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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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Rome, 17-18 December 2003

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR THE

COMMUNITY DEVELOPMENT PROGRAMME

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CURRENCY EQUIVALENTS

Currency Unit	=	Pakistani 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

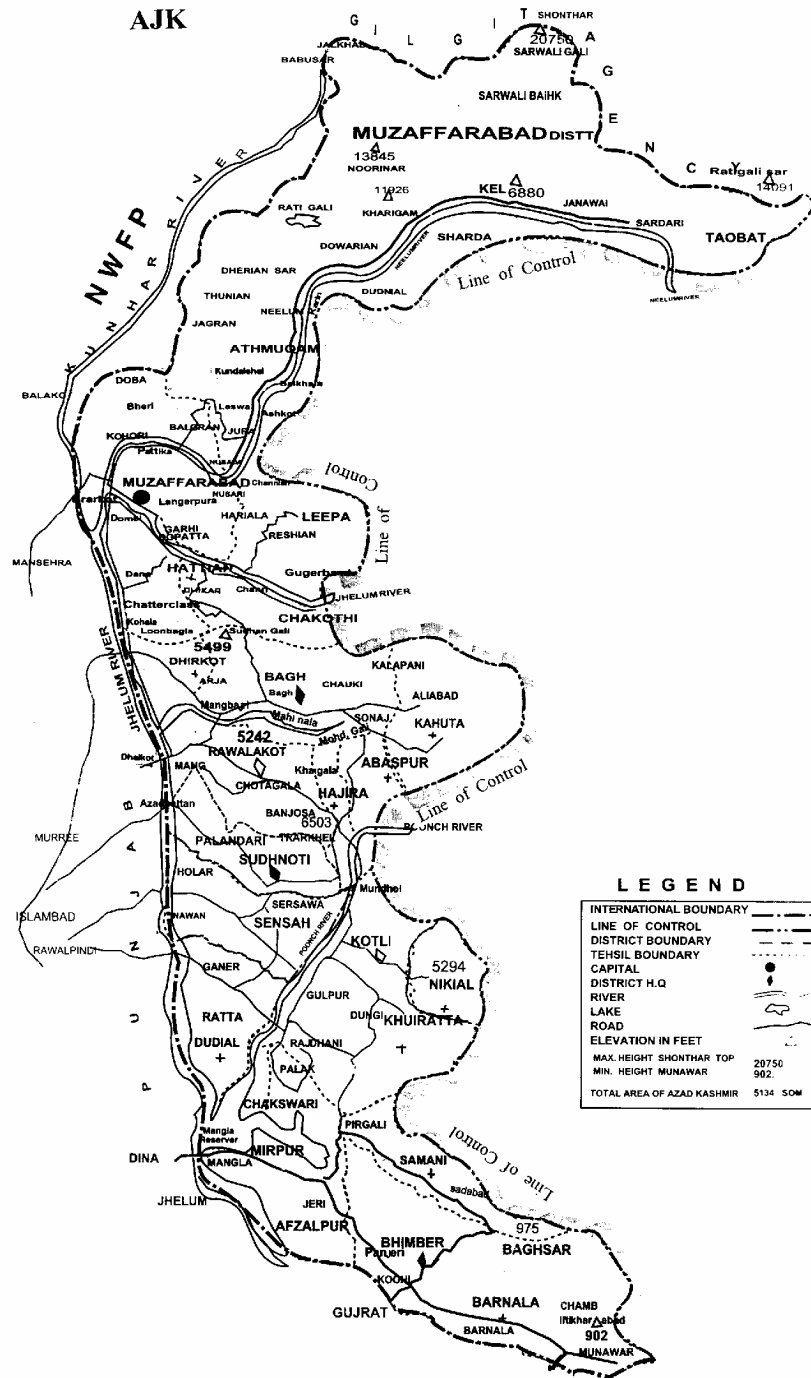
ABBREVIATIONS AND ACRONYMS

ACS/D	Additional Chief Secretary for Development
AJK	Azad Jammu and Kashmir
AsDB	Asian Development Bank
CDF	Community Development Fund
CISP	Community Infrastructure Services Program
CO	Community Organization
DPO	District Programme Office
FAO	Food and Agriculture Organization of the United Nations
NGO	Non-Governmental Organization
NJVCDP	Neelum and Jhelum Valleys Community Development Project
NRSP	National Rural Support Programme
P&DD	Planning and Development Department
PMU	Programme Management Unit
SME	Small and Medium Enterprise
PPAF	Pakistan Poverty Alleviation Fund
PSC	Programme Steering Committee
VDP	Village Development Plan
WFP	World Food Programme
UNDP	United Nations Development Programme
WP/B	Workplan and Budget

GOVERNMENT OF THE ISLAMIC REPUBLIC OF PAKISTAN**Fiscal Year**

1 July – 30 June

MAP OF THE PROGRAMME AREA



Source: Government of Azad Jammu and Kashmir

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
COMMUNITY DEVELOPMENT PROGRAMME
LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Islamic Republic of Pakistan
EXECUTING AGENCY:	Government of Azad Jammu and Kashmir (AJK)
TOTAL PROGRAMME COST:	USD 30.74 million
AMOUNT OF IFAD LOAN:	SDR 15.25 million (equivalent to approximately USD 21.77 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:	None
CONTRIBUTION OF BORROWER:	USD 7.11 million
CONTRIBUTION OF BENEFICIARIES:	USD 1.86 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)

PROGRAMME BRIEF

Target group and poverty. Low agricultural productivity, land degradation, farmland fragmentation, inequitable land distribution and lack of employment opportunities in Azad Jammu and Kashmir (AJK) make all of the rural population a potential target group for IFAD support. The proposed programme will target about 33% of the rural population (some 120 000 rural households) that are dependent on forestry and agriculture for their livelihoods. The target group can be classified in three groups: the landless (10%); small farmers (75%); and woman-headed households (15%). On the basis of this classification, the programme will devise appropriate and specific interventions to benefit each group, giving priority to rural women who now undertake many tasks previously performed by men due to considerable male outmigration for off-farm employment. Despite external remittances, the average annual per capita income in AJK is only between USD 185 and 200, representing about half of the national average.

Reasons for poverty. With its mountainous terrain, fragile ecosystems, small and scattered (and often inaccessible) rural settlements and its lack of major urban centres, AJK is generally poor, with the exception of the slightly better-off Mirpur district. Other factors contributing to its poverty are its remoteness, which makes marketing of agricultural and non-agricultural products difficult; the lack of infrastructure; and population growth. In most rural households, the major portion of disposable household income is spent on food. In poor households, very little is left to spend on non-food items and other needs. Where unforeseen expenditure is needed for sickness and emergencies, livestock is sold or people seek small loans or advances from others.

Programme activities to benefit the target groups. The programme will benefit the target group through a gender-sensitive, community-based, participatory planning, implementation and monitoring process of village development. This will be achieved by: (i) strengthening the role and capabilities of existing community organizations (COs), and setting up new COs to extend decentralized and sustainable development benefits; (ii) developing a savings and credit system to meet the needs of the poor and to promote sustainable income-generating activities and microenterprises; (iii) establishing the basis for a successful devolution process by promoting effective governance, transparency and accountability through improvements in operational and financial relationships within COs, CO clusters and apex organizations and between central and local institutions; and (iv) improving natural resource management and expanding the social and economic infrastructure necessary to increase incomes and employment opportunities and reduce poverty among the vulnerable segments of the communities.

Beneficiary participation and ownership. The programme has been formulated taking into account the very positive experience of the IFAD-supported Neelum and Jhelum Valleys Community Development Project (NJVCDP) and the Mansehra Village Support Project. A number of beneficiary workshops have been undertaken to discuss both beneficiary needs and priorities, and the design of programme activities and their participatory monitoring. A workshop of all COs established under NJVCDP was organized to discuss the feasibility of establishing an apex organization and its modus operandi. Stakeholders and line agencies participated in the programme's development and design process. The Government has shown strong commitment to the proposed programme, reflected in the participation of the Additional Chief Secretary for Development in programme development team meetings in Rome. The programme will operate through existing and new COs (both women's and men's) to select priority infrastructure and development activities in collaboration with the beneficiaries, who are expected to contribute to the investment cost and to take responsibility for operation and maintenance (e.g. of irrigation schemes, water supply, etc.). In addition, the programme will provide technical and social services that meet beneficiaries' needs, ensuring their appropriateness, effectiveness and sustainability. It will also provide adequate training to programme staff and beneficiaries, with a particular focus on 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
COMMUNITY DEVELOPMENT PROGRAMME**

I submit the following Report and Recommendation on a proposed loan to the Islamic Republic of Pakistan for SDR 15.25 million (equivalent to approximately USD 21.77 million) on highly concessional terms to help finance the Community Development Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Pakistan started reforming its economy after the military coup of October 1999, and the country is now showing signs of an economic recovery. In 2000/01, despite a severe drought, total gross domestic product (GDP) at factor cost grew by 2.7%, while inflation remained low at 4.4%, notwithstanding a large increase in fuel and electricity prices and a significant depreciation of the Pakistani rupee. The budget deficit was contained at 5.3% of GDP compared with 6.5% the previous year. Low inflation and successful reserves accumulation – USD 3.5 billion by 31 March 2002, the highest level in a decade – reflected responsive monetary management supported by the introduction of a floating exchange rate regime. However, the recovery process is being threatened by perceived security risks, particularly during and in the aftermath of the war in Afghanistan, by tensions with India, and by the global economic slowdown, which is worsening the prospects for growth, exports and inflows. The external financing gap for fiscal year 2001/02 increased by at least USD 1 billion, or 1.7% of GDP.

2. Agriculture is still the single largest sector of the economy, accounting for 26% of GDP, 60% of export earnings and 48% of employment. It provides raw materials and a domestic market for all major agro-based industries. About 20.9 million hectares (ha) of land is cultivated in Pakistan, some 26% of the total area. Of this, about 76% is under a massive irrigation canal system supplemented by a large number of public and private tubewells, small community schemes and mini dams. The rapid expansion in irrigation, the introduction of high-yielding varieties, subsidized inputs and public-sector investment in rural infrastructure such as roads and electricity have resulted in an average 4% growth per annum of the agricultural sector over the last 30 years. However, the last few years of severe drought and disease have seriously affected the growth of the sector.

¹ See Appendix I for additional information.

B. Lessons Learned from Previous IFAD Experience

3. The programme design incorporates lessons learned from: (i) ongoing community development programmes in Azad Jammu and Kashmir (AJK);² (ii) other donors' interventions such as the World Bank-financed AJK Community Infrastructure Services Programme and the United Nations Development Programme (UNDP)-supported Area Development Programme – South AJK; and (iii) non-governmental organization (NGO) activities. 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 religious and other influential leaders, the participation of suitable grass-roots NGOs, and the recruitment of qualified women staff. The challenge, therefore, is to promote activities that are demand-driven with decentralized decision-making and implementation, and a participatory monitoring process.

C. IFAD's Strategy for Collaboration with Pakistan

4. **Pakistan's policy for poverty eradication.** Despite some improvement in social (and particularly gender) indicators, Pakistan still lags behind average Asian countries in population growth, infant mortality, school enrolment and adult literacy. The Government has initiated a participatory and comprehensive process with consultations at the grass-roots level to develop a national strategy for rural poverty eradication. Its Interim Poverty-Reduction Strategy Paper (I-PRSP) provides a dynamic framework for a holistic approach to sustainable economic growth and poverty reduction. It recognizes that additional income alone, either through jobs or financial assistance, will not reduce poverty unless the causes of poverty are addressed – a point also emphasized by IFAD. Allocation of adequate resources for poverty reduction is a measure of the Government's real commitment to tackle the issue. Following wide consultation and participation, concerned authorities and decision-makers at the provincial and district levels³ will adopt provincial and district PRSPs, which will serve as the primary framework for future planning. Finally, the devolution of power through increasing decentralization will contribute to (i) transparency, good governance, administrative accountability and people's participation in local affairs; (ii) the decentralization of planning, budgeting, implementation, and financial management and control; and (iii) the strengthening of local administration and the administrative infrastructure. However, in practice due to the limited resources at their disposal, district councillors (*nazim*) face considerable difficulties in carrying out their responsibilities.

5. **The poverty-eradication activities of other major donors.** In addition to IFAD's and the Asian Development Bank's (AsDB) activities in the North-West Frontier Province, several multilateral and bilateral donors have supported rural development efforts and poverty-reduction programmes in Pakistan. The World Bank, AsDB, the European Union, and the British, Dutch and Japanese Governments have supported the Social Action Programme II. The World Bank has

² The AJK designation employed in this report does not imply the expression of any opinion whatsoever on the part of IFAD.

³ The district level consultations will involve the newly elected district governments.

financed (i) the On-Farm Water Management Project IV; (ii) the Pakistan Poverty Reduction Fund, a national rural development programme that channels resources to communities through NGOs; (iii) the Northern Resource Management Project in AJK, which provides a basis for the sustainable and economically efficient use of land resources; and more recently (iv) the AJK Community Infrastructure Services Program (CISP), which, in addition to the provision of potable water and sanitation facilities to peri-urban and rural communities, includes some investments in access roads and bridges, street pavement, drainage and streetlights. UNDP supports the Area Development Programme – South AJK, which aims at strengthening community organizations (COs) and on- and off-farm income-generating activities. The World Food Programme (WFP) finances the Integrated Land Management Project. The European Union has provided support to animal health by constructing veterinary hospitals, dispensaries and centres, and providing drugs and medicines in locations where they are not available.

6. **IFAD's strategy in Pakistan.** IFAD has supported 18 projects in Pakistan (with a total commitment of about USD 313 million). Projects have had wide geographical and activity coverage and increasing beneficiary participation and NGO involvement. IFAD's strategy was sharpened following the 1995 country portfolio evaluation and by the country strategic opportunities paper in 1998, updated and expanded in 2002.

7. IFAD's strategy is based on a comprehensive and regularly updated socio-economic and poverty analysis. Its main thrusts are: (i) *Rural development*. The living conditions of the rural poor and women can only be improved if addressed in the context of integrated and sustainable activities to increase productivity and to strengthen basic rural infrastructure, access to markets and locally available rural financial services. (ii) *Good governance*. Regular evolution of a participatory community development approach, empowering grass-roots and local community-based organizations, will ensure full participation of concerned beneficiaries, better transparency and accountability, and good governance. Group leaders elected for a single term will contribute to these aspects and ensure fair rotation and responsibility sharing among members. (iii) *Access to resources*. Promoting and facilitating the rural poor and women's access to productive resources (including land, water, appropriate technology and financial services), an emphasis on credit for income-generating activities and the involvement of an institutional credit delivery system for microenterprise establishment are important factors for sustainably empowering the rural poor. (iv) *Empowerment of women*. IFAD focuses 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 in areas such as literacy, health and nutrition, and pressure on community and religious leaders and on men to involve women in decision-making for the selection and prioritization of project-supported schemes. (v) *Food security and diversification of production*. IFAD's emphasis is on food security at the national and household levels rather than on national food self-sufficiency by supporting commodities with a comparative advantage on national and international markets and by creating a favourable environment for a healthy private sector. (vi) *Decentralization*. IFAD promotes a participatory community development approach, with a focus on decentralized planning and implementation, and with support for the creation and strengthening of grass-roots organizations (using NGOs as conduits to promote them) and the devolution of human and financial resources to the areas of intervention.

8. **Programme rationale.** Because of AJK's mountainous terrain, fragile ecosystems, small and scattered rural settlements, and lack of major urban centres, poverty is widely and evenly distributed across the province. Improving the poor's accessibility is essential in such an environment. Investments in both social and economic infrastructure selected by the community through a participatory planning and implementation process (giving priority to areas not covered by other donors) will contribute greatly to this.

9. Most of the population of AJK depend on forestry and agriculture for their livelihoods. Low agricultural productivity, land degradation and farmland fragmentation, together with material deprivation (in terms of incomes and consumption) and social deprivation (in terms of education, health, etc.) have severely restricted the capabilities of the poor and increased their vulnerability, voicelessness and powerlessness. This has resulted in high unemployment and male outmigration, leaving women to undertake many of the tasks previously performed by men. Therefore, tackling this situation requires measures to: (i) increase employment opportunities through credit and community infrastructure development; and (ii) improve health and education, especially of women, to allow the poor to benefit from social and economic opportunities, and to be more involved in decision-making processes.

10. Sustainability is key to successful poverty reduction. Communities should be empowered to assume responsibility and ownership for decentralized planning and for the implementation, operation and maintenance of the activities they have selected. For this purpose, communities will be sensitized, mobilized and supported by selected and qualified NGOs to prepare a participatory village development plan (VDP), which should involve all village stakeholders, particularly traditionally disadvantaged groups. The community will prioritize activities and develop them into financially viable and implementable subprogrammes. This will ensure subprogramme sustainability, reduce the burden on the AJK government's recurrent budget, support the devolution process and promote transparency and good governance.

11. The programme will also address some of the limitations observed under the Neelum and Jhelum Valleys Community Development Project (NJVCDP) such as (i) the restricted geographical coverage, and (ii) the limited growth in the membership of COs, which poorer people did not join since they could not afford to assume the higher risks imposed by social collateral and savings requirements. These restrictions tend to reduce equity within the community and further marginalize the poorest strata of the population.

PART II - THE PROGRAMME

A. Programme Area and Target Group

12. Located in the foothills of the Himalayas, AJK has an area of 1.33 million ha and an elevation ranging from 360 metres (m) in the south to 6 325 m in the north. It is well endowed with forests, rangelands, agricultural fields, rivers, springs and diversified natural flora and fauna. Topographically AJK has two distinct regions: mountainous highlands and flat and undulating plains used for crop cultivation. Its soils are predominantly of calcareous sandstone origin.

13. The total population of AJK is estimated at 3.2 million, with a density of about 220 people/per square kilometre (km²). Some 88% (or 383 000) of the households (averaging seven persons) are rural. Agricultural production contributes only about 40% of household income, the balance derived from other sources, particularly wage labour. Due to the limited employment possibilities, male outmigration is common.

14. Although the literacy rate in AJK is 55%, the existing educational facilities (3 254 schools for boys and 2 778 for girls) cannot cope with the growing pressure for education, and many schools are working without a building. Similarly, existing health facilities are extremely limited (one hospital bed for 2 207 persons), despite the AJK government's huge effort to provide adequate health services where they are not available (the Expanded Immunization Programme actually covers about 62% of the population). About 55% of the village are supplied with piped water facilities and only 15% of rural households have indoor latrines. Road density in AJK is only 0.28 km/km², and because of the mountainous terrain, severe weather conditions during winter and heavy rainfall in summer, the

primitive communication system often breaks down. This makes it difficult for the rural population to access not only existing health and education services but also urban trading centres where they can market their produce and purchase basic products. Since roads are the only means of mass transportation for passengers and goods, there is an urgent need to develop a road network usable in all seasons.

15. **Gender situation.** Women are involved in a multitude of farm and non-farm activities, and their role in the rural economy has increased as a result of male outmigration (almost 33% of the households have at least one male member who has migrated within Pakistan or abroad). In addition to their traditional household responsibilities (gathering fuelwood, collecting fodder, tending livestock, growing vegetables, and processing and storing food), they are involved in farming and on- and off-farm income-generating activities. Unlike women in other more traditional populations in Pakistan, rural women in AJK are very much involved in household decision-making (e.g. relating to children's education and marriage) and manage the household budget. This positive attitude is reflected in the number of schools for girls and in the number of women groups with strong interest in community concerns. The incidence of woman-headed households is widespread in the programme area (unofficially estimated at 33 to 40% of households), and may vary from being seasonal to a more permanent situation.

16. **Target groups and targeting.** The mostly adverse socio-economic indicators and the large share of the population living at subsistence levels make AJK a suitable area for IFAD support. Productive land is very scarce and holdings generally too small to sustain an average-sized household, which makes all households in the area eligible for inclusion in the target group. The proposed programme will target 33% of the rural population (some 120 000 rural households), and will consolidate groups already targeted by other donor-supported projects and programme in the area. There are three target groups: (i) the landless, (about 10%) including farm labourers, non-farm wage labourers, tenants, refugees and nomadic herders; (ii) smallholders (about 75%) with plots averaging 1.2 ha of which only 50% is cultivable, making them vulnerable to further marginalization and eventual landlessness resulting from fragmentation. They are severely constrained by lack of access to suitable technologies and shortage of capital, and their income from farming cannot meet the year-round needs; and (iii) woman-headed households (15%). Women are a priority target group and will have priority access to programme activities.

17. Targeting will be based on area and intra-community indicators set up and agreed upon in consultation with the beneficiaries. Villages and communities in AJK will be ranked in a transparent process that uses simple criteria to establish the level of deprivation. Indicators will relate to physical infrastructure (schools, health facilities, safe water supply), economic facilities (markets, roads, electricity) and available services (trained health staff, adult literacy classes, agricultural extension, daily transportation, etc.), and will be reviewed and finalized under Special Operations Facility activities. Similarly, within the community, animation/participatory rural appraisal will be used to help the community identify the most vulnerable members and to facilitate the analysis of their specific constraints and devise appropriate solutions.

B. Objectives and Scope

18. The main objectives of the proposed programme will be to consolidate, expand and improve the well-being of the rural poor in AJK while being gender-sensitive and using a community-based, participatory planning, implementation and monitoring process of village development. This will be achieved by: (i) strengthening the role and capabilities of existing COs and establishing new COs; (ii) laying the basis for a successful devolution process by promoting effective governance, transparency and accountability through operational and financial improvements and better relationships between central and local institutions; (iii) improving natural resource management; and

(iv) expanding the social and economic infrastructure necessary to increase the rural poor's income and employment opportunities and reduce their poverty levels.

C. Components

19. All components will respond to structured demands and flexible targets estimated on the basis of annual participatory appraisal and aggregated VDPs from rural communities throughout AJK. Thus, the costs indicated in this report are only indicative, based on rough estimates undertaken during programme development.

20. **Gender-sensitive community development.** The goals of this component are: (i) mobilization, organization and capacity-building for establishing about 1 265 new men's, women's or mixed COs; (ii) training of CO members and leaders in income-generating activities, and the establishment of community credit pools, to allow for savings and to provide small loans to community members (particularly for women) for income-generating activities and microenterprise development; (iii) provision by selected qualified NGOs of technical assistance and information dissemination to ensure that community-development initiatives are inclusive and comprehensive. This will facilitate the preparation of VDPs; (iv) capacity-building of the COs to enable them to maintain and operate community-based social and economic infrastructure, enhancing the prospects that investments will be sustainable and improved natural resource management and conservation practices will be adopted; (v) increased CO membership with at least one third of all members coming from the most vulnerable segments of the community; (vi) provision of short- and long-term vocational training to about 8 000 and 2 500 CO members respectively; and (vii) building of confidence and leadership skills among the poor, particularly women, so that they can participate more effectively in the democratic process of local governance.

21. The component will also support the consolidation and foster the sustainability of 2 835 existing COs in the areas already covered by other development programmes (e.g. IFAD's NJVCDP, UNDP Area Development Programme – South AJK, World Bank's CISP). The programme will support the spontaneous drive for mature COs to cluster and to be formally registered, and it will encourage linkages among the established CO clusters. This process will lead to the evolution of district-level sub-apex structures, which will provide critical support to CO clusters for the development of microenterprises and small and medium enterprises (SMEs). Moreover, sub-apex structures will facilitate CO links to financial institutions to promote SME growth and market associations; enhance resource-based product development; provide technical, managerial and financial support services; and encourage linkages to different markets.

22. **Community Development Fund.** The Community Development Fund (CDF) is based on the concept of tiered development. The programme will support COs throughout the process, helping them to improve their skills and reach the required maturity indicators to graduate to the next tier. CDF will comprise three windows: the microfinance window, infrastructure window and innovation window:

- **Microfinance window.** This entry-level tier will build on the existing savings and credit structure promoted under NJVCDP. When a participating CO accumulates minimum savings of PKR 20 000 (about USD 330), the programme will deposit matching funds into the CO's bank account. Subsequently, when the CO accumulates enough savings to repay without interest the initial deposit of matching funds, it will graduate to the second tier, where it can access substantially higher levels of matching funds (higher than PKR 60 000). This second tier represents the most critical step in CO development. NGOs with expertise in enterprise development, under the leadership of the district sub-apex organization, will help COs and CO clusters gain greater exposure and understanding of the dynamics of resource-based enterprise growth. The tier will support the process of

- (i) identifying the opportunities for and the risks involved in specific types of product development; (ii) stimulating responses to markets and developing market niches; and (iii) training CO members to build assets collectively from enterprise endeavours and to manage their enterprise credit portfolios effectively. The expected results are greater mobilization of financial gains for members, and through members to COs, CO clusters and sub-apex organizations. SMEs will evolve – including those that offer services (transport and packaging, etc.) and add value (processing, pre-sorting, artisanal and industrial) – to promote powerful income-generating and employment opportunities. Once the CO clusters have reached a higher level of maturity – measured by the value of their mortgageable assets (including land, cash and other assets), which should correspond to PKR 500 000 (USD 8 330) – and can repay without interest the secondary-tier deposit of matching funds, they can officially register as a company. The programme will facilitate their linkages with formal financial institutions. At this point, they can exit from the microfinance window and graduate to a higher level of lending operations.
- **Infrastructure window.** This window will finance through a village development planning process, small-scale social and economic infrastructure to benefit an individual CO or a CO cluster. This could include drinking water supply, water points, latrines, schools, and vocational enterprise training centres, clinics, primary health care/sanitation facilities, small irrigation schemes to irrigate some 3 800 ha using water lifting devices (56), mini-dams (about 56) and tube wells (about 84); rural roads (150 km), bridges (20), footbridges (about 20), on-farm soil conservation works, internal pathways, and micro-hydropower units, and protective infrastructure to prevent soil erosion and the mitigation of other environmental hazards such as siltation and landslides. Community-managed irrigation systems, on-farm soil conservation activities (designed to retain fertile topsoil from erosion through structural as well as biological measures) and improved on-farm water management practices (to ensure efficient use of scarce and costly water inputs) will be promoted.
 - The **innovation window** will provide financial support to encourage proposals (about 1 000) of novel ideas to promote the well-being of the rural poor, such as improved or new systems of agriculture, livestock, forestry, rural enterprise development, environment and women's development. Beneficiaries will include, among others, community members, line agencies and the private sector.

23. **Natural resource management.** This component will support: (i) screening, testing and demonstration of improved, management-efficient and affordable technologies for achieving higher productivity in different fields at cluster levels; (ii) establishment and promotion of farmer-led seed production on about 1 300 ha to provide quality seed materials; (iii) on-farm participatory adaptive research in collaboration with appropriate partners of known technologies (not currently practised in the area). About 20 research themes will be undertaken to introduce remunerative crops; (iv) establishment by COs/CO clusters of a revolving fund for ease of procurement, handling and marketing of critical agricultural inputs (seed, fertilizer and chemicals, etc.); (v) training of CO/CO cluster members to become agents of development for sustainable natural resource management through dissemination of improved techniques (as para-extensionists, integrated pest management technicians, seed development technicians, etc.); (vi) private-sector nurseries; (vii) COs/CO clusters, through visual/audio-visual media and market intelligence on a regular basis; (viii) market surveys; and (ix) and line departments, enabling them to respond effectively to the needs and demands of the CO members with respect to crop development. All enterprise investments resulting from the above interventions will be financed from the microfinance windows.

24. **Programme management.** The programme will establish: (i) a programme management unit in Muzaffarabad to coordinate and facilitate the implementation and monitoring of activities and the release of funds to districts and agencies, COs and other partners. It will also finance the recruitment of technical assistance including a credit and enterprise development specialist, an information and communication specialist, a monitoring specialist and support staff; and (ii) seven district programme offices (DPOs) to undertake similar activities at district level.

D. Costs and Financing

25. Total programme costs over the seven-year period are estimated at USD 30.74 million, at December 2002 prices and including price and physical contingencies. Foreign exchange costs represent about 20%. Physical contingencies represent 3% of base costs. Price contingencies are estimated according to World Bank/International Monetary Fund projections. Constant purchasing parity exchange rates have been used to estimate programme costs. These rates reflect the likely depreciation of the PKR against major currencies due to the projected differential in domestic and foreign inflation rates (Table 1).

26. Table 2 shows the programme financing plan. IFAD will finance USD 21.77 million (70.8%), the Government USD 7.11 million (23.1%), and the beneficiaries USD 1.86 million (6.0%) in kind (labour, equipment and materials). In addition to the total programme cost, the Food and Agriculture Organization of the United Nations (FAO) has provided a Technical Cooperation Programme grant of about USD 375 000 to initiate various activities in support of the programme.

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

	Local	Foreign	Total	% Foreign Exchange	% Base Costs
A. Gender-sensitive community development	10 069.1	771.6	10 840.7	7	39
B. Community Development Fund	8 702.9	4 182.1	12 884.9	32	46
1. Microfinance window	4 520.8		4 520.8		16
2. Infrastructure window	3 932.1	3 932.1	7 864.1	50	28
3. Innovation window	250.0	250.0	500.0	50	2
C. Natural resource management	1 285.0	67.6	1 352.6	5	5
D. Programme management	2 670.5	391.7	3 062.2	13	11
Total base costs	22 727.4	5 413.0	28 140.4	19	100
Physical contingencies	459.7	444.9	904.6	49	3
Price contingencies	1 268.8	422.1	1 690.9	25	6
Total programme costs	24 455.9	6 280.1	30 735.9	20	109

^a Discrepancies in totals are due to rounding.

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

Components	IFAD		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
A. Gender-sensitive community development	7 134	61.9	4 387	38.1	-	-	11 521	37.5	830	10 036	655
B. Community Development Fund	11 646	80.8	914	6.3	1 859	12.9	14 418	46.9	4 949	9 470	-
1. Microfinance window	3 607	79.8	914	20.2			4 521	14.7		4 521	-
2. Infrastructure window	7 435	80.0	-	-	1 859	20.0	9 294	30.2	4 647	4 647	-
3. Innovation window	604	100.0	-	-	-	-	604	2.0	302	302	-
C. Natural resource management	1 398	95.0	74	5.0	-	-	1 472	4.8	74	1 325	74
D. Programme management	1 588	47.8	1 737	52.2	-	-	3 325	10.8	427	2 449	449
Total disbursement	21 766	70.8	7 111	23.1	1 859	6.0	30 736	100.0	6 280	23 279	1 177

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

27. **Procurement** of goods and services will be in accordance with IFAD procurement guidelines. Procurement of vehicles will be bulked and undertaken by the programme management unit (PMU) for all executing agencies. Contracts over USD 200 000 will be subject to international competitive bidding. Items costing between USD 10 000 and USD 200 000 will be procured through local competitive bidding; items costing less than USD 10 000 will be procured through local shopping. Community-based civil works such as irrigation schemes, small water-supply schemes, access roads and other community infrastructure will be carried out by force account when appropriate or contracted by the respective CO or CO cluster to local contractors or line agencies. A contract, acceptable to IFAD, will be entered into between a service provider and the Government for support in programme implementation especially with respect to technical assistance, study tours and training.

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

29. Based on an approved annual workplan and budget (WP/B) and effective implementation, programme funds from the special account will be channelled, on a quarterly basis, by the PMU to the line departments and the contracted agencies. Activities undertaken by the line departments and contracted agencies will be scrutinized by the programme director prior to the release of further funds, and to ensure that CO approval of work undertaken is obtained. All implementing agencies involved in the programme will keep separate accounts of expenditures with regard to activities undertaken with programme funding. The accountant within the PMU will ensure that all accounts are kept in accordance with government practices acceptable to IFAD. The PMU accountant will also prepare quarterly, consolidated statements of programme accounts as an integral part of the management information system. These consolidated statements will be submitted regularly to the programme steering committee (PSC) and IFAD. The government auditor-general or other auditors acceptable to IFAD will audit all accounts. The audited accounts and auditor's report, which include a separate opinion on the statements of expenditures, will be forwarded to IFAD no later than six months after completion of each fiscal year.

F. Organization and Management

30. The Government will delegate all powers and authority for programme implementation to its Planning and Development Department (P&DD). The Additional Chief Secretary for Development (ACS/D) of P&DD will be responsible for policy direction. The secretary of finance, AJK, will provide adequate counterpart funds from the AJK budget for timely execution of the programme. A PMU, to be located within P&DD in Muzaffarabad and headed by a programme director, will be responsible for overall programme implementation, the expeditious release of funds, financial control, administration of the special account, orderly procurement, logistics, coordination with line agencies and other programmes and projects being implemented in AJK, and reporting. The PMU will enter into agreements with line departments, the private sector and NGOs in 'term partnerships' with concerned COs and CO clusters for the implementation of particular activities.

31. Programme coordination arrangements will be undertaken as follows: (i) PSC will ensure effective coordination with line departments. It will meet at least twice a year to review mid-year progress and approve the annual WP/B. It will be chaired by the ACS/D and include the secretaries of finance, agriculture, industries, local government and rural development, and representatives of

COs/sub-apex/apex organizations, the Pakistan Poverty Alleviation Fund (PPAF)/National Rural Support Programme (NRSP), WFP and the microfinance institutions. The programme director will be the member secretary; (ii) the programme technical committee will review and approve draft and quarterly WP/Bs and six-monthly progress reports for presentation to PSC. It will be chaired by the ACS/D and will comprise the heads or representatives of the line departments, COs/sub-apex/apex organizations, PPAF/NRSP, WFP and the microfinance institutions. The programme director will be the member secretary; (iii) the district coordination committee at each district will coordinate programme activities with other government and/or donor interventions. Chaired by the programme director, it will include representatives of the relevant line agencies and representatives of the COs/sub-apex organizations.⁴

G. Economic Justification

32. **Benefits and beneficiaries.** As the programme will be demand-driven, it is difficult to project what type and what quantity of activities beneficiaries will select over seven-year periods and therefore quantify income, empowerment and poverty reduction. It is, however, conservatively estimated that the programme will affect not less than 123 000 poor households (or about 861 000 people) in about 4 100 COs. By supporting natural resources management and participatory research, and making available improved seeds and seedlings, the programme will improve agricultural productivity and stimulate diversification in high-yielding varieties and high-value crops. This will be further stimulated by better access to markets through improvement of access road and financial services. Water supply schemes will reduce some of the burden on women, releasing them for childcare and productive activities. Social infrastructure and activities will empower beneficiaries to address major constraints and improve the quality of life of the poor. The VDP and programme methodology for planning and implementation of activities will contribute to diversifying, strengthening and enhancing the content and quality of the partnership and linkages of the target groups with all concerned partners. The programme will also provide mechanisms for enhanced accountability, transparency and governance of COs and their interactions with service delivery line agencies. Furthermore, it will strengthen local democracy and decentralization.

33. The programme will benefit about 12 200 small farmers with holdings of 0.25-0.50 ha from yield increases under irrigation and probably as many from improved animal husbandry. Credits will benefit at least 50% of CO members. The rehabilitation and construction of about 145 km of water channels (irrigating 1 800 ha) and land levelling of about 900 ha will improve water use efficiency. In addition, the area under irrigation will increase by about 2 360 ha thanks to water-lifting devices, mini dams, an improved water distribution system and tube-wells. Activities mainly geared to women include income-generating activities and crop and livestock production (often the responsibility of women due to the absence of men household members). Women and girls will also be the principal beneficiaries of drinking-water supply schemes and of community-based investments from the CDF.

34. Increases in yields of major crops are expected, as is the diversification from cereals to high-value crops. In fact, yields of irrigated wheat and maize will increase from 2 to 3 tonnes (t) per hectare and irrigated vegetables from 11 to 16 t/ha. In general terms, the programme will increase: (i) crop productivity, through improved rainfed and irrigated cultural practices, support services and participatory research; (ii) the area under production, through new and improved irrigation; (iii) animal production, through improved support services and an increase in fodder production and in the supply of crop residues available for animal feed; and (iv) milk and meat production, as a result of income-generating activities, (v) income, from income-generating activities and microenterprise activities, improvement of input supply and produce marketing, through road improvement and the community-based activities to be financed through the CDF.

⁴ Programme implementation is detailed in Appendix IV.

35. The programme will seek to increase the income of the rural poor and women. Communities will be responsible for selecting and making investments through the participatory planning process for the development of VDPs and setting priorities that correspond to their perceived needs. For this purpose, representative and typical enterprise models have been developed to test the financial viability and attractiveness of the possible enterprises. Selected models clearly confirm the financial attractiveness to the beneficiaries since the internal rate of return ranges from about 13% for multipurpose milling enterprise to about 125% for seedling nursery or furniture shops.

36. **Economic analysis.** As mentioned earlier, it is difficult *a priori* to project the number and types of enterprises beneficiaries will select. If it is conservatively assumed that the impact of the programme (all investment costs plus costs of other financiers in the area, namely WFP and NRSP) will result in a per capita income increase of only USD 2 per beneficiary across the whole of AJK, the overall economic rate of return (ERR) will be around 10%. Similarly, to achieve a 12% ERR requires an increase of approximately USD 50 per ha of the cropped area in AJK (172 821 ha), without taking into account any other non-agricultural benefits realistically expected from the increased economic activity and better basic infrastructure and improved social services.

H. Risks

37. The major risk may be the difficult access and remoteness of the settlements in AJK. This may result in a slower-than-anticipated rate of formation and operation of COs, which will affect the implementation of all rural infrastructure works, credit uptake, social forestry and communal facilities. For this reason, considerable resources have been earmarked for the programme's community mobilization activities, which will support the launching, training and functioning of these COs, credit facilities and community development funds to promote group cohesion, interest and responsibility. Another risk is related to the interference of politicians and influential people in local activities financed under the programme. A participatory approach in developing VDPs and establishing their priorities will result in better accountability, governance and democracy. The sustainability of COs will be reinforced through their gradual evolution, their grouping into clusters, their linkages with commercial banks, the establishment of district sub-apex organizations and ultimately an apex organization for AJK. At the same time, COs will increasingly assume the cost of service provision. The programme design incorporates a flexible implementation approach and strong beneficiary involvement in monitoring and evaluation to minimize the risk of mismanagement of funds and to ensure that the poor and women benefit from programme activities. The election of CO leaders for only one term only will assist the democratic process of selection, transparency and accountability. To ensure that women are well targeted, women extension staff, women community extension and livestock workers, and women activists at the village or sub-village level will be recruited.

I. Environmental Impact

38. The environmental screening and scoping note undertaken during the programme development found that the programme could potentially improve the environment by: (i) the sustainable use of natural resources within existing cultivated areas and grasslands with no expansion into other areas; (ii) the rehabilitation and construction of new community irrigation schemes, including protection actions of catchment areas with positive effect downstream and reduced siltation; (iii) social forestry schemes and agro-forestry models to help restore areas degraded and eroded by previous deforestation activities; and (iv) the introduction of fodder production to reduce overgrazing pressure on communally grazed land. Potential negative impact is associated with the construction of access roads and community irrigation schemes, but this will be mitigated by their careful planning and design, including an environment assessment prior to their approval. The increase in the amount of fertilizers and pesticides applied is unlikely to be excessive since line department technical assistance will monitor soil fertility evolution and recommend appropriate doses and timing for application. The implementation and extension of integrated pest management methodology will

minimize the input of pesticides on cultivated land. Better access to education and health will increase people's awareness of environmental issues.

J. Innovative Features

39. This is the first programme covering the whole of AJK. It will complement the activities of other donors such as FAO, UNDP, the World Bank and WFP, and develop partnerships with them as appropriate. The programme has a number of innovative features: (i) responsibilities are largely decentralized to the communities, including savings and credit management and recovery, and the development of VDPs with the participation of all beneficiaries; (ii) a graduation system for COs will be introduced, at the end of which they will be linked with a commercial bank to meet their financial resource needs; (iii) major investments will be made at village level only if women participate actively in their selection and prioritization. In addition, a number of activities (such as the construction of latrines and the provision of water supply) cannot be implemented unless decided by women's groups, basically to ensure the formation of these groups as an entry point for all programme activities; (iv) after selecting activities, the community will contract them to private contractors or line agencies and will pay for them only after having approved their standards; (v) notables and religious leaders will be co-opted into programme activities to promote women's involvement and remove popular constraints to their full participation; and (vi) COs will be encouraged to group into clusters and then into sub-apex organizations at district level with the objective of establishing an apex organization at AJK level by the end of the programme to ensure CO sustainability.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

40. 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.

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

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

PART IV - RECOMMENDATION

43. 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 fifteen million two hundred and fifty thousand Special Drawing Rights (SDR 15 250 000) to mature on or prior to 15 December 2043 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 7 October 2003)

1. **Programme account.** The Government of AJK will open and thereafter maintain in the National Bank of Pakistan a current account denominated in Pakistani rupees for programme operations (the programme account). The programme account will be protected against set-off, seizure or attachment on terms and conditions proposed by the Government of the Islamic Republic of Pakistan (the Government) and accepted by IFAD. The programme director will be fully authorized to operate the programme account.
2. **Counterpart contribution.** During the programme implementation period, the Government will make counterpart funds available to the Government of AJK from its own resources for each fiscal year equal to the counterpart funds called for in the workplan and budget for the relevant programme year. To this end, the Government will deposit at least 50% of such counterpart funds into the programme account no later than 7 August of each programme year, and shall deposit the balance therein no later than 2 January of each such year.
3. **Programme integrity.** The Government will ensure that, throughout the programme implementation period, resources secured from other donors will neither substitute nor compromise any portion of programme financing or activities.
4. **Gender focus.** The Government will ensure full participation of women in the programme and will facilitate their unobstructed access to the programme activities and benefits. The Government will also ensure that women trained as staff in other IFAD projects are hired into relevant line departments of the Government of AJK.
5. **Additional staff and resources.**
 - (a) The Government will ensure that all vehicles and equipment procured using the proceeds of the loan: (i) are used exclusively for programme activities; (ii) are used only in the programme area; and (iii) will bear no flag or government insignia.
 - (b) In addition to those provided under the programme, the Government will ensure the provision of such vehicles, equipment and staff as may be necessary for programme implementation.
6. **Line agencies.** The Government will ensure that the line agencies involved in programme implementation prioritize programme activities.
7. **Additional financing.** The Government, in consultation with the Government of AJK, will endeavour to mobilize additional financing for COs and CO clusters through microfinancing institutions such as Kushhali Bank.
8. **Environmental issues.** Environmental impact assessment reports of environmentally-sensitive district council link roads will be submitted to IFAD for its review and clearance prior to including such roads in the programme. Schemes with a negative environmental impact that cannot be mitigated to the satisfaction of IFAD will not be included in the programme.

9. **Insurance of programme personnel.** The Government will insure programme personnel against health and accident risks to the extent consistent with its laws, rules and customary practice in respect of its national civil service.

10. **Additional conditions precedent to effectiveness of the programme loan agreement:**

- (a) the planning commission Pro Forma I, acceptable to IFAD, shall have been approved by the Executive Committee of the National Economic Council of the Government;
- (b) the PMU shall have been duly established, including the recruitment and appointment of the programme director;
- (c) the programme steering committee shall have been established;
- (d) the programme technical committee shall have been established;
- (e) the special account and the programme account shall each have been duly opened;
- (f) the auditor general or other independent auditors shall have been appointed to audit the accounts;
- (g) the programme loan agreement shall have been duly signed, and the signature and performance thereof by the Government shall have been duly authorized and ratified by all necessary administrative and governmental action; and
- (h) a favourable legal opinion, issued by the Ministry of Law, Justice and Parliamentary Affairs, in form and substance acceptable to IFAD, shall have been delivered by the Government to IFAD.

APPENDIX I

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

PREVIOUS IFAD FINANCING

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	37.3
Barani Area Development Project	IFAD	AsDB	HC	03 Dec 80	27 Aug 81	31 Dec 90	L - I - 48 - PA	SDR	9 800 000	48.2
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	78.2
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	71.4
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	7.6
Neelum and Jhelum Valleys Community Development Project	IFAD	UNOPS	I	04 Sep 91	05 Jun 92	30 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			L - I - 558 - PK	SDR	11 150 000	

LOGICAL FRAMEWORK

Programme Description	Performance Indicators	Monitoring/Mean of Verification	Assumptions/Risks
1. STRATEGIC GOAL			
Household incomes of the rural population in the target area increased. Communities empowered to plan and sustainably improve their living conditions.	Food security in the target area improved. The annual average household income for the targeted 123 000 households increased through improved on- and off-farm income-generating activities (IGA), including agricultural production and microenterprises supported by a strong gender-balanced approach for capacity-building and access to markets and financial services.	Baseline data prepared under NJVCDP. Moreover, CO food security activities and income levels recorded during participatory rural appraisal (PRA) preparation of VDPs. Periodic household/impact surveys and programme completion surveys.	Moreover, government continues to be committed to participatory, community-based local development planning for devolution and decentralization.
2. PROGRAMME OBJECTIVES			
Some 123 000 poor households, each including about seven family members, in the programme area able to sustain an increased level of agricultural production, productivity, income from on- and off-farm activities, and improved social and economic infrastructure. Donors' coordination ensured to avoid overlapping of activities and conflicting positions and strategies.	Yield increases in rainfed and irrigated areas based on demand-driven agricultural enterprise development– e.g. irrigated wheat and maize from 2t/ha to 3t/ha, irrigated vegetables from 11t/ha to 16t/ha. About 12 200 households with an average holding of from 0.25 ha to 0.50 ha (irrigated land) will benefit. Improved animal husbandry/cross-breeding will increase income from livestock by at least 25%. At least 50% of the participating households will receive loans from the CCPs for income-generating activities (IGA). Number of donor meetings in Kashmir.	Baseline data from PRA sessions; annual monitoring and evaluation (M&E) data; beneficiary workshops. Minutes of the meetings and decisions taken to facilitate implementation.	Restructured, demand-responsive, qualified and capable agricultural staff (crop and livestock extension service) are available. Non-programme income factors remain stable, at least in the short term. Government will facilitate these meetings.
3. COMPONENTS/OUTPUTS			
3.1 Beneficiaries trained to manage their productive resources. Women's and men's COs established to facilitate skills training (with priority to women), PRA sessions, development of VDP, identification and selection of priority community schemes involving all the village population and in particular women and vulnerable groups. Implementation will be highly flexible and demand-driven.	1 265 new COs and 2 835 existing COs strengthened; group leaders trained in group dynamics; 1 265 new and 2 835 existing activists trained; 2 200 women trained as community welfare workers; about 8 000 men and women participate in long-term vocational training and 2 500 in short-term vocational training. Productive infrastructure – about 3 800 ha of new irrigation, 150 km of rural roads – and social infrastructure (to be determined in PRA) established at community demand. Crop and livestock demonstrations established at request of the COs. Animal-breeding programme (artificial insemination and natural mating) dynamic. Vocational training used to setting up small farm and off-farm enterprises and IGAs.	Training records kept with NGOs/social organizers at district level and at programme management level. Records on productive and social infrastructure development together with listing of beneficiary contribution kept with PMU/DPO. Records of Departments of Agriculture (DOA) and Animal Husbandry on community-based crop and livestock activities. Records of vocational training centres and PMU/DPO for enterprise development and IGAs. Records of decision-making processes at community level.	Qualified and enthusiastic social organizers are available. Beneficiaries respond positively to programme interventions and recommendations. Women participate actively in programme activities.
3.2 Agricultural research restructured and focus changed from cereals to fruit and vegetable crops, and findings and recommendations transferred to extension staff.	Demand-responsive research material, training and extension material from trials and demonstrations developed and submitted to agricultural extension staff.	Feedback reports from agricultural extension staff and from beneficiary-responsive monitoring workshops	Qualified government staff are available.

Programme Description	Performance Indicators	Monitoring/Means of Verification	Assumptions/Risks
3.3 Capacity of agricultural extension service strengthened and improved through the FAO/Technical Cooperation Programme (TCP) activities prior to programme effectiveness, to ensure increased farm cash income from fruit and vegetables to increase on-farm income and improve beneficiary nutrition levels.	Fruit trees: Improved pruning, pest and disease control, expanded area, increased number of private nurseries. Vegetables: Expanded cropping area, increased production outside main lowland harvest season. Cereals: New varieties and improved cultural practices in rainfed and irrigated areas. Pulses: Recommendations for use of line planting and early weeding accepted; expansion of area planted. Fodder: Introduction of perennial forage; improved digestibility and use of crop by-products; maize managed to increase forage production, increased berseem by 3 t/ha	Records kept with programme management. Workplans and progress reports. Reports from agricultural extension staff on beneficiaries' adoption of new technology. Feedback from beneficiary-responsive monitoring workshops Records kept with agricultural extension staff.	Qualified government staff are available. Community extension workers (CEWs) are available.
3.4 Capacity of livestock extension services strengthened and improved to ensure increased productivity of indigenous and cross-bred animals.	Increased artificial insemination (AI) and natural mating and increased milk production; improved animal feeding and care; increased farm poultry and small stock fattening; improved use and of available animal feed; increased weight gains.	Records kept by livestock development staff. Feedback from beneficiary-responsive monitoring workshops	Qualified government staff are available. Village livestock workers are available. Women cooperate with the programme.
3.5 Increased availability of irrigation facilities and reduced water losses.	About 245 km of existing and new water channels, irrigating about 1 800 ha; 56 water-lifting devices, irrigating 340 ha; 56 mini dams, irrigating 170 ha; 84 km of water distribution improvement, irrigating 840 ha; 84 tube wells, irrigating 1 050 ha; land levelling on 900 ha.	Programme management Monitoring reports. Physical progress reports by the Irrigation Wing of DOA.	Suitable and qualified engineers are available at district level. Beneficiary farmers are able to mobilize funds for on-farm development and for operation and maintenance.
3.6 Rural access improved through rehabilitation/upgrading of priority road stretches, footbridges and pathways, and social infrastructure.	About 150 km of rural roads and 20 suspension bridges constructed and unidentified amount of community-based social infrastructure established.	Programme management monitoring reports. Physical progress reports by the Local Government Rural Development Department (LGRDD).	Beneficiaries able to contribute to the costs. Close cooperation between neighbouring villages.
3.7 Rural financial services, savings and credit facilities available for rural poor households in the target area. CO clusters graduate from microfinance window as their sustainability increases through accessing financial resources from banking system and improved access to markets.	Credit channelling through community credit pool and microfinance institution. Mature COs are increasingly clustering and sub-apex/apex structures established with links to the banking system for increased flow of funds available for SME development.	Records kept with PMU/DPO for the community credit pool (CCPs) and with the microfinance institution for the microenterprise and SME loans	The microfinance institution establishes branch offices in AJK with links to the clusters/sub-apex/apex structures.
3.8 Increased implementation capacity at state and district levels	Coordination office established and staffed by contract staff; district programme offices (7) established and staffed by contract staff; sub-apex/apex established and have absorbed DPO staff	Progress reports	Qualified staff available.

Programme Description	Performance Indicators	Monitoring/Means of Verification	Assumptions/Risks
4. ACTIVITIES			
<p>Women and community development</p> <ol style="list-style-type: none"> 1. Train community leaders and extension and livestock workers on gender-sensitive development approaches. 2. Establish community development fund for microfinance, infrastructure development, and promotion of innovation in rural areas. 3. COs to establish a revolving fund to ease the supply of seeds and fertilizer 4. Establish CCPs at CO level 5. Conduct training of community welfare workers 6. Conduct vocational skills training 7. Improve socio-economic infrastructure 8. Improve drinking water supplies 9. Carry out civil works (irrigation schemes, rural roads and small bridges) 10. Promote social forestry 11. Promote social infrastructure in support of improving the living conditions in the target areas, particularly for women and vulnerable groups 12. Promote innovation by the stakeholders in favour of developing new practical ideas that can improve the well being of the poor and women. 	<p>Effective implementation of programme activities: Implementation as per workplans Disbursement as per budgets</p> <p>Leaders elected for only one term of two years</p>	<p>Review mission/ex-post evaluation</p> <p>Special subject monitoring reports Management information system (MIS) data and reports</p>	<p>PRA successfully carried out, VDP established, and villagers' priorities accepted.</p> <p>Community development fund well managed and readily available.</p> <p>COs, line agencies, private sector and NGOs are responsive.</p>
<p>Agricultural research</p> <ol style="list-style-type: none"> 1. Improved crop technology dissemination 2. Farmer-led seed development – improved seed production on 1 300 ha 3. Promotion of fodder crops 4. Fruit and vegetable development 5. Participatory research – 20 research themes to be undertaken to introduce remunerative and high-value crops 	<p>Training of research staff implemented. Funds for operating expenses provided.</p>	<p>Training records kept with programme management</p>	<p>Line agencies, private sector and NGOs cooperate fully.</p>
<p>Agricultural crop production</p> <ol style="list-style-type: none"> 1. Improved crop technology dissemination 2. Enhance extension staff activities through the FAO/TCP for restructuring the extension and research services 3. On-farm crop technology demonstrations 4. Inception and refresher skills training of <ul style="list-style-type: none"> - DOA staff - Community extension workers 	<p>Women extension officers and field assistants recruited and posted at <i>tehsil</i> level. Agricultural officers' training and refresher training; community extension workers training and refresher training. Demonstrations on annual crops, fruit crops and communal rangeland development carried out. Weekly radio programme developed</p>	<p>Training and demonstration records kept with programme management</p>	<p>Line agencies cooperate fully.</p>

Programme Description	Performance Indicators	Monitoring/Means of Verification	Assumptions/Risks
Livestock production 1. Breed improvement 2. Improved livestock management 3. Strengthening of livestock services	Breed improvement through AI, distribution of about 20 cow bulls, 20 buffalo bulls, 200 rams, 200 buck and 16 000 parent poultry, based on demand. Demonstration of complete livestock packages in model villages. Demonstration of a milk collection centre. Training of staff and community livestock workers (CLWs) in animal health and production. Strengthening of the animal health diagnostic laboratory, through the European Union-funded veterinary service support project.	Training, demonstration and breeding records kept with programme management	Line agencies cooperate fully.
Irrigation development 1. Schemes identified by the communities 2. Pre-feasibility assessments 3. Development plans and feasibility assessments 4. Detailed designs 5. Construction of main systems 6. Construction of on-farm distribution systems 7. Provision of advisory services 8. Provision of quality control	As per approved workplans and contracts between the COs and the programme management.	Programme progress reports	District offices of DOA are capable of providing engineering services to the communities. Required staff are recruited.
Rural access and social infrastructure 1. Road and social infrastructure identification through COs/WOs 2. Road and social infrastructure rehabilitation/upgrading 3. Construction of suspension bridges 4. Quality control	As per approved workplans and contracts with contractors	Programme progress reports	Engineering services of LGRDD sufficiently capable to serve communities. Required staff recruited and synergies established with the World Bank-funded CISP
Rural financial services 1. Provision for establishment of community credit pools at CO/women's organization levels 2. Establishment of microenterprise loans by the microfinance institution 3. Provision of rural finance for income-generating activities and enterprise development 4. Establishment of sub-apex structures at district level	As per financial requests and budgets from the programme and the microfinance institution Number of COs ready to join the sub-apex organization Number of sub-apex organizations established	Special register for loans Loan monitoring reports from the microfinance institution to programme management Activities implemented by the sub-apex organization	Microfinance institution employs qualified staff.
Programme implementation support 1. PMU and DPOs 2. Component-specific implementing agencies 3. Programme management support (PMU) 4. Provision of contractual incremental staff, for each DPO 5. Transportation 6. Office equipment 7. Incremental operational expenses	As per approved workplans and budgets	Monitoring reports Programme progress reports Programme monitoring report Ex-post evaluation Programme cost and management accounts Workplans and budgets	Qualified senior staff can be attracted and retained. Responsiveness of institutions is strengthened.

PROGRAMME IMPLEMENTATION

Gender-Sensitive Community Development

1. In different AJK districts, various types of community organizations (COs) exist, formed earlier under different programmes. These organizations will be integrated under the programme through the following approach: (i) The programme area will cover the whole of AJK. (ii) All existing COs will be consolidated to become eligible for programme support and will have access to programme resources on an equal basis as those formed under the IFAD-supported NJVCDP, including access to credit-matching funds and the community development fund. This will include the COs established under the PPAF/NRSP project in Kotli, Poonch and Sudhnoti districts. (iii) New groups will be established only where currently no active groups exist (to avoid duplication), and to the extent possible only one CO per village. (iv) In areas with no existing groups, PMU will contract suitable NGOs on a competitive basis for community mobilization in the areas. (v) In the IFAD-supported NJVCDP area, the programme will partly support the formation of the proposed sub-apex and apex organizations, which will be provided with technical support, as required, for the group mobilization works in the villages.

2. A series of small workshops and surveys/situation and gender analyses, community meetings and information campaigns, including information campaigns on environment-friendly businesses and market options, will be organized to mobilize the communities and pave the way for village development planning. Training in participatory community-based village development plans will be conducted to enable users to organize themselves into COs and to build their capacity for the planning and implementation of microenterprises and social and economic infrastructure subprogrammes. The focus will be on building/strengthening community cohesion; community needs assessment; problem solving; and decision-making processes. This process will be facilitated by suitable and qualified service providers (NGOs), selected on the basis of transparent qualifying criteria and competitive bidding. Since the proposed programme is demand-led and community-based, the communities themselves will be responsible for playing the major role in each of the three programme cycle phases (pre-planning and feasibility, implementation, and monitoring). They will be technically supported by the line agencies/private sector contracted by the CO, CO clusters and sub-apex organizations.

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

4. Following the selection of villages, group formation and development will start. The proposed methodology is flexible in application and designed to establish and strengthen a community-based institution that can expand or change as it takes on the character of a locally managed NGO. The programme will also support the new AJK government policy under formulation to limit the number of groups to one men's and one women's CO per village. This is an important step to facilitate village-wide investments (e.g. water supply, dispensaries, schools, link roads, etc.) and the cost sharing for the operation and maintenance (O&M) of such schemes.

5. The community development under the programme will incorporate the following key features: (i) mobilization of rural poor communities for organizing groups, with particular emphasis on women's group formation; (ii) incorporation into the programme of existing active groups formed

earlier; (iii) development of local leadership of the target group through training; (iv) operation of a savings/credit scheme (community credit pool) at CO level; (v) local resource assessment, prioritization of development needs through participatory appraisal and formulation of a village development plan (VDP) for implementation by each CO; (vi) identification and training of community activists, particularly women; (vii) preparation and implementation of schemes for physical infrastructure and social services with support from the respective line department; and (viii) facilitation to organize and establish CO clusters to coordinate interventions covering more than one CO; and (ix) organization of sub-apex bodies of COs to be linked, once mature, with banking institutions.

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

Community Development Fund

7. **The microfinance window.** Through a participatory planning process, this window will enable the COs to be assisted by an NGO to accumulate savings in their bank accounts. The COs will need to undergo an appraisal/evaluation process undertaken by the NGOs, which will assess their capacities, level of savings and the adequacy of their savings mobilization strategies. It will also ensure that the COs have satisfied the minimum criteria that at least one third of their members are from vulnerable groups. When the minimum required amount of PKR 20 000 is accumulated, PMU will deposit matching funds to their savings level into their bank account. CO activities will be closely monitored by the facilitating NGO, and their skills upgraded through capacity-building programmes managed by the NGO. The CO clusters that have reached maturity stage, measured by growth of savings and size of loan portfolio, will undergo a similar process of assessment/evaluation for entry into the second-level tier. Access to the second tier is also conditioned by their repaying the initial deposit of matching funds. PMU will then deposit a higher level of matching funds, following their meeting the necessary requirements for accessing the second tier of credit. Once a CO cluster has reached a higher level of maturity, through a higher level of savings and a larger loan portfolio, the PMU will facilitate its linkages with a formal financial institution. The programme will assist the CO cluster to register as a company under the Company Ordinance. Thus, upon completion of the process, the COs will have graduated to a higher level of lending operations.

8. **The infrastructure window.** Priority infrastructure subprogrammes will be implemented by the CO or a CO cluster. This involves investments in essential community infrastructure, or mainly a secondary type of infrastructure. The identification process of subprogrammes is demand-driven by the COs according to their established priorities. Appropriate design and construction standards have been

developed in AJK, taking into account locally available materials, ease of construction and maintenance, and affordability. The design of each subprogramme will have to comply with the guidelines developed by the Environmental Protection Agency (EPA) of AJK for such types of infrastructures. The programme will develop eligibility criteria with negative and positive lists. COs will be allowed to access this window to fund one subprogramme at a time until it is completed and fully operational. Priority will be given to COs that have met the requirement that at least 30% of their members are from vulnerable groups. The NGO facilitating the CO's development plans will be joined by the line agency/private sector to prepare the full design and costing. Economic and social infrastructure works such as water supply, sanitation, school buildings and health centres will be implemented by the COs with the technical assistance of the respective line department (the Local Government and Rural Development Department (LG&RDD) for link roads, water supply and sanitation; the Department of Health for health centres; the Department of Education for schools). Implementation procedures and maintenance and financing arrangements will be the same as described earlier for irrigation schemes.

9. The COs will need to contribute at least 20% of the cash resources required for civil works together with labour and local materials. However, the ratio between cash and in-kind contribution could be adapted to specific CO's poverty status. The COs will have to deposit cash requirements into a bank account that they jointly operate with the PMU. The NGO together with the line agency/private sector will provide training for CO personnel in charge of the system's operation and maintenance (O&M). The subprogramme cost will include the service charge for line agency/private sector input. The community will be required to establish a committee to operate the infrastructure. It will establish user fees to generate the funds necessary for its O&M. Moreover, tripartite memorandums of understanding will be drawn up by and between the programme, line agencies/private sector and the CO clusters, to fix responsibilities and modalities for payment. Periodic routine maintenance will be strictly enforced in order to keep the infrastructure in a state of operation. To this effect, maintenance manuals and capacity-building to users will be provided prior to handing over the created infrastructure to the communities. COs that fail to maintain the financed infrastructure will be denied access to the window.

10. **The innovations window.** Invitations for concept papers for new innovations in the social or economic sphere will be encouraged to create opportunities for communities and stakeholders that have innovative ideas and need to be supported in order to develop and test these ideas prior to their wider dissemination. Concept papers will be appraised by the programme technical committee and submitted for approval to the PSC. Funding of proposals will be on a competitive basis to allow for the most relevant concepts to win funds for further development.

Natural Resource Management

11. The entry points for these opportunities and options will be the COs mobilized and consolidated by the proposed programme. Based on established priorities as defined in the VDP, the service providers will assist the COs/members in the detailed design and costing of the enterprise and its implementation. The service provider can cluster similar requests for enterprises for nearby COs and provide the service jointly to reduce its transaction costs. The cost of the enterprise will include a service charge for the service provider, which will be paid to the line agency/private sector based on certification by the CO/CO cluster of satisfactory service provision. In this context, the Government has requested FAO's financial and technical assistance in support of the implementation of this IFAD programme. For this purpose, an agreement will be signed between the Government and FAO acceptable to IFAD to assist the Government in training and study tours and the recruitment of technical assistance.

12. The relevant line agencies will provide technical assistance and other services to the COs as described in the programme documents. In addition, LG&RDD will design and supervise the

implementation of feeder roads and social infrastructure schemes. The participation of line agencies will be coordinated by the district programme offices (DPOs) at district level and specified/agreed in the quarterly and monthly workplans to be prepared by the DPOs in close cooperation with the line departments. The monthly workplan will specify the detailed day-to-day involvement of the various agencies at the CO level and will be prepared jointly by the DPOs and district/*tehsil* (subdistrict) staff. Funds for the line departments will be disbursed quarterly on the basis of the agreed quarterly workplans and progress made. Prior to the release of further funds, the DPOs will scrutinize activities undertaken.

13. **Irrigation infrastructure.** The Irrigation Section of the Department of Agriculture (DOA), based on the priorities identified in the VDPs and in close cooperation with the COs and NGOs, will be responsible for the implementation of irrigation development and rehabilitation works, including planning, design and supervision. The schemes to be developed will be identified by the COs in the course of VDP establishment. DOA will make a preliminary appraisal on the basis of pre-set selection criteria to assess whether the site warrants further investigations before a more detailed survey is carried out by the line agency to determine the technical and economic feasibility of the proposal. DOA will also assist the CO in the formation of water users' associations (WUAs). Before submitting the proposal to the programme for financing, the CO will approve the subprogramme and agree to provide 20% of the costs including labour and undertake O&M of the scheme once the construction/rehabilitation is completed. Once the proposal is approved, DOA will issue a work order in favour of the respective CO, and the PMU will release 20% of the total costs to the CO along with the design and work schedule. The construction work will then be executed by the community and supervised by DOA field teams. The DPO will be responsible for quality control. The DPO in this context will be assisted by engineering consultant's services. After completion, the scheme will be handed over to the WUA for O&M. DOA will provide necessary technical support in terms of training to the water users in running the schemes properly.

14. **Agriculture and livestock development.** Activities in support of the crop and livestock enterprises identified by the COs will be the responsibility of DOA and the Department of Animal Health. The director-general of agriculture and the director-general of animal husbandry will be responsible for implementing the crop and livestock development programmes. They will ensure that the deputy directors in each district organize their services to ensure accountability at all levels. In each district, a staff member each for crop and livestock will be nominated responsible for the respective activities. Within each *tehsil*, the selected cadre of staff will be responsible for activities in a defined area. Provision will be made to ensure that staff is active during participatory processes, including the selection of voluntary staff within the communities, selection of demonstration farmers and organization of inputs to villager-selected development initiatives.

15. Community extension and livestock workers (CEWs and CIWs) will ideally be 50% men and 50% women. Incumbents, selected by community members, will be literate and able to communicate well. They will be the points of contact for all activities, including seed-exchange programmes, demonstrations, field days, development activities, livestock vaccination, credit requests, reporting and monitoring results. Women extension officers will train women incumbents.

16. **Crop services.** DOA, benefiting from the support provided by the FAO/TCP, will restructure its extension service to make it more responsive to the demand-driven CO requests. At the start of each cropping season, DOA – in consultation with the COs – will prepare a schedule for the visits of field assistants (FAs) to the COs and a list of activities to be undertaken. FAs along with CEWs will maintain a register summarizing discussions with COs and recording activities for inspection by the AOs and the FAs. The programme training coordinator, in consultation with DOA, and the Extension Service Management Academy (ESMA), will prepare the curricula and the training calendar and supervise the training courses for its own staff and the CEWs. DOA will be responsible for facilitating the programme's seed multiplication plans based on CO-identified demands. The department with support from the Directorate of Agricultural Research will identify suitable varieties of major crops and will conduct

training for contract growers, selected on the basis of criteria such as landholding size and accessibility to land. DOA will arrange procurement of basic seed from the relevant breeding sources, and AJK research farms will provide the seed to contract growers after signing an agreement and assuring technical backup. Contract growers will sell the multiplied seed to fellow CO members at prices consistent with market prices for such seed.

17. To support extension activities, the Directorate of Agricultural Research will be required to rededicate itself to adaptive research activities with strong links to on-farm research to solve crop production problems encountered at the community level and to ensure the transfer of findings and recommendations to the extension service. To carry out these important tasks, Directorate staff will organize initial training and provide retraining of research staff every second year. They will receive travel and duty allocation and material support to develop and participate in a full adaptive research work programme. Research staff's input into extension staff training and extension field programmes will be formalized and systems of feedback from the field developed. (iv) FAO/TCP programme support, to initiate in the programme area in early 2004, will provide valuable inputs to restructuring the DOA in AJK to make it more responsive to demands by communities and be more accountable to them.

18. **Livestock services.** The work of the Livestock Service will be expanded beyond the present preoccupation with animal breeding and health to cover improved feeding and management for sedentary stock. The AI station will provide AI services, which will be strengthened to provide better outreach by the AI field services. With European Union support, veterinary hospitals, dispensaries and centres will provide veterinary care. Veterinary assistants will use revolving funds, financed by the European Union to ensure the supply of drugs and medicines in locations where veterinary drugs are not available. Voluntary men and women CLWs will provide veterinary and livestock husbandry services with equipment made available by the programme and will sell simple drugs, received on a 'one-off' basis the proceeds of which will constitute a local revolving fund.

19. **Social forestry.** The Forestry Department together with the concerned communities will continue to implement programme activities in the field of social forestry according to communities' demands and participation.

20. **Credit delivery.** Credit delivery under the programme, through community credit pools (CCPs) at CO level, will be based on community members' savings supplemented with matching funds from the programme. Communities will manage the CCPs under supervision of the credit officer/social organizer. CCPs will finance loans up to PKR 50 000 for farm enterprises, income-generating activities and small enterprise development, in particular for women. COs will be responsible for the operation of CCPs. PMU/DPO staff will, however, be responsible for training and technical guidance. Main indicators to pre-qualify and determine the maturity of a CO for credit funds will include: (i) the age of a CO should not be less than six months; (ii) the level of saving of a CO should be consistent since its formation and should fulfil the required proportion of the credit fund; (iii) members' attendance at meetings should be regular and not be less than 75%; (iv) COs should preferably have exercised internal lending to experience the credit practice; (v) at least one third of CO membership should be from the poorest strata of the community; (vi) agreement to ensure that the rate of loan recovery and prompt servicing of the loans are in accordance with the norms established by the programme; (vii) the loans will carry an interest rate at least equivalent to the prevailing market rates applied by the banking system; (viii) once a CO pre-qualifies for the credit fund, the 'terms of partnership' should be signed by the programme and the CO, agreeing that the funds will be used for productive enterprise development purposes, otherwise the programme maintains the right to withdraw the amount.

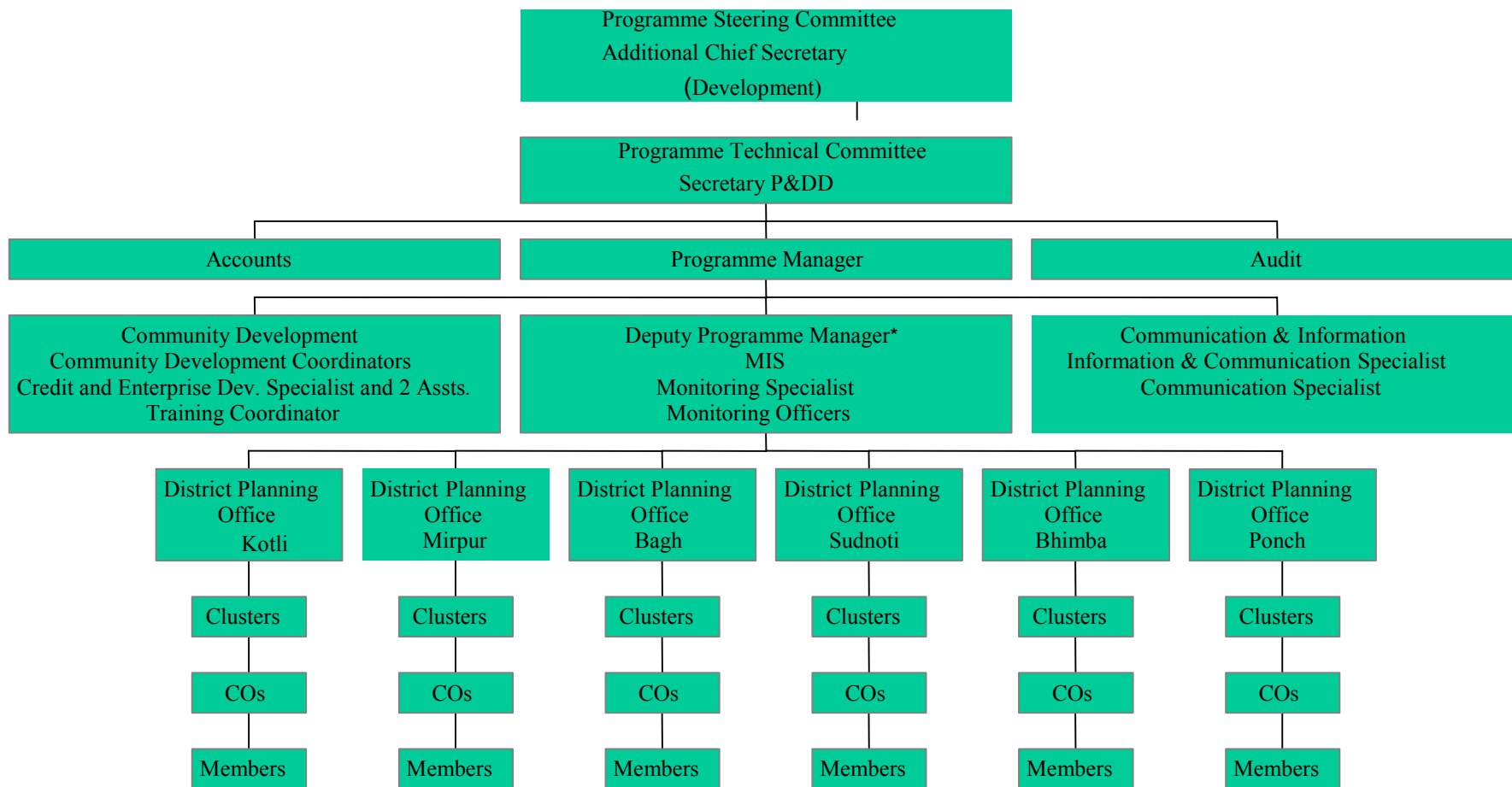
21. The selection of a borrower is at the discretion of a CO. Selection criteria should include: (i) a borrower must be a member of the CO; (ii) he/she should possess relevant experience and be willing to obtain training to improve and upgrade his or her technical and managerial skills; (iii) one member per

A

APPENDIX IV

household should be eligible for credit; (iv) the member's attendance in group meetings and his or her savings record should be satisfactory to the CO; (v) the borrower should not be a defaulter of any credit institution/bank; (vi) the borrower must have at least 20% of the amount of credit as savings with the CO. The maximum amount of credit should be PKR 15 000, and the period should vary from six months to a maximum of two years. The service charge should be market-determined in the same way as applied by the microfinance institution.

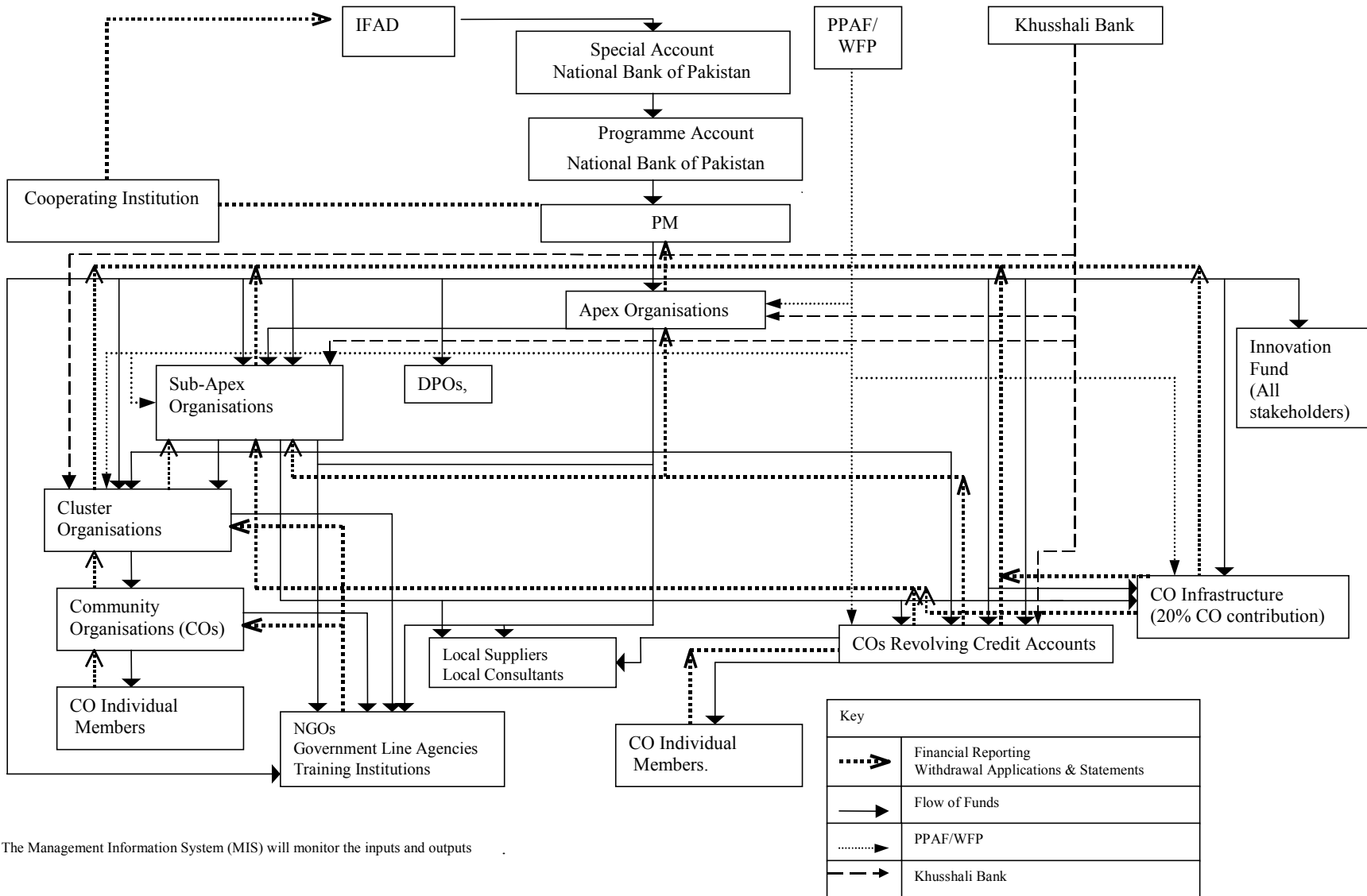
ORGANIZATIONAL CHART



13

- DPO Muzaffarabad will be operated by PMU.

FLOW OF FUNDS



Key	
	Financial Reporting Withdrawal Applications & Statements
	Flow of Funds
	PPAF/WFP
	Khusshali Bank

The Management Information System (MIS) will monitor the inputs and outputs

COSTS AND FINANCING

Expenditure Accounts by Component (USD '000)

	Gender-Sensitive Community Development	Community Development Fund				Innovation Window Innovation	Natural Resource Management		Programme Management		Total	Physical Contingencies	
		Microfinance Window		Infrastructure Window			Participatory Research	Field and Horticulture Crop Development Support	PMU	DPO		% Amount	
		Entry Level Tier I	Consolidation Level Tier II	Social and Economic Infrastructure	Inter- and Intra-CO Infrastructure								
I. Investment Costs													
A. Civil Works													
Civil works	300.0	-	-	4 786.2	3 077.9	-	-	-	-	-	8 164.1	10.0	816.4
Community Development Fund	-	-	-	-	-	500.0	-	-	-	-	500.0	10.0	50.0
Subtotal	300.0	-	-	4 786.2	3 077.9	500.0	-	-	-	-	8 664.1	10.0	866.4
B. Equipment and Materials	10.7	-	-	-	-	-	-	-	36.8	37.4	84.8	10.0	8.5
C. Vehicles	203.4	-	-	-	-	-	-	-	269.2	355.9	828.5	-	-
D. Training and Demonstrations	9 449.6	-	-	-	-	-	-	-	23.7	41.5	10 586.2	-	-
E. Technical Assistance and Studies	106.8	-	-	-	-	-	230.5	50.8	200.0	-	588.1	-	-
F. Revolving Fund for IGA	-	1 474.4	3 046.4	-	-	-	-	-	-	-	4 520.8	-	-
Total Investment Costs	10 070.5	1 474.4	3 046.4	4 786.2	3 077.9	500.0	230.5	1 122.1	529.7	434.8	25 272.5	3.5	874.9
II. Recurrent Costs													
A. Salaries													
Salaries and allowances	541.7	-	-	-	-	-	-	-	586.8	984.2	2 112.7	-	-
B. Travel and Daily Subsistence Allowances	-	-	-	-	-	-	-	-	78.3	83.1	161.4	-	-
C. Operating Costs	228.5	-	-	-	-	-	-	-	157.8	207.6	593.9	5.0	29.7
Total Recurrent Costs	770.2	-	-	-	-	-	-	-	822.9	1 274.8	2 868.0	1.0	29.7
Physical Contingencies	10 840.7	1 474.4	3 046.4	4 786.2	3 077.9	500.0	230.5	1 122.1	1 352.5	1 709.7	28 140.4	3.2	904.6
Price Contingencies	42.5	-	-	478.6	307.8	50.0	-	-	11.6	14.1	904.6	-	-
Inflation													
Local	1 797.9	-	-	618.7	355.7	80.9	42.2	299.5	256.0	332.8	3 783.6	-	-
Foreign	40.2	-	-	204.2	117.5	26.9	0.7	5.2	12.6	14.9	422.1	-	-
Subtotal Inflation	1 838.1	-	-	822.9	473.1	107.8	42.9	304.8	268.6	347.7	4 205.8	-	-
Devaluation	-1 200.6	-	-	-414.5	-238.2	-54.0	-28.2	-200.2	-164.7	-214.4	-2 514.9	-	-
Subtotal Price Contingencies	637.4	-	-	408.4	234.9	53.7	14.7	104.6	103.8	133.3	1 690.9	3.9	66.3
	11 520.6	1 474.4	3 046.4	5 673.2	3 620.6	603.7	245.2	1 226.7	1 467.9	1 857.1	30 735.9	3.2	970.9
Taxes	654.8	-	-	-	-	-	12.3	61.3	201.0	247.8	1 177.2	0.5	5.8
Foreign Exchange	830.2	-	-	2 836.6	1 810.3	301.9	12.3	61.3	193.1	234.4	6 280.1	7.6	477.4

Expenditure Accounts by Financier
(USD '000)

	IFAD		Beneficiaries		Government		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
Investment Costs											
A. Civil Works											
Civil works	7 435	77.2	1 859	19.3	333	3.5	9 627	31.3	4 814	4 814	-
Community Development Fund	604	100.0	-	-	0	-	604	2.0	302	302	-
Subtotal	8 039	78.6	1 859	18.2	333	3.3	10 231	33.3	5 116	5 116	-
B. Equipment and Materials	67	69.5	-	-	29	30.5	96	0.3	48	19	29
C. Vehicles	399	45.0	-	-	488	55.0	887	2.9	355	44	488
D. Training and Demonstrations	7 785	69.3	-	-	3 451	30.7	11 236	36.6	562	10 112	562
E. Technical Assistance and Studies	567	89.6	-	-	66	10.4	633	2.1	32	569	32
F. Revolving Fund for IGA	3 607	79.8	-	-	914	20.2	4 521	14.7	-	4 521	-
Total Investment Costs	20 463	74.1	1 859	6.7	5 281	19.1	27 603	89.8	6 112	20 382	1 110
Recurrent Costs											
A. Salaries and Allowances	1 142	50.0	-	-	1 142	50.0	2 284	7.4	-	2 284	-
B. Travel and Daily Subsistence Allowances	26	15.0	-	-	148	85.0	174	0.6	-	174	-
C. Operating Costs	135	20.0	-	-	539	80.0	674	2.2	169	438	67
Total Recurrent Costs	1 303	41.6	-	-	1 830	58.4	3 133	10.2	169	2 897	67
Total Programme Costs	21 766	70.8	1 859	6.0	7 111	23.1	30 736	100.0	6 280	23 279	1 177

A

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

APPENDIX VI

FINANCIAL ANALYSIS

	Initial Investment	Repayment Period	Base Financial Rate of Return	Sensitivity Analysis	
				+10 Cost	-10 Return
Microfinance Tier I Enterprises					
Tractor Repair Shop	41 000	1	62.2%	47.0%	42.9%
Embroidery	4 150	1	22.2%	8.6%	6.9%
Poultry Layer	20 000	1	38.4%	19.2%	16.6%
Lampshade	6 400	1	63.5%	40.9%	38.6%
Teddy Goat	12 000	1	88.2%	80.0%	74.0%
Seedling Nursery	15 090	1	124.1%	116.7%	107.9%
Microfinance Tier II Enterprises					
Dairy Production – 7 cows and 1 bull	303 148	3	13.9%	9.9%	8.0%
Multi-Purpose Milling	525 000	3	12.9%	8.6%	6.7%
Furniture Shop	378 000	3	126.5%	105.2%	83.9%