Document:	EB 2015/114/R.14/Rev.1
Agenda:	6(c)(iv)
Date:	22 April 2015
Distribution:	Public
Original:	English

E

IFAD

Investing in rural people

President's report

Proposed loan to the Islamic Republic of Pakistan for the Economic Transformation Initiative - Gilgit-Baltistan

Note to Executive Board representatives

Focal points:

Technical questions:

Hubert Boirard
Country Programme Manager
Tel.: +39 06 5459 2298
e-mail: h.boirard@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

Executive Board — 114th Session
Rome, 22-23 April 2015

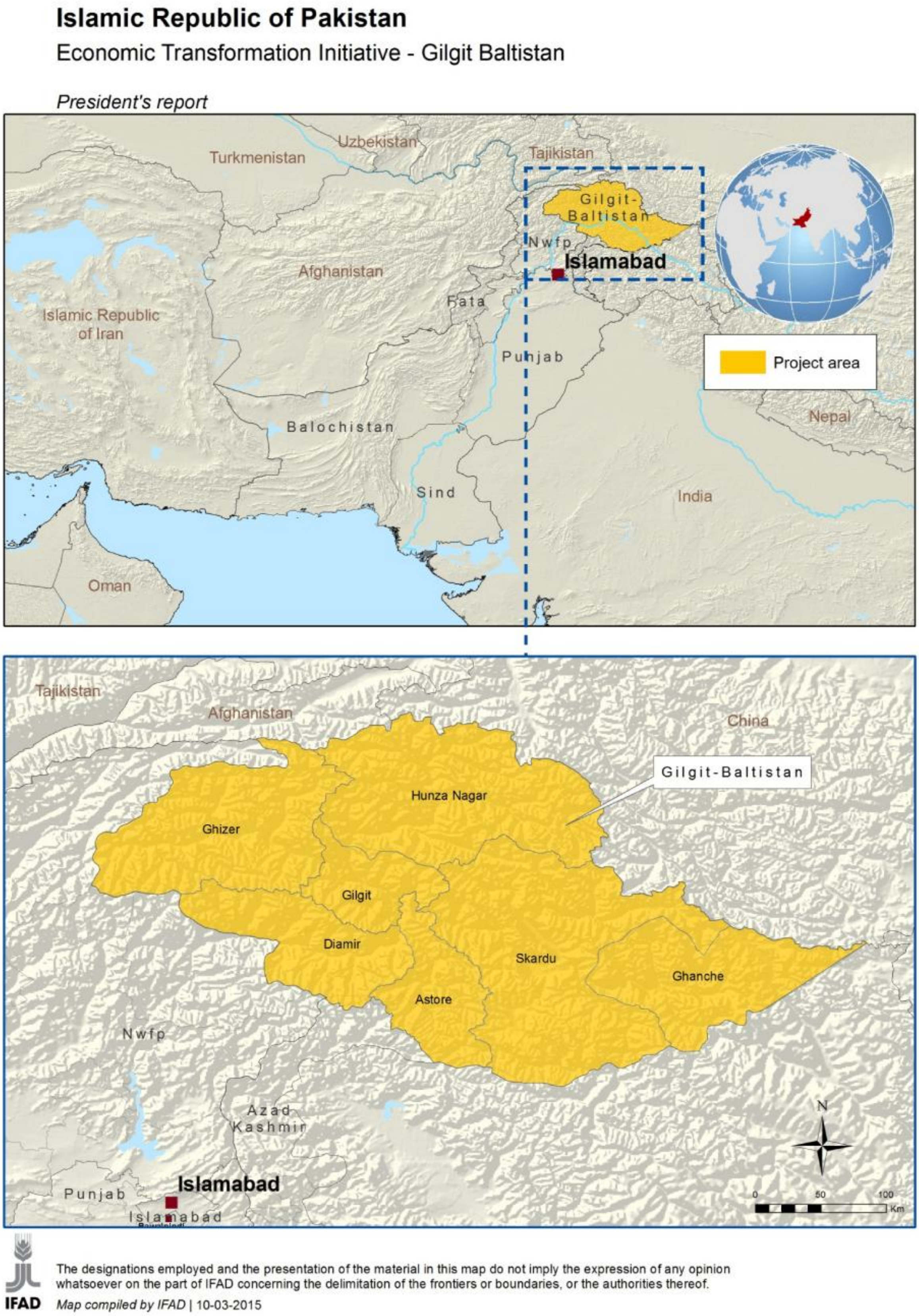
For: Approval

Contents

Annex

Appendix

Map of the programme area



Islamic Republic of Pakistan

Economic Transformation Initiative - Gilgit-Baltistan

Financing summary

Initiating institution:	IFAD
Borrower:	Islamic Republic of Pakistan
Executing agency:	Planning and Development Department, Provincial Government of Gilgit-Baltistan
Total programme cost:	US$120.15 million
Amount of IFAD loan:	SDR 48.55 million (equivalent to approximately US$67 million)[1]
Terms of IFAD loan:	Highly concessional
Cofinancier(s):	To be determined
Amount of cofinancing:	US$22.98 million
Terms of cofinancing:	To be determined
Contribution of borrower:	US$23.63 million
Contribution of beneficiaries:	US$6.54 million
Appraising institution:	IFAD
Cooperating institution:	IFAD
Retroactive financing:	For eligible expenditures not exceeding US$0.5 million incurred between the date of Executive Board approval and the date of entry into force of the financing agreement

[1] Including US$10 million cancelled, upon request by the Islamic Republic of Pakistan as the borrower, from the financing for the Southern Punjab Poverty Alleviation Project (approved by the Executive Board at its 101st session, EB 2010/101/R.27/Rev.1). The proposed recommitment of the funds cancelled as such is in compliance with the rules and procedures approved by the Executive Board in "Revision of IFAD approach to use of cancellation of approved loans and/or grants" at its 111th session (EB 2014/111/R.12/Rev.1).

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Islamic Republic of Pakistan for the Economic Transformation Initiative – Gilgit-Baltistan, as contained in paragraph 43.

Proposed loan to the Islamic Republic of Pakistan for the Economic Transformation Initiative – Gilgit-Baltistan

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Pakistan has a total land area of 769,095 square kilometres. The estimated population in 2013 was 184 million,[2] of whom over 60 per cent live in rural areas. In 2014, nominal GDP was an estimated US$ 246.6 billion and per capita GDP was US$1,275.[3] The services sector contributes the largest share to GDP – 53 per cent – while agriculture and industry contribute 21 per cent and 24 per cent respectively.

2. Pakistan is a relatively “young” country with over 55 per cent of the population below the age of 25 and over 35 per cent between 25 and 54 years. Considerable gender disparities exist on account of socio-economic, political and health factors, and Pakistan is ranked 141st among 142 countries evaluated by the World Economic Forum’s Global Gender Gap Index in 2014. The adult literacy rate is 56 per cent but there are huge variations between the urban and rural population and across regions. The unemployment rate is 6.7 per cent.[4]

3. The official poverty line in Pakistan is calorie-based and is defined as per capita food and non-food expenditures per month to support food consumption equal to 2,350 calories per adult per day.[5] A report based on the Household Income and Expenditure Survey (HIES) of 2011 calculates the overall incidence of poverty to be 36.55 per cent, with rural poverty standing at 37.08 per cent and urban at 35.49 per cent.[6] Poverty in remote and geographically challenging areas like Gilgit-Baltistan is largely driven by the small size of landholdings, poor access to markets, lack of access to credit, inputs and support services, limited off-farm employment opportunities, and policy and institutional constraints.

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

4. The Economic Transformation Initiative – Gilgit-Baltistan (ETI-GB) will directly support the Government’s second poverty reduction strategy paper (2010), which includes agriculture as one of the nine core pillars and which places special emphasis on rural finance and on support for agriculture and small farmers, microenterprises and small businesses, rural infrastructure, women’s development and education as important means of poverty reduction.

---

[2] Pakistan Bureau of Statistics, 2013.
[3] Economist Intelligence Unit Report, 2014.
[4] Pakistan Economic Survey, 2013-14, Finance Division, Government of Pakistan.
[5] Ibid.
[6] Haroon Jamal, Pakistan Poverty Statistics: Estimates for 2011, Research Report No.84.

5. The ETI-GB is also aligned with IFAD's country strategic opportunities programme (COSOP) for 2010-2015 , in which Gilgit-Baltistan was prioritized in view of its comparative deprivation and higher incidence of poverty and the earlier success of the IFAD-funded Northern Areas Development Programme in improving the livelihoods of the hard-to-reach poor in Gilgit-Baltistan.

II. Programme description

A. Programme area and target group

6. Gilgit-Baltistan is a highly mountainous and remote region in northern Pakistan covering 72,500 square kilometres, with a population of about 1.3 million. A distinctive feature of the region is that over 90 per cent of the inhabitants own some agricultural land, as compared to 52 per cent in rest of the country. However, the per capita holding is very small at 0.6-0.8 acres. Small farm sizes, long harsh winters, mountainous terrain and other physical challenges result in consumption levels that are lower than the national average. Dietary diversity is the poorest in the country, and the incidence of stunting among children is estimated at an alarming 36 per cent. A survey by the Food and Agriculture Organization of the United Nations (FAO) in 2014 registers only 26 per cent of the population as food-secure, 41 per cent as moderately food-insecure and 32 per cent as highly food-insecure. The adult literacy rate is low, at 36 per cent, and the poverty incidence is 29 per cent as compared to 21 per cent for Pakistan overall.

7. Over 90 per cent of the region's population is engaged in agriculture; therefore the sector has a very important role for growth and poverty reduction. Traditionally, apricot has been the most commonly produced food item in the region and this continues to be the case. To capitalize on seasonal and elevation advantages, there has been a move towards production of other high-value cash crops like fruits and vegetables. Potato is the leading crop after apricots in terms of cultivated area and production.

8. Smallholder farming households engaged in apricot and potato production with an average landholding of less than one hectare (ha) will be the primary target group. Other beneficiaries will include small-scale processors, trading and export cooperatives, people engaged in value adding activities, input suppliers and transporters. Gender will be mainstreamed in all aspects of the ETI-GB and youth and women will be specifically targeted in skill development for relevant income generation opportunities. The entry point for the initiative will be organized village producers' groups and marketing associations. In organizing these groups and associations, the ETI-GB will build on the existing social capital generated by the community organizations organized under other programmes in the region since 1982. An estimated 100,000 smallholder households, including women and youth, will benefit directly from value chain and irrigation development activities. In addition, about 100 local entrepreneurs will be assisted in scaling up their services for different segments of value chains. About 10,000 persons will draw indirect benefits from the upgrading of farm-to-market roads, extension, research and other investments.

B. Development objective

9. The development objective is to increase agricultural incomes and employment for at least 100,000 rural households in Gilgit-Baltistan region, as part of the overall goal to improve incomes and reduce poverty and malnutrition in the region.

C. Components/outcomes

10. The seven-year operation will comprise of three mutually reinforcing components: productive infrastructure; value chain development; and programme management and policy support. These components will deliver five key outcomes: (i) 100,000 households increase their production, productivity and sales in key agricultural commodities; (ii) a sustainable and community-driven development approach is

introduced, which is pro-poor and youth-, gender- and nutrition-sensitive; (iii) agri-business actors invest in local production, processing and value addition to improve marketing of local food products; (iv) government and private agricultural services are sustainably improved and outreach expanded; and (5) the Government formulates and enforces pro-poor agriculture policies.

11. The productive infrastructure component consists of two interlinked subcomponents that will be underpinned by community mobilization and planning activities in the four poorest districts, with the support of a competitively selected social mobilization partner. These are, first, an irrigation subcomponent to scale up the tried and tested community-based irrigation development approach, adding 50,000 acres of new irrigated land and providing an average of one acre of irrigated land to participating households, including women-headed and landless households. Participating households will also receive support in developing the land. Second, a farm-to-market roads subcomponent will link existing production areas and newly developed irrigated areas to main valley roads and trunk roads. This will be achieved by upgrading 400 km of existing pony tracks to a standard that allows use by all-terrain vehicles, and upgrading roads currently fit solely for all-terrain vehicles to a standard that allows for truck transportation.

12. The value chain development component will be driven by a commercial and market-centered approach whereby the initiative will identify priority valleys in each of seven districts based on criteria that will include total population, number of poor households, total production of priority crop, total cropped area, area available for irrigation development and farm-to-market road needs. Coverage may be expanded from the third year depending on progress and results. Within a valley, interventions will start with villages with existing community organizations that can be consolidated into larger village producer groups (VPGs). These producer groups will provide the foundation for gradual expansion to all villages in the valley and the organization of valley producers' associations (VPAs).

13. The component will facilitate VPA engagement with private actors and other partners. Contracts between VPAs and their purchasing partners will drive the business plans of producers' associations and the support from programme implementing agencies. In particular, through its value chain technical assistance team, the initiative will assist producers' associations, processors and related service providers in developing business plans and marketing strategies, increasing product volume at an agreed quality standard, and accessing capital for development to realize the full potential of their products. Where justified, capital investments will be complemented by a value chain development fund using a matching grants mechanism. The initiative will also build the capacity of government extension and research agencies to effectively provide services to VPGs and VPAs. Finally, the component will assist the Government in formulating pro-poor policies and regulations for land records and titling, irrigation water usage and management, road operation and maintenance, and developing effective models for extension and research services.

14. The programme management and policy support component will put in place an effective management and coordination system led by a steering committee headed by a chief secretary of Gilgit-Balistan. A programme coordination unit (PCU) will be established and will operate as an autonomous institution under the guidance of the steering committee, and will be responsible for programme planning and budgeting, coordination, monitoring, procurement and annual audits, as well as management of the value chain development fund. The PCU will also assist government departments with policy development and implementation. The PCU will ensure that gender, youth, environment, knowledge management and communication considerations are integrated into all aspects of programme management and implementation.

III. Programme implementation

A. Approach

15. The ETI-GB's approach is founded on expanding the crop area, improving per-household land holdings, and modernizing agricultural practices, thereby transforming the rural economy from deficit/subsistence agriculture to commercial production with marketable surpluses and more specialized, high-value agriculture that is responsive to market demands and appropriate for the region's comparative advantages. A participatory and community-centered approach to land and water development will be followed, consistent with the existing traditional practices and community-based systems in Gilgit-Baltistan. Once a scheme is selected in accordance with the initiative's results-based criteria, the social mobilization partner and implementing agency staff will involve selected communities in decisions on terms and conditions that relate to them; the implementing agency's roles and responsibilities; land ownership; water availability and ownership; equitable distribution of developed land; identification of beneficiaries including women-headed and landless households; irrigation scheme implementation strategy and timelines, etc. Before construction is initiated, a water users' association, representative of all the beneficiaries, will be established to engage with the implementing agency, the social mobilization partner and (where one is required) the contractor. The initiative will also invest in training and equipping 40 youth construction groups for irrigation schemes, to be engaged by communities/ contractors for construction works.

16. Complementing the increase in production, the initiative will support a holistic and demand-driven approach to value chain development (initially for apricot and potato; subsequently, other promising products may be pursued). The entry point for the value chain support will be the organized groups of farmers at village level, with due regard for women and youth. Organizing smallholder farmers into producers' groups and formulating value chain development plans will be the key elements to address aggregation, quality and marketing challenges. This approach will involve education, capacity-building and networking of key stakeholders along the entire value chain, backed by enabling policy support. At the core of this approach will be a partnership brokerage model, whereby producers and farmers, public services and private actors will be linked in mutually responsible partnerships. The strategy is expected to develop capacity and networks for sustainable expansion of production and marketable surpluses, resulting in increased incomes and poverty reduction.

17. The initiative will actively engage existing and newly formed women producers' groups within the target valleys to ascertain women's priorities in terms of value chain development, irrigation development and social development. Apart from actively encouraging and creating opportunities for participation in VPGs, the initiative will establish 20 women producers' groups. Suitable opportunities for women in the local socio-cultural setting will also be identified, such as grading, packaging, polishing, processing, and women will receive training for such jobs. Women-centered value chain activities will be another area of focus, including milk marketing groups and apricot by-product processing. The initiative will introduce labour-saving devices/equipment for women in order to address the constraints that result from their disproportionate burden of harvesting, post-harvest shelling, processing, drying of products, etc. To complement the anticipated effects of improved infrastructure and higher incomes on nutrition, the ETI-GB shall also provide training in nutrition to participating households.

B. Organizational framework

18. While the Government of Pakistan's Economic Affairs Division will be the main coordinating agency for IFAD financing, the Planning and Development Department of the provincial government of Gilgit-Baltistan will be the lead executing agency,

overseeing implementation through an empowered and autonomous PCU. Implementation will follow a hybrid model where different components/activities will be implemented by different public agencies, NGOs and private-sector service providers, coordinated by the PCU.

19. Subregional coordination units will be established in each of the three regions, i.e. Gilgit, Diamer and Baltistan. These units will be responsible for planning, coordination and monitoring of activities in the target valleys and villages in collaboration with the social mobilization partner, the value chain technical assistance team and line departments. The main implementing partners will be (i) social mobilization partners/NGOs, competitively selected; (ii) a value chain technical assistance team; and (iii) a range of private-sector partners including local entrepreneurs, apricot processors and exporters, corporate and commercial buyers of seed and table potato, input supply companies; and (iv) around 220 VPGs (20 of which will be women's associations), 20 VPAs and four to five regional producers' associations.

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

20. The annual workplan and budget (AWPB) represents the key planning document for the initiative. The plan's format will follow the logical framework, including clearly spelled out monitoring indicators that can be easily measured and reported. The overall responsibility for monitoring and evaluation (M&E) activities will lie with the PCU. The planning, monitoring and evaluation (PME) system will be finalized and made operational, in consultation with all implementing partners, within the first six months of start-up. The PME system will be part of an overall information, knowledge management and communication system that will provide timely and accurate information on implementation progress and feedback for management decision-making. A baseline survey will be conducted, preferably before start-up, but at the latest by the end of the third month of implementation to establish benchmarks based on the logical framework/Results and Impact Management System (RIMS) related to outcomes and results vis-à-vis beneficiaries. Indicators will be disaggregated by gender and socio-economic status to the extent possible to allow for a proper assessment of whether the target beneficiaries are being reached.

D. Financial management, procurement and governance

21. An assessment of the financial management system was carried out to verify compliance with IFAD's requirements in terms of fiduciary risk. This risk, considered high due to the remote location and weak capacity at the decentralized level, is deemed mitigated to "medium'' by a set of measures. These include recruitment of qualified financial staff under performance-based contracts; quarterly financial reporting; issuance of payments to implementing partners based on certified statements of expenditure subject to internal and external audit; and regular joint monitoring of ETI-GB accounts by the PCU, IFAD, the Government of Gilgit-Baltistan, each within the context of its remit.

22. The PCU will be responsible for financial management 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.

23. The annual external audit of expenditures will be carried out by the Auditor-General of Pakistan, whose role includes the audit of all public resources. These audit reports will be made available within six months of the close of financial year, in line with IFAD's guidelines.

24. Internal audit services will be provided by a specialized private firm in the first two years of implementation, with reports made available to the PCU, IFAD and the Government of Gilgit-Baltistan.

25. Budgeting. AWPBs will be prepared by the PCU in collaboration with the implementing agencies, for the approval of the programme steering committee and IFAD.

26. Flow of funds. A designated account will be opened in the State Bank of Pakistan for receipt of loan proceeds, with a sub-account in Pakistani rupees. A PCU-operated programme account will receive funds from the sub-account in order to meet the PCU's procurement and implementation obligations. Each of the PCUs and partner agencies will open dedicated sub-accounts for the receipt of funds against agreed AWPBs, periodic expenditure statements and expenditure returns. All fund-flows will be based on the imprest account modality.

27. Procurement. The PCU will be responsible and accountable for procurement of goods, works and consultancy services, which will be carried out in accordance with IFAD's Procurement Guidelines and Procurement Handbook (2010). Procurement will follow procurement plans approved by IFAD. Specific procurement methods, prior review arrangements, estimated costs and time frames, and risk mitigation measures will be defined in the letter to the borrower and reflected in the procurement plan. The programme implementation manual will detail procurement procedures, processes and management arrangements.

E. Supervision

28. Supervision will be carried out directly by IFAD, in collaboration with the Government and the cofinanciers. The supervision plan will include two supervision missions annually in the first two years. Additional implementation support missions will be organized by the IFAD country office as needed. Supervision and implementation support will encompass: (i) fiduciary compliance with attention to legal conditions, financial management, disbursement, procurement and contracting; (ii) implementation performance, progress towards objectives, investments and outputs, governance and management, targeting and gender mainstreaming; and (iii) implementation support to provide guidance and assistance. Implementation support will incorporate a country programme perspective by introducing a broad view of development investments, influencing policy and practices based on operational experiences, developing systems and institutions for poverty reduction, facilitating financial and knowledge partnerships, and generating lessons and best practices.

IV. Costs, financing, benefits

A. Costs

29. The total cost of the initiative, including price contingencies (16 per cent) and physical contingencies (3 per cent), is estimated at US$120 million. The foreign exchange component is estimated at US$8 million.

Table 1
Component cost summary

	(Pak Rs '000)					(US$ Million)				
	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. Productive Infrastructure										
1. Irrigation & Land Development	4 112 473	434 811	4 547 284	10	44	40.12	4.24	44.36	10	44
2. Farm to Market Roads	1 576 450	174 506	1 750 956	10	17	15.38	1.70	17.08	10	17
Subtotal Productive Infrastructure	5 688 923	609 317	6 298 241	10	61	55.50	5.94	61.45	10	61
B. Value Chain Development										
1. Vaue Chain Fund	1 986 966	92 570	2 079 535	4	20	19.39	0.90	20.29	4	20
2. Social Mobilization	398 893	12 337	411 230	3	4	3.89	0.12	4.01	3	4
3. Agri Extension	210 673	7 580	218 253	3	2	2.06	0.07	2.13	3	2
4. Agri Research	262 382	13 415	275 797	5	3	2.56	0.13	2.69	5	3
5. Land Titling & Record system	214 861	3 208	218 069	1	2	2.10	0.03	2.13	1	2
Subtotal Value Chain Development	3 073 774	129 110	3 202 884	4	31	29.99	1.26	31.25	4	31
C. Programme Coordination Unit	830 692	22 733	853 425	3	8	8.10	0.22	8.33	3	8
Total BASELINE COSTS	9 593 389	761 161	10 354 550	7	100	93.59	7.43	101.02	7	100
Physical Contingencies	297 229	30 028	327 256	9	3	2.90	0.29	3.19	9	3
Price Contingencies	2 118 263	56 082	2 174 346	3	21	15.74	0.20	15.94	1	16
Total PROJECT COSTS	12 008 881	847 271	12 856 152	7	124	112.23	7.92	120.15	7	119

B. Financing

30. Total costs are estimated at US$120 million. Of this, the Government will contribute US$24 million (20 per cent) to finance taxes, salaries, operating costs and certain other expenditures. IFAD will provide highly concessional financing equivalent to US$67 million and the beneficiaries an estimated US$7 million. Several donors have expressed an interest in cofinancing the initiative. Negotiations are currently ongoing to fund the remaining financing gap of US$23 million.

Table 2
Costs by expenditure category and financier
(Millions of United States dollars)

	IFAD loan		*Other cofinanciers*		*Beneficiary*		*Borrower/ counterpart*		*Total*
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*
Investment cost									
1. Civil works	35.03	50.7	13.29	19.2	6.54	9.5	14.26	20.6	69.12
2. Equipment and materials	0.38	60.0	0.14	23.0	-	-	0.11	17.0	0.63
3. Trainings	3.67	50.9	1.39	19.2	-	-	2.16	29.9	7.22
4. Vehicles	0.25	32.5	0.09	12.0	-	-	0.42	55.5	0.76
5. Grants and subsidies	16.28	81.0	3.82	19.0	-	-	-	-	20.10
6. Consultancy	0.19	52.0	0.08	23.0	-	-	0.09	25.0	0.36
7. Technical assistance	0.95	51.0	0.35	19.0	-	-	0.56	30.0	1.87
Total investment cost	**56.76**		**19.17**		**6.54**		**17.60**		**100.06**
Recurrent cost									
8. Salaries and allowances	6.51	51.0	2.43	19.0	-	-	3.83	30.0	12.77
9. Operating costs	3.73	51.0	1.39	19.0	-	-	2.19	30.0	7.32
Total recurrent cost	**10.25**		**3.82**		**-**		**6.03**		**20.09**
Total	**67.00**	**55.8**	**22.98**	**19.1**	**6.54**	**5.4**	**23.63**	**19.7**	**120.15**

31. Retroactive financing. An exception to the IFAD General Conditions is foreseen to allow retroactive financing of eligible expenditures for certain activities before the financing agreement enters into force. Such expenses will be reimbursable by IFAD when the financing becomes disbursable. The exact activities and amounts to be considered eligible for retroactive financing include limited operating costs; the

cost of the recruitment process and key equipment; the cost of installing accounting software and preparing a finance manual; and the costs of carrying out baseline surveys and recruiting a service provider for social mobilization. The amount of retroactive financing will be determined during negotiations and will not exceed US$500,000. The Government of Pakistan agrees to make provision for this financing initially and will be reimbursed for all eligible expenditures from IFAD financing. The effective date for the retroactive financing will be the date of the Executive Board's approval of the financing.

C. Summary benefit and economic analysis

32. About 100,000 smallholder households, landless households with unemployed youth, and women-headed households will benefit directly from the ETI-GB interventions. Another 10,000 smallholders, daily wage workers, artisans, masons, etc. will also derive direct and indirect benefits from the interventions. Around 100 people involved in processing, adding value and providing other services along the value chain will also benefit. The main benefits will be derived from:

(a) An additional 50,000 acres of newly irrigated land, increasing the local irrigated area by around 30 per cent;

(b) The upgrading of 400 km of roads, which will reduce transportation costs and enable farmers to transport bigger quantities of better quality;

(c) The injection of about US$25 million into the rural economy through labour payments for irrigation development, of which about US$23 million will be recovered and reinvested in the same villages for socio-economic development, in addition to employment generated in upgrading roads and food processing;

(d) The provision of a range of capacity-building, local processing, storage and value addition facilities in support of 220 village producers' associations;

(e) Sustainable, market-oriented improvements in potato seeds and fruit plant production, processing and marketing systems;

(f) Strengthening of agriculture extension and agriculture research, and capacity-building of the Water Management Directorate, Public Works Department for better service delivery, commensurate with the status of a provincial agency; and

(g) Policy formulation and reform in critical areas of water management, road O&M, and land records and titling to ensure improved service delivery, better governance and sustainability.

D. Sustainability

33. Sustainability will be promoted by engaging community-based groups and organizations in all activities; upgrading existing systems, practices and structures already present in the region; achieving scale efficiencies; and investing in improving access and reducing the high transaction costs prevailing in this remote region; and generating a commercial basis for future revenue generation by local governments. Complementary features aimed at strengthening prospects for sustainability include: (i) emphasizing creation of independent commercial win-win relationships between the producers and private-sector buyers; (ii) developing private local processing and value addition industry to create alternative avenues for marketing of products; and (iii) strengthening the enabling environment through support to development of local policy and regulatory systems.

E. Risk identification and mitigation

34. Security is a key area of concern for IFAD's country programme in Pakistan. By providing an inclusive and expansive development initiative that benefits rural communities across the region, the ETI-GB is expected to mitigate possible ethnic,

religious or tribal tensions. Moreover, as the target area is of strategic importance for the Pakistan-China economic corridor and for the national water and power supply, both the federal Government and the provincial government of Gilgit-Baltistan are placing significant emphasis on ensuring adequate security personnel to maintain law and order in the area.

35. As this will be the largest development initiative to date in Gilgit-Baltistan, the capacity of a relatively young provincial government to implement such a large-scale intervention is another area of risk. The region has only recently been granted provincial status, and its institutional capacities may still not be up to the level needed to effectively implement a large development operation. The design has therefore made provisions for capacity-building of Government services, competitive packages for key programme staff to be recruited from the private sector and engagement of experienced NGOs as service providers for field implementation.

V. Corporate considerations

A. Compliance with IFAD policies

36. The initiative is in line with the IFAD Strategic Framework 2011-2015. The activities, implementation arrangements and M&E system have been designed in compliance with the IFAD Policy on Targeting, and in line with the approaches outlined in the Framework for Gender Mainstreaming in Programme Management Department (PMD) Operations. The initiative is consistent with the IFAD Private-Sector Development and Partnership Strategy. Management and operation of the proposed value chain development fund are aligned with the IFAD Rural Finance Policy and the IFAD decision tools for rural finance. A detailed environmental assessment has been undertaken, which determined that the intervention is aligned with both the IFAD Climate Change Strategy and the Environment and Natural Resource Management Policy. The assessment confirmed that the water sources that would be tapped for irrigation are not at threat; and that the incremental effect of additional water use is negligible. Although some scientific projections expect overall faster glacial melt in the Himalayas, studies specific to the Karakoram region (where this programme is located) find that glaciers are expanding due to different climatic phenomena as compared to the western Himalayas. The ETI-GB's environmental classification is Category B.

B. Alignment and harmonization

37. IFAD will coordinate activities closely with other donor agencies active at present or in the recent past in the area and will also pursue possibilities of cofinancing from such sources as Italy, the United States Agency for International Development, the Japanese International Cooperation Agency and the World Food Programme (WFP). The design has already benefited from lessons learned in the past and ongoing programmes of these agencies. IFAD is also working in partnership with WFP to carry out hazard mapping of the target area and related communication infrastructure. The possibilities of extending WFP's school feeding programme and food-for-work programme to the ETI-GB target area are being discussed with the WFP country office.

C. Innovations and scaling up

38. Attempts will be made to introduce several innovative aspects to the target area:

(a) Mutually responsible commercial relationships between the private/corporate sector and groups of smallholder farmers that address the quality and volume concerns of the buyers and price, market predictability and trust concerns of the sellers;

(b) Instead of following the traditional 20 per cent community contribution approach, the ETI-GB will sponsor construction of water schemes and land development at full cost, thereby injecting about US$30 million into the local rural economy in the shape of wages. Benefiting households will be required to pay back 50 per cent of these costs, but over three crop seasons and into a community account that would be used for additional infrastructure, value chain facilities, and social development needs as per agreed village development plans;

(c) A value chain development fund, operating on a matching grant basis, covering the full range of products and entire region;

(d) Piloting of cost-effective water-lifting systems along main rivers with the potential to add thousands of additional acres to agriculture production system.

D. Policy engagement

39. Policy formulation support will be provided to the Government in relation to value chain development and priority areas for investments. These include land settlement and titling, irrigation water policy, road O&M policy, seed and product certification and quality certification. The IFAD Country Office in Islamabad will facilitate cross-fertilization between the proposed initiative and other IFAD-funded projects in the country in these policy areas. In particular, the IFAD-funded Livestock and Access to Markets Project in Punjab incorporates a value chain approach that also seeks to engage with government policies, allowing IFAD to feed bottom-up, pro-poor perspectives into national policy dialogue processes in areas of key concern for rural poverty reduction in the country.

VI. Legal instruments and authority

40. A 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.

41. The Islamic Republic of Pakistan is empowered under its laws to receive financing from IFAD.

42. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

43. 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 forty-eight million five hundred fifty thousand special drawing rights (SDR 48,550,000), 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: "Economic Transformation Initiative - Gilgit-Baltistan Programme (ETI-GB)"

(Negotiations concluded on 16 April 2015)

Loan Number: ______

Programme Title: Economic Transformation Initiative - Gilgit-Baltistan Programme (the "Programme")

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")

WHEREAS upon the Borrower's request, the Fund has agreed to provide financing to support the Programme;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as amended from time to time, (the "General Conditions"), are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, except for the provisions identified in this Agreement. 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 to the Borrower (the "Financing"), which the Borrower shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is forty-eight million five hundred and fifty thousand Special Drawing Rights (SDR 48 550 000).

2. The Loan is granted on highly concessional terms as defined in the General Conditions.

3. The Loan Service Payment Currency shall be the USD.

4. The first day of the applicable Fiscal Year shall be 1 July.

5. Principal and service charges shall be payable on each 1 July and 1 January with payments of principal commencing on 1 July 2025.

6. There shall be a designated account (the "Designated Account") in USD in the State Bank of Pakistan, and a Programme account (the "Programme Account") in Rupees in the National Bank of Pakistan to receive the financing for the exclusive use of the implementation of the Programme.

7. There shall be sub-designated accounts at the Regional Coordination Unit (as referred to in Schedule 1 to this Agreement) level in district-level branches of the National Bank of Pakistan –

one in each of the three (3) regions of the Programme Area as referred to in Schedule 1 to this Agreement.

8. The Borrower shall provide counterpart financing for the Programme in the approximate amount of twenty-four million United States dollars (USD 24 000 000), a part of which shall finance the cost of taxes associated with the implementation of the Programme.

Section C

1. The Lead Programme Agency shall be the Planning and Development Department of the Provincial Government of Gilgit-Baltistan.

2. Programme Parties shall include, inter alia, beneficiaries and all the entities in relation to Programme implementation as referred to in Schedule 1 to this Agreement.

3. The Programme Completion Date shall be the seventh (7^{th}) anniversary of the date of entry into force of this Agreement.

Section D

The Loan shall be administered and the Programme supervised by the Fund.

Section E

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

   (i) the Programme Coordinator and the Finance Manager shall have been duly appointed/designated in accordance with this Agreement; and

   (ii) a draft Programme Implementation Manual (the "PIM"), as referred to in Schedule 1 to this Agreement, shall have been duly submitted and shall have received no objection from the Fund.

2. The following is designated as an additional ground for suspension of the right of the Borrower to request withdrawals:

   A computerized accounting system, acceptable to the Fund, shall have been installed and operationalized at the Programme Coordination Unit (as referred to in Schedule 1 to this Agreement) within three (3) months of the date of the entry into force of this Agreement.

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

For the Borrower:

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

For the Fund:

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

This Agreement, dated [dd/mm/yyyy], has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

ISLAMIC REPUBLIC OF PAKISTAN

____

[Authorized Representative]

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

____

Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. Target Population. The primary target group of the Programme shall be smallholder farming households that have an average landholding of less than one (1) ha in Gilgit-Baltistan (the "GB") (the "Programme Area") and engaged in production of potato, apricot and other high value cash crops. Others shall include related small-scale processors, trading and export cooperatives, value adders, input suppliers and transporters. Gender shall be mainstreamed in all aspects of the Programme and youth and women shall be specifically targeted in skill development for income generation.

2. Goal. The overall goal of the Programme is to improve incomes and reduce poverty and malnutrition in rural areas of the Programme Area.

3. Objectives. The development objectives are increased agriculture incomes and employment for approximately one hundred thousand (100 000) smallholder rural households in the Programme Area, including in particular enhanced capacity for sustainable livelihoods through asset transfers; enhanced capacity for employment and productive self-employment; enhanced access to basic services; increased productivity and production of agriculture produce; and strengthened local capacity for agriculture and livestock service provision.

4. Components. The Programme shall consist of the following Components:

4.1. Component 1: Productive Infrastructure. Component 1 consists of two sub-components as follows:

> 4.1.1. Sub-component 1.1: Irrigation. This sub-component shall build on/scale up the tried and tested community-based irrigation development approach to add fifty thousand (50 000) acres of new irrigated land, resulting in provision of, on average, one (1) acre of irrigated land to each participating household including women headed households and landless. Participating households shall be assisted in early development of land.
>
> 4.1.2. Sub-component 1.2: Farm-to-Market roads. This sub-component shall link existing production areas and newly developed irrigated areas to main valley roads and trunk roads. This will be achieved by upgrading four hundred (400) km of existing pony tracks to a standard that allows use by all-terrain vehicles, and upgrading roads currently fit solely for all-terrain vehicles to a standard that allows for truck transportation.

4.2. Component 2: Value Chain Development. Component 2 shall be driven by a commercial and market-centred approach whereby the initiative will identify priority valleys in each of seven districts based on criteria that will include total population, number of poor households, total production of priority crop, total cropped area, area available for irrigation development and farm-to-market road needs. Coverage may be expanded from the third year depending on progress and results. Within a valley, interventions shall start with villages with existing community organizations that can be consolidated into larger village producer groups (the "VPGs"). These producer groups will provide the foundation for gradual expansion to all villages in the valley and the organization of valley producers' associations (the "VPAs").

Component 2 shall facilitate VPA engagement with private actors and other partners. Contracts between VPAs and their purchasing partners shall drive the business plans of producers' associations and the support from Programme implementing agencies. In particular, through its value chain technical assistance team, the initiative will assist producers' associations, processors and related service providers in developing business plans and marketing strategies, increasing product volume at an agreed quality standard, and accessing capital for development to realize the full potential of their products. Where justified, capital investments will be complemented by a value chain development fund using a matching grants mechanism. The initiative will also build the capacity of government extension and research agencies to effectively provide services to VPGs and VPAs. Finally, the component will assist the Government in formulating pro-poor policies and regulations for land records and titling, irrigation water usage and management, road operation and maintenance, and developing effective models for extension and research services.

4.3. Component 3: Programme Management and Policy Support. This Component shall put in place an effective management and coordination system and ensure the successful implementation of the Programme.

II. Implementation Arrangements

5. Lead Programme Agency. The Planning and Development Department (the "P&DD") of the Provincial Government of GB shall be the Lead Programme Agency and shall have overall responsibility for Programme implementation. A small ETI Support Cell shall be established within the Lead Programme Agency consisting of a Programme Officer and a Programme Assistant to follow up on all Programme related matters.

6. Economic Affairs Division (the "EAD"). The EAD, Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization of the Borrower shall be the main coordinating agency for the purposes of Loan administration.

7. Ministry of Kashmir Affairs and Gilgit-Baltistan (the "MoKA&GB"). The MoKA&GB shall be responsible for ensuring required federal level institutional support and adequate provision of financial resources to cover annual counter-part fund requirements of the Programme, and for overall progress monitoring of evaluation of the Programme implementation.

8. Programme Steering Committee (the "PSC"). Headed by the Chief Secretary, a PSC shall be established at the provincial level of GB to provide the overall policy and administrative support, coordination and direction to the Programme in accordance with this Agreement. The rest of the membership shall be drawn from, inter alia, core development and finance departments, implementing departments (Public Works Department and Department of Agriculture representing Agriculture Extension, Agriculture Research, and Water Management Directorate), the private sector, representatives of the Valley Farmers Associations, and Social Mobilization partners. The MoKA&GB shall be represented in the PSC by an officer at or above the rank of Joint Secretary.

9. Programme Coordination Unit (the "PCU"). A PCU shall be established and operate as an independent institution headed by a Programme Coordinator under the guidance of the steering committee, and shall be responsible for Programme planning and budgeting, coordination, monitoring, financial management, procurement and annual audits, as well as management of the value chain development fund. The PCU shall also assist government departments with policy development and implementation. The PCU shall ensure that gender, youth, environment, knowledge management and communication considerations are integrated into all aspects of Programme management and implementation. The Fund's no objection shall be received before the appointment or dismissal of the Programme Coordinator and other key Programme personnel.

10. Regional Coordination Units (the "RCUs"). Three (3) RCUs, headed by a Regional Coordinator, shall be established in Diamer (for Diamer and Astore), Skardu (for Skardu and Ghanche) and Gilgit (for Ghizer, Gilgit and Hunza). Each RCU shall be responsible for planning, coordination and implementation of activities in the target valleys and villages in close collaboration with the Social Mobilization Service Provider(s), implementing agencies and the Value Chain Technical Assistance Team.

11. Service providers/implementing partners. The main implementing partners in the Programme shall be (i) duly selected Social Mobilization Service Provider(s)/non-governmental organizations; (ii) the Value Chain Technical Assistance Team; (iii) Private Sector Partners including local entrepreneurs, down country corporate and commercial buyers; (iv) the Farmers/Producers Organizations; and (v) Public sector extension, research and infrastructure agencies.

12. Mid-Term Review. The EAD, the Lead Programme Agency, the MoKA&GB and the Fund shall jointly carry out a Mid-Term Review of Programme implementation no later than the end of Programme Year 3 based on terms of reference prepared by the Lead Programme Agency in consultation with the EAD and satisfactory to the Fund.

13. Programme Implementation Manual (the "PIM"). The Lead Programme Agency shall prepare a draft PIM acceptable to the Fund and submit the accepted version for approval to the PSC. When so approved, a copy of the PIM shall be provided by the Lead Programme Agency to the Fund. The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund. The PIM shall include, inter alia:

(i) Qualifications, terms of reference and detailed implementation responsibilities of Programme Parties;

(ii) Recruitment and appointment procedures for key Programme personnel;

(iii) Criteria for the performance appraisal of the Programme personnel and adequate internal control system;

(iv) Criteria for selection of Social Mobilization Service Providers/non-governmental organizations and Value Chain Technical Assistance Team;

(v) Processes of Social Mobilization and formation of Valley Farmers Associations;

(vi) Targeting and selection criteria for participating beneficiaries;

(vii) Programme operational, financial and procurement procedures, including an accounting procedure for bookkeeping and reporting, implementation and monitoring procedures; and

(viii) Financial management mechanism and flow of funds for all outputs and activities.

Schedule 2

Allocation Table

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

Category		Loan Amount Allocated (expressed in SDR)	Percentage of eligible expenditures to be financed net of taxes, co-financing and beneficiaries' contribution
I.	Civil works	22 850 000	91%
II.	Equipment and materials	400 000	89%
III.	Grants and subsidies	10 620 000	100%
IV.	Training and consultancies	3 140 000	63%
V.	Salaries and allowances	4 250 000	63%
VI.	Operating costs	2 430 000	80%
	Unallocated	4 860 000	
TOTAL		48 550 000	

Category II "Equipment and materials" includes, inter alia, vehicles.

2. *Retroactive financing*. Notwithstanding the provisions of Section 4.08(a)(ii) of the General Conditions, an amount not exceeding five hundred thousand United States dollars (USD 500 000) to cover the costs incurred after the Fund's approval of the Financing and before the entry into force of this Agreement for the preparatory work for Programme implementation shall be pre-financed by the Borrower and reimbursed by the Financing after the entry into force of this Agreement and the satisfaction of conditions precedent to withdrawal.

Logical framework

Description	Indicators	MOV	Assumptions/Risks
Goal: Improved incomes and reduced poverty and malnutrition in rural areas of Gilgit-Baltistan region	45,000 HHs decrease in population below poverty line	PSLM surveys ETI Assessments against BISP Scorecard	Political and social stability in the region and its environs New developed land equitably distributed including women and landless poor
	10 % decrease in child malnutrition (under 5yrs old, chronic, acute-underweight and stunted)	RIMS Survey (panel & control)	Climatic abnormalities and natural calamities remain within acceptable tolerance levels
Development Objective: Increased agricultural incomes and food security for at least 100,000 rural households in 7 districts of Gilgit-Baltistan on a sustainable basis	At least 100,000 households reached	WFP mapping of settlements and programme activity reports	Higher production, combined with p nutritional education and improved road access, will make substantive dent in malnutrition rates
	50% of target district HHs and value chain operators have increased their agriculture income by at least 25%	RIMS survey (panel)	
	25% increase in production and productivity of priority value chains	Producer Organizations sales records	Programme activities implemented as per phasing
	35% increase in surplus marketed (potato and apricot)	Annual Outcome Surveys	Govt and partners are able to timely predict and respond to natural disasters and localised hazards
Outcome 1: 100,000 farm households increase production, productivity and sales in prioritized agricultural commodities	50,000 households have expanded their agricultural land holding and 60,000 hhs increase sales to private-sector partners	Farmer organizations records	Improved quality, quantity and reliability in supply to contracted private partners will improve farm returns Investments in local value addition and reductions in transaction costs for traders/processors/wholesalers
Outcome 2: Sustained and community-driven development approach established that is pro-poor and youth/gender- and nutrition-sensitive	200 mixed and 20 female producer groups established 10% women among farmers trained provided land titling, and constituting PO decision-making bodies 50% funds recovered against estimated cost recovery for irrigation development 80% recovered funds invested in village	Programme activity records and PO records	Youth have preference for working in village if economic opportunities are same or better than in towns and cities offering low-skill employment
Outcome 3: Agri-business actors invest in local processing and value addition to *improve marketing* of local food products	220 contracts signed between FOs and private-sector buyers Value of new investments by private actors in agriculture enterprises A pilot tested under DFID funded Credit Guarantee Scheme with State Bank	Investment fund applications plus private investor balance sheets	Sufficient quantity, quality and seedling reliability of agricultural products available to sustain PPPP
Outcome 4: Govt and private agricultural services are sustainably improved/ expanded	50 000 farmers served by agricultural services (inputs, advisory services)	Client satisfaction surveys and DOA service delivery records	All GB agricultural households will be able to access improved agricultural service provision, including women
Outcome 5: Government formulates and enforces pro-poor agricultural policies covering water, land titling, roads O&M and products and certification regime	Land Titling Regulation for ETI promulgated by end of year 1 Land Records/Titling cells established by end of year 1. Provincial Land Records and Titling Law promulgated by end of Programme Year 2 Land titles provided for newly irrigated lands, including for women-headed households and youth Seed and product certification system functional Provincial water policy and roads O&M policy formulated and implemented by end of year 3	Public land registry records, PO contracts and records with farmers	Farmers using/producing improved seeds are able to increase productivity and sales