



IFAD
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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR THE

**SOUTHERN FEDERALLY ADMINISTERED TRIBAL AREAS
DEVELOPMENT PROJECT**



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CURRENCY EQUIVALENTS

Currency Unit	=	Pakistani rupee (PKR)
USD 1.00	=	PKR 52
PKR 1.00	=	USD 0.019

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

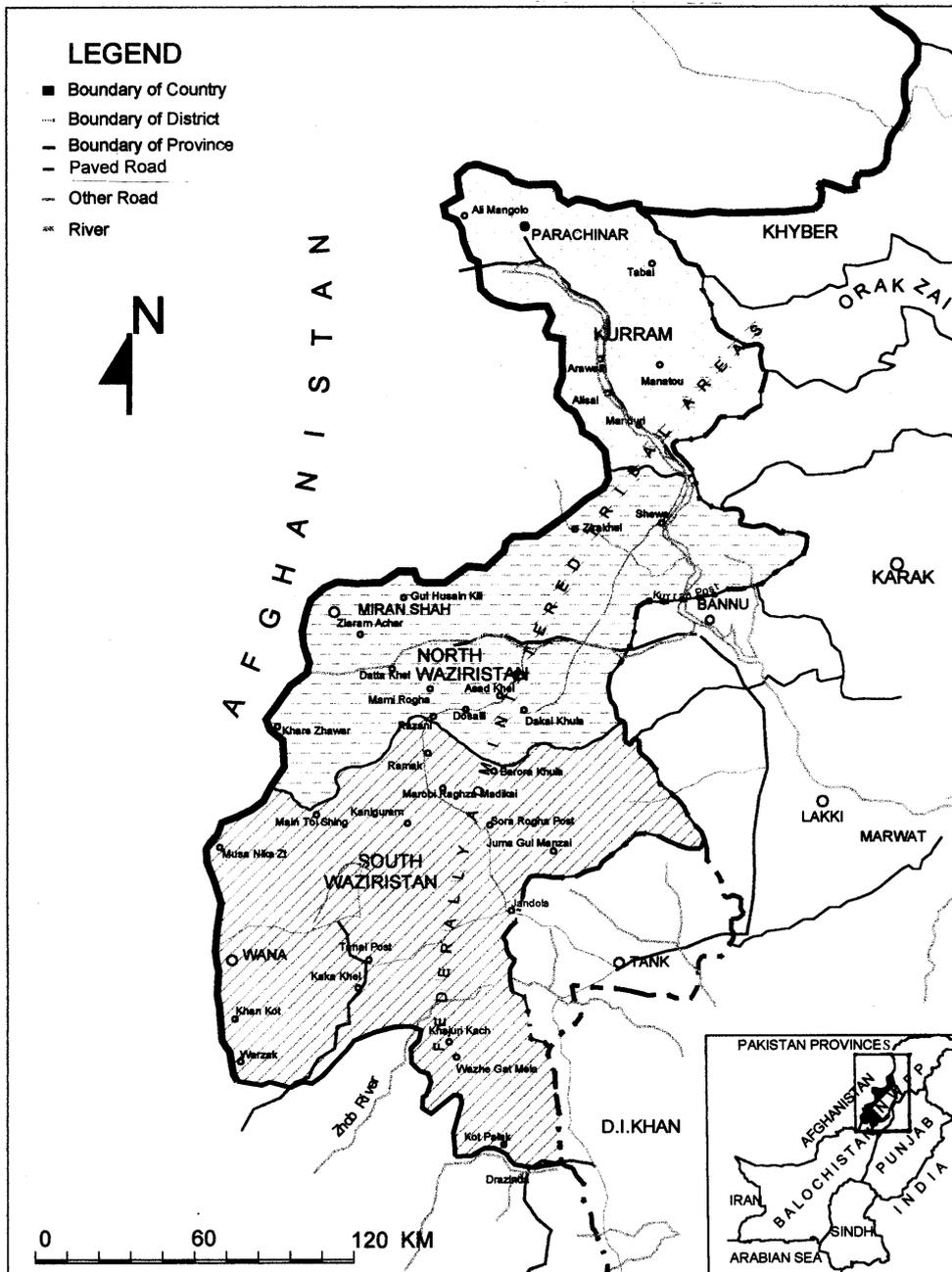
ACS	Additional Chief Secretary
AWP/B	Annual Work Plan and Budget
BOK	Bank of Khyber
CDF	Community Development Fund
CDU	Community Development Unit
CO	Community Organization
CPE	Country Portfolio Evaluation
FATA	Federally-Administered Tribal Areas
NGO	Non-Governmental Organization
NWFP	North West Frontier Province
PC-I	Planning Commission Form I
PCU	Project Coordination Unit
PE&D	Planning, Environment and Development Department
PMU	Project Management Unit
PRA	Participatory Rural Appraisal
PRB	Project Review Board
SAP	Social Action Programme
UNOPS	United Nations Office for Project Services
WO	Women's Organization

GOVERNMENT OF THE ISLAMIC REPUBLIC OF PAKISTAN

Fiscal Year

1 July - 30 June

MAP OF THE PROJECT AREA



Source: IFAD

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.



ISLAMIC REPUBLIC OF PAKISTAN
SOUTHERN FEDERALLY ADMINISTERED TRIBAL AREAS
DEVELOPMENT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Islamic Republic of Pakistan
EXECUTING AGENCY:	Planning, Environment and Development Department (PE&D) of the Government of the North West Frontier Province (NWFP)
TOTAL PROJECT COSTS:	USD 21.86 million
AMOUNT OF IFAD LOAN:	SDR 13.4 million (equivalent to approximately USD 17.15 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIER:	Bank of Khyber (BOK)
AMOUNT OF COFINANCING:	USD 0.17 million
CONTRIBUTION OF BORROWER:	USD 1.90 million
CONTRIBUTION OF BENEFICIARIES:	USD 2.64 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



Project Brief

The target group and targeting. The project will target about 1.17 million beneficiaries (or 65 550 extended households), with special emphasis on women. These are mainly small farmers, landless farm labourers, tenant/sharecroppers and those engaged in rural off-farm occupations. Most work under poor conditions, with frequent crop failure due to unreliable climatic conditions. Priority needs of the target group have been roughly identified through rapid rural appraisal and beneficiary workshops, and the project has been designed on this basis. In general, relatively poorer villages or communities are small, remote, have low average farm size, an above-average number of the landless and poorly-developed physical and social infrastructure.

Causes of poverty. Due to the climatic conditions and its remoteness, Federally Administered Tribal Areas (FATA) has benefited only marginally from development activities and donor support. Agricultural land ranges from 2.3% to 5.2% of total land. Characterized by low-input, low output farming, agriculture is de facto a subsistence activity. The principal causes of poverty in the area are the limited agricultural base and the uncertain and inadequate rainfall, leading to frequent crop failure or yield depression. These factors, combined with predominantly small and fragmented farms, weak agricultural services, and shortage of inputs and credit facilities, have further trapped the population in the poverty cycle. This has resulted in increasing migration in search of income and correspondingly reduced availability of labour to increase productivity. Illiteracy is widespread; the schooling of children (mainly girls) is a further, double burden on poor families, as it means more funds needed for education while reducing labour availability.

Project activities to benefit the target group. The project will (i) boost agricultural production and the income of the population through irrigation, available appropriate technologies for the lower-rainfall areas, improved animal health and vaccinations, etc. (These services will be provided through community organizations.); (ii) improve the status of women by targeting them for culturally-acceptable income-generating activities and increase employment opportunities for rural people; and (iii) improve the living conditions of the rural population and reduce the burden on women through investment in drinking-water supply and basic infrastructure.

The project will benefit about 35 600 households through agricultural components, 4 200 through income-generation and 3 000 through microenterprise. In addition, a much larger number will benefit from overall improvement in the areas of agricultural services, applied research, water supply and microenterpreneurial and income-generating activities. Women will particularly benefit from water-supply development and income-generating activities.

Beneficiary participation. The project has been formulated taking into account the very positive experience of IFAD-supported projects in the country. A rapid rural appraisal and a number of participatory workshops have been undertaken to ensure that beneficiary needs have been identified and prioritized. The project will operate through the *jirgay* (assemblies of tribal elders) and community and women's organizations to select priority infrastructure and development activities. Beneficiaries are expected to contribute to the investment costs and to assume responsibility for operation and maintenance of irrigation schemes, water supply, etc. All project technical and social services will be based on the identified needs of the beneficiaries in order to ensure their appropriateness, effectiveness and sustainability. Adequate training will be provided to project staff and beneficiaries.

Project costs and financing. Total project costs over a six-year period are estimated at USD 21.86 million. IFAD financing will amount to about USD 17.15 million. The Government, the Bank of Khyber and beneficiaries will contribute the balance.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
ISLAMIC REPUBLIC OF PAKISTAN
FOR THE
SOUTHERN FEDERALLY ADMINISTERED TRIBAL AREAS
DEVELOPMENT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Islamic Republic of Pakistan for SDR 13.4 million (equivalent to approximately USD 17.15 million) on highly concessional terms to help finance the Southern Federally Administered Tribal Areas (FATA) Development Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and the Agricultural Sector

1. Pakistan's economy performed modestly in 1998/99 with a growth rate of 3.1% against 4.3% in 1997/98. Gross national product (GNP) per capita was estimated at USD 500 in 1997. Pakistan has experienced serious difficulties with its balance of payments due to economic sanctions and the suspension of new bilateral and multilateral disbursements for non-humanitarian assistance. The overall fiscal deficit has continued to grow by about 7.8% of GDP. Total debts come close to 3 000 billion Pakistani rupees (PKR), of which foreign debt is reported to be about USD 32 billion at 1997/98 rates. Pakistan has to meet an estimated debt-servicing obligation of PKR 300 billion (USD 5.6 billion) per year. This comes close to 70% of total net federal revenue.

2. The current administration has made a serious start on a strategy of broad-based structural adjustment measures, including tariff and tax reforms, incentives for agriculture and industry, banking reforms and controls on public-sector expenditure and borrowing. Future directions will emphasize fiscal contraction, a tightening of monetary policy, demand management and moves towards direct rather than indirect taxes.

3. Pakistan covers an area of about 771 000 km², with a population estimated at 128.5 million and increasing by 2.6% per annum (1980-1997). It comprises the four provinces of Punjab, Sindh, North West Frontier Province (NWFP) and Balochistan, and the Federally Administered Tribal Areas (FATA), the Northern Areas, Azad Jammu and Kashmir, and the Federal Capital Area. Of the total area of Pakistan, 20.9 million ha (26%) are cultivated. Nearly 76% of the cultivated area is irrigated. The remaining 24% is *barani* (rainfed) and subject to unreliable and erratic rainfall. Forests cover about 2.3% of the total area and contribute only about 2% of agricultural value added.

4. Agriculture is still the single largest sector of the economy, accounting for 25% of GDP, 60% of export earnings and 44% of employment. It provides raw materials and a domestic market for all

¹ See Appendix I for additional information.



major agro-based industries. The crop sector provided about 54% and the livestock sector about 33% of agricultural value added in 1997/98. In 1998/99 the agricultural sector grew by only a marginal 0.35% due to a decline in the production of cotton, wheat and forest products because of poor weather conditions at planting time and cotton disease. This compares to a growth rate of 3.8% in 1997/78.

B. Lessons Learned from Previous IFAD Experience

5. The proposed project design incorporates lessons from experience under IFAD- and other donor-supported projects, the country portfolio evaluation (CPE) and non-governmental organization (NGO) activities. The following lessons have been taken into account: (i) the targeting of project activities is more effective if carried out in a non-confrontational, non-exclusive and custom-sensitive manner, through targeting poorer villages (based on pre-established criteria such as farm size, productive assets and social infrastructure), and then, within a settlement, selecting interventions specifically attractive to the poorer section of the population; (ii) beneficiary participation is the key to good project design and to successful implementation, ensuring the support and commitment of grass-roots organizations and the assumption of responsibility by beneficiaries for local development and for linking-up with institutional services; (iii) Planning Commission Form I (PC-I) should be prepared, discussed and agreed on before project start-up to avoid delay in implementation and inconsistency between PC-I and the appraisal report; (iv) small grass-roots NGOs are either non-existent or generally weak, which requires that the project undertake activities temporarily until community (COs) and women's organizations (WOs) are properly formed and able to assume responsibility; (v) the success of credit activities depends on the mobilization of savings at the community level and the involvement of the community in the credit process, with its own credit committee responsible for recovering loans; (vi) the participation of women in needs identification and prioritization must be ensured through strong sensitization programmes for both men and women, and female officers should be recruited to develop meaningful contact with WOs; (vii) participatory community-based extension methods should be used to improve uptake and acceptance by the beneficiaries, with effective cooperation and coordination of activities among different organizations dealing with communities, NGOs and the line agencies.

6. More specifically, IFAD's and other donors' experience in FATA and adjacent areas has shown that: (i) insufficient attention has been paid to institutional weaknesses, particularly in the line departments; (ii) there has been insufficient dialogue with beneficiaries on priorities, community involvement, subsequent operation and maintenance, and participatory planning and monitoring; (iii) most investments in FATA have proved to be unsustainable (e.g., tubewells) unless beneficiaries are brought in at a very early stage, because public revenues cannot finance the operation, repair and maintenance of the structures and services; (iv) project arrangements for beneficiary monitoring have been nominal and generally weak; and (v) the quick appointment and quality of social mobilizers in a project determine the rate of formation of COs/WOs; this in turn decides the rate of implementation, credit flows and training for income-generating activities.

C. IFAD's Strategy for Collaboration with Pakistan

Pakistan's Approach to Poverty Alleviation

7. Pakistan still lags behind the average of Asian countries in population growth, infant mortality, school enrolment and adult literacy, especially with respect to women. Aware of the critical importance of human development factors for the overall development of the country, in 1993/94 the Government launched an ambitious Social Action Programme (SAP) with support from major multilateral and bilateral donors. The programme seeks to address shortcomings in the fields of primary education, basic health care, family planning and rural water supply and sanitation.



8. After experience gained in community-based projects, the Government is evolving a national strategy of poverty alleviation based on the establishment of an institutional framework for community development that includes *rural support programmes* in the provinces and the *Pakistan Poverty Alleviation Fund (PPAF)*. These indicate the overall level of government commitment to poverty alleviation. However, the tribal areas, which provide a buffer zone with Afghanistan and do not generate any public revenue, have been benignly neglected and allocated minimal public expenditure and investment, centring on job creation for males in the army and some basic infrastructure in health, education, etc. The Government has shifted position as the region has become relatively strategic, open to the transit of goods from Afghanistan, and especially as tribal attitudes and consciousness have changed and begun to demand access to minimum social services and government development support.

IFAD Strategy in Pakistan

9. **Poverty-eradication activities of other major donors.** Historically there has been no donor strategy for FATA. Major donors supporting development in the tribal areas have concentrated on providing basic services to the rural population. A number of multilateral and bilateral donors have supported development activities, including primary education, basic health, rural water supply, sanitation, irrigation, etc. Appendix V gives the details of donor interventions in the tribal areas. However, the results of these investments have been quite mixed, mainly due to lack of consultation with the beneficiaries to identify their real needs, involve them in implementation and in responsibility for the operation and maintenance of investments. Sites of the tubewells that were constructed were not selected in consultation with beneficiaries, and most of them are not functioning because of inadequate electricity or unpaid bills.

10. **IFAD's strategy.** IFAD has supported 16 projects in Pakistan, with wide geographical and activity coverage and with increasing beneficiary participation and NGO involvement. The strategy of IFAD was sharpened following the 1995 CPE, which comprehensively reviewed all IFAD-supported projects and drew a number of lessons that have since been taken into account in project design and implementation, and will be refined further following the country strategic opportunities paper (COSOP) being finalized. Community organization has been given considerable attention as the pillar of all demand-driven development.

11. IFAD's project strategy comprises the following thrusts: (i) continued sharpening of the focus on the rural poor, especially small farmers, tenants, the landless and women; (ii) focusing activities in rural poor areas, with an emphasis on semi-arid, mountainous and environmentally sensitive areas; (iii) regular evolution of a participatory community development approach, empowering grass-roots and local community-based organizations while using NGOs as a conduit to promote their development; (iv) focusing project activities on the improvement of the condition of women – directly, through provision of targeted services such as water supply, nutrition, health and education, and indirectly, through sensitization, training and pressure on community leaders, *jirga* members and the male population to involve women in the decisions on selection and prioritization of schemes; (v) organizing the poverty-alleviation interventions in three broad categories, i.e., farm, non-farm and infrastructure; and (vi) emphasizing credit for income-generating activities for the poor, in particular for rural women, and promoting the involvement of institutional credit-delivery systems for microenterprise establishment.

Project Rationale

12. The project area is one of the poorest in Pakistan in terms of resource endowments, physical and social infrastructure and human resource development. FATA falls behind the rest of the country in almost all socio-economic comparisons. The mainly harsh topography is sparsely populated, and the marginal land is mostly used for subsistence agriculture. Irrigation is essential, because the climate



is mostly hot and dry with erosion and deforestation. FATA is a food-deficit region and almost all food is imported from the settled areas of the Punjab, including wheat, even though it is the predominant crop. The population of southern FATA has historically provided a reservoir of male labour for seasonal or migratory work in Karachi, Lahore or elsewhere in Pakistan, as well as in the Gulf States. Development activities have been limited and the area has not benefited from external assistance, which has been mostly in the form of rural infrastructure.

13. The overall project approach is to enhance farm productivity, household incomes and the social and economic development of vulnerable groups in the local population. It will feature: (i) strengthening of extension services to intensify and diversify crop and livestock production systems through adoption of appropriate technologies and alternative resource-management practices; (ii) mobilization of communities for self-help and establishment of linkages with public and private-sector services for technical assistance and input supply; (iii) improved access of local communities to markets, social services and rural infrastructure; (iv) provision of rural savings and credit services for on and off-farm income-generating activities and microenterprises; and (v) capacity-strengthening and contracting of line departments to identify services required by the communities through participatory techniques and to provide these services.

14. There is a strong self-help tradition in the tribal areas, a tradition that has constructed almost all village irrigation systems, most of the drinking water off-takes and a majority of the village tracks and access roads. This self-help tradition is the basis on which participatory project mechanisms can be built. The existing structure of extended rural households provides natural groupings that can be mobilized, strengthened and used as a nucleus for community-based organizations – to whose demands the project can respond and with which partnerships can be built. In addition, the various levels of the *jirgah* provide a forum of all-male representation. Although mainly concerned with resolution of disputes and questions of law and order, these assemblies are considered an excellent entry point to discuss and establish development-oriented community participation.

PART II - THE PROJECT

A. Project Area and Target Group

Project Area

15. FATA comprises a strip of mountainous or marginal uplands that adjoin the Afghan mountain chain, running in a narrow belt along the Pakistani-Afghan border. The project will concentrate its activities in the three agencies (or districts) of Kurram, North Waziristan and South Waziristan (occupying the southern and central part of FATA along the border), with an area of 14 707 km² (54% of FATA) and a population of about 1.2 million (35%), organized in about 138 000 nucleus households (or about 65 550 extended rural families with from 9 to 27 members) of which some 97% are rural.

16. Each of the three agencies is administered by a political agent, who is supported by assistant political agents at the subdivision level (normally about 2-3 in each agency) and a political *tehsildar* in each of the 17 *tehsils* (administrative units). The social organization is completely tribal and extends into the adjacent Afghan provinces of Paktika Paktia and Ningrehar. There are 11 major tribes with several smaller tribes and sub-tribes. The legal system is based upon tribal traditions and the political administration intervenes only in issues beyond tribal jurisdiction or to mediate in disputes that are difficult to resolve internally.

17. The area is characterized by harsh, hilly, rugged terrain, with elevations ranging from 500 m to 1 800 m. Major rivers in the project area include the Kurram, the Gomal and the Tochi. In addition,



many hill torrents exist, causing flash floods. Climatic conditions are generally hot in summer and cold in winter. The average rainfall decreases from about 700 mm in the north to about 500-600 mm in the south. In hilly areas the soils are generally loamy to sandy, with varying proportions of rock fragments, and are excessively drained. The alluvial soil ranges from clay loams to sandy loams and is moderately to deeply drained. Hilly soils are subject to moderate to severe erosion due to lack of vegetative cover. Under irrigation and improved husbandry practices, the soils have been found to be responsive to increased productivity.

18. The cultivated area in the three agencies is only about 69 000 ha (4.5% of the land area), indicating the adverse conditions in FATA. Agriculture for smallholders in the project area is purely subsistence in nature and is characterized by traditional low-input, low-output crop husbandry practices indicating risk-awareness. The use of degenerated seed is very common, because improved seed either is not available or smallholders do not have the means for its procurement. Nitrogenous fertilizers and farmyard manure are sub-optimally used and the use of phosphatic fertilizers is almost non-existent. Plant-protection measures are not practised. About 60% of the cultivated area is irrigated by a mix of delivery systems, including communal canals, tubewells, dugwells, lift pumps, etc. Some 76% of the irrigated area is serviced by gravity canal systems. Reduction of water losses and improvement of irrigation efficiency will increase the command area under irrigation. In addition, there are the possibilities of groundwater availability, perennial springs and streams in areas currently not serviced by wells and gravity irrigation schemes. Farms are extremely small and the size distribution is highly skewed. Most farms are owner-operated and sharecropping is only important in Lower Kurram, with about 13% of the holdings. Grazing land is usually commonly owned and extraneous to the farm lot. Livestock is an integral part of the production system and plays an important role in farming systems. However, the productivity of livestock is limited because of its non-descriptive nature (i.e., the lack of quantitative data), and diseases take a heavy toll each year.

19. **Gender situation.** Women in FATA live in an extremely difficult environment due to the lack of basic services, level of poverty and degree of marginalization. Their educational status is the lowest in Pakistan and literacy is less than 1%. The education of girls is hampered by the lack of girls' schools, inability or unwillingness to pay for their schooling and competing family demands (household chores and caring for younger children). Health conditions for rural women are generally adverse because of excessive reproductive burdens, absence or extremely limited access to prenatal or post-natal health care, hard physical labour and malnourishment. Tribal women and their men are mostly reluctant that women should use government health centres because many health-care providers are men. Sanitation and hygiene are generally poor in the tribal areas. This is particularly marked in water-deficient households, where there is a high incidence of water-borne diseases. Most women are reportedly unaware of personal hygiene and health, even in areas where water is available. From childhood, women spend a significant amount of their time and energy carrying water for human, animal and domestic needs. Sources of water are springs, streams, rainwater ponds, dugwells, tubewells and irrigation channels. The coverage of installed drinking-water schemes provided by the Public Health Engineering Department under SAP funding only serves a small segment of the tribal population and reportedly many water facilities are inoperable.

20. Women play a major role in the household economy and the well-being of their families. They are engaged in activities related to agriculture, livestock, poultry, collection of firewood, fetching of water, collection and processing of cow dung, manual labour for the wealthier households, paid work in orchards, income-generating activities, etc. Men are primarily responsible for land-levelling, sowing and irrigation. In areas of higher mobility for women, they are collectively responsible for weeding, harvesting, threshing and seed storage. Women also collect and store farmyard manure, which is transported to the fields by both men and women.

21. **Government policy for FATA.** After a long period of benign neglect of FATA, as a self-governing buffer zone that did not generate any public revenues and hitherto has had no political



lobby, government policy towards FATA has shifted in recent years, taking into account the need to make strategic investments in a zone adjacent to Afghanistan, where transit traffic to and from that country has changed the former geographical isolation of FATA, where tribal attitudes regarding desirable social services have been warming and where the introduction of elections has stimulated the political process and the resulting emergent demands. The new policy briefly saw a Prime Minister Fund and other funds allocated to members of the National Assembly and senators for ad-hoc public-works miniprojects, mostly geared to their constituents. For revenue reasons, the Power Authority (WAPDA) has had to cut power supplies to most locations where power charges have not been paid. The federal and provincial governments have made considerable recourse to SAP, under which donors have hitherto underwritten budgetary releases for primary health care, primary education, drinking-water supplies and sanitation. Significantly, there has been no equivalent broad-based support for agriculture, livestock and productive rural infrastructure in FATA.

Target Group

22. Within FATA, the overall poverty of rural people is depicted by the mostly adverse socio-economic indicators in absolute terms and relative to NWFP and Pakistan as a whole. The main factors are: remoteness of the agencies, lack of infrastructure, the paucity of farm land and population growth. These factors are further aggravated by the small, uneconomic average size of holdings and the low productivity of current agricultural practices. These indicators place practically all households within the IFAD target group. The target population to be reached by project interventions will be about 97% of the total population, i.e., about 1.17 million (65 550 extended families) including small and medium landowners, sharecroppers and landless herders. Rural women in the project area face the double challenge of poverty and cultural constraints on their participation in decision-making in the private and public spheres. They are particularly vulnerable because they do not have regular open access to health care or education, have lower nutritional priority within the family and have higher mortality rates, related in part to pregnancy risks. Most have poor access to markets for products or skills. Thus all rural women will be considered as belonging to the target group.

23. The project will base its intervention on active community participation. The *jirga*, and the male population in general, will be pressed to promote the formation of women groups and involve women in decision-making in order to identify and prioritize the needs of the community. Priority will be given to activities directly benefiting women and children such as water supply, training of girls and health. Activities also benefiting other members of the community, such as irrigation schemes, access roads, etc., although important, need to have women's explicit involvement as partners in deciding on their priority. In general, it is expected that such an approach could be self-targeting, as the poorer villages or communities are prone to accept the involvement of women to ensure their access to project support.

24. **Target-group development priorities.** In the course of project preparation, beneficiary participation in the identification of priority needs was ensured through a participatory-rural-appraisal exercise and workshops and community meetings by preformulation and formulation missions. Community members became increasingly conscious of their lack of access to social and productive infrastructure, expressed clear priorities regarding their needs as well as ideas about possible solutions. Outstanding problems identified include lack of: water for drinking and irrigation, village infrastructure and accessibility, support services, and credit for small farmers and the landless who engage in off-farm income-generating activities for their livelihood. Proposed solutions include: (i) mobilization of surface and groundwater resources through construction of gravity and lift-pump schemes; (ii) improvement and expansion of existing irrigation and water-supply schemes; (iii) development of small rural roads to link villages to main roads and markets; (iv) health clinics and veterinary services; and (v) training and education for girls. Communities widely expressed their willingness to participate in project activities, based on their expressed priorities, and to contribute to the cost and take over responsibility for operation and maintenance of the investments.



B. Objectives and Scope

25. The main objectives of the project will be to: (i) improve the living conditions of the rural poor (between 35 600 and 45 800 extended families), especially women; (ii) boost agricultural production and the incomes of populations living in poverty; (iii) establish and strengthen community organizations as the institutions through which technical and social services can be provided to IFAD's target group on a sustainable basis; (iv) improve the status of women by targeting them for special attention in a culturally acceptable manner, including the provision of training and support for income-generating activities; (v) improve the resource base through rehabilitation and extension of irrigated areas and social forestry; and (vi) improve access to/from rural communities, and hence marketing, through improvement of feeder roads.

C. Components

26. All components will respond to structured demands and flexible targets estimated on the basis of annual participatory appraisals. Thus the quantities of the investments to be decided by beneficiaries are only indicative, based on rough estimates of the participatory appraisal and beneficiary workshops undertaken during project development.

27. **Women and community development.** The goals are to: (i) establish COs and WOs; (ii) organize interventions of line departments, such as extension, training, irrigation and rural road improvements, and other infrastructure investments; (iii) provide beneficiary skill enhancement for income-generating activities, through training and the establishment of community-based credit facilities that will provide small loans to community members for inputs and income-generating activities, particularly for women; (iv) sensitize and pressure influential leaders, *jirga* members and the male population to accept the involvement of women in decision-making; (v) provide adequate sensitization and training of women to perform their role as partners in development decisions; and (vi) provide for the sustainability of the COs/WOs after direct project support is withdrawn. Increased awareness, training and use of the participatory rural appraisal (PRA) technique at the village level will boost community capacity to implement activities and increase the empowerment of these village communities and households.

28. Main activities to be financed will include: (i) establishment of three community development offices and six subdivisions staffed with men and women social organizers and provided with equipment, furniture and transportation; (ii) recruitment of influential local social mobilizers to sensitize the male population on gender issues and rights of women and children consistent with religious belief; (iii) a training officer in the Project Coordination Unit (PCU) to coordinate all project training activities; (iv) training of all community development staff; (v) skill and management training of men and women village community members and activists; (vi) beneficiary skill training (especially for women) to address perceived income needs and market possibilities; (vii) improved drinking-water supply in some villages not covered by the ongoing SAP-II; (viii) social forestry to improve fuelwood supply near the villages and to protect erosion-prone watersheds; (ix) a community development fund to construct, repair or upgrade a range of possible facilities at the village level as requested by the communities, including stores, clinics and meeting places.

29. **Agricultural and livestock development.** This component will improve household agricultural production and provide farmers with basic information to allow them to choose the necessary project support. This support will include the following programmes: (i) breed improvement for both cattle and small ruminants; (ii) selection and training of volunteer village livestock and agricultural workers; (iii) reorientation of livestock- and crop-demonstration activities to emphasize husbandry improvements, including water management; (iv) support for on-farm research to develop environmentally-friendly pest and disease control for vegetable and fruit crops, to test crop husbandry improvements against farmer methods, and to improve the supporting links, technical back-up and



information flow between Agricultural Research, FATA, and Agricultural Extension Services, FATA; (v) support for local seed-multiplication of high-quality seed by selected farmers or groups and (vi) institutional strengthening of the three agencies' extension and livestock offices.

30. The project will finance: (i) office, research, soil laboratory and crop- and livestock-extension equipment; (ii) artificial-insemination equipment for cattle improvement; (iii) some 220 improved breeding rams and bucks to demonstrate small-ruminant breed improvement in selected COs/WOs; (iv) intensive training of all staff in community participation and technical subjects; (v) training and equipping of community agricultural and livestock workers; and (vi) transportation facilities (vehicles and motorcycles) for FATA Agricultural, Livestock and Research Departments' headquarters, for the three department offices in the agencies and for field staff working with the project.

31. **Irrigation development.** The component will improve and expand irrigation facilities to small farmers throughout the three agencies in targeted locations in which rural poverty is most severe and there is confirmed irrigation potential. The availability or absence of irrigation in the semi-arid conditions of most of FATA is the determinant of household food security and subsistence as much as crop or livestock sales. For this purpose, and based on the expressed needs of beneficiaries, the project will finance new schemes (3 000 ha), through the development of unexploited perennial springs/streams and lift-pump schemes, and development of existing schemes (6 150 ha), including small schemes on perennial streams and springs (1 600 ha), medium schemes on larger perennial streams (2 300 ha), dugwell schemes (1 500 ha), and *karez* systems (a traditional form of groundwater "mining" – 750 ha). In addition, the project will strengthen the irrigation department of FATA Development Corporation (FATA DC) through the provision of transport, survey and office equipment and incremental operating expenses in order to ensure timely engineering services to the communities.

32. **Improved rural road access.** Owing to the participatory approach of the project, which requires flexibility in adjusting component activities to community needs and demand, the location of the roadwork cannot be identified at present. For costing purposes, it is assumed that 50% of the road length will be located in hilly areas and the remaining 50% in valleys/plains. About 170 km are proposed for improvement. The project will include support for local repair and improvement of existing gravel roads, in particular link roads, and upgrading of link roads from track to passable by jeep.

33. **Rural financial services.** Credit to the communities will be provided through two channels: a community credit pool of about USD 360 000 for small, short-term input and income-generating loans to community members (the credit pool will be managed by the project and based on community savings, supplemented by project matching funds at a ratio of 1:2); and a credit line of about USD 1.15 million to finance agriculture- and non-agriculture-based microenterprises to be managed by the Bank of Khyber (BOK). BOK will finance about 15% from its own resources to complement the credit line.

34. The project will also finance: (i) precredit training for groups in management, savings and accounting; (ii) capacity-building and institutional strengthening of BOK; (iii) a credit officer to be based in the PCU; (iv) transport; (v) office furniture and equipment; and (vi) operating expenses.

35. **Support for project implementation.** Financing will be made available for the establishment, staffing and operation of a PCU at the provincial level and for three project management units (PMUs) in each of the three agencies. The project will finance: (i) office furniture and equipment; (ii) vehicles; (iii) short-term overseas and local training for PMU staff; (iv) national technical assistance and studies; and (v) operating expenses, including staff salaries and allowances, vehicle and equipment recurrent costs and office supplies.

D. Costs and Financing

36. **Project costs.** Total costs over the six-year period are estimated at USD 21.86 million (PKR 1 137 million) at March 2000 prices, including price and physical contingencies. Of this total, foreign exchange costs represent about 10%. Physical contingencies represent 7% of base costs. Price contingencies are estimated according to World Bank/International Monetary Fund (IMF) projections. Constant purchasing parity exchange rates have been used to estimate project costs. These rates reflect the likely depreciation of the PKR against major currencies due to the projected differential in domestic and foreign inflation rates. A cost summary is presented in Table 1.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Women and community development	3 322.81	507.07	3 829.89	13	21
B. Agricultural development	2 188.21	541.23	2 729.44	20	15
C. Irrigation development					
1. New schemes	3 805.19	444.23	4 249.42	10	23
2. Existing schemes	2 493.22	125.63	2 618.85	5	14
3. Support to the line department	96.78	41.56	138.34	30	1
Subtotal	6 395.20	611.41	7 006.61	9	38
D. Rural access improvement	1 601.14	81.73	1 682.88	5	9
E. Rural financial services	1 786.96	39.65	1 826.61	2	10
F. Project implementation support	1 425.76	163.66	1 589.43	10	9
Total base costs	16 720.09	1 944.76	18 664.85	10	100
Physical contingencies	1 311.96	84.75	1 396.71	6	7
Price contingencies	1 698.67	98.58	1 797.25	5	10
Total project costs	19 730.72	2 128.09	21 858.81	10	117

^a Discrepancies in totals are due to rounding.

37. **Project financing.** Table 2 shows the project financing plan. IFAD will finance USD 17.15 million (78.5%), BOK USD 0.17 million (0.8%), the Government USD 1.90 million (8.7%) and the beneficiaries USD 2.64 million (12.1%). The beneficiaries' contribution will be mainly in the form of labour and materials/equipment for civil works associated with irrigation and other village infrastructure developments.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	IFAD		Bank of Khyber		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
A. Women and community development	3 457	80.7	-	-	421	9.8	405	9.4	4 282	19.6	539	3 419	325
B. Agricultural development	2 706	88.1	-	-	366	11.9	-	-	3 072	14.1	578	2 128	366
C. Irrigation development													
1. New schemes	3 878	73.4	-	-	404	7.7	1 003	19.0	5 285	24.2	503	4 378	404
2. Existing schemes	2 355	70.7	-	-	238	7.1	740	22.2	3 333	15.2	154	2 941	238
3. Support to line department	128	81.7	-	-	29	18.3	-	-	156	0.7	44	83	29
Subtotal	6 361	72.5	-	-	671	7.6	1 743	19.9	8 775	40.1	701	7 403	671
D. Rural access improvement	1 521	72.0	-	-	103	4.9	489	23.2	2 113	9.7	99	1 911	103
E. Rural financial services	1 645	89.0	173	9.4	31	1.7	-	-	1 849	8.5	43	1 775	31
F. Project implementation support	1 465	82.9	-	-	303	17.1	-	-	1 768	8.1	169	1 490	109
Total disbursement	17 154	78.5	173	0.8	1 895	8.7	2 637	12.1	21 859	100.0	2 128	18 127	1 604

^a Discrepancies in totals are due to rounding.



E. Procurement, Disbursement, Accounts and Audit

38. Procurement of goods and services will be in accordance with the IFAD Procurement Guidelines. Procurement of vehicles will be bulked and undertaken by the PCU for all executing agencies. Contracts valued at USD 200 000 or more will be subject to international competitive bidding. Items costing between USD 10 000 and USD 200 000 will be procured through local competitive bidding; items costing less than USD 10 000 will be procured through local shopping. Community-based civil works such as establishing/improving irrigation schemes, dugwells, small water-supply schemes, feeder roads and other community infrastructure will be carried out by force account when appropriate or contracted by the respective CO to local contractors. Consultants will be selected following government procedures and criteria, Terms of Reference (TORs) and evaluation acceptable to IFAD.

39. **Disbursements, accounts and audit.** The loan will be disbursed for eligible expenditures incurred during the project period. A special account will be set up in the National Bank of Pakistan, Peshawar branch, or other suitable bank acceptable to IFAD, to facilitate the regular flow of funds. Upon loan effectiveness, IFAD will make an initial deposit of USD 1.5 million corresponding to about six months' requirements. The account will be replenished in accordance with established IFAD guidelines. The opening of the special account will be a condition of effectiveness. A project account will be opened, into which the Government will deposit its contributions according to the agreed schedule. A project account in Pakistani rupees will be opened and managed by the PMU for day-to-day activities.

40. Based on annual, approved work plans and effective implementation, project funds from the special account will be channelled, on a quarterly basis, by the PCU to the line departments and the contracted agencies. All implementing agencies involved in the project will keep separate accounts of expenditures with regard to activities undertaken with project funding. BOK will keep a separate account of the credit disbursed. The accountant within the PCU will ensure that all accounts are kept in accordance with government practices acceptable to IFAD. The PCU accountant will also prepare quarterly, consolidated statements of project accounts as an integral part of the Management Information System (MIS). These consolidated statements will be submitted regularly to the Project Review Board (PRB) and IFAD. All accounts will be audited by the government auditor general or other auditors acceptable to IFAD. The audited accounts and auditor's report, which include a separate opinion on the statements of expenditures, will be forwarded to IFAD no later than six months after completion of each fiscal year.

F. Organization and Management

41. The Federal Ministry of Kashmir Affairs, Northern Areas, States and Frontier Regions will delegate all powers and authority for project implementation to the Planning, Environment and Development Department (PE&D) of the Government of the NWFP. The additional chief secretary (ACS) of PE&D will be responsible for policy direction and liaison with his counterparts in other departments to ensure that adequate support is provided to the project. A PCU, to be located in Peshawar within the PE&D and headed by a project coordinator, will be responsible for overall implementation of the project, expeditious release of counterpart funds, financial control, administration of the special account, orderly procurement, logistics, coordination with federal ministries and provincial departments as well as with other donor programmes operating in the project area, and reporting.

42. Coordination arrangements for the project will be undertaken as follows: (i) PRB will ensure effective coordination with line departments. It will meet at least twice a year – to review mid-year progress and to approve the annual plan of work. It will be chaired by the ACS and include the secretaries of Finance, Agriculture, Local Government and Rural Development, the



chairman/executive director (technical) of FATA DC, the chief of Section, FATA, representatives of BOK and NGOs and the project coordinator, who will be the secretary of PRB; (ii) the Project Technical Committee will review quarterly workplans and six-monthly progress reports, review and approve the draft annual workplan and budget (AWPB) for presentation to the PRB. It will be chaired by the project coordinator and will comprise the heads or representatives of the line agencies and FATA DC and the SAP coordinator as members and the chief of Section, FATA, as secretary; (iii) an Agency Coordination Committee (ACC) at each of the three agencies will coordinate project activities with other government and/or donor interventions. It will be chaired by the political agent and include representatives of the relevant line agencies and representatives of the tribal agency organizations with the project manager as secretary. Implementation responsibilities of the different partners are detailed in Appendix IV.

G. Economic Justification

43. **Benefits and beneficiaries.** The project irrigation and agricultural development components, including crops and livestock, will benefit about 2 400 and 1 100 extended farm households, respectively. Activities mainly geared to women include income-generating activities (about 4 200 beneficiaries anticipated) and women in charge of crop and livestock production due to the absence of male household members. Women will also be the principal beneficiaries of drinking-water supply schemes estimated to serve some 3 000 extended families and of community-based investments from the Community Development Fund (CDF). About 3 000 microentrepreneurs will take advantage of improved access to formal credit.

44. The main quantifiable benefits arising from the project are: (i) increased crop productivity from improved rainfed and irrigated cultural practices and support services; (ii) increased area under production from new and improved irrigation; (iii) increased animal production resulting from improved support services and an increase in fodder production and in the supply of crop residues available for animal feed; and (iv) increased production of milk and meat as a result of income-generating activities. Main incremental production at full development is estimated to reach about 13 000 metric tonnes (t) of wheat, 4 800 t maize, 5 600 t potatoes, 3 400 t winter vegetables, 18 600 t summer vegetables and 17 600 t fodder. Other benefits likely to arise but that have not been quantified include the output of agricultural research activities, production from microenterprise activities, improvement of input supply and produce marketing through feeder-road improvement and the community-based activities to be financed through the CDF.

45. The project seeks to increase the income of the rural poor and women. Various representative crop and farm models have been prepared to test the financial viability of the different project activities. It appears that the increase in household income ranges from 30% (or USD 150) for livestock to 110% (or USD 330) for irrigated farm activities.

46. **Economic analysis.** The economic rate of return, over a 20-year period, has been calculated at 24.8% for the whole project on the basis of a number of assumptions (see Appendix VII). It was assumed that all costs and benefits are included except those associated with road improvements and microenterprise development, on the grounds that benefits from these investments have not been quantified. All operating and maintenance (O&M) costs associated with irrigation-channel improvement have been accounted for in the estimation of incremental net benefits from crop production. A sensitivity analysis has been carried out showing that the project is not very sensitive to changes in benefits and costs. In fact, a 10% increase in costs or a 10% decrease in the benefit will reduce the economic rate of return (ERR) to 22.8% or to 22.6%, respectively.



H. Risks

47. The major risk may be the very difficult nature of the area: the harshness of the terrain, the conservatism of its people, its remoteness from the central Government and its vicinity to Afghanistan. All these factors may result in a slower than anticipated rate of formation and operation of COs, and especially WOs, which would affect the implementation of all rural infrastructure works, credit uptake, hand-over of the tubewells and drinking-water facilities, social forestry and communal facilities. For this reason, considerable resources have been earmarked for community sensitization and mobilization activities, which will support the launching, training and functioning of CO/WOs. The second risk would be that the range of local actions financed under the project might be those favoured by the political administration or by the more-influential people. For this reason, major reliance is placed on the PRA and beneficiary monitoring, limiting political interference in the approval process of the AWPB. To ensure the greatest possible involvement of women, no identification of investment activities at a village is initiated until a WO is being formed. Priority will be given to those investments directly or indirectly serving women, and women community extension and livestock workers and activists at the village or sub-village level will be recruited. In particular, local, respected, charismatic social mobilizers will be trained and recruited to sensitize and educate the male population to women and children's rights, using religious and customary texts to promote the involvement of women.

I. Environmental Impact

48. Soil and water losses through erosion, due to the pressure on arable land, overgrazing, deforestation, run-off and spate flows, are the major environmental risks in the project area. The project will help mitigate these problems, addressing them through soil and water conservation, rehabilitation of irrigation systems and range-management activities. It will also help create awareness of the problems and demonstrate the technical feasibility and financial attractiveness of community-based conservation works and tree-planting. Although it is believed that groundwater is not over-exploited, extraction volumes and quality (including salinity) will be regularly monitored during the project.

J. Innovative Features

49. This is the first major, broad-based, multilaterally financed area-development project in southern FATA. The project has the following innovative features: (i) all project activities are based on community participation and exclude political interference; (ii) responsibilities will be largely decentralized to the agency level and village communities; (iii) community savings schemes and matching funds will be promoted to reach the poorest and women so that they may undertake income-generating activities; (iv) the private sector (BOK) will be involved in on-lending for microenterprise development and to COs/WOs to contribute to their sustainability after the project; (v) suitable local people will be recruited to undertake social mobilization; (vi) close coordination with SAP will broaden project impact on rural households by integrating primary health care, primary education and sanitation efforts; (vii) implementation of project-funded activities will be highly flexible in a demand-driven, process-type project, where year-to-year activities will respond to beneficiary initiatives and needs.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

50. A loan agreement between the Islamic Republic of Pakistan and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.



51. The Islamic Republic of Pakistan is empowered under its laws to borrow from IFAD.
52. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

53. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Islamic Republic of Pakistan in various currencies in an amount equivalent to thirteen million four hundred thousand Special Drawing Rights (SDR 13 400 000) to mature on and prior to 1 December 2040 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 5 December 2000)

1. The Government of the Islamic Republic of Pakistan (the Government), through PE&D, will transfer available funds and other resources called for in the AWP/Bs:
 - (a) to each of the line agencies on a biannual basis, upon review of project implementation status in line with the AWP/B, to carry out the project; and
 - (b) to BOK, in accordance with a subsidiary loan agreement, to carry out the rural financial services component.
2. The Government, through PE&D, will cause PCU, PMUs and line agencies to open and thereafter maintain current accounts denominated in Pakistani rupees in the National Bank of Pakistan for project operations (the “project account”). The government officers concerned will be fully authorized to operate each of the project accounts.
3. During the project implementation period, the Government will make counterpart funds available to the Government of NWFP from its own resources for each fiscal year, equal to the counterpart funds called for in the AWP/B for the relevant project year.
4. The Government will also ensure that:
 - (a) at least 50% of its annual contribution to project costs will be deposited in the project account no later than 2 January of each year and the second instalment no later than 7 August of each year;
 - (b) line agencies will give priority to project activities and the project will make payments on output achieved;
 - (c) during the mid-term review, project components will be adjusted on the basis of the new conditions of project implementation;
 - (d) at the end of project year one, the performance of the project coordinator will be evaluated by the Government and IFAD. Should it be necessary, the possibility of recruiting from the open market with market competitive salary may be considered; and
 - (e) vehicles, equipment and staff will be made available to the project as and when needed in addition to those procured under the project.
5. The following are additional conditions precedent to the effectiveness of the project loan agreement:
 - (a) PCU has been duly established in a manner satisfactory to IFAD;
 - (b) the project coordinator has been duly appointed, with qualifications acceptable to IFAD;
 - (c) project accounts and the special account have been duly opened; and



- (d) the auditor general has received the request from the Government of NWFP to audit the accounts of the project.
6. No disbursements will be made for incremental credit until the subsidiary loan agreement referred to in paragraph 1 (b) above has been approved by IFAD.

COUNTRY DATA

PAKISTAN

Land area (km² thousand) 1996 1/	771	GNP per capita (USD) 1997 2/	500
Total population (million) 1997 1/	128.5	Average annual real rate of growth of GNP per capita, 1990-97 2/	2.0
Population density (people per km²) 1996 1/	163	Average annual rate of inflation, 1990-97 2/	11.3
Local currency	Pakistan Rupee (PKR)	Exchange rate: USD 1 =	PKR 52
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-97 1/	2.6	GDP (USD million) 1997 1/	61 667
Crude birth rate (per thousand people) 1997 1/	36	Average annual rate of growth of GDP 1/ 1980-90	6.3
Crude death rate (per thousand people) 1997 1/	8	1990-97	4.2
Infant mortality rate (per thousand live births) 1997 1/	95	Sectoral distribution of GDP, 1997 1/	
Life expectancy at birth (years) 1997 1/	62	% agriculture	25
Number of rural poor (million) (approximate) 1/	30.6	% industry	25
Poor as % of total rural population 1/	36.9	% manufacturing	17
Total labour force (million) 1997 1/	48	% services	50
Female labour force as % of total, 1997 1/	27	Consumption, 1997 1/	
Education		General government consumption (as % of GDP)	12
Primary school gross enrolment (% of relevant age group) 1996 1/	74	Private consumption (as % of GDP)	78
Adult literacy rate (% of total population) 1995 3/	38	Gross domestic savings (as % of GDP)	10
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1995 3/	2 471	Merchandise exports, 1997 1/	8 632
Index of daily calorie supply per capita (industrial countries=100) 1995 3/	78	Merchandise imports, 1997 1/	11 182
Prevalence of child malnutrition (height for age % of children under 5) 1992-97 1/	n.a.	Balance of merchandise trade	-2 550
Prevalence of child malnutrition (weight for age % of children under 5) 1992-97 1/	38	Current account balances (USD million)	
Health		before official transfers, 1997 1/	-6 888
Health expenditure, total (as % of GDP) 1990-97 1/	3.5	after official transfers, 1997 1/	-3 675
Physicians (per thousand people) 1990-97 1/	0.5	Foreign direct investment, 1997 1/	713
Percentage population without access to safe water 1990-96 3/	26	Government Finance	
Percentage population without access to health services 1990-95 3/	45	Overall budget surplus/deficit (including grants) (as % of GDP) 1996 1/	-7.8
Percentage population without access to sanitation 1990-96 3/	53	Total expenditure (% of GDP) 1996 1/	23.8
Agriculture and Food		Total external debt (USD million) 1997 1/	29 664
Food imports as percentage of total merchandise imports 1997 1/	19	Present value of debt (as % of GNP) 1997 1/	37
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	1 115	Total debt service (% of exports of goods and services) 1997 1/	35.2
Food production index (1989-91=100) 1995-97 1/	130.5	Nominal lending rate of banks, 1997 1/	n.a.
Land Use		Nominal deposit rate of banks, 1997 1/	n.a.
Arable land as % of land area, 1996 1/	27.3		
Forest area (km ² thousand) 1995 1/	17		
Forest area as % of total land area, 1995 1/	2.3		
Irrigated land as % of cropland, 1994-96 1/	80.2		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 19992/ World Bank, *Atlas*, 19993/ UNDP, *Human Development Report*, 1998

PREVIOUS IFAD LOANS IN PAKISTAN

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Small Farmers Credit Project	World Bank: IDA	World Bank: IDA	HC	27 Jun 79	04 Jun 80	31 Dec 85	L - I - 18 - PA	SDR	23 750 000	100%
South Rohri Fresh Groundwater Irrigation Project	AsDB	AsDB	HC	19 Dec 79	28 Mar 80	31 Dec 90	L - I - 33 - PA	SDR	12 400 000	37.2%
Barani Area Development Project	IFAD	AsDB	HC	03 Dec 80	27 Aug 81	31 Dec 90	L - I - 48 - PA	SDR	9 800 000	48.1%
On-Farm Water Management Project	World Bank: IDA	World Bank: IDA	HC	17 Dec 81	28 Jul 82	31 Dec 85	L - I - 83 - PA	SDR	10 500 000	84.8%
Small Farmers' Credit Project II	World Bank: IDA	World Bank: IDA	HC	13 Dec 83	09 Jul 84	31 Dec 87	L - I - 138 - PA	SDR	23 200 000	100%
Gujranwala Agricultural Development Project	IFAD	AsDB	HC	12 Dec 84	21 Jun 85	31 Dec 93	L - I - 162 - PA	SDR	8 650 000	99.6%
Chitral Area Development Project	IFAD	AsDB	I	10 Sep 87	25 Nov 88	31 Dec 97	L - I - 209 - PA	SDR	8 700 000	78.1%
Punjab Smallholder Dairy Development Project	IFAD	AsDB	I	30 Nov 88	18 Feb 91	30 Jun 98	L - I - 234 - PA	SDR	12 050 000	47.4%
Second Barani Area Development Project	IFAD	AsDB	I	19 Apr 90	18 Feb 91	30 Jun 98	L - I - 257 - PA	SDR	15 200 000	71.3%
Smallholder and Women's Rural Credit Project	IFAD	World Bank: IDA	I	02 Oct 90	19 Jun 92	30 Jun 96	L - I - 265 - PA	SDR	19 000 000	07.6%
Neelum and Jhelum Valleys Community Development Project	IFAD	UNOPS	I	04 Sep 91	05 Jun 92	31 Dec 01	L - I - 288 - PA	SDR	11 900 000	61.6%
Manshra Village Support Project	IFAD	UNOPS	I	03 Dec 92	26 Mar 93	31 Dec 00	L - I - 319 - PA	SDR	10 350 000	65.3%
Pat Feeder Command Area Development Project	AsDB	AsDB	I	19 Apr 94	02 Feb 95	30 Sep 02	L - I - 353 - PK	SDR	20 250 000	46.2%
Dir Area Support Project	IFAD	UNOPS	HC	11 Sep 96	15 Apr 97	30 Sep 04	L - I - 425 - PK	SDR	11 350 000	14.7%
Northern Areas Development Project	IFAD	UNOPS	HC	11 Sep 97	11 Sep 98	31 Dec 05	L - I - 453 - PK	SDR	10 750 000	11.3%
Barani Village Development Project	IFAD	UNOPS	HC	03 Dec 98	01 Sep 99	31 Dec 05	L - I - 492 - PK	SDR	11 150 000	11.7%



LOGICAL FRAMEWORK

Project Description	Performance Indicators	Monitoring/Means of Verification	Assumptions/Risks
1. STRATEGIC GOAL			
Household food security and incomes of the rural population in the target area increased.	Food security in the target area improved, as food insecurity reduced from 3 to 1 month per year; the annual average household income for the targeted 65 550 households increased on average by at least 50% by end of project.	Baseline data for food security and income level recorded during PRA. Periodic household/impact surveys and project completion surveys.	Government commitment to regional development planning and decentralization continued.
2. PROJECT OBJECTIVES			
35 600 to 45 800 extended poor households able to sustain an increased level of agricultural production, productivity and income.	<ul style="list-style-type: none"> • 24 100 households with an average holding of 0.4 ha (irrigated land) increase their yields from zero to 2.3 t/ha for wheat; 1.8 t/ha of maize and 7 t/ha of vegetables (tomato); increase production of summer maize from zero to 1.7 t/ha; • 11 500 households with improved animal husbandry/cross-breeding increase their income from livestock by at least 25%; • 4 200 women take part in income-generating activities; • 3 000 extended families benefit from drinking-water supply schemes and community-based investments; • 3 000 microentrepreneurs access formal credit. 	Baseline data from PRA sessions; annual M&E data; beneficiary workshops.	<p>Qualified and capable agricultural staff (crop and livestock extension service) available.</p> <p>Stability of non-project income factors, at least in the short term.</p>
3. COMPONENTS/OUTPUTS			
3.1 Beneficiaries trained to manage their productive resources. Women's and community groups established to facilitate skills training with priority to women, PRA sessions, identification and selection of priority community schemes.	240 WOs and 750 COs established; group leaders trained in group dynamics, 750 activists trained, capacity-building training for 240 groups, 50 women teachers trained, 750 persons trained in financial issues; 100 persons trained in marketing and business skills; 100 people received enterprise training; and 120 persons received skills training (skills to be determined). 306 persons participated in responsive monitoring workshops. 20 existing domestic water-supply schemes repaired. 10 new gravity schemes, 5 new tubewell schemes and 50 new dugwell schemes constructed. Nurseries established (no/ha to be determined); range management surveys conducted; community facilities constructed (no/specification to be determined in PRA).	<p>Training records kept with the social organizers at subdivisional level and at project management level.</p> <p>Records on domestic water-supply schemes implemented together with listing of beneficiary contribution kept with social organizers/project management.</p> <p>Records on establishment of nurseries and range management surveys, and construction of community facilities, together with listing of beneficiary contribution, kept with social organizers/ project management.</p>	<p>Qualified and enthusiastic social organizers available.</p> <p>Beneficiaries respond positively to project interventions and recommendations.</p> <p>Constraints to women's participation removed.</p>
3.2 Agricultural research strengthened and focus changed from fruit crops to vegetable crops and findings and recommendations transferred to extension staff.	Research material, training and extension material from trials and demonstrations developed and submitted to agricultural extension staff.	Feedback reports from agricultural extension staff and beneficiaries' responsive monitoring workshops.	Qualified government staff available.





Project Description	Performance Indicators	Monitoring/Means of Verification	Assumptions/Risks
3.3 Capacity of agricultural extension service strengthened and improved to ensure increased farm cash income from fruit and vegetables in order to enable more investments in production of staple food for home consumption.	<u>Fruit trees</u> : Improved pruning, pest and disease control, expanded area, increased number of private nurseries. <u>Vegetables</u> : Expanded cropping area, increased production outside main lowland harvest season. <u>Cereals</u> : New varieties in rainfed areas introduced; increased output (wheat) 0.34 t/ha; improved fodder production from maize with same level of grain t/ha. <u>Pulses</u> : Recommendations for use of line planting and early weeding accepted; expansion of area planted to groundnuts. <u>Fodder</u> : Introduction of perennial forage; improved digestibility and utilization of crop by-products; maize managed to increase forage production, increased Berseem by 3 t/ha.	Records kept with project management. Work plans and progress reports. Back-to-office reports from agricultural extension staff on beneficiaries' adoption of new technology. Feedback from beneficiaries' responsive monitoring workshops. Records kept with agricultural extension staff.	Qualified government staff available. Farm village workers available.
3.4 Capacity of livestock extension services strengthened and improved to ensure increased productivity of indigenous and cross-bred animals.	Increased artificial and natural mating and increased milk production; improved animal feeding and care; increased farm poultry and small-stock fattening; improved use of available animal feed; increased weight gains.	Records kept with livestock development staff. Feedback from beneficiaries' responsive monitoring workshops.	Qualified government staff available. Village livestock workers available.
3.5 Increased availability of irrigation facilities and reduced water losses.	<u>Plain Development</u> : 1 200 ha developed; <u>Unexploited Springs and Streams</u> : 2 000 ha developed; <u>Lift Schemes</u> : 1 000 developed, <u>Small-Scale Schemes</u> rehabilitated 1 600 ha under irrigation; <u>Medium Schemes</u> rehabilitated serving 1 600 ha; 1 500 ha <u>dugwell schemes</u> and 3 <u>Karez schemes</u> rehabilitated serving 750 ha.	Project management monitoring reports. Physical progress reports by contractors.	Suitable and qualified contractors available. Beneficiary farmers able to mobilize funds for on-farm development.
3.6 Rural access improved through rehabilitation/ upgrading of priority road stretches.	170 km of tracks converted to jeepable road.	Project management monitoring reports. Physical progress reports by contractors.	
3.7 Rural financial services, savings and credit facilities available for rural poor households in the target area.	Credit channelling through community credit pool and BOK. Disbursement of a total of 11 800 loans, annual disbursement in year 6 is PKR 47 million. Repayment 95%. Savings deposits amount to at least 10% of loan disbursement.	Records kept with Bank of Khyber.	Bank of Khyber allowed to establish branches in the project area at a later stage. In the meantime BOK works through its branches in Bannu, Tank and Hangu. It can also operate by opening an account in the nationalized commercial bank in the project area.
3.8 Increased implementation capacity at subdivisional, agency and coordinating level.	Coordination office established and staffed by contract staff; project management units (3) established and staffed by contract staff; social organization units (agency and subdivisional level) established and staffed.	Progress reports	Qualified staff available.
4. ACTIVITIES			
Women and community development 1. Train community leaders and extension and livestock workers 2. Establish community development fund for infrastructure development 3. Conduct skills training 4. Improve socio-economic infrastructure 5. Improve drinking-water supplies 6. Carry out civil works (rural roads, culverts and small bridges) 7. Promote social forestry 8. Conduct range management surveys	Effective implementation of project activities: Implementation as per workplans. Disbursement as per budgets. Total cost estimate USD 4.28 million	Review mission/ ex-post evaluation Special subject monitoring reports	PRA successfully carried out and villagers priorities accepted. Village Development Fund well managed and readily available. Responsiveness of village-level organizations.

Project Description	Performance Indicators	Monitoring/Means of Verification	Assumptions/Risks
Agricultural research 1. Improved crop technology dissemination 2. Farmer-led seed development 3. Promotion of fodder crops 4. Fruit and vegetable development 5. Participatory research	224 days of training implemented and 819 days of refresher training. Funds for operating expenses provided, including provision for preparation of pamphlets. Total cost estimate USD 0.73 million	Training records kept with project management.	
Agricultural crop production 1. Improved crop technology dissemination 2. Enhance extension staff activities 3. Provision of kits of small farm tools and knapsack sprayer 4. On-farm crop technology demonstrations 5. Inception and refresher skills training of - DOA staff - Community extension workers	420 days of agricultural officer training and 1 050 days of refresher training; 756 days of field adviser training and 945 days of refresher training; 800 days of community extension workers training and 2 300 days of refresher training. 1 138 demonstrations on annual crops, 565 demonstrations on perennial crops, and 14 demonstrations on plain development carried out. Total cost estimate USD 1.16 million	Training and demonstration records kept with project management.	
Livestock production 1. Breed improvement 2. Improved livestock management 3. Support to pastoralists 4. Strengthening of livestock services	420 days of veterinary officer training and 1 050 days of refresher training; 756 days of veterinary assistants training and 945 days of refresher training; 800 days of community livestock workers training and 2 300 days of refresher training. 1 280 demonstrations. Distribution of 200 breeding small ruminants to COs/WOs; AI expanded. Total cost estimate USD 1.19 million	Training, demonstration and breeding records kept with project management.	
Irrigation development 1. Prefeasibility assessments 2. Development plans and feasibility assessments 3. Detailed designs 4. Construction of main systems 5. Construction of on-farm distribution systems 6. Provision of advisory services 7. Provision of quality control	As per approved workplans and contracts with contractors. Total cost estimate USD 8.78 million	Project progress reports	
Rural access 1. Road identification through COs/WOs 2. Road rehabilitation/upgrading 3. Quality control	As per approved workplans and contracts with contractors. Total cost estimate USD 2.11 million	Project progress reports	
Rural financial services 1. Provision for establishment of community credit pools at CO/WO level 2. Establishment of microenterprise loans by BOK 3. Provision of rural finance for income-generating activities and enterprise development	As per financial requests and budgets from the project and Bank of Khyber. Total cost estimate USD 1.85 million	Special register for loans. Loan monitoring reports from Bank of Khyber to project management.	
Project implementation support 1. Project units 2. Component-specific implementing agencies 3. Project management support (PMU) 4. Provision of contractual incremental staff for each project agency management 5. Transportation 6. Office equipment 7. Incremental operational expenses	As per approved workplans and budgets. Total cost estimate USD 1.77 million	Monitoring reports Project progress reports Project monitoring report Ex-post evaluation Project cost and management accounts Workplans and budgets	Qualified senior staff can be attracted and retained. Responsiveness of institutions to be strengthened. Effective ad hoc specialist teams, contractor and consultant engagement.

PROJECT IMPLEMENTATION

Community Development

1. The project's approach is based on the participation of the beneficiaries as members of community (COs) and women's organizations (WOs) in the identification, planning and implementation of project activities. All rural communities will be eligible for project support. However, priority will be given to the poorer villages selected on the basis of a number of pre-identified indicators including: (i) existing infrastructure (road access, water supply, electrification, health facilities, education facilities, existing irrigation schemes) to be identified on the basis of existing secondary data and field visits; and (ii) socio-economic indicators (family size, house ownership, farm size and farm tenancy, and source of income) to be based on a sample survey in settlements where the infrastructure indicators warrant further investigation.

2. Community development under the project will incorporate the following key features: (i) before initiating community and women's development activities, 15 to 20 social mobilizers will be recruited from among the outspoken and conservative community members after their participation in a two-day training workshop; (ii) mobilization of rural poor communities for organizing groups; (iii) incorporation into the project of any existing active group (if any); (iv) developing local leadership of the target group through training; (v) operating a savings/credit scheme (community credit pool (CCP) at the CO/WO level; (vi) local resource assessment, prioritization of development needs through participatory appraisal and formulation of a community development plan (CDP) for implementation by each CO/WO; (vii) identification and training of community activists; (viii) preparation and implementation of schemes for physical infrastructure and social services with support from the respective line department; and (ix) facilitation of establishing cluster COs/WOs to organize interventions covering more than one CO/WO; and (x) organize apex bodies of COs/WOs to be linked up with credit institutions such as the PPAF, once the organizations are matured.

3. The results of the preparation of infrastructure schemes in terms of costs, feasibility and size of community contributions will be reviewed and implementation plans with time frames drawn up. For all infrastructure-related works a specific scheme agreement (terms of partnership) will be drafted spelling out modalities of implementation, beneficiaries' contribution, O&M etc.. Funding has been provided in anticipation of a significant demand for assistance with the development of new and existing irrigation schemes such as dugwells, lift-pump schemes and small and medium gravity schemes and small rural roads. For other projects, funding will be available from the Community Development Fund. COs/WOs will undertake infrastructure investment works using locally available material and labour and, if appropriate, local contractors. The respective line department will provide assistance in procuring tools and materials where needed. COs/WOs will undertake all procurement using funds provided by the project. The CO/WO will receive 20% of the estimated cost as a down payment upon signing the partnership agreement, with subsequent payments depending upon the progress of work as assessed by the relevant line department. Final payment will be made three months after completion of construction and upon the receipt of a completion certificate from the line department. COs/WOs will keep a complete record of expenditure on the investment in accordance with the formats used by the line department. The design, costing and construction of individual schemes will be reviewed by the project engineer to ensure that the schemes are technically and financially feasible.

Line Agency Operations

4. The relevant line agencies (e.g., DOAE, DLDD) will provide technical assistance and other services to COs/WOs as described in the project documents. In addition, FATA DC, LGRDD and PHED will design and supervise the implementation of irrigation, feeder roads and drinking-water supply



schemes respectively. The participation of line agencies will be coordinated by the PMU at the agency level and specified/ agreed in the quarterly and monthly work plans to be prepared by the PMUs in close cooperation with the line departments. The monthly work plan will specify the detailed day to day involvement of the various agencies at the CO/WO level and will be prepared jointly by CDU/SOU and agency/subdivision staff. Funds for the line departments will be released quarterly on the basis of the agreed quarterly work plans and progress made. Activities undertaken will be scrutinized by the PMUs prior to the release of further funds.

5. **Infrastructure development.** FATA DC in close cooperation with COs/WOs and CDUs/SOUs will be responsible for the implementation of irrigation-related investments including planning, design and supervision. The schemes to be developed will be identified by COs/WOs in the course of the establishment of the CDP. FATA DC will make a preliminary appraisal on the basis of preset selection criteria to assess whether the site warrants further investigations before a more detailed survey is carried out to determine the technical and economic feasibility of the proposal. Before submitting the proposal to the project for financing, the CO/WO will approve the project and agree to provide 25% of the costs including labour and undertake O&M of the scheme once the works are completed. Once approved, a memorandum of understanding is signed between the project and the concerned community. FATA DC will then issue a work order in favour of the respective CO/WO and 20% of the total costs will be released to the CO along with the design and work schedule. The construction work will then be executed by the community and supervised by FATA DC field teams. After completion the scheme will be handed over to the CO/WUA for operation and maintenance. FATA DC will provide the necessary training to users in the proper running of the schemes.

6. Social infrastructure works such as link roads and water supply, etc., will be implemented by COs/WOs with technical assistance by the respective line department. Implementation procedures, maintenance, financing and cost-sharing arrangements will be the same as described above for irrigation schemes.

7. **Crop development.** DOAE will be responsible for implementation of the crop sub-components, including extension; training of staff and farmers; arranging crop demonstrations, workshops, and seed multiplication through contract growers. For these activities, at the start of each season DOAE will prepare, in consultation with COs/WOs, a schedule of the visits of FAs to COs/WOs and a list of activities to be undertaken. FAs and CEWs will maintain a register in which the discussions with COs/WOs will be minuted and follow-up activities recorded for inspection by AOs and FAs. DOAE, in consultation with the project training officer and the Agricultural Training Institute, Peshawar, will prepare the curricula and training calendar and supervise the training courses for its own staff and the men and women CEWs nominated by COs/WOs. DOAE will be responsible for the project's seed-multiplication programme. The department, with support from the Agricultural Research Station, Tarnab (Peshawar), will identify suitable varieties of major crops and will conduct training for contract growers, selected on the basis of criteria involving land-holding size, accessibility to land, etc. DOAE will arrange procurement of basic seed from the relevant sources, provide seed to contract growers after the signing of an agreement and assure technical back-up. Contract growers will sell the multiplied seed to fellow CO members on a rate consistent with market prices of the seed.

8. **Livestock development.** The overall implementation of the livestock sub-component will be carried out by COs and WOs with support provided by the staff of DLDD, which will work with the COs/WOs as described above for crop development activities. DLDD will provide adequate animal health cover to the farmers, disseminate appropriate and applicable husbandry techniques and provide training to men and women CLWs to forge sustainable linkages between the line department and the client groups. CLWs will be nominated by COs/WOs.

9. **Adaptive research.** The PMU will contract adaptive research to the Agricultural Research Station, which has research staff and sites in all project agencies. Research work will be based on a diagnostic



survey to assess the project area's need for technologies and promising innovations available in the country. Introduction and other trials will be carried out by the stations in full cooperation with COs/WOs and will be supported by the soils laboratory in Parachinar, which will also analyse samples from interested farmers on a cost-recovery basis. The range management survey proposed under the community development component will be carried out in close cooperation with the ICARDA team, which is involved in a similar study under the IFAD-supported Barani Village Development Project.

Credit Delivery

10. Credit delivery under the project will be through two different channels: (i) community credit pools (CCPs) at the CO/WO level, based on community members savings supplemented with matching funds from the project; and (ii) a special-purpose credit line provided to the Bank of Khyber (BOK) for lending to agricultural and non-agricultural microenterprises in the project area. The CCPs will be managed by the respective communities under the supervision of a credit officer/social organizer and will finance small, short-term input and other loans up to PKR 10 000 for income-generating activities, particularly for women.

11. **Community credit pool.** COs/WOs will themselves be responsible for the operation of CCPs. However, SOU staff will be responsible for imparting the necessary training and providing technical guidance. Main indicators to pre-qualify and determine the maturity of a CO/WO for credit funds will include: (i) the age of a CO/WO should not be less than six months; (ii) savings by a CO/WO should be consistent since its formation and should fulfil the required proportion of credit funds; (iii) regularity in meetings and members' attendance should not be less than 75%; (iv) COs/WOs should preferably have exercised internal lending to experience the credit practice; (v) once a CO/WO pre-qualifies for the credit fund, the terms of partnership should be signed by the project and the CO/WO, agreeing that the funds will be used for productive purposes; otherwise the project should retain the right to withdraw the amount.

12. The selection of a loanee is at the discretion of a CO/WO. Selection criteria should include: (i) a loanee must be a member of the CO/WO; (ii) he/she should possess relevant experience and be willing to obtain training to improve and upgrade technical and managerial skills; (iii) one member per household should be eligible for credit; (iv) the member's attendance at group meetings and savings record should be satisfactory to the CO/WO; (v) the loanee should not be a defaulter of any credit institution/bank; (vi) a loanee must have at least 20% of the amount of credit as savings with the CO/WO. The maximum amount of credit should be PKR 10 000 and the period should vary from six months to a maximum of two years. The service charge should be the same as applied by BOK.

13. **The credit line,** being a part of the total project loan, will be onlent to BOK through a subsidiary loan agreement. The microenterprise development programme will be funded jointly, with 85% of the funds from the loan proceeds and 15% from BOK's own resources. Loans will be provided on a commercial basis with a spread sufficient to enable BOK to implement the microenterprise credit component without the risk of decapitalization of the bank. Assurance in this respect will be obtained during negotiation. The Government will cover the foreign exchange risk and lend to BOK at 7%. BOK will on-lend the funds to the target group with a mark up sufficient to cover the cost of funds, operating costs, losses, reserves and a reasonable return on asset, at present estimated at about 16%. The lending will focus on microenterprises, including manufacturing, production and service and trading sectors. The maximum loan to an individual borrower will be USD 4 000. The responsibility for appraisal, monitoring and recovery will rest with BOK; however, the project CDUs will assist BOK in improving its identification, appraisal, implementation and monitoring capabilities for such loans through staff training and technical support, and will support entrepreneurs through identification of suitable investment opportunities, business and technical training and demonstrations of appropriate technologies. BOK will maintain a revolving fund account. The repayment of credit extended through this facility, including the principal and mark-up, will be deposited in the revolving fund account to be used to make further loans to the target group.



Training

14. Initial and in-service training of staff selected to work within the project will be carried out at SRSC's Human Resource Development Institute (or any other selected) for participatory development training and at ATI, AHITI, the Pakistan Academy for Rural Development, the Secretariat Training Institute, Peshawar, or the OFWMTC at DI Khan for technical matters. Principals of those establishments will be requested to assist in the development of suitable courses, with particular attention to the following: (i) reorientation towards participatory development; (ii) design and implementation of effective demonstration programmes; (iii) technical aspects of improved on-farm water management, crop production, fodder production, processing and utilization; (iv) effective organization of work programmes, including implementation and reporting. Officers in each agency will be responsible for organizing training courses for CEWs/CLWs.

Project Organization Structure

Levels
Provincial
GONWEP

Add. Chief Secretary	
Ch.FATA	SDU

Project Review Board

Project Coordinator PCU

Project Technical Committee

Agency

Project Agency Manager PMU S. Waziristan

Project Agency Manager PMU N. Waziristan

Project Agency Manager PMU Kurram

Sub-division

SOU Wang (a)

SOU Jonduca/ Sarwarei

SOU Lhidda

SOU Miranshah(a)

SOU Mirazi

SOU Raznav

SOU Lower Kurram (a)

SOU F.R. Kurram

SOU Upper Kurram

Village/Hamlet

Male and Female COs/WOs

Kot/Household

Male and Female COs/WOs

Support Services

DOAE - ARI - DLDD - LG&RDD - PHED - FATA.DC - BOK

(a) SOU is integrated in PMU



OTHER DONOR AND NGO ACTIVITIES

Donor Strategy in FATA

1. There has been no explicit donor policy statement for FATA, but the implicit outlines of donor approaches can be recognized. In the past, the only broad-based development effort for FATA was the USAID Tribal Areas Project in the late 1970s. The first donor approach comprises extensions of area development or other projects to include neighbouring parts of FATA and other areas. The proposed AsDB Barani II project will include Oraksai Agency of FATA as well as Kohistan District. The demonstration, pilot and training activities of the proposed World Bank On-Farm Water Management (OFWM) Project IV will cover some locations in FATA, most likely those in the northerly FATA agencies funded minimally in the third phase of the OFWM. Both of these proposals are now in preparation. Secondly, donors have launched broad-based area development projects to promote poppy diversification in the northerly locations of FATA, which have some agricultural potential and which border the Khyber Pass, a transit zone of importance for the drug trade to and through Afghanistan. These comprise the United States-funded narcotics projects in the Bajour and Mohmand Agencies and the Dir District Development Project - Phase II funded by the UN Drug Control Programme. Both of these ostensibly support the Government's phased programme of poppy eradication and enforcement. Thirdly, the multi-donor support for the Social Action Programme reflects the realization that lack of access to basic needs is a major determinant of rural poverty and that budgetary support to government agencies can be justified given adequate supervision and monitoring. Lastly, donors have funded a range of heterogeneous location-specific actions in rural FATA zones that reflect donor availabilities and inclinations more than real or emergent needs. These include the OECF Water Management Project and the KfW-financed tubewells. Lately, donors have begun to appreciate the importance of strategic institutional strengthening to resolve one of the major constraints of development. Examples are the ongoing IFC and German GEB support to the Bank of Chiba and the proposed British support to LGRDD to expedite the Social Action Programme - Phase II. Finally, a WFP programme with CIDA has been cancelled due to the difficult implementation environment. Below are some details of a few representative projects, their objectives and the constraints they have faced.

Social Action Programme

2. The countrywide multi-donor Social Action Programme (SAP) Project began in 1993/94 to improve a wide range of basic needs, including education, basic health, family planning, rural water supply and sanitation. The SAP is focused on rural areas, where the majority of the poor live. Particular attention is given to gender concerns in order to provide women, girls, and children with better access to basic services. The ongoing SAP is supported by the World Bank, Asian Development Bank, The Netherlands, Japan, the European Commission and previously by the United Kingdom. The major vehicle has been increased budgetary allocations to line departments together with institutional arrangements to ensure timely release of funds and monitoring. Effectively, public spending on SAP sectors has been raised to about 2.2% of GDP in 1995/6. The increased national expenditures on basic social services in SAP-I was estimated in February 1999 to be a cumulative USD 4.0 billion. Although impressive, this has not yet been translated into higher primary-school enrolments and lower infant mortality rates. In SAP-I, financial outlays on the Federal Areas, which includes FATA, accounted for about 10% of total national outlays. The first phase of SAP terminated in 1996 and the second phase, SAP-II, runs from 1997/8 to 2001/02.

3. In FATA, the major contributions of SAP-II are in primary education, basic health care, rural water supplies and sanitation, as well as some support for monitoring and for community participation in communal schools, particularly girls' schools. Separate directorates for FATA have been established in the Education, Health and LG&RD Departments as well as a FATA cell in the Public



Health Engineering Dept. A SAP Coordination cell has been established in P&ED to monitor and evaluate progress and to ensure coordination with Federal and Provincial Governments. The total allocations planned for FATA in SAP-II are some PKR 1928 million, equivalent to some USD 35.7 million at current exchange rates. At the NWFP level, coordination of District activities is served by a SAP Coordination Committee, while at the Agency level coordination is effected through the respective Political Agent.

4. **The KfW-funded FATA Tubewell Development Project (1991-1999)**, fully funded by a grant of DM 20 million provided by the German Government through its Kreditanstalt für Wiederaufbau (KfW), supported agricultural development of plains and set out to achieve this through construction of tubewell irrigation schemes. All works were carried out by FATA DC. In the first period (1993-95), the project's activities focused on three areas, two of which lie in the envisaged IFAD project area. In these areas 77 schemes were completed. Remaining funds were used to include a fourth area in Kurram – the Parachinar and Bilyamin plains. Some 55 schemes were to be completed. However by September 99, some 41 schemes had been completed and 30 were handed over to beneficiaries.

5. The project's results were disappointing in that a large part (60%) of the installed capacity remained unutilized due to a number of reasons: inadequate electrical supply (persistent low voltages, voltage fluctuations/power supply failure); disputes between authorities and beneficiaries over payment for electricity; an inappropriate site-selection procedure, including inadequate consultation with local communities; and tribal disputes.

6. FATA DC and Halcrow Rural Development made a proposal to address the situation through a new project, the FATA Tubewell Agriculture and Water User Organization Development Programme. Dated October 1996, it was based on a survey of 20 KfW tubewells. The activities were to be scheduled over a period of four years and would have supported the development of community organizations (tubewell user associations) and provided on-the-job and informal training. At each of the four sites, a model tubewell was to be developed. Project costs were estimated at about USD 3.8 million, covering all properly functioning tubewells (132 at the time). The project was never implemented.

7. **The OECF-assisted On-Farm Water Management Project (1992-December 1999)** aimed at enhancing agricultural production through optimized use of available irrigation water and prevention of waterlogging and salinity. The project costs of PKR 4 000 million were financed through an OECF contribution of PKR 2 758 million, a contribution by the Government of PKR 568 million and beneficiary contributions (land, labour, cash) of PKR 785 million. When it was launched it was the 28th such project in the framework of the national OFWM programme (started in 1976-77 with USAID funding). The project had activities in all four provinces of Pakistan. Of the 60 field teams, 11 were based in NWFP and 3 of these had FATA as their work area. Each of the FATA field teams was stationed in one of the three agencies covered by the IFAD project. Budget allocation for activities in FATA was PKR 86 million (roughly USD 2.5 million), or about 2.5% of total project funds.

8. Activities in/for FATA were: remodelling/reconstruction of water courses; construction of storage tanks; precision land-levelling; establishment of demonstration centres; construction of a farmers training centre near Peshawar, which is central to the area (as part of the NWFP activities, one centre was established in D.I.Khan, which is near South Waziristan); training of OFWM staff and farmers; and an M&E programme.

9. **The World Bank-funded On-Farm Water Management Project IV** (60 months' duration, originally scheduled to start 1 July 1999, but delayed) is funded through a World Bank loan. It will have activities in all four provinces of Pakistan and total project costs are about USD 250 million. Of this, USD 2.7 million is destined for activities in FATA. The project aims to increase the command area under irrigation and enhance irrigated agricultural production. Its components are: (i) social



mobilization and support programme for the formation of farmer organizations/water users' associations and federations; (ii) improvement and new construction of irrigation infrastructure; land-levelling, establishment of demonstration centres and introduction of improved water management; and (iii) an M&E programme, supervision and technical assistance.

NGOs

10. There is no history of domestic or foreign-based NGOs operating in the project area, apart from one small urban NGO in Parachinar, the capital of Kurram. In consequence, there is no extant NGO capability in participatory techniques for the rural community to draw upon. The only such experience in the NWFP lies in the Sarhad Rural Support Corporation (SRSC) and the National Rural Support Corporation. While not parastatals, both are based on governmental initiatives and contract with the Government for operations financed by donor-funded projects. Neither have experience in FATA and do not have capacity that could be immediately redeployed in FATA agencies in the near future. Nevertheless, the SRSC will have a comparative advantage in staff training for any future FATA project, because it has hands-on experience in PRA and community mobilization in IFAD-funded activities in the Mansehra and Dir projects.

COSTS AND FINANCING

Expenditure Accounts by Component – Totals Including Contingencies (USD '000)

	Women and Community Development					Agricultural Development			Irrigation Development							Support To Line Dept.	Feeder Roads	Rural Fin. Serv.	Proj. Implem. Support		Total
	Skills Train.	Drink. Water Supply	Social Forest	Com. Dev. Unit	Com. Dev. Fund	Agric. Res.	Crop Dev.	Livest Dev.	New Schemes			Existing Schemes							Proj. Coord	Proj/ Agency Manag/	
									Springs/ streams	Lift Sch.	Dug-wells	Small Sch.	Medium Schemes	Dug-wells	Karez						
I. Investment Costs																					
A. Civil Works																					
1. Community Development Fund	-	-	-	-	481	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	481
2. Irrigation and Rural Roads	-	754	-	-	-	-	-	-	2 205	584	1 076	1 215	1 215	710	748	-	2 060	-	-	-	9 874
Subtotal Civil Works	-	754	-	-	481	-	-	-	2 205	584	1 076	1 215	1 215	710	748	-	2 060	-	-	-	10 355
B. Equipment	52	467	-	102	-	90	92	56	-	584	660	-	-	-	-	15	-	10	26	50	2 206
C. Vehicles	37	-	-	345	-	201	255	211	-	-	-	-	-	-	-	56	-	60	74	115	1 353
D. Materials	11	-	296	-	-	118	79	-	-	-	-	-	-	-	-	-	-	-	-	-	504
E. Training and Demonstration																					
1. Demonstration	-	-	-	-	-	48	83	65	-	-	-	-	-	-	-	-	-	-	-	-	197
2. Beneficiary Training	155	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	155
3. Staff training	-	53	-	84	-	62	186	186	-	-	-	-	-	-	-	-	33	7	-	-	612
4. Study tours	-	-	-	-	-	-	33	33	-	-	-	-	-	-	-	-	-	13	-	-	79
Subtotal Training and Demonstration	155	53	-	84	-	110	303	284	-	-	-	-	-	-	-	-	33	21	-	-	1 043
F. Studies and Consultants Services	25	8	-	-	-	35	-	-	102	45	29	32	32	33	24	-	27	-	72	6	489
G. Technical Assistance																					
International TA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31	-	31
National TA	-	-	-	-	-	13	-	30	-	-	-	-	-	-	-	-	19	54	-	-	117
Subtotal Technical Assistance	-	-	-	-	-	13	-	30	-	-	-	-	-	-	-	-	19	85	-	-	148
H. National Contract Staff	36	-	-	857	-	81	248	216	-	-	-	-	-	-	-	-	-	31	332	550	2 351
I. Credit																					
1. Community Credit Pool	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	481	-	-	481
2. Credit Line	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 154	-	-	1 154
Subtotal credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 635	-	-	1 635
Total Investment Costs	316	1 283	296	1 388	481	649	977	798	2 307	1 214	1 765	1 248	1 248	742	772	71	2 087	1 787	610	721	20 082
II. Recurrent Costs																					
A. Incremental staff costs																					
Salaries	-	-	-	96	-	-	-	-	-	-	-	-	-	-	-	-	26	-	44	151	317
Allowances	2	-	-	18	-	8	7	5	-	-	-	-	-	-	-	34	-	4	6	-	82
Subtotal Incremental staff costs	2	-	-	113	-	8	7	5	-	-	-	-	-	-	-	34	26	-	48	156	399
B. Operation and Maintenance																					
O&M of vehicles	14	-	-	154	-	74	172	200	-	-	-	-	-	-	-	52	-	62	28	42	798
Office Operating Costs	-	-	-	234	-	-	-	184	-	-	-	-	-	-	-	-	-	-	45	117	580
Subtotal Operation and Maintenance	14	-	-	388	-	74	172	384	-	-	-	-	-	-	-	52	-	62	74	159	1 378
Total Recurrent Costs	16	-	-	501	-	82	179	389	-	-	-	-	-	-	-	85	26	62	122	316	1 777
Total PROJECT COSTS	332	1 283	296	1 890	481	730	1 156	1 186	2 307	1 214	1 765	1 248	1 248	742	772	156	2 113	1 849	731	1 037	21 859
Taxes	22	84	30	189	-	101	130	136	110	175	120	61	61	35	116	29	103	31	39	69	1 604
Foreign Exchange	43	229	30	237	-	184	212	182	-	56	341	58	58	34	37	44	99	43	80	89	2 128

Disbursement Accounts by Financier
(USD '000)

	IFAD		Bank of Khyber		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
A. Civil works	7 297	70.5	-	-	626	6.0	2 432	23.5	10 355	47.4	473	9 256	626
B. Vehicle, equipment and materials	3 089	76.0	-	-	769	18.9	205	5.0	4 063	18.6	1 388	1 906	769
C. Training and demonstration	1 043	100.0	-	-	-	-	-	-	1 043	4.8	-	1 043	-
D. Credit													
1. Community credit pool	481	100.0	-	-	-	-	-	-	481	2.2	-	481	-
2. Credit line	981	85.0	173	15.0	-	-	-	-	1 154	5.3	-	1 154	-
Subtotal credit	1 462	89.4	173	10.6	-	-	-	-	1 635	7.5	-	1 635	-
E. Studies and consultant services	2 983	99.9	-	-	4	0.1	-	-	2 987	13.7	46	2 937	4
F. Recurrent costs													
1. Salary	-	-	-	-	291	100.0	-	-	291	1.3	-	291	-
2. Others	1 281	86.2	-	-	206	13.8	-	-	1 486	6.8	220	1 060	206
Subtotal recurrent costs	1 281	86.2	-	-	496	27.9	-	-	1 777	8.1	220	1 351	206
Total	17 154	78.5	173	0.8	1 895	8.7	2 637	12.1	21 859	100.0	2 128	18 127	1 604



FINANCIAL AND ECONOMIC ANALYSIS

Financial Analysis

1. To test the financial viability of the proposed project activities, four representative farm models have been developed: (i) Rainfed Upland Farm Model (2 ha); (ii) Rainfed Midland Farm Model (1 ha); (iii) Irrigated Midland Farm Model (0.4 ha); and (iv) Irrigated Lowland Farm Model (0.4 ha). Livestock production has been integrated into total farm income assuming an average holding of 1 head of cattle and 15 chickens for each type of farm model, except rainfed upland, where the number of cattle is 2 head. The table below summarizes the financial results of the models. It is clear that the financial aspect of the proposed project investments from the perspective of participating households is quite attractive. In fact, net farm incomes are expected to increase substantially, with the largest increases reported for the irrigated midland model (71%), followed by the upland rainfed models (45%), lowland irrigated model (39%).

Farm Model: Summary of Net Incremental Labour Returns

	Net Income (PKR/year)			Return to Labour (PKR/day)		Incr. Return to Labour PKR/day
	Without Project	With Project	% Change	Without Project	With Project	
Crop income						
Rainfed upland	25 556	41 726	63%	140	178	227
Rainfed midland	13 638	19 453	43%	152	205	447
Irrigated midland	15 610	32 910	110%	192	223	405
Irrigated lowland	11 017	16 899	53%	205	226	335
Livestock income						
Rainfed upland	26 558	34 478	30%	560	852	1 400
Rainfed midland	13 279	17 239	30%	280	426	1 400
Irrigated midland/ lowlands	13 279	17 239	30%	280	426	1 400

2. The average returns to labour are estimated to increase by 10-35% for the different farm models. Although the per cent increase appears modest in some cases, such as for the rainfed upland model, the incremental returns to incremental labour are considered to be satisfactory. The latter are estimated to be well above the prevailing nominal daily wage rate for unskilled agricultural labour in all farm models.

3. Analysis of the farm models' labour profile indicates increased labour requirements ranging from 15% in the rainfed upland model, to 35% for the irrigated farm model in the with-project situation. These requirements can be accommodated within the family labour available because (i) the amounts of labour involved are small in absolute terms (not exceeding 200 days in total for even the most extreme case); and (ii) there is a lack of alternative employment opportunities in the project area. Analysis has been undertaken to assess the incentive for target-group households to participate in the project. Four farm models have been developed to estimate the benefits to farm households from project investments under various conditions.

Economic Analysis

4. An economic analysis has been undertaken on the basis of the following assumptions: (i) import parity prices for wheat, maize, paddy and fertilizer have been used to derive economic farmgate prices for these commodities; (ii) an SCF of 0.9 has been used for the inputs and other outputs; (iii) opportunity



cost of labour estimated at PKR 75 due to limited opportunities for work; (iv) incremental crop-production benefits have been derived from the aggregation of farm-model incremental benefits in economic terms multiplied by the incremental return per household and phased by the number of households expected to participate in the project for each type of farm model. A similar approach was used for the livestock benefit flow; (v) price contingencies, duties and taxes, and credit have been excluded; (vi) ongoing recurrent costs and replacement investment costs have been estimated for the period after project implementation. The former basically comprises line-department recurrent costs. O&M costs associated with irrigation channel improvement have been accounted for in the estimation of incremental net benefits from crop production. Replacement investment costs include provision for financing replacement of irrigation pumps and water-distribution lines for drinking-water supply schemes. An economic life of 15 years has been assumed for these items.

5. **Benefits.** The main quantifiable benefits arising from the project are: (i) increased crop production from improved irrigation and provision of agricultural support services; (ii) increased livestock production from improved health care, cross-breeding, better management and increased fodder production; Of these, the benefits from irrigation channel improvement and agricultural development are the most important.

6. Other economic benefits accruing from the project, but not quantified, include increased income generation through the expansion of existing or establishment of new on and off-farm income-generating activities and microenterprises, employment generation through technical skills training, agricultural research, rural road improvement and community-based activities to be financed through the Community Development Fund. These benefits were not quantified either because of the unavailability of reliable, relevant data or because the magnitude of the benefits were considered to be extremely difficult to estimate with a reasonable degree of confidence.

7. **Number of beneficiaries.** The estimated number of beneficiaries for each component/sub-component include: (i) **irrigation improvement.** The improvement of civil channels will provide and sustain irrigation facilities to 24 125 farm households in the lower and midland irrigated areas. The total area under irrigation is 9 650 ha and it includes existing schemes as well as new schemes. The average size of household holdings is taken as 0.4 ha. The average cropping intensity on these farms is projected to increase by 150-163%. Another 750 farm households are expected to benefit from investments in other irrigation facilities such as storage tanks, dugwells, and lift-irrigation schemes; (ii) **community development.** The community development sub-component will benefit 30 000 households in the project area. The project will support the establishment of 750 community organizations with average membership of 40 households; (iii) **crop development.** About 11 500 households are expected to benefit from project investments in increased production of crops in the upland and midland rainfed areas. A total of 8 000 ha of midland rainfed area and another 7 000 ha of upland rainfed area will be supported for increased production of crops. The average cropping intensity on these farms is projected to increase by 12%; (iv) **credit.** The project will channel credit through community credit pools and through BOK. Approximately 6 000 loans are estimated to be made to village COs and a further 3 000 loans for income-generating activities will be made through BOK during the six-year project implementation period. These loans will be used to finance investment and working capital requirements of farm households who wish to buy seed, fertilizer, etc., and expand or establish new on and off-farm income-generating activities. The total number of persons who will receive loans is calculated at 9 000. However, the actual number of persons benefiting from these loans is likely to be lower because of the possibility of repeat loans; and (v) the total number of direct beneficiaries of the project are estimated at 35 625 households. This number excludes those who will benefit through use of provincial roads financed by the project, which includes the entire population of the project area, and beneficiaries of the formal technical training and microenterprise development sub-components.



APPENDIX VII

8. **Economic rate of return.** The overall economic rate of return to the project is estimated at 24.8% for the base case. If cost increases by 10% or the benefit decreases by 10%, the rate of return is 22.8% or 22.6%, respectively. A two-year lag in benefit reduces the rate of return to 17.5%.