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IFAD
Investing in rural people

President's report

Proposed loan to the Islamic Republic of Pakistan for the National Poverty Graduation Programme

Note to Executive Board representatives

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For: Approval

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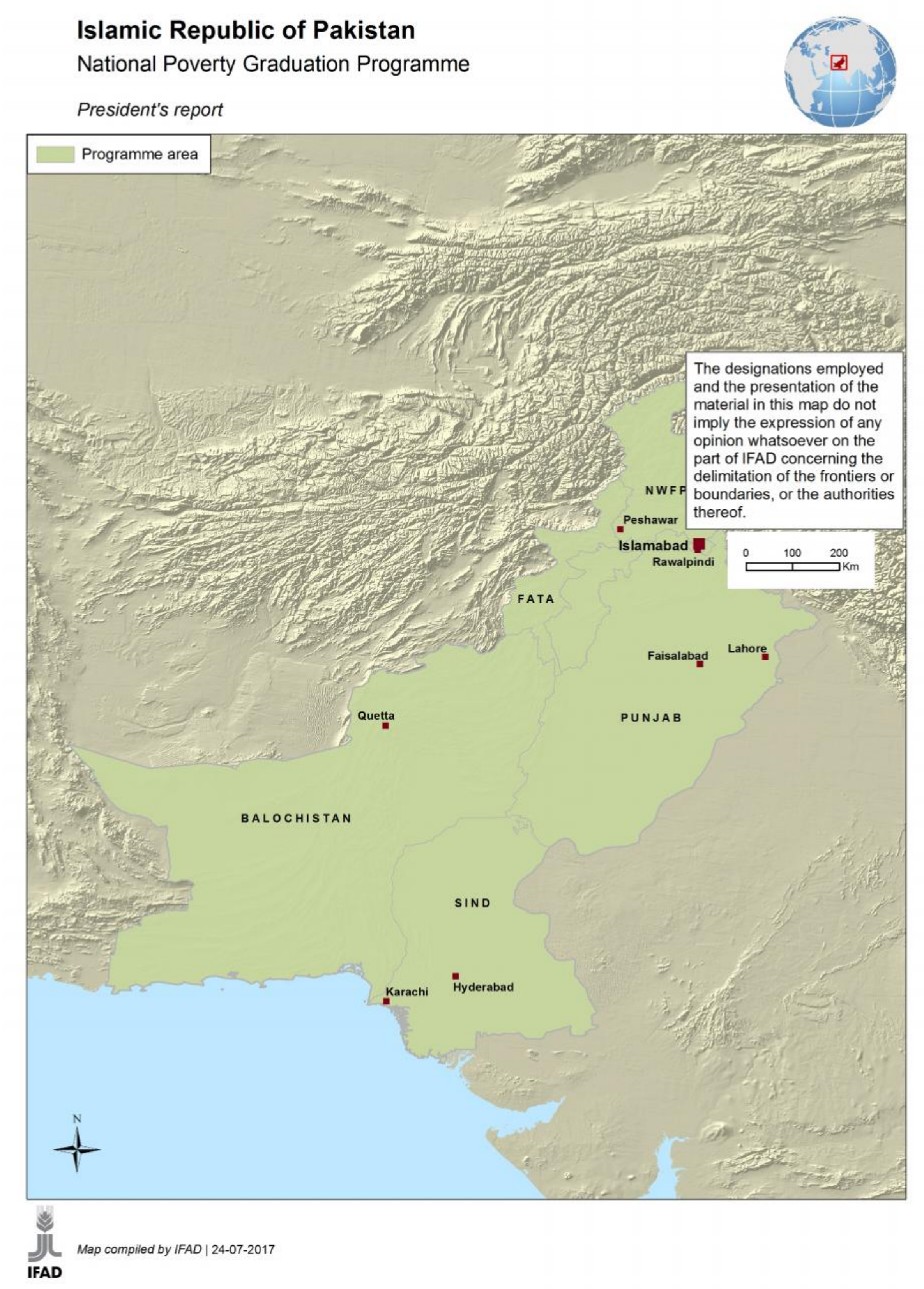
Appendices

Abbreviations and acronyms

BISP	Benazir Income Support Programme
IFL	interest-free loan
M&E	monitoring and evaluation
NPGP	National Poverty Graduation Programme
PMIFL	Prime Minister's Interest Free Loan
PMU	programme management unit
PO	partner organization
PPAF	Pakistan Poverty Alleviation Fund
PSC	national poverty scorecard
RIMS	Results and Impact Management System
SDG	Sustainable Development Goal

Map of the programme area



Islamic Republic of Pakistan
National Poverty Graduation Programme
Financing summary

Initiating institution:	IFAD
Borrower:	Islamic Republic of Pakistan
Executing agency:	Pakistan Poverty Alleviation Fund
Total programme cost:	US$149.8 million
Amount of IFAD loan:	US$82.6 million
Terms of IFAD loan:	Highly concessional: Maturity period of 40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum
Financing gap:	US$17.3 million
Contribution of borrower:	US$49.9 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Islamic Republic of Pakistan for the National Poverty Graduation Programme, as contained in paragraph 64.

Proposed loan to the Islamic Republic of Pakistan for the National Poverty Graduation Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Pakistan is a lower-middle-income country, with an average income per capita of US$1,512. The economy is based mainly on the service sector, which accounts for 59 per cent of GDP. The next largest sector is agriculture (accounting for 21 per cent of GDP but employing 44 per cent of the national workforce), followed by industry (20 per cent of GDP). Pakistan is also the sixth most populous country in the world (191 million people), with 61 per cent of the population (116 million) living in rural areas; by 2050, the country's population is projected to reach 302 million. Today, 32 per cent of young people are illiterate and only 6 per cent have technical skills.

2. In 2008, the Government carried out a nationwide poverty survey using a national poverty scorecard (PSC) that ranked households on a scale of 0 to 100. The IFAD target group covers households with a score of 0 to 34 (approximately 97 million people). In 2015, the Government also redefined the cost of the calorie-based poverty line from 2,350 Pakistani rupees (PRs) to PRs 3,030 (about US$29) per adult per month. Based on this new definition, 30 per cent of the total population (59 million people) has been defined as poor and an additional 20 million people have been declared vulnerable.

3. Pakistan's performance on most Millennium Development Goal targets – including education, gender, health, nutrition and infant mortality – was below expectations. The country has also adopted the new Sustainable Development Goals (SDGs), but unless concerted efforts are made to achieve these, there is a strong probability that they will not be met either. Women in rural Pakistan are particularly disadvantaged in terms of access to basic social services and livelihood opportunities.

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

4. Lessons learned from various poverty reduction programmes have revealed that social protection and poverty alleviation interventions such as cash transfers alone do not provide a holistic solution to the complex nature of extreme rural poverty. Pakistan is currently spending around US$1.2 billion in unconditional cash transfers through the Benazir Income Support Programme (BISP), and there is still limited evidence to show that the 5.4 million beneficiary households are moving out of poverty.

5. However, some global pilot interventions using poverty graduation models have shown positive results, such as the Challenging the Frontiers of Poverty Reduction – Targeting the Ultra Poor programme, pioneered by Bangladesh Rural Advancement Committee (BRAC) in Bangladesh. In 2009, with IFAD's assistance, the Social

Safety Net – Targeting Ultra Poor Programme was piloted in Pakistan, operating on the premise that the poorest households needed support that is tailored to their circumstances and capacities to help them graduate out of poverty. Depending on each household's situation, this support could involve cash grants, food aid, subsidized employment, a productive asset or a combination of these. The support would initially meet their basic survival needs, and eventually help build sustainable streams of income to ultimately enable the beneficiaries to graduate out of poverty. At the end of the intervention, statistically significant impacts on all 10 key outcomes had been observed, ranging from food security, assets creation and women's decision-making, to consumption and mental health.

6. The programme theory of change anticipates that, with the right kind of responsive and flexible support, a number of ultra-poor and poor families graduate to a higher standard of living. They will then have opportunities to link up with other sources of assistance including microfinance. Experience in previous small-scale pilot activities shows that many BISP beneficiary households have inherent potential which, if properly identified and developed, could help them to come out of poverty.

7. The approach proposed in the National Poverty Graduation Programme (NPGP) combines three distinct elements: social mobilization, livelihood development and financial inclusion. The programme draws on the most relevant aspects of these to deliver results by combining support for immediate needs with longer-term human capital and asset investments. The aim is to thus move households out of extreme poverty and into sustainable livelihoods. In this process, the capacity-building of community organizations through strong social mobilization support is key to enabling individual households to access multiple opportunities (offered by markets, the private sector and the Government).

8. The NPGP is designed to catalyse change at the grass-roots level so as to move people out of poverty. It will mainly (but not exclusively) target BISP beneficiaries and leverage the Prime Minister's Interest Free Loan (PMIFL) scheme managed by the Pakistan Poverty Alleviation Fund (PPAF), thus contributing to the provision of a seamless service that enables the poorest to move from consumption support to asset transfers, interest-free loans (IFLs) and ultimately formal microcredit. The PMIFL scheme was initiated by the Government in 2013 to reach 1 million clients in PSC band 0-40 who are unable to access conventional market-based microfinance.

9. The programme is thus aligned with government policies on poverty reduction and social protection, notably with the Government's Vision 2025 – committing to halve poverty by 2025 – and government schemes such as the PMIFL. The programme is also in line with IFAD Strategic Framework 2016-2025 objectives 1, 2 and 3, and the strategic objectives of the Pakistan country strategic opportunities programme 2016–2021, namely: (i) promoting poor rural households' economic transformation by expansion and scaling up of poverty graduation approaches; (ii) policy and institutional strengthening for community-led development; and (iii) building resilience for sustainable nutrition and food security.

II. Programme description

A. Programme area and target group

10. The programme will be implemented nationwide. In order to demonstrate a national representative model that is scalable, it will cover 17 districts, including one agency in the Federally Administered Tribal Areas, and 331 union councils. Areas will be selected in consideration of available resources and the need to achieve demonstrable impact.

11. Corresponding to the PSC thresholds, the categories of IFAD beneficiaries are: extremely poor people (band 0-11); chronically poor people (band 12-18); transitorily poor people (band 19-23); transitorily vulnerable people (band 24-34); and transitorily non-poor (band 35-40).

12. Currently, the resources available under the programme allow for the distribution of assets to 156,240 households in PSC band 0-18, who are the primary target group for asset transfers. Households falling within PSC band 12-40 make up the target group that is to be supported with access to finance through the PMIFL. Each loan will be recycled at least three to four times during the life of the programme, with 214,000 loans expected to be disbursed to approximately 160,000 households. In aggregate, the programme is expected to reach nearly 320,000 households (representing over 2 million individuals).

13. Additional benefits are expected through the social mobilization process: households that participate in community organizations and/or that benefit from the activities of these organizations, will likely benefit from improved health, nutrition and education practices in their villages and through linkages that are developed and strengthened with public sector services and markets/the private sector. It is foreseen that there will be a further 4.8 million indirect beneficiaries.

B. Programme development objective

14. The development objective is to enable rural poor people – especially women and youth – to fulfil their development potential and attain a higher level of social and economic well-being through a proven flexible and responsive assistance package.

C. Components/outcomes

15. The development objective and expected outcomes will be achieved through two components: (i) poverty graduation; and (ii) social mobilization and programme management. The expected outcomes are the following: (i) improved livelihoods, living conditions and income-generating capacities for poor households and the youth (with diversified assets); (ii) higher levels of socio-economic empowerment among women from ultra-poor and poor households, and improved nutrition and food security for their families; (iii) improved access to financial services and investment opportunities for the target population; and (iv) strengthened dialogue and knowledge-sharing on pro-poor (and climate-resilient) poverty reduction policies, supported with evidence-based research.

16. *Component 1: Poverty graduation.* This component has three mutually reinforcing subcomponents: (1.1) asset creation; (1.2) IFLs; and (1.3) livelihood training for IFL beneficiaries.

17. *Subcomponent 1.1: Asset creation.* Households in PSC band 0-18 will be provided with a package (average of PRs 50,000) that consists of a combination of assets and the relevant skills training for using them. They will also be offered – either additionally or as an alternative – technical and vocational training, for which job placements or self-employment opportunities will have already been identified. Tangible assets will be offered to those in PSC band 0.0-16.17, as they are receiving an unconditional cash transfer from the BISP which serves as a consumption allowance; intangible assets will be offered to those in PSC band 16.18-18.0.

18. *Subcomponent 1.2: IFLs.* This subcomponent is funded through the PPAF's own microfinance (interest-free) loan portfolio. The component will support both eligible non-poor and poor in the target communities. The target beneficiaries will fall within PSC band 12-40.

19. *Subcomponent 1.3: Livelihood training for IFL beneficiaries.* This subcomponent is intended to be complementary, enhancing the effectiveness of the assets and IFLs transferred to the target beneficiaries. The training will enable the beneficiaries to harness their potential to maximize the benefits of the assets and IFLs. Approximately 157,000 borrowers will receive training on financial literacy, basic business and/or enterprise development.

20. Component 2: Social mobilization and programme management. The programme will follow a tested and proven social-mobilization-based approach to community targeting, organization and implementation, for which the PPAF will engage existing and new suitable partner organizations (POs) for the delivery of programme interventions. These partners could be the rural support programme and NGO partners already engaged by the PPAF for delivery of its pro-poor and microfinance interventions. The component will support the continued engagement with communities as part of a community-driven development approach. Community organizations at the village level will receive capacity-building support to participate in programme activities, with a special focus on women's empowerment, resilience to climate change and contribution to specific SDGs, especially SDGs 3, 5, 13 and 16. Community resource persons will also be identified in every union council and trained to become institutional or sectoral experts, providing relevant services and support to target beneficiaries and community institutions.

III. Programme implementation

A. Approach

21. The NPGP approach is based on a successful three-tier community-driven development model, aiming to develop and strengthen pro-poor institutions at village level, federated at union council level. These are projected to be the main articulators of community development needs and interlocutors for the delivery of development interventions. The process is aimed at empowering the rural communities to proactively engage with government and non-government development agencies and seek solutions to their development problems.

22. The aim of the programme is to provide the ultra-poor segment of the population (PSC band 0-18) with a combination of safety nets and livelihood interventions and training. The beneficiaries will be helped to expand their businesses through a process involving initial grant-based productive asset provision, skills development, asset management training and linkage with the Government's IFL scheme (for PSC band 12-40).

23. Social mobilization will be mainstreamed across all programme activities. Through this strong support, other concerns such as gender, climate change resilience and nutrition will be embedded in all programme activities relative to investments, capacity-building, information and education. Specifically, this programme has a strong gender dimension: it helps promote economic empowerment, giving rural women and men equal opportunities, in participating in and benefiting from profitable economic activities and in voicing their opinion and influencing their organizations.

B. Organizational framework

24. At the federal level, the Economic Affairs Division (Ministry of Finance) will be the main coordinating body for the IFAD financing agreement on behalf of the borrower, and will facilitate subsequent programme supervision and review.

25. The PPAF will be the lead implementation agency. There will be a dedicated programme management unit (PMU) within the PPAF responsible for planning, coordination, implementation, monitoring and reporting. Support and oversight mechanisms will also be provided from other units such as monitoring and evaluation (M&E), communications and media, finance and procurement. The PPAF board of directors approves the annual plans and budgets for the PPAF programme and will play the same role in NPGP annual plans.

26. Field activities will be implemented by a network of 40 POs for subcomponents 1.1 and 2.1, and 15 partners for subcomponent 1.2. These POs will be engaged on the following basis: existing presence in the target district; past performance; portfolio

of activities; and capacity and experience in terms of programme interventions (social mobilization, livelihoods development and IFL provision). The PPAF will enter into output- and performance-based agreements with these partners whereby they will be remunerated on the basis of agreed performance indicators.

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

27. The annual workplan and budget, prepared in consultation with the multiple implementing partners, is the key planning tool for programme implementation and management. Quarterly budget and expenditure reviews will take place to ensure that targets are being met and achieved.

28. Programme results will be measured at the activity, output, process, outcome and impact levels and will be measured against indicators provided in the logical framework. The system will be guided by IFAD's Results and Impact Management System (RIMS), with the detailed M&E plan to be formulated at the start of programme. The consolidated planning, M&E system will be finalized and made operational, in consultation with all implementing partners, within the first six months of programme start-up. It 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. All indicators will be disaggregated as much as possible according to gender and socio-economic status/BISP category, so as to properly assess whether or not the programme is reaching its intended beneficiaries.

29. A knowledge management system will be set up, enabling the programme to generate, capture, share and disseminate relevant information and knowledge to various stakeholders in a timely manner. This system will be utilized as a knowledge-sharing tool, linked to the IFAD Asia website. Key information from M&E studies, reviews, exposure visits, lessons and best practices will be disseminated through knowledge products such as newsletters, publications, case studies and reports.

D. Financial management, procurement and governance

30. A financial management capacity and risk assessment has been undertaken in accordance with the guidelines of IFAD's Financial Management Services Division. Overall, the financial management risk has been rated as high. However, the residual risk after implementation of the necessary mitigation measures is rated as medium. Transparency International's 2016 Corruption Perceptions Index gave Pakistan a score 32, implying that it is at medium risk of corruption. The programme design involves inherent risks: national coverage and targeted areas that are geographically dispersed; decentralization of funds; and the involvement of a high number of POs in its implementation. The risks will mainly be mitigated through a robust and transparent selection mechanism of qualified POs; continuous and systematic training and capacity-building of financial management by the PPAF for selected POs; field monitoring; and internal and external audit arrangements, as described below.

31. The PPAF is the lead implementing agency, overseeing implementation of the programme through its POs. A dedicated PMU will be established within the overall structure of the PPAF and will be staffed with professionals in financial management, monitoring and procurement. The PPAF financial management and corporate affairs group and procurement unit will provide support and guidance to the PMU, enabling smooth implementation of the programme. The PMU finance management team will consist of a qualified finance specialist and four finance officers dedicated to supporting and monitoring the PO accounts.

32. Disbursement arrangements and flow of funds. IFAD funds will flow in United States dollars to a project designated bank account opened with the National Bank

of Pakistan. The funds will be converted to local currency applying the prevailing exchange rate at the date of receipt. IFAD's share of all eligible expenditures will be paid out of this account in Pakistani rupees.

33. Disbursement to POs in Pakistani rupees to the designated bank account opened for each financing agreement will be based on the implementation plans which are part of the financing agreement signed with POs. The first instalment for each financing agreement will be released in advance as per the implementation plan. Subsequent instalments will be subject to quarterly reports validated in the field by the finance monitoring team.

34. Counterpart funds have already been provided by the PPAF and the Government of Pakistan for IFLs to POs, including the lending component and the operational cost for POs. POs will be requested to open a separate bank account for the reflow of funds from the already deployed portfolio under the PMIFL scheme. These proceeds will then be used for lending to the programme borrowers under the credit category, including the subsequent revolving fund.

35. The PMU will prepare the withdrawal application for replenishment of the designated account and submit it to IFAD on a quarterly basis. The disbursement procedures will be specified in the letter to the borrower.

36. In order to ensure a timely start to the programme, retroactive financing of US$350,000 is planned. This amount will cover eligible expenditures incurred after approval by the Executive Board, such as the costs of advertisement and advance payments under the consultancies category for procuring services of third-party organizations for baseline surveys and evaluation of PO proposals.

37. Internal controls. Internal controls are detailed in the existing finance manual of the PPAF and the operations manual which will be used for this programme. These manuals will also be updated before entry into force to incorporate changes on the new reporting mechanism of POs and monitoring mechanism of the PMU and the PPAF as per the design document. The manuals ensure clear segregation of duties and identification of staff roles and responsibilities.

38. Accounting systems, policies and procedures. The PPAF accounts are stored in the SQL-based accounting software. The financial management information system keeps records under multiple programmes ensuring the fulfilment of donor as well as statutory reporting requirements. The existing system will be used to keep the accounts for this programme. The budgetary module will be made operational before the programme's entry into force. The accounts will be maintained on an accrual accounting basis, and statutory financial statements will be prepared in accordance with International Financial Reporting Standards and International Accounting Standards, as applicable in Pakistan. The programme-specific financial statements will be prepared in accordance the International Public Sector Accounting Standards.

39. Financial reporting. The PMU will prepare the reports, including monthly reports for PPAF senior management and the steering committee to aid management decision-making, and quarterly interim financial reports to IFAD.

40. POs will submit reports to the PMU/PPAF, including quarterly expenditure and progress reports through an online management information system and audited semi-annual statements of expenditure.

41. Audit. PPAF has an internal audit unit, which will audit the programme as part of its annual work plan. In addition to auditing by the internal audit staff, some audit activities may also be outsourced to a firm of chartered accountants. This will complement the overall functioning of the internal audit unit and enhance coverage and verification of the use of funds by intended end beneficiaries.

42. PPAF accounts are subject to annual audits by a firm of chartered accountants. In addition to the statutory audit, the Auditor General of Pakistan will perform annual audits of the programme in line with the terms of references cleared annually by IFAD.

43. Taxes. It would be complex and impractical for the Government to cover taxes under this programme. Therefore, IFAD loan proceeds will cover the taxes, with exception of import taxes and duties, if applicable. Under the third multisectoral project with the World Bank, which was completed in March 2016 and implemented by the PPAF, all the taxes were financed out of World Bank proceeds.

44. Procurement. All standardized procurement exercises that can be bulked together, including equipment and vehicles, will be carried out either by the PPAF itself or with the oversight of the PPAF for PO-based procurement. The preparation of annual procurement plans will form the basis for all procurement, linked to the duly approved annual workplan and budget, and with all procurement to be carried out in accordance with the IFAD Procurement Guidelines. The procurement of goods, works and services to be financed out of the proceeds of IFAD financing will be carried out in accordance with the letter to the borrower and by observing the specific principles provided in the programme implementation manual.

45. Governance. All procurement for goods, works and services financed by resources funded or administered by IFAD will require bidding documents. All contracts will include a provision requiring that suppliers, contractors and consultants ensure compliance with IFAD's zero-tolerance anticorruption policy and permit IFAD to inspect their accounts, records and other documents relating to the bid submission and contract performance.

E. Supervision

46. The programme will be directly supervised by IFAD, with at least a yearly formal supervision mission to be fielded with government participation. The provision of implementation support missions on a more frequent basis will be emphasized, especially during start-up and the first two years of implementation. A midterm review is expected in the third year.

IV. Programme costs, financing, and benefits

47. The financing gap of US$17.3 million may be sourced from subsequent performance-based allocation system cycles (under financing terms to be determined and subject to internal procedures and subsequent Executive Board approval) or by cofinancing identified during implementation.

A. Programme costs

48. Total investment and recurrent costs over the six-year implementation period, including physical and price contingencies, are estimated at US$149.8 million. Indicative costs by component and financier are detailed in table 1; indicative costs by expenditure category and financier are provided in table 2.

Table 1
Programme/project costs by component and financier
(Thousands of United States dollars)

	IFAD loan		*Financing gap*		*Borrower/ counterpart*		*Total*
Component	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*
1. Poverty Graduation	65 700	50.2	15 200	11.6	49 900	38.1	130 800
2.1 Social Mobilization	7 200	100	-	-	-	-	7 200
2.2 Programme Management	9 600	81.8	2 100	18.2	-	-	9 600
Total	**82 600**	**55.1**	**17 300**	**11.6**	**49 900**	**33.3**	**149 800**

B. Programme financing

49. IFAD will provide a highly concessional loan of US$82.6 million towards total programme costs. The contribution by the Government amounts to US$49.9 million, under the PMIFL scheme (i.e. already deployed government funds), which is administered by PPAF.

Table 2
Programme/project costs by expenditure category and financier
(Thousands of United States dollars)

	IFAD loan		*Financing gap*		*Borrower/ counterpart*		*Total*
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*
1. Grants and subsidies	59 800	81.5	13 600	18.5	-	-	73 400
2. Credit	-	-	-	-	49 900	100	49 900
3. Training	13 100	89.1	1 600	10.9	-	-	14 700
4. Consultancies	900	76.2	300	23.8	-	-	1 200
5. Operating costs	8 700	82.5	1 900	17.5	-	-	10 600
Total	**82 600**	**55.1**	**17 300**	**11.6**	**49 900**	**33.3**	**149 800**

C. Summary benefit and economic analysis

50. The programme aims to raise the incomes and quality of life of approximately 320,000 rural poor households. It will generate three benefits: (i) increase in income for 60 per cent of beneficiaries of tangible and intangible assets; (ii) increase in income for at least 50 per cent of the IFL borrowers; and (iii) increase in income resulting from improved nutrition and adoption of climate change mitigation measures (30 per cent). The programme will address rural poverty through asset transfers and IFLs. A total of 156,240 households will receive productive assets, enabling them to increase their asset base and achieve a higher ranking on the poverty scale. The productive assets will also enable households to earn additional incomes. The IFLs are expected to be accessed by more than 150,000 households and be used to purchase productive assets or as working capital, thus developing options for more diversified and sustainable livelihoods. The programme has a social mobilization component aimed at capacity-building with regard to key SDGs, especially relevant to health, nutrition, environment, gender and disaster risk management.

51. The economic analysis takes into account the total economic cost of the programme (US$126.412 million) and the economic benefits to beneficiaries over the 18 year period at a shadow discount rate of 11.1 per cent. The economic internal rate of return for the proposed investment has been calculated at 34 per cent while the net present value is US$94 million. A sensitivity analysis found the economic internal rate of return to be robust, with no negative returns.

D. Sustainability

52. Sustainability is built into the programme as an essential feature in all key components. POs are permanently based in the target areas and are selected on the basis of presence and activities in the programme districts. There is very strong evidence to suggest that once the programme ends, these partners will continue to support some of the activities implemented during the programme.

53. Some of the salient design features that strengthen the programme's sustainability prospects and that are planned on the premise of building an exit strategy at entry, include: (i) strengthening institutions at the community level to take ownership of their socio-economic development priorities; (ii) developing local resources through the creation of a cadre of community resource persons that can become local hubs of technical expertise and knowledge; (iii) sustaining consumption and income benefits through the provision of assets with relevant skill sets and the

development of productive and common interest groups that can more effectively access markets and add value; (iv) establishing district strategies and forums to engage with all stakeholders (including the various tiers of government, donors, NGOs, civil society and private sector players) that take into consideration the opportunities and challenges of each district and identify opportunities to leverage the investments that have been made towards building social capital; and (v) engaging in policymaking for a strengthened social protection agenda designed to raise the BISP beneficiaries out of poverty.

E. Risk identification and mitigation

54. Despite security risks, the areas identified for IFAD investments are relatively stable and conducive to free movement. In terms of the portfolio in general, while IFAD generally classifies Pakistan as inherently high risk for financial management, the risk is substantially mitigated with the PPAF as the lead programme agency. It has a robust and effective financial management system which has been embedded in the whole programme encompassing the PPAF, its POs and community institutions. Risks related to weak capacities or procedural inadequacies are also mitigated by a dedicated PMU incorporated into the PPAF's management structure, and through use of PPAF procedures.

V. Corporate considerations

A. Compliance with IFAD policies

55. The programme is in line with IFAD strategic framework objectives 1, 2 and 3. In particular, the programme is highly responsive to IFAD policies and strategies on targeting, gender equality and women's empowerment, and adheres to the social, environmental and climate assessment procedures. The programme approach is also aligned with the IFAD priority of scaling up successful interventions.

B. Alignment and harmonization

56. The programme is fully aligned with government policies on poverty reduction and social protection, and with the Government's Vision 2025 that commits to halving poverty by 2025. The programme objectives and interventions directly contribute to SDG 1 (end poverty in all its forms everywhere) and SDG 2 (end hunger, achieve food security and improved nutrition and promote sustainable agriculture). They will also contribute to SDG 5 (achieve gender equality and empower all women and girls) and SDG 13 (take urgent action to combat climate change and its impacts).

C. Innovations and scaling up

57. The programme will continue to broaden the scope of the poverty graduation model with innovative features, and is representative of the concerted effort to scale up past interventions in poverty alleviation and graduation to a national scale. Further to the poverty graduation model, there are several key areas of scale and innovation: facilitation of rural and value chain finance; assistance to women and youth in establishing businesses or finding remunerative employment at home and abroad; creation of linkages with the private sector as well as the government; promotion of entrepreneurial activities; and capacity-building. The programme will also collaborate with research institutes, donors and academia for learning, programme intervention designs and testing programme hypotheses. These include the World Bank's Development Research Group and Innovations for Poverty Action. The programme will support the production of selected case studies, discussion papers and documentation about lessons learned and best practices.

D. Policy engagement

58. In particular, the programme will support the Government's poverty graduation model through development of linkages with the BISP and BISP beneficiaries. A long-term benefit to the Government's social protection agenda will be the moving out of poverty of over 77,000 BISP beneficiaries who, over the life of the

programme, will be tracked to show how their poverty scores have improved after the provision of assets and skills training. Engaging with the BISP and supporting regular data updates around BISP beneficiary scores will enable the Government to implement a plan that lowers the number of registered households eligible for the cash transfers (currently 5.4 million households).

59. The NPGP aims to engage policymakers; it seeks to have an influence and increase the likelihood that the evidence generated through research is given due importance and incorporated into designing pro-poor policies and practices. The programme will thus maintain a constant relationship with policymakers at the provincial and federal levels. To this end, the PPAF's current quarterly newsletter, Development Dialogue, will feature articles and comment pieces on the NPGP, focusing on lessons and results over different timescales.

60. Moreover, round-table dialogues and policy retreats will be held at the provincial and federal levels to present research findings, share best practices, advocate for pro-poor policies and effect evidence-based change.

VI. Legal instruments and authority

61. A programme financing agreement between the Islamic Republic of Pakistan and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be tabled at the session.

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

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

VII. Recommendation

64. 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 the amount of eighty-two million six hundred thousand United States dollars (US$82,600,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President

Negotiated financing agreement: National Poverty Graduation Programme

(Negotiations concluded on 25 July 2017)

Loan Number:

Programme Title: National Poverty Graduation Programme (“the Programme”)

The Islamic Republic of Pakistan (the “Borrower")

and

The International Fund for Agricultural Development (the “Fund” or “IFAD”)

(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 Programme 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 as of April 2014, and as may be amended hereafter from time to time (the “General Conditions”) are annexed to this Agreement, and all provisions thereof shall apply to 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 eighty two million six hundred thousand US dollars (USD 82 600 000).

2 The Loan is granted on highly concessional terms, and shall be free of interest but bear a service charge of three fourths of one per cent (0,75%) per annum payable semi-annually in the Loan Service Payment currency, and shall have a maturity period of forty (40) years, including a grace period of ten (10) years, starting from the date of the approval of the Loan by the Fund’s Executive Board.

3. The Loan Service Payment Currency shall be the United States Dollar (USD).

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

5. Payments of principal and service charge shall be payable on each 1 January and 1 July.

6. There shall be one Designated Account denominated in USD (the "Designated Account") opened by the Borrower at the National Bank of Pakistan (NBP), through which the proceeds of the IFAD Financing shall be channelled.

7. The Borrower shall make the loan proceeds available as a grant to the Lead Programme Agency, for implementation of the Programme.

8. The Borrower through the Pakistan Poverty Alleviation Fund (PPAF) shall provide a counterpart financing for the Programme in an amount equivalent to fifty million dollars (USD 50 000 000) from the Prime Minister Interest Free Loan (PMIFL) already deployed in order to provide interest free loan through Partner Organizations (POs) to eligible beneficiary households.

Section C

1. The Economic Affair Division (EAD) of the Ministry of Finance shall be the main coordinating body on behalf of the Borrower.

2. The Lead Programme Agency shall be PPAF.

3. The Programme Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

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

Section E

1. The following are designated as additional grounds for suspension of this Agreement:

   (a) The Subsidiary Financing Agreement between the LPA and the Borrower has been amended, suspended or terminated without the prior consent of the Fund;

   (b) Any key PMU staff has been appointed, transferred or moved from the Programme Management Unit (PMU) without the prior consent of the Fund; and

   (c) The Programme Implementation Manual ("PIM"), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme.

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

   (i) A Subsidiary Financing Agreement has been signed between the Borrower and PPAF in order to appoint PPAF as the Lead Programme Agency (LPA) for the implementation of the Programme;

   (ii) The key PMU staff for the implementation of the Programme, as described in the Schedule 1, has been appointed with terms of reference and qualifications acceptable to the Fund; and

(iii) The existing PIM as described in section II of Schedule 1, has been updated in form and substance satisfactory to the Fund.

4. 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 _______, 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

____
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. Programme Area. The Programme will have a national geographic area with a focus on the poorest districts.

2. Target Population. The Programme shall benefit households categorized on the basis of the Poverty Score Card (PSC) targeting a primary target group for assets transfers and another group for access to finance, both providing to the programme an approximate beneficiary number of 320,000 households.

3. Goal. The goal of the Programme is to assist the ultra-poor and very poor in graduating out of poverty on a sustainable basis; simultaneously improving their overall food security, nutritional status and resilience to climate change.

4. Objective. The development objective of the Programme is to enable the rural poor and especially women and youth to realize their development potential and attain a higher level of social and economic wellbeing through a proven flexible and responsive menu of assistance.

5. Components. Programme shall consist of the following Components:

Component 1: Poverty graduation. This Component shall consist of three mutually reinforcing sub-components as follows:

Sub-component 1.1: Asset creation. This sub-component will aim at transferring assets and relevant skills training to beneficiaries in selected Union Councils (at district level) having some potential for employment or entrepreneurial competencies and depending on their categorization identified through the PSC. In addition, this sub-component will support the establishment of Community platforms to promote socio-economic activities.

Sub-component 1.2: Interest FreeLoan (IFL). This sub-component will aim at supporting both eligible non-poor and poor in the target communities and leverage non-interest bearing products as per existing eligibility criteria under the PMIFL as described in the PIM.

Sub-component 1.3: Training of Livelihood and IFL Beneficiaries. This sub-component will aim at enhancing the effectiveness of the assets and IFL transferred to the target beneficiaries. The trainings on financial literacy and enterprise development would enable the target beneficiaries to harness their potential to maximize the benefits from the given assets and interest free loans.

Component 2: Social Mobilization and Programme Management.

Component 2 consists of two sub-components as follows:

Sub-component 2.1: Social Mobilization. This sub-component will be supported to finance a tested and proven social mobilization based approach to beneficiary targeting, community organization and mobilization and implementation in which PPAF will engage existing and new suitable partners in all selected target areas for the delivery of Programme interventions.

Sub-component 2.2: Programme Management. This sub-component covers the dedicated management structure for the programme within PPAF and its related delivery costs. It will also finance activities such as impact assessments, UC baseline surveys and district level market analysis that inform the other Programme components.

II. Implementation Arrangements

A. Organisation and Management

(i) At Federal Level

6. Executive Agency. The Economic Affair Division (EAD) of the Ministry of Finance shall be the main coordinating body on behalf of the Borrower and shall facilitate subsequent programme supervision and review.

7. Lead Programme Agency (LPA). The PPAF shall be the LPA and shall have the overall responsibility for the implementation of the Programme.

8. Programme Management Unit (PMU).

8.1 Establishment and composition. A PMU shall be established within PPAF, headed by a Programme Manager (PM) and shall include sector specialists, PO relationship managers, and support staff. The Key PMU staff comprises the Programme Manager(PM), Finance Manager and M&E Manager.

8.2 Responsibilities. The PMU shall be responsible for planning, coordination, implementation, monitoring and reporting.

(ii) At field level

9. Implementing Partners. Field activities will be implemented by a network of POs engaged on the basis of their existing presence in the target district, past performance and existing portfolio of activities through a rigorous selection process initiated in the pre-inception phase. PPAF shall enter into output and performance based agreements with these partners.

B. Implementation of programme components

10. Component 1. Poverty graduation. Based on the geographical distribution of the Programme, and the pool of resources available, POs will be selected through a rigorous process, as outlined in the PIM, to implement the social mobilization and asset transfer activities. The LPA shall enter into contractual agreements with its POs and Implementation Plans (IPs) shall be developed upon signing of the agreements.

11. Component 2. Social Mobilization and Programme Management. Activities under this component will be directly managed by the LPA using third party firms/consultants for specific activities such as baseline data collection, market analysis or any requested activities, whereas orientation and capacity building of POs on programme implementation activities will be conducted by PMU.

C. Mid-Term review (MTR).

12. A MTR shall be conducted at the end of the third year of the Programme implementation to assess the progress, achievements, constraints of programme activities and make recommendations and necessary adjustments for the remaining programme period. The MTR shall be carried out jointly by the LPA, the Borrower and IFAD.

D. Programme Implementation Manual (PIM).

13. The LPA shall updated the existing PIM in a form acceptable to the Fund including among other arrangements: (i) institutional coordination and day-to-day execution of the Programme; (ii) Programme budgeting, disbursement, financial management, procurement, monitoring and evaluation, reporting and related procedures; (iii) detailed description of implementation arrangements for each Programme component; and (iv) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Programme.

Schedule 2

Allocation Table

1. Allocation of Loan Proceeds. (a) 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 USD)	Percentage of eligible expenditures to be financed (inclusive of Taxes)
I.	Grants and Subsidies	53 900 000	100
II.	Training and workshops	11 800 000	100
III.	Consultancies	800 000	100
IV.	Operating Costs	7 850 000	100
Unallocated		8 250 000	100
	TOTAL	82 600 000	

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

Category I "Grants and Subsidies" covers inter alia, tangible; and intangible assets transfers.

Category IV "Operating Costs" covers inter alia, recurrent and overhead costs; and audits costs. The PPAF and POs recurrent and overhead costs including salaries and allowances will be covered through a fixed percentage (4% for PPAF and 8% for POs) of the eligible expenditures incurred under categories I, II and III.

(i) Retroactive Financing. As an exception to Section 4.08(a)(ii) of the General Conditions, specific eligible expenditures up to the equivalent of three hundred and fifty thousand United States Dollar (USD 350 000) incurred after 20 September 2017 but before the entry into force of this Agreement may be pre-financed by the Government and reimbursed from the Financing after the Financing Agreement has entered into force and the conditions precedent to withdrawal have been met. These specific eligible expenditures consist of procurement of services by third party organizations for baseline and evaluation of POs proposals under Category III (Consultancies).

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 Programme:

1. Performance-Based Agreements. The LPA shall enter into performance-based agreements with contracted POs, and any other party competitively selected by the LPA to participate in the Programme, as acceptable to the Fund. Each performance-based agreement shall specify the scope of the work to be undertaken by such entity(ies), expected deliverables, estimated budget for specific activities, modalities for the implementation of any sub-contracted activities, as well as quantified deliverables, including gender and inclusion target and indicators.

2. Taxes. Given that the Borrower has informed the Fund in writing that (i) it is not possible to exempt the Programme from certain taxes under this Programme and (ii) the World Bank's country financing parameters permit the financing of such taxes, taxes will be covered by the proceeds of the Financing with the exception of import taxes and duties if applicable and to the extent that there are not "excessive, discriminatory or otherwise unreasonable".

3. Gender. The Borrower shall ensure that this programme will contribute to the promotion of social and economic empowerment of poor rural women, men and youth through its programme activities that enhance access to economic opportunities and support women's empowerment.

Logical framework

Results Hierarchy	Indicators	Targets			Means of Verification			Assumptions
		Baseline	Mid-Term	End Target	Source	Frequency	Resp.	
Goal: To assist the ultra-poor and very poor in graduating out of poverty on a sustainable basis; simultaneously improving their overall food security, nutritional status and resilience to climate change	▪ At least 160,000 households (hhs) receiving support under the BISP programme have graduated out of the programme by project end	0	64,000 hhs	160,000 hhs	Impact surveys[1]	Mid-term and completion	PPAF	
Development Objective: To enable the rural poor and especially women and youth, to realize their development potential and attain a higher level of social and economic wellbeing	▪ No. of households receiving project services (RIMS 1.a)	95,000	200,000	**320,000** *Of which at least 60% women and 30% youth*[2]	Implementing Partners' records and progress reports	Quarterly	PPAF and POs	- No major natural disasters in project districts - Stable political, economic and security situation - Timely sharing of BISP PSC data
	▪ 93,000 hhs in PSC 0-18 receiving asset transfers, move to a higher PSC band, of which 31,000 hhs move to a PSC band of +24 (official poverty level)	0	40,000 hhs	93,000 hhs	- Annual Outcome Surveys - Impact surveys - PSC survey for poverty graduation tracking by POs	- Annually, after mid-term - Mid-term and completion	PPAF and POs	
Outcome 1: Improved livelihoods, living conditions and income-generative capacities for poor households and the youth	▪ 93,000 persons (of which at least 30% are women and 30% youth) newly employed/self-employed after receiving tangible/ intangible assets	0	30,000	93,000	- Annual Outcome Surveys - Impact surveys	- Annually, after mid-term - Mid-term and completion	PPAF and POs	- No major natural disasters in project districts - Stable political, economic and security situation
Outputs: 1.1 Provision of assets	▪ 93,000 households experience 30% increase in income as a result of productive use of assets and access to working capital	0	30,000 hhs	93,000 hhs	Implementing Partners' records and progress reports	Quarterly	PPAF and POs	- No major natural disasters in project districts - Stable political, economic and security situation
1.2 Provision of trainings (i.e. functional literacy, skills, vocational and business/ asset management training)	▪ No. of persons receiving vocational and business development training (RIMS 2.1.2)	0	88,000	140,000	Implementing Partners records and progress reports	Quarterly	PPAF and POs	Young women and men's motivation to acquire professional skills remains high

[1] Using the BISP Poverty Score Card methodology and database
[2] National definition of youth is people aged between 15 to 29

Results Hierarchy	Indicators	Targets			Means of Verification			Assumptions
		Baseline	Mid-Term	End Target	Source	Frequency	Resp.	
Outcome 2: Women from ultra-poor and poor households experience higher levels of socioeconomic empowerment and their families experience improved nutrition and food security	▪ At least 60% of project inputs provided to hhs are geared to women-related activities	0	40%	60%	- Annual Outcome Surveys - Impact surveys	- Annually, after mid-term - Mid-term and completion	PPAF and POs	Communities and tribal elders fully cooperate to ensure women's participation in programme activities
	▪ 192,000 hhs (60% of total) reporting improved quality of their diet (RIMS 1.2.8)	0	128,000 hhs	192,000 hhs (60% of hhs)				
Outputs: 2.1 Community institutions provided with capacity-building support on issues related to gender, nutrition/ malnutrition prevention (behavior), climate risk management	▪ No. of community institutions supported and trained in gender issues, nutrition promotion and climate risk management	0	30,000 (+2500 CRPs)	32,000 (+2900 CRPs)	PO records and progress reports	Quarterly	POs	Community willingness and interest
2.2 Provision of women-centric awareness/ sensitization sessions on nutrition, climate resilience, gender, peace and justice, etc.	▪ 192,000 women attending sensitization sessions	0	128,000	192,000	PO records and progress reports	Quarterly	POs	Communities and tribal elders fully cooperate to ensure women's participation in programme activities
Outcome 3: Target populations have improved access to financial services and investment opportunities	▪ Percentage of IFL clients with 30% increase in monthly incomes		10%	50%	- Annual Outcome Surveys - Impact surveys - PSC survey for poverty graduation tracking by POs	- Annually, after mid-term - Mid-term and completion	PPAF and POs	Capacity of POs for reaching out effectively to widely dispersed rural communities in districts with sparse population
Outputs: 3.1 Interest-free loans (IFL) for PSC 12-40	▪ No. of IFLs provided to PSC 12-40 clients	0	114,000	214,000	PO records and progress reports	Quarterly	POs	Beneficiary willingness and interest
3.2 Financial training and enterprise development training to IFL clients	▪ No. of persons trained in financial literacy and/ or use of financial products/ services (RIMS 1.1.7)		82,000	157,000	PO records and progress reports	Quarterly	POs	Beneficiary willingness and interest
Outputs: 4.1 (Pro-poor) Research studies and policy briefs developed and disseminated	▪ No. of policy-relevant knowledge products completed (Policy 1)		4	8 *(2 research studies; 6 policy briefs; and 3 advocacy events)*	Research and advocacy conference reports	Annually	PPAF	BISP and Government's interest to engage in policy dialogue remains high