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President's memorandum
Proposed additional financing to
Islamic Republic of Pakistan for the
Southern Punjab Poverty Alleviation Project

Project ID: 1100001514

Note to Executive Board representatives

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For: Approval

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Financing summary

Initiating institution:	IFAD
Borrower:	Islamic Republic of Pakistan
Executing agency:	Planning and Development Board, Government of Punjab
Total project cost:	US\$183.5 million
Amount of original IFAD loan and grant:	(i) Original loan – SDR 19.3 million (equivalent to US\$30.2 million); (ii) additional loan 1 – SDR 7.3 million (equivalent to US\$10 million); (iii) additional loan 2 – US\$25 million; (iv) additional loan 3 – US\$36.5 million and grant – US\$2.9 million
Terms of original IFAD financing:	Highly concessional for original loan and additional financings 1 and 2, blend for additional financing 3
Amount of additional IFAD loan:	US\$50 million (equivalent to SDR 35.5 million)
Terms of additional IFAD financing:	Blend: Maturity period of 25 years, including a grace period of 5 years. There will be interest on the principle amount outstanding and a service charge, both of which will be fixed for the life cycle of the loan and payable semi-annually in the loan service payment currency, as determined by the Fund at the date of approval of the loan by the Executive Board.
Contribution of borrower (including previous contributions):	US\$5.6 million (original financing: US\$5.6 million; additional loan 2: US\$4.5 million; additional financing 3: US\$3.5 million)
Contribution of beneficiaries (including previous contributions):	US\$1.1 million (original financing: US\$3.3 million; additional financing 3: US\$5.4 million)
Amount of additional IFAD climate finance:	US\$0.7 million
Cooperating institution:	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing contained in paragraph 48.

I. Background and project description

A. Background

1. This memorandum seeks the approval of the Executive Board for additional loan financing of US\$50 million on blend terms for the Southern Punjab Poverty Alleviation Project (SPPAP). Approved in December 2010 with a loan of SDR 26.4 million, SPPAP has regularly demonstrated excellent performance, achieving 100 per cent of its operational and financial objectives during these last years.
2. Based on this outstanding project performance, the high number of rural ultra-poor households in the South Punjab Province, and the request of the Government of Pakistan to scale up this intervention, two additional loans were approved: (i) additional loan 1 – SDR 7.3 million (equivalent to U\$10 million) in December 2015, and (ii) additional loan 2 – US\$25 million in September 2017. This led to the expansion of coverage from 4 to 10 districts and an increase in outreach from 80,000 to 131,000 households. The completion date was extended to 30 September 2020.
3. A third-party evaluation/validation study commissioned by the Government of Punjab and an impact survey initiated by IFAD in 2018, which covered more than 700 SPPAP beneficiary households, confirmed the expected impact of the project in terms of poverty graduation of the target groups. Based on these excellent results and the needs identified in the field, a new additional financing of US\$39.4 million (a loan of US\$36.5 million and a grant of US\$2.9 million), with a completion date of 30 September 2022, was approved in September 2018.
4. In 2021, a second impact survey, conducted among the same household sample as in the previous survey, showed spectacular results, with a drastic reduction of chronically and extremely poor households (from 93 per cent of the sample in 2015 to only 1 per cent in 2021) and a significant increase in the percentage of households considered non-poor or non-vulnerable (65 per cent, compared with 0 per cent at baseline). Based on the provincial needs identified in the field and the current successful implementation of SPPAP, the Government of Pakistan has requested additional financing from IFAD in the amount of US\$50 million on blend terms to enable it to consolidate the results obtained and increase outreach to 350,000 poor households (approximately 2.5 million people).

B. Original project description

5. Located within Pakistan's cotton-wheat zone, southern Punjab has long been neglected by development assistance on the assumption that its share of agricultural produce would make it better off than other parts of the country. However, poverty analysis has revealed that the incidence of poverty in this region is among the highest across Pakistan. Districts in southern Punjab are generally characterized by poor socio-economic status. This is reflected not only in low per capita incomes and consumption expenditures, but also in the lack of access to schools, medical facilities, roads, electricity and other elements of infrastructure and human development. At the root of poverty are the skewed distribution of land and the abusive arrangements of farming. The landless have to rely mostly on employment as casual wage labourers for income. The bulk of employment is provided by the informal sector, where women workers are particularly vulnerable.

6. The original SPPAP was designed to assist the Government of Pakistan in achieving its poverty alleviation goal in southern Punjab through the project's objectives of increasing the incomes of the target population by enhancing their employment potential and by increasing agricultural productivity and production. The initial expected direct beneficiaries of SPPAP were 80,000 poor rural households from four districts. The project targeted landless casual labourers, smallholder farmers and woman-headed households, in particular, and had/has three components: (i) livelihoods enhancement; (ii) agriculture and livestock development; and (iii) project management.

II. Rationale for additional financing

A. Rationale

7. Punjab Province is home to more than 100 million people, and South Punjab Province is the area in which the most vulnerable rural households are concentrated. The outstanding and sustainable results obtained through SPPAP, as demonstrated in the 2018 and 2021 impact surveys in terms of poverty graduation, targeting, gender empowerment (the project won the 2019 IFAD Gender Award for the Asia and the Pacific region) and rural youth employment, have led the Government of Pakistan to request IFAD to assist it in consolidating the results obtained and reaching in total around 2.5 million of the poor and ultra-poor people in this area (350,000 households).
8. The additional financing will not involve any change in objectives, target groups or geographical area. The additional financing will be used to scale up project activities and extend coverage for enhanced impact. It will strengthen the resilience of poor rural people to climate change and introduce best practices and technologies in support of climate resilience, where appropriate.
9. The current SPPAP meets all the eligibility criteria for additional financing. This additional financing is justified by: (i) a formal request from the Government of Punjab and the Government of Pakistan; (ii) a significant increase in the number of SPPAP outreach beneficiaries under the current SPPAP performing arrangements (same objective, same geographical area, same implementing arrangements); (iii) a low risk of non-delivery for this additional financing, (iv) high impact in terms of poverty graduation as confirmed by several evaluations; (v) full alignment of SPPAP with the Government's priorities and with the current country strategic opportunities programme for Pakistan; (vi) consistently satisfactory ratings by recent supervision missions; (vii) an overall disbursement level (67 per cent) aligned with the projected disbursements; and (viii) financial management and audits aligned with the standards.

Special aspects relating to IFAD's corporate mainstreaming priorities

10. In line with Eleventh Replenishment of IFAD's Resources mainstreaming commitments, the project has been validated as:

Including climate finance.

B. Description of geographical area and target groups

11. The proposed additional financing will be implemented in the same geographical area (10 target districts) and will make it possible to consolidate the SPPAP interventions by being more inclusive and extending the project's outreach to additional poor and ultra-poor beneficiary households.
12. The target groups are the poorest rural households, identified jointly with community organizations and ranked on the Pakistan Poverty Scorecard from 0 to 23 (0–11 = ultra-poor; 12–18 = chronically poor; 19–23 = transitory poor). Women will make up 100 per cent of the target group for component 1 (accounting for 86 per cent of this additional financing), although the community physical infrastructure aspect of the component will benefit both men and women.

C. Components, outcomes and activities

13. **Component 1 – Livelihoods enhancement (US\$43.2 million).** This component consists of three subcomponents: 1.1. asset creation; 1.2 vocational and entrepreneurial training; and 1.3 community physical infrastructure (CPI). Based on the demand expressed, this component covers a range of investments aiming at building the tangible and intangible productive asset base of the poorest target group and of women to contribute to their sustainable economic graduation. This investment includes start-up capital to develop self-run businesses, livestock/ruminant packages, small housing units for landless/homeless women (and their households) with a poverty score of 0–11. The additional financing will also fund vocational and technical training on the basis of predetermined market demand and placement opportunities for the trained beneficiaries. Based on the priorities identified by the beneficiary communities in their community development plans, the project may also finance high-priority social and economic infrastructure including: irrigation water schemes, sanitation schemes, drinking water supply schemes, access/link roads and minor structures, and other schemes that will support livestock management.
14. **Component 2 – Agriculture and livestock development (US\$7.3 million).** This component is complementary to component 1 and has been oriented more towards institutionalizing the community-driven development (CDD) approach through direct linkages to public sector development and service delivery facilities, rather than direct project-funded interventions. The approach will enhance the sustainability prospects of the project interventions and strengthen the food and nutrition security of the poorest people and the most vulnerable and poorest union councils (through women-managed food banks, nutrition awareness activities, etc.). With the additional financing, the project will support the strengthening of additional community organizations (COs), which serve as the vehicle and entry point for the overall project. All CO members (350,000 households) will benefit in terms of awareness training and social capital formation. A tangible outcome of the CDD approach will be the formulation of community development plans. In the long run and as part of the exit strategy, the COs will have a sustainable link and access to public services and development planning and also linkages to the formal microfinance sector.
15. **Component 3 – Project management.** The management of the additional financing will build on the current and well-performing institutional and implementation arrangements. Day-to-day implementation will be managed by the project management unit (PMU), established under the supervision of the Planning and Development Board of the Government of Punjab and based in Bahawalpur District. The PMU will be supported by district coordination units. Project management will also cover baseline and impact surveys, monitoring and evaluation, advocacy and dissemination.

D. Costs, benefits and financing

Project costs

16. With the proposed additional financing, the SPPAP overall total project cost would become US\$183.5 million. This total includes US\$154.5 million in IFAD financing through the original and three additional loans and a grant, US\$19.1 million contributed by the Government of Punjab and US\$9.8 million contributed by beneficiaries.
17. Project subcomponents related to community physical infrastructure, institutional strengthening for CDD, and institutional services and capacity-building are partially counted as climate finance. As per the multilateral development banks' methodologies for tracking climate change adaptation and mitigation finance, the total amount of IFAD climate finance for this project is estimated as US\$0.7 million.

18. This proposed fourth additional financing for SPPAP is estimated at US\$56.6 million, including a US\$50 million loan from IFAD, US\$5.5 million contributed by the Government of Punjab and US\$1.1 million contributed by beneficiaries. The detailed distribution of the project cost is given below.

Table 1
Original and additional financing summary
(Thousands of United States dollars)

	<i>Original financing</i>	<i>Additional financing</i>	<i>Additional financing</i>	<i>Additional financing</i>	<i>Grant</i>	<i>Additional financing</i>	<i>Total</i>
IFAD loan	30 169	10 000	25 000	36 500	-	50 000	151 669
IFAD grant	-	-	-	-	2 900	-	2 900
Other cofinanciers	-	-	-	-	-	-	-
Beneficiaries	3 321	-	-	5 400	-	1 105	9 826
Borrower/recipient	5 600	-	4 500	3 449	-	5 566	19 115
Total	39 090	10 000	29 500	45 349	2 900	56 671	183 510

Table 2
Additional financing: project costs by component (and subcomponent) and financier
(Thousands of United States dollars)

<i>Component/subcomponent</i>	<i>Additional IFAD loan</i>		<i>Additional</i>						<i>Total Amount</i>
			<i>Beneficiaries</i>			<i>Borrower/recipient</i>			
	<i>Amount</i>	<i>%</i>	<i>Cash</i>	<i>In-kind</i>	<i>%</i>	<i>Cash</i>	<i>In-kind</i>	<i>%</i>	
1. Livelihoods enhancement									
1.1. Asset creation	31 094.68	97.6	-	-	-	765.27	-	2.4	31 859.95
1.2. Vocational and entrepreneurship training	4 917.79	76.0	-	-	-	1 552.99	-	24	6 470.77
1.3. Community physical infrastructure	4 402.19	90.0	-	489.1	10.0	-	-	-	4 891.32
2. Agriculture and livestock development									
2.1. Institutional strengthening for CDD	3 961.12	76.0	-	-	-	1 250.9	-	24	5 212.00
2.2. Food security and nutrition sensitive initiative	752.47	100	-	-	-	-	-	-	752.47
2.3. Institutional services and capacity-building	615.67	45.0	-	615.67	45.0	136.8	-	10	1 368.15
3. Project management	4 256.09	69.6	-	-	-	1 860.16	-	30.4	6 116.2
Total	50 000.00	88.2	-	1 104.80	1.9	5 566.11	-	9.8	56 670.9

Table 3
Additional financing: project costs by expenditure category and financier
(Thousands of United States dollars)

<i>Expenditure category</i>	<i>Additional IFAD loan</i>		<i>Additional</i>						<i>Total Amount</i>
			<i>Beneficiaries</i>			<i>Borrower/recipient</i>			
	<i>Amount</i>	<i>%</i>	<i>Cash</i>	<i>In-kind</i>	<i>%</i>	<i>Cash</i>	<i>In-kind</i>	<i>%</i>	
1. Civil works	4 402.2	90	489.1	-	10	-	-	-	4 891.3
2. Vehicles	-	-	-	-	-	-	-	-	-
3. Equipment and materials	-	-	-	-	-	-	-	-	-
4. Technical assistance, trainings and studies	8 932.5	75.9	-	-	-	2 830.7	-	24.1	11 763.2
5. Grants to beneficiaries	32 462.8	95.5	615.7	-	1.8	902.1	-	2.7	33 980.6
6. Salaries & allowances	2 861.6	66.7	-	-	-	1 431.2	-	33.3	4 292.8
7. Operating costs	1 340.9	76.9	-	-	-	402.1	-	23.1	1 743.0
Total	50 000.0	88.2	1 104.8	-	1.9	5 566.1	-	9.8	56 670.9

Table 4
Project costs by component and project year (PY)
 (Thousands of United States dollars)

Component/subcomponent	PY1		PY2		PY3		PY4		PY5		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Livelihoods enhancement	10 077.6	23	13 396.9	31	13 627.1	32	6 120.5	14	-	-	43 222.0
2. Agriculture and livestock development	2 413.7	33	1 650.3	23	1 639.6	22	1 629.0	22	-	-	7 332.6
3. Project management	1 209.3	20	1 303.5	21	1 405.2	23	1 514.8	25	683.4	11	6 116.2
Total	13 700.6	24	16 350.8	29	16 671.9	29	9 264.3	16	683.4	1	56 670.9

Financing and cofinancing strategy and plan

19. The project financing will consist of an IFAD loan on blend terms (88 per cent) and the contributions of the Government of Punjab (10 per cent) and one from the beneficiaries (2 per cent). This additional financing will cover a period of five years (2022–2027).

Disbursement

20. The main expenditure categories for this additional financing include civil works, training and studies, grants to beneficiaries and operating costs. The ratio of investment cost to recurrent cost is 92:08. Once the relevant finance agreement has been signed, the PMU will open a designated account in Pakistani rupees to receive the loan proceeds. Funds will be sent by IFAD in United States dollars through the State Bank of Pakistan, as per the country's regulations.
21. A report-based mechanism, with the submission of interim financial reports, will be used for the disbursement of funds from this additional financing. The PMU will be able to withdraw advances based on the cash forecast for each six-month period in accordance with the approved annual workplan and budget (AWP/B). The designated account will be administered through the revolving fund modality.

Summary of benefits and economic analysis

22. A number of benefits will stem from the project assistance: (i) small housing units will help households save on rent expenditures and enrich their asset base because the house value will appreciate over time; (ii) livestock will increase annual incomes; (iii) vocational/entrepreneurship training will lead to employment and self-employment; (iv) access to clean drinking water and improved sanitation will result in decreased health care expenditure and also enhance nutritional outcomes; (v) better access roads will reduce the cost of travel/transportation; (vi) irrigation and land protection will reduce irrigation costs; and (vii) infrastructure development will respond to other needs. Furthermore, under the agriculture and livestock development component, the food banks – which have been designed to reduce household spending on food – will increase household food security.
23. The total economic cost of the project is estimated at US\$131.5 million. The overall economic internal rate of return of the project is estimated at 27 per cent. The economic net present value of the project net benefit stream, discounted at 11.1 per cent, was found to be US\$64 million.

Exit strategy and sustainability

24. SPPAP follows tested poverty graduation approaches that exhibit growth and scaling up. Productive assets and skill transfer activities have already demonstrated that they enable beneficiaries to develop an income stream and offer both efficiency and growth potential. Social assets in the form of COs provide social and economic services to members and augment the institutionalization of support structures and the establishment of market linkages. The partnership with the National Rural Support Programme (NRSP) Microfinance Bank opens doors to formal financial inclusion for the target group. The project has involved local support organizations (LSOs), village organizations (VOs) and COs for the

deployment of CPI schemes and has built their capacity to manage and maintain these schemes.

25. **Mainstreaming environmental concerns.** The participatory social protection and poverty graduation approach of SPPAP, together with investment in disaster risk reduction, climate change adaptation, infrastructure, and knowledge and capacity-building, will greatly contribute to improved resilience among communities and target groups.

III. Risk management

A. Risks and mitigation measures

26. The main risks associated with achieving the project objectives are related to: (i) security; (ii) financial management capacity; and (iii) climate-related factors. Despite the tenuous security and economic situation in the country, there is a certain modicum of security and stability within the project districts. The inherent financial management risk for projects in Pakistan is normally assessed as substantial, owing to the delays in completing recruitment, which in turn is related to lengthy governmental procedures, delays in the submission of the AWP/B and lack of documentation for the budget monitoring process, the decentralization of funds flows, which requires robust internal controls, and delays in submission of audit reports by the Auditor General of Pakistan. In order to mitigate these risks, a strengthened finance wing, together with procurement or upgrading of an appropriate accounting software, will be essential. The project implementation manual will include financial management and reporting guidelines and internal control and payment procedures and will require monthly submission of statements of expenditure by implementing partners. In addition, alternative solutions will be sought with the auditors to ensure timely submission of the audit report. Under this fourth additional financing for SPPAP, there will be continued effort to introduce best practices and technologies that will help to build climate resilience, where appropriate, and mitigate climate-related risks.

B. Environment and social category

27. The nature and size of the project activities suggest that the project is likely to be considered as category B, in line with IFAD's Social, Environmental and Climate Assessment Procedures. Project intervention impacts, particularly those arising from CPI implementation, will be site-specific and can be readily remedied through appropriate actions and/or mitigation measures. The project's environmental and social management framework is well developed and provides further guidance on safeguards. As the project is localized and involves small-scale activities, possible environmental and social risks associated with the project activities are limited, with virtually no risk of physical resettlement or economic displacement.

C. Climate risk classification

28. Land resources have been degraded in the project area as a result of water logging and salinity in some parts, water stress and water insecurity for agriculture and domestic use, and water and wind erosion in the context of existing farming practices. There is, however, scope to address some of the challenges or mitigate the associated risks during project implementation. Options might include developing appropriate adaptive measures such as alteration in sowing dates, use of new crop varieties, changes in irrigation methods, changes in planting techniques and tillage practices, precision land-levelling techniques, improved water management, etc. Overall, taking into consideration the relative climate impacts on potential and current targeted areas, coupled with the measures included in the project for building adaptive capacity, the climate risk category is assessed as "moderate".

D. Debt sustainability

29. By the end of financial year 2020/21, the external debt in Pakistan had increased to US\$122.1 billion, compared with US\$116.3 billion at the end of the first quarter of 2021. The continuous increase in external debt is due to the fact that the Government relies on the foreign borrowing for outstanding external loans repayments. The external debt-to-GDP ratio in 2021 is 41 per cent, compared with 43 per cent in 2020.

IV. Implementation

A. Compliance with IFAD policies.

30. The relevance of project activities and their impact and soundness of approach as demonstrated by the results to date has led to further enhancement of coverage and interventions within the same geographical areas without need of any further adjustments in design.
31. The proposed additional financing is fully aligned with IFAD's Strategic Framework 2016–2025, particularly the strategic objectives of increasing poor rural people's productive capacities and increasing their benefits from market participation. Furthermore, SPPAP is specifically promoting an enabling policy and regulatory framework for increased levels of investment in the rural sector. The principles of engagement are, furthermore, fully embedded in the project through the proposed scaling up of the poverty graduation model. The expanded and scaled-up SPPAP adheres to IFAD policies and strategies for gender mainstreaming, environmental and natural resource management, climate change and social, environmental and climate assessment, and scaling up.

B. Organizational framework

Project management and coordination

32. In general, the existing institutional and implementation arrangements will be used to manage the additional financing. The implementation methodologies, procedures and processes continue to be valid and will be the basis for ongoing implementation.
33. **Project steering committee (PSC).** The existing PSC, headed by the chairperson of the Planning and Development Board, will continue to perform the policy direction, coordination, resource linkage and plan approval functions. The secretaries of relevant departments, the chief executive officer (CEO) of the Punjab Social Protection Authority, the CEO of NRSP, the social mobilization partner, and the CEO of the Punjab Skills Development Fund will constitute the rest of membership. The SPPAP director is the secretary of the PSC. The PSC also serves as a forum for strengthening the practical linkages between SPPAP and other government-funded initiatives.
34. **Project management unit.** A well-staffed PMU is functional at Bahawalpur and is responsible for overall management, coordination, monitoring and evaluation (M&E), knowledge management and financial management. Key PMU staff members include the project director, deputy directors with technical specialties (including gender and poverty and M&E specialists), the finance manager and the procurement specialist, who are assisted by a sufficient number of support staff, including assistants, clerks and drivers.
35. Planning, coordination and M&E functions will be strengthened to effectively cover the expanded area of operation. The PMU will continue to monitor project progress effectively; regularly evaluate targeting accuracy, quality and impact of interventions; and report progress on core outcome indicators in accordance with IFAD M&E guidelines. The PMU will be supported in this function by a satellite regional coordination unit at Layyah and 10 district coordination units.

36. **Policy engagement.** Policy dialogue and engagement will take place at three levels: (i) at the community level – the project will also support networking among COs and their associations; (ii) at the district-level – the project will assist the Government in establishing systems to make district development and service delivery plans responsive to needs identified at the CO, VO and LSO/union council levels through district coordination committees; and (iii) at the provincial level – the project will engage with National Poverty Graduation Programme to share successful poverty graduation approaches and models, and assist in mainstreaming and scaling up these approaches.
37. **Partnerships.** The project will continue the direct contracting of NRSP as the social mobilization partner. To this end, a revised contractual agreement will be negotiated with NRSP; a separate agreement will be signed with the NRSP Microfinance Bank for the management of community revolving funds. With regard to vocational and entrepreneurial training, service providers such as the Institute of Rural Management and others may be contracted to provide training for the specific needs of rural women, especially young women.

Financial management, procurement and governance

38. The additional financing will be managed by the current SPPAP PMU. The unit has an experienced and qualified finance staff that will be able to apply adopted financial management arrangements to this additional financing. However, based on the financial management issues identified for SPPAP, the PMU will enhance the following elements to ensure smooth implementation of this additional financing:
- (i) **Flow of funds.** The PMU will open a new designated account for this additional loan before disbursement starts. The first advance will be equivalent to approximately six months of project expenditure in accordance with the approved AWP/B. Further advances will be withdrawn following the submission of justification of 70 per cent of the immediately preceding advance and 100 per cent of all prior advances. A separate dedicated bank account will be maintained for managing the government counterpart funding. The Government's contribution will be reflected in the annual development plan of the province by the Planning and Development Board.
 - (ii) **Internal control.** The project implementation manual should be updated to include all new elements related to this additional financing, including any changes to financial management arrangements. The PMU should conduct periodic field visits and control checks on implementing partners in order to ensure proper use of funds. An internal auditor will be recruited for SPPAP to ensure the effectiveness of internal control measures.
 - (iii) **Accounting and financial reporting.** Project accounting will be done on a cash basis in accordance with the International Public Sector Accounting Standards. The current accounting software is QuickBooks. Since this is the fourth additional financing for SPPAP, the PMU should consider upgrading the accounting software to ensure auto-generation of financial reports that include all project financing. This is important to ensure that all project records for the six finance instruments are consolidated and can be easily tracked.
 - (iv) **External audit.** The annual audit of the project is carried out by the Auditor General of Pakistan, the country's supreme audit institution, in accordance with the International Standards on Auditing. The audit terms of reference will be updated by the PMU to include this additional financing as per IFAD guidelines.
 - (v) **Procurement.** IFAD-funded goods, works and services will be procured in accordance with the Punjab Procurement Regulatory Authority Act and Rules 2009, to the extent that they are consistent with IFAD procurement

guidelines. An annual procurement plan will form the basis for all procurement. The procurement plans will be submitted (together with the AWP/B) to the PSC for approval and to IFAD for no objection. A procurement officer within the PMU will be in charge of the procurement function. COs will take the lead in community-level procurement (under components 1 and 2).

- (vi) **Governance.** All project stakeholders will be consistently made aware that IFAD applies a zero-tolerance policy towards fraudulent, corrupt, collusive or coercive actions in projects financed through its loans and grants. The dissemination of IFAD's anticorruption policy among project staff and stakeholders will be ensured, and relevant provisions of the policy will be included in bidding documents and contracts.

C. Monitoring and evaluation, learning, knowledge management and strategic communication

39. SPPAP will implement a comprehensive M&E system to keep track of the qualitative and quantitative aspects of project implementation. The main purpose of the M&E system will be to provide all stakeholders with reliable and timely information on project performance and results. The M&E system will: (i) regularly track activities and outputs; (ii) monitor outreach; (iii) measure and evaluate results; (iv) verify compliance by all actors with schedules; and (v) assess the rate of financial execution against budget.
40. Activity and output data will be analysed by the M&E officer and findings will be shared with the project management during monthly coordination meetings. Such information will be the basis for the preparation of periodic progress reports and the reporting of M&E data to IFAD. The management information system shall also record the profile of each beneficiary and CO.
41. **Baseline survey.** A baseline survey has already been undertaken in all target districts to document the socio-economic and livelihood conditions of the potential beneficiary households prior to project interventions.
42. **Midterm and completion surveys.** The midterm and completion surveys will be conducted prior to the start of the midterm review mission and the completion review mission, respectively, to measure project impact against the baseline situation.
43. **Outcome surveys.** In order to measure early project results, a number of outcome surveys will be undertaken starting in the second year of the expansion phase.

D. Proposed amendments to the financing agreement

44. The proposed amendment to the financing agreement are: (i) revision of the agreement to include the amount of the loan, the financing terms, the amortization schedule and the duration of the loan; (ii) revision of schedule 1 to reflect the enhanced scale of the development objectives in terms of outreach; and (iii) revision of schedule 2 to incorporate the additional proposed IFAD financing.

V. Legal instruments and authority

45. A financing agreement between the Islamic Republic of Pakistan and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be made available prior to the session.
46. The Islamic Republic of Pakistan is empowered under its laws to receive financing from IFAD.
47. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

48. I recommend that the Executive Board approve additional financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on blend terms to the Islamic Republic of Pakistan in an amount of fifty million United States dollars (US\$50,000,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Updated logical framework incorporating the additional financing

Southern Punjab Poverty Alleviation Project								
Logical Framework								
Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	1 Persons receiving services promoted or supported by the project				Implementing Partners' records and progress reports	quarterly		Political and economic stability and security
	Males - Males		650 860	1 037 260				
	Females - Females		976 290	1 555 890				
	Young - Young people		488 145	777 945				
	Total number of persons receiving services - Number of people		1 877 045	2 836 571				
	Male - Percentage (%)		40	40				
	Female - Percentage (%)		60	60				
	Young - Percentage (%)		30	30				
	1.a Corresponding number of households reached							
	Women-headed households - Households		92 694	140 078				
	Non-women-headed households - Households		139 470	210 116				
	Households - Households		231 734	350 194				
1.b Estimated corresponding total number of households members								
Household members - Number of people		1 627 150	2 593 150					
Project Goal To contribute to the reduction of poverty in 10 districts in Punjab	Percentage of beneficiary hh having graduated to a higher poverty category (based on PSC score)				impact surveys	mid-term and completion		
	Households - Percentage (%)		60	85				
Development Objective To increase the income of poor rural households by enhancing their employment potential and increasing agriculture productivity and production	Percentage of beneficiary hh reporting improved livelihoods means and income				AOS, impact surveys	annually, mid-term and completion		no major natural disasters in project area, no major changes in agric. and livestock prices, stable political economic and security situation
	Households - Percentage (%)		50	90				
Outcome Outcome 1: Improved living conditions and income-generative capacities for poorest and homeless households and the youth	Percentage of persons newly employed/self-employed after receiving vocational or business training				AOS, impact surveys	annually, mid-term and completion		Continuing market demand for trained workers no major outbreak of livestock disease in project area
	persons - Percentage (%)		50	75				
Output ultra-poor and landless hh provided with small housing units and small ruminant packages	1.1.3 Rural producers accessing production inputs and/or technological packages				implementing partners' records and progress reports	quarterly		availability of transferable land for housing plots current landlords of underprivileged community members do not oppose project implementation
	Females - Females		47 250	153 944				
	Total rural producers - Number of people			181 111				
	ultra-poor hh provided with a small housing unit				records and progress reports			
	hh - Number		4 000	8 882				
Output poor entrepreneurs and the youth provided with vocational and enterprise development training	2.1.2 Persons trained in income-generating activities or business management				Implementing partners' records and progress reports	quarterly	PMU, NRSP	Young women and men's motivation to acquire professional skills remain high
	Males - Males		18 000	30 200				
	Females - Females		27 000	45 300				
	Young - Young people		13 500	22 650				
	Persons trained in IGAs or BM (total) - Number of people		45 000	63 636				
	people accessing facilitated advisory services				Implementing partners' records and progress	quarterly	PMU, NRSP	
	Males - Number		84 000	148 000				
	Females - Number		126 000	222 000				

Outcome Outcome 2: Strengthened, more inclusive Community Organizations (COs) providing improved services to their members; and improved access to essential community infrastructure in poor communities	community organisations (COs) providing new services to their members		annual outcome surveys and impact surveys	quarterly and annual	PMU, NRSP	Active community participation in infrastructure operation and maintenance
	COs - Percentage (%)	40	75			
Output Existing and newly-created COs provided with capacity building support	No. of community organizations (COs) supported or newly created		IP's records and progress reports	quarterly and annual	PMU, NRSP	Poorest community members are willing to join a CO
	Community Organizations - Number	13 098	21 098			
	People in community groups formed/strengthened		NRSP reports, PMU reports	quarterly and annual	PMU, NRSP	
	Males - Number	69 157	122 248			
	Females - Number	140 411	248 201			
	People trained in community management topics		Implementing partners' records and progress	quarterly and annual	PMU	
	Men trained in other - Males	4 620	8 000			
	Women trained in other - Females	9 380	13 000			
Output Community infrastructure identified using participatory processes, and constructed or rehabilitated	no. of community infrastructure schemes constructed (drinking water systems, irrigation schemes, sanitation, innovative technologies)		IP's records and progress reports	yearly, quarterly		Community members are able to provide in kind contribution
	drinking water supply, irrigation, drainage, access roads and other small - Number	1 426	2 424			
	household toilets - Number	410	831			
	solar panels - Number	222	222			
	hand pumps - Number					
	2.1.5 Roads constructed, rehabilitated or upgraded		progress reports	yearly quarterly		
	Length of roads - Km	190	390			
Outcome Outcome 3: Improved food security in targeted communities	Women reporting improved quality of their diets		annual outcome/impact survey			no major natural disasters in project districts
	Women reporting improved quality of their diets - Females	488 000	1 166 918			
	Percentage - Percentage (%)	50	75			
Output Food banks established	no. of food banks created		IP's records and progress reports	quarterly, annual		Proper storage infrastructure is available for rent in all targeted Union Councils
	food banks - Number	28	55			
	1.1.5 Persons in rural areas accessing financial services		IP's records and progress reports	quarterly, annually		
	Men in rural areas accessing financial services - credit - Males	16 000	34 102			
	Women in rural areas accessing financial services - credit - Females	24 000	51 152			
	Total persons accessing financial services - credit - Number of people	40 000	85 254			
Outcome Outcome 4: Strengthened local capacity for Agriculture and Livestock Provision						
Output People trained as Para Vet	People trained as para vet		annual outcome and impact surveys			no social and cultural Barriers that prevent women from entering non traditional fields
	Males - Number		100			
	Females - Number		100			
Output Modern Agriculture Equipment provided to Community Service Provider (CSP)	no. of CSPs having received equipment		IP's records and progress reports			The high fuel and electricity cost does not limit the small holder capacity to use services
	CSPs - Number	868	1 368			
Outcome Outcome 5: Strengthened advocacy and dissemination between BISP and the Punjab Government	Policy 3 Existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment		Review of policy documents	at completion		Government's interest to learn from project experience remains high
	Number - Number	2	4			
Output Advocacy fora and knowledge sharing platforms established and	Policy 1 Policy-relevant knowledge products completed		PCU progress reports	yearly		BISP and Provincial Government's interest to engage in advocacy/ policy dialogue remains
	Number - Knowledge Products	4	8			

Updated summary of the economic and financial analysis

Table A
Financial cash flow models

F I N A N C I A L A N A L Y S I S	Project Years	Livelihoods Enhancement			Agriculture & Livestock Development		Total Project Benefit (in million USD)
		Enhanced Capacity for Sustainable Livelihoods		Enhanced capacity for Employment and Productive Self-employment	Enhanced Access to Basic Services	Increased Productivity and Production of Crop and Livestock	
		Housing Unit	Livestock	Vocational/Entrepreneurship Training	CPI	Community Revolving Fund	
PY1	0.000	0.000	0.000	0.000	0.0	0.0	0.00
PY2	0.000	0.304	0.000	0.000	0.0	0.0	0.30
PY3	0.000	(1.010)	0.000	0.000	(7.2)	0.0	(8.19)
PY4	(1.030)	(1.477)	0.000	0.000	(0.7)	0.0	(3.16)
PY5	(7.335)	(1.101)	(2.293)	0.000	(7.8)	0.3	(18.24)
PY6	0.394	0.963	(4.371)	0.000	(0.1)	(0.9)	(4.00)
PY7	(0.121)	(4.289)	(2.058)	0.000	(3.5)	0.4	(9.55)
PY8	(0.766)	(1.623)	1.189	0.000	(0.4)	(1.5)	(3.10)
PY9	2.589	(0.098)	4.947	0.000	1.7	0.7	9.80
PY10	6.501	2.504	3.743	0.000	5.3	0.8	18.83
PY11	3.374	3.993	5.670	0.000	6.0	0.3	19.29
PY12	0.413	4.460	6.646	0.000	6.6	0.9	19.03
PY13	0.986	4.920	9.982	0.000	7.0	1.0	23.84
PY14	5.071	7.514	10.705	0.000	7.6	1.0	31.84
PY15	9.009	10.038	11.427	0.000	9.0	1.0	40.44
PY16	9.009	10.038	11.427	0.000	9.0	1.0	40.44
PY17	9.009	10.038	11.427	0.000	9.0	1.0	40.44
PY18	9.009	10.038	11.427	0.000	9.0	1.0	40.44
PY19	9.009	10.038	11.427	0.000	9.0	1.0	40.44
PY20	9.009	10.038	11.427	0.000	9.0	1.0	40.44
NPV (USD)	8.6	10.8	17.6	5.4	1.466	1.466	43.94
FIRR (@11.55%)	24.7%	28.5%	39.0%	15.9%	39.4%	39.4%	24.4%
					B/C Ratio		1.85

Table B
Project costs and log frame targets

TOTAL PROJECT COSTS (IN MILLION USD) /a				USD	172.500	Base Project Costs			USD	160.42	Project Management		USD	31.088	
Beneficiary Households (HH)	350 194	Households	Sub-Components		Housing Units	Livestock	Vocational Training		CPIs			Revolving Fund & Food Bank/Others			
			Target Households		8 882	172 200	63 636		98 860			94 165			
Cost per beneficiary HH	493	USD x HH	Success Rates		100%	75%	65%		75% - 80%			75%			
Components and Cost (USD million) /b				Outcomes and Indicators											
Housing Units	USD 35.75	CPI	USD 32.27	Housing Units		Substitution of rent, income from kitchen garden and wage			USD	108	CPI	Cost saving, reduced losses and increase productivity		USD	72
Livestock	USD 44.23	Food Banks	USD 1.31	Livestock		Increased income from milk and sale of goats			USD	129		Incremental income from on-farm, non-farm and off-farm activities		USD	7.8
Vocational Training	USD 18.47	Revolving Fund	USD 3.17	Vocational Training		Employment and self-employment in different trades			USD	137	Revolving Fund	Incremental income from on-farm, non-farm and off-farm activities		USD	7.8
		Others	USD 6.20												

Table C
Main assumptions and shadow prices

FINANCIAL	Income/Expenditures	Incremental Increase (%)	Values (PKR)/Beneficiary	Base Values (PKR)	Income/Expenditures	Incremental Increase (%)	Values (PKR)/Beneficiary	Base Values (PKR)
		Saving and income from small housing units	136%	127 097	53 897	Saving and increased income due to infrastructure schemes	100%	28 905
	Increased income (from goat package)	7%	144 760	135 000	Increased income from on-farm, off-farm and non-farm activities (start-up and working capital)	13%	31 567	27 832
	Increased income (employment/self-employment)	24%	175 451	141 667				
ECONOMIC	Official Exchange rate (OER) - 2021	152.0	Discount rate (opportunity cost of capital) ²				11.6%	
	Official Exchange rate (OER) - 2018	115.0						
	Official Exchange rate (OER) - 2013	104.8	Social Discount Rate				10.09%	
	Standard Conversion Factor	0.874	Output Conversion factor				1.10	
	Labour Conversion factor	0.950	Input Conversion factor				0.95	

Table D
Beneficiary adoption rates and phasing

Sub-Components	Beneficiaries/ activity	2 013	2 014	2 015	2 016	2 017	2 018	2 019	2 020	2 021	2 022	2 023	2 024	2 025	2 026	2 027	Intervention	Total HHs	Successful HH	Success Rate
Livelihoods Enhancement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Assets Creation - Housing Units	1	-	-	-	-	973	481	1 072	1 246	1 000	1 110	500	1 000	1 000	500	-	8 882	8 882	-	-
Adjusted (adoption rate)	-	-	-	-	-	973	481	1 072	1 246	1 000	1 110	500	1 000	1 000	500	-	8 882	-	8 882	100%
Assets Transfer - Livestock	1	-	4 346	16 035	9 695	5 386	5 000	14 000	14 000	30 000	28 138	13 000	13 000	13 000	6 600	-	172 200	172 200	-	-
Adjusted (adoption rate)	-	-	3 260	12 026	7 271	4 040	3 750	10 500	10 500	22 500	21 104	9 750	9 750	9 750	4 950	-	129 150	-	129 150	75%
Vocational and Entrepreneurial Training	1	-	-	-	-	15 136	4 000	5 300	7 564	10 000	6 636	5 000	5 000	5 000	-	-	63 636	63 636	-	-
Adjusted (adoption rate)	-	-	-	-	-	9 838	2 600	3 445	4 917	6 500	4 313	3 250	3 250	3 250	-	-	41 363	-	41 363	65%
Physical Infrastructure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Drinking Water Supply	20	-	-	83	217	109	30	70	50	40	13	25	25	25	25	-	712	14 240	-	-
Adjusted (adoption rate)	-	-	-	-	-	-	23	53	38	30	10	19	19	19	19	-	227	-	4 545	75%
Sanitation Schemes	20	-	-	40	103	52	20	65	96	250	200	50	50	50	50	-	1 026	20 520	-	-
Adjusted (adoption rate)	-	-	-	-	-	-	15	49	72	188	150	38	38	38	38	-	623	-	12 465	75%
Access/Linkage Road	80	-	-	10	26	13	20	35	60	65	11	50	50	50	-	-	390	31 200	-	-
Adjusted (adoption rate)	-	-	-	-	-	-	15	26	45	49	8	38	38	38	-	-	256	-	20 460	75%
Innovative Water Schemes for Ai	20	-	-	96	251	126	20	20	80	60	60	10	20	10	10	-	763	15 260	-	-
Adjusted (adoption rate)	-	-	-	-	-	-	16	16	64	48	48	8	16	8	8	-	232	-	4 640	80%
Miscellaneous/Innovative	20	-	-	-	-	-	37	80	120	103	100	-	-	-	-	-	440	8 800	-	-
Adjusted (adoption rate)	-	-	-	-	-	-	30	64	96	82	80	-	-	-	-	-	352	-	7 040	80%
Green CPIs	20	-	-	-	-	-	30	70	50	40	32	-	-	-	-	-	222	4 440	-	-
Adjusted (adoption rate)	-	-	-	-	-	-	24	56	40	32	26	-	-	-	-	-	178	-	3 552	80%
Agriculture and Livestock Develc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Food Banks/Community Centers	80	-	-	-	-	-	6	5	6	7	10	7	7	7	-	-	55	4 400	-	-
Adjusted (adoption rate)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3 080	70%
Revolving Fund	1	-	-	-	-	1 600	405	405	6 516	6 516	6 516	9 024	10 558	12 352	14 452	16 909	85 254	85 254	-	-
Adjusted (adoption rate)	-	-	-	-	-	1 280	324	324	5 213	5 213	5 213	7 219	8 446	9 882	11 562	13 527	68 203	-	68 203	80%
Equipping Service Providers	1	-	-	2 653	3 755	1 136	-	150	218	250	250	125	125	125	125	-	8 911	8 911	-	-
Adjusted (adoption rate)	-	-	-	2 122	3 004	908	-	120	174	200	200	100	100	100	100	-	7 128	-	7 128	80%
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	437 743	310 508	71%
Uniqu Beneficiary Household	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	350 194	248 407	71%

Table E
Economic cash flow

Detail	Project Years	TOTAL NET INCREMENTAL BENEFITS			NET INCREMENTAL COSTS			Cash Flow (million USD)
		Livelihoods Improvement	Agriculture and Livestock Development	Total Incremental Benefits	Economic Investment Costs (million USD)	Economic recurrent Costs (million USD)	Total Incremental Costs	
E C O N O M I C A N A L Y S I S	PY1	-	-	0.0	0.000	0.435	0.435	(0.4)
	PY2	0.33	-	0.3	6.006	1.342	7.348	(7.0)
	PY3	1.55	-	1.6	3.285	0.460	3.745	(2.2)
	PY4	2.29	-	2.3	12.772	0.802	13.574	(11.3)
	PY5	6.63	0.44	7.1	5.412	2.445	7.857	(0.8)
	PY6	8.84	0.61	9.4	14.084	2.071	16.155	(6.7)
	PY7	12.72	0.84	13.6	15.464	2.496	17.960	(4.4)
	PY8	17.34	1.16	18.5	11.193	2.403	13.596	4.9
	PY9	22.90	1.59	24.5	4.994	2.603	7.597	16.9
	PY10	26.49	1.88	28.4	8.516	1.924	10.440	17.9
	PY11	27.70	2.09	29.8	10.470	1.989	12.460	17.3
	PY12	30.98	2.31	33.3	10.644	2.060	12.705	20.6
	PY13	33.39	2.52	35.9	4.922	2.138	7.060	28.9
	PY14	34.24	2.52	36.8	0.000	0.521	0.521	36.2
	PY15	34.24	2.52	36.8	0.000	1.692	1.692	35.1
	PY16	34.24	2.52	36.8	0.000	1.692	1.692	35.1
	PY17	34.24	2.52	36.8	0.000	1.692	1.692	35.1
	PY18	34.24	2.52	36.8	0.000	1.692	1.692	35.1
	PY19	34.24	2.52	36.8	0.000	1.692	1.692	35.1
	PY20	34.24	2.52	36.8	0.000	1.692	1.692	35.1

NPV @10.09%	64.11
EIRR @10.09%	27.05%

Table F
Sensitivity analysis

Scenarios	Δ%	Link with the risk matrix			IRR	NPV (USD M)
Normal Scenario	Normal	No Adverse Risks			27.05%	64.11
Project benefits	-10%	Poor Security Situation affecting project benefits adversely			23.93%	42.73
Project benefits	-20%				20.68%	30.94
Project costs	10%	Weak financial capacity result in cost overrun and delayed implementation			24.22%	48.18
Project costs	20%				21.78%	41.85
Time lag in benefits (Year)	1				21.05%	38.71
Time lag in benefits (Year)	2				16.96%	24.48
Success Rates	-10%	Climate risk affecting success rate of the agriculture related activities			24.65%	41.53
Success Rates	-20%				21.08%	29.50

The PDR identifies 3 major risks (i) security; (ii) financial management capacity, and (iii) climate-risks. These risks may cause underperformance with regards to achievement of full scale benefits, delay in realization of benefits and reduced effectiveness.