework. Fertilizer use, water management (including irrigation) and low quality seeds are limiting constraints to increasing productivity.

21. **Component D1 (US\$ 6.8 million):** A primary area of support will be rehabilitation and improvements of farmer-managed small scale irrigation schemes and non-conventional irrigation technologies (for example, shallow tubewells, rainwater harvesting, lift irrigation, drip and sprinkler systems and small surface irrigation). Support under this area will help provide support to areas not currently covered by the on-going irrigation project and in particular address the needs of small holders in remote and food insecure areas. Support will be channeled through the implementing arrangements in place under the irrigation and water resource management project but will target areas that are currently not covered by the project. Distribution will be carried out through the district level irrigation and extension bodies. Department of Irrigation and the Department of Agriculture will coordinate in the implementation of this sub-component through the existing modalities of the Irrigation and Water Resources Management Project.

22. Total agricultural land in Nepal is about 2640 thousand hectares. Out of which there is potential to develop irrigation facility to only 1766 thousand hectares either through surface irrigation or by utilizing ground water leaving almost 0.88 M ha of rain fed land (Irrigation Master Plan, 1996). Much of these so called non-irrigable areas lie in the

hills and mountains inhabited by the poor small landholders farming on the marginal sloping terraces, scattered patches or in the water scarce regions. The agriculture system of this region is predominantly rain-fed with high risk due to erratic rainfall. Although the hills and mountains of Nepal have comparative advantage in the production of natural off-season vegetables and other high value crops, lack of dry season irrigation is one of the major constraints for its success (Gurung, 2000). Enhancing the capacities and incomes of these poor and excluded groups is one of the most critical challenges for the country. The initial experience of the DOI and some encouraging results from the private sector have generated a lot of information regarding existing technologies, different modalities of implementation and funding, cost comparison, change in the cropping pattern, trend of irrigation service delivery, water productivity and environmental concerns.

23. The National Agricultural Policy 2004 emphasizes providing special facilities to the target groups to build and install infrastructure facilities for small and micro-irrigation such as pedal pumps, rower pumps, sprinklers, drips and water harvesting ponds. Ministry of Agriculture and Cooperatives has been implementing special small scale irrigation program since 2000/2001 with the financial assistance of Japanese Government under the KR-2 program.

24. Small/minor irrigation in Nepal is defined to include command areas less than 25 ha in the hills and mountains and less than 200 ha in the Terai (Irrigation Policy 2003). Cooperative based farming entails not less than 10 ha in the Terai, 5 ha in the mid-hills and 2 ha in the high mountain regions. This program currently provides grants up to Rs.100,000 with the mandatory contribution of at least 15 percent from the user groups. Farmers' contribution is collected in terms of cash contribution or in-kind or both. The grants fund rehabilitation or repair of small scale water diversion structures, temporary barriers, irrigation channels, pipes, rainwater harvesting tanks, ponds, pumps, treadle pumps, dug wells, sprinklers and drips.

25. In line with the goals of Agricultural Perspective Plan, the Irrigation Policy (2003) envisages to reduce level of poverty by improving agricultural production and increased employment for the marginal farmers through the promotion of non-conventional irrigation technologies (NIT) such as drip irrigation, sprinkler irrigation, pond irrigation, treadle pump etc., in addition to traditional irrigation systems. To achieve these goals, the policy is guided by the principle of integrated water resource management (IWRM). As per the Irrigation Policy, 2003, DOI will implement projects even smaller than 25 ha under the non-conventional irrigation and ground water irrigation program. The NWP has given high priority to non-conventional irrigation technology for poor and the marginal farmers by expanding the use of such technologies over the next 20 years. It is estimated that approximately 42,000 hectare land area has been brought under irrigation through the use of non-conventional irrigation technologies benefiting over 162,000 households. The following table provides a list of projects supporting NIT and their results in terms of irrigation and household coverage:



### Summary of non-conventional technology sub-projects

Organization	Irrigated Area (ha)	HH Served (No)	No of Schemes
NITP / DoI	1823	4850	85
ADB/Nepal	28987	29035	
IDE/Nepal and Consortium Projects	9815	119406	64
SAPPROS /Nepal	335	3852	113
DEPROSC	1211	4139	117
CEAPRED	129	741	31
VDRC	21	229	37
LILI / Helvetas	5	27	1
<b>Total</b>	<b>42326</b>	<b>162279</b>	

Source: Department of Irrigation

26. The Government's Non-Conventional Irrigation Technology project is aimed to reduce the rural poverty through increased agricultural production in conjunction with employment generation for the poor living in water scarce areas or difficult terrain. The project has completed a database and implementation procedures of the non-conventional irrigation program. At present there are 96 projects (1588 ha) under construction. It is expected that 16 of these projects will complete by the end of this fiscal year providing irrigation to an additional 224 hectare of land. Total budget allocated to NITP for fiscal year 2064/05 was Rs. 429 million. The average cost of projects is about 150 thousand rupees including the cost of the micro irrigation component.

27. **Component D2 (US\$ 7.0 million): Increase Local Production of Improved Seeds.** Poor quality seed is considered to be a binding constraint to improving productivity and overall production. The Government's policy is to promote private sector involvement in seed production and distribution. The National Seed Company, private seed operators and informal trade from India are the three main sources of seed. The Government's main program to promote local production of quality seeds is the District Seed Self-Sufficiency Program (DISSPRO). In Nepal, the MoAC estimates that the average seed replacement rate is approximately 5 percent, with significant variations between crops: rice (6 percent); wheat (7 percent); maize (6 percent); pulses 2 percent and oilseed 1 percent. This leads to very significant reductions in productivity (with all other production factors remaining constant) leading to limited domestic supply and heightened household food security. This has resulted in deterioration of seed quality leading to low crop production and productivity. Nepal Agricultural Research Council (NARC) has released several crop varieties but only a few of them have been adopted by the farmers. MoAC is seeking to implement a three-year Program that will: (i) improve source seed production and management; (ii) strengthen DISSPRO and corresponding private sector seed multiplication; (iii) build-up and maintain appropriate seed buffer stocks; (iv) develop seed quality control and marketing systems; (v) build technical and institutional capacity in the seed sector; (vi) support private sector development in the seed sector; and (vii) promote indigenous crops.

28. The objective of this intervention would be to improve capacity of local communities to grow "truthful seeds" and locally, store, share/trade and propagate them. The DISSPRO program which supports village level seed enterprises would be supported

under the NFCRP. A significant yield impact can be expected from use of improved variety seeds. The project would support seed production at a local level for only a few seasons, and in this time will support the development of stocks of improved seeds as well as systems and capacities for continuing production and use of better seeds, which should provide a sustainable source of yield increase. As part of this support, the extension of the DISSPRO into remote areas in the Mid-west and Far-West regions will also be encouraged. It will establish farmers' groups and community seed program to produce quality seeds, including of indigenous grains which are critical for local food security, and for local marketing to other farmers.

29. In particular, the component will link up with ongoing emergency seed supply activities, such as by the FAO, to identify appropriate local farmers to undertake seed multiplication and to ensure sustainable productivity increases. FAO re-activated an emergency seed program in Nepal in March 2008 and its current program is part of the international community's consolidated appeal (CAP) for 2008. FAO's emergency seed program supports government efforts to boost agricultural production in the worst drought-affected areas of the Mid-West and Far-West. More recently, FAO has provided immediate support in direct response to soaring food prices. FAO support provides high quality, certified and locally-adapted wheat, maize and/or vegetable seed to the worst-affected food insecure households. The program is undertaken in very close collaboration with the WFP emergency food aid program. This ensures that the worst-affected households receive both food and seeds and is in line with international good practice which recommends that food and seeds are bundled together in order to minimize the risk of high food insecure people consuming the (chemically treated) seeds. Districts are selected on the basis of WFP food insecurity assessments, government priority and underlying human development indicators. The choice of seeds is determined by general production patterns and the cropping calendar.

30. Alternative approaches to raising soil fertility will be promoted alongside the seed program since the combined effect of increased replacement levels of seeds, access to irrigation and soil fertility programs can contribute significantly to the integrated crop and water management objectives of the sector. On-going programs within the MoAC already provide these linkages. The integrated crop and water management sub-component in IWRMP also supports farmer to farmer extension activities which is the approach used by the long running Sustainable Soil Management Programme (SSMP) financed by the SDC and implemented by Helvetas and MoAC.

31. Activities to be financed will include: (i) procurement and distribution (by project) of high-yielding varieties of foundation seeds from research stations, relevant market outlets; (ii) provision of basic training to local farmers in using these foundation seeds to produce improved seed varieties (segregation, more intensive weeding/management etc); (iii) support for forming relevant community groups for production, sharing and further propagation of these seeds; and (iv) complementary inputs to improve soil management practices. The project would support seed production at a local level for only a few seasons, and in this time will support the development of stocks of improved seeds as well as systems and capacities for continuing production and use of better seeds, which should provide a sustainable source of yield increase. The Ministry of Agriculture and

Cooperatives would implement this component, using other service providers (including FAO and Helvetas) as required.

32. **Targeting:** Small scale and non-traditional irrigation is expected to reach 12,400 farming households. Under non-conventional irrigation implemented by the DOI, an expected 100 additional schemes can be financed (average cost of NRS 175,000 per ha for average of 12 ha per project, approximately 30,000 USD per scheme) while the small scale irrigation implemented by the MoAC would finance an additional 1,000 (very small scale) interventions. Priority will be given to areas inhabited by marginalized poor communities with no potential for future development of surface irrigation. The community seed program is expected to increase local production of quality seed by 30 percent and increase average replacement levels to 10 percent. Geographical targeting should be aligned with recent WFP-MoAC assessments where districts have been identified as particularly vulnerable to continuing food shortages and will include the Koshi flood affected districts.

33. **Component D3 (US\$ 500,000):** The additional financing will include some financing for increased project coordination, monitoring and evaluation and beneficiary assessments. This is to augment project coordination and M&E financing already provided in the IWRMP.

## Annex 2: Results Framework and Monitoring

### Results Framework

<b>Program Goal:</b> To address the short and medium term implications of the global food crisis for the country by improving access to food and strengthening agricultural production, particularly for food insecure districts and smallholders.		
<b>Project</b>	<b>PDO</b>	<b>Indicator</b>
<i>Social Safety Nets Project</i>	to ensure that vulnerable households meet their requirements for food and basic needs	number of (or %) of people from poor and vulnerable households receiving food/cash  improved access to food for poor households and vulnerable groups  Maintain or increase current level of fertilizer and seed availability in remote districts
<i>Irrigation and Water Resource Management Project</i>	to improve irrigated agriculture productivity and management of selected irrigation schemes and enhance institutional capacity for integrated water resources management <sup>21</sup>	increased production of food crops

<i>Social Safety Nets Project</i>		
PDO	Project Outcome Indicators	Use of Project Outcome Information
<ul style="list-style-type: none"> <li>to ensure that vulnerable households meet their requirements for food and basic needs</li> </ul>	<ul style="list-style-type: none"> <li>improved access to food for poor households and vulnerable groups</li> </ul>	<ul style="list-style-type: none"> <li>Track welfare impact</li> <li>Improve targeting for input support</li> </ul>
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<ul style="list-style-type: none"> <li>Address immediate food and basic needs of vulnerable populations participating in food/cash for work program</li> <li>Targeted remote district headquarters maintain access to fertilizer</li> </ul>	<ul style="list-style-type: none"> <li>% of targeted households reporting increased ability to meet their food and basic needs</li> <li># of days of food/cash for work per household per annum</li> <li>Maintain or increase current level of fertilizer availability in remote districts</li> <li>Improved targeting of small holder farmers for fertilizer use in remote districts</li> <li>Satisfactory beneficiary scorecards/assessments</li> </ul>	<ul style="list-style-type: none"> <li>Track impact of food/cash for work program</li> <li>Determine efficiency of fertilizer transport subsidy program in reaching poor farmers/develop alternatives</li> <li>Assess satisfaction with project with a participatory beneficiary assessment</li> <li>Verify transparency in the use of project funds with wider community</li> </ul>

**Monitoring:** Component 1 will be monitored by the WFP; Component 2 will be monitored by MoAC and partner NGO; Independent beneficiary assessments and score card to be implemented for all programs

<sup>21</sup> IWRMP PDO – unchanged

<b><i>Irrigation and Water Resource Management Project</i></b>		
<b>PDO</b>	<b>Project Outcome Indicators</b>	<b>Use of Project Outcome Information</b>
<ul style="list-style-type: none"> <li>to improve irrigated agriculture productivity and management of selected irrigation schemes and enhance institutional capacity for integrated water resources management (IWRMP PDO – unchanged)</li> </ul>	<ul style="list-style-type: none"> <li>farmers in the selected districts adopt better agricultural production and water management techniques</li> </ul>	<ul style="list-style-type: none"> <li>Improve targeting for input support</li> </ul>
<b>Intermediate Outcomes<sup>22</sup></b>	<b>Intermediate Outcome Indicators<sup>23</sup></b>	<b>Use of Intermediate Outcome Monitoring</b>
<ul style="list-style-type: none"> <li>local production of improved seeds is increased</li> <li>small-scale and non-conventional irrigation technologies are extended to targeted small holders in remote and food insecure areas</li> </ul>	<ul style="list-style-type: none"> <li>increased replacement level of seeds (current level 4%; target 10%)</li> <li>no. of small scale farmers adopting small and non-conventional technologies</li> <li>satisfactory beneficiary scorecards/assessments</li> </ul>	<ul style="list-style-type: none"> <li>verify effectiveness of approaches to improve local production and availability of seed</li> <li>track uptake of non-conventional and small scale irrigation schemes</li> </ul>

**Monitoring** will follow IWRMP implementation and monitoring modalities. Independent beneficiary assessments and score card to be implemented for all programs

<sup>22</sup> Additional outcomes to on-going IWRMP

<sup>23</sup> Additional indicators to on-going IWRMP

**Project Monitoring Tables**

**Social Safety Nets Project**

Project Outcome Indicators	Baseline	Target Values			Data Collection and Reporting	
		YR1	YR2 (Final year)	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Improved access to food for poor households and vulnerable groups	Estimated number of acute food insecure population in the most critical areas. = 384,700 (August 2008) <sup>0</sup>  118 highly food insecure and 13 severely food insecure VDCs in 39 FSMAS monitoring districts (August 2008) <sup>1</sup>	Less than 250,000 <sup>4</sup>  Highly food insecure < 50 VDCs <sup>3</sup>  Severely food insecure < 5 VDCs <sup>3</sup>	Less than 100,000 <sup>3</sup>  Highly food insecure: <25 VDCs <sup>3</sup>  Severely food insecure: 0 VDCs <sup>3</sup>	Quarterly Food Security Bulletins / Updates  Quarterly Food Security Bulletins / Food Security Phase Classification Maps	FSMAS  FSMAS	WFP / District food security networks  WFP / District food security networks
<b>Intermediate Outcome Indicators</b>						
<b>Component 1: Food/cash for work program</b>						
% of targeted households reporting increased ability to meet their food and basic needs	Percentage of households with < 0.2 hectares of land & food sufficiency more than 1 month = 43 percent (PRRO baseline report December 2007) <sup>2</sup>	50 percent	75 percent	Quarterly Food Security Bulletins / Updates	FSMAS	WFP
# of days of food/cash for work per household per annum	Average coping index = 18.8 (FSMAS for 39 districts, August 2008) <sup>1</sup>	Decreased by at least 15% <sup>3</sup>  At least 60	Decreased by at least 25% <sup>3</sup>  At least 60	Quarterly Food Security Bulletins / Updates	FSMAS	WFP
				Quarterly Food Security Bulletins / Updates	FSMAS	WFP

Project Outcome Indicators	Baseline	Target Values			Data Collection and Reporting	
		YR1	YR2 (Final year)	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
<b>Component 2: Fertilizer support</b>						
Targeted remote district headquarters maintain access to fertilizers and seeds	Available per district from FY07	At least as much as FY07; target 20% more	At least same level as FY08; target 20% more	Quarterly	District Agriculture officer report, independent NGO maintained records	MoAC to commission
Improved targeting of small holder farmers for fertilizer use in remote districts	To be determined farmers owning <0.2ha of land in each district	80% of subsidized fertilizer reaches small farmers	100% of subsidized fertilizer reaches small farmers	Quarterly	District Agriculture officer report, independent NGO maintained records	
<b>Component 3: Project management and results monitoring</b>						
Beneficiary scorecards report satisfaction with project	N/A – project dependent	80% positive response	80% positive response	Annual	Beneficiary assessments	Project to commission

0 Baseline number for acute food insecure people is based number of people in need of assistance in the most food insecure VDCs. It includes an estimated 50,000 IDPs in Sunsari and Saptari. (Source: WFP Food Security Bulletin No 20)

1 Baseline figures can be re-calculated covering only the agreed targeting districts.

2 Baseline value can be recalculated based on FSMAS data for 2008.

3 Subject to no occurrence of major externalities

4. The project will benefit approximately 143,228 people. The target is therefore a reduction of the baseline number by approximately this number of beneficiaries. Target is subject to no occurrence of major externalities.

**Project Outcome Indicators (Additional Financing to IWRMP)**

***Agricultural Productivity***

Project Outcome Indicators	Baseline	Target Values				Data Collection and Reporting			
		Yr 1	Yr 2	Yr 3	Yr 4	Final Year	Frequency of Reporting	Data Collection Instruments	Responsibility for Data Collection
<b>Additional Intermediate Outcomes by Component:-</b>									
<b>Component D</b>									
increased replacement level of seeds (current level 4%; target 10%)	4%	5%	7%	9%	10%	Annual	Sample survey	MoAC	
no. of small scale farming household adopting small and non-conventional technologies	NA	5000	5000	-	12,400	Quarterly	DOI/MoAC reports	DOI/MoAC	
satisfactory beneficiary scorecards/assessments	NA	80% positive response	80% positive response	80% positive response	80% positive response	Annual	Beneficiary assessments	Project to commission	



### Annex 3: Summary of Estimated Project Costs

Social Safety Nets	(US\$)	%
		Total
Component/Sub-component		Base
		Costs
<b>1. Food/cash for work/Critical Infrastructure</b>		
1. Technical Assistance	900,000	4.15%
2. Food/cash for work programs	15,300,000	70.51%
<b>Subtotal Food/cash for work</b>	<b>16,200,000</b>	<b>74.65%</b>
<b>2. Transport subsidy</b>		
1. Data collection, monitoring and verification of targeting	520,000	2.40%
2. Procurement of transport services	2,300,000	10.60%
3. Training and community facilitation	180,000	0.83%
4. Operating costs	60,000	0.28%
<b>Subtotal Transport subsidy</b>	<b>3,000,000</b>	<b>13.82%</b>
<b>3. Project Coordination</b>		
1. Monitoring and evaluation, beneficiary assessments	1,350,000	6.22%
2. Implementation Support including training as needed	650,000	3.00%
3. Analysis of cash transfer systems	500,000	2.30%
<b>Subtotal project coordination</b>	<b>2,500,000</b>	<b>11.52%</b>
<b>Total</b>	<b>21,700,000</b>	<b>100.00%</b>

IWRMP Additional Financing	(US\$)	%
		Total
Component/Sub-component		Base
		Costs
<b>1. Minor irrigation</b>		
1. Investment Support Grants (matching grants)	6,750,000	47.20%
<b>Subtotal Irrigation</b>	<b>6,750,000</b>	<b>47.20%</b>
<b>2. Seed supply chain support and soil fertility management</b>		
1. Investment Support Grants (matching grants)	5,600,000	39.16%
2. Improved source seeds	1,400,000	9.79%
3. Assessment of the seed sector	50,000	0.35%
<b>Subtotal seeds and soil management</b>	<b>7,050,000</b>	<b>49.30%</b>
<b>3. Project Coordination</b>		
1. Monitoring and evaluation, beneficiary assessments	300,000	2.11%
2. Project management and coordination	200,000	1.41%
<b>Subtotal project coordination</b>	<b>500,000</b>	<b>3.52%</b>
<b>Total</b>	<b>14,300,000</b>	<b>100.00%</b>

## **Annex 4: Financial Management and Disbursement Arrangements**

### **Country Financial Management Environment**

1. The Nepal Country Financial Accountability Assessment (CFAA) conducted jointly by the Government of Nepal (GON) and IDA in 2002 and subsequently updated in 2005, concluded that failure to comply with the impressive legal and regulatory fiduciary framework makes the fiduciary risk in Nepal “High”, but that the risk is similar to that in most developing countries. The situation has not significantly changed. The draft Public Financial Management (PFM) Review (May 2007) have reaffirmed that the PFM system in Nepal is well designed but unevenly implemented. The Public Financial Accountability Assessment (PFAA) issued in February 2008, has also reiterated that the fiduciary risk in Nepal continues to be “High”.

2. The GON, however, is committed to improving the overall financial accountability framework. This has been demonstrated by promulgating the Public Procurement Act and Public Procurement Regulations in 2007, amending the Financial Administration Regulations in 2007, and also leading the self-assessment of various PFM Indicators as per Public Expenditure Financial Accountability (PEFA) Guidelines. Further work on PFM including setting up the PFM benchmarks as per the PEFA Guidelines carried out in 2007, and subsequent implementation of actions that need to be agreed with GON will help to mitigate the inherent country risk.

### **Background on the Program and Implementing Agencies**

3. The Social Safety Nets project will be implemented by the Ministry of Local Development (MoLD) in coordination with the Ministry of Agriculture and Cooperatives (MoAC). MoLD will implement the food/cash for work program through the existing mechanism by partnering with the World Food Programme (WFP). A Subsidiary Funding Agreement will be signed between the Government of Nepal and the WFP to carry out the agreed upon activities related to the food/cash for work program.

4. The Project will also include transport subsidies for seeds and fertilizers which will be implemented by the Department of Agriculture (DOA) under the Ministry of Agriculture and Cooperatives (MoAC). Agriculture productivity will be implemented as Additional Financing under the existing Irrigation and Water Resources Management Project (IWRMP) (P099296) under Component D of the IWRMP to be implemented by the MoAC, and the Department of Irrigation (DOI) under the Ministry of Water Resources (MOWR). This will be implemented under the existing implementation arrangements as described for Component D of the IWRMP. The DOA and the Department of Irrigation (DOI) will be the implementing agencies.

### **Adequacy of Financial Management Arrangements**

5. The proposed food/cash for work program is expected to be implemented within one year. All funds under food/cash for work programs will be managed by the WFP. This will be carried out through a subsidiary grant agreement between GON and WFP under the blanket application approach based upon an agreed work program and disbursement mechanisms as set out in the agreement. Under this arrangement, WFP would report to the government based on actual expenditures and outputs and then refund the unused funds towards the completion of the program. In view of the emergency nature

of the program and in-country capacity constraints to distribute foods in food deficient districts including flood affected districts caused by Koshi flood, the government has requested the partnership arrangements with WFP based on its comparative advantages and significant experience to respond on the food/cash for work program. WFP policies and procedures as agreed with the Bank will apply for this part of the project. As referred in paragraph 164 of the Framework Document for a Global Food Crisis Response Program (dated June 26, 2008), to ensure that there are no delays, the Bank has agreed to an interim understanding that relates to applying the UN agencies rules (in this case that of WFP) until the new framework is put in place.

6. The WFP and RCIWP will coordinate on implementation of activities. The RCIWP is being implemented by a Central Program Coordination Unit located at MoLD which is headed by the Program Manager and staffed with one Engineer, one Section Officer, one Overseer, and one Accounts Officer. The Unit reports to the Joint Secretary. This core team will be responsible to manage the Social Safety Nets Project which includes the implementation of the fertilizer transport subsidy program by coordinating with the MoAC. The GON has an established practice of funding subsidies for seeds and fertilizer access, and the transportation subsidy portion of the program will be transferred to the DOA budget under this Project.

7. Additional financing to the ongoing IWRMP will augment ongoing efforts to strengthen agricultural production and the safety net mechanism on a broad scale. This will supplement Component D of the IWRMP which will be implemented by DOA and DOI to finance: (i) small-scale and non-conventional irrigation schemes, (ii) scaling up of community-led seed program and soil management activities. Implementation arrangements for the additional financing will be the same as for Component D of the IWRMP.

8. Overall, for both the new project and for additional financing of the IWRMP, existing implementation arrangements will be adopted with specific modifications that will be required in the context of this program which are addressed in this assessment. The FM arrangements are adequate at this initial stage of project implementation, with some modifications, as described in this assessment. The areas indicated below will need to be improved to help ensure a satisfactory FM system throughout the project implementation.

### **Risk Analysis**

9. From the FM perspective, the overall risk rating for the Social Safety Nets project is “**Substantial**”. One of the proposed implementing agencies, Ministry of Local Development (MoLD), has not directly implemented IDA-financed projects. Hence, the implementation capacity needs to be strengthened. Further, MoLD has the responsibility to monitor and report on the transport subsidy element which will be implemented by the MoAC/DOA. A strong coordination mechanism needs to be put in place to ensure strong coordination between two agencies. Because the major part of the Social Safety Nets Project is being implemented through WFP which have been coordinating the food/cash for work programs, established guidelines and mechanisms provide adequate assurance to implement this emergency program.

10. In terms of the agricultural productivity response which will be implemented through additional financing for IWRMP, implementation of Component D of the IWRMP

has not yet started mainly because this program was planned to start only from FY2008/09. Due to the delay in the formation of a new government, the government has not yet announced the budget for FY2008/09. Taking the work program envisaged under additional financing for IWRMP, DOA and DOI will be required to revise the work program and budget for FY2008/09.

11. In addition to this, certain other actions have been identified that are critical for the implementation of the new scope of work under additional financing. Other than these, implementation arrangements as agreed for IWRMP will apply. To address certain gaps that have been identified during the FM assessment risk, mitigation action plans have been agreed; FM risks are expected to be reduced as the action steps are completed. Currently, based on assessment, the residual FM risk for Additional Financing is **“Substantial”** which has changed from the original risk assessment for IWRMP which was **“Modest”**.

12. Implementation of the proposed Nepal Food Crisis Response Program will require three legal documents to accommodate the arrangements for the Program: (1) Financing Agreement for the Social Safety Nets Project to reflect credit/grant allocations from IDA resulting from cancellation of three projects, (2) Trust Fund Agreement under the Food Price Response Trust Fund (grant financing), and (3) Additional Financing for IWRMP to reflect credit allocations from IDA. Details of financial management’s arrangements will be presented separately for the Social Safety Nets Project (Financing Agreement and Trust Fund Agreement) and Agricultural Productivity (Additional Financing for IWRMP) following the analysis of overall project strengths and weaknesses described below.

### **Strengths**

13. The proposed operation has the following FM strengths: (i) high-level government commitment to respond to food crisis, (ii) GON Response and Strategies for Soaring Food Prices articulated in the 3-year Interim Plan, (iii) successful working modality to respond to food crisis program under close collaboration between MoLD and WFP under the RCIWP, (iv) WFP’s expertise and proven experience in dealing with food/cash for work programs, (v) a project team in MoLD coordinating the RCIWP, (vi) sound implementation arrangements and project coordination arrangements agreed in IWRMP for Agricultural productivity, (vii) proposed program aligned with the country’s financial management system, and (viii) capacity building component built into the program to strengthen skills of MoLD and DOA/DOI officials.

### **Weaknesses and Resolutions**

14. Deputation of core staff in the project implementation team and their continuity throughout project implementation is important for the successful implementation. An emergency operation like this requires strong commitment and high level coordination both at the political and the bureaucratic levels. Strong donor coordination is also key to help ensure a successful implementation of the food crisis response program. Developing the FM system and accountability framework in the MoLD for the Social Safety Nets Project is also critical to ensure better accountability over funds disbursed and to provide information on food distribution that is accessible to the public. Completion of the previously agreed Action Plan in IWRMP is also critical to help ensure better accountability for both Component D of the IWRMP and the Additional Financing.

## **Arrangements for Social Safety Nets project to be implemented by MoLD**

### **Planning and Budgeting**

15. The proposed operation will follow the same government procedures as used with any normal budget line item. The budgeting procedures for preparation, approval, implementation, and monitoring are elaborated in the Financial Procedure Regulations (FPR). The annual work program and budget will be based upon the work program to be prepared by MoLD. Annual work programs and budgets are submitted to the National Planning Commission (NPC) and MOF for discussion. A separate budget line will need to be created for programs to be implemented by MoLD under this project in the 'Appropriation Book' (Red Book or Budget) for FY2008/09. The Ministry of Finance has agreed to create a separate budget line in the Red Book. Because this is an emergency response program, MoLD will need to submit its annual work program and budget immediately to NPC and MOF with a request for a separate budget item on which implementation and financial progress will be reported. The food/cash for work programs will be implemented by MoLD by partnering with WFP. The fertilizer transport subsidy program will be implemented by the MoAC/DOA.

16. MOF will release authorizations for expenditure to the MoLD. The Secretary of MoLD will provide authorization for expenditure to the Program Coordination of the Program Coordination Unit of the RCIWP which is responsible for overall coordination and reporting of activities under the Social Safety nets project. The MoLD, as authorized by MOF, will enter into a subsidiary agreement with WFP under a blanket withdrawal arrangement for the food/cash for work program under terms and conditions agreeable to GON, WFP, and IDA. On behalf of the GON, the MoLD submits a blanket withdrawal application to IDA for the total amount as per the Subsidiary Agreement between GON and WFP. IDA reviews and approves the blanket withdrawal application by "committing" the funds in the stated accounts. WFP then sends a request directly to IDA which will transfer the funds to WFP if the blanket application is approved. At the same time that WFP sends the request to IDA, WFP also sends a copy of the request to GON (for information only). If GON objects to what is claimed on the request, GON will inform IDA to withhold the transfer of funds until the issue is resolved between GON and WFP. WFP will implement the program in close coordination with the Program Coordination Unit. Funds will be disbursed to WFP for all food for work programs, including designated remote districts and flood affected districts, and also for other critical infrastructure.

17. Transport subsidies for seeds and fertilizer access to 23 remote districts will be managed through the established procedures of GON. Currently, the subsidies are provided in 23 districts of which 18 districts are IWRMP districts, and 5 districts are non-IWRMP districts. MoAC has described the procedure for transport subsidies described in the Implementation Guidelines. In order to cover additional districts and define some additional norms, MoAC will revise the procedures for subsidies. The proposed interim transportation subsidies are designed to meet the immediate financing gap in the first two years of implementation that is, FY2008/09 and FY2009/10. The GON has an established practice of funding subsidies for seeds and fertilizer access, and the new transportation subsidy portion of the program will be transferred to the MoAC budget under this project. While revising the procedures for subsidies, MoAC will also articulate coordination arrangements with MoLD including the reporting mechanism.

18. Approximately US\$2.5 million has been allocated for strengthening project coordination arrangements, capacity building, and impact evaluation. The project coordination costs, impact evaluation, and participatory beneficiary assessments will be implemented by MoLD and DOA through the project implementing unit. The Secretary of MoLD and MoAC will be held accountable for disbursements of funds under this project.

### **Funds Flow Arrangements**

19. GON will release the budget as per the approved work program to the MoLD (and to MoAC in case of transport subsidies for seeds and fertilizer access) in three tranches as per its fund release procedures. The budget approved by GON will be indicated in the government's budget (Red Book). Prior to approval of the work program and budget, one-third of the expenditures from the previous year or the projected expenditures for the first trimester, whichever is greater, will be released to the MoLD through the respective DTCO. Fund release to WFP under the blanket application will be made through direct payments from IDA to WFP upon the request of the signatory of the MoLD under the payment terms and conditions to be included in the contract; these will be indicated as a "direct payment" in the source book of the government. Fund release for procurement of goods and consultants will be made directly from the special designated accounts which will be maintained by the MoLD. Fund release for other IDA's share of other expenditures which includes incremental operating costs and other small payments will be pre-financed through GON's consolidated fund.

20. Upon approval of the work program and budget, appropriate adjustments will be made against the advance for the first trimester release. Subsequent second and third trimester releases will be based on performance reflected by the physical progress reports as required by Schedule 2 of the FPR. Due to unusual circumstances this year, the budget for FY2008/09 has not yet been announced. Because this is an emergency program, MoLD will be required to immediately submit a work program and budget for FY2008/09 to be spent through a separate identifiable budget line as discussed above.

21. For reimbursement of IDA's share of expenditures to GON's consolidated fund, a Special Designated Account will be established in US Dollars at NRB to facilitate quick payments of various activities under the project including reimbursement under terms and conditions acceptable to IDA. The MoLD will designate the signatories to operate the special designated accounts, and it will normally be the Project Coordinator and the Accounts Officer. Transaction-based (traditional) disbursement procedures will be applied for withdrawal of funds from the IDA Financing Agreement and Food Price Crisis Response Trust Fund.

### **Project Financial Accounting, Reporting and Internal Controls**

22. In order to produce consolidated project financial statements, the Program Coordination Unit of the RCIWP in the MoLD will ensure that separate books of accounts are maintained for the Project and that accounts are prepared on a cash basis. The Program Coordination Unit will coordinate overall activities and work under the guidance of the MoLD Secretary.

23. Accounting information will be regularly updated to generate timely financial reports. As required by the government system, the MoLD will maintain required ledgers including the Withdrawal Monitoring Register and Special Designated Accounts Ledger.

GON's internal control system will be applied to monitor the progress of the project in accordance with sound accounting practices. The accounting systems contain the following features: (i) application of consistent cash accounting principles for documenting, recording, and reporting its financial transactions; (ii) a well-defined chart of accounts that enables meaningful summarization of financial transactions for financial reporting purposes; (iii) maintenance of withdrawal monitoring register, records of SOEs and Designated Accounts register; (iv) the asset register; (v) monthly closing and reconciliation of accounts and statements; and (vi) the production of annual financial statements. With regard to the food/cash for work program, WFP will administer the contributions in accordance with standard WFP Rules and Regulations.

24. The Unit will be accountable to prepare trimesterly Implementation Progress Reports (IPRs) and project financial statements. The Unit will prepare a consolidated IPRs and project financial statements covering the use of funds from both the Trust Fund and IDA Credit/Grant as required by two sets of legal agreements. The interim financial report of the Project Implementation Progress Report (IPR) of the Social Safety Nets Project will report total investments in the Project to be separated by specific activity so that total investments as envisaged can be tracked and monitored. The project IPR will be prepared from the outset, showing the sources and uses of funds, output monitoring report, procurement management report, and narrative progress report in formats to be agreed upon during negotiations. The WFP will provide necessary inputs to the MoLD for trimester reporting. The WFP as per its procedure will submit the annual progress report within three months after the end of the calendar year.

25. To match the public sector planning and reporting cycle, IPRs will be produced on a trimester basis and submitted within 45 days from the end of the preceding trimester. WFP will provide necessary inputs to MoLD on information related to the food/cash for work program for trimester reporting. WFP, however, will submit the following reports: (i) Standard Project Reports on an annual calendar basis, in the format agreed with GON and IDA, to be submitted by end March, (ii) Each Standard Project Report will also contain a financial report prepared in accordance with accounting standards established pursuant to the WFP Financial Regulations, adequate to reflect the sources and expenditures related to sub-grant activities. The sub-grant control account shall be subject exclusively to the internal and external audit arrangements applicable to WFP. Such financial statement of accounts will be provided within three months after the closure of the WFP accounts for the year to which the annual financial statement relates.

### **Financial Management Staffing**

26. The Program Coordination Unit of the RCIWP of the MoLD, which is currently managing the RCIW food/cash for work program, will be responsible for the overall coordination of the implementation and management of project activities. The Accounts Officer of the Unit will maintain the accounts of the Project. He will be supported by his assistants. Component 1, food/cash for work, will be implemented by WFP. Therefore, the current team of staff is capable of handling project transactions.

### **Internal Control**

27. The existing Program Guidelines for implementation of the food/cash for work program will be used for the new food/cash for work program to be executed through WFP. The Guidelines provide the basis for program implementation for users committees,

village development committees, district development committees, and other agencies involved in the program. They also provide the basis for effective program monitoring and provide detail norms of food supplies and food transportation. The Guidelines also specify the pre-requisites for program implementation and describe the roles of various agencies involved in the execution of the program including that of the WFP. In addition, they describe the arrangements for social audit of the program. WFP will ensure that the program is executed per the Guidelines.

**Internal Audit**

28. DTCO will be responsible to carry out internal audits of this operation on a trimester basis as fund release to be pre-financed by the government is made through respective DTCO. DTCOs submit their internal audit reports to respective cost centers, copies of which are sent to the MoLD and FCGO.

**External Audit**

29. The annual audit<sup>24</sup> requirements for the Social Safety Nets Project (a consolidated audit report covering the use of funds from the Trust Fund and IDA Credit) under the Project are:

*Annual consolidated project financial statements and Designated Accounts statements will be audited by OAG, which is considered acceptable by IDA for this purpose, and submitted to IDA within six months after the end of the fiscal year – January 15.*

The following audit reports will be monitored in the Audit Report Compliance system (ARCS):

<b>Implementing Agency</b>	<b>Audit</b>	<b>Auditors</b>	<b>Audit Due Date</b>
MoLD	Consolidated Project Financial Statements reflecting funds disbursed to WFP as per Subsidiary Agreement (including SOE Statement and Special Designated Accounts)	OAG	6 months after the end of fiscal year (January 15 <sup>th</sup> )

**Financial Management Action Plan**

29. Action plans to strengthen the financial management capacity of the project were agreed between the Recipient and IDA and are summarized below:

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<sup>24</sup> Terms of reference acceptable to IDA need to be discussed and agreed with OAG for their portion of the external audit. Separate agreed upon WFP procedures will also be used.



### Financial Management Action Plan for Social Safety Nets project

Action	Responsibility	Completion Date
1. Prepare a detailed annual work program and budget (including food/cash for work program) and submit to NPC and MOF for approval.	MoLD MoAC/DOA	Prior to Negotiations
2. Assign a separate identifiable budget line in the Red Book for FY2008/09.	MOF	September 30, 2008
3. Develop and agree on the TOR for audit.	MoLD, OAG and IDA	September 30, 2008

30. Following are other program related actions which will impact financial management activities:

Action	Responsibility	Completion Date
1. Complete all formalities of reviewing terms of reference and payments terms and conditions with WFP, and sign Subsidiary Agreement between Government of Nepal and WFP.	MOF MoLD WFP IDA	Effectiveness Condition
2. Prepare and finalize the Implementation Guidelines for implementing the transport subsidy for seeds and fertilizer access and submit to IDA for review.	MoAC/DOA MoLD	Disbursement Condition for Subsidy

#### Standard FM Covenants

31. There are two standard FM covenants: (i) submission of annual audited project financial statements within 6 months after the end of fiscal year; (ii) submission of IPR each trimester. WFP exceptions have been agreed upon.

#### Special FM Covenant

32. There is one special FM covenant that the annual work program and budget for each component will be shared with IDA

#### Disclosure of Information and Corporate Governance

33. With recent enactment of the Rights to Information Act, 2007, disclosure requirements will be complied with to make information transparent and all information readily available for public disclosure. The MoLD will disseminate all available guidelines, procedures, and other key information related to the food/cash for work program through its website and other communication means such as newspapers, radio broadcast, and site board. The MoLD has specifically agreed to disclose the following items through its website: Overall budget for the Nepal Food Crisis Response Program, Allocation by Activity and Budget Line; Trimester Implementation Progress Reports (approved versions); and Annual Audited Financial Statements. At the decentralized level, details on recipients of food under the food/cash for work program will be displayed at site boards or by other means as per the existing procedure.

## Supervision Plan

34. Project implementation progress will be closely monitored by the MoLD, DOA, WFP, and IDA. IDA will closely supervise project implementation on fiduciary aspects related to financial management until key systems are in place. WFP through its procedures will implement the program with due diligence. The MoLD and MoAC will report on project implementation progress through a trimester report, the IPR. The agreed FM action plan will be closely monitored to ensure appropriate actions are being implemented. Key FM fiduciary work includes: (i) conducting *ex-post* reviews of financial management arrangements and SOE reviews; (ii) conducting reviews of implementation progress reports and audit reports and preparing summaries of such reports; and (c) participating in supervision missions and keeping the team informed of FM issues or improvements. Particular attention will be paid to timely and accurate capture of financial information and complete and informative reporting, areas designated as a source of substantial FM risk.

## Disbursement

### Allocation of grant proceeds

35. Disbursement under the proposed TF grant and IDA credit/grant will be made as specified in Table C, which indicates the sources, amounts, and percentages of financing for different categories of project expenditures. Food/cash for work program is expected to be disbursed over a 12-month period from the retroactive financing date, and the total amount will be disbursed over three years. The Closing Date of the project is September 30, 2010.

**Table C: Allocation of Grant Proceeds**

Expenditure Category	Food Crisis Response Trust Fund (USD)	IDA Grant (USD)	IDA Credit (USD)	Financing Percentage
1. Food/cash for work program (to be provided to WFP under Subsidiary Agreement)	5,000,000	11,200,000		100%
2. Transport Subsidy for seeds and fertilizer access		3,000,000		100%
3. Works, Goods, Services, Training and Incremental Operating Costs			2,500,000	100%
<b>Total Project Costs</b>	<b>5,000,000</b>	<b>14,200,000</b>	<b>2,500,000</b>	

### Disbursement Arrangements

36. Disbursements from IDA will be made in accordance with traditional disbursement procedures including full documentation for contracts above the Prior Review threshold or SOEs. To facilitate disbursements, a Designated Account in US Dollars will be established. Payments to WFP will be made through direct payments from IDA under a

blanket application approach under the standard UN Model contract with payment terms and conditions included in the contract and upon receipt of requests from the MoLD. For other major payments related to procurement of works, goods and services, the MoLD will use the special designated accounts for direct payments. For small payments, including for training and operating costs, GON will pre-fund the activities; disbursements from IDA will be made via replenishment of the Designated Account.

### **Retroactive Financing**

37. To facilitate speedy support to the emergency food crisis response by the WFP, the GON, and IDA, the Project will allow retroactive financing in the amount of USD5 million (close to 40% of the IDA grant amount) for expenditures related to implementation of food/cash for work program that occurred after August 15, 2008. A clause will be included in the Subsidiary Agreement that will be signed between the Government of Nepal and WFP upon the signing of the Financing Agreement with IDA.

38. The WFP has agreed to pre-finance on behalf of the government on the program scope as will be agreed between GON, WFP, and IDA. Until a formal contract is signed after project effectiveness, arrangements will be discussed during negotiations and recorded in the Minutes of Negotiations.

### **Use of Statement of Expenditures (SOEs)**

39. SOEs will be used for the following expenditures: (i) training, workshop and study tours; (ii) incremental operating costs; (iii) contracts for works and goods, costing less than USD 100,000 equivalent per contract; (iv) contracts for services of consulting firms costing less than USD 50,000 equivalent per contract; and (v) contracts for services of individual consultants costing less than USD 25,000 equivalent per contract. During the IDA initial supervision, the mission will closely review the SOE claims to ensure that funds are utilized for the intended purposes. Any ineligible expenditure identified during this and subsequent reviews will need to be refunded to IDA.

### **Designated Accounts**

40. A separate Designated Account in US Dollars will be established on terms and conditions satisfactory to IDA. The authorized allocations for the Designated Account under the Grant (Financing Agreement) will be USD500,000. For the utilization of IDA's share of project expenditures, the MoLD may open and maintain the Designated Accounts in US Dollars at the Nepal Rastra Bank under terms and conditions acceptable to IDA. The Designated Accounts will be managed under the joint signatures of the Project Coordinator and the Accounts Officer.

41. The MoLD will ensure that the bank/cash books are reconciled with bank statements every month. MoLD will separately submit replenishment applications for the Designated Accounts on a monthly basis, or when 25 percent of the authorized allocation has been used, whichever occurs first. Replenishment applications will be accompanied by reconciled statements from the bank in which the account is maintained, showing all Designated Account transactions. Supporting documentation will be maintained by the respective cost centers for at least one fiscal year after the year in which the last disbursement from the grant took place, and will be available for review by IDA staff and independent auditors.

42. A separate Designated Account will not be required under Trust Fund Agreement.

**Arrangements for Agricultural Productivity activities to be implemented by MoAC under Additional Financing for IWRMP**

**Adequacy of Financial Management (FM) Arrangements**

43. The Irrigation and Water Resources Management Project was approved by the Board on December 6, 2007. The Project was effective on April 24, 2008 with the closing date of June 30, 2013. The medium-term implications on the food crisis will be addressed through the additional financing to the ongoing IWRMP through ongoing efforts to strengthen agricultural production and safety net mechanism on a broad scale. Component D of the IWRMP will be implemented by the DOA and DOI to finance small-scale and non-conventional irrigation schemes, scaling up of community led seed program, soil management activities. Implementation arrangements will be same as for Component D of the IWRMP.

44. Implementation of Component D of the IWRMP has not yet started mainly because this program was planned to start only from FY2008/09. This means that the Project has not yet disbursed any amount under Component D. Due to delays in the formation of a new government, the government has not yet announced the budget for FY2008/09. Taking the work program envisaged under additional financing for IWRMP, DOA and DOI will be required to revise the work program and budget for FY2008/09.

45. Activities envisaged under additional financing in Component D of the IWRMP are: (1) small-scale and non-conventional irrigation schemes, (2) scaling up of community led seed program and soil management activities, and (3) impact evaluation and participatory beneficiary assessments. Implementation arrangements as agreed for IWRMP will apply. DOA and DOI are revising their work programs and budgets to include this program under additional financing.

46. Progress on agricultural activities of the proposed Nepal Food Crisis Response Program has to be closely monitored. In view of this, unlike normal additional financing which is provided when the fund allocated under the ongoing Project is exhausted, the additional financing provided for IWRMP is in response to the food crisis response program. The new scope of work which meets the Development Objective of the IWRMP has been identified. Hence, the reporting arrangements will be kept separate from the outset so that disbursement progress can be observed from the beginning of the implementation of the additional financing. In view of this, MoAC will maintain a separate books of accounts as explained in the FM Assessment of IWRMP for additional financing, a separate Designated Account will be provided, trimester progress report will be made through a separate Implementation Progress Report and a separate audited accounts for additional financing will be provided. Because the disbursements under IWRMP are report-based, disbursements for the additional financing will also be report-based.

47. The revised work program and budget that MoAC will prepare and submit to NPC and MOF will include the new activities as envisaged under additional financing. Identifiable budget codes have been provided for implementing Component D of the IWRMP. All activities under Component D of the IWRMP including new activities as

envisaged under additional financing which include transport subsidies for seeds and fertilizer access in approximately 23 districts will now be budgeted under the given codes. However, work program and budget under additional financing will be separated when submitting to NPC and MOF. MoAC has revised its work program and budget for FY2008/09.

48. With regard to the implementation of the FM Action Plan as envisaged in the IWRMP, MoAC has not yet been able to develop a computerized system using appropriate software to convert the manual system to a computerized system to track project expenditures in order to produce timely financial statements. This action is critical to ensure timely consolidation of financial statements and submission of reports. A new date has been agreed to comply with this action. Because of this and other factors, the risk level has changed in the IWRMP for additional financing which is reflected as the attachment.

49. Overall, the FM arrangements for the Project are adequate for project implementation. In order to implement the new program under additional financing, a few actions have been discussed and agreed with the MoAC which is detailed in the Action Plan.

**Implementation Progress Reports**

50. MoAC will be accountable to prepare a separate trimesterly Implementation Progress Reports (IPRs) and project financial statements. Because the books of accounts for Component D of the IWRMP and for additional financing will be separately maintained, MoAC will prepare two separate IPRs and project financial statements for two sources of funding. The interim financial report of the project Implementation Progress Report (IPR) of Additional Financing will present total investments in agricultural productivity activities to be separated by specific activity so that total investments can be tracked and monitored. The project IPR will be prepared from the outset showing the sources and uses of funds, output monitoring report, procurement management report, and narrative progress report in formats to be agreed upon during negotiations. To match the public sector planning and reporting cycle, the IPR will be produced on a trimester basis and submitted within 45 days from the end of the preceding trimester.

**External Audit**

51. The Office of the Auditor General audits the accounts of the Component D. No audit reports under IWRMP are yet due. The project financial statements for expenditures incurred under additional financing will be reported separately without consolidating with Component D of the IWRMP. The following audit reports will be monitored in the Audit Report Compliance System (ARCS) for expenditures incurred under the additional financing:

<b>Implementing Agency</b>	<b>Audit</b>	<b>Auditors</b>	<b>Audit Due Date</b>
MoAC	Project Financial Statements for additional financing for IWRMP	Office of the Auditor General (OAG)	6 months after the end of fiscal year (January 15 <sup>th</sup> )

## Financial Management Action Plan

52. Action plans to strengthen the financial management capacity of the project were agreed between the Recipient and IDA and are summarized below:

### Financial Management Action Plan for Additional Financing

Action	Responsibility	Completion Date
1. Revise the annual work program and budget for FY2008/09 to include activities under additional financing – activities and budget will be separated for Component D and for activities under additional financing - and submit to NPC and MOF for approval.	DOA/DOI	September 30, 2008
2. Develop and agree on the TOR for audit.	MoAC, OAG and IDA	September 30, 2008
3. Develop a computerized system using appropriate software to convert the manual system to a computerized system to track project expenditures and produce timely financial statements (pending from IWRMP Action Plan).	MoAC	November 30, 2008

53. The program related action which will impact financial management activities is:

Action	Responsibility	Completion Date
1. Complete assessment of DISSPRO program and develop action plan for scaling up.	MoAC	November 30, 2008

### Standard FM Covenants

54. There are two standard FM covenants: (i) submission of annual audited project financial statements within 6 months after the end of fiscal year; and (ii) submission of IPR each trimester.

### Special FM Covenant

55. There is one special FM covenant to share an annual work program and budget for each component with IDA.

### Disclosure of Information and Corporate Governance

56. With recent enactment of the Rights to Information Act, 2007, disclosure requirements will be complied with to make information transparent and information readily available for public disclosure. MoAC will disseminate all available guidelines, procedures, and other key information related to the program including information transport subsidies through its website and other communication means such as newsletters, and site board. MoAC has specifically agreed to disclose the following items through its website: Overall Food Crisis Response Budget, Allocation by Activity and

Budget Line; Trimester Implementation Progress Reports (approved versions); and Annual Audited Financial Statements.

### Supervision Plan

57. Project implementation progress will be closely monitored by the MoAC, MoAC, DOI, and IDA. IDA will initially supervise project implementation of fiduciary aspects related to financial management more closely until key systems are in place. The MoAC will report on project implementation progress through a trimester report, the IPR. The agreed FM action plan will be closely monitored to ensure appropriate actions are being implemented. Key FM fiduciary work includes: (i) conducting *ex-post* reviews of financial management arrangements; (ii) conducting reviews of implementation progress reports and audit reports and preparing summaries of such reports; and (c) participating in supervision missions and keeping the team informed of FM issues or improvements. Particular attention will be paid to timely and accurate capture of financial information and complete and informative reporting, areas designated as a source of substantial FM risk.

### Disbursement

#### Allocation of grant proceeds

58. Disbursement under the proposed IDA credit additional financing will be made as specified in Table C, which indicates the amounts and percentages of financing for different categories of project expenditures. The total project cost is estimated at USD 14.3 million. All project costs will be financed 100 percent except for incremental operating costs which IDA will finance 80 percent to be consistent with arrangements for IWRMP. The closing date of the Project is June 30, 2013, consistent with the closing date of IWRMP.

**Table C: Allocation of Grant Proceeds**

<b>Expenditure Category</b>	<b>IDA Credit (USD)</b>	<b>Financing Percentage</b>
1. Investment Support Grants	12,350,000	100%
2. Goods, Services, Training	1,450,000	100%
3. Incremental Operating Costs	500,000	80%
<b>Total Project Costs</b>	<b>14,300,000</b>	

### Disbursement Arrangements

59. As envisaged in the IWRMP Action Plan, MoAC has not yet established a computerized system. MoAC, however, is committed to this pending action. MoAC is committed to produce reports in the agreed format on a timely basis. Disbursements from IDA will be report based from the beginning of the project to be consistent with the disbursement arrangements under IWRMP. To facilitate disbursements, a special Designated Account will be established. For other major payments related to procurement of goods and services, MoAC will use the special designated accounts for direct payments. For small payments including civil works, training and operating costs, GON will pre-fund the activities.

### **Retroactive Financing**

60. The Project would allow retroactive financing in the amount of USD100,000 for implementation of the work program that occurred after October 1, 2008.

### **Designated Accounts**

61. A separate Designated Account in US Dollars will be established on terms and conditions satisfactory to IDA. The authorized allocations for the Designated Account will be equivalent of two trimester cash requirements as per approved annual work program and budget. Actual expenditures will be accounted in each trimester report, and then adjusted against the next trimester cash requirement, to determine the need for further advance deducting the actual expenditures reported during the trimester, or recovery of expenditures, if there are enough cash balances in the accounts, on a trimester basis that is, three times a year.

62. For the utilization of IDA's share of project expenditures, MoAC may open and maintain the Designated Accounts in US dollars at the Nepal Rastra Bank under terms and conditions acceptable to IDA. Accounts will be operated under joint signatures of the Coordinator and Accounts Officer.

63. MoAC will ensure that the bank/cash books are reconciled with bank statements every month. Supporting documentation will be maintained by the respective cost centers for at least one fiscal year after the year in which the last disbursement from the grant took place, and will be available for review by IDA staff and independent auditors.

### **Supervision**

64. Progress of project implementation will be continuously monitored by the Ministry of Agriculture and Cooperatives, Ministry of Water Resources and by IDA from the Nepal Country Office. The Project Coordination unit will submit project progress every trimester. Action plans agreed will be closely monitored to ensure effective implementation. Key areas of FM fiduciary work are to: (a) periodically visit cost centers for ex-post reviews, and if ineligible expenditures are noted, report to the FMS for further remedial action; (b) review audit reports and prepare summary of reports; and (c) participate in supervision missions and keep the Team informed of financial management issues or needed improvements. Particular attention will be paid to timely and accurate capture of financial information and complete and informative reporting, areas designated as a source of substantial FM risk.



### Financial Management Risk Rating Summary for Social Safety Nets Project

	Risk Assessment				Risk Assessment	Risk Mitigating Measures	Residual Risk
	H	S	M	L			
<b>INHERENT RISKS</b>							
Country level	X				H		H
- Quality of PFM institutions (see PEFA-PMF, CFAA, CPAR, CPIA and other diagnostics), standard of financial accounting, reporting and auditing, quality of FM profession.						Implementation of CFAA, CPAR action plan; PFM sector work and implementation of actions; country dialogue	
Entity level		X			S	Implementation of FM Improvement Action Plan	S
- Independence of entity's management, appropriateness of the organizational structure, impact of civil service rules							
Project level			X		M		M
- Relative size of the Bank loan, type of lending instrument, complexity of the project (e.g. sectors involved, number of implementing and sub-implementing entities, multi-donor etc.)						Continuity of staff. Close coordination between MoLD and WFP. Close monitoring of program.	
<b>OVERALL INHERENT RISK</b>		X			S	Implementation of Action Plan	S
<b>CONTROL RISKS</b>							
Budget			X		M	Assign separate budget code and allocation of budget for FY2008/09	M
Accounting		X			S	Development of a separate books of accounts for the Project and maintain in the computerized spreadsheet in Excel or appropriate software	S
Internal Controls			X		M	Segregation of duties and monitoring of procedures	M
Funds flow			X		M		M
Financial Reporting		X			S	Develop an excel spreadsheet to capture financial information.	S
Auditing		X			S	Better coordination through the MoLD	S
<b>OVERALL CONTROL RISK</b>							S
<b>RESIDUAL RISK RATING</b>	<b>1</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>S</b>		<b>S</b>

H – High

S – Substantial

M – Modest

L – Low

### Financial Management Risk Rating Summary for Additional Financing under IWRMP

	Risk Assessment				Risk Assessment	Risk Mitigating Measures	Residual Risk
	H	S	M	L			
<b>INHERENT RISKS</b>							
Country level	X				H		H
- Quality of PFM institutions (see PEFA-PMF, CFAA, CPAR, CPIA and other diagnostics), standard of financial accounting, reporting and auditing, quality of FM profession.						Implementation of CFAA, CPAR action plan; PFM sector work and implementation of actions; country dialogue	
Entity level			X		M		M
- Independence of entity's management, appropriateness of the organizational structure, impact of civil service rules						Implementation of FM Improvement Action Plan	
Project level		X			S		S
- Relative size of the Bank loan, type of lending instrument, complexity of the project (e.g. sectors involved, number of implementing and sub-implementing entities, multi-donor etc.)						Continuity of staff; full functioning of the Steering Committee.	
<b>OVERALL INHERENT RISK</b>		X			S	Implementation of Action Plan	S
<b>CONTROL RISKS</b>							
Budget			X		M	Assign separate budget code and allocation of budget for FY2008/09	M
Accounting		X			S	Development of a separate books of accounts for the Project and maintain in the computerized spreadsheet in Excel or appropriate software	S
Internal Controls			X		M	Segregation of duties and monitoring of procedures	M
Funds flow			X		M		M
Financial Reporting		X			S	Develop an excel spreadsheet to capture financial information.	S
Auditing		X			S	Better coordination through the MoLD	S
<b>OVERALL CONTROL RISK</b>							S
<b>RESIDUAL RISK RATING</b>	<b>1</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>S</b>		<b>S</b>

## Annex 5: Procurement Arrangements

### General

1. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 revised October, 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised August, 2006, and the provisions stipulated in the Financing Agreement. The general description of various items under different expenditure categories are described below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and timeframe are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

#### A. Procurement under the Social Safety Net Project

2. **Procurement of Works:** Works procured under this would include:

Component 1: Works related to RCIW, Critical Infrastructure and Livelihood Support Program to be implemented by WFP. Because of ongoing activities in similar programs in Nepal and their unique expertise, and based on the Government's preference for responding to the food crisis through the WFP programs, WFP will be selected on sole source basis to implement this component on behalf of the Government of Nepal through a subsidiary grant agreement between WFP and GON.

3. **Procurement of Goods:** Goods procured under this project would include;

Component 1: Food

Component 3: Computers, Server and furniture etc

3 (a) Methods of procurement: Goods may be procured through ICB, NCB, shopping or direct contract as described in the Procurement plan.

3 (b) All contracts whose estimated value exceeds US\$500,000 equivalent per contract shall be procured through ICB procedures using the Bank's Standard Bid Documents.

Contracts estimated to cost below US\$500,000 equivalent per contract may be procured in accordance with local procedures as described in the Nepal Public Procurement Act, 2007 and the related Regulations, 2007 using model bid documents that are satisfactory to and agreed with the Bank.

4. **Procurement of Non-consulting Services:** The services to be procured will include transportation of fertilizer and services for conducting workshops, seminars, study tours, trainings, etc.

5. **Selection of Consultants:** Consultancy services procured under this project would include assignments in all the 3 components.

5(a) Short lists of consultants for services estimated to cost less than \$250,000 equivalent per contract may be composed entirely of national consultants in accordance

with the provisions of paragraph 2.7 of the Consultant Guidelines. All selection will be carried out using Bank's Standard RFP documents and procedures for international as well as local consultants.

6. **Operational Costs:** Besides usual operational costs like office rentals, utility payments, incremental staff costs, there would be many workshops, seminars etc, under the project the costs of which may be financed by this project. These would be procured using the implementing agency's administrative procedures which were reviewed and found acceptable to the Bank.

## **B. Procurement under the Irrigation and Water Resources Management Project**

7. **Procurement of Works:** Works procured under project through additional financing would include rehabilitation and improvements of non-conventional and small scale irrigation schemes under the Investment Support Grant (ISG). Small value works involving non-conventional technologies shall be procured and implemented through the divisional and sub-divisional irrigation and extension offices. Other small-scale works involving matching cash contribution by the beneficiaries would be carried out by the beneficiary group in accordance with community procurement procedures.

8. **Procurement of Goods:** Goods procured under this project would be related to small-scale and non-conventional irrigation in selected districts (component D1) and Seed Supply Chain (component D2).

8 (a) Methods of procurement: Goods may be procured through ICB, NCB, shopping or direct contracting as described in the Procurement plan.

8 (b) All contracts whose estimated value exceeds US\$500,000 equivalent per contract shall be procured through ICB procedures using the Bank's Standard Bid Documents. Contracts estimated to cost below US\$500,000 equivalent per contract may be procured in accordance with local procedures as described in the Nepal Public Procurement Act, 2007 and the related Regulations, 2007 using model bid documents that are satisfactory to and agreed with the Bank.

9. **Procurement of Non-consulting Services:** These services will mostly be procured for conducting workshops, seminars, study tours, trainings, etc.

10. **Selection of Consultants:** Consultancy services procured under this project would essentially include TA for non-conventional and small-scale irrigation and Extension Activities and some small value assignments.

10 (a) Short lists of consultants for services estimated to cost less than \$250,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. All selection will be carried out using Bank's Standard RFP documents and procedures for international as well as local consultants.

11. **Operational Costs:** Besides usual operational costs like office rentals, utility payments, incremental staff costs, there would be many workshops, seminars etc, under the project the costs of which may be financed by this project. These would be procured

using the implementing agency's administrative procedures which were reviewed and found acceptable to the Bank.

**C. Assessment of the Agency's Capacity to implement Procurement**

12. Irrigation sector project design, for which additional financing is proposed, envisages two different agencies responsible for implementing their corresponding component of the project. Under this arrangement procurement activities for the additional financing activities will be carried out by the DoI and DOA. For the Social Safety Nets Project, MoLD will be responsible for all procurements.

13. Thus the procurement assessment is not limited to one single entity, and the overall risk assessment is based on a consolidated perception for the three different agencies based on the volume of procurement to be carried out by each and their present capacity. The findings are summarized below.

- (i) Department of Irrigation: As assessed for Report 41404 – NP, this agency has adequate experience and capacity to execute its planned project procurement needs at the central level but most of the procurement under the project would be carried out at the field level by field offices who have limited experience of carrying out procurement under procedures prescribed in the law. Consequently, risk is assessed to be **MEDIUM**
- (ii) Department of Agriculture: The DoA procurement entity, charged with various other administrative functions, has little experience in procurement other than petty purchases. The Department also demonstrated little capacity and sub-par performance in procurement following Bank procedures in a previous Bank financed project (Agricultural Research and Extension Project). The procurement team proposed by DoA would include an Agriculture Engineer that is responsible for carrying out procurement for the agriculture component of the project. However, substantial procurement, particularly works, under this additional financing would be carried by the field offices of DoA where there is minimal capacity and experience of such procurement. Therefore, for this agency, the Risk is assessed as **HIGH**.
- (iii) Ministry of Local Development (MoLD): MoLD is relatively new to Bank procurement procedures though it has a procurement entity and a National Program Support Unit (NPSU) which deals with Rural Community Infrastructure Works (RCIW) programs involving other donors – though in these most of the procurement was carried out by the an INGO (GTZ). At the district level, the MoLD financed procurement is carried out by DDC/LDO supported by engineering and accounts staff. However, as most of the procurement, including works related to Critical Infrastructure and Livelihood Support Program would be implemented through WFP selected on sole-source basis by MoLD, the risk is assessed to be **MEDIUM**.

14. **Risks and Remedies:** Most of the issues/risks concerning the procurement component for implementation of the project and corresponding remedies have been identified and include:

RISKS	REMEDIES
<p>Staff Capacity:</p> <ul style="list-style-type: none"> <li>The core teams at DoI consist of procurement proficient staff. Improvement in the area of developing and updating of the procurement plans would require training of staff. Frequent changes in staff positioning being common, may affect the efficiency. Core team of DOA lacks in proficiency in procurement related aspects. Similarly, procurement entity of the DoA lacks in experience and exposure. Thus there is risk lack of or incomplete procurement planning, use of improper procedures and documents, poor monitoring and contract administration capacities.</li> <li>Except that of some small value petty purchases, staff at MoLD neither have the procurement capacity nor the experience of carrying out WB financed project related procurement. However as bulk of the procurement will be carried out through WFP there may not much of risk involved.</li> </ul>	<ul style="list-style-type: none"> <li>DOI has taken the lead in updating the model bid documents developed under the Public Works Directives as well as the documents jointly developed by GoN and the World Bank in 1997 (for use in Bank financed Works and Goods procurement) to incorporate provisions of the Public Procurement Act and the Regulations and some of the provisions of the relevant latest edition of Bank SBDs. For consistency, all agencies (MoLD, DoA) would be required to use the same formats.</li> <li>Continuity of staff within civil service rules and capacity enhancement through training would be one of the remedial measures.</li> <li>Ensure that procurement Units at DoA and MoLD (at both central and decentralised levels) which are established as per the requirement of the new Law, are staffed by designating procurement officials to these units, and make arrangements with Nepal Administrative Staff College (NASC) or other institution to provide training to staff of these units in procurement procedures as per the new Law on a priority basis.</li> </ul>
<p>Coordination:</p> <ul style="list-style-type: none"> <li>Experience with previous Bank funded projects having multiple implementing agencies has shown that coordination between these agencies was weak leading to different quality of bid documents for similar kind of procurement.</li> </ul>	<ul style="list-style-type: none"> <li>Due to the presence of procurement expertise and prior experience in the central office of DoI, the procurement personnel in the core project team at DoI to be designated as the procurement focal point for the project such that all other agencies take the advice and assistance of this unit in finalizing procurement documents and in contract administration matters.</li> </ul>
<p>Monitoring and Reporting:</p> <ul style="list-style-type: none"> <li>Due to differing capacities at each of the implementing agencies, there is risk of delays in inter-related activities, weak mechanism for overall supervision or monitoring of project procurement and delays in receiving consolidated status reports.</li> </ul>	<ul style="list-style-type: none"> <li>Central unit at DoI to take lead in arranging regular joint meetings with DoA and MoLD to review project procurement status at each agency as compared to the annual procurement plan and to decide on corrective measures to expedite delayed procurement.</li> </ul>
<p>Community Procurement (Component D):</p> <ul style="list-style-type: none"> <li>Risk of inflated cost proposals: In order to minimize their share of matching contribution, beneficiaries may inflate the cost of their sub-project proposal.</li> <li>Risk of misuse of funds by beneficiaries, and/or poor quality of works.</li> </ul>	<ul style="list-style-type: none"> <li>District units of DoI to conduct periodic market surveys and to establish cost ceilings and quality specifications for different components of shallow tubewell installations (e.g. boring, tubewell cost, pipe costs).</li> <li>Social audit mechanism to be disclosed to the members of the concerned VDC supplemented by quality check of the installation by staff of the concerned district based DoI unit.</li> </ul>

15. Even if the abovementioned remedial measures are agreed and fully in place for the perceived risks stated above, based on the prevailing procurement environment, where incidents of intimidation of bidders or interference in bidding for public procurement contracts have been increasingly reported, the overall residual project risk for procurement is HIGH. For larger bids (few in this case) the bid documents shall also be placed in the borrower's website where interested Bidders may read the documents and also download the critical parts of the same (i.e. bid form, price schedule etc.). Bidders will be allowed to submit their interest in bidding through email, and allowed to submit only the duly filled up bid form, price schedule, bid security and qualification details, with an undertaking that the qualifications details are correct and that originals of all certificates evidencing their qualifications shall be submitted on demand. The borrower will request and arrange for adequate security at the place of submission for at least three days preceding bid submission date and on the bid submission day itself. The Invitation for Bids will provide contact details of Government institutions where bidders/stakeholders can submit their grievances and complaints on the bidding process, including the Bank's fraud and corruption hotline: <http://go.worldbank.org/OBUOB60810>.

#### **D. Procurement Plan**

16. Based on the comprehensive list of the procurement needs for each component that has been drawn up, the Borrower is currently developing a comprehensive plan for all components. The plan shall provide the basis for the procurement methods. The plan has been finalized and submitted to the Bank at Appraisal and agreed between the Borrower and the Project Team on ... The plan will be available at the offices of the Department of Irrigation, the Department of Agriculture and Ministry of Local Development. It will also be available in the Project's database and in the Bank's external website.

17. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

#### **E. Frequency of Procurement Supervision**

18. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended two supervision missions per year to visit the field to carry out post review of procurement actions.

## **Annex 6: Implementation and Monitoring Arrangements**

1. The overall program (ie the Nepal Food Price Crisis Response Program) will be guided by a High Level Policy Steering Committee (SC) chaired by a nominee of the Vice Chairman (VC) of NPC. The SC will guide and monitor the implementation of the overall emergency response to rising food prices. The SC will meet at least twice a year or as required, and will include Secretaries (MoF, MoWR, MoAC and MoLD) and DGs (DoI, DoA) as members. The Secretary, Ministry of Local Development will be the member secretary. The SC will require the two Project Coordination Units (Social Safety Nets and IWRMP) to report to it in order to have a consolidated view of the country's response to rising food prices and impacts on food insecure districts.

### **A. Social Safety Nets Project**

#### **Partnership Arrangements**

2. A subsidiary agreement between the Government of Nepal and the World Food Programme will be concluded. Other agencies, including CARE, Helvetas and UNICEF, as well as local NGOs may provide support as required, in particular for monitoring impacts and beneficiary assessments.

#### **Institutional and Implementation Arrangements**

3. The interventions will be implemented over a period of three years. However, the food/cash for work and fertilizer subsidy program is expected to be implemented in the first 18 months. Overall responsibility for management of the new project would rest with MoLD. With regard to the individual components in the new *Social Safety Nets Project*, Component 1 will be implemented by MoLD in partnership with WFP; Component 2 will be implemented by MoAC/DoA and Component 3 jointly implemented by MoAC and MoLD. A Project Implementation Team (PIT) will be established with an adequate number of key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association, including: (i) a Project Manager; (ii) an Engineer; (iii) a Section Officer; (iv) an Overseer; and (v) an Accounts Officer. There will be representation from DOA in this team as an implementing department of MoAC.

4. The office of the RCIW coordinator is already established at MoLD under the National Project Steering Unit of the RCIW and will also be the Project Implementation Team for the Safety Nets Project, with representation from DoA. The PIT will be responsible for overall coordination of the project and arranging technical support for project implementation at the central level and also for coordinating various implementing agencies and their activities. The main responsibilities of the PIT would include: (a) overall implementation of the project including management of the annual work plan and budget; (b) financial management; (c) monitoring and quality assurance; (d) preparation and timely delivery of periodic progress and performance reports; (e) provision of technical assistance for field operations, where needed; and (f) supervision of cross-cutting issues including gender, indigenous people, resettlement and other social and environmental matters.



5. A Project Steering Committee will meet at least twice a year or as required. Secretaries (MoF, MoAC and MoLD), DGs (DoA), and representatives from Ministry of Local Development (MoLD) will be members of the PSC. The Head of the National Programme Support Unit (NPSU, RCIW)) will be the member secretary. The PSC will guide and resolve implementation issues as needed and will ensure that the PSC is represented in the meetings of the High Level Policy Steering Committee to report on the achievements of the project.

6. A project implementation manual (PIM) needs to be prepared. It will include measures to be taken to ensure that social and environmental impacts are mitigated through a) initial screening of sub-projects and b) follow through with remedial measures if impacts are expected. The PIM will be drawn from the existing guidelines of the RCIW and WFP food for work programs but will include procedures for financial management and reporting as described in this project paper.

7. The Project Manager of the PIT will have overall responsibility for planning and coordinating M&E activities in coordination with WFP and DoA. In this role, the PIT will collate and maintain M&E data relevant to this project from the following sources: (i) WFP; (ii) MoAC and (iii) beneficiary assessments and other relevant stakeholders.

8. The M&E unit under the PIT will analyze the data and produce simplified informative formats for distribution to the Government, World Bank, and other concerned agencies for their review and timely feedback. Overall, the M&E activities undertaken within the project would include: regular performance tracking of inputs and outputs by concerned implementing agencies; beneficiary assessments; and pre-ICR impact evaluation. Both IDA and GON will carry out twice a year formal reviews of project implementation progress and achievement of project development objectives. This will allow for necessary mid-course corrections in response to changing local conditions, including with respect to the security situation.

### **C. Additional Financing IWRMP: Enhancing agriculture production and supply response**

9. Implementation arrangements under Component D of the IWRMP apply to this additional financing. The program will be jointly implemented by MoAC and DoI. At the central level an ICWMP (integrated crop and water management program) Program Coordinator would liaise with the IWRMP Project coordinator for overall coordination, implementation and M&E of the program. The Program Coordinator will also supervise the respective regional and district organizations implementing respective parts of the program parts. At the Regional level, a regional ICWMP Implementation and M&E Unit of MoAC will jointly implement the component activities in conjunction with the DoI Implementation and M&E Unit of DoI. The agricultural activities at the field level would be carried out by private sector service providers or NGOs in those locations where MoAC capacity are limited.

10. The project would be implemented according to norms, rules and procedures outlined in the IWRMP Project Implementation Plan (PIP) and the Project Implementation Manual (PIM). These documents lay out roles and responsibilities of different stakeholders and provide details of project processes and project cycle. They incorporate experiences gained through implementation of similar projects in Nepal as well as the

outcomes of various preparatory workshops, studies and analyses that were carried out as part of project preparation.

11. The Project Implementation Plan and Project Implementation Manual will be subject to periodic reviews conducted jointly by GON and IDA with stakeholder participation to address any constraints to the successful implementation of the project.

## Annex 7: Environmental and Social Safeguards

### Social Safety Nets project

1. The Social Safety Nets project includes support for the food/cash for work programs and fertilizer transport subsidies. The type of activities under the food/cash for work includes rehabilitation and improvement of demand-driven small scale community infrastructures in food deficit and/or vulnerable areas. These are grouped into: i) Rural Community Infrastructure Works (RCIW) which includes rehabilitation and completion of dry-season community roads, and foot/ mule trails; ii) Critical Infrastructure and Livelihood Support which includes micro-irrigation and drinking water schemes, small rural market sheds/centers, community/ village buildings, and similar works demanded by the community.

2. Environmental concerns of Critical Infrastructure and Livelihood Support: The environmental concerns of the improvement and completion of these small scale infrastructures are minor at the most that can be managed easily by good construction practices and impacts, if any, are likely to be limited to the immediate vicinity of construction sites. The investments under critical infrastructure and livelihood support might also include local natural resource conservation related works which are expected to have positive environmental results, e.g. promotion and conservation of indigenous crop variety, cultivation of herbs, protection of local water sources/ springs, conservation ponds, etc. The detailed operational procedure and implementation manual of the project will contain a checklist for good environmental practices for these micro-scale schemes.

3. Environmental concerns of RCIW dry-season community roads, and foot/ mule trails: The environmental concerns of the rehabilitation and completion of dry season roads, particularly in the fragile hills/ mountains of Nepal, are typically related to landslides and erosion, loss of forest/ vegetation, degradation of local resources and infrastructures (water source/ lines, agricultural field, etc). These impacts, although not-so-significant considering the scale of the intervention (Table 1), need to be properly addressed in the planning, design and rehabilitation/completion of these roads. These concerns mainly arise from activities such as cutting of hill slopes and disturbing the fragile spots, disposal of excess materials, road passing through forests, diversion of surface runoff, etc. Over the years, Nepal has gathered considerable experiences in environmental friendly road construction techniques in the hills/ mountains. The RCIW Program implementation guidelines require using green road approach in order to mitigate the potential adverse environmental impacts. Some important features of the green road approach are: use of labour and hand-tools instead of heavy machines, no blasting, staged or gradual widening of road width (typical over 3 to 4 years), reuse/recycle of materials such as stones and earth (theoretically zero waste production or no excess spoil to dispose off), use of vegetation and small/ simple locally built structures such as dry-wall for protecting the slopes, promotion of vegetation in the road corridor, etc. Besides, as per Nepal's legal requirement, an RCIW guideline requires each road to have initial environmental examination (IEE), which contains Environmental Management Plan (EMP).

4. Food Quality Issue. The RCIW and other infrastructure works will be carried out through food-for-work program jointly implemented by the MoLD and WFP. WFP, which is an expert international agency on the food related matter, will solely be responsible for

purchasing, transportation, storage and distribution of food. WFP has substantial experience of working in Nepal besides bringing international know-how on the subject including food-for-work. WFP uses only food that is approved as safe for human consumption and follows guidelines developed by FAO & WHO. Besides, it follows a standard commodity quality control system: this includes inspection of purchase by independent surveyors prior to delivery as well as quality control inspections along the entire supply chains to ensure quality and fitness of the food for human consumption.

5. Fertilizer transport subsidy: The Social Safety Nets project also provides support for improved access to seeds and fertilizer, which is mainly targeted to the remote districts where availability and use of chemical fertilizer as well as pesticides is very limited. The proposed level of support under this category is small (mainly supporting government's existing fertilizer transport subsidy for the remote district during a fixed period/season only). Consequently, only marginal increase in the use of fertilizer is expected during the project period and is actually targeted to communities which are currently unable to access good quality fertilizer. Furthermore, although increased access to fertilizer is likely to also encourage increased use of pesticides by farmers, availability of pesticides is very limited in those remote districts and support to pesticide is beyond the scope of this project. Although environmental concerns related to use of chemical fertilizers and pesticides is not significant in the short time frame of this project, it is a longer term concern because of two reasons: i) as accessibility increases there is possibility that use of chemical fertilizers and pesticides will increase in longer run (beyond project period scenario), ii) level of knowledge and skill of farmers on the proper use of fertilizer and pesticide is low. It would be desirable to promote proper use of chemical fertilizers and pesticides as well as alternative approaches such as organic farming, soil fertility protection, bio-pesticides etc. Therefore, there is a need to aware and train the farmers these aspects. MoA and its offices at the field have basic know-how on these aspects, which needs to be transferred to the farmers. The project, should, therefore emphasize strengthen this aspect and ensure provision of adequate extension service to the farmers to aware and train them – these aspects are in fact included in the additional financing activities and are therefore a good off-set to the short term support for fertilizer transport.

6. Environmental and Social Management Framework: The existing Environmental and Social Management Frameworks (ESMF) for the Rural Access Improvement Projects (RAIDP) is applicable to dry-roads and trails to be developed in this project, and the ESMF of the Irrigation Water Resources and Management (IWRMP) is applicable to irrigation/agriculture related activities. The provisions of those existing ESMFs need to be adapted to this project because the scales of the schemes to be supported under this project are smaller than those under RAIDP and IWRMP. Therefore, although there is no need for separate environmental and social assessment and ESMF for this project, it is necessary to include environmental and social management guidelines in the operational procedures and implementation manual for this project, drawing from the ESMFs of RAIDP and IWRMP as well as environmental and social guidelines of the RCIW and green road approach. RCIW will prepare a draft Social and Environmental addendum to the RCIW PIM by mobilizing Ministry's/RCIW and DoLIDAR/ RAIDP resources including human resources. The WFP and MoLDs Environment Sections will also be included in a task team that will oversee and advise the addendum preparation process and progress. RAIDP's ESMF will be adapted considering the smaller scale of operation, use of only labour and hand tools (no blasting, no heavy machines). This will simplify screening and EMP preparation. Screening and EMPs (as needed) will be prepared by the

social and environmental team of the PIT. The Public audit system in use at present will also cover road specific environmental and social issues included in road EMPs. A four-monthly environmental compliance monitoring will be undertaken - results of which will feed into the government's four monthly portfolio progress review (held at MoLD).

7. The addendum will have three attachments: i) a sample of the simple site specific EMP, ii) a table summarizing current conditions of the roads and proposed actions/activities under the project as well as environmental and social sensitivity (from the readily available secondary information), and iii) A checklist of workers health and safety items to be provided.

#### **Additional financing for IWRMP**

8. Environmental concerns of additional financing activities (enhancing domestic food production). Infrastructure support under this component includes micro-scale irrigation schemes such as shallow tube-wells, rainwater harvesting, lift irrigation and minor surface irrigation (smaller than 25 ha, commonly improvement and rehabilitation of existing community schemes). These are also very small scale interventions and scattered far and wide in different places in the country. Any environmental concern, therefore, is minor and limited to the scheme sites.

#### **Main Features of the IWRMP and RAIDP ESMFs**

9. IWRMP ESMF's Main features: The ESMF, through screening, identifies potential social and environmental issues early in the subproject cycle, and requires internalization of the subproject specific concerns into the planning and design (including in Bill of Quantity), as well as participation of stakeholders through-out the subproject cycle. The ESMF requires the following :

- Social and Environmental Screening. All subprojects are subject to the social and environmental screening and field verification. The screening criteria include subproject type threshold, location and potential impacts as well as negative list that cannot be funded under the project. The screening outcome outlines the adverse potential impacts of the subprojects in terms of loss of lands, loss of residential and business structures, loss of livelihoods, loss of access to traditional resources and adverse impacts to indigenous people. The community willingness and interest to contribute their lands and other assets voluntarily are also documented during social screening and people are informed to refuse or make their choice for such donations so that involuntary acquisition does not occur at all. Only in cases of voluntary surrender of lands and other properties the policy mandates the Project to sign the Memorandum of Understanding (MOU) to this effect. However, if the screening shows losses of private properties and displacement of people the Project should mitigate the issues in compliance with the stipulated compensation procedure specified in the R&R framework.
- Detailed Social and Environmental Investigation. Initial Social and Environmental Examination (IEE/ISE) or detailed Social and Environmental Assessment (EIA/SIA) are undertaken, if required, by the screening.
- Social and Environmental Management Plan (SEMP). Each subproject will have specific SEMP, if required following screening. This will be prepared following simplified and participatory approach including walk-through surveys, field

observations, simple measurements, interviews with the key informants and consultation with local communities and stakeholders. *Guidelines for Preparation of Social and Environmental Management Plan* and a *Model Social and Environmental Management Plan* have been prepared. SEMP will be summarized in a simple matrix-table and supported by map showing subproject components as well as social and environmental features/ issues identified. The SEMP of a subproject identifies site-specific appropriate and cost-effective measures that will mitigate or reduce the identified adverse social and environmental impacts to acceptable levels. The mitigation measures should be integrated into sub-project plan/design, estimates and tender documents including in Bill of Quantity (BoQ). Subproject SEMP also covers capacity development and training, institutional arrangement implementation and monitoring and the required budget. No construction activities in a subproject will be undertaken unless mitigation measures stipulated under SEMP (and required to be completed before taking up civil works) are implemented. The cost of SEMP at the subproject level will be an integral part of the detailed project report.

- Resettlement Action Plan (RAP) and Indigenous People Development Plan (IPDP). Subproject level RAP and IPDP, wherever required, is prepared. The Resettlement and Rehabilitation (R&R) Framework emphasizes avoidance or minimization of the losses of private properties and displacement of households to the extent possible and where this is unavoidable, they improve, if not restore their lost livelihood. No one regardless of their ownership to the land and other assets lost for the project would be forced unless compensated for losses and /or provided their entitlements. Categories of the likely losses identified in the R&R policy framework include: i) loss of private land ii) loss of occupied land (encroachers/ squatters) iii) loss of crops iv) loss of private and community structures, etc. In addition, the affected people will be provided counseling services to find suitable lands for resettlements. Indigenous peoples' development includes a set of activities including specific programs proposed to be extended to the indigenous peoples (referred as *janajitis*) and other vulnerable groups (including *dalits*) as well as dovetailing ongoing development programs for the socio-economic benefit of these groups. This requires concerted and coordinated efforts of the project and other government agencies. The strategy also requires subproject preparation and implementation of subproject specific Vulnerable Group Development Plan (VGDP), envisaged under IPDP, to help them take advantage of the proposed subproject level project activities and access benefits at par with others.
- Stakeholder Consultation. Consultation with the stakeholders and affected parties will be carried out throughout the subproject cycle. Emphasis is given on the involvement of and consultation with the affected people in all the process of subproject planning and implementation so that their genuine voices and demands are not left unheard.
- Social and Environmental Monitoring. Social and environmental monitoring will be ensured at different levels – Centre, Region and subproject. The central level monitoring will include monitoring of social and environmental aspects thrice a year (four-monthly) matching with GON review schedule. The subproject level monitoring will be conducted routinely during pre-construction, construction and operation/ maintenance stages. Social and environmental auditing will be undertaken on representative samples on annual basis through an external agency (which will be hired by the project).

10. RAIDP ESMF's Main features: RAIDP's ESMF include Environmental Assessment and Management Framework, Resettlement Policy Framework, and Vulnerable Communities Development Framework.

- Environmental Assessment and Management Framework. The assessment has identified a host of generic/ typical environmental issues that may be encountered in rural road activities in Nepal, and also suggest environmental code of practice (table 2 and table 3). However, not all of them are likely to be encountered in one road subproject. The assessment concluded that highly significant environmental and social impacts are unlikely because almost all subprojects are upgrading or improving the existing road, the project will use labor-based technology, use protection structures and bio-engineering, each road subproject will have its own EMP, and local community will be involved in monitoring.
- The environmental assessment and management framework defines steps and process/ procedures for environmental screening, IEE, EIA and Environmental Management Plan (EMP) preparation. Each road subproject is required to have its own site specific EMP. The road specific EMP need to have specific mitigation measures, institutional mechanisms and capacity building needs necessary for the implementation of the plan. The appropriate mitigation measures will be agreed upon in a joint Memorandum of Understanding (MoU) by the local community representatives, VDC/DDC representatives and contractor before the implementation of the final design and works. The communities will play an active role in monitoring the implementation of the mitigation activities. Monitoring will be carried out at district (once every four-month) as well as central level (once in six months in sample subprojects). Besides, community based performance monitoring, a transparent and participatory open community assembly, will also cover social and environmental aspects.
- Resettlement Policy Framework (RPF). The RPF has been prepared to address impacts arising from: (i) loss of land; (ii) loss of homes/structures; (iii) loss of livelihood; and (iv) loss of community property resources such as religious or cultural structures. The RPF defines the legal, institutional and implementation framework to guide the compensation for lost assets, livelihoods, community property and resettlement and rehabilitation of project affected people in accordance with the World Bank's Operational Policy 4.12 on Involuntary Resettlement and GON's relevant legislation and guidelines.
- Vulnerable Communities Development Framework (VCDF). A VCDP has been prepared to define the policy and implementation framework to address impacts on vulnerable peoples, ensure meaningful consultations with these people throughout project preparation and implementation, and ensure that they are provided assistance in accordance with their own priorities. The VCDF has been prepared in accordance with the World Bank's Operational Directive 4.20 on Indigenous Peoples and relevant GON's policies articulated in the Tenth Plan

#### **Institutional capacity for implementation of environmental and social safeguards**

11. Capacity of the involved agencies to implement environmental and social requirements as provisioned in the said ESMFs, green road approach and existing guidelines of the RCIW is a concern and needs to be addressed. In the past, GTZ and SDC

were providing technical assistance on the RCIW works. At present, DRSP/SDC is providing technical assistance which is limited to few roads only. The project, therefore, will have provision for separate TA for supporting implementation of social and environmental safeguards. Besides, it is necessary to orient the users and on-site staff on the social and environmental requirements prior to implementation.

12. The capacity of DoI and DoA staff is expected to benefit from the parent project (IWRMP). Under IWRMP there are dedicated staff to address social and environmental aspects of the schemes, including an environmentalist and a sociologist who are members of a mobile irrigation team which monitors the status of SEMP's in sub-projects every four months.

13. Quality assurance and compliance checks. Quality assurance and compliance check is a potentially weak link in the overall environmental and social performance in this project. This arises from the relatively weak institutional capacity to implement social and environmental safeguards, as well as lack of dependable mechanism to ensure compliance with the requirements from early stage of subproject selection, preparation, and implementation. Besides the TA to address capacity concern, there should be a provision for quality assurance and compliance checks by a non-implementing party at some defined points in the process of subproject selection, preparation and implementation.



**Table 1: Rural Community Infrastructure Works Programme – proposed roads**

SN	District	Name of Rural Road	District plan	Agreed plan upto F.Y.08/09			Completed	Target For F.Y.08/09	Description Of Work	Rice required For F.Y.08/09		Remaining Target As per District Plan
				District plan	KM	KM				MT	KM	
1	Dadeldhura	1. Bagbazaar - Bagarkot	34	31.00					Grade Development, Structural Works,Bends Development & Widening	200	8.5	
		2. Pokhara- Belapur	25	25.00		64.20						
		3. Bhatkanda - Rel	17.5	12.00								
2	Darchula	1. Khalanga - Debhala	47	30.00		29.25	0.75	Do		100	17	
		1. Marke -Rampur	25	20.70		18.50	2.20	Do		100	4	
4	Pyuthan	1. Saribang phedi-Machhi-Gaumukhi	35.5	32.20					Do	50	8	
		2. Damti- Bahanc	11	10.70		69.40	0.5					
		3. Khalanga - jogitari	20	19.50								
		4. Bjuwar-Jumrikanda-Sulichaur	11.5	7.50								
5	Udayapur	1. Katari-Ghight-Chatara	56.5	56.50				Do	235	5		
		2. Ranibas - rauta - Puware	27	22.00		77.00	1.5					
			83.5	78.50								
6	Dhanusha	1. Parikarma Road	68	24.00		17.00	7	Do		225	44	
		1. Bhokraha Gadha RR	42	26.00		23.00	3	Do		125	16	
8	Kavrepalanchowk	1. Katunje - Bankhu	15	8				Do	325	7		
		2. Bohoredbhan -Timalbesi	8	8		13.5	2.5					
			23	16								
9	Sindhupalchowk	1. Attarpur - Wafai (Lishanku-Gyandanda)	17.2	17.2				Do	325	22.8		
		2. Jalbire - Timathan	13.7	8.2		25.4	6.7					
		3. Tipeni - Bhotang	24	6.7								
10	Dolakha	1. Sidhakothan - Jugu - Singati	32	17		37.10	11.90	Do		450	27	
		2. Mudc- Deurali-Melung-Sitali	44	32								

11	<b>Ramechhap</b>	1. Jiri-Those-Bamti	76	49	41.50	13.05	Do	600	15.45
		2. Doramba-Fulasi(Fulasi-Deduwa-Doramba)	34	30.55					
			36	24					
			70	54.55					
12	<b>Makwanpur</b>	1. Manhari-Dandabas	37	24.00	23.60	7.50	Do	450	13.00
		2. Manhari-Rupachaur	7.1	7.10					
			44.1	31.10					
13	<b>Baitadi</b>	1. Suilek-Kuwakot-Bhatana	17	15.00	13.00	2	Do	131	2.00
14	<b>Humla</b>	1. Hilsa-Sirmikot	33	23.00	21.00	2	Do	300	10.00
		<b>Sub Total A</b>	<b>738.00</b>	<b>537.85</b>	<b>473.45</b>	<b>64.40</b>		<b>3616</b>	<b>200.15</b>
<b>Trail Improvement Programme</b>									
15	<b>Kailikot</b>	1. Bastada (Bhartia) - Sukhatiya	21	15.00	NA	8.00	Trail Improvement	300	
16	<b>Jumla</b>	1. Khallanga - Dillichaur	10	10	NA	6.00	Do	250	
17	<b>Mugu</b>	1. Sukhadhik - Garnaadahi	36	25	NA	9.00	Do	300	
18	<b>Dolpa</b>	1. Jajarkot - Dolpa (Tribeni - Duna Sector)	20	10	NA	5.00	Do	250	<b>Trail Improvement</b>
19	<b>Bajura</b>	1. Martadi - Boldik	47	35	NA	10.00	Do	350	
20	<b>Bajhang</b>	1. Dipayal Chainpur	37	36	NA	9.60	Do	400	
21	<b>Jajarkot</b>	1. Chheda - Dhungil	30	30	NA	5.00	Do	500	
	<b>Humla</b>	2. Kawadi-Sallisalla	33	20	NA	8.00	Do	150	
		<b>Sub Total B</b>	<b>234</b>	<b>181</b>		<b>60.60</b>		<b>2500</b>	
		<b>Sub Total (A+B)</b>	<b>972.00</b>	<b>718.85</b>		<b>125.00</b>		<b>6116</b>	<b>200.15</b>
		<b>Contingencies ©</b>						<b>384</b>	
		<b>Grand Total(A+B+C)</b>	<b>972.00</b>	<b>718.85</b>	<b>473.45</b>	<b>125.00</b>		<b>6500.00</b>	<b>200.15</b>

**Table 2: Environmental mitigation measures appropriate to RAIDP (rural road)**

Category	Potential Problem	Appropriate Mitigation Measures
Slope stability	Landslides or other forms of mass instability on the slopes	Geological/geomorphologic studies conducted to investigate and recommend best available options. Civil engineering structures and bio-engineering measures used. Measures taken to avoid undercutting of slope toes. Quarrying prohibited in river beds, where flood discharge is significant.
	Development of erosion or gullying.	Check dams and bio-engineering measures used as necessary.
	Road crosses major areas of deep-seated instability	Width and surfacing slander (relaxed for short lengths, as required).
Spoil disposal	High volume of waste/spoil	Minimize spoil by balancing cut and fill wherever possible
	Spoil tipped away from designated areas	Safe tipping areas identified and enforced.
	Spoil failing or being washed on the farmland	Spoil traps constructed. Land owner compensated.
Water management	Scour and erosion below unprotected drainage out falls	Mattresses, check dams and other protection measures constructed as necessary. Cascades constructed, to be as long as necessary.
	Disruption of drinking or irrigation water	Measures to resolve these problems incorporated into project works, or compensation paid.
Land use	Houses need to be removed	Compensation paid to house owners.
	Loss of agricultural land	Compensation paid to land owners.
	Loss of forest land	Forest User Groups compensated for trees and products lost. Check impacts are limited to compensated trees and products.
Plants and wildlife	Large numbers of trees being removed	Felled trees replaced, using the same species if appropriate. Trees planted wherever land is available.
	Disturbance to wildlife	Damage to wildlife habitats avoided as far as possible. Habitats re-created on marginal roadside land.
Quarries and borrow pits	Pollution, disturbance and danger from quarry operations	Construct bunds to screen noise and dust. Enforce access restrictions.
	Safety risks from abandoned quarries or borrow pits	Quarries made safe by re-grading slopes and installing structures as necessary.
	Land seriously disturbed or lost from production	Quarry and borrow areas rehabilitated to productive plantations using bio-engineering techniques.
	Quarries continue to be used by unauthorized persons	Unauthorized quarrying stopped, where necessary by working with the Districts Development Committee.
Stone crushing & asphalt plants	Dust and noise pollution	Plants re-sited or compensation arranged if pollution is caused. Large earth bunds constructed and vegetated to reduce hazard.

Category	Potential Problem	Appropriate Mitigation Measures
Hazardous materials	Spills, leaks or injuries from any type of hazardous material (e.g. bitumen, cement, paint, explosives, fuels, lubricants)	Checks to ensure that storage is good and that there are no losses or leaks. Checks to ensure that protective clothing and safety measures are used.
	Bleeding bitumen	Appropriate chippings spread and rolled into the affected areas.
Camp operation	Pollution from work and labor camps	Checks to ensure that camps are not polluting neighboring areas, especially from sewerage and rubbish disposal.
	Laborers cut trees for firewood	Kerosene stoves and kerosene provided to laborers.
	Land remains damaged after construction	Checks to ensure camp areas are fully restored, including re-top soiling and tree planting if appropriate.
Dust and noise	Dust generated from construction works	Speed controlled using speed bumps. If water is available, the road surface can be sprayed on a frequent schedule.
	Dust from a road with an earth or gravel surface	Permanent speed bumps installed in villages and bazaars to reduce traffic speeds in inhabited areas. Bitumen surface constructed in bazaars, with speed controls. Dense vegetation planted on roadside.
	Noise from large work sites	Large earth bunds constructed and vegetated to reduce noise. Work schedule to minimize disturbance.
Social issues	Positive impact of road confined to wealthier sections of society	Other agencies encouraged to develop activities beneficial to poor and excluded sections of society.
	Local people excluded from project activities	Designs incorporate methods within the skills of local people. Contractors encouraged using local labor wherever possible.
	Promises were made to local people during feasibility and planning phases	Checks to ensure that the promises are fulfilled; if they prove to be not possible, reasonable alternatives must be negotiated.
	Significant disparities emerge in levels of compensation	Compensation levels rationalized to ensure reasonable parity.
	Road Safety: faster traffic resulting from a new, smoother road surface	Traffic safety measures installed, such as warning signs, delineators and barriers. Awareness of road safety raised among affected communities. Road safety audits carried out and recommendations implemented.

**Table 3: Environmental Code of Conduct for RAIDP**

Potential Environmental Issue/ Impact	Code of Conduct
<ul style="list-style-type: none"> <li>▪ Road alignment may pass through cultivated and forested land resulting in a permanent loss of the resources.</li> <li>▪ While the landowner has to part away with his land ownership, the environmental effects can amplify if proper operation and maintenance schedules are overruled.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Plan road alignment to minimize loss of resources.</li> <li>▪ Avoid width of road of more than 4.5 m in hilly area.</li> <li>▪ Demarcate RoW to avoid encroachment.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Excess extraction of local resources, such as wood, sand, soil, boulders, etc.</li> <li>▪ Degradation of forests, erosion and landslide at steep locales due to boulder, stone extraction.</li> <li>▪ Change in river/stream ecosystem due to unchecked sand extraction.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Extract materials only on need basis.</li> <li>▪ Avoid sensitive areas, such as steep slopes and water-ways.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Extraction of forest products and cutting of trees in the steep slopes increases soil erosion/landslide due to loss of soil binding materials.</li> <li>▪ Wrong alignment can trigger slope failure</li> <li>▪ Haphazard disposal of construction waste can disturb slopes</li> <li>▪ Improper drainage facilities can result in erosion and landslides</li> </ul>	<ul style="list-style-type: none"> <li>▪ Extract carefully and secure the top soil within 25 cm from the surface.</li> <li>▪ Limit down grading of the road to 5 percent.</li> <li>▪ If down grading exceeds 7 percent, construction of side drainage is necessary.</li> <li>▪ <b>Keep optimum balance in extraction and filling of soil works.</b></li> <li>▪ geo-hazardous assessment and mapping</li> <li>▪ Use designated disposal site and avoid side casting of spoil</li> <li>▪ Provide proper drainage</li> <li>▪ Use bio-engineering on exposed slopes</li> </ul>
<ul style="list-style-type: none"> <li>▪ Wildlife habitats at forests, shrub land along road alignment are affected from the road construction activities.</li> <li>▪ Wildlife and human conflicts increase as wildlife might destroy the crops or attack the construction worker.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Avoid as much as possible areas with high biodiversity.</li> <li>▪ Efficient movement of machinery and other traffic.</li> <li>▪ Control poaching activities and regulate movement of labor force and their dependents into the forest area.</li> <li>▪ District Forest Office and its subsidiary body should be involved in monitoring the activities of the construction workers and officials to minimize wildlife harassing, trapping and poaching.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Higher flow rate of surface water and water logging induce land slides, erosion.</li> <li>▪ Quality of road diminishes due to poor drainage such as water logging, immense flow rate of surface water.</li> </ul>	<ul style="list-style-type: none"> <li>▪ It is strongly recommended that the cross drainage outlets must be channeled to the confirmed natural drains.</li> <li>▪ If slope exceeds 5 percent, construction of flow control device necessary every 20m.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Protected areas and highly forested areas.</li> <li>▪ Degradation of forest areas.</li> <li>▪ Degradation of agricultural land.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Use minimum and efficient use of wood products for construction.</li> <li>▪ Initiate plantation at damaged and damage prone areas.</li> <li>▪ Increase liability of local forest user groups.</li> </ul>

<b>Potential Environmental Issue/ Impact</b>	<b>Code of Conduct</b>
<ul style="list-style-type: none"> <li>▪ Dumping of wastes along the road or elsewhere.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Avoid protected areas or densely forested areas</li> <li>▪ Selected spoil dumping sites should be used.</li> <li>▪ After disposal, the area should be leveled and compacted.</li> <li>▪ It is recommended to conserve the soil by planting indigenous plants including grasses.</li> <li>▪ Wastes could also be used as leveling materials along the roadside.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Unmanaged sanitary waste disposal creating health problems and public nuisance.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Proper sanitation area needs to be demarked.</li> <li>▪ Check for hygiene of work force.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Road crossings at water supply, irrigation lines may be disturbed/damaged.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Avoid as much as possible the crossing over such <b>amenities</b>.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Dust generation from construction activities, construction vehicular movement increases air pollution.</li> <li>▪ Noise pollution likely from construction machinery operation and vehicular movement.</li> <li>▪ Sanitary problems likely at the construction and workforce quarters.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Possibly construction period should be during August to December when soil moisture content is most.</li> <li>▪ Consider construction of road at 50 m from settlement.</li> <li>▪ Enforce speed limit of vehicles and construct the road according to volume and size of traffic movement.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Unmanaged settlement, construction along the RoW.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Establish RoW properly and enforce its limits.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Concentrated flow left unattended might have severe impact at the downhill alignment of the road.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cross drain structures, namely pipe culverts, slab culverts, box culverts, need to be maintained.</li> <li>▪ Outlet of these structures would be carrying the concentrated run off flow of the respective catchment, which will be quite high during rainy season, which in turn would require proper planning of drainage systems.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Dust generation from vehicular movement increases air pollution.</li> <li>▪ Noise pollution likely from vehicular movement.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Enforce speed limit of vehicles.</li> <li>▪ Maintain traffic size movement.</li> <li>▪ Discourage use of horns.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Road construction is likely to increase landscape scars along the road alignment.</li> <li>▪ In addition if the construction spoils are disposed off improperly, the ground vegetation would be destroyed which will be visible from a distance.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Such damage cannot be avoided but can be minimized through re-plantation of indigenous species and greenery development.</li> </ul>

## Annex 8: Project Preparation and Appraisal Team Members

**Table 1: Project Processing Schedule**

	Planned	Actual
PCN Review	-	-
Initial PID to PIC	-	-
Initial ISDS to PIC	-	-
Appraisal	7/14/2008	7/25/2008
Negotiations		9/12/2008
Board/RVP approval	9/30/2008	9/30/2008
Planned date of mid-term review	9/30/2009	-
Planned closing date (Social Safety Nets Project)	9/30/2010	-

### Key institutions responsible for preparation of the Program:

**Ministry of Local Development**

**Ministry of Agriculture and Cooperatives (Department of Agriculture)**

**Ministry of Water Resources (Department of Irrigation)**

**Table 2: Project Preparation and Appraisal Team Members**

Name	Title	Unit
Gayatri Acharya	Sr. Economist, Task Team Leader	SASDA
Mohamed Ihsan Ajwad	Economist, co-Task Team Leader	SASHD
Shyam S. Ranjitkar	Sr. Irrigation Engineer	SASDA
Roshan Darshan Bajracharya	Sr. Economist	SASEP
Bigyan Pradhan	Sr. Financial Management Specialist	SARFM
Nastu P. Sharma	Public Health Specialist	SASHD
Hiroko Imamura	Sr. Counsel	LEGES
Kishor Uprety	Sr. Counsel	LEGES
Thao Le Nguyen	Sr. Finance Officer	LOAFC
Narayan D. Sharma	Procurement Consultant	Consultant/SASDT
Kiran Ranjan Baral	Sr. Procurement Specialist	SARPS
Surendra G. Joshi	Sr. Transport Specialist	SASDT
Drona Raj Ghimire	Consultant, Environment	ETC/SASDI
Samantha Forusz	Sr. Social Development Specialist	SASDI
Chaohua Zhang	Sr. Social Development Specialist	SASDI
Stephanie Borsboom	Consultant	SACNA
Kalanidhi Subbarao	Consultant Human Development	Consultant/AFTH1
Tara Shrestha	Team Assistant	SASDO
Lilac Thomas	Program Assistant	SASDO

In addition to the core team members noted above, the project benefited from the inputs of country and thematic specialists in and outside the Bank in the rapid review and preparation process required for an emergency operation prepared under OP/BP 8.00. These included Sima W. Kanaan (Sr. Operations Officer, OPCFC); Laura E. Bailey (Sr. Operations Specialist, OPCFC); Talib Esmail (Sr. Operations Officer, SARDE); Rajib Upadhya, (Sr. External Affairs Officer, SAREX); Daniel J. Boyce (Country Program Coordinator, SACNA); Rajashree S. Paralkar (Sr. Country Officer, SACS); Animesh Shrivastava (Sr. Agriculture Economist, SASDA); Johannes Georges Pius Jansen (Sr. Agriculture Economist, SASDA); Gregory Keith Ellis (Sr. Operations Officer,

OPCFC); Pauline C. Zwaans (Consultant, OPCCS); Donna Thompson (Sr. Financial Management Specialist, SARFM); Qaiser M. Khan (Lead Human Development Specialist, SASHD); Sean Bradley (Sr. Social Development Specialist, AFTCS); Carlo del Ninno (Sr. Economist, HDNSP); Brigitte Duces (Consultant, SARDE); Lalima Maskey (Country Program Assistant, SACSA); Philip B. O'Keefe ((Lead Social Protection Specialist, SASHD; Mona Sur (Sr Economist, ARD); Dominique Hyde (Deputy Country Director), Siemon Holleman, Kimberly Deni and Leela Raj Upadhyay from World Food Programme (WFP); Gillian Mellsoop (Representative) and Monique Beun from UNICEF; Representatives of SIMI/Winrock,, United Mission to Nepal (UMN), CARE-Nepal, AEC/FNCCI, Practical Action Nepal, Oxfam Nepal and NEFEJ who joined a CSO consultation held at the Public Information Centre on July 24th and members of the Government of Nepal-FAO/WFP/IFAD/Asian Development Bank/World Bank Interagency Rapid Assessment Mission 21-31 July 2008.



## MAP SECTION



