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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

NORTH-WEST FRONTIER PROVINCE BARANI AREA DEVELOPMENT PROJECT



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CURRENCY EQUIVALENTS

Currency Unit	=	Pakistani rupee (PKR)
USD 1.00	=	PKR 51.60
PKR 1.00	=	USD 0.0195

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

AsDB	Asian Development Bank
BME	Benefit Monitoring and Evaluation
DIU	District Implementation Unit
DPC	District Project Coordinator
MCOs	Men's Community Organizations
MVSP	Mansehra Village Support Project
NGO	Non-Governmental Organization
NWFP	North-West Frontier Province
O&M	Operation & Maintenance
PFI	Participating Financial Institutions
PLU	Project Liaison Unit
PRB	Project Review Board
SDU	Special Development Unit
VOs	Village Organizations
WCOs	Women's Community Organizations
WOs	Women's Organizations

GOVERNMENT OF THE ISLAMIC REPUBLIC OF PAKISTAN

Fiscal Year

1 July – 30 June



MAP OF THE PROJECT AREA

Pakistan: North-West Frontier Province



Source: Asian Development Bank

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
NORTH-WEST FRONTIER PROVINCE BARANI AREA DEVELOPMENT PROJECT
LOAN SUMMARY

INITIATING INSTITUTION:	Asian Development Bank (AsDB)
BORROWER:	Islamic Republic of Pakistan
EXECUTING AGENCY:	Planning, Environment and Development Department of the Government of North- West Frontier Province
TOTAL PROJECT COST:	USD 98.66 million
AMOUNT OF IFAD LOAN:	SDR 11.15 million (equivalent to approximately USD 14.45 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
COFINANCIERS:	AsDB Participating Financial Institutions (PFIs)
AMOUNT OF COFINANCING:	AsDB: SDR 40.06 million (equivalent to approximately USD 52.00 million) PFIs: USD 1.21 million
TERMS OF COFINANCING:	32 years, including a grace period of eight years, with an interest charge of one per cent (1%) per annum during the grace period and one and a half per cent (1.5%) thereafter
CONTRIBUTION OF BORROWER:	USD 20.11 million
CONTRIBUTION OF BENEFICIARIES:	USD 10.89 million
APPRAISING INSTITUTION:	AsDB/IFAD
COOPERATING INSTITUTION:	AsDB



PROJECT BRIEF

Who are the beneficiaries? The project will target about 67 000 households, with special emphasis on women. These are mainly small farmers, landless farm labourers, tenants/sharecroppers and those engaged in rural off-farm occupations. Most of the households live in poor conditions with frequent crop failures due to unreliable climatic conditions. The rapid rural appraisal (RRA) and participatory community workshops identified with the target group their priority needs. In general, the poorer villages or communities are small and remote; they have a low average farm size and an above-average number of landless; and their physical and social infrastructure is poorly developed.

Why are they poor? The project area's climatic conditions has made it extremely difficult to open the area, increase agricultural productivity, generate employment and improve the living conditions of the population. Agriculture is characterized by low input/low output and 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 in the south leading to frequent crop failure or yield depression. This, combined with predominantly small and fragmented farms, weak agricultural services and a shortage of inputs and credit facilities, has further trapped the population in a poverty circle. This situation has resulted in increasing migration to generate income, with a corollary of reduced labour availability to increase productivity and additional burdens on women who shoulder the major share of agriculture work. Illiteracy is widespread, particularly among girls, since sending children to school is a double burden on poor families, requiring an outlay of funds, while reducing labour availability.

What will the project do for them? The project will: (i) reduce poverty in remote areas of the North-West Frontier Province (NWFP), particularly among smallholders and landless; (ii) improve the status of women by targeting them in a culturally acceptable manner and increase employment opportunities for the rural people; and (iii) improve the living conditions of the rural population and reduce the burden on women through, for example, investment in drinking water supply and basic infrastructure. Project services will be provided through community organizations to be established/strengthened using local non-governmental organizations (NGOs). The project will directly benefit about 67 000 households (or 7% of the total households in the project area) as a result of crop intensification, improved irrigation and on-farm water management, and improved animal health. In addition, a much larger number of households will benefit from the overall improvement of agricultural services, applied research, water supply and microenterprise and income-generating activities. Beneficiaries, including women, will derive advantages from water-supply development, health and education improvements, training and the creation of income-generating activities. The involvement of newly elected local governments will have a positive impact on good governance, increase the beneficiaries' ownership of project investments and improve targeting, implementation and sustainability of the investments.

How will the beneficiaries participate in the project? The project has been formulated following extensive beneficiary consultations and taking into account the positive experience of the IFAD-supported projects in the country, particularly the Mansehra Village Support Project (MVSP). Consultations included a participatory rural assessment, a gender analysis with women's participation and participatory village workshops with the participation of local government, the private sector and NGOs. The project's design was further validated during appraisal in consultation with the beneficiaries at village level. The project will operate through extensive community mobilization and will include the formation of women's organizations (WOs) and village organizations (VOs), which will then serve as the entry point for line agencies and other service providers enabling them to contact villagers and enter into partnerships for development. All project technical and social services will be provided according to the needs of the beneficiaries to ensure the services' appropriateness, effectiveness and sustainability. Adequate training will be provided to project staff, beneficiaries and women.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
ISLAMIC REPUBLIC OF PAKISTAN
FOR THE
NORTH-WEST FRONTIER PROVINCE BARANI AREA DEVELOPMENT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Islamic Republic of Pakistan for SDR 11.15 million (equivalent to approximately USD 14.45 million) on highly concessional terms to help finance the North-West Frontier Province (NWFP) Barani Area 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 Asian Development Bank (AsDB) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Pakistan covers an area of about 796 100 km². Its population is estimated at 139 million and is increasing by 2.6% per annum. The growth of gross domestic product (GDP) in 1996/97 was only about 3.1%. Almost a third of the country lives in poverty, gauged either by income or caloric intake.² The incidence of poverty increased through the 1990s, and the situation has recently deteriorated further due to a slowdown in economic growth and a decline in new official development assistance. Economic growth in 1999 was 3.1%, with the fiscal deficit registering 5.9%. Private capital flows have also greatly diminished, reflecting reduced foreign investor confidence. The Government is taking measures to address the fiscal and current account deficits. To rebuild confidence, it has presented a four-pillar programme consisting of poverty reduction, improved governance, enhanced tax collection and decentralization.

2. Rural areas account for 67% of Pakistan's population and contain more than half of the country's poor. In rural areas, agriculture is the main source of employment and income. Although declining as a share of the national economy, agriculture still contributes 70% to foreign exchange earnings, generates about 50% of employment and makes up 25% of GDP. Crop production accounts for 60% of the agricultural GDP, the livestock subsector for about 30%, and forestry and fisheries for 10%. The average agriculture growth rate has been low, just keeping pace with the population increase. Main constraints include imperfections in land markets and land distribution, irrigation inefficiencies, the deterioration of land quality, an inadequate rural transport network and restricted access to credit by smallholders. Farmers in rainfed areas are at a significant disadvantage compared to those in irrigated areas in terms of vulnerability to weather and a general lack of access. The protracted drought that Pakistan is currently experiencing has had an especially negative impact in rainfed areas.

¹ See Appendix I for additional information.

² Pakistan ranks 138th out of 174 countries in the 1998 United Nations Development Programme (UNDP) Human Development Index.



B. Lessons Learned from Previous IFAD Experience

3. Project design incorporates lessons from IFAD, AsDB and other donor-supported projects and from non-governmental organization (NGO) activities. While it has not been easy to push for a gender-sensitive approach, many ongoing IFAD-funded projects are learning to work out locally acceptable ways of mainstreaming gender issues as mentioned above. Overall, many previous projects can be considered generally successful as they achieved an improved standard of living in the rural areas served, despite a few implementation issues and lower disbursement due to the continuing weakness of the Pakistani rupee. Project experience has shown that a participatory, demand-driven approach carried out in a non-confrontational, non-exclusive and culturally sensitive manner is very effective in reaching the target group and the poorer villages, including women. To ensure proper targeting of beneficiaries and their commitment to the project, flexible implementation and decentralized management are required. Accessibility to credit is the *sine qua non* for introducing new thinking and approaches to improve the productivity of the poor, and the design of a good delivery and recovery system is important to ensure the sustainability of credit. The success of credit depends on the mobilization of the poor's limited savings, the involvement of communities in the credit process and its linking to the formal financial system. The participation of women in the identification and prioritization of their own needs must be ensured through strong sensitization programmes for both men and women, the involvement of suitable grass-roots NGOs and the recruitment of qualified women staff.

C. IFAD's Strategy for Collaboration with Pakistan

Pakistan's Policy for Poverty Eradication

4. Despite some improvement in social infrastructure, especially in gender indicators, Pakistan still lags behind average Asian countries in population growth, infant mortality, school enrolment and adult literacy. To tackle the poverty issue, the Government is encouraging private-sector participation, and it is improving the management of natural resources and the environment through the strengthening of agriculture, infrastructure and the social sectors. Major initiatives in the social sector include investments in human resource development (education, health and sanitation). The Government has initiated several new measures relating to poverty and development in the past year. It launched the National Poverty Alleviation Programme (March 2000) to stimulate employment and provide basic infrastructure and essential services to rural and low-income urban areas. To contribute to a working agreement with the International Monetary Fund (IMF), the Government submitted an interim poverty reduction strategy paper that stresses broad-based economic growth and the development of human resources as a key means to reduce poverty. It is also formulating an AsDB-supported microfinance bank. Finally, to ensure efficiency and good governance, the Government has started decentralizing administrative powers and resources from federal and provincial governments to district and sub-district governments. Elections of local officials are expected to be completed by mid-year. Special provisions have been made to ensure the proper representation of women and disadvantaged groups in these local bodies.

IFAD's Strategy in Pakistan

5. **Donor support.** In addition to IFAD and AsDB support in NWFP, several multilateral and bilateral donors have supported rural development efforts. These include the Social Action Programme II (supported by World Bank, AsDB, the United Kingdom, The Netherlands, Japan, and the European Union), and the World Bank-supported On-farm Water Management (OFWM) Project IV. In addition, the World Bank supports a rural development programme of national scope, the Pakistan Poverty Alleviation Fund, which channels resources to communities through NGOs; and in NWFP it is financing the Community Infrastructure Project (basic infrastructure for urban areas and rural towns).



6. IFAD has supported 17 projects in Pakistan, with wide geographical and activity coverage and with increasing beneficiary participation and NGO involvement. IFAD's strategy was sharpened following the 1995 country portfolio evaluation and other specific studies and evaluations, 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. Projects have paid considerable attention to community organization, considered the pillar of all demand-driven development.

7. IFAD's project strategy comprises the following thrusts: (i) continuing to sharpen the focus of IFAD's activities on the rural poor, especially small farmers, tenants, the landless and women; (ii) focusing activities in poor rural areas, with an emphasis on semi-arid, mountainous and environmentally sensitive areas; (iii) promoting the regular evolution of a participatory community development approach with support to grass-roots and local community-based organizations to empower them while using NGOs as conduits to promote them; (iv) focusing project activities on improving women's conditions directly, through the provision of targeted services such as water supply, nutrition, health and education, and indirectly through sensitization, training and pressure on community leaders, members of *jirgay* (assemblies of tribal elders) and the male population to involve women in decision-making for the selection and prioritization of project-supported schemes; (v) focusing poverty alleviation activities on 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 the involvement of an institutional credit delivery system for microenterprise establishment.

Project Rationale

8. NWFP has large areas of poor settlements where livelihood is largely dependent on unreliable rainfed agriculture. Infrastructure is limited; service delivery outreach is weak; health and education indicators are poor; and virtually no indigenous organizations exist to mobilize villagers or advocate for a better life. Women's situation is hard and burdensome. However, resources and opportunities exist such as improved and affordable technologies to enhance the productivity of crop and livestock systems. Community forestry and range resources can be better managed to meet local needs. Simple designs for small-scale rural infrastructure are available at a reasonable cost and have been successfully demonstrated in a similar environment. Opportunities to avoid the high cost of indebtedness and to gain access to new livelihood resources could be tapped through microfinancing. These and other practical approaches are largely used by service providers, but an effective means to link rural communities with line agencies, research institutes, NGOs and participating financial institutions (PFIs) is lacking.

9. Participatory, demand-driven service delivery has proved its efficiency in mobilizing the rural poor under the IFAD-supported Mansehra Village Support Project (MVSP). Suitable NGOs exist and are interested in facilitating rural development through group sensitization and the formation and promotion of the image and the standing of women. Participatory rural assessment and participatory community workshops undertaken during formulation have furthered understanding of the target group's priority needs, which include: provision of drinking water supply; better access to agricultural extension, technology and inputs (quality inputs and improved genetic seed and stock); dependable roads and access to outside resources; alternative livelihood opportunities; affordable credit; meeting of household fuel requirements; basic social services; and village infrastructure. A flexible project to address the dynamic needs of the rural population, as identified and prioritized by them with the full participation of women, is the most appropriate way to alleviate poverty in these hard, isolated and remote areas and could become a participatory service-delivery model for the newly evolving local governments.



PART II - THE PROJECT

A. Project Area and Target Group

10. **Project area.** The project area covers 30 000 km², comprising some 930 000 households (about 5.6 million people) and includes the districts of Abbottabad, Bannu, Batagram, Haripur, Karak, Kohat, Kohistan, Lakki, Mansehra, and the federal agency of Orakzai. The area has large tracts of disadvantaged rainfed settlements, with low productivity and limited employment opportunities. As a result out-migration is important.

11. The project area is a land of contrasts, with very high mountains, steep hilly lands, alluvial and piedmont plains, well-watered lands as well as arid and semi-arid areas. The application of improved agricultural management on these agricultural lands may lead to improvements in yields and overall production. Rainfall distribution varies widely across the Barani areas from Bannu/Kohat divisions and Orakzai Agency in the south to Hazara division in the north with major implications on the type of agriculture. In general, the average yearly rainfall decreases from north to south, but it may also vary locally with increases in altitude (Orakzai Agency). In general, Barani agriculture is characterized by low inputs and outputs and especially by small and often fragmented landholdings.

12. Literacy rates in the area range from 6 to 39% for men, and from 1 to 8% for women. Many villages have no health facilities or paraprofessionals for either men or women. Malaria and water-borne and hygiene-related illnesses are the most prevalent diseases. Access to health facilities is often constrained because of the poor road network, which is made up mostly of mud-packed (*kacha*) roads. A few villages in the district of Kohistan have no access roads at all.

13. **Gender situation.** Women bear a relatively large share of on-farm activities because of male labour migration. Women are involved in agricultural operations such as the application of farmyard manure, weeding, harvesting, and the cleaning and storage of grains. Their involvement increases in poorer households. Women also cultivate vegetable gardens, dehydrate vegetables and fruits for home consumption, collect fuel wood, fetch water, cut grass for hay and tend livestock. The social context throughout the project area is conservative. This negatively impacts on women (and children's welfare) in terms of access to productive assets, social services and decision-making. Women's access to credit and other technical inputs is limited by social and economic factors, including inequities in education and skill levels. Levels of education and the health status of rural women and girls are among the lowest of all groups in NWFP. Group discussions with both men and women villagers highlighted that major inter- and intra-community conflicts are over women, communal land and livestock.

14. **The target group.** The overall poverty of the rural people in the project area is shown by the mostly adverse socio-economic indicators in absolute and relative terms to NWFP and Pakistan. The main factors are the remoteness and inaccessibility of many settlements, the lack of infrastructure, the harsh environment and the limited employment opportunities. This situation is further aggravated by the small and uneconomical average size of the holdings and the low productivity of current agricultural practices, which place practically all households in the IFAD target group. The target population is at least 5.0 million (about 830 000 households) or about 89% of the total population, including small and medium landowners, sharecroppers and the landless. The results of the survey of representative villages found that over 80% of the households have consumption below the minimum per capita poverty level of USD 15. Over 75% of the households face food shortages. Indebtedness is widespread, especially for basic needs and medical expenditure. 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 lack regular and open access to health care and 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. Therefore, all rural women will be considered the IFAD target group.

15. The project will base its intervention on active community participation. Moreover, it will give priority to activities directly benefiting women and children such as water supply, training of girls and health provision.

16. **Target group development priorities.** The participation of beneficiaries in the identification of their priority needs was ensured through intensive consultations carried out during project formulation. A social analysis survey was undertaken in representative villages. A separate gender analysis was also conducted and consultations were held with women, through both participatory rural assessment and formal surveys. The consultations also included representatives at all levels of civil government, the private sector, NGOs and ongoing projects. A series of validation workshops were held to share preliminary findings, review project proposals and interact with beneficiaries and other partners. At central level, a workshop was conducted with the participation of government officials, line agencies, NGOs, PFIs and institutions concerned with the project. Community members are increasingly conscious of their lack of access to social and productive infrastructure, and expressed clear priority needs and ideas about possible solutions. Outstanding problems identified include: water scarcity problems for drinking and irrigation; village infrastructure and accessibility; support services; and lack of credit for small farmers and 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 schemes and wells, etc.; (ii) improvement and expansion of existing irrigation and water supply schemes; (iii) the development of small rural roads to link villages to the main roads or markets; (iv) health clinics and veterinary services; and (v) training and education for young women and girls. Communities widely expressed their willingness to participate in the project activities based on their expressed priorities and to contribute to the cost and take over responsibility for operation and maintenance (O&M) of the investments.

B. Objectives and Scope

17. The main objectives of the project will be to: (i) reduce poverty in remote areas of NWFP, particularly among smallholders and the landless; (ii) improve the status of women; (iii) improve agriculture and natural resource management practices; (iv) enhance community infrastructure to increase value and/or decrease costs of village activities; and (v) improve rural livelihood opportunities and living standards, including specific measures to boost women's access to social and economic resources.

C. Components

18. All components are designed to provide an integrated approach to improving rural livelihoods and reducing poverty while being flexible enough to ensure that the project responds to changing demands and needs as identified and prioritized in consultation with the beneficiaries.

Village-Level Development

19. The project will contract suitable NGOs to establish and organize the beneficiaries into community organizations following the successful approach implemented under the IFAD-supported MVSP. The main steps include: (i) identification of village activists; (ii) their training and support; (iii) participatory workshops with the community to identify their needs and existing opportunities, and to prepare and subsequently appraise the village development plan; (iv) formal approval of the village plan and signing of the partnership agreement between the representatives of women's community organizations (WCOs)/men's community organizations (MCOs) and the project director; (v) initiation of implementation on terms agreed upon; and (vi) monitoring and evaluation of village development. WCOs and MCOs will be formed after the first workshop. There will be from three to



four WCOs and MCOs per village, whose representatives form the larger village organizations (VOs) and women's organizations (WOs) for a total of about 830 VOs and 500 WOs. VOs and WOs are better positioned to deal with common property resources and interact with line agencies. To ensure that women fully participate in the project in a culturally sensitive manner, the project will provide education to village-based girls; training of village women teachers; health awareness and family planning; women health practitioners; training of traditional birth attendants; gender-awareness programming (including civil and religious rights and access to justice); skills and enterprise training; and support of networking among WOs. The project will also finance the training of activists (5 200) and office-bearers (10 500) in leadership and organizational skills and provide villagers with microenterprise management capability, basic vocational employment skills and capacity in microfinance. WCO and MCO conferences will also be held with project management, government line agencies and others to coordinate, network and identify other resources and opportunities.

Agricultural and Natural Resource Management

20. Because this component is demand-driven and designed to meet the needs of the beneficiaries, as identified in participatory workshops, it includes a range of agricultural development options, which are summarized as follows: (i) supply of improved seed through village-level seed multiplication and demonstration plots with a total area of 3 400 ha; (ii) introduction of low-cost technologies to reduce post-harvest and storage losses and to increase composting (demonstration for all villages); (iii) identification and introduction of improved rainfed varieties through adaptive research (provision for 820 ha of adaptive research trials); (iv) networking with similar ongoing Barani (rainfed) research institutes to ensure cost-effectiveness; (v) introduction of off-season and high-value vegetables to improve nutrition and income (850 demonstration plots); (vi) development of farmer-managed, private fruit plant nurseries; (vii) breed improvement (artificial insemination for cattle and introduction of improved goat and sheep); (viii) animal health and vaccination (1.2 million doses provided for); (ix) feed enhancement and poultry enterprise management; (x) improvement of the use of neighbouring forest and range areas by the communities, provision of sustainable supplies of fuel wood and support for community afforestation of 5 500 ha and farmer plantations of 18 500 ha; (xi) support for the construction of soil erosion control such as strip cropping, contour farming, sloping agricultural land technology, spurs, protection bunds, water ponds and check dams (more than 1 800 of the various structures); and (xii) strengthening of the capacity of the Barani Agricultural Research Station at Kohat to conduct applied and adaptive research and the research station's links with the Department of Agricultural Extension and international agricultural research centres.

21. In addition, the project will provide adequate training supported by demonstrations, to extension workers, farmers and women, as appropriate, in: (i) improved farming techniques in rainfed areas; (ii) participatory forestry methods, village land-use planning, community nursery, afforestation and related income-generating activities; (iii) nursery O&M; (iv) the development of small income-generating microenterprises; (v) fruit and vegetable preservation; and (vi) better soil and water management practices.

Rural Financial Services

22. Because the poor have limited accessibility to credit and, when it is available, it is at high rate and for very short period, they are prevented from developing their productive base and increasing their productivity. The project will select suitable PFIs, such as the Khyber Bank, for eight districts to manage a credit line; they will provide about 10% of the credit disbursed from their own resources. The PFI will maintain a revolving fund to continue operation after closing of the project. Eighty percent of the PFI credit line will be channelled through the partner NGOs (utilizing a line of credit for on-lending) or via the credit officers of the social organizing units (retailing with bank payment of incentives to the facilitators) to the communities being served by the project. The remaining 20% will be direct lending from the PFI for loans greater than 50 000 Pakistani rupees (PKR) (about USD 950).



For the remote areas of Kohistan and Orakzai, NGOs will be contracted to manage another credit line and maintain a revolving fund following an arrangement acceptable to AsDB and IFAD. To ensure consistency in approach across districts, the project will develop a rural finance manual. It will recruit NGOs to support and train the beneficiaries in credit management and microenterprise activities. Loans will be provided at market rates (currently 18-23%) in line with government policy and to ensure long-term financial viability and sustainability. A minimum of an overall 30% of all loans are earmarked for women sub-borrowers.

Participatory Small-Scale Infrastructure

23. This component will improve the infrastructure and quality of life of villages as well as their accessibility. The following steps are required to support village infrastructure: (i) reconnaissance and situation analysis will be carried out, during which an NGO will work with a village to develop a profile to be presented at a roundtable of line agencies in a district; (ii) technical and social feasibility will be assessed with the assistance of the relevant line agency; (iii) after appraisal and if found viable, the line agency will assist with designing the requested infrastructure scheme; (iv) the scheme will be submitted to the District Implementation Unit (DIU) for review, approval and subsequent release of funds, in instalments, to WO and VO for implementation. However, before any funds are released, terms of partnership will be prepared, defining the responsibilities and commitments of the WO and VO, including O&M and resource requirements.

24. The main selection criteria for community infrastructure schemes are that they have: (i) potential to increase the income of the VOs/WOs or raise their social status; (ii) an estimated cost not exceeding about USD 7 500 per WCO or MCO and USD 200 per member household; (iii) no or negligible environmental impact; and (iv) an economic internal rate of return (EIRR) of not less than 12%. Larger schemes, however, will be possible for a group of WCOs/MCOs or a group of WOs/VOs by pooling resources and following the same principles and procedures to ensure consensus and commitment. The project will finance a range of community infrastructure including about 570 microirrigation schemes (6-40 ha each), 770 drinking water supply schemes, 600 km of feeder roads and 275 km of district roads, microhydroelectric (microhydel) schemes of 5-20 kw with an average cost of USD 7 000 each, and demonstration latrines in selected schools with no sanitation facilities.

Institutional Support

25. Institutional support includes project management, sector technical support and consulting services, benefit monitoring and evaluation (BME), and capacity-building and training for NGOs, staff and local government. The project will establish a project liaison unit (PLU) in Peshawar, the provincial capital of NWFP, and ten DIUs in the nine districts and the one agency. They will be provided with adequate equipment and appropriate staff. Sector support includes technical coordinators for gender and training, agriculture and natural resource management, and rural infrastructure development. In addition to routine BME, independent third-party consulting services will design and set up BME systems and undertake reviews. Institutional development will be undertaken in the form of capacity-building for local NGOs, building linkages with evolving local governments, and training project staff in management and accounting skills.

D. Costs and Financing

26. Total project costs over the seven-year period are estimated at USD 98.66 million, at September 2000 prices and including price and physical contingencies. Of this, foreign exchange costs represent about 17%. Physical contingencies represent 4% of base costs. Price contingencies are estimated according to World Bank/IMF projections. Constant purchasing parity exchange rates have been used to estimate project costs. These rates reflect the likely depreciation of the Pakistani rupee 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. Village level development	9 776	1 465	11 241	13	13
B. Agriculture and natural resource management	17 463	1 939	19 403	10	23
C. Rural financial services	8 173	1 859	10 033	19	12
D. Participatory small-scale infrastructure	26 693	7 881	34 574	23	41
E. Institutional support	8 058	1 886	9 944	19	12
Total base costs	70 164	15 030	85 194	18	100
Physical contingencies	2 691	569	3 260	17	4
Price contingencies	7 196	1 417	8 613	16	10
Total project costs	80 051	17 016	97 067	18	114
AsDB interest during implementation	0	1 603	1 603	100	2
Total costs to be financed	80 051	18 619	98 670	19	116

^a Discrepancies in totals are due to rounding.

27. **Project financing.** Table 2 shows the project financing plan. IFAD will finance about USD 14.45 million (14.9%), AsDB USD 52.00 million (51.9%), the PFIs USD 1.21 million (1.2%), the Government USD 20.11 million (20.7%) and the beneficiaries USD 10.89 million (11.2%). The Government's contribution includes duties and taxes (USD 6.51 million or 6.6%). Beneficiaries' contribution will mainly be in the form of labour and materials/equipment for civil works associated with irrigation, natural resources and other village infrastructure developments. To expedite project start-up and establish the basic structure of the project, IFAD has allocated USD 300 000 for retroactive financing effective upon Board approval.

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

Components	IFAD		AsDB		PFIs		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
A. Village-level development	2 533	19.7	8 914	69.5	-	-	1 204	9.4	177	1.4	12 828	13.2	1 651	9 973	1 204
B. Agriculture and natural resource management	2 334	10.6	8 256	37.5	-	-	8 626	39.2	2 797	12.7	22 012	22.7	2 179	18 082	1 751
C. Rural financial services	1 998	18.0	7 089	63.7	1 209	10.9	5	0	822	7.4	11 123	11.5	2 060	9 057	5
D. Participatory small-scale infrastructure	5 816	14.5	20 687	51.8	-	-	6 374	15.9	7 096	17.8	39 974	41.2	9 090	28 309	2 575
E. Institutional support	1 768	15.9	5 456	49.0	-	-	3 906	35.1	-	-	11 130	11.5	2 036	8 119	975
Total disbursement	14 448	14.9	50 403	51.9	1 209	1.2	20 114	20.7	10 892	11.2	97 067	100.0	17 016	73 540	6 510
AsDB interest during implementation	-	-	1 600	-	-	-	-	-	-	-	1 600	-	-	-	-
Total amount financed	14 448		52 003		1 209		20 114		10 892		98 667				

^a Discrepancies in totals are due to rounding.





E. Procurement, Disbursement, Accounts and Audit

28. Procurement of goods and services will be in accordance with the AsDB and IFAD procurement guidelines. Contracts in excess of USD 500 000 for goods, equipment and vehicles are subject to international competitive bidding. Contracts for goods, equipment and vehicles costing more than USD 100 000 and less than USD 500 000 will be procured through local competitive bidding; contracts costing less than USD 100 000 will be procured through direct shopping. Community-based civil works (such as irrigation schemes, council roads, water supply schemes) and other community infrastructure will be carried out by force account when appropriate or contracted by the respective VO/WO to local contractors. Suitable NGOs will be contracted to implement the community development component.

29. **Disbursements, accounts and audit.** The loan will be disbursed for eligible expenditure incurred during the project period. A special account will be set up in the National Bank of Pakistan to facilitate the regular flow of funds with an authorized allocation of USD 1.5 million. The account will be replenished in accordance with established IFAD guidelines. Withdrawal from the loan for payments costing less than USD 25 000 will be made against certified statements of expenditures (SOEs), the documentation of which will be retained by PLU for inspection during supervision missions. Project accounts will be opened for PLU, the DIUs and the line agencies.

30. Based on annual approved workplans and effective implementation, project funds from the special account will be channelled by the PLU to the line agencies and the DIUs and other involved agencies such as NGOs and PFIs. All implementing agencies involved in the project will keep separate accounts of expenditures with regard to the activities they undertake with project funding. The accountant within the PLU will ensure that all accounts are kept in accordance with government practices, which are acceptable to IFAD. The PLU will also prepare quarterly, consolidated statements of project accounts and progress reports, which are submitted regularly to the Project Review Board (PRB), AsDB and IFAD. All accounts will be audited by the government auditor or other auditors acceptable to IFAD. The audited accounts and auditor's report, which include a separate opinion on the SOEs, will be forwarded to IFAD and AsDB no later than six months after completion of each fiscal year.

F. Organization and Management

31. The Planning, Environment and Development Department of the NWFP government, through the Special Development Unit (SDU), will have overall responsibility for project implementation. A PLU at Peshawar level will be established to coordinate project activities and will be headed by a project director, with qualifications satisfactory to IFAD. At district level, a DIU will be established in each district (and the Agency) and will be headed by a district project coordinator (DPC). Each DIU will be responsible for planning and implementing workplans; coordinating the village activities and input of the NGOs, PFIs, and line agencies; and approving the subprojects of the VOs/WOs. All technical activities will be executed by the provincial line agencies in close cooperation with the local government, DIUs and the VOs/WOs, the latter supported by the contracted NGO on a contract basis.

32. Key coordination meetings will be convened at three levels: (i) **local coordination** will be through monthly planning and review meetings, called district coordination committees, that will include participation of the DPC (who will provide secretarial support), the chief district civil servant, the concerned line agencies, partner NGOs, and representatives of the VOs/WOs. As appropriate, the DPC will invite representatives from other projects to share information and develop strategies of complementarity; (ii) **coordination of the DIUs and the PLU** will be ensured through provincial quarterly project administration meetings in Peshawar organized by the project director, chaired by the director-general of the Planning, Environment and Development Department's SDU, and attended by the DPC and concerned provincial line agencies; (iii) **top-level coordination** will be achieved



through **PRB** meetings to be held at least twice annually, chaired by the NWFP Additional Chief Secretary (Development), with representation from the heads of the technical line agencies, partner NGOs, PFIs, DPCs and selected WO and VO representatives. The PRB will review and approve the workplans and budgets prepared by the DIUs, assess project progress and provide guidance on implementation issues. The project director will act as secretary to the PRB.

33. Monitoring of project activities and implementation and the effect on the beneficiaries will be the responsibility of PLU and each DIU, with assistance from a BME consultant over the whole project period. A project BME system will be established, *inter alia*, to provide: (i) progress indicators at the input and output levels to facilitate monitoring of project achievement; (ii) longer-term effect and impact indicators for a regular evaluation of the project against objectives; (iii) methodology and a system for incorporating participatory BME; and (iv) participation of beneficiaries, particularly women. The monitoring system will be used to guide project implementation. For household surveys and sector activity assessments, random sampling and control groups are to be systematically employed. To facilitate objective sampling, a comprehensive and regularly updated database of participants and activities will be required. A mid-term review will also be conducted in the fourth project year to adjust project activities to the needs of the beneficiaries and to the changing environment.

G. Economic Justification

34. **Benefits and beneficiaries.** Over 89% of the population live in poverty with an income below poverty line. Rural households will also benefit from various agriculture, livestock and forestry-enhancement activities. Many more users will benefit from village infrastructure including link and feeder roads, improved drinking water supplies, small-scale irrigation works and rural electrification. Rural financial services will enable increased rural employment and income-generation. Training for village mobilization, skills, microenterprise management, health, education, infrastructure O&M, etc., will involve a large proportion of the local population. Women will be targeted for involvement in various economic and social activities. In total, the project will benefit directly at least 67 000 households (400 000 people) and over twice as many indirectly. About 570 microirrigation schemes (4 750 ha) of 6-40 ha will be rehabilitated/enhanced (through, for example, channel enhancement, tubewells, dug wells and irrigation ponds), 765 drinking water supply schemes are projected; and 40 microhydel power generators constructed. It is anticipated that about 23 000 loans will be granted for crops and income-generating activities over the project period, most of which will benefit women and the landless. In addition, the construction of about 600 km of feeder roads and 275 km of district council link roads will benefit all the population of those areas and other users.

35. The main quantifiable benefits arising from the project are: (i) increased crop production from expanded irrigation, improved rainfed and better cultural practices; (ii) increased animal production resulting from an improvement in support services and an increase in the supply of crop residues; (iii) increased production of meat and milk from livestock; (iv) increased production from income-generating activities and forestry products. Main incremental production at full development is estimated to reach about 13 065 t of wheat, 14 418 t of maize, 3 736 t of groundnut, 89 757 t of vegetables, 202 337 t of fodder and 1 289 t of gram. Although not quantifiable, other benefits include the output of the adaptive research programme, production from pilot microenterprise and income-generating activities, improvement of the health conditions of the poor and their environment.

36. The project seeks to increase the income of the rural poor and women. Various representative crop, farm and activity models have been prepared to test the financial viability of the different development proposals. As a result of better seeds, cultural practices and fertilization, yields of main crops will increase significantly thus increasing the farmers' income by 20% for wheat (USD 26), 95% for maize (USD 98), 93% for millet (USD 255), 54% for fodder (USD 43), 37% for gram



(USD 77) and USD 23 per improved sheep/goat. In addition, other activities will generate an increased income estimated at USD 60/ha from soil and moisture conservation, USD 415/ha from nurseries and an average of USD 600/ha/year from afforestation activities.

37. **Economic analysis.** The economic rate of return (ERR), over a 20-year period, has been calculated at 19% for the whole project on the basis of the following assumptions: world market prices for tradable commodities, a standard conversion factor of 0.9 and a shadow labour wage factor of 0.78. It was assumed that all costs except for community development and credit lines and 25% of the management costs have been included since the benefits from these are not quantified. The ERR is not very sensitive to changes in benefits or costs. For a 10% increase of costs or a 10% decrease in benefits, the ERR decreases to 16%.

H. Risks

38. The major risk may be the very difficult nature of the area, and the conservatism of its people, which may result in a slower-than-anticipated rate of formation and operations of VOs, especially WOs, which would affect the implementation of all project activities. Considerable resources have been earmarked for community sensitization and mobilization activities and NGO involvement, which will support the launching, training and functioning of these VOs/WOs. The coverage of such a large area under the project is ensured through effective decentralization to DIUs of planning and decision-making process and the recruitment on the open market of competent staff with attractive and competitive salaries. The current decentralization process empowering local governments and promoting greater accountability will have a positive impact on good project governance. The project design incorporates a flexible implementation approach and strong beneficiary involvement in monitoring and evaluation to minimize the risk.

I. Environmental Impact

39. The initial environmental evaluation undertaken during formulation found that the project has potential to improve the environment by better natural resource management and by creating environmental awareness among the beneficiaries and stakeholders. Potential negative impact is associated with the construction of link roads and irrigation schemes, but this will be mitigated by their careful planning and design, including an environment assessment prior to the approval of schemes. VOs and WOs will be advised through the health and sanitation awareness training to avoid contaminating water sources. The supply of microhydel schemes to isolated rural settlements promotes environmentally friendly technology for internal lighting.

J. Innovative Features

40. There are no innovative features as the approach and different activities have already been tested under the IFAD-supported MVSP and the AsDB Barani Area Development Project, Phase I.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

41. 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.

42. The Islamic Republic of Pakistan is empowered under its laws to borrow from IFAD.

43. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.



PART IV - RECOMMENDATION

44. 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 eleven million one hundred and fifty thousand Special Drawing Rights (SDR 11 150 000) to mature on and prior to 15 April 2041 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.

Lennart Båge
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 23 February 2001)

1. **Channelling of project resources.** The Government of the Islamic Republic of Pakistan (the Government), through the Planning, Environment and Development Department of NWFP (NWFP government), will transfer available funds and other resources called for in the annual workplan and budget (AWP/B):

- (a) through the project liaison unit to each of the district implementation units and the line agencies in accordance with the AWP/B to carry out the project. Each DIU will transfer such funds to the relevant NGOs and VOs to support project activities at the district level; and
- (b) to each of the participating financial institutions, in accordance with subsidiary loan agreements to be entered into between the NWFP government and each PFI to carry out the rural financial services component.

2. **Project accounts.** The Government will cause each PLU, the DIUs and the line agencies to open and thereafter maintain in the National Bank of Pakistan a current account denominated in PKR for project operations (the project account). The concerned authorized government officers will be fully authorized to operate their respective project account.

3. **Counterpart contribution.** During the project implementation period, the Government will make counterpart funds available to the NWFP government from its own resources for each fiscal year equal to the counterpart funds called for in the AWPB for the relevant project year.

4. **Additional undertakings:**

(a) The Government will ensure that:

- (i) the operation of the special account by the project director will be subject to the recruitment of qualified accounting staff at the PLU level;
- (ii) the NWFP government will establish and maintain an accounting system and internal controls that are satisfactory to IFAD; and
- (iii) the project director will be appointed for a term of at least three years, subject to satisfactory performance, and that his/her replacement, if any, will have qualifications satisfactory to IFAD.

(b) *Gender focus.* The NWFP government will increasingly give project-financed women staff in line agencies permanent status as positions become available. Women candidates will be encouraged to apply for all project staff positions, and the NWFP government will use its best efforts to achieve gender balance.

(c) *Environment*. As part of maintaining sound environmental practices as required by the General Conditions of IFAD, the parties participating in project implementation will take the following measures throughout the project implementation period:

- (i) maintain appropriate pest management practices under the project and, to that end, the Government will ensure that pesticides procured under the project do not include any pesticide either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations (FAO), as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization (WHO) Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time; and
- (ii) submit to IFAD for its review and clearance environmental impact assessment reports of environmentally sensitive district council link roads prior to including such roads in the project. Schemes with a negative environmental impact that cannot be mitigated to the satisfaction of IFAD will not be included in the project.

5. **Conditions precedent to withdrawals.** No withdrawals will be made in respect of: (i) expenditures under the loan until an accounting staff with qualifications approved by IFAD has been recruited; and (ii) any PFI until the relevant subsidiary loan agreement has been executed and approved by IFAD.

6. **Additional conditions precedent to effectiveness of the project loan agreement:**

- (a) the planning commission Pro Forma I (PC-I) for the project by the executive committee of the National Economic Council of the Government, acceptable to IFAD, has been approved;
- (b) the NWFP government has recruited and appointed a project director with qualifications satisfactory to IFAD following an open and competitive selection process;
- (c) the NWFP government has established and formalized the PRB for the project chaired by the Additional Chief Secretary (Development), NWFP;
- (d) AsDB has confirmed to IFAD that all conditions precedent to the effectiveness of the AsDB agreement have been duly fulfilled by the Government except for the effectiveness of the project loan agreement;
- (e) the special account and the project accounts of each PLU and the DIUs have been duly opened; and
- (f) the auditor-general has received the request from the NWFP government to audit the accounts in accordance with the relevant section of the project loan agreement.

COUNTRY DATA

Land area (km ² 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 km ²) 1996 1/	163	Average annual rate of inflation, 1990-97 2/	11.3
Local currency	Pakistan Rupee (PKR)	Exchange rate: USD 1 =	PKR 51.6
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 live births) 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*, 1999

2/ World Bank, *Atlas*, 1999

3/ 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/Grant 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	71.6%
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	50.5%
Dir Area Support Project	IFAD	UNOPS	HC	11 Sep 96	15 Apr 97	30 Sep 04	L - I - 425 - PK	SDR	11 350 000	20.4%
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	14.7%
Southern Federally Administered Tribal Areas Development Project	IFAD	UNOPS	HC	07 Dec 00			L - I - 554 - PK	SDR	13 400 000	



APPENDIX III

LOGICAL FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
A. GOAL - Poverty reduction - Improved status for women	- Reduced percentage of population in poverty (from 80% to 50% in 15 years) - Level of household incomes increased and sources diversified (increased by 50% in real terms over 15 years) - Increased access to employment and social services (number of women active in income-generating activities or employment per village doubled over 15 years)	- Benchmark, mid-term, and terminal evaluations; project performance audit report (PPAR) and surveys - Benchmark, mid-term and terminal evaluations; PPAR and surveys	- Commitment to sound macroeconomic fundamentals by federal government - No major civil or natural disaster - Continued favourable environment for including women in project activities
B. PURPOSE/OBJECTIVE - Improve the sustainable use of natural resources through better management practices and enhance community infrastructure to increase value and/or reduce costs of village activities - Increase number of community- or enterprise-active women - Improve rural livelihood opportunities and employment	- Increased production value in green sector (yields up by 20% by project close) - Increased income-generating activities (number per village up by 100% by project close) - Reduced transport and utility costs (cost of bag of fertilizer delivered down by 30%; time spent fetching water down by 50% by project close) - Number of women active in organizations (50 per village at project close) - Number of women-run enterprises (up by 100% per village by project close) - Increased employment activities (1 000 days per village by project close) - Higher, more stable household income (up by 30% by project close) - Improved access to rural finance (30% of village households take formal loans by project close) - Improved access to services (travel time to nearest centre reduced by 20% at project close)	- Benchmark, annual, mid-term, and terminal surveys and evaluations; project completion report (PCR) and quarterly reports - Benchmark, annual, mid-term, and terminal surveys and evaluations; PCR and quarterly reports - Benchmark, annual, mid-term, and terminal surveys and evaluations; PCR and quarterly reports	- Availability and timeliness of inputs - Government and community commitments to respective programmes - No major prolonged drought - Continued favourable environment for including women in project activities - Ability to attract and retain women project staff to help carry out the project activities - Availability and timeliness of inputs - Government and community commitment to respective programme and operation and maintenance (O&M) obligations - No major price or demand deviations from project forecasts - Appropriate training programmes for marketable skills
C. COMPONENTS/OUTPUTS 1. VILLAGE-LEVEL DEVELOPMENT	- 832 men's village organizations (VOs) and 500 women's organizations (WOs) formed and operative - 5 200 activists and 10 500 community organization office-bearers trained - Community linkages established to line agencies, participating financial institutions (PFIs) and non-government organizations (NGOs) - Training for gender mainstreaming, village teachers, traditional birth attendants; and livelihood skills	- Physical and financial progress reports, review missions, independent consultant benefit monitoring and evaluation (BME), annual report and PCR	- Capacity and skill levels required in NGOs to conduct the community mobilization training and rural finance support activities - Capacity and skill of executing agency and implementing agencies to work in participatory methodology in concert with NGOs and communities - Receptivity in the communities to the participatory approach and products



APPENDIX III

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
<p>2. STRENGTHENED AGRICULTURAL LIVELIHOOD</p> <ul style="list-style-type: none"> - Field crops - Horticulture - Soil and water conservation - Livestock - Community forestry 	<ul style="list-style-type: none"> - Improved management of natural resources resulting in sustainable, increased yields - Seed multiplication and demonstration plots, over 3 400 ha - Training of 800 village agriculture extension workers - Adaptive research trials (820 ha) 850 vegetable demonstrations and 900 vegetable production trainees - Kitchen gardening training for villagers (2 000) - Fruit and vegetable preservation training for villagers (2 100) - Training in farmer-managed fruit plant nurseries to villagers (570) Protection spurs (490), protection bunds (500), check dams (620) and water ponds (200) - Artificial insemination (55 000), sheep and goat improvement (6 600 animals), vaccinations and deworming (1.2 million doses), village livestock extension workers trained (520), poultry production training for women (3 240) and fodder demonstrations (210 ha) - Training for nursery management, community forestry and enterprise for 790 villagers; 5 500 ha of community afforestation; 18 500 ha of farm planting 	<ul style="list-style-type: none"> - Physical and financial progress reports, review missions, independent consultant BME annual report, and PCR - Physical and financial progress reports, review missions, independent consultant BME annual report, and PCR - Physical and financial progress reports, review missions, independent consultant BME annual report, and PCR - Physical and financial progress reports, review missions, independent consultant BME annual report and PCR - Physical and financial progress reports, review missions, independent consultant BME annual report and PCR 	<ul style="list-style-type: none"> - Participating villagers interested in demonstrations - Markets and demand for multiplied or improved seed, grain, fruit, vegetable, and livestock output - Availability and timeliness of quality inputs - Receptivity to training offerings and willingness to contribute to and maintain structures - Quality of government-delivered inputs - Appropriate training - Demand for services - Receptivity to training offerings and willingness to contribute - Interested participating demonstrators, incentives and motivation for control and management of growing stands, and markets and demands for forestry output
<p>3. RURAL FINANCIAL SERVICES</p>	<ul style="list-style-type: none"> - USD 17.5 million disbursed through 9 000 loans to 30% of community organization members; 30% of loans to women - Standardized rural financial services manual - Progress identified for sustainable rural financial units 	<ul style="list-style-type: none"> - Physical and financial progress reports, review missions, independent consultant BME annual report and PCR 	<ul style="list-style-type: none"> - Acceptance of market-based interest rates - Adequate incentives for activists and credit officers - Ability of participants to establish group collateral - Capacity of NGOs and PFIs to understand, convey and practise sound rural microfinance principles
<p>4. PARTICIPATORY SMALL-SCALE INFRASTRUCTURE</p>	<ul style="list-style-type: none"> - Microirrigation schemes (570), drinking water supply (765), feeder tracts (600 km), district council link roads (275 km), microhydel systems v , community health-awareness training (830 villages) and school latrines (205 schemes) 	<ul style="list-style-type: none"> - Physical and financial progress reports, review missions, independent consultant BME annual report and PCR 	<ul style="list-style-type: none"> - Demand for new and improved facilities and willingness to contribute to financing - Community commitment to O&M - Sufficient line agency and specialists' technical guidance and capacities
<p>5. INSTITUTIONAL SUPPORT</p> <ul style="list-style-type: none"> - Project management 	<ul style="list-style-type: none"> - 1 project liaison unit and 10 district implementation units staffed and established in PY1 - NGOs contracted; district programme offices and 27 social organizing units established and staffed - PFI established - Implementing agencies trained and active in participatory methodology - District monthly meetings held - Peshawar quarterly review meetings - Project annual review board meeting twice annually 	<ul style="list-style-type: none"> - Physical and financial progress reports, review missions, independent consultant BME annual report and PCR 	<ul style="list-style-type: none"> - Continuity in tenure of project staff - Commitment to participatory methodology - Adequate compensation rates to attract and retain high-quality staff - Competency in hired expertise



APPENDIX III

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
- Consulting services	- Consulting person-months effectively utilized (21 person-months international; 735.5 person-months domestic)	- Physical and financial progress reports, review missions, independent consultant BME annual report, and PCR - Physical and financial progress reports, review missions and PCR	- Continuity in tenure of project staff - Commitment to participatory methodology - Adequate compensation rates to attract and retain high-quality staff - Competency in hired expertise



IMPLEMENTATION ARRANGEMENTS

A. Project Management

1. Management functions will be decentralized in line with the lessons of the MVSP, which was managed from a regionally based office located in its service area and, as such, demonstrated more responsiveness, and better coordination and targeting of the poor, than did AsDB's Barani Area Development Project (BADP). In the project, the Peshawar-based Barani Area Development Office will be downsized to a project liaison unit (PLU), but it will retain responsibility for: (i) monitoring and reporting of the overall project; (ii) maintaining financial accounts and channelling resources; (iii) recruiting staff, consultants and NGOs; (iv) procuring vehicles, equipment and materials; (v) supporting the DIUs; and (vi) reporting to the PRB, AsDB and IFAD. The PLU will be staffed by a project director, a monitoring economist (to coordinate overall project BME), a gender and human resource development officer (to coordinate the training programme),¹ infrastructure and agriculture-natural resource management coordinators, an accountant, and other administrative support staff. Implementation experience with the BADP provides a sound management and accounting base for the project.

2. The actual day-to-day planning and implementation responsibilities of the project will be decentralized, which will complement the Government's own devolution programme. DIUs will be established in each of the nine districts and one agency. These offices will remain functionally accountable to NWFP, and will not be under the local district governments. However, they will work alongside and provide training and exposure to the new district governments. This operational autonomy is viewed as necessary as capacities and structure are not yet sufficiently developed at the district government level. The DIUs will be headed by a DPC, and staffed by a community infrastructure coordinator (engineer),² a gender coordinator and an agriculture and natural resources management coordinator. The DIUs will be responsible for: (i) planning and implementing workplans; (ii) coordinating the village activities and input of the NGOs, PFIs and line agencies; and (iii) approving the subprojects of the VOs/WOs. The northern and southern regions will each have one coordinating BME specialist to bring together relevant reporting data to be forwarded to the Peshawar-based monitoring economist. Project management staff will be hired by contract with renewal subject to performance evaluation by the project review board. While the NWFP government's Planning, Environment and Development Department (PEDD) has developed valuable experience and systems from MVSP and BADP implementation, the project will provide additional training in management, accounting and controls to further strengthen capacities at the provincial and district levels.

B. NGOs and Community Mobilization

3. The PLU will recruit NGO services for the village-level development component using procedures acceptable to IFAD and AsDB. This will include competitive bidding, NGO selection based on eligibility and evaluation criteria acceptable to IFAD and AsDB, and the submission of

¹ The gender and human resource development coordinator, in close consultation with the DIUs, NGOs and the line agencies, will be responsible for designing and implementing the project training programme to upgrade the skills and capacities of participating MCO and WCO members, NGOs, line agencies and project staff. Each year, the coordinator will present a detailed training plan to be shared with AsDB and IFAD prior to finalization.

² The community infrastructure coordinator will be assisted by an assistant engineer in PY3. Both of these staff members should work extensively in the field to develop and implement the WO and VO community infrastructure.



satisfactory proposals prepared by the NGOs. Eligibility criteria will broadly include that the NGO (i) is indigenous and registered; (ii) has been continuously active for the last three years in at least two of the proposed project sectors;³ (iii) is working through community-based organizations in the project area, adjoining areas or similar areas in NWFP; and (iv) has a management board comprising at least 50% local members with demonstrated commitment to the development of the disadvantaged. The selected NGOs will provide services to the DIU for implementation of the village-level development component, which includes the formation of COs, rural financial support services, non-formal education and health services, and support of the development of rural infrastructure schemes. There will be ten contracts for the ten administrative areas. The PLU will negotiate contracts with the selected NGOs covering a period not to exceed 3.5 years, subject to renewal. The contract will include adequate provisions for office rental, vehicles, equipment, staff, and other operational costs, including a portion of each NGO's overheads. The NWFP government will provide a draft negotiated contract to IFAD and AsDB for review and approval.

4. Indigenous NGOs are preferred as the goal is to develop long-term partners that will remain active in the area beyond the close of the project. During project formulation, a special study determined that there are a sufficient number of NGOs with the capacity to undertake the required project services to justify competitive selection. The selected NGOs will establish one district programme office (DPO) in each district and from two to three social organizing units (SOUs) under each DPO. To facilitate operational autonomy, the DPO and DIU may be housed in separate premises. Exceptions may be in the more remote areas of Kohistan and Orakzai, where establishment of NGO services may, at least in the beginning, require additional administrative support. The DPO will provide coordination and support for the SOUs, and be staffed by a district programme coordinator, a gender programming coordinator and a microenterprise-credit coordinator. Each SOU will provide one man and one woman social organizer and one rural credit officer. The NGOs will mobilize community and VOs/WOs, and facilitate bringing together villagers, project management and government line agencies to conceptualize and undertake the community, demand-driven activities. The main NGO functions will be to (i) organize MCOs and WCOs, and integrate these to higher level VOs and WOs; (ii) help villagers identify priorities; (iii) incorporate social considerations into project design, implementation and maintenance activities; (iv) participate in joint supervision of implementation; (v) train beneficiaries in microfinance and microenterprise, extend credit to the beneficiaries and help establish the financial linkages and systems for sustainability; (vi) develop guidelines and provide training for working together with line agencies in project implementation; (vii) help establish participatory BME as a part of routine community organization activities; and (viii) develop linkages to sustain the community organizations and improve access to resources.

C. Delivery of Rural Financial Services

5. Under the project, there will be two credit lines: one to be channelled through the NWFP government to a PFI for on-lending in eight districts, and a relatively small amount to be via project arrangements (acceptable to IFAD and AsDB) in Kohistan and Orakzai respectively, which are remote from branch banking and more suitable to a rotating savings and credit approach.⁴ In line with national Government's initiatives⁵ and best practices in microfinance, sustainable lending rates (to fully cover the costs of service delivery, including the cost of funds in the market, provisions for bad loans and operational costs) will be employed to (i) encourage long-term viability of financial services, and (ii) minimize introducing sector distortions. Currently, interest rates for microfinance

³ Including the sectors of forestry, agriculture, livestock, social mobilization, rural development, rural microfinance, microenterprise development, community infrastructure, health or training.

⁴ The favoured approach for lending is through NWFP government loan agreement with the NGOs contracted for these two remote and conservative areas, with the NGOs maintaining a revolving fund. However, arrangements will not be formalized until the NGOs are selected and there has been further assessment.

⁵ This refers to national government involvement in the design of a microfinance bank for the poor and in the Pakistan Poverty Alleviation Fund.



sub-borrowers are in the range of 18 to 23% for an established bank. For on-lending, the rate from the NWFP government will be equal to the weighted average cost of funds in the banking system, as determined by the State Bank of Pakistan. A PFI (such as Bank of Khyber, and any other PFI that may later be acceptable to IFAD and AsDB) will be contracted under a subsidiary loan agreement to provide credit directly (20%) or through partner NGOs and project area sub-borrowers (80%). The eligible sub-borrowers will be smallholders, landless labourers, women and the poor. The selected PFI will provide cofinance equal to 10% of the line of credit and maintain a revolving fund for continued lending in the project area. The 20% direct lending will be for loans greater than PKR 50 000 restricted to sub-borrowers directly connected to providing services to the project communities. The project will aim to make a minimum of 30% of all loans to women sub-borrowers, attaining this over a phased-in period. PFI screening and assessment for project microfinance capacity was undertaken during the project formulation.⁶ The provincially based Bank of Khyber has been identified as the preferred project PFI and has confirmed during mission discussions its interest in participating in the project.

D. Technical Support to Village Organizations

6. The participating line agencies (with long experience with MVSP and BADP, and AsDB's Malakand Rural Development Project, and in participatory rural development projects) have appropriate technical skills and are available for engagement in these areas. The project will provide resources and logistical support for the involvement of the line agencies. In addition, it will provide women extension workers.

7. The principal agencies that will provide technical support to the WOs and VOs for the strengthening agricultural livelihood component of the project will be the Agriculture Extension Department, Livestock and Dairy Development Department, Fruit and Vegetable Development Board, Agriculture Research of NWFP Agriculture University (for applied and adaptive research), Soil and Water Conservation Department and Forestry Department (for the social forestry sub-component). For rural infrastructure, the agencies that will provide technical support will include the Public Health Engineering Department (for larger water supply schemes); Local Government, Elections and Rural Development Department (the rural development wing for small water supply and feeder track roads, and the local district councils for district council link roads and women's hostels); Provincial Irrigation and Drainage Authority; and the Pakistan Council for Appropriate Technology (for microhydel schemes). The number of line agencies appears wide, but in any one village only a few will be active depending on the prioritized needs of the community as identified by the community in consultation with the concerned NGO and the project management office. The implementation arrangement has worked well in the past for the MVSP and BADP.

E. Project Coordination

8. Key coordination meetings will be convened at three levels. Local coordination will be done through monthly planning and review meetings, called district coordination committees, that will include participation of the DPC (which will provide secretarial support), the chief district civil servant, the concerned line agencies, partner NGOs and representatives of the VOs/WOs. As appropriate, the district project coordinator will invite representatives from other projects to share

⁶ In NWFP, the government's new microfinance bank will initially be established in D.I. Khan district, with plans for later expansion to the administrative areas of Charsada, Malakand and Swabi. Should its coverage later extend to the project areas, the desirability for inclusion of the bank as a PFI would be assessed during review missions.



information and develop strategies of complementarity.⁷ Coordination of the DIUs and PLU will be ensured through provincial quarterly project administration meetings in Peshawar organized by the project director (providing the secretarial services), chaired by the director general of the PEDD Special Development Unit, and attended by the district project coordinators and concerned provincial line agencies. Top-level coordination will be achieved through the PRB meetings to be held at least twice annually, chaired by the NWFP additional chief secretary, development, with representation from the heads of the technical line agencies, partner NGOs, PFIs, district programme coordinators, and selected WO and VO representatives. The Board will review and approve the workplans and budgets prepared by the DIUs, assess project progress and provide guidance on implementation issues. The project director will act as secretary to the PRB.

F. Implementation Schedule

9. Project implementation will be over seven years, starting in July 2001. Experience from participatory, community-based projects indicates that allocation of sufficient time for the initial community mobilization phase is crucial for implementation success and sustainable impact. Project activities are phased to first accommodate establishment of project management and community mobilization, and then the start of physical activities gradually after that. Given the more conservative and traditional setting in two new project administrative areas, Orakzai and Kohistan, the project will proceed on a pilot basis in initial years to allow a measured approach and the development of project awareness among the local populations.

G. Operation and Maintenance

10. The O&M of village infrastructure provided by the project, except the district council link roads, will be the responsibility of the communities, as provided for in the terms of partnership, which constitute a morally binding agreement between the VOs/WOs and the project. The community groups will perform O&M for the drinking water and sanitation schemes, microhydel, irrigation schemes and feeder roads ("jeepable" tracks). The VOs/WOs will be given O&M training during implementation of the schemes and then receive additional training in the two subsequent years after implementation to reinforce transfer of know-how and systems. However, villages can elect to turn over the O&M responsibility to the local government in exchange for user charges, if the O&M is formally ensured. The O&M of the district council link roads will be the responsibility of the district council wing of the Local Government, Elections and Rural Development Department.

H. Consulting Services

11. The PLU will be responsible for recruiting and managing consulting services. The project includes international (21 person-months) and domestic (735.5 person-months) consulting services. The packaging for firms will be (i) project BME and social-livelihood support, including independent BME, social-sector support, gender mainstreaming, community forestry programming, and rural microfinance development; (ii) district council link roads, including design, engineering, supervision, and environmental impact assessment; and (iii) NGO capacity-building, including expertise in community mobilization and outreach, gender mainstreaming, management systems, participatory monitoring and evaluation, and rural microfinance. Two other consultants, to be engaged in key project start-up activities, will be recruited individually: (i) an NGO specialist to assist in recruiting and contracting project partner NGOs; and (ii) a project management specialist to assist in establishing project systems and procedures.

⁷ On devolution, project implementation is not likely to be affected. Field personnel of the line agencies will remain stationed at the local level, but their line of authority will move to the district rather than the province. Since the project will largely operate at the district level with the involvement of the district chief civil servant as chair of the coordination meetings, implementing line agency operations are expected to continue as in previous projects, but with better accountability.



I. Training

12. Training and capacity-building is an important thrust of the project. For the beneficiaries, there is training in health, education, environment, community organization, employment and skills, field crop production, horticulture, livestock, community forestry, microfinance, and O&M of community infrastructure. For project staff, line agencies and NGOs, there is training in community mobilization and participatory approach, gender and development, environment, agriculture, livestock and forestry methods, rural finance outreach, management and accounting. There is also provision for annual exposure visits for the district council governments to exhibit the project's participatory methodology and to build linkages between community organizations and government service providers. To implement the training programme, the gender and human resource coordinator within the PLU will formulate the annual training programmes in consultation with the DIUs, line agencies, NGOs and beneficiaries, and incorporate the programmes into the annual workplan and budget. The gender and human resource coordinator will supervise and monitor implementation of the training programme, and along with the project BME staff and consultants, document impact through follow-up contacts with representative trainees.

COSTS AND FINANCING

Expenditure Accounts by Financier^a (USD '000)

	IFAD		AsDB		PFIs		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
Investment Costs															
A. Civil Works	5 793	15.3	20 603	54.3	-	-	5 222	13.8	6 316	16.7	37 935	39.1	9 717	25 437	2 780
B. Equipment and Materials	621	12.5	2 211	44.4	-	-	300	6.0	1 852	37.2	4 983	5.1	447	4 304	233
C. Vehicles	276	7.8	976	27.7	-	-	2 274	64.5	-	-	3 526	3.6	1 159	94	2 274
D. Specialist Services	432	22.0	1 530	78.0	-	-	-	-	-	-	1 962	2.0	381	1 580	-
E. Training, Demonstrations and Research	1 609	19.1	5 665	67.3	29	0.3	354	4.2	766	9.1	8 423	8.7	691	7 443	289
F. Financial Services	1 643	18.2	5 834	64.6	739	8.2	-	-	822	9.1	9 038	9.3	1 923	7 115	-
G. Supervision and Implementation Costs	3 959	17.6	13 175	58.6	442	2.0	4 924	21.9	-	-	22 500	23.2	2 695	18 872	933
Total Investment Costs	14 333	16.2	49 994	56.6	1 209	1.4	13 074	14.8	9 755	11.0	88 365	91.0	17 013	64 844	6 509
Recurrent Costs															
A. O&M Natural Resource Management (NRM) Livestock Schemes	10	21.1	37	75.0	-	-	2	3.9	-	-	49	0.1	4	44	2
B. O&M Community Infrastructure	-	-	-	-	-	-	660	36.7	1 137	63.3	1 796	1.9	-	1 796	-
C. Non-incremental Line Agency Staff	105	1.5	372	5.4	-	-	6 379	93.0	-	-	6 856	7.1	-	6 856	-
Total Recurrent Costs	115	1.3	409	4.7	-	-	7 041	80.9	1 137	13.1	8 701	9.0	4	8 696	2
Total Disbursement	14 448	14.9	50 403	51.9	1 209	1.2	20 114	20.7	10 892	11.2	97 067	100.0	17 016	73 540	6 510
AsDB Interest during Implementation	-	-	1 600	-	-	-	-	-	-	-	1 600	-	-	-	-
Total Amount Financed	14 448		52 003		1 209		20 114		10 892		98 667				

11

^a Discrepancies in totals are due to rounding.

Expenditure Accounts by Components^a
(USD '000)

	Village Level Development		Agriculture & Natural Resource Management							Rural Fin. Service	Participatory Smallscale Infrastructure				Institutional Support					Total
	Impr. Women Status	Comm. Mobil.	Agric. & Crops		Hort. Ext.	Soil & Water Conser.	Live-Stock & Fodder	Comm. Forest.	Micro-Irrig. Scheme		Feeder & Link Roads	Water & Sanitat	Micro Hydel	Proj. Management	Sector Techn. Supp.	Benefit M&E NGO	Capaci Build.	Pre-proj Plan.	Retro-active Finan By IFAD	
			Ag. Ext.	Ag. Resear.														Recov. AsDB PPTA Grant		
Investment Costs																				
A. Civil Works	-	-	101	112	6	1 426	105	24	-	4 229	23 876	7 106	424	-	525	-	-	-	-	37 935
B. Equip. & Material	16	176	8	46	-	-	1 313	3 143	-	-	-	-	-	233	48	-	-	-	-	4 983
C. Vehicles	-	933	356	137	151	330	387	310	-	-	-	-	-	922	-	-	-	-	-	3 526
D. Specialist Services	-	-	-	-	-	-	-	7	130	-	754	-	-	71	-	597	403	-	-	1 962
E. Training, Demos & Research	1 720	2 050	857	305	362	-	599	1 590	167	179	79	262	18	130	-	106	-	-	-	8 423
F. Fin. Services Line of Credit	-	-	-	-	-	-	-	-	9 038	-	-	-	-	-	-	-	-	-	-	9 038
G. Superv. & Imple. Cost	85	7 848	1 427	389	253	536	1 175	571	1 789	130	89	130	16	5 009	2 222	240	43	250	300	22 500
Total Investment Costs	1 821	11 007	2 749	989	772	2 292	3 579	5 644	11 123	4 537	24 798	7 497	457	6 365	2 796	837	552	250	300	88 365
Recurrent Costs																				
A. O&M NRM Livestock Scheme	-	-	-	-	-	-	49	-	-	-	-	-	-	-	-	-	-	-	-	49
B. O&M Community Infrastructure	-	-	-	-	-	-	-	-	-	412	778	412	193	-	-	-	-	-	-	1 796
C. Non-incremental Line Agency Staff	-	-	1 399	2 021	448	731	480	859	-	378	143	361	6	16	-	16	-	-	-	6 856
Total Recurrent Costs	-	-	1 399	2 021	448	731	529	859	-	791	921	773	199	-	16	-	16	-	-	8 701
Total Disbursements	1 821	11 007	4 148	3 010	1 220	3 023	4 108	6 503	11 123	5 328	25 720	8 270	656	6 365	2 812	837	567	250	300	97 067
Taxes	92	1 112	321	162	144	424	434	267	5	106	2 215	216	38	898	69	3	5	-	-	6 510
Foreign Exchange	183	1 468	435	187	148	672	509	229	2 060	765	6 640	1 573	112	1 095	192	263	11	250	226	17 016

^a Discrepancies in totals are due to rounding.

ECONOMIC AND FINANCIAL ANALYSES

A. Beneficiaries

1. Over 80% of the population live in poverty with an income below poverty line of USD 15. The direct target population in the project area project will be about 5 million (about 830 000 households). About 67 000 households (about 400 000 people) will benefit directly from various project activities such as village infrastructure, including link and feeder roads, improved drinking water supplies, small-scale irrigation works, and rural electrification from microhydels, agriculture, livestock and forestry enhancement activities. The introduction of rural financial services will enable increased rural employment and income-generation. Training for village mobilization, skills, microenterprise management, health, education, infrastructure O&M, and so forth, will involve a large proportion of the local population. It will also provide for institutional capacity-building through training. Women will be targeted for involvement in various economic and social activities.

B. Quantified and Non-Quantified Benefits

2. The village-level development (consisting of improving women's status and community mobilization) and the institutional support components are expected to have substantial but non-quantifiable effects in strengthening village institutions, mobilizing beneficiary activity, improving the condition of women and enhancing skills. Such benefits are important to mention but are difficult to incorporate in the economic analysis. Quantifiable project benefits are identified primarily in two components: strengthening agricultural livelihoods and participatory small-scale infrastructure. Since the project activities will be determined using a process approach, calculated ERR are indicative.

Strengthening Agricultural Livelihood

3. The agricultural sub-component consists of a variety of activities including improved crop demonstrations and seed multiplication efforts, horticultural demonstrations, and the installation of various soil and water conservation measures. As a result, beneficiaries' income will increase giving an estimated 27% rate of return. Bed nursery, potted nursery and afforestation activities have been included in the forestry sub-component. Participating households are expected to generate income through the eventual sale of forest products in addition to the more immediate sale of nursery output. The ERR is 29%. Many people in the project area are involved in livestock production. The project will include efforts to improve cattle, goat, sheep and poultry breeding and production. A goat and sheep breeding improvement model indicates an ERR of 36%.

4. Overall, the strengthening agricultural livelihood component is expected to yield an ERR of 27%. Before calculating this rate of return, costs were included from the village-level development component, which includes community organization activities relevant to implementing any of the activities in the strengthening agricultural livelihood component. Sensitivity analyses involving either a 10% increase in costs or a 10% decrease in benefits indicate that the ERR could drop to about 22% under such conditions.

Participatory Small-Scale Infrastructure

5. The roads included in the project are of two types: district council link roads and community-maintained feeder tracks. The feeder tracks are rudimentary and generally intended to connect individual villages with link or better roads. The link roads are, in turn, intended to connect a number of villages with a higher standard road. Benefits include reduced passenger and cargo traffic expenses



for existing levels of traffic in addition to traffic that is expected to be generated by the lower costs of transport. The sub-component ERR is 25%. In addition, non-quantifiable benefits will include improved access to educational and health facilities for villagers. The construction of several small microhydel facilities in various villages will provide a source of energy that is less costly for both households and local enterprises than is presently available. As with the village tracks, benefits include both cost savings on present energy use as well as on the increased energy use generated by the lower costs. The ERR of microhydel schemes is expected to be around 21%. Four types of small, community-managed irrigation schemes are planned for the project. These include dug wells, tubewells, ponds, and gravity-flow schemes. Benefits include increased cropping intensity made possible by irrigation as well as increases in yield. A combined ERR for these four types of schemes is 23%. For drinking water supply, the project will provide a variety of techniques including tubewells, hand pumps and gravity systems. Benefits are associated with improved health (measured by reduced medical expenditures) and the time saved for fetching water. An ERR of 22% is expected.

6. Overall, the participatory small-scale infrastructure component is calculated to have a 21% ERR, again after including costs of the village-level development component. Sensitivity analysis indicates only small expected decreases (to about 18%) if project costs increase by 10% or benefits fall by a similar margin.

The Whole Project

7. The overall project ERR, including strengthening agricultural livelihood and the participatory small-scale infrastructure components and costs of the institutional support component, is 19%. Either a 10% increase in project costs or a 10% decrease in benefits will have the effect of lowering the project returns to about 16%. Due to the diversified array of activities, the overall project returns are not particularly vulnerable to a change in any one variable, such as a commodity price or input cost.

C. Financial Assessment

8. Financial assessment is useful particularly for those activities that rely on beneficiaries for their implementation. This is especially true of the microenterprise loans and the agricultural and livestock sub-components. Crop budget analyses used in the agriculture and livestock components show sound financial returns with increased income far outstripping the increased costs to the farmers. Financial analyses of various microenterprises to be funded by rural financial service loans show similarly promising results involving solid returns to cash investment and to family labour inputs for the enterprises examined.

D. Subsidy, Willingness to Pay and Sustainability

9. Cost-sharing is incorporated into the activities of the project. For those activities that require a high level of organization and/or whose benefits are circumscribed to few recipients, the beneficiary funding requirement is highest. This applies to tubewell and dug well irrigation, and livestock artificial insemination or vaccination, which require a higher percentage of recipient funding. For those activities that have a large degree of public benefit, i.e. benefits are not captured by a few (as in the case of roads or drinking water supply), the project subsidy is larger. For the agriculture and natural resource management activities, beneficiaries are required to contribute from 2% for the crop and horticulture demonstrations up to 50% for the livestock artificial insemination and vaccinations. For the community infrastructure schemes, beneficiaries are required to contribute from 5 to 50%. However, the contribution can include the value of land, labour and local materials. In local surveys, communities have expressed their willingness to pay a share of costs if there is a recognized benefit. This commitment has also been borne out in other rural development projects in NWFP.



10. O&M of the community infrastructure will be undertaken by villagers because (i) they will have been involved in conceptualizing, designing and implementing the project; (ii) the technologies employed are generally basic and small scale; (iii) there is training in O&M provided under the project for each intervention; and (iv) complete disclosure and discussion of O&M implications is a part of the standardized community infrastructure selection process, and the communities are required to guarantee their understanding and commitment in the terms of partnership. For the somewhat larger district council link roads, the O&M requirements are beyond the capacities of villagers, and for these, formal commitment from the NWFP government will be required. In support of this, district government powers are being strengthened in the current process of devolution; this includes the ability to raise revenues from an array of local sources. The strengthened cost-sharing of the project notwithstanding, the remaining subsidy elements are justified on the grounds of (i) the marginal position of the rural poor and women, and (ii) the positive external benefits of the provision of certain public goods.

E. Social Dimensions

11. The project targets (i) poor communities in the rainfed areas of NWFP that are least served by infrastructure services and most isolated from social services, and (ii) the female population of this traditionally conservative social setting. Important aspects incorporated in the design of the project include (i) a process and demand-driven approach to respond to the felt needs and concerns of beneficiaries, (ii) increased beneficiary participation in both implementation and subsequent O&M of facilities, (iii) support from NGOs to help communities and line agencies adapt their procedures to a participatory approach, and (iv) a specific gender-strengthening component in addition to gender cross-cutting measures for all other project activities. These arrangements will provide better balance and linkage between sectors, and maximize the participation of men and women villagers in identification, planning, design, implementation, cost-sharing and O&M.

12. The promotion of gender balance is considered an important goal of the project. Formal and informal institutions in NWFP society are often dominated by men. Given the widespread cultural gender segregation, the line agencies in NWFP are generally unable to deliver services to women without employing women staff. The project aims to institutionalize gender mainstreaming as the key strategy in promoting gender equity. The strategy is to improve the subordinate status of rural women through project interventions and simultaneously improve the access of educated women to employment in the government line agencies. The project supports the placement of (i) gender specialists in the PLU, DIUs, the NGO district programme offices, and social organizing unit offices; and (ii) women technical staff in the line agencies. Project-financed women staff in line agencies are to be given permanent positions on an increasing basis at all levels when posts become available. Such measures will facilitate the implementation of the Government's own 5% quota for woman at all levels of public offices.

13. Since access to formal and non-formal education, extension and outside support services is very limited for women, the project is designed to provide (i) employment and service delivery support to women; (ii) formation of separate WOs, thus also promoting women's leadership; (iii) financial services targeting borrowers, of whom at least 30% will be women; (iv) training and support for economic endeavours undertaken by women; and social training and strengthening measures in village health, education, organizing and networking; and (v) rural infrastructure, such as water supply and improved village roads, to ease the household labour burden and improve access to outside resources.

F. Impact on Poverty

14. Poverty is widespread in the project area and evident in (i) low incomes, (ii) limited access to social services, and (iii) few opportunities to initiate change. The project provides the potential to increase income directly, through agriculture, horticulture, livestock, employment and skills training,



APPENDIX VI

and indirectly, through roads and other community infrastructure. To improve access to social services, the project supports community health and education enhancements; upgrading of roads and water supply; training in community organization, health, and education; and strengthening service providers (NGOs and line agencies). To engender the capacity to make change, the project empowers the rural poor by (i) catalyzing VOs/WOs and local decision-making processes; and (ii) aiming for sustainable linkages of VOs/WOs to strengthened local NGOs, to local governments and line agencies, and to the formal rural finance system. In these ways, the project not only provides direct interventions during implementation, but also a process to continue with poverty reduction in the future.