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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the Islamic Republic of Pakistan for the Livestock and Access to Markets Project

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For: Approval

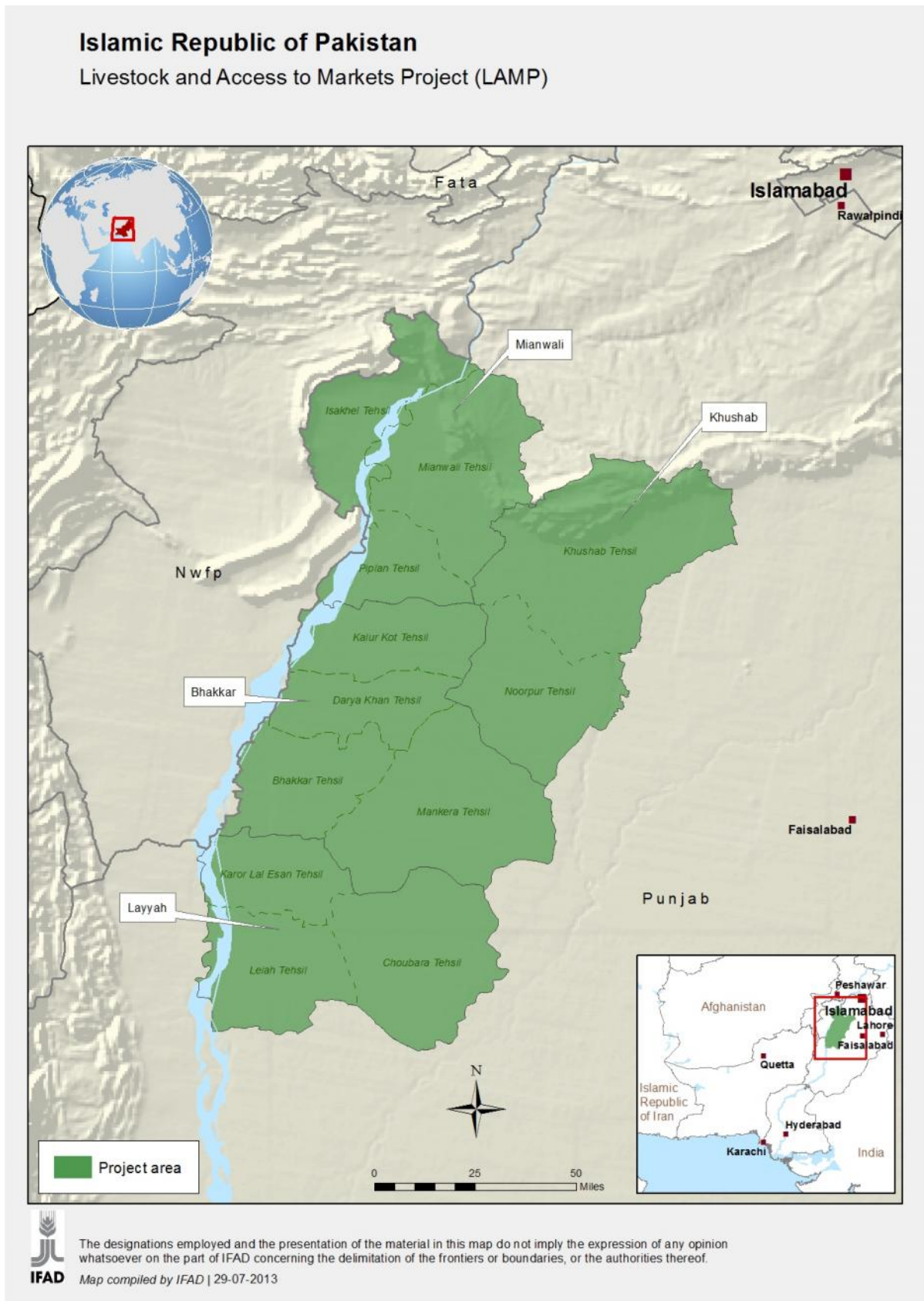
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Abbreviations and acronyms

AWP/B	annual workplan and budget
COSOP	country strategic opportunities programme
DCU	district coordination unit
EIRR	economic internal rate of return
FIRR	financial internal rate of return
GDP	gross domestic product
MTR	midterm review
M&E	monitoring & evaluation
NGO	non-governmental organization
NPV	net present value
NRSP	National Rural Support Programme
PCR	Project Completion Report
PCU	Project Coordination Unit
PPAF	Pakistan Poverty Alleviation Fund

Map of the project area



Islamic Republic of Pakistan

Livestock and Access to Markets Project

Financing summary

Initiating institution:	IFAD
Borrower:	Islamic Republic of Pakistan
Executing agency:	Livestock and Dairy Development Department, Government of Punjab
Total project cost:	US\$40.83 million
Amount of IFAD loan:	SDR 22.43 million (equivalent to approximately US\$34.5 million)
Amount of IFAD grant:	SDR 0.386 million (equivalent to approximately US\$0.6 million)
Terms of IFAD loan:	40 years, including a grace period of ten years, with a service charge of three quarters of 1 per cent (0.75 per cent) per annum
Cofinancier(s):	<i>Tehsil</i> municipal administrations
Amount of cofinancing:	<i>Tehsil</i> municipal administrations: US\$0.492 million
Terms of cofinancing:	<i>Tehsil</i> municipal administrations: US\$0.46 million
Contribution of borrower:	US\$3.40 million
Contribution of beneficiaries:	US\$1.9 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD
Retroactive financing:	For eligible expenditures up to approximately US\$0.2 million incurred between the date of negotiation and the date of entry into force of the financing agreement

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Islamic Republic of Pakistan for the Livestock and Access to Markets Project, as contained in paragraph 44.

Proposed loan to the Islamic Republic of Pakistan for the Livestock and Access to Markets Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. **Poverty in Punjab.** With 19 per cent of the population living below the poverty line, Punjab has the lowest poverty incidence of any province in Pakistan, but it also has the largest number of poor people. Punjab has the strongest agricultural performance in the country, but this dominance has not translated into solid rural poverty reduction. There are high poverty enclaves in southern and western districts of Punjab.
2. **The potential of the livestock sector for growth and poverty reduction.** Livestock represents the largest agricultural commodity in Pakistan, accounting for 56 per cent of agricultural GDP and 11 per cent of total GDP. Livestock is a key element of the mixed farming system of smallholders and has strong potential for growth and poverty alleviation throughout Pakistan, particularly in Punjab, where about 30-40 per cent of income in rural areas is derived from livestock-related activities. The sector has the highest potential for reaching landless men and women with few other assets.
3. **Constraints to development of the livestock sector.** Despite its enormous potential, the livestock sector has not developed and grown effectively because of several factors that affect production, including: (i) low productivity; (ii) high mortality/disease prevalence; (iii) limited access to markets; (iv) a weak policy, regulatory and institutional framework; and (v) a weak private sector.

B. Rationale and alignment with government priorities and RB-COSOP

4. **Rationale for the project.** Punjab's strong agricultural performance has not translated into solid rural poverty reduction. The Government of Punjab places high priority on developing the livestock sector to stimulate growth and reduce poverty, and has requested IFAD to provide financial and technical assistance to achieve this objective. The project will support the Government of Punjab in enhancing livestock productivity/production by addressing the constraints that prevent fulfilment of the sector's potential.
5. **Scope of the project.** The project will focus on support to increased production and better market access for livestock products, and will facilitate linkages between smallholder producers and a wide range of private entrepreneurs along the dairy and livestock value chains. These aims will be achieved through activities in two dimensions: (i) targeted, area-specific interventions aimed at increasing livestock production/marketing in target areas by strengthening smallholders' access to livestock services, and the capacity of local private providers and government institutions to deliver such services; and (ii) broader policy and institutional support aimed at strengthening the overall policy, regulatory and institutional framework.

6. **Strategic focus.** The project will limit its scope to the livestock subsectors that have the highest potential for generating impacts on poor smallholder farmers, including dairy, small ruminant and backyard poultry activities. Consistent with the target strategy, the project will therefore focus on: (i) enhancing the production of home-based poultry and the fattening and marketing of small ruminants in arid, semi-arid and desert project areas; and (ii) enhancing the production and marketing of dairy products in areas with surplus milk or potential for increasing milk production.
7. **Ownership and alignment with national priorities and IFAD's country strategy.** This project was included in the pipeline of projects to be funded during the country strategic opportunities programme (COSOP) 2010-2014 cycle. The Government of Punjab reiterated its request for the project during the COSOP Midterm Review (MTR) in May 2012. The proposed project is in line with the Government of Punjab's Medium-Term Development Framework, which indicates development of the livestock sector as a key priority.

II. Project description

A. Project area and target group

8. **Project area.** The project focuses on the western part of Punjab Province, which has the highest poverty incidence in the province. It will be implemented in about 750 villages in the four districts of Mianwali, Khushab, Bhakkar and Layyah. The criteria used to select the project area were: (i) high incidence of poverty; (ii) lack of donor investments; (iii) dependence on livestock; and (iv) potential impact through increased production and access to markets. Priority will be given to villages that have: (i) potential for increasing production; and/or (ii) surplus production but limited access to markets. As far as possible, the project will be implemented in contiguous union councils to facilitate the cost-effective implementation and monitoring of activities.
9. **Target group.** The project will target men and women smallholder farmers who own livestock, and whose incomes, nutrition security and safety nets depend primarily on livestock. Within this category, the three following groups will be specifically targeted: (i) the productive poor; (ii) the vulnerable poor; and (iii) woman-headed households. Estimated beneficiaries: It is expected that approximately 112,500 poor households (equivalent to approximately 765,000 individuals) will benefit from the project (with a cost/beneficiary ratio of US\$363/household or US\$53/person).

B. Project development objective

10. The *overall goal* of the project is to contribute to rural growth and poverty reduction in rural Punjab. The *development objective* is to enhance the livelihoods of 112,500 poor households in the districts of Mianwali, Khushab, Bhakkar and Layyah. This will be achieved by addressing the key constraints that prevent increases in production and productivity in the livestock sector.
11. **Expected outcomes.** The main outcomes expected from the project include increased food security and incomes for targeted households, resulting from increased productivity, production and marketing of livestock products, and lower losses of livestock from reduced morbidity and mortality in the project area.

C. Components/outcomes

12. **Project components.** The project is organized around three complementary components:
 - (a) **Component 1: production support (US\$26.8 million, 70 per cent of total project cost).** This component aims to increase livestock production and productivity in the target area by: (i) strengthening the capacity of beneficiary communities – including vulnerable women – private-sector

players and the Livestock and Dairy Development Department; and (ii) supporting the construction of small-scale, community-managed infrastructure aimed at enhancing livestock productivity. The component will facilitate the private sector's engagement in providing technical assistance, capacity-building activities and other services. It includes four subcomponents: 1.1. capacity-building of community organizations (US\$8.9 million); 1.2. community infrastructure (US\$6.5 million); 1.3. capacity-building of the private sector (US\$6.1 million); and 1.4. capacity-building of the Livestock and Dairy Development Department (US\$5.1 million).

- (b) **Component 2: marketing support (US\$5.5 million, 14 per cent of total project cost).** This component aims to increase sales of livestock products by enhancing smallholder farmers' access to markets. The component will facilitate linkages with the private sector for the provision of inputs, capacity-building activities and other services. The component has three subcomponents: 2.1. strengthening of farmers' market organizations (US\$1.2 million); 2.2. market infrastructure (US\$3.5 million); and 2.3. market information and linkages (US\$0.6 million).
- (c) **Component 3: project management (US\$6.0 million, 16 per cent of total project cost).** This component supports the coordination and technical responsibilities of the project coordination unit (PCU). A Special Financing Facility to support activities that require additional support and/or are expanding will be established under this component.
13. **Key impact indicators and project targets.** Impacts of the project will be measured through: (i) number of households with improved livelihoods; (ii) percentage increase in net household income; (iii) percentage increase in livestock productivity; and (iv) percentage decrease in mortality rates of livestock in target households. The specific aims are to achieve, by the end of the project: (i) 112,500 households with increased livelihoods; (ii) a 50 per cent increase in the net income of targeted households; (iii) a 17 per cent increase in livestock productivity; and (iv) decreases of 50 per cent in the mortality rate of cows/buffaloes and 33 per cent in that of small ruminants.

III. Project implementation

A. Approach

14. **Project approach.** The project will adopt an integrated livestock development approach, in which complementary elements of livestock development (i.e. health, breeding, feeding, marketing) will be dealt with simultaneously, with the objective of achieving synergetic effects.
15. Other key elements/principles of the project approach include: (i) development of public-private partnerships; (ii) focus on poverty; (iii) focus on women; (iv) participatory approach; and (v) use of service providers to implement project activities.

B. Organizational framework

16. **Lead implementing agency.** The Livestock and Dairy Development Department of the Government of Punjab will be the lead implementing agency.
17. **Project implementation.** Project implementation will follow a hybrid model in which different project components/activities will be implemented by different public agencies and private-sector providers/implementing partners, coordinated by an autonomous PCU attached to the Livestock and Dairy Development Department and supported by four district coordination units (DCUs).
18. **Key potential partners.** Key potential partners include a social mobilization provider (e.g. an NGO or rural support programme), technical service providers

(e.g. veterinary or agricultural universities, research centres), *tehsil*¹ municipal administrations, financial institutions (e.g. the Pakistan Poverty Alleviation Fund [PPAF], the National Rural Support Programme [NRSP], Easypaisa, UBL Omni, Akhuwat), and a wide range of private companies (e.g. Telenor/Tameer, Engro Foods, Millac Foods Limited, Shakarganj Food Products Limited, Noon Pakistan Limited, Nestle). Service provision will be ensured through contract agreements or partnerships regulated by memoranda of understanding.

C. Planning, monitoring and evaluation, and learning and knowledge management

19. **Planning.** The annual workplan and budget (AWP/B) will be the key planning document for the project. It will serve as the instrument for identifying specific targets and activities, establishing management priorities for implementation, forecasting procurement requirements, and facilitating the mobilization of staff and financial resources.
20. **Monitoring and evaluation (M&E).** The M&E system will be a key management tool for the project, providing data and feedback to improve the effectiveness, efficiency, sustainability, relevance and impact of project activities. Overall responsibility for M&E activities will lie with the PCU and DCUs, which will collect and analyse the data gathered by all units and implementing partners/service providers based on the agreed format and timing for reporting. To the extent possible, all indicators will be disaggregated according to gender and socio-economic status, to enable proper assessment of whether the project is reaching its intended target beneficiaries, poor households, smallholders, women and vulnerable groups. Salient elements of the M&E system include: (i) progress monitoring; (ii) impact monitoring; and (iii) baseline survey.
21. **Learning and knowledge management.** Systematic knowledge management and learning will make the project more effective and efficient, enabling the review and simplification of processes, rapid adaptation to emerging lessons, and greater impact. Key features of the project's knowledge management approach include: (i) the organization of annual stakeholders' forums, bringing together key stakeholders involved in the livestock sector to share lessons and experiences; (ii) short videos, documentaries, case studies, technical and learning notes, audio-stories, and articles and newsletters in local languages, to document and facilitate lesson sharing; and (iii) learning from the IFAD Community of Practice for Pro-poor Livestock Development initiative.

D. Financial management, procurement and governance

22. **Financial management responsibilities.** The PCU will be responsible for the financial management of the project and for coordinating and consolidating all financial reports from implementing partners. The PCU will maintain a full set of accounts in accordance with IFAD's requirements and internationally accepted accounting standards. Budgeting: The PCU will be responsible for budgeting the project as part of the AWP/B exercise. Government of Pakistan counterpart funds are budgeted in the Government of Punjab provincial budget for release to the project. Flow of funds and disbursement arrangements: The project will use the imprest account method for the designated accounts advance; the designated accounts will be in the State Bank of Pakistan. Funds will be transferred to the district level via pertinent branches of the National Bank of Pakistan with subaccounts for DCUs (revolving fund accounts). The district-level subaccounts will also be managed under the imprest account method.
23. **Project fiduciary risk.** To ensure that the proposed financial management arrangements are sufficient for effective and efficient use of funding, a financial management risk assessment was conducted during project design. Fiduciary risks

¹ County-level administration unit.

were rated as medium. Based on this assessment, the mitigation measures identified include: (i) using accounting software; (ii) maintaining sufficient liquidity in the accounts; (iii) basing payments on certified expenditure statements, among other measures; (iv) using interim financial reporting to help monitor financial progress; and (v) appointing a chartered accountancy firm to audit the social mobilization providers, with terms of reference approved by IFAD. Auditors will be appointed within two months of entry into force of the financing agreement in the first year, and within two months before the close of the financial year in subsequent years. Audit reports will be furnished to IFAD within six months of closure of the annual accounts.

24. **Procurement.** Annual procurement plans will guide all procurement, which will be consistent with the AWP/B. Procurements will be carried out in accordance with the procurement rules of the Islamic Republic of Pakistan, to the extent consistent with IFAD's Project Procurement Guidelines. All standardized bulk procurements will be carried out by the PCU to ensure economies of scale and efficiency. Responsibilities for district-level budgets and plans and procurement of small, local-level goods and services will be decentralized to DCUs to the extent feasible, through the revolving funds established for this purpose.

E. Supervision

25. **Supervision and implementation support.** The project will be directly supervised by IFAD, with supervision or implementation support missions every six months in the initial period and at least annually thereafter. The Government of Punjab will provide logistics support for the missions and will nominate a person to join each mission.
26. **Midterm review and project completion report.** An MTR will be conducted at the end of project year three, to assess the progress, achievements, constraints, emerging impact and likely sustainability of project activities and to make recommendations and necessary adjustments for the remaining project period. The MTR will be carried out jointly by the PCU and IFAD. At the end of the project, a completion evaluation will be conducted as an input into the project completion report, based on a formal survey preferably undertaken by an agency with no previous involvement in project implementation.

IV. Project costs, financing, benefits

A. Project costs

27. **Project costs.** Total project costs, including physical and price contingencies, are estimated at US\$40.83 million over a six-year implementation period. IFAD's contribution will amount to US\$35.1 million (86 per cent of total costs) in the form of a loan (US\$34.5 million) and a grant (US\$0.6 million). The total baseline cost is US\$38.28 million; physical and price contingencies are US\$2.55 million. The main assumption used for deriving project costs is an inflation rate of 7 per cent, based on the trend in Pakistan over the past three years.

B. Project financing

28. **Financing and cofinancing.** IFAD will finance 86 per cent of project costs (US\$34.5 million as a loan at highly concessional terms and US\$0.6 million as a grant). The Government of Punjab will contribute US\$3.40 million (8.3 per cent) by financing the salaries of all staff assigned from the government to the project, all the taxes and duties on items procured for use by the project, 50 per cent of the fund for procuring vaccines and medicines at the district level, and 50 per cent of the fund for procuring motorbikes for field staff. Beneficiaries will contribute US\$1.92 million (4.6 per cent) through in-kind contributions and the financing of 20 per cent of the costs of infrastructure schemes for collective purposes and 50 per cent of the costs of infrastructure schemes benefiting individual households. *Tehsil* municipal associations will contribute 50 per cent of the costs for upgrading

livestock markets at the *tehsil* or sub-*tehsil* level. The private sector is also expected to contribute by financing/cofinancing specific project activities, but these costs have not yet been estimated. Table 1 summarizes financing by financier and expenditure category.

Table 1

Pakistan LAMP Disbursement Accounts by Financiers (US\$ '000)																
	IFAD		IFAD grant		The Government		TMA		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%				
A. Civil Works																
1. Community Infrastructure	5 884	80.0	-	-	0	-	-	-	1 471	20.0	7 355	18.0	-	7 355	-	-
2. Market Infrastructure	460	50.0	-	-	-	-	460	50.0	-	-	921	2.3	-	921	-	-
Subtotal Civil Works	6 345	76.7	-	-	0	-	460	5.6	1 471	17.8	8 276	20.3	-	8 276	-	-
B. Vehicles and Equipment																
1. Equipment for Capacity-Building of Private Sector	523	84.0	-	-	100	16.0	-	-	-	-	622	1.5	-	523	100	-
2. Equipment for Capacity-Building of L&DDD	292	91.0	-	-	28	9.0	-	-	-	-	310	0.8	-	282	28	-
3. Market Infrastructure	923	84.0	-	-	176	16.0	-	-	-	-	1 099	2.7	-	923	176	-
4. Market information & linkage	63	100.0	-	-	-	-	-	-	-	-	63	0.2	-	63	-	-
5. PCU Vehicle & Equipment	97	38.7	-	-	153	61.3	-	-	-	-	250	0.6	-	97	153	-
6. DCU Vehicle & Equipment	11	10.0	-	-	101	90.0	-	-	-	-	112	0.3	-	11	101	-
Subtotal Vehicles and Equipment	1 899	77.3	-	-	558	22.7	-	-	-	-	2 457	6.0	-	1 899	558	-
C. Asset Creation																
1. Community Capacity-Building	4 145	100.0	-	-	-	-	-	-	-	-	4 145	10.2	-	4 145	-	-
2. Market Infrastructure	1 598	80.0	-	-	-	-	-	-	399	20.0	1 997	4.9	-	1 598	-	-
Subtotal Asset Creation	5 743	93.5	-	-	-	-	-	-	399	6.5	6 143	15.0	-	5 743	-	-
D. Technical Assistance																
1. Capacity-Building for L&DDD	-	-	116	100.0	-	-	-	-	-	-	116	0.3	-	116	-	-
2. Market Information & Linkage	118	100.0	-	-	-	-	-	-	-	-	118	0.3	118	-	-	-
Subtotal Technical Assistance	118	50.5	116	49.5	-	-	-	-	-	-	235	0.6	118	116	-	-
E. Trainings, Workshops & Studies																
1. Community Capacity-Building	4 800	100.0	-	-	-	-	-	-	-	-	4 800	11.8	-	4 800	-	-
2. Capacity-Building Private Sector	3 147	86.8	478	13.2	-	-	-	-	-	-	3 625	8.9	-	3 147	-	-
3. Capacity-Building L&DDD	138	100.0	-	-	-	-	-	-	-	-	138	0.3	-	138	-	-
4. Strengthening Farmer Organizations	1 205	100.0	-	-	-	-	-	-	-	-	1 205	3.0	-	1 205	-	-
5. Market Information & Linkage	44	100.0	-	-	-	-	-	-	-	-	44	0.1	-	44	-	-
6. PCU Trainings, Workshops etc	24	100.0	-	-	-	-	-	-	-	-	24	0.1	-	24	-	-
7. DCU Training, Workshops & Studies	112	100.0	-	-	-	-	-	-	-	-	112	0.3	-	112	-	-
Subtotal Trainings, Workshops & Studies	9 468	95.2	478	4.8	-	-	-	-	-	-	9 946	24.4	-	9 468	-	-
F. Salaries & Operating Costs																
1. Community Capacity-Building	2 991	100.0	-	-	-	-	-	-	-	-	2 991	7.3	-	2 991	-	-
2. Capacity-Building of Private Sector	35	100.0	-	-	-	-	-	-	-	-	35	0.1	-	35	-	-
3. Capacity-Building of L&DDD	2 187	57.7	-	-	1 600	42.3	-	-	-	-	3 787	9.3	-	2 187	-	-
4. Market Information & Linkage	597	100.0	-	-	-	-	-	-	-	-	597	1.5	-	597	-	-
5. PCU Salaries & Operating costs	1 332	60.0	-	-	888	40.0	-	-	-	-	2 221	5.4	-	1 332	-	-
6. DCU Salaries & Operating costs	2 042	100.0	-	-	-	-	-	-	-	-	2 042	5.0	-	2 042	-	-
Subtotal Salaries & Operating Costs	9 184	78.7	-	-	2 488	21.3	-	-	-	-	11 672	28.6	-	9 184	-	-
G. PCU Recurrent Cost	534	60.0	-	-	356	40.0	-	-	-	-	890	2.2	-	534	-	-
H. Special Fund Facility	1 213	100.0	-	-	-	-	-	-	-	-	1 213	3.0	-	1 213	-	-
Total PROJECT COSTS	34 505	84.5	594	1.5	3 402	8.3	460	1.1	1 871	4.6	40 832	100.0	118	40 156	558	-

29. **Future cofinancing.** The World Bank is currently developing an agriculture sector competitiveness programme for Punjab (about US\$100 million) to improve the agricultural productivity of small farmers and link them to markets (expected to be delivered in the 2014 financial year). This programme will define a broad framework, objectives and targets to which a number of subprojects will contribute. The Livestock and Access to Markets Project will fit under this World Bank programme, and contribute directly to its objectives.

30. **Retroactive financing.** An exception to the IFAD General Conditions will be requested to allow retroactive financing of expenses for certain activities before the financing agreement enters into force. Such expenses will be considered eligible and reimbursable by IFAD (i.e. retroactive financing), if otherwise eligible. The exact activities and the amounts to be considered eligible for retroactive financing will include the operating costs for the first six months and the costs of carrying out the baseline survey and recruiting a service provider for social mobilization and a technical service provider for the implementation of technical training under the project. The amount of retroactive financing will be further specified and agreed during negotiations and will not exceed US\$200,000. The Government of Punjab agrees to make provision for this financing initially and will be reimbursed for all eligible expenditures from IFAD financing.

C. Summary benefit and economic analysis

31. **Economic and financial analysis.** An economic and financial analysis was carried out to assess the economic and financial viability of the project, examine the impact of project interventions on income, and assess whether there are sufficient financial incentives for the targeted beneficiaries to participate in project activities. The results of the economic and financial analysis show that the overall project financial internal rate of return (FIRR) is 26.8 per cent, and the economic internal rate of return (EIRR) 25.1 per cent. The benefit-cost ratios for the project are 2.26 based

on the FIRR and 2.1 based on the EIRR. The net present value (NPV) at a discount rate of 10 per cent is US\$45.1 million for the financial values, while the NPV using the economic values is US\$38.8 million (table 2).

Table 2
Economic and financial analysis – summary of results

	<i>Financial</i>			<i>Economic</i>		
	<i>NPV</i>	<i>Benefit-cost ratio</i>	<i>FIRR</i>	<i>NPV</i>	<i>Benefit-cost ratio</i>	<i>EIRR</i>
Production support	41 728	2.40	27.3%	36 335	2.24	25.8%
Marketing support	3 383	1.56	22.2%	2 514	1.42	19.3%
Overall for the project	45 111	2.26	26.8%	38 849	2.10	25.1%

32. **Sensitivity analysis.** A sensitivity analysis was undertaken to assess how variations in the assumptions would change the results of the economic analysis. Changes in the project duration caused by delays in project start-up, reduction in benefits, increased project costs, and decreased prices for livestock products were simulated. The results of the sensitivity analysis show that the project benefits are very robust and that the investment in the project would be sound under all these adverse conditions, including a simultaneous increase in costs and decrease in benefits. Switching values were also calculated for some of the key variables used in the sensitivity analysis. The analysis shows that costs would need to increase by 126 per cent or benefits to decrease by 56 per cent to have an NPV equivalent to zero in the financial analysis.

D. Sustainability

33. Several elements of the project ensure post-project sustainability of activities: (i) emphasis on capacity-building; (ii) establishment of sustainable mechanisms for supplying vaccines, and introduction of the principle of cost recovery; (iii) selection of local breeds for poultry and goat packages; (iv) community contributions to and capacity to operate and maintain community infrastructure as criteria for financing infrastructure schemes; and (v) facilitation of linkages to financial service institutions to enhance access to credit.

E. Risk identification and mitigation

<i>Risk</i>	<i>Likelihood</i>	<i>Mitigation measures</i>
Security: Security risks are inherent in Pakistan. However, the target area does not present major security problems at the moment and the situation is not expected to deteriorate in the future.	Low	Even if the security situation in target districts deteriorates, it is very unlikely that project activities will be affected. There may be problems in supervising activities, as movement of international experts may be restricted. However, there is sufficient capacity within the country to ensure sufficient technical backup to the project.
Increasing electricity shortages, which may have a direct impact on productivity enhancement and marketing, as these may be based on assumptions regarding energy availability and cost.	Moderate	To mitigate the impact associated with this risk, accurate and realistic estimates of energy prices were considered during the design of project components. The project also provides technical solutions that do not depend on energy supply through the national grid (e.g. solar refrigerators and cold boxes). The project will finance 625 alternative energy schemes (e.g. biogas digesters, solar water-pumps) to address the issues of limited connectivity to the national grid and long electricity shortages in off-grid areas.
Significant outbreak of livestock diseases: There is high prevalence of peste des petits ruminants (PPR) and contagious caprine plueropneumonia (CCPP) in Punjab, particularly during winter. Vaccines for these two diseases are not available in the project area.	Moderate	The project will support the development and production of PPR and CCPP vaccines, and make these vaccines available in the project area.
Limited capacity of the Government of Punjab to attract and retain qualified professionals for project implementation, following the decision not to grant any more incentives/benefits to the staff attached to development projects.	High	Although the Government has agreed to pay project allowances to government staff seconded to the project, various additional mitigation measures have been considered during project preparation, including the possibility of recruiting project staff from the market, on competitive salaries.
Delays in releasing budgeted funds from account 4: A common problem at the district level is the difficulty in securing the release of funds allocated to a particular department from account 4 held by the district government. These funds are generally diverted to other more immediate uses, while departments such as the Livestock Department are given low priority.	High	This risk will be addressed through the establishment of a special fund for procuring vaccines and other essential inputs, which will be made available to the PCU and DCUs.
Delays in start-up: Long delays in fulfilling the conditions for first disbursement and starting project implementation are one of the main factors negatively affecting project performance in Pakistan. As of June 2013, the Southern Punjab Poverty Alleviation Project, approved in December 2010, had not yet fulfilled its disbursement conditions.	High	The Government has agreed to fast-track approval of the government project document (PC-1) process, and provision has been made for retroactive financing to pre-finance some start-up costs (e.g. the PCU operating costs for the first six months and the costs of carrying out the baseline survey and recruiting service providers).

V. Corporate considerations

A. Compliance with IFAD policies

34. **Compliance with IFAD policies.** The project is in line with the IFAD Strategic Framework 2011-2015. The project activities, implementation arrangements and M&E system have been designed in compliance with the IFAD Targeting Strategy and in line with the approaches outlined in the Framework for Gender Mainstreaming in Programme Management Department (PMD) operations. The project is consistent with the IFAD Private Sector Development and Partnership Strategy. The decision not to provide a line of credit through the project was taken after careful review of the IFAD Rural Finance Policy and the IFAD Decision Tools for Rural Finance. The project is also aligned with both the IFAD Climate Change Strategy and its Environment and Natural Resource Management Policy. It is classified as environmental risk category B.

35. **Gender strategy.** Woman-headed households and the vulnerable poor (most of whom are women) are two of the project's three target groups. The inclusion of women in project activities is ensured through specification of targets for women's participation in all key activities, identification of certain packages for women only, allocation of a budget for these activities, provision of gender-sensitive staff and female community extension agents, and adoption of strategies that encourage women's participation.

B. Alignment and harmonization

36. **Alignment with government priorities.** The Government of Punjab places high priority on developing the livestock sector in the province. The Government's three key priorities for the livestock sector, as outlined in the Medium-Term Budgetary Framework – Livestock and Dairy Development Department (2010-2013) are breed improvement, animal productivity, and marketing.
37. **Alignment with the IFAD country strategy.** The IFAD country programme in Pakistan is designed to support the Government's poverty reduction initiatives and assist in stimulating the growth of the rural economy. The programme is premised on the need to enhance the productivity of rural livelihoods and facilitate market linkages as potent instruments for poverty alleviation. This project was included in the pipeline of projects to be funded during the COSOP 2010-2014 cycle. The Government of Punjab reiterated its request for the project during the COSOP MTR (May 2012). The project is in line with the main premises of the IFAD country programme in Pakistan, which aims to: (i) enhance the access of poor rural men and women to productive assets, skills, services and improved technologies, with particular emphasis on productivity enhancement; and (ii) strengthen the capacity of the rural poor to engage in and benefit from local development processes.

C. Innovations and scaling up

38. **Innovations.** The project is expected to introduce several innovative aspects: (i) strategic planning at the district level setting specific targets in animal health and production, and strategic partnership arrangements between the public and private sectors for joint implementation of the action plan in each district; (ii) the principle of cost recovery in the provision of vaccination and artificial insemination services; (iii) a system of certification, registration and regulation of the private service providers of animal health and artificial insemination services; (iv) a cadre of women professionals as extension staff in the Livestock and Dairy Development Department at the district level; (v) development and scaling up of innovative market information and financial service systems using mobile technology; (vi) development and scaling up of renewable energy solutions to support livestock development and ensure that the cold chain system for vaccines and semen is maintained; and (vii) a training approach (through Farmers Livestock Field Schools) that promotes participatory learning (i.e. positive deviance approach).
39. **Scaling up.** The innovative approaches that will be introduced by the project can easily be scaled up, both within and outside Punjab. The scaling-up framework includes the following elements: (i) champions of the scaling-up process, including the Livestock and Dairy Development Department, social mobilization and technical service providers, private entrepreneurs/firms, and beneficiaries; (ii) external factors that catalyse the process, including the increasing and unmet demand for livestock products; (iii) local factors that catalyse the process, including the high levels of poverty and the unexploited potential for increasing livestock production/productivity; (iv) incentives for scaling up, including political incentives (i.e. the priority given to development of the livestock sector by the Government of Punjab) and economic incentives (i.e. farmers' desire to increase their incomes); (v) a main pathway for scaling up activities and approaches introduced by the project through the development of linkages/partnerships among smallholder farmers, private sector entrepreneurs/firms and the Government; and (vi) IFAD's

role in providing financial and technical resources to facilitate the establishment of such partnerships.

D. Policy engagement

40. Although the project was initially conceived as area-specific, it became clear during design that it would not be successful unless certain broader policy and institutional bottlenecks were addressed. Subcomponent 1.4. supports the development of policies and operational guidelines in two policy areas where regulation is critical for efficient functioning of the livestock sector in Punjab: (i) livestock markets; and (ii) animal health service providers, which also require certification. Regularization of these two policy areas is also critical for the successful implementation and post-project sustainability of project activities. This subcomponent represents an entry point for engaging in policy dialogue with the Government of Punjab.

VI. Legal instruments and authority

41. A project financing agreement between the Islamic Republic of Pakistan and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.
42. The Islamic Republic of Pakistan is empowered under its laws to receive financing from IFAD.
43. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

44. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Islamic Republic of Pakistan in an amount equivalent to twenty-two million four hundred and thirty thousand special drawing rights (SDR 22,430,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein;

RESOLVED FURTHER: that the Fund shall provide a grant to the Islamic Republic of Pakistan in an amount equivalent to three hundred and eighty-six thousand special drawing rights (SDR 386,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Livestock and Access to Markets Project"

(Negotiations concluded on 22 November 2013)

Loan Number: [_____]

Grant Number: [_____]

Project Title: Livestock and Access to Markets Project (the "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and the

Islamic Republic of Pakistan (the "Borrower")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended on 17 September 2010, (the "General Conditions") are annexed to this Agreement, and all provisions thereof, as may be amended from time to time, shall apply to this Agreement, except for the provisions identified in Section E paragraph 2 below. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.
4. The term Borrower shall be used in this Agreement to refer both to the Borrower of the Loan and to the Recipient of the Grant.

Section B

1. (a) The amount of the Loan is twenty two million four hundred and thirty thousand Special Drawing Rights (SDR 22 430 000).

(b) The amount of the Grant is three hundred and eighty six thousand Special Drawing Rights (SDR 386 000).
2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be the USD.

4. The first day of the applicable Fiscal Year shall be 1st July.
5. Principal and service charges shall be payable on each 1st June and 1st of December with payments of principal commencing on the 1st of June 2024.
6. There shall be two accounts designated to receive funds in advance in USD (Designated Account), for respectively the Loan and Grant proceeds for the exclusive use of this Project in the State Bank of Pakistan.
7. There shall be two sub Designated Accounts in Pakistani Rupees for respectively the Loan and Grant proceeds for the exclusive use of this Project in the State Bank of Pakistan in favour of the Province of Punjab ("Sub Designated Account"). There shall be two Project Accounts in Pakistani Rupees for respectively the Loan and Grant, for Project operations at the National Bank of Pakistan for the benefit of the Project Coordination Unit ("PCU Account") and four sub-accounts in Pakistani Rupees for Project operations in the National Bank of Pakistan at district level, one for each Target District, as defined in Paragraph 1 of Schedule I hereto (collectively, the "Sub-Accounts"). The PCU will transfer the funds to the four Sub- Accounts on the basis of AWPBs submitted by each Target District. Five revolving fund accounts, one to be established at provincial level in the Province of Punjab (the "Provincial Revolving Fund Account") and one for each Target District (each a "District Revolving Fund Account" and, collectively with the Provincial Revolving Fund Account the "Revolving Fund Accounts") shall be opened and maintained at the National Bank of Pakistan. The Provincial Revolving Fund Account shall be used for procuring motorcycles for field staff whilst the District Revolving Fund Accounts shall be used for procuring and supplying vaccines and medicines.
8. The Borrower shall ensure that the Government of the Province of Punjab provide counterpart financing for the Project in the approximate amount of three million four hundred and two thousand United States dollars (USD 3 402 000) to cover all taxes and duties, the salaries of staff assigned from the Government to the Project, as well as 50% of the overall cost of the two funds to be established respectively for procuring vaccines and medicines at the district level, and for procuring motorcycles for field staff at provincial level. Additionally, the Borrower shall ensure that Project beneficiaries provide counterpart financing for the Project in the approximate amount of one million nine hundred and twenty-seven thousand United States dollars (USD 1 927 000) to cover 20% of the overall cost of the infrastructure schemes designed for collective purposes, as well as 50% of the overall cost of the infrastructure schemes for the benefit of individual households.

Section C

1. The Lead Project Agency shall be the Livestock and Dairy Development Department (L&DDD), Government of Punjab.
2. The following is designated as additional Project Party: Tehsil Municipal Administrations (TMAs) participating in the Project or any other successors.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Financing shall be administered and the Project supervised by the Fund.

Section E

1. (a) The following are designated as additional general conditions precedent to withdrawal:

- (i) the Designated Accounts, the Sub Designated Accounts, the PCU Account the Sub-Accounts and the Revolving Fund Accounts, as defined in Section B, Article 6 and 7, and Paragraph 14, Section II of Schedule I hereto, shall have been duly opened;
- (ii) the Project Steering Committee (PSC), headed by the Chairman of the Planning and Development Board (P&D Board), shall have been duly established;
- (iii) the Fund shall have provided its no-objection to the selected social mobilization and technical service providers, and subsidiary agreements between the L&DDD and each such service provider acceptable to the Fund shall have been duly executed, and confirmation shall have been provided to the Fund that dedicated bank accounts have been opened by the selected entities for receipt of the proceeds of the Financing;
- (iv) the Project Director, the Deputy Director of the Project Coordination Unit (PCU) Office, District Coordinators, Deputy District Coordinators, District Officers for the Target Districts (as defined in Paragraph 1 of Schedule I hereto), and the Finance Manager at PCU level shall have been duly recruited by the L&DDD;
- (v) a Project Implementation Manual (PIM) acceptable to the Fund shall have been approved by, and submitted to, the Fund;
- (vi) the overall implementation framework between the L&DDD and the Local Government and Community Development Department (LG&CD) for the contracting and construction work for the cattle markets shall have been finalised; and
- (vii) an accounting software for managing the accounting system of the Project acceptable to the Fund shall have been installed and become operational.

(b) The following is designated as an additional specific condition precedent to withdrawal: No withdrawal shall be made under Category VIII ("Operating Costs") of the Allocation Table set forth in paragraph 1, Schedule 2 hereto in respect of the Revolving Funds until the Borrower shall have provided its contribution to Revolving Fund Accounts as defined under paragraph 14, Schedule 1, Section II hereto.

2. As an exception to Section 4.08(a)(ii) of the General Conditions, expenditures of up to the equivalent of USD 75 000 for Category II, USD 50 000 for Category VI, and USD 75 000 for Category VIII of the Allocation Table (paragraph 1, Schedule 2 hereto) incurred after 22 November 2013 but before the date of entry into force of this Agreement may be considered Eligible Expenditures for the purposes of this Agreement, if otherwise eligible, notwithstanding the fact that they have been incurred before the start of the Project Implementation Period.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Borrower:

Secretary
Economic Affairs Division
Ministry of Finance, Revenue,
Economic Affairs,
Statistics & Privatization
C Block, Pak Secretariat
Islamabad, Pakistan

This Agreement, dated [_____], has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

ISLAMIC REPUBLIC OF PAKISTAN

[Authorized Representative]
[insert title]

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The target group of the Project shall include approximately 112 500 poor households in the districts of Mianwali, Khushab, Bhakkar and Layyah in the Province of Punjab (each a "Target District" and, collectively, the "Target Districts" or "Project Area").
2. *Goal.* The overall goal of the Project is to contribute to rural growth and poverty reduction in rural Punjab.
3. *Objectives.* The Project objective is to enhance the livelihoods of approximately 112 500 poor households in the Project Area. This shall be achieved by addressing the key constraints that prevent the increase in production and productivity of the livestock sector.
4. *Components.* The Project shall consist of the following Components: (a) Production Support; (b) Marketing Support; and (c) Project Management.
 - 4.1. *Component 1 - Production Support.* This component aims at increasing livestock production and productivity in the Project Area by: (i) strengthening the capacity of beneficiary communities - including vulnerable women - private sector players, and of the L&DDD, and (ii) supporting the construction of small-scale, community managed infrastructure schemes aimed at enhancing livestock productivity. The component shall facilitate the engagement of the private sector for the provision of technical assistance and capacity building activities, and the provision of a number of other services. This component includes four sub-components, namely: (1.1) Capacity Building of Community Organizations, (1.2) Community Infrastructure, (1.3) Capacity Building of the Private Sector, and (1.4) Capacity Building of the L&DDD.
 - 4.2. *Component 2 - Marketing Support.* This component aims at increasing the selling of livestock products by facilitating the access of smallholder farmers to markets. The component shall facilitate the establishment of linkages with the private sector for the provision of inputs, capacity building activities and other services. This component includes the following three sub-components: (i) Strengthening Farmer Market Organizations, (ii) Market Infrastructure, and (iii) Market Information and Linkages.
 - 4.3. *Component 3 - Project Management.* This component aims at supporting the Project coordination and technical responsibilities of the PCU. In addition, a Special Financing Facility to support promising and well performing Project activities requiring further backing and/or expansion shall be established thereunder.

II. Implementation Arrangements

5. *Federal Level.* The Economic Affairs Division of the Ministry of Economic Affairs and Statistics of the Borrower shall play an overarching coordination role in respect of the Project.
6. *Lead Project Agency.* In its capacity as the Lead Project Agency, the L&DDD shall have overall responsibility for Project implementation.

7. *Project Coordination Unit.* The PCU shall be responsible for the overall planning, coordination, fiduciary management and monitoring of the Project, and for consolidating the Annual Work Plan and Budgets (AWPBs) in consultation with District Coordination Units and service providers contracted for the Project. The PCU shall be headed by a Project Coordinator, and shall comprise a Finance Specialist, a Marketing Specialist, an M&E and Knowledge Management Specialist, as well as a Gender and Poverty Specialist. The positions shall be filled on a competitive basis and candidates from the Pakistan Administrative Service, Provincial Management Service, L&DDD and private sector shall be eligible to apply. Public sector incumbents shall be entitled to salary and a Project allowance, subject to the Borrower's policy, while private sector incumbents shall be paid a market-based salary determined by the relevant committee.

8. *Project Steering Committee.* The PSC shall be headed by the Chairman of the Planning and Development Board (P&D Board) with relevant key secretaries and private sector representatives as members. The PSC shall provide overall oversight to the Project and coordination between various agencies. It shall in addition be responsible for the approval of AWPBs. PSC membership and Terms of Reference (ToRs) shall be specified in the PIM.

9. *Project Executive Committee (PEC).* The PEC shall be headed by the Secretary L&DDD, with the Project Coordinator and one representative each from the P&D Board, the Finance Department, and the LG&CD. It shall consider and decide on any emergent issue needing immediate decision that cannot await the convening of the PSC. The PEC shall also ensure synergy and complementarity between Project activities and those of L&DDD's other adjunct companies and projects.

10. *District Coordination Units (DCUs).* A DCU shall be established in each Target District in the office of the District Livestock Officer (DLO) and shall be responsible for planning, coordination and implementation of activities in the target villages in close collaboration with the social mobilization service provider. The DLO shall be the *ex-officio* District Project Coordinator for implementation of Project activities. A full-time Deputy Project Coordinator shall be engaged to assist the DLO in Project implementation. This shall be an incremental Project-funded position filled on competitive basis. A full-time Finance Manager shall also be recruited to manage Project funds.

11. *District Coordination Committee (DCC).* The DCC shall be headed by the District Coordination Officer or Head of District Administration, in each of the four Target Districts. The DCC shall be primarily a district level coordination and trouble-shooting forum and shall have no executive authority as far as Project management, finances and activities are concerned. DCC meetings shall be convened to address any field level coordination or implementation issue involving a district government entity.

12. *Subsidiary Agreements.* The Lead Project Agency shall enter into an agreement/contract for services with each social mobilization and technical service provider for the implementation of the sub-component respectively assigned thereto. Each agreement/contract for services with such service providers shall clearly specify the scope of the work to be undertaken, expected deliverables, estimated budget for specific activities, modalities for the implementation of any sub-contracted activities, as well as clearly defined performance evaluation criteria. These agreements shall be monitored closely by the PCU and renewed annually based on satisfactory performance. Each agreement with a service provider shall: (i) specify that the service provider shall maintain a register of assets (e.g. goods and equipment) acquired with the proceeds of the Loan and that at completion of the Project Implementation, such assets will be transferred to the Borrower; and (ii) be submitted to the Fund for its prior approval. Each agreement with a service provider may not be modified without the prior consent of the Fund.

13. *Memorandum of Understanding (MOU)*. The Lead Project Agency shall enter into a MOU with each TMA or any other successors participating in the Project setting forth the implementation terms of the cattle markets under Component 2. Each MOU shall clearly specify the scope of the work to be undertaken, estimated budget for specific activities, as well as clearly defined performance evaluation criteria. The MOUs shall be monitored closely by the PCU and shall: (i) specify that the TMAs or any other successors shall maintain a register of assets (e.g. goods and equipment) acquired with the proceeds of the Loan; and (ii) be submitted to the Fund for its prior approval. The MOUs may not be modified without the prior consent of the Fund.

14. *Revolving Fund Accounts*. In total, five revolving fund accounts, one to be established at provincial level in the Province of Punjab (the "Provincial Revolving Fund Account") and one for each Target District (each a "District Revolving Fund Account" and, collectively with the Provincial Revolving Fund Account the "Revolving Fund Accounts") shall be opened and maintained at the National Bank of Pakistan. The Provincial Revolving Fund Account shall be used for procuring motorcycles for field staff whilst the District Revolving Fund Accounts shall be used for procuring and supplying vaccines and medicines. Payment for the services shall be collected from the beneficiaries on a cost-reimbursement basis and deposited in the respective Revolving Fund Accounts. Reporting shall be processed on a monthly basis. The share of the revolving fund covered by the proceeds of the Financing shall be recorded and reported at the weighted average exchange rate applicable on the date on which the funds are transferred from the Designated Account to the Sub-Accounts, through the PCU Account. Subsequent fund revolutions and their re-utilization for procurement of further items for community services shall not be claimed for justification/replenishment against IFAD Imprest advances.

15. *Mid-Term Review (MTR)*. A Mid-Term Review shall be conducted at the end of Project Year three, to assess the progress, achievements, constraints and emerging impact and likely sustainability of Project activities and make recommendation and necessary adjustments for the remaining Project period. The MTR shall be carried out jointly by the PCU and the Fund.

16. *Project Implementation Manual*. The Lead Project Agency shall prepare a draft PIM acceptable to the Fund and submit same for approval to the PSC. When so approved, a copy of the PIM shall be provided by the Lead Project Agency to the Fund. The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund.

17. *Implementation of Project Components*.

17.1. *Component 1 - Production Support*.

Sub-Component 1.1. Capacity Building of Community Organizations. This sub-component shall be implemented by a service provider/Non-Governmental Organisation ("NGO") to be contracted on a competitive basis with the prior approval of the Fund. The broad-based Village Organizations shall be used as a forum for the households to participate in Project activities with the support of existing NGOs. In addition, a total of 750 Livestock Farmer Field Schools (LFFS) shall be organized during the Project Implementation Period, of which 70% for women. Upon completion of the LFFS cycle, the participants shall be awarded certificates of LFFS graduation.

Sub-Component 1.2. Community Infrastructure. Under this sub-component, small-scale, community-managed infrastructure schemes which aim at enhancing livestock productivity shall be selected on a participatory basis, based on the needs and priorities of the communities, as defined by community groups. The

schemes shall be implemented and managed by the communities themselves as well as by the same service provider/NGO which shall be contracted to implement the Capacity Building of Community Organizations (sub-component 1.1 above).

Sub-Component 1.3. Capacity Building of the Private Sector. Under this sub-component, private sector operators in the Target Districts shall be identified by the DLO and registered with the L&DDD. Service providers that meet the technical and knowledge/skill requirements shall be registered with the DLO. Communities shall be advised to avail themselves only of the services of those providers with the requisite expertise. In addition, a service provider shall be contracted by the Project to design and implement the training programme for Community Livestock Extension Workers, 70% of whom shall be women.

Sub-Component 1.4. Capacity Building of the Livestock and Dairy Development Department. Under this sub-component, the PCU, DLOs and the provincial government of Punjab, among others, shall be responsible for strengthening the capacity of the L&DDD to efficiently and effectively carry out its functions and fulfil its institutional mandate.

17.2. *Component 2 - Marketing Support.*

Sub-Component 2.1. Strengthening Farmer Market Organizations. This sub-component shall be implemented by the same service provider/NGO which shall be contracted to implement the Capacity Building of Community Organizations (sub-component 1.1 above).

Sub-component 2.2. Market Infrastructure. The livestock markets infrastructure shall be planned and upgraded in collaboration with the participating TMAs or any other successors in the respective Target Districts. The infrastructure interventions shall be based on the existing blue-print between the L&DDD and LG&CD for cattle market infrastructure, updated where necessary. A consultant shall be engaged by the PCU, in collaboration with the LG&CD to prepare the detailed design, cost estimates/Bill of Quantities and provide supervision services during up-grading.

Sub-component 2.3. Market Information and Linkages. Market information shall be provided through innovative delivery channels for the small holder farmers whilst pilot initiatives of the L&DDD such as experiments with mobile technology for provision of extension messages and information on markets, shall be scaled-up. The service provider shall be procured through a competitive process or through single source modality if it emerges that no other service provider can offer these services and provided the principles of best value for money are respected.

17.3. *Component 3 - Project Management.* Under this component, support shall be provided to cover the costs associated with the PCU and its functions. Additionally, a Special Financing Facility shall be established subject to the prior endorsement of the Fund, upon recommendation of the supervision missions and Mid-Term Review, to support (i) consolidation of any on-going viable activities; (ii) expansion of any promising Project activity; (iii) provision of any inputs in the field which are considered key for enhancing impact; and (iv) strengthening Project M&E activities.

Schedule 2

Allocation Table

1. *Allocation of Loan and Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Financing, the allocation of the amounts of the Loan and Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category of expenditures	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	% of eligible Expenditures to be financed
I. Works	3 700 000		100% net of taxes
II. Equipment	1 050 000		100% net of taxes and Government contributions
III. Vehicles	65 000		100% net of taxes and Government contribution
IV. Goods, Services and Inputs	3 360 000		100% net of taxes and net of beneficiaries contributions.
V. Consultancies	70 000	68 000	100% net of taxes
VI. Training	5 540 000	280 000	100% net of taxes
VII. Credit	710 000		100% net of taxes
VIII. Operating costs	5 685 000		100% net of taxes and Government contribution
Unallocated	2 250 000	38 000	
Total	22 430 000	386 000	

(b) The terms used in the Table above are defined as follows:

Works covers Expenditures for community infrastructure (water solutions for livestock, innovative energy solutions for livestock, housing solutions, and any other infrastructure identified by the beneficiaries that can contribute to livestock development), and the upgrading of existing livestock markets.

Equipment covers expenditures for, among other things, starter kit for Community Livestock Extension Workers, veterinary lab equipment, support for local breed semen production, equipment for small ruminants, and equipment for the provision of market information.

Goods, Services and Inputs refers to expenditures related to Asset Creation, which comprises the expenditures for the distribution of goats and poultry packages to vulnerable women and milk chillers and chiller/cooling tanks to transport milk to strengthen the village based milk collection centers.

Consultancy refers to expenditures for, among other things, Technical Assistance to strengthen the policy/regulatory framework, and to strengthen the Farmer Market Organizations.

Training includes expenditures for, among other things, Capacity Building, strengthening Farmers organization among other things, expenditures for Livestock Farmers Field Schools, Farmer Field Days, Exchange Visits, Livestock Fairs and Competitions, Extension Material, Trainings, Stipend for Community Livestock Extension Workers, Internship Programme for University Graduates, Pilot testing of climate resilient fodder crops, Development and Production of vaccines, Establishment of Dairy and Goat/Sheep Marketing Groups, Marketing Support.

Credit refers to the Special Financing Facility referred to in Section 17.3, which is a special facility to be accessed by the PCU upon specific recommendation of the supervision and Mid-Term review missions to support (i) consolidation of any on-going viable activities; (ii) expansion of any promising Project activity; (iii) provision of any inputs in the field which are considered key for enhancing impact; and (iv) strengthening Project M&E activities.

Operating costs includes Expenditures for salaries, and operating costs for the contribution to establish the Revolving Funds for procuring and supplying vaccines and medicines as well as the purchase of motorcycles to be leased to veterinary assistants.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project.

1. *Gender.* The Borrower shall ensure that gender concerns shall be mainstreamed in all Project activities throughout the Project Implementation Period. The Borrower shall also ensure that the Project activities specifically designed to benefit women and women-headed households are duly and diligently implemented.

2. *Monitoring.* The PCU/DCUs shall monitor the Project and, in partnership with other units and implementing partners/service providers, generate data and information on Project activities, output and outcomes in a manner satisfactory to the Fund. The PCU/DCUs shall also collect information on Project impact and assess impact for target groups in comparison with objectives, using the Fund's standard methodology (Results and Impact Monitoring System).

3. *Environment Protection.* The Borrower shall take all measures to ensure that existing environmental laws and regulations applicable in the country are strictly followed by the Project, and the Project represents an environmentally less stressful approach to using the degraded natural resource base in the Project Area. The Borrower shall take all measures to ensure the Project will not support activities that might generate significant irreversible or cumulative environmental impacts.

4. *Safeguard of Project Assets.* The Borrower shall ensure that all requirements of government and IFAD regulations shall be stringently applied relating to assets, including assets' physical verification procedures, asset coding procedures, assignment of custodians, and avoidance of use other than for Project purposes. In addition, the Borrower shall ensure that all assignment of assets procured through the Financing shall be utilized for the purposes of furthering the objectives of the Project, and IFAD shall be duly informed of all such transfers, and envisaged use of assets after Project life.

5. *Selection of Service Providers.* A procurement committee shall be formed for the competitive selection of service providers. The selection shall be made through Quality and Cost Based Selection processes, to reflect adequate weight to quality of service provider, relevant experience and past performance on similar projects for other donors. Terms of Reference for the service providers, to be included in the bidding document/request for proposal, shall include the required financial reporting, accounting and audit standards and arrangements as well as a description on the flow of funds.

6. *Audit of Service Providers.* The Borrower shall ensure that audit of the service providers will be carried out by a Chartered Accountant firm selected with the concurrence of the PCU and non-objection of IFAD. The Chartered Accountant firm shall be appointed within two (2) months of the close of the respective financial year.

Logical framework

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
Goal:			
To contribute to rural growth and poverty reduction in rural Punjab	<ul style="list-style-type: none"> - % decrease in population below poverty line in target districts (Target: 5% decrease from 2013 baseline) - % decrease in child malnutrition in target districts (under 5yrs old, chronic, acute-underweight) (Target: 5% decrease from 2013 baseline) 	<ul style="list-style-type: none"> - Pakistan Social and Living Standards Measurement Survey (PSLM) by the Pakistan Bureau of Statistics (PBS) and National Nutritional Surveys. 	Political and economic stability and security
- Project Development Objective			
To enhance the livelihoods of 112,500 poor households in the districts of Mianwali, Khushab, Bhakkar and Layyah. (by addressing the key constraints that prevent the increase in production and productivity of the livestock sector)	<ul style="list-style-type: none"> - No. of households with improved livelihoods (Target: 112,500 hh) - % increase in net household income (Target: +50%) - % increase in livestock productivity (measured as quantity of daily milk/animal) (Target: +17%) - % increase in livestock production (measured as quantity of milk vs baseline) (Target: +25%) 	<ul style="list-style-type: none"> - Impact surveys at Project baseline - Mid-term and completion reports 	No significant outbreak of any new livestock disease, drought, flood and/or other natural disasters in the Project districts
Outcome 1 (Production support) Increased production and productivity of the livestock sector	<ul style="list-style-type: none"> - % increase in livestock productivity (measured as quantity of daily milk/animal) (Target: +17%) - % increase in livestock production (measured as quantity of milk vs baseline; live weight of small ruminants sold) Target: <ul style="list-style-type: none"> - 25% increase in milk/cow - 25% increase in live weight of small ruminants sold - % decrease in mortality rates (Target: -50% for cows/buffalos; -33% for small ruminants) - % increase in animal fertility rate (Target: +15%) 	<ul style="list-style-type: none"> - Baseline and impact assessments - Case studies 	No significant outbreak of any new livestock disease, drought, flood and/or other natural disasters in the Project districts
Output 1.1 (Capacity Building of Community Organizations) Skills and assets of community organizations and vulnerable women enhanced	<ul style="list-style-type: none"> - No. of individuals attending village-based trainings (Target: 56,250) - No. of individuals participating in LFFSs (Target: 15,000) - % of women attending the village-based trainings and participating in the LFFSs (Target: 70%) - No. of women provided with goat and poultry packages (Target: 15,000) 	<ul style="list-style-type: none"> - Participatory Monitoring Reports - Project & Progress Reports 	<ul style="list-style-type: none"> - Increased productivity from improved practises attracts farmers - Culturally embedded gender roles and stereotypes may constraint the participation of women
Output 1.2 (Community Infrastructure) Improved on-farm livestock facilities established	<ul style="list-style-type: none"> - No. of households benefiting from new infrastructure schemes: Targets: <ul style="list-style-type: none"> - 46,090 hh from improved water solutions - 1,600 hh from improved energy solutions - 150 hh from housing solutions 	<ul style="list-style-type: none"> - Case studies of individual farms - Participatory Monitoring Reports - Project & Progress Reports 	<ul style="list-style-type: none"> - Proposed biogas technology fits into the household customs. - Farmers contribute with their own resources for improving on farm livestock facilities
Output 1.3 (Capacity Building of Private Sector) Improved capacity in delivering of animal health, improved feed and	<ul style="list-style-type: none"> - No. of new CLEWs, paravets, and extension agents trained, disaggregated by sex Targets: <ul style="list-style-type: none"> - 1,000 CLEWs (70% women) 	<ul style="list-style-type: none"> - Baseline and impact assessments - Project & Progress Reports - Case studies of individual 	<ul style="list-style-type: none"> - L&DDD staff develops effective systems for collaboration with CLEWs and para-vets - District based revolving funds with adequate liquidity for procurement

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
breed improvement services	<ul style="list-style-type: none"> - 900 paravets and livestock extension agents (10% women) - No. of animals vaccinated and treated against prevalent diseases and parasites per year(Target: 540,000) - No. of animals provided with mineral supplements (Target: 116,250) - No. of dairy cows and buffalo inseminated with certified semen (Target: 100,000) - % increase in conception rate of inseminated animals (Target: +60%) - PPR and CCP vaccines for sheep and goats produced locally and distributed - Appropriate climate resilient fodder varieties suitable for the arid and semi-arid environments tested locally and disseminated 	farms	<ul style="list-style-type: none"> of medicines established - Quality vaccines and drugs are available - Adequate numbers of veterinarians and animal health agents are operating at target districts
<p>Output 1.4 (Capacity Building of the Livestock and Dairy Development Department) L&DDD's capacity for providing improved livestock extension, health, and AI services strengthened; policy and regulatory framework strengthened</p>	<ul style="list-style-type: none"> - % of L&DDD vacant VOs and paravet positions (Target: 0%) - No. of female DMVs and VAs recruited (Target: 8 DMVs, 12 VAs) - Livestock Strategy and Action Plan approved 	<ul style="list-style-type: none"> - Baseline and impact assessment studies - Project & Progress reports 	Consensus among livestock sector stakeholders for revised regulations
<p>Outcome 2 (Marketing Support) Increased marketing of livestock products</p>	<ul style="list-style-type: none"> - % increase of marketed milk and live animals (Target: +30%) - % increase in farm-gate price for milk and live animals (Targets: +10%) 	<ul style="list-style-type: none"> - Baseline and impact assessments - Case studies. - Project & Progress Reports 	Successful Public Private Partnership established
<p>Output 2.1 (Strengthening Farmer Market Organizations) Dairy and Small Ruminant Marketing Groups established and operating</p>	<ul style="list-style-type: none"> - No. of marketing groups operational/functional - No. of households joining the marketing groups <p>Targets:</p> <ul style="list-style-type: none"> - 100 dairy marketing groups established with a membership of 12,500 hh - 200 goat marketing groups established with a membership of 4,000 hh 	<ul style="list-style-type: none"> - Project & Progress reports 	
<p>Output 2.2 (Market infrastructure) Livestock marketing infrastructure established and operating; village-based milk collection centers strengthened</p>	<ul style="list-style-type: none"> - No. of livestock markets upgraded (Target: 2 class B and 10 class C) - No. of milk collection centers established (Target: 100) 	<ul style="list-style-type: none"> - Project & Progress Reports - Revised regulations for the operation of livestock markets 	Facilities be operated in cooperation with the private sector, Tehsil Municipal Administration
<p>Output 2.3 (Market information and linkages) Market information and innovative financial services available to smallholder farmers</p>	<ul style="list-style-type: none"> - No. of users having access to market information through mobile system (Target: 25,000) 	<ul style="list-style-type: none"> - List of messages and users - Case studies - Project & Progress Reports 	No significant risk

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