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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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ISLAMIC REPUBLIC OF PAKISTAN

COUNTRY STRATEGIC OPPORTUNITIES PAPER

TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
COUNTRY MAP: LOCATION OF IFAD-FUNDED OPERATIONS	iv
IFAD PORTFOLIO REVIEW	v
EXECUTIVE SUMMARY	vi
I. INTRODUCTION	1
II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT	1
A. Country Economic Background	1
B. Agricultural Sector	2
C. Rural Poverty	4
D. Constraints on and Opportunities for Rural Poverty Reduction	4
E. National Strategy for Rural Poverty Reduction	5
III. LESSONS FROM IFAD’S EXPERIENCE IN THE COUNTRY	6
IV. STRATEGIC FRAMEWORK FOR IFAD	8
A. IFAD’s Strategic Niche and Proposed Thrusts	8
B. Main Opportunities for Innovations and Project Interventions	10
C. Outreach and Partnership Possibilities with NGOs and the Private Sector	11
D. Opportunities for Linkages with Other Donors and Institutions	12
E. Areas for Policy Dialogue	12
F. Action Areas for Improving Portfolio Management	13
G. Tentative Lending Framework and Rolling Programme of Work	13

APPENDIXES

I. COUNTRY DATA	1
II. LOGICAL FRAMEWORK	2
III. STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS	4
IV. IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME	5
V. ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED	6
VI. FACTS ABOUT POVERTY IN PAKISTAN	7

CURRENCY EQUIVALENTS

Currency Unit	=	Pakistan Rupee (PKR)
USD 1.00	=	PKR 60
PKR 1.00	=	USD 0.0167

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

AKRSP	Aga Khan Rural Support Programme
AsDB	Asian Development Bank
AJK	Azad Jammu and Kashmir
CBO	Community-Based Organization
CIA	Command Irrigation Area
CO	Community Organization
COSOP	Country Strategic Opportunities Paper
FATA	Federally Administered Tribal Areas
IMF	International Monetary Fund
I-PRSP	Interim Poverty-Reduction Strategy Paper
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organization
NWFP	North West Frontier Province
PC-I	Planning Commission Form I
PPAF	Pakistan Poverty Alleviation Fund
RSP	Rural Support Programme
VO	Village Organization
WO	Women's Organization

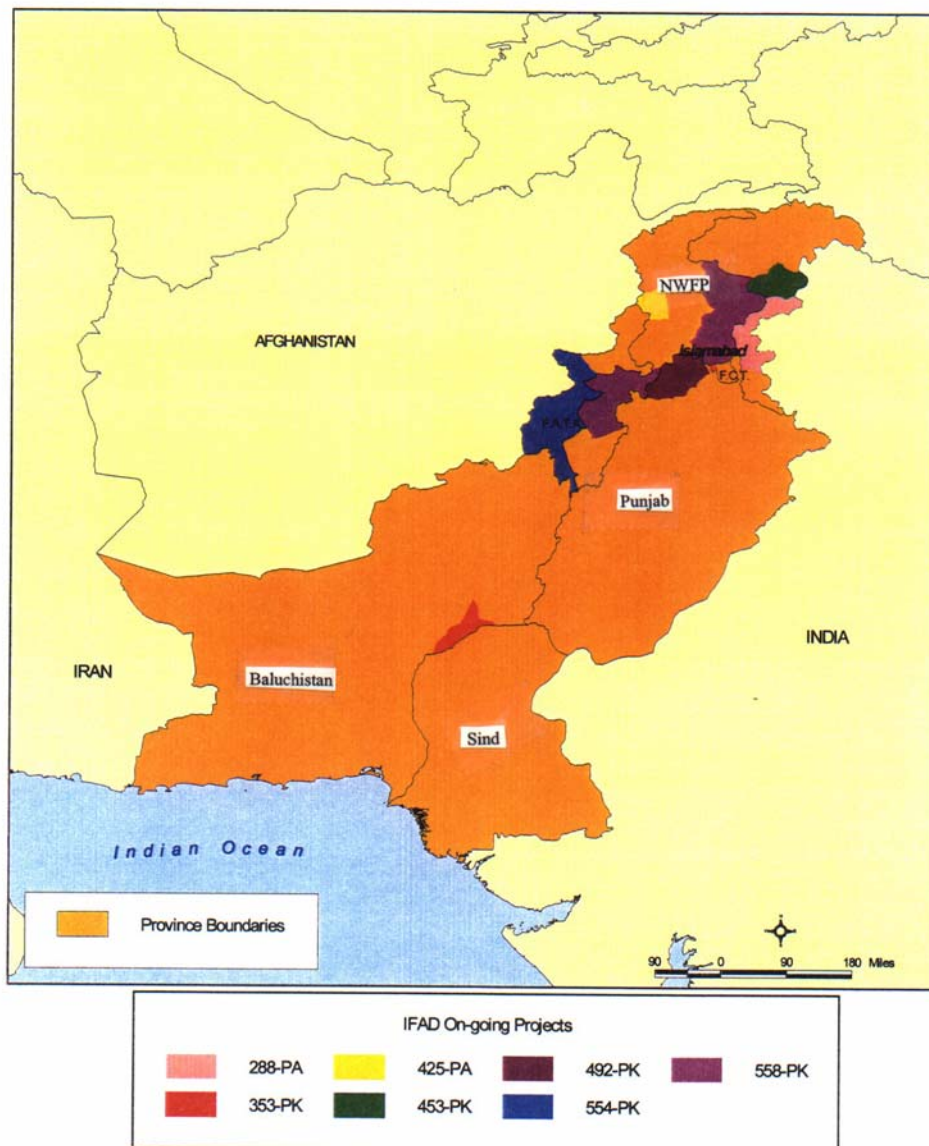
GOVERNMENT OF THE ISLAMIC REPUBLIC OF PAKISTAN
Fiscal Year

1 July - 30 June

COUNTRY MAP: LOCATION OF IFAD-FUNDED OPERATIONS



ISLAMIC REPUBLIC OF PAKISTAN



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD PORTFOLIO REVIEW

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	39 Jun 04	L - I - 288 - PA	SDR	11 900 000	90.6
Mansehra 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	31 Dec 03	L - I - 353 - PK	SDR	20 250 000	79.8
Dir Area Support Project	IFAD	UNOPS	HC	11 Sep 96	15 Apr 97	30 Sep 04	L - I - 425 - PK	SDR	11 350 000	41.9
Northern Areas Development Project	IFAD	UNOPS	HC	11 Sep 97	11 Sep 98	31 Dec 05	L - I - 453 - PK	SDR	10 750 000	29.0
Barani Village Development Project	IFAD	UNOPS	HC	03 Dec 98	01 Sep 99	31 Dec 05	L - I - 492 - PK	SDR	11 150 000	28.0
Southern Federally Administered Tribal Areas Development Project	IFAD	UNOPS	HC	07 Dec 00	24 Jul 02	31 Mar 09	L - I - 554 - PK	SDR	13 400 000	8.4
North-West Frontier Province Barani Area Development Project	AsDB	AsDB	HC	26 Apr 01	09 May 03	31 Dec 09	L - I - 558 - PK	SDR	11 150 000	

* Closed projects

EXECUTIVE SUMMARY

1. Pakistan covers an area of approximately 796 100 km², with a population density of around 165 persons/km². Its population of approximately 132 million, about 68% of which is rural, is increasing by 2.8% per annum (1990-97). The country comprises four provinces – Punjab, Sind, North West Frontier Province and Baluchistan; one territory, the Federally Administered Tribal Areas; one capital territory, the Islamabad Capital Territory; and Azad Jammu and Kashmir (AJK) and the Northern Areas. Until the coup d'état of October 1999, Pakistan was run by means of a bicameral legislature comprising the Lower House and the Senate, and the provinces enjoyed a large degree of autonomy. By June 2001, the National Assembly and the provincial assemblies had been disbanded and the Prime Minister dismissed. General Pervez Musharraf was appointed President and, by referendum of April 2002, his term of office was extended to five years. The provinces are now governed by governors appointed by the military. National and provincial elections were held in October 2002.

2. The economy is performing moderately well, and an overall growth of 3.7% was forecast for 2002. The foreign exchange reserve increased from USD 3.2 billion in June 2001 to USD 5.2 billion in April 2002, and an agricultural-sector growth of 2.6% was expected for 2002. Inflation is expected to increase from 3.1% in 2001 to about 7.9% in 2003. The country's economic policy is driven by reforms led by the International Monetary Fund (IMF). Pakistan successfully negotiated a ten-month Standby Loan Agreement with IMF in September 2001, and an external debt rescheduling of USD 12.5 billion with the Paris Club enabled it to reach agreement with IMF on a three-year USD 1.3 billion loan package under the Poverty Reduction and Growth Facility. The per capita gross national income was estimated at USD 470 in 1998/99. The debt stock was estimated at USD 35 billion in 2002 by the Economic Intelligence Unit, which also forecast that the current account deficit would reach 1.6% of the gross domestic product (GDP) by 2003. The incidence of poverty, estimated at 32.6% in 1998/99, is on the increase and more than 70% of the rural population is now poor. The Government's development strategy is three-pronged: (i) strengthening governance and the integrity of the public service; (ii) accelerating growth in agriculture, small- and medium-scale industry, information technology, and the oil and gas sectors; and (iii) reducing poverty by reviving economic growth and reorienting public expenditure towards human capital development. This reform agenda is further elaborated in the Government's Poverty-Reduction Strategy Paper.

3. Agriculture is the mainstay of the economy, accounting for 25% of GDP, 60% of export earnings and 48% of employment. Some 20.9 million ha of land (26% of the country) is cultivated, of which 76% is irrigated. In the past, agricultural policy was biased in favour of medium- to large-scale farmers. In recent years, however, the Government has come to realize the comparative advantage of smallholder agriculture and is now reorienting its policies in support of smallholders. The major constraints on sector growth are a disincentive policy framework; salinization of many irrigated areas; low-level technology; land degradation, particularly in the rainfed areas and rangelands; ineffective support services; and difficulties in expanding the cultivated areas. Pakistan has been hit by drought over the last two years, resulting in a 15% decrease in the rice production areas. Farmers have shifted to crops that require less water, such as wheat, cotton and sugar, the production of which has risen. If the drought abates, agriculture is expected to perform better in 2003.

4. IFAD has supported 18 projects in Pakistan since 1978, for a total of approximately USD 313 million. Eleven projects have closed, six are ongoing and one is still to become effective. Thirteen projects are cofinanced by other donors, particularly the World Bank and Asian Development Bank (AsDB). Projects have focused on disadvantaged regions, particularly the tribal areas; poor rural communities, including landless or near landless persons; smallholders cultivating less than 5 ha; pastoralists; and women. These projects have contributed to better household food security, technology generation and transfer; greater access to credit and rural infrastructure; and

adoption of improved soil and water conservation and environmental management practices, particularly in the rainfed areas.

5. IFAD's major achievements in Pakistan have been to alert government institutions and other donors to the plight of the poor, particularly women; develop processes to address the problems of women, without causing a negative cultural reaction but with a demonstrated impact on income and empowerment; and promote community-driven development, including formation of village organizations/community organizations linked to formal institutions. These approaches have been replicated both by the Government and by other donors.

6. Building on its success in reaching the rural poor, particularly women, IFAD's strategic framework for Pakistan will continue to focus on disadvantaged regions; on activities that enhance the productivity of the poor; on ensuring that poor people have greater access to physical and natural resources and finance; on improving rural infrastructure, particularly potable water supply, which has shown a positive impact on women; and on institutional strengthening and measures to better serve poor rural people. Priority will be accorded to sustainability, entailing the promotion of participatory and partnership development processes; empowerment of the target group through human resource development; and complementarities of resource use through coordination of IFAD investments with those of other donors, the Government and the beneficiaries. The present Country Strategic Opportunities Paper, which is the outcome of a participatory consultative process involving representatives of bilateral and multilateral donors, government officials, non-governmental organizations (NGOs), members of rural support partners, managers of ongoing IFAD projects in Pakistan and gender experts, incorporates concerns and suggestions expressed at the September 2002 Gender Mainstreaming and Reality Check Workshop held in Islamabad.

7. The main opportunities for project interventions include:

- Two community-based natural resource management projects in two semi-arid areas where there has been some degradation of the natural resource base but where there is potential for improved rainfed agriculture development, including livestock, and irrigation development. The projects are expected to be located in North West Frontier Province or Baluchistan, and AJK. Project components would include: community and women's development, including community mobilization, organization, training and skills development; crop and livestock development, including range management; irrigation development; soil and water conservation, including erosion control and forest resource management; and rural finance and micro or small-scale rural enterprise development.
- Smallholder irrigation development. The proposed intervention would be located in Baluchistan, where 20 000 ha are already linked up to the main water distribution system. The project would support a government land redistribution programme for the landless, near landless, smallholders and women, and assist in developing tertiary water distribution systems in perimeters allocated to the poor. The project would involve policy dialogue with the Government, in close collaboration with other financiers/donors, on irrigation development and management policies, including cost recovery, land redistribution, and environmental conservation and sanitation. This would constitute a pilot project that could be expanded throughout Baluchistan and other areas.

8. As in the past, cofinancing will be sought from other donors, including the World Bank and AsDB. Support for implementation would be sought from NGOs and private-sector firms, including banks for rural finance. The International Center for Agricultural Research in the Dry Areas, the Arab Center for the Studies of Arid Zones and Dry Lands, the International Crops Research Institute for the Semi-Arid Tropics and the International Centre for Research in Agroforestry will be encouraged to

work closely with local research institutes to develop improved technical packages for including soil and water conservation and agroforestry, among others.

9. Sustainable poverty reduction will require a stable macro-policy environment. As such, IFAD will join with other financiers/donors, in particular AsDB and World Bank, in macro policy dialogue with the Government. The areas of greatest interest to IFAD relate to financial sector reforms; rural sector diversification and investment; improved governance and decentralization; and land reforms, including better access for the poor to irrigated land, community resource management and benefit sharing. Operational policies will focus on women in development, on the formation of community-based organizations, and institutional reorganization and reorientation to better serve the poor.

ISLAMIC REPUBLIC OF PAKISTAN

COUNTRY STRATEGIC OPPORTUNITIES PAPER

I. INTRODUCTION¹

1. A draft Country Strategic Opportunities Paper (COSOP) for Pakistan was considered by the Operational Strategy Committee (OSC) in July 2000². While approving in principle the strategy set out in the document, the committee raised a number of concerns. These are reflected in the present COSOP along with information on recent developments and policy pronouncements.

2. Revision of the COSOP was delayed by the political upheavals that beset both the country and the region in 2000-2001, as well as the events of September 2001, all of which completely transformed Pakistan's political and economic focus. On the policy front, in November 2001, the Government adopted a number of policy and institutional reforms, and developed an Interim Poverty Reduction Strategy Paper (I-PRSP). It has also made significant progress in introducing elected district governments and in the devolution of power to district and provincial governments. Improved focus on poverty eradication efforts and major policy reforms have enabled IFAD to intensify its poverty-reduction programme in Pakistan, and created a conducive environment drawing up a medium-term strategy for its operations in the country. The COSOP is the outcome of a participatory consultative process. Representatives of bilateral and multilateral donors, government officials, non-governmental organizations (NGOs), members of Rural Support Programmes (RSP), managers from ongoing IFAD projects in Pakistan and gender experts participated in the September 2002 Gender Mainstreaming and Reality Check Workshop held in Islamabad. A separate session was devoted to discussing the draft COSOP, thereby creating a broad sense of ownership among the Government and other main stakeholders. Participants' comments on the proposed strategy and suggestions to enhance gender mainstreaming are reflected in the present document.

II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

A. Country Economic Background

3. Pakistan comprises the four provinces of Punjab, Sind, North West Frontier Province (NWFP) and Baluchistan; one territory, the Federally Administered Tribal Areas (FATA); one capital territory, the Islamabad Capital Territory; and Azad Jammu and Kashmir (AJK) and the Northern Areas. The country covers an area of about 796 100 km², with a population density of around 165 persons/km². Its population of approximately 132 million, 68% of which is rural and about 46% aged less than 15, is increasing by 2.8% per annum. The majority of people live on the irrigated Indus River plain in Punjab and Sind Provinces.

4. Until October 1999, Pakistan ran a federal parliamentary system with a bicameral legislature: the Lower House, including the National Assembly with 217 directly elected members, of which ten represented minorities; and the Upper House, including the Senate with 87 elected members – 19 members from each of the provinces and 11 elected from FATA and Islamabad Capital Territory. Until October 1999, the provinces enjoyed considerable autonomy; each had a governor and council of ministers led by a chief minister appointed by the provincial assembly. By June 2001, however, the

¹ See Appendix I for additional information.

² OSC 2000/33/PI minutes, 4 July 2000.

National Assembly, Senate and provincial governments had been disbanded. A number of administrative reforms are being implemented, the full contents of which are not yet clear.

5. After five decades of independence, the country still faces a number of serious development challenges. In the 1990s, Pakistan's economy grew at an annual rate of 4.1%, which translates into a per capita income growth of only 1.6% per year. The poverty incidence, estimated at around 32.6% nationwide in 1998-99, is on the increase. Less than half (42%) of all children in the five-to-nine-year age bracket attend school, and only 50% of those aged 12-23 months are vaccinated. As far as literacy and school enrolment are concerned, there are marked differences between the sexes. The health status is low, particularly among women and children, with limited basic services such as access to safe drinking water and sanitation. If it is to generate the resources needed to invest in human capital and basic infrastructure, Pakistan's economy will need to grow at a much higher rate than that of the 1990s.

6. After October 1999, the Government issued a seven-point agenda to revive the economy, root out endemic corruption, de-politicize state institutions, devolve power to the grass-roots level, improve checks and balances and introduce democratic processes in society. The Government's development strategy focuses on strengthening governance and the integrity of the civil service; creating wage-earning opportunities through accelerating growth in agriculture, small- and medium-scale industries, information technology, and the oil and gas sectors; and reducing poverty by reviving economic growth and reorienting public expenditure towards human capital development. This reform agenda is further elaborated in the Government's I-PRSP.

7. Pakistan's economic policy has been driven by reforms led by the International Monetary Fund (IMF). The Government successfully negotiated a ten-month Standby Loan Agreement with IMF for USD 596 million in September 2001, and an external debt rescheduling arrangement of USD 12.5 billion with the Paris Club enabled it to reach agreement with IMF on a three-year USD 1.3 billion loan package under the Poverty Reduction and Growth Facility. It has not been possible, however, to reschedule the country's extensive commercial debts. A recent IMF report pointed up three areas of concern: the continuous decline in government revenues; operational losses in large public-sector organizations; and falling expenditure on social services. To address these concerns, the Government has undertaken to strengthen and streamline the operations of the Central Board of Revenue; stepped up the privatization of public corporations; and increased spending for social services to close to the budgetary allocation of PKR 114 billion (USD 1.85 billion).

8. The economy is performing moderately well. Foreign exchange reserves increased from USD 3.2 billion in June 2001 to USD 5.2 billion in April 2002, and a 2.6% growth in the agricultural sector was expected in 2002. The Government forecasts an overall economic growth of 3.7% in 2003 against about 4% for 2001/2002. Inflation is expected to increase from some 3% in 2001 to 7.92% in 2003. The current account deficit was estimated to reach 1.2% of the gross domestic product (GDP) in 2002 and 1.6% in 2003.

B. Agricultural Sector

9. Agriculture is the single largest sector of the economy, accounting for 25% of GDP, 60% of export earnings and 48% of employment, and provides raw materials and a domestic market for all major agro-based industries. About 20.9 million ha, or 26% of all land, is cropped in Pakistan. The crop sector accounted for about 54% and the livestock sector for 33% of agricultural value-added in 1997/98. The sector is dominated by the massive irrigation canal system of the command irrigation areas (CIAs), supplemented by a large number of public and private tubewells that provide irrigation water for almost 76 % of the total cultivated area, largely in Punjab and Sind Provinces. The growth in agriculture of about 4% per annum over the last 30 years has been achieved thanks to a rapid expansion in irrigation, introduction of high-yielding varieties, subsidized inputs and public-sector

investment in rural infrastructure such as roads and electricity. Nevertheless, Pakistan still faces shortages of certain essential commodities such as wheat and edible oil, the import bill for which amounted to USD 1.5 billion in 1994/95.

10. Pakistan has been hit by drought for the past two years, resulting in poor performance of the agriculture sector and related industries such as textiles. The two major agricultural provinces, Punjab and Sind, have faced major water constraints, which has forced farmers to concentrate on crops needing less water and resulted in a noticeable shift from rice to cotton. The area under rice cultivation fell by 15% in 2001/2002, with production down by 21%. Cotton production was expected to increase slightly to 10.9 million bales and wheat production by 5%, from 19 million tons in 2000/2001 to 20 million tons in 2001/2002. A 7% increase was forecast for sugar production, from 43.6 million tons in 2000/2001 to 46.5 million tons in 2001/2002. A 2.6% growth in the agriculture sector was forecast for 2001/2002, thanks mainly to increased sugar and wheat production. This is substantial, given that agricultural growth contracted by 2.5% in 2000/2001. The agricultural sector is expected to perform better in 2003 if the drought abates or through the shift to less water-intensive crops.

11. The major constraints on sectoral growth include domestic price policies that provide no incentives; salinization in parts of the irrigated areas, particularly the large-scale irrigation schemes in Punjab and Sind; poor quality of seed and other planting material; delays in introducing new, higher-yielding varieties; inadequate input supply and power; inefficient extension services; and difficulties in expanding the cultivated area. There are serious technology gaps in both irrigated and rainfed agriculture, and research is needed to identify crops and 'packages', particularly for rainfed, coastal and mountain areas. There is considerable potential for increasing agricultural productivity but stronger policies are needed for developing land for agriculture. There is also scope for improved water mobilization and use, particularly in small-scale community-run irrigation schemes, and for diversification and intensification of farm production. At the aforementioned (paragraph 2) Gender Mainstreaming and Reality Check Workshop in Islamabad, it was stressed that IFAD could contribute to the formulation of Pakistan's national water strategy, currently under preparation. Finally, there is also considerable potential for increasing animal production through improved range management and animal husbandry practices.

12. In seeking to realize the full potential of the agricultural sector, the Government's development strategy for the sector emphasizes the need to promote coordinated development of the agricultural and rural non-farm sectors; enhance human development in rural areas, particularly poor and disadvantaged groups; and ensure sustainable, efficient and equitable use of water and natural resources. In this context, priority will be accorded to reforming public institutions so that they focus more effectively on providing services to users and with proper accountability; restructuring public expenditures in rural areas in support of infrastructures and services that promote pro-poor growth in the farm and non-farm sectors; and improving delivery of basic services. All this calls for institutional innovation and reform, and greater decentralization to local-government level. The main institutions involved in agricultural and rural development are in a state of disarray and in need of restructuring and strengthening, which represents both a challenge and an opportunity for rural development. Potential instruments for rural change are: agricultural research, extension and livestock services; rural financial services; the RSPs; and the private sector, including community-based organizations (CBOs) and NGOs. In the context of the devolution of powers to new district governments, IFAD would dialogue with the latter and use them as new agents of change. The September 2002 workshop recommended that elected councillors of new district governments and women *nazims* (elected district coordinators) be requested to assist in IFAD interventions as channelling resources through such persons may increase support for projects in 'difficult' areas.

C. Rural Poverty

13. About 70% of Pakistan's poor are rural, and their number is reported to be on the increase. Although it varies from region to region, poverty is of a structural nature in the Indus Valley CIAs as a result of the highly skewed land ownership pattern, and is related to the poor resource endowment in semi-arid and upland areas where farms are generally small and owner-operated. The most vulnerable families among the rural poor are the landless, near landless, smallholders cultivating less than 5 ha, and women.

D. Constraints on and Opportunities for Rural Poverty Reduction

14. The main constraints facing the poor include: inadequate access to productive resources, particularly agricultural land and credit; illiteracy and poor skill levels; weak rural infrastructure; inefficient technical support services; and poor organization and empowerment. In respect of women, a major constraint on policy-makers and practitioners alike is the perception in Pakistan, and in similar Islamic countries, that 'gender-sensitive development' is a foreign, western construct that is not relevant or meaningful to their local societies and cultures³. The isolation of women causes women and girls to bear a disproportionately high share of the burden of poverty due to their low social status, negligible endowment of land and productive assets, and limited access to social services and economic options.

15. The Government has introduced measures to create opportunities for overcoming poverty. Its recent policy and institutional reforms include measures to improve the access of poor rural families to land and credit; expand rural infrastructure; decentralize the institutional framework, and budgeting and financial control; and encourage participation through decentralized governance and community mobilization. Based on experience gained under community-based projects, particularly IFAD-supported interventions, the Government has established an institutional framework for community development and provision of funds. This includes creation of the Pakistan Poverty Alleviation Fund (PPAF) and RSPs.

- **Pakistan Poverty Alleviation Fund**, established in 1997, is a non-profit-making organization managed by a board of directors comprising three representatives of the Government and nine from the private sector, mostly NGOs. PPAF functions as an apex organization for microfinance development activities, providing microcredit to community organizations (COs), normally through NGOs. The International Development Association (World Bank group), which has been supporting PPAF since 1999, provided it with a loan of USD 90 million to finance microcredit and small-scale community-based infrastructure and to build up the capacity of the PPAF and its partner organizations.
- **Rural Support Programmes**, by far the most important development programmes operating in Pakistan, are modelled along the lines of the Aga Khan Rural Support Programme (AKRSP). These RSPs supervise 'divisional rural support organizations', which in turn supervise and support 'social organization units' responsible at the district/project level for the social mobilization/establishment of COs. Future RSP administrative costs will be financed by the Government, probably through the PPAF, whereas funds for development activities will also be provided by donors. Three RSPs are currently active in Pakistan: the National Rural Support Programme, established by the Federal Government; the Sarhad Rural Support Corporation, set up by the NWFP

³ Maria Protz, IFAD Consultant, Gender Impact Analysis Study of the IFAD-Financed North-West Frontier Province Barani Area Development Project and the Neelum and Jhelum Valleys Community Development Project, October 2001.

Government; and the Baluchistan Rural Support Programme, established by the Baluchistan Government. The Government of Punjab Province has also set up 18 RSPs recently, but none are involved in community development. All RSPs are heavily involved, in and depend on, multi- or bilateral projects; their activities typically include the establishment of, and support to, village/community/women's organizations (WOs) and the promotion of savings and credit for income-generating activities, with particular emphasis on women. Initial involvement in technical support services (crop and livestock extension, animal health), especially by AKRSP, has not proved effective and is now increasingly replaced by training for regional and local line agency staff and by focusing activities on working with groups, as pioneered in several IFAD projects.

E. National Strategy for Rural Poverty Reduction

16. The Government is currently drawing up a national strategy for rural-poverty eradication. The process is participatory and comprehensive, involving consultations at the provincial and district levels⁴, and will culminate in the adoption of provincial- and district-level Poverty-Reduction Strategies and Programmes. The process has already started in Baluchistan and Sind, and will serve as the basis for future planning.

17. The Government's I-PRSP sets out a holistic approach to sustainable economic growth and poverty reduction – identified as the two fundamental challenges facing Pakistan at this time. It states that “the Government realizes that additional income alone, either through jobs or financial assistance, would not eliminate poverty unless the causes of poverty are addressed and eliminated.” This conforms to IFAD's approach to eradicating poverty. The Government's focus on macroeconomic stabilization and on controlling the fiscal deficit means that it faces a formidable task if it wishes to generate and allocate resources for poverty eradication. Therefore, the allocation of adequate resources for this purpose will be an important consideration in determining the effectiveness of the strategy.

18. The thrust of the Government's emerging poverty-eradication strategy involves:

- Economic growth and employment. Policies aimed at encouraging investments in all economic sectors by the private sector (both international and national) have been adopted.
- Enhancing agricultural-sector growth both by eliminating the major constraints to growth and increasing the budget for drought mitigation and dry-land agricultural development support measures; stepping up the distribution of land to poor farmers accompanied by input supply services, credit and technical services.
- Off-farm income-generating activities and microcredit services.
- Improved human resource development, including better education and literacy programmes, training and skills development; increased primary health care and other health services in the rural areas; improved water supplies; measures to improve environmental sanitation, nutrition and food security; and population planning.
- Increased decentralization, transparency and accountability of the administration; decentralization of planning, budgeting, implementation and financial management and control; people's participation in local affairs; strengthened local administration; and improved administrative infrastructure.

⁴ District-level consultations will involve the newly-elected district governments.

- Institutionalizing monitoring and evaluation (M&E) mechanisms to track poverty-related expenditures and monitor progress.

19. While the strategy outlined in the Government's I-PRSP responds to identified constraints on agriculture and rural development, the proposed targeting mechanisms will need to be improved, particularly with regard to highly vulnerable poor households, and especially women. Moreover, while the proposed decentralized implementation mechanisms are sound, their successful operation will depend on the political and administrative structure. As well as drawing up operational policies that will evolve over time, IFAD will contribute to establishing targeting mechanisms and decentralized planning and management.

III. LESSONS FROM IFAD'S EXPERIENCE IN THE COUNTRY

20. **IFAD operations.** As one of the country's major donors, IFAD has so far supported 18 projects in Pakistan, for a total commitment of about USD 313 million. Eleven projects have closed, six are ongoing and one⁵ has still to be declared effective. The projects cover many agro-ecological regions and a variety of development initiatives. Ten of them involved area and agricultural development; three were credit projects; three were concerned with irrigation; one was a dairy development project; and one involved community development. Three of the projects were initiated by the World Bank and three by the Asian Development Bank (AsDB), the remainder being IFAD-initiated. The World Bank and AsDB served as cooperating institutions for 12 of the projects and the United Nations Office for Project Services for the other six.

21. **Project implementation** periods have ranged from six to ten years. Disbursements have been generally limited and slow, and only three of the closed projects arrived at full disbursement. A major implementation problem has been to reach the target group, particularly women. Operational reviews and policy dialogue have therefore aimed at removing constraints on the poverty orientation of the projects and at solving policy and institutional difficulties relating to project implementation. Key areas of dialogue have related to:

- IFAD interventions have focused on making village institutions more participatory by means of community development based on the Aga Khan Foundation model. In a number of projects, this has had mixed results. Two areas have received particular attention: (i) greater involvement of NGOs in IFAD projects; and (ii) community development, with emphasis on forming women's development groups and ensuring that households meeting target group criteria participate actively in social mobilization and group dynamics.
- Policy dialogue has focused on streamlining fund flows and clearance processes in order to improve implementation – in consultation with World Bank and other donor agencies. Despite being key elements in performance levels and motivation, staff salaries and incentives have not received sufficient attention. IFAD has also recorded considerable progress with regard to decentralizing operations to the local level, in close collaboration with other donors.
- Progress in mainstreaming gender concerns has been slow. This is largely due to cultural factors and attitudes rooted in conservative traditions, which condition both men's and women's behaviour, and to poor education levels.

⁵ The North-West Frontier Province Barani Area Development Project, approved in April 2001 and cofinanced with the Asian Development Bank.

22. **Lessons learned.** The main lessons learned from the Country Portfolio Evaluation of 1995 and the more recent projects supported by IFAD and other donors include:

- **Targeting.** Project impact assessments⁶ have pointed up the need to focus on the impact project interventions have on various categories of households. The involvement of poor households in project activities has varied in all projects, but evidence shows that poorer households tend to be left out. For instance, in lower Dir District, almost all villagers were members of village organizations (VOs) whereas many villagers in Upper Dir had still not joined. Discussions with VO officials revealed that some landlords were reluctant to allow their tenants to become members of these organizations. In area-based projects, project activities should be targeted at the poorer villages based on pre-established criteria such as farm size, productive assets, social infrastructure, etc. Project interventions may be targeted at activities that are especially attractive to the poorer strata of the rural population. Experience shows that it is easier to target the poor by working through existing community arrangements, such as *jirgas* (assemblies of tribal elders) and adopting a non-confrontational, non-exclusionary approach.
- **Beneficiary participation.** Project design and implementation should aim at creating and supporting sustainable grass-roots organizations that gradually assume responsibility for local development and for linking-up with formal institutional services. For instance, in the case of the Dir Area Support Project, there is greater pressure for more project activities and faster implementation now that the local government mechanism is in place at the district and lower levels. At the same time, local government support for the project's philosophy has helped to increase confidence and enthusiasm among COs.
- **Implementation arrangements.** The Planning Commission Form I (PCF-I) should be prepared, discussed and agreed on during appraisal so as to avoid project implementation delays and inconsistency between it and the appraisal report. The PCF-I should also be revised periodically to reflect changes in fund allocations within and among components and/or categories of expenditure; this is particularly important in the case of demand-driven projects, where initial fund allocations are subject to changes in community priorities.
- **Implementation of community development activities.** In terms of longer-term impact, VOs have the potential to evolve into Citizen Community Boards (CCBs) and to facilitate the administration of CCB grants from local government budgets. The VOs might also provide linkages between developmental plans and resource allocations through District Councils and Monitoring Committees. However, this would require that group formation mechanisms have a clearer focus on the principle of equity, which needs to be understood and accepted by all members; problem-solving processes within groups must be clearly understood by poor/er members in order that they can participate actively in them; the decision-making process must include issues of importance to the disadvantaged (poor/er and women members, including the landless); and the participatory identification of future needs must be more representative. In order to foster sustainability, IFAD should help local NGOs acquire the capacity to take over essential community development activities in the course of project implementation.
- **Credit** was initially provided under IFAD-supported projects to help farmers procure inputs or for income-generating activities. In view of the agricultural sector's limited capacity to generate employment and the relatively low productivity of agricultural resources, IFAD support has shifted towards ensuring employment generation through credit lines to promote microenterprise development. Credit for microenterprise development should be: integrated with savings, possibly to be used as collateral; involve

⁶ Although few internal evaluations were made on the Mansehra Village Support Project, an independent study on the formation of women's organizations was undertaken in 1998. The study covered 68 WOs, 63 (93%) of which were active at the time.

communities in recovering loans; introduce service charges in line with prevailing market rates, with provision for bad debts; be provided in the early stages, mainly as short-term loans; include credit resources for livestock and off-farm income-generating activities for landless people and women; and complement agricultural activities and improve service provision at the community level by establishing small workshops, marketing facilities, processing, etc.

- **Technology generation and dissemination.** Projects should include an on-farm research component to generate improved site and skills-specific crop and livestock options suited to the socio-economic and agro-ecological conditions of a given project area. Participatory community-based extension methods should be used to improve beneficiary acceptance and uptake.
- **Women's involvement.** Opportunities for women and girls in rural Pakistan are limited by strict observance of the customs and traditions of different project regions. Since empowerment is a necessary condition for women to improve their lives, establishment of small women's groups under the umbrella of COs and training and advisory inputs for women should constitute major components of projects as a whole. Project interventions aimed at women – including rural water supply, measures within socially accepted norms to reduce their isolation, access to markets, functional literacy, credit uptake and community self-help projects – would give them more control over their lives. Women's development calls for working from within local cultures. Experience under the Mansehra Village Support Project and the Neelum and Jhelum Valleys Community Development Project shows that, thanks to women's active participation in project activities, there was a marked improvement in their self-perception, confidence, awareness, sense of mobility and connectedness with the outside world, and in their ability to act independently. The Islamabad workshop recommended that emphasis should be placed on 'gender and development' rather than 'women in development', and that there should be a shift in local-level power structures. The need was also raised for gender-strategic interventions in pro-poor rural policies aimed at women.

IV. STRATEGIC FRAMEWORK FOR IFAD

A. IFAD's Strategic Niche and Proposed Thrusts

23. IFAD's strategy for Pakistan has evolved from an analysis of its experience in the country and other areas of the region. The organization's strategic thrusts are set in the context of the strategy and priorities adopted by the Government in the I-PRSP and are consistent with its corporate and regional strategy for poverty eradication. Its strategic niche is to be found in its focus on disadvantaged areas, particularly tribal areas; activities that enhance poor people's productivity; and policy dialogue aimed at improving the resource base of poor households. Sustainability should be accorded priority consideration and entail promotion of participatory and partnership development processes; empowerment of target groups through human resource development; decentralized planning, implementation, financial control and management; and complementarity of resource use through coordinating IFAD's investments with those of other donors, the Government and the beneficiaries. A clear definition of poor and vulnerable groups, and identification of the constraints they face and the means to overcome them, are major elements of the strategy.

24. **IFAD's strategic thrust** is to define rural poverty in Pakistan and the constraints faced by the various target groups – ethnic and tribal groups; small and marginal farmers and landless people, particularly those living in the drylands or on mountain slopes; and rural women who are generally both poor and disempowered. These groups all share the same dominant characteristics of poverty: lack of access to land, credit, inputs and technology; lack of market information, and business and negotiating experience; and inadequate access to potable water supply, basic education, health care

and sanitation, and suitable sources of energy. Poor rural households tend to be characterized by larger families, greater dependency ratios, lower education levels and higher unemployment.

25. **IFAD's strategic objectives.** In seeking to enable the rural poor to overcome their poverty, IFAD's operations focus on three key strategic objectives: strengthening the capacity of the rural poor and their organizations; improving equitable access to productive natural resources and technology; and increasing access to financial services and markets. The realization of these objectives, however, is a function of three variables: a country strategy that is consistent with the above objectives and ownership by the Government and other domestic stakeholders; the choice of intervention areas and investment options capable of addressing such objectives; and a design and project content, and implementation and monitoring processes, that are carefully crafted to the needs of the target group. The real challenge in Pakistan is not so much to identify priority objectives and activities but to secure necessary local support for implementation of poverty-reduction strategies and programmes, particularly those incorporating gender-mainstreaming elements. Securing necessary local support will be facilitated by the confidence and credibility already created by past IFAD assistance both within the Government and among poor rural communities. However, it will also call for continuous dialogue and promotion of a participatory process for designing programmes that mesh the poverty-eradication objectives/programmes with those of an elitist rural power structure and a bureaucratic mind-set, which is often opposed to change rather than for change. However, the devolution of powers to new district governments and women *nazims* and counsellors offers a new window of opportunity.

26. Major features of IFAD's programmes include: marginal and resource-poor geographical areas; an institutional framework that allows for target group influence and project interventions that support poverty-reduction activities; development and dissemination of technology suitable for adoption by poor people; complementarity of rural infrastructure development in area-based projects; and employment-generation activities. The general framework within which IFAD's strategy for Pakistan is set relates to assisting the Government in five main directions:

- **Agricultural and rural development.** Emphasis will be placed on a broad agricultural and rural development approach rather than a commodity development programme. Support to poor households will achieve better results if the main constraining factors are addressed. Thus, programmes would need to involve: expanding the resource base, including natural resources and finance; sustainable resource management to increase productivity; human resource improvement; and enhanced rural infrastructure.
- **Women's empowerment.** The problem of endemic poverty cannot be solved without focusing on women. Gender mainstreaming will be a core challenge in future programmes and, to that end, IFAD's operational strategy will follow a multi-pronged approach. At the policy level, it will join with other donors in efforts to sensitize decision- and policy-makers to gender concerns; promote capacity-building of, and gender training within, line departments; and advocate recruitment policies aimed at greater induction of women in leadership roles in public development agencies and local administrations. At the level of civil society, it will direct efforts through its interventions to support the formation of women's COs to adjust the imbalance between men's and women's organizations; increase women's access to technologies and information; and encourage local governments to involve moderate *ulema* (religious leaders) in promoting women's mainstreaming. At the level of IFAD project and programme interventions, the strategy will focus on designing new gender-focused loan products that also look beyond the on-farm sector to the small enterprise sector; in particular, training women in traditional skills and exploring the possibility of adding value through links with enterprises and imparting new skills in creating market linkages; strengthening M&E systems to track progress through gender audits; and components and activities specifically targeted at women. Finally, IFAD's

operations will reflect the note of caution expressed at the Islamabad workshop that “projects should be careful when using traditional institutions as an entry point as these may neglect women.” Other means of empowerment will include the development of savings and credit groups, and improved skills, literacy, health and nutrition. IFAD will also promote a policy and regulatory framework to allow WOs to have the same rights as men with regard to decision-making, access to productive resources and credit, and social infrastructure, including education and health.

- **Food security and diversification of production.** Emphasis will be placed on household food security rather than on national food self-sufficiency. Project/programmes will support the production of commodities for which smallholders have a comparative advantage as well as farming systems that, while ensuring sustainable production, take account of poor families’ food security and nutritional needs.
- **Decentralization.** The institutional approach will focus on devolved/decentralized planning and implementation through support for the creation and strengthening of grass-roots organizations and devolution of human and financial resources to local governments.
- **Access to resources.** IFAD will promote better access of poor rural households to productive resources, including land, water, technological know-how and financial services.

B. Main Opportunities for Innovations and Project Interventions

27. Based on its more than 20 years’ experience, IFAD is favourably placed to identify concerns and activities aimed at addressing the problem of rural poverty and to design measures to reach the poor more effectively. Opportunities for future project interventions in Pakistan are as follows.

28. **The sub-tropical uplands** are part of the high mountain areas of AJK and the Northern Areas, where crop production in the valleys and small plains is integrated with livestock-keeping – often based on summer grazing on high elevation (alpine) pastures and use of forest resources. Farms are generally of less than 1 ha and are therefore too small to support a family. Owing to pressure on cropland, the fragility of soils on slopes combined with heavy rainfalls and over-exploitation of range and forest resources, environmental degradation constitutes a serious problem. Some upland areas, particularly in AJK, have considerable development potential but are in need of community-based development. As IFAD has acquired valuable experience in the uplands through the Neelum and Jhelum Valleys Community Development Project, interventions should be modelled along the same lines but with greater emphasis on soil and water conservation through integration of agricultural, forestry and range management aspects, and on employment generation through microenterprise development and rural finance.

29. **The CIAs**, mainly located in Punjab and Sind, cover more than two thirds of the country’s crop areas and are characterized by a highly skewed land ownership pattern with much of the land owned by large-scale farmers and small landowners. With mechanization and rationalization of commercial irrigated production, many landowners are evicting tenants and putting-off labour, thus increasing the number of landless and unemployed people. IFAD will support activities that improve smallholder access to irrigation in Punjab and Sind, and with the irrigation areas available in Baluchistan and Sind it should be possible to take a new and more equitable approach to irrigation development, including land consolidation and allocation of surplus land to landless/near landless farmers and woman-headed households. Given the Government’s interest in such an approach, it will be a challenging task for IFAD to support its implementation.

30. **The semi-arid areas** are mainly located in NWFP, Baluchistan and FATA, but also include parts of Sind and Punjab Provinces at the fringes of the CIAs. Farms in these areas, which are generally of 1-5 ha, are mainly owner-operated with subsistence-oriented crop production. Cash income is typically derived from livestock sales, irrigated cash crops and remittances from family members working within or outside the country. Societies in these areas are characterized by strong cohesion and interdependence at the community and/or tribal levels. Since most of the Fund's ongoing projects are located in these areas, it has accumulated a wealth of knowledge in the field of poverty reduction based on participatory community development approaches and components relating to small-scale irrigation, crop development, animal health and nutrition, rural infrastructure, and – in more recent projects – microenterprise development on a pilot basis. IFAD will continue to work in such areas but with stronger emphasis on on- and off-farm microenterprise development, and will address range management issues so as to improve livestock production and reduce soil degradation.

31. **Women** constitute one of Pakistan's most disadvantaged groups. Innovative approaches to increasing women's economic opportunities, developing skills, literacy programmes, and organization and mobilization within socially and culturally acceptable norms, will be intensified. In certain regions, greater community acceptance of women's advancement will be built upon to promote their participation in community development and decision-making institutions. Tested and acceptable practices will be promoted for inclusion in the Government's policies and institutional framework.

32. **Institutional strengthening and reforms.** Grass-roots institutions will be linked up to formal decentralized institutions, particularly the Departments of Extension and Livestock, and Local Government and Rural Development. This will facilitate effective planning, implementation and M&E, and ensure the sustainability of poverty-eradication programmes. It will also be of utmost importance that, from the outset, existing local NGOs be included in the process and that they receive proper training in order to participate in the consolidation of project-sponsored community organizations.

C. Outreach and Partnership Possibilities with NGOs and the Private Sector

33. **Private-sector linkages.** The future growth of the agricultural sector and any success in reducing rural poverty will depend on the ability of the private sector to deliver the services the farmers need. As fertilizer and other agrochemicals are now increasingly available at the district and major village levels, one of the building blocks in the poverty-reduction process should be to promote small, private commercial activities at the village level. In this way, CO members would be involved in the sale and storage of fertilizer and pesticides and, after training, in providing advice on their application. Seed production is still confined to government seed farms that are usually managed badly, often lack timely essential supplies and are unable to satisfy the demand for quality seeds of improved varieties. IFAD should support the disengagement of government institutions from producing commercial seeds, thereby allowing them to concentrate on multiplying foundation seed for private seed growers. A CO-based seed production and distribution approach introduced in several IFAD projects to date has produced good results and should be replicated. Similarly, CO-based production of seedlings for social forestry and fruit trees has proved to be much more reliable and efficient. Within the livestock sector, vaccinations and parasite treatments are inadequate, and Livestock Departments are usually unable to deliver timely services. Experience under IFAD projects and the AKRSP shows that routine preventive vaccination, deworming, etc., could be done by trained community livestock workers who would operate on the basis of full recovery of the costs of vaccines/medicines and a fee.

34. In Pakistan, NGOs are often hampered by poor organizational capacity and lack of exposure. However, increasing numbers are being helped to strengthen their capacity by foreign donors that channel funds through these organizations for basic health and education services, vocational training

and income-generating activities. The large NGOs help to build up capacity of CBOs and smaller NGOs. Such organizations include: Strengthening Participatory Organisation; Trust for Voluntary Organisations; South Asia Partnership; the NGO Resource Centre established by the Aga Khan Foundation; and the Sarhad Rural Support Corporation. IFAD will collaborate with these others and NGOs to support project implementation and develop COs/WOs.

D. Opportunities for Linkages with Other Donors and Institutions

35. **Multi- and bilateral partnerships.** To date, 13 of IFAD's projects have been cofinanced with other international institutions (World Bank, AsDB, Islamic Development Bank (IsDB) and the United Nations Development Programme (UNDP)). Rural development calls for an holistic approach that involves a wide range of activities, including the provision of safe drinking water and improved rural roads. As broad-based area development projects will constitute the backbone of future IFAD-Pakistan cooperation, considerable opportunities exists for future work with international institutions such as AsDB, UNDP and World Bank – either in terms of cofinancing or of parallel financing. IFAD will concentrate on community development, agriculture-based activities, small-scale infrastructure and income-generation/microenterprise development, with other cofinanciers that support more substantial infrastructure and social services. Suitable partners for direct collaboration in future IFAD projects are likely to be the European Union (EU) and bilateral donors that may be interested in providing grant financing to complement IFAD investments.

36. In finalizing its poverty-eradication strategy, the Government will need to address a number of major institutional and policy issues, especially in terms of **implementing** the strategy. IFAD will actively collaborate with other donors, particularly the World Bank, AsDB and EU, to ensure that its concerns regarding improved resource allocations, participatory and partnership development processes, and decentralized management are addressed.

E. Areas for Policy Dialogue

37. **Decentralization and good governance.** Good governance is closely linked to decentralization as a mechanism for increasing local control over policy-making and implementation, resource allocation and services provided by the state. The promotion of institutional pluralism calls for support to institutions involved in the local governance process, i.e. COs/WOs, the private sector (in particular the small business sector), local authorities, line agencies, NGOs and donors. The involvement of a variety of public- and private-sector institutions and organizations is one of the most effective means of reaching the poor. In collaboration with other donors, IFAD will enter into dialogue with the Government to ensure effective decentralization for the benefit of poor rural people.

38. As regards **access to natural resources**, such as forests, irrigated and rainfed agricultural land, rangeland and other common property resources, IFAD will seek progress in policies related to improved land allocation (rainfed, irrigated and rangeland) to poor families, particularly the landless and women. There are close links between forestry, the environment, rural livelihoods and environmental policies, which address both the livelihood needs of the poor and marginal populations and the need to protect physical and natural resources. IFAD will support policies that promote the participation of poor rural people in decisions on the use of common property.

39. The Government is pursuing a participatory development process within its decentralized governance. Institutional reforms and operational policies that respond to the concerns of the rural poor, and that are cost-effective and transparent, will be encouraged by IFAD.

F. Action Areas for Improving Portfolio Management

40. **Implementation of IFAD projects** in Pakistan has encountered the following difficulties:
- considerable delays occur in meeting conditions for loan effectiveness and in project start-up due to cumbersome Government procedures; the provision of grants under the Special Operations Facility could help accelerate the loan effectiveness process and assist project management to resolve start-up difficulties;
 - although the PC-I is generally established on the basis of detailed cost tables appearing in the appraisal report, inconsistencies between the form and the appraisal report/loan agreement have led to implementation delays. Unwillingness to change during project implementation is another concern. IFAD's demand-driven projects need to be adapted to meet changing project environment and beneficiary needs. The Government should be requested to introduce more flexible procedures that would allow the PC-I to be modified as necessary; and
 - the difficulty of recruiting suitable project staff is a major problem and government procedures should be adjusted to speed up the process. While it is sometimes possible to find suitable candidates from the public sector, higher salaries are needed as an incentive.
41. **Improving the design and implementation of future projects.** In line with lessons learned from IFAD's experience, both in the country and in the region as a whole, the design of any future operations in Pakistan should ensure:
- effective beneficiary participation in project identification, design and implementation;
 - flexibility in fund allocations to meet the needs of the target population during project implementation; and
 - provision for strengthening the capacity of all major actors in project implementation, particularly at the grass-roots level.
42. **Corporate and regional strategic thrusts**⁷. The orientation and basic elements of IFAD's country strategy for Pakistan correspond closely to the organization's current corporate strategy.
43. The country strategy is also linked to the Fund's strategy for the region as a whole in the areas of community mobilization and organization, promotion of rural enterprises to diversify the income sources of poor rural households, and expansion of rural financial services.
44. **Cross-cutting concerns**⁸ that IFAD has debated at the international level have been reflected in the country strategy for Pakistan, which is closely aligned to the programme of action issuing from the 1995 Conference on Hunger and Poverty as it seeks to favour the promotion of civil society and direct beneficiary participation in decision-making processes.

G. Tentative Lending Framework and Rolling Programme of Work

45. Within the proposed strategic framework, three operations have been identified for inclusion in future programmes.

⁷ Full details provided in Appendix IV.

⁸ Idem.

46. The **first two** will involve area-based development projects in the semi-arid areas of NWFP or Baluchistan and in the sub-tropical uplands of AJK. Project components will respond to the expressed needs of poor rural communities and households. Given that activities will be demand-driven and subject to annual participatory appraisals, implementation will be flexible and adjusted on a year-to-year basis. Broad project components will include: community and women's development; crop and livestock development, including range management; irrigation development (mainly in semi-arid areas); forest resources development (mainly in sub-tropical uplands); improved feeder roads; rural financial services; and project management. For both projects, an inception paper will be drawn up for the purpose of reaching agreement with the Government on specific project areas and components.

47. The **third project** will be a medium- to large-scale irrigation project, probably located in Baluchistan. According to the Government, while some 20 000 ha in that province have been linked up to the main water distribution system, tertiary and on-farm systems are still lacking. No data are yet available on land tenure patterns and farm sizes but, as in most of the area, these are likely to be highly skewed. Therefore, land reallocation and consolidation will be a precondition for such a project to be acceptable to IFAD. In view of the Government's expressed willingness to pursue more equitable land distribution despite its lack of experience with this type of approach, providing support to such a project – initially on a pilot basis – will constitute a challenge for IFAD. The project will need a relatively long lead time, since project development must be preceded by policy dialogue to resolve issues related to land ownership and consolidation. Strategically, however, this project offers scope for considerable innovation in the context of irrigated smallholder agriculture in Pakistan.

COUNTRY DATA

PAKISTAN

Land area (km² thousand) 2001 1/	771	GNI per capita (USD) 2001 1/	420
Total population (million) 2001 1/	141.45	GDP per capita growth (annual %) 2001 1/	0.3
Population density (people per km²) 2001 1/	183	Inflation, consumer prices (annual %) 2001 1/	3
Local currency	Pakistan Rupee (PKR)	Exchange rate: USD 1 =	PKR 60
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-2000 2/	2.6	GDP (USD million) 2001 1/	58 668
Crude birth rate (per thousand people) 2000 1/	34	Average annual rate of growth of GDP 2/ 1980-1990	6.8
Crude death rate (per thousand people) 2000 1/	8	1990-2000	4.4
Infant mortality rate (per thousand live births) 2000 1/	85	Sectoral distribution of GDP 2001 1/	
Life expectancy at birth (years) 2000 1/	63	% agriculture	25
Number of rural poor (million) (approximate) 1/	52.2	% industry	23
Poor as % of total rural population 2/	36.9	% manufacturing	16
Total labour force (million) 2001 1/	53.48	% services	52
Female labour force as % of total 2001 1/	29	Consumption 2001 1/	
Education		General government final consumption expenditure (as % of GDP)	10
School enrolment, primary (% gross) 2001 1/	74 a/	Household final consumption expenditure, etc. (as % of GDP)	75
Adult illiteracy rate (% age 15 and above) 2001 1/	56	Gross domestic savings (as % of GDP)	15
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 3/	2 224	Merchandise exports 2001 1/	9 242
Malnutrition prevalence, height for age (% of children under 5) 2001 1/	n/a	Merchandise imports 2001 1/	10 617
Malnutrition prevalence, weight for age (% of children under 5) 2001 1/	n/a	Balance of merchandise trade	-1 375
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2001 1/	4 a/	before official transfers 2001 1/	-4 411
Physicians (per thousand people) 1999 1/	1 a/	after official transfers 2001 1/	-1 112
Population using improved water sources (%) 2000 4/	88	Foreign direct investment, net 2001 1/	286
Population with access to essential drugs (%) 1999 4/	50-79	Government Finance	
Population using adequate sanitation facilities (%) 2000 4/	61	Overall budget deficit (including grants) (as % of GDP) 2001 1/	-5
Agriculture and Food		Total expenditure (% of GDP) 2001 1/	22
Food imports (% of merchandise imports) 2000 1/	14	Total external debt (USD million) 2000 1/	32 019
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	1 392	Present value of debt (as % of GNI) 2000 1/	44
Food production index (1989-91=100) 2000 1/	144	Total debt service (% of exports of goods and services) 2000 1/	26
Cereal yield (kg per ha) 2001 1/	2 287	Lending interest rate (%) 2001 1/	n/a
Land Use		Deposit interest rate (%) 2001 1/	n/a
Arable land as % of land area 2000 1/	28		
Forest area as % of total land area 2000 1/	3		
Irrigated land as % of cropland 2000 1/	82		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2003

2/ World Bank, *World Development Indicators*, 2002

3/ UNDP, *Human Development Report*, 2000

4/ UNDP, *Human Development Report*, 2002

LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<p>Development Goal</p> <p>To eradicate poverty and enhance household food security through sustainable, self-managed agricultural and rural development in a gender-balanced institutional and legal environment</p>	<ul style="list-style-type: none"> • Percentage reduction in rural households below the poverty line • Percentage increase in rural household income, particularly of women • Percentage reduction in the number of landless and near landless households • The degree of rural economy diversification • Increased proportion of women with access to resources, technology and information 	<ul style="list-style-type: none"> • Periodic rural household income and consumption survey • Project mid-term reviews (MTRs) and completion reports (PCRs) • Evaluation of land redistribution programme under the Government's poverty reduction programme • Agricultural sector review reports • Regular gender audits 	<ul style="list-style-type: none"> • Government policy and macroeconomic reforms conducive to agricultural development • Stable political and macroeconomic environment • Effective gender-balanced policies aimed at improving status of women • Sustained improvement in regional security situation • Effective implementation of democratic decentralized governance • Adherence to institutional reforms, land redistribution programme and increased resource allocation to poverty eradication strategy
<p>Project/Programme Objective</p> <p>To put in place sustainable, demand-driven partnerships and a replicable agricultural and rural development process that will ensure empowerment of the poor, increased resource allocations to poor households, gender balance and diversification of rural economy, including expansion of rural enterprises and financial system</p>	<ul style="list-style-type: none"> • Effective introduction of decentralized governance • Decentralized institutional reforms with focus on agricultural and rural development • Number of viable and gender-balanced CBOs established • Number of poor households receiving agricultural (rainfed and irrigated) land • Number of poor households, particularly women, undertaking rural enterprises • Increase in number of rural financing institutions • Percentage increase in rural credit 	<ul style="list-style-type: none"> • Establishment of provincial and local government administration • Country review studies • Studies on the role of women in the rural economy • Agricultural and rural sector study • National budget and policy review • Project M&E reports • Project MTRs and PCRs • State Bank of Pakistan (Central Bank) annual reports 	<ul style="list-style-type: none"> • Government effectively implemented its poverty eradication strategy • Adherence to democratic and decentralized political programme • New projects have gender mainstreaming guidelines, policies and balanced staffing • Increased resource allocation to agriculture and rural sector development • Institutional reform and strengthening to better respond to agriculture and rural development • Decentralized budgeting and

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
			financial control and management <ul style="list-style-type: none"> • Financial management transparent • Commitment to social reform policies that support women's access to knowledge and resources
Outputs			
<ul style="list-style-type: none"> • Increased allocation of agricultural land (rainfed and irrigated) to landless and near-landless households and women • Improvement in the productive capacity of poor rural households, particularly women • Improved access to rural financial services • Increased number of gender mainstreaming decision-/policy-makers at all levels <ul style="list-style-type: none"> • Engagement of rural households, particularly those headed by women, in off-farm income-generating activities • Better rural infrastructure • Agriculture and rural institutions and COs developed and accessible to the rural poor, particularly women • Agricultural and rural development policy and social reforms incorporated into the policy dialogue 	<ul style="list-style-type: none"> • Number of landless and near-landless receiving agricultural land, by gender and age • Number of skills development and training programmes carried out for the rural poor, by gender and age • Number of financial institutions involved in agricultural and rural finance • Percentage increase in the volume of finance to agriculture and rural enterprises • Effectiveness of rural institutions in raising agricultural productivity and expanding rural enterprises • Number and type of rural infrastructure developed • Percentage increase in agricultural production • Improved natural resource management • Women involved in training and capacity-building activities 	<ul style="list-style-type: none"> • Survey reports of irrigation development and land allocation • Agricultural and rural sector studies • Financial reports of financing institutions • Project M&E reports • Gender audits and gender-specific analytical reports • Project MTRs and PCRs • State Bank of Pakistan annual reports • Annual statistics of agricultural production • Annual gender audits 	<ul style="list-style-type: none"> • Macroeconomic, policy and political environment conducive to investment in agriculture and rural sector • Incentive policy framework put in place for rural financial services expansion • Administrative and institutional reforms consistent with decentralized governance • Government policies support gender development and encourage the participation of women leaders in local and village decision-making processes and institutions • National and regional security assured

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Country	Strengths	Weaknesses	Opportunities	Threats
Islamic Republic of Pakistan	<ul style="list-style-type: none"> • Pakistan has good agricultural land and a good water-resource base that can be exploited for irrigation • The irrigation systems have been extensively developed and can be better utilized • The rangelands are also extensive but will require improved management • 64% of the population live in the rural areas, suggesting that labour may not constitute a major constraint for agricultural development • Women play a major role in agriculture and livestock activities and other household income-generating activities • Government has undertaken positive policy reforms with IMF and has kept to their effective implementation • Government has put in place a forward-looking poverty eradication strategy • Decentralized governance is to be put in place 	<ul style="list-style-type: none"> • Major political reforms are ongoing and necessary structures may not be in place until early 2003 • Untested new political structure and administration • Unemployment is high, at close to 20%. This, if not addressed, may create political instability • Low level of literacy may limit implementation capacity and investment opportunities • Agricultural and financing institutions and allocation of irrigated land resources are biased against smallholders and this may limit full exploitation of smallholder agricultural/rural potentials necessary to address rural poverty, estimated at over 32% • CBOs and NGOs vary in weakness and strength and this may hinder the development of community-driven poverty eradication programmes • Role of women in the economy is not fully exploited or acknowledged • No policies for upland reform and an overall weak policy on land development for agriculture; and no defined strategies for each of the rainfed, irrigated, mountainous and coastal areas. 	<ul style="list-style-type: none"> • Government has undertaken economic reforms that will improve economic growth, increase employment opportunities and encourage external investment in all sectors that have been opened up • Ongoing political reforms will increase civil-society participation in economic and political decision-making process • Public enterprise reforms now being actively implemented will improve revenue base of Government while reducing budgetary burden. This will make more resources available for poverty alleviation • Government has established good relations with external financiers and donors, which will enhance external resource flows and stimulate exchanges of technical experience • Government is in the process of finalizing poverty eradication strategy, which includes policies and programmes for revitalizing smallholder agriculture and rural development • Development strategy gives necessary attention to improved education 	<ul style="list-style-type: none"> • Political stability is yet to be proved • Regional security deterioration, particularly increased tension with India, may constitute a major hold-up to economic development and poverty eradication • Drought and environmental degradation may constrain smallholder agricultural development • Deteriorating external relations may derail social, political and economic programmes • Lack of gender balance

IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME

1. **Corporate and regional strategic thrusts.** The orientation and basic elements of the Pakistan country strategy correspond closely to IFAD's current corporate strategy. The fundamental elements of the Pakistan country strategy, which constitute key links to the corporate strategy, are:

- higher levels of beneficiary participation through development of, and support to, local institutions and grass-roots organizations;
- continued focus on gender issues in agricultural production and local organizations; and
- development of rural on- and off-farm employment for the rural poor.

2. The country strategy for Pakistan is also linked to its strategy for the region as a whole in the areas of community mobilization and organization, promotion of rural enterprises to diversify the income sources of poor rural households, and expansion of rural financial services. The country strategy also includes helping poor rural people to cope with natural resource constraints and socio-economic limitations, and proposes to concentrate its activities in the marginal and uplands where most of the poor live. The strategy gives priority to area-based projects, particularly in the tribal areas, drought and erosion-prone regions subject to degradation, and irrigable areas where there is good potential for allocating land to landless and near landless people. Land reforms and redistribution will be placed on the Government's policy agenda, and efforts will be pursued to empower women and enhance their abilities as a means of achieving social reform and agricultural/rural development. An important regional strategy, which will be also be pursued in Pakistan relates to replicating project ideas that have contributed to eradicating rural poverty.

3. **Cross-cutting concerns** that IFAD debated at the international level have been reflected in the strategy. The Pakistan country strategy is closely aligned to the programme of action issuing from the 1995 Conference on Hunger and Poverty as it seeks to favour the promotion of civil society and direct beneficiary participation in decision-making processes¹. The country strategy focuses on the participatory management of natural resources in general, and helps to protect scarce soil and water resources and to halt desertification in arid, semi-arid and sub-humid areas resulting from climatic and human activities². The approaches to helping rural women and addressing gender issues follow IFAD's policies and inputs to various forums, including the Fourth World Conference on Women held in Beijing, People's Republic of China, in September 1995.

¹ "Conference on Hunger and Poverty: The Implications of its Programme of Action on IFAD Policies and Operations", Fifty-Eighth Session of the IFAD Executive Board, September 1996.

² Definition of desertification agreed at the 1992 Earth Summit and adopted by the United Nations Convention to Combat Desertification.

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT

Donor/Agency	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
IMF/World Bank	Macroeconomic stability programme	National – agricultural, financial and industrial sectors, public enterprises, private sector	Ongoing	Economic growth will impact on rural employment, macro policy in financial sector will influence rural financial services, and action on agricultural subsidy and on privatization will have budgetary impacts with implications for resource allocation to smallholder development and poverty eradication programme. IFAD will therefore collaborate with World Bank/IMF on policy dialogue and programme designs
IMF	Poverty reduction and growth facility	National – social services and infrastructure financing	Ongoing	Social and rural infrastructure financing – credit will complement IFAD support to rural infrastructure and rural financial services, which are major elements of all IFAD projects in Pakistan
World Bank	Pakistan Poverty Alleviation Fund	National – provides microcredit	Ongoing	Complementarity in policies and institutional framework will be sought
AsDB	Water resources management – development of new irrigation, rehabilitation of irrigation schemes	National – but mainly concentrating on Punjab and Sind provinces	Ongoing	Collaboration, including possible cofinancing, foreseen in the third project – Irrigation Development Project in Baluchistan
	Agricultural development and range management	National – rainfed and range management	Ongoing	Collaboration also expected in institutional reforms and strengthening, which cut across all IFAD interventions in Pakistan
World Bank	On-farm water management	Covering the four provinces of Pakistan	Ongoing	IFAD irrigation activities will be coordinated with efforts in areas of policy and institutions
German Credit Institution for Reconstruction/Bank of Khyber	Small business finance/microfinance	NWFP	Ongoing	Collaboration foreseen in rural financial services incorporated into IFAD programmes, particularly in NWFP

FACTS ABOUT POVERTY IN PAKISTAN

An analysis of poverty by socio-economic group reveals the following facts about poverty in Pakistan:

1. Poverty in Pakistan remained fairly stable during the 1990s, from 29.3% in 1993-94 to 32.2% in 1998-99.
2. Poverty is considerably higher in the rural areas compared with the towns and cities. According to calculations by FBS based on PIHS data, the poverty incidence in 1998-99 was 36.3% for rural areas and 22.4% for urban areas. Poverty incidences vary significantly among provinces. NWFP has the highest rural and urban poverty, followed by Punjab.
3. Poverty is closely related to lack of basic needs, especially education and cultivable land.
4. The poor have a higher dependency ratio. Households with a large number of children, and a single income-earning member, are more likely to be poor. On average, poor families have almost five members of less than 18 years of age, while the corresponding number for non-poor families is three. A poor woman will give birth to five children on average, compared to four for a non-poor woman.
5. More than one third of poor households are headed by aged persons who are dependent on transfer incomes, such as pensions and other forms of social support.
6. Education is the most important factor that distinguishes the poor from the non-poor. The percentage of literate household heads is 27% in poor households, while the corresponding figure for non-poor households is 52%.
7. The poor are also characterized by relatively limited access to health-related infrastructure such as sanitation. Some 76% of the poor live in households with no flush toilet, compared to 53% of the non-poor. The poor are also less likely to have access to electricity and gas connections; access to electricity and gas has been estimated at 75% and 24% for the poor and non-poor, respectively.
8. Relatively poor communities also seem to have less access to health facilities and immunization. In poor households, 45% of children aged one to five years have been fully immunized compared to 58% in non-poor households.
9. Poverty is (relatively) higher when heads of household are unskilled agricultural workers engaged in services, transport, production and sales occupations.
10. The non-poor own 0.84 acres of cultivable land per capita, while the poor own only 0.27 acres per capita. In addition, the poor are less able to diversify their agricultural production and are thus more susceptible to economic shocks.

Source: Pakistan, I-PRSP, p.6