President’s report

Proposed supplementary loan to the Republic of India for the

North Eastern Region Community Resource Management Project II
Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

Directors are invited to contact the following focal point with any technical questions about this document:

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## Abbreviations and acronyms

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<tr>
<td>CBO</td>
<td>community-based organization</td>
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<tr>
<td>NERCORMP</td>
<td>North Eastern Region Community Resource Management Project</td>
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<td>PRA</td>
<td>participatory rural appraisal</td>
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Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Republic of India for the North Eastern Region Community Resource Management Project II, as contained in paragraph 34.
Map of the project area

India
North Eastern Region Community Resource Management Project II
Republic of India

North Eastern Region Community Resource Management Project II

Financing summary

Initiating institution: Government of India
Borrower: Ministry of Finance of the Republic of India
Executing agency: Ministry of Development of North Eastern Region
Total project cost: US$38.2 million
Amount of IFAD supplementary loan: SDR 12.6 million (equivalent to approximately US$20.0 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
Original IFAD loan: US$22.9 million
Contribution of borrower: US$12.6 million (for NERCORMP II)
Expected contributions from existing Government schemes: US$2.3 million (for NERCORMP II)
Contribution of financial institutions: US$2.0 million
Contribution of beneficiaries: US$1.3 million
Appraising institution: IFAD
Cooperating institution: Directly supervised by IFAD
Proposed supplementary loan to the Republic of India for the North Eastern Region Community Resource Management Project II

I. The project

A. Main development opportunity addressed by the project

1. The Government of India, with IFAD assistance, played a pioneering role in addressing poverty and environmental degradation in the North Eastern Region. The region consists of the eight states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura, with a predominantly tribal population of subsistence farmers. The North Eastern Region Community Resource Management Project II (NERCORMP II) has been identified as a development model by the Government for its adoption of a genuine empowerment approach. Under this approach, interventions are truly demand-driven and client-oriented, in line with indigenous knowledge and implemented with clear transparency and accountability. Initial IFAD financing for NERCORMP has been fully disbursed and, following a request from all eight States for its replication, the Government approached both the World Bank and IFAD for further assistance. This supplementary loan will be associated with much larger financing from the Government and will address a number of findings and recommendations of the Office of Evaluation.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a supplementary loan to the Republic of India in the amount of SDR 12.6 million (equivalent to approximately US$20 million) on highly concessional terms to help finance the North Eastern Region Community Resource Management Project II. 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 the Republic of India under the PBAS is US$92 million over the 2007-2009 allocation cycle. With the proposed supplementary loan, India will fully use its allocation.

Country debt burden and absorptive capacity of the State

4. India’s external debt stood at $229.9 billion (22 per cent of GDP) on 31 March 2009. The foreign exchange reserves provided a cover of 109.6 per cent of the external debt stock as at end-March 2009, as compared with 137.9 per cent as at end-March 2008. India ranked fifth in 2007 among the world’s most indebted developing countries. However, the debt-service ratio has declined steadily over the years and stood at 4.6 per cent on 31 March 2009. The debt situation is not of great concern, as short-term debt accounts for only 21.5 per cent of the total external debt. India received 24 loans from IFAD between 1979 and 2009, with total annual disbursements from ongoing operations averaging SDR 9.8 million. The average loan size was US$29.5 million for the same period. The Government’s repayment record for IFAD loans is excellent.

Flow of funds

5. The IFAD loan will be channelled through the Ministry of Finance in accordance with the financing agreement negotiated between IFAD and the Government. In line with current arrangements, the Government will transfer the proceeds of the loan to the North Eastern Council and hence to the Regional Society on a six-monthly basis, in
advance, under a memorandum of understanding. The Regional Society will release funds to the District Societies on a quarterly basis, in accordance with the approved annual work plan and budget. The Regional Society will be responsible for submitting reimbursement claims for the actual expenditures incurred through the office of the Comptroller of Aid Accounts and Audit. Implementing partners will receive funding in accordance with separate subcontracts.

**Supervision arrangements**

6. IFAD will be responsible for project supervision and loan administration. Its supervision activities will be implemented through the India Country Office, in line with the current arrangements for all other IFAD-supported projects in India.

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

7. No exceptions are foreseen.

**Governance**

8. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) partnership with NGOs and civil society entities; (ii) regular supervision activities, supplemented by frequent implementation support inputs; and (iii) contracting of a private audit firm if and when required.

**C. Target group and participation**

**Target group**

9. The project target group includes a total of 20,000 poor rural households living in 400 villages located in the six NERCORMP districts of the States of Assam (Karbi Anglong and North Cachar Hills), Manipur (Ukhrul and Senapati) and Meghalaya (West Khasi Hills and West Garo Hills). It is expected that targeted households will include the most vulnerable groups, such as scheduled tribes, woman-headed households, marginal farmers heavily dependent on shifting cultivation, and landless households.

**Targeting approach**

10. In line with the IFAD Policy on Targeting, the approach will be based on: (i) geographical targeting; and (ii) social targeting, in which poor households will be identified based on below-poverty-line data and validated through participatory wealth ranking, using participatory rural appraisal (PRA) techniques.

**Participation**

11. NERCORMP supports an empowerment process through which target-group households build their own institutions (self-help or natural resource management groups), which are eventually federated into larger institutions. Within the platform of these institutions, targeted households mobilize savings, manage common resources, formulate livelihood plans and lead the development process. Similarly, a number of centrally-sponsored programmes are implemented through these institutions, enhancing the effectiveness of public expenditure.

**D. Development objectives**

**Key project objectives**

12. The primary goal of the project is to improve the livelihoods of vulnerable groups sustainably through improved management of their resource base, so as to contribute to preservation and restoration of the environment.

**Policy and institutional objectives**

13. The project is aligned with the current country strategic opportunities paper (COSOP) 2005-2009, which envisages a new intervention in support of tribal development in the North Eastern Region. The project will support the Millennium Development Goals (MDGs) by improving the incomes of poor rural people (MDG1) and promoting gender equality and empowering women (MDG3).
E. Harmonization and alignment

Alignment with national priorities
14. The project directly supports the North Eastern Region’s eleventh five-year plan for reducing poverty through effective implementation of various Government-supported schemes and externally assisted projects.

Harmonization with development partners
15. The World Bank has been requested by the Government to scale NERCORMP up in the States of Mizoram, Nagaland, Sikkim and Tripura. IFAD has already contributed to the design of one component of that programme and has participated in the peer review design process. It is anticipated that both World Bank- and IFAD-supported programmes will coordinate their operations under the guidance of the Ministry of Development of North Eastern Region and the North Eastern Council.

F. Components and expenditure categories

Main components
16. The project has the following components: (i) strengthening the capacity of local communities and participating agencies; (ii) livelihood development activities; (iii) natural resource management and biodiversity conservation; (iv) social-sector development activities; (v) infrastructure development; and (vi) project management.

Expenditure categories
17. There are four expenditure categories: (i) civil works (13 per cent of base costs); (ii) training, technical assistance and consultants (11 per cent); (iii) revolving funds (37 per cent); and (iv) village development funds (39 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners
18. These will be: (i) the Ministry of Development of North Eastern Region; (ii) the North Eastern Council; (iii) the Regional Society and District Societies; (iv) local NGOs and private-sector entities.

Implementation responsibilities
19. The Regional Society will be responsible for project coordination, while District Societies will be responsible for project implementation, together with implementing partners.

Role of technical assistance
20. The project does not require international technical assistance. Local technical assistance will be required, mainly with regard to livelihood development activities.

Status of key implementation agreements
21. Project implementation will require the following agreements: (i) a financing agreement between IFAD and the Republic of India; (ii) a project implementation manual; (iii) a memorandum of understanding between the Regional Society and each District Society; and (iv) partnership agreements between the project and implementing partners, such as NGOs, the private sector and commercial banks.

Key financing partners and amounts committed
22. The total project cost is US$38.2 million over six years. The sources of financing are IFAD (US$20.0 million, 52 per cent), Government of India (US$14.9 million, 39 per cent), commercial financial institutions (US$2.0 million, 5 per cent) and beneficiaries’ contributions (US$1.3 million, 4 per cent). Furthermore, the Government is currently processing parallel financing of US$155.8 million for a new project to scale up NERCORMP in six additional districts.
H. Benefits and economic and financial justification

Main categories of benefits generated

23. The main project benefits will comprise, inter alia: (i) increased incomes through livelihood activities involving livestock, horticulture and aquaculture; (ii) enhanced food security and increased agricultural productivity; (iii) risk reduction through diversification of income sources; (iv) protection of biodiversity; (v) reduction of women’s workload; (vi) enhanced convergence with government programmes; and (vii) enhanced efficiency and responsiveness of support services to the needs of the target group. NERCORMP has already achieved significant environmental benefits. Soil loss will be reduced through the emphasis on agroforestry and the improvement in shifting cultivation. It will also promote non-timber forest products and water conservation through microwatersheds.

Economic and financial viability

24. Since the project is based on demand-driven community plans, it is not possible to carry out a detailed ex-ante cost-benefit analysis. Experience from NERCORMP and other livelihood projects has shown, however, that demand-driven projects are usually economically viable and cost efficient.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

25. One of the main reasons for its success is that NERCORMP has been able to constantly adapt its direction and make good use of lessons learned during implementation. It has made considerable efforts to communicate its achievements and make its successful approach known to government and external partners. In view of the heterogeneous sociocultural-ecological conditions prevailing in the project area, there is a need to continue this regular sharing of information among the participating districts, with periodic joint reviews.

Development innovations that the project will promote

26. During its scaling up, NERCORMP will try to enhance: (i) a focus on youth as a distinct target group; (ii) partnerships with the private sector, so as to secure upfront market linkages; and (iii) use of the institutions built and experience gained, so as to ensure high-quality training for local NGOs.

Scaling-up approach

27. As mentioned, NERCORMP will use the lessons learned during its implementation. The following key sociocultural and institutional elements have been identified: (i) a committed and competent project management team; (ii) qualified implementing agencies; (iii) effective management systems, with clear definition of roles and responsibilities; (iv) convergence with the activities of line departments; and (v) local communities empowered with management responsibilities.

J. Main risks

Main risks and mitigation measures

28. The project faces the following main risks: (i) frequent management turnover; (ii) slow implementation progress; and (iii) security issues affecting the project area. The planned mitigation measures include: (i) owing to the operational autonomy of the registered societies, key project staff will be recruited in the market and not seconded from the Government; (ii) appropriate resources have been allocated for capacity-building activities; and (iii) community institutions will be strengthened and will assume management responsibilities.

Environmental classification

29. 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
30. The project will continue to establish self-managed, community-based organizations (CBOs) that are expected to become self-reliant and sustainable. These institutions will be given the responsibility of executing centrally sponsored development schemes. In terms of institutional sustainability, NERCORMP will aim to federate these CBOs into larger institutions that will support their members with appropriate management services, market linkages and business development services. In each district, a resource centre will be established to provide training facilities to CBOs and government line agencies. The Regional Society and District Societies established under the project will eventually be converted into self-financing companies. In terms of economic sustainability, the project will support market linkages for viable livelihood activities and will ensure access to capital as and when needed.

II. Legal instruments and authority
31. A project financing agreement between the Republic of India and IFAD will constitute the legal instrument for extending the proposed supplementary financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.

32. The Republic of India is empowered under its laws to receive financing from IFAD.

33. I am satisfied that the proposed supplementary financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation
34. I recommend that the Executive Board approve the proposed supplementary financing in terms of the following resolution:

RESOLVED: that the Fund shall make a supplementary loan on highly concessional terms to the Republic of India in an amount equivalent to twelve million six hundred thousand special drawing rights (SDR 12,600,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President
Negotiated financing agreement: "North Eastern Region Community Resources Management Project"

(Negotiations concluded on 2 December 2009)

Loan Number: __________________________

Project Title: North Eastern Region Community Resource Management Project for Upland Areas II (the “Project” or “NERCORMP-II”)

The International Fund for Agricultural Development (the “Fund” or “IFAD”)

and

the Republic of India (the “Borrower”)

(each a “Party” and both of them collectively the “Parties”)

WHEREAS

(A) By Loan Agreement dated 20 May 1997, the Fund has made available to the Borrower a loan in the principal amount of SDR 16 550 000 for the purposes of partially financing the Borrower’s North Eastern Region Community Resource Management Project for Upland Areas (“NERCORMP” or “Original Project”);

(B) the Borrower intends to scale up the Original Project in the same Districts covered thereby and, to this effect, has requested a supplementary loan from the Fund for the purpose of financing the NERCORMP-II;

(C) the Borrower further intends to scale up the Original Project by expansion into new areas in the North Eastern Region through its own parallel financing expected to be in the order of USD 156 million (“New Project”), on terms and conditions to be set forth in separate document(s);

(D) on the basis of the above and other considerations, the Fund has agreed to extend a supplementary loan to the Borrower on the terms and conditions set forth in this Agreement for the purposes of partially financing NERCORMP-II;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund’s General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the “General Conditions”) are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan to the Borrower (the “Financing”), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.
Section B

1. The amount of the Loan is 12,600,000 SDR.
2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be the USD.
4. The first day of the applicable Fiscal Year shall be 1 April.
5. Payments of principal and service charge shall be made on each 15 May and 15 November.
6. There shall be a Project Account for the benefit of the Regional Society ("Regional Project Account") and a Project Account for the benefit of each District Society in the Project Area (referred to collectively as "District Project Accounts") in one or more commercial banks approved by the Fund.
7. The Borrower shall provide counterpart financing for the Project in the approximate amount of USD 12.63 million.

Section C

1. The Lead Project Agency shall be the North Eastern Council under the Borrower’s Ministry for the Development of the North-Eastern Region (hereinafter referred to as “NEC”).
2. The following are designated as additional Project Parties:
   (a) North Eastern Region Community Resources Management Society (RS);
   (b) District Societies of NERCORMP and District Societies established under the Project;
   (c) Partner NGOs;
   (d) Community-based Organisations; and
   (e) Private and/or Public Sector Entities, including the Financial Institutions participating in Project activities.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Loan shall be administered by the Fund and the Project supervised by the Fund, with the participation of the Borrower and/or the Lead Project Agency during joint review missions.

Section E

1. The following is designated as an additional ground for suspension of this Agreement: The Borrower has failed to ensure the continuity of tenure of the Project Coordinator and Development Strategist and in the opinion of the Fund, this is likely to have a material adverse effect on the Project.
2. (a) The following is designated as an additional general condition precedent to withdrawal: No withdrawal shall be made from the Loan Account until audit observations, if any, outstanding for a period exceeding twelve months from the date of receipt of the management letter prepared by the external auditors relating to activities falling under NERCORMP, shall have been clarified and addressed to the satisfaction of the Fund.

(b) The following is designated as an additional specific condition precedent to withdrawal applicable to all Categories of the Allocation Table set forth in paragraph 1 of Schedule 2 hereto, except Category II (Training, Technical Assistance and Consultants): No withdrawal shall be made from the Loan Account until the Project Implementation Manual referred to in paragraph 11, Section II of Schedule 1 hereto shall have been duly amended and finalised by the Lead Project Agency to the satisfaction of the Fund.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund: For the Borrower:

India Country Programme Manager Joint Secretary (MI)
International Fund for Agricultural Development Department of Economic Affairs
Via Paolo di Dono 44 Ministry of Finance
00142 Rome, Italy North Block, New Delhi, India

This Agreement, dated __________, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.
Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Target Population.** The Project shall benefit some 20,000 poor rural households in the following six districts targeted under the NERCORMP: West Khasi Hills and West Garo Hills (State of Meghalaya), Ukhrul and Senapati (State of Manipur) and Karbi Anglong and North Cachar Hills (State of Assam), each district individually referred to as “Project District” and collectively as the “Project Area”.

2. **Goal.** The goal of the Project is to improve the livelihood options of economically vulnerable groups in a sustainable manner through the promotion of improved livelihood opportunities and strengthening of local institutions that relate to livelihood development.

3. **Objectives.** The overall objective of the Project is to improve the livelihood of vulnerable groups in the Project Area in a sustainable manner through improved management of their resource base. The specific objectives of the Project are to:

   (a) promote a more people-oriented approach to the design and implementation of development interventions;

   (b) enhance the capabilities of the local communities to search for and manage appropriate technologies building on indigenous knowledge;

   (c) increase incomes through the development of more sustainable farming systems and the establishment of non-farm enterprises;

   (d) make people aware of the need to preserve and regenerate natural resources and biodiversity;

   (e) establish effective and appropriate delivery systems for inputs (credit, extension, etc.) and for the maintenance of assets and resources;

   (f) increase participation of women in local institutions and in decision-making processes within the community;

   (g) enhance savings capacity and promote the habit of thrift; and

   (h) increase access to basic services and infrastructure facilities.

4. **Components.** The Project shall consist of the following Components:

4.1. **Component 1 Capacity Building of Communities and Participatory Agencies**

Under this component the Project aims to:

   (a) support through the interaction of NGOs and Project Staff, and through a participatory rural appraisal process, the promotion of participatory planning processes to assist the communities to formulate Community Resource Management Plan;

   (b) strengthen the capacity of the community to manage its development initiatives through training of Natural Resource Management Groups.
(NaRM-Gs) and Self-Help Groups (SHGs) members in planning, budgeting, funds management and accounts and general management procedures;

(c) expose communities to effective community-managed development initiatives through in-country study tours; and

(d) promote the establishment of SHGs, particularly amongst women.

4.2. Component 2 Economic Livelihood Activities

Under this component the Project aims to:

(a) finance inputs and costs of community labour for a wide range of on-farm investments including modifications to the current *jhum* plots, horticulture, and perennial crops and forestry activities, together with support to nurseries and seed farms to ensure adequate supplies of seed and seedlings;

(b) fund construction of new minor irrigation and the rehabilitation of existing irrigation schemes, and activities to increase the productivity of livestock and fish production;

(c) provide credit for short term investments through the SHGs, whose resources shall be supplemented through group loans channelled from the formal sector financial institutions, from financial institutions through NGOs, or from a SHG Revolving Fund operated by the District Societies;

(d) provide assistance to the development of non-farm enterprises, including an integrated package of assistance covering product design, upgrading of technology and skills, identification of market opportunities and establishment of market linkages for producers and business training;

(e) provide credit for the establishment of viable non-farm enterprises from financial institutions through commercial banks or NGOs;

(f) assist research institutes to reorient their approach and finance a programme of client-driven, on-farm adaptive research and on-farm trials, building on indigenous knowledge;

(g) provide incentives to farmers to provide land and services for such on-farm trials through a Risk and Incentive Fund;

(h) finance an in-depth study of marketing and processing of fruits for agro-processing;

(i) develop the extension service into a more client-oriented extension system based on participatory extension methods;

(j) establish a Village Development Fund to enable the Regional Society to participate as a joint venture partner in community-based non-farm enterprises, in order to leverage and supplement credit funding;

(k) fund studies, workshops and seminars to promote debate on strategy issues, drawing on both in-country and external expertise, in order to broaden the range of development opportunities for the Project Area;
(l) fund research directed towards the development of new products based on local non-timber forest resources with the initial focus on medicinal and aromatic plants;  
(m) ensure convergence of Government supported Project schemes and Programmes;  
(n) obtain funding from Union Government line ministries and State Government line departments or other entities, including voluntary organisations; and  
(o) develop local capacities for para-professionals for livestock, agricultural and allied sectors.

4.3. Component 3 Community-Based Biodiversity Conservation

Under this component the Project aims to protect the rich biodiversity resources of the region through pilot interventions to test approaches to:

(a) protect sacred groves; and  
(b) manage buffer zones around Protected Areas, with the major focus on developing alternative source of livelihoods for communities living close to these highly ecologically fragile bio-diverse areas to deter them from exploiting and damaging the genetic stock.

4.4. Component 4 Social Sector Activities

Under this component the Project aims to:

(a) improve the access of communities to basic services such as safe drinking water, better health care and more relevant school education on agricultural/forestry activities;  
(b) fund the provision of appropriate drinking water schemes including tubewells and handpumps, gravity-piped water supply schemes and other water-harvesting techniques;  
(c) adopt a participatory strategy with communities voluntarily contributing 30% of the labour and assuming full responsibility for operation and maintenance;  
(d) provide training to the community for the maintenance of handpumps and other drinking-water systems;  
(e) train women selected by the community as Community Health Workers (CHW) to promote preventive health care, provide basic remedial treatment, referral services and family planning advice and safe delivery methods, and supply such CHWs with a basic stock of medicines and assist them to develop cost-recovery mechanisms to make the scheme self-financing; train traditional dais (birth attendants); and  
(f) support the schools in practical agricultural/forestry activities through introduction of extra-curricular activities, training of teachers, school visits to on-site demonstrations of agricultural and forestry technology and inputs for school gardens/plantations.
4.5. Component 5 Village Roads and Rural Electrification

In order to broaden the economic base of the rural economy through opening up possibilities for the development of non-farm enterprises, under this component the Project aims to:

(a) fund the upgrading of village roads and the construction of new roads providing better access to markets;

(b) provide electricity to villages through connections to the grid; and

(c) where such connections are not feasible, provide electricity to villages through promoting, on a pilot basis, the construction of mini/micro-hydel, new and renewable energy schemes of adequate capacity to supply up to four villages.

4.6. Component 6 Project Management

Under this component the Project aims to:

(a) finance the expansion of the Development Support Teams (DSTs) under the existing and newly established District Societies in the Project Area;

(b) cover staff costs, including travel-related costs and other expenses such as purchase of vehicles for the Project Support Unit (PSU) and DSTs; and

(c) provide support in computerising Project Management Information Systems and relevant training to Project staff, in line with the Fund’s Results and Impact Management System.

II. Implementation Arrangements

5. Lead Project Agency

The Lead Project Agency shall be the North-Eastern Council, under the Borrower’s Ministry of Development for the North-Eastern Region. The Project shall be implemented at district and regional level through existing and new registered societies established specifically for the Project (“District Societies (DS)” and “Regional Societies (RS)” respectively). This shall assist in promoting the Project and allow for greater operational flexibility and efficiency.

6. Regional Society (RS)/Project Support Unit (PSU)

6.1. The Regional Society based in Shillong shall have a General Body composed of representatives of the stakeholders in the Project, the Borrower, the NEC and participating State governments. The RS shall also have an Executive Board with the Secretary of the NEC as its Chairman. Participating communities, NGOs, the NEC, the Borrower’s Ministry for the Development of the North-Eastern Region and participating State governments shall be represented on the Executive Board.

6.2. The Executive responsibility for the Project shall be vested in the Project Coordinator and Development Strategist (PCDS) who shall head the PSU within the RS. The PCDS shall be supported by the following: (i) Finance/Accounts Officer; (ii) Monitoring and Evaluation Officer; (iii) Technical Coordinator (Civil/Rural Engineer); (iv) Natural Resource Management Coordinator; (v) Gender and NGO Coordinator; (vi) Marketing and Business Coordinator; (vii) Micro-Credit Officer; (viii) Assistant
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Accounts Officer; (ix) Communications/Knowledge Management Officer; (x) System Administrator; (xi) Administrative Officer; and (xii) Internal Auditor. Such staff shall be hired pursuant to an open, transparent and competitive process.

6.3. The principal role of the RS shall be to provide overall guidance to the Project, monitor Project performance, provide services required across districts and channel funds to the other implementing agencies to undertake Project activities. The Memorandum of Understanding between the Lead Project Agency and the RS (“Regional MOU”) setting forth the responsibilities and flow of fund arrangements of the RS under the NERCORMP shall continue to be maintained, in form and substance acceptable to the Fund, for purposes of implementation of the present Project.

7. **District Society (DS)**

7.1. A DS shall be established in each Project District and shall be accountable to a District General Body and a District Executive Board.

7.2. The DS shall have a core group of full-time staff called the Development Support Team (DST). Executive responsibility shall be vested in the Project Manager who shall head the DST. Other members of the DST shall include: (i) Project Technical Officer/Rural Engineer; (ii) Business Development Officer; (iii) Institutional Development Organiser; (iv) Senior Accountant; and (v) Natural Resource Management Organiser.

7.3. The Memoranda of Understanding between the RS and the District Societies (“District MOU”) setting forth the responsibilities and flow of fund arrangements of each DS under the NERCORMP shall continue to be maintained, in form and substance acceptable to the Fund, for purposes of implementation of the present Project. A Memorandum of Understanding in form and substance acceptable to the Lead Project Agency and the Fund shall be entered into between the RS and each new DS established under the present Project defining relevant responsibilities and fund flow arrangements.

8. **NGOs/NaRM-G Cluster Associations/SHG Federations**

8.1. The Project shall form strategic alliances with NGOs and/or any other suitable entity for: (i) mobilising communities; (ii) negotiating the establishment of an appropriately structured NaRM-G; (iii) assisting the community to address equity issues and ensuring an orientation towards the poor in planning Project activities; (iv) preparing the communities to participate in the interactive process of drawing up the community village plan; (v) guiding the Participatory Rural Appraisal exercises and assisting Project and government staff in interactions with the communities; (vi) building the management capacity of the NaRM-G; (vii) supporting community institutions in the implementation process; and (viii) helping with resolution of conflicts and promoting the formation of SHGs, SHG Federations and NaRM-G Cluster Associations. In each Project District such Federations and Clusters shall be contracted to perform the above duties wherever these institutions have the capacity to perform. The NGOs/NaRM-G Cluster Associations/SHG Federations shall be contracted by the DS and shall be required to sign a Memorandum of Understanding committing each such entity to the underlying principles of the Project.

8.2. The Memoranda of Understanding between the relevant DS and the NGOs (“NGO MOU”) contracted under the NERCORMP, setting forth the relevant responsibilities and flow of fund arrangements, shall continue to be maintained, in form and substance acceptable to the Fund, for purposes of implementation of the present Project. A Memorandum of Understanding in form and substance acceptable to the Lead Project Agency and the Fund shall be entered into between the DS and each NGO contracted under the present Project defining relevant responsibilities and fund flow arrangements.

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9. **Grassroots Institutions**

9.1. NaRM-G(s) with representation comprising traditional village institutions, women, youth, SHGs and marginalised groups shall be established in each village of the Project Area to oversee implementation of the village plan. The communities shall be responsible for: (i) planning and implementation of village development activities; (ii) management of village development funds including payments to contractors and community members for development works; (iii) organising supply of inputs; (iv) monitoring and reporting progress on development works to the DS; and (vi) preparation and submission to the DS for review and approval of village AWPBs for each Project Year through the NaRM-Gs.

9.2. Self Help Groups shall be formed, particularly among women, for empowering Target Group families through implementation of savings and credit activities. The SHGs and district level SHG Federation shall manage the Project revolving fund to meet the community credit demands.

9.3. The Social Agreement between the relevant DS and each: (i) SHG, (ii) NaRM-G, (iii) SHG Federation and (iv) NaRM-G Cluster Association contracted under the NERCORMP, setting forth the relevant responsibilities and flow of fund arrangements, shall continue to be maintained, in form and substance acceptable to the Fund, for purposes of implementation of the present Project. A Social Agreement in form and substance acceptable to the Lead Project Agency and the Fund shall be entered into between the DS and each SHG, NaRM-G, SHG Federation and NaRM-G Cluster Association contracted under the present Project, defining relevant responsibilities and fund flow arrangements.

10. **Mid-Term Review**

The Fund and the Lead Project Agency shall carry out a review of the Project implementation no later than the end of Project Year 3 (the "Mid-Term Review") based on the terms of reference mutually agreed between the Lead Project Agency and the Fund. The Mid-Term Review shall focus, *inter alia*, on: (i) the establishment and effectiveness of institutional infrastructure including the PSU, DSs and Community level institutions, their functioning and the relationship with other Project Parties; (ii) the extent to which genuine participatory approaches, including the preparation of village plans, have been operationalised; (iii) the ability of the Project to pilot various livelihood opportunities; (iv) the preparation of the Project participants to make informed choices about which livelihood opportunities best suit their circumstances and needs; (v) the impact of the Project on the most vulnerable sections of the Target Group; (vi) the finalisation of a strategy to ensure sustainability of Project activities; and (vii) performance of Project components and their initial impacts on the incomes of Target Group households.

11. **Project Implementation Manual (PIM)**

As soon as practicable, the Project Implementation Manual existing under NERCORMP shall be suitably amended to the satisfaction of the Fund and finalised for purposes of implementation of the present Project. The PIM shall specify, among other things, the procedures, processes, timetables, disbursement, financial management, accounting, and auditing arrangements pertaining also to SHGs and NaRM-Gs, reporting, monitoring, evaluation, environmental and social management, and other Project implementation arrangements, as agreed upon by the Borrower and the Fund. In addition, the PIM shall address outstanding issues raised in the Fund’s Interim Evaluation Report dated July 2006 and NERCORMP’s Completion Report dated September 2008. The PIM may be amended or otherwise modified from time to time with the prior consent of the Fund.
Schedule 2

Allocation Table

1. Allocation of Loan Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Loan Amount Allocated (expressed in SDR)</th>
<th>Percentage of Eligible Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Civil Works</td>
<td>1 250 000</td>
<td>100% net of taxes, of Government and beneficiaries’ contributions</td>
</tr>
<tr>
<td>II. Training, Technical Assistance and Consultants</td>
<td>1 300 000</td>
<td>100% net of taxes</td>
</tr>
<tr>
<td>III. Revolving Funds</td>
<td>4 250 000</td>
<td>100% net of taxes, of Government contributions and of contributions from Financial Institutions</td>
</tr>
<tr>
<td>IV. Village Development Funds</td>
<td>4 540 000</td>
<td>100% net of taxes and of Government contributions</td>
</tr>
<tr>
<td>Unallocated</td>
<td>1 260 000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12 600 000</strong></td>
<td></td>
</tr>
</tbody>
</table>

(b) The terms used in the Table above are defined as follows:

“Revolving Funds” means eligible expenditures for loans to NaRM-Gs and SHGs for economic livelihood activities; and

“Village Development Funds” means eligible expenditures for grants to NaRM-Gs for economic livelihood activities, social sector activities, village roads and rural electrification.
Schedule 3

Special Covenants

1. The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Borrower’s relevant national policies and of the Fund’s relevant policies including, but not limited to, the Fund’s Policy on Engagement with Indigenous Peoples.

2. In line with the geographical targeting strategy followed by NERCORMP, the Lead Project Agency shall cause the Regional Society to endeavour that all villages selected by the District Administration(s) be aligned to the criteria agreed with the Fund and specified in the NERCORMP design documents, as amended from time to time.

3. In line with the targeting strategy followed by NERCORMP, the Lead Project Agency shall cause the Regional Society to endeavour that all partner NGOs, SHG Federations and NaRM-G Cluster Associations contracted under the Project be selected according to the criteria agreed with the Fund and specified in the NERCORMP design documents, as amended from time to time.

4. The Borrower and the Lead Project Agency shall undertake a review of the effectiveness of management, administrative, financial and auditing arrangements, jointly with the Fund, no later than the end of the first year of the effective date of the New Project. The Borrower shall ensure that the recommendations resulting from such review are implemented within the specified time therefor so as not to adversely affect effective implementation of NERCORMP-II.
Key reference documents

Country reference documents
Poverty reduction strategy paper

IFAD reference documents
Project design document (PDD) and key files
COSOP
Administrative Procedures on Environmental Assessment
Logical framework

### Narrative Summary

**A. PROJECT GOAL**

To improve the livelihoods of vulnerable groups in a sustainable manner through improved management of their resource base in a way that contributes to preservation and restoration of the environment.

**B. PROJECT COMPONENTS, OUTCOME AND OUTPUTS**

#### COMPONENT 1: STRENGTHENING CAPACITY OF PARTICIPATING AGENCIES

**OUTCOME:** Social Agreements signed with 2200 village institutions. PRA and wealth ranking conducted.

Sub-component 1.2: Formation of NaRM-Gs, SHGs, SHG Federations & NaRM-G Associations

**OUTCOME:** Poor and marginalised households mobilised into socially inclusive affinity groups and empowered to effectively articulate their interest.

#### COMPONENT 2: LIVELIHOOD INTERVENTIONS

**OUTCOME:** Areas under horticulture/ perennial crops, forestry, irrigated terrace cultivation and modified jhum cultivation, expanded and productivity improved and livestock, fisheries and non-farm enterprises established.

#### COMPONENT 3: NATURAL RESOURCE MANAGEMENT

**OUTCOME:** Areas of rich biodiversity protected and regenerated.

#### COMPONENT 4: SOCIAL SECTOR

**OUTCOME:** Safe drinking water provided, sanitation, access to basic health care and family planning advice available, improved and relevant education.

#### COMPONENT 5: INFRASTRUCTURE DEVELOPMENT

**OUTCOME:** Improved communication & connectivity by providing intra and inter village roads, construction of MIs and low cost bridges, schools, collection centres, processing units, etc, provide power transmission lines to remote villages.

#### COMPONENT 6: PROJECT MANAGEMENT

**OUTCOME:** Staff expertise strengthened and their capacity to provide inclusive services to stakeholders enhanced. Conducive work culture provided to arrest staff turnover.

### Objectively Verifiable Indicators

- At least 75% households with improvement in household assets ownership index; Reduction in the prevalence of child malnutrition in every household covered; Increase 60% in area under perennial crops including horticulture and forestry; Increase in proportion of household income received from off-farm activities including skilled employment/self-employment; Ensure 80% of the beneficiary households will move above the poverty line. Improved village infrastructure and connectivity; 80% of households will obtain food security

### Monitoring Mechanism & Information Sources

- Project baseline, mid term, and completion survey, Interim evaluation studies, Annual participatory assessment by communities, Project evaluations, Independent evaluation, Wealth ranking

### Assumptions/ Risks

- Political stability; Selection of pro-active NGOs, climate change, law and order, pro-active attitude of the line departments.

#### Appendix II

**Assumptions:**

- At least 75% households with improvement in household assets ownership index
- Reduction in the prevalence of child malnutrition in every household covered
- Increase 60% in area under perennial crops including horticulture and forestry
- Increase in proportion of household income received from off-farm activities including skilled employment/self-employment
- Ensure 80% of the beneficiary households will move above the poverty line
- Improved village infrastructure and connectivity
- 80% of households will obtain food security

**Risks:**

- Political considerations do not influence the village authorities
- Participation of all households including women. Capacity of the NGOs & DST and cooperation of the TIs to facilitate the process.
- Availability of cultivable land, prevailing land tenure laws, availability of sufficient & hardy indigenous varieties, favourable prices to motivate farmers, farmers have capacity to adapt to changing situations

**EB 2009/98/R.32/Rev.1**