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Enabling poor rural people
to overcome poverty

President's report

Proposed loan and grant to the Republic of India for the

Mitigating Poverty in Western Rajasthan Project

Executive Board — Ninety-third Session
Rome, 24-25 April 2008

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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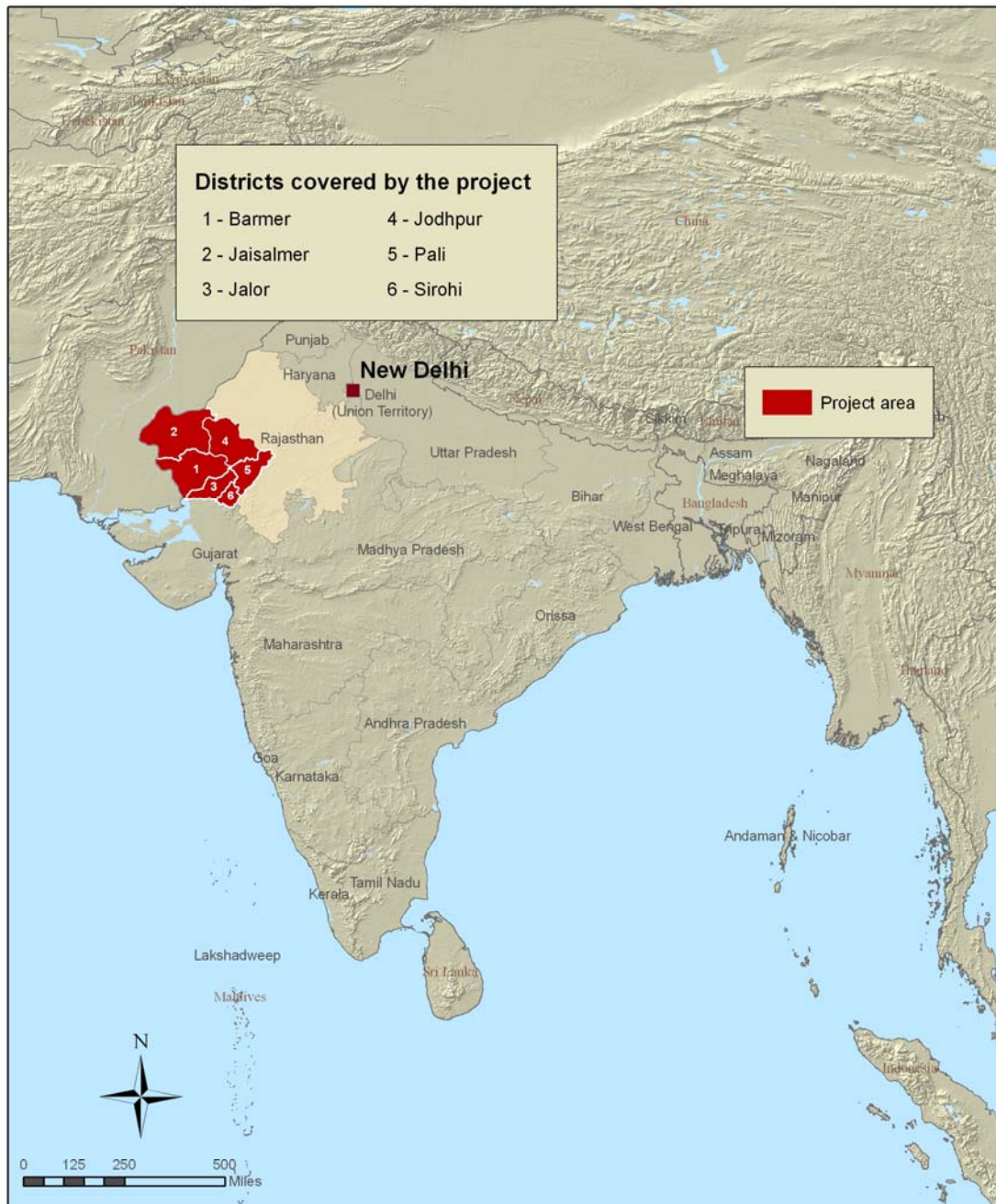
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and grant to the Republic of India for the Mitigating Poverty in Western Rajasthan Project, as contained in paragraph 35.

Map of the project area

India

Mitigating Poverty in Western Rajasthan Project



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.

Map compiled by IFAD

Republic of India

Mitigating Poverty in Western Rajasthan Project

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of India
Executing agency:	Department of Rural Development and Panchayati Raj, Government of Rajasthan
Total project cost:	US\$ 62.3 million
Amount of IFAD loan:	SDR 18.46 million (equivalent to approximately US\$30.3 million)
Amount of IFAD grant:	SDR 0.37 million (equivalent to approximately US\$0.6 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinanciers:	Sir Ratan Tata Trust Commercial banks
Amount of cofinancing:	Sir Ratan Tata Trust: US\$3.3 million Commercial banks: US\$4.4 million
Terms of cofinancing:	Grant
Contribution of borrower:	US\$21.0 million
Contribution of beneficiaries:	US\$2.6 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan and grant to the Republic of India for the Mitigating Poverty in Western Rajasthan Project

I. The project

A. Main development opportunity addressed by the project

1. The project area is characterized by a harsh and arid climate with low and erratic rainfall. Drought is becoming an increasingly recurrent phenomenon, occurring once every three years. The core problems are: (i) severe water insecurity; (ii) poor agricultural and livestock productivity; (iii) limited income-generating opportunities; and (iv) a social system that discriminates against women and the disadvantaged.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide to the Republic of India a loan in the amount of SDR 18.46 million (equivalent to approximately US\$30.3 million) on highly concessional terms, and a grant in the amount of SDR 0.37 million (equivalent to approximately US\$0.6 million) to help finance the Mitigating Poverty in Western Rajasthan Project. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for India under the PBAS is US\$92 million over the 2007-2009 allocation cycle. Two more loans are scheduled to be approved in 2009 so as to utilize this allocation fully.

Country debt burden and absorptive capacity of the State

4. India's external debt to GDP ratio increased to 16.4 per cent at end-March 2007 from 15.8 per cent at end-March 2006. This ratio stood at 30.8 per cent at end-March 1995. The debt situation is not of great concern as short-term debt accounts for only 16.2 per cent of the total external debt, and foreign exchange reserves provide a cover of 130 per cent of total external debt. India received 22 loans from IFAD between 1978 and 2007, with total annual disbursements from ongoing operations averaging SDR 11.5 million over the past 10 years. The average loan size was US\$26.9 million for the same period. The Government's repayment record for IFAD loans is excellent.

Flow of funds

5. The IFAD loan and grant will both be channelled to the Ministry of Finance through a standard IFAD financing agreement. The loan and grant proceeds will then be transferred to the Government of Rajasthan on a back-to-back basis. The Department for Rural Development and Panchayati Raj (local governance institutions) will execute the project and will channel funds to the project management unit and also directly to the six block-level implementation units. Partner organizations will receive funding in accordance with separate contracts.

Supervision arrangements

6. IFAD will be responsible for supervision and loan administration. Supervision activities will be implemented through the India Country Presence Office, based in New Delhi, while loan administration will be carried out from IFAD headquarters.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. The project will make use of retroactive financing not exceeding US\$300,000 for agreed eligible expenditures incurred before the date of loan effectiveness, but after 26 April 2008.

Governance

8. The following measures are intended to enhance the governance aspects of IFAD's financing: (i) close supervision by the India Country Presence Office in New Delhi; (ii) engagement of national service providers to ensure timely implementation support; (iii) a multistakeholder approach involving participation by NGOs, commercial banks and the private sector to provide a check-and-balance mechanism; (iv) contracting of a private audit firm if and when required.

C. Target group and participation

Target group

9. In accordance with the IFAD Targeting Policy, the project will target an estimated 95,000 poor households headed by landless agricultural labourers, small and marginal farmers, owners of marginal land or wastelands, traditional artisans, women, or young people with no employable skill sets.

Targeting approach

10. The project will target the poorest block in each of the six districts of Western Rajasthan, namely Jodhpur, Jaisalmer, Barmer, Pali, Sirohi and Jalor. The target group will be based on a below-poverty-line (BPL) list. In addition, participatory wealth ranking will be carried out in every village to identify additional non-BPL poor people who are eligible to receive project support.

Participation

11. The project has been designed with enabling measures to achieve effective targeting and to ensure that the empowerment process – reflected in the project's name – is inclusive of the poorest. The project approach will be based on effective participation, awareness-raising, good governance and investments in sustainable grass-roots institutions. Further, the project will support local governance structures and develop synergies with ongoing government programmes.

D. Development objectives

Key project objectives

12. The project has the following objectives: (i) organize and empower the target group through community-based organizations (self-help groups [SHGs], marketing groups, producers' companies, village development committees); (ii) promote income and employment opportunities while reinforcing risk-mitigating strategies; and (iii) provide access to financial services and markets.

Policy and institutional objectives

13. The Government of Rajasthan has requested IFAD's partnership in the design and implementation of a model of convergence with existing government schemes that at present are unable to reach the intended beneficiaries. The stated, ambitious goal of the Government is to replicate this model across the State of Rajasthan.

IFAD policy and strategy alignment

14. The project is aligned with the three strategic thrusts of the country strategic opportunities paper for India: (i) building grass-roots institutions; (ii) promoting and securing access of marginalized groups to resources; and (iii) promoting the diversification of livelihood opportunities within the on- and off-farm sectors. The project is also fully aligned with the strategic objectives of the IFAD Strategic Framework 2007-2010.

E. Harmonization and alignment

Alignment with national priorities

15. The project is perfectly aligned with several objectives of the 11th Five-Year Development Plan (2007-2012), namely: (i) broad-based income growth; (ii) doubling growth in the agricultural sector; (iii) focus on vulnerable social groups; and (iv) socio-economic empowerment of women.

Harmonization with development partners

16. The project has been designed drawing lessons from relevant projects supported by donors such as the United Nations Children's Fund (UNICEF), the United Nations Development Programme (UNDP) and Italian Development Cooperation, in addition to local NGOs. In particular, information and staff experience has been continuously exchanged under the World Bank-assisted District Poverty Initiatives Project. In turn, the World Bank has been requested to design a second phase of this project, based on the approach followed by IFAD in designing the Mitigating Poverty in Western Rajasthan Project. The proposed IFAD-supported project will also contribute to the achievement of the objectives of the United Nations Development Assistance Framework.

F. Components and expenditure categories

Main components

17. The project has three components: (i) strengthening of grass-roots institutions; (ii) livelihood support; and (iii) project management.

Expenditure categories

18. The main expenditure categories are the following: (i) civil works (40 per cent of base costs); (ii) training and capacity-building (17 per cent); (iii) enterprise development (15 per cent); (iv) demonstrations (5 per cent); (v) enterprise financing (3 per cent); (vi) technical assistance, surveys and studies (2 per cent); and (vii) vehicles and equipment (1 per cent). Total investment costs amount to 83 per cent of total base costs. The main expenditure categories for the remaining 17 per cent of recurrent costs are: (i) enterprise operations (8 per cent); (ii) salaries and allowances (5 per cent); and (iii) operations and maintenance (4 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. These will be: (i) the Department of Rural Development and Panchayati Raj, Government of Rajasthan; (ii) national resource NGOs; (iii) local facilitating NGOs; (iv) rural banks; (v) private-sector service providers; and (vi) the Marwar Chamber of Commerce and Industry.

Implementation responsibilities

20. The Department of Rural Development and Panchayati Raj will be the executing agency. A project management unit based in Jodhpur will be responsible for project implementation, supported by the Private Sector Liaison Office located within the Marwar Chamber of Commerce and Industry. In each block, the services of a reputed NGO will be engaged for the entire project duration. Commercial banks will provide financial services to SHGs and marketing groups. The Private Sector Liaison Office will promote partnership between the marketing groups and large buyers, to reduce the number of steps in the value chain and ensure better prices.

Role of technical assistance

21. The project will draw exclusively on national expertise, funded from the proceeds of the IFAD loan and grant and from the grant cofinancing provided by the Sir Ratan Tata Trust. In addition, IFAD will provide required technical assistance within the framework of its implementation support activities.

Status of key implementation agreements

22. Project implementation will require: (i) a project financing agreement between IFAD and the Government of India; (ii) a project agreement between IFAD and the Government of Rajasthan; (iii) a project implementation manual, completed before financing negotiations; and (iv) partnership agreements between the project and the NGOs, commercial banks and service providers.

Key financing partners and amounts committed

23. The total project cost is US\$62.3 million over six years. The sources of financing are IFAD (49.7 per cent), the Government of Rajasthan (33.7 per cent), commercial banks (7.1 per cent), Sir Ratan Tata Trust (5.3 per cent) and local beneficiaries (4.2 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

24. The project will generate several benefits: (i) increased agricultural productivity through the introduction of improved practices for watershed management and farming; (ii) improved livelihood options through promotion of self-employment as well as wage employment opportunities; (iii) diversification of income sources; (iv) formation of sustainable grass-roots institutions, such as SHGs and marketing groups; (v) improved delivery of existing Government-funded schemes; and (vi) a greater role for women in society.

Economic and financial viability

25. Different farm and household models were considered in the financial analysis, all showing significant increases in farm incomes. The overall economic return is about 21 per cent. This drops to 15 per cent if convergence investments are included. The switching values applied to the sensitivity analysis show that the economic internal rate of return is sensitive to changes in both benefit reduction and cost increases.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

26. The project management unit will be responsible for documenting the achievements and lessons learned during project implementation, with the objective of disseminating information and identifying any results that have policy implications. Multistakeholder workshops will be regularly held to share different perspectives and lessons learned. The knowledge management officer based in the India Country Presence Office will support the project in knowledge management activities.

Development innovations that the project will promote

27. The project will include a number of innovations, namely: (i) a new approach in market-driven developments; (ii) partnership with the Marwar Chamber of Commerce and Industry and the Sir Ratan Tata Trust; (iii) promotion of marketing groups as second-level institutions; (iv) internalization of equity concerns within existing institutions; (v) introduction of institutional mechanisms to achieve convergence with Government of India schemes, including the National Rural Employment Guarantee Scheme; and (vi) piloting low-cost schemes for health insurance and dairy animal insurance.

Scaling-up approach

28. At the request of the Government of Rajasthan, the project will initially cover one block in each of the six districts. Based on the successful performance of the project, the Government will scale up project activities in the remaining blocks.

J. Main risks

Main risks and mitigation measures

29. The project faces the following main risks: (i) market risks, arising from price volatilities; (ii) lack of confidence to invest in agriculture-related income-generating

activities; (iii) the fact that the private sector will not be an active participant in the project; and (iv) frequent turnover in project management staff, as experienced in other IFAD-funded projects. The planned mitigation measures include:
 (i) establishment of price-monitoring systems; (ii) watershed development activities, supported by the Government of Rajasthan, which will precede the livelihood component; (iii) establishment of a linkage between the project management unit and Marwar Chamber of Commerce and Industry; and (iv) assurance obtained from the Government of India about continuity in tenure of key management staff.

Environmental classification

30. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

31. An exit strategy has been identified for each project component, giving adequate attention to both institutional and financial aspects.

II. Legal instruments and authority

32. A project financing agreement between the Republic of India and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. Important assurances included in the negotiated agreement are attached as an annex.
33. The Republic of India is empowered under its laws to borrow from IFAD.
34. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD.

III. Recommendation

35. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of India in various currencies in an amount equivalent to eighteen million four hundred and sixty thousand special drawing rights (SDR 18,460,000) to mature on or prior to 15 April 2048 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of India in various currencies in an amount equivalent to three hundred and seventy thousand special drawing rights (SDR 0.37) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge
 President

Important assurances included in the negotiated project financing agreement

(Negotiations concluded on 17 April 2008)

Gender

1. The Government will ensure that gender concerns are integrated into all Project activities during Project implementation. The Government will ensure that the Project personnel engaged by NGOs, the Project staff in the Project Management Unit (PMU) and members of different committees will be sensitised to issues relating to gender equity.

Pest management

2. The Government will ensure that pesticides procured under the project do not include any pesticides banned by the FAO or classified as Extremely Hazardous or Highly Hazardous by the World Health Organization (WHO).

Joint forest management programme

3. The Government will insure that there is effective implementation of the Joint Forest Management Programme by the Forest Department so that benefits accrue to the Target Group, who will be given incentives to protect and conserve these biotic resources.

Insurance of project personnel

4. The Lead Project Agency will insure key Project personnel against health and accident risks to the extent consistent with sound commercial practice.

Use of project vehicles and other equipment

5. The Government will ensure that:
 - (a) All vehicles and other equipment procured under the project are allocated adequately for an effective Project implementation;
 - (b) The types of vehicles and other equipment procured under the project are appropriate to the needs of the project; and
 - (c) All vehicles and other equipment transferred to or procured under the Project are dedicated solely to project use.

Fraud and corruption

6. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the Project of which it has knowledge or become aware of.

7. Suspension

- (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the Loan Account and Grant Account, upon the occurrence of any of the events set forth therein or if:
 - (i) IFAD, after consultation with the Government, has determined that the material benefits of the Project are not adequately reaching the Target Group, or are benefiting persons outside the Target Group to the detriment of Target Group members;
 - (ii) The Project Implementation Manual, or any provision thereof, has been waived, suspended terminated, amended or 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;

- (iii) Any competent authority has taken any action for the dissolution of the PMU or the Lead Project Agency, or the suspension of its operations, or any action or proceeding has been commenced for the distribution of any assets of the Lead Project Agency among its creditors, and no alternative solution is proposed to the satisfaction of IFAD;
 - (iv) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the Project have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD; and
 - (v) Procurement has not been or is not being carried out in accordance with this agreement.
- (b) Notwithstanding the above, if the audit required by the project financing agreement has not been satisfactorily concluded within twelve months of the financial reporting date set forth therein, IFAD will suspend the right of the Government to request withdrawals from the loan and grant account.

Conditions precedent to withdrawals – overall project

8. No withdrawal will be made in respect of expenditures under any Category under the Loan/Grant until:
- (a) The Project Steering Committee will have been duly established;
 - (b) The PMU will have been duly established;
 - (c) The Government will have duly opened the Special Account and Grant Bank Account.

Conditions precedent to effectiveness

9. This Agreement will become effective subject to the fulfilment of the following conditions precedent:
- (a) This agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorised and ratified by all necessary administrative and governmental action;
 - (b) The project agreement has been duly signed and a favourable legal opinion has been issued by competent legal counsel for the State of Rajasthan in respect of the project agreement's legally binding nature upon the State of Rajasthan and delivered to IFAD; and the signature and performance thereof by the Lead Project Agency has been duly authorised or ratified by all necessary administrative and governmental action; and
 - (c) The Government has delivered to IFAD a legal opinion issued by the Solicitor General of the Government in the form and substance acceptable to IFAD.

Key reference documents

Country reference documents

XI 5-year Development Plan

IFAD reference documents

COSOP (Jan. 2006)

PDD and Key Files

IFAD Strategic Framework 2007-2010

Learning Notes on Targeting, Gender, Rural Finance, Sustainability

Policies on Rural Finance, Rural Enterprises and Procurement

Administrative Procedures on Environmental Assessment

Gender Plan of Action

Private Sector Policy

Loan and Grant Administration Manual

Other miscellaneous reference documents

UN Development Assistance Framework

Logical framework

A. Development Goal	
Poverty of target group households mitigated	Indicators: <ul style="list-style-type: none"> - Number of households with improvement in household assets ownership index - Reduction in the prevalence of child malnutrition (w/h; h/a; w/a), by gender - Reduction in the number of BPL households - Literacy rates, by gender - Ratio female/male children enrolled in school - IMR and MMR in targeted areas - Unemployment rates in targeted blocks
B. Overall Project Purpose	
Livelihood improved and sustainable income generating opportunities created for 95,000 target households	Indicators: <ul style="list-style-type: none"> - Changes in wealth ranking of targeted households - % targeted hhs reporting their income has increased, by gender of hh head - % Increase in average income per hh - Beneficiaries' perception regarding changes in income and livelihood opportunities - Women perceptions regarding changes in their social and economic status
C. Project Components	
Component 1. Strengthening Grassroots Organizations	
Sub Component 1.1. Mobilization and Capacity Building Poor and marginalised households mobilised into socially inclusive affinity groups and empowered to effectively articulate and represent their interests, secure their entitlements, and sustainably manage their resources	Sub Component 1.2. Community Infrastructure Development Community infrastructures effectively mitigate the impacts of droughts, attenuate risks, and contribute to increase productivity
Component 2. Livelihood Support	
Sub Component 2.1. Income Generation, Marketing, and Employment Creation On-farm and off-farm production improved, employment opportunities increased, and access to markets enhanced for poor families in targeted areas	Sub Component 2.2. Development Financial Services – Outcome SHGs enabled to access rural financial and insurance services and develop and independently manage thrift and credit services for their members
Component 3. Project Management	
Efficient project management system operated by project staff and stakeholders to effectively manage the project	

