

Document: EB 2015/116/R.40
Agenda 9(c)(ii)
Date: 2 December 2015
Distribution: Public
Original: English

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President's memorandum

Proposed additional financing to the Islamic Republic of Pakistan for the Southern Punjab Poverty Alleviation Project

Note to Executive Board representatives

Focal points:

Technical questions:

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

Dispatch of documentation:

Alessandra Zusi Bergés
Officer-in-Charge
Governing Bodies Office
Tel.: +39 06 5459 2092
e-mail: gb_office@ifad.org

Executive Board — 116th Session
Rome, 16-17 December 2015

For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Islamic Republic of Pakistan for the Southern Punjab Poverty Alleviation Project as contained in paragraph 31 and the modifications to the financing agreement as contained in paragraph 27.

Proposed additional financing to the Islamic Republic of Pakistan for the Southern Punjab Poverty Alleviation Project

I. Context and justification

1. The overall project cost of the Southern Punjab Poverty Alleviation Project (SPPAP) was initially US\$49.1 million, of which SDR 26.35 million (US\$40.2 million) was financed by IFAD (through loan no. I-825-PK) and the remaining by domestic cofinancing (US\$8.9 million). The project was approved by IFAD's Executive Board in December 2010 and became effective in September 2011. The project completion date is 30 September 2016.
2. After three years of implementation, the SPPAP was considered a project at risk, with only 9 per cent of funds disbursed. While the relevance of the project was still valid, a midterm review (MTR) was undertaken in January 2015 because of the slow pace of implementation and a partial loan cancellation of US\$10 million was recommended. Accordingly, IFAD approved a partial loan cancellation in March 2015.
3. Following the MTR, the project management unit (PMU) leadership was changed and the Government implemented all the MTR recommendations proactively, with the close support of the IFAD team. As a result, progress with respect to targets has improved from 44 to 96 per cent under component 1 and from 68 to 85 per cent under component 2, with steady improvement in disbursement from 9 per cent to 70 per cent in one year. The last supervision mission in October 2015 confirmed that at this rate of implementation, the SPPAP would run out of funds by March 2016.
4. Today, the SPPAP is in a position to reabsorb the US\$10.0 million which would immediately increase project outreach and impact to the level planned in project design. The original project objectives, scale and financing needs remain as they were approved in 2010.
5. The SPPAP was not rated as a problem project in the latest portfolio review and this status has been maintained. As confirmed by the most recent supervision in October 2015, the project's financial management performance is generally satisfactory and is compliant with legal covenants, including with respect to submission of audit reports.
6. To provide the time required to complete the activities, the completion and closing dates need to be extended by one year.
7. The Government of Pakistan has requested this additional financing.
8. This memorandum seeks the Board's approval of the use of additional financing under the Ninth Replenishment of IFAD's Resources (IFAD9) period in the amount of SDR 7,290,000 (equivalent to US\$10 million) in the form of a loan on highly concessional terms.

II. Status of project implementation

9. The objective of the SPPAP is to increase the incomes of the target population by enhancing their employment potential and by increasing agricultural productivity and production.
10. The SPPAP has made an outstanding improvement in its implementation and has obtained concrete results in the field. These notable achievements are the result of the: (i) recommendations of the MTR; (ii) commitment of the project staff and implementation partners; and (iii) support of the Government of the Punjab Planning and Development Board.
11. Component 1: Livelihood enhancement has three subcomponents, as described below.
12. Subcomponent 1.1: Asset creation specifically targets the poorest women, i.e. those within the 0-18 band of the Benazir Income Support Programme (BISP) poverty scorecard. Under the livestock packages, 23,498 households have been provided with "goat packages", against the target of 30,000, i.e. about 78 per cent progress against the target. Similarly, small plots of land have been provided to 1,030 landless women to build houses against the revised target (MTR) of 1300, indicating progress of 83 per cent.
13. Subcomponent 1.2: Vocational and entrepreneurial training aims to support low-paid agricultural households in engaging in remunerative off-farm employment activities. Currently, 5,022 persons have completed their training against a target of 11,555. Entrepreneurial training has been imparted to 1,623 persons, or 53 per cent of the target.
14. Subcomponent 1.3: Community physical infrastructure provides support to the communities through a range of infrastructure facilities like household solar energy, sanitation, drinking water, irrigation, roads and culverts. In addition, the MTR recommended a pilot activity to provide shelter/housing units to the women who belonged to the BISP poverty scorecard band of 0-11 (no capacity to own or rent a house for the family and obliged to work for free in return for shelter). This pilot aims also to provide employment and incomes to the youth beneficiaries of subcomponent 1.2 by linking them with subcomponent 1.3. For this purpose, a social appraisal was carried out. Work on 92 houses has been initiated and the women in the first batch are expected to have houses by December 2015. The SPPAP is confident of achieving these targets by the project completion date in September 2016.
15. The results of component 1, as of October 2015, are shown in table 1.

Table 1

Component 1 targets and achievements

<i>Component/activity</i>	<i>Unit</i>	<i>Physical progress</i>		
		<i>Target</i>	<i>Achieved</i>	<i>Percentage</i>
Livestock (goat package)	households	30 000	23 498	78
Land plots	households	1 300	1030	83
Trainings:				
Vocational	trainees	11 555	5 022	44
Entrepreneur	trainees	3 081	1 623	53
Infrastructure (community physical infrastructure)	scheme	826	796	96
Low-cost housing	units	1 300	92*	7

* Construction initiated.

16. Component 2: Agriculture and livestock development also has three subcomponents, as described below.
17. Subcomponent 2.1: Productivity enhancement initiatives provides grants to smallholder farmers to enable them to purchase inputs such as seed and fertilizer to cultivate high-value crops. Against the target of 10,057 households, a total of 9,311 have received grants – an achievement of 85 per cent. This activity has promoted adoption of improved seed through farmer-to-farmer contact. The MTR observed that small landholders ranked in the 0-30 poverty scorecard band do not have access to any financial services (including microcredit). These farmers are heavily dependent on intermediaries and input suppliers. In order to resolve this situation, the MTR recommended a pilot productivity revolving fund with 1,600 beneficiaries. This is now being implemented by National Rural Support Program Microfinance Bank.
18. Subcomponent 2.2: Veterinary training aims to strengthen the capacity of local women in livestock management. This activity was rated as moderately unsatisfactory by the MTR and the Government. The Government agreed to alter the type of training that was being provided because for the women of the project area the training previously offered – a lengthy two-year residential course outside their hometowns – presented considerable challenges. Instead, para-veterinarian training courses of a shorter duration were recommended. These have been planned for 2015-2016. The procurement process for implementing partner services has been completed.
19. Subcomponent 2.3: Community service providers aims to provide members of community organizations with equipment and training to allow them to improve their agricultural productivity through access to mechanized farming services. Over two thirds (250) of the target 368 community service providers have been identified and have received equipment and training. The MTR also observed that a significant number of households in villages faced food insecurity for about three months in a year, leading to indebtedness and/or provision of free or subsidized labour, particularly by women in return for wheat/food. The MTR recommended the establishment of food banks to be managed by women community members on a pilot basis to improve the food security of vulnerable and food-insecure households.

Table 2

Component 2 targets and achievements

Component/activity	Unit	Physical progress		
		Target	Achieved	Percentage
Productivity enhancement initiatives	households	10 057	9 311	85
Trainings:				
Para-veterinarians	trainees	200	0	0
Community service providers	trainees	368	250	68
Equipment (community service providers)		368	250	68
Revolving fund	beneficiaries	1 600	0	0
Food bank	number	04	0	0

20. The project's targeting approach is considered a key factor in SPPAP's current satisfactory implementation performance. The use of a poverty scorecard has made it possible to identify, in 259 villages, households that are ranked within the 0-23 band, including 33,000 households in the 0-11 range (an indication of extreme poverty). A gender action plan also complements project efforts; the plan identifies strategies, actions and targets for beneficiaries. In addition, institutional responsibilities have been specified for accomplishing targets within the project time frame.

21. In parallel, the project has upgraded its management information system and financial accounting systems, and project staff have been trained accordingly.
22. Given the above progress, and due to the partial loan cancellation of US\$10 million, the project is now short of funds to implement the foreseen, and feasible, activities within the remaining project period. This financing gap needs to be addressed in order to sustain the strong rate of implementation, achieve the targets planned under the original financing, and increase outreach and impact.

III. Project costs and financing

23. The additional financing equivalent to US\$10 million will be allocated across existing project activities, as shown in table 3.

Table 3
Programme/project costs by expenditure category
 (Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD loan</i>	
	<i>Amount</i>	<i>Percentage</i>
1. Civil works/community infrastructure	5 110	51.1
2. Technical assistance, training and studies	1 110	11.1
3. Grants to beneficiaries	2 930	29.3
4. Salaries and allowances	310	3.1
5. Incremental operating costs	140	1.4
Unallocated	400	4
Total	10 000	

IV. Financial management, procurement and governance

24. Financial management. The PMU currently implementing SPPAP will be responsible for management of the funds. The most recent supervision mission, in October 2015, found the project's financial management to be generally acceptable and in line with legal covenants and IFAD's guidelines. Key internal controls are in place, including proper segregation of duties, expenditure authorization processes and bank reconciliation procedures. The project's financial management risk, currently assessed as medium, is being mitigated by (i) increasing the capacity of the finance team with new recruitments; (ii) optimizing use of electronic systems to improve financial reporting and monitoring; (iii) strengthening contract and asset management; and (iv) ensuring internal audit at the service provider level.
25. Flow of funds. Mirroring fund flow arrangements for the existing loan, project funds for the additional loan will be channelled from IFAD via a designated account denominated in United States dollars. An operational account in local currency will be used for day-to-day expenditures; the transfer of funds from the designated account to the local currency account will be in accordance with IFAD's procedures and based on the approved annual workplan and budget.
26. Audit. The Auditor General of Pakistan (AGP), as Supreme Audit Institution, is responsible for carrying out the annual audits of SPPAP's accounts. The audit for financial year (FY) 2013-2014, although received two months late due to AGP internal quality assurance processes, was unqualified. FY 2013-2014 audit observations are monitored and either have been, or are in the process of being, resolved. The FY 2014-2015 audit has been conducted and the Auditor's report is expected to be submitted to IFAD by 31 December 2015.

V. Proposed amendments to the financing agreement

27. Once approved by the Executive Board, the financing agreement as amended will take into account the additional financing as well as the one-year extension of the project completion date. This financing completes the financing plan as was initially

approved at project design and will, as noted, not involve changes to the project objectives, description, project area or target groups. No new expenditure category will be created as all the additional funds will be used to strengthen support for activities currently under implementation.

VI. Legal instruments and authority

28. The current financing agreement as amended between the Islamic Republic of Pakistan and IFAD will constitute the legal instrument for extending the proposed additional financing to the borrower.
29. The Islamic Republic of Pakistan is empowered under its laws to borrow from IFAD.
30. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

31. 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 seven million two hundred and ninety thousand special drawing rights (SDR 7,290,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President