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IFAD
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Rome, 19-20 April 2006

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR THE

PROJECT FOR THE RESTORATION
OF EARTHQUAKE-AFFECTED COMMUNITIES AND HOUSEHOLDS

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CURRENCY EQUIVALENTS

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

WEIGHTS AND MEASURES

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

ABBREVIATIONS AND ACRONYMS

AJK	Azad Jammu and Kashmir
ERRA	Earthquake Reconstruction and Rehabilitation Authority
MI&OP	Microfinance Innovation and Outreach Programme
NWFP	North-West Frontier Province
PPAF	Pakistan Poverty Alleviation Fund
REACH	Project for the Restoration of Earthquake-Affected Communities and Households
RRP	Rehabilitation and Reconstruction Project (World Bank)

GOVERNMENT OF THE ISLAMIC REPUBLIC OF PAKISTAN
Fiscal Year

1 July – 30 June

ISLAMIC REPUBLIC OF PAKISTAN
PROJECT FOR THE RESTORATION
OF EARTHQUAKE-AFFECTED COMMUNITIES AND HOUSEHOLDS

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Islamic Republic of Pakistan
EXECUTING AGENCY:	Pakistan Poverty Alleviation Fund (PPAF), an apex funding agency created by the Government and operating through NGO partner organizations
TOTAL PROJECT COST:	USD 29.6 million
AMOUNT OF IFAD LOAN:	SDR 18.35 million (equivalent to approximately USD 26.4 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIER:	PPAF
AMOUNT OF COFINANCING:	USD 141 000
CONTRIBUTION OF BORROWER:	USD 3.0 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	World Bank

PROJECT BRIEF

Who are the project beneficiaries? All households in the selected earthquake-affected villages that have suffered partial or complete loss of basic livelihoods will be project beneficiaries. Priority in the allocation of project resources will be given to the poorest and most vulnerable households. This includes woman-headed households – both those that were headed by a woman before the earthquake and those that are now because of the loss of lives – the elderly, and others with limited labour opportunities and little or no access to remittance income.

Why are they poor? The selected villages in these mountainous areas have historically been poor due to limited natural resources and poor access to markets. The conditions are difficult and the resource base is often marginal. Farm income is generally not sufficient to sustain many of the households – particularly in the upper valleys of Azad Jammu and Kashmir – and household members commonly work outside the area. Livestock, or the lack of it, is another key determinant of poverty in these areas. Households that do not own livestock – particularly a buffalo or cow – are particularly disadvantaged since livestock are frequently the mainstay in a household's survival. The milk produced from a single buffalo often provides the most reliable source of cash income for a poor household and is a crucial element in its diet. With the earthquake, a majority of families lost their houses (estimated over 80% in the project area); many lost their livestock, especially buffaloes and cows that were kept in or adjacent to the destroyed houses; and in many villages, access to drinking water, services and markets was also lost due to damage to roads and bridges. A great number of households are now destitute and, without assistance, many villages might have difficulty surviving.

How will the project benefit them? The project will respond by providing the basic means needed to restore the livelihoods of affected households. In particular, it will support the reconstruction of destroyed and damaged houses and the restoration of damaged community infrastructure facilities – including drinking water systems, irrigation schemes, slope stabilization structures, roads and bridges. It will also provide the target group with skills and other training connected with the restoration works.

How will beneficiaries participate in the project? All of the households in the 100 or so selected villages will participate in the project and benefit from one or the other of the projects activities. While it cannot be determined before implementation – as allocation of project resources will depend on the specific needs and demands of each village – it is estimated that some 85% of the households will qualify for reconstruction of their houses; livestock grants will be targeted at woman-headed households in the area of operation covered by the Pakistan Poverty Alleviation Fund; and most households will benefit from restoration of community infrastructure. The poorest and most vulnerable households will qualify to participate in all the project activities and accordingly have priority in the allocation of project resources.

How were IFAD strategies and policies applied? The project will support IFAD's strategic objectives by strengthening the capacity of the rural poor and by placing an emphasis on access to assets, in particular livelihood assets (housing, livestock and water). With respect to the regional strategy, the project includes a geographic focus on more remote villages and will include special activities (such as livestock replacement) focused on woman-headed households. The project has been subject to IFAD's environmental assessment procedures and is classified as Category B. It has also been subject to the new IFAD Policy on Crisis Prevention and Recovery. In this regard, attention has been placed on ensuring that: (i) the project design is simple and flexible; (ii) implementation will be through grass-roots organizations and NGOs; and (iii) there is a focus on women.

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OF EARTHQUAKE-AFFECTED COMMUNITIES AND HOUSEHOLDS**

I submit the following report and recommendation on a proposed loan to the Islamic Republic of Pakistan for SDR 18.35 million (equivalent to approximately USD 26.4 million) on highly concessional terms to help finance the Project for the Restoration of Earthquake-Affected Communities and Households. 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 World Bank as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and the Earthquake of 8 October 2005

1. Pakistan has a population of 159 million (July 2004) with a majority of people living in the irrigated Indus River plain in the provinces of Punjab and Sindh. Balochistan and North-West Frontier Province (NWFP) are among the poorest provinces, and Azad Jammu and Kashmir (AJK), with its difficult access and remote valleys, experiences high levels of rural poverty. In spite of a tripling in per capita incomes over the past 50 years, Pakistan's human development lags behind that of countries with similar income levels. About one third of the total population live below the poverty line but, as the poverty reduction strategy paper notes, another 20% are classified as the 'transitory vulnerable'. Nevertheless, Pakistan's economy has been performing relatively well. Sound macroeconomic policies and structural reforms have resulted in a stronger export and current account position, a lower debt burden and a revival in growth.

2. The earthquake of 8 October 2005, while having a limited impact on the economy as a whole, has had huge impact on the nation. All segments of society are working to help the people in the affected areas. Some 80 000 people have died and large numbers of people have been injured; many households have lost family members; and the societies in many of the affected villages are now very fragile. Many have lost their homes, had their villages severely damaged and their livelihoods are now very precarious. Most of these households depend on agriculture, with livestock being a key element in their survival strategies. In the badly affected areas, most households lost animals; and in the worst-hit districts, the loss of livestock is over 50%. Five districts in NWFP and three in AJK, covering about 25 000 km², have been severely affected. The relief effort has been enormous, but the investment support to rebuild people's livelihoods is only just beginning. Donors in November 2005 pledged over USD 5 billion in support, the use of which will be coordinated by the recently established Earthquake Reconstruction and Rehabilitation Authority (ERRA).

¹ See Appendix I for additional information.

B. Lessons Learned from Previous IFAD Experience

3. There is only limited experience in IFAD with projects designed to respond to natural disasters such as earthquakes and the recent tsunami. In most cases, the projects have only recently started implementation and thus there is next to no experience on which to build lessons. What is informative, nevertheless, is the nature of the response proposed by these projects, which is in line with guidelines in the IFAD Policy on Crisis Prevention and Recovery, approved by the Executive Board in September 2005. Thus the project will: (i) ensure speed and flexibility (ii) use grass-roots organizations to reach the rural poor; (iii) focus on the role of women, and particularly women's groups; (iv) consider an enhanced role for NGOs and civil society organizations; (v) keep programme designs simple in conception; and (vi) employ a flexible financing mechanism.

C. IFAD's Strategy for Collaboration with Pakistan

4. **Pakistan's policy for poverty eradication.** Government policies recognize that the incidence of poverty and the vulnerability of the poor will not be reduced without sustained, broad-based economic growth. The Government also recognizes that growth can only be generated and sustained by the private sector. The response is a supportive investment climate and a policy framework that provides ample room for private firms, small and large, to invest and create jobs in agriculture, industry and services. The poverty reduction strategy paper, entitled "Accelerating Economic Growth and Reducing Poverty: The Road Ahead", is a key instrument in spelling out this policy. It focuses on four pillars: (i) fostering accelerated and broad-based economic growth while maintaining macroeconomic stability; (ii) improving governance and consolidating devolution; (iii) investing in human capital; and (iv) targeting the poor and the vulnerable with emphasis on social inclusion. The organization of investment support for the earthquake-affected areas is also being seen in this light. While the policy for dealing with the earthquake and the strategy to be employed is still evolving, the ERRA is organizing donors so that they do not just rebuild destroyed communities but also develop a sound foundation for them to re-establish themselves as viable and economically sustainable communities.

5. **Poverty reduction activities of other major donors.** The amount of donor support for the earthquake-affected areas is massive – approximately USD 5.8 billion has been pledged. To date, the application of these funds and the split between relief and development operations are still uncertain. A number of donors have identified the nature of the activities for which their financing should be used. Others have set out general principles or types of interventions that they would like to support. The situation is still very fluid. In order to ensure coordination, donors in Pakistan have agreed to follow a key set of principles for managing the financial support for the earthquake-affected areas: (i) avoid an uneven response by focusing equally on all affected areas and sectors; (ii) create income-earning opportunities for survivors and provide cash transfers to people whose livelihoods and housing have been disrupted; (iii) provide temporary shelters with a view to preserving existing social relationships; (iv) promote *in situ* reconstruction to take advantage of existing infrastructure and community facilities while minimizing resettlement and social dislocation; (v) deal with the land ownership issues that normally occur in post-disaster operations; (vi) take account of squatters and renters to ensure social inequities do not increase; and, above all, (vii) avoid reconstruction delays by streamlining decision making and procedures for contracting civil works.

6. **IFAD's strategy in Pakistan.** IFAD's strategy for the development of its lending portfolio in Pakistan is evolving. The latest country strategic opportunities paper (COSOP), presented in November 2003, provides the current framework within which recent projects have been developed and within which the most recently approved intervention, the Microfinance Innovation and Outreach Programme (MI&OP), falls. Six projects currently under implementation are area development projects, targeted at poor districts of the country, while the MI&OP is a national initiative that focuses on developing microfinance services and building the capacity of local institutions to provide such

services to the poor through innovative and new approaches and techniques. The Project for the Restoration of Earthquake-Affected Communities and Households (REACH), while obviously not foreseen in the COSOP, is consistent with IFAD's Policy on Crisis Prevention and Recovery, as mentioned above. It is also consistent with IFAD's overall strategic thrusts, as stated in the Strategic Framework for IFAD 2002-2006. It includes an emphasis on the "centrality of assets for rural poverty reduction" – in this case the replacement of assets for the restoration of livelihoods. It also focuses on "strengthening the capacity of the rural poor and their organizations" – the institutional basis for the project is social mobilization in conjunction with support to community organizations.

7. **Project rationale.** The rationale for the project design is based on a number of factors. First and foremost, there is an urgent need to follow up the current massive relief operations with permanent investment interventions that make available to the affected rural communities the key elements that will allow them to re-establish the basis for productive lives – essentially housing, water and other basic infrastructure, and livestock. Second, the capacity of the Pakistan Poverty Alleviation Fund (PPAF) to implement such activities efficiently and professionally, its mandate to work with the poor and promote poverty reduction, combined with its network of partner organizations with intimate knowledge of communities in the earthquake-affected areas, makes the PPAF the logical choice for implementing the project. Third, the Government, the PPAF and the partner organizations have strongly affirmed their desire to have IFAD provide the support proposed under the project.

8. IFAD's response to the earthquake builds on a unique comparative advantage. IFAD was one of the only major donors with significant ongoing community-based development projects in the disaster area prior to the earthquake. In this regard, IFAD's ongoing projects, in particular the Community Development Programme in AJK, has provided a major source of information and logistical support to the earthquake restoration efforts in general. This knowledge of the area enabled IFAD to respond very quickly and to influence the design and implementation arrangements of restoration projects financed by other larger donors. For example, the IFAD-designed implementation manual for the REACH project has also been adopted by the World Bank for the World Bank-financed Rehabilitation and Reconstruction Project (RRP). Furthermore, the design of IFAD's project is unique in that it includes a major focus on the most remote marginal communities and the most vulnerable members of those communities – woman-headed households.

PART II – THE PROJECT

A. Project Area and Target Group

9. **Project area.** The project covers the districts affected by the earthquake of 8 October 2005 in AJK and NWFP. These districts are generally within a 100 km radius of the epicentre of the earthquake, which was in the Muzaffarabad area in AJK. Project support will focus on the eight most affected districts in AJK and NWFP, which together have a population of about 5 million people, about one third of whom have been affected by the earthquake. The death toll is now estimated to exceed 80 000, with high rates of injuries among survivors and massive numbers left homeless. The areas in AJK are typified by mountainous terrain, fragile ecosystems, small scattered rural settlements and pervasive poverty. Household income from crop and livestock production is generally insufficient to sustain rural families, and up to two thirds of family income comes from sources outside agriculture. Reduced agricultural productivity, land degradation and farmland fragmentation have greatly affected the traditional lifestyle and stimulated an increase in outmigration. In NWFP, contributing factors to poverty are the remoteness of many rural communities, the difficult and high cost of marketing any surpluses or accessing basic goods and services, limited social infrastructure and poor roads (many of which are now impassable), and a high population growth rate. Poverty in NWFP is widespread and deep, especially in the rural and mountainous regions where the earthquake struck.

10. Even before the earthquake struck, the poor made up a significant portion of most of the villages affected. Now most households are not only poor but extremely vulnerable – many having lost homes and animals, not to mention family members in the earthquake. As practically all households in the villages have suffered partial and often almost complete loss of basic livelihoods support, all are considered as potentially part of the project’s target group. However, priority in allocating project resources will go to the poorest and most vulnerable households – often those that have less ability to recover than the others. Among these vulnerable households, one of the key concerns of the project will be woman-headed households. With the loss of life due to the earthquake, the number of woman-headed households is thought to have increased markedly. Physically, the project will target approximately 100 small, often remote villages in the upper valleys, which were poor before the earthquake and now, without assistance, are generally very marginal. It is often these villages that suffered the most from the earthquake, and where there has been the greatest loss of life and destruction of homes, animal shelters, drinking water and other essential community infrastructure.

B. Objectives and Scope

11. The development goal is to enable rural households to rebuild livelihoods and reduce vulnerability in earthquake-affected areas. Central to achieving this goal and as its overall objective, the REACH project will assist vulnerable earthquake-affected households in AJK and NWFP in rebuilding their asset base. Four interrelated principles define what the project aims to do and how it will operate: (i) restore livelihoods/replace lost assets, interpreted as first restoring permanent shelter, i.e. housing; second, restoring access to water and the economic means to survival, i.e. basic community infrastructure; and third, restoring household livestock, primarily a buffalo or cow, but in some cases, sheep and goats; (ii) ensure priority for the most vulnerable households, those lacking the economic means to rebuild their lives themselves – this focus will not occur naturally and will be the dominant way of operating for the project’s implementing agencies; (iii) operate in a limited number of villages, and only in those union councils where community organizations have been trained/established, to facilitate implementation and maximize the use of limited institutional capacity; and (iv) enable villagers themselves to determine project investments, with project support provided accordingly.

C. Components

12. Infrastructure restoration. The objective of the component is to assist earthquake-affected communities in restoring or reconstructing housing and other essential infrastructure. This will be achieved through a demand-driven process in which the selected villages – about 100 in total – will identify damaged or destroyed infrastructure and work with the PPAF’s partner organizations to develop an investment restoration programme for the village.

13. The component comprises funding for two distinct elements – housing and community infrastructure – each of which has its own implementation modalities. Maintaining the two within the same component underlines, first, the need for flexibility and, second, the scope for a community to decide the funding allocated to each and the timetable for their implementation – based on need and labour available within the community.

14. Project support for housing will provide a fixed amount for each household that has had a house destroyed or seriously damaged. The amount – roughly USD 2 500, which is the same amount being provided by the PPAF under the World Bank-financed RRP – will provide a household with a “basic living unit”. This will complement a government grant of about USD 417. Households can interpret this unit as they like – more or fewer rooms, different layouts – and they can add to the unit if they so desire. The overall design will be based on the ERRRA guidelines. The typical unit will employ traditional designs but incorporate approved, seismically safe structural elements. All materials are

available in Pakistan and most within the areas concerned. The households will purchase the materials from the project grant and use their own and shared village labour for construction, which will be paid for by the project. In project cost calculations, it has been assumed that for most villages, housing reconstruction will have the highest priority (among the project investments available), both in terms of funding and timing. With current estimates of damage, it is anticipated that some 7 000 housing units could be funded; however, the actual number will depend on the villages' own determination of needs and priorities.

15. The second element, community infrastructure, will provide financing for reconstruction of damaged systems and facilities and, where deemed advisable, supplementary finance for improvements, including upgrading and extensions. The highest priority is expected to be re-establishing drinking water systems, but restoring damaged roads and bridges and irrigation schemes and, in some villages, protecting/stabilizing structures and sanitation will also be important. A negative list will be applied for IFAD financing – which will exclude, inter alia, education, health and religious facilities. The actual selection of subprojects will be based on the community's needs assessment facilitated by their community organizations. Villagers had experience prior to the earthquake in forming community organizations, developing arrangements for operations and maintenance, and successfully maintaining infrastructure; this provides confidence that they will continue to do so when the project-financed reconstruction work is completed. The communities will procure the materials and organize the labour – paid by the project. Partner organizations will contribute community mobilization/organizational support and technical assistance/training, including contracted professional advisory and supervisory inputs when required.

16. While the extent of the investment in infrastructure will depend on each village's needs and priorities, the indications are that investment per village could be about USD 16 700.

17. The cost estimates for this component are based on a best guess of what the selected communities will demand, applying an agreed cost per house reconstructed and an estimate of what a typical village will spend in reconstructing and, in some cases, improving damaged community infrastructure. The actual numbers for each village will be different. The estimated costs are as follows: (i) housing restoration/reconstruction (USD 20.4 million) – allocation of funds on a grant basis to the villages, with the amount per village based on the number of houses to be reconstructed; 85% of the funding for housing estimated to be drawn down in the first year, with the remainder in the second year; and (ii) community infrastructure restoration/improvement (USD 1.7 million) – also on a grant basis; phasing of investment will depend on the availability of labour in the village, but most likely there will be less in the first year when considerable labour will be occupied in reconstruction of housing and more in the second and third years.

18. **Building up household livestock assets.** The objective of the component is to improve the capacity of earthquake-affected households to generate income and meet household food requirements by making livestock available to households in the project villages. Livestock in many poor villages in the upper valleys in AJK and NWFP are a mainstay in a family's survival. With losses of buffaloes and cattle reaching 40% to 50% in the worst-affected districts, the number of households that have lost this key element of their livelihoods is substantial.

19. Project support under the component will comprise one "basic livestock unit" per qualifying household – equivalent to one female cattle or buffalo, or a basic herd of sheep and goats having an equivalent value. The estimates of funding needed for livestock replacement/provision are based on a cost per basic animal unit of USD 750 – the current average price of a female buffalo. This component will be offered to all union councils in the PPAF's area of operation as approved by the ERRA in the interest of harmonizing donor support. Thus, livestock support will also be offered to union councils where World Bank support is also being provided. In allocating the livestock grants, the project will give first priority to woman-headed households that have lost buffaloes and cattle, or

sheep and goats. The poorest and most disadvantaged households will be assigned the second priority in qualifying for support under this component once all woman-headed households are covered in the PPAF's area of operation in the earthquake-affected districts. As a prerequisite for receiving a buffalo or cow², a household will need to demonstrate that it can supply the feed needed to maintain the animal(s).

20. It is not possible to estimate prior to implementation the number of animals that villages will request. But, based on post-earthquake surveys and experience in the villages, it has been estimated that about 4 000 woman-headed and poor households in around 300 villages will probably qualify for assistance – or about 15 to 20% of the woman-headed and poor households on average per village.

21. The component investment is estimated to total USD 3 million. The allocation of funds will be on a grant basis, with the expenditure on livestock being determined by the number of households that qualify per village. It is assumed that 60% of the funding under the component will be disbursed in the first year, with the remainder in the second.

22. **Operational and technical support.** The component objective is to **facilitate the PPAF's and the partner organizations' management of the project**. The component will provide the incremental management resources necessary to enable the PPAF and the participating partner organizations to take on the additional workload required by the project activities. Rather than creating a separate project management unit, the project will be managed within the present management structure of the PPAF. To enable the key units in the PPAF to handle the increased workload resulting from the project, the equivalent of seven new staff members will be funded. In addition, the PPAF will be provided with supplementary resources to cover incremental expenditures connected with monitoring and evaluation, training and promoting gender equity and other cross-cutting initiatives. Support will also be provided to participating partner organizations. To facilitate the partner organizations' delivery of project services and investment, the project will finance the establishment of five regional offices and ten field units. The number of regional offices and field units will be progressively reduced as the management burden of the project declines. The component will also cover the incremental costs incurred by the partner organizations, including the costs of operating in the 100 project villages.

23. The component investment includes the PPAF's and the partner organizations' investment in vehicles, equipment and materials plus incremental recurrent costs, totalling about USD 2.2 million.

D. Costs and Financing

24. The total cost of the project, to be implemented over a three-year period, is estimated at USD 29.6 million, with a base cost of USD 27.8 million. The largest portion of the project cost, by far, will be spent on housing reconstruction – USD 23.4 million. The management cost of the project will be relatively low for such an operation – at 11% of base costs. The overall amount allocated to investment in the communities is estimated to be USD 25.1 million – about 90% of total project costs.

25. In terms of project financing, IFAD will make available, on highly concessional terms, a loan of about USD 26.4 million, which will cover 89.3% of the estimated project cost. The Government will contribute USD 3.0 million, or 10.3%, of the project cost (essentially in grants for house reconstruction), and the PPAF will contribute USD 141 000, or 0.5%, made up of taxes and duties on the goods and services directly procured by the PPAF and partner organizations.

² Or even a herd of sheep/goats – providing feed demands can be met.

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

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Infrastructure restoration	22 083	-	22 083	-	77
Building up household livestock assets	3 000	-	3 000	-	12
Operational and technical support	2 709	46	2 754	2	11
Total base costs	27 792	46	27 792	-	100
Physical contingencies	1 373	-	1 227	-	5
Price contingencies	349	1	320	-	1
Total project costs	29 514	46	29 561	-	106

^a Any discrepancies in totals are due to rounding.

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

Components	IFAD		PPAF		Government		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
Infrastructure restoration	20 411	87	-	-	3 031	12.9	23 442	79.3	-	23 442	-
Building up household livestock assets	3 193	100	-	-	-	-	3 193	10.8	-	3 193	-
Operational and technical support											
PPAF support	849	93.7	57	6.3	-	-	905	3.1	46	802	57
Partner organizations support	1 937	95.8	84	4.2	-	-	2 021	6.8	-	1 937	84
Subtotal	2 785	95.2	141	4.8	-	-	2 926	9.9	46	2 739	141
Total disbursement	26 389	89.3	141	0.5	3 031	10.3	29 561	100.0	46	29 373	141

^a Any discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

26. **Procurement.** To support harmonization and efficiency of implementation, procurement of goods, equipment and services will be in accordance with the World Bank procurement arrangements being applied under by the World Bank-financed RRP. Loan proceeds will only be used for procurement from Member States of the Fund and, everything being equal, preference will be given to procurement from developing Member States of the Fund. The bulk of funds under the project will be transferred as grants to the partner organizations, which will be responsible for most project procurement. However, in many cases, the responsibility will be passed to the villages, which, for speed and efficiency, will make most of the purchases, including housing materials, livestock and materials for repair of community infrastructure facilities. Only when villagers find it difficult to purchase the required materials will the partner organizations assist – possibly, for example, in procuring roof sheeting for houses or cement for bridge or house repair. Other project procurement – a relatively small portion, about 10% of the total – will be undertaken by the partner organizations or by the PPAF directly.

27. To expedite project implementation, and in line with the World Bank arrangements under the RRP, the PPAF will be allowed to use “least cost or single source procurement” for a period lasting

one year, beginning on the date of project effectiveness and subject to strict prior review by the cooperating institution. This is not a blanket waiver but a facility that can be drawn on to expedite procurement of key items. The cooperating institution will review all applications for single source procurement to verify prices are competitive. The PPAF has already received such a provision from the World Bank for their earthquake-related activities during the first year of implementation and has already undertaken single source procurement to the satisfaction of the Government and the procurement offices of the World Bank.

28. **Disbursement, accounts and audit.** Due to the fast disbursing nature of the project, with sizeable expenditures planned in the first two quarters (most likely about USD 10 million) and heavy front-loading of project disbursement (about USD 19 million in the first year), no special account will be established. Rather, the PPAF will use a project account in United States dollars in the National Bank of Pakistan. Disbursements for the first and second quarters of the first project year will be made against estimates contained in the quarterly workplans and budgets. However, before funds are released to meet the projected expenditures for the third quarter, the PPAF will justify the expenditures for the first quarter. Funds will thus be made available on a needs basis. As the PPAF has very professional and experienced financial management, adoption of this system will be readily facilitated. The PPAF and partner organizations will maintain appropriate financial records and accounts in accordance with the PPAF's systems. For goods and services procured directly by the PPAF, a separate ledger within the existing general PPAF account will be used. This account is held by the PPAF with the ABN AMRO Bank and used for all the PPAF's direct expenditures. Retroactive financing in the amount of up to SDR 3 million will be available as from 1 March 2006 to cover all categories of expenditure

29. In line with all donor-financed PPAF projects, project accounts will be subject to independent annual audit by an auditor contracted by the PPAF. The auditor will examine the consolidated accounts of the project, with a random verification of supporting documents, reimbursement applications and the project account in United States dollars, and of the statements submitted by implementing agencies for the accounts relating to project activities and the supporting documentation maintained by them. The audits of the financial statements will, among other things: (i) assess the adequacy of the accounting and internal control systems to monitor expenditures and other financial transactions; (ii) determine whether the PPAF and the partner organizations implementing the project have maintained adequate documentation of all transactions; (iii) verify that the expenditures submitted to IFAD are eligible for financing and identify all ineligible expenditure; and (iv) verify that the annual financial statements can be reconciled with the relevant year-to-date amount appearing in the project progress report for the fourth quarter of the year.

30. The auditors will certify the accounts. This will cover all withdrawals from these accounts including those based on statements of expenditure. Further, they will explain any qualifications to certification and offer professional advice as seen fit to improve the efficiency and transparency of the accounting procedures in use. The PPAF will submit: (i) within three months of the end of the project financial year, the annual statement of sources and application of funds in respect of project expenditure to the auditors for audit; and (ii) within six months of the end of the financial year, the auditor's report to IFAD.

F. Organization and Management

31. The Economic Affairs Division and the Ministry of Finance will provide government oversight for the REACH project, with ERRRA coordinating development efforts in the earthquake-affected villages. The PPAF will have direct responsibility for the project and through its partner organizations will manage its implementation. The project will come within the PPAF's present management structure and will employ systems and procedures that are consistent with those currently being used by the parallel World Bank-financed, PPAF-managed RRP. The PPAF will be guided during implementation by its board of directors, which consists of representatives from the private sector, NGOs and government. The board sets operational policies and procedures, and reviews and approves annual workplans and budgets. To implement the project, the PPAF and its partner organizations will recruit additional staff and establish a physical presence in the project areas: five regional offices and ten field units staffed by incremental staff of the partner organizations. Each field unit will cover 8-12 villages depending on the terrain and distances. At the village level, community organizations, made up of a representative selection of households, will represent the village and assist in planning and organizing project activities. They will also have a pivotal role in social mobilization and in assisting partner organizations in assessing household poverty and vulnerability.

G. Economic Justification

32. **Project benefits.** Assuming that the project will work in about 100 villages for the implementation of the housing and community infrastructure component, and that each village has on average 80 households, the number of direct project beneficiaries will be 8 000 households. All 8 000 will benefit from the restoration of community infrastructure facilities; about 7 000 will benefit directly from reconstruction of their houses; and a further 4 000 woman-headed and poor households will benefit from livestock grants in all 300 or so of the earthquake-affected districts in the PPAF's area of operation. The total number of persons directly benefiting from the project will be about 60 000. The primary benefit will be to re-establish these rural villages as viable and sustainable communities that can, through the provision of livestock and their rehabilitated productive infrastructure, economically sustain themselves, and through the restored roads and bridges, access social and production services and markets. Finally, and for them most important, they will have houses for their families – houses that will be resistant to future earthquakes.

33. **Gender benefits.** The project will focus specifically on woman-headed households, as one of the more vulnerable segments of society in these villages, and as such will ensure that they are given high priority in the allocation of project resources. Project management will also pay particular attention to ensuring that both men and women participate in the restoration and reconstruction effort, and that both are paid equally for their labour. The livestock component will focus especially on women as a first priority, as livestock is a sector in which women play a dominant role. To help partner organizations develop and apply sound gender policies and practices, the PPAF will assist them in developing or improving their gender strategies and in testing and operationalizing the recommended approaches and actions.

34. **Financial and economic analysis.** The project will generate positive economic benefits by increasing household incomes and restarting economic activity in assisted communities. Preliminary analysis shows the project is economically viable and is likely to generate at least USD 33 300 in incremental annual income per village. Financial analysis shows that although the PPAF will bear some of the cost of financing the project and will assist the Government in repaying the IFAD loan, this will not have a significant impact on the PPAF's or the Government's cash flows. Furthermore, if the project's impact on mitigating the cost of outmigration from the affected villages and reducing the loss of government revenue from affected agricultural activities and enterprises are taken into account, the project will be considered financially attractive to the Government.

H. Risks

35. The major risk, and one recognized in both the World Bank and IFAD-financed projects, is linked to the capacity of the local institutions to handle the substantial workload, bearing in mind potential competing demands on their time. However, the partner organizations selected by the PPAF to work with the project have the PPAF as their prime partner and financier, and thus will give priority to the PPAF in time allocation. Second, both projects will be providing intensive training and management support to the partners and both will provide supplementary staff resources, either in the field at the partner-managed regional offices and field units, or at the PPAF headquarters. There are also secondary risks connected with the implementation of individual components. For example, there is a risk that the project will not be able to facilitate reconstruction of such a large number of houses in such a short time or, conversely, that other donors might have already reconstructed a portion of the houses in the villages selected for support under the REACH project. In the first case, reconstruction is not bound to a specific timetable and could be spread over the full three years, if necessary (instead of most being done in the first project year). The possibility of duplication by donors will be avoided as a result of a prior agreement between the ERRA and the PPAF specifying areas of operation; and each will coordinate donor support in its designated area. Both project design and the structure of project disbursement are sufficiently flexible. Regarding community infrastructure, there is a risk that rehabilitated/improved infrastructure might not be maintained. Since a prerequisite for eligibility is that facilities were functioning prior to the earthquake, the risk that infrastructure will not be maintained is considerably reduced. Regarding livestock, the first priority is being given to woman-headed households to minimize the risk that better-off households receive the livestock grants instead of poor and vulnerable households. The partner organizations, which will oversee the provision of livestock grants, have an intimate knowledge of the villages, having worked in them for a number of years (a prerequisite for selection of the villages). This will substantially mitigate this risk.

I. Environmental Impact

36. An environmental screening and scoping note was prepared in line with IFAD procedures. The note classified the project as Category B and confirmed that the potential for significant negative impact is minimal and no formal environmental impact assessment will be required. J.

J. Innovative Features

37. A project that tries to tackle the enormous problems faced by the people in an area so devastated by an earthquake, and to do so in a very short time, must be innovative by necessity. The project design, the design process and the proposed implementation process all differ significantly from the IFAD standard. First, the design process was compressed. Second, the design itself provides for a quantum leap out of poverty – the specific focus on a small number of villages with the aim of fully restoring the livelihoods of those villages differs from IFAD's usual approach of incremental improvement in livelihoods. Third, the implementation period is necessarily short, with most project investment taking place in one year (73%) and practically all within the first two years (95%). The speed of implementation is allowed by the following factors: (i) having worked in the same villages before; (ii) having set up, trained and worked with community organizations in these villages; (iii) having an extremely simple project design; and (iv) having extremely motivated and dedicated organizations. Fourth, a particular design innovation is the use of a contract memo between the partner organizations and the village committee, making the former accountable to the latter. Finally, in the interests of harmonization and facilitating the speed and efficiency of implementation, the project will be subject to the same World Bank procurement arrangements used under the RRP, including the World Bank-approved provision for single-source procurement in the first year of implementation.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

38. A loan agreement between the Islamic Republic of Pakistan and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the loan agreement is attached as an annex.
39. The Islamic Republic of Pakistan is empowered under its laws to borrow from IFAD.
40. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

41. 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 eighteen million three hundred and fifty thousand special drawing rights (SDR 18 350 000) to mature on or prior to 15 April 2046 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.

42. It is proposed that the IFAD loan be additional to the performance-based allocation for Pakistan.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan negotiations concluded on 12 April 2006)

1. **PPAF project account.** The PPAF will use its operational account (the “PPAF Project Account”) for meeting PPAF’s general administrative and operating expenses incurred for the project. The chief executive officer, chief operating officer, chief financial officer and the general manager-Human and Institutional Development of the PPAF will be fully authorized to operate the PPAF Project Account. Any two signatures will be required to make any withdrawal from the PPAF Project Account.
2. **Counterpart funds.** The Government of the Islamic Republic of Pakistan (the Government) will ensure that the PPAF makes available to the project funds from its own resources in an aggregate amount of approximately USD 141 000 or its equivalent.
3. **Channelling of project resources.** The PPAF will transfer available funds and other resources called for in the annual workplans and budgets to each selected partner organization, in accordance with the relevant partner organization assessment, to carry out the relevant component in accordance with such assessment.
4. **Monitoring.** The PPAF will expand, as soon as practicable but in no event later than 180 days after the effective date, and thereafter maintain its existing information management and progress monitoring system to enable it to continuously monitor the project. The PPAF will keep track of project progress and impact and will integrate the project M&E in its overall management information system. A set of indicators will be developed to enable regular monitoring based on those indicators specified in the logical framework, while the PPAF will collect its implementation progress and impact data consistent with IFAD’s Results and Impact Management System (RIMS) anchor indicators.
5. **Insurance.** The PPAF will insure all project staff and equipment during project implementation in accordance with its policy for its regular staff.
6. **Gender focus.** The Government will ensure that due consideration is given to gender issues in project implementation and management in respect of, inter alia, project beneficiaries, the recruitment of project staff by the PPAF and partner organizations.
7. **Miscellaneous.** The Government will ensure that: (i) the PPAF carries out its activities under the project in accordance with the procedures, principles and practices set forth in the project operations manual; takes all measures necessary to ensure that activities under the project are carried out by the partner organizations in conformity with the project operations manual; and does not assign, amend, abrogate or waive the project operations manual or any provisions thereof if, in the opinion of IFAD, such assignment, amendment, abrogation or waiver will materially and adversely affect the PPAF’s performance or the implementation of the project; (ii) the PPAF communicates to IFAD, not later than three months after project effectiveness, the monitoring and evaluation arrangements for the project, including: monitoring and evaluation responsibilities by unit; description of the project’s management information system and the actions proposed to operationalize it; how the project’s management information system will interface/be integrated with the PPAF’s overall management information system; and the reporting arrangements; (iii) the PPAF will carry out two RIMS surveys – baseline and completion – and send the tabulated data (using software developed by IFAD) to IFAD within three months of completion of each of the surveys; and (iv) the PPAF will ensure that the same environmental protection procedures will apply to the project as are already being applied in the World Bank-supported development credit agreement (Second Poverty Alleviation Fund Project, Credit Number 3834 PAK) as these may be amended from time to time.

8. **Suspension.** In addition to the events set forth in the General Conditions, IFAD:
- (a) may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account upon the occurrence of any of the events set forth therein or any of the following events:
 - (i) the subsidiary financing agreement and/or the project operations manual, or any provision thereof, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the project;
 - (ii) any competent authority has taken any action for the dissolution of the PPAF or the suspension of its operations, or any action or proceeding has been commenced for the distribution of any assets of the PPAF among its creditors.
 - (b) will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if the audit report required by the loan agreement has not been satisfactorily completed within 12 months after the financial reporting period set forth therein.
9. **Conditions precedent to withdrawal.** The conditions precedent to withdrawal are as follows:
- (a) No withdrawals may be made in respect of expenditures from the loan until the PPAF has supplied to IFAD a list of designated union councils approved by the ERRA in which the project will operate.
 - (b) No withdrawals may be made in respect of expenditures from the loan until the project operations manual has been adopted by the PPAF in the form approved by IFAD.
 - (c) No withdrawals may be made in respect of expenditures from the loan until the project advance account has been duly opened.
 - (d) No withdrawals may be made in respect of expenditures from the loan until the annual workplan and budget for the first year of the project has been submitted to and adopted by the PPAF board in the form approved by IFAD.
 - (e) No withdrawals may be made in respect of expenditures from the loan until the PPAF has tendered seven incremental staff positions and selected and appointed the incumbents to the satisfaction of IFAD.
10. **Conditions of effectiveness.** The following are specified as conditions precedent to the effectiveness of the loan agreement:
- (a) The loan agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by all necessary administrative and governmental action.
 - (b) A favourable legal opinion, issued by an authorized officer of the Ministry of Law, Justice and Human Rights of the Government, approved by IFAD, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

PAKISTAN

Land area (km² thousand) 2003 1/	771	GNI per capita (USD) 2003 1/	520
Total population (million) 2003 1/	148.44	GDP per capita growth (annual %) 2003 1/	2.6
Population density (people per km²) 2003 1/	193	Inflation, consumer prices (annual %) 2003 1/	3
Local currency	Pakistani Rupee (PKR)	Exchange rate: USD 1 =	PKR 60
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1997-2003 1/	2.4	GDP (USD million) 2003 1/	82 324
Crude birth rate (per thousand people) 2003 1/	32	Average annual rate of growth of GDP 1/ 1983 1993	5.8
Crude death rate (per thousand people) 2003 1/	8	1993-2003	3.3
Infant mortality rate (per thousand live births) 2003 1/	74	Sectoral distribution of GDP 2003 1/	
Life expectancy at birth (years) 2003 1/	64	% agriculture	23
Number of rural poor (million) (approximate) 1/	n/a	% industry	24
Poor as % of total rural population 1/	n/a	% manufacturing	16
Total labour force (million) 2003 1/	55.72	% services	53
Female labour force as % of total 2003 1/	30	Consumption 2003 1/	
Education		General government final consumption expenditure (as % of GDP)	12
School enrolment, primary (% gross) 2003 1/	69 a/	Household final consumption expenditure, etc. (as % of GDP)	73
Adult illiteracy rate (% age 15 and above) 2003 1/	n/a	Gross domestic savings (as % of GDP)	15
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports 2003 1/	11 930
Malnutrition prevalence, height for age (% of children under 5) 2003 2/	37 a/	Merchandise imports 2003 1/	13 038
Malnutrition prevalence, weight for age (% of children under 5) 2003 2/	38 a/	Balance of merchandise trade	-1 108
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2003 1/	3 a/	before official transfers 2003 1/	-2 728
Physicians (per thousand people)	1 a/	after official transfers 2003 1/	3 573
Population using improved water sources (%) 2002 2/	90	Foreign direct investment, net 2003 1/	534
Population with access to essential drugs (%) 2/	n/a	Government Finance	
Population using adequate sanitation facilities (%) 2002 2/	54	Cash surplus/deficit (as % of GDP) 2003 1/	-3
Agriculture and Food		Total expenditure (% of GDP) 2003 1/	n/a
Food imports (% of merchandise imports) 2003 1/	10	Total external debt (USD million) 2003 1/	36 346
Fertilizer consumption (hundreds of grams per ha of arable land) 2003 1/	1 381 a/	Present value of debt (as % of GNI) 2003 1/	41
Food production index (1999-01=100) 2003 1/	106	Total debt service (% of exports of goods and services) 2003 1/	16
Cereal yield (kg per ha) 2003 1/	2 312	Lending interest rate (%) 2003 1/	n/a
Land Use		Deposit interest rate (%) 2003 1/	n/a
Arable land as % of land area 2003 1/	28 a/		
Forest area as % of total land area 2003 1/	3 a/		
Irrigated land as % of cropland 2003 1/	81 a/		

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

1/ World Bank, *World Development Indicators* database CD ROM 2005

2/ UNDP, *Human Development Report*, 2005

PREVIOUS IFAD FINANCING IN PAKISTAN

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Small Farmers Credit Project	World Bank: IDA	World Bank: IDA	HC	27 Jun 79	04 Jun 80	31 Dec 85	L - I - 18 - PA	SDR	23 750 000	100%
South Rohri Fresh Groundwater Irrigation Project	AsDB	AsDB	HC	19 Dec 79	28 Mar 80	31 Dec 90	L - I - 33 - PA	SDR	12 400 000	37%
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%
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	85%
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	100%
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%
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%
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%
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	8%
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	94%
Manshra Village Support Project	IFAD	UNOPS	I	03 Dec 92	26 Mar 93	31 Dec 00	L - I - 319 - PA	SDR	10 350 000	64%
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	60%
Dir Area Support Project	IFAD	UNOPS	HC	11 Sep 96	15 Apr 97	31 Dec 06	L - I - 425 - PK	SDR	11 350 000	55%
Northern Areas Development Project	IFAD	UNOPS	HC	11 Sep 97	11 Sep 98	31 Dec 07	L - I - 453 - PK	SDR	10 750 000	54%
Barani Village Development Project	IFAD	UNOPS	HC	03 Dec 98	01 Sep 99	31 Dec 07	L - I - 492 - PK	SDR	11 150 000	69%
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	23%
North-West Frontier Province Barani Area Development Project	AsDB	AsDB	HC	26 Apr 01	09 May 03	31 Dec 09	L - I - 558 - PK	SDR	11 150 000	13%
Community Development Programme	IFAD	UNOPS	HC	18 Dec 03	02 Sep 04	31 Mar 12	L - I - 625 - PK	SDR	15 250 000	10%
Microfinance Innovation and Outreach Programme	IFAD	World Bank	HC	13-Dec 05	Not effective		L - I - 683 - PK	SDR	18 300 000	

AsDB: Asian Development Bank
IDA: International Development Association
UNOPS: United Nations Office for Project Services
HC: Highly concessional

LOGICAL FRAMEWORK

A. NARRATIVE SUMMARY	TARGET INDICATORS	M&E MECHANISMS AND SOURCES	ASSUMPTIONS
<p><i>Development Goal</i></p> <p>Improved livelihoods and reduced vulnerability in earthquake-affected areas</p>	<p>1. Increased asset ownership by rural households*</p> <p>2. Improved social indicators, including reduction in child malnutrition and enrolment in primary education (by gender)*</p> <p>3. Recovery of household income levels in earthquake-affected areas</p> <p>* RIMS anchor indicators</p>	<p>1 – 3: Poverty assessments undertaken periodically by the Government and donors</p> <p>1 – 3: Relevant government statistics at the provincial and national levels</p> <p>1 and 3: Results of household income and expenditure surveys</p> <p>2: National nutrition surveys</p>	
<p><i>Project Purpose</i></p> <p>Asset base of vulnerable earthquake-affected households in AJK and NWFP rebuilt</p>	<p>1. Increase in percentage of households in earthquake-affected areas living in permanent housing</p> <p>2. Increase in percentage of households in earthquake-affected areas with access to safe drinking water</p> <p>3. Increase in percentage of households reporting access to and from village improved</p> <p>4. Improvement in livestock production in earthquake-affected areas as measured by increased herd size and dairy production</p> <p>5. Ten to fifteen per cent of programme beneficiaries are woman-headed households and 50-60% of beneficiaries are classified as poor or vulnerable households</p>	<p>1 – 4: Relevant government statistics and follow-up earthquake damage assessments by the Government and donors</p> <p>1 – 4: PPAF and partner organization (PO) surveys</p> <p>5: PPAF and partner organization quarterly and annual reports</p>	<ul style="list-style-type: none"> ▪ Project assistance reaches affected communities in a timely manner

B. OUTCOMES	TARGET INDICATORS	M&E MECHANISMS AND SOURCES	ASSUMPTIONS
INFRASTRUCTURE RESTORATION			
Increased number of households living in permanent and seismically safe housing and having access to rehabilitated/improved infrastructure	1. No. of households living in permanent housing 2. No. of households living in seismically safe housing 3. No. of individuals accessing safe drinking water from restored schemes 4. Ninety-five per cent of beneficiary communities have functioning operation and maintenance scheme within six months of completion 5. No. of individuals benefiting from restored village access to infrastructure and irrigation	1 to 5: PO reports 1 to 5: PPAF reports on visits to POs to verify PO assessments	<ul style="list-style-type: none"> ▪ New seismically safe housing culturally acceptable and adopted by beneficiaries ▪ Housing and community infrastructure construction completed in timely manner (availability of materials and contractors) ▪ Community maintenance of infrastructure sustained
BUILDING UP HOUSEHOLD LIVESTOCK ASSETS			
Household productive asset base enhanced	1. Increase in percentage of woman-headed households in earthquake-affected areas with livestock assets 2. Percentage of woman-headed households maintaining livestock assets one year after receiving grant 3. Percentage of woman-headed households reporting increased dairy consumption	1 and 3: PO reports 1 and 3: PPAF reports on visits to POs to verify PO assessments	<ul style="list-style-type: none"> ▪ Household capacity to maintain livestock assets adequate
OPERATIONAL ASSISTANCE AND TECHNICAL SUPPORT			
PPAF and POs able to implement investment programmes in earthquake-affected areas	1. No. of sub-projects successfully implemented by POs operating in earthquake-affected area 2. Level of financing directed to earthquake recovery through PPAF	1 and 2: PPAF and PO records	<ul style="list-style-type: none"> ▪ PPAF and PO capacity and institutional structure adequate

C. OUTPUTS	TARGET INDICATORS	M&E MECHANISMS AND SOURCES	ASSUMPTIONS
INFRASTRUCTURE RESTORATION			
Seismically safe “core” housing units constructed and community infrastructure rehabilitated	1. Seven thousand core housing units (up to 480 sq.ft. each) constructed 2. Seventy-five per cent of new housing units constructed assessed as seismically safe 3. No. of individuals trained in seismically safe housing construction 4. No. of community infrastructure projects completed within anticipated budget and time frame and with specified quality	1 to 4: PO reports (including assessment of technical experts) 1 to 4: PPAF reports on visits to POs to verify PO assessments	<ul style="list-style-type: none"> ▪ Ground conditions sufficiently stable to allow reconstruction ▪ Capacity to manage/provide labour for infrastructure schemes within community
BUILDING UP HOUSEHOLD LIVESTOCK ASSETS			
Household livestock assets replenished and made available to woman-headed and vulnerable households	1. No. of households receiving replacement livestock (cattle and buffalo) 2. No. of most vulnerable households receiving animals (mainly cattle and buffalo) 3. Four thousand animal units (mainly cattle and buffalo) distributed in earthquake-affected areas	1 to 3: PO reports 1 to 3: PPAF reports on visits to POs to verify PO assessments	<ul style="list-style-type: none"> ▪ Livestock available for purchase by communities/households
OPERATIONAL ASSISTANCE AND TECHNICAL SUPPORT			
Operational capacity of PPAF, PO, and communities strengthened to implement project activities	1. Technical experts available from PPAF to support PO project activities 2. PO staffing increased in relation to increased volume of sub-projects managed in earthquake-affected areas (as measured by change in staff numbers) 3. No. of technical staff (social mobilizers/engineers) hired by POs 4. Timely disbursement of project funds (Percentage of funds disbursed according to planned schedule) 5. Frequency of PPAF and PO supervision, monitoring and follow-up of project activities 6. Monitoring information available to facilitate management decision-making 7. No. of training courses for POs on disaster management 8. Revitalization of social mobilization processes (no. of training courses for communities) 9. No. of people trained in infrastructure rehabilitation at community/PO level	1 and 2: PPAF records 2: PO records and management information systems (MIS) 2, 3 and 5: PPAF follow-up visit database 4: PPAF financial records 5 - 6: PPAF MIS 7 - 9: PPAF and PO reports	<ul style="list-style-type: none"> ▪ Structure and capacity of PO sufficient to manage increase in staffing

COST AND FINANCING
Expenditure Accounts by Components – Base Costs
(USD '000)

	Infrastructure Restoration	Building Household Livestock Assets	Operational and Technical Support		Total	Physical Contingencies	
			PPAF Support	PO Support		%	Amount
I. Investment Costs							
A. Vehicles	-	-	93	195	288	5.0	14
B. Equipment and Materials	-	-	10	24	34	5.0	2
C. Technical Assistance and Studies	-	-	194	-	194	-	-
D. Training and Workshops	-	-	34	-	34	-	-
E. Community Grants							
1. Housing Construction Grants	20 417	-	-	-	20 417	5.0	1 021
2. Community Infrastructure Grants	1 667	-	-	-	1 667	5.0	83
3. Livestock Grants	-	3 000	-	-	3 000	5.0	150
Subtotal Community Grants	22 083	3 000	-	-	25 083	5.0	1 254
Total Investment Costs	22 083	3 000	331	219	25 633	5.0	1 270
II. Recurrent Costs							
A. Allowances	-	-	81	71	152	-	-
B. Staff Remuneration	-	-	329	1 227	1 555	5.0	78
C. Operating & Maintenance	-	-	120	377	498	5.0	25
Total Recurrent Costs	-	-	530	1 675	2 205	4.7	103
	22 083	3 000	860	1 894	27 838	4.9	1 373
Physical Contingencies	1 104	150	28	91	1 373	-	-
Price Contingencies							
Inflation							
Local	1 095	184	70	152	1 501	-	-
Foreign	-	-	1	-	1	-	-
Subtotal Inflation	1 095	184	71	152	1 502	-	-
Devaluation	-841	-141	-54	-116	-1 152	-	-
Subtotal Price Contingencies	254	43	18	36	350	4.7	16
	23 442	3 193	905	2 021	29 561	4.7	1 389

**Disbursement Accounts by Financiers
(USD '000)**

	IFAD		PPAF		Government		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
1. Equipment, Materials and Vehicles	276	81.0	65	19.0	-	-	340	1.2	-	276	65
2. Training, Workshops, TA and Studies	209	90.0	23	10.0	-	-	232	0.8	46	163	23
3. Community Grants	23,604	88.6	-	-	3,031	11.4	26,635	90.1	-	26,635	-
4. Salaries, Allowances, Ops & Maintenance	2,300	97.7	53	2.3	-	-	2,354	8.0	-	2,300	53
Total project costs	26 389	89.3	141	0.5	3 031	10.3	29 561	100.0	46	29 373	141

IMPLEMENTATION ARRANGEMENTS AND RESPONSIBILITIES

Organizational Structure and Relationships

1. The management of the project would be with the PPAF Chief Executive Officer and come under the direct responsibility of the Chief Operating Officer. PPAF would employ seven additional staff, provided for under project financing, to assist in managing the project. The staff would be fully integrated as part of the PPAF's regular management structure and while the main part of their work load would be connected with supporting implementation of REACH activities, they would work as an integral part of the units to which they are attached and take on other tasks when time permits.

Decision Making and Management Arrangements

2. While overall decision making responsibility rests with PPAF's Chief Executive Officer, day-to-day responsibility for project implementation would be with the Chief Operating Officer and the heads of the participating operating units: Community Physical Infrastructure (CPI), Human and Institutional Development (HID), Finance and Accounts (F&A) and Evaluation, Research and Development (ERD). To facilitate these units' management of the project, the following positions would be financed under the project:

- *Structural engineers (CPI)*, the allocation of one senior engineer and two junior engineers to be made on a declining basis to reflect the reducing project investment over the three-year project period. Their main responsibilities would be to help plan the project's infrastructure interventions, ensuring that good designs are used and best practices are adhered to.
- *Senior Social Mobiliser (HID)*, working on a full-time basis through the entire three years, his/her focus would be on dissemination of project information, criteria and procedures, on group training/strengthening and coordination of gender aspects and other crosscutting elements.
- *Management Executive (F&A)*, over three years, s/he would assume, under the direction of the head of the unit, a major part of the work load connected with the project's financial management.
- *Management Executive (ERD)*, over three years, s/he would coordinate monitoring and evaluation of project activities, determine the requirement for evaluation studies and impact assessments, and produce and disseminate regular progress reports.
- *Internal auditor (F&A)*, his/her responsibility would be to supplement PPAF's internal auditing capacity so that it can deal effectively with the increased workload emanating from the project.

Project Implementation Arrangements

3. **Project Operations Manual.** The prime document for guiding programme implementation would be the Project Operations Manual that would form an integral part of the PPAF's general Operations Manual. The manual would help the partner organizations guide the villages and their community organizations in their planning, determination of needs and priorities and in identification of households that would be eligible for support from the project. The Appraisal Report provides a working draft of the manual that has been reviewed, discussed and agreed with PPAF.

4. **Qualification of Partner Organizations.** Three types of organizations would qualify to be PPAF's REACH implementing partners: (i) PPAF's partner organizations that have been operating in the affected districts prior to October 8, 2005 – six in total; (ii) NGOs and similar organizations that are not currently PPAF partner organizations but have solid experience with demand-driven village development in the affected areas and could meet PPAF's strict implementation, financial management and reporting requirements; and (iii) PPAF partner organizations from other areas of the country that have the capacity and commitment to work in the earthquake affected areas. The first

group would carry the main implementation load; only supplementary support is seen as coming from the other two groups of institutions, This would provide PPAF with flexibility during implementation.

5. **Social Mobilization.** Implementation of each of the components would start with social mobilization within the village. The selection of the project villages is predicated on their having worked with one of PPAF's current partner organizations or with a similar organization with experience in working in the affected areas. The pre-requisite for both is that they have an intimate knowledge of the communities and their families. The formation of community organizations, which forms part of the social mobilization process, is the basis for implementing project activities. As these organizations were established to construct community infrastructure works, group processes and procedures for managing labour have already been worked out. This provides a basis on which to rapidly organize the communities to reconstruct/rehabilitate project-financed infrastructure. The community organizations would also be responsible for identifying, together with the partner organizations, the families that qualify for provision of a female buffalo or cattle or in some cases an equivalent herd of sheep/goats. This would necessitate identifying the most vulnerable and poorest households that, prior to the earthquake, did not have livestock.

6. **Component 1 – Infrastructure Restoration.** For both house reconstruction and community infrastructure restoration, the villages must demonstrate that they have the labour available to undertake the work proposed. The partner organizations would work with the community organizations and households in the selected villages to determine the houses that would be reconstructed – giving priority to the most vulnerable households – and the restoration that is necessary to damaged community infrastructure. The villages and the partner organizations would jointly prepare proposals for PPAF's consideration for financing by REACH. Proposals would contain estimates of labour and material required and a timetable for the implementation, and a plan for technical assistance and training required. All labour and material would be paid for by the project.

As criteria for housing reconstruction, villages shall:

- have community organizations in place and functioning;
- demonstrate capacity to work together, mobilize effectively and organize required labour;
- be responsible for procuring construction materials and arranging labour for house reconstruction;
- have a targeting strategy that includes the most vulnerable groups;
- provide a reconstruction plan with a maximum cost per house to be reconstructed of PKR 150 000, based on a maximum core unit of 400 ft² per house;
- employ only designs of seismically safe housing units that have been approved by PPAF.

As criteria for community infrastructure, villages shall:

- adhere to the procedures and standards specified in PPAF's CPI Design Guide and comply with the Environmental Management Framework contained therein;
- demonstrate how restoration would restore operations of the scheme or road access and, in the case of an improvement/extension, how it would improve the functioning of the infrastructure;
- demonstrate the capacity to work together, mobilize effectively and organize the required labour to rehabilitate the infrastructure facility or facilities;
- have targeting strategy that includes vulnerable groups and women in reconstruction work;
- demonstrate that infrastructure to be rehabilitated was functioning prior to the earthquake;
- ensure that the total cost of restoration for each village does not exceed PKR 1 million and that any specific infrastructure project does not exceed PKR 500 000.

7. **Component 2 - Building up Household Livestock Assets.** REACH would rely on the partner organizations and community organizations to identify needs and develop proposals for livestock grants. REACH financing would not be sufficient to finance all the households in the selected villages

and as such a targeting mechanism would be devised in conjunction with the partner organizations and community organizations to ensure that women headed households get the first priority and that the poor and vulnerable household get the next priority in the distribution of livestock. Proposals would be developed through a social mobilization process. This process would be participatory and dependent on the strong relationship that already exists between the partner organizations, community organizations and the villages.

As criteria for receiving livestock grants, villages shall:

- prepare a plan showing number of targeted households, their poverty status, type of animal(s) to be procured, how they would be procured and when, and anticipated benefits;
- demonstrate that households receiving livestock grants would have the capacity to manage and maintain livestock;
- show that the most women headed and the most vulnerable households, would be included when targeting livestock grants, most have capacity to maintain the livestock.

8. **Component 3 – Operational and Technical Support.** The implementation arrangements for the component are discussed above in the sub-section, Decision Making and Management Arrangements and under the section, Investment Components.

Financial Management: Arrangements and Responsibility

9. The arrangements for financial management of REACH closely adhere to the policies and procedures developed under the recently approved MI&OP. Modifications have only been introduced where the special circumstances and the need for rapid disbursement dictate. The procedures and the modifications introduced are consistent with those being applied under the World Bank's additional funding for earthquake-affected areas under PPAF-II. The responsibility for financial management would be with PPAF's Finance and Accounts (F&A) Unit.

Monitoring, Evaluation and Reporting

10. **M&E Objectives and Approach.** The objective of REACH-related M&E activities would be to track and verify the levels of achievement of project outputs, the associated outcomes, and the success in achieving the project objective and its development goal. This is guided by the logical framework, which establishes monitoring indicators for the project and reporting sources.

11. **Project Monitoring.** Project monitoring effort would be the responsibility of both the partner organizations/community organizations, which together are implementation of project activities in the villages, and PPAF, which would monitor partner organizations, through data collection/analysis, follow-up visits and assessments.

12. Project Data Generation, Reporting and the MIS. The responsibilities for collecting the monitoring data and for data entry into PPAF's management information system (MIS) would rest with the respective operations units within PPAF, particularly with the CPI and HID units that would carry the major workload in overseeing the implementation of project activities. The MIS would be the sole channel of project monitoring material and would form the basis of quarterly and annual reports and the resulting annual work programmes and budgets. Project monitoring would be fully integrated into PPAF's overall MIS, in that PPAF databases would contain both project and non-project information in an identifiable way. The development of the REACH interface with the MIS and the compilation of the reports would be the responsibility of the ERD unit.

13. **Monitoring Indicators and Reporting.** A limited array of appropriate monitoring indicators would be generated by the participating partner organizations. In addition to reporting on the indicators monitored at the partner organization level, PPAF would also directly monitor and report on a set of PPAF-specific indicators, including reporting the progress in meeting key 1st and 2nd level indicators in the RIMS format.

14. **Project Evaluation.** Evaluation focuses on two main activities: baseline studies and impact evaluation.

15. **Baseline studies.** Baseline data would be generated through two processes. First, by the partner organizations which, as part of the social mobilization and earthquake damage assessment process, would collect data in the selected earthquake-affected communities. Secondly, in conformity with IFAD's reporting requirements for its RIMS, PPAF would mount a RIMS baseline survey shortly after project start-up to assess the target group's situation regarding household assets and child nutrition. These would use the standard RIMS questionnaire form. The enumerating part of the survey would be contracted to an external organisation with experience in social studies in rural communities. As much as possible this would be linked to the RIMS baseline assessment undertaken as part of MI&OP.

16. **Impact assessment studies.** Studies on project impact would be carried out, in the first case, by the partner organizations in the form of client impact studies and, in the second case, by PPAF through a second and final RIMS survey towards the end of the project. These follow-on RIMS surveys would be carried out in the same manner as the RIMS baseline survey. If possible, the final RIMS survey could coincide with the RIMS Mid-Term Review survey for MI&OP. Ideally, the survey would be carried out with a portion of the same households.

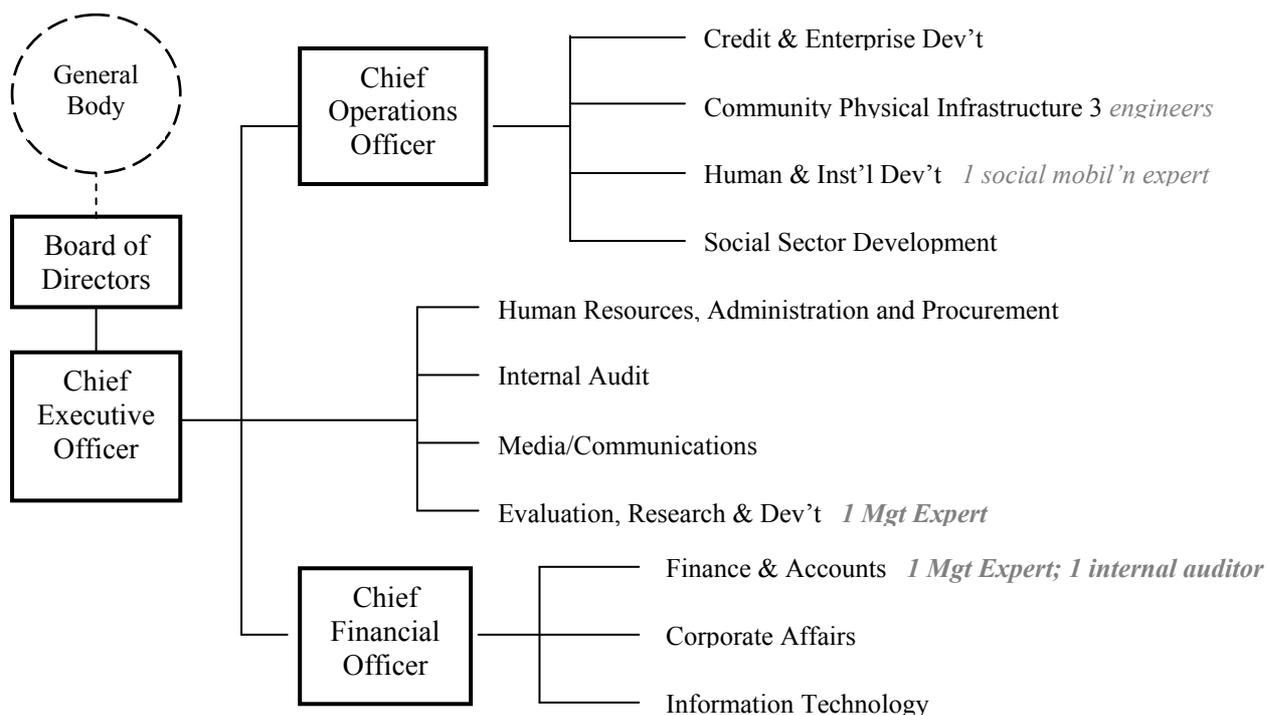
17. **Project Support for Monitoring and Evaluation.** Monitoring and evaluation for the project would be embedded in the same structure that governs other PPAF projects and, in particular, the arrangements that were established for MI&OP. While the current PPAF structure is generally sufficient to handle the REACH activities, the short timeframe for implementation and the nature of project activities would require PPAF to hire one Management Executive in ERD for the duration of project implementation.

Project Supervision

18. The World Bank would be the most appropriate Cooperating Institution for the project. It is already supervising PPAF II and soon will start to fulfil its role as Cooperating Institution for MI&OP. Similar to MI&OP, there would be considerable synergies and cost efficiencies in having the World Bank supervise REACH. The project would be supervised one time a year, together with one of the two World Bank's supervision missions for its support for earthquake affected areas under PPAF-II. The same team responsible for supporting and supervising PPAF-II – many of whom are based in the Islamabad Resident Mission of the World Bank – would have parallel responsibilities for REACH.

ORGANIZATION CHART

Management Structure of PPAF and Project Staffing



Note: Programme-funded unit staff in italics – number of positions

FINANCIAL AND ECONOMIC ANALYSIS

1. **Financial analysis.** A basic financial analysis for the project was undertaken to assess the impact of the project on PPAF and Government. No assessment was made on individual infrastructure or livestock investments to be funded by the project as most will be grant-based and focused largely on one-time investments to recover assets held prior to the earthquake. The cash flow analysis for PPAF has demonstrated that the proposed project activities would have a very small negative impact on PPAF's cash flow (reduction in cumulative net income of 0.7% over 3 years). The calculation of the government cash flow indicates that the financial burden on government would be small.

2. **Economic benefits.** The project is likely to generate positive economic benefits by increasing household incomes and re-starting economic activity in assisted communities. Using a 12% internal rate of return and assuming a stream of benefits over a twenty-year period, the minimum required increase in income at the village and household level was calculated to justify project expenditures: PKR 2 million or USD 34,000 per year. This would represent about 3.4% of the average annual village income prior to the earthquake. If the same analysis is done at the household level for the 7 000 households, project investments would have to generate net annual household income increases of approximately PKR 29 000 or USD 483 per year to justify project expenditures. Although the analysis is rough and does not attempt to disaggregate among different types of benefits, it nonetheless illustrates the viability of the project.

REACH Benefits Required for Economic Viability

Assumptions	
# of villages receiving REACH assistance	100
# of Households receiving REACH housing and/or livestock grants	7,000
Pre-earthquake average household income in AJK, NWFP (PKR) *	49,609
Average population per village in earthquake affected areas**	1,219
Pre-earthquake average village income (PKR)	60,473,371
Assumed benefit stream	20 years
Annual increase in income required for 12% IRR	
<i>On a per village basis</i>	
Minimum increase in total village annual income (PKR)	2,029,800
Minimum increase in total village annual income (USD)	33,830
Minimum village income increase as a % of estimated pre-earthquake village income	3.4%
<i>On a per household basis (direct beneficiaries only)</i>	
Minimum increase in household annual income (PKR)	28,997
Minimum increase in household annual income (USD)	483
Minimum household income increase as % of pre-earthquake household income	58.5%

* Pakistan Preliminary Earthquake Damage and Needs Assessment

** Relief Information System for Earthquakes - Pakistan (Risepak.com)