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Investing in rural people

President's report

Proposed loan and grant to Nepal for Samriddhi – Rural Enterprises and Remittances Project

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

DCCI	Department of Cottage and Small Industries
ESC	Enterprise Service Centre
MPMD	multi-stakeholder platform on migration and development
PIM	project implementation manual
PMT	project management team
PSC	project steering committee
RER	rural enterprises and remittances
RIMS	Results and Impact Management System
RMSEs	rural micro/cottage and small enterprises
SP	service provider

Nepal

Nepal Samriddhi Rural Enterprises and Remittances Project

President's report



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

Map compiled by IFAD | 19-12-2014

Republic of Nepal

Samriddhi – Rural Enterprises and Remittances Project

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Nepal
Executing agency:	Ministry of Industry
Total project cost:	US\$68.2 million
Amount of IFAD loan:	SDR 15.50 million (equivalent to approximately US\$21.8 million)
Amount of IFAD Debt Sustainability Framework grant:	SDR 11.95 million (equivalent to approximately US\$16.8 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Amount of cofinancing:	US\$13.7 million
Terms of cofinancing:	The private-sector contribution will mostly consist of cost-sharing of capacity-building and outreach promotion by financial institutions
Contribution of borrower:	US\$9 million
Contribution of beneficiaries:	US\$6.6 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Nepal for Samriddhi – Rural Enterprises and Remittances Project, as contained in paragraph 42.

Proposed loan and grant to the Republic of Nepal for Samriddhi – Rural Enterprises and Remittances Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Nepal has a population of 26.6 million people, of whom 56 per cent are 20-40 years of age. It is a low-income country with a per capita GDP of US\$642, which is the second lowest in South Asia. Since the end of the decade-long internal conflict in 2006, insecurity and political instability have contributed to relatively slow GDP growth. The majority of the population still lives on low-input/low-output agriculture that provides limited income. Thus wage labour and widespread migration have obligated 3 million Nepalese, mostly from rural areas, to be employed abroad. The development of the service sector is partly due to a boom in migration remittances, which have multiplied by a factor of six since 2003-2004, now reaching 25 per cent of GDP, to about 55 per cent of rural households and still increasing. Additionally, the poverty incidence decreased from 42 per cent in 1996 to 25 per cent in 2010, primarily due to the impact of remittances.

B. Rationale and alignment with government priorities and RB-COSOP

2. Samriddhi¹ – Rural Enterprises and Remittances Project has been developed in line with the 2013-2018 results-based COSOP (RB-COSOP) and the Government of Nepal's request to harness remittances in support of entrepreneurship.
3. In line with Nepal's National Development Plan, Industry Policy and Agriculture Development Strategy, the project will diversify the range of economic activities accessible to poor rural households and unemployed young men and women through two main avenues. First, it will promote self-employment and small businesses and microenterprises that can generate better incomes and jobs – through both on farm and off-farm activities. Second, it will promote vocational training and apprenticeship in direct connection with gainful job placement. In addition, the approach to rural enterprises and remittances (RER) will develop mechanisms specifically targeting migrant households and returnees, so they can make the best possible use of their remittances.
4. Samriddhi will contribute to all three RB-COSOP strategic objectives. It will be the first IFAD project to scale up Financing Facility for Remittances good practices into an investment project, as well as the first to promote a comprehensive set of mechanisms fostering remittance investment in livelihood development in Nepal.

II. Project description

A. Project area and target group

5. The project will be implemented in 16 districts of the Eastern and Central Development Regions. It will use a corridor approach that links districts along the main roads running south to north to facilitate the connection of hill districts to larger markets in the terai (plains). Samriddhi will target a total of some 179,000

¹ 'Samriddhi' is a Nepali word meaning prosperous or economically well-off.

primary beneficiaries, which will include existing rural micro/cottage and small enterprises (RMSEs), poor households, returnee migrants and small enterprises. The secondary target group will include medium and large enterprises as well as service providers, who will be harnessed to provide support to the primary target group through the development of business partnerships, vocational training, apprenticeship packages and job placement. The project will also provide financial education to 244,800 people to support financial inclusion.

6. Samriddhi will adopt an inclusive approach in which all existing micro-cottage and small enterprises and all potential entrepreneurs – involved in both farming and non-farming activities – will be eligible to access project-sponsored services in the target districts. However, project support will vary according to the size of enterprises, with a higher proportion of project grant funding provided to family-based enterprises and the poorest groups, and a lesser proportion extended to small enterprises. In addition, the project will ensure that poorer households, women and other disadvantaged groups have access to project services and that these are adapted to their needs.

B. Project development objective

7. The project goal is to contribute to reducing poverty and achieving sustainable peace through employment-focused, equitable and inclusive economic development. The development objective is that viable RMSEs, in both farm and off-farm sectors, provide sustainable sources of income to poor households, migrant families and returnees. Main indicators are: (i) 57,500 rural entrepreneurs expand their existing business or create a new one; (ii) 30,000 rural youth access job placement services; (iii) 34,500 enterprises are supported by Samriddhi (22,500 new and 12,000 existing); and (iv) 21,000 vocational trainees and apprentices are supported by Samriddhi, of which no less than 33 per cent are women.

C. Components/outcomes

8. The project has three components: Component 1 – Promotion of RMSEs aims to (i) provide micro and small entrepreneurs with sustainable access to adapted business development services, so they can expand existing businesses or create new ones; and (ii) assist members of poor households in building their skills and securing gainful wage employment in RMSEs. Activities will be driven by an assessment of markets, business opportunities and available services and by an inventory and classification of existing RMSEs through a validation process. Enterprise Service Centres (ESCs)² will facilitate RMSE linkages with financial and non-financial service providers, provide counselling services and information, promote business partnerships and manage a system for the qualification, capacity-building and quality monitoring of service providers.
9. Component 2 – Productive investment aims to (i) support the access of RMSEs, migrants and remittance recipient households to responsive and suitable financial services; and (ii) facilitate the financial inclusion of migrants and their families, support their access to reintegration and peer-counselling services and harness remittances for productive investment in rural enterprises. It will develop innovative financial instruments designed to offset major constraints faced by RMSEs in affordably accessing investment loans and to stimulate migrants' savings and investment in small business development. This will include: a risk-sharing scheme to address RMSEs lack of collateral; a performance-based matching grant scheme for family and microenterprises with insufficient cash flow to borrow money in the initial stages of microenterprise development; and a departure loan buy-back scheme targeting migrants. Capacity-building will be provided to financial institutions in target districts, and in particular to savings and credit cooperatives

² In Nepali: 'samriddhi ko dhoka' – the door to well-being.

(SCCs) and to Small Farmers Cooperatives Limited, to deliver responsive services to the target population.

10. Component 3 – Institutional support and project management aims to promote a favourable policy and institutional environment supporting the development of RMSEs and the contribution of migration to sustainable development. To this effect, Samriddhi will finance policy studies and research, as well as activities enabling selected stakeholders representing the interests of RMSEs or of migration stakeholders to participate in policy dialogue with the Government. Additionally, Samriddhi will support capacity-building of institutions that play a key role in creating a conducive environment for small businesses and microenterprises and for migrants' reintegration. Finally, it will assist in setting up a multi-stakeholder platform on migration and development (MPMD), which will provide a venue for policy dialogue on the integration of migration into the development agenda and for developing policy measures to facilitate migrant reintegration and to promote their economic initiatives in the country.

III. Project implementation

A. Approach

11. The project strategy is driven by a primary concern that existing RMSEs need support at national and local levels to develop, increase family income, generate economic activities and improve employment. In addition, the promotion of RMSEs must rest on sustainable structures and on mechanisms allowing continued access of entrepreneurs to commercially-oriented services even beyond project completion. Thus the project is designed as a temporary intervention aiming to prepare public and private stakeholders to take over the responsibilities and costs of securing continued RMSEs access to financial and non-financial services.

B. Organizational framework

12. The set-up of Samriddhi is based on public/private partnerships geared to support inclusive and sustainable rural economic growth. While the Government retains overall implementation and facilitation responsibility, non-governmental players will have a key role in providing business development and financial services to target groups for the creation and expansion of RMSEs and for maximizing the development impact of migrant remittances through business investment. Implementation arrangements also take stock of the long-lasting and strong partnership between the Government and the Federation of Nepal Chambers of Commerce and Industry, which is already implementing several initiatives supporting RMSEs and rural producers.

C. Planning, monitoring and evaluation, and learning and knowledge management

13. The integrated monitoring and evaluation (M&E) and knowledge management (KM) system will be developed in accordance with government frameworks and with IFAD guidelines. It will have three main objectives: steer project implementation; support economic decisions and policymaking; and share knowledge and scale up good practices.
14. The M&E/KM cycle will start with the preparation of the annual workplan and budget (AWP/B). All Samriddhi stakeholders will have an active and important role in identifying and reporting data. M&E officers at all levels will ensure that women are adequately represented in this process and that they are supported in voicing their specific concerns. To guarantee an inclusive M&E/KM system, Samriddhi will provide capacity-building to the project management team (PMT), corridor teams and ESC staff.
15. The purpose of knowledge management is to ensure that knowledge generated within the project is systematically identified, analysed, documented and shared.

Particular attention will be given to documenting: innovative models; information to be shared with and discussed by the MPMD with a view to assessing progress and discussing measures to improve performance; and Learning Routes, which will be organized to support the exchange of knowledge and good practices among ESCs.

D. Financial management, procurement and governance

16. Financial management will be governed by Ministry of Finance regulations and will be in line with IFAD guidelines on financial management. The financial management system will be under the overall responsibility of the Samriddhi project manager and the accounts officer. A finance and administrative officer will also be competitively hired from the open market. The draft project implementation manual (PIM) – established at final design and to be approved by IFAD – includes a financial management section describing IFAD procedures for the withdrawal application process, flow of funds, accounting and financial reporting and audit requirements. A complete financial management assessment was undertaken and the residual risk was found to be 'medium', to be mitigated efficiently through the following measures: professional software-based accounting; stringent reporting requirements; accountability; internal audit provision; and a detailed finance manual. Two designated accounts in United States dollars will be opened at the Nepal Rastra Bank (central bank), through which advance resources from the loan and grant will be channelled respectively. The Government's Financial Administration Regulations will be used as the basis for accounting and appropriate controls over financial transactions, and will be supplemented by separate ledgers, registers and reporting formats to record and report IFAD expenditures by categories, components, subcomponents and activities. Consolidated project financial statements will be prepared in accordance with internationally recognized accounting standards.
17. Internal control and audit. The PMT accounts officer will be responsible for tracking project expenditure, managing assets and procurement and monitoring fiduciary aspects of district- and corridor-level project activities. The project will continue the existing practice of internal audit by the District Treasury Control Office, in line with government financial rules and regulations. With regard to external audit, the Office of the Auditor General is considered an independent body under the respective government offices and is responsible for final project audit. Audits shall be carried out in accordance with International Standards on Auditing and IFAD's Guidelines on Project Audits.
18. Procurement. The procurement of goods, works and services financed from resources provided or administered by IFAD will be undertaken in accordance with the provision of the Public Procurement Act and associated regulations, Public Procurement Rules and the provisions of IFAD's Procurement Guidelines and Handbook. Goods and services (non-consulting) procured using national competitive bidding, national shopping and direct contracting will follow the procedures and processes defined in the PIM to be approved by the project steering committee (PSC) and IFAD. The selection of individual consultants and individual service providers will also be defined in the PIM, which will provide details of the selection method to be applied.

E. Supervision

19. Annual supervision missions will be organized by IFAD jointly with the Government, in close collaboration with field-level implementers and project stakeholders. Supervision will not be conducted as an inspection, but will rather offer an opportunity to assess achievements and lessons jointly, to review innovations and to reflect on improvement measures.

IV. Project costs, financing, benefits

A. Project costs

20. Total project investment and recurrent costs are estimated at US\$68.2 million over seven years, including physical and price contingencies. Total baseline costs are US\$57.60 million.

Table 1

Indicative project costs by component and financier
(Thousands of United States dollars)

	IFAD loan	IFAD grant	Beneficiaries	Private sector - financing institutions	The Government	Total
	Amount	Amount	Amount	Amount	Amount	Amount
A. Promotion of rural micro-cottage and small enterprises						
Mapping and setting up capacities at district and regional levels	2 266	4 257	-	364	1 124	8 012
Services for RMSE promotion and development	10 314	758	1 836	-	1 929	14 837
Vocational training and apprenticeships	3 931	1 342	-	209	3 489	8 972
Subtotal promotion of rural micro-cottage and small enterprises	16 511	6 357	1 836	573	6 542	31 821
B. Productive investment						
Rural finance	1 534	5 258	4 800	13 175	219	24 987
Mobilizing migrant resources and skills	367	514	-	-	1 476	2 356
Subtotal productive investment	1 901	5 772	4 800	13 175	1 695	27 343
C. Institutional support and project management						
Policy and institutional development	404	1 942	-	1	410	2 757
Project management	2 979	2 744	-	-	501	6 224
Subtotal institutional support and project management	3 383	4 686	-	1	911	8 981
Total costs	21 795	16 815	6 636	13 749	9 148	68 145

Table 2

Indicative project costs by expenditure category and financier*
(Thousands of United States dollars)

	IFAD loan		IFAD grant		Beneficiaries		Private sector financing - Institutions		The Government		Total		Duties & taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Consultancies	-	-	9 142	98	-	-	1	-	189	2	9 332	13.7	98
2. Equipment & materials	-	-	272	40.3	-	-	-	-	404	59.7	676	1	88
3. Goods, services & inputs	-	-	2 780	61.6	-	-	425	9.4	1 309	29	4 514	6.6	587
4. Works	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Workshops	-	-	768	84.8	-	-	9	1	129	14.2	906	1.3	118
6. Grants & subsidies	-	-	3 000	14.5	4 800	23.2	12 915	62.3	-	-	20 714	30.4	-
7. Credit and guarantee funds	881	100	-	-	-	-	-	-	-	-	881	1.3	-
8. Training	16 891	65.9	53	0.2	1 837	7.2	339	1.3	6 498	25.4	25 618	37.6	3 330
9. Vehicles	-	-	762	87	-	-	-	-	114	13	876	1.3	114
10. Salaries allowances	2 671	90.2	-	-	-	-	-	-	289	9.8	2 960	4.3	-
11. Travel & allowances	-	-	38	87	-	-	-	-	6	13	44	0.1	6
12. Operating costs	1 352	83.2	-	-	-	-	61	3.8	211	13	1 624	2.4	211
Total project costs	21 795	32	16 816	24.7	6 637	9.7	13 749	20.2	9 149	13.4	68 145	100	4 551

* Final disbursement categories will be decided during negotiations based on IFAD's procedures, which will include a maximum of five cost categories for reasons of efficiency.

B. Project financing

21. The Government of Nepal, IFAD, the private sector and beneficiaries will finance the project. IFAD total financing amounts to US\$38.61 million, equivalent to 56.7 per cent of total project financing (24.7 per cent under the form of a Debt Sustainability Framework grant and 32 per cent through a highly concessional loan). The Government would finance taxes, duties and salaries, and is further expected to contribute to the cost of the salary of one staff member for each ESC and to vocational training, for a total of US\$9.1 million. The private sector contribution is estimated at US\$13.7 million. Overall beneficiaries' contributions are estimated at US\$6.6 million.
22. Taxes and duties will not be financed by IFAD.

C. Summary benefit and economic analysis

23. Samriddhi will target a total of some 179,660 primary beneficiaries: 60,000 entrepreneurs; 89,660 people who will access jobs generated by the newly created and expanded RMSEs; and about 30,000 people, mostly youth, who will benefit from vocational training and apprenticeship.
24. Additionally, the project will provide financial education in-country and abroad to 213,100 people, mostly migrants and migrants' households. An estimated 10 per cent of these will access other project services.
25. The secondary target group will include: (i) medium and large enterprises and service providers, who will extend support to the primary target group; and (ii) 22,500 enterprises (from category B to medium and large), who will benefit from capacity-building to make the best use of apprenticeships.
26. Furthermore, project investments will lead to indirect benefits for RMSEs and poor households beyond the target area.
27. The base-case scenario for a 20-year period of analysis shows an economic rate of return of 26 per cent and a net present value of US\$37.7 million.

D. Sustainability

28. Samriddhi strategy and activities are driven by the primary concern that, by the end of project implementation, sustainable mechanisms will ensure continued RMSE access to financial and non-financial services. This will be attained through: (i) public/private partnerships that provide target groups with sufficient returns and include capacity-building and expansion opportunities; (ii) financial sustainability of RMSEs and ESCs through sound business plans, with incentives to support start-up, cost-recovery mechanisms, capacity-building of key players, linkages to performing financial service providers (SPs) and resource mobilization; (iii) use of local resources to develop entrepreneurship, expand the range of business development services SPs and generate jobs; and (iv) promotion of business partnerships between the smallest enterprises and value chain aggregators, which will facilitate continued RMSEs access to services and markets and promote their growth beyond initial project-financed support.
29. The second interim review, planned for the end of the fifth year, will make recommendations with regard to key measures required to secure the sustainability of project achievements, based on which the PMT will prepare a detailed exit strategy.

E. Risk identification and mitigation

30. Most risks associated with this project remain medium or low, and mitigation measures have been identified for all risks. The three risks remaining high are given below.

31. Risks associated with the project related to the Government or other development organizations paying protracted subsidies and in-kind support to entrepreneurs to establish their businesses, which will be mitigated by sharing implementation modalities and successful achievements with the MPMD and government partners to foster harmonization. In addition, Samriddhi and ESCs will negotiate coordination agreements at the district level to ensure that subsidies do not undermine the Samriddhi approach to sustainability.
32. The risk that the volume of service business will not be sufficient to generate an adequate income for full-time SPs will be mitigated by project support to several mechanisms facilitating sustainable SP access.
33. The risk that public/private migration stakeholders fail to take responsibility for the operation and financing of the MPMD will be mitigated by project interventions to: (i) set up the platform and develop plans and tools; (ii) finance the MPMD secretariat and operations; (iii) draft a law to institutionalize the platform; and (iv) support migrant organizations in developing advocacy skills.

V. Corporate considerations

A. Compliance with IFAD policies

34. The design of Samriddhi was guided by IFAD's policies and strategies on: targeting, gender and private-sector engagement. The project is in line with IFAD's specific objectives on remittances, which aim to: enhance market development and financial access through the identification, replication and scaling up of innovative remittance transfer systems; promote financial inclusion among migrants and remittance-recipient families in rural areas through better use of remittances; and create an enabling environment that promotes public/private partnerships for effective remittance development strategies.

B. Alignment and harmonization

35. A PSC will be set up at the national level to: provide overall guidance and oversight; ensure that Samriddhi programming is aligned with national-sector priorities; and offer a venue for sharing Samriddhi good practices and for channelling policy issues to the appropriate policymaking bodies. The PSC will also approve annual AWP/Bs and annual progress and financial reports.
36. Samriddhi will rely on existing district industry promotion committees to: develop a dialogue among stakeholders involved in RMSE development; discuss RMSE constraints and value chain bottlenecks; agree on measures required to free them; and identify policy gaps and provide guidance to ESCs. It will ensure that ESC activities are inclusive of women and poor people, and that gender equality and social inclusion issues are addressed as part of their regular agenda.

C. Innovations and scaling up

37. The PMT and business development services technical assistance will assist ESCs in developing innovative modalities for service delivery, such as: (i) developing systems alternative to price (commissions or mark-ups) that link payment to actual results/impact on business; (ii) promoting SPs that have an existing business and do not rely solely on service provision to make a living, including cooperatives or producers' associations; and (iii) assisting SPs in developing businesses in conjunction with RMSEs promotion (for example, large farmers buying agricultural products from serviced farmers). Innovative models will be thoroughly documented with support from corridor teams and will be shared across target regions and through multistakeholder platforms at the district industry promotion committee level, regional (Eastern Business Forum) and national levels (National Business Forum, the project steering committee).

D. Policy engagement

38. The project will support selected stakeholders representing the interests of RMSEs or of migrants to participate in policy dialogue with the Government. Samriddhi will finance studies and research enabling such stakeholders to: (i) develop policy positions; (ii) organize policy consultations of members at regional and national levels; and (iii) acquire advocacy skills.

VI. Legal instruments and authority

39. A financing agreement between the Republic of Nepal and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
40. The Republic of Nepal is empowered under its laws to receive financing from IFAD.
41. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

42. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Nepal in an amount equivalent to fifteen million five hundred thousand special drawing rights (SDR 15,500,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Nepal in an amount equivalent to eleven million nine hundred and fifty thousand special drawing rights (SDR 11,950,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: “Rural Enterprises and Remittances Project (RERP)”

Negotiations concluded on 11 March 2015

Loan Number: [_____]

Grant Number: [_____]

Project Title: Rural Enterprises and Remittances Project (RERP) (the “Project”)

Nepal (the “Borrower/Recipient”)

and

The International Fund for Agricultural Development (the “Fund” or “IFAD”)

(each a “Party” and both of them collectively the “Parties”)

WHEREAS the Borrower/Recipient has requested a loan and a grant for the purpose of financing the Project described in Schedule 1 to this Agreement,

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).

2. The Fund’s General Conditions for Agricultural Development Financing dated 29 April 2009 and amended as of April 2014 (the “General Conditions”) are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a loan (the “Loan”) and a grant (the “Grant”) (collectively the “Financing”) to the Borrower/Recipient, which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions set forth in this Agreement.

Section B

1. (a) The amount of the Loan is fifteen million five hundred thousand Special Drawing Rights (SDR 15 500 000).

(b) The amount of the Grant is eleven million nine hundred and fifty thousand Special Drawing Rights (SDR 11 950 000).

2. The Loan is granted on Highly Concessional terms as defined in Section IV(a)(iii)(1) of the Policies and Criteria for IFAD Financing dated 14 February 2013.

3. The Loan Service Payment Currency shall be the US dollar.
4. Pay ments of principal and service charge shall be payable on each 1 December and 1 June.
5. Two (2) Designated Accounts denominated in United States dollar shall be opened in accordance with Section 4.04(d) of the General Conditions with the Nepal Rastra Bank to receive resources from the Loan and the Grant respectively for the implementation of the Project.
6. The first day of the applicable Fiscal Year shall be 16 July.
7. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of approximately USD 9 million, in order to finance, inter alia, the cost of all taxes, training, the salaries of government staff assigned and its contributions that may be due in connection with the Project. The private sector contributions including those from financial institutions/cooperatives to the Project shall be approximately USD 13.7 million. Overall beneficiaries' contributions shall be approximately USD 6.6 million.

Section C

1. The Lead Project Agency shall be the Ministry of Industry (the "MOI") of the Borrower/Recipient.
2. Addit ional Project Parties shall include, inter alia, service providers and other institutions referred to in Schedule 1 to this Agreement.
3. The Project Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Project supervised by the Fund.

Section E

1. (a) The following are designated as additional general conditions precedent to withdrawal:
 - (i) the Project Steering Committee (the "PSC") and the PMT referred to in Schedule 1 to this Agreement shall have been duly established, and the members of the PSC shall have been assigned and key personnel of the PMT recruited or appointed;
 - (ii) a Project Facilitator, to assist the PMT in setting up administrative, financial and

management procedures and provide capacity building, shall have been duly recruited;

(iii) a final draft version of the Project Implementation Manual (the "PIM") referred to in Schedule 1 to this Agreement shall have been duly prepared, and no objection to the PIM from the Fund and then approval of the PIM by the PSC shall have been obtained;

(iv) the Borrower/Recipient shall have allocated, and the Project shall have received, adequate counterpart financing for the first Project Year;

(v) the Designated Accounts shall have been duly opened and the authorized signatories to sign withdrawal applications including their authenticated specimen signatures shall have been submitted to the Fund; and

(vi) a computerized accounting system acceptable to the Fund shall have been identified and selected by the Project.

(b) The following are designated as additional grounds for cancellation of the Financing:

(i) any changes to the institutional setting of the PSC or key personnel of the Project have been made without the prior consent of the Fund, and the Fund has determined that such changes have had, or are likely to have, a material adverse effect on the Project;

(ii) the PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme; or

(iii) any delays in the Borrower/Recipient's allocation of counterpart financing for a specific Project Year have occurred, and the Fund has determined that such delays have had, or are likely to have, a material adverse effect on the Project.

2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Secretary
Ministry of Finance
Singhdurbar, Kathmandu
Nepal

For the Fund:

President
 International Fund for Agricultural Development
 Via Paolo di Dono, 44
 00142 Rome, Italy

This agreement, dated [____], has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

NEPAL

 [Name of the Authorized Representative]
 [Title]

INTERNATIONAL FUND FOR
 AGRICULTURAL DEVELOPMENT

 Kanayo F. Nwanze
 President

Schedule 1

Project Description and Implementation Arrangements

I.

Project Description

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1.

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et Population. The Project shall be implemented in sixteen (16) selected districts of the Eastern and Central Development Regions (the "Project Area"). The Project shall target a total of approximately one hundred and seventy nine thousand (179 000) primary beneficiaries, including (i) existing rural micro and small enterprises (the "RMSEs"); (ii) poor households; (iii) returnee migrants and remittance receiving households; and (iv) small enterprises. The secondary target group includes medium and large enterprises as well as service providers, who will provide support to the primary beneficiaries through the development of business partnerships, vocational training, apprenticeship packages and job placement.

2.

Goal.

The goal of the Project is to contribute to poverty reduction and sustainable peace through employment-focused, equitable and inclusive economic development.

3.

Obje

ctive. The development objective is that viable RMSEs, in both farming and off-farming sectors, provide sustainable sources of income to poor households, migrant families and returnees. Main indicators include: (i) approximately fifty-seven thousand and five

hundred (57 500) rural entrepreneurs expand their existing business or create a new one; (ii) approximately thirty thousand (30 000) rural youth access job placement services; (iii) approximately thirty-four thousand and five hundred (34 500) enterprises are supported by the Project; and (iv) approximately twenty-one thousand (21 000) vocational trainees and apprentices are supported by the Project, and the share of women is no less than thirty-three percent (33%).

4.

Com

ponents. The Project shall consist of the following Components:

4.1. Component 1: Promotion of RMSEs

This Component aims at (i) providing micro and small entrepreneurs with sustainable access to adapted Business Development Services (the “BDS”), so that they can expand existing businesses or create new ones; and (ii) assisting members of poor households to build their skills and to secure gainful wage employment in RMSEs. Activities will be driven by an assessment of markets, business opportunities and available services and by an inventory and classification of existing RMSEs through a validation process. Enterprise Service Centres (the “ESCs”) will facilitate RMSEs linkages with financial and non-financial service providers, provide counselling services and information and promote business partnerships and manage a system for the qualification, capacity building and quality monitoring of service providers. This Component is composed of three (3) sub-components as follows:

4.1.1. Sub-component 1.1: Mapping and setting up capacities at district and corridor level. Investments in this sub-component aim at mapping business potential and stakeholders in the three target corridors managed by two Corridor Teams, and at setting up the institutional capacities at district and corridor level to facilitate RMSEs’ access to services.

4.1.2. Sub-component 1.2: Services for RMSE promotion and development. Investments in this sub-component aim at facilitating RMSEs’ access to responsive, gender-sensitive and sustainable services, so that they develop profitable and sustainable businesses taking advantage of local opportunities.

4.1.3. Sub-component 1.3: Vocational training and apprenticeship. Investments in this sub-component aim at assisting members of poor households to build their skills and to secure gainful wage employment in RMSEs.

4.2.

Com

ponent 2: Productive Investment

This Component aims at (i) supporting the access of RMSEs, migrants and remittance recipient households to responsive and suitable financial services; and (ii) facilitating the financial inclusion of migrants and their families, supporting their access to reintegration and peer-counselling services and harnessing remittances for productive investment in rural enterprises. It shall develop innovative financial instruments designed to offset major constraints faced by RMSEs in accessing investment loans at an affordable cost and to stimulate migrants’ savings and investment in small business development. This shall include: a risk-sharing scheme to address RMSEs’ lack of collateral; a performance-based matching grant scheme for family and micro enterprises with insufficient cash flow for borrowing money in the initial stages of micro-enterprise development; and a departure loan buy-back scheme targeting migrants. Capacity building will be provided to financial institutions in the target districts, and in particular to Savings and Credit Cooperatives (the “SCCs”) and to Small Farmers Cooperatives Limited (the “SFCLs”), to deliver responsive services to the target population.

This Component shall also improve financial institutions and cooperatives' outreach in the target districts, by co-financing investment costs related to installing innovative modalities to reach out to rural populations. Specific activities targeting migrants and their families shall aim at building the capacities of partner migrant organisations to deliver a core pool of services including financial education to support better family budget management and the productive use of remittance and access to financial products. District SCCs and SFCLs shall also receive capacity building to provide financial education to migrants and rural communities at large, so that they can market their financial products and services in support to financial inclusion. This Component shall establish a partnership with the Non-Resident Nepali Association (the "NRNA") to deliver a similar range of services in destination countries, to be jointly selected based on a list of pre-set criteria;

This Component is composed of three (3) sub-components as follows:

4.2.1. Sub-component 2.1: Financial inclusion. Investments sub-component 2.1 aim at facilitating the access of RMSEs as well as migrants and their families to adequate financial services.

4.2.2. Sub-component 2.2: Mobilising migrant resources and skills. Investments in this sub-component aim at strengthening and, where necessary, creating the capacity of migrant centres and associations to expand their network and the delivery of services to migrants and their families, both in the target districts and in destination countries.

4.3.

Com

ponent 3: Institutional Support and Project Management

Component 3 aims at promoting a favourable policy and institutional environment supporting the development of RMSEs and the contribution of migration to sustainable development. To this effect, the Project shall finance policy studies and research, as well as activities enabling selected stakeholders representing the interests of RMSEs or of migration stakeholders to participate in policy dialogue with the government. Additionally, the Project shall support the building of capacities of institutions that play a key role in creating a conducive environment for RMSEs and for migrants' reintegration. Finally it shall assist in setting up a Multi-Stakeholder Platform on Migration and Development, which shall provide a venue for policy dialogue on the integration of migration in the development agenda and for developing policy measures to facilitate migrant reintegration and promote their economic initiatives.

II. Implementation Arrangements

1. **Lead Project Agency.** The MOI shall have the overall responsibility for the implementation of the Project as the Lead Project Agency.
2. **Project Steering Committee (the "PSC").** A PSC shall be set up at the national level to provide overall guidance and oversight, to ensure that the Project is aligned on national sector priorities, to offer a venue for sharing RER/SAMRIDDHI good practices and for channelling policy issues to the appropriate policy making bodies. The PSC shall also approve annual AWPBs and annual progress and financial reports. It shall be chaired by MOI Secretary and include representatives from, inter alia, line ministries (Ministry of Education, Ministry of Finance, Ministry of Agricultural Development, Ministry of Forest and Soil Conservation, Ministry of Labour and Employment and National Planning Commission), the Federation of Nepalese Chambers of Commerce and Industry (the "FNCCI")/Agro-Enterprise Centre (the "AEC"), the Federation of Nepal Cottage and Small

Industries (the “FNCSI”), the National Micro-Enterprises Federation of Nepal (NMEFN), Department of Cottage and Small Industries (the “DCSI”), the Cottage and Small Industries Development Board (the “CSIDB”), development partners, Nepal Rastra Bank (Central Bank), National Associations of Financial Institutions and Cooperatives, and the NRNA. The Project Manager shall act as Secretary for the PSC. The PSC Chairperson can invite relevant technical persons or representatives from government and non-governmental agencies as appropriate in the PSC meetings.

3. Project Management Team (the “PMT”). A PMT shall be established and based in Itahari in the district of Sunsari. It shall assist the MOI in carrying out the day-to-day Project implementation responsibilities and shall be responsible for the performance of Project implementation and use of funds. It shall be responsible particularly for: (i) providing strategic guidance to ensure that all Project implementation partners develop activities along a common, coherent approach in line with the Project design; (ii) ensuring the financial and administrative management of Project resources in line with this Agreement and applicable rules and procedures of the Fund; (iii) planning Project activities in consultation with Project stakeholders; (iv) procuring Project-related services and supplies; (v) coordinating Project activities with the various Project partners; (vi) securing Monitoring & Evaluation (the “M&E”) and Knowledge Management in relation to all activities; and (vii) promoting inclusive approaches and the mainstreaming of targeting and gender requirements in all Project activities. Furthermore, two Corridor Teams shall be established – one in Itahari covering the Koshi/Sagarmatha district, and the other in Bardibas (district of Mahottari) covering the Janakpur corridor. These Teams shall provide coordination, technical and management support to ESCs and migration-related activities. Women shall constitute no less than thirty-three percent (33%) of the staff of the PMT and its Central and Corridor Teams.

4. Country Programme Implementation Support Unit (the “CPISU”). The Project shall contribute to the operating costs of the CPISU by fielding one liaison officer, who shall be based at the CPISU in Kathmandu. Specialised technical assistance shall support innovation and facilitate Project delivery.

5. Public-Private Dialogue. The Project shall engage in public-private dialogue through the Nepal Business Forum, which facilitates public-private dialogue on economic development through an array of specialised working groups. At the local level, two multi-stakeholders platforms shall provide coordination and facilitation, i.e. District Industrial Promotion Committees and Migration Task Forces, which shall be set up with the Project's support. The Project shall also participate in the Eastern Business Forum, one of the National Business Forum's working groups.

6. Partnerships. The Project shall establish partnerships with the following public and private agencies for Project implementation:

- FNCCI(AEC)/FNCSI/NMEFN for the operation and progressive co-financing of ESCs, and for the operation of the Corridor Teams;
- the Ministry of Education, with technical assistance from Helvetas, for the implementation of the vocational training and apprenticeship;
- the Department of Foreign Employment, the Foreign Employment Promotion Board and the NRNA for the implementation of migrants-related activities; and
- selected financial institutions/cooperatives that meet the criteria for the implementation of activities related to financial inclusion.

7. FNCCI(AEC)/FNCSI/NMEFN. The Project shall enter into a Memorandum of Understanding (the “MoU”) with FNCCI(AEC)/FNCSI/NMEFN, for setting up and overseeing the operation of the ESC.

8. Technical partners. The following two technical partners shall assist the PMT in implementing innovative approaches:

- Helvetas shall be responsible for implementing activities under sub-component 1.3 (vocational training and apprenticeship), building on appropriate methodology and tools they have developed; and
- PROCASUR Asia (the “RouteAsia”), an IFAD-funded regional grant project promoting peer-to-peer learning processes shall implement the learning route methodology to support knowledge management.

9. Service providers. Qualified service providers (the “SPs”) supplying technical or financial services to RMSEs shall be registered in a roster at ESC level. Roster-registered SPs shall be procured directly by the ESC up to NPR 25 000, by the Corridor Team above NPR 25 000 up to NPR 300 000 and by the PMT above NPR 300 000. SPs providing implementation services for activities related to Components 2 and 3 (policy and institutional development) shall be procured by the PMT based on competitive bidding. Terms of reference for service providers shall require gender-balanced teams with prior experience of gender mainstreaming and ethnic/caste-balanced approaches, and that contract deliverables reflect gender and inclusion target and indicators. All contracts shall be result-based and shall integrate modalities that will remunerate performance. The aforementioned procurement shall not undermine the general application of the Procurement Guidelines of the Fund.

10. District Industry Promotion Committees (the “DIPCs”). The Project shall rely on DIPCs to develop a dialogue among stakeholders involved in RMSEs development, discuss RMSEs constraints and value chain bottlenecks, agree on measures required to lift them, identify policy gaps and provide guidance to ESCs. It shall be ensured that ESC activities be inclusive of women and the poor, and that gender equality and social inclusion (the “GESI”) issues be addressed as part of their regular agenda. The composition of DIPCs shall be complemented as needed for this specific purpose, to ensure that it reflect all of the project stakeholders in the district.

11. Key Project Personnel. All key Project personnel shall have appropriate qualifications and experience, and be recruited or appointed through due procedures upon the Fund’s concurrence. The Borrower/Recipient shall exercise best efforts to ensure continuity in key Project personnel.

12. Project Implementation Manual (the “PIM”). A PIM shall be drafted and finalised by the PMT and shall be submitted to the Fund for no objection and then to the PSC for approval. The PIM shall include, inter alia:

- (i) Qualifications, terms of reference and detailed implementation responsibilities of Project parties including, inter alia, key Project personnel, consultants and service providers;
- (ii) Recruitment and appointment procedures for key Project personnel;
- (iii) Criteria for the performance appraisal of the Project personnel and adequate internal control system;
- (iv) Anti-corruption action plan at the time of Project appraisal;
- (v) Targeting and selection criteria for participating beneficiaries;
- (vi) Project operational, financial and procurement procedures, including an accounting procedure for bookkeeping and reporting, implementation and monitoring procedures;

- (vii) Financial management mechanism and flow of funds for all outputs and activities;
- (viii) The GESI mainstreaming modalities in all Project activities; and
- (ix) M&E system and procedures including the Results and Impact Management System (the "RIMS").

13. Mid-Term Review (the "MTR"). An MTR at the midpoint of the Project Implementation Period shall be conducted in accordance with Section 8.03 of the General Conditions to assess the Project implementation progress and to determine appropriate revisions to the Project design, implementation arrangements and resource allocations in order to ensure successful Project completion.

Schedule 2
Allocation Table

Allocation of Financing Proceeds.

(a) The Tables below set forth the Categories of Eligible Expenditures to be financed by the Loan and Grant; the allocation of the amounts of the Loan and Grant to each Category; and the percentages of expenditures for items to be financed in each Category:

Table A (Loan)

	Category	Loan Amount Allocated (expressed in SDR)	% of Eligible Expenditures to be Financed
I	Credit, Guarantee Funds	560 000	100% net of taxes
II	Training	10 820 000	100% net of Government, private sector and beneficiaries' contributions
III	Salaries & Allowances	1 700 000	100% net of Taxes and Government contributions
IV	Operating Costs	870 000	100% net of taxes and private sector contributions
	Unallocated	1 550 000	
	Total	15 500 000	

Table B (Grant)

	Category	Grant Amount Allocated (expressed in SDR)	Percentage of total expenditures
I	Consultancies	5 850 000	100 % net of private sector and Government Contributions
II	Goods, Services & Inputs	1 950 000	100 % net of private sector and Government Contributions
III	Workshops	550 000	100 % net of private sector and Government Contributions
IV	Grants & subsidies	1 920 000	100 % net of private sector and beneficiaries' Contributions
V	Vehicles	490 000	100% net of taxes
	Unallocated	1 190 000	
	Total	11 950 000	

(b) The terms used in the Tables above are defined as follows:

“Training” under Category I of Table A, shall mean eligible expenditures incurred related to training for project beneficiaries under Components 1, 2 and 3, except for training financed from the Grant under “Workshops” under Category III of Table B.

“Salaries & Allowances” under Category III of Table A, shall mean eligible expenditures incurred related to Salaries & Allowances except for salaries of government staff assigned to the Project.

“Goods, Services & Inputs” under Category II of Table B, shall mean eligible expenditures incurred related to Equipment & Materials in the amount of SDR 170 000 and Goods, Service & Inputs in the amount of SDR 1 780 000.

“Workshops” under Category III of Table B, shall mean eligible expenditures incurred related to training for training of trainers for activities in Safe Migration (SAMI) implemented districts and abroad, technical assistance in non-SAMI implemented districts, travel costs for trainer from target countries to Nepal under sub-component 2.2, workshops, and travel & allowances.

“Grants & subsidies” under Category IV of Table B, shall mean eligible expenditures incurred related to (i) financial instruments for performance-based grant; and (ii) activities for conducive environment and new products under sub-component 2.1.

“Vehicles” under Category V of Table B, shall mean eligible expenditures incurred related to the purchase of Project vehicles including motor cycles.

Logical framework

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
Goal			
Reducing poverty and achieving sustainable peace through employment-focused, equitable and inclusive economic development	87,500 direct beneficiary households (70% of target HHs) reporting increase of at least 20% in HH asset ownership within 4 years of project support, as compared to baseline (RIMS) 10% of reduction in the prevalence of child malnutrition, as compared to baseline (RIMS) - At least 33% of target entrepreneurs, vocational trainees and apprentices are women	- Project Assessment Impact - Project MIS - Poverty ID data (Ministry of Cooperatives and Poverty Alleviation)	Government maintains priority on poverty reduction and inclusive growth
Project Development Objective			
Viable rural micro, small and medium enterprises (RMSEs), both in the farming and off-farming sectors, provide sustainable sources of income to rural poor households, migrant families and returnees	60,000 rural entrepreneurs expand their existing business (i.e. have increased their income by at least 30%) or create a new one (annual income above average amount of annual remittances of NPR 25,000) 30,000 rural youth access job placement services 30,000 Samriddhi-supported enterprises (20,300 new and 9,700 existing) are still in business after 3 years (RIMS), of which 33% owned by women/30% owned by migrant returnees 21,000 Samriddhi-supported vocational trainees and apprentices, of which 33% of women, are in gainful employment over at least 6 months	- Project Assessment Impact - ESCs databases - Project MIS	Economic environment remains stable
Component 1 – Promotion of Rural Micro-Cottage and Small Enterprises (RMSEs)			
Outcome 1: Rural entrepreneurs and unemployed labour have access to business services enabling them to develop their existing businesses, to create new ones or to secure jobs	- At least 8 participating DCCIs (50% of target DCCIs) have sustainably integrated an ESC into their regular organisation 50% of Samriddhi-supported SPs are successfully running their business at the end of the project 57,500 RMSEs (of which 30% owned by women, 33% owned by migrant returnees/families) have a business plan and have access to BDS 23,000 Samriddhi-supported RMSEs (by category) participate in business to business arrangements (40% of target RMSEs) 30,000 rural poor have acquired employable skills	- Project Assessment Impact - FNCCI - ESCs databases - Project MIS	DCCIs have an interest in expanding membership to micro-entrepreneurs and in preserving operation of ESCs
Component 2 – Productive Investment			
Outcome 2: RMSEs and migrants have access to financial and non-financial services enabling them to sustain and expand their	35,700 RMSEs, of which 33% owned by women and around 30% owned by migrants, have access to investment loans (RIMS) 28,000 migrants/migrants' families open a bank account and deposit part	- Project MIS - Project reports - Reports from financial	Financial institutions are interested in extending affordable services in rural

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
business as well as use remittances to promote sustainable business investment	of their remittance (25% of those educated by Migrants Partner Organisations in-country and abroad) ▪ 112,000 migrants access financial education through Migrants Partner Organisations (in-country and abroad) and 46,000 access other types of services provided by Migrants Partner Organisations (in-country) ▪ 100,800 community members (migrants and non-migrants) access financial education provided by SCCs and SFLCs	institutions	areas, and in particular to migrants
Component 3 – Institutional Support and Project Management			
Outcome 3: Policies and institutional capacities required to promote (i) sustainable and profit-making RMSEs along viable business models and (ii) migrants' reintegration and investment in sustainable business development are in place	▪ Key policy bottlenecks affecting the development of RMSEs/the reintegration of migrants' returnees are identified and gender-sensitive policy measures to lift them are adopted ▪ Key institutions involved in the promotion of RMSEs/migrants' reintegration in the target districts and at national level are delivering expected, gender-sensitive services	▪ Project reports ▪ Policy and legislation texts	GoN is interested in actively promoting RMSEs as well as the maximisation of migration benefits for the country