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Investing in rural people

President's memorandum

Proposal for additional financing to
the Islamic Republic of Pakistan for the
Southern Punjab Poverty Alleviation Project

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing in the form of a loan to the Islamic Republic of Pakistan for the Southern Punjab Poverty Alleviation Project, as contained in paragraph 26.

Proposed additional financing to the Islamic Republic of Pakistan for the Southern Punjab Poverty Alleviation Project

I. Background

1. The present memorandum seeks the approval of the Executive Board for additional financing in the form of a loan of US\$25 million on highly concessional terms for the Southern Punjab Poverty Alleviation Project (SPPAP). The project was approved by the Executive Board in December 2010 with a loan of 26.35 million special drawing rights (SDR). Due to slow project implementation, a partial cancellation in the amount of SDR 7.05 million was made to the original loan. When project implementation subsequently picked up, additional financing was approved by the Executive Board in December 2015, and a loan of SDR 7.29 million was granted on the same lending terms. The total project financing of the original and additional loan is SDR 26.59 million. The project completion date was foreseen for 30 September 2017 and the closing date for 31 March 2018. With the provision of the additional financing, the completion and closing dates will be extended by three years to 30 September 2020 and 31 March 2021 respectively.
2. The SPPAP additional financing is aligned with the "Revision of IFAD approach to use of cancellation of approved loans and/or grants" (EB 2014/111/R.12/Rev.1), and responds to the request of the Government of Pakistan. The uncommitted funds now available due to the cancellation of the Livestock and Access to Markets Project in Punjab (under article 12.02 of the IFAD General Conditions) will thus be reinvested in SPPAP, and supplemented by Government counterpart financing of approximately US\$4.5 million and beneficiary contributions of US\$0.36 million.
3. The proposal for additional financing has the same development objective, components, field activities, lead agency, key project staff and implementing arrangements as the 2010 project. In addition, it will support the consolidation of project achievements to date by (i) increasing the outreach from 80,000 poor households to 131,000 poor households (just under 1 million people) in the poverty scorecard (PSC) band 0-23; (ii) expanding the geographical coverage from four to 10 districts; and (iii) laying the groundwork (including organizational and operational structures) for scaling up the project province-wide through a second phase.

II. Justification and rationale

4. The project meets all eligibility criteria for additional financing. The additional financing is also justified by: (i) its responsiveness and alignment with the Government's rural development agenda and priorities, such as rural poverty alleviation, as part of overall efforts for inclusive growth; (ii) its ability to leverage past efforts to build the institutional capacities of community and village organizations to successfully scale up poverty graduation and rural income-generating models; and (iii) its ability to leverage the knowledge and experience gained from poverty graduation models, and use it for further uptake

and scaling up under social protection and economic development frameworks on both federal and provincial levels.

5. Furthermore, the project has been highly regarded as innovative and efficient in delivering concrete and appreciable results at household level and in terms of sustainable livelihood improvements. To date, SPPAP has supported more than 4,000 community organizations and exceeded the target outreach of 80,000 households.
6. However, the true value of SPPAP's performance lies in its relevant and effective model for social, political and economic empowerment of very poor people through the following combination of interventions: housing, livestock assets, and skills and enterprise development linked to microfinance and markets. This is a poverty alleviation model with an emphasis on social mobilization as promoted by SPPAP. It has contributed to the establishment of increasingly sustainable and mature local institutions (community and village organizations) that are capable of taking part in development planning and implementation of project-supported activities.
7. Interim assessments indicate a satisfactory impact level of project investments: (i) assets creation/transfers have helped households in the lowest PSC band graduate to the next level; (ii) capacity-building and vocational and entrepreneurial training have improved gainful employability of rural young men and women; (iii) productive infrastructure, particularly irrigation channels, have helped to enhance agricultural productivity leading to improved food security; (iv) innovative activities have raised environmental awareness among communities, and led to the increasing adoption of climate-sensitive approaches and encouraged the conservation of scarce natural resources; and (v) establishment and strengthening of community institutions with long-term objectives is paving the way for institutionalization of the participatory community-driven development approach by the Government.

III. Description of the proposal for additional financing

8. The additional financing does not change the structure of the SPPAP development objective but it does change its outreach: the new development objective is to increase the incomes of 131,000 poor households by enhancing their employment potential and increasing agricultural productivity and production.
9. As with all other IFAD-assisted operations in the country, the additional financing will ensure sound and effective targeting through use of the national PSC, ensuring that the project target group is made up of households registered within PSC band 0–23 (extremely, chronically and transitory poor). However, specific attention will be paid to extremely poor households falling within band 0–11.
10. The proposed additional financing will fund two technical components and a project management component. Interventions are in line with the lessons learned from implementation experience and focus on activities that have yielded proven results.
11. Component 1: Livelihoods enhancement. There are three subcomponents to this component: (i) asset creation for the ultra-poor; (ii) vocational and entrepreneurial training (for income generation); and (iii) community physical infrastructure. The target group under this component will be almost exclusively poor women and their households, although the community infrastructure will also benefit most of the community or village population. The component covers a range of investments aimed at building the asset base of the poorest target group and women. This includes providing small housing units for landless/homeless women (and their households) in band 0-11 and livestock/ruminant packages for women in band 0-18. The additional financing will also fund vocational and technical training on the basis of predetermined market demand and placement opportunities for the trained beneficiaries.

12. Based on the priorities identified by the beneficiary communities in their community development plans, the project may finance high-priority social and economic infrastructure including: irrigation schemes; sanitation schemes; drinking water supply schemes; access/link roads and minor structures; and other schemes that support livestock management. It is expected that other funding sources identified by the district coordination committees will finance the community development plans in the long term.
13. Component 2: Agriculture and livestock development. This component is complementary to component 1 and has been oriented more towards institutionalizing the community-driven development approach with direct linkages to public sector development and to service delivery facilities rather than direct project-funded interventions. The approach will enhance the sustainability prospects of the project interventions and strengthen food and nutrition security of the poorest people and the most vulnerable, poorest union councils (through women-managed food banks, nutrition awareness activities, etc.). With the additional financing, the project intends to support strengthening an additional 3,000 community organizations, which serve as the vehicle and entry point for the overall project. All community organization members (51,000 households) will benefit in terms of awareness training and social capital formation. A tangible outcome of the community-driven development approach will be the formulation of community development plans. In the long run and as part of the exit strategy, the community organizations will have a sustainable link and access to public services and development planning, as well as linkages to the formal microfinance sector.
14. Project management and organizational framework. The additional financing will build on the existing institutional and implementation arrangements in place as confirmed by the midterm review. Day-to-day implementation will be managed by the programme management unit (PMU), established under the supervision of the Planning and Development Department of the Government of Punjab and based in Bahawalpur District. The PMU will be supported by district coordination units. Project management will also cover baseline and impact surveys, monitoring and evaluation, advocacy and dissemination.

IV. Project costs, financing and benefits

15. Project costs and financing. In terms of additional financing, the total investment and recurrent costs for the extended three-year period, including physical and price contingencies, are estimated at US\$29.86 million (3.27 billion Pakistani rupees). The funds will come from three cofinanciers: (i) IFAD will provide a loan of US\$25 million; (ii) the Government will contribute US\$4.5 million, primarily towards financing organizational and operational structures (management and coordination) for future scaling up and paying forgone taxes and customs duties; and (iii) the beneficiaries will contribute an estimated US\$0.36 million, which represents the standard 10 per cent contribution to developing community physical infrastructure.

Table 1
Project costs by component and financier
 (Thousands of United States dollars)

<i>Component</i>	<i>IFAD loan</i>		<i>Beneficiaries</i>		<i>Borrower/ counterpart</i>		<i>Total</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>
1. Livelihoods enhancement	20 303	91	360	2	1 516	7	22 179
2. Agriculture and livestock development	2 199	100	-	-	-	-	2 199
3. Project management and organizational framework	2 498	46	-	-	2 987	54	5 485
Total	25 000	84	360	1	4 504	15	29 863

Table 2
Project costs by expenditure category and financier
 (Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD loan</i>		<i>Beneficiaries</i>		<i>Borrower/ counterpart</i>		<i>Total</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>
1. Civil works	3 263	90	360	10	-	-	3 596
2. Vehicles	377	87	-	-	57	13	434
3. Equipment and materials	143	87	-	-	21	13	164
4. Technical assistance, training and studies	6 665	82	-	-	1 516	18	8 182
5. Grants (to beneficiaries)	13 146	100	-	-	-	-	13 146
6. Salaries and allowances	1 096	33	-	-	2 224	67	3 320
7. Operating costs	337	33	-	-	685	67	1 023
Total	25 000	84	360	1	4 504	15	29 863

16. Summary of benefits. A number of benefits will stem from project assistance: (i) small housing units will help households save on rent expenditures and enrich their asset base because the house value will appreciate over time; (ii) livestock will increase annual incomes; (iii) vocational/entrepreneurship training will lead to employment and self-employment; (iv) access to clean drinking water and improved sanitation will result in decreased health care expenditure and also enhance nutritional outcomes; (v) better access roads will reduce the cost of travel/transportation; (vi) irrigation and land protection will reduce irrigation costs; and (vii) infrastructure development will respond to other needs. Furthermore, under the agriculture and livestock development component, the food banks – which have been modelled to reduce household spending on food – will increase household food security.

V. Financial management

17. In the last two supervision missions, the quality of financial management was rated as moderately satisfactory. In the latest supervision mission, which took place in February 2017, it was reported that the internal control systems remain effective. The financial management team was reinforced with an additional accounts assistant. The mission found the disbursement rate to be satisfactory, and some areas for improvement were recommended; these last were taken into account in the risk assessment carried out during the design mission.
18. The overall risk at design was rated as medium and the residual risk as low. The identified risks will be mitigated by the following measures: complementing the existing PMU with district coordination units, which will be responsible for carrying out technical implementation of project activities in the new target areas; strengthening the existing financial management structure of the PMU, which currently has four staff members by recruiting another qualified staff member to

better cope with the anticipated increased volume of work due to geographical expansion; creating an internal audit reporting position; updating the existing project implementation manual; installing an accounting software system to replace the existing one (which does not fully meet IFAD requirements for producing reports); and carrying out effective budgetary control, partially facilitated by the new accounting system which will automatically generate accurate and reliable monthly and periodic financial reports.

19. The designated account currently used for IFAD funding will be maintained and used to receive funds under this additional financing.
20. The annual external audit of the project will continue to be carried out by the Auditor General of Pakistan, in accordance with the International Standards of Supreme Audit Institutions. The audit reports of the last two financial years were delivered with slight delays (of less than one month after the deadline). The audit terms of reference will be prepared by the PMU each year as per the IFAD Guidelines for Project Audits and will be submitted to IFAD for prior no objection. In addition, the internal auditor will evaluate/review the effectiveness of internal controls; risk management and governance; the economical and efficient use of project resources; the reliability and integrity of financial information; the achievement of operational/physical targets; and the project's compliance with the financing agreement and applicable rules and regulations. The internal auditor will submit the audit reports to the chairperson of the project coordination committee.
21. Payment of taxes and duties will be covered by the Government of Punjab counterpart funds.
22. The procurement of goods, works and services to be funded from IFAD financing proceeds will be carried out in accordance with the Government's procurement rules to the extent that they are consistent with the IFAD procurement guidelines.

VI. Legal instrument and authority

23. Upon the approval of the Executive Board, the financing agreement will be amended to integrate the additional loan into the existing categories of expenditure. This additional financing will not involve any changes to the project objectives or target group. Other than scaling up support, no new activities or expenditure categories will be created. The amendment to the financing agreement will also include the extension of the project completion date to 30 September 2020 and of the loan closing date to 31 March 2021.
24. The Islamic Republic of Pakistan is empowered under its laws to receive financing from IFAD.
25. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide an additional loan to the Islamic Republic of Pakistan for the Southern Punjab Poverty Alleviation Project on highly concessional terms in an amount of US\$25 million upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Logical framework

Results Hierarchy	Indicators	Targets				Means of Verification			Assumptions
		Baseline	Progress as at Apr 17	Mid-Term	End Target	Source	Frequency	Resp.	
Goal: To contribute to the reduction of poverty in 10 districts of Punjab	<ul style="list-style-type: none"> Percentage of beneficiary households having graduated to a higher poverty category (based on PSC score) 	0	80% ¹	At least 75%	90%	Impact surveys ²	Mid-term and completion	PMU	
Development Objective: To increase the incomes of poor rural households by enhancing their employment potential and increasing agriculture productivity and production.	<ul style="list-style-type: none"> No. of households receiving project services ^(RIMS 1.a) 	0	82,000	105,000	131,000 <i>Of which at least 60% women and 30% youth³</i>	Implementing Partners' records and progress reports	Quarterly	IPs, PMU	<ul style="list-style-type: none"> No major natural disasters in project districts No major changes in agricultural and livestock prices Stable political, economic and security situation
	<ul style="list-style-type: none"> Percentage of beneficiary households reporting improved livelihoods' means and incomes 	0	78% ⁴	At least 75%	At least 90%	<ul style="list-style-type: none"> Annual Outcome Surveys Impact surveys 	<ul style="list-style-type: none"> Annually, after mid-term Mid-term and completion 	PMU	
Outcome 1: Improved living conditions and income-generative capacities for poorest and homeless households and the youth	<ul style="list-style-type: none"> Percentage of persons newly employed/self-employed after receiving vocational or business development training 	0	62% ⁵	At least 50%	At least 75%	<ul style="list-style-type: none"> Annual Outcome Surveys Impact surveys 	<ul style="list-style-type: none"> Annually, after mid-term Mid-term and completion 	PMU	<ul style="list-style-type: none"> Continuing market demand for trained workers No major outbreak of livestock disease in project districts
Outputs: 1.1. Ultra-poor and landless households provided with small housing units and small ruminants packages.	<ul style="list-style-type: none"> No. of poor and ultra-poor women provided small ruminant packages ^(RIMS 1.1.3) 	0	35,000	45,000	55,000	Implementing Partners' records and progress reports	Quarterly	IPs, PMU	<ul style="list-style-type: none"> Availability of transferable land for housing plots Current landlords of underprivileged community members do not oppose project implementation
	<ul style="list-style-type: none"> No. of ultra-poor households provided with a small housing unit 	0	1,400	2,000	2,500				
1.2 Poor entrepreneurs and the youth provided with vocational and enterprise development training	<ul style="list-style-type: none"> No. of persons receiving vocational and business development training ^(RIMS 2.1.2) 	0	18,500	28,500	38,500 <i>(60% are women and 30% are rural youth)</i>	Implementing Partners records and progress reports	Quarterly	PMU IPs	Young women and men's motivation to acquire professional skills remains high

¹ Based on a small sample of 68 households

² Using the BISP Poverty Score Card methodology

³ National definition of youth is people aged between 15 to 29

⁴ Based on sample of 68 households

⁵ Idem

Results Hierarchy	Indicators	Targets				Means of Verification			Assumptions
		Baseline	Progress as at Apr 17	Mid-Term	End Target	Source	Frequency	Resp.	
Outcome 2: Strengthened, more inclusive Community Organizations (COs) providing improved services to their members; and improved access to essential community infrastructure in poor communities	<ul style="list-style-type: none"> Number of community organizations (COs) providing new services to their members 	0	N/A	4,000	5,250	<ul style="list-style-type: none"> Annual Outcome Surveys Impact surveys 	<ul style="list-style-type: none"> Annually, after mid-term Mid-term and completion 	PMU	Active community participation in infrastructure operation and maintenance
Outputs: 2.1 Existing and newly-created COs provided with capacity-building support	<ul style="list-style-type: none"> No. of community organizations (COs) supported or newly created 	0	4,000	5,500	7,000	IPs' records and progress reports	Quarterly	IPs, PMU	Poorest community members are willing to join a CO
Outputs: 2.2 Community infrastructure identified using participatory processes, and constructed or rehabilitated	<ul style="list-style-type: none"> No. of community infrastructure schemes constructed 	0	915	1,000	1,200	IPs' records and progress reports	Quarterly	IPs, PMU	Community members are able to provide in kind contribution
Outcome 3: Improved food security in targeted communities	<ul style="list-style-type: none"> Percentage of households reporting improved quality of their diet ^(RIMS 1.2.8) 	0	N/A	75%	90%	<ul style="list-style-type: none"> Annual Outcome Surveys Impact surveys 	<ul style="list-style-type: none"> Annually, after mid-term Mid-term and completion 	PMU	No major natural disasters in project districts
Outputs: 3.1 Food Banks established	<ul style="list-style-type: none"> No. of Food Banks created 	0	4	15	34	IPs' records and progress reports	Quarterly	IPs, PMU	Proper storage infrastructure is available for rent in all targeted UCs
Outcome 4: Strengthened advocacy and dissemination between BISP and the Punjab Government	<ul style="list-style-type: none"> No. of social protection-related regulations, policies or strategies amended or developed ^(Policy 3) 	0	N/A	0	2	Review of policy documents	Completion	PMU	Government's interest to learn from project experience remains high
Outputs: 4.1 Advocacy forums and knowledge sharing platforms established and facilitated	<ul style="list-style-type: none"> No. of policy-relevant knowledge products prepared and disseminated ^(Policy 1) 	0	N/A	2	4	PCU progress reports	Annually	PMU	BISP and Provincial Government's interest to engage in advocacy remains high