

Document: EB 2018/124/R.27
Agenda: 7(d)(ii)(c)
Date: 14 August 2018
Distribution: Public
Original: English



President's memorandum

Proposal for 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:

Deirdre McGrenra
Chief
Governing Bodies
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

Executive Board — 124th Session
Rome, 11-13 September 2018

For: Approval

Recommendation for approval

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

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

I. Background

1. The present memorandum seeks the approval of the Executive Board for additional financing in the form of a loan in the amount of US\$36.5 million on blend terms, and a grant of US\$2.9 million, for the Southern Punjab Poverty Alleviation Project (SPPAP), which was approved by the Executive Board in December 2010 with a loan of SDR 26.35 million. Despite an initial slow start, resulting in the partial cancellation of SDR 7.05 million on the original loan, since mid-2015 the project has made a complete turnaround and is performing with good results. The consistent and strong performance has led to the reintegration of SDR 7.29 million in December 2015, as well as additional financing of US\$25 million approved in September 2017 for an expansion of the project. Consequently, the current total IFAD financing for the project is SDR 26.59 million plus US\$25 million. The project completion date is 30 September 2020 and the project closing date is 31 March 2021. With the provision of the proposed additional financing, the completion and closing dates will be further extended, by two years, to 30 September 2022 and 31 March 2023, respectively.
2. Following the request by the Government of Pakistan for additional financing to substantially scale up the project, with expanded geographical coverage and outreach, it is proposed to invest additional IFAD financing in the amount of US\$39.4 million in the SPPAP, complementing an unprecedented US\$76.2 million in government cofinancing and US\$5.4 million in beneficiary contribution.
3. The proposal for additional financing has the same development objective, components, field activities, lead agency, key project staff and implementing arrangements as the original project. In addition, it will support consolidation of the poverty alleviation and graduation efforts to date, by: (i) increasing outreach from 80,000 poor households to 480,000 poor households (approximately 3.3 million people), in the poverty scorecard (PSC) band of 0 to 23; and (ii) extending the geographical coverage from four to ten districts.

II. Context and justification

4. The project meets all eligibility criteria for additional financing. The additional financing is also justified by: (i) its full alignment with the Government's rural development agenda and priorities for rural poverty alleviation; (ii) its ability to leverage past efforts to build the institutional capacities of community and village organizations to successfully scale up poverty graduation and rural income-generating models; and (iii) its ability to leverage the knowledge and experience gained in poverty graduation models, for further uptake and scaling up under federal- and provincial-level social protection and economic development frameworks.

5. Furthermore, the project is well regarded as an effective and efficient vehicle for delivering concrete and sustainable results at the household level. To date, SPPAP has supported around 4,000 community organizations and has reached more than 100,000 households, exceeding the original target of 80,000 households.
6. A key lesson generated by the SPPAP relates to the interface between social protection, food and nutrition security, agriculture, and building resilient and sustainable rural livelihoods. The project experience and outcomes indicate the two-way interrelationship between social protection (in the form of asset creation for extremely poor and ultra-poor households) and agriculture.
7. Based on project reports, field observations and interim assessments, there is visible evidence that the SPPAP has been successful in its efforts to lead the target group towards a path of change, thus paving the way for a visible positive impact in their living conditions. It has been assessed that project investments have generated a satisfactory level of impact: (i) asset creation/transfer has helped the band of households with the lowest poverty score graduate to the next band; (ii) capacity-building and vocational and entrepreneurial training have improved the employability of young rural men and women; (iii) the productive infrastructure – particularly irrigation channels – has helped to enhance agricultural productivity, leading to improved food security; (iv) the introduction of innovative activities has brought awareness in the communities and improved the adoption of climate-sensitive approaches and the conservation of scarce natural resources; and (v) the establishment and strengthening of community institutions is spearheading institutionalization of the participatory community-driven development (CDD) approach. Based on a sample, the comparison between household PSC scores before and after project participation shows a remarkable reduction in the percentage of households in the “extremely poor” category (from 58 per cent to only 4 per cent), and an important reduction in the percentage for “chronically poor” (from 36 per cent to 21 per cent). Of the transitory, chronically and extremely poor households, 96 per cent have graduated to higher income categories.

III. Description of the proposal for additional financing

8. The additional financing presents no change to the structure and development objective of the SPPAP, but rather only at the level of outreach. The development objective is thus to increase the incomes of 480,000 poor households by enhancing the employment potential of the people and increasing agricultural productivity and production.
9. As in the case of all other IFAD-assisted operations in the country, the additional financing will apply sound and effective targeting through the use of the national PSC, ensuring that the project’s target group consists of those households registered within the PSC band from 0 to 23 (the extremely, chronically and transitory poor). However, specific attention will be placed on extremely poor households falling within the band from 0 to 11.
10. The proposed additional financing consists of two technical components plus project management. Interventions are in line with the lessons learned from the implementation experience, with focus on activities that are proven to yield results.
11. Component 1: Livelihoods enhancement. This component consists of three subcomponents: (i) asset creation for the ultra-poor; (ii) vocational and entrepreneurial training (for income generation); and (iii) community physical infrastructure (CPI). The target group under this component will consist almost exclusively of poor women and their households, with the exception that the CPIs will be more inclusive in benefiting the majority of the community or village population. This component covers a range of relevant investments aimed at building up the asset base of the poorest target group and that of women,

including the provision of small housing units for landless/homeless women (and their households) in the band from 0 to 11, and livestock/ruminant packages for women in the band from 0 to 18. The additional financing will also fund vocational and technical training, on the basis of predetermined market demand and placement opportunities for the trained beneficiaries.

12. Based on the priorities identified by the beneficiary communities in their community development plans, the project may finance high-priority social and economic infrastructure, including water irrigation schemes, sanitation schemes, drinking water supply schemes, access/link roads and minor structures, and other schemes aimed at supporting livestock management. Notably, the project will also finance green CPI schemes and the promotion of innovative technologies for improved natural resource management. Over the longer term, community development plans will be financed from other funding sources identified by the District Coordination Committees.
13. Component 2: Agriculture and livestock development. This component is complementary to component 1. It is oriented more towards institutionalization of the CDD approach, with direct linkages to public sector development and service delivery facilities, rather than direct project-funded interventions. The approach will enhance the sustainability prospects of the project interventions and strengthen food and nutrition security (through the revolving fund mechanism and promotion of nutrition education) for the poorest and most vulnerable Union Councils. With the additional financing, the project intends to support the strengthening of 15,000 existing and newly established community organizations that serve as the vehicle and entry point for the project in its entirety. All community organization members will benefit from the sensitization and awareness training resulting from their mobilization, and from social capital formation. One tangible outcome of the CDD approach will be the drawing up of the community development plans. In the long run, and as part of the exit strategy, the community organizations will have a sustainable link and access to public services and development planning, as well as linkages to the formal microfinance sector.
14. Component 3: Project management and organizational framework. The additional financing will build on the existing institutional and implementation arrangements in place, as confirmed by the midterm review. Day-to-day implementation will be delegated to the project management unit (PMU), established under the supervision of the Planning and Development Department of the Government of Punjab and based in Bahawalpur District. For expansion to six additional districts, a regional coordination unit (RCU) will be established in Sargodha, and both the PMU and the RCU will be supported by district coordination units. Project management will also cover baseline and impact surveys, monitoring and evaluation, knowledge management, and advocacy and dissemination. Technical assistance for improved policy engagement is also provided under project management.

IV. Project costs, financing and benefits

15. Project costs and financing. Additional financing is estimated at US\$121 million in the form of total investment and recurrent costs over the extended two-year period, including physical and price contingences. The financing consists of: (i) an IFAD loan in the amount of US\$36.5 million; (ii) an IFAD grant of US\$2.9 million; (iii) government cofinancing in the amount of US\$76.2 million; and (iv) an estimated beneficiary contribution of US\$5.4 million, representing the standard 10 per cent contribution to the implementation of CPIs.

Table 1
Project costs by component and financier
 (Thousands of United States dollars)

<i>Component</i>	<i>IFAD loan</i>		<i>IFAD grant</i>		<i>Beneficiaries</i>		<i>Borrower/ Counterpart</i>		<i>Total</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>
1. Livelihoods enhancement	25 436	26	1 661	2	5 398	5	65 734	67	98 230
2. Agriculture and livestock development	10 050	64	-	-	-	-	5 603	36	15 653
3. Project management and organizational framework	965	14	1 191	17	-	-	4 869	69	7 025
Total	36 452	30	2 852	2	5 398	5	76 206	63	120 908

Table 2
Project costs by expenditure category and financier
 (Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD loan</i>		<i>IFAD grant</i>		<i>Beneficiaries</i>		<i>Borrower/ counterpart</i>		<i>Total</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>
1. Civil works	10 481	21	1 661	3	5 398	10	33 149	65	50 689
2. Vehicles	90	41	-	-	-	-	129	59	218
3. Equipment and materials	28	41	-	-	-	-	40	59	69
4. TA, training and studies	3 811	39	1 191	12	-	-	4 755	49	9 757
5. Grants (to beneficiaries)	21 194	39	-	-	-	-	33 852	61	55 046
6. Salaries and allowances	640	17	-	-	-	-	3 232	83	3 872
7. Operating costs	208	17	-	-	-	-	1 049	83	1 257
Total	36 452	30	2 852	2	5 398	5	76 206	63	120 908

16. Summary benefits. A number of benefits will stem from project assistance: (i) small housing units, which will help the households save on expenditures for rent and open up opportunities for independent pursuit of income-earning opportunities; in addition, house values will appreciate over time, thus enriching the households' asset base, and household plots will provide an opportunity to grow vegetables and fruit trees in home yards; (ii) increased annual income resulting from livestock; (iii) employment and self-employment resulting from vocational/entrepreneurship training; (iv) decreased health-care expenditures as a result of having access to clean drinking water and improved sanitation, thereby enhancing nutritional outcomes; (v) various elements of physical infrastructure will generate incremental benefits in terms of time saving, fewer sick days (more time available for labour), reduced losses on produce, reduced operation and maintenance costs for transport and decreased cost of travel/transport resulting from better access roads; and (vi) other infrastructure such as livestock-related solutions (for example, community livestock sheds), which are expected to result in increased productivity. Under agriculture and livestock development, benefits will accrue through improved access to investment resources from the revolving fund, for a range of food security, productive and income-generating activities.

V. Financial management

17. In the last two supervision missions, the quality of the financial management has been rated as moderately satisfactory. The latest supervision mission, which took place in February 2018, confirmed that internal control systems remain effective. The mission found the disbursement rate to be satisfactory; some areas for improvement were indicated for strengthening of financial management arrangements.

18. The project's overall risk is rated as medium and the residual risk as low. The risks identified will be mitigated through: establishment of the RCU, in complement to the existing PMU, which will be responsible for technical implementation of project activities in the newly targeted areas; strengthening the existing financial management structure of the PMU by recruiting additional qualified staff members to cope with the anticipated increase in the volume of work due to geographical expansion; the internal audit function; updating the existing project implementation manual; installing an accounting software system; and carrying out effective budgetary control, facilitated in part by the new accounting system, which will automatically generate accurate and reliable monthly and periodic financial reports.
19. Financial and administrative management functions will be centralized at the PMU, and the RCUs will have a petty cash fund under the custody of an office assistant and the supervision of the coordinator, to allow for miscellaneous expenditures.
20. The designated account currently used for IFAD financing will be maintained and be used to receive funds under this additional financing. In order to track the income and expenditures/transactions, and to enable accurate reconciliation of the designated and project accounts, separate ledgers will be set up and maintained for receipts and expenditures from each financing source separately.
21. The annual external audit of the project will continue to be carried out by the Auditor General of Pakistan, in accordance with the International Standards of Supreme Audit Institutions. The audit reports for the last two financial years were delivered with slight delays (of less than one month after the deadline). The audit terms of reference will be prepared by the PMU each year in accordance with the IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects and will be submitted to IFAD for its prior "no objection". In addition, the internal auditor will evaluate/review the effectiveness of: the internal controls; risk management and governance; the economical and efficient use of project resources; the reliability and integrity of financial information; achievement of the operational/physical targets; and the project's compliance with the financing agreement and applicable rules and regulations. The internal auditor will submit the audit reports to the chairperson of the project coordination committee.
22. Payment of taxes and duties will be covered by Government of Punjab counterpart funds.
23. The procurement of goods, works and services to be funded from IFAD financing will be carried out in accordance with the Government's procurement rules, to the extent that they are consistent with IFAD procurement guidelines.

VI. Legal instruments and authority

24. Upon the approval of the Executive Board, the financing agreement will be amended to integrate the additional loan and grant into the existing categories of expenditure. This additional financing will not involve any changes to the project objectives and target group. Other than scaling-up support, no new activities or expenditure categories will be created. The amendment to the financing agreement will also include extension of the project completion date to 30 September 2022 and of the loan closing date to 31 March 2023.
25. The Islamic Republic of Pakistan is empowered under its laws to receive financing from IFAD.
26. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide an additional loan on blend terms to the Islamic Republic of Pakistan for the Southern Punjab Poverty Alleviation Project in an amount of thirty-six million five hundred thousand United States dollars (US\$36,500,000), upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Islamic Republic of Pakistan for the Southern Punjab Poverty Alleviation Project in an amount of two million nine hundred thousand United States dollars (US\$2,900,000), upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

LOGICAL FRAMEWORK

Results Hierarchy	Indicators						Source	Frequency	
	Name	Base-line	Original Design	Additional Finance	End Target	Cumulative Result (2017)			
Outreach	1.b Estimated corresponding total number of household members						Implementing Partners' records/ progress reports	Quarterly	Political and economic stability and security
	Household members		560,000	2,801,386	3,361,386	706,167			
	1.a Corresponding number of households reached								
	Households		80,000	400,198	480,198	102,343			
	1 Persons receiving services promoted or supported by the project								
	Males		224,000	1,120,554	1,344,554	349,552			
	Not Young		392,000	1,960,970	2,352,970	494,317			
	Young		168,000	840,416	1,008,416	211,850			
Females		336,000	1,680,832	2,016,832	356,615				
Project Goal To contribute to the reduction of poverty in 10 districts in Punjab	Percentage of beneficiary hh having graduated to a higher poverty category (based on PSC score)						Impact surveys	Mid-term and completion	
Households		70	70	70					
Development Objective To increase the income of poor rural households by enhancing their employment potential and increasing agriculture productivity and production	Percentage of beneficiary hh reporting improved livelihoods means and income						AOS, impact surveys	Annually, mid-term and completion	No major natural disasters in project area, no major changes in agric. and livestock prices, stable political economic /security situation
Households		75	75	75					
Outcome 1: Improved living conditions and income-generative capacities for poorest and homeless households and the youth	Percentage of persons newly employed/self-employed after receiving vocational or business training						AOS, impact surveys	Annually, mid-term and completion	Continuing market demand for trained workers no major outbreak of livestock disease in project area
Persons		75	75	75					
Output: Ultra-poor and landless hh provided with small housing units and small ruminant packages	1.1.3 Rural producers accessing production inputs and/or technological packages						Implementing Partners' records/ progress reports	Quarterly	Availability of transferable land for housing plots current landlords of underprivileged community members do not oppose project implementation
Females		35,462	38,400	59,500	35,500				
Ultra-poor hh provided with a small housing unit									
HHS		1,454	6,400	7,854	1,600				
Output: Poor entrepreneurs and the youth provided with vocational and enterprise development training	2.1.2 Persons trained in income-generating activities or business management						Implementing Partners' records and progress reports	Quarterly	Young women and men's motivation to acquire professional skills remain high
Young		5,451	10,950	16,401	12,859				
Not Young		12,719	25,550	38,269	5,777				
Females		10,902	21,900	32,802	9,318				
Males		7,268	14,600	21,868	9,318				
People accessing facilitated advisory services									
Males		2,180	4,380	6,560					
Females		3,271	6,570	9,841					

Outcome 2: Strengthened, more inclusive Community Organizations (COs) providing improved services to their members; and improved access to essential community infrastructure in poor communities	No. of Community Organizations (COs) providing new services to their members						annual outcome surveys and impact surveys		Active community participation in infrastructure operation and maintenance
	Community Organisations		4,000	15,000	19,000				
Output: Existing and newly-created COs provided with capacity-building support	No. of Community Organizations (COs) supported or newly created						IP's records and progress reports		Poorest community members are willing to join a CO
	Community Organisations		4,000	15,000	19,000	4,098			
	People in community groups formed/strengthened								
	Females		39,600	148,500	188,100	52,900			
	Males		26,400	99,000	125,400	14,958			
	People trained in community management topics								
	Women trained other		3,960	14,850	18,810	5,824			
Men trained other		2,640	9,900	12,540	1,810				
Output: Community infrastructure identified using participatory processes, and constructed or rehabilitated	No. of community infrastructure schemes constructed (drinking water systems, irrigation schemes, sanitation, innovative technologies)						IP's records/ progress r		Community members are able to provide in kind contribution
	Infrastructure schemes		1,126	4,410	5,536	1,126			
Outcome 3: Improved food security in targeted communities	2.1.5 Roads constructed, rehabilitated or upgraded						Progress reports		
	Length of roads		71	125	196	89			
	1.2.8 Women reporting improved quality of their diets								
Output: Households access to short-term loans and consumption credit	Poor households access short-term consumption credit						IP's records/ progress r		Proper storage infrastructure is available for rent in all targeted Union Councils
	Hhs with consumption credit		1,600	10,000	11,600	5,404			
	1.1.5 Persons in rural areas accessing financial services								
Outcome 4: Strengthened local capacity for Agriculture and Livestock Provision	Total persons accessing financial services - credit								
			1,600	164,998	166,598	5,404			
Output: People trained as Para Vet	People trained as Para Vet						Annual outcome and impact surveys		No social and cultural barriers that prevent women from entering non-traditional fields
	Females		100	150	250	89			
	Males		100	150	250	111			
Output: Modern Agriculture Equipment provided to Community Service Provider (CSP)	No. of CSPs having received equipment						IP's records / progress r		The high fuel and electricity cost does not limit the small holder capacity to use services
	CSPs		368	800	1,168	368			
Outcome 5: Strengthened advocacy and dissemination between BISP and the Punjab Government	Policy 3 Existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment						Review of policy documents		Government's interest to learn from project experience remains high
	Number		1	3	4				
Output: Advocacy fora and knowledge sharing platforms established and facilitated	Policy 1 Policy-relevant knowledge products completed						PCU progress reports		BISP and Provincial Government's interest to engage in advocacy/ policy dialogue remains high
	Number		0	3	3				