IFAD
Investing in rural people

Nepal

Rural Enterprises and Remittances Project Samriddhi

Final project design report

Main report and appendices

Document Date: 31-May 2015
Project No. 1724
Report number 3791-NP

Asia and the Pacific Division
Programme Management Department

Contents

Appendices

Currency equivalents

Currency Unit	=	Nepalese Rupee
USD 1.0	=	NPR 100.0

Weights and measures

1 kilogram	=	1000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 hectare	=	2.47 acres

Abbreviations and acronyms

ADB	Asian Development Bank
AEC	Agro-Enterprise Centre
AEPC	Alternative Energy Production Centre
AusAID	Australian Agency for International Development
AWPB	Annual Work Plan and Budget
BDS	Business Development Services
BP	Business Plan
B to B	Business to Business
CBS	Central Bureau of Statistics
CDR	Central Development Region
CMF	Centre for Microfinance
COSOP	Country Strategic Opportunities Programme
CPE	Country Programme Evaluation
CPISU	Country Programme Implementation Support Unit
CPMA	Corridor Potential Mapping and Assessment
CPMT	Country Project Management Team
CSIDB	Cottage and Small Industries Development Board
DCCI	Department of Cottage and Small Industries
DDC	District Development Committee
DFID	Department for International Development
DIPC	District Industry Promotion Committees
DMEGA	District Micro Enterprise Groups Associations
DoFE	Department of Foreign Employment
DSF	Debt Sustainability Framework
DTCO	District Treasury Control Office
EDR	Eastern Development Region
ESC	Enterprise Service Centre
ESCMT	Enterprise Service Centre Management Team
ESP	Enterprise Service Provider
FEPB	Foreign Employment Promotion Board
FMA	Financial Management Assessment
FNCCI	Federation of Nepal Chambers of Commerce and Industry
FNCSI	Federation of Nepal Cottage and Small Industries
FNCGO	Financial Comptroller General Office
GDP	Gross Development Product
GIZ	Gesellschaft für Internationale Zusammenarbeit
GoN	Government of Nepal
IPSAS	International Public Sector Accounting Standards
HVAP	High Value Agriculture Project
ICIMOD	International Centre for Integrated Mountain Development
ICT	Information and Communications Technology
ILO	International Labour Organisation
IOM	International Organisation for Migration
KM	Knowledge Management
LCS	Local Construction Society
LRP	Local Resource Person
LTR	Letter to the Recipient
MED	Micro-Enterprise Desk
MEDEP	Micro-Enterprises Development Programme
MEDPA	Micro-Enterprises Development for Poverty Alleviation
M&E	Monitoring and Evaluation
MFI	Micro-Finance Institution
MMC	Market Management Committee
MOI	Ministry of Industry

MOLE	Ministry of Labour and Employment
MoU	Memorandum of Understanding
MSE	Micro and Small Enterprises
NAS	Nepal Accounting Standards
NBFI	Non-Banking Financial Institution
NCB	National Competitive Bidding
NGO	Non-Government Organisation
NMEFEN	National Micro Entrepreneurs Federation Nepal
NRNA	Non-Resident Nepalese Association
OAG	Office of the Auditor General
ODA	Official Development Assistance
ODOP	One District One Product
OFID	OPEC Fund for International Development
OVOP	One Village One Product
OSS	One Stop Shop
PAR	Portfolio at Risk
PBMG	Performance-Based Matching Grant
PIM	Project Implementation Manual
PMD	Platform on Migration and Development
PM&E	Planning, Monitoring and Evaluation
PMT	Project Management Team
PRA	Participatory Rural Appraisal
PSC	Project Steering Committee
RCCI	Regional Chambers for Commerce and Industry
RE	Rural Enterprise
RER	Rural Enterprises and Remittances
RIMS	Results and Impact Management System
RMSEs	Rural Micro and Small Enterprises
SC	Sub-Component
SCC	Savings and Credit Cooperatives
SDC	Swiss Development Cooperation
SFACL	Small Farmers Agricultural Cooperative Limited
SEEP	Skills Enhancement for Employment Project
SP	Service Provider
TA	Technical Assistance
TEVT	Technical Education and Vocational Training
TSA	Treasury Single Account
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VDC	Village Development Committee
VMC	Village Management Committee
WA	Withdrawal Application
WMW	Women Migrant Worker
WP	Working Paper

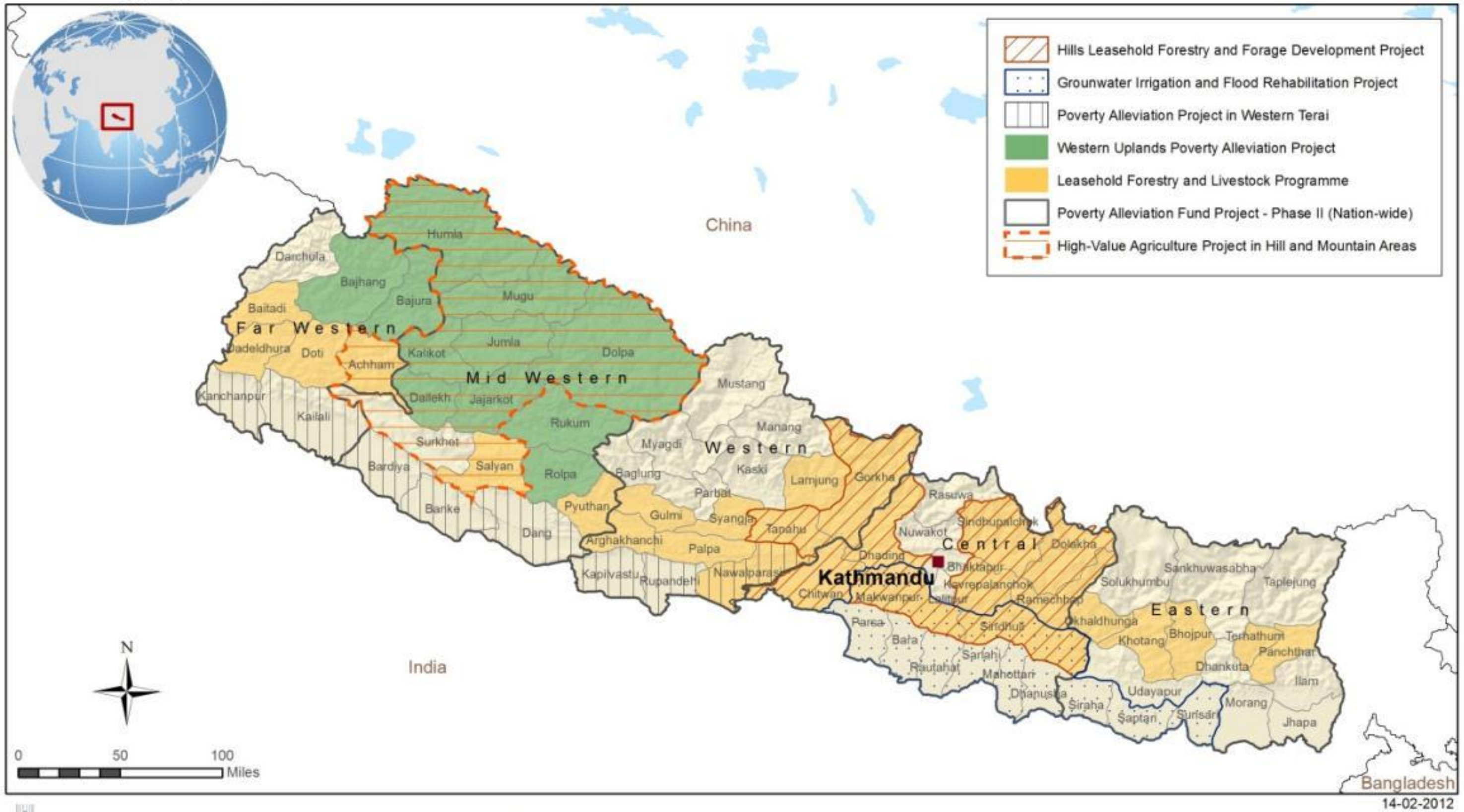
SAMRIDDHI Nepali word meaning Prosperous or Economically Well-Off

Map of the IFAD country programme area

Nepal

IFAD-funded operations

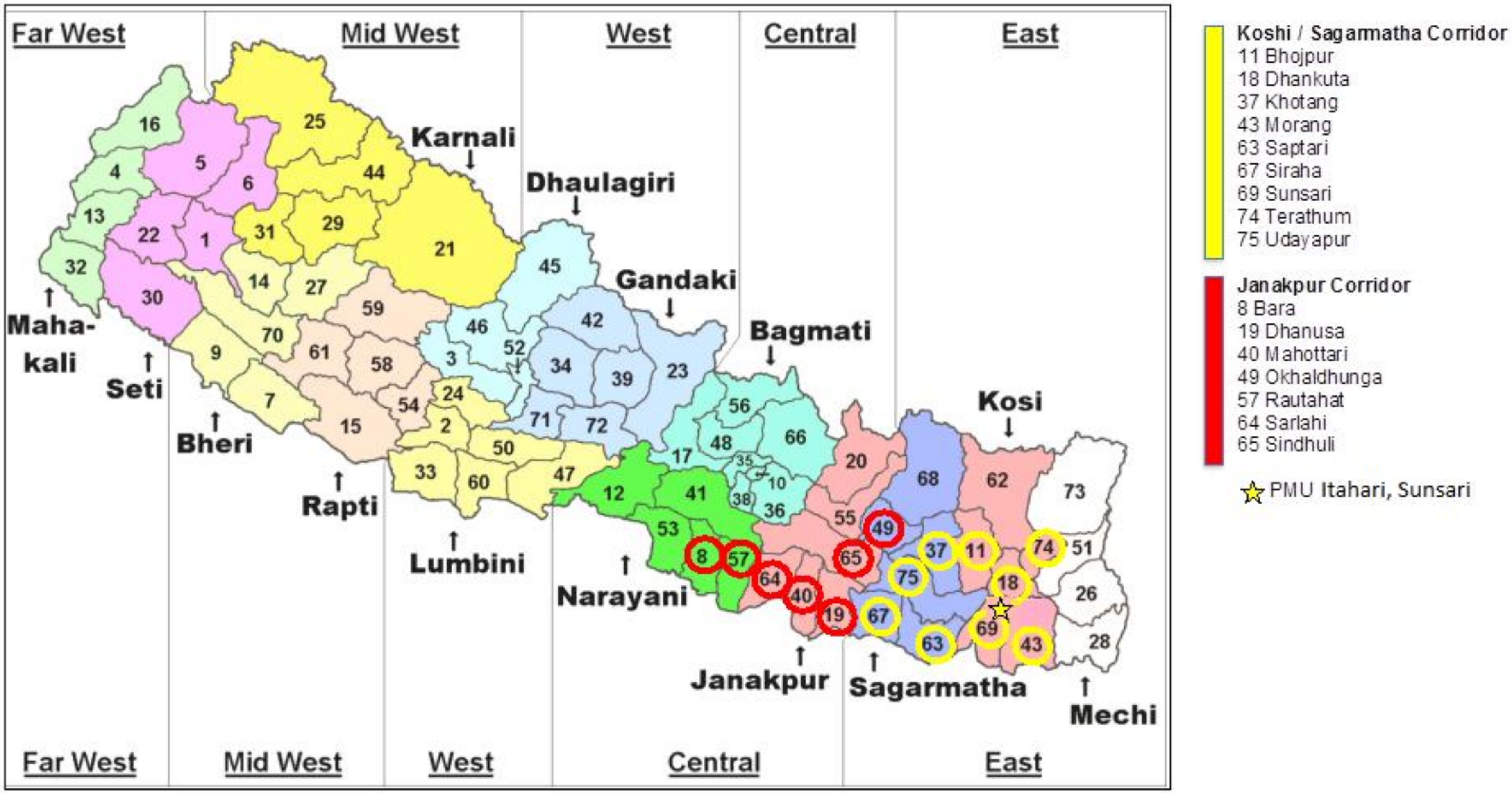
Country programme evaluation



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.

IFAD *Map compiled by IFAD*

Map of the RER/SAMRIDDHI project area



Executive Summary

1. Rural Enterprise and Remittance (RER)/SAMRIDDHI[1] is an IFAD-funded project that aims at providing sustainable sources of income to poor households, migrant families and returnees in the Eastern and Central Regions of Nepal, by supporting the creation and expansion of family, micro, small and medium rural enterprises, both in the farming and off-farming sectors.

2. The project is a USD 68.2 million operation to be implemented on a 7-year period in 16 Eastern and Central districts. RER/SAMRIDDHI targets around 60,000 enterprises and 30,000 unemployed youth which, taking into account job creation, should make a total of 179,660 primary beneficiaries and their households, or altogether around 900,000 people. Furthermore, the project will provide financial education in-country and abroad to improve the saving and investment capacity of another 112,320 benefitting around 560,000 people in their households. RER/SAMRIDDHI will benefit of past and ongoing national experiences in the Rural Micro-Cottage and Small Enterprises (RMSEs) sector and will be implemented by the Ministry of Industry, in partnership with the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), Helvetas, financial institutions extending services to the rural areas and other key partners. It will comprise three inter-linked components encompassing the full set of interventions required to support RMSEs profitable and sustainable growth:

- *Component 1* strengthens RMSEs and gathers all the activities aiming at facilitating RMSEs/migrants sustainable access to (i) *business development services*, i.e. non-financial services in support to enterprise creation or expansion; and (ii) *vocational training and apprenticeship*;
- *Component 2* builds on results of component 1 by grouping all the activities aiming at facilitating RMSEs/migrants access to (ii) *financial services* provided at an affordable cost by sustainable financial institutions; and (ii) at *mobilising migrant resources and skills* for creating assets and developing profitable businesses;
- *Component 3* includes activities promoting a favorable policy and institutional environment to support the development of RMSEs at a national scale and the contribution of migration to sustainable development.

3. In the framework of the 2013-2018 COSOP approved in September 2013, the Government of Nepal requested IFAD to design a new project to promote rural enterprises and to harness remittances in support of entrepreneurship. A set of preparatory studies was conducted in 2013, which provided a first, broad categorisation of the project potential target areas. In addition, IFAD Financing Facility for Remittances organised a 2-day workshop on Remittances in Nepal in December 2013, with 70 public and private stakeholders involved in the migration/remittance sector, who prepared a concept note outlining main areas of focus to be taken into account during project design and decided to create the Platform on Migration and Development (PMD). PMD has since had three meetings (May, July and September 2014) with FFR support, which included the discussion of priority actions required to support the use of remittances in developing sustainable sources of income in the rural areas.

4. Building on this set of preparatory activities, an Early Design Mission visited Nepal from 9 to 31 January 2014 to produce a comprehensive Project Design Report, which was circulated to stakeholders in Nepal and in IFAD. Comments were provided by GoN and by IFAD Quality Enhancement Panel and were taken into account to prepare the final Project Design Report. A final design mission[2] visited Nepal from 8 to 30 September 2014 to prepare the final project design report.

1 SAMRIDDHI means 'Prosperity' or 'Economically well-off'' in Nepali.
[2] The design mission was coordinated by Benoît Thierry, Lakshmi Moola and Bashu Aryal, respectively former and new IFAD Country Programme Managers for Nepal and IFAD Country Programme Officer in Nepal. It was composed of: Agnès Deshormes, Team Leader; Shankar Achuthan Kutty, IFAD Procurement Specialist; Mai Añonuevo, Migration and Remittances Specialist (from Athika Philippines); Dev Basnyet, Institutions Specialist; Mukunda Dev Adhikari, Auditor and Financial Management Specialist; Sarah Hugo, Financial Education Specialist; Ganesh Gurung, Migration Specialist; Thierry Mahieux, Financial Services and Enterprise Development Specialist; Lorina Sthapit, Gender Specialist. Pedro Tigre de Vasconcelos, Manager of IFAD Financing Facility for Remittances, joined the mission from 19 to 23 September 2014. Other contributors who participated in the Early Design Mission included Blanca Amado, FAO/TCI Economist and Financial Analyst, Marco Camagni, IFAD Technical Adviser for Rural Markets and Enterprise Development, Ananta Ghimire, Institutions Specialist, Govinda Dev

5. **Strategic context and rationale.** While the Nepal's Eastern and Central plains and hills are fertile regions holding favourable conditions for agriculture, because of demographic pressure and landlessness they also have the largest numbers of poor in the country. The majority of the population still lives on low input-low output agriculture that provides limited income: close to 30% of the rural population is under the poverty line of USD 200 per year (average GDP at 647 USD). Families that cannot live on agriculture have few alternatives aside from wage labour and widespread migration. In 2014, an estimated 3 million Nepalese, mostly from the rural areas, are employed abroad and send a fast-expanding volume of remittances, now reaching 25% of the GDP, to around 55% of rural households. Only about 19% is transferred through financial institutions, and only 3.5% of total remittances are invested in capital formation, savings or business, largely because of a lack of information and services. As a result, a large number of migrant returnees decide to leave on foreign employment again. While migration offers a security valve, it also entails social costs and brings limited returns to poorer families. Yet a set of new opportunities open up potential and markets for RMSEs, both in the farm and off-farm sectors. A growing population and changing urbanisation patterns create new demand for goods and services. An agri-business sector is emerging to meet the demand of the urban population together with new models of business partnerships for including small producers in promising supply chains. Opportunities in construction and services are expanding with the flow of migration remittance. In spite of the fact that they contribute more than 80% of industrial employment and that national policies aim at supporting their expansion, RMSEs development is however constrained by insufficient economic infrastructure, legal framework, irregular and limited supply of electricity, low skills, obsolete technology, difficult access to markets especially in the hills and low access to support services.

6. In line with the National Development Plan, the Industry Policy and the Agriculture Development Strategy, RER/SAMRIDDHI 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 micro and small enterprises, both in farm and off-farm activities, that can generate better incomes and jobs***, by facilitating the access of new and existing small-scale rural entrepreneurs to business development and financial services, which will also enable migration returnees and remittance recipient households to develop alternative livelihoods to foreign employment and to break the cycle of migration. ***Second, it will promote vocational training and apprenticeship in direct connection with gainful job placement*** for poor people that are looking for a sustainable source of income and an alternative to migration, but that are not interested in or able to take the risk inherent to business development. ***In addition RER will develop mechanisms specifically targeting migrant households and returnees*** so that they can make the best possible use of their remittances.

7. RER/SAMRIDDHI will contribute to all three COSOP strategic objectives. Project design builds on and scales-up successful experience of three past IFAD grant-financed projects, which successfully promoted migrant's savings and investment (financed by IFAD Financial Facility on Remittances - FFR) and developed youth employment opportunities. RER/SAMRIDDHI will be the first IFAD project to up-scale FFR good practices into a loan project, as well as the first project to promote a comprehensive set of mechanisms fostering remittance investment into livelihood development in Nepal.

8. **Project area and target groups.** The project will be implemented in 16 districts of the Eastern and Central Development Regions along a corridor approach linking districts along main roads running South to North to facilitate the connection of hill districts to larger markets in Terai. **RER/SAMRIDDHI will target a total of about 179,660 primary beneficiaries.** The *primary target group* will include: (i) existing formal or informal RMSEs that have a potential for development (starting from income generating activities), and will access support to consolidate and expand their activity; (ii) poor households, particularly the families that are landless or close to landlessness, unemployed or underemployed youth, women and socially excluded groups; (iii) returnee migrants and remittance receiving households; (iv) small enterprises that either play a key role in securing microenterprise access to inputs, services and markets, or have a potential to generate employment, which will have

Pandey, SME Specialist, and Bibiana Vasquez, Remittances and Entrepreneurship Specialist. Avigya Karki, Regional Planning Specialist, facilitated data and information collection.

access to business development services and adequate financial products supporting sustainable growth. 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.

9. RER/SAMRIDDHI will adopt an inclusive approach, whereby 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 poorest groups, and a lesser proportion of grants extended to small enterprises (no grant funding for medium and large 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.

10. **RER/SAMRIDDHI development objective.** 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 are: **(i) 60,000 RER supported rural entrepreneurs expand their existing business or create a new one; (ii) 30,000 rural youth access job placement services; (iii) 30,000 RER-supported enterprises are still in business after 3 years, of which 33% owned by women/30% owned by migrant returnees; and (iv) 21,000 RER-supported vocational trainees and apprentices, of which 33% of women, are in gainful employment over at least 6 months.**

11. **Components and outcomes.** The project has three components:

- *Component 1 – Promotion of RMSEs* aims at (i) providing micro and small entrepreneurs with sustainable access to adapted Business Development Services (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. In every district, RER/SAMRIDDHI will set up an Enterprise Service Centre (ESC[3]) jointly managed by the ESC Management Team. Based on approved business plans, ESCs will facilitate RMSEs linkages with financial and non-financial service providers, provide counselling services and information and promote business partnerships to facilitate the access of family and micro-enterprises to markets and services and foster their sustainable inclusion into profitable supply chains. ESCs will also manage a system for the qualification, capacity building and quality monitoring of service providers. In two of the three target corridors, RER/SAMRIDDHI will set up a Corridor Team – one will be in Itahari and the other one in Bardibas - to support ESCs with M&E/KM, financial management and procurement, support business to business linkages across the corridor, document good practices and facilitate the exchange of information and knowledge between ESCs. Finally, RER/SAMRIDDHI will support the provision of vocational training and apprenticeship packages, building on the successful methodology developed by Helvetas Nepal, whereby result-based contracts will be passed with selected Technical Education and Vocational Training (TEVT) SP, who will be responsible not only for delivering training, but also for ensuring post-training gainful employment of trainees;

- *Component 2 – Productive investment* aims at (i) supporting 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 accessing investment loans at an affordable cost 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 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

[3] In Nepali: 'SAMRIDDHI KO DHOKA' -- the door to well-being.

provided to financial institutions in the target districts, and in particular to Savings and Credit Cooperatives and to Small Farmers' Agricultural Cooperatives Limited, to deliver responsive services to the target population. RER/SAMRIDDHI will also improve financial institutions' 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 will 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, the productive use of remittance and access to financial products, including those supported by RER/SAMRIDDHI. SCCs/SFACLs will 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. RER/SAMRIDDHI will establish a partnership with the Non-Resident Nepali Association (NRNA) to deliver a similar range of services in four destination countries, to be jointly selected based on a list of pre-set criteria;

- *Component 3 – Institutional Support and Project Management* 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, RER/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, RER/SAMRIDDHI will support the building of capacities of institutions that play a key role in creating a conducive environment for MSEs and for migrants' reintegration. Finally, it will assist in setting up a Multi-Stakeholder Platform on Migration and Development, which will 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 in the country.

12. **Project implementation.** The Ministry of Industry (MOI) will be the project executing agency and will bear overall responsibility for RER/SAMRIDDHI coordination and oversight. Line responsibility for day-to-day project implementation will be delegated to a Project Management Team, which will be located in Itahari and have two Corridor Teams providing technical and management support to ESCs and migration-related activities. A Project Steering Committee headed by MOI at the national level will provide oversight and guidance. At the local level, ESCs will be implemented through a global contract with the Agro-Enterprise Centre of the Federation of Nepal Chambers of Commerce and Industry in coordination with District Cottage and Small-scale Industry Office and Board under MOI . Two technical partners, all with successful experience in Nepal, have been identified to assist the PMT in implementing innovative approaches: (i) *Helvetas Nepal* has developed a successful approach linking vocational training to job placement, which the Ministry of Education is planning to up-scale through a national TEVT; until the TVET Fund is set up, Helvetas Nepal will be responsible for providing technical assistance and management support for the implementation of activities related to vocational training and apprenticeship; (iii) *RoutAsia* is an IFAD-funded regional grant project promoting peer-to-peer learning processes and would implement the learning route methodology to support knowledge management with DCCIs.

13. **Project costs and financing.** The total project investment and recurrent costs are estimated at around USD 68.2 million (NPR 6 billion), including physical and price contingencies, over seven years. The total baseline costs are USD 57.60 million (NPR 5.21 billion). IFAD total financing amounts is USD 38.61 million. The government would finance tax/duties and the salaries of part of the staff assigned to the PMT, and is further expected to contribute to the costs of the salary of one staff per Enterprise Service Centre and to vocational training, for a total of USD 9 million. The private sector contribution is estimated at USD 13.7 million. Overall beneficiaries' contributions are estimated at USD 6.6 million.

14. The project is expected to last seven years, i.e. from 2015 to 2021, through a phased approach ensuring the progressive build-up of activities and with two intermediate reviews to refine each phase. Depending on the negotiation between IFAD and the Government of Nepal and on the project presentation to the Executive Board, the project start-up could be envisaged mid-2015.

15. In conclusion, through a robust and implementable design of three components, RER/SAMRIDDHI will build on Nepal ongoing operations and IFAD demonstrated experience that

projects supporting rural micro and small enterprises (RMSEs) are among the most efficient for alleviating poverty, increasing income, creating jobs, as they promote the creativity and sustainability of individual/family initiatives, and rest on long-term public-private partnerships to secure continued RMSEs access to financial and non-financial support services. In addition, it is expected that the dissemination of evidence-based models demonstrating the feasibility of using remittances for business development will raise massive interest from players in the financial sector and stimulate further commercial engagement in developing the market of remittance-related services.

SAMRIDDHI Objectives, Outcomes, Components and Main Activities

Strategic Goal : Reducing poverty and achieving sustainable peace through employment-focused, equitable and inclusive economic development

Development Objective: Viable rural micro, small and medium enterprises, both in the farming and off-farming sectors, provide sustainable sources of income to poor households, migrant families and returnees

Outcome 1: Rural entrepreneurs and unemployed labour have access to business development services enabling them to develop their existing businesses, to create new ones or secure gainful jobs

Outcome 2: RMSEs and migrants have access to financial services and support services enabling them to sustain and expand their business as well as use remittances to promote sustainable business investment

Outcome 3 : Policies and institutional capacities required to (i) promote sustainable and profit-making RMSEs along viable business models and (ii) migrants' reintegration and investment in sustainable business development, are in place

Component 1: Promotion of Rural Micro-Cottage and Small Enterprises

Sub-component 1.1 Business mapping and setting up capacities

Sub-component 1.2 Services for RMSEs promotion and development

Sub-component 1.3 Vocational training and apprenticeship

Component 2: Productive Investment

Sub-component 2.1 _Rural finance and remittance services

Sub-component 2.2 Mobilising migrant resources and skills

Component 3: Institutional Support and Project Management

Sub-component 3.1 Policy and Institutional Development

SUB COMPONENT 1.1 : Mapping business and setting up capacities
Act 1.1.1 : Mapping of business potential and stakeholders
Act 1.1.2.: Setting up Enterprise Service Centers
Act 1.1.3 : Setting up Corridor Teams

SUB COMPONENT 1.2 : Services for RMSEs
Act 1.2.1 : Developing BDS markets
Act 1.2.2 : Access to services

SUB COMPONENT 1.3 : Vocational training and apprenticeship
Act 1.3.1 : Vocational training
Act 1.3.2 : Apprenticeship

SUB COMPONENT 2.1 : Financial Inclusion
Act 2.1.1 : Financial instruments
Act 2.1.2.: Capacity building of financial institutions

SUB COMPONENT 2.2 : Mobilising migrant resources and skills
Act 2.2.1 : Capacity building of migrant organisations
Act 2.2.2 : District-based services to migrants, returnees and families
Act 2.2.3 : Services to migrants abroad

SUB COMPONENT 3.1 : Policy and Institutional Development
Act 3.1.1 : Policy development
Act 3.1.2.: Capacity building of institutions involved in project implementation or advocating for RMSEs and migrants

Component 3: Institutional Support and Project Management
SUB COMPONENT 3.2 : Project Management
Act 3.2.1 : Operation of Project Management Team
Act. 3.2.2: Gender Equity and Social Inclusion
Act 3.1.3: M&E and KM

Technical Assistance

RER/SAMRIDDHI 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 Impact Assessment ▪ 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 RER/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 RER/SAMRIDDHI-supported vocational trainees and apprentices, of which 33% of women, are in gainful employment over at least 6 months	▪ Project Impact Assessment ▪ 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 RER/SAMRIDDHI-supported SPs are successfully running their business at the end of the project ▪ 57,500 RMSEs (of which 33% owned by women, 30% owned by migrant returnees/families) have a business plan and have access to BDS ▪ 23,000 RER/SAMRIDDHI-supported RMSEs (by category) participate in business to business arrangements (40% of target RMSEs) ▪ 30,000 rural poor have acquired employable skills	▪ Project Impact Assessment ▪ FNCCI ▪ ESCs databases ▪ Project MIS	DCCIs have an interest in expanding membership to micro-entrepreneurs and in preserving operation of ESCs
Outputs **Sub-Component 1.1 – Mapping business and setting up capacities** 1.1.1 Market and business potential, RMSEs, Service Providers (SPs) and other stakeholders identified	▪ 3 Corridors Potential Mapping and Assessment and regularly updated every other year	▪ Project MIS ▪ Project reports	Rural entrepreneurs, cooperatives, migrants' groups and other economic

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
1.1.2 Enterprise Service Centres (ESCs) running facilitation services 1.1.3 Corridor teams ensuring coordination, B to B linkages and management and KM support	▪ 16 ESCs have Strategic Plans detailing services and financing strategy as well as outreach and communication strategy ▪ Number of RMSEs (by category) using ESC every year ▪ 2 Corridor Teams in place	▪ ESCs databases ▪ Training institutions reports	stakeholders in the target areas are interested in delivering services to micro-enterprises in connection with their own businesses
Sub-Component 1.2 - Services for RMSEs promotion 1.2.1 Service providers accredited and capacitated to provide quality technical and management 1.2.2 RMSEs accessing BDS 1.2.3 Support to migrants and their families	▪ Number of SPs in ESC roster, of which 40% of women ▪ Number of SPs who received capacity building, of which 33% of women ▪ 60,000 RMSEs have accessed at least one service package		Rural job and business opportunities are attractive to underemployed and poor households Medium and large enterprises are interested in hiring local skilled labour rather than Indian labour
Sub-component 1.3 – Vocational training 1.3.1 Rural poor receiving vocational training 1.3.2 Rural poor hired as apprentices	▪ 15,000 (of which 4,950 women) rural poor have vocational training certificate and 70% of them are hired and retain job for more than 6 months ▪ 15,000 apprentices (of which 4,950 women) have apprenticeship contract and 60% of them are hired and retain job for more than 3 months		
Component 2 – Productive Investment			
Outcome 2: RMSEs and migrants have access to financial and non-financial services enabling them to sustain and expand their business as well as use remittances to promote sustainable business investment	▪ 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 of their remittance (25% of those educated by Migrants Partner Organisations in-country and abroad) ▪ 112,320 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	▪ Project MIS ▪ Project reports ▪ Reports from financial institutions	Financial institutions are interested in extending affordable services in rural areas, and in particular to migrants
Outputs **Sub-component 2.1 – Financial inclusion** 2.1.1 Financial institutions receiving capacity building 2.1.2 Family and micro-enterprises access investment loans and migrants use	▪ 1,008 savings and credit coops strengthened (RIMS), of which 80% deliver remittances ▪ 15 MFIs and banks participating in the project (RIMS)/receiving capacity building ▪ USD 27.2 million loans extended by financial institutions (RIMS) ▪ More than 20 financial institutions participating in risk-management scheme	▪ Project MIS ▪ Project reports ▪ Reports of financial institutions ▪ Minutes and reports of WG for Financial	

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
remittances for business start-up and expansion	▪ Claims to the risk-sharing scheme are less than 3% of outstanding investment loan portfolio ▪ 6 million consolidated savings deposited by migrants on newly-opened accounts (RIMS)	Inclusion	
2.1.3 Outreach of financial institutions in rural area increasing	▪ 2 financial institutions benefit from financing of points of services ▪ 20 agents from financial institutions are able to supervise SCCs in their catchment area (only in hills districts)		
2.1.4 A conducive environment for rural finance inclusion is implemented	▪ More than 100 enterprises benefit from equity financing ▪ More than 32 investments have been realized using the Investment Fund ▪ The Financial Regulatory Commission is implemented in 5 districts and supervising more than 300 SCCs and SFACLs		
Sub-component 2.2 – Mobilizing Migrant Resources and Skills 2.2.1 Migration potential/gaps and Migrant Partner Organisations identified in 16 target districts and partnership forged	▪ One contract with one Migrant Partner Organisation detailing implementation modalities of RER/SAMRIDDHI migration activities in every district		
2.2.2 Migrant Partner Organisations and NBFIs providing a range of social and economic services to migrants, returnees and their families in the district	▪ 1040 migration-related counsellors and trainers trained (Migrant Partner Organisations and NBFIs) ▪ 16 District Task Forces established on Migration and Development		
2.2.3 Migrant Association abroad are able to provide services and link migrants to partner SAMRIDDHI institutions	▪ 720 trainers trained (NRNA)		
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

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
Outputs **Sub-component 3.1 – Policy and institutional development**			
3.1.1 Pro-poor policy instruments solving key bottlenecks affecting the development of RMSEs developed in conjunction with sector stakeholders enforced	▪ At least 3 pro-poor policies or other policy instruments approved ▪ At least 10 policy positions/lobbying instruments produced and 60 policy consultations held ▪ Multi-Stakeholder Platform on Migration and Development created and operational	▪ Project reports ▪ Policy and legislation texts ▪ PMD minutes and reports	
3.1.2 Institutions involved in project implementation or advocating for RMSEs and migrants capacitated	▪ At least 30 of such organisations trained		

Glossary of Technical Terms Used

Apprenticeship

Apprenticeship is a training modality whereby apprentices, usually young people with no or limited previous professional experience, learn new professional skills on the job, while working for an employer. The employer helps the apprentices learn their trade or profession, in exchange for their continuing labour for an agreed period after they have achieved measurable competencies.

In the project, apprenticeship packages will be offered to poor people looking for a sustainable source of income and an alternative to migration, but that are not interested in or able to take the risk inherent to business development (see details in Activity 1.3.2 Apprenticeship, Appendix 4).

Business Development Services (BDS)

Business Development Services to Micro and Small Enterprises include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion (BDS for Small Enterprises – Guiding Principles for Donor Intervention, Committee of Donors' Agencies for Small Enterprises Development, 2001 http://www.enterprise-development.org/page/download?id=1291).

In the project, sustainable access to adapted BDS will be facilitated for micro and small entrepreneurs willing to expand existing businesses or create new ones. Services could cover, for example, technical and management skills development, product development and branding, marketing, certification, enterprise registration. RER/SAMRIDDHI will share the costs of services over the first year, along modalities varying with the category of enterprise (see details in Activity 1.2.2 Access to Services, Appendix 4).

Business Plan

A business plan is a written document that describes in detail how a new business is going to achieve its goals. A business plan will lay out a written plan from a marketing, financial and operational viewpoint. Sometimes a business plan is prepared for an established business that is moving in a new direction.

In the project, a profitable business plan approved by the Enterprise Service Center (ESC) or the ESC Management Board (depending on the type of enterprise) is a condition to access project-financed services. Business plans will identify business objectives based on market demand, key features, the type of technical and business support required to achieve business targets, as well as financing needs for working capital and investment (see details in Activity 1.2.2 Access to Services, Appendix 4).

Business-to-business linkages

B to B linkages are collaborative business linkages, which are explicitly built up by enterprises out of mutual interest. Enterprises join a formal or informal group with the aim of bringing about a win-win situation for the parties involved. Business linkages are horizontal when they are developed among enterprises or vertical when they link enterprises with suppliers on the one hand and buyers on the other:
Horizontal business linkages are especially advantageous for micro, small and medium enterprises because, through cooperation, they can overcome the limits set by size. Through vertical business linkages enterprises integrate themselves into market driven domestic or international value chains (GTZ, Promoting Business Linkages, Overview and Tool, 2006 http://www.dialog-im-mittelpunkt.de/pdf/veroeffentlichung_business_linkages.pdf).

In the project, ESC will promote business-to-business linkages, such as outgrowers' schemes, clusters of enterprises (see below), integration in commodity organisations business associations, backward and forward linkages with value chain stakeholders, or other collective forms of organisations, with a view to achieve economies of scale, enhance RMSEs access to markets and ensure their continued access to services (see details in Activity 1.2.2 Access to Services, in the main report and in Appendix 4).

Clusters

Clusters of enterprises are groups of enterprises that are geographically close to one another and that share common features. First, they may use the same suppliers of raw materials and other inputs, especially when they are active in the same industrial sector. Second, they may cater to the same markets and clients (e.g. the local handicraft market), even when producing different goods. Finally, they share the same territory, its infrastructure, services and, in many cases, a common cultural identity. Enterprises within a cluster also often face common obstacles and challenges including, for example, a lack of infrastructure or limited access to capital. Besides enterprises, clusters also include support institutions, such as: business associations, BDS providers, financial service providers or public authorities such as local, regional and national governments and regulatory agencies (UNIDO, the UNIDO Approach to Cluster Development, Key Principles and Project Experiences for Inclusive Growth, 2013
http://www.unido.org/fileadmin/user_media_upgrade/What_we_do/Topics/Business__investment_and_technology_services/CUP/UNIDOs_CLUSTER_APPROACH.PDF)

In the project, clusters will be developed as a modality of business linkages enabling RMSEs access to services and markets (see details in Activity 1.2.2 Access to Services, in the main report and in Appendix 4).

Enterprise Service Centres (ESCs)

An Enterprise Service Centre (also called one stop) is a business model offering customers the convenience of having multiple needs met in one single location, i.e. where customers can get all they need in just ‘one stop’ instead of having to go to multiple, different places, thereby gaining time and efficiency.

In the project, the Enterprise Service Centre is a public-private partnership facility, which will facilitate entrepreneurs’ access to the services they need for creating a new enterprise or expanding a new one. ESC role will be to make available updated information on markets and business opportunities, to facilitate RMSE linkages with qualified Business Development Services (BDS)[4] and financial service providers, to promote business linkages and RMSE inclusion in supply chains, and to provide information and counselling on migrants’ issues. They will also be RMSE entry point to access project support, including business planning and financial packages to share the cost of BDS over the first year (see details in Sub-component 1.1– Mapping and setting up capacities at district and corridor level, in the main report and in Appendix 4).

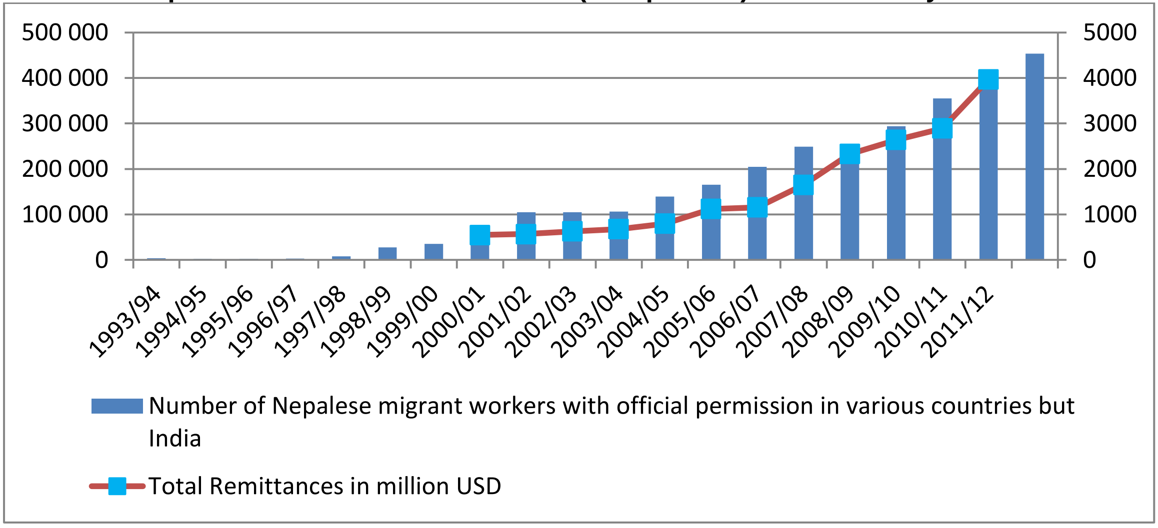
[4] According to the definition of the Committee of Donors’ Agencies for Small Enterprises Development, BDS include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion (BDS for Small Enterprises – Guiding Principles for Donor Intervention, 2001).

I. Strategic context and rationale

A. Country and rural development context[5]

1. **Slow economic growth.** Nepal has a population of 26.6 million people, of whom 56% are 20-40 years of age. It is a low-income country with a per capita GDP of USD 730[6], 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 declining agriculture sector (35% of GDP[7]) and stagnating industry (15% of GDP) are constrained by low rates of domestic investment, challenging regulatory requirements, a risky business environment, limited connectivity and a lack of support services. The development of the service sector is partly due to the boom of migration remittances, which have been multiplied by six since 2003/2004 (see Figure 1) and now constitute 25.5% of a USD 17 billion GDP (approx. USD 4.3 billion remittances).

Figure 1: Remittance flow and number of Nepalese migrant workers with official permission in various countries (except India) in the last 20 years



Source: DoFE data (FY 2012/13)

2. **Decreasing poverty with disparities.** Poverty incidence decreased from 42% in 1996 to 25 % in 2010, primarily due to the impact of remittances. Poverty remains overwhelmingly rural, with rural population accounting for 88% of the poor and a poverty gap index in rural areas that nearly doubles that of urban areas (6.0 to 3.2). Deeper poverty, but lower density, is a feature of remote hill and mountain zones, whereas due to higher population density, Eastern and Central plains (Terai) have higher density of poverty compared to the rest of the country. Central Terai not only has the largest number of poor, but it also has the greatest density of poor per km^2 (over 250 per km^2, compared to 85-120 poor per km^2 in hills, and often much less than 50 per km^2 in the mountains) and the strongest prevalence of malnutrition in young children (50% and more).

3. Despite the overall reduction of the gender gap, revealed by a steadily increasing gender development index, discrimination persists. Women have a lower access to capital assets and only 39% of rural women are literate, as against 67% of men. Widespread migration has led to a feminisation of agriculture. While remittances provide women with cash for household consumption, they have to take on the additional burden of running the farm and heading the household and they struggle with gender-related economic disparities reflected in lesser access to productive assets, credit, and income-earning opportunities. It is estimated that 31% of the poor are female-headed households and most of them are engaged in agriculture. *Dalits* and *Janajatis* (indigenous peoples)

[5] Details in Appendix 1 - Country and rural context background, and Working Papers 1 - Overview of Potential Target Area and Value Chains, and 7 – Institutional Development and Project Implementation Set Up.
[6] Databank; The World Bank
[7] Department of Agriculture, Government of Nepal website

also suffer from higher poverty rates. Several institutional improvements have not achieved a significant reduction in socially embedded discrimination.

4. Poverty alleviation is the most challenging task of the Government of Nepal. The current three-year plan (2010/11-2012/13) has poverty alleviation as the major agenda: to bring down poverty at least by 21% by 2015. The plan also gives high priority to employment and aims at creating 1.1 million additional jobs over the plan period.

5. **Low returns from agriculture.** Despite a slight urbanization trend, 83% of the population continues to be located in rural areas, from 50 m to 4500 m altitude on the slopes of Himalaya. Agriculture employs 80% of the active population, but only accounts for one third of GDP, reflecting overall low productivity of the 4 million small farms. Due to rapid population growth, landholding size has declined to an average of 0.7 ha per household, with 55% having less than 0.5 ha, including 50% of landless families. Low return of farming activities and lack of access to land have dramatically reduced the share of agriculture in household income, from 61% in 1995-96 down to 28% in 2010-11, and wage labour and remittances now altogether represent over two-thirds of family income. Agriculture wage earners are the poorest population category (47% of the poor), followed by the agriculture self-employed (27%).While changing urbanisation patterns create a new demand for goods and services, low access to support services and credit, limited access to vocational training and a cumbersome business environment constrain the development of alternative employment opportunities.

6. **MSEs: untapped development potential.** Micro-Cottage and Small Enterprises (MSEs) constitute the bulk of the industrial sector – they contribute more than 80% of industrial employment, 70% of the total industrial output and 75% of total exports. In addition to the estimated 130,000 registered and operational MSEs, a much larger number of MSEs are informal. Some 79% of micro enterprises are found in the rural sector, with an almost balanced participation from men and women. Main opportunities for developing MSEs both in the farming and off-farm sectors include:

- *Agri-business*: varied geographical and climatic conditions enable all-season production of a wide variety of agricultural crops, also opening scope for a range of processing and other value-adding activities, presently largely untapped. Commercial agriculture is however picking up and an agribusiness sector is emerging to meet the demand of growing urbanisation, which is generating jobs and a demand for agriculture support services;
- *Market demand*: a growing population and changing urbanisation patterns (growing market centres and new transport corridors) create new demand for goods and services. Besides, trade agreements with India, China and European countries facilitate market access for Nepalese products. Nepal has comparative advantages in terms of seasonality, low cost of labour and agro-ecological conditions allowing to grow products in high demand on export markets and produced exclusively in Nepal;
- *Migration:* migration also generates new economic activities, particularly in the construction and telecommunication sectors. Aside from remittance, migrants bring back new skills, innovation mind-set, networks in the countries of destination and a capacity to take risks. Yet at the moment, this potential is largely unexploited.

7. Nepal ranks 105 over 189 countries in the IFC/World Bank's *Doing Business* index (2014). Main constraints are as follows:

- *Insufficient infrastructure*: the coverage of economic infrastructure is improving, but communities living outside district centres remain isolated, particularly in the Hills and Mountains. While Nepal has a large potential to develop sources of renewable energy, only about 35% of the rural population has access to limited and unreliable electricity supply, using it mostly for home consumption. Mobile phone penetration is high (70%), but rural areas have irregular coverage and the potential offered to bridge rural communities access to services and information remains mostly untapped;
- *Lack of skills, technology and organisation: in the entrepreneurial sector:* the lack of skills and the reliance on out-dated technology affect productivity, which remains low, as well as the quality, packaging and branding of products. Most entrepreneurs carry out their activities individually.

When existing, associations of entrepreneurs usually lack the skills and organisation to provide demand-based services to their members;

- *Difficult access to markets:* most micro-enterprises supply only local markets, because of isolation and of the lack of knowledge about market opportunities. Competitiveness is also an issue, particularly with Indian and Chinese cheap manufactured goods;
- *Low access to support services:* entrepreneurs have limited access to business development services (BDS) because of the lack of appropriate structures and the limited BDS market. Access to credit is hampered by the limited outreach of operational financial institutions in the rural areas, as well as by regulations only accepting land and houses as collateral;
- *Political instability:* prolonged political instability and strikes have constituted a major obstacle to MSEs development, affecting the circulation of goods and generating widespread mistrust in the capacity of government institutions to extend support services.

8. **Policies.** Finally, the lack of insufficient MSE policies, laws and regulations and an overly rigid application of rules also contribute to slow sector development. Policy measures in support of MSEs were introduced by the 2010 Industrial Policy, which aims at reducing poverty through sustainable and broad-based industrial development, building on public-private-cooperative partnerships. Main strategic orientations include developing services to micro enterprises, cottage and small industries, facilitating market access and promoting associations and cluster organisation. The Micro-Enterprises Development for Poverty Alleviation Programme (MEDPA) is a recent government-programme aiming at supporting micro-entrepreneurs below the poverty level that is building on the Micro-Enterprises Development Programme (MEDEP), a 15 year old project financed by UNDP and Australia. MEDEP will hand over all its activities to the Ministry of Industry (MOI) by 2017. The Agriculture Development Strategy (2013) promotes value chain linkages and smallholders' inclusion as well as the development of small and medium enterprises. Policies often fall short of execution in the absence of regulation and other implementation measures.

9. **Institutions.** MOI is responsible for industrial promotion and development. The Department of Cottage and Small Industries (DCSI) and the Cottage and Small Industries Development Board (CSIDB) are responsible for promoting and strengthening cottage and small industries and for implementing MEDPA program. Both face insufficient resources, skilled staff and equipment, but have experience with outsourcing to implement their regular activities. The *Federation of Nepalese Chambers of Commerce (FNCCI)* was established in 1965 with the aim of promoting business and industry while protecting the rights and interest of private business and industrial communities. FNCCI membership includes 92 district/municipality level chambers in 75 districts of Nepal and 76 commodity/sector associations. FNCCI implements One District One Project and One Village One Product projects, which are entirely financed by government resources. *District Chambers of Commerce and Industry (DCCIs)* are the district organisation representing the business community and providing support services such as capacity building, business and market information, business linkages and market promotion. FNCCI keeps a classification of DCCIs in three categories, based on criteria such as the number of members, the existence of physical facilities or the number of staff. Over the 16 DCCIs of RER/SAMRIDDHI target districts, 5 are in category A (strongest), 7 in category B and 4 in category C (see details in WP 6). DCCIs have a limited membership of micro-enterprises but are interested in expanding their member base and see potential in developing linkages between larger and micro-enterprises to develop a suppliers' base, access markets and enhance competitiveness. Both FNCCI and its DCCI members have recently engaged in developing a wider range of services to members. DCCIs are also partnering with the Youth Self-Employment Fund (YSEF), a government institution, for the monitoring of YSEF loans. The *Agro-Enterprise Centre (AEC)* is FNCCI agribusiness arm. It provides services to DCCIs and promotes small producers' inclusion in the agribusiness sector through the implementation of government and donor-financed development projects[8], in partnership with DCCIs. The *Federation of Nepal Cottage and Small Industries* (FNCSI) was established in 1990. It is actively engaged in policy dialogue at the national level, but while it has representation in 74 out of 75 districts, only about 20 chapters are active and the Federation lacks resources and capacities to provide regular services to members. *District Industry Promotion Committees* are multi-stakeholders' platforms addressing issues related to enterprise

[8] Including two projects financed by IFAD (High Value Agriculture Project in Hill and Mountain Areas – HVAP and Improved Seeds for Farmers Programme – ISFP), and two projects financed by ADB (High Mountain Agribusiness and Livelihood Improvement Project – HIMALI, and Raising Incomes of Small and Medium Farmers Project - RISMFP).

development at district level, which have been created in part of the districts in application of the Local Self-Governance Act enabling the District Development Committee to create multi-stakeholders sector committees.

10. **Growing migration[9].** Migration is a direct result of the lack of economic opportunities in the rural areas and of an increasing demand of short-term labour migration from the Gulf Countries and Malaysia. An estimated 3 million Nepalese (of which 13% women), mostly from the rural areas, are employed abroad and send remittances to around 55% of rural households. In the rural areas, the annual amount received per household averages NRP 21,000. While the volume of remittances has dramatically increased (from NPR 12,958 million in 1995/95 to NPR 259,088 million in 2010/2011), only an estimated 19% is transferred through financial institutions, where remittance services are generally not linked to other types of financial services. Only 2.4% of total remittances are invested in capital formation, 0.6% in saving and 0.5% in business, largely because of a lack of information and services to support business investment. Similarly, there are no government policies or programmes to support a more effective use of remittances. As a result, a large number of migrants that have returned to Nepal decide to leave on foreign employment again. The Foreign Employment Promotion Board (FEPB) was established in 2008 and is chaired by the Minister for Labour and Employment (MOLE). While it is responsible for developing policies and programmes for foreign employment, including returnees' reintegration, and for promoting the use of remittances for development, so far it has mainly been focusing on organising a two-day pre-departure orientation course and on providing assistance to social rescue and handling of death cases. The current three-year plan however aims at managing the flow of remittance through formal channels and at encouraging remittance investment for business development.

Table 1 - Summary statistics of remittance in Nepal

Description	1995/96	2003/04	2010/11
Percentage of all household receiving remittance (%)	23.4	31.9	55.8
Nominal amount of remittance per recipient household(NPR)	15,160	34,698	80,436
Share of total amount of remittance received by household			
From Nepal (internal) (%)	44.7	23.5	19.6
From India (%)	32.9	23.2	11.3
From other countries (%)	22.4	53.3	69.1
Share of remittance in total household income among recipients	26.6	35.4	30.9
Nominal per capita remittance received for all Nepal (NPR.)	625	2,100	9,245
Nominal total amount of remittance received (million NPR.)	12,957.8	46,365.5	259,088.5

Source: Nepal Living Standards Survey, 2010/11 (CBS)

B. Rationale

11. **Limited economic opportunities.** While the Eastern and Central Terai and hills are fertile regions holding favourable conditions for agriculture, because of demographic pressure and landlessness they also have the largest numbers of poor in the country. The majority of the population still lives on low input-low output agriculture that provides limited income. Families that cannot live on agriculture have few alternatives aside from wage labour and widespread migration.

12. Although migration offers a security valve and allows migrants to learn new skills, it also has social costs such as the drainage of most qualified individuals and the disintegration of households and of the community at large, mainly in the rural areas. Moreover, it brings limited returns to poorer families because of the high cost of migration loans that need to be repaid, and of the lack of mechanisms to assist migrants and their families to invest part of the remittances into activities that

[9] For more information please refer to Working Paper 5 - Migration and Remittances.

can bring sustainable returns. As a result, the majority of migrants are unable to break the cycle of migration.

13. **New potential.** As indicated in the previous section, a set of new opportunities open up potential and markets for rural enterprises, and particularly for Rural Micro-Cottage and Small Enterprises (RMSEs), both in the on-farm and off-farm sectors. The demand for the production and processing of high value crops and Non-Timber Forest Products (NTFPs) is growing both on domestic and export markets. Rapidly growing settlements along the East-West Highway and in urban and semi-urban centres create demand for locally produced goods and services that can sustain competition with Indian products. Due to the flow of remittance money, opportunities in construction and services are also expanding. In addition to remittances, migrants bring back skills and business ideas that, if properly supported, can generate revenues and jobs, and open access to new technologies. Finally, emerging business models for business to business linkages, cluster development and outgrowers' schemes also hold a lot of potential, particularly for connecting small farmers and entrepreneurs from the hills to markets in Terai that can absorb increased production.

14. **Project scope.** In line with the National Development Plan, the Industry Policy and the Agriculture Development Strategy, the Rural Enterprise and Remittance (RER) / SAMRIDDHI[10] 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 micro and small enterprises that can generate better income and jobs in both farming and non-farming sectors,* tapping on the potential offered by road connections, a network of small towns and markets with a growing demand for goods and services, and opportunities to develop profitable, agriculture-related activities. To this effect, it will facilitate the access of new and existing small-scale rural entrepreneurs to responsive, gender-sensitive and sustainable support services so that they are able to identify market and business opportunities, improve their technical and management capacities, access financial resources at an affordable cost, and develop profitable and sustainable enterprises. Improved access to entrepreneurship development services will also enable migration returnees and remittance recipient households to develop alternative livelihoods to foreign employment and to break the cycle of migration. *Second, it will promote vocational training and apprenticeship in direct connection with gainful job placement* for poor people that are looking for a sustainable source of income and an alternative to migration, but that are not interested in or able to take the risk inherent to business development.

15. **Target area[11].** In the last two decades, donors' assistance (including IFAD's) has been focusing on the Mid and Far Western regions, with local absorption capacities now reaching saturation. Central and Eastern plains and hills host areas of intense poverty, particularly along the Indian border and among marginalised people. RER/SAMRIDDHI will be implemented in the Eastern and Central Development regions, focusing on Terai and hills districts, where demography and connectivity can sustain improved services and market access. Central Terai as well as having the largest number of poor also has the greatest poverty density of all the country. Five Terai districts in the Eastern region are among the top ten districts that send the highest numbers of migrant workers abroad.

16. **Target activities.** RER/SAMRIDDHI will support all types of family, micro and small entrepreneurs that hold potential for profitability in both farm and off-farm sectors. However it will also identify key value chains and sectors holding more potential for RMSEs inclusion and for the development of business partnerships and will encourage entrepreneurs, in particular new ones, to join those. A preliminary assessment of priority agriculture-based value chains has been carried out as part of the design process (October-December 2013). The analysis[12], which is also in line with the Nepal Trade Integration Strategy (2010) and the Agriculture Development Strategy, identified nine key value chains (large cardamom, turmeric, ginger, vegetables, sugar cane, banana, domestic goats, *lokta* paper and *allo* (nettle) fibre production), which hold potential for both production and processing. It is expected that a majority of RMSEs will develop along agriculture-based value chains, as the agriculture sector offers the largest range of opportunities, in terms of both resources and markets.

[10] Samriddhi means "prosperous" or 'economically well-off'' in Nepalese.
[11] For more information, see Working Paper 1 - Overview of Potential Target Area and Value Chains, Appendix 2 - Poverty, Targeting and Gender, and Working Paper 2 - Poverty, Targeting and Gender.
[12] See Appendix 1 – Country and Rural Context Background, and Working Paper 1 - Overview of Potential Target Area and Value Chains.

However the design mission has also identified further opportunities in non-agriculture sectors, in particular with: construction (services and production of construction material); telecommunications; repair and maintenance of mechanical, electric and electronic equipment; and weaving. Table 2 provides a list of sectors with potential for RMSE development.

Table 2 - Categories of economic activities for RMSEs

1.	Agriculture and forestry (vegetables, fruits ,spices, livestock, NTFPs)
2.	Fishing (aquaculture, tilapia, trout)
3.	Mining and quarrying
4.	Manufacturing and recycling (food production, juice factories, clothing…)
5.	Handicraft (existing in almost every village of Nepal)
6.	Electricity and water supply (micro- hydro, solar energy installation and repair)
7.	Construction (masons, carpenters, electricians, production of tiles and bricks…)
8.	Wholesale and retail trade
9.	Hotels, restaurants, homestays…
10.	Transport (trucks, taxis…), storage and communications
11.	Workshops (yielding, weaving , mechanics…)
12.	Social and personal services

17. **Public-private partnerships (PPPs) and business linkages.** While MOI will have overall implementation responsibility, the project will promote public-private partnerships, whereby it will offer incentives to private organisations and service providers to extend quality and affordable services to the target population, in line with government objectives. District Chambers of Commerce and Industry (DCCIs) will manage and progressively finance Enterprise Service Centres that will provide existing and potential entrepreneurs with information on business opportunities, facilitate linkages to service providers and promote business partnerships. The organisation of vocational training and apprenticeship and the facilitation of gainful job placement will be entrusted to technical education and vocational training service providers from the public and private sector, working in close connection with employers. Capacity building will be provided to financial institutions so that they can better reach out to the target populations and extend the services they require. Migrants associations will receive capacity building and operational support to supply advisory services and peer-to-peer mentoring to migrants and refer them to financial and non-financial service providers. All contracts benefitting from project financing will rest on competitive bidding and will integrate modalities that will remunerate performance. It is expected that such an approach will ensure a better match between the demand and supply of services, will contribute to the development of sustainable service markets and will harness private financing in support of rural development and job creation.

18. Adopting a value chain approach could also allow the identification of possible business partnerships between family and smaller enterprises (categories A and B) and larger companies (categories C and D) within the value chain. Business partnerships would allow larger companies to expand their activity by developing the local supply of intermediate goods and services by smaller enterprises, while small producers/enterprises would benefit from linkages to secure markets and access to technology, services, innovation and knowledge. Clustering would offer an alternative modality, whereby smaller and larger companies located in the same geographical area would share common infrastructure and services, cater for a common market, or use the same suppliers. RER/SAMRIDDHI could play an important role in creating the right conditions for such mutually beneficial business linkages to flourish, and in forging viable partnership models bringing together the interests of all parties along equitable and transparent modalities. The project will promote such arrangements through DCCIs and possibly with technical assistance, building trust between parties or supporting sustainable collaborations[13]. Additionally, it can help business partners advocate for policy changes and public investments that may be required to make these partnerships viable.

19. Business partnerships and clustering can be based on many models. One possible model would be with companies interested in sourcing a specific quantity and quality of products and willing to engage in a “business-to-business” sub-contracting relationship with small scale producers or micro-enterprises. Nepal offers a good number of examples of this type of arrangements in different

[13] IFAD-funded High Value Agriculture Project in Hill and Mountain Areas (HVAP) has adopted this approach and aims at fostering these types of partnerships.

sectors/value chains. The design mission was able to visit some of them in the RER target regions: e.g. a sugar mill with a paper-making business, and an orange juice processing mill, all of which are employing 300 to 600 people and source raw materials from small-scale producers. An alternative model could be the promising experience of the GoN–financed and FNCCI/AEC-managed One District One Product (ODOP). Under ODOP a new enterprise is set-up with co-ownership of small producers, a private sector company and the government, to manage a processing and value adding activity and related infrastructure for a specific product in a selected value chain. RER/SAMRIDDHI could explore opportunities for replicating the same approach in its target districts.

20. **Migration contribution to development.** RER/SAMRIDDHI will support returnees and migrant families in developing profitable businesses, both by ensuring that they access mainstream processes such as the Enterprise Service Centres, but also by devising specific mechanisms so that they make the best possible use of their skills and resources, and in particular of their remittance, in creating assets and developing business. These mechanisms build on successful experience gathered through existing in-country initiatives as well as two grant projects financed by IFAD Financial Facility for Remittance (FFR), i.e. Economic Security of Women Migrant Workers in Nepal, implemented by UN Women, and Promotion of Migrants' Savings and Alternative Investment through Selected Micro-Finance Institutions in Nepal, implemented by the Nepal Centre for Microfinance (see Section II D). RER/SAMRIDDHI will be the first IFAD-funded project to up-scale and mainstream FFR good practices into a loan project, for which FFR has been closely participating in project design. Moreover, RER/SAMRIDDHI will also be the first project to promote a comprehensive set of mechanisms fostering remittance investment into livelihood development in Nepal.

21. **Linkages with IFAD programme.** RER/SAMRIDDHI will contribute to all three strategic objectives of IFAD's Country Strategic Opportunities Programme (COSOP), i.e. (i) promote rural income diversification and stimulate employment; (ii) strengthen food security and resilience to climatic and other risks; and (iii) promote inclusive, accountable and sustainable rural institutions. Aside from the above mentioned grants, it will also rely on the experience and knowledge gained through another IFAD-financed grant, the Skills Enhancement for Employment Project (SEEP, 2007-2011), which was implemented by ILO (see Section II D). As all other projects composing IFAD programme, RER/SAMRIDDHI will benefit from the services provided by the Country Programme Implementation Support Unit (CPISU)[14], to ensure enhanced performance and the harmonisation of implementation processes throughout the programme. It will also receive support from the Rural Finance Unit that is part of the Improved Seeds for Farmers Programme, which provides services to all IFAD-financed projects to support harmonisation of rural finance approaches and foster up-scaling. Finally, it will receive technical support from two IFAD-financed regional grants. The International Centre for Integrated Mountain Development (ICIMOD), which implements a project called 'Improving Livelihoods and Enhancing Resilience of the Rural Poor in the Hindu Kush Himalayas to Environmental and Socio-Economic Changes', has contributed to project design and will provide methodological support and pilot testing for poverty mapping and for a detailed assessment of successful cases of financial and social remittances[15] stimulating rural micro-enterprises, linkages to value chains and rural employment. PROCASUR (ROUTASIA) Asia, an NGO that develops RoutAsia, a set of new instruments to promote knowledge management, will provide assistance in promoting peer-to-peer learning processes through the learning route methodology, which has already been tested in IFAD's programme in Nepal.

22. **Other donor-funded initiatives.** RER/SAMRIDDHI design builds on the analysis of a range of models developed by donor-financed initiatives. Selected projects financed by other donors were also reviewed during project design in the field of: *enterprise development and business development services* (Micro-Enterprise Development Programme (MEDEP) financed by UNDP and Australia; the Informal Sector Enterprise Development Generation Programme (ELAM) financed by Helvetas; INCLUDE financed by GIZ; UNNATI financed by DANIDA); *vocational training* (the Employment Fund, financed by SDC, DFID and the World Bank; Education for Income Generation (EIG) financed by USAID); *financial inclusion* (UNCDF, UNDP and GIZ); and *migration and remittances* (Safe Migration (SAMI) financed by SDC; and various IOM initiatives). IFAD will seek partnerships: (i) with Helvetas to

[14] Also called *Saha Yatri*, (meaning companion in Nepali), which brings together national experts extending technical support in financial management, procurement, and monitoring and evaluation to all the projects composing IFAD portfolio in Nepal
[15] Social remittances refer to new ideas, behavioural changes, knowledge and skills that migrants bring/remit from destination to origin communities.

assist in implementing activities related to vocational training, apprenticeship and job placement; (ii) with SAMI to deliver financial education to the assessment of migrants and their communities in the target districts; (iii) with UNNATI for promoting value chain development and strengthening financial institutions in three common districts; (iv) with UNCDF for the assessment and financial institution capacity building of Savings and Credit Cooperatives and Small Farmers' Agricultural Cooperatives Limited; with the World Bank and ADB for the development of a Financial Regulatory Commission to supervise the non-bank financial institution sector; and (v) with INCLUDE to build on their past experience with One Stop Shops in the Eastern region and with their current promotion of nucleus counselling through FNCCI, as well as to facilitate the building and channelling of knowledge and experience from RER/SAMRIDDHI supported ESCs in the target districts to FNCCI and its DCCI members. Partnership modalities will be explored and developed in consultation with the government.

II. Project description

A. Project area and target group[16]

23. **Target areas.** The project will be implemented in 16 districts of the Eastern Development Region (EDR) and Central Development Region (CDR) as per Table 3.

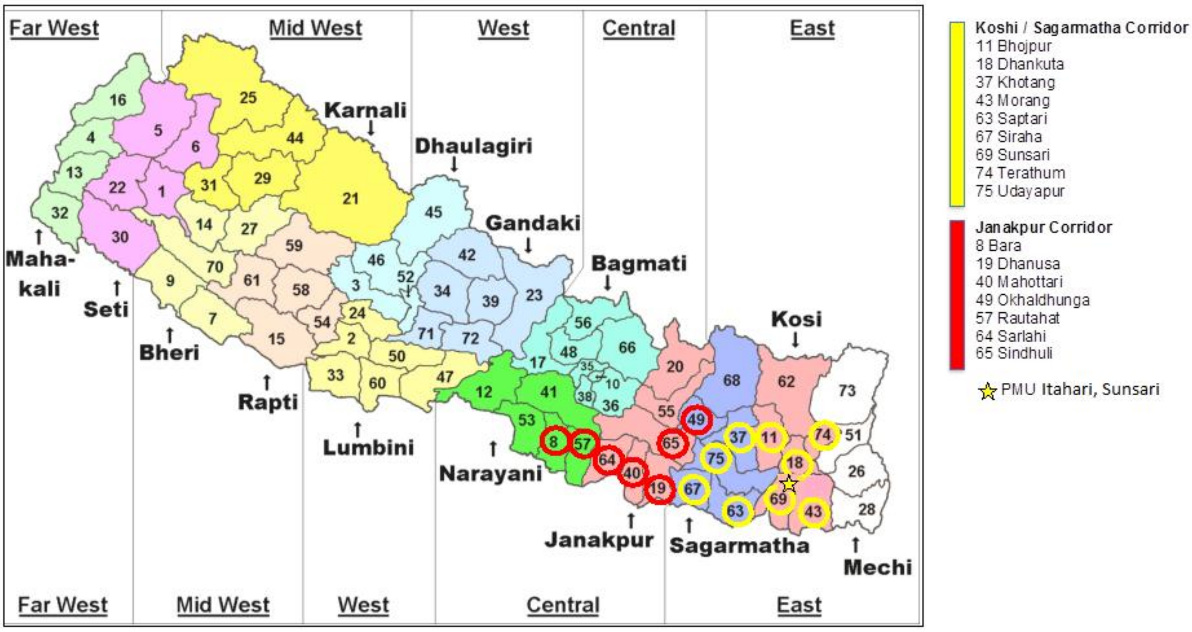
Table 3 - Target corridors and districts

Koshi/Sagarmatha Corridor	Janakpur Corridor
Terai (Plains)	
Morang (EDR) Saptari (EDR) Siraha (EDR) Sunsari (EDR)	Bara (CDR) Dhanusa (CDR) Mahottari (CDR) Rautahat (CDR) Sarlahi (CDR)
Hills	
Bhojpur (EDR) Dhankuta (EDR) Khotang (EDR) Terathum (EDR) Udayapur (EDR)	Okhaldunga (EDR) Sindhuli (CDR)

24. Figure 2 shows RER/SAMRIDDHI target districts on the map of Nepal.

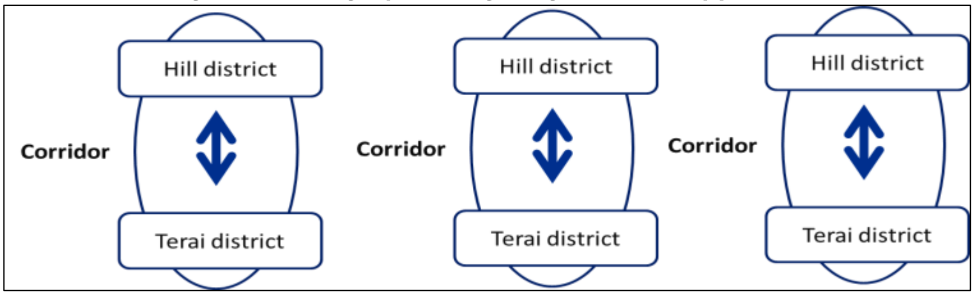
[16] Details in Appendix 2 - Poverty, targeting and gender and Working paper 2 - Poverty, targeting and gender.

Figure 2 - RER/SAMRIDDHI target districts



25. Building on the successful experience of other IFAD-supported projects, RER/SAMRIDDHI will adopt a corridor approach, whereby it will link districts along main roads running south to north from the plains to the hills, to facilitate hill districts connection to larger markets in Terai.

Figure 3 - Geographic targeting: corridor approach



26. District coverage will be phased over the first three years (see Section III A). Within the selected districts, RER/SAMRIDDHI activities will not target specific Village Development Committees (VDCs), but will rather be developed over the whole district territory. Activities will initially be concentrating on focus areas, which will be selected based on their economic potential and on poverty concentration, building on the Corridors Potential Mapping and Assessment to be carried out at project onset and on poverty mapping (see below).

27. **Target groups.** It is expected that RER/SAMRIDDHI will directly benefit approximately 179,660 primary beneficiaries, who will either create or expand their own business, or be hired as skilled or unskilled labour by companies of all sizes. The *primary target group* will include: (i) existing formal or informal rural micro-entrepreneurs that have a potential for development and expansion of on-farm or off-farm activities; (ii) poor households, particularly the families that are landless or close to being landless, unemployed or underemployed youths, women and marginalized groups, who are interested in developing a business, or, alternatively, to secure a sustainable wage-earning job; (iii) returnee migrants and remittance receiving households; and (iv) small enterprises that either play a key role in securing microenterprise access to inputs, services and markets, or have a potential to generate employment. The project will also provide financial education to 213,120 people, mostly migrants or from migrants' households both in-country and abroad, to support financial inclusion. Altogether, it is expected that around 80% of the target population will belong to the population under the national poverty line or to nearly poor families, as per the government's classification (see WP 2). Table 4

shows the distribution of poverty categories along the categories of target enterprises, in line with the government's classification.

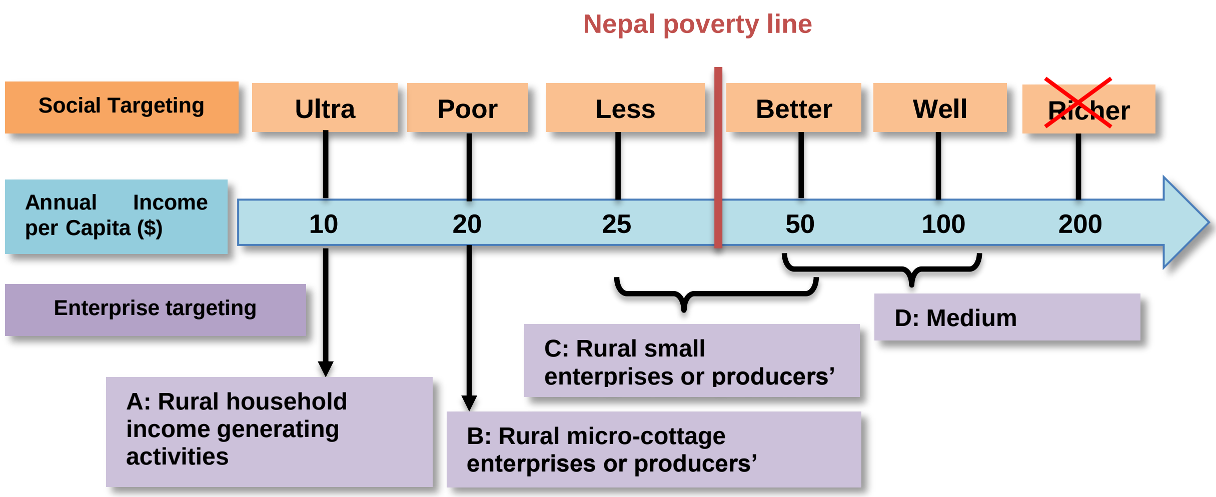
Table 4 - Poverty categories and categories of target enterprises

Categories of rural enterprises	Poverty categories
Type A: Rural household income generating activities	Population under poverty line
Type B: Rural micro-cottage enterprises or producers' organizations	Population under poverty line and nearly poor
Type C: Rural small enterprises or producers' organizations	Nearly poor and well-off
Vocational Training and Apprenticeship	Population under poverty line and nearly poor

28. The project will also directly target the nearly poor population because without opportunities of livelihood diversification and additional source of income, they are at the risk of falling back into poverty. RER/SAMRIDDHI will ensure that women constitute 33% of project beneficiaries, and young men and women constitute at least 40% of the target group. At least 30% of RER/SAMRIDDHI beneficiaries will be migration/returnees or remittance receiving families.

29. The *secondary target group* will include medium enterprises and large enterprises, as well as service providers. They will extend support to the primary target group, through the provision of financial and non-financial services, the development of vocational training and apprenticeship packages in connection to job placement, as well as business partnerships.

Figure 4 - Poverty line, social targeting and type of enterprises



30. Furthermore, project investments will lead to *indirect benefits* for RMSEs and poor households even out of the target area, as they will gain from: (i) the dissemination of evidence-based business models through MOI, FNCCI and Regional Chambers of Commerce and Industry as well as multi-stakeholder platforms at the regional and national level; (ii) the building of financial institutions capacities to better respond to RMSE's financing needs; and (iii) the building of capacities of district Departments of Cottage and Small Industries/Cottage and Small Industries Boards as well as of FNCCI to facilitate RMSEs development, to support business partnerships and to promote inclusion.

31. **GESI Strategy.** A Gender Equality and Social Inclusion (GESI) Strategy will be developed at project outset with a view to ensure that women and poorer groups' access project benefits. An Implementation Plan will also be prepared, which will be updated annually, in conjunction with the preparation of the Annual Work Plan and Budget (AWPB). The strategy will be drafted by the GESI Specialist on the Programme Management Team (PMT), with support from a GESI consultant. Key features to be developed in the GESI Strategy include the following[17]:

[17] See more details in Appendix 2 – Poverty, Targeting and Gender and Working Paper 2 – Poverty, Targeting and Gender.

- *Gender mainstreaming:* the Strategy and Implementation Plans will detail specific measures designed to promote gender equity mainstreaming, support women-owned RMSEs, secure women's participation in business partnerships, and help them gaining equal access to financial and non-financial services as well as playing an active role in producers' organisations. Measures will include: women quotas (33% of women accessing support services), capacity building of service providers to deliver gender-sensitive and inclusive services, support to women-based enterprises and gender/poverty budgeting and auditing at the ESC and Project Management Team (PMT) level;
- *Mapping of poor households*: this will build on the data collected by the Ministry of Cooperatives and Poverty Alleviation for the distribution of poverty ID cards, validated by Participatory Rural Appraisals, with methodological support from ICIMOD, as part of IFAD-financed regional grant 'Improving Livelihoods and Enhancing Resilience of the Rural Poor in the Hindu Kush Himalayas to Environmental and Socio-Economic Changes'. Furthermore, the initial Corridor Potential Mapping and Assessment (see Component 1) will include an inventory of micro and small enterprises in the target districts, which will also verify either the reality of the existing enterprise or, for potential new entrepreneurs, that they have a genuine interest in developing an enterprise; (ii) further 'filtering' (elimination of people only interested in raising easy money) will occur during the initial business motivation/preparation of the business plan provided to entrepreneurs interested in expanding/creating an enterprise;
- *Outreach to the poor:* each ESC will develop an Outreach and Communication Strategy to promote ESC services and mobilise potential clients, and especially women, poor households and other disadvantaged groups as identified by the mapping. Local Resource Persons (LRPs) will support the ESC in carrying out project promotion, social mobilisation and data collection for M&E;
- *ESCs: every* ESC will comprise of three desks: (i) a Micro-Enterprise Development Desk; (ii) a Small Enterprise and Service Providers Desk; and (iii) a Migrant Desk. The first two desks will benefit from MEDEPwho has developed tools to provide BDS adapted to poorer households and the third desk with work closely with local migrant association/organizations within the same district.;
- *CPMAs:* Corridor Potential Mapping and Assessments (CPMAs) carried out at project onset will identify opportunities for business development and partnerships particularly suited to women and specific target groups;
- *Business linkages:* selection criteria of business linkages to be supported by ESCs will include the participation of and expected impact on poorer groups/women. Project support provided to facilitate the implementation of business linkages will include measures geared towards facilitating the participation of these groups;
- *Migrants:* integrating gender and women's empowerment in the different training modules provided to migrants, including for financial education; empowering women and men migrant returnees in organizing migrant associations and community-based women self-help groups in particular for conducting financial education as well as reintegration and peer-to-peer counselling; reaching out to women, in particular women heads of households that are gaining increased importance because of migration;
- *Multi-stakeholders' platforms:* RER/SAMRIDDHI will rely on existing District Industry Promotion Committees (DIPC) to develop a dialogue among stakeholders involved in RMSEs development and provide guidance to ESCs, as well as for sharing information and for organising communication throughout the district, in particular towards disadvantaged groups. The Project Management Team (PMT - see below) will ensure that DIPCs are inclusive of women and the poor, and that GESI issues are addressed as part of their regular agenda ;
- *Implementation arrangements and capacity building.* The *Project Manager* will bear overall responsibility for the implementation of the Targeting and Gender Mainstreaming Strategy and Implementation Plans. The PMT will include a *GESI specialist* who will be responsible for ensuring that targeting and gender mainstreaming are applied throughout project activities in accordance with the GESI strategy and action plans. Specific implementation responsibilities will be reflected in detailed job descriptions of *PMT staff*, and the recruitment process will secure to the largest extent possible gender and ethnic balance. Terms of reference for *service providers* will require gender-balanced teams with prior experience of gender mainstreaming and ethnic-balanced approaches and contract deliverables will reflect gender and inclusion target and

indicators. PMT, ESCs, Corridor Office staff and service providers will receive *capacity building* in effective implementation of GESI;

- *M&E and KM:* PMT M&E and KM Officers, together with the GESI Specialist, will ensure that the M&E/KM system allows the monitoring of inclusion and gender aspects. They will provide guidance to the Corridor M&E Officers and to ESCs to measure progress and will make sure that achievements and lessons learnt are made available to ESCs, DIPCs, the Multi-Stakeholder Platform on Migration and Development and other project stakeholders.

B. Development objective and impact indicators

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 rural micro, small and medium enterprises (RMSEs), in both farming and off-farming sectors, provide sustainable sources of income to poor households, migrant families and returnees. Main indicators are: (i) 60,000 rural entrepreneurs expand their existing business or create a new one; (ii) 30,000 rural youth access job placement services; (iii) 30,000 RER-supported enterprises (20,000 new and 12,000 existing) are still in business after 3 years, of which 33% owned by women/30% owned by migrant returnees; and (iv) 21,000 RER-supported vocational trainees and apprentices, of which 33% of women, are in gainful employment over at least 6 months.

C. Components and outcomes

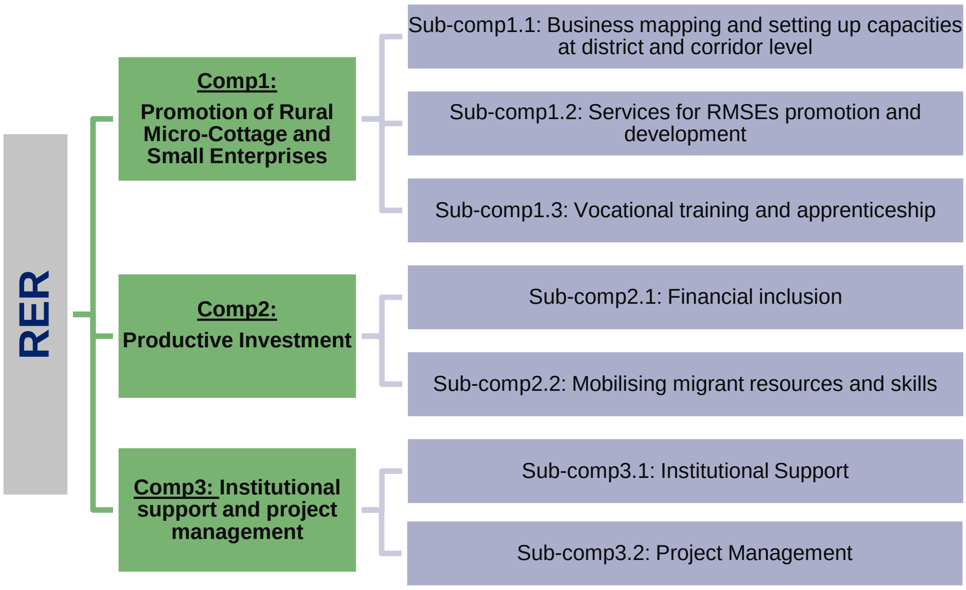
32. RER/SAMRIDDHI comprises three components encompassing the full set of interventions required to support RMSEs profitable and sustainable growth, as summarized in Figure 5 below:

- *Component 1 - Promotion of Rural Micro-Cottage and Small Enterprises* strengthens RMSEs and gathers all the activities aiming at facilitating RMSEs/migrants sustainable access to (i) *business development services*, i.e. non-financial services in support to enterprise creation or expansion; and (ii) *vocational training and apprenticeship*;

- *Component 2 - Productive Investment* builds on the results of component 1 and groups all the activities aiming at (i) facilitating RMSEs/migrants access to *financial services,* provided at an affordable cost by sustainable financial institutions and (ii) at *mobilising migrant resources and skills* for creating assets and developing profitable businesses;

- *Component 3 - Institutional Support and Project Management* includes all the activities aiming at promoting a favorable policy and institutional environment to support the development of RMSEs and the contribution of migration to sustainable development.

Figure 5 - Project components



Component 1 – Promotion of Rural Micro-Cottage and Small Enterprises (RMSEs)[18]

33. **Objectives and approach.** Component 1 has a two-fold objective. On the one hand it will provide micro and small entrepreneurs with sustainable **access to adapted Business Development Services**[19] (BDS), so that they can expand existing businesses or create new ones. On the other hand it will assist members of poor households, and especially youth, to **build their skills through vocational training and apprenticeship** and to secure gainful wage employment in RMSEs. The component design responds to four main strategic thrusts:

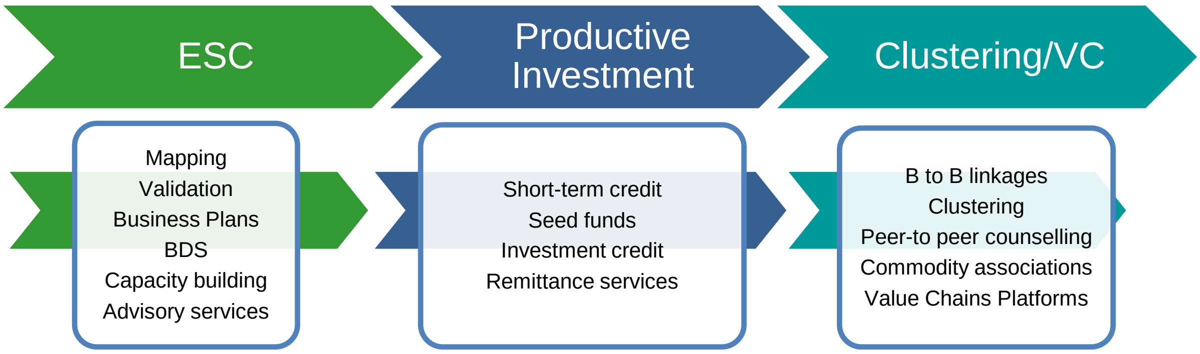
- ***Providing entrepreneurs with the information and skills they require to start-up and expand profitable businesses***, by setting up Enterprise Service Centres (ESCs) initially led by the District Offices of the Ministry of Industry and jointly managed with FNCCI (AEC)/FNCSI/NFEMEN (referred to as the ESC Management Team). ESCs will be developed by the project as a public-private partnership facility, which will facilitate entrepreneurs' access to the services they need for creating or expanding an enterprise and will support migrants and their families so that they can make the best use of their remittance. Their role will be to make available updated information on markets and business opportunities, to facilitate RMSE linkages with qualified Business Development Services (BDS)[20] and financial service providers, to promote business linkages and RMSE inclusion in value chains, and to provide information and counselling on migrants' issues;
- ***Developing a diversified and sustainable market of BDS***, by setting up, in every ESC, a roster of qualified service providers (SPs), providing capacity building to beef up the range and quality of service providers available to RMSEs, and developing different models for service delivery to facilitate sustainable access in particular by micro-enterprises;
- ***Helping RMSEs to develop business partnerships*** for gaining better access to markets and services and for increasing efficiency and competitiveness. The project will identify priority economic sectors/value chains that hold most potential for RMSE inclusion and it will promote collective action, business linkages (such as business associations, backward and forward linkages with value chain stakeholders, clusters of enterprises or nucleus counselling) and peer-to-peer counselling. This in particular will help family and micro-businesses in the hill districts in

[18] For more details please refer to Appendix 4 – Detailed Description of Activities and Working Paper 3 - Promotion of RMSEs.
[19] BDS include training, technical assistance, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion (Committee of Donor Agencies for Small Enterprise Development, BDS for Small Enterprises: Guiding Principles for Donor Intervention, 2001).
[20] According to the definition of the Committee of Donors' Agencies for Small Enterprises Development, BDS include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion (BDS for Small Enterprises – Guiding Principles for Donor Intervention, 2001).

securing market access beyond the limited opportunities offered by local markets. It is expected that a majority of such initiatives will take place along agriculture-based value chains;

- ***Promoting gainful wage employment*** by directly linking skills development to job placement. This will be achieved by contracting service providers that will bear overall responsibility for identifying job opportunities, providing related skills training/facilitating apprenticeship, and ensuring job placement.

Figure 6: Enterprise support process



34. **Main outcomes.** It is expected that by the end of the project, rural entrepreneurs have access to BDS enabling them to develop their existing businesses or create new ones and providing sustainable and gainful jobs to the poor. Main indicators will be: (i) at least 8 participating DCCIs (50% of target DCCIs) have sustainably integrated the ESC into their regular organisation; (ii) 50% of RER-supported SPs are successfully running their business at the end of the project; (iii) 57,500 RMSEs have a business plan and have accessed BDS; (iv) 23,000 RER-supported RMSEs (or 40% of target RMSEs) participate in business to business arrangements; and (v) 30,000 members of poor households have acquired employable skills. The component is organised in three sub-components: (i) Mapping and setting up capacities at district and corridor level; (ii) Services for RMSE promotion and development; and (iii) Vocational training and apprenticeship.

35. **Sub-component 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 (as indicated in Table 3 above) and at setting up the institutional capacities at district and corridor level to facilitate RMSEs access to services. Investments will cover:

- ***Corridor Business Potential Mapping and Assessments*** (CPMAs) will be carried out at project onset and again in project years 3 and 6 to identify opportunities and resources for rural enterprise development. CPMAs will include: (i) *a market assessment* to identify business opportunities and prerequisites for RMSEs to integrate key sectors and value chains with the highest returns and share of added value; (ii) *an assessment of financial and non-financial services* available, as well as of potential local trainers and facilitators; and (iii) *an inventory and assessment* of existing RMSEs and of potential new rural entrepreneurs, which will help in identifying existing enterprises and entrepreneurs eligible to project support. The process will be led by the PMT, in collaboration with ESC/Corridor Teams and with external support;
- ***Enterprise Service Centres at district level:*** in every participating district, RER/SAMRIDDHI will set up an Enterprise Service Centre, which will be initially led by the District Offices of the Ministry of Industry and jointly managed with FNCCI (AEC)/FNCSI/NMEFEN. The ESC will comprise of: (i) a Micro-Enterprise Development Desk; (ii) a Small Enterprise and Service Providers Desk; and (iii) a Migration Desk. ESC activities will be guided by a Strategic Plan, which will include: (i) a financing strategy aiming at reaching financial sustainability in five to six years; (ii) a strategy for promoting the diversification of service providers and for building their capacities; and (iii) an outreach and communication strategy to promote ESC services and mobilise potential clients, with a focus on women, poor households and other disadvantaged groups. Outreach and communication tools will include the use of Local Resource Persons (such as members/staff of DCCIs and cooperatives, existing entrepreneurs, service providers, District Micro Enterprise Groups Associations (DMEGA), Ward Citizens Forums…) who will receive capacity building; radio

programmes; decentralisation of ESCs operations and existing District Industry Promotion Committee (DIPC);

- ***Multi-stakeholders' platforms at district level:*** DIPC will provide overall guidance as well as a venue to discuss RMSEs constraints and value chain bottlenecks, agree on measures required to lift them and identify policy gaps. DIPC will also offer a venue for sharing information and for organising communication throughout the district, in particular towards disadvantaged groups. Implementation modalities and successful achievements will be shared with DIPCs to harmonise approaches for promoting RMSEs and migrants' integration. Where they do not exist yet, RER/SAMRIDDHI will provide support to set them up;
- ***Corridor Teams:*** RER/SAMRIDDHI will set up two Corridor Teams, which will support ESCs with M&E/KM, accounting and procurement, facilitate the development of business-to-business linkages within each target corridor, and implement migration-related activities throughout the corridor. One Corridor Team will be located in Itahari (Sunsari district in the Koshi/Sagarmatha Corridor), jointly with the Project Management Team, while the other will be in Bardibas (Mahottari district in the Janakpur corridor). Each Corridor Team will be composed of: one Coordinator; one Business to Business Linkages Specialist (hired by FNCCI/AEC); one Migration Manager, one Accounts Officer, one Financial and Administrative Assistant; and one M&E/KM Officer. .

36. **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. Investments will cover:

- ***BDS supply:*** RER/SAMRIDDHI will promote the diversification of service providers (SPs) by harnessing the potential offered by existing local resources such as entrepreneurs, cooperatives, regional/district branches of commodity associations, DCCI members or migrants' organisations. Qualified service providers will be registered in a roster, which will be accessible online to all of the ESCs. With support from the BDS short-term technical assistant and the Corridor Teams, each ESC will design and manage an annual capacity building programme for service providers to upgrade the capacity of its network of SPs, and in particular of local professionals starting a service provision activity, based on annual capacity assessment and client feedback. ESCs will also be assisted to develop innovative modalities for service delivery, contributing to developing a diversified and sustainable market of BDS providers;
- ***Business planning:*** eligible RMSEs will receive support in the formulation of a business plan demonstrating profitability, setting business goals and defining the strategy to reach them. New entrepreneurs will be offered a start-up training package;
- ***Access to services:*** based on approved Business Plans, ESCs will facilitate RMSEs access to the technical and financial services they need to grow by linking them to SPs. Services will cover, for example, technical and management skills development, product development and branding, marketing, certification, enterprise registration. RER/SAMRIDDHI will share the costs of services (along the specific needs of RMSEs) over the first year, along modalities varying with the category of enterprise. It will thereafter continue to facilitate access to services and support RMSEs' growth, including by: (i) offering counselling services and information; (ii) supporting mentoring and peer-to-peer capacity building modalities; (iii) facilitating linkages with SPs; and (iv) promoting business-to-business linkages (such as outgrowers' schemes, clusters of enterprises, nucleus counselling, integration in commodity organisations or other collective forms of organisations), with a view to achieve economies of scale, enhance RMSE market access and ensure their continued access to services through sub-contracting arrangements. Innovative models will be thoroughly documented. Services financed by the project in the first year will be procured by the ESC with assistance from the Corridor Team (administrative and financial managers) along result-based contracts.

37. **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. They will cover:

- ***Vocational training:*** building on a preliminary survey of wage employment opportunities, the project will select Technical Education and Vocational Training (TEVT) service providers based on a competitive process. RER/SAMRIDDHI will apply the successful methodology developed by

Helvetas, whereby result-based contracts will be passed with selected TEVT SP, who will be responsible not only for delivering training, but also for ensuring post-training gainful employment of trainees. Payment will be fractioned in several instalments, the final instalment being paid based on evidence of trainees' gainful employment for six months and a bonus will remunerate the training and placement of RER specific target groups;

- ***Apprenticeship:*** similar modalities will apply to apprenticeship with job placement. To this effect, 21,000 entrepreneurs will receive training so as to provide quality apprenticeship services.

38. **Implementation arrangements.** PMT will establish the Corridor Teams. ESCs will be set up through an MoU with the District offices of MoI and Federation of Nepal Chambers of Commerce and Industry (FNCCI)/Agro-Enterprise CentreEach ESC will have: a Management Team that will be co-chaired by the District Cottage and Small Industry Office/Cottage and Small Industry Board and the DCCI and will be responsible for ensuring the effective management of the ESC and for monitoring the implementation of its Strategic Plan; and a separate account to receive resources needed for ESC operation and activities, including RER/SAMRIDDHI funding (in a decreasing pattern), ESC revenues, DDCI/District FNCSI/DMEGA and government funding. Short-term technical assistance will be hired by the PMT to support FNCCI(AEC)/FNCSI and NMEGEN, CPMAs will be carried out jointly by ESC/Corridor Offices, with support from the PMT and a service provider hired by the PMT on the basis of a competitive process. Services to RMSEs will be procured by ESCs with assistance from the Corridor Team along result-based contracts. The project will establish a partnership with INCLUDE, whereby the two likeminded projects will exchange experience and knowledge and RER/SAMRIDDHI will be able build on the experience generated by INCLUDE in running One Stop Shops/Start-Up Agencies. Technical assistance, monitoring and overall management of activities related to vocational training and apprenticeship will be initially outsourced to Helvetas. TEVT service providers that will bear overall responsibility for identifying job opportunities, providing related skills training/facilitating apprenticeship, and ensuring job placement, and they will be contracted by the PMT. The first Mid-Term Review (2018) will assess whether the TEVT Fund to be set up by the government is operational and how it could take over from Helvetas.

Component 2 – Productive Investment[21]

39. **Objectives and approach.** Building on the results of Component 1, Component 2 will aim at a double objective. On the one hand it will support the access of RMSEs, migrants and remittance recipient households to **responsive and suitable financial services**, provided at an affordable cost by sustainable financial institutions. On the other hand it will 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. Three main strategic thrusts guided the design of the component:

- ***Developing innovative financial instruments to address key constraints faced by RMSEs and migrants*** in accessing investment loans, i.e. the lack of acceptable collateral and insufficient cash flow to meet the cost of borrowing money in the initial stages of micro-enterprise development. Instruments will include a risk-sharing mechanism and a performance-based matching grant scheme. They will be developed along modalities aimed at limiting market distortion and at encouraging the full repayment of loans, in an environment where the distribution of subsidies is a most common approach. Additionally the project will support financial institutions in developing a departure loan buy-back scheme, aiming at simultaneously reducing the financial burden of departure loans on migrant's households through the restructuring of their debt and supporting savings building that could later be used to back up an investment loan for the creation of a micro-enterprise;
- ***Improving the outreach of financial institutions*** to the rural areas and the supply of services meeting the needs of rural families, including women, poor and migrants' households by strengthening the capacity of rural Savings and Credit Cooperatives (SCCs) and Small Farmers' Agricultural Cooperative Limited (SFACLs), which constitute the largest number of financial institutions in the rural areas, so that they can better serve their members as well as link up to financial institutions to channel remittances and access on-lending loans. The project will also

[21] For more details please refer to Appendix 4 – Detailed Description of Activities and to Working Papers 4 - Financial Inclusion and 5 - Migration and Remittances.

assist commercial banks and larger micro-finance institutions in expanding their networks of rural agents and in developing innovative modalities for the delivery of financial services, i.e. branchless or mobile banking;
- ***Promote migrants' and migrants families' access to economic services*** allowing them to best use remittances not only to improve daily families' livelihoods, but also to build savings, invest in profitable economic activities and prepare successful reintegration. This will be achieved by building the capacities of migrant centres and associations in the target districts, building on the existing and, where necessary, assisting in the creation of new structures. As demonstrated by experience in other countries, successful approaches for the mobilisation of remittances are those implemented on either side of migration corridors. RER/SAMRIDDHI will therefore also build the capacities of migration trainers to provide financial education and advisory services in four major destination countries of its target group (three Gulf countries and Malaysia), in partnership with the Non-Resident Nepali Association.

40. **Main outcomes.** It is expected that by the end of the project, RMSEs and migrants have access to financial services enabling them to sustain and expand their business as well as to use remittances for business investment. Main indicators will be: (i) 37,500 RMSEs, of which 33% owned by women and 9,500 owned by migrants, have access to investment loans; (ii) 28,000 migrants/migrants' families open a bank account and save part of their remittances; and (iii) 213,120 migrants access financial education through Migrants Partner Organisations (in-country and abroad) or SCCs/SFACLs and 55,000 access other types of services provided by Migrants Partner Organisations (in-country). The component is organised in two sub-components: (i) Financial Inclusion; and (iii) Mobilising migrant resources and skills.

41. **Sub-component 2.1 – Financial Inclusion.** Investments in this sub-component aim at facilitating the access of RMSEs as well as migrants and their families to adequate financial services. Investments will cover the following:

- ***Performance-based matching grants*** (PBMG) will be made available to the poorest segments of RSMEs (family and micro-enterprises or categories A and B) willing to create or expand their business so that they can access credit for investment (not for working capital) in the initial stages of enterprise development/creation. PBMG amounts will be in proportion to the entrepreneur's contribution;
- ***A risk-sharing scheme*** will be made accessible to financial institutions lending to project-supported family, micro and small enterprises. Access to the risk-sharing scheme will be limited to only one investment loan per entrepreneur and will bear 65% of the risk, while the financial institution will bear the remaining 35%. In parallel, RER/SAMRIDDHI will unite with other stakeholders in the financial sector to promote changes to the current regulations of the Central Bank on collateral;
- ***A departure loan buy-back scheme*** will target migrants paying back their departure loans to moneylenders at exorbitant interest rates, in partnership with financial institutions. Contingent on migrants opening a savings account and regularly saving part of their remittances, financial institutions will be assisted to develop a scheme whereby they will buy back their loans and restructure their debts. Migrants will then be able to use their savings as collateral against an investment loan and will be eligible to the PBMG scheme;
- ***Equity financing and pooling of migrants' funds:*** these innovative instruments will aim at broaden the range of instruments available to promote small businesses, including by tapping on migrants' remittances. They will be promoted as of year 4, once ESCs are up and running and can identify successful small and medium enterprises that would benefit from external investment, with support from the Regional Programme on Remittances and Diaspora Investment for Rural Development, which is financed by IFAD FFR;
- ***Training and technical assistance*** will be offered to financial institutions operating in the target districts, and in particular SCCs and SFACLs, based on prior capacity assessments. Capacity building will cover governance, products and services, operations, finance and accounting, marketing and public relations, business environment, remittances and ICT/computer literacy. Mentoring between well-performing SCCs/SFACLs and weaker ones will also be developed.
- ***Improved outreach of commercial banks and larger MFIs*** in the target districts will be supported through the co-financing (up to 50%) of branchless and mobile phone banking services;

- ***Conducive environment:*** RER/SAMRIDDHI (through a grant from IFAD's Financing Facility on Remittances) will partner with the World Bank, ADB and UNCDF to facilitate the set up a Financial Regulatory Commission to supervise non-bank financial institutions (NBFI) with a view to increase the confidence of rural communities to become members and deposit their resources, and of the financial sector to use NBFIs as financial intermediaries (in particular for channeling remittances) and to refinance them. In addition, the project will also collaborate with GIZ and other donors involved in rural finance with a view to modify the Central Bank rules and regulations related to collateral and guarantee requirements and the type of assets that can be pledged.

42. **Implementation arrangements.** The sub-component will be implemented by the PMT and its two Financial Inclusion Specialists. Technical assistance will assist in devising the new instruments, and an audit firm will be hired to manage the Risk-Sharing Mechanism. Service providers will carry out capacity assessments and capacity building programmes. Financial institutions to participate in the outreach programme will be selected based on a call for proposals launched by the PMT.

43. **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 four destination countries. Investments will cover the following:

- ***Mapping, needs assessments and partnership building:*** in every target district, RER/SAMRIDDHI will profile migrants and their households, map migration centres/associations and their initiatives, assess their capacities and identify other available opportunities for partnerships. Based on this baseline information, the project will set up partnership arrangements, which will be tailor-made to the specificities of every target district, and which will detail implementation modalities of RER/SAMRIDDHI migration activities in the district. It is expected that in nine of the target districts, the project will partner with existing Safe Migration (SaMI) centres financed by SDC. In the remaining ones, the project will: either partner with an existing migration centre or association; or will provide support to an existing migration association in a nearby district to expand its outreach, or build the capacities of a local NGO or group to set up a migration association within the district;
- ***Promoting district-based services to migrants, returnees and families*****,** by building the capacities of partner migrant organisations to deliver a core pool of services including: (i) information on migration related services and issues; (ii) financial education to support better family budget management, the productive use of remittance and access to financial products, including those supported by RER/SAMRIDDHI; (iii) reintegration support and peer-to-peer counselling; (iv) support to the development of migrants' associations and networks. Furthermore, partner migrant organisations will be able to link with the district ESC and SCCs/SFACLs, so that they can provide information about their services and refer migrants to them. District SCCs/SFACLs will 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. A multi-stakeholders platform, the District Migration Task Force, will be set up in every district, to review progresses, identify constraints, develop collective solutions and channel knowledge and information about policy bottlenecks to the Platform on Migration and Development at the national level (see Sub-component 3.1);
- ***Promoting services to migrants abroad*****:** the PMT will establish a partnership with the Non-Resident Nepali Association (NRNA) to deliver a similar range of services in four destination countries, to be jointly selected based on a list of pre-set criteria. This will involve building the capacities of NRNA leaders, who will be brought to Kathmandu from the target destination countries and will receive training so that, in turn, they will train migrant leaders back in the destination countries to become counsellors able to provide financial education and peer counselling, as well as to link migrants to financial services. NRNA will also be responsible for promoting an Investment Mobilization Campaign to support the pooling of migrants' resources into an investment fund to be developed as part of Sub-component 2.2 as of year 4 (see above).

44. **Implementation arrangements.** SAMRIDDHI's Migration related activities will be implemented by a Migration Team, which will be led by the PMT Migration Specialist and two Migration Managers in each of the Corridor Units. In the setting up and early management of the Team, technical assistance will be provided by both an international and national Migration and Remittance Specialist

Consultants, including for the mapping and needs assessment, which will also involve a Research Local Consultant in every target district. The PMT will establish a contract with every partner organisation, which will detail the technical assistance and resources to be provided by RER/SAMRIDDHI as well as expected deliverables. Corridor Migration Managers will be responsible for mentoring partner organisations and for monitoring contract implementation. The PMT Migration Specialist will be responsible for setting up the contract and for monitoring its implementation. NRNA will be responsible for delivering services to migrants in the destination countries.

Component 3 – Institutional Support and Project Management[22]

45. **Objectives and approach.** Component 3 has a two-fold objective. On the one hand, it aims at **promoting a favourable policy and institutional environment** to support the development of RMSEs and the contribution of migrants to sustainable development. On the other hand, it will provide **assistance and capacity building support to agencies responsible for project implementation**, so that they can deliver project outcomes and outputs according to plans. Main strategic thrusts orienting the component are as follows:

- ***Promote RMSEs and migration policy development*** with a view to solve bottlenecks affecting the promotion of rural MSEs, to minimise the economic and social cost of migration and to maximise its benefits for development. This will include the provision of support to stakeholders representing the interests of RMSEs and of migrants to develop and disseminate their own policy positions, so that they can actively participate in policy dialogue. It will also include the creation of a permanent multi-stakeholder platform gathering government institutions, civil society organisations and private sector stakeholders dealing with migration and investment issues. The Multi-Stakeholder Workshop on Enhancing the Impact of IFAD Country Programme and Mobilisation of Remittances for Development (December 2013) and several working sessions organised during the first project design mission confirmed that the development of a conducive policy environment to harnessing migration potential for development requires the creation of a permanent, multi-stakeholder outlet to discuss policy bottlenecks, share successful approaches and generate mutually agreeable policy proposals. The platform has started operation in the second quarter of 2014 with FFR support and has subsequently held three meetings (May, July and September 2014);
- ***Build the capacities of key institutions that can support RMSE development or the contribution of migration to sustainable development,*** *both from central level to district level* such as relevant government ministries and departments, FNCCI, the Federation of Nepal Cottage and Small Industries or the Foreign Employment Promotion Board, District Cottage and Small Industry Offices and Boards,. Such institutions, although not directly involved in the implementation of Components 1 and 2, have a key role to play to develop a conducive environment for RMSE development and for migrants' investment. They will therefore access capacity building support to better accommodate the needs of RMSEs and of migrants willing to invest in business development.

46. **Main outcomes.** It is expected that by the end of the project, policies and institutional capacities required to promote RMSEs development and migrants' reintegration and investment are in place. Main indicators include: (i) at least 3 pro-poor policies or other policy instruments approved; (ii) at least 10 policy positions/lobbying instruments produced and 60 policy consultations held; (iii) Multi-Stakeholder Platform on Migration and Development created and operational; and (iv) at least 30 key organisations trained. The component is organised in two sub-components: (i) Policy and Institutional Development; and (ii) Project Management. The strategy and activities related to Project Management are described in Section III B Organisational Framework.

47. **Sub-component 3.1 – Policy and Institutional Development.** Investments in this sub-component will cover the following:

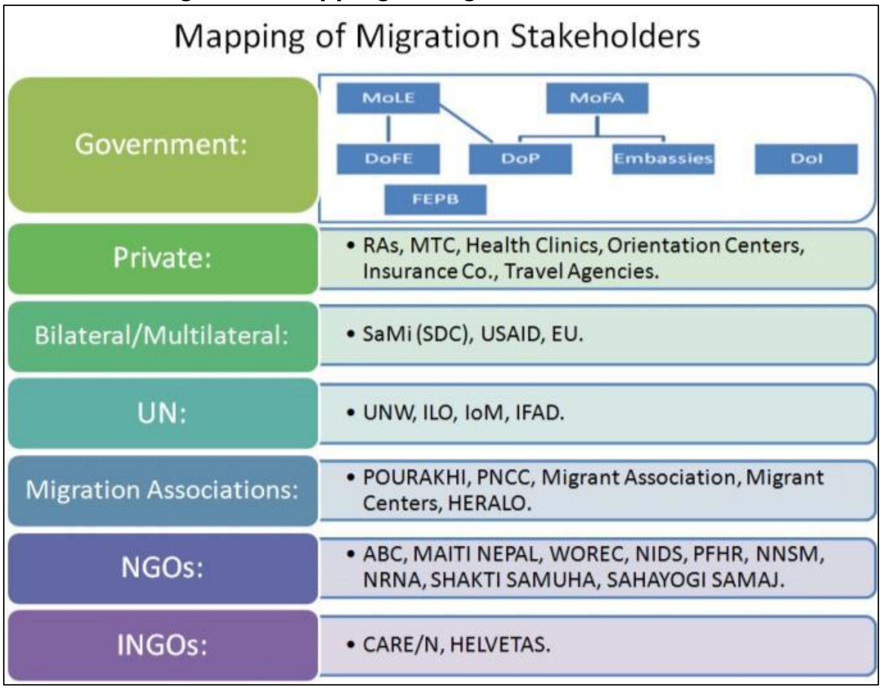
- ***Policy development:*** RER/SAMRIDDHI will finance the development of policy studies on how to solve current institutional bottlenecks affecting the development of RMSEs, the inclusion of

[22] For more details please refer to Appendix 4 as well as Working Paper 5 - Migration and Remittances and Working Paper 7 – Review of Institutions.

migrants' remittances in the formal financial sector or migrants' reintegration. RER/SAMRIDDHI will collaborate primarily with MEDPA to promote policy instruments related to micro and cottage enterprises. Other policy areas could include the regulation on loan collateral, the variability of interest rate during repayment period, the need for harmonisation of subsidies in support to RMSEs, and enhanced competition in the remittance market to channel remittances at a lower cost to rural areas. The project will also finance studies and research enabling selected stakeholders representing the interests of RMSEs or of migrants to develop their own policy positions and to build advocacy skills;

- ***Capacity building:*** RER/SAMRIDDHI will support the building of capacities of institutions that play a key role in creating a conducive environment for MSEs and for migrants' reintegration, such as District Cottage and Small Industry Offices and Boards, the Federation of Nepali Cottage and Small Industries, FNCCI, the Foreign Employment Promotion Board, the Department of Foreign Employment or national migrants' associations. Capacity building will be delivered by specialised service providers, based on annual capacity assessments and capacity building programmes and through result-based contracts
- ***Platform on Migration and Development:*** the project will support the creation of a Multi-Stakeholder Platform on Migration and Development (PMD), which will gather government (FEPB and relevant line ministries, Central Bank), civil society organizations (such as NRNA, National Network on Safe Migration and migrant organisations) and private sector stakeholders (including FNCCI and financial institutions) dealing with migration and investment issues (see. Figure 7). The PMD will 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. It will include two Working Groups initially supported by RER/SAMRIDDHI, one on Remittance and Financial Inclusion and the other on Pre-Departure Orientation. The latter will monitor and follow-up on a small pilot initiative that will enhance the current pre-departure orientation module administered by FEPB to include discussion of family issues and financial planning and to be conducted at district level. After initial financing by the project, the secretariat will be taken over by other PMD members on a rotational basis. To support PMD sustainability, the project will provide support to the drafting of a law to institutionalize the platform.

Figure 7 : Mapping of Migration Stakeholders



48. **Implementation arrangements.** The implementation of the sub-component will be the responsibility of the Project Manager, in collaboration with the Project Facilitator, the Knowledge Management Specialist, the BDS Specialist, the Rural Finance Specialists and the Migration Specialist. Capacity building will be delivered by specialised service providers, based on annual capacity assessments and capacity building programmes and through result-based contracts. The pre-departure orientation pilot will be implemented by the Migration Specialist in partnership with FEPB, with support from national technical assistance and in close collaboration with the Pre-Departure Working Group.

D. Lessons learnt and compliance with IFAD policies[23]

49. Key lessons derived from the 2012 Country Programme Evaluation, annual COSOP reviews, 2013 consultations held during preparation of the new COSOP and the January 2014 mid-term review of the High-Value Agriculture Project point to the following issues, which have been reflected into the project design:

- *Access to services:* new projects should include measures to strengthen local government capacities to provide responsive and inclusive services to the rural population, which would improve project performance and contribute to peace consolidation by restoring public trust in government institutions;
- *Partnerships:* building on past successful examples, new projects should rely more on partnerships with non-governmental players, including NGOs and the private sector;
- *M&E:* monitoring and evaluation should become a management tool that assesses project outcomes, within communities and groups, and between genders and different social groups; detects successes and shortcomings; and facilitates the adoption of solutions to improve performance. It needs to be complemented by knowledge management to track innovative practices, fuel policy dialogue and support scaling up;
- *Project teams:* project management is affected by the unsustainable turnover of civil servants, especially when they compose project teams exclusively. Mixed teams composed of hired staff supporting civil servants would be a more effective solution.

[23] For more details, please refer to Appendix 3 - Country Performance and Lessons Learnt and Appendix 12 - Compliance with IFAD policies.

50. Another set of important lessons taken into consideration in designing RER/SAMRIDDHI are derived from three projects financed through IFAD grants and implemented by UN Women, Nepal Centre for Microfinance (CMF) and ILO, the first two being financed by IFAD FFR as indicated above (see I B) and the third one by an IFAD grant. Selected projects financed by other donors were also reviewed during project design in the sectors of enterprise development and BDS, vocational training, and migration and remittances. Key lessons reflected in RER/SAMRIDDHI can be summarised as follows.

- *On enterprise development*: access to financing, market linkages and follow-up support are essential for enterprise sustainability and growth. Local enterprises should be used as service providers so that they can best adapt capacity building to local realities and provide follow-up under the form of counselling, information and market linkages. Commercially-driven approaches are more likely to generate sustainability in the provision of BDS, provided modalities are developed whereby service providers can generate sufficient income. This is easier to achieve where they have complementary activities that can be directly linked to the businesses they are supporting (marketing or input supply for example);
- *On vocational training:* training should be provided in connection with job opportunities and employers' commitment to hire skilled trainees. Performance-based contracts to ensure that at least 70 per cent of the trainees are employed have consistently proved to be a strong motivating tool for training organisations and for ensuring that the trainees are actually employed;
- *On migration and remittances*[24]*:* migrants only use a minimal part of their remittances for savings or investment, but if conveniently supported through financial education and counselling, they are able to save in preparation for the future and they are willing to develop small business allowing them to break the cycle of migration. The experience developed by CMF with 12 cooperatives shows that community-based cooperatives can mobilise remittance as a source of fund to increase their capital for investment, and that they can promote the productive use of migrant savings. Information and Counselling Centres with well-trained and motivated staff are able to support migrants with information and referral to more specialised services in Kathmandu;
- *On gender:* specific tools need to be developed to reach out to women and assist them in developing viable activities beyond women traditional trades such as sewing or weaving. The targeting of women as owners of businesses, when otherwise they are seen as performing secondary roles in the home and society, enhances both their economic and social empowerment.

51. Project design is also in compliance with main IFAD policies and strategies, including with regard to targeting and gender mainstreaming, rural enterprises, inclusive rural finance, private sector and indigenous people.

III. Project implementation[25]

A. Approach

52. **RMSEs.** The project strategy is driven by a primary concern that the existing RMSEs need support at national and local level, in order to better develop, increase family income, generate economic activities and improve employment. In addition the promotion of RMSEs must rest on sustainable structures and mechanisms allowing continued access of entrepreneurs to commercially-oriented services even beyond project completion. Hence the project is designed as a temporary intervention aiming at preparing public and private stakeholders to take over the responsibilities and costs required to secure continued RMSEs access to financial and non-financial services. The project role is therefore one of facilitation instead of direct implementation, with a view to build local ownership, to identify and support potential drivers of change within the market system and to encourage crowding in, i.e. more players to take part in BDS markets, in RMSEs creation and expansion, and in business partnerships. Main features of this approach are as follows.

- *Public-private partnerships:* RER/SAMRIDDHI implementation set-up is based on public-private partnerships, whereby the government retains overall implementation responsibility and supports

[24] See details in Working Paper 5 – Migration and Remittances.
[25] For more details please refer to Appendix 5 - Institutional aspects and Implementation arrangements Working Paper 7 – Review of institutions.

private sector players in providing business development and financial services for the creation and expansion of RMSEs and in maximising the development impact of migrant remittances. This approach is aimed not only at ensuring that services are responsive to client needs, but also at supporting cost-effective service delivery, breaking from public-sector driven and subsidised approaches that achieve little sustainability. RER implementation arrangements also take stock of the strong partnership between the government and FNCCI/FNCSI/NFEMEN, whereby FNCCI/FNCSI/NFEMEN and their district offices closely participate in policy dialogue for the development of the business sector, but are also implementing agents of several initiatives supporting RMSEs and rural producers;

- *Financial sustainability:* ESC teams have been kept to the minimum so as to limit their cost and facilitate their financing by private sector. Cost recovery mechanisms and mobilisation of resources will be developed to ensure the continued operation of ESCs. Services will be made accessible based on business plans demonstrating profitability, so that after initial project grant funding of service costs, business revenues will enable continued access to services on a commercial basis;
- *Local resources:* RER/SAMRIDDHI will support RMSEs that make use of local agro-ecological conditions and natural resources, including for new products and markets that will be identified through regular assessment of potential and market. To expand the range of BDS providers and minimise their cost to client RMSEs, the project will harness the potential offered by existing local human and institutional resources (such as entrepreneurs, cooperatives, regional/district branches of commodity associations, DCCI members or migrants' organisations) and assist them in diversifying their activities to include service provision or to provide mentoring. Job placement will give priority to local enterprises so as to increase the chances that the newly employed retain their job, close to their families and centres of interest, instead of using vocational training as a transit station to migration. Apprenticeship with local RMSEs will offer a new modality to provide access to technical training in connection with employment;
- *Business partnerships:* to facilitate RMSEs access to services and markets and to promote their growth after initial project-financed support, RER/SAMRIDDHI will promote business partnerships between the smallest enterprises (family and micro enterprises) and larger value chain aggregators. These will include: cooperatives; larger businesses looking to expand their volume of activity through outsourcing or to enhance their efficiency (for example to solve electricity problems by spreading production over a range of sub-contractors); and financial institutions. Modalities could take the form of contract farming or outgrowers' schemes, clusters of enterprises or any other form of collective organisation. Such an approach will in particularly facilitate market access of entrepreneurs in the hill districts, where scattered settlements and narrow local markets would not be sufficient to absorb large volumes of production. Other features that will contribute to developing inclusive value chains include: (i) initial value chain analysis and regular updates to better identify opportunities for including RMSEs and getting them good returns and share of added value; (ii) developing access to services supporting production as well as other steps/stakeholders in the value chain, including processing and market promotion; (iii) promoting RMSEs inclusion in local commodity associations, in particular those that are DCCI/FNCCI members; and (iv) building on multi-stakeholder District Industry Promotion Committees to discuss value chain bottlenecks affecting RMSEs development and agree on public investments and policy changes required to lift them;
- *Capacity building:* as RER/SAMRIDDHI will introduce a range of innovative approaches, investing in the capacity building of project stakeholders, from central to district level, will be key to facilitate adoption and to create a knowledge basis to sustain achievements beyond project completion. Capacity building will be provided to ensure that stakeholders have the right mix of technical and management competences to carry on activities beyond project completion. This will be achieved through a set of instruments, including: (i) the use of tools and approaches specifically designed to reach out to women, in particular women heads of households that are gaining increased importance because of migration, and women migrant workers; (ii) the identification of capacity building needs as part of RMSE Business Plans; (iii) the promotion of mentoring and peer-to-peer approaches in support of RMSE development; (iv) the capacity building of DCCIs so that they can progressively take over the financing and management of ESCs, and of District Cottage and Small Industries Offices and Boards so that they can play their role of public support; (v) the provision of an annual budget to ESCs to upgrade the capacities of service providers and particularly of local professionals starting a service provision activity; (vi) tailor-made capacity building programmes to improve the performance, outreach and sustainability of financial

institutions in the target districts, and particularly of SCCs and SFACLs; and (viii) exposure visits/learning routes for financial institutions and ESCs/DCCIs/ District Cottage and Small Industries Offices and Boards. All capacity building programmes will be designed based on prior capacity assessments;
- *Innovative business models:* project implementation will lead to the development of a set of innovative business models, with different types of partnership arrangements, in particular with respect to new modalities for the provision of services or for developing business partnerships. Monitoring and knowledge management will play a major role in assessing and comparing performance, identifying lessons learnt and documenting processes. Aside from a dedicated KM Specialist in the PMT, RER/SAMRIDDHI will finance two M&E/KM Officers in each Corridor Team to provide support to ESCs. Evidence-based business models will document successful experience through case studies and will be shared with relevant agencies and stakeholders, both from public and private sector, across the country such as commodity/entrepreneurs' associations, multi-stakeholders' platforms at district (DIPCs and Task Forces on Migration) and national (PMD, Working Group on Financial Inclusion of Migrants and Remittances, National Business Forum) level through appropriate communication supports (online, printed, events).

53. **Migration.** Migrant households and returnees, as part of the RER/SAMRIDDHI overall target group, will also benefit from the above features and tools. Additionally, RER/SAMRIDDHI includes mechanisms that aim at making the best use of their specificities, and particularly of their resources and skills, to support rural entrepreneurship as an alternative to migration. Main features of this approach are as follows:

- *Financial inclusion:* financial literacy targeting migrants in the target districts and destination countries will promote the use of part of their remittance for savings and business development, and will be matched by the savings-linked credit scheme as an initial incentive. Financial institutions, and in particular SCCs, will be supported to channel remittance in connection with other financial services and to develop a competitive remittance market with lower costs and increased outreach to the rural areas;
- *Tailor-made support:* the ESC desk will include a Migrants' Desk that will be the district information hub on migration issues and will provide services and linkages to address migrants' specific requirements, to take advantage of their specific skills and to promote their reintegration. Specific communication through specialised channels will target migrants and their families;
- *Partners' mobilisation:* building on successful achievements, RER/SAMRIDDHI will promote private sector sponsorship of financial education and provide related capacity building.

54. Aside from bringing direct benefits to RER/SAMRIDDHI target group, this set of innovative activities will also demonstrate feasible modalities for harnessing remittances to build family assets and contribute to rural growth, and for up-scaling successful achievements. Good practices will be documented and shared with the Platform on Migration and Development and its Working Groups. The number of migrants and the magnitude of annual remittance to Nepal constitute an enormous market potential that is presently untapped in terms of business investment. It is expected that the dissemination of evidence-based models demonstrating the feasibility of using remittances for business development will raise massive interest from players in the financial sector and stimulate further commercial engagement in developing the market of remittance-related services.

55. **Phasing.** The project is expected to start in July 2015 and will be implemented over seven years. Phasing will be as follows:

- *2015-2016:* the first project year will be devoted to: (i) setting up the organisational structure as described below, including contracts and MoUs with major implementing agents; (ii) carrying out mapping exercises under components 1 and 2; (iii) developing the targeting and gender strategy and setting up the M&E/KM system; (iv) setting up ESCs in five districts, which will be selected based on capacity and motivation, in combination with the corridor approach and logistics concerns; and (v) initiating other activities in Components 2 and 3, and particularly calls for proposals planned in Component 2;
- *2016-2018:* a second batch of six ESCs will be implemented in an additional six districts in 2016/2017, and the last batch of five will be set up in 2017/2018. This phasing will ensure that all

of the ESCs will receive four to five years of project support, along a decreasing pattern , with DCCIs progressively taking over;

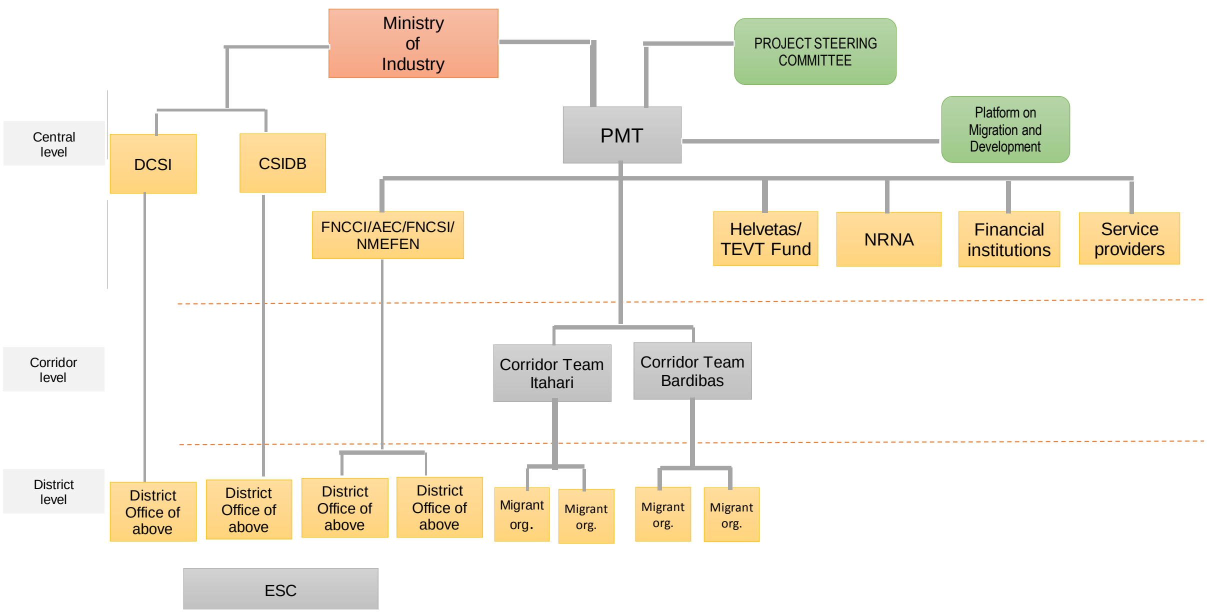
- *2018:* a first Interim Review will be carried at the end of year three to review achievements and to explore the possibility of further expanding the project to the west (also see Section III D);
- *2020:* mid-2020, a second Interim Review will be conducted at the end of the fifth year, which will 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 (see Section IV I).

56. A possible phasing of the target districts is indicated in Appendix 2 Attachment 5.

B. Organisational framework

57. RER/SAMRIDDHI builds on lessons learnt from IFAD country programme evaluation and reflected in the 2013-2018 COSOP, which point to the need to open project implementation to non-government players for increased efficiency. In application of these orientations and considering the specificity of the support to the entrepreneurial sector, RER/SAMRIDDHI set-up is based on public-private partnerships geared to support inclusive and sustainable rural economic growth. While the government retains an 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 to maximise the development impact of migrant remittances through business investment. RER/SAMRIDDHI implementation arrangements also take stock of the long lasting and strong partnership between the government and FNCCI, whereby FNCCI is already implementing several initiatives supporting RMSEs and rural producers, under both government and donor financing (see Section I A). Besides, two technical partners, with successful experience in Nepal, have been pre-identified to assist in implementing activities using innovative approaches (see below). Figure 8 represents the project institutional set-up. Implementation responsibilities are then detailed for every player.

Figure 8 - Institutional Set-Up



58. **MOI.** MOI will be the project executing agency and will bear overall responsibility for RER/SAMRIDDHI coordination and oversight. Line responsibility for day-to-day project implementation will be delegated to the Project Management Team, which will be headed by a government official, Joint Secretary Level, designated by MOI, after IFAD's no objection to the Terms of Reference and to the appointment. In case of unavailability of a suitable candidate from within the MOI, this position will be filled up through an open competition.

59. **PMT.** The Project Management Team will be based in Itahari, in the district of Sunsari. It will assist MOI in carrying out RER/SAMRIDDHI implementation responsibilities and will be fully accountable for the performance of project implementation and the use of funds. It will be responsible 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 Report; (ii) ensuring the financial and administrative management of project resources in line with the Loan Agreement and IFAD rules; (iii) planning project activities in consultation with project stakeholders; (iv) procuring project-related services and supplies; (iv) coordinating project activities with the various project partners; (v) securing M&E and KM in relation to all activities; and (vi) promoting inclusive approaches and the mainstreaming of targeting and gender requirements in all of the project activities. Furthermore, two Corridor Teams will be established - one in Itahari (district of Sunsari) covering the Koshi/Sagarmatha corridors, and the other in Bardibas (district of Mahottari) covering the Janakpur corridor. They will provide coordination, technical and management support to ESCs and will implement migration-related activities. The PMT, with its Central and Corridor Teams, will comprise the staff shown in Table 5, of which at least 33% of women.

Table 5 – PMT Staff

Management	Technical Staff	Administrative Staff
	Central Team	
• Project Manager (government-financed) • Project Facilitator (project-financed)	• Business Development Services Specialist (project-financed) • Rural Finance Specialist (project-financed) • Migration Specialist(project-financed) • Senior Financial Inclusion Specialist (project-financed) • Financial Inclusion Specialist (project-financed) • PM&E Specialist(project-financed) • KM Specialist(project-financed) • GESI Specialist(project-financed)	• Accounts Officer (government-financed) • Accounts Assistant (government-financed) • Financial and Administrative Officer (project-financed) • Procurement Officer (project-financed) • Drivers and support staff (government-financed)
	Corridor Teams	
• Corridor Coordinator (project-financed)	• Two Corridor Migration Managers (one per team) (project-financed) • Two PM&E Specialists (one per team) (project-financed)	• One Account Officer in each corridor (government-financed) • One Financial and Administrative Assistant (project-financed)

60. Corridor Teams will also integrate staff hired by FNCCI/ AEC as part of their contract to set up ESCs (see above II C Component 1). , i.e. one B to B Linkages Specialist and one M&E Officer.

61. Additionally, the project will contribute to the operating costs of the Country Programme Implementation Support Unit (CPISU)[26] by fielding one liaison officer, who will be based at the CPISU in Kathmandu. Specialised technical assistance, tapping as much as possible on existing expertise available in Nepal, will support innovation and facilitate project delivery in specific areas. A Project Expeditor will be fielded at project onset to assist the PMT in setting up management procedures and to provide capacity building to the PMT, with a view to support fast project start-up. Draft terms of reference are in Appendix 5.

62. **Partnerships. RER/**SAMRIDDHI will establish strong partnerships with several public and private agencies for the implementation of its programme of activities:

[26] The CPISU (or *Saha Yatri*, meaning companion in Nepali) was created to improve performance of IFAD on-going projects in Nepal and save costs on coordination issues between field offices and government offices in Kathmandu. Saha Yatri brings together national experts for technical support in financial management, procurement, and monitoring and evaluation to all the projects composing IFAD portfolio in Nepal.

- FNCCI/AEC/FNCSI/NFEMEN for the operation and progressive co-financing of Enterprise Service Centres managed by the ESC Management Team, 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 Non-Resident Nepali Association for the implementation of migrants related activities;
- selected financial institutions for the implementation of activities related to financial inclusion.

63. **FNCCI/AEC/FNCSI/NMEFEN (ESC Management Team).** RER/SAMRIDDHI will establish a Memorandum of Understanding (MoU), for setting up and overseeing the operation of:

- *one ESC in every participating District*, which will be responsible for the planning, implementation and monitoring of activities under Component 1, sub-components 1 and 2, as guided by the ESC Management Team..\ Each ESC will comprise of four staff (of which minimum one woman), of which three will run ESC desks (Micro-Enterprise Development, Small Enterprises and Service Providers; and Migration Desk), and the fourth one will be an Accountant. The staff responsible for Micro-Enterprise Development will be financed by GoN and will be selected byPMT;
- *selected staff to join the Corridor Teams:* these will include a Business-to-Business Linkages Specialist, who will be responsible for developing B-to-B between micro and larger enterprises in the corridor, and one PM&E Specialist, who will be responsible for coordinating and supporting the planning and M&E of ESC activities, for documenting good practices and facilitating the exchange of information between ESCs, in collaboration with the PMT recruited PM&E Specialist in the Corridor Team.

64. **Technical partners.** Two technical partners, all with successful experience in Nepal, have been identified to assist the PMT in implementing innovative approaches:

- *Helvetas* developed a successful approach to assist unemployed youth in securing gainful employment through vocational training and job placement. The Ministry of Education is planning to create a Technical Education and Vocational Training Fund, which will institutionalise this methodology. Helvetas will be responsible for implementing activities under Component 1 Sub-component 3 (vocational training and apprenticeship), building on the methodology and tools they have already developed;
- *PROCASUR (RoutAsia) Asia*, an IFAD-funded regional grant project promoting peer-to-peer learning processes would implement the learning route methodology to support knowledge management with DCCIs.

65. **Service providers.** Qualified service providers (SPs) supplying technical or financial services to RMSEs will be registered in a roster at ESC level. Roster-registered SPs will 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 Component 2 and Component 3 (policy and institutional development) will be procured by the PMT based on competitive bidding. Terms of reference for service providers will 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 will be result-based and will integrate modalities that will remunerate performance.

66. **PSC.** A Project Steering Committee (PSC) will 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 will also approve annual AWPBs and annual progress and financial reports. It will be chaired by MOI Secretary and the Project Manager will act as Secretary. The PSC will include representatives from line ministries (Ministry of Education, Ministry of Finance, Ministry of Agricultural Development, Ministry of Forest and Soil Conservation, Ministry of Labour and Employment, Ministry of Commerce, 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 PSC Chairperson can invite relevant technical persons or representatives from government and non-government agencies as appropriate in the PSC meeting. RER/SAMRIDDHI will also engage in public-private dialogue through the Nepal Business Forum[27], which facilitates public-private dialogue on economic development through an array of specialised working groups. At the local level, two multi-stakeholders platforms will provide coordination and facilitation, i.e. District Industrial Promotion Committees (where they exist, and where they do not yet exist, SAMRIDDHI will support their creation); and Migration Task Forces, which will be set up with SAMRIDDHI support. RER/SAMRIDDHI will also participate in the Eastern Business Forum, which is one of the National Business Forum's working groups.

67. **DIPCs.** RER/SAMRIDDHI will rely on existing District Industry Promotion Committees 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 will ensure that ESC activities are inclusive of women and the poor, and that GESI issues are addressed as part of their regular agenda. The composition of DIPCs will be complemented as needed for this specific purpose, to ensure that it reflects all of the project stakeholders in the district. Where DIPCs do not exist, RER/SAMRIDDHI will provide support to District Cottage and Small Industries Offices/Boards to set them up.

C. Planning, M&E, learning and knowledge management[28]

68. **Objectives.** 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 with three main objectives:

- *steer project implementation:* it should provide project stakeholders with information and analysis required to: measure project outcomes; assess project effects on the livelihoods of target groups; assess the relevance of the project strategy and implementation processes; detect difficulties and successes; support decision-making to improve project performance; and measure project contribution to the achievement of COSOP targets;
- *support economic decisions and policymaking:* it should provide project stakeholders with the information and analysis they need to assess the return brought by innovation, to develop profitable and sustainable activities and to adapt their strategies accordingly. It should also provide the government, FNCCI and other stakeholders, with the information needed to make policy decisions;
- *share knowledge and upscale good practices:* it should develop lessons learnt, capture good practices and successful innovation, and share knowledge under appropriate formats to support project performance and policy dialogue.

69. **Strategic principles.** The M&E/KM system will be: (i) *open and easily accessible*, i.e. information and knowledge should be available to all stakeholders and not restricted to project or ESC staff; (ii) *participatory*, i.e. associate project stakeholders in the definition of indicators, data collection, analysis and dissemination of results; (iii*) focused* on analysis, learning and sharing in support of decision-making and policy dialogue, and not merely on data production; (iv) *harmonised* with and connected the government's relevant information systems and to IFAD country level M&E system; (v) *accountable*: not just upward (to government, IFAD and donors) but also downward (to project stakeholders and target groups) and horizontal (with other projects); (vii) *inclusive:* it should have an inclusive approach so that women, poor and marginalised groups participate in the system; and (viii) *growing*, thus small initially and develop progressively as needs and capacities develop. Moreover RER/SAMRIDDHI will use the *Theory of Change* model[29], to provide a roadmap defining where the project aims to reach and how and how often the targeted changes and assumptions should be monitored by ESCs, Corridor Teams and the PMT.

[27] http://www.nepalbusinessforum.org/
[28] Details in Appendix 6 - M&E and Learning and KM and Working Paper 8 - M&E and Learning and KM.
[29] http://r4d.dfid.gov.uk/pdf/outputs/mis_spc/Appendix_3_ToC_Examples.pdf ; http://www.researchtoaction.org/2012/08/improving-the-use-of-theory-of-change/

70. **Framework and implementation plans.** The M&E system will be setup and managed by the PMT, in consultation with project stakeholders. An *M&E/KM consultant* will be hired by the PMT to: (i) agree on a shared understanding of project objectives, approaches and planned activities, and provide a framework for the Theory of Change; (ii) agree on a broad framework for M&E and KM; and (iii) identify quantitative and qualitative indicators, building on the logical framework and on the set of IFAD's Results and Impact Management System (RIMS), as well as, respectively, on MOI and FNCCI information systems. The consultant will produce a detailed *M&E/KM manual*, together with an implementation plan, including capacity development arrangements, which will be updated every year. A baseline study measuring the status of main indicators will be carried out at project onset.

71. **Project planning, data collection and analysis**. The M&E/KM cycle will start with the preparation of the *Annual Work Plan and Budget* (AWPB). Preparation will start at district level by ESCs under the guidance of PM&E (Planning, Monitoring and Evaluation) officers, in the Corridor Team and in collaboration with project stakeholders. It will then be approved by the ESC Management Team and validated by DIPC, and forwarded to DDC for endorsement and inclusion under the District Development Plan. The global AWPB will be collated by the PM&E Specialist and the Accounts Officer (for budgeting) under the supervision of the Project Manager, and it will be submitted to the Project Steering Committee for final approval. The approved AWPB will be forwarded to IFAD for 'no objection' and then to National Planning Commission through MOI for final approval from the GON. *Data* from different sources will be consolidated and analysed along the following levels: (i) *district level*, where information will be gathered by ESCs, LRPs, who will have tablets to facilitate data collection and transmission, and project beneficiaries; (ii) *corridor level*, PM&E Corridor Officers, two in each Corridor Team will provide guidance and support to the district level, and will assemble data on achievements of enterprises, financial institutions and service providers as well as performance of ESCs and LRPs; (iii) *PMT level,* information will encompass overall project performance as well as achievements of Components 2 and 3, and will be the responsibility of the PMT PM&E Specialist; (iv) IFAD Country Programme. All RER/SAMRIDDHI stakeholders will have an active and important role in identifying and reporting data. The PM&E staff at all levels will make sure that women and marginalized communities such as dalits and janajatis, are adequately represented in this process and that they are allowed to voice specific concerns. RER/SAMRIDDHI will use Standard IFAD Monitoring and Evaluation Sheet (SIMES)[30] adopted throughout IFAD programme in Nepal to record data and to analyse progress. To ensure an inclusive M&E and KM system, RER/SAMRIDDHI will provide capacity building trainings to PMT, Corridor Teams and ESC staff.

72. **MIS and webpage on IFADAsia.** A Management Information System (MIS) will be set up to facilitate the flow of data. The MIS will track financial and technical data on project outputs and outcomes, lessons learnt, good practices, and other important sector information to analyse project performance. The MIS will be set up by a service provider. Information will also be available through IFADAsia, which will make available to the public key information about the project, its achievements, good practices, policy studies and other key documents.

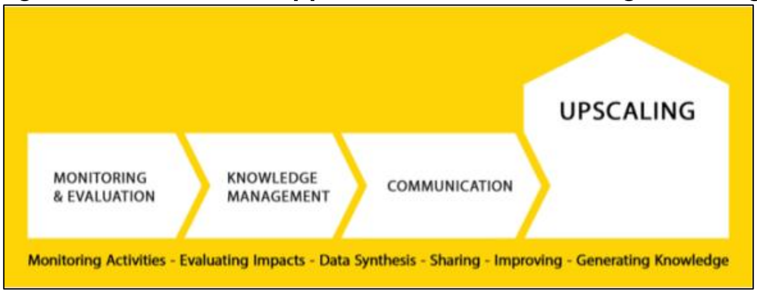
73. **Knowledge management.** The purpose of knowledge management is to ensure that knowledge generated within the project is systematically identified, analysed, documented and shared, and that it is used to: (i) improve project performance and delivery of project objectives; (ii) be flexible and responsive to changing circumstances; (iii) support the dissemination of innovation to the benefit of stakeholders throughout the project area and beyond; (iv) provide information to support decisions on up-scaling to be made at mid-term review; and (iv) identify important issues to convey to policy makers. Particular attention will be given to documenting innovative models for: (i) *developing a sustainable market of BDS providers*; (ii) *business-to-business linkages and inclusion of family and micro enterprises in remunerative markets and value chains*; (iii) *innovative financial instruments and approaches to improve NBFIs performance;* (iv) *harnessing remittances for building family assets and investing in rural enterprises and job creation*. Information will be shared with and discussed by the *multi-stakeholders' platforms* (DIPCs, PMD and its Working Groups and Project Steering Committee), with a view to assess progress and discuss measures to improve performance. *Learning Routes* will be organised to support the exchange of knowledge and good practices between ESCs. Learning Routes are an innovative approach promoted by IFAD through NGO PROCASUR (RoutAsia) to

[30] See details in Appendix 6 - M&E and Learning and KM and in Working Paper 8 - M&E and Learning and KM.

structure peer-to-peer learning on innovative practices, by complementing field visits with activities designed to ensure transfer and implementation of knowledge.

74. In consultation with project stakeholders and in collaboration with the PM&E and KM staff and PROCASUR (RoutAsia), the same consultant hired to design the M&E system will prepare a *detailed KM framework*, including objectives, responsibilities and methodology, together with an implementation plan for the first year. The framework will also include a *strategy on communication*, which will outline how knowledge will be disseminated and will identify most appropriate channels (including radio, video, printed material) according to the target audience. The plan will be updated every year.

Figure 9 - Value-chain approach towards knowledge building



D. Financial management, procurement and governance

75. **Financial management.** RER/SAMRIDDHI financial management will be governed by the 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 RER/SAMRIDDHI Project Manager and of the Accounts Officer. In order to ensure a strong financial management system, the following requirements must be met: (i) ensure that funds are used only for the purpose intended under the Loan Agreement, in an efficient and economical way and in accordance with the activities described in the Project Design Report and in the Annual Work Plans and Budgets (AWPBs); (ii) enable the preparation of accurate and timely financial reports through the use of accounting software; (iii) ensure that funds are properly managed and flow rapidly, adequately, regularly and predictably; (iv) enable project management to monitor efficient project implementation and; (v) safeguard the assets and resources procured using project funds. Furthermore, the internal control system should ensure the conduct of an efficient and transparent payment and procurement process, and the proper recording and safeguarding of assets and resources. The draft Project Implementation Manual (PIM) established at final design includes a section on Financial Management describing IFAD procedures relating to the withdrawal application (WA) process, flow of funds, accounting and financial reporting and audit requirements.

76. Two Designated Accounts in USD will be opened for IFAD funds at the Nepal Rastra Bank (Central Bank), one for the Loan and the other for the Grant. A local currency project account will be opened with a bank at the PMT location, Itahari. The signatories of the Designated Accounts and of the local currency account will be the Project Manager, with counter-signing by the Accounts Officer as delegated by MOF. Aside from the funds expended through FNCCI/AEC, the project will have only one cost centre, which will be the PMT in Itahari. Upon the request of the PMT, through a Withdrawal Application (WA) supported by the approved AWPB, initial advances to cover roughly six months of anticipated expenditure of the first year will be transferred by IFAD in the Designated Accounts. Replenishment of the Designated Accounts will be based on actual eligible expenditures incurred and reported to IFAD through WAs during the project implementation period. Additionally, IFAD will disburse funds to service providers/ contractors/suppliers directly or reimburse the GON upon the request of the PMT through withdrawal applications. The PMT will provide advances to FNCCI/AEC on a trimester basis for both operational costs and activities to be implemented by Enterprise Service Centres (ESCs) and for the payment of AEC-hired staff in the Corridor Units. Each ESC will maintain a separate bank account at district level for receiving IFAD funds as well as the funds contributing to ESC operation and activities provided by the government or DCCI, and will have a full-time project-financed accountant ensuring the proper maintenance of accounts as well as reporting. IFAD has an

experience of notable delays on the submission of WAs in its on-going projects in Nepal. The Financial Comptroller General Office (FCGO) has adopted a policy of granting a four-month period for reimbursement of GoN pre-financed expenditure to all development projects implemented by GoN line agencies. If the project fails to reimburse the pre-financed expenditures within that time, it will not be entitled to get budget release for the following trimester. GoN'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, sub-components and activities.

Internal control and audit. The PMT Accounts Officer, along with the Finance and Administration Officer, will be responsible for tracking project expenditure, asset management, monitoring fiduciary aspects of district and corridor level project activities and procurement management. The project will continue with the existing practice of internal audit by District Treasury Control Offices (DTCO), in line with GoN financial rules and regulations. The first Interim Review will consider the need of hiring an Internal Control Specialist for a short period every year or a full time compliance manager to conduct the internal audit of the project, based on fiduciary risk assessed in the period. With regard to external audit, the Office of the Auditor General (OAG) is the sole responsible for the final audit of government agencies, including donor-funded projects, in line with the Interim Constitution as well as the Audit Act and its regulations. It is accepted that only the Auditor General of Nepal may carry out audits. In case the audit by OAG is significantly delayed or does not meet IFAD requirements, the audit may also be initiated by IFAD under section 10.04 of the General Conditions. GoN agreed that the General Conditions shall apply.

77. **Procurement.** The procurement of goods, works and services financed from project resources will be undertaken in accordance with the provision of the Public Procurement Act (PPA) 2007 and associated regulations, the Public Procurement Rules 2007 as amended from time to time and the provisions of IFAD's Procurement Guidelines and Handbook (dated September 2010) and as amended from time to time. Goods and services (non-consulting) procured using National Competitive Bidding (NCB), National Shopping (NS) and Direct Contracting (DC) will follow the procedures and processes defined in the Project Implementation Manual (PIM) approved by the Project Steering Committee and no objection provided by IFAD. The selection of individual consultants and individual service providers will also be defined in the PIM, which shall include details of the selection method to be applied in case of consultancies services such as Quality and Cost Based Selection, Fixed Budget Selection, Least Cost Selection, Consultants Qualification Selection and Single Source Selection. The PMT will submit a 18-month Procurement Plan immediately after the project enters into force, with support from the Project Expeditor, updated annually or as required to reflect actual implementation needs. Procurement will be undertaken as per the consolidated procurement plan submitted by the PMT approved by the Project Steering Committee (PSC) and no objection provided by IFAD. The details of applicable post and prior review requirements and other risk mitigation measures are detailed under Appendix 8.

78. The project also aims to contribute towards building and strengthening MOI capacity in implementation and in procurement and has allocated resources as part of its institutional support to MOI under Component 3. Additionally MOI would also benefit from the National Capacity Building Initiatives under National Public Procurement Strategic Framework Phase II (NPPSF II) (2013-16) which is funded by GoN with the support of WB/ADB and other bilateral donors. The PMT and the MOI will seek support from the Public Procurement Monitoring Office (PPMO) to tap resources under NPPSF II (2013-16) and this will be followed up during the first and second year by the IFAD supervision and implementation support missions.

79. **Governance.** Nepal has a 2012 Corruption Perception Index of 27 (over 100) and ranked 139 out of 174 countries, which indicates a very significant lack of transparency in government institutions. IFAD will apply a zero-tolerance policy on corruption. The PMT will prepare, with assistance from the Financial and Administrative Officer, the Business Development Specialist and the GESI Specialist, a Project Integrated Framework for Good Governance. The framework is to ensure: (i) transparency, with information in the public domain; (ii) accountability in the use of resources; and (iii) participation with the people having a voice in decisions that may affect them. The involvement of affected communities in all stages of project implementation can simultaneously improve development of outcomes and reduce the scope for fraud and corruption. The Framework will also include an

internal code of conduct to be signed by all PMT staff, and a code of business ethics, to be signed by all partners and beneficiaries of RER/SAMRIDDHI activities and business partnerships. Key features of this Governance Framework to mitigate corrupt, collusive and fraudulent practices are detailed in Appendix 8. The draft Framework will be discussed and agreed at the inception workshop.

80. Other measures reflected in project design to ensure transparency include the following: (i) IFAD's direct supervision process will specifically address fiduciary compliance and the implementation of the project framework for transparency and publicity; (ii) project stakeholders will be directly involved in programming, implementation and M&E of RER/SAMRIDDHI activities; (iii) DIPCs will not be restricted to RER/SAMRIDDHI participants and will provide a forum for raising issues affecting RMSE development, including transparency.

E. Supervision[31]

81. **Start-up.** The PMT will organise a start-up workshop with project stakeholders and implementing partners to: (i) ensure that all partners understand and agree on the scope and implementing modalities of the project; (ii) introduce key processes, tools, strategies and reporting needs; and (iii) act as a networking event to build relationships for future knowledge sharing. Participants will also validate the Project Framework for Transparency and Publicity (see above).

82. **Supervision.** Annual supervision missions will be organised by IFAD jointly with GoN , in close collaboration with DCCIs, District Cottage and Small Industries Offices and Boards, Corridor Teams 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. To ensure continuity in this process, they will be carried out by a core team of resource persons returning regularly, joined by specialists to address specific needs of a given year. Key features requiring specific attention include: (i) sustainability of supported enterprises and of service provision; (ii) cost recovery and sustainability of ESCs; (iii) outreach to and development of family business and micro-enterprises, including those run by returnees or remittance-receiving households; (iv) business partnerships; (v) expansion of family and micro-entrepreneur and migrants' access to financial services; (vi) harnessing of migrants' remittances and skills for business development; (vii) M&E and KM; and (viii) fiduciary compliance. In addition, RER/SAMRIDDHI will participate in joint supervision missions whereby staff from other IFAD-supported projects will visit RER/SAMRIDDHI sites to monitor project interventions and vice versa, also allowing inter-project learning and knowledge sharing.

83. **Independent Assessment of ESC.** An annual independent assessment of the management and activities of the ESC, including financial, will be performed with concrete recommendations for performance improvement. Any changes in the management and/or structure of the ESC will be instituted no later than the mid-term review of the project. The PMT will conduct a trimesterly assessment of the ESC and report on the same to the PSC.

84. **Interim Reviews.** Two interim reviews will be organised by GoN and IFAD, at the end of year three and in year five. The reviews will: (i) assess achievements and interim impact, the efficiency and effectiveness of RER/SAMRIDDHI management, and the continued validity of RER/SAMRIDDHI design; (ii) identify key lessons learnt and good practices; and (iii) provide recommendations for improved performance. Other specific issues to be addressed in the reviews include the following :

- performance of supported enterprises in terms of profitability, revenues accruing to owners, job creation, access to services and integration in commodity-based associations, with special attention to women, returnees, remittance receiving households and disadvantaged groups;
- development of a responsive and sustainable market of business development services;
- progress in gender equity and social inclusion;
- performance and sustainability of ESCs;
- relevance of the initial selection of target supply chains and opportunities for expansion;
- outcomes of vocational training and apprenticeship particularly in terms of job placement;

[31] Details in Appendix 6 - M&E and Learning and KM and Working Paper 8 - M&E and Learning and KM.

- business linkages and identification of most performing business models and opportunities for scaling up;
- performance of financial institutions in delivering project-supported financial instruments, in expanding access to financial services in the target areas and in improving remittance inclusion in the financial sector;
- performance of the PMT and of key partners (FNCCI/AEC in particular);
- role and impact of the various multi-stakeholders' platforms.

85. Furthermore the first Interim Review will explore the possibility of: (i) developing equity financing and the pooling of migrant resources into an investment fund as additional financial instruments for promoting the use of remittances to support rural growth and business development, building on the framework proposed in this report and in Working Paper 4 – Financial Inclusion; and (ii) further expanding the project to the west. It will also consider the need of hiring an Internal Control Specialist as indicated above. The second Interim Review (mid-2020) 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 (see Section IV I).

86. **Impact assessment.** Impact assessment and outcome surveys will be carried out in preparation to the second Interim Review and prior to project completion to measure changes at beneficiary level, compared to the baseline study.

F. Risk identification and mitigation

87. Table 6 identifies main risks and mitigation measures built into project design.

Table 6: Risks and mitigation measures

Risk description	Probability of occurrence	Mitigation measures
Political instability and government fragility	Medium high	. Strategy based on public-partnerships and on giving private sector a key role in service provision . Empowerment of RMSEs and private players to participate in policy dialogue and decision-making processes (DIPCs and PMD) . Capacity building provided to district government institutions, based on prior capacity assessment
Lack of MOI/FNCCI/DCCI capacities	Medium	. Corridor Teams and ESC staffed with competent human resources paid by project . TA, capacity building and PMT support built into project activities
Biased targeting missing poor and women	Medium low	. Government poverty data will be validated through PRA exercises . Capacity building provided to all project staff and to Local Resource Persons, of which 33% will be women . CPMAs will include RMSE survey with screening process to ensure that candidates have potential but also belong to target groups . Incentive mechanisms built into contractual arrangements with SPs . GESI specialist in PMT will monitor poor and women participation in project activities and benefits, through ESCs databases . GESI strategy will provide detailed framework and supervision missions/Interim Reviews will specifically monitor achievements
Lack of RMSE competitiveness with Indian/China products	Low	. Regularly updated CPMAs will identify supply chains that have local comparative advantages . Access to services will improve agriculture productivity and product quality and attractiveness
Low credit-worthiness/investment capacity of RMSEs	Medium low	. Support to RMSEs to prepare business plans and access to services contingent on profitability . Risk-sharing mechanism decreasing the risk of financial institutions (FIs) and lifting main constraint to RMSEs getting access to credit . Performance-based matching grants lower FIs risk as well cash flow problems for RMSEs in first years of investment . Savings promotion improve migrant-owned RMSEs borrowing
Government or other development organisations pay protracted subsidies and in-kind support to entrepreneurs in order to establish their business	High	. Implementation modalities and successful achievements will be shared with multi-stakeholders' platform and government partners to foster harmonisation . RER/ESCs will negotiate coordination agreements at district level ensuring that subsidies do not undermine RER approach to sustainability and that synergies rather than oppositions can be found . RER/SAMRIDDHI will participate in consultation planned to be held by

Risk description	Probability of occurrence	Mitigation measures
		ministry of Agriculture to harmonise rules on matching grants across the sector
High rate of RMSE failure	Medium	. RER support will only be extended on the basis of BP demonstrating profitability . First year support will be subsidised and focus on key areas for reaching profitability . ESCs continued facilitation and promotion of integration into supply chains, as well as the use of local resources to develop mentoring will help RMSEs in further reaching sustainability
Migration returnees fail to have sufficient income and leave again on migration	Medium	. Information on business opportunities as an alternative to migration will be made available by ESCs . ESCs will facilitate access to BDS and financial services to sustain returnees' business investments . Peer-to-peer linkages enabling new entrepreneurs to improve skills and motivation will also be secured by ESCs , Knowledge management to demonstrate the viability of alternative sources of livelihoods to migration
DCCI/District FNCI/DEMEGAs are not interested in taking over ESCs	Medium	. ESCs will have business plans showing how they will become financially sustainable through cost recovery and mobilisation of resources . Capacity building will be provided to to help in taking over and to sensitise them about advantages (increased membership, increased weight to lobby local authorities, possibility of levying resources)
Volume of service business is not enough to generate sufficient income for full time service providers (SPs)	High	. RER will support several mechanisms to facilitate sustainable SP access, including using local resources combining service provision with another occupation and embedded services
Rural job opportunities and business opportunities are not attractive to underemployed and poor household	Low	. Several mechanisms will promote jobs and business opportunities that can generate at least the salary earned on migration (CPMAs and survey of wage employment opportunities, placement in gainful employment negotiated with enterprises and supported through incentive scheme for TEVT SPs, support for accessing services and integrating supply chains…)
FNCCI/AEC management capacity is insufficient	Medium	. FNCCI/AEC will be involved in the implementation of Component 1 only . Implementation responsibility will focus on ESCs, which will be entirely staffed by the project, and will be supported by Corridor Teams as well as get PMT guidance and regular, short-term technical assistance
Financial institutions are not interested in extending services in the rural areas	Low	. Risk-sharing and PBMG schemes will offset risk . Incentives to increase outreach, building on prior successful examples in Nepal demonstrating that there is an interest . Focus on raising the capacities of SCCs/SFACLs and their extensive network in district targets . Incentives provided to develop a market of financial services to remittance receiving households, which is huge and untapped
Public/private migration stakeholders fail to take responsibility for the operation and financing of the Platform on Migration and Development (PMD)	High	. Project support to set up the platform and develop plans and tools . Initial project financing of PMD secretariat and operation . Project support to the drafting of a law to institutionalize the platform . Support to migrant organisations to develop advocacy skills.

IV. Project costs, financing, benefits and sustainability[32]

A. Project costs

88. **Project duration.** The project will have seven-year duration. Project phasing is organised in such a way that the PMT and FNCCI/AEC will be able to progressively expand project outreach over the three target corridors with the two corridor teams[33] and distribute the effort of setting up new structures over three years. Every ESC will receive project support over sufficient duration (five years ESCs in the hills and four years for ESC in the Terai) to ensure sustainability.

89. **Project costs.** The total project investment and recurrent costs are estimated at around USD 68.2 million (NPR 6 billion), including USD 9.6 million (NPR 876 million) of physical and price contingencies, as indicated in Table 7. Price contingencies add up to 15% of the base costs due to the high inflation rate in Nepal, whereas physical contingencies are 1%.

[32] Details in Appendix 9 - Project Costs and Financing and Appendix 10 - Economic and Financial Analysis.
[33] A possible phasing of the target districts is indicated in Appendix 2 - Poverty, Targeting and Gender , Attachment 1.

Table 7 - Programme Cost Summary by Component

	(NRs)			(US$)		
	Local	Foreign	Total	Local	Foreign	Total
A. Promotion of Rural Micro-Cottage and Small Enterprises						
Mapping and setting up capacities at district and regional level	541 980 712	18 462 080	560 442 792	5 955 832	202 880	6 158 712
Services for RMSE promotion and development	993 900 635	43 634 500	1 037 535 135	10 921 985	479 500	11 401 485
Vocational training and apprenticeships	628 735 380	-	628 735 380	6 909 180	-	6 909 180
Subtotal Promotion of Rural Micro-Cottage and Small Enterpı	2 164 616 727	62 096 580	2 226 713 307	23 786 997	682 380	24 469 377
B. Productive Investment						
Rural Finance	2 120 954 240	72 913 750	2 193 867 990	23 544 506	801 250	24 345 756
Mobilising migrant resources and skills	149 258 428	20 106 223	169 364 650	1 640 203	220 948	1 861 150
Subtotal Productive Investment	2 270 212 668	93 019 973	2 363 232 640	25 184 709	1 022 198	26 206 906
C. Institutional Support and Project Management						
Policy and Institutional Development	172 112 122	11 648 000	183 760 122	1 891 342	128 000	2 019 342
Project Management	345 858 877	99 676 395	445 535 272	3 800 647	1 095 345	4 895 992
Subtotal Institutional Support and Project Management	517 970 999	111 324 395	629 295 394	5 691 989	1 223 345	6 915 334
	4 952 800 394	266 440 948	5 219 241 341	54 663 695	2 927 923	57 591 617
Physical Contingencies	75 130 872	6 931 709	82 062 581	825 614	76 173	901 787
Price Contingencies	869 540 628	8 797 558	878 338 185	9 555 392	96 676	9 652 068
	5 897 471 893	282 170 214	6 179 642 107	65 044 700	3 100 772	68 145 472

B. Project financing

90. **Financing plan.** The government of Nepal, IFAD, private sector and the beneficiaries will finance the project.

- *Government:* the government will finance tax/duties and the salaries of the government staff assigned to the PMT, and is further expected to finance one staff per ESC as well as part of the costs of vocational training (37%, building on expected creation of the TVET Fund) for a total of USD 9 million;
- *IFAD:* IFAD available resources amount to about USD 38.6 million, of which 44% under the form of a DSF grant, and 56% through a highly concessional loan. The grant will cover soft activities across components, including vocational training and apprenticeship, consultancies and implementation partners' overheads, and will contribute to setting up the ESCs, corridor coordinations, vehicles and the PMT central office. The loan will primarily finance enterprise support activities and financial instruments;
- *Private sector*: the private sector contribution is estimated at USD 13.7 million and will mostly consist in the cost-sharing of capacity building and outreach promotion by financial institutions, progressive taking over of ESC costs by DCCIs, and space allocation to ESC facilities;
- *Beneficiaries*: the beneficiaries of enterprise development and financial services will be requested to contribute in cash to an extent that will vary in accordance with the enterprise size, as well as to investment loans benefitting from performance-based matching grants. Overall beneficiaries' contributions are estimated at USD million 6.6.

91. The details of financing arrangements are shown in Table 8.

Table 8 - Project Components by Financiers (USD)

	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 level	2 266 396	28.3	4 257 557	53.1	-	-	364 529	4.5	1 123 747	14.0	8 012 229	11.8
Services for RMSE promotion and development	10 312 809	69.5	758 153	5.1	1 836 853	12.4	-	-	1 928 754	13.0	14 836 568	21.8
Vocational training and apprenticeships	3 931 438	43.8	1 342 212	15.0	-	-	208 778	2.3	3 489 805	38.9	8 972 234	13.2
Subtotal Promotion of Rural Micro-Cottage and Small Enterprises	16 510 643	51.9	6 357 922	20.0	1 836 853	5.8	573 307	1.8	6 542 306	20.6	31 821 031	46.7
B. Productive Investment												
Rural Finance	1 534 127	6.1	5 258 497	21.0	4 800 000	19.2	13 174 693	52.7	219 677	0.9	24 986 995	36.7
Mobilising migrant resources and skills	367 044	15.6	513 506	21.8	-	-	-	-	1 475 599	62.6	2 356 149	3.5
Subtotal Productive Investment	1 901 171	7.0	5 772 003	21.1	4 800 000	17.6	13 174 693	48.2	1 695 276	6.2	27 343 143	40.1
C. Institutional Support and Project Management												
Policy and Institutional Development	404 088	14.7	1 941 872	70.4	-	-	1 179	-	410 348	14.9	2 757 488	4.0
Project Management	2 979 236	47.9	2 743 785	44.1	-	-	-	-	500 789	8.0	6 223 809	9.1
Subtotal Institutional Support and Project Management	3 383 324	37.7	4 685 657	52.2	-	-	1 179	-	911 137	10.1	8 981 297	13.2
	21 795 138	32.0	16 815 582	24.7	6 636 853	9.7	13 749 180	20.2	9 148 719	13.4	68 145 472	100.0

C. Summary benefits and economic analysis

92. **Beneficiaries.** RER/SAMRIDDHI will target a total of about 179,660 *primary beneficiaries*, as further detailed in Table 9:

- 60,000 entrepreneurs, the majority of which will be family enterprises and micro-enterprises (categories A and B) who will have access to services;
- 89,660 people who will access jobs generated by the newly created and expanded RMSEs, of which approximately 50% will be family members engaged full time in the enterprise activities and 50% will be externally hired employees.
- about 30,000 people, mostly youth, who will benefit from vocational training and apprenticeship.

Table 9 - Phase-in of beneficiaries for primary target groups

Direct Beneficiaries	Unit	2015/16	16/17	17/18	18/19	19/20	20/21	21/22	Total
Enterprise Support									
New enterprises type A	Enterprise	-	3,406	7,494	10,900	7,494	3,406	-	32,700
New enterprises type B	Enterprise	-	760	1,673	2,434	1,673	760	-	7,300
New enterprises type C	Enterprise	-	62	138	200	138	62	-	600
Existing enterprises type A	Enterprise	-	1,490	3,277	4,766	3,277	1,490	-	14,300
Existing enterprises type B	Enterprise	-	333	733	1,068	733	333	-	3,200
Existing enterprises type C	Enterprise	-	198	435	634	435	198	-	1,900
Subtotal Enterprise Support									**60,000**
Employment Generation									
Family labour	Person	-	4,695	10,325	15,020	10,325	4,695	-	45,060
Hired labour	Person	-	4,645	10,220	14,870	10,220	4,645	-	44,600
Subtotal Employment Generation									**89,660**
Vocational Training and Apprenticeship[34]									
Vocational training	Person	-	4,688	5,624	4,688	-	-	-	15,000
Apprenticeship in enterprises type A	Person	-	2,344	2,812	2,344	-	-	-	7,500
Apprenticeship in enterprises type B+C	Person	-	2,500	1,250	1,667	2,083	-	-	7,500
Subtotal VT and Apprenticeship									**30,000**
Total Direct Beneficiaries									**179,660**

93. Additionally, the project will provide financial education in-country and abroad to213,120, mostly migrants and migrants' households. Around an estimated 10% of these will access other project services (or 30% of the target number of entrepreneurs).

94. The *secondary target group* will include: (i) medium enterprises and large enterprises as well as service providers, who will extend support to the primary target group, through the provision of financial and non-financial services, the development of vocational training and apprenticeship packages in connection to job placement, as well as business partnerships; and (ii) 22,500 enterprises (from category B to medium and large) who will receive capacity building to make the best use of apprenticeship.

95. Furthermore, project investments will lead to *indirect benefits* for RMSEs and poor households out of the target area, as they will gain from: (i) the dissemination of evidence-based business models through MOI, FNCCI/FNCSI/NMEFEN and multi-stakeholder platforms at the regional and national level; (ii) the building of financial institutions capacities to better respond to RMSE's financing needs;

[34] To avoid double counting. the proportion of trainees likely to set up their own enterprise will be assessed based on actual experience from Helvetas.

and (iii) the building of capacities of District Cottage and Small Industries Offices and Boards as well as of FNCCI to facilitate RMSEs development, to support business partnerships and to promote inclusion.

96. **Benefits.** To support the economic analysis, eight enterprise models were prepared to illustrate potential income for RER-supported RMSEs, reflecting different sizes of enterprises (category A or B, which will be the main categories benefitting from RER support), sectors (farm and off-farm) and status (newly created or in expansion). One additional model shows the potential benefits generated by an enterprise set up in partnership by five vocational trainees or apprentices. Investments are financed by beneficiaries' contribution, RER-financed Performance-Based Matching Grants, and short to medium term loans from financial institutions. Incremental annual net benefits vary widely across activities, ranging from USD 243 from off-season vegetable production in category A to USD 5,559 from fish farming in category B. As anticipated, Type B enterprises play a bigger role in employment generation, both for family members and external workers. All the models demonstrate very satisfactory Cost/Benefit ratios and Financial Internal Rates of Return, proving the attractiveness of such investments, as shown by Table 10. More details on enterprise models are provided in Appendix 10.

Table 10: Summary enterprise models and financial indicators

Enterprise type	Sector	Activity	Total Investment	Increment. Annual Net Benefits* USD	Incremental Family Labour (p/year)	Incremental Hired Labour (p/year)	C/B	Net Incremental benefits per USD of Investment	NPV (USD)	IRR
A - New	Farm	Off-season vegetables	440	243	0.07	0.05	0.55	3.12	1,095	108%
A - New	Off farm	Communications shop	1,434	1,172	1.00	0.33	0.82	1.40	4,151	147%
A - Expansion	Farm	Cardamom production	440	315	0.01	0	0.72	27.47	1,311	72%
A - Expansion	Off farm	Pottery workshop	725	862	0.32	0	1.19	2.02	2,877	60%
B- New	Farm	Fish farming	12,088	5,559	1.00	2.50	0.46	1.76	22,081	96%
B- New	Off farm	Bakery	7,527	2,795	2.47	1.48	0.37	1.26	9,911	53%
B- Expansion	Farm	Ginger processing	5,055	1,253	0.19	1.90	0.25	1.27	4,289	66%
B- Expansion	Off farm	Sweets production	2,022	1,728	0.80	4.23	0.85	1.07	5,150	61%
Voc. Training		Carpentry workshop	4,514	3,770	-	-	0.84	2.84	11,831	116%

* at full development

97. **Economic analysis**. The base case scenario for a 20-year period of analysis shows an Economic Rate of Return of 26% and a Net Present Value of USD 37.7 million. The EIRR is calculated only on the basis of type A and B enterprise creation and expansion to reflect the fact that these are the primary project targets. In order to avoid double-counting of benefits from vocational training and apprenticeships, incremental benefits from this source have been excluded from the overall benefit stream.

98. **Sensitivity analysis.** A sensitivity analysis was conducted to assess the effect of variations in benefits and costs (up to 30% cost increase or benefit decrease) and for various lags in the realisation of benefits (up to 2 years). All these scenarios yielded EIRRs above 19%.

D. Sustainability

99. RER/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. Main features of the project approach that will contribute to such a goal, detailed in Section III A, are as follows:

- *Public-private partnership:* while the government will retain an overall implementation and facilitation responsibility, private sectors players will provide business development and financial services to target groups under arrangements securing them with sufficient returns and including capacity building and expansion opportunities, which will create strong incentives for continued service provision beyond project completion. Moreover, migrant associations will be mobilised to provide counselling services and peer-to-peer mentoring to migrants and families, and, together with SCCs and SFACLs, financial education;

- *Financial sustainability:* sound RMSE business plans with incentives to support start-up, cost recovery mechanisms, capacity building of key players, linkages to performing financial service providers and resource mobilisation will promote RMSE viability and continued operation of ESC;
- *Local resources:* the use of local resources to develop entrepreneurship, expand the range of BDS SPs and generate jobs will increase local empowerment as well as the adequacy of RER-supported mechanisms with local potential and capacities;
- *Business partnerships:* the promotion of business partnerships between the smallest enterprises and value chain aggregators will facilitate continued RMSEs access to services and markets and promote their growth beyond initial project-financed support;
- *Capacity building:* capacity building will be provided to ensure that stakeholders have the right mix of technical and management competences to carry on activities beyond project completion;
- *Innovative business models and knowledge management:* project implementation will lead to the development of a set of innovative business models, which will be documented and disseminated through multi-stakeholders platforms at the district, regional and national level. This is expected to generate a knowledge basis for sustaining project achievements, as well as to promote further public and private sector engagement in up-scaling most promising and commercially viable mechanisms, particularly with regard to the development of a new market of remittance-related services.

100. 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.

Appendix 1: Country and Rural Context Background[35]

1. **Slow economic growth.** Nepal has a population of 26.6 million people, of whom 83 % are concentrated in rural areas and 56% are 20-40 years of age. It is a low-income country with a per capita GDP of USD 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 declining agriculture sector (36% of GDP) and stagnating industry (15% of GDP) are constrained by low rates of domestic investment, challenging regulatory requirements, a risky business environment, limited connectivity and a lack of support services. The development of the service sector is partly due to the boom of migration remittances, which now constitute 25.5% of a GDP of about USD17 million.

2. **Low returns from agriculture.** Despite a slight urbanization trend, 83% of the population in Nepal continues to be located in rural areas. Agriculture employs 80% of the active population, but only accounts for one third of GDP, reflecting overall low productivity of the 4 million small farms. Due to rapid population growth, landholding size has declined to an average of 0.7 hectares (ha) per household, with 55% having less than 0.5 ha, including 50% of landless families. While changing urbanization patterns (growing market centres and new transport corridors) create new demand for goods and services, low access to support services and credit, limited access to vocational training and a cumbersome business environment constrain the development of alternative employment opportunities. The first coping strategy is migration – at least one third of the working population of men has gone abroad. Other coping strategies further reduce households' ability to pull themselves out of poverty, including the reduction of meals, which leads to alarming rates of child malnutrition and hunger. Despite poverty reduction, food insecurity and malnutrition have remained a major concern. Some 60% of farming households cannot produce enough for more than six months of food consumption and 42% of children are undernourished.

3. **MSEs.** Micro-Cottage and Small Enterprises (MSEs) overwhelmingly dominate the industrial scene of Nepal. They together contribute more than 80% of industrial employment, 70% of the total industrial output and 75% of total exports. In addition to the estimated 130,000 registered operational MSEs, a much larger number of MSEs are informal: estimates in 2008 were that around 2,142,000 people were employed in the non-agricultural informal sector and 969,000 people were self-employed. Some 79% of micro enterprises are found in the rural sector, while small enterprises are more or less equally distributed across rural and urban settings. Female participation in micro enterprises is close to the male participation rate at 45%, but decreases to 6.4% in the small enterprise sector. This distribution is largely a result of inequitable social structures and norms. Many micro enterprises are operated on a part-time basis to supplement other activities, limiting them to livelihood and income-generating activities.

4. Main opportunities for developing MSEs both in the farming and off-farm sectors include:

- *Production*: varied geographical and climatic conditions, from the plains of the northern Indian subcontinent to the Himalayas, enable all-season production of a wide variety of agricultural crops, also opening scope for a large range of processing and other value-adding activities, presently largely untapped;
- *Market demand*: a growing population (1.4% annual increase) and changing urbanization patterns (growing market centres and new transport corridors) create new demand for goods and services. Meeting the growing domestic demand for food products will require increased agricultural productivity and competitiveness of domestic production;

[35] For details, see WP 1 - Mapping of the Target Area and of Potential Value Chains, WP 3 - Promotion of Rural Micro-Cottage and Small Enterprises, WP 4 - Rural Finance, WP 5 - Rural Infrastructure and WP 6 - Strategy and Activities for Migrants, their Families, and Returnees.

- *Market access:* trade agreements with India, China and European countries facilitate market access for Nepalese products. While competition with cheap farm and manufactured products from India and China is hard to sustain, Nepal also has comparative advantages including in terms of seasonality, agro-ecological conditions allowing to grow products in high demand on export markets and produced exclusively in Nepal (e.g. large cardamom or an infinite variety of lentils) and a low cost of labour;
- *Developing agri-business:* commercial agriculture, particularly in the horticulture and dairy sectors, is picking up, and an agribusiness sector is emerging to meet the demand of growing urbanisation, generating jobs and a demand for agriculture support services. Promising models are being developed to connect small producers to services and markets, such as outgrowers' schemes and cluster organisations;
- *Migration:* aside from remittance, migrants also bring back skills, networks in the countries of destination and a capacity to take risks, which, if properly supported, could bring development benefits not only to returnees and their families, but also to their communities. Migration also generates new economic activities, particularly construction and telecommunications. Yet at the moment migration represents a largely untapped potential (see below).

5. Nepal ranks 105 over 189 countries in the IFC/World Bank's *Doing Business* index (2014). Main constraints are as follows:

- *Insufficient infrastructure*: the coverage of economic infrastructure, including paved roads, is improving. However communities living outside district centres remain isolated, particularly in the Hills and Mountains. For example, it takes at least 3 hours for 54.8% of the households in the Eastern Hills and 23.7% of households in Central Hills to reach the nearest commercial bank. While mobile phone penetration (70% of the population) offers new ways to bridge rural communities access to services and information, this potential remains largely untapped. Besides, quality of calls is very poor, with frequent interruptions and gaps in rural coverage areas.
- *Lack of electricity:* only about 35% of the rural population has access to electricity supply, which, because of an overall capacity too low to satisfy needs, is limited and unreliable. In villages visited by the mission access to electricity ranged from 8 to 12 hours per day. Rural electrification is very expensive due to the topography but also to the low purchasing power of households who use electricity mainly for home consumption. Yet, Nepal has a large potential to develop sources of renewable energy such as hydro power, wind energy, solar energy, biogas and biomass. Till date, only 12% population have access to electricity through renewable energy sources;
- *Lack of skills and technology:* the lack of trained and skilled manpower and the reliance on out-dated technology affects productivity as well as the quality, packaging and branding of products. Medium and large enterprises hire Indian labour to secure higher skills and to escape Nepal's Labour Act regulation;
- *Lack of organisation:* field visits showed that most entrepreneurs carry out all their activities individually (including input supply and marketing). Where there are associations of entrepreneurs, they lack the level of technical knowledge and organizational capacity to provide demand based services to their members;
- *Difficult access to markets:* most micro-enterprises supply only local markets, because of isolation and of the lack of knowledge about market opportunities. Competitiveness is also an issue, particularly with Indian and Chinese cheap manufactured goods;
- *Lack of access to Business Development Services:* aside from the limited services offered by district-based Cottage and Small Industry Departments/Boards and a range of initiatives developed by Chambers of Commerce or by donor-sponsored projects, there is no system for facilitating entrepreneurs' access to BDS in support of production and marketing;
- *Limited access to financial services:* access to credit is hampered by the limited outreach of operational financial institutions in the rural areas, as well as by restrictive Central Bank regulations only accepting land and houses, which have a reduced value in the rural areas;
- *Political instability:* prolonged political instability has constituted a major obstacle to MSEs development, affecting goods circulation and generating widespread mistrust in government institutions.

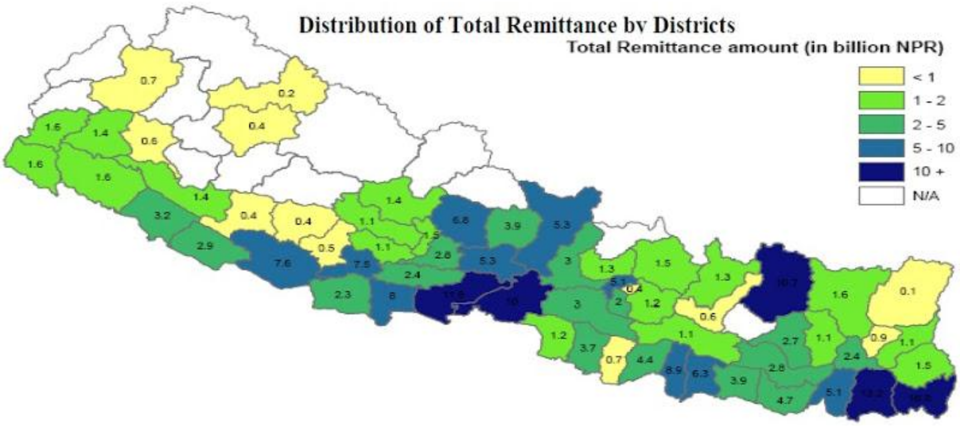
6. Last but not the least, the lack of MSE friendly policies, laws and regulations and an overly rigid application of rules also contribute to slow development of the sector. Policy measures in support of

MSEs were first introduced by the 2010 Industrial Policy, which aims at increasing the contribution of the industrial sector to development by mobilising local resources and skills, and by enhancing the competitiveness of industrial products. Main strategic orientations are to develop services to micro enterprises, cottage and small industries, facilitating market access and promoting associations and cluster organization.

7. **Migration.** An estimated 400,000 Nepalese migrate overseas seeking employment every year. This trend is a direct result of the lack of economic opportunities in the rural areas, as well as of a growing demand of short-term labour from the Gulf Countries and more recently Malaysia. To date, the total number of Nepali labour migrants overseas is estimated to be over 3 million people, of which 85% are from the rural areas. Women comprise 13.3% of migrant workers.

8. The dependence of Nepal's economy on remittance is increasing every year. It is most common in the Eastern Development Region (29% of migrants) followed by Central (25%) and Western Development Regions (25%). Approximately two in three households in Terai and one in two in the Hills and Mountains receive remittance, with a total estimated 56% of remittance receiving households across the country. Figure 1 shows the distribution of remittance by district.

Figure 1: Distribution of Total Remittance by District[36]



9. The average amount of remittance received per household has been multiplied by six over the last decade, with a 41.8% increase in workers' remittance in 2011/12 and a further increase of 20.9% in 2012/13, compared to prior years. The average amount of annual remittances per household in the rural areas now stands at NRP 12,000 (USD 92). However, since a large amount of remittance is transferred through informal means, the total remittance flowing into the country is difficult to determine precisely. Only an estimated 19% of remittance is transferred through financial institutions. Although the majority of the pay-out locations are banks, the remittance services they offer are generally not linked with accounts or other types of financial services, thus limiting opportunities for savings and, overall, for financial inclusion of the migrant population.

10. The largest part of remittance is used for daily needs. While remittances provide women with cash for household consumption, they have to take on the additional burden of both running the farm and heading the household, and where women have a higher say, it appears to be only temporary. Only 2.4% of total remittances are invested in capital formation, 0.6% in saving and 0.5% in business. As a result, a large number of returnee migrants decide to leave for foreign employment again despite the risks (including death - 726 dead bodies of Nepali migrant workers were sent back to Nepal in 2013 -, injuries and disintegration of households and communities). According to a recent study, as many as 77% of recent returnees were considering getting back to overseas employment due to limited job and investment opportunities in Nepal. While surveys show that migrants and their families lack knowledge of how they could save and invest their savings, there are no government policies or programmes to support a more effective use of remittance. Yet experience from the projects financed

[36] Source: Nepal Migrants' Survey, 2009, Presented as a figure in World Bank, Large-scale Migration and Remittance in Nepal: Issues, Challenges, and Opportunities, 2011.

by IFAD through the Financial Facility for Remittance as well as field visits during the design process (see Appendix 3) show that, with appropriate education on the constructive use of remittance, information on business development and facilitation of business creation, migrants are willing to use their remittance for capital formation and business investment.

11. **Eastern Development Region**. The Eastern Development Region (EDR) covers 16 districts. It is rich in geographic diversity and is home to the world's highest point (Mount Everest 8,848 m), Nepal's largest river system, and Nepal's biggest forest. Dhankuta is the regional headquarter of EDR. Itahari is the one of the fastest growing urban areas located in the east-west highway of the country about half hour drive from the airport. All district headquarters are connected by road and six remote districts also have air services. Nonetheless, geographical isolation and the lack of bridges at most of the river crossings are major accessibility challenges.

12. Some 80% of households in the region are reliant on agriculture for their living, mostly doing subsistence farming. The Terai districts are the main producers of food grains in the EDR, with the Hill and Mountain districts suffering food deficits and being more vulnerable to winter droughts. Some 47% of families are not fully food secure throughout the year. Tea, cardamom, off-season vegetables, fruits and spices are the main High Value Crops (HVC) of EDR. Farming of Non Timber Forest Products such as medicinal plants can be found in the hill districts of the EDR and industries producing handmade Lokta paper are established in several districts. Lokta can be preserved for a long time, is non-perishable in water, free from germs and highly resistant to insects. It is used in government offices and is exported as well.

13. Due to stagnation in the overall economy, local employment opportunities in EDR have declined in recent years. Agriculture still provides employment to the majority of self-employed people. Hill districts famous for cultivating cash crops provide formal and informal employment opportunities. Rapidly growing settlements and construction business particularly along the East-West highway and in urban and semi-urban centres also provide job opportunities to both skilled and unskilled labour. The Ithari-Biratnagar corridor, with 500 small to big manufacturing industries, also provides a significant number of jobs to people residing in nearby districts, particularly in Morang and Sunsari. Due to the flow of remittance money, employment opportunities for construction workers have also increased in rural areas of the Terai. However, districts like Khotang, upper Udaypur and remote pockets of the hill districts do not offer much local employment opportunities. Employment opportunities in the agricultural sector in the Terai districts like Saptari and Siraha are also limited due to the low return on agriculture in those districts. Migration from Terai districts for foreign employment is high. Five Terai districts in the region are among the top ten districts which send the highest number of migrant workers abroad. Migration from hill districts to urban and semi-urban centres along the East-Western highway is also on the increase due to better living conditions compared to rural areas in the hills.

Eastern Development Region at a Glance

Total Area:	28,456 sq Km
Population density:	204 per Sq Km
Total Population:	5,811,555 (21.9% of total)
Male:	2,790,483
Female:	3,021,072
Total Household No:	12, 300,743
GDP per capita (PPP US$):	1,570
Life expectancy at birth:	66.16
Child Mortality rate:	60/1,000 live births
Human Poverty Index:	33.7
Adult literacy Rate:	53.95

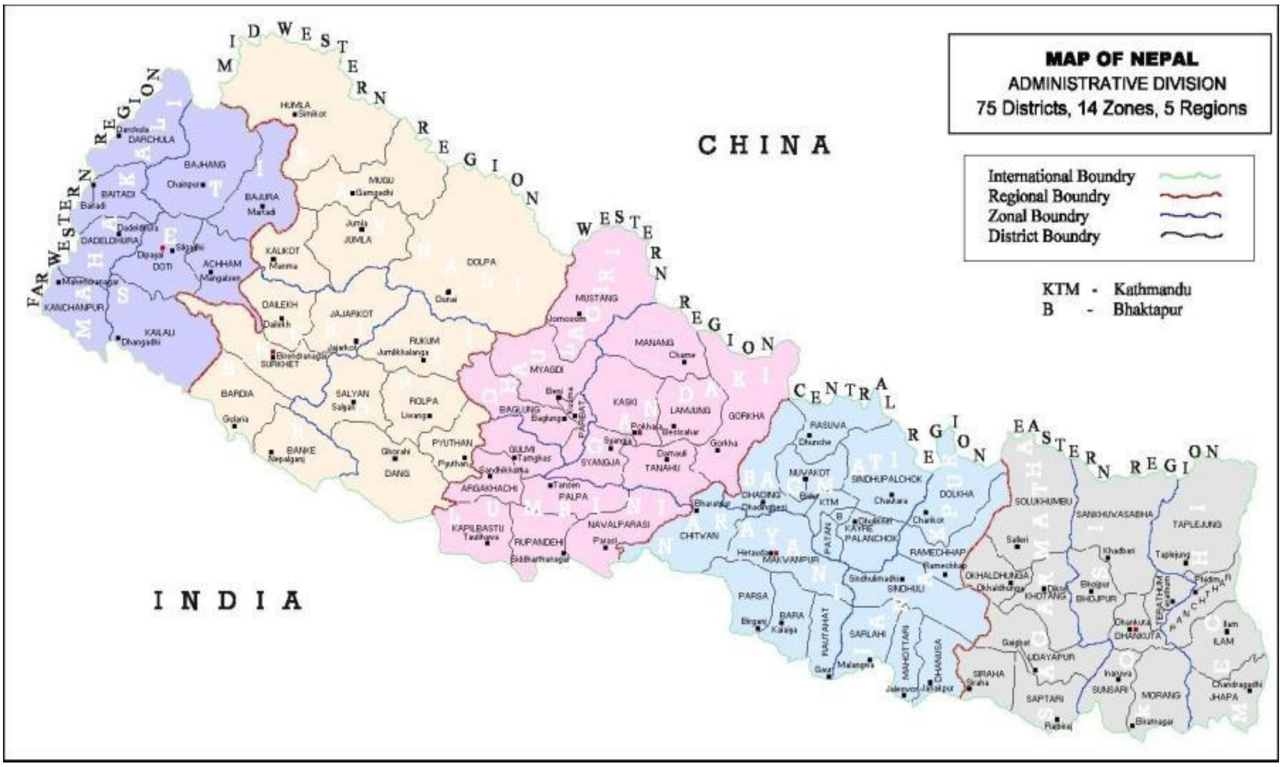
Source: Census 2011

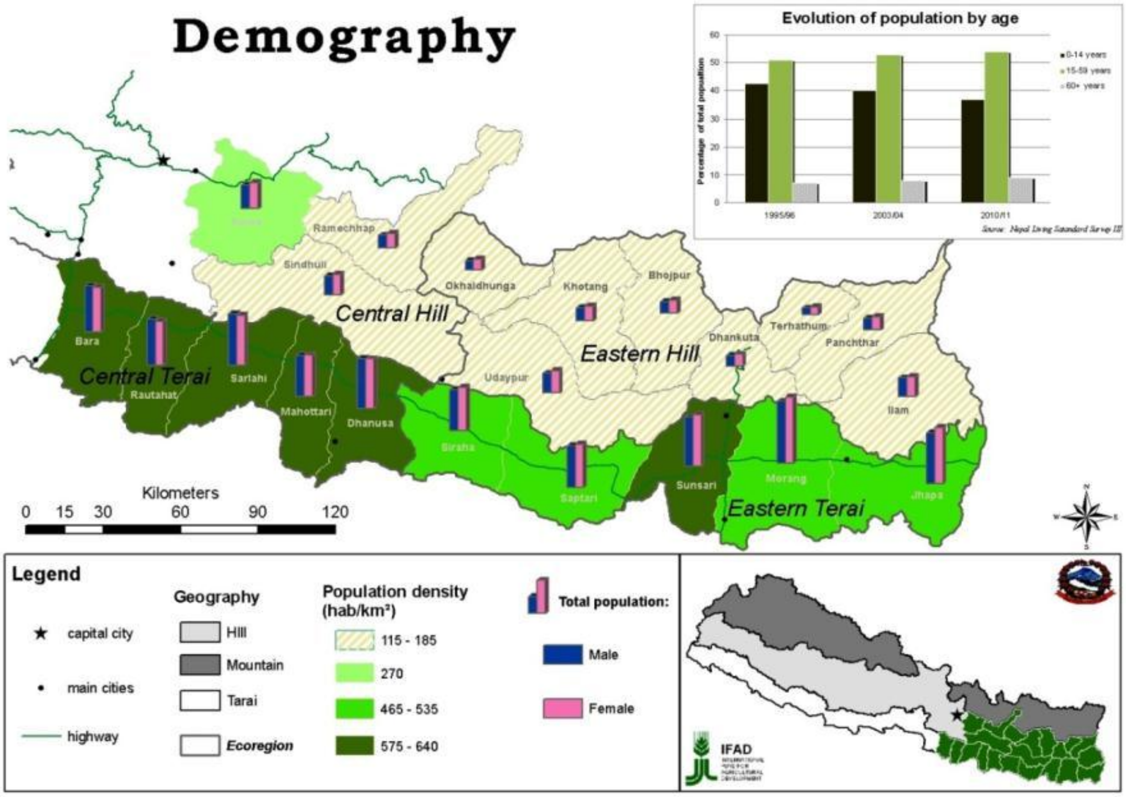
14. **Central Development Region.** The Central Development Region (CDR) covers 19 districts. It is regularly affected by natural disasters such as floods and landslides. It also suffers from an overall food production deficit, with the Kathmandu valley and flood affected-districts being severely food deficient because of rapid urbanisation in the Kathmandu valley, fragmented agricultural land shifting to residential and commercial use, decreasing local food production. Population density in the CDR is 293 hab/km^2, which is the highest among all five development regions and significantly above the national average of 157 hab./km^2.

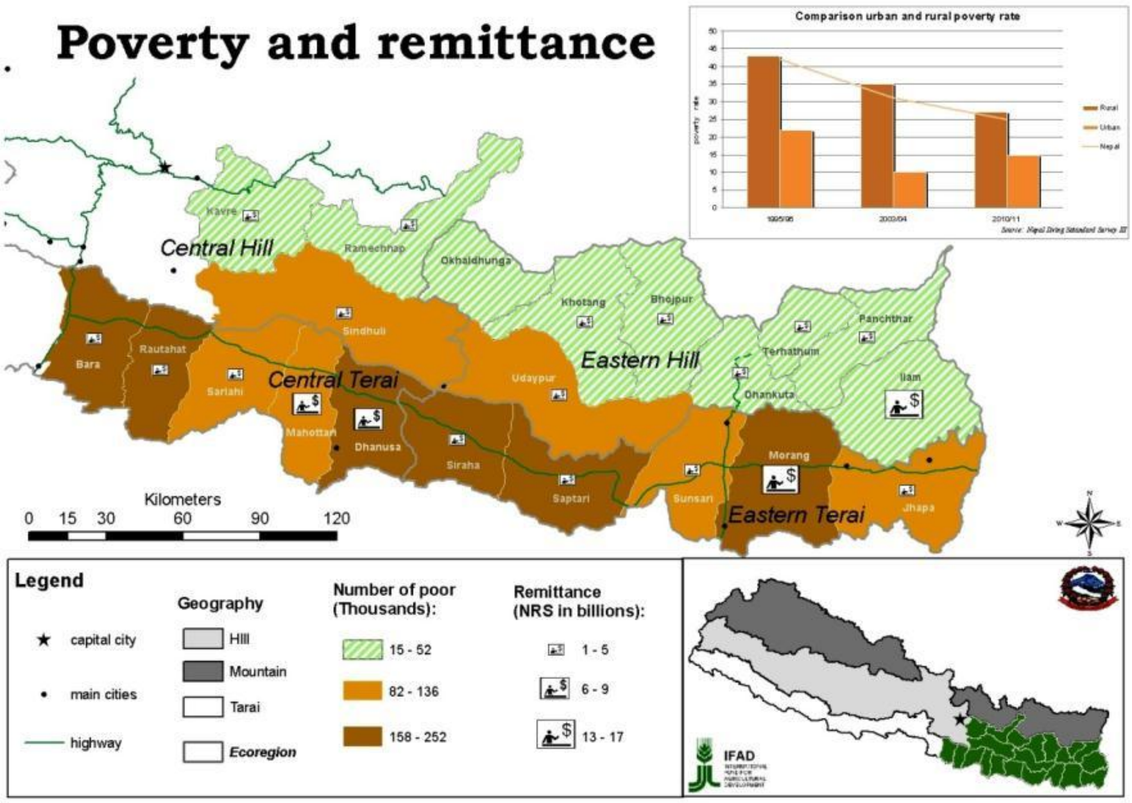
15. Some 42% of the population is employed in agriculture. Major food crops include rice, maize, wheat, potato, pulses, oilseed, sugarcane, tobacco, cotton, jute, tea, cardamom, ginger and various fruits and vegetables. Of these, mustard linseeds, herbs, ginger and cardamom are the major agricultural exports for Nepal, contributing 21% of the national export earnings. In addition to being the home of the capital Kathmandu as well as the country's busiest border crossings, Birgunj (61% of

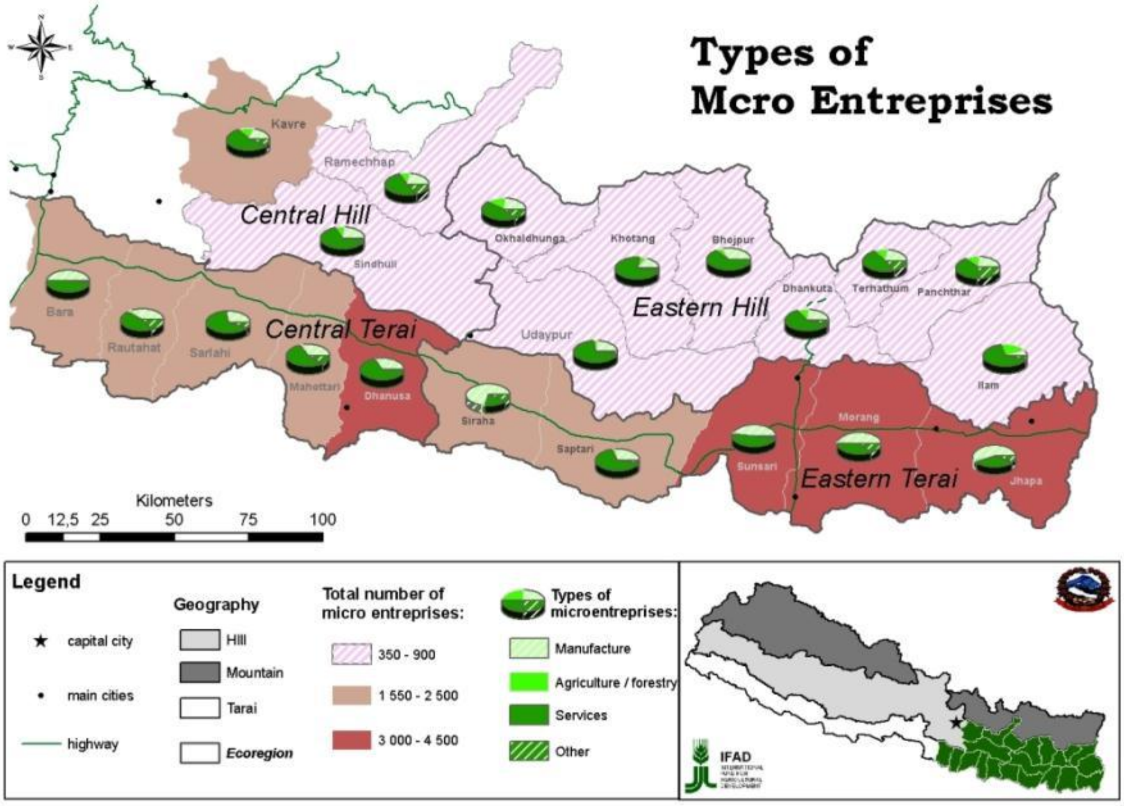
international trade flow) and Tatopani (the only border crossing into China), a good share of Nepal’s industries (agro-products, cement, steel) along the Birgunj-Hetauda corridor, are located in the CDR. Overall, the CDR employs most of the industrial workers in Nepal (288,428 workers out of a national total of 99,086) in 3,272 registered industrial companies (over 4,310 nationwide). Manufactured products include garments, carpets, pashminas, handicrafts, herbal medicines, ornaments from precious and semiprecious stones, leather goods, hand-made paper and processing of agro-products for export. To encourage investments, the government has declared the periphery of Birgunj, the Hetauda Industrial District as well as Panchkhal (Kavre district) and Ratmate–Jiling-Devighat (Nuwakot district) as special economic zones (SEZ), where industries and trading houses are tax exempt. Another two SEZ are planned in Parsa district. CDR is the development region with highest road connectivity and all district headquarters in the CDR have road access. Nonetheless, geographical isolation, vulnerable roads and lack of bridges across most of the rivers still create major challenges.

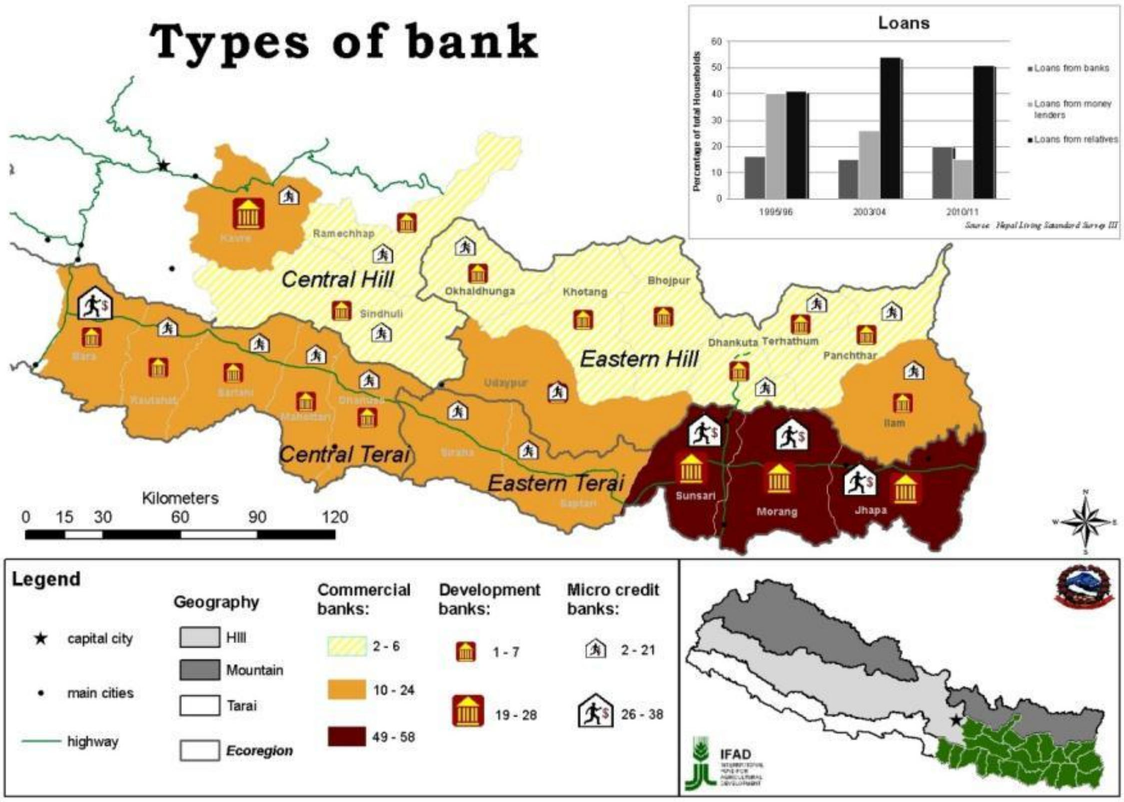
Attachments – Maps




Demography
Evolution of population by age
Percentage of total population
0-14 years
15-59 years
60+ years
1995/96
2003/04
2010/11
Ramechhap
Sindhuli
Okhaldhunga
Khotang
Bhojpur
Central Hill
Eastern Hill
Dhankuta
Terhathum
Panchthar
Ilam
Udaypur
Bara
Rautahat
Sarlahi
Central Terai
Mahottari
Dhanusa
Siraha
Saptari
Sunsari
Morang
Jhapa
Eastern Terai
Kilometers
0 15 30 60 90 120
Legend
capital city
main cities
highway
Geography
Hill
Mountain
Tarai
Ecoregion
Population density (hab/km²)
115 - 185
270
465 - 535
575 - 640
Total population:
Male
Female
IFAD


Poverty and remittance
Comparison urban and rural poverty rate
poverty rate
Rural
Urban
Nepal
1995/96
2003/04
2010/11
Kavre
Central Hill
Ramechhap
Okhaldhunga
Khotang
Bhojpur
Sindhuli
Panchthar
Terhathum
Eastern Hill
Ilam
Dhankuta
Udaypur
Bara
Rautahat
Sarlahi
Central Terai
Mahottari
Dhanusa
Siraha
Saptari
Sunsari
Morang
Jhapa
Eastern Terai
Kilometers
0 15 30 60 90 120
Legend
capital city
main cities
highway
Geography
Hill
Mountain
Tarai
Ecoregion
Number of poor (Thousands):
15 - 52
82 - 136
158 - 252
Remittance (NRS in billions):
1 - 5
6 - 9
13 - 17
IFAD


Types of
Mcro Entreprises
Central Hill
Central Terai
Eastern Hill
Eastern Terai
Kilometers
0 12,5 25 50 75 100
Legend
capital city
main cities
highway
Geography
Hill
Mountain
Tarai
Ecoregion
Total number of micro entreprises:
350 - 900
1 550 - 2 500
3 000 - 4 500
Types of microentreprises:
Manufacture
Agriculture / forestry
Services
Other
IFAD


Types of bank
Loans
Percentage of total Households
1995/96
2003/04
2010/11
Loans from banks
Loans from money lenders
Loans from relatives
Central Hill
Central Terai
Eastern Hill
Eastern Terai
Kilometers
0 15 30 60 90 120
Legend
capital city
main cities
highway
Geography
Hill
Mountain
Tarai
Ecoregion
Commercial banks:
2 - 6
10 - 24
49 - 58
Development banks:
1 - 7
19 - 28
Micro credit banks:
2 - 21
26 - 38
IFAD

Appendix 2: Poverty, Targeting and Gender

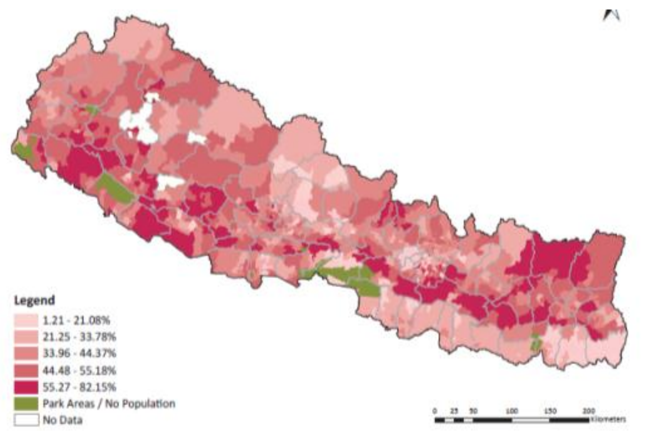
National Poverty Context

1. Nepal's poverty reduction trend has been steady with poverty headcount rate down from 42 % in 1995/96 to 25 % in 2010/11. This is largely the result of improvements in people's access to basic facilities such as roads, markets, health services, communication technology, energy etc. and the government's significant investment in the social sector. In addition, remittances have also played an important role, accounting for 25 % of the GDP in 2012. About 56 % of households in the country currently receive remittances that make up more than 30 % of their total annual incomes. However, a large number of the population in Nepal still live in abject poverty and social deprivation with a wide range of disparities between the poorest and the richest, in rural and urban, and within caste/ethnicity and gender. Out of the 75 districts, 45 are incapable of producing enough food to meet minimum requirements, resulting in high levels of stunting (46 %) and chronic under nutrition (35 %). The incidence of poverty in the rural areas (27.2 %) is almost double than that of urban areas (15.46 %).

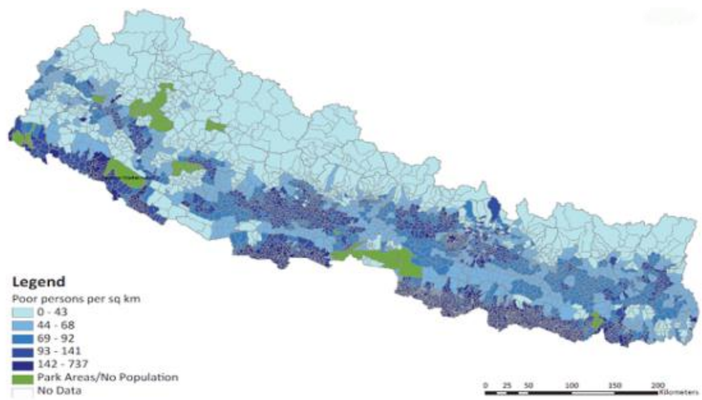
Poverty Context in Eastern and Central Terai and Hills

2. Poverty rates in Central and Eastern development regions are 21.69 % and 22.25 % respectively. Though these numbers are lower than the national average of 25.20 %, because of higher population density, the number of poor is higher in the Central and Eastern Hills and in the Terai. As shown by Maps 1 and 2 (Food Security Atlas, 2010), while Eastern and Central Hills have high poverty prevalence, Eastern and Central Terai have high density of poverty compared to the rest of the country. Central Terai, in particular, has the largest numbers as well as the greatest density of poor (over 250 per km^2).

Map 1 – Poverty Prevalence



Map 2 – Poverty Density



Resources and Livelihoods

3. **Low access to roads and services.** Target districts in the Hills have poor access to social and economic services, as most of the villages are not connected to roads and far from the district headquarters. While the Terai districts are connected to the East–West Highway, they similarly lack services, as public resources are concentrated on district headquarters and regional hubs. Access to electricity has significantly increased over the last 15 years but supply constraints still result in long and fragmented load-shedding hours, obstructing development activities. While the penetration of mobile phones in rural areas has significantly improved in the recent years, the quality of the service is poor, with frequent interruptions and gaps in coverage.

4. **Lack of education and skills.** The literacy rate in the target areas ranges from 38 to 55%, with marked gender disparities and high female illiteracy rates. While Hill districts have a primary school net enrolment rate above 95%, Central and Eastern Terai have among the lowest enrolment rates and the highest drop-out rates in the country. Underemployment in urban and rural areas is largely

due to the lack of skilled labour, with the mismatch of skills forcing enterprises to import labour from out of the country, mostly India.

5. **Livelihoods**. The share of income from non-farm and other sectors such as remittances, rental and social assistance, is rising significantly. However, restricted by limited infrastructure in rural areas, non-farms sectors lack sufficient employment opportunities. As a result, an increasing number of people, especially youths, resort to migration. In the agriculture sector, more than 65 % of households own less than 1 hectare of land. Poor households have smaller and fragmented land holdings. Landlessness is prevalent among the extreme particularly in the Terai. The use of improved seeds, mechanisation and modern agriculture techniques is still at a primary stage. Micro-enterprises use out-dated technologies producing low-quality products and services and thus, facing tough competition with imported products.

6. **Migration.** Nearly a third of Nepali household have at least one member living abroad, and the proportion is fairly similar in the target areas. While migrant remittance contributes about 25-30 percent of Nepal's GDP, the majority of migrants are unable to use remittance for investing in a business, because of lack of information on opportunities, lack of technical and management skills and inadequate capital.

7. **Lack of access to credit.** 55% of households have no access to the formal financial sector in the rural areas, where financial facilities are mostly limited to district headquarters. Consequently, poor people take loans from their relatives and moneylenders, who usually charge exorbitant rates of interest (up to 50%). Loans are highly used for household consumption.

Disadvantaged Groups

8. **Rural Women.** The decade-long armed conflict and the increasing trend of male migration in Nepal has led to the feminisation of agriculture. However, even though women constitute more than 60 % of the agricultural labour force, they have little access to land, production technologies and training. While the Constitution does not permit discrimination based on gender, the state has failed to change the pre-existing customs that discriminate against women. As a result, women especially in rural areas are not considered as key actors of the economy, and very few are landowners, particularly in the Terai region (5.3 %).

9. According to various studies, female-headed households have a higher incidence of poverty and food insecurity. It is estimated that 31 % of the poor belong to female-headed households, who face gender-related economic disparities like lack of control over or access to productive physical assets, credit, alternative livelihood opportunities, lack of education and skills etc. As a result, most of the rural women in the project area have lower income and higher poverty incidences compared to men. About 2.5 million Nepalese women are engaged in unskilled labour in migration countries. Many return with experiences of violation and exploitation, and often face problems of reintegration in the family, humiliation, polygamy by husbands, as well as family violence.

10. **Caste/ethnicity-based disadvantaged groups.** *Dalits* constitute the highest percentage of the poor population (43.63 % in the Hills and 38.16 % in the Terai). They face subjugation, social exclusion and discrimination, and despite policy efforts, practices such as bonded labour still persist in Dalit communities, resulting in widespread cases of landlessness, especially in the Terai region. Moreover, Dalit women face the triple burden of caste, poverty and gender, pushing them to extreme poverty. *Adhivasi/Janajati* and *Madhesi* populations face similar challenges.

11. **Rural youth.** While it constitutes nearly 50 % of the economically active population, 46 % of Nepal's youth is underemployed. Due to the lack of job opportunities, the majority of the rural youth engage in agriculture and subsistence economy that yields low earnings, pushing them towards migration for foreign employment.

12. **Women Migrant Workers.** The number of Nepalese migrant workers abroad has grown exponentially even since 1998, now reaching 2.5 million, and there is an increasing trend of women migrant workers in the recent years The majority of Nepalese migrant women are engaged in domestic and subsistence labour in international markets as there is high demand for labour in the

care economy in developed countries. Many destination countries, mostly in the Gulf, do not recognize domestic work under their labour laws, thereby making women migrants vulnerable to human rights violations. Besides the challenges in the foreign land, they also face stigma and broken marriage upon return to homeland.

Target Areas and Target Groups

13. **Target areas.** Building on the successful experience of other IFAD-supported projects, RER/SAMRIDDHI will adopt a corridor approach, whereby it will link districts along main roads running South to North from the plains to the hills. The project will be implemented in 16 districts of the Eastern Development Region (EDR) and Central Development Region (CDR) as per Table 1 (see map in Attachment 1 and main features of districts in Attachment 3).

Table 1 – Potential target districts

Koshi/Sagarmatha Corridor	Janakpur Corridor
Terai (Plains)	
Morang (EDR) Saptari (EDR) Siraha (EDR) Sunsari (EDR)	Bara (CDR) Dhanusa (CDR) Mahottari (CDR) Rautahat (CDR) Sarlahi (CDR)
Hills	
Bhojpur (EDR) Dhankuta (EDR) Khotang (EDR) Terathum (EDR) Udayapur (EDR)	Okhaldunga (EDR) Sindhuli (CDR)

14. District coverage will be phased over the first three years. The five initial districts will be selected based on DCCI capacity and motivation, in combination with the corridor approach and logistics concerns. A possible phasing of districts is indicated in Attachment 5 and was used to phase ESC costs in the cost tables.

15. Within the selected districts, RER/SAMRIDDHI activities will not target specific Village Development Committees (VDCs), but will rather be developed over the whole district. Activities will initially be concentrating on focus areas, which will be selected based on their potential and on poverty concentration, building on the Corridors Potential Mapping and Assessment to be carried out at project onset and on poverty mapping (see below).

16. **Target groups.** It is expected that RER/SAMRIDDHI will directly benefit approximately 179,660 primary beneficiaries, who will either create or expand their own business, or be hired as skilled or unskilled labour by companies of all sizes. The *primary target group* will include: (i) existing formal or informal rural micro-entrepreneurs that have a potential for development and expansion of activities; (ii) poor households, particularly the families that are landless or close to being landless, unemployed or underemployed youths, women and marginalized groups, who are interested in developing a business, or, alternatively, to secure a sustainable wage-earning job; (iii) returnee migrants and remittance receiving households; and (iv) small enterprises that either play a key role in securing microenterprise access to inputs, services and markets, or have a potential to generate employment. Additionally, sub-component 2.2 - Mobilising migrant resources and skills will focus on the following target groups: (i) migrants going to India (including as seasonal workers), Malaysia and the Gulf countries and (ii) migrant returnees and families especially women returnee who worked as domestic workers abroad. The project will also provide financial education to 244,800 people, mostly migrants or from migrants' households, both in-country and abroad, to support financial inclusion. Altogether, it is expected that around 80% of the target population will belong to the population under the poverty line or to nearly poor families, as per the government's classification (see WP 2). Table 2 shows the distribution of poverty categories along the categories of target enterprises, in line with the government's classification.

Table 2 – Poverty categories and categories of target enterprises

Categories of rural enterprises	Poverty categories
Type A: Rural household income generating activities	Population under poverty line
Type B: Rural micro-cottage enterprises or producers' organizations	Population under poverty line and nearly poor
Type C: Rural small enterprises or producers' organizations	Nearly poor and well-off
Vocational Training and Apprenticeship	Population under poverty line and nearly poor

17. The project will also directly target the nearly poor population because without opportunities of livelihood diversification and additional source of income, they are at the risk of falling back into poverty. RER/SAMRIDDHI will ensure that women constitute 33% of project beneficiaries, and that young men and women (below 35 years) constitute at least 40% of the target group. At least 30% of RER/SAMRIDDHI beneficiaries will be migration /returnees or remittance receiving families. Table 2 shows the distribution of poverty categories along the categories of target enterprises, along the government's classification.

18. The **secondary target group** will include medium enterprises and large enterprises, as well as service providers. They will provide support to the primary target group, through the development of vocational training and apprenticeship packages in connection to job placement, business linkages and provision of financial and non-financial services. Furthermore, 22,500 enterprises (from category B to medium and large) will receive capacity building to make the best use of apprenticeship.

Targeting and Gender equality and Social Inclusion

19. **GESI strategy.** A Gender equality and Social Inclusion (GESI) Strategy will be developed at project outset by the PMT GESI Specialist, with the assistance of a specialised consultant, with a view to ensure women and poorer groups' access to project benefits, specifying expected outcomes and related indicators, implementation mechanisms as well as data collection and analysis to monitor evolution. The strategy will be based on a GESI study, which will: (i) further detail the characteristics of women and marginalised groups in RER/SAMRIDDHI target areas; (ii) identify issues and challenges that may hinder the project in meeting its GESI objectives and targets; (iii) identify opportunities to promote social inclusion; (iv) review and improve targeting strategies and mechanisms proposed in the design; and (v) conduct GESI capacity building needs assessment of the PMT and key partners. An Implementation Plan will also be prepared, which will be updated annually, in conjunction with AWPB preparation. Specific measures to be detailed in the Strategy and Implementation Plans are detailed below.

20. **Gender mainstreaming.** The Strategy and Implementation Plans will detail specific measures designed to: (i) promote gender equality mainstreaming; (ii) support women-owned RMSEs; (iii) secure women's participation in business partnerships; (iv)help them gaining equal access to financial and non-financial services and (v) ensure that women migrants, returnees and remittance recipient households access project benefits.. Specific measures to be detailed in the Strategy and Implementation Plans could include: (i) ensuring that both male and female family members have access to technical training and other capacity building activities, with a target of 30% women; (ii) promoting women participation in the decision-making bodies of producers' organisations, with a target of 30% of women; (iii) developing the capacities of service providers to include women, and, where appropriate, organising special sessions for women; (iv) carrying out gender budgeting and auditing at ESC and PMT level; (iv) supporting farmers' groups to increase the number of women members, including in leadership, and to ensure that they have equal access to services; (v) supporting women groups where appropriate (and notably for nutrition activities); (vi) disaggregating M&E data and analysis by gender; (vii) supporting the recruitment of women to ensure gender-balanced project implementers teams at all levels. IFAD Gender Checklist is in Attachment 2.

21. **Mapping of poor households.** To map poor households in the target districts and focal areas, the PMT will rely on the data collected by the Ministry of Cooperatives and Poverty Alleviation (MoCPA) for the distribution of poverty ID cards. In addition, RER/SAMRIDDHI will also apply Participatory Rural Appraisal (PRA) in a sample of VDCs in the target areas to validate the available data. MoCPA has already completed the survey in 25 districts, out of which five are RER districts

(Bhojpur, Siraha, Khotang, Sindhuli and Rautahat), and is preparing to map the remaining 50 districts, which are expected to be completed by the next fiscal year. This activity will receive methodological support from ICIMOD, as part of IFAD-financed regional grant 'Improving Livelihoods and Enhancing Resilience of the Rural Poor in the Hindu Kush Himalayas to Environmental and Socio-Economic Changes'.

22. **Outreach to the poor.** With support from the corridor coordination, each ESC will develop an Outreach and Communication Strategy to promote ESC services and mobilise potential clients, and especially women, poor households and other disadvantaged groups. Local Resource Persons (LRPs) (such as members/staff of DCCIs and cooperatives, existing entrepreneurs, service providers, District Micro Enterprise Groups Associations (DMEGA), Ward Citizens Forums…) will support the ESC in carrying out project promotion, social mobilization and data collection for M&E. At least 30% of these LRPs will be women and they will receive capacity building. To increase outreach, ESC staff will be established in or next to DCCI facilities at district headquarters but will periodically decentralise operations to DCCI branches elsewhere in the district. Radio programmes will also be used.

23. **ESCs.** Every ESC will include three desks, of which one (the Micro-Enterprise Development (MED) Desk) will be dedicated to income-generating activities (cat. A) and smallest micro-enterprises (cat. B). RER/SAMRIDDHI GESI strategy will provide guidance as to the approaches and tools required for: (i) promoting women entrepreneurship, paying special attention to specific challenges that they have to face; (ii) ensuring that both male and female family members have access to information about ESC and ESC services, as well as to all capacity building activities, with a target of 33% women. ESCs will receive training and support from the PMT GESI Specialist.

24. **Mainstreaming Gender in RER Migration Program.** Sub-component 2.2 - Mobilising migrant resources and skills (see WP 5) has a detailed set of activities that are specifically directed at migrants, their families and their organisations, with special attention to women migrants and returnees. The financial education and other services under the sub-component will be implemented in coordination with the GESI specialist. Financial education will integrate gender and women's empowerment in the different modules of the financial education course, and in particular: shared goal setting of migrants and families including children; shared responsibility in budgeting, savings, investing and borrowing; inclusion of the discussion of family and social issues that drain migrant and family resources; strategies in family and money management and in coping with changing gender roles brought about by migration and others. Reintegration and peer-to-peer counselling will assist women and men in addressing the social cost of migration, will empower women and men migrant returnees in organizing migrant associations and community-based women self-help groups. Furthermore the project will build the capacities of Migrant Partner Organisations with regard to organisation, leadership, conducting financial education and providing reintegration and peer-to-peer counselling.

25. **CPMAs.** Corridor Potential Mapping and Assessments (CPMAs) will be carried out at project onset to identify opportunities and resources for rural enterprise development. It will include gender-sensitive analysis of priority supply chains to identify opportunities and prerequisites for RMSEs, and especially for poorer and landless or close to landlessness households. Terms of reference for CPMAs will be established jointly with the PMT GESI Specialist to reflect GESI concerns.

26. **Business partnerships.** Selection criteria of business partnerships to be supported by ESCs will include the participation of and expected impact on poorer groups/women. Project support provided to facilitate the implementation of business linkages will include measures geared towards facilitating the participation of these groups. Agri-business will be encouraged to provide services and inputs as part of their contract with farmers to overcome barriers to accessing credit and extension services. Farmers'/producers' groups will be encouraged to increase the number of women members, including in leadership, and to ensure that they have equal access to services, with a target of 30% of women. ESCs will receive guidance from the GESI Specialist in this area, based on the recommendations of the Targeting and Gender Mainstreaming Strategy.

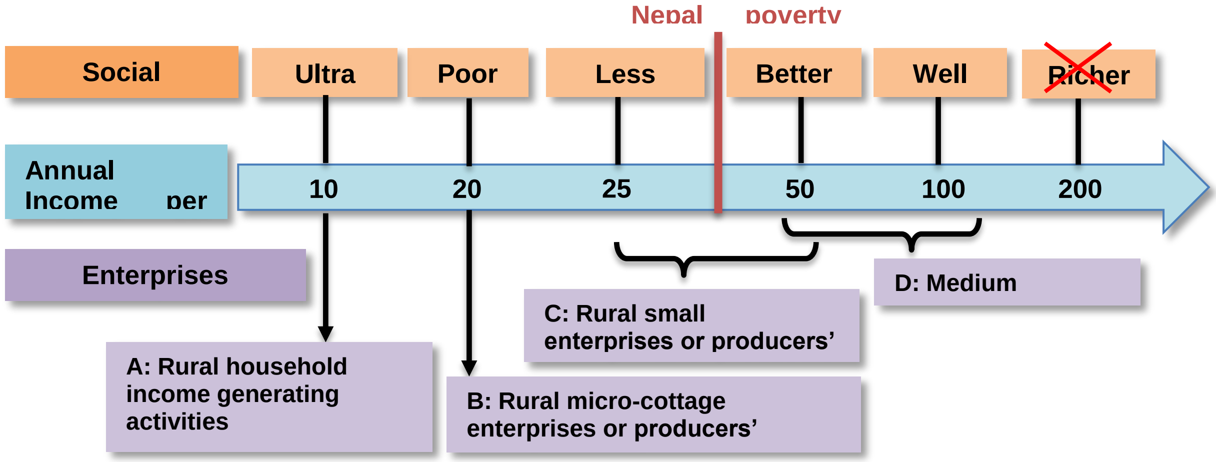
27. **Multi-stakeholders' platforms.** RER/SAMRIDDHI will rely on District Industry Promotion Committees (existing or to be created with project support) to develop a dialogue among stakeholders involved in RMSEs development and provide guidance to ESCs. It will ensure that DIPCs are

inclusive of women and the poor, and that GESI issues are addressed as part of their regular agenda. At the national level both the Platform on Migration and Development and its Working Group on Inclusive Finance will be involved in policy advocacy to address structural issues faced by women entrepreneurs, women migrant workers, women headed households etc. and propose relevant policy measures

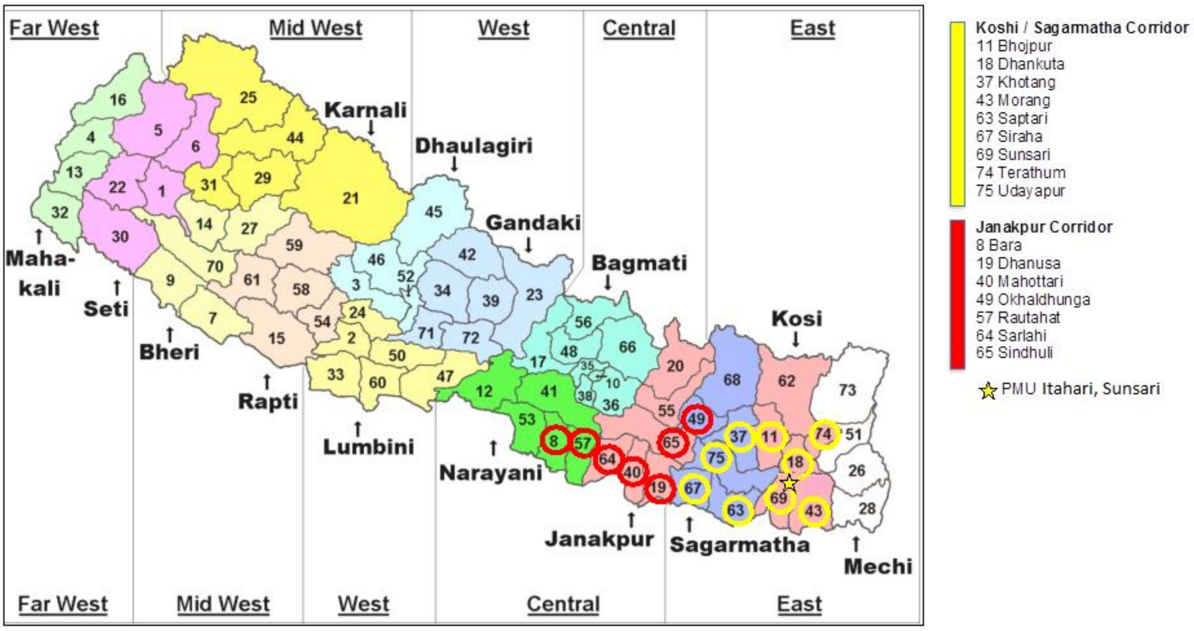
28. **Implementation arrangements and capacity building.** The *Project Manager* will bear overall responsibility for the implementation of the Targeting and Gender Mainstreaming Strategy and Implementation Plans. A *GESI specialist* will be appointed at PMT who will be responsible for ensuring that targeting and gender mainstreaming are applied throughout project activities in accordance with the GESI strategy and action plans. In addition, specific related implementation responsibilities will be reflected in detailed job descriptions of *PMT staff*, and the recruitment process will secure to the largest extent possible gender and ethnic balance. Specifically, the PMT should have at least 40% of qualified women; one out of the four ESC staff should be a qualified woman, and two out of the five corridor coordination staff should also be qualified women. Terms of reference for *service providers* will require gender-balanced teams with prior experience of gender mainstreaming and ethnic-balanced approaches, and contract deliverables will reflect gender and inclusion target and indicators. PMT, ESC, corridor coordination staff and service providers will receive *capacity building* in effective implementation of GESI. Capacity building tools (training, coaching, radio programmes, and printed material) will take into consideration cultural differences as well as the constraints of a largely illiterate audience. The PMT will apply a *GESI-responsive planning, budgeting and auditing* approach..

29. **M&E and KM.** PMT PM&E and KM Officers will ensure that the M&E/KM system allows the monitoring of inclusion as well as gender and youth aspects, and the tracking of disadvantaged groups (Dalits and Janajatis), including by disaggregating data. They will provide guidance to the corridor M&E Officers and to ESCs to measure progress. They will also make sure that achievements and lessons learnt are made available to ESCs, DIPCs, the Multi-Stakeholder Platform on Migration and Development and other stakeholders involved in project implementation to support regular analysis, improved performance and annual programming of related activities.

Attachment 1 – Social targeting and type of enterprise



Attachment 2 – Map of target districts



Attachment 3 – Gender Checklist

IFAD's KEY FEATURES OF GENDER-SENSITIVE DESIGN AND IMPLEMENTATION

	Design
1. The project design report contains – and project implementation is based on - gender-disaggregated poverty data and an analysis of gender differences in the activities or sectors concerned, as well as an analysis of each project activity from the gender perspective to address any unintentional barriers to women's participation.	**YES.** The poverty analysis emphasizes the gender differences of target groups and the project activities are gender-sensitive.
2. The project design report articulates – or the project implements – actions with aim to: Expand women's economic empowerment through access to and control over productive and household assets.	**YES.** At least 33% of project beneficiaries will be rural women and the project activities are designed towards economic empowerment of the target groups by developing a business or by learning skills to secure a sustainable wage-earning job. RER/SAMRIDDHI activities will facilitate women's access to credit, financial advice and inputs and ensure they retain this access and control through social mobilization, awareness and policy dialogue.
Strengthen women's decision-making role in the household and community, and their representation in membership and leadership of local institutions;	**YES.** RER/SAMRIDDHI will ensure that women are adequately represented in participatory activities and that they are allowed to voice their concerns. This will be achieved through social mobilization, gender awareness trainings at community level and guidance provided by the GESI Specialist in the PMT as well as ESC MED Desk.
Achieve a reduced workload and an equitable workload balance between women and men.	**YES.** Mapping of opportunities at project onset (CPMAS) will be gender-sensitive and reflect GESI concerns. RER/SAMRIDDHI will also emphasize on balanced distribution of labor during enterprise promotion.
3. The project design report includes one paragraph in the targeting section that explains what the project will deliver from a gender perspective.	**YES.** See working paper on Poverty, Targeting and Gender.
4. The project design report describes the key elements for operationalizing the gender strategy, with respect to the relevant project components.	**YES.** A Gender and Mainstreaming Strategy will be developed at project to ensure women and poorer groups' access to project benefits, specifying expected outcomes and related indicators, implementation mechanisms as well as data collection and analysis to monitor evolution. Special measures to be detailed in the strategy are outlines in the working paper on Poverty, Targeting and Gender.
5. The design document describes - and the project implements - operational measures to ensure gender-equitable participation in, and benefit from, project activities. These will generally include**:**	
Allocating adequate human and financial resources to implement the gender strategy	**YES.** A separate budget is allocated for the development and implementation of gender strategy. RER/SAMRIDDHI will also implement gender-responsive budgeting and auditing. Likewise, a gender and social inclusion specialist will be appointed at PMT who will be responsible for ensuring the implementation of the gender strategy.
5.2 Ensuring and supporting women's active participation in project-related activities, decision-making bodies and committees, including setting specific targets for participation	**YES.** RER/SAMRIDDHI will ensure equal and effective participation of women in PRA. Specific measures and strategies are designed to ensure women's access to information about project activities and their participation in project activities. See section on Targeting and Gender Mainstreaming Mechanisms in working paper on Poverty, Targeting and Gender.
5.3 Ensuring that project/programme management arrangements (composition of the project management unit/programme coordination unit, project terms of reference for staff and implementing partners, etc.) reflect attention to gender equality and women's empowerment concerns	**YES.** PMT will have at least 40% of qualified women including a GESI specialist. To ensure gender equality and women' empowerment is considered in planning and implementation, the project staff will be trained in gender mainstreaming. Also, the M&E and KM officers will ensure monitoring of gender and inclusion aspects and the project MIS will be gender-disaggregated.
5.4 Ensuring direct project/programme outreach to women (for example through appropriate numbers and qualification of field staff), especially where women's mobility is limited	**YES.** 33% of the Local Resource Persons (LRPs) will be women; one out of the three ESC staff will be a qualified woman, and two out of the five corridor coordination staff will also be qualified women.

5.5 Identifying opportunities to support strategic partnerships with government and others development organizations for networking and policy dialogue	**YES.** Multi-stakeholders' platforms supported at district level (District Industry Promotion Committee) and created at the national level (Platform on Migration and Development and Working Group on Inclusive Finance) will address constraints faced by women (women entrepreneurs, women migrant workers, women heads of households) and propose relevant policy measures. Organisations involved in advocacy for better accommodating the needs of RMSEs and migrants will receive capacity building to better take into account women requirements.
6. The project's logical framework, M&E, MIS and learning systems specify in design – and project M&E unit collects, analyses and interprets sex- and age-disaggregated performance and impact data, including specific indicators on gender equality and women's empowerment.	**YES.** The RER/SAMRIDDHI ensures participatory M&E system and gender and social inclusion concerns into project monitoring activities, assessments and reporting. The project logframe indicators are gender-sensitive.

Attachment 4 – Main features of project districts

		Population (2011)				Absent Population 2011 (Migration)		
Districts	**Area (Sq. km.)**	**Total**	**Male**	**Female**	**Population Density (Sq. km.)**	**Total**	**Male**	**Female**
Nepal	147,181	26494502	12849041	13645463	180	1,921,494	1,684,029	237,400
Bhojpur	1,507	182,459	86,053	96,406	121	14,863	13,822	1,041
Dhankuta	891	163,412	76,515	86,897	183	14,415	13,538	876
Morang	1,855	965,370	466,712	498,658	520	70,462	62,064	8,398
Sunsari	1,257	763,487	371,229	392,258	607	50,281	43,381	6,894
Terathum	679	101,577	47,151	54,426	150	9,791	9,273	518
Khotang	1,591	206,312	97,092	109,220	130	17,662	16,504	1,158
Okhaldunga	1,074	147,984	68,687	79,297	138	10,552	9,371	1,181
Saptari	1,363	639,284	313,846	325,438	469	26,433	25,676	752
Siraha	1,188	637,328	310,101	327,227	536	45,790	45,293	490
Udayapur	2,063	317,532	149,712	167,820	154	22,060	20,036	2,024
Dhanusa	1,180	754,777	378,538	376,239	640	60,400	59,570	815
Mahottari	1,002	627,580	311,016	316,564	626	40,541	39,621	911
Sindhuli	2,491	296,192	142,123	154,069	119	15,287	14,003	1,284
Sarlahi	1,259	769,729	389,756	379,973	611	21,401	19,747	1,654
Rautahat	1,126	686,722	351,079	335,643	610	9,331	8,999	330
Bara	1,190	687,708	351,244	336,464	578	12,530	11,900	629

	% Absent Population (2011)			Household Unit									
Districts	**% Total**	**% Male**	**% Female**	**Total**	**with Absentee**	**% Absentee**	**Remittance (NRs in billion)**	**Poverty Rate (% of district population)**	**Number of Poor (in thousand)**	**Total area of land holdings in Hectares**	**Total Agriculture land (in Hectares)**	**Number of holdings**	**Average agriculture holding size in hectares**
Nepal	**7%**	**13%**	**2%**	**5,427,302**	**1,378,678**	**25%**	**259.00**	**25.20**	**6,588,664**				
Bhojpur	8%	16%	1%	39,393	11,559	29%	1.10	24.4	44	33,641	31,383	37,042	0.91
Dhankuta	9%	18%	1%	37,616	11,804	31%	2.40	15.9	26	24,800	23,421	28,374	0.87
Morang	7%	13%	2%	213,870	54,220	25%	13.20	16.6	158	116,529	111,126	115,162	1.01
Sunsari	7%	12%	2%	162,279	37,984	23%	5.10	12	90	80,411	76,793	81,680	0.98
Terathum	10%	20%	1%	22,084	7,832	35%	0.90	14.60	15	19,412	18,454	19,293	1.01
Khotang	9%	17%	1%	42,647	13,644	32%	2.70	25.00	51.00	33,676	31,481	41,373	0.81
Okhaldunga	7%	14%	1%	32,466	7,712	24%	-	20.5	30	31,494	28,716	29,019	1.09
Saptari[37]	4%	8%	0.2%	121,064	-	-	4.70	39.5	252	77,797	74,250	75,512	1.03
Siraha	7%	15%	0.1%	117,962	36,787	31%	3.90	34.6	220	85,229	80,851	78,893	1.08
Udayapur	7%	13%	1%	66,514	17,758	27%	2.80	25.90	82.00	32,518	30,372	45,082	0.72
Dhanusa	8%	16%	0.2%	138,225	47,633	34%	6.30	23.1	174	76,792	73,411	87,464	0.88
Mahottari	6%	13%	0.3%	111,298	31,500	28%	8.90	16.2	101	67,870	65,498	72,632	0.93
Sindhuli[38]	5%	10%	1%	57,544	12,355	21%	1.10	38.3	112	30,493	28,485	46,295	0.66
Sarlahi	3%	5%	0.4%	132,844	16,980	13%	4.40	17.7	136	86260	82207	85084	4.01
Rautahat	1%	3%	0.1%	106,668	7,413	7%	0.70	33.4	227	66372	64186	67003	0.99
Bara	2%	3%	0.2%	108,635	10,264	9%	3.70	29.9	203	53617	52261	62280	0.86

[37] Saptari has 4% of absent population but because it is a high population density district, the actual number of absent population is higher than other districts.
[38] Sindhuli has rate of absent population but it is the district with the highest poverty rate in the region.

Attachment 5 – Possible phasing of districts

Region	Corridor	Year 1	Year 2	Year 3
Eastern Terai	Sunsari (ET)	√	-	-
Eastern Hill	Dhankuta (EH)	√	-	-
Eastern Hill	Terathum (EH)	-	√	-
Eastern Hill	Bhojpur (EH)	√	-	-
Eastern Terai	Morang (ET)	-	√	-
Eastern Terai	Saptari (ET)	√	-	-
Eastern Terai	Siraha (ET)	-	√	-
Central Hill	Udayapur (CH)	√	-	-
Eastern Hill	Khotang (EH)	-	√	-
Central Terai	Dhanusa (CT)	-	√	-
Central Terai	Mahottari (CT)	-	-	√
Central Hill	Sindhuli (CH)	-	√	-
Eastern Hill	Okhaldhunga (EH)	-	-	√
Eastern Terai	Sarlahi(ET)	-	-	√
Central Terai	Bara (CT)	-	-	√
Central Terai	Rautahat (CT)			√
	Total	5	6	5

Appendix 3 – Country Performance and Lessons Learnt

1. The 2012 Country Performance (CPE) considered that the programme was relevant overall, but had underestimated the need for building responsive local government to implement activities. The CPE also found that a disconnection existed between the COSOP and the projects. Programme efficiency was assessed as moderately satisfactory, with good quantitative achievements, particularly with regard to community-based social and economic infrastructure. The main problem areas related to a lack of sustainability of "beneficiary groups", which had limited incentives for continuing beyond project completion, and of most of the rural finance schemes, which focused on savings and credit groups that never reached sufficient maturity. Recently approved projects were considered to have better chances of success, thanks to their focus on developing commercially viable groups. The effectiveness of the loan portfolio was rated moderately unsatisfactory, mostly because of weak government structures that contributed to slow implementation and disbursement. Partnerships with civil society organizations worked well when facilitated by grants, but could not be continued in loan-financed, government-executed programmes, partly due to public procurement rules. Overall, the CPE noted that the programme had made only a modest contribution to poverty reduction, mainly due to the lack of sustainability of most projects' achievements.

2. Key lessons derived from the CPE, annual COSOP reviews, consultations held during preparation of the new COSOP and the recent mid-term review of the High-Value Agriculture Project point to the following issues, which have been reflected into project design;

- New projects should include measures to strengthen local government capacities to provide responsive and inclusive services to the rural population, which would improve project performance and contribute to peace consolidation by restoring public trust in government institutions;
- Building on past successful examples, new projects should build more on partnerships with non-governmental players, including NGOs and the private sector;
- Grass-roots groups are not sustainable when created for the sole purpose of channelling project services. They need to establish clear objectives, build their capacity to achieve these objectives autonomously, and develop networking in order to obtain continued access to services once the project is over;
- Migration of men places additional demands on women. This must be reflected in the organization of support services and project activities, which must be compatible with women's time constraints and preferences;
- Monitoring and evaluation (M&E) should become a management tool that assesses project outcomes within communities and groups, and between genders and different social groups; detects successes and shortcomings; and facilitates the adoption of solutions to improve performance. It needs to be complemented by knowledge management to track innovative practices, fuel policy dialogue and support scaling up;
- Project management is affected by the unsustainable turnover of civil servants, especially who compose project teams exclusively. Mixed teams composed of hired staff supporting civil servants would be a more effective solution.

3. Another set of important lessons that were taken into consideration in designing RER/SAMRIDDHI are derived from three projects financed through IFAD grants: the Skills Enhancement for Employment Project (SEEP), which was implemented by ILO; Economic Security of Women Migrant Workers in Nepal, which was implemented by UN Women; and Promotion of Migrants' Savings and Alternative Investment through Selected Micro-Finance Institutions in Nepal, which was implemented by the Centre for Microfinance. The latter two projects were financed by IFAD Financial Facility for Remittances. Selected projects financed by other donors were also reviewed during project design in the field of enterprise development and

business development services (Micro-Enterprise Development Programme (MEDEP) financed by UNDP and Australia; the Informal Sector Enterprise Development Generation Programme (ELAM) financed by Helvetas; INCLUDE financed by GIZ); vocational training (the Employment Fund, financed by SDC, DFID and the World Bank; Education for Income Generation (EIG) financed by USAID); and migration and remittances (Safe Migration (SAMI) financed by SDC and various IOM initiatives). Finally, field visits and interviews have also brought useful insights for designing a project responding to the features of target areas and groups. Key lessons reflected in RER/SAMRIDDHI can be summarized as follows.

On enterprise development and BDS:

- Access to financing, market linkages and follow-up support are essential for enterprise sustainability and growth.
- Local enterprises should be used as service providers so that they can best adapt capacity building to local realities and provide follow-up under the form of counselling, information and linkages with the market;
- Confirmed professionals active at the local level and receiving capacity building to act as service providers are an effective way to promote technical and management skills of micro-entrepreneurs. Aside from their thorough knowledge of the local environment, they can also (i) provide peer-to-peer capacity development, which is an effective modality in particular with small producers and illiterate audiences; (ii) provide an integrated range of services, from production to marketing to support income-generating activities; (iii) embed service provision in their other activities so as not to have to rely on service provision as a single source of income;
- Commercially-driven approaches are more likely to generate sustainability in service provision, provided modalities are developed whereby service providers can generate enough income to make a living. This is easier to achieve where service providers have other, complementary activities, which can be directly linked to the business they are supporting (marketing or input supply for example);
- The performance of service providers must be monitored to ensure quality, and technical monitoring must rely on specialists in the relevant technical fields.

On vocational training:

- Training should be provided where employers with job opportunities have been identified and they have committed to hire skilled trainees;
- Performance-based contracts to ensure that at least 70 per cent of the trainees are employed have consistently proved to be a strong motivating tool for training organisations and for ensuring that the training quality is good and the trainees are actually employed.

On migration and remittances:

- Migration returnees have acquired new skills from foreign employment and gained experience in coping with hardships, are eager to take on initiatives in the country, have market knowledge and social networks in the countries of destination, and are capable of taking risks. They therefore constitute a special category of potential entrepreneurs, which deserves specific, tailor-made support;
- Migrants only use a minimal part of their remittances for savings or investment, but this is in part caused by their lack of knowledge and opportunities. If conveniently oriented and supported through financial literacy as well as technical and management training, they are able to save in preparation for the future and they are willing to develop small business allowing them to stay in Nepal and break the cycle of migration;
- The experience developed by CMF with 12 cooperatives shows that community-based cooperatives can mobilize remittance as a source of fund to increase their capital for

investment, and that they can promote the productive use of migrant savings. This however requires institutional capacity building, which experience has demonstrated should last at least three years. Sharing information with migrant workers about how they can receive remittance through their cooperatives, and explaining the safety, time and cost effectiveness of sending remittance through remittance companies associated with their local cooperative contributes to the mobilisation of increased remittance amount by the partner cooperatives. The creation of a pool of trainers within the cooperative providing business and financial literacy classes and micro-enterprise development is an effective tool to creating awareness among the family members of migrant workers on ways to use remittance productively and on micro-enterprise development, and motivated them to use remittance amount in micro-enterprise development;

- Information and Counselling Centres with well-trained and motivated staff are able to support migrants with information as well with referral to more specialized services in Kathmandu. VDC mobilisers, with appropriate training, are also useful in spreading information about the centres and motivating migrants to connect to them.

On gender:

- Specific tools need to be developed to reach out to women and ensure that they can access project services and that they can develop viable activities beyond the traditional trades developed by women such as sewing, knitting and weaving;
- The targeting of women as owners of businesses, when otherwise they are seen as performing secondary roles in the home and society, enhances both their economic and social empowerment;
- Recruiting social mobilizers from among women migrant workers (WMWs) is an effective strategy to reach the invisible target groups who are reluctant to identify themselves as WMWs, as their migration is linked with trafficking for commercial sexual exploitation for which society looks down upon them, especially towards those returning from the Gulf countries, and also because domestic work is not considered prestigious.

Appendix 4 – Detailed Project Description

Component 1 – Promotion of Rural Micro-Cottage and Small Enterprises[39]

Sub-component 1 – Mapping and setting up capacities at district and corridor level

Activity 1.1.1 – Mapping of business potential and stakeholders

1. **CPMAs.** A Corridor Potential Mapping and Assessment (CPMA) will be carried out in each of the three target corridors at project onset to assess opportunities and resources for rural enterprise development and identify priority value chains/sectors with more potential. CPMAs will be based on gender-sensitive analysis and will include:

- *a corridor-based market assessment:* it will identify business opportunities and prerequisites for RMSEs to integrate key sectors and value chains with the highest returns and share of added value, based on available resources and market demand within the corridor as well as at the regional, national and international level. It will include gender-sensitive analysis of priority supply chains to identify opportunities and prerequisites for RMSEs, and especially for poorer, women-headed and landless or close to landlessness households. Terms of reference for CPMAs will be established jointly with the PMT GESI Specialist to reflect GESI concerns;
- *a district-based identification and assessment of available financial and non-financial services* (including existing or potential models of embedded services, i.e. built into sub-contracting or contract farming arrangements) and of modalities suited to women and RER/SAMRIDDHI target groups, as well as of potential local trainers and facilitators;
- *a district-based inventory and classification* of existing rural enterprises (REs), potential new rural entrepreneurs and opportunities for apprenticeship, with particular attention to women, poor households as well as migrant returnees and remittance receiving households. The inventory will serve as a baseline against which to measure project achievements, and will be used to screen and classify existing REs into four categories. Only categories A, B and C will be entitled to receiving RER/SAMRIDDHI financial support. Enterprises in category D can be important drivers of change, because they have a commercial interest in the development of RMSEs to meet market demand, and they can be an effective channel for facilitating smallholders' access to markets and services. A database will be established within each ESC, which will serve as the main tool for tracking RMSEs performance. Assistance will be sought from MEDEP and the Centre of Microfinance (CMF), which have both set up similar databases.

Table 1 – Classification of Rural Enterprises (REs)[40]

RE Category	RE Features	Entrepreneur poverty level[41]
A. Rural households income-generating activities	Family-based activity Single person business No full time employees in addition to family Total value of fixed assets up to NPR 50,000	Households below poverty line
B. Rural micro-cottage enterprises or producers' organisations	Registered or not registered Mostly individual Up to 9 employees Total value of fixed assets up to NPR 200,000	Entrepreneur(s) either below or above the poverty line
C. Rural small enterprises or producers' organisations	Registered Individual or collective Total value of fixed assets up to NPR 30 million	Entrepreneur(s) above the poverty line
D. Rural medium-large enterprises	Registered	Entrepreneur(s) above the

[39] Details in WP 3 - Promotion of Rural Micro-Cottage and Small Enterprises and in WP 5 – Migration and Remittances.
[40] After Industrial Policy, 2010.
[41] See Appendix 3 for details.

RE Category	RE Features	Entrepreneur poverty level[41]
(not eligible to receive funds from the project)	Individual or collective Total fixed assets over NPR. 30 million	poverty line

2. The process will be led by the PMT, in collaboration with ESC/Corridor Teams and with external support. CPMAs will be updated every other year to take advantage of the changing dynamics of market and business environment. They will be carried out in coordination with the mapping exercise to be carried out as part of Sub-component 2.2 – Mobilising migrant resources and skills.

Activity 1.1.2 - Setting up capacities at district level

3. **ESCs.** In every participating district, RER/SAMRIDDHI will set up an Enterprise Service Centre (ESC), which will be managed by the ESC Management Team comprise of District offices of MOI, FNCCI/AEC, FNCSI and NMEFEN. The ESC mandate will be to facilitate RMSE access to Business Development Services (BDS)[42] and financial services, to promote business linkages and RMSE inclusion in supply chains, to provide counselling services and information (business opportunities, markets and services, legal and tax requirements…) and to promote mentoring and peer-to-peer capacity building modalities. ESCs could also facilitate enterprise registration and VAT/tax filing.

1. Every ESC will include three desks: (i) a *Micro-Enterprise Development Desk*, which will be dedicated to income-generating activities (cat. A) and smallest micro-enterprises (cat. B); (ii) a *Small Enterprise and Service Providers Desk*, dealing with larger micro-enterprises, small and medium enterprises (cat. C and D) and (iii) a Migrants Desk. Every ESC will be staffed with one Coordinator, one Micro-Enterprise/GESI Specialist, one Migration Specialist and one Accountant and will receive financial support over four years in Terai districts and over five years in Hill district. The financing of salary staff will reflect the public-private partnership approach and will combine public (government and IFAD) and private (DCCI) funding as indicated in Table 2 and reflected in the project cost tables. One in the three staff should be a woman.

Table 2 – Financing of ESC staff

Staff	Source of financing	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Hill Districts							
Coordinator	IFAD	100%	100%	90%	70%	40%	-
	DCCI	-	-	10%	30%	60%	100%
ME/GESI Specialist	GoN	100%	100%	100%	100%	100%	
Migration Specialist	IFAD	100%	100%	100%	100%	100%	
Accountant	IFAD	100%	100%	100%	100%	100%	
Terai Districts							

[42] According to the definition of the Committee of Donors' Agencies for Small Enterprises Development, BDS include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion (BDS for Small Enterprises – Guiding Principles for Donor Intervention, 2001).

Coordinator	IFAD	100%	90%	70%	40%	-	-
	DCCI	-	10%	30%	60%	100%	100%
ME/GESI Specialist	GoN	100%	100%	100%	100%	-	
Migration Specialist	IFAD	100%	100%	100%	100%	100%	
Accountant	IFAD	100%	100%	100%	100%	-	

4. Furthermore, RER/SAMRIDDHI will finance ESC full operating costs over four years. The details of costs and financing modalities are presented in Attachment 1. By the end of the fifth year (Hill)/fourth year (Terai), every ESC is expected to have the resources to finance at least one staff and related operational costs.

5. **ESC Strategic Plan.** FNCCI/AEC, with support from the PMT, will help every participating DCCI to formulate a Strategic Plan as soon as they are established, including: (i) an ESC financing strategy to progressively ensure cost recovery through fee-based service provision, DCCI increased membership fees and other sources of income (e.g. financing from DDC/VDCs, DCSIO/CSIDB), private sector sponsorship; (ii) a strategy for promoting the diversification of service providers and for building their capacities; and (iii) an outreach and communication strategy (see below) to promote ESC services and mobilise potential clients, with a focus on women, poor households and other disadvantaged groups. The Strategic Plan will be translated into an Annual Work Plan and Budget (AWPB).

6. **ESC outreach and communication.** With support from the Corridor Team (see below), each ESC will develop an Outreach and Communication Strategy to promote ESC services and mobilise potential clients, with a focus on women, poor households and other disadvantaged groups. Outreach and communication tools will include (not exhaustive): (i) *Local Resource Persons* (LRPs) (such as members/staff of DCCI, cooperatives, community organisations, existing entrepreneurs, service providers, District Micro Enterprise Groups Associations (DMEGA), Ward Citizens Forums… - of which 33% of women), who will be trained to do ESC promotion and social mobilisation, assist in M&E and identify potential new entrepreneurs; (ii) *radio programmes*; (iii) *mobile ESC:* ESC staff will be established at district headquarters but will periodically decentralise operations to DCCI branches elsewhere in the district, along a pre-set monthly schedule; and (iv) *DIPC*: the district-based multi-stakeholder platform will offer a venue for sharing information and for organising communication throughout the district, in particular towards disadvantaged groups. Information and mobilisation activities will start in focus areas, which will be selected based on their potential and on poverty concentration. Additionally, specific channels will be used to promote the activities of the Migrant Desk with the migrant community, including newspapers and online communication.

7. ESC organisation. Each ESC will:

- have a Management Team that will be co-chaired by the District Cottage and Small Industry Office/ Board and the DCCI Chair and will also include a representative each of the Federation of Nepal Cottage and Small Industries (FNCSI) and National Micro-Entrepreneurs' Federation Nepal from their district chapters. The ESC Management Team will be responsible for ensuring the effective management of the ESC and for monitoring the implementation of its Strategic Plan;

- sign a Memorandum of Understanding with DCSIO/CSIDB to ensure coordination, linkages with MEDPA and harmonised work programming;
- open a separate bank account to receive resources needed for ESC operation and activities, including RER/SAMRIDDHI funding (in a decreasing pattern as per above), ESC revenues, DCCI and government funding.

8. Furthermore, AEC will prepare a Manual of Operations for ESCs, which will describe the procedures for implementing operations as well as for financial and administrative management, in close collaboration with the PMT.

9. **DIPC.** RER/SAMRIDDHI will rely on existing District Industry Promotion Committees (whose composition will be amended as required for RER/SAMRIDDHI-related sessions) 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 propose policy studies (see Component 3), and provide guidance to ESCs. DIPC will also offer a venue for sharing information and for organising communication throughout the district, in particular towards disadvantaged groups. It will ensure that activities are inclusive of women and the poor, and that GESI issues are addressed as part of ESC regular agenda. Implementation modalities and successful achievements will be shared with DIPCs to harmonise approaches for promoting RMSEs within the district, in particular with District Cottage and Small Industry Office/Board. In this respect, RER/ESCs will also negotiate coordination agreements at district level to ensure that subsidies to entrepreneurs do not undermine RER approach to sustainability and that synergies rather than oppositions can be found. In those districts where there is no DIPC as yet, RER/SAMRIDDHI will assist in creating one, in collaboration with the District Cottage and Small Industry Office/Board. If and as value chains develop, value chains multi-stakeholders platforms could be set up at the regional level – this issue will be reviewed on the occasion of the first and second mid-term review.

Activity 1.1.3 - Setting up capacities at corridor level

10. RER/SAMRIDDHI will set two Corridor Teams, which will support ESCs with: (i) the facilitation of business-to-business linkages within each target corridor; (ii) PM&E and knowledge management (KM), including the documentation of good practices and successful models, and the facilitation of information and knowledge exchange between ESCs; accounting and procurement; and the implementation of migration-related activities throughout the corridor.

11. RER/SAMRIDDHI will set up two Corridor Teams, which will be composed of: (i) one Corridor Coordinator; (ii) one Business-to Business Linkages Specialist; (iii) one Accounts Officer; (iv) one Financial and Administrative Assistant (v) two PM&E/KM Officer; and (vi) one Migration Managers, of which at least 33% of women. The B to B Linkages Specialist and one of the M&E/KM Officers will be hired by AEC as part of its contract with RER/SAMRIDDHI.

12. Corridor Teams will be responsible for:

- Promoting business-to-business linkages throughout the corridor, between family and micro-enterprises on the one hand, and small and medium enterprises on the other hand. B to B linkages would include outgrowers' schemes, contracting arrangements, clusters etc. (also see Sub-component 1.2) and would aim at facilitating family and micro-enterprises' access to markets beyond the borders of their district, with special emphasis on arrangements opening market access in the Terai to enterprises based in the Hills districts;
- M&E and KM, including: (i) coordinating the planning, monitoring and evaluation of ESC activities; (ii) providing support to ESCs in carrying out PM&E and KM; (iii) documenting good practices and successful models, and facilitating the exchange of information between ESCs; (iv) facilitating ESC access to knowledge on innovation in business areas of interest in the district (innovation watch). The PM&E/KM Officer contracted by AEC will be specifically responsible for monitoring the performance of enterprise, in collaboration with ESCs;

- Supporting and coordinating migration-related activities, including managing the relationship with Partner Migrants' Organisations and overseeing the implementation of activities, mobilising the District Task Force on Migration and Development and identifying policy advocacy issues;
- *Administrative and financial management support,* including: (i) the provision of technical support and guidance to ESC accountants; (ii) the monitoring of their work to ensure that they carry out their responsibilities in line with GoN and IFAD rules; (iii) the contracting of service providers for contracts above a ceiling of NPR 150,000 (see details in Appendix 8 – Procurement).

Implementation arrangements

13. The PMT will establish a contract with FNCCI/AEC, which will cover:

- *District-level:* the staffing and operation of the ESCs along the financing modalities exposed above, as well as ESC equipment;
- *Corridor-level:* the staffing of: (i) the B to B Linkages Specialist (because the promotion of the B to B is considered to be one of the key functions of chambers of commerce and hence will benefit from being implemented through the contract with FNCCI/AEC); and (ii) one of the PM&E/KM officers, who will specifically be responsible for monitoring enterprise and ESC performance;
- *Central level:* (i) one AEC Manager (who will be posted in the PMT premises in Itahari; and (ii) one Liaison Officer in Kathmandu (half-time) and one accountant in Kathmandu (half-time) and office equipment.

14. The details of the costs and financing modalities of the FNCCI/AEC contract are in Attachment 1. The remaining staff of the Corridor Teams will be hired by the PMT, which will also procure all the equipment and ensure all of the operational costs of the Corridor Teams. One Corridor Team will be located in Itahari (Sunsari district in the Koshi/Sagarmatha Corridor), jointly with the Project Management Team, while the other will be in Bardibas (Mahottari district in the Janakpur corridor).

15. *Short-term technical assistance* will be hired by the PMT to support FNCCI/AEC, specifically: (i) one BDS specialist, to assist in: developing methodologies for preparing ESCs Strategic Plans and Outreach and Communication Strategies; promoting a diversified and sustainable market of BDS providers; developing capacity building packages adapted to the various categories of enterprises; and assisting ESCs in developing responsive services; and (ii) one institution and financial governance specialist with experience in setting up sustainable systems for service provision to small enterprises, to assist in FNCCI/AEC, DCCIs and ESCs in progressively building ESC self-financing through cost recovery, sponsorships and other appropriate financing modalities, and to facilitate ESC integration in DCCIs. *CPMAs* will be outsourced to a service provider hired by the PMT on the basis of a competitive process.

Sub-component 2 – Services for RMSEs promotion and development

Activity 1.2.1 - Developing markets of Business Development Services (BDS)

16. **Identification, screening and accreditation.** RER/SAMRIDDHI will promote the diversification of SPs by harnessing the potential offered by existing local resources such as entrepreneurs, cooperatives, regional/district branches of commodity associations, DCCI members or migrants' organisations. SPs will be identified in different ways: (i) through the CPMA; (ii) using existing rosters (e.g. DCSI/CSIDB, MEDEP); (iii) through partner organisations operating in the district (e.g. producers' organisations and cooperatives, RE associations, DCCI members) and (iv) by launching a call for interest open to all Nepali SPs. Interested SPs will submit an application, based on which they will be screened and their capacities will be

assessed. A preliminary long list of potential SPs for the project roster will then be established. The PMT will develop a simple procedure for service providers' qualification and performance monitoring. Qualified service providers will be registered in a roster, which will be accessible online to all of the ESCs. Qualification should be confirmed on an annual basis based on past performance.

17. **Capacity building.** With support from the BDS short-term technical assistant and the Corridor Teams, each ESC will design an annual capacity building programme for service providers, with a view to upgrade the capacity of its network of SPs, and in particular of local professionals starting a service provision activity. The programme will give priority to key value chains/sectors as identified by the CPMAS. It will build on the capacity building assessment carried out as part of the screening process (above), which will be annually updated also based on client feedback provided through focus groups discussion, post-training adoption assessment and end-of-training evaluation questionnaire. ESCs will be provided with an annual budget to implement the capacity building programme and will work with selected training institutions and other partners (e.g. MEDEP/MEDPA, DCSIO/CSIDB) to develop training packages for SPs in different fields, or to provide training grants directly to SPs. The ESC Small Enterprise and Service Providers Desk will also be responsible for ensuring follow-up, promoting peer-to-peer support and providing coaching. Additionally, based on the outcomes of the SP identification and screening, each ESC will decide, in agreement with ESC Management Team , the extent to which there would be a need to set up new Enterprise Service Providers (ESPs) able to provide the full range of BDS required by family businesses and micro-enterprises. ESPs will be selected among local service providers identified in the roster and will receive 3-month training. Finally, service providers would also be eligible to project support offered to entrepreneurs (as constituting a specific category of entrepreneurs themselves).

18. **Innovation.** The PMT and the BDS short-term technical assistant will assist ESCs in developing innovative modalities for service delivery contributing to developing a diversified and sustainable market of BDS providers, such as: (i) alternative systems to price (commissions or mark-ups) that link payment to actual result/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; (iii) assisting SP to develop a business in conjunction with RMSEs promotion (for example large farmers buying agricultural products from serviced farmers). Innovative models will be thoroughly documented, with support from the Corridor Team, and will be shared across the target regions and through multi-stakeholders' platforms at district (DIPC), regional (Eastern Business Forum) and national level (National Business Forum, Project Steering Committee).

Activity 1.2.2 - Access to services

19. **New entrepreneurs.** Each ESC, with support from LRPs and SPs (in particular ESPs), will identify potential new entrepreneurs. Interested candidates will attend a short business motivation course, organised by the ESC. At the end of the course, the ESC will screen participants eligible to receive a start-up training package. Start-up training packages will be offered to potential new rural entrepreneurs, with modules tailored to various types of business, target groups and business models (e.g. individual or collective enterprises, cooperatives, associations, subcontracting arrangements such as outgrowers' schemes or clusters).

20. **Business planning.** All participating RMSEs will receive support in the formulation of a Business Plan (BPs), as part of the start-up training for new entrepreneurs and with support from a SP for existing ones. BPs will identify business objectives based on market demand, key features of the enterprise, the type of technical and business support required to achieve business targets, as well as financing needs for working capital and investment. BPs will be reviewed by ESC staff and then validated: (i) either by the ESC for BPs related to category A; (ii) or by ESC Management Teamfor all other categories.

21. **Service provision and co-financing.** Based on the approved BPs, the ESC will facilitate RMSEs access to services by linking them to SPs and ensuring that services required are delivered along the most effective (mix of theory and practice, using local resources) and efficient (bundling services or grouping RMSEs for economies of scale, individual counselling, coaching and mentoring, on-the-job training and peer-to-peer) modalities. Services will cover, for example, technical and management skills development, product development and branding, marketing, certification, enterprise registration. RMSEs will receive project financial support to share the costs of services identified in their BP, along modalities varying with the category of enterprise as presented in Table 2. The total cost of services considered and the respective contributions of recipient RMSEs and of RER/SAMRIDDHI will vary as indicated in Table 2. Cost-sharing will be available only in the first year of BP implementation.

Table 2 – Cost sharing of service costs over first year of BP implementation

Types of RMSEs	Maximum lump sum (USD)	RMSE share	Project share
A new	120	5%	95%
A existing	300	10%	90%
B new	450	15%	85%
B existing	100	30%	70%
C new	200	40%	60%
C existing	400	50%	50%

22. RER/SAMRIDDHI will provide support to a total of 57,500 RMSEs as per Table 3.

Table 3 – Total number of REs supported by category

RE category	New	Existing	Total
A	30,000	15,000	45,000
B	7,000	3,000	10,000
C	500	2,000	2,500
Total	**37,500**	**20,000**	**57,500**

23. RER/SAMRIDDHI will not co-finance any additional service to RMSEs once services planned during the first year of the BP are delivered. However, the ESC will continue to facilitate access to services and support RMSEs' growth, including by: (i) providing basic counselling services and information; (ii) facilitating linkages to SPs (through the ESC roster); (ii) supporting mentoring and peer-to-peer capacity building modalities; (iv) promoting business-to-business linkages; and (iv) building on DCCI's members to organise free capacity building sessions along a weekly schedule[43].

24. **Business linkages.** The ESC will also facilitate business-to-business linkages whereby: services are embedded in a business relation (such as outgrowers' schemes); RMSEs get organised in a cluster, or integrate local commodity associations; and RMSEs are supported to join into other collective forms of organisations, such as cooperatives for family businesses or nuclei for micro-entrepreneurs. Selection criteria of business partnerships to be promoted by ESCs will include the participation of and expected impact on poorer groups/women. Agri-business will be encouraged to provide services and inputs as part of their contract with farmers (outgrowers' contracts) to overcome barriers to accessing credit and extension services. Evidence-based business models will document successful experience and will be shared along similar modalities as for innovative models for service delivery (para. 17).

[43] Along the successful scheme implemented in Tamil Nadu (India), whereby every week, according to a pre-set schedule, entrepreneurs that are members of the Chamber of Commerce give free advisory services and training in their field of expertise.

Implementation arrangements

25. Services to RMSEs will be procured by ESCs with assistance from the Corridor Team () along result-based contracts with service providers, which will define the baseline situation and expected results. ESCs will be able to procure services below NPR 30,000 (single source selection) or NPR 150,000 (national shopping)[44]. These ceilings will be raised by the PMT as the capacities of ESC increase. Business linkages will be developed with the assistance of the B to B Specialist in each of the Corridor Teams.

Sub-component 1.3 – Vocational training and apprenticeship

Activity 1.3.1 – Vocational training

26. **Survey of job opportunities and selection of TEVT SPs.** RER/SAMRIDDHI will carry out a survey of opportunities for wage employment adapted to the project's target groups in the three target corridors. Building on the results, it will then issue a call for proposals for selecting Technical Education and Vocational Training (TEVT) SPs for specific sectors/geographic areas. Proposals will have to include: (i) detailed job opportunities and list of enterprises; (ii) commitment of enterprises for job placement in target districts; (ii) technical proposal (training modalities); and (iii) a financial proposal, including cost-sharing of training with enterprises (min. 10% for cat. D).

27. **Selection of trainees.** TEVT SPs will be in charge of advertising trainings and selecting trainees, who will have to meet pre-set targeting criteria, including: (i) age 16-40 for women and 16-36 for men; (ii) poor and nearly poor (see Appendix 2); (iii) migrant households and returnees; (iv) unemployed youth (16-440 years); (v) young women and men from disadvantaged groups (see Appendix 2).

28. **Training and job placement.** RER/SAMRIDDHI will apply the successful methodology developed by Helvetas through SDC/DFID-financed Employment Fund, whereby a result-based contract will be passed with each selected TEVT SP. The SP will be responsible not only for delivering training, but also for ensuring post-training gainful employment of trainees. To this end, payment will be fractioned in several instalments, the final instalment being paid based on evidence of trainees' gainful employment for six months. A bonus of varying importance will be paid as an incentive for training and placing RER/SAMRIDDHI specific target groups, with the highest percentage allocated for trainees belonging to the most deprived groups, along pre-set rates). The project will train 15,000 individuals (of which 33% of women), who will receive a recognised training certificate. It is expected that 70% of them will secure gainful employment and retain their job over at least six months.

Activity 1.3.2 – Apprenticeship

29. The CPMAS and its rural enterprise mapping will provide a preliminary overview of possible apprenticeship opportunities in specific growing sectors/sub-sectors/trades, geographic areas and different types of enterprises. Based on this information, the approach will be similar to that followed for vocational training, i.e. TEVT SPs, selected through competitive bidding, will be responsible for carrying out a detailed job market survey, for preparing technical and financial bids for Apprenticeship Training Programmes including a detailed identification of enterprises committing to take on apprentices, for advertising the programme and selecting apprentices, jointly with participating enterprises. Additionally, they will provide on-demand training to hosting enterprises in categories A and B, to ensure that they deliver quality training to apprentices. The target group will be identical to that of vocational training. Contracts with TEVT SPs will similarly be results-based, with the final instalment being paid based on evidence of apprentice's gainful employment for three months. A similar bonus system will reward apprenticeship and placing of

[44] See Appendix 8 – Procurement.

RER/SAMRIDDHI specific target groups. The project will place 15,000 apprentices (of which 33% of women), who will receive a recognised training certificate. It is expected that 70% of them will secure gainful employment and retain their job over at least three months.

Implementation arrangements

30. The PMT will establish a contract with Helvetas for the implementation of the sub-component. Helvetas will be responsible for ensuring the effective and efficient delivery of activities, building on the experience, methodology and tools developed through the Employment Fund. This will include: (i) carrying out the survey of opportunities for wage employment; (ii) providing technical assistance; (iii) providing management support. Funds to TVET SPs will be disbursed by the PMT, based on instructions provided by Helvetas. The first Interim Review (2018) will assess whether the TEVT Fund to be set up by the government is operational and how it should be associated to implementing the sub-component.

Component 2 – Productive Investment

Sub-component 2.1 – Financial Inclusion[45]

Activity 2.1.1 – Capacity Building

31. RER/SAMRIDDHI will strengthen the capacities of the financial sector and non-bank financial sector to deliver responsive services to the target population, by providing training and technical assistance (TA), on the one hand, to Savings and Credit Cooperatives (SCCs) and Small Farmers Agricultural Cooperatives Limited (SFACLs), and, on the other hand, to participating financial institutions that are either directly lending to the project target population, or are using SCCs-SFACLs to channel resources to the deprived sector to comply with the Central Bank regulations.

32. The objective of this set of activities is to strengthen the capacity of rural SCCs and SFACLs, which constitute the largest number of financial institutions in the rural areas, so that they can better serve their members as well as link up to financial institutions to channel remittances and access on-lending loans (refinancing). It is also to enable financial institutions to understand the specificities of the non-bank financial sector so as to develop an operational and financial sustainable relationship with SCCs and SFACLs. To this effect the project will carry out the following activities:

- *Mapping:* based on interviews with key national stakeholders and with the assistance of ESCs, the PMT Financial Inclusion Specialists will map all financial institutions operating in the target districts;
- *Strengthening the capacity of SPs:* the PMT will select three local service providers for the provision of financial training and capacity building to SCC/SFACLs, based on a competitive bidding process. To strengthen the capacity of service providers that will then be used to build up the capacity of SCC-SFACLs, the project will contract a specialised external TA for a total of 3 months;
- *Assessment of SCCs-SFACLs:* the three local service providers will assess all the SCCs-SFACLs operating in the target districts. The outcome of the assessment will be a detailed description of capacity building needs for every SCC-SFACL. The PMT Financial Inclusion Specialists, in consultation with the Nepalese Federation of Savings and Credit Unions, will then rank SCCs-SFACLs along four categories as detailed in WP 4;
- *Provision of training and TA to SCCs-SFACLs:* capacity building will only be provided to SCCs-SFACLs belonging to category B (moderate capacity gaps) and C (important capacity

[45] Details in Working Paper 4 – Financial Inclusion.

gaps), to the exclusion of category A (limited capacity gaps) and D (inoperative SCCs). Training and TA will cover the following areas, as per the capacity assessment: governance, products and services, operations, marketing and public relations, business environment and ICT/computer literacy. In addition, modules on finance and accounting and on remittances will be provided to all of category B and C SCCs-SFACLs. Capacity building will be provided by the SPs previously selected and trained, along contracts detailing expected results;

- *Mentoring:* the PMT Rural Finance specialists will organise mentoring activities for all categories B and C SCCs-SFACLs and will select mentors among category A SCCs-SFACLs;
- *TA to banks and MFIs:* TA will be provided to banks and MFIs to enhance their capacities to: (i) cater for the needs of RMSEs and RER/SAMRIDDHI target groups; (ii) deliver the new products promoted by the project; (iii) strengthen relationships with SCCs- SFACLs; and (iv) further integrate remittances in their products and services. Technical assistance will be provided by an external service provider specialised in financial institutions and development, to be selected through a competitive bidding process;
- *Evaluation of service providers:* to ensure the quality of training and technical assistance provided to the different institutions RER/SAMRIDDHI will organise a system of evaluation based on focus groups discussion, post-training adoption assessment, and end-of-training evaluation questionnaire. Contract renewal will be subject to positive evaluation.

Implementation arrangements

33. Activities will be implemented by the PMT Financial Inclusion Specialists, with support from external service providers for the provision of training and TA to SCCs-SFACLs and to financial institutions. During PY4 and PY6, a due diligence exercise of a sample of SCCs/SFLCs will be undertaken by an audit company/expert contracted by the PMT through a competitive bidding process. The PMT Financial Inclusion Specialists will collect information for knowledge sharing. A partnership will be developed with UNCDF, especially with regards to the use of UNCDF Assessment Tool evaluate SCCs and SFACLs.

Activity 2.1.2 – Financial Instruments

34. RER/SAMRIDDHI will promote three innovative financial instruments: (i) a performance-based grant scheme; (ii) a risk-sharing scheme; and (iii) a departure loan buy-back scheme.

35. **Performance-based matching grants.** The project will promote a performance-based matching grant (PBMG) scheme open to the poorest segments of the project target group, i.e. entrepreneurs from categories A (self-employed) and B (micro-enterprises) willing to create or expand their business. The PBMG scheme aims at ensuring that smaller and poorer entrepreneurs can access modern equipment and technologies required to create a business or upgrading an existing one, by enabling them to access investment credit at an affordable cost. Specifically, the PBMG scheme is designed to address two key constraints affecting access to credit, i.e. the lack of acceptable collateral and insufficient cash flow to meet the cost of borrowing money in the initial stages of micro-enterprise development. It is furthermore expected that PBMGs will: (i) increase the Return on Investment ratio for the investment loan; (ii) increase enterprise competitiveness by maintaining lower production costs (lesser overheads) and by upgrading technical processes; and (iii) improve the chances of target entrepreneurs to reach financial sustainability (generally between 30 to 70% of self-employment activities, micro- and small businesses are no longer in activity after two years due to bankruptcy in most cases). It is also expected that PBMGs will increase the credit culture of entrepreneurs that are currently non-bankable, by tying the payment of the matching grant to loan repayment, thereby creating a strong incentive to timely pay back loans and enabling entrepreneurs to build a successful credit history.

36. Performance-based matching grants (PBMGs) will be available to enterprises from categories A (self-employed) and B (micro-enterprises) willing to create or expand their business, for the financing of investment (e.g. as buildings, machinery, irrigation systems, vehicles…) exclusively (not for working capital). The PBMG amount will be determined by applying a leverage factor to the entrepreneur's contribution and will be capped as per Table 4.

Table 4 – Leverage factor and maximum amount for PBMGs

Categories of enterprises	Leverage factor		Maximum amount (NPR)
	Creation	Expansion	
A (self-employment)	2.5	2.0	40,000
B (micro-enterprise)	1.5	1.0	150,000

37. Based on an average investment size of NPR 40,000 for a self-employment/family business (creation/expansion), and of NPR 300,000/400,000 for a micro-enterprise (creation/expansion), the budget allocation for the PBMG will amount to NPR 723,000,000 (or USD 7.45 million) for 35,000 loan recipients, or 60% of RER/SAMREDHI-supported enterprises in categories A and B.

38. Applying entrepreneurs will submit a loan application and the related business to an eligible financial institution (which could also be a SCC or a SFACL). The choice of the financial institution will be left to the entrepreneur but the ESC will ensure that it is on the list of eligible institutions (not category D SCCs or SFACLs). Attached to this documentation, the ESC will certify the completion of ESC training cycle by the applying entrepreneur and will determine the category of the activity to be financed (self-employment/micro-enterprises - creation/expansion). The financial institution will review the documentation and approve or reject the loan application. It will also determine the PBMG amount based on the contribution deposited by the entrepreneur in an account specifically opened to that purpose. The PBMG will amount to the entrepreneur's contribution multiplied by the relevant leverage factor as per Table 4 above. Prior to signing the loan contract, the financial institution will submit the PBMG calculation to the PMT for final approval.

39. The PBMG will be released in one single instalment by the PMT to the lending financial institution, which will deposit it on an escrow account opened in the name of the project. From that escrow account, the financial institution will disburse the PBMG in two instalments: (i) the first instalment of 50% of the PBMG global amount will be released upon the signature of the loan contract and will be deposited on the entrepreneur's account, and (ii) the second instalment will be released once the loan extended by the participating financial institution has been fully and timely repaid by the entrepreneur. Accrued interests on the escrow account will be equally shared between the entrepreneur and the lending financial institution. In case the loan would not be fully and timely paid back by the entrepreneur, the second instalment of the PBMG would then be transferred back to the project.

40. To avoid the risk of elite capture, PBMGs will be made available only to smaller/poorer entrepreneurs (family and micro-enterprises). Furthermore: (i) the initial Corridor Potential Mapping and Assessment will include an inventory of micro and small enterprises in the target districts, which will also verify either the reality of the existing enterprise or, for potential new entrepreneurs, that they have a genuine interest in developing an enterprise; (ii) further 'filtering' (elimination of people only interested in raising easy money) will occur during the initial business start-up training and preparation of the business plan provided to entrepreneurs interested in expanding/creating an enterprise (see Component 1.2); (iii) PBMGs will be available only to entrepreneurs that have gone through this process and have had their business plan vetted by the ESC.

41. **Risk-sharing scheme.** The project will implement a risk-sharing scheme allowing RER/SAMRIDDHI target entrepreneurs lacking collateral as per legal requirements[46] to access loans exceeding the threshold of collateral-free loans (NPR 150,000 or USD 1,500 as per the regulation of the Central Bank, reduced to NPR 60,000 for SCCs-SFACLs). The lack of acceptable collateral is the most important constraint preventing micro and small entrepreneurs from accessing capital for the financing of machinery and equipment. In the absence of a guarantee mechanism: (i) project-supported entrepreneurs would not be able to make the move from obsolete technologies to more efficient production processes; (ii) certain types of businesses with a lot of potential (such as telecom centres targeting in particular migrant families) would be impossible to set up for the project target group; (iii) only well-off entrepreneurs with a lot of land would be able to access loans and PBMGs, whereas one of the project objectives is to provide viable alternatives to agriculture for landless or close to landless households.

42. The risk-sharing scheme will be accessible to any eligible financial institution[47] lending to project-supported enterprises belonging to categories A, B or C, contingent to a due diligence exercise of this financial institution, to be carried out by an audit firm/expert contracted by the PMT based on a competitive bidding process. Eligible financial institutions will have to comply with minimum financial performance (PAR below 5% and repayment rate above 97%). Access to the risk-sharing scheme will be limited to only a maximum of two investment loans requiring collateral per entrepreneur, along the modalities described in Table 5. Under the scheme, RER/SAMRIDDHI will bear 65% of the risk, while participating financial institution will bear the remaining 35%.

Table 5 – Types of risk-sharing arrangements above collateral-free thresholds

Financial Institutions/Loan amount	Loan Amounts (NPR)		Type of risk-sharing arrangements
	From	To	
Savings and Credit Cooperatives	-	60,000	Collateral-free loan
	60,001	150,000	Risk-sharing arrangement considering the loan portfolio
	150,001		Risk-sharing arrangement considering the individual loan
MFIs	-	150,000	Collateral-free loan
	150,001	300,000	Risk-sharing arrangement considering the loan portfolio
	300,001	400,000	Risk-sharing arrangement considering the individual loan
Class A to D Financial Institutions	-	150,000	Collateral-free loan
	150,001	300,000	Risk-sharing arrangement considering the loan portfolio
	300,000		Risk-sharing arrangement considering the individual loan

43. The Nepalese Central Bank does not allow guarantee funds, i.e. the provision of a guarantee by an institution to a third party. Therefore the risk-sharing scheme will be based on a contract between the project and every single participating financial institution. It will consist of two different modalities:

[46] Only real property is accepted as collateral. Aside from the fact that 52% of households operate less than 0.5 ha (even less in the Terai), land and buildings in the rural areas have very low value in the rural areas and are valued net to zero by banks.
[47] It is expected that between 4 and 5 financial institutions regulated by the Central Bank, 1 or 2 MFIs in each district as well as SCCs-SFACLs ranked in category A (1 or 2 per district) will be eligible to the risk-sharing scheme and will receive funds related to that scheme. Other SCCs-SFACLs will also be eligible to the risk-sharing scheme but will not receive any funds from the scheme. Their funds will be deposited in an escrow account at the level of the financial institution which they depend for remittances transfer. For example, for SCCs of category B and C that are member of the remittances network of MEGA Bank, the funds related to the risk-sharing scheme for loans they will extend to project's beneficiaries will be deposited in one single escrow account at the level of the MEGA Bank (escrow account opened in the name of the project which authorized signatories will be the PMT Manager and PMT Financial Manager).

- *Portfolio risk-sharing* will apply to loans above the collateral-free threshold of NPR 150,000 (NPR 60,000 for SCCs-SFACLs). Eligible financial institutions will be selected based on due diligence undertaken by a local audit firm selected at inception based on a competitive bidding. Loan applications submitted by project-supported entrepreneurs will be reviewed and assessed by the financial institution under its normal procedures. Loans compliant with eligibility criteria (details in Working Paper 4) will automatically be included in the portfolio risk-sharing scheme upon the signature of the respective loan contract. Monthly information on portfolio loans will have to be submitted by participating financial institutions;
- *Individual risk-sharing* will apply to: (i) loans exceeding NPR 150,000 for Savings and Credit Cooperatives (SCC)s; (ii) loans from NPR 300,000 up to NPR 400,000 for MFIs; and (iii) above NPR 300,000 for commercial banks. A Risk-Sharing Committee (see below) will review every single application and decide whether to approve or reject it. International technical assistance will be provided to build capacities in this respect.

44. The PMT will sign a '*Risk-Sharing Agreement*' with each eligible financial institution, which will detail the scheme modalities and procedures. Financial institutions will accept to lend to RER/SAMRIDDHI-supported enterprises on the basis of this deposit. Funds will be deposited in each participating financial institution holding a risk-sharing contract. However, in order to avoid deposits in unregulated financial institutions, the funds related to the risk-sharing scheme for a small SCC-SFACL will be deposited in an escrow account opened at the level of the commercial bank which remittance transfer network includes that small SCC-SFACL (see footnote 13 above).

45. The PMT will set up a *Risk-Sharing Committee* composed of one representative of the bankers' association, one from the MOI, and the PMT Senior Financial Inclusion Specialist. The Committee will be responsible for reviewing and deciding upon the approval or rejection of: (i) financial institutions included in the portfolio guarantee scheme, (ii) individual guarantees that will concern a small percentage of RER-supported enterprises, and (iii) claims submitted by participating banks in case of default.

Furthermore the PMT will contract an audit firm/financial consultant based on a competitive bidding - the Risk Sharing Scheme Manager (RSSM) - who will be responsible for managing and monitoring the scheme on behalf of the project. This will include: (i) randomly ensuring compliance to eligibility criteria for loans included in the portfolio risk-sharing scheme; (ii) processing pay-outs; (iii) consolidating statements of accounts from all participating financial institutions; (iv) ensuring compliance with performance benchmarks included in risk-sharing agreements, and (v) analyzing the situation of the risk-sharing facility (max. exposure and liability, leverage, financial position).

46. **Departure loan buy-back scheme.** This instrument will aim at reducing the financial burden of departure loans on migrant's households, which they usually take with moneylenders at exorbitant interest rates (up to 60% per annum), through the restructuring of their debt. The restructuring of the migrant's debt will be as follows. Financial education provided under Sub-component 2.2 will encourage migrants/migrants' families to open an account in a financial institution through which migrants can remit on a monthly basis, as well as to open a savings account in the same financial institution on which part of their monthly remittances can be long-term deposited. Contingent on a few months during which the financial institution will ascertain the regular flow of remittances, the financial institution will propose the migrant's household to buy-back the loan extended by the moneylender. The new loan extended by the financial institution will be for 18 months (against usually less than 10 months for the money lender for the outstanding amount) and for a much lower interest rate (around 12 to 16% per annum). The new loan will also be eligible for the project risk-sharing scheme.

47. The departure loan buy-back scheme will be associated with a financial mechanism by which savings and interest accumulated in the savings account could be leveraged to support an investment loan for the creation or expansion of an income-generating activity or a micro-

enterprise (categories A and B enterprises). To this end, savings/interest could be used: (i) either as a contribution to a collateral-free investment; (ii) or as a collateral against an investment loan of a higher amount[48], with the project topping up the amount of savings and interest with a grant, along the same leverage factors and modalities as for the Performance-Based Matching Grants (above).

It is estimated that the departure loan buy-back mechanism will concern approximately 25,000 households that had their departure loans financed by a moneylender at exorbitant interest rate. It is also estimated that around 150,000 migrants or their households will open an account in a participating financial institution and use it to remit and save on a monthly basis.

Implementation arrangements

48. The sub-component will be implemented by the PMT through the two Financial Inclusion Specialists, with support from an audit firm/financial consultant selected through competitive bidding to supervise the Risk-Sharing Mechanism. Moreover, RER/SAMRIDDHI will finance technical assistance to help in setting up the PBMG scheme, the risk-sharing scheme and the departure loan buy-back scheme. To further support harmonisation, synergies and up-scaling in non-project districts, RER/SAMRIDDHI will also seek partnership and collaboration with other donor-funded/projects donors such as GIZ and UNCDF. Close monitoring and comprehensive documentation of each of the innovative financial instruments developed by the project will be secured by the Financial Inclusion Specialists in collaboration with the KM Specialist to support future replication.

Activity 2.1.3 - Outreach

49. RER/SAMRIDDHI will support commercial banks (class A) and large MFIs to increase their outreach in the target districts to enable project-supported entrepreneurs to access adequate financial products and services. This will be achieved through:

- *agents' network:* financing the capacity building of financial institutions' networks of agents that are currently operating at the limit of the financial institutions' branches catchment area. After having received proper capacity building, these agents will be able to: (i) participate in the training of SCCs-SFACLs in their catchment area, and (ii) supervising SCCs-performance. This activity will be focusing on hills districts exclusively;
- *branchless banking services:* co-financing of up to 50% of the investment cost of opening new points of services where customers can cash-in and cash-out from their account, make transfers, and process utilities payments;
- *mobile banking:* co-financing of up to 50% of the investment cost (vehicle fitted with a safe, computer and security equipment).

Implementation arrangements

50. The PMT will issue a call for proposal to financial institutions participating in the risk-sharing scheme. A Committee (composed of a representative of the bankers' association and of the Project Manager, PMT Accounts Officer, and Senior Financial Inclusion Specialist) will select acceptable proposals based on pre-set criteria. Memoranda of Understanding will be signed with selected banks.

[48] Collateral-free loans can be extended by Central Bank-supervised financial institutions for amounts below NPR 150,000 (Central Bank regulation). MFIs have adopted the same threshold for collateral-free loans, while SCCs are generally providing collateral-free loans for an amount below NPR 50-60,000.

Activity 2.1.4 – Conducive Environment and New Products

51. After the first mid-term review and upon satisfactory assessment of progress in this sub-component, RER/SAMRIDDHI will support the development of new activities and products.

52. **Financial Regulatory Commission.** RER/SAMRIDDHI (through a grant to be developed with and financed by IFAD's Financing Facility on Remittances) will partner with the World Bank, ADB and UNCDF to set up a Financial Regulatory Commission to supervise non-bank financial institutions (NBFI) with a view to increase the confidence of rural communities to become members and deposit their resources, and of the financial sector to use NBFIs as financial intermediaries (in particular for channeling remittances) and to refinance them. The project will contribute to setting up of a Financial Regulatory Commission (FRC) aiming at licensing, supervising and controlling the non-bank financial institutions. The PMT Financial Inclusion Specialist will work in close collaboration with the World Bank, the Asian Development Bank, GIZ, the Ministry of Cooperatives and Poverty Alleviation, the department of Cooperatives and the National Cooperative Federation Ltd as well as with the Central Bank and international consultants to define the set of rules and regulations to be applied to the sector as well as the prudential ratio and reporting on activity and financial statements, to draft the terms of reference of each position within the FRC, and to recruit the necessary staff for the pilot initiative. RER/SAMRIDDHI could implement the Financial Regulatory Commission as a pilot in a few of the project districts. To that effect, it will finance the capacity building of recruited staff and its operating costs, while other donors will finance necessary equipment.

53. **Equity financing.** RER/SAMRIDDHI will support the development of equity financing for the creation or expansion of small and medium enterprises. Resources for equity financing for a group of migrants/entrepreneurs could be provided either by the project in the form of a loan at concessional interest rate (inflation rate) that would be repaid based on profit generated by the enterprise (no duration for the repayment would be specified - venture capital) or by an 'angel investor'. The group of migrants/entrepreneurs would buy back the angel investor's shares from dividends generated by the enterprise. This financial instrument could be applied notably for investments in agriculture value chains. Apart from equity financing, any additional assistance that could be provided by angel investors as well as the role of migrants' associations such as NRNA would be defined on a case-by-case basis depending on the investment (see Working Paper 4 for details).

54. **Investment fund pooling migrants' resources.** RER/SMARIDDHI will also assess the performance of the NRNA Investment Fund Ltd that is pooling resources from migrants and invest them in specific rural development projects. Building on results, it will fine tune the design of investment instruments to be promoted with migrants, in partnership with the IFAD/FFR-financed Regional Programme on Remittances and Diaspora Investment for Rural Development, which will provide technical assistance. The project will also develop awareness campaigns and proper documentation for migrants abroad and migrants' households in Nepal.

Implementation arrangements

55. These activities will be implemented by the PMT Financial Inclusion Specialists in collaboration with migrants' organisations such as NRNA. External technical assistance will be contracted on competitive bidding process to assist the PMT Financial Inclusion Specialists with the development of the equity financing instrument.

Sub-Component 2.2 - Mobilizing Migrants' Resources and Skills

Activity 2.2.1 Mapping, Needs Assessments and Partnerships in Districts

56. **Mapping and Needs Assessment.** To build on existing initiatives at the district level, a research on the district migration situation and mapping of activities of SPs will be conducted at the start of the RER/SAMRIDDHI project. This will be done in coordination with the corridor mapping (CPMAs) of the project. The output of the research will be a District Migration Situation and Stakeholder Analysis, which will identify migration issues and challenges in the district as well as existing potential Migrants Partner Organisations and current level of capacities and gaps. This will serve as the basis for determining the partnership of RER/SAMRIDDHI with MAs/MIC.

57. **Partnerships with Migrants Partner Organisations**. In every district, RER/SAMRIDDHI will partner with a Migrant Partner Organisation. Three different scenarios have been identified:

- *SaMI-run Migration Information Centre:* by January 2015, SDC's Safer Migration (SaMi) programme will be running Migration Information Centres in 9 out of the 16 target districts. Given the synergy between RER/SAMRIDDHI's and SaMi's objectives, RER/SAMRIDDHI will not duplicate, but build on existing SaMi centres and support them to expand their activities to also cover financial education;
- *Existing Migrant Associations:* in the districts where there is no SaMi programme but other MAs (such as Pourakhi or PNCC) are operational, the PMT will identify one MA to partner with and improve its capacity in providing migrant related services and ensure that project targets can be delivered. The range of service and activities provided by the MA will include expanding their network, database management, information to migrants, peer-to-peer and reintegration counselling, financial education and consultations and community outreach and awareness;
- *No formal MAs or Migrant Centres:* in the districts where there is neither a SaMi programme nor existing MAs / Migrant Centres, RER/SAMRIDDHI will: (i) either engage with an existing MA in a nearby district to expand its network to the neighbouring district and will assist in setting up activities; (ii) or build the capacity of a local NGO or community group to set up a Migration Association within the district.

58. The District Migration Situation and Stakeholder Analysis will help in designing the modalities of partnership between RER/SAMRIDDHI and a Migrants Partner Organisation in every target district, based on a consultative process, which, for SaMI districts, will also involve SaMI project/SDC. Where there is more than one MA per district with the capacity to deliver services, then a competitive bidding process should be used where potential Partner Organisation will be invited to submit a proposal. The outcome of this process will be, for every district, a Memorandum of Understanding to be signed with the selected Migrants Partner Organisation and describing the modalities of the partnership and the resources allocated by either partner, building on the existing.

Implementation Arrangements

59. The mapping of migration stakeholders will be implemented by the PMT Migration Specialist, Corridor Migration Managers, a Research Assistant per district and a National Level Research Consultant.

60. The PMT Migration Specialist, in collaboration with Corridor Migration Managers, will be responsible for establishing a Memorandum of Understanding with every selected Migrants Partner Organisation and describing the modalities of the partnership and the resources allocated by either partner. Every single MoU will reflect the specificities of the district and the Migrants Partner Organisation it will apply to and will detail: (i) the types of services to be provided, the target groups and the expected outcomes; (ii) the number of staff and other inputs required for implementing the services; (iii) the resources to be provided by either partner. Resources provided by RER/SAMRIDDHI will include the financing of operational costs of the Migrants Partner Organisation for a maximum of two years, so that it can implement financial educational and other service activities as described under Activity 2.2.2. The MoU will also include a

sustainability plan, which will describe how the Partner Organisation will continue to provide similar services once the financing of SAMRIDDHI/RER is over.

Activity 2.2.2: Building the Capacity and Providing Services to Migrants and their Families at the District Level

61. **Organisation of service delivery at the district level.** The services provided to migrants, returnees and their families at the district level will be defined in the MoU signed with Migrants Partner Organisations and will be different in districts that have a Migration Information Centre run by SaMI and districts that do not have such a resource:

- *Districts with a SaMi-run centre:* the services provided to migrants and their families through RER/SAMREDDHI will be streamlined to only include financial education;
- *Districts with no SaMi-run centre:* financial education and a range of other services will be supported through RER/SAMRIDDHI, including information for migrants, community outreach, network expansion and peer and reintegration counselling. Leaders of Migrants Partner Organisations will also be trained in Organisation, Leadership and Resource Mobilisation.

62. Furthermore, SCCs and SFACLs supported through Sub-Component 2.1 – Financial Inclusion in the 16 target districts will receive training on Creating Demand and Valuable Customers.

63. **Financial education to migrants and their families.** This service will be made available in SaMi and non-SaMi districts. Financial education will be delivered through:

- *Village Level Meetings:* group meetings will be organised by the Migrants Partner Organisation at the village level. Topics covered will include goal setting, financial planning, borrowing, getting out of debt and addressing family issues that drain their resources. Furthermore, participants will be linked to local financial institutions and to the ESCs;
- *Remittance Recipient One on One Consultations*: remittance recipients will be invited after they have collected their money transfer, to a free, on-the-spot, one-on-one consultation on how to manage their money and plan for the future.

64. **Training of trainers on financial education.** Migrants Partner Organisations will receive training of trainers on financial education so that they can build a team of Financial Counsellors. These will be responsible for training and guiding migrants and their families on how to manage their remittances, save and invest to achieve their long-term goals and address family and socio-cultural issues that drain their resources.

65. **Psycho-Social Services to Migrants and their Families**. These services will be made available in non-SaMi districts only and will cover the following:

- *information for migrants and access to networks:* Migrants Partner Organisations will encourage migrant families and returnees to become members and will provide them with access to information on safe migration, links to other service providers and other useful information;
- *reintegration counselling:* counselling will be made available pre-departure, while the migrant is abroad and upon return and reintegration, and will involve the assessment of the needs and resources of the migrants and their families, the exploration of business opportunities and the facilitation of linkages with the ESC and RFIs;
- *peer counselling:* peer counsellors will assist migrants and families to deal with family issues such as communication gaps, alienation, extra-marital relations, dependency and other family

issues which are the root causes of the failure of migrants and family to achieve their migration goal.

66. **Training of trainers for psycho-social services.** The training of leaders in Organizing, Leadership and Resource Mobilization and also the training of counsellors on Reintegration and Peer Counselling will be provided to MAs to be able to capacitate them in implementing the psychosocial services in the district.

67. **Organisation, leadership and resource mobilisation**. Migrants Partner Organisations in non-SAMI districts will also be provided training in 'Organisation, Leadership and Resource Mobilisation', which will help them to grow their networks in the districts and learn alternative sources of funding for their longer term sustainability after SAMRIDDHI funding ceases.

68. **Financial education through NBFIs.** This activity will be carried out in both SaMI and non-SaMI districts and will consist in training SCCs and SFACLs supported through Sub-Component 2.1 – Financial Inclusion to provide financial education to their members. The training (called Creating Demand and Valuable Customers) should help NBFIs in designing their own, tailor-made financial education programme, with a view to motivating their members to save (especially over remittances) and borrow responsibly and to making them more aware and likely to utilise the NBFI's products and services.

69. **District Migration Task Force.** RER/SAMRIDDHI will set up a District Migration Task Force in every target district, which will gather district migration stakeholders, including government, the DDC, the RER/SAMREDDHIMigrants Partner Organisation, the ESC Management Team, and RER/SAMREDDHI partner RFIs. The Task Force: (i) assess project targets and referral rates between stakeholders; (ii) provide strategic direction and coordinate migration related activities in the district; (iii) discuss good practices and challenges in the implementation RER/SAMRIDDHI activities; and (iv) assist in the mainstreaming of migration activities within the local government as well as NBFIs. Enterprise Service Centres (ESCs), initially led by the District Offices of the Ministry of Industry and managed by the ESC Management Team, will act as a secretariat for the District Migration Task Force.

Implementation Arrangements

70. All module development and training of trainers for financial education, leadership, organising and resource mobilisation, and reintegration and peer-to-peer counselling will be developed and conducted by one national service provider, which will be selected based on competitive bidding. The Service Provider will work closely with the Migration Specialist and the Rural Finance Specialist to coordinate trainings and ensure linkages with SCCs/SFACLs.Financial education and psychosocial services at the district level will be provided by Migrants' Partner Organisations staff, which will be supported by RER/SAMRIDDHI for a maximum of two years as per the partnership MoU. The District Migration Task Force will be organised and facilitated by the Corridor Migration Managers in collaboration with local stakeholders and with assistance from the PMT Migration Specialist.

Activity 2.2.3 - Building Capacity and Providing Services to Migrants Abroad

71. **Forming the Partnership with NRNA and mapping.** A formal partnership and contract will be arranged with the Non-Resident Nepali Association (NRNA), by the PMT Migration Specialist, with clear terms of reference and deliverables. NRNA will be tasked with identifying the most appropriate countries for RER/SAMRIDDHI to operate from based on agreed criteria. Once countries have been approved, NRNA will identify ten leaders from each country who will be responsible for training and providing financial education to migrants and adopt a managerial role in-country to coordinate and monitor activities and ensure deliverables are met.

72. **Building the capacity of NRNA and providing financial education in destination countries.** Ten leaders from each destination country will be trained in Kathmandu to provide financial education and peer-counselling and to link migrants to financial products available on the market. This will also include training by partner FIs offering products and services to migrants in destination countries. Once training has been completed, NRNA will organise a subsequent training of trainers in the destination country. The team of ten leaders will train an additional twenty trainers per country, making the total number of 30 trained trainers per country.

73. **Building the capacity of NRNA to mobilise and pool migrant funds for investment.** NRNA will also be responsible for promoting an Investment Mobilization Campaign to support the pooling of migrants' resources into an investment fund to be developed as part of Sub-component 2.2 as of year 4 (see above).

Implementation Arrangement

74. The PMT Migration Specialist will be responsible for negotiating, managing and monitoring the partnership with NRNA. NRNA will assign country coordinators which will oversee the implementation of the SAMRIDDHI program in the destination country.

Component 3 – Institutional Support and Project Management[49]

Sub-component 2.1 – Policy and Institutional Development

Activity 3.1.1 – Policy development

75. **Policy studies.** RER/SAMRIDDHI will finance the development of policy studies with a view to promote a conducive environment for the promotion of RMSEs, as well as to minimise the economic and social cost of migration and maximize the benefits of migration for the development of the migrants, their families and their communities. Policy studies will be identified as follows:

- *For RMSE-related areas:* studies will be identified by the PMT and the District Industry Promotion Committees, which will play the role of a district project steering committee and will meet at least twice a year. They will discuss RMSEs constraints and value chain bottlenecks, agree on measures required to lift them, identify policy gaps that should be addressed and provide guidance to ESCs. Other stakeholders that will be able to propose issues for policy studies include commodity associations related to RER/SAMRIDDHI priority value chains/sectors as well as apex organisations of financial institutions catering to RMSE needs, such as the Small Farmers' Development Bank or the Rural Microfinance Development Centre;
- *For migration-related areas:* studies will be identified by the Multi-Stakeholders' Platform on Migration and Development (see below) and by its Working Group on Financial Inclusion of Migrants and Remittances (see Sub-component 2.2).

76. Proposals for policy studies will be channelled to the PMT, which will seek the Project Steering Committee's approval prior to including them in the AWPB. RER/SAMRIDDHI will collaborate primarily with MEDPA to promote policy instruments related to micro and cottage enterprises. Other areas identified during the design mission include: the restrictive Central Bank regulation on loan collateral; the variability of interest rate during repayment period; the maximum authorised ceiling for IMF loans (NRS 400,000 or USD 4,000), the need for harmonisation of subsidies in support to RMSEs; financial inclusion and enhanced competition in the remittance market to provide access to adapted financial services and to lower the cost of channelling remittance to migrant and remittance recipient household in the rural areas; integration of

[49] Details in WP 6 – Strategy and Activities for Migrants, their Families, and Returnees for migration-related issues.

migration in the development agenda at the national and local level to create an enabling environment for the productive use of remittance for development.

77. **Policy workshops.** RER/SAMRIDDHI will finance policy workshops gathering relevant stakeholders, either to support the preparation of policy studies or to present and discuss the results of such studies.

78. **Support to policy engagement.** Furthermore, the project will support selected stakeholders representing the interests of RMSEs or of migrants to participate in policy dialogue with the Government of Nepal. Stakeholders may include organisations such as the Federation of Nepal Cottage and Small Industries or the Non-Resident Nepalese Association (NRNA). RER/SAMRIDDHI will finance studies and research enabling such stakeholders to: (i) develop policy positions; (ii) organise policy consultations of members at the regional and national level; and (iii) acquire advocacy skills. Financing will be approved based on proposals made by eligible stakeholders, whose list will be established by the PMT and approved by the Project Steering Committee. The PMT will develop appropriate formats for the presentation of proposals, which will have to specify objectives, activities, expected outcomes and modalities whereby recipients will promote their policy positions. They will also have to specifically address how activities financed by the project will be inclusive of women and the poor, and how GESI issues will be mainstreamed.

79. **Policy dialogue.** The outcomes of policy studies and workshops as well as of successful models developed in the other two components will be disseminated under appropriate formats to relevant government policy making bodies and national or regional advocating organisations, such as the National Business Forum, the Eastern Business Forum, migration networks etc. RER/SAMRIDDHI will also collaborate with MEDPA to promote policy instruments related to micro and cottage industries.

Activity 3.1.2 – Capacity building of institutions involved in project implementation or advocating for RMSEs and migrants

80. **Capacity building.** RER/SAMRIDDHI will support the building of capacities of existing institutions involved in project implementation (and not directly related to the implementation of Components 1 and 2) to better accommodate the needs of RMSEs (such as relevant ministries and departments, District Cottage and Small Industry Offices or Boards, the Federation of Nepali Cottage and Small Industries, FNCCI), the Foreign Employment Promotion Board, the Department of Foreign Employment or national migrants' associations) and to strengthen management capacities related to RER/SAMRIDDHI's implementation. The latter will include MOI's staff capacity building too including for procurement. Capacity building will be provided on the basis of annual capacity development plans, based on annual participatory capacity assessments. Capacity assessments and capacity building programmes will be delivered by specialised service providers selected through competitive bidding. All contracts will include specific deliverables relating to capacity building, including training, development of training modules, preparation of manuals and strategies. Programme staff will then have a key role in further providing guidance and technical support.

81. **Platform on Migration and Development.** RER/SAMRIDDHI will support the creation of a Multi-Stakeholder Platform on Migration and Development (PMD), which will gather government (FEPB and relevant line ministries, Central Bank), civil society organizations (such as NRNA, National Network on Safe Migration and migrant organisations), private sector stakeholders (including FNCCI and financial institutions) dealing with migration and investment issues. The objectives of the PMD are: (i) to provide a venue for policy dialogue on the integration of migration in the development agenda; (ii) to propose policy measures for maximising the gains and minimising the cost of migration; (iii) to coordinate and complement the various interventions of government, civil society and private sector to facilitate the migrant workers reintegration in the

Nepali society and promote their economic initiatives; and (iv) to identify policy studies that could be financed by the project (see above). RER/SAMRIDDHI (through the Migration Specialist – see below) will act as the PMD secretariat in the first 18 months, after which the secretariat will be taken over by other PMD members on a rotational basis. Costs will cover initial; technical assistance, meetings, the initial of the secretariat as well as training, information activities for a limited number of years. The PMD will include two Working Groups initially supported by RER/SAMRIDDHI, one on Remittance and Financial Inclusion and the other on Pre-Departure Orientation.

82. **Pre-Departure Orientation Pilot.** The Working Group on Pre-Departure Orientation will monitor and follow-up on a small pilot initiative that will be implemented in partnership with the Foreign Employment Promotion Board (FEPB). The pilot will aim at enhancing the current pre-departure orientation module administered by FEPB to include discussion of family issues and financial education and to conduct it at district level. The same service provider responsible for designing training modules in Sub-component 2.2 will be responsible for drafting the manuals and learning material and for training trainers identified by FEPB.

Implementation arrangements

83. The implementation of the sub-component will be the responsibility of the Project Manager, in collaboration with the Project Facilitator, the Knowledge Management Specialist, the BDS Specialist, the Rural Finance Specialists and the Migration Specialist. The pre-departure orientation pilot will be implemented by the Migration Specialist in partnership with FEPB, with support from national technical assistance and in close collaboration with the Pre-Departure Working Group. A service provider will be hired by the PMT to develop the training modules (building on Sub-component 2.2) and to provide training of trainers, who will be selected in collaboration with FEPB at the district level.

Sub-component 3.2 – Project Management

84. See Appendix 5 – Institutional aspects and implementation arrangements.

Attachment 1 – Details of AEC contract

Exchange rate		Quantities								Unit Cost	Base Cost (US$)							
0.01039	Unit	15/16	16/17	17/18	18/19	19/20	20/21	21/22	Total	(US$)	15/16	16/17	17/18	18/19	19/20	20/21	21/22	Total
CENTRAL																		
AEC Manager (in Biratnagar)	Person/Year	1	1	1	1	1	1	1	7	10,600	10,600	10,600	10,600	10,600	10,600	10,600	10,600	74,200
AEC Liaison Officer half time (in KTM)	Person/Year	1	1	1	1	1	1	1	7	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	70,000
Accountant half time (in KTM)	Person/Year	1	1	1	1	1	1	1	7	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	42,000
Laptop computer	Unit	1	-	-	-	-	-	-	1	1,000	1,000	0	0	0	0	0	0	1,000
Printer/Photocopier/Scanner	Unit	1	-	-	-	-	-	-	1	1,000	1,000	0	0	0	0	0	0	1,000
Furniture	Lump sum	1	-	-	-	-	-	-	1	500	500	0	0	0	0	0	0	500
Cell phone	Unit	1	1	1	-	-	-	-	3	150	150	150	150	0	0	0	0	450
Sub-total Central											**29,250**	**26,750**	**26,750**	**26,600**	**26,600**	**26,600**	**26,600**	**189,150**
CORRIDOR OFFICES																		
Staff																		
											0	0	0	0	0	0	0	0
B to B Managers	Person/Year	1	2	2	2	2	2	2	13	8,200	8,200	16,400	16,400	16,400	16,400	16,400	16,400	106,600
M&E/KM officers	Person/Year	1	2	2	2	2	2	2	13	8,200	8,200	16,400	16,400	16,400	16,400	16,400	16,400	106,600
											0	0	0	0	0	0	0	0
Sub-total Corridor Office Staff											**16,400**	**32,800**	**32,800**	**32,800**	**32,800**	**32,800**	**32,800**	**213,200**
Sub-total Corridor Office											**16,400**	**32,800**	**32,800**	**32,800**	**32,800**	**32,800**	**32,800**	**213,200**
ENTERPRISE SERVICE CENTRE																		
Staff																		
Coordinator/BDS Specialist	Person/Year	5	11	16	16	16	16	16	96	4,400	22,000	48,400	70,400	70,400	70,400	70,400	70,400	422,400
GESI Specialist	Person/Year	5	11	16	16	16	16	16	96	3,800	19,000	41,800	60,800	60,800	60,800	60,800	60,800	364,800
Accountant officer	Person/Year	5	11	16	16	14	8	1	71	3,200	16,000	35,200	51,200	51,200	44,800	25,600	3,200	227,200
Sub-total ESC Staff											**57,000**	**125,400**	**182,400**	**182,400**	**176,000**	**156,800**	**134,400**	**1,014,400**
Equipment																		
Motorbikes	Unit	10	12	10	-	-	-	-	32	2,500	25,000	30,000	25,000	0	0	0	0	82,500
Laptop computers	Unit	30	36	30	-	-	-	-	96	1,000	30,000	36,000	30,000	0	0	0	0	97,000
Printer/Photocopier/Scanner	Unit	5	6	5	-	-	-	-	16	2,500	12,500	15,000	12,500	0	0	0	0	42,500
Projector	Unit	5	6	5	-	-	-	-	16	600	3,000	3,600	3,000	0	0	0	0	10,200
Camera	Unit	5	6	5	-	-	-	-	16	450	2,250	2,700	2,250	0	0	0	0	7,650
Furniture	Lump sum	5	6	5	-	-	-	-	16	2,000	10,000	12,000	10,000	0	0	0	0	34,000
Cell phones	Unit	15	18	15	-	-	-	-	48	150	2,250	2,700	2,250	0	0	0	0	7,350
Accounting software	Unit	5	6	5					16	375	1,875	2,250	1,875	0	0	0	0	6,375
Sub-total ESC Equipment											**86,875**	**104,250**	**86,875**	**0**	**0**	**0**	**0**	**278,000**
ESC Office Operating Expenses																		
Travel and DSA /b	Year	5	11	16	16	14	8	1	71	1,100	5,500	12,100	17,600	17,600	15,400	8,800	1,100	78,100
Motorbike maintenance and fuel allowance	ESC/Year	5	11	16	16	14	8	1	71	1,125	5,625	12,375	18,000	18,000	15,750	9,000	1,125	79,875
Equipment maintenance	ESC/Year	5	11	16	16	14	8	1	71	500	2,500	5,500	8,000	8,000	7,000	4,000	500	35,500
Contribution to office rent and utilities	ESC/Year	5	11	16	16	14	8	1	71	2,400	12,000	26,400	38,400	38,400	33,600	19,200	2,400	170,400
Office supplies	ESC/Year	5	11	16	16	14	8	1	71	600	3,000	6,600	9,600	9,600	8,400	4,800	600	42,600
Sub-total ESC Office Operating Expenses										**5,725**	**28,625**	**62,975**	**91,600**	**91,600**	**80,150**	**45,800**	**5,725**	**406,475**
Sub-total ESCs											**172,500**	**292,625**	**360,875**	**274,000**	**256,150**	**202,600**	**140,125**	**1,698,875**
TOTAL before overheads											**218,150**	**352,175**	**420,425**	**333,400**	**315,550**	**262,000**	**199,525**	**2,101,225**
Overhead 7%											**15,271**	**24,652**	**29,430**	**23,338**	**22,089**	**18,340**	**13,967**	**147,086**
GRAND TOTAL											**233,421**	**376,827**	**449,855**	**356,738**	**337,639**	**280,340**	**213,492**	**2,248,311**

Appendix 5 – Institutional Aspects and Implementation Arrangements[50]

Background

1. **MOI.** The Ministry of Industry (MOI) leads the development and implementation of policies, acts and regulations related to the development of industries and enterprises for employment generation and export promotion. The Department of Cottage and Small Industries (DCSI) is responsible for promoting and strengthening cottage and small industries and for implementing the Micro-Enterprise Development for Poverty Alleviation (MEDPA) program over 48 districts. In the remaining 27 districts, the Cottage and Small Industries Development Board (CSIDB) has a similar mandate. At district level, CSIDB and DCSI have operational management processes but they similarly lack facilities, infrastructure and staff. Moreover, as per the government system, staff transfers in DCSI are frequent and staff assigned to DCSI does not necessarily possess expertise in the field of RMSEs. CSIDB also has substantial capacity constraints, including in terms of professional skills, with many positions remaining vacant because of the lack of resources. Both DCSI and CSIDB have experience of out-sourcing the services and BDSPs to implement their regular activities. As an average, 7-10 staff are based in the district office depending up on the potentials enterprises in the district.

2. **MOLE.** The Ministry of Labour and Employment (MOLE) is responsible for preparing and enforcing labour policies, including with regard to migration. Activities are implemented through the Department of Labour and the Foreign Employment Promotion Board (FEPB) at central level, and through ten area offices and sixteen skill development training centres across the country, including in RER/SAMRIDDHI target districts. Main services provided by FEPB are the organisation of a 2-day orientation course for migrant labour, operation of a migrant information centre in Kathmandu only, and rescue work. FEPB operates the Welfare Fund, which receives compulsory contributions by the migrants (NRS 1,000 each). To date this fund has been used in social rescue and handling of death cases and not utilised in the productive sector.

3. **DDCs and VDCs.** The District Development Committee (DDC) is the executive body of the District Council, acting as the district government. It is responsible for the preparation of the district plan, allocating resources over the district budget for its implementation, and coordinating and monitoring implementation. DDC can set up sub-committees where necessary to achieve its objective and work plan. DDCs can set up specialized committees, of which one is the District Industry Promotion Committee (DIPC), which is responsible for developing a strategy for industrial and enterprise development. DIPCs have been formed in most districts and they are leading enterprise development in the district and in connection with Village Development Committees (VDCs). VDCs are the lowest administrative unit. They receive an annual block grant of NRS 3 million, which may be used for micro-enterprise promotion and development (up to 30%). Because of the political civil unrest and the ensuing complex political situation, local elections have not been held since 2002. Both DDCs and VDCs are very much influenced by the interest of political parties and cases of misuse of government fund and corruptions are increasingly reported.

4. **Chambers of Commerce.** The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) is an umbrella organisation of the Nepalese private sector, established in 1965 with the aim of promoting business and industry while protecting the rights and interest of private business and industrial communities. FNCCI has been playing a key role in promoting business and industry in Nepal, providing information, advisory, promotional and representative services to members and non-members alike. FNCCI membership comprises of 92 district/municipality level chambers over the 75 districts of Nepal, 76 commodity/sector associations and 10 bi-national

[50] See details in WP 7 - Institutional Development and Project Implementation Set Up.

chambers. It is FNCCI is represented in all national platforms concerned with business and industries, and has five regional offices which are being established. The Agro-Enterprise Centre (AEC) is FNCCI's agri-business wing, dealing with policy advocacy and lobbying, providing services to agribusiness, and implementing several development projects, including IFAD-supported HVAP and ISFP. A recent capacity assessment FNCCI/AEC financed by HVAP indicated some gaps with regard to service provision to agribusiness and DCCIs, and the lack of an MIS and of knowledge management.

5. District Chambers of Commerce and Industry (DCCIs) are the district organisation representing the business community and providing support services such as capacity building, business and market information, business linkages and market promotion. FNCCI keeps a classification of DCCIs in three categories, based on criteria such as the number of members, existence of physical facilities, number of staff, total annual budget, organisation of an annual general assembly and annual auditing. Over the 16 DCCIs of RER/SAMRIDDHI target districts, 5 are in category A (strongest), 7 in category B and 4 in category C (see details in WP 7). DCCIs have a limited membership of micro-enterprises but are interested in expanding their member base and see potential in developing linkages between larger and micro-enterprises to access markets and enhance competitiveness.

6. **Producers' organisations.** Producers, and in particular farmers, are usually members of several organisations, such as cooperatives (savings and credit, commodity-based, multi-purpose), community forest user group, livestock and crop groups, women development groups etc. The lack of business and market orientation and the widespread use of subsidies are the main constraints for groups to grow economically viable. Micro-entrepreneurs in MEDEP-supported districts are organised in associations, who in turn form a District Micro-Entrepreneur Groups Association (DMEGA). According to MEDPA, DMEGAs are to play a key role in the provision of services to members. Most DMEGAs are still in their early development and lack the organization, processes as well as financial and human resources to fulfill their mandate.

7. **Financial institutions.** The formal financial sector is composed of 32 commercial banks, 89 development banks, 65 finance companies, 35 microfinance development banks, 232 Microfinance Cooperatives, 391 Small Farmers Agriculture Cooperatives Limited, 31 Financial Intermediary NGOs, and more than 13,000 Savings and Credit Cooperatives (SCCs). Yet nearly three quarters of the aggregate supply of rural credit comes from informal sources, and in most cases, migrants are unbanked and unaware of the advantages associated with having an account. Main constraints for RMSEs as well as migrants and their families to access loans from the formal sector for business investment are: (i) the low outreach of financial institutions, particularly in difficult hill and mountain terrain; (ii) the lack of acceptable collaterals (i.e. only land or house, whose value in the rural areas are very low); (ii) the lack of capacities to present acceptable business plans. SCCs are the most represented financial institution in the rural areas but have varying capacities and face problems such as : (i) weak governance and management; (ii) inadequately trained human resources; (iii) lack of clear objectives and business plan; (iv) low knowledge of business environment; (v) low access to resources (only 20% get refinancing from commercial banks); and (v) ineffective regulation and supervision.

8. **MEDPA.** The Micro-Enterprises Development for Poverty Alleviation (MEDPA) is a MOI programme that embodies the approach developed by the Micro-Enterprise Development Programme (MEDEP), a UNDP- and Australia-financed project that has been in operation since 1998 and is implemented by UNDP. MEDEP is now entering its 4th and last phase, which aims at creating conditions for MOI to take over the MEDEP approach through MEDPA. MEDPA is to be implemented by DDCs, who will be responsible for planning, coordinating, procuring and monitoring MEDPA implementation, with resources to be channelled by MOI into a DDC-managed Micro-Enterprise Development Fund.

9. **Employment Fund.** The Employment Fund is a multi-donor fund established in 2007 and financed by SDC, the World Bank and DFID. As of 2013 it has provided training and job placement support to 70,000 Nepali youth through a result-based approach associating over 30 training and employment service providers (TESP) selected on the basis of competitive bidding. Because of the recognised success of the approach (70% of trainees accessing gainful employment for more than six months), the Ministry of Education is considering the institutionalisation of the Fund. The Employment Fund is currently implemented by HELVETAS.

Overall Organisation

10. RER/SAMRIDDHI builds on lessons learnt from IFAD country programme evaluation and reflected in the 2013-2018 COSOP approved by IFAD Executive Board in September 2013, which point to the need to open project implementation to non-government players for increased efficiency, including civil society organisations, agribusiness and financial institutions, the cooperative sector and national and international NGOs with recognized technical knowledge and experience in areas linked to economic inclusion, gender equality and empowerment of rural organizations of poor people.

11. In application of these orientations, RER/SAMRIDDHI set-up is based on public-private partnerships geared to support inclusive and sustainable rural economic growth. While the government retains overall implementation responsibility, private sector players will have a key role in providing business development and financial services to target groups for the creation and expansion of rural micro and small enterprises (RMSEs) and to maximise the development impact of migrant remittances through business investment. This approach is aimed not only at ensuring that services are responsive to client needs, but also at supporting cost-effective service delivery, breaking from public-sector driven and subsidised approaches that achieve little sustainability. RER/SAMRIDDHI implementation arrangements also take stock of the strong partnership between the government and FNCCI, whereby FNCCI and DCCIs closely participate in policy dialogue for the development of the business sector, but are also implementing agents of several initiatives supporting RMSEs and rural producers, which are financed either by the government (ODOP and OVOP) or by donor agencies (IFAD-financed HVAP and ISFP, ADB-financed HIMALI, GIZ-financed INCLUDE).

12. All service providers will be selected based on competitive bidding processes. However two service providers, all with successful experience in Nepal, have been pre-identified to assist in implementing specific set of activities using innovative approaches: (i) Helvetas, which has developed a successful model for vocational training/job placement at the national level, and would extend it to apprenticeship/job level at the local level; and (ii) PROCASUR (ROUTASIA), an NGO receiving IFAD financing (regional grants) and developing new instruments to promote knowledge management through farmer-to-farmer approaches.

13. Finally migrant organisations and networks, and in particular the Non-Resident Nepali Association, will play a role in the mobilisation of migrants and in the provision of services in the target countries and in key destination countries.

14. Against this background, main features of the RER/SAMRIDDHI implementation setting are as follows:

- *MOI* is the project executing agency that has overall responsibility for project implementation;
- *At district level,* RER/SAMRIDDHI will set up an Enterprise Service Centre (ESC) in every participating DCCI, which will be responsible for facilitating access to services for RMSEs;
- *At the corridor level,* Corridor Teams will carry out overall coordination, assist ESCs with M&E and procurement and ensure knowledge management across the region;

- *FNCCI/AEC* will provide backstopping and coordination services to ESCs and part of the Corridor Team staff (Business to Business Specialist and one M&E Officer – see Appendix 4);
- *A Project Steering Committee* gathering the representatives of main stakeholders involved in RER/SAMRIDDHI implementation will provide overall guidance and oversight. District Industry Promotion Committees will provide guidance to ESCs and review and approve AWPBs and progress/financial reporting;
- *A Project Management Team* (PMT) will assist MOI in carrying out project implementation responsibilities;
- *Service providers* will take responsibility for implementing specific sets of activities, and in particular those related to Component 2 and Component 3.

15. The responsibilities of each of the implementation stakeholders are further described below, starting with key implementing institutions, followed by technical partnerships, project oversight structures, and the Project Management Team (PMT). The organisational chart in Attachment 1 represents RER/SAMRIDDHI implementation setting. Implementation responsibilities will be further developed during the final design mission and they will be detailed in the draft Programme Project Implementation Manual that will be developed by the final design mission and will be finalised by the PMT at project start.

Key Implementing Institutions

16. **MOI.** As the project executing agency, MOI will bear overall responsibility for RER/SAMRIDDHI coordination and oversight, under the direct authority of MOI Secretary. Line responsibility for day-to-day project implementation will be delegated to the Project Manager and the Project Management Team, which will be located in Itahari (Sunsari District).

17. **FNCCI/AEC.** RER/SAMRIDDHI will establish a Memorandum of Understanding (MoU) with FNCCI, through AEC, for setting up and overseeing the operation of:

- *ESCs:* one ESC will be established in every participating district, and will have the main responsibility for the planning, implementation and monitoring of activities under Component 1, sub-components 1 and 2. Each ESC will comprise of four staff (of which minimum one woman), of which three will run ESC desks (Micro-Enterprise Development, Small Enterprises and Service Providers; and Migration Desk), and the fourth one will be an Accountant. The staff responsible for Micro-Enterprise Development will be financed by GoN and will be jointly selected by MOI and AEC/DCCIs; ESCs will be managed by a Management Team, that will be co-chaired by the District Cottage and Small Industry Office/ Board and the DCCI Chair and will also include a representative each of the Federation of Nepal Cottage and Small Industries (FNCSI) and of the National Micro-Enterprises Federation of Nepal (District Micro-Entrepreneurs Groups Association - DMEGA). The Board will be responsible for ensuring the effective management of the ESC and for monitoring the implementation of its Strategic Plan. ESCs will receive assistance to prepare a strategic plan, which will be translated into annual working plans and budgets (AWPBs). AWPBs as well as trimester and annual progress reports and financial statements will be validated by DIPC, before being channelled to the relevant corridor Team;
- *Selected staff to join the Corridor Teams:* these will include a Business-to-Business Linkages Specilaist, who will be responsible for developing B-to-B linkages between micro and larger enterprises in the corridor, and one M&E Specialist, who will be responsible for coordinating and supporting the planning and M&E of ESC activities, for documenting good practices and facilitating the exchange of information between ESCs, in collaboration with the PMT M&E Specialist in the Corridor Team.

18. To this effect, arrangements with AEC will also include an AEC Manager, who will be posted at the PMT in Itahari, as well as a Liaison Officer and an Accountant based at AEC headquarters in Kathmandu (both 50% time).

19. **Service providers.** There will be two types of service providers (SPs):

- *SPs providing services to RMSEs:* they will get accreditation and will be registered in a roster managed by the ESC. Roster-registered SPs will be procured directly by the ESC below NRP 30,000 (single source selection) or NPR 150,000 (national shopping)[51], and by the Corridor Team above these ceilings, which will be progressively raised, as ESC performance increases;
- *SPs providing implementation services:* these will be hired to implement activities related to Component 2 (financial institutions and SPs specialised in providing capacity building to financial institutions for Sub-component 1, local contractors for Sub-component 2) and Component 3 (policy and institutional development). They will be procured by the PMT based on competitive bidding.

20. All service providers' contracts will stipulate clear deliverables with a timeframe and quantified expected outputs/outcomes, and they will specify responsibilities with regard to monitoring and reporting, including the information of progress indicators as set forth in the contract. Terms of reference for service providers will 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.

Technical partnerships

21. Technical partnerships will be developed through MoUs passed by the PMT with two service providers that will assist the PMT in implementing specific set of activities using innovative approaches:

- *Helvetas* will be responsible for implementing activities under Component 1, Sub-component 3 (vocational training and apprenticeship, building on the experience, methodology and tools developed through the Employment Fund. Detailed arrangements as to how this can be achieved will be further detailed during the final design mission. At the first Mid Term Review (2018) it will be assessed whether the TEVT Fund to be set up by the government will be actually operational and how to link this sub-component to it;
- *PROCASUR (ROUTASIA)* will organise the first learning route according to its well tested methodology and will build the capacity of the PMT and FNCC/AECI for establishing it as a tool for knowledge sharing and learning.

Project Oversight

22. **Project Steering Committee.** A Project Steering Committee (PSC) will be set up at the national level to provide overall guidance and oversight, to ensure that RER/SAMRIDDHI programming 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 will also approve annual AWPBs and annual progress and financial reports. It will be chaired by MOI Secretary and will include representatives from line ministries (Ministry of Education, Ministry of Finance, Ministry of Agricultural Development, Ministry of Forest and Soil Conservation, Ministry of Labour and Employment, Ministry of Commerce, National Planning Commission); FNCCI/AEC ; representatives from the Federation of Nepal Cottage and Small-Scale Industries, National Micro-Enterprise Federation Nepal, Department of Cottage and Small Industries, Cottage and Small-scale Industries Development Board,

[51] See Appendix 8 – Procurement.

development partners, Nepal Rastra Bank (Central Bank), National Association of Financial Institutions and Cooperatives and NRNA. The Project Manager will act as Secretary for the PSC. The PSC Chairperson can invite relevant technical persons or representatives from government and non-government agencies as appropriate in the PSC meeting.

23. **DIPC.** RER/SAMRIDDHI will rely on existing District Industry Promotion Committees 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 will ensure that ESC activities are inclusive of women and the poor, and that GESI issues are addressed as part of their regular agenda.

Project Management Team

24. **Responsibilities.** The PMT will assist MOI in carrying out RER/SAMRIDDHI implementation responsibilities and will be fully accountable for the performance of project implementation and the use of funds. It will have the following responsibilities:

- *orientation for developing and implementing the project strategy* to ensure that all project implementation partners develop activities along a common, coherent approach in line with the Project Design Report;
- *financial and administrative management* of project resources in line with the Loan Agreement and IFAD rules. This will also include: (i) the management of project accounts and their timely replenishment; and (ii) the organisation of annual and final independent audits of all project accounts as per IFAD Loan Agreement;
- *planning of project activities* and the preparation of consolidated AWPBs;
- *contracting and procurement of project-related services and supplies* in accordance with IFAD Loan Agreement and IFAD rules. This will also include: (i) the preparation of annual procurement plans, and (ii) the monitoring of the implementation of service providers' contracts;
- *coordination of project activities with the various project partners;*
- *M&E and KM* in relation to all activities*;*
- *promotion of inclusive approaches* and mainstreaming of targeting and gender requirements in all of the project activities in accordance with the Targeting and Gender Mainstreaming Strategy and Implementation Plan.

25. **Composition.** The PMT will be based in Itahari (Sunsari District) and will have two decentralised units, the Corridor Teams, of which one will be located in Itahari as well, and the other in Bardibas (Mahottari District). The PMT will comprise the following staff:

Table 1 – PMT Staff

Management	**Technical Staff**	**Administrative Staff**
Central Team		
• Project Manager (government-financed) • Project Facilitator (project-financed)	• Business Development Services Specialist (project-financed) • Rural Finance Specialist (project-financed) • Migration Specialist(project-financed) • Senior Financial Inclusion Specialist (project-financed) • Financial Inclusion Specialist (project-financed) • M&E Specialist(project-financed) • KM Specialist(project-financed) • GESI Specialist(project-financed)	• Accounts Officer (government-financed) • Accounts Assistant (government-financed) • Financial and Administrative Officer (project-financed) • Procurement Officer (project-financed) • Drivers and support staff (government-financed)

Corridor Teams		
• Corridor Coordinator (project-financed)	• Two Corridor Migration Managers (one per team) (project-financed) • Two M&E Specialists (one per team) (project-financed)	• One Account Officer in each corridor (government-financed) • One Financial and Administrative Assistant (project-financed)

26. Corridor Teams will also integrate staff hired by FNCCI/ AEC as part of their contract to set up ESCs (see above II C Component 1), i.e. one B to B Linkages Specialist and one M&E Officer.

27. Additionally, the project will contribute to the operating costs of the Country Programme Implementation Support Unit (CPISU)[52] by fielding one liaison officer, who will be based at the CPISU in Kathmandu.

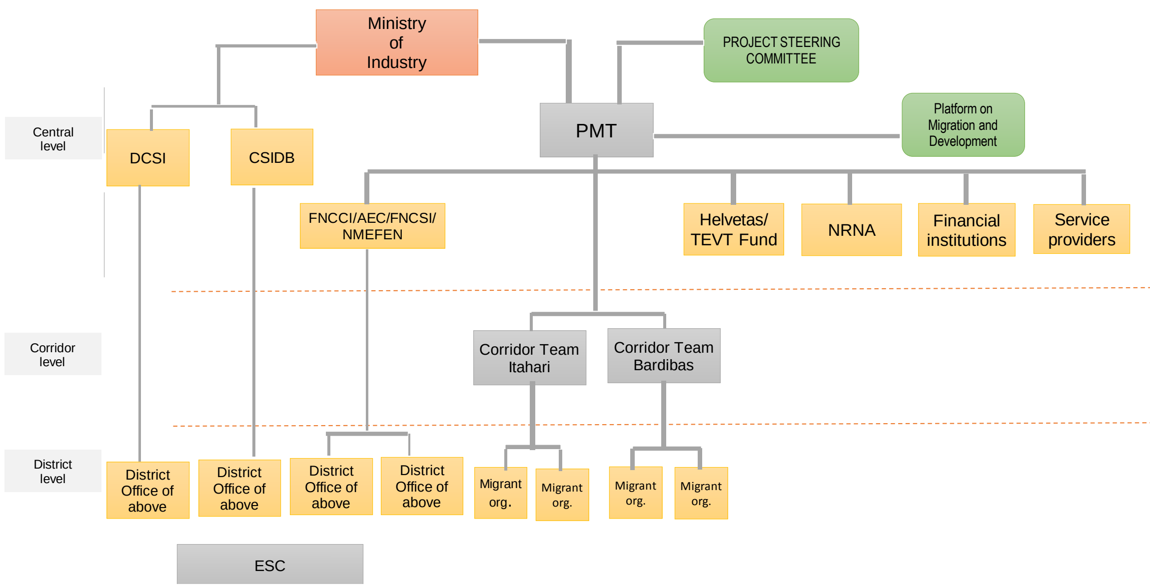
28. PMT staff should include at least 40% of qualified women. Staff identified for the positions financed by government resources will require IFAD no-objection. Staff financed by project resources will be selected based on competitive bidding (with IFAD no-objection) and have performance-based contracts.

29. **TA.** Specialised technical assistance, tapping as much as possible on existing expertise available in Nepal, will support specific areas to support innovation and facilitate project delivery.

30. **Project Expeditor.** In particular, a Project Expeditor will be fielded for 6 months at project onset to assist the PMT in setting up all of the administrative and financial management procedures and to provide capacity building to the PMT, with a view to support fast project start-up. Terms of reference are attached.

[52] The CPISU (or *Saha Yatri*, meaning companion in Nepali) brings together national experts for technical support in financial management, procurement, and monitoring and evaluation to all the projects composing IFAD portfolio in Nepal.

Attachment 1: RER/SAMRIDDHI Organisational Chart



Attachment 2: Project Expeditor

Terms of Reference

Qualifications & Experience: Preferably a higher degree in economics, agricultural economics, management or business administration; practical experience of at least 10 years in project financial management, planning, accounting procedures, procurement and monitoring and evaluation procedures in internationally financed projects; a good knowledge of computer applications in the above related matters. Excellent senses of relationship and negotiations skills. Fluent in English (reading, writing and speaking).

Special Qualifications: Knowledge of IFAD finances, procurement and accounting procedures. Knowledge of the Nepali legislation with regard to donor-financed project financial management and procurement legislation, especially of accounting software such as Tally, would be an advantage.

Location: At RER/SAMRIDDHI PMT in Itahari, with travels as required to Kathmandu and within Project districts.

Duration: Assignment of up to a maximum of 6 months.

Reporting: To RER/SAMRIDDHI Project Manager.

General Objective: To assist the PMT in securing an effective and smooth project start-up and in setting up all of the project management procedures and tools.

Detailed Tasks: The Project Expeditor will be responsible for undertaking the following tasks, in close cooperation with the Programme Management Team Coordination and MOI:

- Liaising with the Project Manager, prepare draft advertisements for the recruitment of PMT and Corridor Team staff for review and approval by MOI and IFAD; prepare interview guidelines to be used by the interview panel, including evaluation and selection criteria for each post, and propose the composition of the interview panel, for approval by MOI and subsequent no objection by IFAD; and prepare PMT recruitment to be submitted to the GoN and IFAD no objection;

- In collaboration with relevant PMT staff, prepare all contracts and MoUs with main implementation project partners and service providers (including FNCCI/AEC, Helvetas, service providers involved in the implementation of the Financial Inclusion sub-component and NRNA), and launch the procurement of office equipment and vehicles for the PMT and the Corridor Teams;

- Train the PMT staff and other interested MOI staff dealing with contract management on: various methods of procurement and selection of service providers; technical and financial evaluation of bids; performance-based contract models to be used; and monitoring of contract execution;

- Assist the PMT in preparing the first AWPB and the revised procurement plan, and train relevant PMT staff in the preparation of these documents.

- Set up the account management and financial reporting system together with the Accounts/Financial and Administrative Officers,, using Tally accounting software and in accordance with established international practices and IFAD and GoN requirements.

- Train PMT, Corridor Team and ESC staff in project accounting, disbursement and financial reporting
- Assist the Accounts/Financial and Administrative Officers in setting up project accounts and in preparing withdrawal applications and SOEs (Statements of Expenditures).

- Provide advice for the finalisation of the Project Implementation Manual, and complete it with financial and administrative management procedures for the Corridor Teams and for ESCs.

- Assist the PMT in setting up the Corridor Teams and in devising procedures for communication and supervision.

- Assist the PMT in preparing and organising the project start-up workshop.

- Prepare the Framework for Good Governance, including an Internal Code of Conduct to be signed by all PMT staff, and a Code of Business Ethics to be signed by all partners and beneficiaries of RER/SAMRIDHI activities and business partnerships.

Appendix 6: Planning, M&E and learning and knowledge management

1. **Objectives.** The integrated monitoring and evaluation (M&E) and knowledge management (KM) system will be developed with three main objectives:

- *steer project implementation:* it should provide project stakeholders with information and analysis required to: measure project outcomes; assess project effects on the livelihoods of target groups, and in particular women, poor households, returnees and remittance receiving households and youth; assess the relevance of the project strategy, methodologies and implementation processes; detect difficulties and successes; support decision-making to improve project performance; and measure project contribution to the achievement of COSOP targets;
- *support economic decisions and policymaking:* it should provide project stakeholders, and, in particular, entrepreneurs, service providers and ESCs, with the information and analysis they need to assess the return brought by innovation, to develop profitable and sustainable activities and to adapt their strategies accordingly, by monitoring both quantitative (production, margins, credit management…) and qualitative results (clients' satisfaction). It should also provide the government, FNCCI and other stakeholders, with the information needed to make policy decisions;
- *share knowledge and upscale good practices:* it should develop lessons learnt, capture good practices and successful innovation, and share knowledge under appropriate formats to support project performance and policy dialogue.

2. **Strategic principles.** The M&E and KM system will be: (i) *open and easily accessible*, i.e. information and knowledge should be available to all stakeholders and not restricted to project or ESC staff; (ii) *participatory*, i.e. associate project stakeholders in the definition of indicators, data collection, analysis and dissemination of results; (iii*) focused* on analysis, learning and sharing in support of decision-making and policy dialogue, and not merely on data production; (iv) *harmonised* with and connected to IFAD country level M&E system and the GoN's relevant information systems;(v) *accountable*: not just upward (to IFAD, GoN, donors) but also downward (to project stakeholders and target groups); (vii) *inclusive:* it should have an inclusive approach so that women, poor and marginalised groups participate in the system; and (viii) *growing*, thus small initially and develop progressively as needs and capacities develop.

3. **Theory of Change (ToC).** RER/SAMRIDDHI will use the ToC model as an M&E starting tool. It will provide a road map defining where the project aims to reach and how and how often the targeted changes and assumptions should be monitored by ESC, Corridor Teams and the PMT The process will be participatory whereby project staff and project stakeholders local population (in particular District Industrial Promotion Committees and Local Resource Persons) are involved in developing the theories as well as in periodical revisions and updates, at least once in every six months.

M&E System

4. **Framework and implementation plans.** The M&E system will be setup and managed by the PMT, in consultation with project stakeholders. A short-term M&E/KM consultant will be hired by the PMT to: (i) agree on a shared understanding of project objectives, approaches and planned activities, and provide a framework for the Theory of Change; (ii) agree on a broad framework for M&E and KM and on priority actions to implement it; and (iii) identify quantitative and qualitative indicators on a participatory basis, building on the logical framework and on the set of IFAD's Results and Impact Management System (RIMS). The consultant will produce a detailed M&E/KM manual, together with an implementation plan, including capacity development

arrangements. S/he will also provide orientations to design a management information system (MIS) to be set up by a service provider and to be made accessible to project stakeholders. The implementation plan will be updated every year.

5. **Indicators.** Output and outcome indicators will be developed with RER/SAMRIDDHI stakeholders. They will be SMART (specific, measurable, achievable, relevant, time-bound), easy to collect and disaggregated by categories of enterprises and target groups. They will include relevant RIMS indicators as well as COSOP indicators. The GESI Specialist will be consulted to ensure that the system adequately monitors inclusion, poverty, gender and caste/ethnic aspects. Main elements of the system should be as follows.

6. **Baseline and completion survey**. A baseline study measuring the status of main indicators (including RIMS) will be carried out at project onset. The scope of the survey and implementation modalities will be defined by the PMT M&E Officer and KM Officer, and with the M&E/KM consultant hired at the beginning of the project. A RIMS completion survey will be carried out at project end to compare the impact generated by project interventions with the baseline study. Based on these results, the project will prepare a Project Completion Report to be submitted to IFAD and the GoN within three months of project completion.

7. **Planning**. The M&E/KM cycle will start with the preparation of the project Annual Work Plan and Budget (AWPB), which will cover detailed annual planning of activities and implementation responsibilities, physical results targeted, outputs expected, budget and procurement plan. Its preparation will start at district level by ESCs under the guidance of Corridor PM&E officers, and in collaboration with project stakeholders. It will then be approved by the ESC Management Team and validated by DIPC, and forwarded to DDC for endorsement and inclusion into the District Development Plan. The global AWPB will be collated by the PM&E Officer and the Accounts Officer (for budgeting) under the supervision of the Project Manager, and it will be submitted to the Project Steering Committee for final approval. This AWPB will be included under the global AWPB of MOI and will be forwarded to MOF through NPC for final approval by the government. All RER/SAMRIDDHI stakeholders will have an active and important role in identifying and reporting data. PM&E Officers at all levels will make sure that women are adequately represented in this process and that they are allowed to voice specific concerns.

8. **Data collection.** Data will be collected against both qualitative and quantitative indicators disaggregated by gender, caste/ethnic groups and target groups, along adequate forms (to be proposed by the consultant) and the following levels: (i) *district level*, where information will be gathered by ESCs, LRPs, who will have tablets to facilitate data collection and transmission, and project beneficiaries. To avoid multiple counting of beneficiaries, activities will be recorded by household. (ii) *corridor level*, PM&E corridor officers, two in each Corridor Team, will provide guidance and support to the district level, and will assemble data on the achievements of enterprises, financial institutions and service providers as well as performance of ESCs and LRPs. The data collected at this level will also feed into the MIS system of FNCCI and MOI for further processing; (iii) *PMT level,* information will encompass overall project performance and will be the responsibility of the PM&E Specialist; (iv) *SahaYatri:* information will encompass overall portfolio performance.

9. **MIS**. RER/SAMRIDDHI will develop a Management Information System (MIS) to support data management. The MIS will track and regularly update gender-disaggregated financial and technical data on project outputs and outcomes, lessons learnt, good practices, and other important sector information to analyse project performance. A service provider, with the indications of the M&E/KM consultant, will set up the system and provide training to relevant staff.

10. Additionally, FNCCI is currently developing an automated MIS as a pilot project, which will help to exchange data and information in selected district chambers. Although these pilot districts do not overlap with RER/SAMRIDDHI districts, the plan is to extend the consolidated MIS system

to eastern chambers by mid-2015. Therefore, RER/SAMRIDDHI M&E specialist and consultant are to ensure that RER/SAMRIDDHI MIS is compatible with the FNCCI MIS system for efficient knowledge exchange. The project MIS will also be compatible with the M&E system of MOI.

11. **Analysis**. Data will be consolidated and analysed so as to provide information on the performance of the various components, detect problems, identify possible solutions and track good practices to share through the knowledge management system.

12. **Standard IFAD Monitoring and Evaluation Sheet (SIMES).** RER/SAMRIDDHI will use SIMES to store data and to analyse progress. SIMES is an IFAD tool, currently operational in all on-going projects in Nepal, which incorporates all information required under the government and IFAD reporting guidelines into one standardised Microsoft Excel spread sheet, allowing easy organisation and access of data. It also allows exploring and analysing project data against indicators from the National Planning Commission (NPC), as well as from the various IFAD reporting frameworks, including the COSOP, RIMS and AWPB.

13. **Reporting**. Brief trimester reports will be prepared by ESCs, mainly consisting of the record of activities, outputs and financial transactions. They will be channelled to the Corridor Team level and then to the PMT, where they will be consolidated prior to sending them to IFAD and GoN. Consolidated annual reports will be more comprehensive, cover both technical and financial information, and include an analysis as above. Financial institutions and service providers will also provide information as per relevant MoUs and contracts.

14. **M&E capacity development**. To ensure an inclusive PM&E and KM system, RER/SAMRIDDHI will provide capacity building trainings to project staff. The short-term M&E/KM consultant will design a capacity building plan, based on prior capacity assessment, to support ESCs, PMT, corridor and district level staff on both concepts and practical skills to manage the M&E system, especially data collection, data analysis and reporting.

15. **Webpage on IFADAsia**. Key information about the project, achievements, good practices, policy studies and other key documents will be made available through IFADAsia. The webpage will be maintained by RER/SAMRIDDHI Knowledge Management Specialist.

Inception, Reviews and Surveys

16. **Start-Up.** A Start Up workshop will be organised with project stakeholders and implementing partners to: (i) ensure that all partners understand and agree on the scope and implementing modalities of the project; (ii) introduce key processes, tools, strategies for M&E and KM; and (iii) build relationships for future knowledge sharing.

17. **Supervision.** Annual supervision missions will be organised by IFAD jointly with GoN , in close collaboration with DCCIs, District Cottage and Small-Scale Industry Offices/Boards, Corridor Teams 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. Missions will therefore be an integral part of the KM cycle, with mission members playing a supportive and coaching role. To ensure continuity in this process, they will be carried out by a core team of resource persons returning regularly, joined by specialists to address specific needs of a given year. Key areas of expertise to be reflected in the mission include enterprise development and business development services, financial services, migration, infrastructure and financial management. Key features requiring specific attention include: (i) sustainability of supported enterprises and of service provision; (ii) cost recovery and sustainability of ESCs; (iii) outreach to and development of family business and micro-enterprises, including those run by returnees or remittance-receiving households; (iv) business linkages; (v) harnessing of migrants' remittances and skills for business development; (vi) M&E and KM; and (vii) fiduciary compliance.

18. **Joint Supervisions.** RER/SAMRIDDHI will participate in joint supervision missions whereby staff from other IFAD-supported projects will visit RER/SAMRIDDHI sites to monitor project interventions and vice versa, also allowing inter-project learning and knowledge sharing. These missions will focus on various thematic issues such as PM&E, gender, social inclusion or rural finance.

19. **Interim reviews.** Two interim reviews will be organised by the government and IFAD, at the end of year three and in year five. They will be carried out by consultants not involved in supervision missions so as to bring a fresh look at project achievements and learning. The reveiws will: (i) assess achievements and interim impact, the efficiency and effectiveness of RER/SAMRIDDHI management, and the continued validity of RER/SAMRIDDHI design; (ii) identify key lessons learnt and good practices; and (iii) provide recommendations for improved performance. The first interim review (mid-2018) will specifically explore the possibility of further expanding the project to the west. The second interim review (mid-2020) will make recommendations with regard to key measures required to secure the sustainability of programme achievements, based on which the PMT will prepare a detailed exit strategy.

20. Other specific issues to be addressed include the following:

- performance of supported enterprises in terms of profitability, revenues accruing to owners, job creation, enterprises' access to services and integration in commodity-based associations, with special attention to women, returnees, remittance receiving households and disadvantaged groups;
- development of a sustainable market of business development services, adequacy and relevance of services provided to returnees and of the accreditation system, successful business models for the sustainable provision of services;
- progress in gender equality and social inclusion, as per the GESI strategy, and effectiveness of targeting;
- the performance of ESCs and the relevance of the adopted business model, including with regard to: outreach to the target groups using local resource persons; services directly provided by the ESC; actual access to services (ESC and outsourced) for enterprises in the various categories and in hills/plains; implementation of the ESC business plan and prospects to reach financial sustainability; integration within DCCIs an linkages with other DCCI departments; effectiveness of Corridor Teams;
- outcomes of vocational training and apprenticeship particularly in terms of job placement;
- business linkages and identification of most performing business models and opportunities for scaling up;
- relevance of the initial selection of target supply chains and opportunities for expansion. This will be based on a prior CPMA updating the first one and reviewing new market opportunities;
- performance of financial institutions in delivering project-supported financial instruments and in improving remittance inclusion in the financial sector;
- role and impact of the various multi-stakeholders' platforms (DIPCs, PMD, Working Group on Financial Inclusion). Interim reviews will also assess whether the development of priority value chains justifies that multi-stakeholders' platform for selected value chains be established at the corridor level;
- performance of the PMT and of key partners (District Offices of MOI and FNCCI/AEC in particular).

21. Furthermore the first interim review will explore the possibility of: (i) developing equity financing and the pooling of migrant resources into an investment fund as additional financial instruments for promoting the use of remittances to support rural growth and business development, building on the framework proposed in this report and in Working Paper 4 – Financial Inclusion; (ii) further expanding the project to the west. The second interim review (mid-2020) will make recommendations with regard to key measures required to secure the

sustainability of programme achievements, based on which the PMT will prepare a detailed exit strategy (see Section IV I).

22. **Impact assessment.** Impact surveys will be carried out in preparation to the second interim review (end of 2019) and prior to project completion to measure changes at beneficiary level, compared to the baseline study. They will be undertaken by the PMT with the support of a service provider, in line with the IFAD's RIMS Impact Survey Guidelines. Tools such as case studies, the Most Significant Changes and photo stories will be used to collect qualitative information through a participatory approach. Analytical studies will be carried out to respond to more specific and ad hoc needs. Survey data and analysis will be shared with the multi-stakeholders' platforms.

Knowledge Management

23. **Objective.** The objective of knowledge management is to ensure that knowledge generated within the project is systematically identified, analysed, documented and shared, and that it is used to: (i) improve project performance and delivery; (ii) allow flexibility to changing circumstances; (iii) document and share innovations, best practices and stories of successes and failures to improve project intervention;(iv) provide information to support decisions on up-scaling to be made at mid-term review (see above); (v) identify important issues to convey to policy makers.

To meet these objectives, RER/SAMRIDDHI will apply a value-chain approach towards knowledge building, which will help in strengthening the overall project. This approach is illustrated in Figure 1

Figure 1 - Value-chain approach towards knowledge building

Source: 35 years in Nepal Booklet. April 2013

24. Areas in which project stakeholders intend detecting good practice and developing exchange of knowledge will be identified on an annual basis through multi-stakeholders' platforms at district (DPCI and Task Force on Migration and Development) and national level (Project Steering Committee, Platform for Migration and Development).

25. Proposed good practices will be gathered through participatory methods. They will be screened and those presenting the best potential and opportunities to be replicated at a larger scale will be retained and validated by the multi-stakeholders' platforms. Knowledge will be disseminated to project stakeholders, so that they can strengthen their capacities and improve performance. To this effect, RER/SAMRIDDHI will develop KM products such as methodological tools, technical briefs, business model analysis, analytical case studies, etc. Products will be adapted to different types of audiences, including illiterate ones. Particular attention will be given to documenting innovative models for: (i) developing a sustainable market of BDS providers; (ii) business-to-business linkages; (iii) promoting a competitive and innovative remittance market; and (iv) harnessing remittances for investing in rural enterprises and job creation.

26. Information and knowledge will be shared at five main levels:

- district level: linkages between entrepreneurs, vocational trainees, migrants, service providers will be developed through peer-learning groups supported by ESCs. In addition, ESC staff will conduct learning events to share knowledge on ESC management, thematic issues such as cost recovery, gender and social inclusion, migrant-desk related assessments etc. DIPCs will also offer a venue to present and discuss information and knowledge;
- corridor level: the corridor coordination will be responsible for supporting the exchange of information and knowledge among ESCs and DCCIS within a region, including through annual workshops;
- PMT and project level: the KM Officer will be responsible for developing knowledge and communication products (see below) and an M&E/KM workshop gathering ESCs and project stakeholders will be organised on an annual basis. Knowledge products will also be presented and discussed at the Project Steering Committee, where policy issues in particular will be highlighted. S/he will also work in collaboration with FNCCI's colleagues responsible for M&E and KM in order to feed the project information into FNCCI's system
- inter-project: knowledge will be shared with other IFAD-funded projects including during M&E and KM workshops.

27. Communication channels will include: (i) *IFAD channels*: IFAD Asia webpage, IFAD Nepal *KuraKani*[53] Facebook page, Rural Poverty Portal webpage, IFAD social reporting blog; (ii) *project channels*: communities of practice, project website, project Facebook, meetings, forums; (iii) *media channels*: radio, television, videos, publications, newspapers…; (iv) *multi-stakeholders' platforms*: District Industry Promotion Committees, National and Eastern Business Forums, Platform on Migration and Development, Remittances and Investment Platform.

28. Reference material will also support RER/SAMRIDDHI progressive phasing, as activities will expand within districts and new stakeholders coming in every year will have access to reference material on successes and good practices.

29. **Learning Routes.** Learning Routes will be organised to support the exchange of knowledge and good practices between ESCs. Learning Routes are an innovative approach promoted by IFAD through NGO PROCASUR (ROUTASIA)[54] to structure peer-to-peer learning on innovative practices, by complementing field visits with activities designed to ensure transfer and implementation of knowledge (see Attachment 1). PROCASUR (ROUTASIA) will be engaged to organise the first learning route according to its well-tested methodology and to build the capacity of the PMT and FNCC/AEC for establishing it as a tool for knowledge sharing and learning. Finally, FNCCI/AEC will organise an annual workshop to share experience and achievements among all ESCs staff across one region.

30. **Multi-stakeholders' platforms.** Existing District Industrial Promotion Committees (DIPCs) will provide a venue for discussing project achievements and innovations, identifying successes and problems as well as good practices, discussing possible solutions including non-project based solutions, and identify policy issues. The Platform on Migration and Development and its working groups, to be set up by the project at the national level (Component 3) will have a similar role with regard to KM on successful practices to maximise the development impact of remittances through business development.

[53] 'Kurakani' means discussion in Nepali.
[54] http://procasur.org/. PROCASUR (ROUTASIA) has recently opened an office in Chiang Mai (Thailand), which extends support to IFAD-financed projects in Asia in developing learning routes, also building on experience from Latin America and Africa (www.africa.procasur.org).

31. RER/SAMRIDDHI will also engage in public-private dialogue through the Nepal Business Forum (NBF)[55]. NBF has been facilitating economic development through dialogue and the resolution of issues related to finance, credit, trade and export, infrastructure etc. since 2010 through various working groups. Out of the eight working groups, RER/SAMRIDDHI will engage in the Eastern Regional Business Forum, which includes 16 DCCI chambers to advocate for economic reforms and private sector development as well as use the forum as a knowledge sharing platform.

32. **KM Framework and Implementation Plan.** In consultation with project stakeholders and in collaboration with the PM&E and KM officers, the same consultant hired to design the M&E system will prepare a detailed KM framework (as part of the M&E/KM manual). The framework will include objectives, responsibilities and methodology, together with an implementation plan for the first year. It will also include a communication strategy, which will outline how knowledge will be disseminated and will identify most appropriate communication channels according to the target audience. The M&E/KM consultant will further provide technical guidance in implementing the system and further improving it based on experience, through annual or biannual follow-up missions. The plan will be updated every year.

[55] http://www.nepalbusinessforum.org/

Attachment 1: Learning Routes

The Learning Route is a knowledge management and capacity-building tool originated and developed by the PROCASUR Corporation in Latin America, Africa and the Asia-Pacific with the support of IFAD and the Ford Foundation.

Learning Routes are based on the idea that successful solutions to existing problems are already present within rural areas, and that those solutions might be adapted and spread to other territories in a low cost and efficient way. Over the years and in rural contexts across several continents the Learning Route has shown to be a powerful method to foster capacity-building through peer-to-peer sharing of knowledge and face-to-face interactions of rural development practitioners, reducing considerably the learning costs linked to the scaling up of innovations.

It is defined as a continuous process of “training in the field” that seeks to broaden and diversify the market of rural technical services, including and valuing the best experiences and knowledge of institutions, associations, communities and rural families. Each Learning Route is thematically organized around experiences, case studies and best practices on innovative rural and local development in which local actors become remunerated trainers. Through workshops, interviews, conversations and other activities in the field, the Learning Route generates a space for individual and collective learning for visitors and hosts. This knowledge takes form in a concrete innovation plan. Based on this, the impact of each Learning Route is evaluated for its contribution to increase and foster the adoption of better solutions that can extend the access of poor rural people to new and better living conditions.

Learning Routes integrate a number of approaches and tools for local knowledge management, capacity building and the scaling up of locally originated innovations. Key features of a LR process are: i) Flexible and adjustable process; ii) Demand-driven approach; iii) Support provided by qualified human resources at different levels and territories; iv) Mobilization of multidisciplinary groups of rural development partners from different regions; v) Organization of the LR around experiences, case studies and best practices on innovative rural development; vi) Thematic visits to communities that have faced relevant development challenges and that are willing to share their lessons learned with others; vii) Direct knowledge exchange between participants; viii) Recognition of the value of local stakeholders’ knowledge that enables local actors to become remunerated trainers; ix) Facilitation of an Innovation Plan as an inclusive strategy; x) On-line platform for all partners, to demand/offer technical assistance and training; xi) Dissemination of knowledge acquired by LR participants to their community of origin; xii) Relatively high per unit delivery cost, but strong multipliers and effectiveness.

The PROCASUR corporation is a private non-for profit organisation established in 1996 in Santiago, Chile. PROCASUR aims to provide the technical services and tools to manage knowledge and build capacity for public and private actors engaged in the fight against rural poverty in the developing world.

Since 2006, PROCASUR and its partners have implemented over 80 LRs in 25 countries in Latin America, Asia and the Pacific, and Africa, working directly in the field to map innovative practices and then consolidating them in into strategies to strengthen the capacities of over 1.200 direct users from 40 different countries. The network of practitioners ready to implement the LRs now numbers over 600 champions from 250 organisations and includes rural communities, associations, enterprises, microfinance institutions, rural development projects and governments.

Appendix 7 – Financial management and Disbursement Arrangements

The financial management of the project will be governed by the Ministry of Finance (MOF) regulations and will be in line with IFAD guidelines on financial management.

The financial management system will be under the overall responsibility of RER/SAMRIDDHI Project Manager and of the Accounts Officer. In order to ensure a strong financial management system, the following requirements must be met:

- ensure that funds are used only for the purpose intended under the Financing Agreement, in an efficient and economical way and in accordance with the activities described in the Project Design Report and in the Annual Work Plans and Budgets (AWPBs);
- enable the preparation of accurate and timely financial reports, through the use of Tally accounting software;
- ensure that funds are properly managed and flow rapidly, adequately, regularly and predictably;
- enable programme management to monitor the efficient implementation of RER/SAMRIDDHI and;
- safeguard the assets and resources procured using programme funds.

Furthermore: (i) the internal control system should ensure the conduct of an efficient and transparent payment and procurement process, and the proper recording and safeguarding of assets and resources; (ii) the project accounting system should record programme requests for funding and meet reporting obligations to both the government and IFAD; (iii) the programme's financial statements and internal controls should be the subject of an independent annual audit.

Flow of funds

Financing sources. RER/SAMRIDDHI will be funded from various sources - IFAD loan (56%) and grant (44%), the Government of Nepal (GoN), the private sector and beneficiaries. GoN will pre-finance IFAD contribution for approved AWPB activities. IFAD contribution together with GoN contributions will flow to the PMT, Corridor Teams and ESCs through customary procedures of GoN budget release (see the fund flow charts in attachment). Beneficiaries and private sector contributions will flow directly to the activities under the form of either physical or cash contribution.

Designated Account/Project Account. Two Designated Accounts in USD, one each for loan and grant, will be opened for IFAD funds at the Nepal Rastra Bank (Central Bank) and a local currency project account will be opened with a bank at the PMT location,Itahari. The signatory of the Designated Account and of the local currency account will be the Project Manager, with counter-signing by the Accounts Officer as delegated by MOF.

Cost centres. The project will have only the PMT as a cost center, apart from funds expended through AEC. Payment for activities such as mapping exercise, technical assistance and other services procured shall be made directly by PMT, as shown in Annex 1 flow of funds. Corridor teams are considered to be part of the PMT, with the exception of the contracted by AEC, which will be paid through the AEC contract.

AEC. The PMT will provide advances to AEC on a trimester basis, based on the AWPB. Further advance will not be provided to AEC if advance of a trimester is not settled by end of next trimester.

Each ESC will maintain a separate bank account for receiving IFAD funds as well as funds contributing to ESC operation and activities (GoN and DCCI) and will have a full time accountant ensuring the proper maintenance of accounts as well as reporting. Accounts will be maintained with an accounting software. The bank accounts of ESC will be operated with dual signatory of ESC accountant and ESCMT Chair.

The AEC shall appoint an independent auditor for audit of funds received from PMT. The audit will be conducted as per TOR approved by IFAD before appointment of auditor. The audit shall include visit to Corridor offices and at least 50% of operating ESCs each year selected on a random basis. The expenditures incurred by ESC out of advance directly received from PMT will be audited by GoN auditors. The original supporting of expenditures from AEC funds and a certified photocopy of expenditures from PMT advance will be maintained by ESC as supporting documents when maintaining its accounts in accounting software. This will be available for verification by supervision missions or auditors. The bank reconciliation statement of ESC shall be prepared and provided to PMT and AEC by the ESC accountant.

Financial inclusion. For the financial inclusion component, funds to be used for performance-based matching grants and risk-sharing scheme will be paid directly to the partnering financial institutions by the PMT. The funds so disbursed shall be treated as expenditures for the preparation of Withdrawal Applications and the replenishment of the Designated Account will be based on disbursement made to Banks, FIs and SCCs/SFACLs. The project accounts shall include a disclosure for those funds disbursed as contingent assets. Specific provisions for the utilization of and reporting about such funds are detailed in Working Paper 4 – Financial Inclusion.

Budgeting and Withdrawal Applications

The PMT will prepare consolidated Annual Work Plans and Budgets (AWPB) for every fiscal year, based upon AWPBs prepared by ESCs and consolidated by the Corridor Team, as well as PMT programming of activities at the national level. The AWPB will include a detailed description of planned project activities for the relevant fiscal year, sources and uses of funds and an updated 18-month procurement plan.

The PMT will submit a draft consolidated AWPB to the Project Steering Committee (PSC) for its approval no later than **60 days** before the beginning of the relevant fiscal year. Once approved, the PMT will submit the draft AWPB to IFAD for comments and no objection , no later than **45 days** before the beginning of the relevant fiscal year. In the absence of any IFAD comment on the draft AWPB within 30 days after receipt, the AWPB will be deemed approved. If required by IFAD, the PMT will propose adjustments in the AWPB with the approval of the PSC. Such adjustments will be effective upon no objection by the IFAD.

Withdrawal Applications. IFAD funds will flow following the standard disbursement procedures as outlined in IFAD Handbook for Loan Disbursement and by categories as specified in the Schedule 2 of the Financing Agreement and Letter to the Recipient (LTR).Upon the request of the PMT, through a Withdrawal Application (WA) supported by the approved AWPB, an initial advance to cover roughly six months of anticipated expenditures of the first year will be transferred by IFAD in the Designated Accounts opened in USD. Replenishment of the Designated Accounts will be based on actual eligible expenditures incurred and reported to IFAD through WAs during the project implementation period. Additionally, IFAD will disburse funds to service providers/contractors/ suppliers directly or reimburse the GON upon the request of the PMT through withdrawal applications.

IFAD has an experience of notable delays on the submission of WAs from the on-going projects in Nepal. The Financial Comptroller General Office (FCGO) has adopted a policy of granting a four-month period for reimbursement of GoN pre-financed expenditure to all development projects implemented by GoN line agencies. If the project fails to reimburse the pre-financed expenditures within that time, it will not be entitled to get budget release for the following trimester. To ensure timely budget release from Treasury, the PMT will send at least one withdrawal application in every trimester.

Accounting and Financial Reporting

1. **Accounting system.** The Government of Nepal (GoN) follows a cash basic accounting system for reporting its revenue and expenses.. Currently used accounting and reporting ledgers and forms were developed by the Financial Comptroller General Office (FCGO) and approved by the Office of the Auditor General (OAG). Since 2005, the World Bank-led multi-donor trust fund is supporting OAG and FCGO to strengthen the Public Sector Financial Management system, mainly through institutional and human resources capacity development. As part of its achievements, the Treasury Single System (TSA) is established in all 75 districts. GoN is moving forward to implement NPSAS (Nepal Public Sector Accounting Standards), in compliance with International Public Sector Accounting Standards (IPSAS) and with a view to strengthening financial reporting standards in the public and private sectors.

2. **Book of accounts.** GoN's Financial Administration Regulations will be used as the basis for accounting and appropriate controls over financial transactions. Accounting and recording practices in on-going IFAD projects is moderately satisfactory as these projects are maintaining their basic book of accounts following government's double entry cash basis accounting system. This practice will be continued in RER/SAMRIDDHI too. Separate ledgers, registers/forms and reporting formats will be developed, introduced and maintained to record and report IFAD expenditures by categories, components, sub-components and activities. This will be supplementary to the GoN existing accounting ledgers/formats for project purpose.

3. An accounting software will be installed at the beginning of the project, both at PMT and at ESC level. IFAD Country Project Management Team (CPMT) decided to use Tally accounting software in all IFAD funded projects in Nepal. IFAD will only accept financial records, reports and statements generated by the accounting software for Withdrawal Applications (WA) processing and fund disbursement. This will be one of the pre-condition for IFAD fund disbursement. Service providers will be required to adhere to the financial management procedures developed in the project's financial management section of the Project Implementation Manual (PIM), the details of which will be included in contract agreements between the PMT and the service provider.

4. **Reporting.** The PMT will prepare and deliver reports as follows:

- *Monthly reporting:* a copy of Ma. Le. Pa. Form numbers 13, 14, 15 and category-wise breakdown of each payment will be sent by the Corridor Teams to the PMT by the 15th day of the following month. The report will include line agency wise expenditure report and consolidated ESC reports, by categories and by components and activities. In addition, record of the contracts awarded within a calendar month will be submitted to the PMT under the format for the 'Register of Contracts'. Activity, sub-component and component wise expenditure report will follow the AWPB format to record the expenditures and physical progress. The reporting format will be sent by the PMT to Corridor Teams and ESCs;
- *Financial Progress Reporting:* the PMT will prepare and provide IFAD with periodic consolidated expenditure reports of the expenditures, as per IFAD requirements. At the minimum, such reports will address: (i) the status of sources and use of funds; (ii) Schedule of withdrawal applications; (iii) comparison of planned budget and actual expenditures; (iv) Status of the Designated Account in USD with reconciliation statement; (v) problems encountered during the reporting period; (vi) steps taken or proposed to be taken to remedy these problems; and (vii) expected financial progress during the following reporting period.

The PMT will deliver such report the IFAD on a trimester basis, within 45 days of the end of every trimester;

- *Project Financial Statement:* the PMT will provide IFAD with detailed unaudited financial statements of the operations, resources and expenditure related to the project for every fiscal year within four months of the end of every fiscal year (Article IX of the General Conditions). An audited Project Financial Statement will be delivered along with the audit report. The project financial statement consists of: (i) yearly and cumulative statements of sources and application of funds by category and by component, disclosing separately IFAD's funds, counterpart funds (government), other donors' funds and beneficiaries' funds; (ii) the balance sheet, disclosing bank and cash balances that agree with the statement of sources and application of funds, fixed assets and liabilities; (iii) comparison of budget and actual expenditure; (iv) Statement of Expenditure (SOE) and Withdrawal Application Statement; (v) Statement of Special Account movement/activities; (vi) Designated Account/Project Account reconciliation; and (vii) Note on the Project Financial Statement;
- *Register of Contracts:* the PMT, Corridor Teams and ESCs will maintain and update a Register of Contracts in their respective offices and report to PMT within the 1st week of the following month. The PMT will prepare/update a consolidated Register of Contracts and deliver it to IFAD on a monthly basis;
- *Records of Assets:* the Corridor Teams and ESCs will maintain and update consolidated records of fixed assets at corridor/district level with description, unit, quantity/numbers, location and users, and they will delivering them to the PMT at least twice a year. The PMT will prepare and maintain consolidated records of project fixed assets. These records will be delivered to IFAD along with physical and financial progress reports.

5. The LTR will specify procedures for disbursement, opening of accounts, SOE facility, procurement thresholds, methods, audit procedures, reporting requirement and deadlines for delivery to IFAD, as agreed between GoN and IFAD.

Asset Management

6. The PMT will maintain an updated inventory of project assets at all times and ensure that those are properly maintained and utilised for rightful purposes, that their ownership does not get diluted, and that there is always an officer/staff to remain accountable in respect of assets.

7. The responsibility for the proper accounting, safeguarding and utilisation of all project assets will primarily rest upon the Project Manager, Heads of the Corridor Teams and Heads of ESCs. Without disowning their own accountability, these may delegate the authority and responsibility for safe custody and utilisation of assets to subordinate officials. Transfer of custody of project assets will be carried out through proper handing and taking over mechanisms. The record of assets will be maintained either in a fixed asset register or a consumable asset register, depending on the nature of assets and its value.

8. Verification of the assets will be conducted at least once a year. The Project Manager, either directly or through an authorised officer independent of the person responsible for inventory control, will conduct a verification of PMT assets. For Corridor Teams and ESCs, the Project Manager will issue a letter and terms of reference to conduct asset verification. Such verifications will be undertaken in order to establish ownership of assets, to verify the actual existence of assets in accordance with the book balances, descriptions and existence of any lien or encumbrance on the assets and to identify the assets that are surplus, obsolete, damaged or unserviceable or not useable.

9. Maintenance of vehicles, motorcycle and office equipment will be carried out by a contracted service provider or workshop. The service provider/workshop will be the dealers' authorized service centre or a service provider/workshop selected using a competitive bidding

process using an appropriate procurement method. The period of the service contract will be a minimum of one year. All the maintenance works will take place only after the confirmation of need of maintenance by the staff in-charge responsible and due approval from the Project Manager/head of Corridor Team/ESC offices or officer authorised by them.

10. A register will be maintained to record maintenance costs and details of major replaced parts of office equipment and vehicles/motorcycles separately (by equipment/vehicle/motorcycle). At the end of each fiscal year an individual and collective (whichever will be applicable) asset maintenance assessment will be carried out by the respective offices. A report of such assessment will be delivered to the PMT, which will prepare a consolidated report and deliver it to IFAD within three month of the following fiscal year.

11. None of the project assets will be handed over to other agencies that are not part of the project implementation. The procurement plan of each year shall be supported by a list of vehicles and equipment that is planned for procurement and with its potential users or owners. After the approval of AWPB and Procurement Plan, any changes to this list and ownership will be subject to IFAD approval.

Internal Control and Audits

12. **Internal control.** The internal control system of on-going IFAD projects in Nepal was assessed as inadequate, particularly in the area of asset management, monitoring and expenditure tracking. The PMT Accounts Officer will be responsible for project expenditure tracking, asset management, monitoring fiduciary aspects of district and corridor level project activities, and procurement management. S/he will also identify weak areas that may need internal control intervention.

13. DSA and travel funds will be utilised only for project related activities and the payments or advance adjustment will be processed only upon the submission of travel reports in standard format. A register will be maintained to record travel orders, which will be issued by a competent project authority with the clear purpose of travel, dates and places. A standard travel report will be made mandatory for payment and adjustment of travel related expenses. All travel reports will be reviewed as part of project M&E. The quality of travel reports and strictness on the proper use of travel budget will be considered part of the performance evaluation of individual staff.

14. The PMT, Corridor Teams and ESCs will maintain log books for all vehicles, fuel consuming machineries and equipment to record the utilisation of these assets. The format of the log book will be developed by the PMT. The project staff member in charge of managing fuel consuming equipment will append a performance summary of each item at the end of each quarter in the logbook i.e. average fuel consumption per kilometre or per hour; whichever is applicable. The use of vehicles will follow the guidelines, rules or circulars issued by GoN, and will only be used for project related work.

15. **Internal audit.** One of the weakest areas identified by IFAD Financial Management Assessment (FMA) (2012) is the quality, timeliness and coverage of internal audit of on-going IFAD projects. The FCGO and District Treasury Control Offices (DTCOs) also have had a weak performance of internal audit in recent years. DTCO staff involved in the payment process (TSA) are also acting as internal auditors, which is contradictory with independent auditing principal. After the full implementation of TSA, structural adjustment on internal audit responsibilities will be needed. Discussions are going on in FCGO to strengthen the quality of internal audit and making it more independent. There is likely a possibility to establish separate regional offices or separate unit in DTCOs responsible only for internal audit.

16. The prevailing GoN financial rules and regulations do not allow the project to hire independent internal auditors from project funds. The internal audit of donor-funded projects

implemented by the GoN line agencies is the responsibility of DTCOs. The project will continue with the existing practice of internal audit by DTCO staff. The first annual supervision mission will consider the need of hiring an Internal Control Specialist for short period each year or a full time compliance manager to conduct the internal audit of the project, based on fiduciary risk assessed in the period.

17. **External audit.** IFAD requires that the project accounts be audited in accordance with auditing standards acceptable to the Fund and with IFAD Guidelines for Project Audits (for Borrower's use) by independent auditors acceptable to the Fund. Past and current IFAD projects in Nepal have suffered a number of problems in relation to quality and coverage of audits, delays on delivery and lack of follow-up on audit recommendations.

18. The Office of the Auditor General (OAG) of Nepal is the sole responsible for final audit of government agencies, including donor-funded projects, in line with the Interim Constitution as well as the Audit Act and its regulations. Under terms of reference satisfactory to the IFAD, the OAG will audit project accounts on an annual basis. The PMT will share the TOR, sample reporting formats and delivery deadline of the audit report with the OAG prior to every annual audit.

19. Auditors will express an opinion on the annual consolidated financial statements and determine whether project funds have been correctly accounted for and have been used in accordance with the financing agreements. They will also determine the adequacy of supporting documents and controls on the use of Statement of Expenditures (SOEs) as a basis for disbursement. The auditors will also furnish a separate Management Letter, which will identify any material weakness in accounting and internal controls at all levels and report on the degree of compliance with financial covenants of the IFAD Financing Agreement, including for the procurement of goods, works and consultant services and for IFAD no objection requirements. A certified copy of the annual audit report together with PMT replies to the Management Letter will be sent to IFAD within six months after the end of every fiscal year, i.e. before 15 January. This requirement will be stipulated in the LTR. In case the audit by OAG auditors is significantly delayed or does not meet IFAD requirements, IFAD shall have the option of appointing an independent auditor for audit of project accounts, out of the budget allocated for audit of PMT.

Governance

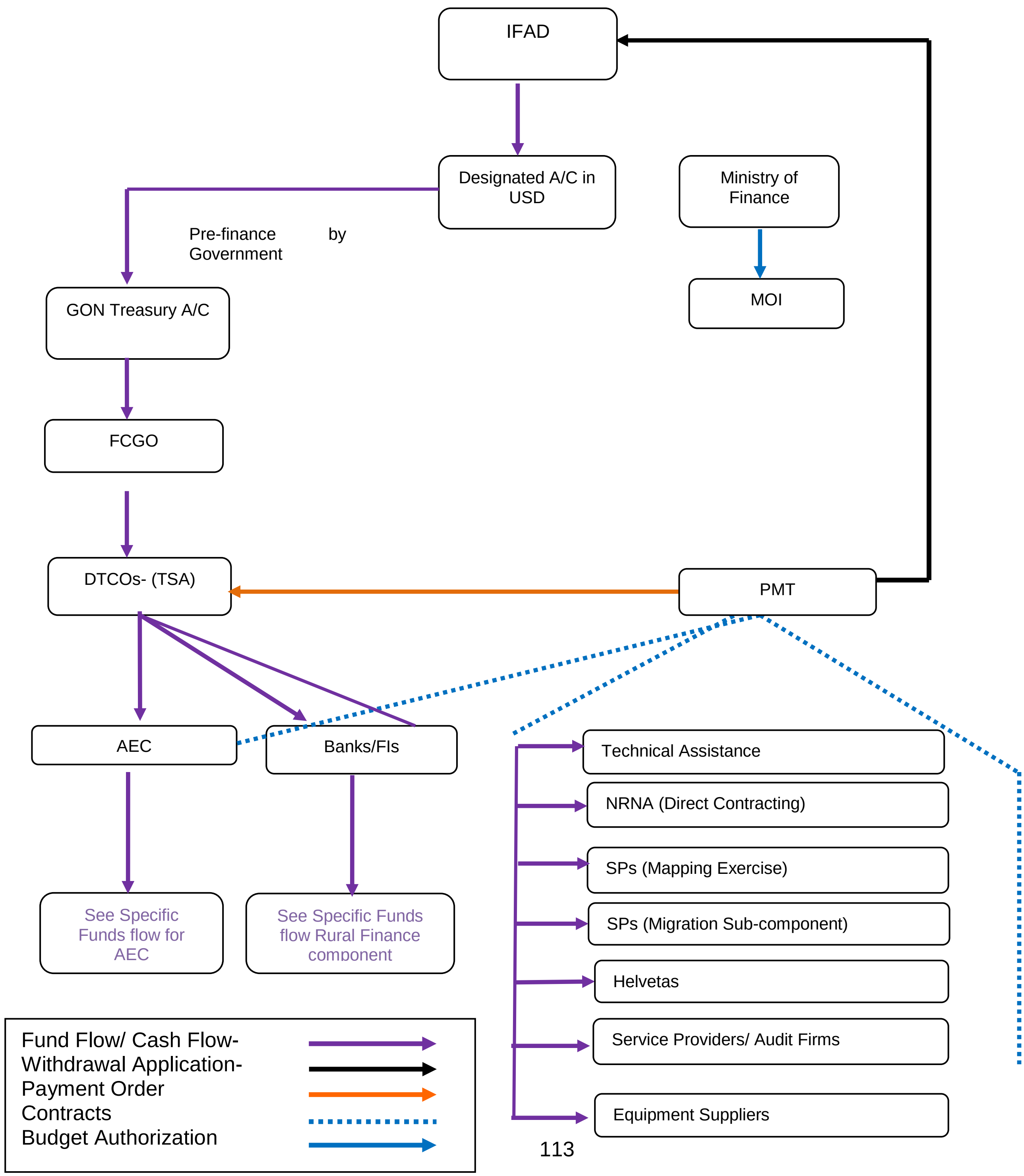
20. Nepal is ranked 139th out of 174 countries, with a score of 2.7/10, in the Corruption Perceptions Index (CPI) published by Transparency International in 2012. This indicates high risk in overall country context. IFAD latest FMA indicated that overall control risk on financial management is medium plus. High risk areas identified in the assessment were as follows: (i) inherent risks-national and executing agency environment; (ii) staffing; and (iii) internal audit. Medium minus risk were identified on Implementing Agencies policies and accounting procedures. Other risks were either medium, medium plus or low.

21. IFAD will apply a zero-tolerance policy on corruption. The PMT will prepare, with assistance from the Financial and Administrative Manager and the Business Development Specialist, an Integrated Framework for Good Governance. This framework will include provisions to ensure that procurement and the selection of enterprises that will enter into business partnerships and benefit from RER support, are carried out in accordance with IFAD rules and with project design specifications. The framework will be included in the PIM and published on RER/SAMRIDDHI website. Measures will include: (i) the publication/posting of all procurement, calls for proposals, contract awarding and business partnership details on local newspapers, at district and provincial offices and on RER website, including assessment criteria and weighing; (ii) the participation of representatives of end-users in bid assessments; (iii) the prompt communication to bidders of bid evaluation outcomes (for more details also see Appendix 8). This framework will also include an internal code of conduct to be signed by all PMT staff, and a code of business ethics, to be signed by all partners and beneficiaries of RER/SAMRIDDHI activities and business partnerships. The draft

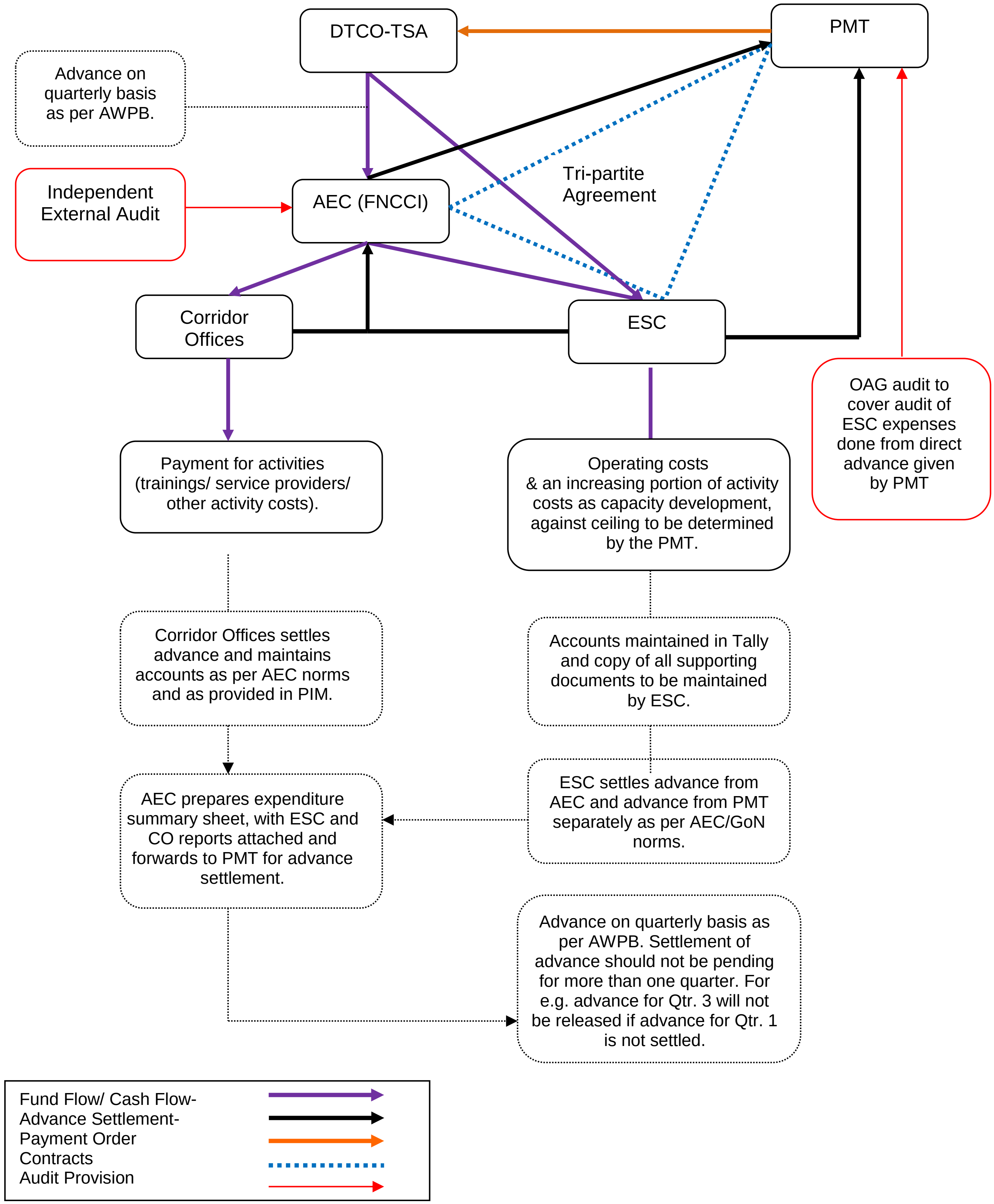
framework and codes will be prepared with support from the Project Expeditor and subsequently discussed and agreed upon at the project inception workshop.

22. Other measures reflected in project design to ensure transparency include the following: (i) IFAD's direct supervision process will specifically address fiduciary compliance and the implementation of the project framework for transparency and publicity; (ii) project stakeholders will be directly involved in programming, implementation and M&E of RER/SAMRIDDHI activities; (iii) DIPCs will not be restricted to RER/SAMRIDDHI participants and will provide a forum for raising issues affecting RMSE development, including transparency. Further measures will be detailed at final design.

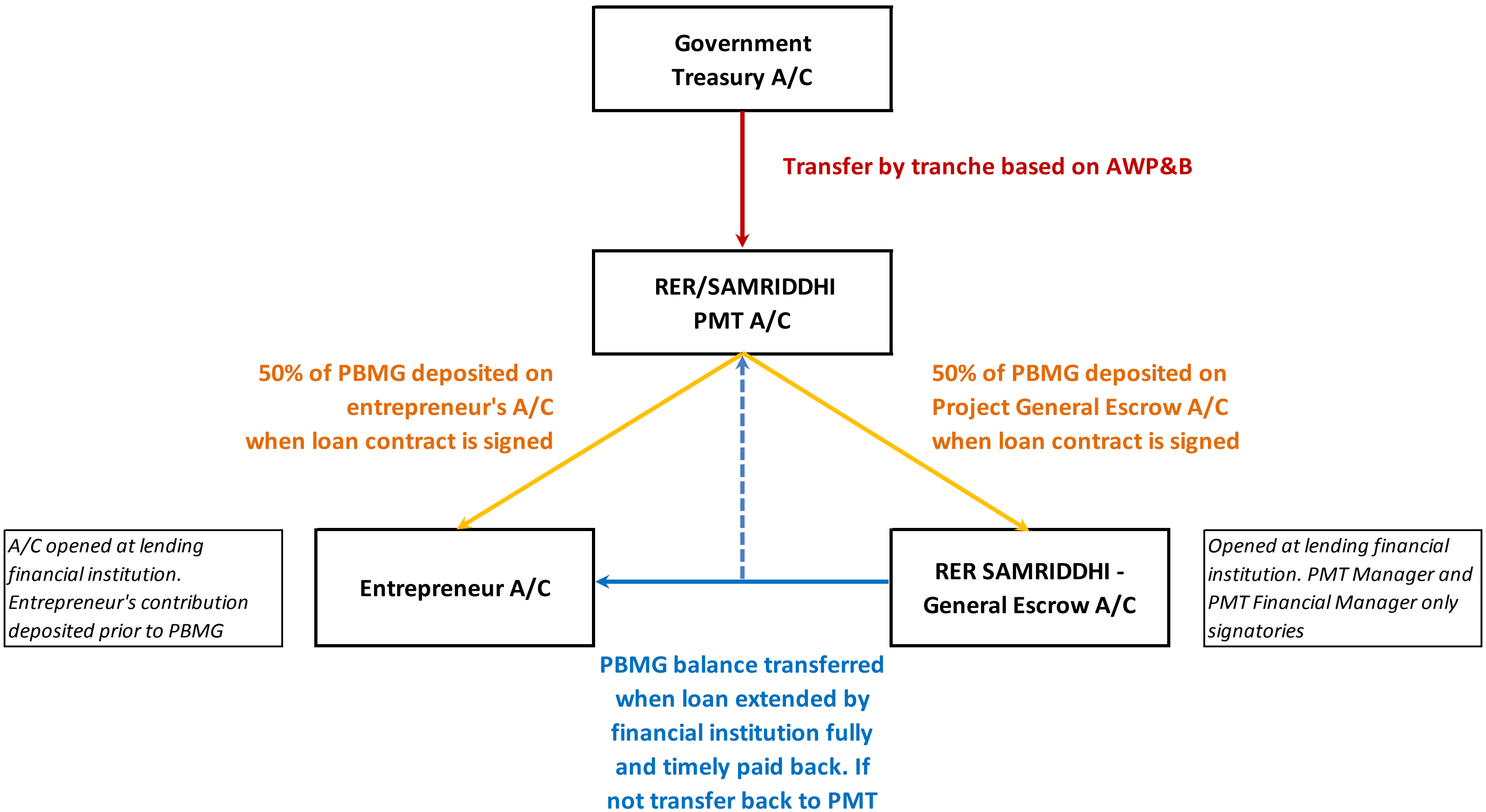
Attachment 1 – RER/SAMRIDDHI Flow of Funds



Flow of Funds for AEC- Operation and Salary Cost of ESC and activities implemented by AEC through Corridor Offices (COs)



Flow of Funds – Financial Inclusion Component- Performance Based Matching Grant



Appendix 8 – Procurement

Procurement and the contracting of goods, civil work and services[1]

1. The government reformed the legal and institutional setup of public procurement processes in 2007. These reforms included the adoption of a new Public Procurement Act (PPA) and associated regulations, the decentralization of procurement, and the creation of the PPMO under the Prime Minister's Office. Prior to this, procurement was regulated under the Financial Act and Regulations, with no designated central oversight apart from the general control role played by the Financial Comptroller General's Office (FCGO). Two further reform measures, announced in the 2010 budget, were multiyear contracting for priority projects and multi-location tender submissions (including e-tendering). These have supported improvements in budget predictability and procurement transparency.

2. The introduction of electronic tender submissions for government contracts has started to improve the integrity and value for money of public procurement. Since the PPA was passed in 2007, there have been improvements in the openness and fairness of the competitive tendering process, most notably through the introduction of e-bidding and a concomitant reduction in intimidation and violence. According to officials interviewed, registration now covers 146 firms, and there have been 200-300 e-tenders over the past 1.5 years. In the roads sector, procurement is required for construction projects exceeding NRs 150,000. Several DROs use the e-bidding system regardless of the size of the contract as a best practice effort to increase transparency. It is also the case that several small road projects are often packaged together to raise the value of the work to contract size. Prior to the introduction of e-bidding, reports were common of rival contractors and political parties hiring people to prevent bidders from entering government buildings to submit their tenders.

3. In spite of progress with tendering procedures, challenges remain in public procurement integrity. First, procurement at local levels has been subject to political "capture" within the more general distortions of public sector governance. These relate principally to the APM and the weakness or absence of formal accountability mechanisms. Local procurement is used to fund contractors connected to the dominant political parties in a particular locality, with the strong perception that financial rents flow back to provide funding for party machines. Second, collusion and intimidation in the procurement process are still seen as significant problems, even if the exact scale and prevalence are difficult to estimate.

4. Technical procurement challenges also hamper efforts to improve value for money. First, procurement planning and tendering processes are often delayed, exacerbating the bunching of expenditures towards the end of the fiscal year. Second, local private sector firms complain that the provisions of the 2007 PPA are too onerous. Third, there is reported to be insufficient capacity for the estimation of project costs (e.g. consulting costs) and inadequate provision for negotiation in the procurement of large-scale goods (e.g., aircraft procurement).

5. Related to these technical factors, the law and regulations intentionally favour domestic companies. The Public Procurement Regulations state, "In procuring goods by selecting any method as referred to in these Regulations, a Public Entity shall have to procure Nepali goods even if the price of the goods produced in Nepal is higher by up to ten percent than the foreign goods."
User committees are utilized for the implementation of small capital projects at the district level, but weak controls and political influences have resulted in fund leakages and compromised project quality. To promote local resources, the PPA gives construction authority to user committees (UCs) for up to NRs 6 million, which is reportedly a high threshold. Many local officials reported that UCs were awarded a contract for the maximum threshold before subcontracting the project for a lower amount, receiving a "kick-back" in exchange. Furthermore, several UCs can be involved in the construction of one road, with each managing the construction of the section of road that falls within its community.

[1] This section is an excerpt of ODI, Centre for Aid and Public Expenditure, Operational risk assessment of public financial management reform in Nepal: a review of challenges and opportunities, August 2013.

6. The PPMO was established in 2007 in accordance with the adoption of a new procurement act and regulations. Its central oversight role is limited compared with similar offices in other countries. For example, the PPMO does not have a legal mandate to ensure information related to bidding processes is made public. Its role is primarily facilitative: It is obliged to suggest further reforms in procurement policy and laws, issue technical guidelines and manuals and models for standard bidding documents, roll out training for officials at public entities involved in procurement, and collect statistics on procurement.

7. The PPMO is organizationally weak. Although it has a complement of about 50 staff, it has struggled to attract qualified staff, and about half of the established positions remain unfilled. The heads of the PPMO have served interim appointments relatively briefly. A recent review by the ADB and the World Bank concluded that, although in principle the PPMO reports to the Prime Minister, de facto it operates in isolation, and it is physically located far away from other government entities in Kathmandu (World Bank and Asian Development Bank 2012). It has not been able to carry out its function to collect and aggregate statistical information on procurement. It also has not yet been able to develop a procurement manual.

8. The role of the PPMO is limited in two ways that serve to reduce its effectiveness. First, as noted above, it does not have a legal mandate to ensure information related to bidding processes is made public. Second, it does not have a role in handling procurement complaints. Under a two-stage review process, complaints are submitted first to the chief of the concerned public entity and then, if necessary, to a review committee to be formed by the government. The committee comprises a judge, an engineer, and a procurement specialist not currently employed by a public entity. One power assigned to the PPMO is blacklisting of contractors for a period of one to three years, based on misconduct in the bidding process or in project execution.

Key lessons on procurement in IFAD Country Portfolio

9. Performance ratings of IFAD Projects in Nepal identify weaknesses in the project compliances of procurement performance primarily associated with non-compliances and weaknesses in the preparation of bid documentation, technical specifications, evaluation of bids, contract management and performance assessments. These weaknesses are further aggravated due to lack of adequate qualified and trained procurement staff in the programme management units and weakness in procurement record keeping. As the projects/programmes are mainly rural development in nature being implemented in remote and inaccessible areas, the size of the procurement is small except engagement of NGOs, or service providers.

Procurement arrangements RER/SAMREDHI

10. **Procurement.** Procurement of goods, works and services under RER/SAMREDHI financed from resources provided or administered by IFAD will be undertaken in accordance with the provision of the Public Procurement Act (PPA) 2007 and associated regulations, the Public Procurement Rules 2007, as amended from time to time, to the extended they are consistent with the provisions of IFAD's Procurement Guidelines and Handbook (dated September 2010), as amended from time to time.

11. **National Competitive Bidding, National Shopping and Direct Contracting.** Goods, services (non-consulting) and civil works procured using National Competitive Bidding (NCB), Shopping and Direct Contracting will follow the procedures and processes defined in the Project Implementation Manual (PIM) approved by Project Steering Committee and the IFAD. The PIM shall also include details of selection method to be applied in case of consultancies services such as Quality and Cost Based Selection (QCBS), Fixed Budget Selection(FBS), Least Cost Selection(LCS), Consultants Qualification Selection (CQS) and Single Source Selection (SSS). The PIM would also outline the procedures for the selection of individual consultants and individual service providers.

12. **National Competitive Bidding**: The procedures to be followed for national competitive bidding shall include the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the IFAD Procurement Guidelines:

- *Anti-Corruption.* Definitions of corrupt, fraudulent, collusive and coercive practices shall reflect the latest IFAD Board-approved Anti-Corruption Policy definitions of these terms and related additional provisions (such as conflict of interest, etc.); and IFAD's right to audit the contract and the accounts of the contracted parties.
- *Rejection of All Bids and Rebidding*. Bids shall not be rejected and new bids solicited without IFAD's prior concurrence;
- *Member Country Restrictions.* No restriction applicable to IFAD resources unless National Policies apply such restriction;
- *Qualification Requirements.* A successful bidder must be determined by an assessment process that shall include the application of qualification requirements to all bids;
- Contract awards goods and services (non-consulting) shall be based on the lowest evaluated price of compliant bids from eligible and qualified bidders; and
- A single-stage two-envelope procurement system shall not be allowed for goods and services (non-consulting).

13. The detailed procedures for procurement would be adapted and adopted in accordance with the provisions of the Public Procurement Act (PPA) 2007 and associated regulations, consistent with IFAD Procurement Guidelines and the Procurement Handbook with the following emphasis to mitigate risk ensuring compliance to the provisions of the Procurement Guidelines:

14. **Registration of Bidders**: Registration previous to bidding as a due diligence process for screening bidders legal and fiscal capacity. It is also usual to use registration as a means for prequalification, especially for civil works and in some cases service providers.

15. **Open Bid National/Local Competitive Bidding**: The Project will impose through the Project Implementation Manual (PIM) the use of well-formulated bidding documents which will result in bid submissions that are free from qualifications. The PIM would expand and articulate the following rules and procedures for the implementation of RER/SAMREDHI:

16. **Effective Advertisement.** Advertisement should be broad enough (using the appropriate media), giving enough time to bidders for preparing their bid. To the extent possible, bidding opportunities should also be advertised electronically. The minimum requirement should be: (i) Mandatory publication in one local newspaper in addition to the official gazette (if existent); (ii) Web-page: if the borrower (or the Country) has a web-page, all bidding opportunities should be advertised; (iii) advertisement in United Nations Development Business or other electronic means such as the Government Electronic Procurement System of Nepal (GEPSON).

17. **Eligibility.** Eligibility criteria and procedures should not deny bidders access to a bidding process or an award for reasons which are not related to their qualification to carry out the contract. Consequently the procedures should: (i) Be based on the ability of bidders to carry out the contract and should not include additional restrictions (not related to such ability); (ii) No restrictions to foreign bidders; (iii) Local blacklisting for fraud and corruption carried out with due process and with rights for accused firms to defend themselves.

18. **Qualification of Bidders.** The procedures should define post qualification as the preferred rule. Prequalification should be restricted to civil works especially for large or complex contracts or for special cases with due justification. The review of bidders' qualification should be conducted by examining whether the bidder does or does not meet qualification criteria and not by using a point system reflecting the bidders' qualification. Conducting a pre-selection instead of a pre-qualification should not be accepted, i.e., pre-qualification means that all candidates who have been determined to be qualified should be invited to bid whereas pre-selection means that the government agency is free to invite any of

those candidates but does not have to invite all of them. No bidder should be disqualified due to bureaucratic or non-substantial reasons.

19. **Standard Bidding Documents & Standard Contract:** Standard Bidding Documents (SBD) are of paramount importance for transparency, speed of the process, increase competition and creation of capacity (standardization of procedures). The SBD to be used in all local open bidding processes would be described in the PIM and it should include: (i).Time to submit bid: minimum 30 days; (ii). Bids may be submitted by post or by hand; (iii) Budget: could be disclosed (if local legislation so requires); (iv). Clear instructions on how to buy bidding documents indicating address and price to buy the bidding documents. However, bidders who decide to submit a bid without having bought the bidding documents should not be disqualified, submitting their bids under their own risk; (v) Clarifications to bidding documents should be in writing only; (vi) Amendments to bidding documents should be advertised with the same procedure used for advertisement of bidding documents; (vii) Number of Envelopes: use the same procedure for NCB (one envelope); (viii) Evaluation Criteria: the bid evaluation criteria should be non-discriminatory. It should be disclosed and rigorously quantified in monetary terms to define the "lowest evaluated bidder". This allows to indisputably identify the lowest evaluated responsive bid. Quantifying bid evaluation criteria in monetary terms is the only method that leads to transparent evaluation and that allows bidders to submit an effective protest to the awarding authority.

Language (bidding documents and contract). The language of commercial use in the country.

20. **Bid Prices (and Payments)**: The PIM should define in the bidding documents, the price (and payments) conditions: (i) the local (or any internationally used) currency could be used; (ii) for countries with high inflation all contracts should have price adjustment; (iii) for countries with stable currency, price adjustment should be included for contracts longer than 12 months; (iv) the method of payment should be defined in the bidding document; (v) the currency of payment should be the same of the bid prices; (vi) the employer should automatically pay interest for late payments; (vii) price adjustment formulas should not be used in bid evaluation.

21. **Bid & Performance security:** The PIM would prescribe the generally accepted practice used in the local market (securities issued by banks or by sureties). Alternative methods (like automatic penalty to bidders failing to honour a bid) in lieu of bid securities could be accepted. Retention of payment could also be used instead of performance security.

Liquidated damages. Should be similar to the international accepted norms.

22. **Complaints & Settlement of Disputes**. Losing bidders should be allowed through an effective mechanism to submit protests pertaining to contract award. More generally, the private partner in a government contract must be proactive in implementing competitive mechanisms and, in fact, should be a guardian of those mechanisms exactly in the same manner as government agencies. The goal in the protest handling system should be:

- Complaints should be accepted at any time. Those received before bids are submitted should be addressed before bid opening. All others should be taken into account but the response should be announced only after award is recommended.
- The PIM would outline an administrative process for dealing with complaints including an independent reviewer for the answers provided by the procuring entity
- The protests should be submitted to an independent entity and not simply to the supervisor of the contracting agency. Specifically, tender committees, which are the arm of the government, can only carry administrative reviews. Their membership does not allow for arbitration or quasi-arbitration of the dispute and therefore an independent protest mechanism should be provided in order to review award disputes before the contract award is final;

- When protests are submitted before award they may lead to revisit the award of the contract; when protests are submitted after the award, their only consequence should be the bidder's entitlement to compensatory damages for the cost of bid preparation.
- Contracts should include a system for settlement of disputes. The use of a Dispute Resolution board should be encouraged before disputes be submitted to arbitration or to courts.

23. **Bid Opening.** Public bid opening of all bids, and recording of the opening in minutes signed by all bidders in attendance is required. In addition:

- Late Bids should be rejected
- Procedures for bid opening should be the same as those used for ICB.
- Minutes should follow the same procedure as for ICB
- Safeguard of price envelope (when two envelopes is used).

24. **Confidentiality.** After bid opening and until contract award, all information about bids and their evaluation should be confidential. For transparency reasons, the evaluation report and all non-proprietary information could be made available to the public after an award recommendation has been published.

Evaluation of Bids. Bids should be evaluated by an independent evaluation committee to the defined in the PIM at the level of the PMT, Corridor or District Administration with special consideration for:

- Clarification of bids: should follow the same procedures used for NCB
- Responsiveness: should follow the same procedures used for NCB
- Qualification of the bidder should be conducted separately from the evaluation of its bid
- Lowest evaluated cost criteria: The award should be made to the bidder having submitted the lowest evaluated responsive bid.
- Use of a point system to evaluate bids: scoring is an indirect way to express the outcome of post-qualification or of the technical analysis of the bid a point system should not be accepted. We recognize that a point system may better suited for complex systems, however, it would be extremely exceptional that such procurement would not follow ICB.
- Rejection of all bids: borrower may reject all bids if: (i). all bids are not responsive; (ii) the price offered by the lowest bidder is substantially higher than the confirmed good estimate for the contract; (iii) the process was not competitive, i.e., only few bids (less than 3) were offered although several bidders could be interested in bidding.

25. **Award Criteria.** The award should be made to the bidder having submitted the lowest evaluated responsive bid. Award of contract should be without negotiations, since negotiations would lead bidders not to submit their best bid at the time of bid submission and would affect the perception of transparency, one of the main benefits deriving from public bidding.

26. **National or Local Shopping.** Procurement procedures other than open competitive bidding must be restricted and contained within appropriate limits. Restricted bidding is appropriate for small value contracts, and situations in which there is only a very small number of potential candidates. Consequently, very specific thresholds should be defined below which this method of procurement could be applied. In addition the following minimum requirements should apply:

i. Number of invitees & criteria for choosing:
    - Minimum of 3 proposals received. However, the process should be open to whoever wants to bid, even if not invited.
    - Invited firms should not be repeated, if possible. Except if other firms do not exist

ii. Standard request for bids. Simplified document asking proposals by letter, by fax or using electronic means.

iii. Evaluation.
- Minimum price or
- Combination of price and delivery time, in which case delivery time would be evaluated in monetary terms added to price. Minimum overall evaluated price would result in award.

27. **Consultants and Service Provider Selection Process:** The PIM shall elaborate the provision as prescribed in the Procurement Handbook in term of selection of consultants in line with the Provisions of IFAD Procurement Guidelines. In this case this minimum requirements should prevail:

- **Registration**: The same conditions described for bidder for goods and works above should be complied with.
- **Advertising**: Borrowers should advertise the assignment for expression of interest by firms. The advertisement should include:
- Mandatory publication in one local newspaper, in addition to the official gazette (if existent).
- Web-page: if the borrower (or the Country) has a web-page the bidding opportunities should be advertised including UN Development Business or other electronic means as the Government Electronic Procurement System of Nepal (GEPSON).
- **Short-List**: Borrowers should use a short-list of 3 to 6 firms to request proposals. This short-list may result from comparing qualifications and experience among firms that have expressed interest.
- **Standard RFP & Standard Contract**: The standard RFP would be described and included in the PIM similar to that used for Selection of consultants
- **Selection Process**: Short-list; QCBS (other methods when justified) to be elaborated in the PIM.
- **Award criteria**: highest combined score (preferably using the following range between 70% to 90% for the technical score and 30% to 10% for the price).

28. All procurement for goods, works and services financed from resources funded or administered by IFAD require bidding documents and the contracts to include a provision requiring suppliers, contractors and consultants ensure compliance with IFAD zero tolerance to anticorruption policy and to permit IFAD to inspect their accounts, records and other documents relating to the bid submission and contract performance, and to have them audited by IFAD-appointed auditors.

29. **Training for MOI on procurement.** The Project also aim to contribute towards building and strengthening MOI capacity in procurement and has allocated resources as part of its institutional support to MOI under Component 3. Additionally MOI would also benefit from the National Capacity Building Initiatives under NPPSF II (2013-16) which is funded by the Government of Nepal with the support of WB/ADB and other bilateral donors. The National Public Procurement Strategic Framework Phase II from 2013 to 2016 aim to ensure the standardization of process, enhancing capacity development initiatives and promote Institutional Development of the public sector entities. The PMT and the MOI would seek support from the PPMO in this respect which would be followed up during the first and second year IFAD supervision and implementation support mission.

Procurement, Procurement Plan and Applicability

30. Procurement will be as per the Consolidated Procurement Plan submitted by PMT, RER/SAMREDHI and approved Ministry of Industry and IFAD. PMT will submit a 18-month Procurement Plan immediately after the project enters into force and in the subsequent programme years submit an annual Procurement Plan.

31. As provided in appendix I, paragraph 1 of IFAD's Procurement Guidelines, IFAD review of and no objection to the consolidated procurement plan is compulsory and the 18 month procurement plans submitted by the Recipient must include as a minimum:

- A brief description of each procurement activity to be undertaken during the period and name of the implementing agency responsible for the procurement.;
- The estimate value of each procurement activity;
- The method of procurement to be adopted for each procurement activity and;
- The method of review IFAD will undertake for each procurement activity indicating either post review or prior review.

32. Any changes and amendments to the procurement plan shall be subject to IFAD's No Objection

Procurement Methods Thresholds for PMT, Corridor Teams and FNCCI/AEC

33. **Procurement of Goods and Works.** Methods for procurement of goods/works as per thresholds are established as follows:

- Goods and services (non-consulting)
- National Competitive Bidding (NCB), for contract values greater than NPR 1,000,000
- National shopping for contracts equal to NPR 150,000 up to USD 1,000,000
- Direct contracting for contracts below NPR 150,000.

34. **Consultancy and Services.** Consulting service will include project management technical assistance, implementation support technical assistance for different components, conducting studies, mobilisation/establishment of community groups, technical training and strengthening of community groups, and monitoring and evaluation.

35. Each contract for the selection of consultancy services, shall be selected in accordance with any one of the selection methods listed below:

- Quality and Cost Based Selection
- Fixed Budget Selection
- Least Cost Selection
- Selection Based on Consultants Qualification.

36. **Selection of individual consultants.** Individual consultants are selected on the basis of their qualifications for the assignment of at least three candidates among those who have expressed interest in the assignment or have been approached directly by PMT or Implementing Agencies. Individuals employed by the PMT, and the Implementing Agencies/Partners shall meet all relevant qualifications and shall be fully capable of carrying out the assignment. Capability is judged on the basis of academic background, experience and, as appropriate, knowledge of the local conditions, such as local language, culture, administrative system, and government organization.

37. Individuals consultants or consultancy firm may be selected on a sole-source basis with due justification in exceptional cases such as: (a) tasks that are a continuation of previous work that the consultant has carried out and for which the consultant was selected competitively; (b) assignments lasting less than six months; (c) emergency situations resulting from natural disasters; and (d) when the individual consultant is the only consultant qualified for the assignment.

Procurement Methods Thresholds for ESC

- Goods and services (non-consulting)
    - National shopping for contracts equal to NPR 30,000 up to USD 150,000
    - Direct contracting for contracts below NPR 30,000

- Each contract for the selection of consultancy services estimated to cost below NPR 30,000 may be undertaken through single source selection
- Procurement valued above the established threshold would be undertaken by the Corridor Team

Review of Procurement Decisions by IFAD

38. IFAD will undertake to review the provisions for the procurement of good, works and services to ensure that the procurement process is carried out in conformity with its Procurement Guidelines. For the purposes of IFAD's Procurement Guidelines, the following procurement decisions shall be subject to prior review by the Fund for the award of any contract for goods, equipment, materials, works, consultancy and services under FARM:

- Procurement of goods, materials and works
- Prequalification documents and shortlist when prequalification is undertaken;
- Bid Documents for goods, materials and works;
- Evaluation Report and Recommendation for Award; and
- Contract and amendments.
- Procurement of consultancy services and services
- Prequalification documents and shortlist when prequalification is undertaken;
- Request for Proposal;
- Technical evaluation report;
- Combined (technical and financial) evaluation report and the recommendation for award; and
- Contract and amendments.

39. **Prior or Post Review.** Except as IFAD may otherwise agree, the prior or post review which applies to various procurement of good, works and consultant recruitments shall be defined as follows.

Table 1 – Prior or Post Review for Procurement

Procurement Method	Prior or Post	Comments
Procurement of Goods and Services (non-consulting)		
ICB	Prior	All Contracts
NCB	Prior	Except procurement valued below NPR500,000
Shopping	Post	All Contracts
Direct Goods	Post	All contract valued below NPR150,000
Recruitment of Consulting Firms		
Quality and Cost-Based Selection (QCBS)	Prior	Except procurement valued below NPR500,000
Fixed Budged Selection (FBS)	Prior	Except procurement valued below NPR500,000
Least Cost Selection (LCS)	Prior	Except procurement valued below NPR500,000
Selection Based of Consultants Qualification	Prior	Except procurement valued below NPR500,000
Sole Source Selection (SSS)	Prior	All contract except for exception covered by paragraph 57 of the LTB
Recruitment of Individual Consultants		
Individual Consultants	Prior	Except or as per provisions referenced under paragraph 57 of the LTB

Good Governance

40. RER/SAMREDHI would include an Integrated Framework for Good Governance appended to the Programme Implementation Manual. This framework is to ensure: (i) transparency, with information in the public domain; (ii) accountability in the use of resources; and (iii) participation with the people having a voice in decisions that may affect them. The involvement of affected communities in all stages of programme implementation can simultaneously improve development of outcomes and reduce the scope

for fraud and corruption. Key features of this Governance Framework to mitigate corrupt, collusive and fraudulent practices under the project will include:

41. A computerised financial management system (ERP) with Remote Access, Audit & Compliance Services, an Integrated Support Centre and Security management. The ERP system would be enable the PMT and FNCCI/AEC managing the Project; Corridor and District (ESC) Offices, through it Branch Management functionalities along with comprehensive functionalities such as Accounting, Finance, Inventory, Purchase, Payroll and Branch Management. This enables and improves operational transparency, efficiency and management of the Project.

42. A functional PIM which will include a Procurement and Finance Manual rolled out through a comprehensive training by the IFAD Country Office and the Project. This would also be supported by IFAD through periodic implementation support missions. In addition to the institution support derived by MOI/RER from NPPSF II (2013-16) which is funded by the Government of Nepal with the support of WB/ADB and other bilateral donors:

- A enabled and responsive human recourses at the PMT, Corridor Teams and District (ESS) Offices supported by Civil Society Organisation or Service Providers
- Decentralised and participatory planning, monitoring and decision making processes through local government and grassroots level participation in planning, monitoring and decision making supported by Civil Society Organisation and Service Providers.
- Complaints and remedies mechanism.
- External audit covering the management and due diligence of the Rural Finance Component and the ESS
- External assessment (due diligence) of SCCs/SFACLs on a sample basis on year 3 and year 6 covering the implementation of the rural financial services component.
- Post and Prior Review processes of procurement in additional to the supervision and implementation support missions.
- Targeting of women and disadvantaged households.

43. The Framework will also include an internal code of conduct to be signed by all PMT staff, and a code of business ethics, to be signed by all partners and beneficiaries of RER/SAMRIDHI activities and business partnerships. These, together with the Framework will be prepared at project onset with support from the Project Expeditor and will be discussed and approved in the inception workshop.

Appendix 9: Project costs and financing

Main Assumptions

1. **Price and physical contingencies.** The Economist Intelligence Unit forecasts that average annual inflation in Nepal will slow down, as prices in India are contained, and estimates an average of 8% in 2015. This rate was applied to expenditure categories subject to price increases throughout the project implementation period, and will be updated as longer term projections become available. Foreign inflation rate has been assumed at 2.3%. In addition to price contingencies, physical contingencies have been applied to the following expenditure accounts at 5%: Consultancies, Training, Workshops, Travel and Allowances and Operating costs.

2. **Exchange rates.** The Nepalese Rupee is pegged to the Indian Rupee and is expected to average NRs 91 to UDS 1 in 2015. Similarly to the inflation rate, this estimate is to be adjusted at appraisal.

3. **Taxes and duties** have been applied based on information obtained from the Nepalese Inland Revenue Department and the Department of Customs, Ministry of Finance. A Value Added Tax (VAT) is levied at a single rate of 13% percent to nationally produced or imported goods and services, with some exemptions that do not apply to items procured for this project. Duties apply only to imported cars (80%) and motorcycles (30%).

Unit costs are those prevailing at the time of the design missions (January/September 2014) and have been identified in both domestic currency and UDS. Procurement, disbursement and expenditure accounts conform to the new standard categories established by IFAD in August 2013. The project will be implemented over a 7 year period starting in mid-2015, coinciding with Nepal's fiscal year.

Project Costs

4. Total project costs are around USD 68.2 million over a seven-year implementation period and include USD 9.6 million of physical and price contingencies. Price contingencies add up to 15% of the base costs due to the high inflation rate in Nepal, whereas physical contingencies are only 8%. Foreign exchange accounts for about 5% of total project costs, mainly from imported vehicles, electronic equipment and international consultancy services. Duties and taxes make up approximately USD 4.4 million. Table 1 below summarises the project costs by component.

Table1: Project Costs by Component

	(NRs)			(US$)			% Foreign exchange	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
A. Promotion of Rural Micro-Cottage and Small Enterprises								
Mapping and setting up capacities at district and regional level	541 980 712	18 462 080	560 442 792	5 955 832	202 880	6 158 712	3	11
Services for RMSE promotion and development	993 900 635	43 634 500	1 037 535 135	10 921 985	479 500	11 401 485	4	20
Vocational training and apprenticeships	628 735 380	-	628 735 380	6 909 180	-	6 909 180	-	12
Subtotal Promotion of Rural Micro-Cottage and Small Enterprises	2 164 616 727	62 096 580	2 226 713 307	23 786 997	682 380	24 469 377	3	42
B. Productive Investment								
Rural Finance	2 120 954 240	72 913 750	2 193 867 990	23 544 506	801 250	24 345 756	3	42
Mobilising migrant resources and skills	149 258 428	20 106 223	169 364 650	1 640 203	220 948	1 861 150	12	3
Subtotal Productive Investment	2 270 212 668	93 019 973	2 363 232 640	25 184 709	1 022 198	26 206 906	4	46
C. Institutional Support and Project Management								
Policy and Institutional Development	172 112 122	11 648 000	183 760 122	1 891 342	128 000	2 019 342	6	4
Project Management	345 858 877	99 676 395	445 535 272	3 800 647	1 095 345	4 895 992	22	9
Subtotal Institutional Support and Project Management	517 970 999	111 324 395	629 295 394	5 691 989	1 223 345	6 915 334	18	12
	4 952 800 394	266 440 948	5 219 241 341	54 663 695	2 927 923	57 591 617	5	100
Physical Contingencies	75 130 872	6 931 709	82 062 581	825 614	76 173	901 787	8	2
Price Contingencies	869 540 628	8 797 558	878 338 185	9 555 392	96 676	9 652 068	1	17
	5 897 471 893	282 170 214	6 179 642 107	65 044 700	3 100 772	68 145 472	5	118

Financing

5. **IFAD Grant and Loan.** IFAD resources currently available for financing the project amount to approximately USD 38.6 million (44% grant and 56% soft loan). The Grant will cover soft activities across components, including vocational training and apprenticeships, consultancies and implementation partner's overheads, and will contribute to setting up the ESCs, Corridor Teams and the Project Management Team Office. The Loan will primarily finance Enterprise Support activities,Financial Instruments and Community-based Infrastructure.

6. **Private sector**. The private sector contribution is estimated at USD 13.7 million and will mostly consist in the cost-sharing of capacity building and outreach promotion by financial institutions, progressive taking over of ESC costs by DCCIs, and space allocation to ESC facilities.

7. **Beneficiaries.** The beneficiaries of enterprise development and financial services will be requested to contribute in cash to an extent that will vary in accordance with the enterprise size, as well as to investment loans benefitting from performance-based matching grants. Contributions to community-based infrastructure will be provided in cash and kind. Overall beneficiaries' contributions are estimated at USD million 6.6.

8. **Government.** The government will finance tax/duties and the salaries of government staff assigned to the PMT, and is further expected to finance one staff per ESC as well as part of the costs of vocational training (37%, building on expected creation of the TVET Fund) for a total of USD 9 million.

9. It is estimated that about 47% of the total funds (or about USD 32 million) will be allocated to Component 1: Promotion of Rural Micro-Cottage and Small Enterprises, and around 40% (USD 27 million) to Component 2: Productive Investments. Funds allocated to Component 3: Institutional Support and Project Management add up to 13% of the total project costs (USD 9 million). Table 2 in the next page summarizes the project components by financiers.

Procurement

10. Procurement accounts conform to the new standard categories established by IFAD in August 2013. Following procurement arrangements are expected under the project: (i) for consultancies: Quality and Cost Based selection (QCBS), Selection under Fixed Budget (FBS), Least-Cost Selection (LCS), Single-Source Selection (SSS); (ii) for goods and services: Local Shopping (LS), Direct Contracting (DC), Community Participation in Procurement, and Non-Bank Financed (NBF). Procurement of goods and services financed by the IFAD Grant and Loan will be in accordance with the Government of Nepal procurement regulations but that are consistent with the Procurement Guidelines of IFAD.

Table 2: Project Components by Financiers (USD)

	IFAD LOAN		IFAD GRANT		Beneficiaries		Private Sector - Financing Institutions		The Government		Total				
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	Local (Excl. Taxes)	Duties & Taxes
A. Promotion of Rural Micro-Cottage and Small Enterprises															
Mapping and setting up capacities at district and regional level	2 266 396	28.3	4 257 557	53.1	-	-	364 529	4.5	1 123 747	14.0	8 012 229	11.8	204 909	7 118 046	689 274
Services for RMSE promotion and development	10 312 809	69.5	758 153	5.1	1 836 853	12.4	-	-	1 928 754	13.0	14 836 568	21.8	508 281	12 399 533	1 928 754
Vocational training and apprenticeships	3 931 438	43.8	1 342 212	15.0	-	-	208 778	2.3	3 489 805	38.9	8 972 234	13.2	-	7 980 331	991 903
Subtotal Promotion of Rural Micro-Cottage and Small Enterprises	16 510 643	51.9	6 357 922	20.0	1 836 853	5.8	573 307	1.8	6 542 306	20.6	31 821 031	46.7	713 190	27 497 911	3 609 931
B. Productive Investment															
Rural Finance	1 534 127	6.1	5 258 497	21.0	4 800 000	19.2	13 174 693	52.7	219 677	0.9	24 986 995	36.7	871 871	23 940 828	174 295
Mobilising migrant resources and skills	367 044	15.6	513 506	21.8	-	-	-	-	1 475 599	62.6	2 356 149	3.5	239 359	1 839 699	277 091
Subtotal Productive Investment	1 901 171	7.0	5 772 003	21.1	4 800 000	17.6	13 174 693	48.2	1 695 276	6.2	27 343 143	40.1	1 111 230	25 780 527	451 386
C. Institutional Support and Project Management															
Policy and Institutional Development	404 088	14.7	1 941 872	70.4	-	-	1 179	-	410 348	14.9	2 757 488	4.0	135 545	2 459 690	162 252
Project Management	2 979 236	47.9	2 743 785	44.1	-	-	-	-	500 789	8.0	6 223 809	9.1	1 140 807	4 755 392	327 610
Subtotal Institutional Support and Project Management	3 383 324	37.7	4 685 657	52.2	-	-	1 179	-	911 137	10.1	8 981 297	13.2	1 276 352	7 215 082	489 863
	21 795 138	32.0	16 815 582	24.7	6 636 853	9.7	13 749 180	20.2	9 148 719	13.4	68 145 472	100.0	3 100 772	60 493 520	4 551 180

Table 3: Expenditure Accounts by Financiers (USD)

	IFAD LOAN		IFAD GRANT		Beneficiaries		Private Sector - Financing Institutions		The Government		Total			Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	Taxes)	Taxes
I. Investment Costs															
A. Consultancies	-	-	8 486 480	98.9	-	-	1 179	-	91 019	1.1	8 578 679	12.6	1 604 457	6 974 222	-
B. Equipment & materials															
1. Computers & office electronics	-	-	708 154	87.0	-	-	-	-	105 816	13.0	813 970	1.2	550 182	157 972	105 816
2. Other equipment & materials	-	-	219 714	35.7	-	-	-	-	395 762	64.3	615 476	0.9	46 558	488 906	80 012
Subtotal Equipment & materials	-	-	927 868	64.9	-	-	-	-	501 578	35.1	1 429 446	2.1	596 740	646 878	185 828
C. Works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
D. Goods, services and inputs	-	-	2 780 021	61.6	-	-	424 592	9.4	1 309 299	29.0	4 513 912	6.6	157 492	3 769 611	586 809
E. Workshops	-	-	768 024	84.8	-	-	8 881	1.0	129 082	14.2	905 987	1.3	-	788 208	117 778
F. Grants & subsidies	-	-	2 999 753	14.5	4 800 000	23.2	12 914 609	62.3	-	-	20 714 362	30.4	-	20 714 362	-
G. Credit and guarantee funds	881 444	100.0	-	-	-	-	-	-	-	-	881 444	1.3	-	881 444	-
H. Training	16 890 711	65.9	53 397	0.2	1 836 853	7.2	338 883	1.3	6 498 298	25.4	25 618 143	37.6	43 162	22 244 622	3 330 359
I. Vehicles															
1. Cars	-	-	761 892	87.0	-	-	-	-	113 623	13.0	875 515	1.3	698 920	62 972	113 623
2. Motorcycles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal Vehicles	-	-	761 892	87.0	-	-	-	-	113 623	13.0	875 515	1.3	698 920	62 972	113 623
Total Investment Costs	17 772 155	28.0	16 777 435	26.4	6 636 853	10.4	13 688 145	21.6	8 642 900	13.6	63 517 488	93.2	3 100 772	56 082 320	4 334 396
II. Recurrent Costs															
A. Salaries&allowances	2 671 384	90.2	-	-	-	-	-	-	289 037	9.8	2 960 420	4.3	-	2 960 420	-
B. Travel & allowances	-	-	38 147	87.0	-	-	-	-	5 700	13.0	43 847	0.1	-	38 147	5 700
C. Operating costs	1 351 599	83.2	-	-	-	-	61 035	3.8	211 083	13.0	1 623 717	2.4	-	1 412 634	211 083
Total Recurrent Costs	4 022 983	86.9	38 147	0.8	-	-	61 035	1.3	505 820	10.9	4 627 984	6.8	-	4 411 201	216 783
Total Project Costs	21 795 138	32.0	16 815 582	24.7	6 636 853	9.7	13 749 180	20.2	9 148 719	13.4	68 145 472	100.0	3 100 772	60 493 520	4 551 180

Table 4: Project Components by Years - Totals Including Contingencies (USD)

	Totals Including Contingencies							
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	Total
A. Promotion of Rural Micro-Cottage and Small Enterprises								
Mapping and setting up capacities at district and regional level	1 157 042	1 059 719	1 620 685	1 172 596	1 442 243	838 003	721 940	8 012 229
Services for RMSE promotion and development	101 586	1 616 717	3 224 567	4 601 165	3 393 092	1 811 153	88 288	14 836 568
Vocational training and apprenticeships	36 910	2 422 582	2 843 173	2 717 880	581 574	177 940	192 175	8 972 234
Subtotal Promotion of Rural Micro-Cottage and Small Enterprises	1 295 538	5 099 019	7 688 425	8 491 641	5 416 909	2 827 096	1 002 403	31 821 031
B. Productive Investment								
Rural Finance	475 855	2 734 636	6 468 824	8 767 472	4 481 705	1 496 997	561 506	24 986 995
Mobilising migrant resources and skills	114 401	519 683	617 785	642 410	295 384	110 690	55 796	2 356 149
Subtotal Productive Investment	590 256	3 254 319	7 086 609	9 409 882	4 777 089	1 607 687	617 302	27 343 143
C. Institutional Support and Project Management								
Policy and Institutional Development	88 340	459 507	417 846	489 174	509 030	521 176	272 415	2 757 488
Project Management	1 682 626	695 647	824 603	718 140	840 017	666 542	796 235	6 223 809
Subtotal Institutional Support and Project Management	1 770 965	1 155 154	1 242 448	1 207 314	1 349 047	1 187 718	1 068 651	8 981 297
Total PROJECT COSTS	3 656 760	9 508 492	16 017 482	19 108 837	11 543 044	5 622 501	2 688 356	68 145 472

Table 5: Expenditure Accounts Project Cost Summary

	(NRs)			(US$)			% Foreign Exchange	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
I. Investment Costs								
A. Consultancies	477 841 000	135 112 250	612 953 250	5 251 000	1 484 750	6 735 750	22	12
B. Equipment & materials								
1. Computers & office electronics	20 304 375	47 376 875	67 681 250	223 125	520 625	743 750	70	1
2. Other equipment & materials	40 950 455	3 939 845	44 890 300	450 005	43 295	493 300	9	1
Subtotal Equipment & materials	61 254 830	51 316 720	112 571 550	673 130	563 920	1 237 050	46	2
C. Works	-	-	-	-	-	-	-	-
D. Goods, services and inputs	306 023 172	13 518 050	319 541 222	3 362 892	148 550	3 511 442	4	6
E. Workshops	59 650 500	-	59 650 500	655 500	-	655 500	-	1
F. Grants & subsidies	1 864 292 580	-	1 864 292 580	20 714 362	-	20 714 362	-	36
G. Credit and guarantee funds	79 329 960	-	79 329 960	881 444	-	881 444	-	2
H. Training	1 779 160 338	3 521 928	1 782 682 265	19 551 213	38 703	19 589 915	-	34
I. Vehicles								
1. Cars	15 743 000	62 972 000	78 715 000	173 000	692 000	865 000	80	2
2. Motorcycles	-	-	-	-	-	-	-	-
Subtotal Vehicles	15 743 000	62 972 000	78 715 000	173 000	692 000	865 000	80	2
Total Investment Costs	4 643 295 380	266 440 948	4 909 736 327	51 262 541	2 927 923	54 190 463	5	94
II. Recurrent Costs								
A. Salaries&allowances	201 483 282	-	201 483 282	2 214 102	-	2 214 102	-	4
B. Travel & allowances	2 866 500	-	2 866 500	31 500	-	31 500	-	-
C. Operating costs	105 155 232	-	105 155 232	1 155 552	-	1 155 552	-	2
Total Recurrent Costs	309 505 014	-	309 505 014	3 401 154	-	3 401 154	-	6
	4 952 800 394	266 440 948	5 219 241 341	54 663 695	2 927 923	57 591 617	5	100
Physical Contingencies	75 130 872	6 931 709	82 062 581	825 614	76 173	901 787	8	2
Price Contingencies	869 540 628	8 797 558	878 338 185	9 555 392	96 676	9 652 068	1	17
Total PROJECT COSTS	5 897 471 893	282 170 214	6 179 642 107	65 044 700	3 100 772	68 145 472	5	118

Table 6: Expenditure Accounts by - Years Totals Including Contingencies (USD)

	Totals Including Contingencies							
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	Total
I. Investment Costs								
A. Consultancies	1 550 012	1 344 327	1 921 680	1 455 120	1 364 425	683 359	259 757	8 578 679
B. Equipment & materials								
1. Computers & office electronics	143 389	167 320	198 099	55 919	115 611	71 749	61 883	813 970
2. Other equipment & materials	8 265	132 778	169 491	166 351	49 193	48 022	41 376	615 476
Subtotal Equipment & materials	151 654	300 099	367 590	222 270	164 804	119 772	103 258	1 429 446
C. Works	-	-	-	-	-	-	-	-
D. Goods, services and inputs	393 810	692 355	859 960	798 822	727 151	562 273	479 541	4 513 912
E. Workshops	67 158	139 164	152 845	146 502	129 252	131 570	139 496	905 987
F. Grants & subsidies	-	1 846 438	5 250 608	7 665 224	4 155 566	1 264 825	531 701	20 714 362
G. Credit and guarantee funds	-	131 202	303 743	336 148	110 351	-	-	881 444
H. Training	244 881	4 471 939	6 530 012	7 801 546	4 151 676	2 084 474	333 614	25 618 143
I. Vehicles								
1. Cars	875 515	-	-	-	-	-	-	875 515
2. Motorcycles	-	-	-	-	-	-	-	-
Subtotal Vehicles	875 515	-	-	-	-	-	-	875 515
Total Investment Costs	3 283 030	8 925 524	15 386 439	18 425 632	10 803 224	4 846 273	1 847 366	63 517 488
II. Recurrent Costs								
A. Salaries&allowances	236 099	374 414	405 806	439 949	477 103	492 493	534 556	2 960 420
B. Travel & allowances	4 914	5 307	5 732	6 190	6 685	7 220	7 798	43 847
C. Operating costs	132 717	203 246	219 506	237 066	256 032	276 514	298 635	1 623 717
Total Recurrent Costs	373 730	582 968	631 044	683 205	739 820	776 228	840 990	4 627 984
Total PROJECT COSTS	3 656 760	9 508 492	16 017 482	19 108 837	11 543 044	5 622 501	2 688 356	68 145 472

Table 7: Expenditure Accounts by Components - Totals Including Contingencies (USD)

	Promotion of Rural Micro-Cottage and Small Enterprises		Productive Investment		Institutional Support and Project Management			
	Mapping and setting up capacities at district and regional level	Services for RMSE romotion an levelopmen	Vocational training and prenticeshi	ural Financ	Mobilising migrant resources and skills	Policy and Institutional evelopmen	Project Managemen	Total
I. Investment Costs								
A. Consultancies	1 864 837	-	1 342 212	2 050 454	224 682	1 343 180	1 753 313	8 578 679
B. Equipment & materials								
1. Computers & office electronics	14 628	753 443	-	-	-	-	45 899	813 970
2. Other equipment & materials	4 132	-	-	-	607 211	-	4 132	615 476
Subtotal Equipment & materials	18 761	753 443	-	-	607 211	-	50 031	1 429 446
C. Works	-	-	-	-	-	-	-	-
D. Goods, services and inputs	3 210 021	117 998	-	347 981	322 995	358 559	156 360	4 513 912
E. Workshops	126 730	-	-	40 834	-	439 099	299 324	905 987
F. Grants & subsidies	-	-	-	20 714 362	-	-	-	20 714 362
G. Credit and guarantee funds	-	-	-	881 444	-	-	-	881 444
H. Training	1 032 338	13 965 128	7 630 021	951 920	1 201 260	406 592	430 883	25 618 143
I. Vehicles								
1. Cars	242 917	-	-	-	-	-	632 598	875 515
2. Motorcycles	-	-	-	-	-	-	-	-
Subtotal Vehicles	242 917	-	-	-	-	-	632 598	875 515
Total Investment Costs	6 495 604	14 836 568	8 972 234	24 986 995	2 356 149	2 547 430	3 322 509	63 517 488
II. Recurrent Costs								
A. Salaries&allowances	844 868	-	-	-	-	166 211	1 949 341	2 960 420
B. Travel & allowances	-	-	-	-	-	43 847	-	43 847
C. Operating costs	671 757	-	-	-	-	-	951 960	1 623 717
Total Recurrent Costs	1 516 625	-	-	-	-	210 058	2 901 301	4 627 984
	8 012 229	14 836 568	8 972 234	24 986 995	2 356 149	2 757 488	6 223 809	68 145 472
Taxes	689 274	1 928 754	991 903	174 295	277 091	162 252	327 610	4 551 180
Foreign Exchange	204 909	508 281	-	871 871	239 359	135 545	1 140 807	3 100 772

Table 8: Procurement Arrangements by Procurement Methods (USD)

	Procurement Method									
	National Competitive Bidding	Local Competitive Bidding	Consulting Services: QCBS	Consulting Services: FB	Consulting Services: LCS	Local Shopping	Direct Contracting	Unidentified #1	N.B.F.	Total
A. Consultancies	-	-	9 032 648	-	73 918	-	-	-	225 556	9 332 122
			(363 209)						(67 295)	(430 504)
B. Equipment and materials	-	68 792	-	-	-	-	-	-	607 211	676 003
		(7 190)							(212 524)	(219 714)
C. Goods, services and inputs	-	-	-	-	2 600	3 550 923	-	-	960 389	4 513 912
						(2 220 495)			(64 599)	(2 285 094)
D. Works	-	-	-	-	-	-	-	-	-	
E. Workshops	-	-	-	-	-	892 994	-	-	12 992	905 987
						(63 605)				(63 605)
F. Grants & subsidies	20 064 362	-	-	-	-	-	-	650 000	-	20 714 362
	(2 349 753)							(245 000)		(2 594 753)
G. Credit and guarantee funds	881 444	-	-	-	-	-	-	-	-	881 444
	(617 011)									(617 011)
H. Training	-	-	-	15 244 361	20 027	3 935 282	2 346 059	-	4 072 413	25 618 143
				(10 091 304)		(450 730)	(366 459)		(240 252)	(11 148 744)
I. Vehicles	-	875 515	-	-	-	-	-	-	-	875 515
		(380 946)								(380 946)
J. Salaries&allowances	-	-	-	-	-	-	2 444 087	-	516 333	2 960 420
							(2 444 087)		(227 297)	(2 671 384)
K. Travel & allowances	-	-	-	-	-	43 847	-	-	-	43 847
						(38 147)				(38 147)
L. Operating costs	-	-	-	-	-	1 623 717	-	-	-	1 623 717
						(1 351 599)				(1 351 599)
Total	20 945 806	944 307	9 032 648	15 244 361	96 545	10 046 763	4 790 146	650 000	6 394 895	68 145 472
	(2 966 764)	(388 136)	(363 209)	(10 091 304)	-	(4 124 575)	(2 810 546)	(245 000)	(811 967)	(21 801 501)

Note: Figures in parenthesis are the respective amounts financed by IFAD LOAN

Table 9: Procurement Accounts by Years – Totals Including Contingencies (USD)

	Totals Including Contingencies							
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	Total
1. Consultancies	1 651 598	1 501 582	2 111 119	1 511 039	1 480 035	755 108	321 639	9 332 122
2. Equipment and materials	50 068	142 843	178 151	166 351	49 193	48 022	41 376	676 003
3. Goods, services and inputs	393 810	692 355	859 960	798 822	727 151	562 273	479 541	4 513 912
4. Works	-	-	-	-	-	-	-	-
5. Workshops	67 158	139 164	152 845	146 502	129 252	131 570	139 496	905 987
6. Grants & subsidies	-	1 846 438	5 250 608	7 665 224	4 155 566	1 264 825	531 701	20 714 362
7. Credit and guarantee funds	-	131 202	303 743	336 148	110 351	-	-	881 444
8. Training	244 881	4 471 939	6 530 012	7 801 546	4 151 676	2 084 474	333 614	25 618 143
9. Vehicles	875 515	-	-	-	-	-	-	875 515
10. Salaries&allowances	236 099	374 414	405 806	439 949	477 103	492 493	534 556	2 960 420
11. Travel & allowances	4 914	5 307	5 732	6 190	6 685	7 220	7 798	43 847
12. Operating costs	132 717	203 246	219 506	237 066	256 032	276 514	298 635	1 623 717
Total	3 656 760	9 508 492	16 017 482	19 108 837	11 543 044	5 622 501	2 688 356	68 145 472

Appendix 10: Economic and financial analysis

Benefits

1. The project is expected to lead to increases in incomes for existing and new rural entrepreneurs and to generation of employment opportunities in the target areas. Key benefits would accrue from: (i) enterprise creation and expansion, facilitated by the Enterprise Service Centres and other project activities (ii) increased *employability* of vocational trainees and apprentices, coupled with job placement services; (iii) greater labour demand from project supported enterprises, both within and outside the household; and (iii) enhanced access to finance, through the promotion of innovative financial instruments and strengthened capacities of the national financial sector.

2. Other benefits derive from (i) the productive use of remittances by migrants, returnees and remittance recipient households, that can provide an alternative to foreign employment as a result of financial education and other support services to migrants, and (ii) incremental tax revenues as a result of increased number of registered enterprises and volume of taxable production.

Target area and beneficiaries:

3. The project will initially be implemented in 16 districts of the Eastern Development Region (EDR) and Central Development Region (CDR) and will adopt a corridor approach, linking districts along main roads running South to North. Districts will be phased over three years and covered as a whole, rather than targeting specific VDCs.

4. RER/SAMRIDDHI will target at least 179,660 **primary beneficiaries**, mainly population under the poverty line and nearly poor households at risk of falling back into poverty, with special focus on the migrant community, marginalized groups, women and unemployed youth. Support will be provided through a range of activities and services, mainly:

- *Support to income generating activities and micro-enterprise creation or expansion*: about 40,600 type A, B and C enterprises will be created and 19,400 will be able to expand their business through training and technical assistance provided by the One Stop Shops, matching grants and access to credit.
- *Capacity building and job placement*: around 30,000 people will benefit from vocational training packages and apprenticeship in small and medium enterprises, who will in turn receive business and technical training form the project (on-demand).
- *Training on financial literacy*: at least 23,000 migrants will receive financial literacy training prior to their departure and about 4,200 while working abroad.

5. It is estimated that over 89,600 jobs will be generated by the newly created and expanded micro-enterprises, of which approximately 50% represent externally hired employees and a similar share accrue from additional family members engaged full time in the enterprise activities.

6. RER/SAMRIDDHI *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, and will receive capacity building from the project.

7. Other direct beneficiaries include: (i) 112,300 migrants receiving financial education and psycho-social services and (ii) 28,000 migrants opening a bank account.

8. Table 1 below shows the phase-in and total number of direct beneficiaries from primary and secondary target groups. NB: Trainees from vocational training and apprenticeship may as

well become ESC clients if they choose set-up their own activity rather than seek employment in an enterprise, in which case some beneficiaries would be double-counted. Since it is not possible to estimate how many trainees will become independent entrepreneurs at this stage, figures are presented separately in the table.

Table 1 : Phase-in of beneficiaries from primary target groups

Direct Beneficiaries	Unit	15/16	16/17	17/18	18/19	19/20	20/21	21/22	Total
Enterprise Support									
New enterprises type A	Enterpreneur	-	3,406	7,494	10,900	7,494	3,406	-	32,700
New enterprises type B	Enterpreneur	-	760	1,673	2,434	1,673	760	-	7,300
New enterprises type C	Enterpreneur	-	62	138	200	138	62	-	600
Existing enterprises type A	Enterpreneur	-	1,490	3,277	4,766	3,277	1,490	-	14,300
Existing enterprises type B	Enterpreneur	-	333	733	1,068	733	333	-	3,200
Existing enterprises type C	Enterpreneur	-	198	435	634	435	198	-	1,900
Subtotal Enterprise Support									**60,000**
Employment Generation									
Family labour	Persons	-	4,694	10,325	15,020	10,325	4,694	-	45,058
Hired labour	Persons	-	4,646	10,221	14,870	10,221	4,646	-	44,604
Subtotal Employment Generation									**89,662**
Vocational Training and Apprenticeships									
Vocational training	Persons	-	4,688	5,624	4,688	-	-	-	15,000
Apprenticeship in enterprises type A	Persons	-	2,344	2,812	2,344	-	-	-	7,500
Apprenticeship in enterprises type B+C	Persons	-	2,500	1,250	1,667	2,083	-	-	7,500
Subtotal Vocational Tr. And Apprenticeships									**30,000**
Financial literacy training									
In Nepal (average 60 people per training)	Persons	1,200	2,640	3,840	3,840	3,840	3,840	3,840	23,040
Abroad (average 30 people per training)	Persons	600	600	600	600	600	600	600	4,200
Subtotal Financial Literacy Training									**27,240**
Infrastructure: Local Construction Companies									
Village Market Infrastructure	Persons	-	400	960	860	600	180	-	3,000
Village Transport Infrastructure	Persons	-	160	480	520	240	-	-	1,400
Subtotal Local Construction Companies									**4,400**
Total Direct Beneficiaries									**211,302**

9. Furthermore, project activities will reach an un-quantified number of indirect beneficiaries within and outside the target area, i.e. RMSEs and poor households that will gain from: (i) the dissemination of evidence-based business models through MOI, FNCCI and Regional Chambers of Commerce and Industry as well as multi-stakeholder platforms at the regional and national level; (ii) the building of financial institutions capacities to better respond to RMSE's financing needs; and (iii) the building of capacities of district Departments of Cottage and Small Industries/Cottage and Small Industries Boards as well as of FNCCI to facilitate RMSEs development, to support business partnerships and to promote inclusion.

Enterprise models

10. The demand-driven nature of the project makes both financial modelling and calculation of a benefit stream rather indicative. Eight enterprise models have been prepared in an attempt to illustrate income generating activities and micro-enterprises that can be subject of

RER/SAMRIDDHI support. Examples are categorized by size (A or B), sector (farm and off-farm) and status (newly created or in expansion). One additional model shows the potential benefits generated by an enterprise set-up by vocational trainees or apprentices. Larger enterprises (type C) have been excluded from the analysis, to reflect the fact that the project will concentrate its efforts in supporting small income generating activities and enterprises for population below the poverty line or at risk of falling back into poverty.

11. Farm enterprise models include newly created enterprises - off-season vegetable production and fish farming- and improvement of existing activities - cardamom post-harvest handling and ginger processing. Off-farm enterprise models consist of: the setting- up of a communications stall and a bakery, and support to the expansion of a pottery workshop and a roadside shop that produces sweets.

Incremental annual net benefits vary widely across activities, ranging from USD 243 from off-season vegetable production to USD 5,559 from fish farming. As anticipated, Type B enterprises play a bigger role in employment generation, both for family members and external workers. All the models demonstrate very satisfactory Cost/Benefit ratios and Financial Internal Rates of Return, proving the attractiveness of such investments.

12. Off-season vegetables production: the agro-ecological conditions in the project Hill districts are favourable for the production of vegetables during the rainy season. Off-season vegetables are experiencing increasing domestic demand and have a huge export potential. The model assumes that a smallholder with 2 *ropanis* of land (approximately 1 ha of land) can produce up to 915 Kgs of off-season open field cauliflower and 1,500 Kgs of tomato in a low-cost poly-house of 5 x 20 m, and earn as much as 243 USD during the off-season, obtaining about USD 11 per family labour-day while generating some additional external employment during the harvest time and for the greenhouse maintenance.

13. Cardamom production: Nepal one of the world's largest cardamom producers. Despite its potential contribution to poverty alleviation, smallholders farmers are not maximizing profits from this cash crop. Major constraints include: low quality product due to inappropriate drying techniques, frequent losses as a result of pests and diseases, and low prices received by individual farmers owing to a lack of bargaining power. The model assumes that, with financial and technical support from the project, cardamom producers can switch from energy intensive traditional drying facilities (*bhatti*) to improved dryers, obtaining triple benefits: (i) reduced processing losses (ii) energy savings and (iii) premium price for better quality cardamom. In addition, farmers can reduce production losses through training in IPM techniques and gain additional premium prices through collective marketing. Farmers that combine all these improvements can lift their annual incomes from USD 967 to USD 1,338.

14. Fish farming: small-medium scale aquaculture may require fairly high initial investments, but when properly managed, commercially oriented fish production can yield very high returns and become an important source of employment. The carp production model shows how a pond constructed in about one hectare of land can generate as much as USD 5,559 net profit per year while creating 3,5 full time jobs (family and non-family labour).

15. Ginger processing: ginger is a high value crop that, similarly to cardamom, faces several production and marketing constraints that prevent farmers from taking full advantage of its economic potential . The use of poor quality seeds is one of the main limiting factors, together with production losses due to disease (Rhizome rot) and general lack processing by farmers, that usually sell their production right after harvest. The model intends to show how adding value to fresh ginger (processing it into squash, pickle and paste) can significantly increase farmers annual net benefits, yielding an additional USD 1,253. The model also takes into account a 30% increase in fresh ginger production on account of the use of improved seeds and application of IPM techniques.

16. Off-farm models exemplify enterprises of different scale and nature. Start-ups involve investments in a communications stall that will provide computer and mobile repair services, and the setting-up of a bakery. The first model presents higher financial indicators (costs benefit ratio, return per unit of investment, NPV and IRR), partly due to its lower investment costs, whereas the second model yields higher annual net benefits and demonstrates more potential in terms of job creation.

17. Support to on-going activities includes the expansion of a pottery workshop, which from a part-time family-based activity becomes a full time business thanks to the purchase of electric wheels and construction of proper storage sheds, almost tripling annual incomes for the household. Enterprise expansion models also show the results of scaling-up the activity of a sweets shop by upgrading its facilities and improving quality standards, creating more than 4 full-time additional jobs. Both models show and IRR of about 60%.

18. An additional model has been made to account for the vocational trainees and apprentices that may choose to take the risks of entrepreneurship rather than seek employment in an enterprise. It assumes a carpentry workshop set-up by two partners. At full development of the business activities, net benefits make up to USD 3,770, or USD 1,885 per partner. This figure is to be compared with the average wages they would receive as hired workers, about 9,300 NRs/ month, or USD 1,226/year.

19. More details on enterprise models and financing plans are provided in the enclosed excel files.

Financing plans

20. Total investments will be financed by IFAD Performance-Based Matching Grants, beneficiaries matching contributions in cash, contributions in kind and short to medium term loans from Finance Institutions. Financing plans were prepared for all models, in order to assess whether the mix of funding sources would be sufficient and adequate for enterprise creation and expansion. The following parameters were used:

21. All the selected enterprise models meet the eligibility criteria to receive Performance-based grants (PBMG), that range from 10,000 to 40,000.
Medium term loan interests were set at 12% and working capital loans at 15%.
Enterprises borrow money to finance working capital in their initial years and during expansion.
A standard 6 month grace period on principal repayments was assumed across the 9 models. A 12 and 18- month repayment period was applied to enterprises type A and B, respectively.

22. The results of the financing analysis showed that most of the activities can yield positive net benefits from the first year. However, some models presented a negative cash flow after financing, that turned positive when grace periods were revisited and extended to one year. This reflects need to set repayment terms and conditions on a case by case basis, in order to adapt to different financing needs and production cycles as presented in the enterprise business plans.

23. A thorough analysis of the financial sustainability of the Enterprise Service Centres will be carried out at final design, when ESC financing sources will be defined further and a fee systems for ESC services established.

Table 2 : Summary enterprise models and financial indicators (NRs)

Enterprise type	Sector	Activity	Investments NRs				Annual Net Benefits * NRs			Incremental labour (p/year)*		Incremental net benefits per NRs of investment	C/B	NPV	IRR
			Total Investment	Ifad PBMG	Benef. Contribution	MFIs Loan	WoP	WP	Increment.	Family	Hired				
A - New	Farm	Off-season vegetables	40,000	10,000	4,000	26,000	0	26,022	26,022	0.07	0.05	0.65	3.12	99,604	108%
A - New	Off farm	Communications shop	130,500	10,000	4,000	116,500	0	106,645	106,645	1.00	0.33	0.82	1.40	377,728	147%
A - Expansion	Farm	Cardamom production	40,000	8,000	4,000	28,000	88,000	121,760	33,760	0.01	0	0.84	27.47	119,323	72%
A - Expansion	Off farm	Pottery w orkshop	66,000	8,000	4,000	54,000	42,606	121,030	78,424	0.32	0	1.19	2.02	261,785	60%
B- New	Farm	Fish farming	1,100,000	30,000	20,000	900,000	0	505,871	505,871	1.00	2.50	0.46	1.76	2,009,404	96%
B- New	Off farm	Bakery	685,000	30,000	460,000	195,000	0	254,335	254,335	2.47	1.48	0.37	1.26	901,895	53%
B- Expansion	Farm	Ginger processing	460,000	40,000	40,000	380,000	335,695	449,762	114,067	0.19	1.90	0.25	1.27	390,263	66%
B- Expansion	Off farm	Sw eets production	184,000	40,000	40,000	104,000	474,980	632,245	157,265	0.80	4.23	0.85	1.07	468,616	61%
Voc. Training		Carpentry w orkshop	410,800	-	180,000	230,800	0	343,106	343,106	-	-	0.84	2.84	1,076,618	116%

* at full development

Table 3 : Summary enterprise models and financial indicators (USD)

Enterprise type	Sector	Activity	Investments USD				Annual Net Benefits* USD			Incremental		Net Incremental benefits per USD of Investment	C/B	NPV	IRR
			Total Investment	Ifad PBMG	Benef. Contribution	MFIs Loan	WoP	WP	Increment.	Family	Hired				
A - New	Farm	Off-season vegetables	440	110	44	286	0	286	286	0.07	0.05	0.65	3.12	1,095	108%
A - New	Off farm	Communications shop	1,434	110	44	1,280	0	1,172	1,172	1.00	0.33	0.82	1.40	4,151	147%
A - Expansion	Farm	Cardamom production	440	88	44	308	967	1,338	371	0.01	0	0.84	27.47	1,311	72%
A - Expansion	Off farm	Pottery w orkshop	725	88	44	593	468	1,330	862	0.32	0	1.19	2.02	2,877	60%
B- New	Farm	Fish farming	12,088	330	220	9,890	0	5,559	5,559	1.00	2.50	0.46	1.76	22,081	96%
B- New	Off farm	Bakery	7,527	330	5,055	2,143	0	2,795	2,795	2.47	1.48	0.37	1.26	9,911	53%
B- Expansion	Farm	Ginger processing	5,055	440	440	4,176	3,689	4,942	1,253	0.19	1.90	0.25	1.27	4,289	66%
B- Expansion	Off farm	Sw eets production	2,022	440	440	1,143	5,220	6,948	1,728	0.80	4.23	0.85	1.07	5,150	61%
Voc. Training		Carpentry w orkshop	4,514	-	1,978	2,536	0	3,770	3,770	-	-	0.84	2.84	11,831	116%

* at full development

Economic Analysis

Main assumptions

24. **Benefit stream**. The EIRR is calculated only on the basis of type A and B enterprise creation and expansion to reflect the fact that these are the primary project targets.
Incremental net benefits at full project development were used for both farm and off-farm investment, considering a standard but gradual phase-in from 50% to 100% in three years.
In order to avoid double-counting of benefits from vocational training and apprenticeships, incremental benefits from this source have been excluded from the overall benefit stream until more precise information on trainee self-employment rates is obtained from Helvetas Employment Fund at appraisal. Similarly, benefits from infrastructure works and will be included as more details on the specific project interventions become available.
A 53% enterprise success rate was assumed. This figure is based in MEDEP's MIS system as of November 2013, which records the number of enterprises that remain fully active (34,274 out of the 64,669 supported by the project).
In addition, it is assumed that 80% of the project investments achieve the expected returns, to account for implementation risks.

25. **Costs stream.** Economic costs are net of duties, taxes and price contingencies, but inclusive of physical contingencies. In order to avoid double-counting of costs, Performance-based Matching Grants (both IFAD and beneficiaries contributions) have been deducted from the overall costs.
Total economic cost of the project amounts to about 45.5 million USD.

26. **Shadow prices.** A Standard Conversion Factor of 0.87 was applied to all items to adjust financial prices to economic, with the exception of labour, to which a 0.75 Standard Conversion Factor was used, to account for the high unemployment and underemployment rates present in the target districts.

Results of the analysis

27. **Economic analysis.** The base case scenario for a 20 year period of analysis shows an Economic Rate of Return of 26% and a Net Present Value of USD 37,7 million, discounted at 12%.The estimated EIRR can be considered conservative, since only incremental net benefits from enterprises type A and B (the central project targets) have been included in the benefit stream. Main results for the cost-benefit analysis are presented in table 4.

Sensitivity Analysis and Switching Values. A sensitivity analysis was conducted to assess the effect of variations in benefits and costs (up to 30% cost increase or benefit decrease) and for various lags in the realisation of benefits (up to 2 years). All these scenarios yielded EIRRs above 19%. The switching value for the total project benefits is about 45% while for the project costs it is approximately 116%. Results of the sensitivity analysis are shown in Table 5 below.

Table 4 : Economic Analysis – Costs and Benefits Stream (USD)

Phase-in Incremental benefits *	USD/year	**15/16**	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24 - 34/35**
New enterprises type A - Farm	257			115 949	429 037	985 631	1 299 969	1 982 870	2 226 376	2 226 376
New enterprises type A - Off Farm	271				122 129	451 907	1 038 170	1 369 211	2 088 568	2 345 053
New enterprises type B - Farm	5 179			521 484	1 930 176	4 434 327	5 848 419	8 921 145	10 016 603	10 016 603
New enterprises type B - Off Farm	772				77 726	287 689	660 929	871 886	1 329 682	1 492 958
Existing enterprises type A - Farm	367			72 429	267 938	615 524	811 835	1 238 268	1 390 344	1 390 344
Existing enterprises type A - Off Farm	792				156 408	578 604	1 329 205	1 752 628	2 673 998	3 002 402
Existing enterprises type B - Farm	1 418			62 547	231 498	532 023	702 583	1 070 338	1 201 724	1 201 724
Existing enterprises type B - Off Farm	691				30 478	112 805	259 244	342 405	521 555	585 577
* Phase-in pattern = 50% - 75% - 100%										
Economic Analysis										
Total Incremental net benefits	USD	0	0	772 408	3 245 390	7 998 510	11 950 354	17 548 750	21 448 849	22 261 037
Success rate	0.80									
Total Incremental net benefits after success rate	USD	0	0	617 926	2 596 312	6 398 808	9 560 283	14 039 000	17 159 079	17 808 830
Total Project Economic Costs	USD	3 448 343	7 538 868	11 047 224	11 242 703	7 036 680	3 456 938	1 776 786		
Total Project Incremental Net Benefits	USD	-3 448 343	-7 538 868	-10 429 298	-8 646 391	-637 872	6 103 345	12 262 214	17 159 079	17 808 830

NPV @ 12%	**$37 754 342**
IRR	**26%**

Table 5 : Sensitivity Analysis and Switching Values

Sensitivity Analysis (10-year period)	Base case	Costs Increase			Increase of Benefits		Decrease of Benefits			Delay of Benefits	
		+10%	+20%	+30%	+10%	+20%	-10%	-20%	- 30%	1 year	2 years
IRR	**26.4%**	24%	23%	21%	29%	31%	24%	22%	19%	22%	19%
NPV (USD)	**37 754 342**	34 689 855	31 625 367	28 560 880	44 594 264	51 434 186	30 914 421	24 074 499	17 234 577	28 777 476	20 762 418
Discount rate	12%										

Switching values			
NPV incremental benefits	83 424 139	45 669 797	-45%
NPV incremental investm	32 576 535	70 330 878	116%

Appendix 11 – Project Implementation Manual

To ensure smooth project start-up and implementation, the Project Implementation Manual (PIM) will be prepared before or during final design. Adjustments will be made during the negotiations between IFAD and the Government of Nepal and at project start-up, further to the inception workshop. The PIM will be translated in Nepali.

Table of contents

Appendix 12 – Compliance with IFAD policies

IFAD is in line with IFAD's policy framework, as evidenced by the table below.

Table 1 – Compliance with IFAD policies

Policies	RER/SAMRIDDHI features
IFAD Strategic Framework (2011-2015)	RER/SAMRIDDHI will contribute to Objective 2, which is to promote the access of poor rural women and men to services to reduce poverty, improve nutrition, raise incomes and build resilience in a changing environment, and to Objective 3, which is that poor rural women and men and their organisations are able to manage profitable, sustainable and resilient farm and non-farm enterprises or take advantage of decent work opportunities. It will also address Objective 4 (Poor rural women and men and their organisations able to influence policies and institutions that affect their livelihoods) and Objective 5 (Enabling institutional and policy environments to support agricultural production and the full range of related non-farm activities) by supporting multi-stakeholders' platforms and policy dialogue, in particular through Component 3.
Rural Enterprise Policy (2004)	In line with the policy, RER/SAMRIDDHI will promote RMSE access to entrepreneurial-oriented financial services and sustainable non-financial services. It will facilitate market access through the provision of information and advisory services (by the ESCs) as well as by developing business partnerships between self-employed and micro entrepreneurs and larger enterprises willing to expand production and marketing. It will promote progressive cost-recovery of services after an initial subsidy of varying importance according to the category of enterprises. It will also promote policy dialogue through District Industry Promotion Committees and the National Business Forum.
Deepening engagement with the private sector (2012)	RER/SAMRIDDHI overall design is driven by the development of public-private partnerships and the engagement of the private sector. This is reflected in particular by the following features: (i) implementation of activities aimed at facilitating RMSE access to services by District Chambers of Commerce and Industry, under the overall responsibility of the Federation of Nepal Chambers of Commerce and Industry; (ii) vocational training and apprenticeship promoted implemented in partnership with the entrepreneurial sector to ensure direct connection with job placement; (iii) partnership with financial institutions to improve access of RMSEs to financial services; (v) outsourcing of RER/SAMRIDDHI-financed services to private service providers. Partnerships with the private sector will be guided by the principles of engagement outlined in the IFAD strategy, i.e. ensuring: that partnerships with the private sector are driven by the interests and needs of small farmers and poor rural producers; that the impact of the engagement should be sustainable after IFAD's contribution to the partnership has ended; and that partnerships should ensure transparency and clear and agreed responsibilities and accountability by all partners.
Rural Finance Policy (2009)	RER/SAMRIDDHI reflects the strategic orientations of the policy by: building the capacities of a diversified range of financial institutions (SCCs, MFIs and commercial banks) to offer the services required by RMSEs and migrants; supporting innovative approaches (through outreach-related activities); reducing the risk of lending through the risk-sharing and performance-based matching grant schemes, which will also contribute in leveraging commercial credit with IFAD funds; and by promoting policy dialogue through various multi-stakeholders' platforms, including a Working Group on Financial Inclusion of Migration and Remittances that will be set up by the project.
Gender equality and women's empowerment (2012)	Gender equality and women's empowerment are mainstreamed throughout RER/SAMRIDDHI activities and reflected in RER/SAMRIDDHI logical framework and indicators, in line with the strategy, and will be part of the direct responsibilities of the Project Manager. Capacity building will be provided to stakeholders, and especially the PMT and main implementation agents, and guidance will be secured by the PMT Gender Equality and Social Inclusion Specialist. The M&E system will be gender-disaggregated and the PMT, implementing agents and service providers will be required to have gender-balanced staffing and GESI experience. The Gender Checklist is attached in Appendix 2.

Furthermore, the project is in line with IFAD's specific objectives on remittances aimed at enhancing market development and financial access through the identification, replication, and scaling-up of innovative remittance transfer systems; promoting financial inclusion among migrants and remittance-recipient families in rural areas through better use of remittances; and creating an enabling environment that promotes public-private partnerships for effective remittance development strategies. This will be achieved by setting up mechanisms to stimulate remittance savings and their use in business investment (savings-linked credits) and to facilitate migrants' access to remittance related services at an affordable cost (financial literacy education and dialogue with financial institutions), as well as by setting up the Working Group for Financial Inclusion of Migration and Remittances, as part of the Platform for Migration and Development.

Attachment 1 : Environment assessment and social review note

The design mission used the ECCA (Environmental and climate change assessment done in 2013 for the COSOP design, available in the project life file) and reached the following conclusions:

RER/SAMRIDDHI will have negligible negative environmental impacts. Building on existing IFAD projects, and taking inspiration from the MEDEP framework, RER/SAMRIDDHI focuses community building and strengthening of local enterprises. Further, in line with national policies and programmes, the project's strategies support on farms and off farms systems.
The project will support the construction or rehabilitation of small community-managed infrastructure systems and gravity ropeways, which may require separate environmental assessments. All the potential negative impacts can be mitigated by properly following existing regulation guidelines and field practices and the recommendations of the environmental management action plan prepared for the implementation of the project.
However, more in-depth consideration must be given to project activities following the completion of project design and finalization of project activities. Further, as environmental and climate change issues are complex, sensitive and uncertain, preparation of Environmental Management Guidelines/Action Plan is suggested to avoid risk and minimize uncertainties.

Appendix 13: Contents of the Project Life File

All documents gathered during preliminary studies and design phases of the project were organised in a dropbox (https://www.dropbox.com/sh/xet0zc4m26rych4/aa-3UvSirx) and in a DVD to be updated and distributed to the implementers of the project. This e-library brings together design reports, other experiences in Nepal and worldwide, etc…

List of Rural Enterprises and Remittances Documents

Detailed design report
VOLUME 1: Main report and annexes
Main report
Annexes Appendix 1: Country and rural context background Appendix 2: Poverty, targeting and gender Appendix 3: Country Performance and Lessons Learnt Appendix 4: Detailed Project Description Appendix 5: Institutional aspects and implementation arrangements Appendix 6: Planning, M&E and learning and knowledge management Appendix 7: Financial management Appendix 8: Procurement Appendix 9: Project Costs and Financing Appendix 10. Economic and financial analysis Appendix 11: Project Implementation Manual Appendix 12: Compliance with IFAD policies
VOLUME 2: WORKING PAPERS
WP 1: Mapping of the Target Area and of Potential Value Chains WP 2: Poverty, Targeting and Gender WP 3: Promotion of Rural Micro-Cottage and Small Enterprises (RMSEs) WP 4: Rural Finance WP 5: Rural Infrastructure WP 6: Strategy and Activities for Migrants, their Families, and Returnees WP 7: Institutional Development and Project Implementation Set Up WP 8: Planning, Monitoring & Evaluation and Learning and Knowledge Management

IFAD Documents	Year
Nepal COSOP 2013	2013
COSOP Appendix VI. Baseline Poverty Analysis	2013
Concept Note - Micro Enterprise and Remittances	2013
CPMT Presentation	
RER/SAMRIDDHI AM design	2014
Assessment of Issues and Options for Investing in the Productive Use of Migration and Remittance in Nepal	2013
IFAD’s Rural Sector Performance (RSP) assessment: Nepal	2013
Nepal Country Programme Evaluation	2013
Comments of the Independent Office of Evaluation of IFAD on the country strategic opportunities programme for Nepal	2013
Nepal Financial Assessment-The Financial Management Questionnaire (FMAQ)	
Financial Management Assessment Report	
Financial Management Assessment of Nepal Projects: Annexes	
FMAQ	
FMAQ: The Poverty Alleviation Fund (PAF)	
FMAQ: Financial Comptroller General Office (FCGO)	
FMAQ: Leasehold Forestry and Livestock Programme (LFLP)	
FMAQ: Western Uplands Poverty Alleviation Project (WUPAP)	
FMAQ: High Value Agriculture Project in Hill and Mountain Areas (HVAP)	
FMAQ sample: Ambrosia - pumping station re-habitation	
Government Auditing Standards Part 3: Segment Audit Guidelines Procurement audit	2005
OAG Publication Series A1: Government Auditing Standards	1996
Government Auditing Standards Part 3: Segment Audit Guidelines Project Financial Statements	2005
Public Expenditure Audit Guide (Nepali)	
Revenue and expenditure CoA (Nepali)	
DTCO Internal Audit Manual (Nepali)	

An Assessment of the Public Financial Management: Performance Measurement Framework (As of FY2005/06)	2008
Nepal Accounting Standards on Presentation of Financial Statements	
Nepal Accounting Standards on Accounting Policies, Changes in Accounting Estimates & Errors	
Nepal Standard on Auditing 200: Objective and General Principles Governing An Audit of Financial Statements	
OAG Organization Chart	
MAPs of Target area	
District – Mechi zone District – Sagarmatha zone 16 districts profile 16 districts of the study Districts profile District consolidated table (PDF) District consolidated table (Excel) Absent population 2011 Average agricultural holding size Economic activity Employed population Types of bank Demography Employment Ethic groups distribution Migration and households Industry Land holding size Land holding Types of micro enterprises Migration and gender Poverty and remittance Poverty rate Road	
RER/SAMRIDDHI Nepal Mission Logistic	
Contact RER/SAMRIDDHI Contact list List of the Enterprises, Financial and Vocational Institutes	

Itinerary
RER/SAMRIDDHI mission itinerary RER/SAMRIDDHI field meeting
Meeting
Pre-field meeting Post-field meeting
Terms of Reference – Rural Employment and Remittances Design Mission 2013

Financial Facility on Remittance and Workshop	
CMF Grant	
CMF Final Report	
IFAD Grant on Remittances Part 1 IFAD Grant on Remittances Part 2 IFAD Grant on Remittances Part 3	
Design documents	
CMF Design Document for circulation	2009
Implementation Documents	
CMF Workplan	2009
A Report on Institutional Assessment	2009
Letter of Partnership Agreement (LOA) Annex 1	
Letter of Partnership Agreement with IFAD suggestion Central bank letter	2010
Unemployment Cooperation Plan Guidelines	2010
CMF Annex 1 and 2 (UI Product)	2010
CMF Insurance Product	2010
CMF Annex 1 and 2	2010
Outputs and logframe indicators	
Progress reports and Statement of Expenditure (SOE)	
Cofinancing SOE 27-04-2010 SOE (IFAD) 27-04-2010 CMF PR2 (IFAD) 10-05-2010 CMF PR2 (CMF) 14-05-2010 SOE (IFAD) 14-05-2010 CMF SOE 31-05-2010 CMF PR2 (CMF) 08-06-2010 CMF PR2 (IFAD) Cleared	

CMF PR3 SOE 29-10-2010
CMF PR3 29-10-2010
CMF PR3 (IFAD) 08-11-2010
CMF PR3 (CMF) 07-12-2010
CMF PR3 (IFAD) 07-12-2010
CMF SOE (Cofinancing) 07-12-2010

CMF SOEs 07-12-2010
CMF PR3 (CMF) 10-12-2010
CMF SOE (Activity)
CMF SOE (activity) 28-02-2011

CMF PR4 (IFAD) 08-04-2011
CMF PR4 (IFAD) 09-05-2011
CMF PR4 and SOEs 02-05-2011

Final report and audit
CMF audit report 22-07-2011
CMF final report (IFAD) 25-07-2011
CMF Final report (CMF) 08-08-2011

CMF final report (cleared) 25-08-2011
CMF final report (tool) 19-09-2013

Agreement

Small Grant agreement_signed	2009
Small Grant agreement	2009

Amendment

CMF Amendment (letter extension date)	2011
CMF Memo to Cooke for CFS Clearance	2011
CMF No cost extension of project letter	2011
CMF Countersigned amendment	2011

UN WOMEN Grant

Economic Security of Women Migrant Workers in Nepal	2011
UNIFEM tool	2013

Writeshop

Draft invitation letter 19-11-2013

List of participant 18-11-2013

Writeshop agenda	
Writeshop Guideline	
Scaling-up and Remittances Writeshop Budget	
Terms of Reference – Preparatory Mission for the Design of the Rural Enterprises and Remittances Project	
FFR TRAVEL: PEDRO DE VASCONCELOS (Staff)	
Concept Note : Rural Enterprises and Remittances (2014)	
COSOP in country CPMT list	
Working paper for the rural micro enterprises and remittance project in Nepal	2013
Meeting Notes –Mission from 24th May to 14th June 2013 Nepal	2013
Map of Nepal	
Persons contacted during Mission 24th May to 14 June 2013	
Baseline Poverty Analysis of COSOP	
RER/SAMRIDDHI Preparatory Activities to Project Design	
Remittance Workshop	
Working group note 1 Working group note 2 Nepal Write-shop Booklet on Scaling Up Frameworks Working group member BTOR Write-shop on Scaling-up remittances in Nepal, 10-11 December 2013 Concept Note 1: Rural Enterprises and Jobs	2013 2013 2014
Supporting Documentation	
Administrative	
CMF cover letter CMF DHL Request for Special Document Delivery/pick-up by International/national Courier Service Schedule 3 Bank Account Certification Form	2009 2009
CMF Final work plan	2009
Legal documents	

CMF Legal registration	2000
CMF Letter of confirmation: Non-profit status	2009
CMF brochure web: Asking the right questions	
LOA Annex 1	
CMF Logframe	2009
Remittances 2008 - Full Proposal # 324: Promotion of Migrant's Saving and Alternative Investment	
Project photos	
CMF photo1 04-09-2009 CMF photo2 04-09-2009 CMF photo3 04-09-2009 CMF photo4 17-11-2009 CMF photo5 17-11-2009 CMF photo6 18-11-2009 CMF photo7 18-11-2009 CMF photo8 18-11-2009 CMF photo9 18-11-2009 CMF photo10 18-11-2009 CMF photo12 18-11-2009 CMF photo13 18-11-2009 CMF photos (poultry project t outcome dissemination workshop) 25-10-2011 CMF photos and quote 25-10-2011	
Nugawela's preliminary studies	
Working paper for the rural micro enterprises and remittance project in Nepal	2013
Meeting Notes –Mission from 24th May to 14th June 2013 Nepal-(Unedited Draft 1) Proposed project- Micro enterprise Rural Employment and Remittance of IFAD	2013
Persons contacted during Mission 24th May to 14 June 2013 related to the Micro enterprises sector promotion and development in Nepal	2013

PROSPERER Microenterprise Impact	
PROSPERER Measuring Poverty Reduction Graph and table analysis	2012
IFAD project design guidelines and templates	
Guidelines for Project Design Report	2011
PMD Templates Guidance notes	
Project design report template: main report and appendices	
Project design report template: working papers	
PTA documents	
Rural Micro Small Enterprise (RMSE) development: core issues	
Gender and value chain development checklists	
IFAD Note: Proposal to establish a funding mechanism to support Public-Private-Producers Partnerships (PPPPs) in IFAD-funded value chain development projects	
VC project list	
Promoting rural enterprise growth and development: Lessons from four projects in sub-Saharan Africa	2012
Private-Sector Deepening IFAD's engagement with the private sector	2012
IFAD Rural Enterprise Policy	2004
Skills Enhancement for Employment Project (SEEP) grant -ILO	
Skills Enhancement for Employment Project –SEEP Status Report	2012
Good Practices and Lessons Learned' on Experiences of Interventions of Skills Enhancement for Employment Project (SEEP), Nepal	2011
Community Planning	
Generating Project Ideas (GPI) Worksheet	
Prioritizing New Enterprise Project Ideas (P-NEPI) Worksheet	
Guide on How to test the viability of New Enterprise Projects Ideas (NEPI) Identified through the RAM Technique	
New Enterprise Project Idea (NEPI) form	
List of other Possible Training Projects	

AWPB
Proposed Budget Revision: January 2010 to December 2011
SEEP updated workplan
SEEP Operation Plan and Strategies (OPS)
PCC Roles and responsibilities
Project assistance policy
TOR PCC
SEEP and Community Planning PPT
Community planning
Tentative Programme of Activities
Adaptation of TREE Tools and Strategies in the Skills Enhancement for Employment Project (SEEP)
Service Contract Community Planning
Service Contract Community Planning – Preparation of Project Proposals
Terms of References - Sub-contracting Community Planning and Generation of Project Proposals
Training Proposals - NEPI
Training Proposal (To support New Enterprise Project Ideas - NEPI)
How to prepare Skills Training Outline Guide for Skills Trainers
How to prepare Training Proposal Guide for Trainers
How to prepare Skills Training Syllabus Guide for Trainers
Skills Training Syllabus
Skills Training Outline and Requirements
List and Prices of Training Tools & Equipment
List and Prices of Training Supplies and Materials
List and Prices of Office Supplies and Materials
Other Training Proposals
Training Proposal – EMT Enterprise Management Training
Training Proposal – EEP (To support Enterprise Expansion Plans)

Training Proposal – ESD (To support Economic Sector Development)
Training Proposal – Transition Enterprise Project (TEP)

Background documents	Year
General	
Country Briefing: Nepal	2013
Nepal Development Update	2013
Political Economy Analysis of Local Governance in Nepal	2012
Agrobusiness Policy (Nepali)	2006
Decentralization in Nepal: Laws and Practices	2011
District Aid Profile	
Country Report: Nepal	2013
Ethnic and Caste Diversity: Implications for Development	2005
Country Diagnostics Studies_Nepal: Critical Development Constraints	2010
Nepal's Electricity Crisis: Survey and Findings	2013
Labour and Social Trends in Nepal 2010	2010
Nepal Peace and Development Strategy 2010-2015	2011
The Industrial Enterprises Act, 1992	2000
Trade & Services in Nepal: Opportunities and Challenges	2010
Ethnicity/ Caste wise Analysis sheet	
Poverty assessments	
Underlying Causes of Poverty Analysis and Contributions Towards a Program Approach	2009
CBS Poverty in Nepal 2010-2011 (Nepali)	2011
IPC Pilot Chronic Food Insecurity Analysis of Nepal	2012
Nepal: Country Analysis with a Human Face 2011	2013
Food Insecurity and Vulnerability in Nepal: Profiles of Seven Vulnerable Groups	2004
National data for monitoring the Millennium Development Goals	2012
Nepal Millennium Development Goals Progress Report 2010	2010

Nepal Living Standards Survey 2010/11 Vol. 1 Nepal Living Standards Survey 2010/11 Vol. 2	2011
Food Security and Climate Change Adaptation Framework: Issues and Challenges	2010
Understanding Mountain Poverty & Vulnerability	
Nepal Resilience Amidst Conflict: An Assessment of Poverty in Nepal, 1995–96 and 2003–04	2006
Voices of People on Development	2006
Nepal: Comprehensive Food Security and Vulnerability Analysis (CFSVA)	2005
Agriculture and Food security	
The Food Security: Atlas of Nepal	2010
Nepal Thematic Report on Food Security and Nutrition	2012
Nepal Economic Growth Assessment Agriculture	2008
Food Security and Climate Change Adaptation Framework: Issues and Challenges	
Gender	
Independent Evaluation: The Gender and Social Inclusion	2011
Gender and value chain development Checklists	
Financial services	
Enhancing Access to Financial Services (EAFS)_UNCDF Nepal Rastra Bank Enhancing Access to Financial Services (EAFS) Project Market Research Report on Financial Literacy: Enhancing Access to Financial Services Project Prodoc: Enhancing Access to Financial Services Project Project Handover Report	2011 2012 2008 2013
Access to Financial Services in Nepal	2007
Improving Access to Finance Sector Development Program_ADB Technical Assistance Report Technical Assistance Consultant's Report	2011 2012
Assessment of Enabling Conditions of Rural Financial Services Development in Nepal Technical Report TOR_ Assessment/Updating of the Enabling Condition of Rural Financial Services Development in Nepal	2013
A Study on Financial Institutions Providing Financing for Business Start-ups by Skilled and Highly Skilled Returnees	2012

Migration	
Labour Migration and Remittances in Nepal	2010
The Effects of Migration from Khotang District to the Gulf and Malaysia	2011
Assessment of Issues and Options for Investing in the Productive Use of Migration and Remittance in Nepal	2013
Large-Scale Migration and Remittance in Nepal: Issues, Challenges, and Opportunities	2011
Small and Medium Enterprise (SME)	
A Country Report on Small and Medium Industries in Nepal	2005
A Report on Micro and Small Enterprise Policy Review in Nepal	2003
Business Registration in Nepal	
Overview of Nepalese Small and Medium Enterprises	
MEDEP MEDEP: Capacity Assessment Report and Capacity Development Strategy MEDEP: Micro-Enterprises, Development for Poverty Alleviation Vol. 1 MEDEP: Micro-Enterprises and Household Income in Nepal: A case Study of Parbat District MEDEP Programme Document phase IV: Capacity Assessment Report and Capacity Development Strategy Micro-Enterprise Development Program (MEDEP) Independent Evaluation 2012 MEDEP: Impact Assessment of Micro-Enterprise Development Programme Map of MEDEP Implementation Districts	2012 2010 2010 2013 2012 2010
Nepal Foreign Employment Act	2007
Nepal Foreign Employment Policy (Nepali)	2011
Agro-enterprise Development in Nepal: Current Status and Constraints	2001
Recent Issues of Agriculture Technology dissemination adopted by LI-BIRD	
Photos Distribution of Manufacturing Establishments by Legal Status Distribution of Manufacturing Establishments by Numbers of Persons Engaged Distribution of Manufacturing Establishments by Type of Usual Activities	
Related projects and donors in Nepal	
GIZ-BMZ Nepal Project Financial Literacy for Remittances and Diaspora Investments (FReDI) – A Handbook on methods for Project Design Migration Tools – Options for Sustainability (MITOS) Guidelines and Toolkit	2012 2012
International Organization for Migration documents Financial Literacy Manual for Remittance Receiving Household	

	2013
Baseline Survey on Private Sector Participation in Labor Migration Management in Nepal: Case of Chitawan District Private Sector Participation in Labour Migration Management in Nepal	2011
Safer Migration Project (SaMi) Project Document: Safer Migration Project (SaMi) Phase II Labour Migration (Foreign Employement) Policy Training for foreign employment	2013
UNDP CIDA AusAid Micro-Enterprise Development Programme (MEDEP) Focused Evaluation of Micro Enterprise Development Programme Scoping Study for MEDEP III Project Document: MEDEP MIS Database Progress: MEDEP Target and achievement PowerPoint presentation Impact Assessment of Micro-Enterprise Development Programme (MEDEP)	2012 2007 2008 2013 2010
ADB Nepal's telecenter landscape and where CeCs stand	
Elam - Informal Sector Micro Enterprise Development, Employment and Income Generation Programme: Annual Report 2012 Elam: Project Document for July 2013 to December 2016	2012 2013
Annual Review: Nepal Investment Climate Reform Program (NICRP)	2012
Review of Employment Fund Project	2013
Good Practices out of Nepal	
Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention	2001
ILO The Enter-Growth Project SRI LANKA	2009
Area Potential Survey (APS)	
Brief introduction of Area Potential Survey (APS)	
Business plan for new business Business Plan: Mobile Phone Repairing (Sample of business plan)	
Elam Elam - Informal Sector Enterprise development and Employment generation Programme Concept paper on Enterprise Service Providers (ESP): Localization of Elam services	

(pdf) Concept paper on Enterprise Service Providers (ESP): Localization of Elam services (word) An outline of ESP Capacity Development Plan Elarm Poster	2010
Business Development Services	
Business services in support of farm enterprise development: case studies	2007
Case studies on provision of services for farm enterprise (agribusiness) development in some selected countries in the South Asian and African regions	2004
Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention	2001