



Report and Recommendation of the President to the Board of Directors

INTERNAL

Project Number: 48218-006
August 2022

Proposed Loan, Grant, and Administration of Grant Nepal: Nuts and Fruits in Hilly Areas Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 11 August 2022)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.0079
\$1.00	=	NRs127.230

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CGF	–	credit guarantee fund
COVID-19	–	coronavirus disease
CPMU	–	central project management unit
GAFFSP	–	Global Agriculture and Food Security Program
GAP	–	good agricultural practices
GESI	–	gender equality and social inclusion
ha	–	hectare
HACCP	–	Hazard Analysis and Critical Control Points
m	–	meter
MOALD	–	Ministry of Agriculture and Livestock Development
NCFD	–	National Center for Fruit Development
O&M	–	operation and maintenance
PAM	–	project administration manual
PIU	–	project implementation unit
tCO ₂ e	–	tons of carbon dioxide equivalent

NOTES

- (i) The fiscal year (FY) of the Government of Nepal and its agencies ends on 15 July. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2022 ends on 15 July 2022.
- (ii) In this report, “\$” refers to United States dollars.

Vice-President

Shixin Chen, Operations 1

CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Project Description	4
C. Value Added by ADB	6
D. Summary Cost Estimates and Financing Plan	7
E. Implementation Arrangements	9
III. DUE DILIGENCE	10
A. Technical	10
B. Economic and Financial Viability	10
C. Sustainability	10
D. Governance	11
E. Poverty, Social, and Gender	11
F. Safeguards	12
G. Summary of Risk Assessment and Risk Management Plan	13
IV. ASSURANCES AND CONDITIONS	14
V. RECOMMENDATION	14
APPENDIXES	
1. Design and Monitoring Framework	15
2. List of Linked Documents	19

PROJECT AT A GLANCE

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan and a proposed grant, both to Nepal for the Nuts and Fruits in Hilly Areas Project. The report also describes the proposed administration of a grant to be provided by the Global Agriculture and

areas.⁹ These land abandonment, outmigration, and climate vulnerability result in less livelihood options, further accelerating youth outmigration to urban areas and abroad.

4. The effective exploration

development; (ii) OP 2 (accelerating progress in gender equality) through training of women leadership and promoting women's participation in farmer cooperatives; (iii) OP 3 (

1,000 ha; and (iii) partial grants for the establishment of vegetable value addition equipment and infrastructure at three levels: cooperative, local and agribusiness.²⁹

20. **Output 3: Value addition to hilly area horticulture produce enhanced.** This output will enable hilly area horticulture farmers to be directly engaged in various horticulture value chains and access more diverse or profitable marketing opportunities. This will be achieved through (i) preparing a business plan at the local government level, promoting agriculture and/or horticulture cooperatives and commodity-specific marketing associations to aggregate fruit, nuts and other crop produce, and manage the quality of horticultural products; (ii) developing training programs and training of cooperatives and associations in post-harvest management, food safety control system such as Hazard Analysis and Critical Control Points (HACCP), financial management, business, marketing, and entrepreneurship, while promoting female leadership; (iii) supporting the preparation of a contract between cooperatives and buyers; and (iv) developing or upgrading of horticulture value chain equipment and infrastructure, such as harvesting handling equipment, traceability systems, commodity storage and collection centers, and orchard predator fencing.³⁰

21. For the horticulture value chain equipment and infrastructure, the project will provide \$12.5 million in matching grants to (i) cooperatives,³¹ (ii) agribusiness and service providers,³² and (iii) provincial and/or local governments.

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Sector Financial Institutions Division, Private Sector Operations Department under a One ADB approach. The project's One ADB team will explore possibilities of nonsovereign lending to a partner financial institution that will finance project beneficiaries.

24. The grants from the Asian Development Fund (ADF)-13 thematic pool supporting regional cooperation and integration enable the exploration of Nepal's trade potential and contribute to regional economic benefits. The ADF-13 grants support (i) nursery standards, regulations, and the inspection system by developing a manual for importing and quarantining disease-free plant materials and providing vehicles for rolling out a certification program; (ii) training of private nurseries on nursery standards and a certification system; (iii) training of farmers and cooperatives on internationally accepted sanitary and phytosanitary standards; (iv) training of cooperatives on business development and facilitation with traders or buyers; and (v) capacity building for disease-free material multiplications and maintenance.

25. The project contributes to fulfilling ADB's commitment on the Kathmandu Declaration on Nepal's Green Resilient and Inclusive Development signed by the Government of India and international development partners. The project addresses the agenda, focusing on (i) enhancing natural capital for growth, climate benefits, decent job creation, and food and water security by training farmers in land and water resources management for agriculture; (ii) increasing resilience to future pandemic and climate by strengthening sustainable land management; and (iii) inclusive recovery and economic growth by providing equal opportunities to the excluded groups such as the poor, women and youth.³⁵

D. Summary Cost Estimates and Financing Plan

26. The project is estimated to cost \$93.45 million (Table 1).

III. DIVERSIFICATION

A. Technical

33. The project will introduce several digital innovations to enhance sustainable soil, land and weather and water information—as well as the analysis of soil fertility, climate and crop use pattern—will be done through an integrated decision support system; and farmers will receive easy-to-follow advisories through digital applications and farmer group facilitators. To better cope with excess rainfall during the monsoon, which is followed by drought, the project will enhance water storage and the use of precise irrigation to minimize losses. Additionally, the project will reduce the transaction costs of rural smallholder farmers' access to finance by improving rural credit services for smallholder farmers. The project will promote the adoption of online loan applications, a digital payment tracking system, and loan database that will be established by rural finance facilitators and information technology specialists, in collaboration with partner financial institutions. These technical innovations have a strong potential for replication in other hilly areas in Nepal, as well as India, which have similar agro-climatic and socioeconomic conditions.

B. Economic and Financial Viability-111(l)5(oa)3(n)-111(da)3(t)-4(ab)3(ase)JTJETQdET.91 0 0 1 2374

difficulties in accessing loan and water sources. The indigenous peoples' population is higher in the selected target districts of Province 1 (60%), Bagmati (56%) and Gandaki (40%) and lower in Karnali (13%) and Sudurpashchim (1%). In selected communities, indigenous people reported decreased decision-making power and less land holdings of women.

41. The COVID-19 crisis has affected the livelihoods of Nepalese households, with 1 out of 10 households reporting a loss of livelihood and 3 out of 10 households reporting a reduction in income. Target beneficiaries will directly receive income increase support through horticulture farming in hilly areas. Through the project's production, marketing, and business support,

themselves or has a lease or user right agreement and not claimed by others.⁴⁶ Any participation in project activities is based on voluntary choice of the willing participants. The executing agency and implementing agencies will screen, implement, and monitor the selection criteria; and ensure that any activity undertaken under the project does not have any physical or economic impact.

IV. ASSURANCES AND CONDITIONS

48. The government and the MOALD have assured ADB that implementation of the project

DESP

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
	<p>2d. At least 10,000 households supported for vegetable production and marketing with at least 30% women and 20% DAG household representation (OP 5.3.2) (GAFSP indicator 3) (2021 baseline: 0)</p> <p>2e. At least 40% of project areas improved through drip irrigation infrastructure, with at least 40% of</p>		

Key Activities with Milestones

1.

<p>Project Management Activities</p> <p>Establish a central project management unit and provincial project management units Establish a project monitoring and reporting system including baseline survey, periodic progress reports, midterm report, and completion report, adopting Food Insecurity Experience Scale as per the GAFSP monitoring and evaluation plan Engage project implementation support staff and consultants Implement the gender equality and social inclusion action plan Operationalize accounting, auditing, and procurement systems</p>
<p>Inputs</p> <p>Asian Development Bank: \$60.00 million loan (concessional ordinary capital resources lending) \$10.00 million grant (ADF-13) GAFSP: \$9.00 million (grant) Government of Nepal: \$14.45 million</p>
<p>Assumptions for Partner Financing</p> <p>World Food Programme: \$3.00 million (parallel collaborative financing grant financed by GAFSP)</p>

A = assumption; ADF = Asian Development Fund; DAG = disadvantaged groups (including women, indigenous peoples, and Dalit); GAFSP = Global Agriculture and Food Security Program; OP = operational priority; PIU = Project Implementation Unit

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=48218-006-3>

1. Loan Agreement