



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 03-Aug-2020 | Report No: PIDA27504

**BASIC INFORMATION****A. Basic Project Data**

Country Nepal	Project ID P170215	Project Name Rural Economic and Enterprise Development Project	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 27-Jul-2020	Estimated Board Date 08-Sep-2020	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Agriculture and Livestock Development	

Proposed Development Objective(s)

To enhance the ecosystem for rural entrepreneurship and to strengthen the market linkages of rural entrepreneurs, including smallholder farmers and producers.

Components

Component 1: Strengthening Market Linkages through Productive Partnership

Component 2: Strengthening institutional capacity for agriculture and entrepreneurship in the federal structure

Component 3: Support to restoring and strengthening the food supply chain and local economy system

Component 4: Project Management

Component 5: CERC

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	80.00
Total Financing	80.00
of which IBRD/IDA	80.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**



International Development Association (IDA)	80.00
IDA Credit	80.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **Over the past decade, Nepal's economy has performed reasonably well, though vulnerabilities have increased with COVID-19.** Real growth domestic product (GDP) growth averaged 4.9 percent (at market prices) over 2010-19. Although declining as a share in the economy, agriculture continues to play a large role, contributing over 29 percent of GDP in 2019. The service sector has grown in importance, accounting for 46 percent of GDP in FY2019. Industry and manufacturing have grown more slowly and their relative share in the economy has averaged 14 percent of GDP over the past decade. Similarly, exports continue to struggle, while imports are fueled by remittances. The poverty headcount ratio (at the international line of US\$1.90/day) is estimated at 8 percent in 2019, down from 15 percent in 2010. About 31.2 percent of the population that are estimated to live between US\$1.9 and US\$3.2 a day face significant risks of falling into extreme poverty in 2020, primarily because of reduced remittances, foregone earnings of potential migrants, job losses in the informal sector, and rising prices for essential commodities as a result of COVID.
2. **The recent COVID-19 pandemic is expected to derail the strong growth trajectory established over the past three years.** GDP growth averaged 7.3 percent (between 2017 and 2019); and grew by 7 percent in FY19 supported by an uptick in tourist arrivals, strong agricultural growth from good monsoons and robust industrial growth due to increased electricity generation. On the demand side, the main growth drivers were private investment and private consumption, the latter supported by remittance inflows. In the second half of 2019, agricultural growth slowed down with delayed monsoons and crop damage. In March 2020, stringent measures were imposed to contain the spread of COVID-19, including travel restrictions. Lockdowns and social distancing measures have disrupted domestic distribution channels causing shortages of fertilizer, livestock feed, labor and transportation, all of which will further reduce agricultural growth in FY20 and have already contributed to inflation reaching 6.7 percent (year-on-year) in March 2020, primarily led by food price rises from COVID disruptions in distribution channels. The restrictions on trade (limited to only essential goods) has also disrupted supply chains in the manufacturing sector. In FY21, growth is expected to remain subdued at 2.1 percent.

Sectoral and Institutional Context

3. Growth in agriculture has been low and volatile, driven by higher relative prices for agricultural commodities and favorable monsoons rather than any growth in productivity.¹ A World Bank Country Private Sector Diagnostic (CPSD)

¹ World Bank. 2016. "Source of Agriculture growth"



highlights that while there are opportunities for growth by developing commercialized and high-value agriculture² (tea, spices and vegetables), and a sizable domestic market for most food segments, the sector is not adequately tapping into these opportunities. The CPSD highlights a number of areas to support agribusiness sector growth including; i.) strengthening the production base as a foundation for agribusiness competitiveness, this includes reforms to land policy and inputs (fertilizer and seed), and ii.) supporting scaling up of Agribusinesses, by supporting access to finance, strengthening of SMEs and enhancing the capacity and performance of food safety and SPS measures and iii.) improving market linkages by supporting value chain linkages and investments in logistics and transport.

4. The COVID-19 outbreak has been affecting agriculture production through foregone exports and disruptions in imports of agricultural inputs, especially to/from China and India, with significant impacts on the rural poor and vulnerable groups. Given the large share of the population living in rural areas, losses in income from agricultural activities would have a large impact on national poverty. Moreover, Nepal is expected to receive tens of thousands of returnees from outmigration resulting in increasing unemployment in the rural area.
5. The GoN recognizes the expansion of SMEs as one of the development priorities for job creation and economic development (14th Development plan 2016/17-2018/19). Several constraints in Nepal, however, are currently hindering the growth of agri-SMEs including weak downstream linkages³ a regulatory framework which undermines the competitiveness of agri-SMEs, limited access to financial services, and poor support services for agri-SMEs.
6. While the transition to the federal structure is expected to result in improved outreach and service delivery in the medium term, it is likely to take time before becoming fully operational. The schedule of powers across three tiers of government (Federal, Provincial and Local Governments) within the agriculture and rural sector remains unclear overall, nor is it well understood among the staff of the governments. There is a need to further strengthen the capacity of the newly established institutions especially at the provincial and local government levels to design and implement policies and regulations in the agriculture sector.
7. Building on the country's experience and long-term vision, Nepal has an opportunity to invest in rural based value chains⁴ to pursue middle-income country status. This will entail active linkage facilitation between private sector actors along the value chain, as well as the development of an enabling environment for long term entrepreneurial growth under federalism.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

8. **To strengthen rural market linkages and entrepreneurial ecosystems and to restore and strengthen agriculture input supply and local market system in response to COVID19.**

Key Results

9. The following PDO-level indicators will be used to monitor the key outcomes of the Project:
 - Percentage increase in the average gross value of sales of producer organizations under productive partnerships (detailed in Component 1 below);
 - Total amount of private sector funding mobilized (including beneficiary contribution to one-time start-up grant and direct investments);

² World Bank (2018) "Country Private Sector Diagnostics"

³ The World Bank's Enterprise Survey (2012) indicated that informal enterprises are predominantly micro firms, while their downstream linkages to other firms (formal or informal) are limited, hindering the sector's ability to play a role in the supply chain for the formal sector.

⁴ Rural based value chains are those value chains where primary production is based in rural areas.



- Number of beneficiaries of interventions (including small farmers and SMEs/agri. tech start-ups, with share of women);
- Number of intermediary institutions providing services in rural areas, post Project funding;
- Number of Capacity Building Plan completed in accordance with Capacity Needs Assessment (CNA)

D. Project Description

Component 1: Strengthening Market Linkages through Productive Partnerships (US\$43 million)

10. Component 1 capitalizes on the lessons learned from the global and local experience with the concept of Productive Partnerships (PPs). The approach aims to promote the development of sustainable business partnerships between Producer Organizations (POs) and buyers. POs are defined as small farmers and rural producers organized in groups, organizations, cooperatives or other forms of association, such as cottage industries. Further, to support the sustainability and scale up of the PPs, Component 1 builds the capacity of banks and financial institutions to appraise and develop lending products for POs, strengthens the entrepreneurship ecosystem, and supports last mile infrastructure, all with the goal to enhance the viability of the PPs.

Subcomponent 1.a: Building Productive Partnership to promote rural-based value chains (US\$ 40 million)

11. PPs will be established between the Producer Organizations (PO) and buyers on the basis of mutually agreed business plans, specifying product quality, quantity, delivery and price determination mechanism. This sub-component is guided by the assessment carried out as part of the project preparation to understand the feasibility and replicability of the PP model in the Nepal; to identify the nature, capacity and interest of potential key actors (POs, buyers and financial institutions) likely to be involved in PPs in both farm and non-farm sectors.
12. PP selection will follow a market discovery approach, which refers to a selection mechanism based on supporting business opportunities identified by the economic actors (producers and buyers) themselves. The Project will support rural-based agricultural value-chains—based on market demand and emerging opportunities
13. Under this sub-component the Project will support (i) a comprehensive communications campaign including a targeted communication campaign for women; (ii) brokering support for prospective buyers and POs to prepare joint profiles; (iii) technical assistance to mutually-agreed business plans; (iii) start-up grants for POs to fulfil the terms of the business plans, (iv) technical assistance to local service providers; (v) support to formalize POs to legal entities; and (v) technical assistance to banks to appraise POs and develop lending products to meet the financing gap in the business plans. Primary beneficiaries for this sub-component will be smallholder farmers and rural producers organized in groups, organizations, cooperatives or other forms of association as POs. Detailed eligibility criteria for beneficiaries, POs, buyers and PPs will be detailed out in the PIM.

Subcomponent 1.b: Strengthening Entrepreneurship and the SME Ecosystem (US\$ 3 million)

14. The subcomponent will support strengthening the entrepreneurship ecosystem⁵ in Nepal, by enhancing the capabilities and outreach of intermediary institutions, which are needed to provide the required services to assist agri. SMEs and “business oriented cooperatives” to learn, innovate and grow. These intermediary institutions can be public, private, and non-profit organizations such as technology centers, innovation centers, incubators, accelerators, business support organizations, tech hubs, technology commercialization offices, and industry associations. The MFD cascade approach will guide the appropriate selection of private, public, or public-private

⁵ “Entrepreneurial ecosystem” as defined in the context section of this document as the market, policies, finance, support services, scalable production potential and infrastructure attributes of a country, whose level of development will influence the growth of entrepreneurship.



partnerships as intermediaries. The Intermediary Institutions will then reach out to provide improved training and services to the wider ecosystem of businesses and can leverage existing facilities, such as the Agri. Promotion and Training Centers (Component 3), to deliver the training. The expected outcome of this sub-component will be SMEs and agri tech start-ups improve their businesses to enable them to participate in Productive Partnership as buyers, suppliers and service providers.

Component 2: Strengthening institutional capacity for agriculture and entrepreneurship in the federal structure. (US\$ 5 million)

15. The project intends to help the provincial and local governments address these issues by (i) building the capacity of provincial and local government to strengthen agriculture competitiveness and entrepreneurship; (ii) providing support to strengthen the SPS related guideline to be implemented by local governments; (iii) promoting inter-government coordination mechanism for greater collaboration and synergy. All these activities are expected to directly support the POs targeted under Component 1a by providing them with required institutional capacity for agriculture competitiveness and entrepreneurship in federal structure, including guidance and procedures for quality assurance and production besides targeting the beneficiaries for various capacity and skill development activities.

Component 3. Support to restoring and strengthening COVID-disrupted food supply chain and local economy (US\$ 22 million)

16. As part of the WBG's COVID-19 response, this component will support investments in restoring the regional food and inputs supply disrupted due to the limited movement, lockdown and the restriction of border trade and their long-term safe storage at municipal level to ensure food and inputs security. This component will address ongoing COVID-19 disruptions in food supply by strengthening safe food storage at municipal agriculture centers and address disruptions in inputs supply by restoring seeds, breeder seeds and fertilizer supply and their safe storage in sufficient quantity at municipal centers ensuring availability of inputs for farming either through rural agri-businesses. The approach taken to do so will also support post-COVID-19 rural economic recovery as restoring of supply and storage through municipal centers will enable continued operation of intra-municipal level (or even inter-municipal level) rural based agricultural businesses and value-chains working in inputs sector.

Component 4: Project Management (US\$ 10 million)

17. This component covers the activities of the Federal-level Office of the Project Director (OPD) in Kathmandu within MoALD. In addition, Economic Corridor Offices (ECOs) will be established in four selected locations (Province 1, 2, 5, Ghandaki and Sudurpaschim). The OPD will be responsible for overall supervision, quality assurance and M&E, Coordination with other relevant Ministries as well as Coordination and implementation of policy and regulatory framework related issues. ECOs will be responsible for the day-to-day operations of the Project, facilitation, monitoring, fiduciary supervision and safeguards management as well as for the institutional coordination among the various agencies involved with the Project activities at local level. The OPD level TA firm should comprise of professional experts to be selected competitively on a merit-basis and be paid at market-rate, and if possible, on mile-stone basis.

Component 5. Contingent Emergency Response Component (\$ 0)



18. The objective of this zero component is to allow a rapid reallocation of credit proceeds from other components to provide emergency recovery and reconstruction support following an eligible crisis or emergency. The component would finance public and private sector expenditures on a positive list of goods and/or specific works, goods, services and emergency operation costs required for Nepal's emergency recovery. A Contingent Emergency Response Implementation Plan will apply to this component, detailing financial management, procurement, safeguard and any other necessary implementation arrangements.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

Environmental and Social Risks are rated as Moderate. The risk has been rated moderate considering that project will support in the construction and rehabilitation of roads, bridges, stabilization of slopes, small irrigation infrastructures, , food safety and SPS facility, , agriculture centers, , improvement of existing regional market centers, quarantine facility for enhancing opportunities for market access and trade, which now falls under the responsibility of the decentralized governments. The potential environmental risks associated with project activities are waste water pollution, landslides and erosion, sedimentation of the water bodies, land degradation, encroachment of forest land, impact from increased use of pesticides and chemicals etc. Most of specified risks and impacts are expected to be typical for small and medium scale construction, agriculture production and processing, temporary by nature and confined to the project sites, and can be easily mitigated by applying good international practices and relevant mitigation measures. And furthermore, the project will consider resilient design and actively promote use of renewable energy for the proposed infrastructure, for instance irrigation infrastructure and energy efficient measures in regional market centers. k Social risk will be on the possibility of exclusion of Indigenous Peoples, vulnerable and disadvantaged groups from benefits and opportunities from startup matching grants, jobs and business opportunities, agriculture advisory services, seeds and inputs, and capacity building opportunities such as related to business processes and agri. tech start-ups possible land acquisition for public infrastructure, establishment of SMEs, and the physical and economic displacements arising from land acquisition. In addition, health and safety risks to workers and community members during infrastructure work, labor influx and associated social issues, such as risks of migrant labor, forced labor, sexual exploitation and abuse/Sexual Harassments/SH) are also other potential risks. The SEA/SH risk is rated as low for the project. Other risks anticipated are the weak capacities of the local government for managing environmental and social issues.

E. Implementation

Institutional and Implementation Arrangements

Federal level



19. At the Federal Level, the Project implementation mechanism will comprise of (i) a Project Steering Committee (PSC), (ii) a Project Director's Office (OPD) based in Kathmandu and (iii) a local TA firm that is competitively selected and regularly evaluated.
20. PSC chaired by the Permanent Secretary for MoALD will be constituted by the Secretary to the Cabinet and will comprise representatives from National Planning Commission, Ministry of Finance, Ministry of Industry and Commerce, Department of Agriculture and Provincial Representatives.
21. The OPD will be headed by a Joint Secretary, designated as PD, deputed from the MoALD. The OPD would be operationally and managerially in charge of the organization structure established at the federal and provincial levels for implementing the Project. The OPD will be responsible for preparing and approving Annual Work Plan.
22. The OPD will be supported by a Technical Assistance Firm, who will be selected competitively and will be hired by MOALD. It will have a lean structure, composed of thematic expertise. Specific TORs for each specialist will be detailed in the PIM. The performance of the TA firm will be assessed and evaluated on yearly basis by the Steering Committee and OPD, based on the milestone agreed upon.

Economic Corridor Level

23. For each identified economic corridor, Federal Level Ministry of Agriculture and Livestock Development in coordination with Province Ministry of Land, Management, Agriculture and Cooperatives (MoLMAC) will set up Economic Corridor Offices (ECO) at Provinces 1, 2, 5, Ghandaki and Sudurpaschim⁶. The ECO will be led by an Under Secretary deputed by the Provincial Ministry for Agriculture, Land Management, and Cooperatives (MoLMAC)⁷/MoALD with the support from an Accountant, Planning Officer, Procurement Officer M&E Officer, Environmental and Social Specialists and Administrative Assistant seconded from MOLMAC.
24. Economic Corridor Technical and Coordination Committee (ECTCC) will be established within the Provincial Ministry of MoLMAC and will be headed by the Province-level Secretary of MoLMAC. ECTCCs will have equivalent function as the Project Steering Committee at the Provincial level.

CONTACT POINT

World Bank

Mio Takada
Senior Agriculture Economist

Borrower/Client/Recipient

Ministry of Finance
Shreekrishna Nepal
Chief International Economic Cooperation
sknepal40@mof.gov.np

Implementing Agencies

⁶ Interventions are likely to be limited in P3, hence ECO will be established in P1,2, 5 and Sudurpaschim .

⁷ In case of shortage of availability of provincial level ministry officials, MOALD officials may be seconded.



Ministry of Agriculture and Livestock Development
Rajendra Prasad Mishra
Joint Secretary
rajendra_mishra2004@yahoo.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Mio Takada
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Approved By

Environmental and Social Standards Advisor:		
Practice Manager/Manager:		
Country Director:	Lada Strelkova	04-Aug-2020