

August 31, 2012

Comments from Germany on the Approval by Mail: Nepal: Building Climate Resilient Communities through Private Sector Participation (IFC)

Dear all,

We would like to congratulate the Government of Nepal (GoN) for compiling this well written and concise project proposal for PPCR Component IV. We welcome the proposal in principle but have some observations and recommendations we would like to see reflected in the project design and implementation (see attached).

Kind regards
Ina von Frantzius

Comments on proposed project: Nepal Climate Resilient Communities through Private Sector Participation

We would like to congratulate the Government of Nepal (GoN), especially the Ministry of Environment, Science and Technology (MoEST, previously Ministry of Environment), for compiling this well written and concise project proposal for PPCR Component IV.

We welcome the proposal in principle but have some observations and recommendations we would like to see reflected in the project design and implementation.

We fully support part 1: Promoting Climate Resilient Agriculture of the proposal, which will focus on improving Nepal's agricultural sector taking a supply (or value) chain perspective, and will, among others, support provision of improved seed varieties, irrigation, extension services, and finance. This part appears likely to have strong positive and synergetic impact in combination with other components of the PPCR, especially Component II (Building Resilience to Climate Related Hazards). We do however have some **questions and concerns regarding part 2: Strengthening Vulnerable Infrastructure** of the proposal, where in our view the actual benefit for communities has not yet been elaborated sufficiently.

Regarding the proposal as a whole, we are concerned that its indicators are too much input-oriented, and fail to measure whether the project is actually achieving its objectives, and whether it does make a measurable contribution to building climate resilience.

Individual Comments on the Proposed Project

We most welcome IFC blending their own with PPCR funds, and aiming to leverage additional private investment for climate-resilient growth.

We acknowledge the market based supply (value) chain approach in the agricultural sector that part 1: Promoting Climate Resilient Agriculture of the proposal is taking. It appears to us, however, that the planned activities still focus very much on the

upstream (production) end of the value chain. Most of the interventions outlined focus more or less directly on farmers. The interventions planned to engage other value chain actors are, by comparison, portrayed with less detail (training the technical teams of private companies probably being the most tangible activity). **We therefore recommend elaborating in somewhat greater detail how mid stream and upstream value chain actors will be engaged. We would also like to see a brief section on how vertical linkages along the value chain (i.e. between upstream, mid stream and downstream actors) will be promoted, which we consider crucial for post-project sustainability.**

The project proposal does not appear to address how IFC and private sector partners intend to overcome farmers' reluctance to test and adopt innovations like improved seed varieties or irrigation systems. Nepal's agricultural sector is known for its slow adoption of innovations, and it lacks institutions that develop and distribute new varieties or technologies. Also, Nepal does not have an insurance sector sufficiently developed to back up innovation-related risks, and farmers can usually not fall back on own savings to offset losses. We therefore recommend giving more attention to developing approaches and to planning for supporting the adoption of innovations among farmers. On a related note, we would once again encourage the GoN and MDBs to continue their mutual dialogue and preparatory work on weather insurance under the PPCR.

Regarding the indicators that are meant to measure the success of part 1 of the proposal, we would like to comment that they are too much input oriented from our view. "Number of farmers and agri supply chain members introduced to improved agricultural practices" and "value of financing accessed by farmers and agri supply chain members" are indicators that measure steps on the way to "enhancing agricultural productivity", but do not even allow making a statement whether "improved agricultural practices" have actually been adopted, let alone measuring whether agricultural productivity has been enhanced. **We therefore recommend including indicators in section 15. that measure at least whether "climate smart technologies in agribusiness" have been adopted by the project's target group, and if possible whether "enhanced agricultural productivity" has been achieved.**

Regarding part 2: Strengthening Vulnerable Infrastructure of the proposal, we have some deeper concerns. Basically, the proposal draws the links between hydro power operators and the rural (poor) population by arguing that inadequate electricity supply, and in particular power outages, have been a major constraint to economic development and poverty alleviation in Nepal, and that against this background hydropower plants in Nepal need to be made more resilient to these effects of climate change. While we do not question the validity of this argument, it appears to us that no attempt is being made to actually measure whether those plants that ultimately receive support will supply more and/or more stable power to the rural population as compared to a pre-project baseline. Following the proposal's line of argument, this would be a necessary precondition to increasing the resilience of the rural (poor) population as the ultimate beneficiary (and not only the plants themselves). **We would therefore recommend including indicators in section 15. that measure the change in the output (amount and stability) that the hydropower plants support once they have actually integrated climate resilient technologies. Merely reducing high**

maintenance costs and increasing operating revenues would not justify a PPCR involvement.

Comments on Cross-Cutting Issues

Women have been identified as main agents in the agricultural sector of Nepal (“rural feminization”) and as particularly vulnerable to the negative impacts of climate change in Nepal. Gender aspects have been taken into account in the analytical parts of the project proposal, but only to a lesser extent in the proposed activities (mostly as part of gender sensitive extension delivery methods). We therefore recommend being more specific about gender issues in the proposed activities, and in particular including indicators in section 15. that measure the impact of the project interventions on women.

Synergies with German Climate Change Related Engagement in the Country / Region

Especially against the background of the known challenges in mainstreaming agricultural innovation in Nepal, and of farmers being slow in taking up innovative approaches (see above), we recommend exploring synergies with the German supported project Improvement of Livelihoods in Rural Areas (ILRA), which is implemented by GIZ. ILRA has valuable experiences in working with lead farmers in several districts of Nepal. GIZ will be happy to offer a conceptual exchange on experiences made in implementing that project..