



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
NEPAL: MAKING MARKETS WORK FOR THE CONFLICT AFFECTED IN NEPAL  
APPROVED ON FEBRUARY 17, 2012  
TO  
POVERTY ALLEVIATION FUND

AGRICULTURE

SOUTH ASIA

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**ABBREVIATIONS AND ACRONYMS**



**Note to Task Teams:** The following sections are system generated and can only be edited online in the Portal.

**BASIC DATA**

**Product Information**

Project ID P128744	Financing Instrument Specific Investment Loan
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 17-Feb-2012	Current Closing Date 15-Jul-2017

**Organizations**

Borrower Poverty Alleviation Fund	Responsible Agency Poverty Alleviation Fund
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**Project Development Objective (PDO)**

Original PDO

The objective of the Project is to enhance the opportunities and share of rural artisans (especially the poorest, internally displaced people, landless and the vulnerable) in the crafts and cultural market.

The project will target poor and disadvantaged people (including women and differently-abled), particularly in lagging and conflict affected districts that have been marked by social unrest and stress. This innovative project aims at addressing a root cause of unrest and distress migration by enabling the beneficiaries to access sustainable livelihoods by strengthening their traditional skills and make inroads into mainstream markets.

**Summary Status of Financing**

TF	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
TF-11208	10-Jan-2012	17-Feb-2012	17-Feb-2012	15-Jul-2017	2.65	2.16	.48



### Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

**Note to Task Teams:** End of system generated content, document is editable from here.

## I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. **Summary:** The proposed changes are: (i) a no-cost extension of the current closing date by 6 months from July 15, 2017 to January 15, 2018, and (ii) reallocation of Grant proceeds of \$175,851 from the Category “Goods, Works, Consulting Services, Training and Operating Costs” to “Sub-grants under Part 2 of the Program”. The purpose of the extension is to (a) ensure long term sustainability of higher level artisan institutions (Artisan Co-operatives) through capacity building of grassroots managers, proactive handholding support for a six-month period and (b) facilitation of strong market linkages during the festive season between October and December 2017.
2. The Japan Social Development Fund Trust Fund management provided its clearance to the restructuring package on June 22, 2017.
3. **Background:** The grant was effective on February 17, 2012, and was originally expected to close by February 17, 2016. The closing date was revised to July 15, 2017 by means of a no-cost extension, owing to substantial delays in implementation because of a range of external as well as internal factors including political instability, trade blockade with India in 2015 which lasted for almost five months, earthquake in 2015, CIAA investigations at PAF and change in PAF management at multiple levels.
4. **Project Status and Progress on key fronts:** Out of a total grant amount of US\$2,646,777, disbursement currently stands at US\$ 2,162,556 (81.7%). Outreach and first-tier organizing activities have been completed. Over 7480 artisans (94% of the project’s target outreach) have been registered and organized into more than 350 Producer Groups (PGs). Community cluster funds have been created in all target project districts. As part of skill development and design development activities, over 26 Training of Trainer (TOT) workshops have been organized to train master trainers, and more than 180 innovative, differentiated and unique designs/prototypes have been developed. PAF’s institutional partnerships with eight Partner Organizations (POs), international technical partner organization, Asian Heritage Foundation (AHF), and local technical partner organization Federation of Handicrafts Association of Nepal (FHAN) are in-place and functioning well. PAF has a full team in place, both at headquarters and at the district level. Project ratings are "Moderately satisfactory" for both "Progress towards achievement of PDO" and "Overall Implementation Progress", as per the latest ISR (February, 2017). Component-wise, the progress is as follows:
  - a. **Component 1:** Cluster Development and Capacity Building: PAF has partnered with 8 Partner Organizations (POs) in Tehrathum, Dhanusha, Gorkha, Dailekh, Dhanusa, Kapilabastu and Myagdi districts, mobilized 7480 artisans into more than 350 artisan Producer Groups. PAF is now in the process of creating at least 10 higher level artisan institutions with representatives from these producer groups to create legal entities capable of transacting business. Through technical partner organization, Asian Heritage Foundation, PAF has organized more than 26 skill and design development workshops, and developed 180 unique prototypes in craft skills such as Dhaka weaving, Mithila painting, Sikki, Moonj Basketry, Pottery, Allo Fibre, Lokta paper, Bamboo and Leather. PAF has contracted Federation of Handicraft Association of Nepal (FHAN) to conduct further skill and design development workshops and facilitate production of prototypes developed with the objective of



participating in high profile exhibitions and showcasing buyer-seller events. PAF has also contracted renowned local designers based in Nepal to further the design development process.

- b. Component 2: Community Cluster Fund: PAF has created community cluster funds in each project district, and has disbursed more than NPR 33,886,668 (US\$ 322,730) to these cluster funds based on guidelines developed. Loans are made out to producer groups from these funds based on their working capital requirements. Furthermore, community members from the project districts have developed proposals for setting up 5 Common Facility Centres (CFCs) with a total investment of NPR 5,761,035 (US\$ 54,867) in order to facilitate access to modern equipment and machinery (for e.g. looms) to artisans who otherwise lack access to such facilities. These proposals are currently being evaluated. 5 more such CFCs are being planned and proposals for the same are being developed by community members.
- c. Component 3: Marketing and Promotion: PAF has facilitated participation of its artisan groups in 20 marketing events. A majority of these events have been organized at the regional/district level with the objective of providing the artisans, exposure to consumers and the selling process, besides providing a platform for them to monetize their products. PAF is in the process of contracting an advertising and branding agency to develop brand creatives and packaging solutions for products of PAF's artisan groups as well as generate visibility and footfalls for a high profile marketing event that is expected to be conducted towards the end of the project.
- d. Component 4: Project Management: PAF is in the process of recruiting an agency to undertake impact assessment to study socioeconomic impact of PAF's interventions on its artisan members. PAF is also in the process of hiring a visual artist to develop a rich knowledge product that captures the journey of PAF's artisans and outlines key impacts. There are no outstanding audits for the project.

**5. Rationale for Restructuring:** PAF has requested a no-cost extension of six months to retain key project gains and ensure organic and sustained growth of artisan institutions beyond project period. The request has been articulated in the letter (dated June 21, 2017) from the Ministry of Finance, Government of Nepal to the World Bank and in detail by the Poverty Alleviation Fund Nepal in their letter dated June 21, 2017. The reasons listed are:

- a. Higher level artisan institutions focusing on long term Sustainability: PAF is in the process of creating higher level institutions (e.g. artisan cooperatives) that can receive orders and conduct business. These institutions will also own and manage Common Facility Centres (CFCs) that fulfil the strong demand for modern equipment and workspace in the districts. The activities involved in establishing these institutions and CFCs are (i) identifying artisan representatives from existing producer groups who can be members of these artisan institutions (ii) orienting them to the concept and functions of these artisan institutions (iii) Formalizing these institutions by creating legal entities and bank accounts (iv) Identifying leaders in these institutions and providing management and business trainings (v) Identify venue for CFCs in each district, develop equipment and machinery requirements, and procure them. An extension will provide additional time as well as the required focused technical assistance to undertake these activities and complete this process.
- b. Grassroots managerial capacity: Importantly, an extension will facilitate creation of realistic and viable 3-year business plans by the artisan cooperatives. It will also allow the much needed critical handholding support for a period of at least six months to build grassroots managerial capacity and ensure that the artisan owned business institutions are sustained well beyond the project period. Handholding support will include activities such as training of grassroots managers, capacity building in developing business plans, evaluation of these business plans, regular evaluation of execution of these plans, and facilitation of financial and B2B market linkages to support execution.
- c. Long term market linkages: The October-December festival season is characterized by high purchases of artisanal products by consumers. This is a key opportunity for the communities to showcase their innovative products created under the project and create tenable business linkages with mainstream buyers, business to business (B2B), business to consumer (B2C) and business to government (B2G) linkages through exhibitions, trade fairs and tailored/invitation only and exclusive marketing events. This can result in a pipeline of orders for



artisan institutions, which in turn ensures their sustainability and a steady source of income for the artisans. Strategic direction and handholding support by the Bank team will be critical to build PAF's capacity in this new domain of activity and development cycle. This will include activities such as facilitation of B2B / retail linkages, key technical support in organizing exhibitions, key technical support in marketing and branding, facilitation of exposure visits to established models / markets.

- d. Artisan interest and ownership: The project has generated substantial interest and excitement among artisan communities. This, at the same time, has increased the artisan community's expectations for continued capacity building and skill development, introduction of new designs, development of new products and sustained support in mainstreaming them. Lack of an extension at this juncture will result in PAF's inability to meet these expectations, which will in turn cause disillusionment among communities. Lack of additional time will also leave the activity cycle (i.e, organizing – skill/design development – finance – marketing linkages) incomplete, which will adversely affect communities' motivation to shift to artisanal activities in lieu of unskilled or semi-skilled labour.
  - e. Alignment with PAF project: An extension will improve the alignment of project activities with those of the IDA-supported PAF project which is expected to continue till December, 2018.
6. **Bank team's assessment**: After conducting a detailed assessment, the Bank team agrees with the above rationale for extension request, and has concluded that in the additional time frame, the project team will be able to facilitate the establishment of higher level artisan institutions capable of being viable and competitive in the mainstream market, which will in turn result in sustainable livelihood options for PAF's artisan beneficiaries. The factors behind the Bank's assessment are (a) the strong progress over the past one year, despite the several setbacks to implementation in the preceding period (earthquake, political turmoil, CIAA investigations etc.) (b) the robust plans developed for fast-tracking implementation and the fact that most partnerships and contracts are in place (c) the interest in the artisan community that has ensured project interventions are well received and utilized. The Bank team also agrees with the proposed reallocation of resources (\$175,851) from Category 1 ("Goods, Works, Consulting Services, Training and Operating Costs ") to Category 2 ("Sub-grants under Part 2 of the Programme ") to provide for financing higher level artisan institutions based on viable business plans. This is in line with the principle of community driven development and the objective of creating sustainable institutions that can continue to provide dignified artisanal livelihood options for project beneficiaries. The Bank team will continue to provide more frequent implementation support to ensure that sustainability issue is satisfactorily addressed during the extended period.
7. The Bank team concurs that the disbursements projected by PAF in the proposed extension period will be met as planned.



**Note:** Formatting instructions for this document.

**A. Header**

1. [All sub-sections must have a continuous paragraph numbering for the entire main text or for each annex per institutional standard.]

(a) This is the sub-para numbering for this level. This is the sub-para numbering for this level. This is the sub-para numbering for this level.

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**II. DESCRIPTION OF PROPOSED CHANGES**

1. **Change in Grant Closing Date:** The closing date for the Grant Agreement is proposed to be extended by 6 months from July 15, 2017 to January 15, 2018. The project is expected to meet its objectives within this additional timeframe.
2. **Change in Results Framework:** Since the project closing date is proposed to be extended, the end-target dates for various indicators in the results framework have also been modified accordingly.
3. **Grant Reallocations:**
  - a. Reallocation across Categories: An amount of \$175,851 is proposed to be reallocated from the Category “Goods, Works, Consulting Services, Training and Operating Costs” to the Category “Sub-grants under Part 2 of the Project”. This is in line with PAF’s strategy to create higher level artisan institutions (at least 10), provide handholding support to the grassroots leaders / managers of these institutions to create viable business plans, and support these plans through Component 2, “Community Artisan Investment Fund”. This is to ensure that investments in the artisan communities are demand driven. This reallocation is expected to improve the intended impact of interventions, as well as improve pace of activities as many recruitment and investment decisions will now be decentralized and can be undertaken directly by the artisan institutions.
  - b. Reallocation across Components: The current distribution of funds across components is: Component A - \$972,251, Component B - \$977,019, Component C - \$554,048 and Component D - \$143,459. It is proposed that Component A’s allocation be reduced by \$247,699, and Component B, C and D’s allocation be increased by \$146,307, \$39,000 and \$62,392 respectively. This is to support the creation of artisan institutions as mentioned in the previous point (Component B), strengthen marketing activities (Component C), and support project management activities and personnel cost during the proposed extension period. The new distribution of funds across components is: Component A - \$724,552, Component B - \$1,123,326, Component C - \$593,048 and Component D - \$205,851.



- 4. Project development objective, and component wise objectives remain unchanged. There are no environmental or social issues expected because of the proposed restructuring.

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**B. Header**

1. [All sub-sections must have a continuous paragraph numbering for the entire main text or for each annex per institutional standard.]

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**I. SUMMARY OF CHANGES**

	Changed	Not Changed
Change in Components and Cost	✓	
Change in Loan Closing Date(s)	✓	
Reallocation between Disbursement Categories	✓	
Change in Disbursement Estimates	✓	
Change in Implementation Schedule	✓	
Change in Implementing Agency		✓
Change in Project's Development Objectives		✓
Change in Results Framework		✓
Cancellations Proposed		✓
Additional Financing Proposed		✓
Change in Disbursements Arrangements		✓
Change in Overall Risk Rating		✓





Change in Safeguard Policies Triggered		✓
Change of EA category		✓
Change in Legal Covenants		✓
Change in Institutional Arrangements		✓
Change in Financial Management		✓
Change in Procurement		✓
Other Change(s)		✓

**IV. DETAILED CHANGE(S)**

**COMPONENTS**

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Cluster Development and Capacity Building	0.21	Revised	Cluster Development and Capacity Building	0.71
Community Cluster Funds	1.50	Revised	Community Cluster Funds	1.12
Marketing and Promotion	0.55	Revised	Marketing and Promotion	0.60
Project Management, Monitoring and Evaluation, and Knowledge Dissemination	0.37	Revised	Project Management, Monitoring and Evaluation, and Knowledge Dissemination	0.20
<b>TOTAL</b>	<b>2.63</b>			<b>2.63</b>

**LOAN CLOSING DATE(S)**

TF	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-11208	Effective	17-Feb-2016	15-Jul-2017	15-Jan-2018	15-May-2018

**REALLOCATION BETWEEN DISBURSEMENT CATEGORIES**



	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
				Current	Proposed
TF-11208-001   Currency: USD					
iLap Category Sequence No: 1		Current Expenditure Category: Gds,Wks,Cons,Trg and IOC			
	1,704,169.00	80,786.03	1,528,318.00	100.00	100.00
iLap Category Sequence No: 2		Current Expenditure Category: Sub Grants under Part 2 of the Proj			
	942,608.00	0.00	1,118,459.00	100.00	100.00
<b>Total</b>	<b>2,646,777.00</b>	<b>80,786.03</b>	<b>2,646,777.00</b>		

**DISBURSEMENT ESTIMATES**

Change in Disbursement Estimates  
Yes

Year	Current	Proposed
2012	50,000.00	345,932.00
2013	465,000.00	431,697.00
2014	786,000.00	44,972.00
2015	821,000.00	0.00
2016	524,777.00	1,330,954.00
2017	0.00	484,220.00

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