I. Project Context

Country Context

1. Nepal is still emerging from a 10-year armed conflict that ended in 2006. It is currently passing through a momentous and prolonged political transition. This transition entails two interrelated processes: promulgation of a new Constitution and the completion of the ongoing peace process. The focus on the political transition process has to some extent overshadowed issues of economic and other reforms (law and order, focus on growth and job creation, fostering a positive investment climate), with political uncertainty impacting timing and quality of public expenditure decisions. The general economic situation has improved considerably despite the difficult political environment. GDP growth rose to about 5 percent from 3.5 percent a year earlier, the second highest growth rate since the end of the conflict in 2006. Remittances, at 25-30 percent of GDP, continue to dominate the economy supporting consumption. Nepal has made good progress both in terms of poverty reduction and improvement of social indicators. The proportion of poor people has fallen substantially from 45 percent in 1995-96 to 25 percent in 2010-11. Nepal’s overall Gini coefficient has simultaneously declined from 0.41 to 0.35 as poor segments of the population have been able to increase household incomes (often with the help of remittances). Nepal has also made impressive improvements towards the achievement of Millennium Development Goals (MDGs) including in the areas of primary education, gender parity and under-5 child mortality. However, relevant to the proposed operation, the nutritional status of women and children has not shown much improvement, with malnutrition and stunting affecting about half of the nation’s children. Recently, the Economic Intelligence Unit of the Economist issued the 2012 Global Food Security Index report that ranks Nepal 79th out of the 105 countries ranked.

2. Despite the potential, development indicators in the project-targeted Mid and Far West regions of the country are significantly below the national average. The Nepal Living Standard Survey (NLSS III, 2010) showed that 37 percent of people in the rural hills of the Mid- and Far-West regions are below the poverty line compared to the national average of 25.16 percent. Yields of major crops in the region are typically more than 25 percent below the national averages. Per capita consumption of animal products (32 litres of milk, 7.5 kg of meat and 6.4 eggs per capita per annum) is among the lowest in the world. The prevalence of hunger is also the highest in these regions with hunger indices pointing to an extremely alarming situation. Similarly, these areas show the highest incidence of diarrhea (and yet less than a third of the children reportedly receive oral re-hydration therapy). Natural disasters (especially, droughts in the mountain/hills and floods in the Terai), often triggered by extreme weather events, significantly impact agricultural production and livelihoods, especially in the rainfed marginal lands typically farmed by the most food insecure households. Based on exposure to climate change, poverty and adaptive capacity, Nepal ranks as the fourth most-at-risk country according to the Climate Vulnerability Index.

3. In 2010, a Government of Nepal (GON) led consultation with donors, civil society organizations and other stakeholders, directed the development of a Country Investment Plan (CIP) to comprehensively address agriculture and food security including issues of availability, access and utilization. Building on this, GON submitted an investment proposal to the Global Agriculture and Food Security Program (GAFSP) and was competitively awarded a grant of US$64.5 million in June 2011. GON has also developed, again in consultation with relevant development partners and stakeholders, a Multi-Sectoral Nutrition Plan. These coordination efforts look likely to attract more planned allocation of resources from both GON side and development partners side (e.g., the Asian Development Bank, currently supporting the formulation of a 20-year Agricultural Development Strategy with a focus on food security; and USAID which is in the process of launching its Feed the Future Initiative in the Mid- and Far-West regions and has an on-going Suahara Program).

II. Sectoral and Institutional Context

4. Agriculture (including crop, livestock and fisheries) is the mainstay of the rural economy but its productivity is low. Nearly two-thirds of the country’s population (66 percent) is employed in agriculture. However, agricultural productivity is one of the lowest in the South Asia region and has been virtually stagnant for over a decade. The situation is even worse in the Mid-Western and Far-Western regions where food production is barely enough to meet more than six months’ demand. Thus, most people in the region are dependent on external/emergency food supply, with the World Food Program alone supplying over 25 thousand metric tons of food in 2011 reaching approximately 550,000 beneficiaries in these regions. The continued food insecurity and lack of economic opportunities has triggered out-migration of youth in search of employment.
opportunities as the agricultural potential of the region remains yet to be exploited.

5. The agriculture sector faces a multiplicity of challenges that constrain its performance well below its potential. Agriculture is typically characterized by small holder, traditional and subsistence farming; limited use of improved livestock breeds, crop varieties or modern inputs and management practices; and high susceptibility to pest and disease incidences. Problems to be addressed include: (i) low availability of good quality seed and improved breeds of livestock at the farmer level (the seed replacement ratio is 4.27 percent against GON target of 25 percent and, moreover, seeds used by farmers are often of outdated variety, and with low purity and germination rates; given the low base, seed quality enhancement alone can lead to an estimated yield increase of 15-20 percent in case of cereals, at least 20 percent in potato, 40-50 percent in oilseeds, and over 100 percent for maize; and finally, breed improvement can produce significant gains in livestock productivity; (ii) insufficient development by the research system of “appropriate” – location and problem specific – technologies and management practices for use by farmers that tap topographic and climatic advantages or address local constraints; (iii) weak research-extension-farmer linkage; (iv) thin and inadequate extension support (even after significant enhancement in recent years, less than 15 percent of farm households are reached by the extension system; and each Agricultural Support Centre – the lowest, sub-district extension node – covers approximately 9,000 holdings, dispersed over a difficult terrain); (v) low investment in productive assets, including supplementary irrigation infrastructure to reduce rain-dependence; (vi) poorly developed market linkages; and (vii) lack of institutions and instruments for agricultural risk-bearing and risk-sharing. Budgetary and staff resources for public research (the Nepal Agricultural Research Council or NARC) and extension agencies (Departments of Agriculture and of Livestock Services) are stretched. Further, under a decentralized development approach, local level financing and coordination of agricultural support services is done by District Development Committees rather than vertically by the line departments. On the other hand, beyond GON, there exist a number of non-governmental entities or community-based organizations that fill the gap to some extent in the provision of agricultural support services.

6. Food availability in the project area is low and can be enhanced by closing the substantial yield gap. In 2007/8, for instance, the hill and mountain districts of the Mid-Western and Far-Western development regions – where the project will be located – produced only 3 percent and 2 percent respectively of the national paddy production, 11 percent and 3 percent of maize production and 9 percent and 4 percent of wheat production. In these remote areas, food availability and access is largely dependent on local production. There is substantial scope to increase yield, especially through use of improved seeds and crop mixes.

7. Migration is high, comprising predominantly young, rural and male workers. Yet remittances are not sufficient to ensure food security in the project area. According to the 2010/11 Nepal Living Standards Survey (NLSS), migrant men and women account for over 40 percent of total population (including absentees abroad). Two-thirds of migrants are 24 years or younger over 90 percent migrate from rural areas and male absentees of all ages amounted to 29.8 percent of the total population (including absentees abroad), while migrant women only accounted for 10.9 percent (NLSS, 2010/11). The feminization – and “greying” – of agricultural labor force suggests the need to make agriculture technology, extension and other interventions more gender sensitive (some issues are addressed in this project). On the incomes side, remittances, while crucial for the rural economy, remain secondary to agriculture for sustaining food security, especially in the poorer and more remote locations. For instance, households in the Mountain regions only derive around 9 percent of their incomes from remittance, while the contribution of agriculture is around 59 percent. Meanwhile, households in the Mid-West spend around 65 percent of their annual income on food, while those in the Hill districts spend 55 percent. Thus, enhancing agriculture production and productivity remains critically important in the project area.

8. On the nutrition and health side, chronic maternal and child malnutrition remains a serious problem in Nepal and constrains the country’s social and economic development. Chronic energy deficiency in women (as measured by the Body Mass Index – BMI) remains high at 23.9 percent in the Far-West and 19.3 percent in the Mid-West. The prevalence of low birth weight babies is reported as 14.1 percent in the Mid-West and 14.9 percent in the Far-West where nearly half the children under five (46.4 percent) are stunted and one-third (32.6 percent) are underweight. Similarly, in the Mid-West, over half the children under five (50.3 percent) are stunted and over one-third (36.9 percent) are underweight. Wasting, which reflects more short-term under-nutrition, currently stands at 11.3 percent in the Mid-West and 10.9 percent in the Far-West. Maternal under-nutrition and stunting have declined since the Demographic Health Survey (DHS) of 2001, but wasting has remained constant during the decade. The consequences are significant and long-term, ranging from increased neonatal mortality and morbidity to irreversible adverse physical and cognitive outcomes that lead to unfavorable lifelong consequences for health, productivity and economic growth.

9. GON has accorded high priority to the agriculture sector, food security issues and to the Mid and Far West development regions. The Interim Constitution of Nepal 2007 recognizes food sovereignty as a fundamental right of citizens. The importance of agricultural growth and food security has been underscored in a series of GON documents and plans, including: the second Three Year Plan (2010/11-12/13), the National Agriculture Sector Development Priority plan (NASDP 2011-2015), and the associated Country Investment Plan (CIP). Also, as mentioned, a Multi-Sectoral Nutrition Plan, led by the National Planning Commission (NPC), aims to integrate, inter alia, contributions from the agriculture sector (Ministry of Agriculture Development) to lay the foundation of a national “nutritional architecture”. With the support of various development partners, a number of projects have also been undertaken that aim to address many of the development challenges listed above – typically at a limited scale – such as local seed production and storage, participatory action research for locally suited varieties, livestock productivity enhancement, crop diversification, off-farm livelihood development (including micro-enterprises), training and capacity building of Farmer Groups (FGs). These project experiences have generated useful lessons about these interventions (see also section III C below) as well as underlined the importance of involving FGs to overcome limitations of capacity and outreach in the formal technical support or extension system.

10. The NAFSP addresses country need and government priorities, and its interventions are aligned with and/or complementary to key operations under implementation or planning in the project area. There are a number of other relevant projects and initiatives operating in the project area. The World Bank’s Poverty Alleviation Fund (PAF II) is a $165 million project that aims to improve living conditions, livelihoods, and empowerment among the rural poor and vulnerable groups. PAF II operations will complement NAFSP’s objectives to increase “food access” in 18 overlapping districts due to their efforts at helping improve food security in response to drought and price fluctuations. The Nepal Social Safety Nets Project will similarly seek to improve agricultural production and nutritional impact, primarily through food and cash for public works programs, as the means for increasing agriculture production in food insecure areas. Assisting in the “availability” dimension of Food Security, the World Bank’s Irrigation and Water Resources Management Project (IWRMP) is supporting the rehabilitation and modernization of small/medium farmer-managed surface irrigation projects and is assisting in the development of groundwater sources and management of schemes. The Health SWAp and the Bank’s recently approved Sunaula Hazar Din (“Golden 1000 Days”) project, will further invest to improve the nutritional status of pregnant women and children under the age of 2, which will have a longer term impact on food security in the region. Beyond the Bank-
assisted projects, the USAID’s Feed the Future initiative shares significant common goals and features with this project, and complements it geographically by focusing on primarily the Terai (plains) and some hill districts of the Mid/Far West Development Regions.

III. Project Development Objectives

The Project Development Objective is to enhance food and nutritional security of vulnerable communities in selected locations of Nepal. Food security will be realized through increased food availability, made possible by increasing productivity of agriculture (both crop and livestock); and nutrition security through improved nutrition, made possible by promotion of diversified diets and improved feeding and caring practices for pregnant and nursing women and children up to 2 years of age.

IV. Project Description

Component Name
Technology Development and Adaptation: This component will support PDO by packaging appropriate technologies and resources (seeds and breeds) that contribute to increased productivity.
Technology Dissemination and Adoption: This component will support PDO by enabling farmers to adopt improved agricultural production technologies and management practices developed under Component 1.
Food and Nutritional Status Enhancement: Enhance food and nutrition security through increased food availability for vulnerable households, promotion of diversified diets, improved feeding practices.
Project Management: This component will ensure that interventions undertaken under the project are properly planned, coordinated and aligned with project design and development objectives.

V. Financing (in USD Million)

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VI. Implementation

11. Project Management. The project will be implemented over a period of five years. The project administration and implementation arrangements build on relevant existing institutions and capacities, and reflect the technical characteristics as well geographic location of the project’s activities. The Ministry of Agriculture Development (MOAD) will be the executing ministry and will work closely with the Ministry of Health and Population (MOHP) to implement the project. Day-to-day project administration and management will be carried out by a central Project Management Unit (PMU) based in Kathmandu. PMU to be formed under MOAD which will be will be supported by two Regional Project Support Units (RPSUs) in Surkhet in the Mid-Western region and Dipayal in the Far-Western region and a District Project Support Unit (DPSU) in each of the 19 project districts.

12. Implementation. The approach of the project is to involve the farmer and the local community in planning, implementing, and evaluation of project interventions so as to improve the design and relevance of activities, enhance adoption of new technologies and practices, and increase the sustainability of project outcomes. Farmer and community activities will be technically guided and backstopped primarily by two sources: (i) relevant research institutes (NARC) and line departments of GON (DoA, DLS, DFTQC and DoHS) involved in this project (“the implementing agencies”); and (ii) PMU will engage TA service providers at central level. The TA service provider will select local NGO/service provider/partner and later will deploy local community facilitators for social mobilization, community preparedness and capacity building. The technical staff hired for the project activity through TA service providers and attached with DPSU will assist the implementing agencies (DoA, DLS, DoHS) by working with FGs through the entire project activity cycle. In addition, technical specialists, service providers, Civil Society Organizations (CSOs) and other stakeholders may be contracted by the project to serve in specific roles and contexts.

VII. Safeguard Policies (including public consultation)

<table>
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<td>Environmental Assessment OP/BP 4.01</td>
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<td>Projects in Disputed Areas OP/BP 7.60</td>
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VIII. Contact point
World Bank
Contact: Animesh Shrivastava
Title: Senior Agriculture Economist
Tel: 473-3652
Email: ashrivastava@worldbank.org

Borrower/Client/Recipient
Name: Government of Nepal
Contact:
Title:
Tel:
Email:

Implementing Agencies
Name: Ministry of Agriculture and Cooperation
Contact: Dr. Ganesh Raj Joshi
Title: Secretary
Tel: 977-1-4211706
Email: memoad@moad.gov.np

IX. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop