
President's report
Proposed loan
Islamic Republic of Pakistan
Sindh Coastal Resilience Project

Project ID: 2000003511

Document: EB 2024/142/R.4/Rev.1

Agenda: 3(a)(i)(a)(iii)

Date: 18 September 2024

Distribution: Public

Original: English

FOR: APPROVAL

Action: The Executive Board is invited to approve the recommendation contained in paragraph 54.

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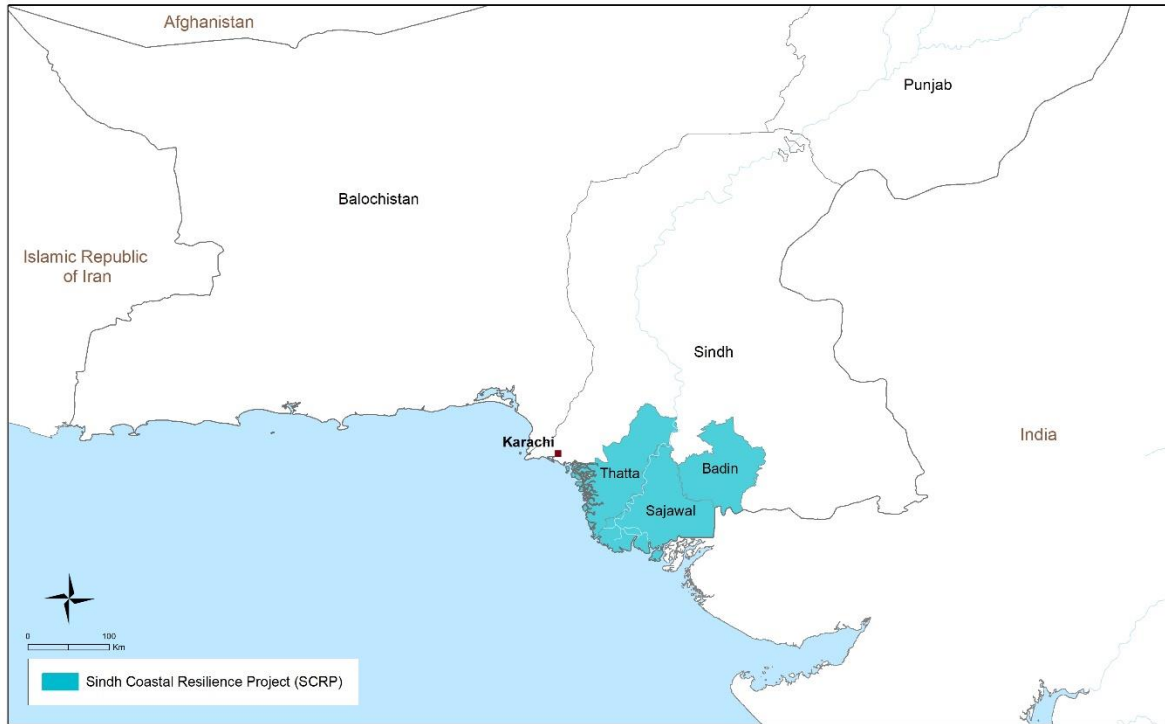
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Map of the project area



 The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.
IFAD Map compiled by IFAD | 19-08-2024

Financing summary

Initiating institution:	IFAD
Borrower:	Islamic Republic of Pakistan
Executing agency:	Planning and Development Board, Government of Sindh
Total project cost:	EUR 150.3 million (equivalent to US\$163.5 million)
Amount of IFAD loan:	EUR 55.1 million (equivalent to US\$60 million)
Terms of IFAD loan:	Blend terms Maturity period of 25 years, including a grace period of 5 years, with a service charge of 0.75 per cent and interest rate of 0.65 per cent per annum in special drawing rights (adjustments for single-currency loans)
Cofinancier:	Asian Development Bank (ADB)
Amount of cofinancing:	ADB: EUR 152 million (equivalent to US\$165 million parallel cofinancing)
Terms of cofinancing:	ADB loan: EUR 115 million (equivalent to US\$125 million) Green Climate Fund (GCF) grant: EUR 37 million (equivalent to US\$40 million)
Contribution of borrower:	EUR 6.2 million (equivalent to US\$6.7 million)
Contribution of beneficiaries:	EUR 2.5 million (equivalent to US\$2.8 million)
Contribution of private sector:	EUR 49.7 million (equivalent to US\$54 million)
Financing gap:	EUR 36.8 million (equivalent to US\$40 million)
Amount of IFAD climate finance:	EUR 26.5 million (equivalent to US\$28.8 million)
Cooperating institution:	Directly supervised by IFAD

I. Context

A. National context and rationale for IFAD involvement

National context

1. Pakistan is the world's fifth most populous country at 240 million inhabitants (2022 census) and 63 per cent of the population is rural. Pakistan is a lower-middle-income country with a per capita GDP of US\$1,596 and overall GDP of US\$376.53 billion. Although the agriculture sector accounts for 22 per cent of GDP, it has a key role in the economy, absorbing 42 per cent of the labour force and contributing to 80 per cent of the country's exports.
2. Despite achieving a significant reduction in poverty over the last two decades, with 47 million Pakistanis escaping poverty, it remains a persistent challenge. Human capital outcomes remain poor and stagnant, with high levels of stunting at 38 per cent and learning poverty at 75 per cent. The country's multidimensional poverty index is 0.198 with 38.3 per cent of the population ranked as poor, while 21.5 per cent of the population is in severe multidimensional poverty. Poverty in Pakistan remains concentrated among rural households relying on agriculture. From 2018 to 2019, rural poverty was 43.5 per cent, more than twice as high as urban poverty (18.5 per cent). The 2022 floods are estimated to increase the national poverty rate by up to 4 percentage points.
3. Sindh is the second most populous province in Pakistan with a population of 55.7 million and the third largest at 140,914 km². Sindh is afflicted with large pockets of endemic poverty, particularly in rural areas, with 37 per cent of the rural population below the poverty line. The prevalence of undernourishment and stunting in children under 5 years of age is 34 per cent and 45.5 per cent, respectively, and exceeds the national averages of 20 per cent and 38 per cent.
4. The Government of Pakistan's endeavours to increase the incomes of rural households, with a special focus on women and youth, are mirrored in the National Agriculture Emergency Programme, launched in 2020; the Pakistan Vision 2025; the Benazir Income Support Programme; and, in Sindh, the Sindh Poverty Reduction Strategy; the Sindh Agriculture Policy 2018–2030; and the Programme for Improved Nutrition in Sindh; all aiming at contributing to attaining the Sustainable Development Goals (SDGs).

Special aspects relating to IFAD's corporate mainstreaming priorities

5. In line with IFAD's mainstreaming commitments, the project has been validated as:
 - Including climate finance
 - Nutrition-sensitive
 - Youth-sensitive
 - Including adaptive capacity
6. Gender, youth and climate adaptation will be mainstreamed throughout the project activities. Activities will be carried out to bring about social and behavioural change, namely, towards better nutrition among households by improving target groups' knowledge and practices relating to food choices, food preparation, processing and conservation, healthy diet and good hygiene and sanitation practices.

Rationale for IFAD involvement

7. Sindh is the province with the highest incidence of rural poverty. The three target districts in Sindh are the poorest, with 84 per cent of the population living below the multidimensional poverty line. This puts them at extreme risk of exposure to natural hazards associated with climate change and man-made environmental impacts. Drivers of poverty include highly skewed land ownership, poorly developed agriculture and fisheries value chains, socioeconomic infrastructure deficits (in

particular potable water), inaccessibility to production technology and affordable financial services, high illiteracy rates, lack of productive assets, lack of skills for remunerative jobs, and vulnerability to climate change. Women and young people are particularly disadvantaged. The rural poor consist of heterogeneous communities and need an inclusive, but nuanced, flexible and demand-driven set of interventions to overcome the poverty challenge.

8. The IFAD intervention complements the Asian Development Bank (ADB) financed infrastructure (parallel cofinancing), namely drainage and water management infrastructure, and mangrove and inland forestry, in the three target districts. IFAD is best placed to organize smallholder farmers and fishers for value chain participation, to effectively target the poor, assist women and young people to develop skills for economic opportunities, improve access to affordable finance, and develop resilience against climate change.

B. Lessons learned

9. Relevant lessons include:
 - (i) **Targeting.** The National Socio-Economic Registry offers a credible and transparent instrument for targeting the poor. An inclusive and culturally acceptable targeting approach, based on household profiling and verification, opens up opportunities for disadvantaged groups such as young people and women.
 - (ii) **Participation and empowerment.** A participatory approach, whereby communities play an empowered role in needs identification, planning, financial management and procurement, ensures strong local ownership and the sustainability of interventions.
 - (iii) **An inclusive village-wide approach.** To achieve a holistic transformation of a rural community's economy, an inclusive demand-driven approach covering all segments (smallholder farmers and fishers, sharecroppers, daily wagers, young people and women) is necessary.
 - (iv) **Rural finance.** Partner financial service providers must be subjected to rigorous due diligence to ensure that they are financially sound, and have an established track record and reporting systems. Financial products should be adapted to target groups' needs.
 - (v) **Skills for income generation.** Training for employment or self-enterprise should be based on market demand.
 - (vi) **Socioeconomic infrastructure.** To exert a significant impact on incomes, nutrition, food security and climate resilience, community infrastructure deficits, especially drinking water, need equal attention.
 - (vii) **Start-up delays.** Persistent start-up delays affecting projects can be overcome by recruiting core staff and by carrying out key preparatory activities prior to loan effectiveness.

II. Project description

A. Objectives, geographical area of intervention and target groups

10. **The goal of the Sindh Coastal Resilience Project (SCRIP)** is to reduce poverty and malnutrition and to improve climate resilience among rural poor households. The **development objective** is to promote inclusive and resilient livelihoods for farming and fishing communities and disadvantaged groups. This will be achieved through three outcomes: (i) improved and diversified food production among organized groups of smallholder farmers and fishers under climate-smart agriculture and fisheries production plans leading to value chains based on

public-private-producer partnerships (4Ps) that facilitate integration with markets and financial services; (ii) an improved productive asset base for the ultra-poor and increased self-employment and employment opportunities for disadvantaged groups (young people, women and the landless poor); and (iii) a participatory, community-driven approach linked to an enabling policy and institutional environment that facilitates access to financial resources and support services.

11. **Target groups.** In line with IFAD's Poverty Targeting Policy, the project target groups include smallholder farmers (up to 16 acres of land), tenants and sharecroppers working on large landholdings, resource-poor fishers and the landless poor. Women-headed households will have priority, and young men and women from poor households will be offered skills development for labour market and value chain participation and off-farm enterprises. Of the direct beneficiaries, 40 per cent will be women and 30 per cent young people.
12. SCRP targets a total of 260,000 families in the three poorest coastal districts of Sindh: Badin, Sujawal and Thatta. To carry out geographical targeting within the districts, the project will align its interventions with ADB climate-resilient green and grey infrastructure investments for an enhanced impact. Climate change vulnerability and the poverty ranking will be the primary criteria for village selection.

B. Components, outcomes and activities

13. The project will have four components: (i) transformation of coastal and rural incomes; (ii) economic and social inclusion of disadvantaged groups; (iii) project management; and (iv) recovery from climatic calamities (response to emergency and disaster [RED] component). These complementary components address the causes of the vulnerability and poverty of the smallholder farmers, tenants, sharecroppers, fishers and landless poor in the target communities. The project will be carried out in a gender- and youth-sensitive manner and in accordance with the principle of no one left behind.
 - **Component 1: Transformation of coastal and rural incomes.** Coastal and rural communities organized and assisted to develop capacities for market-oriented, climate-resilient and nutrition-sensitive agriculture and fisheries production systems, with a transition to higher value products, based on sustainable value chain plans, supported by community and value chain infrastructure, access to affordable financial services, and strengthened extension services provision; the component will also contain policy support and an "Innovation Challenge" fund.
 - **Component 2: Economic and social inclusion of disadvantaged groups.** Job market and small business development facilitated for poor landless households, in particular young men and women, through the provision of employable skills, income-generating productive assets and start-up grants for self-enterprise development through tailored business, technical and vocational service provision.
 - **Component 3: Project management.** Establishment of an autonomous project management unit and district coordination units, administratively linked to the Sindh Planning and Development Board, and reporting to a project steering committee.
 - **Component 4: Recovery from climatic calamities (RED component),** triggered in case the Government of Sindh declares the project area to be affected by a climatic calamity.

C. Theory of change

14. The project impact will be achieved through three interconnected pathways for both agriculture- and fisheries-dependent communities:

- (i) A community-driven process whereby smallholder farmers and fishers are organized initially to improve existing productivity to reach its potential through climate-smart agriculture and sustainable fishing practices, and to achieve economies of scale through aggregation, and subsequently graduate to market-oriented and climate change-adapted value chains of higher-value commodities. Access to tailored finance and insurance is facilitated. Gender disparities and social norms limiting women's participation are addressed. Activities aimed at behavioural change to improve knowledge and practices relating to food choices, preparation, processing and conservation, healthy diet, and hygiene and sanitation practices will contribute to improved nutrition at family level. Investments in community- and household-level infrastructure ensure access to safe water and sanitation, reducing common waterborne diseases, malnutrition and stunting.
- (ii) Disadvantaged young people and women from poor households are able to acquire skills adapted to the local market for enterprise development, and start-up business finance and productive assets.
- (iii) Policy support to the Government to create an enabling environment offering improved access to services and productive resources and enhancing climate resilience.

D. Alignment, ownership and partnerships

- 15. SCRP is aligned with the IFAD Strategic Framework 2016–2025 and responds to the priorities set out in the Twelfth and Thirteenth Replenishments of IFAD's Resources. SCRP also contributes to seven SDGs; and to the two strategic objectives of the country strategic opportunities programme: "Enhancing the productivity and profitability of smallholder farmers through climate-resilient diversification and an agribusiness approach", and "Fostering inclusion of the landless and ultra-poor households through an economic graduation approach". SCRP is aligned with the United Nations Sustainable Development Cooperation Framework 2023–2027 for Pakistan, the National Agricultural Policy 2019–2024, the draft Sindh livestock and fisheries enterprise development policy, the Sindh Poverty Reduction Strategy 2022, the Sindh youth and gender equality and women's empowerment policies, and will complement the Sindh Government's Accelerated Action Plan for the Reduction of Stunting and Malnutrition.
- 16. Implementation oversight by the Sindh Planning and Development Board will ensure alignment and complementarity with other government and development partner interventions in the target districts.

E. Costs, benefits and financing

- 17. The project will be implemented over seven years with total costs estimated at EUR 150.3 million (equivalent to US\$163.5 million), financed through: (i) an IFAD loan of EUR 55.1 million (equivalent to US\$60 million); (ii) a financing gap of EUR 36.8 million (equivalent to US\$40 million); (iii) a local Government contribution of EUR 6.2 million (equivalent to US\$6.7 million); (iv) a beneficiary contribution of EUR 2.5 million (equivalent to US\$2.8 million); and (v) contributions from the private sector and from commercial banks of EUR 0.85 million and EUR 48.8 million (equivalent to US\$0.93 million and US\$53.1 million) respectively.
- 18. Financing to fill the gap of EUR 36.8 million (equivalent to US\$40 million) may be sourced through the performance-based allocation system and/or through the Borrowed Resource Access Mechanism, under financing terms to be determined and subject to internal procedures and subsequent Executive Board approval, or by cofinancing identified during implementation.
- 19. In accordance with the multilateral development banks' methodologies for tracking climate change adaptation and mitigation finance, the total amount of IFAD climate finance for this project is estimated at EUR 26.5 million (equivalent to

US\$28.8 million adaptation finance only), accounting for 48 per cent of the total IFAD loan.

Table 1

Project costs by component and financier

(Thousands of euros)

Component	IFAD loan		Govt. of Sindh		Private sector		Beneficiaries			Commercial banks		Financing gap		Total	
	Amount	%	Amount	%	Amount	%	Cash	In-kind	%	Amount	%	Amount	%	Amount	%
1. Transformation of coastal and rural incomes	31 252	28.4	2 311	2.1	850	0.8	-	2 533	2.3	48 826	44.4	24 188	22.0	109 959	100
2. Economic and social inclusion of disadvantaged groups	19 137	60.8	1 280	4.0	-	-	-	-	-	-	-	11 073	35.2	31 491	100
3. Project management and policy support	4 748	53.7	2 593	29.3	-	-	-	-	-	-	-	1 498	17.0	8 839	100
Total	55 137	36.7	6 185	4.1	850	0.6	-	2 533	1.7	48 826	32.5	36 758	24.4	150 289	100

Table 2

Project costs by expenditure category and financier

(Thousands of euros)

Expenditure category	IFAD loan		Govt. of Sindh		Private sector		Beneficiaries			Commercial banks		Financing gap		Total	
	Amount	%	Amount	%	Amount	%	Cash	In-kind	%	Amount	%	Amount	%	Amount	%
Investment costs															
1. Civil works/community infrastructure	12 010	37.9	1 332	4.2	-	-	-	2 533	8.0	-	-	15 810	49.9	31 684	100
2. Vehicles	279	84.9	50	15.1	-	-	-	-	-	-	-	-	-	329	100
3. Computer and equipment	87	84.8	16	15.2	-	-	-	-	-	-	-	-	-	103	100
4. Credit	14 132	69.6	-	-	-	-	-	-	-	-	-	6 176	30.4	20 308	100
5. Technical assistance, training, workshops and studies	11 156	62.9	733	4.1	-	-	-	-	-	-	-	5 854	33.0	17 743	100
6. Grants and subsidies	12 403	56.7	1 375	6.3	850	3.9	-	-	-	-	-	7 250	33.1	21 877	100
7. Private sector	-	-	-	-	-	-	-	-	-	48 826	100	-	-	48 826	100
Total investment costs	50 067	35.5	3 505	2.50	850	0.6	-	2 533	1.8	48 826	34.7	35 089	24.9	140 869	100
Recurrent costs															
1. Salaries and allowances	998	46.5	966	45.0	-	-	-	-	-	-	-	183	8.5	2 146	100
2. Operating costs	4 072	56.0	1 716	23.6	-	-	-	-	-	-	-	1 486	20.4	7 273	100
Total recurrent costs	5 070	53.8	2 681	28.5	-	-	-	-	-	-	-	1 669	17.7	9 419	100
Total	55 137	23.1	6185	2.5	850	0.4	-	2 533	1.1	48 826	57.5	36 758	15.4	150 289	100

Table 3

Project costs by component and project year (PY)

(Thousands of euros)

Component	PY1		PY2		PY3		PY4		PY5		PY6		PY7		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Transformation of coastal and rural incomes	9 547	8.7	10 171	9.2	13 481	12.2	26 235	23.9	21 692	19.7	23 716	21.6	5 117	4.7	109 959
2. Economic and social inclusion of disadvantaged groups	3 103	9.9	4 100	13.0	4 478	14.2	6 191	19.7	5 798	18.4	5 269	16.7	2 551	8.1	31 491
3. Project management and policy support	1 299	14.7	1 044	11.8	1 302	14.8	1 416	16.0	1 250	14.1	1 251	14.1	1 277	14.5	8 839
Total	13 950	9.3	15 315	10.2	19 261	12.8	33 842	22.5	28 739	19.1	30 236	20.1	8 945	6.0	150 289

Financing and cofinancing strategy and plan

20. IFAD will make available a loan of EUR 55.1 million (equivalent to US\$60 million) on blend terms for livelihood development, in parallel to, and closely aligned with, ADB financing of EUR 152 million (equivalent to US\$165 million) to finance grey and green infrastructure investments for improved drainage, flood protection, water management and mangrove rehabilitation. The Government of Sindh will provide cofinancing of EUR 6.2 million (equivalent to US\$6.7 million) to defray the local taxes and a portion of the operational costs. The beneficiaries' contribution of EUR 2.5 million (equivalent to US\$2.8 million) is in kind, for community infrastructure. The private banking sector is expected to leverage EUR 48.8 million (equivalent to US\$53.1 million), against IFAD-financed credit facilities, totalling around EUR 20.3 million (equivalent to US\$22.1 million). Private sector partners in 4Ps are anticipated to contribute EUR 0.85 million (equivalent to US\$0.93 million).
21. The recurrent cost is 6 per cent of overall project costs. IFAD's share of the recurrent cost is 3 per cent of total project financing and 9 per cent of IFAD financing.

Disbursement

22. A revolving fund modality under the report-based disbursements system will be the mechanism used for withdrawing funds from IFAD financing. Interim financial reports will be used as a basis for the submission of withdrawal applications to IFAD. The requirement for interim financial reports will be included in the Financial Management and Financial Control Arrangements Letter and the project implementation manual during the implementation period. Advance withdrawals through a revolving fund approach will be the principal method of disbursement. Government, beneficiary, and private sector contributions will be incorporated into the annual workplan and budget (AWPB) and will be identified in the project accounts. The accounting system will record separately the disbursement and expenditure for each source of financing.

Summary of benefits and economic analysis

23. The main benefits accruing from the project include: (i) increased productivity for smallholder farmers and fishers; (ii) improved community socioeconomic infrastructure, including access roads, drinking water, irrigation, drainage, sanitation and solar energy; (iii) productive asset provision to poor households, creating a sustainable source of enhanced income with an impact on improved nutrition and social and economic empowerment; and (iv) employment and enterprise development opportunities for men and women.
24. The social and environmental benefits expected are: (i) enhanced opportunities for women and young people to engage in profitable agricultural, livestock and fishing activities; (ii) the introduction of climate-smart agricultural practices and facilitated access to inclusive financial services and competitive markets, which are more resilient to climate change impacts, conserving the natural resource base; and (iii) the provision of climate-proofed socioeconomic and value chain infrastructure that will contribute to incomes, and improve the health and nutrition status of the beneficiaries.
25. The financial analysis of the project shows viability with a financial internal rate of return of 27.97 per cent. The net present value (NPV) over 20 years is US\$73.05 million. The financial internal rate of return and the NPV are based on the financial prices of the project. The overall economic internal rate of return is estimated at 22.65 per cent. The economic NPV of the project net benefit stream, discounted at 17.03 per cent, was calculated to be US\$49.54 million.

Exit strategy and sustainability

26. The sustainability of the project's interventions beyond the project life is based on the following approach: (i) commercially viable organizations of smallholder farmers

and fishers pursuing business plans that balance the equation among landowners, smallholders/tenants and intermediaries, linking beneficiaries with markets and the private sector in win-win relationships; (ii) community ownership of community and value chain infrastructure; (iii) capacitated public and private sector service providers; (iv) young people provided with remunerative skills; (v) climate adaptation and resilience improved; and (vi) the financial inclusion of beneficiaries with an established credit history facilitates their access to credit.

III. Risk management

A. Risks and mitigation measures

27. The February 2024 elections, following which none of the major political parties had a clear majority, led to a coalition government. In Sindh, the previous party in power being again in charge promises continuity. Political changes notwithstanding, sovereign agreements on international financial institution loans and projects are respected and implemented by the permanent bureaucratic system that is by and large immune to political changes.
28. The country's inherent fiduciary risk rating is high. Pakistan has a score of 27/100 and is ranked 140/180 in the 2022 Corruption Perceptions Index released by Transparency International. One key concern is the weakening of anticorruption institutions and, in some cases, the absence of an agency to coordinate action against corruption. The Government is taking several measures to respond to the challenge, including the World Bank-supported Public Expenditure and Financial Accountability programme, to bring greater transparency and accountability to provincial public expenditures.

Table 4

Overall risk summary

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Country context	Substantial	Substantial
Sector strategies and policies	Moderate	Moderate
Environment and climate context	Substantial	Substantial
Project scope	Moderate	Moderate
Institutional capacity for implementation and sustainability	Substantial	Substantial
Financial management	High	High
Project procurement	Substantial	Substantial
Environment, social and climate impact	Substantial	Moderate
Stakeholders	Low	Low
Overall	Substantial	Substantial

B. Environment and social category

29. The environmental and social category risk of the project is moderate. The target coastal districts have been facing environmental degradation due to poor drainage, soil salinization and a shortage of surface water supplies from the Indus River. The project's physical interventions will have limited environmental impacts, and mitigation measures are planned: improved pest management and climate-smart agriculture. The linked ADB infrastructure investments will help to restore ecosystem services and improve the water cycle.

C. Climate risk classification

30. The climate risk category of the project is substantial. All three target districts have been experiencing floods, cyclones and heatwaves over the past few decades that have caused serious agricultural and economic losses to the concerned population. The target groups are sensitive to climate change impacts, as they are dependent on earnings from agriculture and fisheries, which are directly dependent on weather patterns and climatic events. While it is expected that the project will build the

resilience of the target populations through relevant activities and practices contributing to climate adaptation, at baseline, low adaptive capacities characterize these populations.

D. Debt sustainability

31. The International Monetary Fund (IMF) assessment released on 19 January 2024 shows that public debt is assessed as sustainable at baseline. It is underpinned by the steadfast implementation of the proposed IMF standby arrangement policies, namely, tax measures introduced as part of the budget of the 2023 fiscal year, which are assumed to continue beyond the project horizon, a macro framework that does not assume either additional primary consolidation or expansion beyond the 2024 fiscal year, and the gradual resumption of growth in the coming years.
32. Elevated gross financing needs continue to pose high risks to debt sustainability, particularly as fiscal and reserve buffers have been depleted. In this regard, timely disbursements of committed bilateral and multilateral support are critical in the period ahead. Higher interest rates, a larger-than-expected growth slowdown due to policy tightening, pressures on the exchange rate, renewed policy reversals, slower medium-term growth and contingent liabilities related to statements of expenditure pose significant risks to debt sustainability.

IV. Implementation

A. Organizational framework

Project management and coordination

33. The Economic Affairs Division of the Ministry of Economic Affairs will be the overall coordinating agency at federal level for the IFAD financing. The Planning and Development Board of the Government of Sindh will be the lead project executing agency. A joint provincial steering committee, for the parallel ADB- and IFAD-financed components of SCRP, headed by the chairperson of the Planning and Development Board, will be responsible for all aspects related to policy, development coordination, project budget appropriations and accountability for performance/results and will ensure synergy between the ADB and IFAD activities. A project management unit (PMU) in Karachi, with a competitively selected project director and competitively recruited professional staff, and district coordination units (DCUs) in the three target districts will be responsible for planning, coordination, financial management, gender and nutrition, agribusiness, procurement and the monitoring and evaluation (M&E) of project activities. Other implementing partners include the Agriculture Supply and Prices Department, the Livestock and Fisheries Department, the Sindh Technical Education and Vocational Training Authority, and financial institutions. The PMU will contract implementing partners with competencies in agriculture and fisheries value chain development, participatory planning and poverty graduation.

Financial management, procurement and governance

34. The PMU will have an adequately staffed financial management section. The finance manager will be competitively recruited, subject to IFAD's approval, and receive a market-based salary. The finance manager will be assisted in their functions by a competitively recruited accounts officer, a budget and finance officer and two accounts assistants. The project will have largely centralized financial management arrangements with all major procurements and service provision payments managed at PMU level. Each DCU will have one accounts assistant as the DCUs will manage only small operational budgets.
35. All project activities will be guided by the AWPB, based on the project design report and financing agreement and duly approved by the project steering committee (PSC) and subject to IFAD's approval. The PSC will conduct a midyear review to assess progress against the annual plan and approve any required adjustments, revisions and remedial measures.

36. The PMU shall open a designated assignment account with the National Bank of Pakistan to receive and use IFAD's loan. The State Bank of Pakistan, which holds the accounts of foreign aid for Pakistan, shall receive funds from IFAD in euros, convert the funds according to the current exchange rate into the local currency, debit the national account for loan, and credit the project's designated assignment account accordingly.
37. The project will have two sources of funds: IFAD and the Government of Sindh. The PMU will have separate assignment accounts in the National Bank of Pakistan for each of the financiers. The accounting system shall record government financing separately. Apart from meeting the PMU's and DCUs' own operational expenses, most of the investment funds will be expended through implementing partners and village organizations.
38. The internal control arrangements for the project will include: (i) competent personnel with clear responsibilities and adequate segregation of duties; (ii) an adequate financial records management system with a complete and accurate audit trail; (iii) physical safeguarding, including regular verifications and controls of the assets and financial documents of the project; (iv) independent reviews; and (v) clear procedures for timely monitoring and financial reporting by the implementing partners of the project.
39. Project accounting will be managed in accordance with the cash basis of financial reporting of the International Public Sector Accounting Standards. The PMU at project start-up shall procure appropriate accounting software to manage its accounts. The PMU will be required to submit three types of financial report to IFAD: (i) interim quarterly financial reports within 30 days of close of each quarter, indicating progress under each component and expenditure category, duly reconciled with the bank, and signed by the finance manager and project director; (ii) detailed unaudited financial reports for each financial year within four months of the close of the financial year; and (iii) the audited financial statements within six months of close of the financial year (end of December each year).
40. The Auditor General of Pakistan shall conduct an external audit of the project accounts. The PMU shall submit to the Auditor General's office the annual financial statements of the project within two months of the end of financial year.

Target group engagement and feedback and grievance redress

41. A participative approach has been taken in the project design to generate ownership by key stakeholders. This includes: (i) participatory development of the AWPB; (ii) continuous mentoring on how to manage processes with due regard for cross-cutting themes; (iii) joint monitoring of progress; (iv) emphasis on gender balance among the implementing partners' staff; and (v) random field inspections in the target areas to ensure that the beneficiaries' concerns are being considered in project interventions and to avoid elite capture. The PMU will organize regular project performance feedback sessions both with the implementing partners and village organization office-bearers. All contracts/memorandums of understanding with the implementing partners will contain references to IFAD's policies on (i) anticorruption, (ii) preventing and responding to sexual harassment, sexual exploitation and abuse, and (iii) anti-money laundering and countering the financing of terrorism.

Grievance redress

42. In addition to existing grievance redress mechanisms at federal and provincial levels, the project will put in place multichannel systems for the receipt and redress of grievances with regards to project activities. Complaint logs will be maintained containing details of complaints, the action taken and outcomes.

B. Planning, monitoring and evaluation, learning, knowledge management and communications

43. The AWPB will be the main instrument for project planning and implementation, based on project design, cost estimates and in phase with the Government of Pakistan's annual planning cycle. The AWPB preparation will be a consultative exercise involving the PMU, implementing partners, private entities, village and producers' organizations and other stakeholders.
44. SCRP will build on the institutional capacity of the Government of Sindh's Monitoring and Evaluation Cell in the Planning and Development Board for development schemes. The PMU will establish a logical framework-based management information system, aligned with the AWPB, which will facilitate data collection and analysis, and inform decision-making.
45. The project results will be measured at output, outcomes and impact levels against indicators, disaggregated by sex and age, in the project's logical framework. An M&E plan will be the basis for annual M&E activities. As per IFAD guidelines, three core outcome indicator surveys will be carried out at baseline, midterm and completion.
46. Knowledge management will be based on a strategy and action plan, to be prepared at start-up and updated annually. The PMU will conduct studies throughout project implementation in conjunction with ADB to assess the collaboration and results. The PMU will develop stakeholder-specific knowledge management and communications material and document lessons learned for dissemination.

Innovation and scaling up

47. The creation of inclusive village organizations will enable all stakeholders to look at the development challenges and opportunities from a holistic point of view and generate a more robust social capital and ownership of the interventions. The financial inclusion of the currently underserved poor households will establish their credit history for sustained access to financial services. Climate-adapted value chains will improve incomes in a gender-, youth- and nutrition-sensitive manner. Offshore aquaculture development will provide meaningful income opportunities to the young people in fishing communities and reduce pressure on depleting marine fisheries stock.

C. Implementation plans

Implementation readiness and start-up plans

48. To overcome the persistent issue of delays in project start-up, and based on lessons learned, the Sindh Planning and Development Board will be required to complete certain key actions prior to loan effectiveness. This includes the timely completion of the Government's internal approvals of the project, as well as the early recruitment of the core staff of the PMU and district offices before loan effectiveness.

Supervision, midterm review and completion plans

49. IFAD will send start-up and implementation support missions to guide the project staff and implementing partners on approaches and processes. One full supervision mission will be carried out on a yearly basis.
50. A joint midterm review by IFAD and the Government of Sindh will assess the project's progress against development objectives, the quality of delivery and impact on beneficiaries, and, if needed, propose remedial actions to ensure development objectives are met. In the last year of implementation, a project completion report will be prepared by IFAD in collaboration with the implementing agency/PMU.

V. Legal instruments and authority

51. A 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 is attached as appendix I.
52. The Islamic Republic of Pakistan is empowered under its laws to receive financing from IFAD.
53. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

54. 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 blend terms to the Islamic Republic of Pakistan in an amount of fifty-five million one hundred and thirty-seven euros (EUR 55,137,000) equivalent to sixty million United States dollars (US\$60,000,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario
President

Negotiated financing agreement

(Negotiations concluded on 12 December 2024)

Loan No: _____

Project name: Sindh Coastal Resilience Project ("SCRP"/ "the Project")

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")

WHEREAS the Borrower has requested a loan from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

WHEREAS Both the Asian Development Bank (ADB) and IFAD will provide in parallel co-financing to the umbrella government-led Sindh Coastal Resilience Project; IFAD will finance the Livelihoods activities thereof (hereunder referred to as "the Project"), and ADB will finance grey and green infrastructure for improved drainage, flood protection, water management and prevention of sea intrusion in productive lands;

WHEREAS, the Fund has agreed to provide financing for the Project;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document; the Project Description and Implementation Arrangements (Schedule 1); the Allocation Table (Schedule 2); and the Special Covenants (Schedule 3).
2. The Fund’s General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2022, and as may be amended 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, unless the Parties shall otherwise agree in this Agreement.
3. The Fund shall provide a loan to the Borrower, which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the loan is fifty five million one hundred thirty seven thousand Euro (EUR 55 137 000), (the "Loan").
2. The Loan is granted on blend terms and shall be subject to interest on the principal amount outstanding and a service charge as determined by the Fund at the date of approval of the Loan by the Fund’s Executive Board. The interest rate of 0.65% and service

charge of 0.75% determined will be fixed for the life cycle of the loan and payable semi-annually in the Loan Service Payment Currency and shall have a maturity period of twenty-five (25) years, including a grace period of five (5) years starting from the date of approval of the Loan by the Fund's Executive Board.

The principal of the Loan granted on blend terms will be repaid in equal instalments.

3. The Loan Service Payment Currency shall be in Euro (EUR).
4. The first day of the applicable Fiscal Year shall be 1 July.
5. Payments of principal, interest and service charge shall be payable on each 15 June and 15 December of each year.
6. As per practice in the Islamic Republic of Pakistan, IFAD will transfer the Loan proceeds to the State Bank of Pakistan in Euro (EUR). The State Bank of Pakistan shall disburse the Pakistani Rupees (PKR) equivalent amounts of the Loan to the project designated account. There shall be a Designated Account in Pakistani Rupees (PKR), for the exclusive use of the Project opened in the National Bank of Pakistan (NBP). The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.
7. The Borrower shall facilitate provision of counterpart financing by the Government of Sindh for the Project in the amount of six million one hundred eighty five thousand Euro (EUR 6 185 000) equivalent to six million seven hundred thousand United States Dollars (USD 6 700 000) in the form of taxes and operational costs related expenses. The Government of Sindh shall deposit the counterpart financing in a separate account which will be governed in accordance with national procedures.

Section C

1. The Lead Project Agency shall be the Planning and Development Department, Government of Sindh.
2. Additional Project Parties shall include, *inter alia*, institutions referred to in Schedule 1, Section II.11 of this Agreement.
3. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.
4. The Project Completion Date shall be the 7th anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be 6 months later, or such other date as the Fund may designate by notice to the Borrower. The Financing Closing Date will be established as specified in the General Conditions.
5. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the Borrower's procurement regulations, to the extent such are consistent with the IFAD Procurement Guidelines.

Section D

1. The Fund will administer the Loan and supervise the Project.

Section E

1. The following are designated as additional grounds for suspension of disbursements:
 - (a) The Project Implementation Manual (PIM) and/or any provision thereof, has been waived, suspended, terminated, amended, or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower, has determined that it has had, or is likely to have, a material adverse effect on the Project.
 - (b) In the event that the Borrower did not request a disbursement of the Financing for a period of at least twelve (12) consecutive months, without justification, subsequent to the first eighteen (18) months from the Effective Date.
 - (c) In case the provincial Government of Sindh does not provide counterpart financing for the Project in the form of taxes and operational costs related expenses as stipulated in Section B, paragraph 7.
 - (d) In the event the Lead Project Agency does not comply with the requirements and duties established in the Special Covenants of Schedule 3.
2. The following are designated as additional grounds for cancellation of this Agreement:
 - (a) The Financing has not started disbursing within eighteen (18) months from entry into force of the Financing Agreement.
3. The following are designated as additional specific conditions precedent to withdrawal:
 - (a) The IFAD no objection to the Project Implementation Manual (PIM) shall have been obtained.
 - (b) The IFAD no objection to the first Annual Workplan and Budget (AWPB) and Procurement Plan shall have been obtained.
 - (c) The following Key Project Personnel shall have been duly appointed in accordance with this Agreement: (i) project director; and (ii) finance specialist.
 - (d) The Designated Account referred to in Section B, paragraph 6 above shall have been duly opened and the authorized signatories shall have been submitted 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
Ministry of Economic Affairs
Government of Pakistan
Block-C, Pak Secretariat
Islamabad - Pakistan

For the Fund:

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

This Agreement 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

Dr. Kazim Niaz
Secretary Ministry of Economic Affairs

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Alvaro Lario
President of IFAD

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit approximately 195,000 households (1,014,000 persons). Project target groups include smallholder farmers (up to 16 acres of land), tenants and sharecroppers working on large land holdings, resource poor fisher folk, landless poor ready to take advantage of economic opportunities, and young men and women from poor households as defined by the National Socio-Economic Registry. Of the direct beneficiaries, 40 per cent will be women and 30 per cent young people.

2. *Project area.* The Project will target the three poorest coastal districts of Sindh Province in Pakistan: Badin, Sujawal and Thatta (*the "Project Area"*). To carry out geographical targeting within the districts, the Project will align its interventions, to the extent possible, with Asian Development Bank-financed climate-resilient green and grey infrastructure investments in the same targeted districts under the Government-led umbrella Sindh Coastal Resilience Project for an enhanced impact. Climate change vulnerability and the poverty ranking will be the primary criteria for selecting villages, Talukas and Union Councils.

3. *Goal.* The goal of the Project is to reduce poverty and malnutrition and to improve climate resilience among rural poor households.

4. *Objectives.* The objective of the Project is to promote inclusive and resilient livelihoods for farming and fishing communities and disadvantaged groups. This will be achieved through three outcomes: (i) Improved and diversified food production among organized groups of smallholder farmers and fisher folk under climate smart agriculture and fisheries production plans leading to inclusive value chains that facilitate integration with markets and financial services; (ii) Improved productive asset base for the ultra-poor and increased self-employment and employment opportunities for disadvantaged groups (youth, women, landless); (iii) A participatory, community-driven approach linked to an enabling policy and institutional environment that facilitates access to financial resources and support services.

5. *Components.* The Project shall consist of four Components:

5.1 **Component 1: Transformation of Coastal and Rural Incomes:** Coastal and rural communities organized and assisted to develop capacities for market oriented, climate resilient and nutrition sensitive agriculture and fisheries production systems, with transition to higher value products, based on sustainable value chain plans, supported by community and value chain infrastructure, access to affordable financial services, and strengthened extension services provision; the component will contain also Policy Support and an Innovation Challenge Fund.

This will be achieved through four mutually reinforcing sub-components:

Sub-Component 1.1 Organization, Planning & Training: Village organizations (VO) will be reorganized/established and strengthened to ensure equitable inclusion of all project target groups. The VOs will be assisted to develop an umbrella plan identifying various producer and interest groups, based on commonality of vocation/interest/livelihood sources, and priority community and value chain infrastructure needs. This will be followed by value chain plans for interest/producer groups, including training and technical assistance, extension services, production technology demonstrations, aggregation/grading, value addition, and access to competitive markets.

Sub-Component 1.2 Community and Value Chain Support Infrastructure: It will support investments to address (a) priority community/social infrastructure needs

and to reduce climate vulnerability (e.g. drinking water, sanitation, irrigation, all weather road links, household solar systems etc.); and (b) value chain support infrastructure needs (equipment and infrastructure for post-harvest management, product processing, aggregation, value addition and climate adaptation). The VO Umbrella Village Plan and the value chain plans will provide the basis to identify and prioritize these community and value chain support infrastructure investments, which shall be backed by feasible community operated O&M (operation and maintenance) arrangements. Women priorities in community infrastructure will be particularly identified and given additional weightage.

Sub-Component 1.3 Access to Inclusive Finance: It will expand the access to finance for the project's beneficiaries by integrating them into the formal financial sector. Partner Financial Institution(s) will provide low-cost subsidized credit to project's beneficiaries. The Project Financing will be utilized to provide grant resources to subvent the interest rate, as specified in the credit manual as part of the PIM. Apart from credit, the partner banks will offer additional financial services including insurance, savings, remittances and payments to the borrowers.

Sub-Component 1.4 Policy Support and Innovation Challenge Fund: The Project will support the provincial government in some key areas of project relevance for policy review and reform including dialogue on tenancy and land tenure arrangements, regulations for housing land ownership rights and provision of civic services in coastal buffer zone communities, agriculture and rural development credit, among others.

An Innovation Challenge Fund will identify and support innovative and cost-effective solutions for production, marketing, climate, environmental and nutritional challenges faced by target communities.

5.2 Component 2: Economic and Social Inclusion of Disadvantaged Groups: Job market and small business development, facilitated for the poor landless households, in particular young men and women through provision of employable skills, income generating productive assets, start-up grants for self-enterprise development through tailored business, technical and vocational service provision.

The component 2 consists of two sub-components:

Sub-Component 2.1 Economic Graduation of Landless Poor: Target families will be provided with one or more productive assets, for one or more members of the family, for income generation opportunities within the supported value chain or off-farm activities.

Sub-Component 2.2 Job Market Integration of Youth: It is aimed at achieving job-market readiness for the young men and women (15 to 29 years of age) from poor households through provision of vocational, technical and enterprise skills. The skills will be aimed at either finding remunerative salaried jobs or starting an income generating self-enterprise based on the learned skill. It will cover training costs and start-up grants.

5.3 Component 3: Project Management: Establishment of an autonomous Project Management Unit and District Coordination Units, responsible for project planning, coordination, financing, monitoring and procurement, administratively linked to Planning and Development Department, Government of Sindh, and reporting to a Project Steering Committee.

5.4 Component 4: Recovery from Climatic Calamities (RED Component), triggered in case the Government of Sindh declares the Project area (in total or part) affected by a climatic calamity. The Government may request up to 15 per cent of the total approved IFAD financing to be reallocated for emergency response.

Mainstreaming priorities: Gender, youth and climate adaptation will be mainstreamed throughout the project activities. Activities will be carried out to bring about social and behavioural change towards better nutrition among households by improving

target groups' knowledge and practices relating to food choices, food preparation, processing and conservation, healthy diet and good hygiene and sanitation practices.

II. Implementation Arrangements

6. *Lead Project Agency.* The Planning and Development Department, Government of Sindh will be the lead project execution agency.

7. *Project Oversight Committee.* A joint Provincial Steering Committee, for parallel-financed Asian Development Bank's and IFAD's activities of the Sindh Coastal Resilience Project, headed by Chairman P&D Board, will be responsible for all aspects related to policy, coordination, project budget appropriations and accountability for performance/results and will ensure synergy between the ADB and IFAD financing. The Steering Committee will grant approval of AWPBs and conduct regular progress reviews.

8. *Project Management Unit.* A Project Management Unit (PMU) shall be established by the Lead Project Agency in Karachi, headed by a full time Project Director of appropriate seniority and experience duly appointed in accordance with this Agreement, and District Coordination Units headed by District Coordinators in the three target districts, with professional staff recruited in accordance with this Agreement. The PMU will be responsible for project planning and budgeting, coordination, monitoring and evaluation, financial management, procurement, reporting, and shall ensure that gender, youth, environmental and climate adaptation considerations, and nutrition are streamlined in all project activities.

9. The Key Project Personnel of the Project Management Unit will be at least the following: i) Project Director, ii) Finance Specialist, iii) Procurement Specialist, iv) Monitoring and Evaluation Specialist, v) Communication and Knowledge Management Specialist, vi) Nutrition and Social Inclusion Specialist, vii) Environment and Climate Adaptation & SECAP Specialist, viii) Value Chain Specialist, and ix) Microfinance Specialist. The recruitment of key project personal shall be subject to IFAD prior review including any replacement of personal.

10. *District Coordination Units.* To guarantee territorial coverage, taking into account the Project Area, three District Coordination Units (DCU) under the Project Management Unit will be established in each targeted district. These units will be equipped with a minimum technical and operational structure to guarantee the quality of the Project in the three districts, being minimally composed of: a District Coordinator, a M&E Officer, a Value Chain Officer, a Business Support Officer, and a Finance & Admin Assistant.

11. *Implementing partners.* Implementing partners shall include Agriculture Supply and Prices Department, Livestock and Fisheries Department, Sindh Technical Education and Vocational Training Authority, Partner Financial Institution(s), and technical/implementing partners with which the PMU enter into agreement for the implementation of the Project. The selection of the Partner Financial Institution(s) shall be subject to IFAD prior review in reference to the credit manual as part of the PIM and its amendments.

12. *Monitoring and Evaluation.* M&E will be based on an Outcome Survey conducted at household level, with baseline, mid-term and endline measurements. A dedicated Management Information System (MIS) will be placed in PMU, aligned with the Logframe indicators and AWPB targets, to measure results at output, outcome and impact levels against set indicators, disaggregated by sex and youth. The PMU will conduct thematic studies and evaluations throughout project implementation to assess the project's results. SCRIP will build on and complement the institutional capacity of the Government of Sindh's Monitoring and Evaluation Cell (MEC) in P&D Department for development schemes.

13. *Knowledge Management.* The knowledge management will be based on a Knowledge Management and Communication strategy and action plan, to be prepared at start-up and

updated annually in coordination with IFAD communication specialists. The PMU will prepare a reach-out plan and develop stakeholder specific KM/COM material and document lessons learned for dissemination. The Project will develop a range of knowledge products including blogs, policy and technical briefs and videos.

14. *Project Implementation Manual.* The Project Implementation Manual (PIM) has been prepared and includes Terms of Reference (TOR) for key service providers. The PIM will guide the Project Management Unit (PMU) to implement all project activities as per project design documents and AWPBs. The PIM provides an outline of the overall project components and their implementation process. It contains the credit manual, which shall be updated by the PMU to include lending terms, operation details and a draft model of the subsidiary agreement with Partner Financial Institution(s) of the Credit Sub-Component. The draft PIM and future amendments should be reviewed and approved by the Project Steering Committee. The Project Management Unit (PMU) will seek IFAD's no objection for the draft PIM and future amendments and revisions.

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 to each category of the Financing and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in EUR)	Percentage of eligible expenditure (net of taxes)
I. Credit	14 131 000	100%
II. Grants and subsidies	12 403 000	100%
III. Works	12 010 000	100%
IV. Services	11 157 000	100%
V. Operating costs	5 436 000	100%
TOTAL	55 137 000	

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

- (i) Category I "Credit" includes credit subsidies and other financial services.
- (ii) Category II "Grants and subsidies" includes matching grant, asset provision and capacity building grants.
- (iii) Category III "Works" includes construction of roads, irrigation, landing sites, sanitation, and other infrastructure works.
- (iv) Category IV "Services" includes training, workshops, technical assistance, studies and other contractual services.
- (v) Category V "Operating costs" includes operating expenses and salaries and allowances.

2. *Disbursement arrangements*

- (a) *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of four hundred and fifty nine thousand Euro (EUR 459 000). Activities to be financed by Start-up Costs will require the no objection from IFAD to be considered eligible.
- (b) *Audit arrangements.* The Auditor General of Pakistan (AGP) shall conduct external audit of the Project accounts. PMU shall submit to the Auditor General office Annual Unaudited Financial Statements of the project within two months of the end of financial year. The PMU shall submit the audited financial statement to IFAD within six months of the end of the financial year.

Schedule 3

Special Covenants

I. General Provisions

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

1. Within 6 months of entry into force of the Financing Agreement, the Project will procure and install a customized accounting software as it is the practice in IFAD on-going supported projects, to satisfy International Accounting Standards and IFAD's requirements.
2. The Project will enter into Memorandum of Agreements (MoA) or contracts with implementing partners that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, SECAP safeguards, anti-corruption, sexual harassment, sexual exploitation and abuse policy, financial management, accounting and reporting.
3. *Planning, Monitoring and Evaluation.* The Lead Project Agency shall ensure that (i) a Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement.
4. *Gender.* The Lead Project Agency shall ensure that Women-headed households will have priority, and young men and women from poor households will be offered skills development for labour market, value chain participation and off-farm enterprises. Of direct beneficiaries, 40 per cent shall be women and 30 per cent youth.
5. *Local Communities (LC) Concerns.* The Lead Project Agency shall ensure that the concerns of LCs are given due consideration in implementing the Project and, to this end, shall ensure that:
 - a) LC are adequately and fairly represented in all local planning for Project activities;
 - b) LC rights are duly respected;
 - c) LC communities participate in policy dialogue and local governance;
 - d) The terms of Declarations, Covenants and/or Conventions ratified by the Borrower on the subject are respected.
6. *Anticorruption Measures.* The Borrower and the Lead Project Agency shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.
7. *Sexual Harassment, Sexual Exploitation and Abuse.* The Lead Project Agency shall ensure and cause the Project Parties to ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.
8. *Use of Project Vehicles and Other Equipment.* The Lead Project Agency shall ensure that:
 - (a) all vehicles and other equipment procured under the Project are allocated to the Lead Project Agency/Project Management Unit and other Implementing Agencies for Project implementation;

- (b) The types of vehicles and other equipment procured under the Project are suitable to the needs of the Project; and
- (c) All vehicles and other equipment transferred to or procured under the Project are dedicated solely to Project use.

9. The Key Project Personnel, as specified in Schedule 1 Section II.9 of this Agreement, unless otherwise agreed with IFAD, shall be employed or cause to be employed by the Lead Project Agency, as required, with qualifications, experience and terms of reference satisfactory to IFAD. Key Project Personnel shall be seconded to the PMU in the case of government officials or recruited under a consulting contract following the individual consultant selection method in the IFAD Procurement Handbook, or any equivalent selection method in the national procurement system that is acceptable to IFAD. The recruitment of Key Project Personnel is subject to IFAD's prior review as is the dismissal of Key Project Personnel. Key Project Personnel are subject to annual evaluation and the continuation of their contract is subject to satisfactory performance. Any contract signed for Key Project Personnel shall be compliant with the national labour regulations or the ILO International Labour Standards (whichever is more stringent) in order to satisfy the conditions of IFAD's updated SECAP. Repeated short-term contracts must be avoided, unless appropriately justified under the Project's circumstances.

II. SECAP Provisions

1. The Lead Project Agency shall carry out the implementation of the Project in accordance with the measures and requirements set forth in the Environmental, Social and Climate Management Plans (ESCMs) (the "Management Plan"), as applicable, taken in accordance with SECAP requirements and updated from time to time by the Fund. The Lead Project Agency may amend or revise the Management Plan to consider updates, new contexts, stakeholders, and risks, and to adjust mitigation measures accordingly. The written agreement from the Fund is required before formally adopting the revised version.

2. The Lead Project Agency shall disclose the Management Plan with Project stakeholders and interested parties in an accessible place in the Project-affected area, in a form and language understandable to Project-affected persons and other stakeholders. The disclosure will take into account any specific information needs of the community (e.g. culture, disability, literacy, mobility or gender).

3. The Lead Project Agency shall ensure and cause the Implementing Partners to ensure that all bidding documents and contracts for goods, works and services contain provisions that require contractors, sub-contractors and suppliers to comply at all times in carrying out the Project with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plan.

4. This section applies to any event which occurs in relation to serious environmental, social, health & safety (ESHS) incidents (as this term is defined below); labor issues or to adjacent populations during Project implementation that, with respect to the relevant IFAD Project:

- (i) has direct or potential material adverse effect;
- (ii) has substantially attracted material adverse attention of outside parties or create material adverse national press/media reports; or
- (iii) gives rise to material potential liabilities.

In the occurrence of such event, the Lead Project Agency shall:

- Notify IFAD promptly;
- Provide information on such risks, impacts and accidents;
- Consult with Project-affected parties on how to mitigate the risks and impacts;
- Carry out, as appropriate, additional assessments and stakeholders' engagements in accordance with the SECAP requirements;
- Adjust, as appropriate, the Project-level grievance mechanism according to the SECAP requirements; and
- Propose changes, including corrective measures to the Management Plan, in accordance with the findings of such assessment and consultations, for approval by IFAD.

Serious ESHS incident means serious incident, accident, complaint with respect to environmental, social (including labor and community), health and safety (ESHS) issues that occur in the context of the loan or within the Lead Project Agency's activities. Serious ESHS incidents can comprise incidents of (i) environmental; (ii) occupational; or (iii) public health and safety; or (iv) social nature as well as material complaints and grievances addressed to the Borrower or the Lead project Agency (e.g. any explosion, spill or workplace accident which results in death, serious or multiple injuries or material environmental contamination, accidents of members of the public/local communities, resulting in death or serious or multiple injuries, sexual harassment and violence involving Project workforce or in relation to severe threats to public health and safety, inadequate resettlement compensation, disturbances of natural ecosystems, discriminatory practices in stakeholder consultation and engagement (including the right of indigenous peoples to free, prior and informed consent), any allegations that require intervention by the police/other law enforcement authorities such as loss of life, sexual violence or child abuse, which (i) have, or are likely to have a material adverse effect; or (ii) have attracted or are likely to arouse substantial adverse attention of outside parties or (iii) to create substantial adverse media/press reports; or (iv) give, or are likely to give rise to material potential liabilities).

5. The Lead Project Agency shall ensure and cause the Implementing Partners, contractors, sub-contractors and suppliers to ensure that the relevant processes set out in the SECAP 2021 Edition as well as in the Management Plan are respected.

6. Without limitation on its other reporting obligations under this Agreement, the Lead Project Agency shall provide the Fund with:

- Reports on the status of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition, the management plan on a semi-annual basis - or such other frequency as may be agreed with the Fund;
- Reports of any social, environmental, health and safety incidents and/accidents occurring during the design stage, the implementation of the Project and propose remedial measures. The Lead Project Agency will disclose relevant information from such reports to affected persons promptly upon submission of the said reports; and
- Reports of any breach of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plan(s) (if any) promptly after becoming aware of such a breach.

7. In the event of a contradiction/conflict between the Management Plan and the Financing Agreement, the Financing Agreement shall prevail.

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	1 Persons receiving services promoted or supported by the project				M&E system	Quarterly and annually	PMU	A baseline survey is conducted to establish the baseline Project approach and timelines are adhered to An efficient M&E system is developed and implemented
	Males	0	72000	156000				
	Females	0	48000	104000				
	Young		40000	78000				
	Not Young							
	Non-Indigenous people							
	Total number of persons receiving services	0	120000	260000				
	Male		60	60				
	Female		40	40				
	Young		30	30				
	1.a Corresponding number of households reached				M&E system	Quarterly and annually	PMU	
	Households	0	90000	195000				
	1.b Estimated corresponding total number of households members				M&E system	Quarterly and annually	PMU	
Household members	0	468000	1014000					
Project Goal Reduce poverty and malnutrition and improve climate resilience among rural poor households	Households reporting having graduated to a higher poverty score card level				Baseline and Endline Surveys/Poverty Wealth Ranking	Baseline and Endline	PMU	Ultra-poor and poor households have been assisted through project interventions
	Households	0	50	50				

Development Objective Promote inclusive and resilient livelihoods for target farming and fishing communities and disadvantaged groups	SF.2.1 Households satisfied with project-supported services				COI Survey	Baseline, Mid-Term and Endline	PMU	Updated BISP data on poverty available for targeting Targeting guidelines available, Project staff trained and transparent targeting process implemented Political and economic stability and security
	Household members	0	280800	709800				
	Households (%)	0	60	70				
	Households (number)	0	54000	136000				
	SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers				COI Survey	Baseline, Mid-Term and Endline	PMU	
	Household members	0	140400	507000				
	Households (%)	0	30	50				
	Households (number)	0	27000	97500				
	Targeted households have improved incomes				Baseline, Mid- and Endline Surveys	Baseline, Mid-Term and Endline	PMU	
	hh	0	27000	136500				
	Households	0	30	70				
	Households have improved their resilience				IFAD RDMT	Baseline, Mid-Term and Endline	PMU	
	Households	0	30	70				
	3.2.3 Households reporting a significant reduction in the time spent for collecting water or fuel							
Households		18000	58500					
Households		20	30					
Total household members		93600	304200					
Outcome 1. Improved production under climate smart agriculture and fisheries integrated with better access to markets and formal financial services	1.2.4 Households reporting an increase in production				COI Survey	Baseline, Mid-Term and Endline	PMU	
	Total number of household members	0	160160	400400				
	Households	0	30	70				
	Households	0	27000	136500				

	1.2.5 Households reporting using rural financial services			COI Survey	Baseline, Mid-Term and Endline	PMU		
	Total number of household members	0	201500					400400
	Households	0	28					43
	Households	0	38750					55000
	3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices			COI Survey	Baseline, Mid-Term and Endline	PMU		
	Total number of household members	0	107640					608400
	Households	0	23					60
	Households	0	20700					117000
Output 1.1 Climate Resilient Value Chain Plan Development. Fisherfolk and producers organized are supported for the development of VC/production business plans and 4Ps	1.1.4 Persons trained in production practices and/or technologies			M&E system	Quarterly and annually		Professional farmer organisations established and incorporated under a regulatory framework Market based business plans developed	
	Total number of persons trained by the project	0	44000					110000
	Total number of attendances to training sessions	0	44000					110000
	Men trained in crop	0	15400					38500
	Women trained in crop	0	6600					16500
	Young people trained in crop	0	11000					27500
	Men trained in fishery	0	15400					38500
	Women trained in fishery		6600					16500
	Young people trained in fishery		11000					27500
	Total persons trained in crop	0	22000					55000
	Total persons trained in fishery	0	22000					55000
	Villages and producer groups supported in the development of business plans			M&E system	Quarterly and annually	PMU		
	number of villages mobilized	0	200					500
	number of producer groups	0	2000					5000

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
	total people in producer groups	0	44000	110000				
	Female members in producer groups	0	13200	33000				
	Male members in producer groups	0	30800	77000				
	Young members in producer groups	0	13200	33000				
Output 1.2 Community and Value Chain Support Infrastructure	Demand-driven small infrastructure built (type of infrastructure and targets to be decided by the communities)				M&E system	Quarterly and annually	PMU	All beneficiaries have the opportunity to express their needs, and have sufficient information about what the project can offer.
	community and value-chain infrastructure	0	489	602				
	Household-based infrastructure	0	11592	17644				
	HH benefitting from small infrastructure schemes	0	66000	110000				
	2.1.5 Roads constructed, rehabilitated or upgraded				M&E system	Quarterly and annually	PMU	
	Length of roads	0	60	111				
Output 1.3 Access to financial services for value chain and enterprise development (for the financing of the business plans)	1.1.5 Persons in rural areas accessing financial services				M&E system	Quarterly and annually	PMU	beneficiaries willing to use financial services
	Total number of accesses to financial services	0	38750	55000				
	Men in rural areas accessing financial services - credit	0	31000	44000				
	Women in rural areas accessing financial services - credit	0	7750	11000				
	Young people in rural areas accessing financial services - credit	0	11625	16500				
	Total persons accessing financial services - credit	0	38750	55000				

Outcome 2. Increased self-employment and employment opportunities for disadvantaged groups (youth, women, landless)	2.2.1 Persons with new jobs/employment opportunities				COI Survey	Baseline, Mid-Term and Endline	PMU	Selection of training providers having technical capacity and accredited for certification; trainings are held in times and locations conducive to the participation of women and female youth
	Males	0	23220	33204				
	Females	0	15480	22136				
	Young	0	25155	35971				
	Total number of persons with new jobs/employment opportunities	0	38700	55340				
Output 2.1 Vocational and entrepreneurship training on income-generating activities, business management and financial literacy	2.1.2 Persons trained in income-generating activities or business management				M&E system	Quarterly and annually	PMU	Careful assessment of each household's potential and endowments
	Males	0	11700	17400				
	Females	0	7800	11600				
	Young	0	12675	18850				
	Persons trained in IGAs or BM (total)	0	19500	29000				
	1.1.7 Persons in rural areas trained in financial literacy and/or use of financial products and services				M&E system	Quarterly and annually	PMU	
	Males	0	19050	43200				
	Females	0	12700	28800				
	Young	0	20638	46800				
	Persons in rural areas trained in FL and/or use of FProd and Services (total)	0	31750	72000				
Output 2.2 Provision of productive assets to ultra-poor	Persons accessing productive assets				M&E system	Quarterly and annually	PMU	BISP data is accurately validated by the implementers
	Males	0	9600	13170				
	Females	0	9600	13170				
	Young	0	5760	7902				
	total of persons	0	19200	26340				

Output 2.3 Access to start-up capital (grant) for business development	persons accessing start-up capital			M&E System	Quarterly and annually	PMU	People trained are willing to start a business	
	Young	0	10500					17000
	Male	0	6300					10200
	Female	0	4200					6800
	Total persons	0	10500					17000
Outcome 3. Households have improved nutrition knowledge, attitudes and practices	1.2.9 Households with improved nutrition Knowledge Attitudes and Practices (KAP)			COI survey	Baseline, Mid-Term and Endline	PMU	Persons/women are given the possibility to attend the trainings, in timings and locations accessible for all. Trainings are being carried out by experts in nutrition who speak the local language	
	Households (number)	0	30000					70000
	Households (%)	0	30					70
	Household members	0	195000					455000
Output 3.1 Development of human capital of rural people and communities on nutrition, climate change, natural resources management and gender empowerment	1.1.8 Households provided with targeted support to improve their nutrition			M&E system	Quarterly and annually	PMU	Communities positively received the training opportunities offered by the programme. Innovative channels for campaign facilitated	
	Total persons participating	0	40000					100000
	Males	0	20000					50000
	Females	0	20000					50000
	Households	0	40000					100000
	Household members benefitted	0	208000					520000
	Young	0	9000					30000
	Inclusive village organizations (VO) receiving trainings on natural resources management, climate change and gender empowerment			M&E System	Quarterly and annually	PMU		
	VOs with trainings on Natural Resource Management	0	350				500	
	VOs with trainings on climate change	0	350				500	

	VOs with trainings on gender empowerment	0	350	500				
Outcome 4. Supportive policy instruments identified and promulgated for enhanced incomes and resilience of project target beneficiaries	Policy 3 Existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment				Government Policy document	Baseline, Mid-Term and Endline	PMU	Public institutions interest and priority for rural extension services remain stable during the project life
	Number	0	1	2				
Output 4.1 Innovative investment schemes for alternative and climate-resilient value-chains financing through the Innovation Challenge Fund	Number of persons receiving innovative financing				M&E system	Quarterly and annually	PMU	Private sector, research institutions, universities and other development actors find the Innovation Challenge Fund useful and participate The partnering organizations successfully link the initiatives with the projects' target groups
	total number of persons	0	10000	40000				
	Males	0	6000	24000				
	Females	0	4000	16000				
	Young	0	3000	12000				
Output 4.2 Public institutions strengthening for the provision of better extension services	Delivery capacities of public institutions strengthened				M&E system	Quarterly and annually	PMU	Public institutions interest and priority for rural extension services remain stable during the project life
	Public institutions supported to improve their operating capacities	0	3	3				
Output 4.3 Policy relevant knowledge products	Policy 1 Policy-relevant knowledge products completed				M&E system	Quarterly and annually	PMU	Public institutions interest and priority for rural extension services remain stable during the project life
	Number	0	2	4				

Integrated project risk matrix

Risk Category / Subcategory	Inherent risk	Residual risk
Country Context Fragility and Security	Substantial Substantial	Substantial Substantial
<p>Risk:</p> <p>Pakistan's security environment has improved and security situation in the Sindh province is generally stable but remains unpredictable in view of the recent surge in terrorist-related incidents in other provinces (KP and Balochistan) along the border of Afghanistan. Street crimes are common in the capital city of Karachi. A number of UN agencies including UNDP, UNICEF, ILO, WFP, FAO and UNHCR and WHO and WB and ADB are present in the province. Staff of the foreign aid agencies and diplomats are free to travel to and within the province.</p> <p>The country is one of the most affected countries in terms of climate change, and the likelihood of a calamity in the project area during the project implementation are high. More details are presented in the respective sections.</p> <p>Mitigations:</p> <p>The situation will be continuously monitored and appropriate mitigation measures will be put in place if deterioration of security in the province and any project district emerges. UNDSS advisory will be followed. The provincial government security advisories will be used for timely and informed input to the project teams and IFAD Missions to ensure their smooth and safe travel to the project areas.</p> <p>Security: UNDSS advisory will be followed and government security advisories will be used for districts with substantial risks. Additionally, experience of IFAD indicates that engagement of local service provider for social mobilisation, participatory approach and strong involvement of community networks provide opportunities for offsetting security risks to great extent.</p> <p>The project includes a RED Component to ensure concrete mitigation measure in case a calamity happens. The infrastructure will be climate-proofed to increase its resilience capacity.</p>	Substantial	Substantial
Macroeconomic	Substantial	Substantial
<p>Risk:</p> <p>The country's worsening macroeconomic situation due to high fiscal and current account deficits and low levels of reserves, continued devaluation of national currency and increasing inflation is leading to decline in household incomes and employment opportunities for poor HH.</p> <p>Additionally, the tightening of fiscal management due to latest standby arrangement with IMF, may pose challenges for availability of counterpart funding.</p>	Substantial	Substantial

Mitigations:

The project will mitigate the effects of the macroeconomic situation on the target population with a strong focus on poverty reduction through assets accumulation, strengthening of value chains and provision of skill trainings to rural youth for gainful employment within developing value chains and in wider labour market.

During the implementation IFAD and executing agency will ensure; (i) continued relevance of project to needs of beneficiaries and government's priorities; (ii) timely projections to determine counterpart, and (iii) regular monitoring of disbursements.

Unit costs and budgets for each activity will be annually reviewed and adjusted by PSC to ensure that budgets reflect the prevailing market prices. At MTR, a holistic review will be carried out in terms of relevance and impact to effect necessary adjustments.

Governance

Substantial Substantial

Risk:

After the 18th amendment to the constitution in 2008 almost all key sectors related to IFAD's mandate and its administrative and fiscal responsibility are now provincial subjects. However, provinces still face challenges in the development of a strong system for the delivery of development priorities in an efficient, equitable and transparent manner and through participatory development approaches.

Substantial Substantial

Weak institutional capacity of public service providers and financial constraints often result in sub-optimal performance.

Mitigations:

The Government of Sindh is committed to poverty reduction and agricultural development as evidenced by recent promulgation of Provincial Poverty Reduction Strategy.

The project will assist the GoS in addressing management and technical capacity gaps for improved and demand-based service delivery to the poor with focus on participation of communities and private sector in service delivery.

The project will particularly enhance capacity to respond to need for climate change risk reduction and to respond to the changing demand for technologies for agriculture and market demand based vocational skills development and employability of youth and women.

The existence of a network of community organisations in the province, engagement of private service providers for social mobilisation and participatory development approach of the project will provide opportunities for inclusiveness, equity and transparency. The project will be strengthening; (i) local community institutions to take ownership of project outcomes and to liaise with the district authorities for continued support; and use community procurement mechanisms to enhance accountability and transparency using social capital.

The PMU will be autonomous and empowered with full complement of competitively selected technical experts to offset the impact of Governance issues in regular departments and facilitate dialogue with relevant authorities.

Political Commitment

Moderate Moderate

Risk:

Recent elections for national and provincial assemblies have resulted in a fractured mandate at national level while same party has returned with clear majority in Sindh provincial assembly. The project approach and focus on the poorest rural people is well aligned with manifesto and political priorities of the winning party in Sindh province. A transition phase will now ensue from a caretaker set-up to the new government which may create a degree of uncertain approval progress.

Moderate Moderate

Mitigations:

IFAD will continuously monitor the evolving socio-political situation for prompt adjustments, if required. After any national or provincial Government change, a meeting or mission will be conducted to introduce the project to the new authorities and analyse any need of adjustment to adapt to any new development strategy

Sector Strategies and Policies

Moderate Moderate

Policy Development and Implementation

Moderate Moderate

Risk:

Recognising its increased responsibilities after the 18th constitutional amendment, the provincial government formulated policies for youth, women empowerment, and agriculture.

Moderate Moderate

However, there are limited capacities for the execution of policies including concrete actions, associating reforms and strategies and regulatory frameworks etc., leading to deferred benefits to communities and project beneficiaries.

Mitigations:

The project will provide support for effective implementation of the relevant parts of the policies including the associating strategies, frameworks and capacity building.

The project shall focus on generating new, simple, and replicable approaches for policy implementation— working collaboratively with all key stakeholders. This will ensure that the successful approaches become visible and generate a strong traction for a wider adoption and implementation by the provincial government.

Policy alignment

Moderate Moderate

Risk:

Many sectorial policies and programmes at federal and provincial level are ending during the project period and new ones may appear.

Moderate Moderate

Mitigations:

Generally, foreign funded projects and commitments are not affected with the change in government. Every successive government have supported social protection and poverty reduction programmes (BISP). Pakistan was one of the first countries to endorse SDG in 2015 and adopted SDGs as the national development agenda through parliamentary approval.

IFAD's past and on-going projects and programmes have supported and will support government priorities notably for poverty reduction and agriculture development.

The project is well aligned with the federal and provincial government policies and priorities and relevant SDGs.

The lessons learnt of the project will be used to inform the policy dialogue at portfolio level to increase the alignment between the project and the new policies and strategies.

Environment and Climate Context

Substantial Substantial

Project vulnerability to climate change impacts

Substantial Substantial

Risk:

In a semi-arid environment, project areas are experiencing flooding, cyclones and heat waves due to climate change. The frequency and intensity of extreme climate events is projected to increase, increasing disaster risk particularly for vulnerable poor and minority groups. Income earned from agricultural, livestock and fishing activities form the core livelihoods of the target groups which depend on weather patterns and climatic events. At the same time, awareness and adaptation capacity of the communities is limited.

Substantial Substantial

Mitigations:

The project components are designed to (i) to make value chains less vulnerable to climate change (C1) and (ii) encourage livelihood diversification (2). Building the capacity of vulnerable target groups to diversify activities through investments in new/alternate means of income generation is a key subcomponent of the project. The vulnerable groups (small holders, interest groups, women, poor, and young people) will adapt new skills through capacity building and inputs to increase their incomes.

ADB infrastructure aiming at restoring ecosystem services will directly contribute to reduce climate vulnerability of communities.

Project vulnerability to environmental conditions

Substantial Substantial

Risk:

The Project area is faced with environmental degradation due to excessive Indus river water withdrawal upstream and limited or no drainage facilities due to malfunctioning of existing drainage system. Soil salinization and poor groundwater quality are widespread while ecosystem degradation of the Indus Delta due to water cycle disruption, pollution and sea intrusion in the coastal areas are also contributing factors.

Substantial Substantial

Mitigations:

Project's component 1 is designed to mitigate the impacts of prevailing and anticipated environmental conditions. This includes transition to crops and production practices that are better suited and resilient to prevailing and anticipated future environmental risks. Resources are made available to improve irrigation efficiencies, provide backup supply through storage ponds and improve on-farm drainage in waterlogged areas. The project components are designed to encourage adoption of best agricultural practices suiting and improving the prevailing environment through climate smart agriculture, but also develop economic opportunities in degraded environment. New activities envisaged for vulnerable target groups will contribute to adoption of more sustainable practices (such as production of compost, biopesticides). Alignment with ADB infrastructure will increase the financing available to mitigate the risk that environmental conditions impact project's investments.

Project Scope

Moderate Moderate

Technical Soundness

Moderate Moderate

Risk:

The key potential risks that can be foreseen at this stage is the very weak resource and productive asset base of beneficiaries that could allow introduction of business-oriented approaches leading to value chain development.

Moderate Moderate

The low literacy rate may further complicate the adoption of the proposed capacity building interventions.

Mitigations:

The project design adopts an incremental approach to improved production and productivity in existing production systems through technology, access to finance and aggregation for strengthened bargaining position of smallholder farmers and fisherfolk. Once economies of scale are achieved, then VOs will be assisted to enter into 4P arrangements.

The project will aim to create an enabling environment through capacity building, productive assets accumulation, social and productive infrastructure, financial services and capacity building, for business orientation and private sector involvement.

The project design will be kept simple in terms of number, type and range of activities as well as the implementation arrangements.

Project Relevance

Moderate Moderate

Risk:

Currently insufficient scope exists for smallholder farmers and fishermen to compete in the market. The key challenge and risk is the very weak resource and poor assets base and capacities of the intended target group to participate in the value chain development.

Moderate Moderate

There is mismatch between demand and supply of skilled workforce in local labour market and TVET institutes are unable to respond to the demand owing to disconnect between the skills and curriculum offered and delivered and actual market demand.

Mitigations:

The project approach and proposed interventions are based on analysis of contextual conditions of the target group and market. The project scope, approach and proposed activities were identified in consultation with the provincial governments and discussions with fishing and agriculture communities.

The project design builds on evidence-based lessons from IFAD (SPPAP and ETI-GB) and other donor-financed projects and programmes. The project objectives will be pursued by addressing the critical issues of assets accumulation, financial services and capacity building.

The project will provide an opportunity for realizing the dividends of the “youth bulge” in terms of addressing critical challenges related to human capital development. The project will specifically focus on youth employability for employment and self-employment/entrepreneurship in agriculture including fisheries and livestock and other rural enterprises.

The institutional and technical capacity gaps of TVET sector will be addressed by engaging with TVET institutions in private sector.

Institutional Capacity for Implementation and Sustainability

Substantial Substantial

Monitoring and Evaluation Arrangements

Substantial Substantial

Risk:

Owing to skills and capacity constraints, the M&E systems may not be well-positioned to track performance in terms of outcomes and results and instead focus on outputs, thereby contributing to the project delivery risk.

Substantial Substantial

Mitigations:

An M&E system, with adequate human capacity and tools, will be developed to provide project management, the Government and IFAD with reliable and timely information on project execution performance and results and to ensure efficient and effective project implementation.

Key element of the M&E system will be disaggregated poverty graduation tracking, changes in incomes and asset base, food security and nutrition, climate adaptation and resilience, youth and women empowerment through participatory monitoring and evaluation. BISP PSC data will be used as a benchmark to track the progress of poverty graduation and income and asset changes of beneficiaries.

Provisions will be made for a strong M&E team within the PCU and their capacity building.

Implementation Arrangements

Substantial Moderate

Risk:

Inherent institutional capacity risks are moderate in the province. However, start up delays are common and technical capacity and the skills level of public service delivery institutions may pose a challenge for the implementation of the projects approaches and interventions.

Substantial Substantial

Mitigations:

Relevant government line departments and private sector service providers present in the project area have previous reasonable exposure to participatory development approaches. Some of existing capacity gaps in extension services will be addressed by the project to enable effective engagement.

Project management responsibilities will be assigned to an autonomous and empowered PMU, reporting to the Project Steering Committee headed by Chairperson, Planning and Development Board that will be responsible for policy level guidance, coordination, oversight, progress review and will take corrective actions where warranted.

IFAD will continue to monitor the situation and work with GoS to develop solutions if implementation arrangements appear insufficient.

To mitigate the risk of start-up delays, assistance will be provided for the formulation of the PC-I (government project document), parallel to the finalization of the project design. The IFAD country team will provide frequent implementation support in the initial stage of the project. Additionally, adequate resources will be provided for capacity building and additional technical assistance.

Risk:

Inherent institutional capacity risks are moderate in the province.

Moderate

Low

However, start up delays are common and technical capacity and the skills level of public service delivery institutions may pose a challenge for the implementation of the projects approaches and interventions.

Mitigations:

Relevant government line departments and private sector service providers present in the project area are reasonably well placed in terms of management and technical capacities and exposure to participatory development approaches.

Project management responsibilities will be assigned to Sindh Coastal Development Authority (SCDA), reporting to the Project Steering Committee headed by Chairperson, Planning and Development Board and will be responsible for policy level guidance, coordination, oversight, progress review and will take corrective actions where warranted. SCDA has prior experience of implementing donor funded projects/programmes.

IFAD will continue to monitor the situation and work with GoS to develop solutions if implementation arrangements appear insufficient.

To mitigate the risk of start-up delays, assistance will be provided for the formulation of the PC-I (government project document), parallel to the finalization of the project design. The IFAD country team will provide frequent implementation support in the initial stage of the project. Additionally, adequate resources will be provided for capacity building.

Project Financial Management

High

High

Project External Audit

Substantial

Substantial

Risk:

- IFAD notes persistent gaps with reference to external auditing of projects which include weak follow up with audit office resulting in backlog of audit findings, non-resolution of audit findings—which could potentially create ineligible expenditure for the project.

Substantial

Substantial

- Audit may not be required of key sub-recipients of IFAD Financing; hence, Partner Organizations may not submit annual audit reports to the PMUs. This may weaken the levels of assurance over project funds.

Mitigations:

PMU will be guided by IFAD to:

- Engage with Director General Audit for timely completion of audit.
- Send scanned copies of the final audit report as soon the report is ready to ensure on-time submission to IFAD and to avoid delays resulting from mail services. Then the hard copy can follow to IFAD ICO in Islamabad.
- Settle Audit observations within four (4) months after the Audit Report has been shared with project executing agency to ensure early resolution at Departmental Accounts Committee level.
- Ensure follow up meetings with the Auditors to settle any unsettled audit findings from previous years.
- Ensure engagement of reputable Chartered Accountant Firm, with IFAD concurrence, for the audit of NGOs and/or any partner organizations.

Project Accounting and Financial Reporting

Substantial Substantial

Risk:

- Accounting software may not be adequately sophisticated or customized to meet project reporting requirements. This may result in difficulties to automatically generate required reports from the system, consolidate reports across multiple financing instruments, implementing layers and levels and report on multiple currencies.
- Weak monitoring of physical and financial progress may result in difficulty to track implementation progress and gaps and to take prompt remedial actions.
- Project financial procedures in the PIM may lack enough details to provide guidance to the project staff and may not be updated as at when required.

Substantial Substantial

Mitigations:

- An appropriate Accounting Software will be procured, installed and the finance team trained in its use. Financial reports should be auto generated from the procured accounting software.
- Integration of the service providers, expenditures in the PMU accounting software. Relevant procedures to be identified in the PIM. The finalization and approval of the PIM Designated Accounts for the project will be opened within eight (8) weeks of the date of signing of the Financing Agreement and will be a condition for disbursement of the initial advance.
- PMU shall submit to IFAD; Quarterly Interim Financial Reports within 30-day of period end, annual unaudited financial statements within 4-month of year end and annual audited Financial Statements within 6-month of year end.
- FM staff should be orientated to comply with IFAD's requirements in their work— including those relating to IFAD's Anti-corruption policy. The acquisition of the software including staff training will be part of the start-up activities.

Project Internal Controls

High High

Risk:

- Instances of non-compliance with applicable internal controls have been reported by the Auditor General of Pakistan in recent audit reports, as well as in supervision & implementation support missions.
- Absence of internal audit function at project management and lower levels of implementation may pose internal control risks.
- Contracts and MoUs with implementing partners may not include key clauses on internal controls and reporting requirements.
- Inadequate supporting documentation to justify expenditure especially around asset management, travel expenses, and vehicle fuelling and maintenance, raising the risk of ineligible expenditure.
- Weak segregation of duties may arise to high numbers of staff vacancy.

High High

Mitigations:

- To effectively safeguard project resources, the Office of the Auditor General will be engaged to perform compliance verifications on key project activities and the PMU would also engage the new internal audit function set up by WB/GoP to perform IA for all IFAD projects.
- A few internal control measures will be implemented to mitigate risks of internal controls failure such as
 - o monthly bank reconciliation.
 - o budgetary controls over each transaction.
 - o budget vs actual analysis and reporting to PSC.
 - o maintenance of Fixed Asset Registers and verification of assets randomly/periodically.
 - o complete documentation of activities especially at the beneficiary level and random/periodic inspection to test credibility of reporting by implementing partners. Details will be provided in the PIM.
- Supervision missions would specifically examine whether the project is in full compliance with these internal control requirements.

Project Funds Flow/Disbursement Arrangements

Substantial Substantial

Risk:

- Sub-optimal disbursement may occur because of delays in the start-up of projects arising from delays in opening bank accounts and fulfilment of the other disbursement conditions.
- There may be weakness around traceability of interventions at the beneficiary level.
- There is weak capacity at lower levels of implementation such as at the community organizations (COs), beneficiary groups and other sub-national partner organizations (POs). Oversight and monitoring of these organizations by the project management may be ineffective.

Substantial Substantial

Mitigations:

- A clear and streamlined process of flow of funds for IFAD financing. As per the arrangements, a special designated account for loan disbursement and a separate account for management of government counterpart funds are established with the National Bank of Pakistan (government owned and a subsidiary of State Bank of Pakistan) to provide independent drawing facility.
- Designated Accounts for the project will be opened within eight (8) weeks of the date of signing of the Financing Agreement and will be a condition for disbursement of the initial advance.
- Counterpart Fund requirements shall be clearly established through timely preparation and approval of AWPB (latest by 15 April of each financial year-before the start of preparation of the government budget and Annual Development Programme process. The AWPB counterpart fund requirements shall be reflected in the provincial Annual Development Programme and budget.
- The project will utilize IFAD’s technical guidance note on co-financing and in-kind contribution to develop a section in the manual for capturing, monitoring, and reporting in-kind contributions.
- Disbursement will be based on validated 6 months cash forecast, and expenses will be justified based on quarterly interim financial report.

Project Budgeting

Substantial Substantial

Risk:

- The project will have multiple financiers namely IFAD, ADB, Government Contribution, and Beneficiaries contribution. There is a risk of mix-up in budgeting and expenditure allocations to these multiple financiers.
- There may be frequent delays in the submission of AWPB. This may arise from delays in sitting and approval by the project steering committees and difficulties in consolidating budgets from the lower levels of implementation.
- Tough fiscal policies such as the Government's introduction of rupee covers may result in poor AWPB implementation. The Standby Arrangement (SBA) policies agreed between the Government and IMF may further challenge the implementation of AWPB for IFAD Financing and Government counterpart funds.

Substantial Substantial

Mitigations:

- A dedicated and fully empowered PCU will be responsible for implementation of IFAD livelihood enhancement component of this co-financed project. With parallel financing mode, there is no risk of mixing of IFAD and ADB funds. Same applies to government counterpart of beneficiary contributions.
- The cost tables, PDR/PC-1 and PIM will have sufficient details on key activities to be implemented and sources of finances for these costs. Subsequently, the AWPB will be prepared with adequate details on financing for key activities to ensure adequate guidance to the accounting team in booking of the expenditure.
- PCU shall obtain the approval of AWPB & Procurement Plan through the PSC (by 30 April each year) and shall ensure that counterpart fund requirements of AWPB are reflected in the Annual Development Programme/budget of the provincial government.
- Appropriate consultations should be held with representatives of the borrower in advance of the workplan development. Annual budget would be communicated in advance of setting the rupee cover.
- AWPB/Procurement Plans shall be prepared in consultation with implementing partners/service providers and these IPs will be supported by PMU to ensure proper estimation of funding requirements in the AWPB.

Project Organization and Staffing

High Substantial

Risk:

- There may be delays in recruiting and filling vacant positions with suitably experienced and qualified personnel. Root causes may include weak capacity in the job market, interference in the recruitment process and underpayment on projects compared to market price.
- The organizational structure of project may be inadequate for the implementation arrangement of the project.

High Substantial

Mitigations:

- Core staff of the PMU—Project Director, Finance Manager/FM Specialist, FM Specialist, M&E Specialist should be engaged within eight (8) weeks of the date of signing of the Financing Agreement and will be a condition for disbursement of the initial advance.
- Institution of a well-structured finance unit within the PCU that includes competent and qualified staff who can carry out project financial management as per the fund requirements.
- All finance staff to undertake IFAD Online Finance Management practices and procedures course and IFAD anti-corruption training. In addition to that, finance staff to attend induction sessions on IFAD financial management requirements as conducted by IFAD Finance Officer.

Project Procurement

Substantial Substantial

A.1 Legal, Regulatory and Policy Framework

Moderate Moderate

Risk:

To some extent, the public procurement legal framework encapsulates the agreed principles and ensure compliance with applicable obligations. Implementing regulations notified so far support the legal framework. The country procurement system is just 2 decades old. There are some international best practices incorporated in the procurement legal framework. There are no supporting User Guides for the procurement practitioners. There is no downstream procurement procedural manual /guideline for the PAs to effectively ensure efficiency, economy and transparency during the procurement process. There is no procurement monitoring mechanism and Guide on contract management. Recent amendments relating to engagement of state-owned entities under direct contracting does not seem in line with promoting competition and transparency.

Moderate Moderate

Mitigations:

PPRA should focus on meeting the development of missing standard procurement documents to complete the procurement regulatory framework at the federal level. Subsequently, PPRA should activate the National Institute of Procurement (NIP), take lead in designing of an annual calendar of a series of capacity building training programs..

A.2 Institutional Framework and Management Capacity

Moderate Moderate

Risk:

The institutional framework and management capacity may be treated as average. The procurement planning is aligned with annual budgeting exercise. However, there is no mechanism for detailed planning and updating of procurement plans during the year. PPRA is managed by its Board albeit some potential conflict of interest in terms of financial and administrative autonomy. The country procurement system is just 20 years old and it has to go a long way to achieve the desired institutional maturity and proper functioning. The public procurement system has a capacity to develop and improve. The progress is very slow but it is in the right direction. The ingredients required for introducing and operating e-public procurement system are being brought together.

Moderate Moderate

Mitigations:

The main challenge is ensuring the development of desired capacity in the areas of procurement regulations, planning, transactions, monitoring, audit and contract management. The government must recognize procurement as a profession and do the needful as soon as possible. It should focus on promoting public procurement as a promising career stream with the introduction of necessary certification/accreditation.

A.3 Accountability, Integrity and Transparency of the Public Procurement System

Moderate Moderate

Risk:

Capacity constraints lead to poor procurement planning and weak contract management. PPRA to take lead and coordinate with PEC and other professional bodies of Constructors and Consultants; design an annual calendar of training programs for the PAs on frequent issues relating to effective contract management. There is a communication gap between the public sector and private sector. There are representative professional bodies of suppliers, constructors and consultants in the country. Market knowledge for the PAs of critical sectors (energy, transport, irrigation etc.) may be updated through interaction with these bodies on a working relationship basis.

Moderate Moderate

Mitigations:

There is a communication gap between the public sector and private sector which should be bridged through mutually agreed actions. These actions may include capacity building of both sides of the equation. The training activity should be coordinated by PPRA with PEC and these bodies.

A.4 Public Procurement Operations and Market Practices.

Substantial Substantial

Risk:

The country procurement system is fairly new in performance of its operations. The country has ethics and anti-corruption measures in place. The components required for ensuring accountability, integrity and transparency of the public procurement system are somewhat present. The country has effective control and audit systems.

Substantial Substantial

There is always room for improvement and with the passage of time, the Authority will attain required level of operational maturity. Procurement is a cross-cutting function, one aspect is the audit activity. The country has a sound legal framework and institutional arrangements for external audit—though the practice of performance audit and procurement audit (as a sector) is not established. It is not clear whether the offices of Chief Internal Auditors will enhance the procurement efficiency or otherwise.

Mitigations:

PPRA to prepare a bucket list based on following. Plan an awareness campaign to sensitize the stakeholders on the functions and powers of the authority; coordinate with AGP office to start the practice of sector audit; liaise with NAB and FIA and discourage investigation of cases by them; prepare a case for establishment of office of the procurement ombudsman as highest procurement appellate authority.

B.1 Assessment of Project Complexity

Substantial Substantial

Risk:

Initial implementation support would be mitigation any capacity challenges during the early stages of the project and subsequently ad hoc support to be provided

Substantial Substantial

Mitigations:

Ensure IFAD Implementation Support plus Procurement TA to be fielded by Project

B.2 Assessment of Implementing Agency Capacity

Substantial Substantial

Risk:

The overall risk is established as substantial given the limited experience and capacity working with the new province.

Substantial Substantial

Mitigations:

Project procurement will be ring fenced within the Project PMU with adequate technical support both from IFAD and Government. Oversight mechanism through internal and external audits and IFAD PPA and supervision would ensure adequate controls with the PMU

Project Procurement Overall

Substantial Substantial

Risk:

Substantial Substantial

The Procurement Framework identified substantial risk

Mitigations:

Mitigation measure in the form of IFAD SDB, its Handbook, IFAD OPEN System and ICP CMT would provide adequate measure to mitigate risk

Environment, Social and Climate Impact

Substantial Moderate

Vulnerability of target populations and ecosystems to climate variability and hazards

Substantial Substantial

Risk:

Pakistan is one of the most vulnerable countries in the world to climate change as a huge portion of its population depends on the on farm and off farm sectors. The effects of climate change are being felt in rural areas and across ecosystems with adverse impacts on natural resources and the livelihoods that they support. This exposure to vulnerability is predicted to be exacerbated with impending impact of climate change. Declining water availability and soil degradation is impacting agriculture at a time when demand for agricultural products continues to rapidly rise due to population growth and improving diets. The poor are likely to be hit particularly hard by climate change, and their capacity to respond to climate change is lowest.

Substantial Substantial

Mitigations:

To reduce exposure to the inherent risks, the project will apply promotion of production practices and technologies that reduce exposure to increased variability as well as investment in water resources management. Awareness raising and building resilience particularly among the poor will be a key capacity building intervention. Restoration of ecosystem services (ADB) will contribute to reduced climate vulnerability, as well as diversification of income generation.

An Environmental, Social and Climate Management Plan (ESCMP), and a Targeted Adaptation Assessment have been developed and integrated in PIM.

Greenhouse Gas Emissions

Low Low

Risk:

The risk of any significantly increase in greenhouse gas (GHG) emissions and thereby contribution to anthropogenic climate change, are minimal.

Low Low

Mitigations:

Project involves no significant activities that would contribute to greater GHG emissions. Project will actively invest in bio-diversity conservation and ecology restoration measures.

Physical and Economic Resettlement

Moderate Low

Risk:

Moderate Low

The project does not entail any activity that could result in resettlements

Mitigations:

No Risk envisaged.

Community health, safety and security

Moderate Moderate

Risk:

Construction activities and use of agrochemicals, may have a negative impact on community health and safety.

Moderate Moderate

Mitigations:

The project infrastructure activities will be small community-based schemes and use of heavy machinery and equipment is not anticipated.

The project interventions are expected to result in greater availability of high nutrition value foods in households and communities, which are a key driver of health. The project will develop a gender strategy that will include specific actions to mitigate risks of Gender-Based Violence due to project initiatives
Labour and Working Conditions

Moderate Moderate

Risk:

The project investments in public goods/ community infrastructure may result in exploitative labour practices (e.g. child labour), gender-based discrimination, discriminatory and unsafe/unhealthy working conditions. The project may cause exploitative labour practices like in kind community contributions of labour are assigned to poor (BISP Poverty Score Card Category 0-32) at the expense of their wage-earning opportunities.

Moderate Moderate

Mitigations:

SCRIP will be implemented through a community driven participatory process. All investments will be identified, prioritized and agreed at community level. Standard conditions on all social safeguards, including labour and working conditions, will be made part of agreements between project/social mobilization partner and beneficiary communities. PMU and social mobilization partners will monitor the adherence to these conditions by the beneficiary communities. The chronically, extreme and vulnerable poor (BISP Poverty Score Card Category 0-32) will be exempt from any in kind contributions and priority preference will be given to the local poor in all wage labour opportunities in project funded infrastructure investments.

Indigenous People

Low Low

Risk:

Low Low

There are no indigenous people in the target area.

Mitigations:

Not applicable and no risk envisaged.

Cultural Heritage

Low Low

Risk:

The risk that the project may cause significant cultural or physical resource degradation, including threats to or the loss of resources of historical, religious or cultural significance. The known historical, religious or cultural resources are concentrated in the sub-urban area of Thatta City.

Low Low

Mitigations:

Project activities won't be developed in and close to areas with cultural heritage in compliance with SECAP.

Resource Efficiency and Pollution Prevention

Moderate Moderate

Risk:

The risk that project resources are not used efficiently due to planning and management inadequacies and enough safeguards are not followed to prevent pollution as a result of project activities is 'moderate'.

Moderate Moderate

Mitigations:

An elaborate and capacitated project management structure is designed at provincial and district levels backed by detailed processes and procedures elaborated in the PIM to ensure that project resources are used efficiently and produce the desired outcomes. Systems and processes will be regularly reviewed and updated by Project Supervision Missions. All hard/infrastructure project interventions will be screened for environmental soundness and measures will be incorporated in the execution arrangements to minimize any potential noise, air or water pollution. An elaborate and capacitated project management structure is designed at provincial and district levels backed by detailed processes and procedures elaborated in the PIM to ensure that project resources are used efficiently and produce the desired outcomes. Systems and processes will be regularly reviewed and updated by Project Supervision Missions. All hard/infrastructure project interventions will be screened for environmental soundness and measures will be incorporated in the execution arrangements to minimize any potential noise, air or water pollution.

Biodiversity Conservation Moderate Moderate

Risk:

The risk that the project may cause significant threats to or the loss of biodiversity, availability of diversified nutritious food, ecosystems and ecosystem services, territories of the indigenous peoples, or the unsustainable use/production of living natural resources is moderate. The risk may arise if the investments increase the production area or intensify fishing.

Moderate Moderate

Mitigations:

The project is unlikely to have adverse impacts on biodiversity in the project area. The project will make investments in the eco-friendly introduction of climate smart and sustainable technologies for agriculture, livestock and fisheries. Communities will be consulted and sensitized on the need to conserve biodiversity and will be proactively engaged in all such efforts.

Stakeholders Moderate Moderate

Stakeholder Grievances Low Low

Risk:

Targeting, project implementation, quality of service may be potential sources of grievances.

Low Low

The project may fail to establish effective and easily accessible channels for registration of grievances, investigation and redress in a prompt/timely manner to the satisfaction of the aggrieved.

Mitigations:

SCRIP will establish a comprehensive system of grievance redressal, a system that is responsive, objective, simple, fair, and time efficient. The system will make available four options for the registration of grievance – in person written complaints, through email, through SMS/Whatsapp, and through project website. All modes of complaint receipt will be widely publicised in the project area and beneficiary communities mentioning addresses, phone numbers, email addresses and web addresses. PMU and DCUs will establish accessible system for complaints/grievance receipt and protocols will be established for the logging of complaints and action thereof. Focal persons for grievance redressal will be notified in PMU and DCUs. District and Project level Grievance Redressal Committees will be notified. PMU will, as part of its monthly/quarterly reviews, will review progress on all grievances received and status of their enquiry and redressal.

Stakeholder Engagement/Coordination Moderate Moderate

Risk:

Stakeholder engagement and coordination risks are moderate. Ensuring close coordination with parallel financed ADB interventions as well as coordination and collaboration between social mobilization & Value chain implementing partners, public sector entities and PMU will require effective leadership by PMU, clear role articulation and close oversight and accountability by Project Steering Committee. Beneficiary level targeting and participation in over 500 villages will also require a well-rounded community interaction strategy.

Moderate

Moderate

Mitigations:

A joint Steering Committee for ADB and IFAD investments will ensure close alignment of geographical coverage and investment synergies between the two sources of funds. A Project level coordination committee consisting of IFAD and ADB component Managers will assist in coordinated planning, budgeting and phasing of activities. Project's District Coordination Units will assist in close coordination between various implementing partners at field level. The project design and its institutional arrangements are based on extensive discussion with government, communities and lessons learnt. Capable social mobilization and agri-value chain development partners are available in the province and will be engaged through a competitive process to lead the community level organization, targeting, need identification and intervention delivery in partnership with three identified public sector entities. Lessons learnt from earlier IFAD projects have been kept in view for implementation arrangements.

Risk:

There is a risk related to selection of the target group and their participation which consist of landless poor, smallholder farmers, sharecroppers, small fishermen, women and youth) in the project activities.

Moderate

Moderate

Mitigations:

Priority geographic areas and target groups have been clearly identified during design. Selection of target group and households particularly the extreme, chronically and vulnerable poor, will be guided by BISP Poverty Scorecard, based on National Socioeconomic Registry. A national Poverty Score Card is used for identification of poor households eligible for unconditional cash transfers.

IFAD introduced this accurate and reliable targeting tool in the country which has a hallmark for targeting strategies for poverty reduction and smallholder agriculture development and is being adopted across the country by government and donors.