II. Sectoral and Institutional Context

Nepalese agriculture is characterized by subsistence orientation and low level of commercialization. Main problems of the sector include the reduction on land frontier due to inappropriate use of agricultural land as well as various calamities; lack of access to agricultural land to those providing agricultural labor and possessing skill as well as inability of those with access to agricultural land to adequately commercialize agriculture using improved technologies; low productive livestock, diseases incidence and poor nutrition; agriculture and livestock industries still depending on imported raw materials; weak agricultural export promotion initiatives; inability to attract enough investment in related agricultural infrastructure such as irrigation, road, electricity, communication, industry, market, agricultural business and improved technologies given the
extent of natural resources and bases for non-agricultural sector development; inability of the industrial policies to capture the sensitivity of the agriculture sector.

Commercialization of agriculture has been proposed as a feasible option for economic growth and poverty alleviation. Since the formulation of the Fifth Five-Year Plan (1975–80), agriculture has been the highest priority because economic growth was dependent on both increasing the productivity of existing crops and diversifying the agricultural base for use as industrial inputs. At the policy level, Agriculture Perspective Plan (APP) is the government's primary policy for agriculture modernization and growth. The eleventh APP (2007-2012) focuses on improving the availability of agricultural inputs, credit, marketing facilities, technology, and skill training for the increasing number of women farmers. Resource pooling and group investment, financial and infrastructural support remains as some of the top priorities. Women in agriculture was placed on the top of the Eleventh Plan agenda and a two pronged strategy is adopted: (i) ensuring effective and independent land rights for women, and (ii) strengthening women’s agricultural capacities.

Some of the emerging challenges for commercialization are: increasing trend of youth migration; increase in feminization of agriculture; limited use of technology in production and processing; inadequate infrastructure base; lack of good farming and manufacturing practices; insufficient institutional capacity to deliver necessary services and support for commercial skills transfer and value chain development; inability to fully utilize market opportunities as granted under different bilateral, regional and multi-lateral trading regimes; and low foreign investment in agriculture sector.

Some of the opportunities for commercialization are: (a) Country’s geographical positioning- Nepal is strategically located between two large economies of the world, India and China which offers a great deal of opportunity in terms of trade; (b) rapid expansion of demand of high value commodities in peri urban areas; (c) federalization of small farmers into commodity specific groups and cooperatives; (d) strong potential for production of wide range of commodities due to ecological diversities; and (e) a common development agenda in all agricultural plans and policies including sectoral plans.

III. Project Development Objectives
The Project Development Objective remains largely unchanged, but in order to recognize a) very high demand for the project and b) comprehensively address the value chains of important commodities the PDO is proposed to be revised as follows: to improve the competitiveness of smallholder farmers and the agribusiness sector in selected commodity value chains supported by the project. The revised PDO removes the restriction of 25 districts but maintains the focus on selected commodity value chains so that the project can have a meaningful impact on developing a few, commercially viable value chains.

IV. Project Description
Component Name
Agriculture and Rural Business Development
Support for Sanitary and Phytosanitary Facilities and Food Quality Standards
Project Management and Monitoring and Evaluation

V. Financing (in USD Million)

<table>
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<tr>
<th>For Loans/Credits/Others</th>
<th>Amount</th>
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<tr>
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<tr>
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<td>Financing Gap</td>
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<td>Total</td>
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VI. Implementation
The Project Implementation Manual will continue to guide implementation procedures and will be updated from time to time to reflect lessons learned during implementation. A National Project Steering Committee (NPSC), chaired by the Secretary of the Ministry of Agriculture Development (MOAD) will be A National Project Steering Committee (NPSC), chaired by the Secretary of MOAD. The NPSC will be responsible for implementation oversight, including policy and guidelines formulation, and approval of the annual work program and overseeing its implementation. Members of the NPSC will be drawn from the Government, the private sector and civil society. The NPSC will consist of a representative of the Ministry of Finance (MOF), Ministry of Federal Affairs and Local Development (MoFALD), Ministry of Industry, Commerce and Supplies (MOCIS), Ministry of Environment, Science and Technology (MOEST), National Planning Commission (NPC), Department of Livestock, Department of Agriculture and Department of Food Technology and Quality Control, National Agricultural Research Council (NARC), Federation of Nepal Chambers of Commerce and Industries (FNCCI), Institute of Agriculture & Animal Science (Tribhuvan University), and two representatives of civil society (farmer organizations, NGOs, or agro industrial enterprises). The Project Director (PD) of the Project Management Team will act as the Secretary to the NPSC. The NPSC will meet every three months to review progress and approve new grants. A SubProject Appraisal Committee (SPAC) will provide technical oversight and recommend decisions for consideration by the NPSC.

Value Chain Participants will be the main implementers and beneficiaries of the project. These will include cooperatives, farmer groups and FOs, traders, input suppliers, processors, commercial farmers, transporters, and other stakeholders such as those engaged in food quality and safety management. Promoting agriculture commercialization will rest both in the hands of the government and that of the value chain participants through their respective organizations and individually. Special attention will be given to building the capacity of FOs’ internal management and creating and strengthening linkages and partnerships with agri-enterprises with a view to create a functional value chain. With technical assistance from SPLs and government departments, value chain participants will prepare plans, mobilize financial resources and implement activities that increase commercial production among members and that improve the value chain they participate. The FOs will have their own management (executive committee) and are encouraged to be members of commodity associations, or producers associations that will have a district and national level representations.
VII. Safeguard Policies (including public consultation)

<table>
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<th>Safeguard Policies Triggered by the Project</th>
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<td>Environmental Assessment OP/BP 4.01</td>
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<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
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</table>

VIII. Contact point

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