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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the Republic of India for the Integrated Livelihoods Support Project

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

AWPB	annual workplan and budget
COSOP	country strategic opportunities programme
CPCU	central project coordination unit
ILSP	Integrated Livelihoods Support Project
INR	Indian rupees
M&E	monitoring and evaluation
PSWMD	Project Society Watershed Management Directorate
RDD	Rural Development Department
SKGFS	Sahastradhara Kshetriya Grameen Financial Services
UGVS	Uttarakhand Gramya Vikas Samiti
UPASaC	Uttarakhand Parvatiya Aajeevika Sanvardhan Company

Republic of India

Integrated Livelihoods Support Project

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of India
Executing agency:	Department of Rural Development, Government of Uttarakhand
Total project cost:	US\$258.81 million
Amount of IFAD loan:	SDR 56.7 million (equivalent to approximately US\$89.91 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
Contribution of borrower:	US\$48.02 million
Contribution of beneficiaries:	US\$10.97 million
Contribution of other financial institutions:	US\$109.89 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of India for the Integrated Livelihoods Support Project, as contained in paragraph 50.

Proposed loan to the Republic of India for the Integrated Livelihoods Support Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. India has achieved remarkable economic progress in recent years, with an average growth of 8.8 per cent between 2002/03 and 2007/08. India's economy is the fourth largest in the world. The country's population is approaching 1.2 billion, and has a growth rate of 1.4 per cent. A total of 72 per cent of India's population lives in rural areas. Poverty remains a major issue, with 41.6 per cent of the population living on less than US\$1.25 per day. India has 33 per cent of the world's poor people.
2. Distribution of the benefits of economic growth to poor rural people has been limited by: inadequate physical and social infrastructure; poor access to services; low investment; a highly stratified and hierarchical social structure, characterized by inequalities in assets, status and power; and ineffective implementation of pro-poor programmes, owing to governance failures. There is now widespread recognition that, without inclusive growth, the social and political consequences of rising inequalities could be severe. About one third of India's districts are affected by civil unrest and left-wing terrorism, which represent the main national security threats.
3. Agricultural wage earners, smallholder farmers and casual workers in the non-farm sector constitute the bulk of poor rural people. Within these categories, women and tribal communities are the most deprived. In terms of gender deficit, India is ranked 114 by the World Economic Forum's global gender gap index (2009). In addition, about 300 million young people aged between 13 and 35 live in rural areas, most of them being forced to migrate seasonally or permanently, without the skills and competencies required by the modern economy.
4. India's Eleventh Five-Year Plan (2007–2012) aims to achieve inclusive growth in all sectors and to double agricultural growth from 2 to 4 per cent per annum by expanding irrigation, improving water management, bridging the knowledge gap, fostering diversification, increasing food production to ensure food security, facilitating access to credit and enabling access to markets. The mid-term assessment of the plan, released in July 2010, underscores the urgency of increasing capital formation and investments in agriculture, as well as improving access to water and good quality seed, replenishing soil nutrients, expanding agricultural research and extension, reforming land tenancy systems and facilitating agricultural marketing.

B. Rationale and alignment with government priorities and RB-COSOP

5. The Integrated Livelihoods Support Project (ILSP) is a direct response to a formal request from the Government of India to scale up successful rural development programmes in the State of Uttarakhand, and is based upon a concept note prepared by the Government of Uttarakhand. The state government has recently set out its plans for the broad agricultural sector in the new 2011 Uttarakhand

agriculture policy. The project has been designed to support this policy, especially with respect to food security and agricultural diversification.

6. The project is fully aligned with IFAD's new country strategic opportunities programme for India (COSOP) and with its two strategic objectives: (i) increased access to agricultural technologies and natural resources; and (ii) increased access to financial services and value chains. The project concept is included in Appendix VI of the COSOP (May 2011).
7. The specific technical rationale for the project is based on recognition of the potential for reducing poverty by developing agricultural livelihoods in the State of Uttarakhand. In order to do this, the deterioration of productive infrastructure needs to be halted, and farm labour needs to be made more productive and farming more remunerative. This will provide incentives for people to invest their time and resources in agriculture. Despite the disadvantages that agriculture faces in the hill areas, Uttarakhand has the advantage of cooler temperatures at higher altitudes, allowing production of out of season vegetables and temperate fruits. The horticultural sector is less developed than in the other hill states, so there is considerable potential for growth, as there is with other niche products such as spices, medicinal and aromatic plants, and nuts. Through an integrated approach, and through building on the lessons from existing projects, the project design seeks to realize these opportunities for agricultural development in Uttarakhand.
8. The project has been designed to converge with existing and planned government programmes such as the Government-financed National Rural Livelihoods Mission (NRLM). NRLM will start operations in Uttarakhand in 2012 and will be responsible for forming and supporting self-help groups. ILSP will provide complementary livelihood support for self-help group members, many of whom will also join ILSP groups.

II. Project description

A. Project area and target group

9. The project area is the State of Uttarakhand. Uttarakhand is a small hill state in the north-west of India covering 54,483 km², with a population of 8.5 million (2001 census). Nine of its 13 districts are classed as hill districts, covering 77 per cent of the area of the state, but with only 44 per cent of the population. Livelihoods are still predominantly rural, and most economic and population growth has been in the plains, which are becoming industrialized.
10. Uttarakhand is one of the poorest states in India, with 41 per cent of the population below the poverty line in 2004–05 (Planning Commission). Data from the population census show that 18.6 per cent of the population in project districts belongs to scheduled castes. The major driver of rural poverty is the difficult mountain environment. Although the vast majority of households have land, land holdings are very small (on average 0.8 hectares). Tiny terraced plots on steep hillsides make mechanization virtually impossible. Shallow and immature soils require high levels of organic matter, but yields are very low. There is little use of modern varieties, mineral fertilizers and other inputs. Only about 10 per cent of the land in hill districts is irrigated. Most households keep cattle or buffalo, but improved crossbreeds are relatively scarce, and there is minimal investment in feeding and health care. Agriculture is largely for subsistence, but very few households are able to produce enough food to last for more than three or four months. People rely on non-farm earnings and safety net programmes.
11. The priority target groups under the project include: (i) small rural producers; (ii) women; (iii) scheduled caste households; and (iv) young people. A total of 143,400 beneficiary households will be reached by the project. The project will adopt a saturation approach to targeting by covering complete sub-districts (blocks) or microwatersheds. Any households in the selected blocks or microwatersheds will

be able to participate in the project, although the delivery of project services via farmer groups is less likely to be attractive for the richest 20 per cent of households. The project will ensure that benefits flow directly to women by maintaining a proportion of at least 50 per cent of women in all producer groups formed by the project. Furthermore, in line with the Uttarakhand Government policy of ensuring that 20 per cent of project resources flow to scheduled caste households, 20 per cent of producer groups set up by the project will consist of scheduled caste households and other particularly vulnerable households.

B. Project development objective

12. The overall goal of ILSP is to reduce poverty in the State of Uttarakhand. The project development objective is to enable 143,400 rural households to take up sustainable livelihood opportunities that are integrated with the wider economy.

C. Components/outcomes

13. **Food security and livelihood enhancement.** This component will be implemented by Uttarakhand Gramya Vikas Samiti (UGVS). UGVS is a not-for-profit society established by the Government of Uttarakhand to implement the Uttarakhand Livelihoods Improvement Project for the Himalayas. UGVS will support crop and livestock production for food security, and develop higher value cash crops and other products (such as rural tourism) to provide cash incomes. Crop and livestock production will be developed through support to producer groups and higher level livelihood collectives formed by a number of producer groups. To scale up enterprises generating cash incomes and to introduce new income sources, the project will also improve access to markets through a value chain approach and the provision of physical infrastructure for market access. The value chain approach involves market/subsector studies, introduction of new technologies, improved market linkages, skills development, and product development and promotion. These activities will cover approximately 93,800 households in 17 blocks in five districts. The project will also improve access to employment in the non-farm sector by supporting vocational training linked to job placement, with a target of 10,000 training places to be offered.
14. **Participatory watershed development.** This component will be implemented by the Project Society Watershed Management Directorate (PSWMD) and will use processes that have been established through a series of watershed development projects in the state, but with an increased focus on food security, livelihoods and market linkages. It will protect and improve the productive potential of the natural resources in selected watersheds, alongside the promotion of sustainable agriculture through the formation of producer groups and livelihood collectives, and improved access to markets. The component will cover a total of 41 microwatersheds occupying an area of 125,000 hectares in six clusters in six districts, with a population of 39,600 households. It will complement the ongoing watershed development programme funded by the World Bank and the Government of India. The component also takes into account the availability of required PSWMD institutional capacity in the selected project districts.
15. **Livelihood financing.** This component will be implemented by the Uttarakhand Parvatiya Aajeevika Sanvardhan Company (UPASaC). UPASaC is a social venture capital company and was established by the Government of Uttarakhand under section 25 of the Companies Act to promote and finance rural enterprises. Despite making substantial strides in financial viability, banks have not been able to provide significant numbers of poor households with basic financial services. In order to address this, the activities under this component include: (i) banking support, in particular capacity-building and expansion of branches of Sahastradhara Kshetriya Grameen Financial Services (SKGFS) – a rural finance institution; (ii) risk management, in particular piloting and scaling up insurance services; (iii) financial inclusion initiatives, for example delivering training to livelihood collectives in how to

operate as bank agents and dedicated literacy training; (iv) provision of development finance through UPASaC, including loan and quasi-equity funding; and (v) establishment of cost support to UPASaC.

16. **Project coordination and monitoring.** Each implementing agency – UGVS, PSWMD and UPASaC – will have its own project management unit headed by a project director. To provide overall coordination, the state executing agency, the Rural Development Department (RDD), will set up its own central project coordination unit (CPCU), headed by a chief project director. The CPCU will have two units: (i) a finance unit; and (ii) a planning and monitoring and evaluation unit.

III. Project implementation

A. Approach

17. Given that the ILSP aims to scale up existing rural development projects in Uttarakhand, the strategy has been to build upon the lessons learned from these projects.
18. The project strategy will be to adopt a two-pronged approach to building livelihoods in the project area. The first line of action is to support and develop the food production systems that remain the main source of livelihood for most households. This involves improving technologies for the production of traditional food crops and livestock, and developing supporting services for input supply and the marketing of any surpluses. To make food production more secure the project will contribute to watershed development to conserve water and soil resources. The project will also support the production of fodder and other non-timber forest products in community forest areas.
19. The second main thrust of the project is to generate cash incomes via the introduction and expansion of cash crops. Cash crops will be grown on a significant scale for markets outside the state. Production of off-season vegetables, such as potatoes, tomatoes and peas, and some fruit and spices, is already substantial. This can be expanded through improved technologies and the development of new production areas, with returns to farmers improved through better marketing and value addition. It should be possible to develop the production of new crops and products (such as nuts and aromatic plants) for growing external markets. The project will also support non-farm livelihoods, especially community involvement in rural tourism. Many people migrate to jobs outside the hill areas, and the project will support vocational training to help people obtain more remunerative employment.

B. Organizational framework

20. The Government of Uttarakhand will establish a state-level project steering committee chaired by the Chief Secretary. The secretary of RDD will act as secretary to the project steering committee. The committee will meet every six months to review progress, provide overall guidance and policy support, and facilitate interdepartmental coordination. Overall coordination is handled by the CPCU set up within the RDD (see paragraph 16).
21. The project will be implemented by the three implementing agencies – UGVS, UPASaC and PSWMD – each with a full-time project director. The implementing agencies will be responsible for the day-to-day running of the allocated components.
22. The project steering committee will appoint a project management committee chaired by the secretary of RDD and co-chaired by the secretary of PSWMD. The Additional Secretary, Finance; the Chief Project Director (of the CPCU); the project directors (of the three implementing agencies); and other implementing partners will serve on the project management committee and the UGVS project director will act as secretary. The main functions of the project management committee, which will meet every quarter, include: (i) approving the annual workplan and budget

(AWPB); (ii) reviewing physical and financial progress; (iii) reviewing progress towards achieving outcome indicators; (iv) resolving implementation issues; and (v) working towards achieving convergence between various government-sponsored activities and ILSP activities.

23. The project will depend on a number of implementing partners for the implementation of activities at the field level. These will include NGOs, producer groups, livelihood collectives and watershed management organizations.

C. Planning, monitoring and evaluation, and learning and knowledge management

24. The project will follow the existing planning process undertaken by the Forest and Rural Development Department of the state government. In the third quarter of the financial year, during the month of December, the CPCU will request the Government to make budgetary provisions for the project based on AWPBs drawn up by UGVS, UPASaC and PSWMD. A participatory process will be followed by implementing agencies in drawing up the AWPBs. This exercise will also focus on performance planning. Each agency will prepare its own procurement plan according to its AWPB. The CPCU will collate the AWPBs and related procurement plans and send the consolidated plan to the project management and steering committees for approval in the month of February. The approved AWPB will then be prepared in the IFAD AWPB format and sent to IFAD along with the procurement plans for approval. The approved AWPB will be used in reviewing performance and progress during the supervision missions.
25. The M&E system will collect data and information to measure performance and progress towards objectives. It will also serve as a learning tool to gather information for critical reflection on project strategies and operations. The M&E exercise will support decision-making at various levels and provide a basis for results-based management. Given that the principal components of the project will be implemented by UGVS, UPASaC and PSWMD, the performance and progress of the activities and outputs will be monitored by these agencies independently. Each agency will draw up its own M&E plan within the overall M&E framework of ILSP. The M&E unit in the CPCU will support this output and activity monitoring; it will implement a programme of outcome and impact monitoring, as well as produce consolidated reports on project progress and results, and coordinate overall learning and knowledge management. The M&E framework of the project provides for output monitoring, participatory M&E, process monitoring, outcome monitoring and impact evaluation. Baseline, mid-term and completion impact surveys will be undertaken in accordance with the IFAD Results and Impact Management System (RIMS).
26. The elements of the project learning system include monthly, quarterly and annual review meetings; capturing information on progress; drawing lessons; and identifying solutions for implementation constraints. IFAD, in cooperation with the Government, will undertake a mid-term review in the fourth year of the project to assess achievements and implementation constraints. A mutually agreed action plan will be prepared based on the findings of the mid-term review. If needed, IFAD may appoint, in consultation with the Government, an external agency to evaluate the impact of the project. As the project reaches completion point, the CPCU will prepare a draft project completion report in cooperation with IFAD and the Government of Uttarakhand. IFAD and the Government will then carry out a project completion review based on the information in the project completion report and other data.
27. In the first year of the project, a project-level knowledge management strategy will be prepared in line with the IFAD knowledge management policy. The project website will be completed within the first year of implementation and used as a knowledge sharing tool; it will also be linked to the IFADAsia website. Key information from M&E studies, reviews and exposure visits, lessons and best

practices, will be disseminated through knowledge products such as newsletters, publications, case studies and reports.

D. Financial management, procurement and governance

28. **Accounts.** The project will maintain accounts and records in accordance with internationally recognized accounting practices. It is proposed that the project maintain its accounts using Tally financial software at all levels, in all implementing agencies and at the CPCU. The CPCU will have a finance controller who will be responsible for book-keeping for the CPCU, financial reporting to IFAD and other stakeholders, coordination with auditors and internal auditors, payments, bank operation, funds flow and coordination with finance staff of implementing agencies. It is recommended that a Uttarakhand Government representative be appointed, in consultation with IFAD, as deputy finance controller. He/she will be assisted by an accounts officer. Each implementing agency will have its own finance controller who will handle project-related responsibilities. The project will share the services of the district-level financial staff of UGVS and PSWMD.
29. **Flow of funds.** The project will be funded from four sources: IFAD, Government of India, beneficiaries and financial institutions. The CPCU will be responsible for preparing the AWPB for the project and submitting it to the Uttarakhand Department of Finance through the RDD. This AWPB (net of the beneficiary contribution and contributions from financial institutions) will be included as a line item in the RDD budget and will be presented to the state assembly for approval. The IFAD loan proceeds will be provided to the Government of India, which will channel funds to the Government of Uttarakhand through the conventional national procedures for budgetary support to state governments.
30. In line with previous IFAD loans in India, loan funds will be delivered to a designated account in the Reserve Bank of India and operated by the authorized representative(s) of the Ministry of Finance. IFAD will pay an initial advance into the designated account to cover approximately six months of estimated project expenditure, and then replenish the designated account on the basis of withdrawal applications submitted by the project through the state government to the Controller of Aid Accounts and Audit in the Ministry of Finance. Upon approval by the Uttarakhand state assembly, the budgetary allocation for the project (including Government of India counterpart funds) will be released to the project in one or two tranches. To avoid any delay in the flow of funds to the project, the chief project director or finance controller of the CPCU must be vested with drawing and disbursement powers by the Government of Uttarakhand. The funds will be transferred from the designated account to the Uttarakhand State Treasury, and from the latter to a project bank account opened and operated by the CPCU. Funds will flow from this project account to sub-project accounts maintained by the three project management units at UGVS, UPASaC and PSWMD.
31. While UGVS and UPASaC funds will flow from the sub-project accounts maintained by their project management units to their district-level bank accounts, it is expected that PSWMD funds will flow from the PSWMD sub-project account to bank accounts maintained exclusively for the project at the divisional and district levels. A large proportion of the funds will then flow from these bank accounts to designated project bank accounts maintained by water and watershed management committees that are part of the *gram panchayats* (local self-governments at the village level).
32. **Audit.** Each fiscal year the Government will have the project accounts audited in accordance with the IFAD Guidelines on Project Audits (for Borrowers' Use) and Article IX of the General Conditions for Agricultural Development Financing, submitting an audit report within six months of the end of each fiscal year. The project will have a cost-effective and efficient internal audit mechanism. For UGVS and UPASaC, the internal audit will be conducted by a member of their own management staff. For PSWMD, the internal audit function will be outsourced to a

firm of independent chartered accountants. The terms of reference will include key aspects of financial management and procurement. The internal auditor will submit quarterly reports simultaneously to the chief project director and the IFAD country programme manager. Corrective follow-up action will be decided jointly by a committee that includes the chief project director, the IFAD financial management specialist and the internal auditor.

33. **Procurement.** Procurement will follow the procurement regulations of the Government of Uttarakhand (with some project-specific amendments) where they are consistent with the IFAD Project Procurement Guidelines. Should the national regulations differ from IFAD's procurement guidelines, the latter will prevail.

E. Supervision

34. The project will be directly supervised by IFAD. During the start-up phase, IFAD will attend the national start-up workshop and participate in discussions on the project approach and strategy. This is likely to involve leaders of project design missions and a financial management specialist. The financial management specialist will also provide implementation support to train project financial staff. Other implementation support in the first year of the project may include assistance in setting up the M&E system and drawing up training plans for the various components of the project. It is envisaged that the first supervision mission will take place towards the end of the first year of operations. It will include specialists in poverty targeting, and natural resource and financial management. Once infrastructure works have started, supervision missions may include production and marketing specialists. In addition, day-to-day implementation support will be provided by IFAD's country office in New Delhi.

IV. Project costs, financing, benefits

A. Project costs

35. Based on current 2011 prices, project base costs are estimated at US\$247.28 million. Price contingencies add a further 5 per cent, making a total project cost of US\$258.81 million. The assumptions that underpin these costs include: (i) a seven-year project period; (ii) price contingencies of 5 per cent per year; (iii) a base Indian rupee (INR)/US\$ exchange rate of INR 45/US\$1; (iv) a completion INR/US\$ exchange rate of INR 52/US\$1.

Project costs by component

<i>Components</i>	<i>(INR)</i>	<i>(US\$ million)</i>	<i>% of total base cost</i>
	Total	Total	
A. Food security and livelihood enhancement	1,896,944	41.691	17
B. Participatory watershed development	4,020,325	88.359	36
C. Livelihood financing	5,211,460	114.538	46
D. Project management	122,799	2.699	1
Total base cost	11,251,528	247.286	100
Price contingencies	977,207	11.525	5
Total project cost	12,228,735	258.812	105

B. Project financing

36. The project will be financed by: (i) an IFAD loan of US\$89.91 million; (ii) US\$48.02 million from the Government of India; (iii) US\$109.89 million from banks as loans to enterprises belonging to groups set up by the project; and (iv) US\$10.97 million in contributions from beneficiaries. Project groups will also benefit from convergence with other Government and NGO programmes.

Financing plan by component

(Millions of United States dollars)

	<i>Government</i>	<i>IFAD</i>	<i>Banks</i>	<i>Beneficiaries</i>	<i>Total</i>
A. Food security and livelihood enhancement	7.036	32.936		4.810	44.783
B. Participatory watershed development	37.081	53.212		6.166	96.460
C. Livelihood financing	3.071	1.660	109.890	.3	114.624
D. Project management	.839	2.106			2.945
Total project costs	48.028	89.914	109.890	10.979	258.812
Percentage of total	18.6	34.7	42.5	4.2	100.0

C. Summary benefit and economic analysis

37. ILSP is a seven-year project. The overall economic rate of return (EIRR) for the project is 23 per cent. Sensitivity analysis shows that expected project performance is robust. A 20 per cent increase in costs combined with a 20 per cent decrease in benefits leads to a reduction of the EIRR to 13 per cent.
38. The total number of households benefiting from the project is estimated at 143,400. On average, food production is expected to increase from 2,460 kg/household to over 3,000 kg/household, excluding fruits, vegetables and spices. Increased production of fruits and vegetables, along with livestock products, will help improve human nutrition. It is estimated that, overall, farm incomes, including the value of family labour, will increase from INR 29,418 to INR 45,116.

The promotion of tree and fodder cultivation is expected to have a positive impact on natural resources by providing alternatives to cutting down trees. Enhanced soil moisture will result in increases in cropping intensities from 124 per cent to 132 per cent at full development. No major shifts in cropping patterns are envisaged, but the focus is on improved farming and agronomic practices and production for market. Additional benefits will come from the project's capacity-building interventions. Benefits will also be derived from the improved market access, increased volume of produce that can be sold and reduced marketing costs.

D. Sustainability

39. The sustainability of project benefits is based on several assumptions. Firstly, the adoption of improved livelihoods will be sustained providing they continue to be profitable for households, and linkages for inputs and outputs are maintained. These linkages should be sustainable providing they are, in themselves, also financially viable for private sector actors and/or livelihood collectives. Secondly, facilities such as watershed treatment plants, irrigation systems and market infrastructure will need to be maintained by user groups. The participation of local government in watershed development will help ensure the sustainability of such facilities. Thirdly, capacity-building will result in sustained benefits providing the training delivered is relevant and effective. Finally, improved access to financial services will be provided by banks, insurance companies and other agencies. If these services are profitable, they will also be sustainable.

E. Risk identification and mitigation

40. The key risk to the achievement of the project's objective is that high levels of migration from the hill areas create a labour shortage for agriculture. The project will address this by seeking to increase productivity in farming so that returns for labour become competitive. The key risks in terms of project outcomes include competition in external markets for cash crops, damage to crops by wild animals, and an unfavourable policy environment for rural finance. With respect to the risk of competition, Uttarakhand has high production potential compared with other hill districts, and is near the urban markets in New Delhi. To mitigate the risk of wild animal damage, the project will undertake a study to identify the most cost-effective approaches, which could include growing crops that are less attractive to animals or providing protection around intensively cropped areas. To spread the risks deriving from unfavourable rural finance policy, the project will support a number of alternative financing channels. None of the above risks have been identified as having a high potential to hinder the achievement of project objectives.

V. Corporate considerations

A. Compliance with IFAD policies

41. The project is fully aligned with the IFAD Strategic Framework 2011–2015. It complies with IFAD's RIMS and the IFAD Targeting Policy (2007). The final design document for the project also reflects the IFAD requirements for gender-sensitivity. The project is consistent with the IFAD Climate Change Strategy (2010), in that it focuses on building climate-resilient livelihoods and introducing risk reduction measures. It also meets the terms of the IFAD Environment and Natural Resource Management Policy (2011), in that many of the proposed activities are likely to generate environmental benefits in the area of watershed development and forest management. The project is classified as Category B, and hence no further environmental assessment is considered necessary. The project also complies with the provisions of the IFAD Rural Finance Policy (2009).

B. Alignment and harmonization

42. The project has been designed to support the Eleventh Five-Year Plan (2007–2012) of the Government of India and the 2011 Uttarakhand agriculture policy. Areas of alignment include the project focus on improving water management, fostering crop diversification, increasing food production and food security, and facilitating access to financial services and markets.
43. IFAD hosted a donor harmonization workshop at the IFAD India country office in August 2011. The purpose of the workshop was to ensure the project was fully harmonized with development initiatives in Uttarakhand. All major donors active in India were invited. Participants at the workshop included representatives of: Asian Development Bank, European Union, German Agency for International Cooperation, United Nations Development Programme, United States Agency for International Development and World Bank. The final design of ILSP was informed by workshop discussions.

C. Innovations and scaling up

44. In line with the innovation agenda set out in the COSOP, the project design includes support for climate-resilient agriculture and developing pro-poor rural finance services. The project will work with Vivekananda Parvatiya Krishi Anusandhan Sansthan, a research institution of the Indian Council of Agricultural Research, and G.B. Pant University of Agriculture and Technology to test and disseminate technologies appropriate to the needs of hill farmers. The project will scale up (double the number of branches) SKGFS, which itself is a new model for the delivery of microfinance. The project will also fund SKGFS to develop new products, such as loans for agriculture. The project will work with insurance providers to offer new types of insurance for rural people.

45. As described in the COSOP, the project design is a scaling up of the Uttarakhand Livelihoods Improvement Project in the Himalayas. The project will also scale up the successful PSWMD watershed development programme. The drivers of scaling up will be the financial incentives that will encourage smallholder farmers to adopt viable new technologies, and the project institutions and partners who will act as catalysts for scaling up. There is considerable scope for scaling up in Uttarakhand, as the project will only cover approximately 25 per cent of the households involved in agriculture in the state.

D. Policy engagement

46. The major policy issue that will impinge on the activities of ILSP concerns agricultural marketing. Markets for farm products in India are in the process of being liberalized, but it is still uncertain to what degree markets will be deregulated. At the moment it appears that the mechanisms of control, such as the *mandi* (wholesale market) and compulsory market taxes, will stay in place, but some private sector actors will be allowed to bypass these mechanisms through direct contracting of farmers. ILSP will carry out studies of marketing systems and interventions in the market chain. These will generate valuable insights into how markets work and what can be done to improve returns to producers, which will in turn inform the debate on market policy.

VI. Legal instruments and authority

47. A project financing agreement between the Republic of India and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A project agreement will be entered into between the State of Uttarakhand and IFAD. A copy of the negotiated agreement is attached as an annex.
48. The Republic of India is empowered under its laws to receive financing from IFAD.
49. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

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

RESOLVED: that the Fund shall make a loan on highly concessional terms to the Republic of India in an amount equivalent to fifty-six million seven hundred thousand special drawing rights (SDR 56,700,000), 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: "Integrated Livelihood Support Project"

(Negotiations concluded on 29 November 2011)

Loan Number: _____

Project Title: Integrated Livelihood Support Project (the "Project" or "ILSP")

The Republic of India (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

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

hereby agree as follows:

WHEREAS:

(A) The Borrower has requested a loan from the Fund for the purpose of financing the Integrated Livelihood Support Project described in Schedule 1 to this Agreement;

(B) The Project shall be carried out through the State of Uttarakhand pursuant to a separate agreement of even date herewith between the Fund and the State ("the Project Agreement");

NOW THEREFORE, the Parties hereto hereby agree as follows:

Section A

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

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 fifty six million seven hundred thousand Special Drawing Rights (SDR 56 700 000).

2. The Loan is granted on highly concessional terms as defined in Section 5.01 (a) of the General Conditions.
3. The Loan Service Payment Currency shall be the United States Dollars (USD).
4. The first day of the applicable Fiscal Year shall be 1 April.
5. Payments of principal and service charge shall be payable on each 1 June and 1 December.
6. The Borrower shall open and maintain a Designated Account denominated in USD in the Reserve Bank of India for the Project. The Designated account shall be operated by the Ministry of Finance.
7. There shall be a Project Account denominated in local currency opened and operated by the Central Project Coordination Unit (CPCU), in a bank mutually acceptable to the Lead Project Agency and the Fund.
8. There shall also be three Sub-Project Accounts, one for the benefit of each of the following Project Parties: Uttarakhand Gramya Vikas Samiti (UGVS); Uttarakhand Parvatiya Ajeevika Sanvardhan Company (UPASAC); Project Society of the Watershed Management Directorate (PSWMD). All accounts shall be opened and maintained in bank(s) mutually acceptable to the above Project Parties and the Fund.
9. The Borrower shall cause the State to provide an amount of approximately forty eight million and twenty eight thousand United States Dollars (USD 48 028 000) to the Project as counterpart financing.

Section C

1. The Lead Project Agency shall be the Rural Development Department (RDD) of the Government State of Uttarakhand (The State), acting through its Central Project Coordination Unit (CPCU).
2. The following are designated as additional Project Parties:
 - (a) Uttarakhand Gramya Vikas Samiti (UGVS);
 - (b) Uttarakhand Parvatiya Ajeevika Sanvardhan Company (UPASAC);
 - (c) Project Society of the Watershed Management Directorate (PSWMD);
 - (d) Any other stakeholder identified by the Project Management Committee in agreement with the Fund.
3. The Project Completion Date shall be the seventh 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.

Section E

1. The following is designated as an additional ground for suspension of this Agreement: The Project Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior

agreement of the Fund and the Fund, after consultation with the Borrower, has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project, and the Borrower has not taken any measures to remedy the situation;

2. The following are designated as additional general conditions precedent to withdrawal:

- (a) The Project Steering Committee (PSC) and the Project Management Committee (PMC) shall have been duly established;
- (b) The CPCU within RDD shall have been duly established;
- (c) The Chief Project Director (CPD) of CPCU shall have been duly appointed;
- (d) The Designated Account shall have been duly opened by the Borrower;
- (e) The Project Account shall have been duly opened by the CPCU;
- (f) The Project Agreement in form and substance acceptable to the Fund shall have been duly concluded between the Fund and the State of Uttarakhand.

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

For the Borrower:

Secretary to the Government of India
Department of Economic Affairs
Ministry of Finance
North Block
New Delhi 110001, India
Facsimile : +91-11-23092039

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

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.

REPUBLIC OF INDIA

Authorised Representative

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit small rural producers, women, scheduled caste households, and youth in the State of Uttarakhand (the "Project Area") in the Republic of India.

2. *Goal.* The goal of the Project is to reduce poverty in the Project area of the State of Uttarakhand.

3. *Objective.* The objective of the Project is to enable 143 400 rural households to take up sustainable livelihood opportunities.

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

4.1. **Component 1: Food security and livelihood enhancement.** Under this component the Project shall support crop and livestock production for food security and also develop higher value cash crops and off-farm activities to provide cash incomes. This component shall comprise the following sub-components:

(a) Food Security and Scaling-up. Under this sub-component the Project shall:

- (i) Set up Producer Groups (PGs) comprising households with an interest to undertake similar basic livelihood activities at the village level. To ensure full participation of the poorest, the Project shall also mobilize Vulnerable Producer Groups (VPGs), comprising poorest households, particularly those belonging to scheduled castes (SC).
- (ii) Support clustering of PGs and VPGs into Livelihood Collectives (LCs). LCs shall be the focal points to establish input supply linkages and aggregate production for establishing market linkages.
- (iii) Facilitate LCs to: (i) expand cultivation of higher value cash crops and off-farm activities, such as community tourism; (ii) develop irrigation, and water and soil conservation related infrastructures; (iii) move into agribusiness by identifying crops with potential for expansion to wider market.
- (iv) Provide financing to PGs, VPGs and LCs to prepare and implement their Food Security Improvement Plans and Agribusiness Up-scaling Plans.

(b) Market access. Activities under this sub-component shall include:

- (i) Increasing access for hill producers to wider markets through sub-sector development;
- (ii) Supporting market infrastructure development through the establishment of assembly markets close to production areas, and the construction of roads, pathways, river crossings structures;
- (iii) Supporting the establishment of farmers' markets;
- (iv) Establishing collection points where produce can be stored;
- (v) Carrying out studies and workshops on market systems and market actors;

- (vi) Developing a market information system to deliver relevant and timely information to farmers;
- (vii) Building the capacity of farmers, partner non-governmental organizations staff and project staff to execute market related functions.
- (c) Innovation and market linkage. Under this sub-component the Project shall enter into agreements with qualified research and development agencies such as Vivekanand Parvatiya Krishi Anusandhan Shala (VPKAS), G B Pant University of Agriculture and Technology (GBPUAT), Uttarakhand Livestock Development Board, Himalayan Action Research Centre (HARC), and the Uttarakhand Bamboo and Fibre Development Board to carry out the testing and dissemination of technologies and approaches to improve food security, livelihoods and access to markets.
- (d) Vocational training. Under this sub-component the Project shall finance a study by the Manipal City and Guilds Joint Policy Advisor Group to identify opportunities for the Project to support vocational training. The Project will then finance implementation of a programme to provide vocational training for youth from households living in the hills.

4.2. Component 2: Participatory Watershed Development. Under this component, the Project shall protect and improve the productive potential of the natural resources in selected watershed areas, as well as increase households' incomes through sustainable utilization and management of natural resources such as water, land and vegetation. This component shall comprise the following sub-components:

- (a) Participatory watershed management. Activities under this sub-component shall include:
 - (i) Social mobilization and participatory planning of stakeholders at grass root level including, *inter alia*, the local government Gram Panchayat (GP), its Water and Watershed Management Committees (WWMCs), Van Panchayats (community forest groups), PGs, VPGs as well as individual beneficiaries.
 - (ii) Watershed developments and investments based on village plans and priorities.
- (b) Food security enhancement support. Under this sub-component the Project shall:
 - (i) Promote food security. To this end, PGs shall be formed to introduce, promote and disseminate improved technologies and farming practices. Support for PGs shall follow a similar pattern to that proposed for Component 1, with each PG drawing up a Food Security Improvement Plan and receiving funding from the Project for its implementation.
 - (ii) Identify the market potential for specific agricultural produce; develop collection centres and good storage facilities; create centres for value addition of the raw produce; identify market linkages, develop market information and logistic services.
- (c) Livelihood up-scaling support. Under this sub-component the Project shall:
 - (i) Promote income generating activities and support VPGs. For this purpose, VPGs shall be set up and shall be given sustained capacity building, orientation and training to encourage their entrepreneurial development. Each VPG shall draw up a Livelihood Improvement Plan receiving funding from the Project for its implementation.

- (ii) Support LCs for up-scaling income generating activities. In particular, LCs shall be set up and supported in their activities through funding from the Project.
- (d) Institutional strengthening. Under this sub-component the Project shall promote capacity building of WWMCs of the Gram Panchayat and community based organizations, including but not limited to, PGs, VPGs and Village Revenue Committees. To this end, NGOs shall be engaged to provide, *inter alia*, technical advice and trainings.

4.3. Component 3: Livelihood financing. Under this component the Project shall expand the outreach of basic financial services. This component shall comprise the following sub-components:

- (a) Banking support. Capacity development support to banks and expansion of branch networks of Sahastradhara Kshetriya Grameen Financial Services (SKGFS), a local rural finance institution and/or any other rural finance institution of similar capacity. In order to develop banking support, the following activities shall be carried out:
 - (i) Memoranda of Understanding (MOUs) shall be entered into by UPASAC with the banks having a larger presence in the Project area;
 - (ii) Annual credit need assessments shall be carried out by LCs and field NGOs and discussed with banks, Government programmes at annual district and state-level workshops;
 - (iii) Training shall be imparted, by reputed bank training institutions, to the branch and senior staff of the banks, especially in appraisal skills for lending to PGs, LCs and larger social enterprises, but also in new financing methods;
 - (iv) UPASAC shall contract SKGFS and/or any other rural finance institution of similar capacity to provide financial services at the door step of the clients through the establishment of additional branch offices and the introduction of new financial products.
- (b) Risk management. Piloting and scaling up of insurance services such as weather risk insurance, cattle insurance, mutual health insurance.
- (c) Financial inclusion initiatives. Facilitate LCs to become bank agents, and provide training on financial products.
- (d) Development finance fund. The Project, through UPASAC, shall fund community enterprises whom shall meet eligibility criteria established in the Project Implementation Manual. The investments provided by UPASAC may take the following forms: loans, equity and quasi-equity, and viability gap grants.
- (e) Establishment cost support to UPASAC. UPASAC's salary and overhead costs, including consultant's fees, will be supported by the Project in the initial 3 years and on a tapering basis thereafter.

4.4. Component 4: Project coordination and monitoring. The Project shall finance the establishment of a CPCU within RDD which shall be responsible for the overall coordination and monitoring of the Project. The CPCU shall be headed by a CPD and shall have two Units: (i) Finance Unit; and (ii) Planning and M&E Unit. The CPCU shall coordinate and monitor the activities carried out by the Project Parties, UGVS, PSWMD and UPASAC under the Components thereto allocated. UGVS, PSWMD and UPASAC shall each be headed by a Project Director (PD).

II. Implementation Arrangements

5. Project Steering Committee (PSC)

5.1. *Establishment and composition.* The Government State of Uttarakhand shall establish a state level Project Steering Committee (PSC) chaired by the Chief Secretary. The Secretary of RDD shall be the Secretary of the Committee. The members of the PSC shall include: (i) Forest and Rural Development Commissioner (FRDC); (ii) Principal Secretary, Finance; (iii) Secretary, Watershed; (iv) Secretary, Agriculture; (v) Secretary, Animal Husbandry; (vi) Secretary, Horticulture; (vii) Secretary, Industry; (viii) Secretary, Forest; (ix) Principal Chief Conservator of Forests; (x) Chief Project Director, Watershed Management Directorate; and (xi) Project Directors. Special Invitees to the PSC may include, the Heads of concerned line departments, Chief General Manager-NABARD, representatives of Confederation of Indian Industry (CII), Chambers of Commerce, Khadi and Village Industry Board (KVIB), Uttarakhand Bamboo & Fibre Development Board, Uttarakhand Organic Commodities Board, Convenor Bank of State Level Bankers Committee and implementing partner NGOs.

5.2. *Responsibilities.* PSC shall meet once in six months to review Project progress, provide overall guidance and policy support and to facilitate inter-departmental coordination.

6. Project Management Committee (PMC)

6.1. *Establishment and composition.* The PSC shall establish a Project Management Committee (PMC) chaired by the Secretary of RDD. The Secretary, Watershed shall be Co-chairperson. The Additional Secretary, Finance, the CPD, PDs and Implementation Partners (NGOs, Innovation Linkage Partners, etc.) shall be the members. The PD of UGVS shall be the Secretary of the PMC.

6.2. *Functions.* The PMC shall meet every quarter and its main functions shall include: (i) approving AWPBs together with PSC; (ii) reviewing physical and financial progress; (iii) reviewing progress towards achieving outcome indicators; (iv) resolving implementation issues; (v) working towards achieving convergence between various government sponsored activities and Project activities.

7. Lead Project Agency (RDD)

7.1. The Rural Development Department (RDD) of the State of Uttarakhand shall be the Lead Project Agency.

8. The Central Project Coordination Unit

8.1. *Establishment and structure.* A CPCU within the RDD shall be established headed by the CPD. The CPCU will have two Units: (i) Finance Unit; and (ii) Planning and M&E Unit.

8.2. *Functions of the Finance Unit.* The main functions of the Finance Unit shall include: (i) formulate and sign the Subsidiary Agreements with UGVS, PSWMD, UPASAC; (ii) organize PSC and PMC meetings; (iii) incorporate the budget requirements into the overall budget of the Government of Uttarakhand; (iv) operate the Project Account for timely release of funds to the Project Parties; (v) receive statements of expenditures and supporting documentation related to funds released to the Project Parties and keep an account of the funds released and utilized by UGVS, PSWMD and UPASAC; (vi) prepare overall Project financial statements; (vii) prepare and submit the withdrawal applications to the Controller of Aid, Accounts and Audit in the Ministry of Finance for onward

transmission to IFAD; (viii) and ensure preparation and submission of annual audit reports of the Project Parties to IFAD.

8.3. *Functions of the Planning and M&E Unit.* The main functions of the Planning and M&E Unit shall include: (i) submit the consolidated AWPB for approval of IFAD, PMC and PSC; (ii) prepare the annual procurement Plan and submit it to IFAD for approval; (iii) prepare and submit consolidated progress reports annually and quarterly to IFAD based on the progress reports submitted by UGVS, PSWMD and UPASAC; (iv) undertake M&E and knowledge management activities related to the Project; (v) prepare RIMS data for submission to IFAD.

9. Project Parties

9.1. *Responsibilities.* The Project shall mainly be implemented by the following Project Parties as follows:

- (a) UGVS, previously established for the implementation of the Livelihood Improvement Project for the Himalayas (Loan No. 624-IN), shall implement the Food Security and Livelihood Enhancement Component (component 1);
- (b) PSWMD shall be duly established to implement the Participatory Watershed Development component (component 2);
- (c) UPASAC, previously established for the implementation of the Livelihood Improvement Project for the Himalayas (Loan No. 624-IN), shall implement the Livelihood Financing component (component 3).

10. Project Directors

10.1. *Appointment and Tenure.* UGVS, PSWMD and UPASAC shall each be headed by a Project Director (PD) who shall be appointed by the State Government. IFAD shall be notified of any changes of the PDs. In order to ensure continuity and smooth implementation of the Project activities, as far as possible, the PDs will have a normal tenure of three years. The PDs of UGVS and PSWMD shall be assisted by a core team staff comprising agribusiness, finance, planning and monitoring and evaluation specialists.

10.2. *Responsibilities.* PDs shall be responsible for the day to day operations including the following functions: (i) ensure that UGVS, PSWMD and UPASAC carry out their functions as set out in the Subsidiary Agreements; (ii) supervise and monitor the activities of UGVS, PSWMD and UPASAC and their progress towards achieving physical, financial and outcome related targets; (iii) oversee field operations related to the respective Components and provide overall implementation guidance; (iv) operate the Sub-Project Accounts; (v) recruit staff required for implementing the Project; (vi) undertake project procurement; (vii) ensure that the Sub-Project Accounts are audited annually in accordance with IFAD audit requirements and submitting the same to CPCU; (viii) submit annual RIMS data to CPCU; and (ix) ensure that UGVS, PSWMD and UPASAC receive required level of funding for carrying out the activities.

11. Subsidiary Agreements

11.1. UGVS, PSWMD and UPASAC shall each enter into a Subsidiary Agreement with the State through the CPCU/RDD, acceptable to the Fund, which shall set out the terms and conditions under which such Project Parties shall implement their respective activities under each Project Component. The UGVS, PSWMD and UPASAC shall be responsible for the day to day implementation of the allocated components. The Establishment of Divisional Offices at the cluster/district level by the UGVS, PSWMD, and

UPASAC shall be need based. The main functions of UGVS, PSWMD and UPASAC shall include: (i) coordinate and implement components' activities, including procurement, in consultation with IFAD and under the guidance of PSC; (ii) prepare AWPBs and annual procurement plans and submit them to CPCU; (iii) finalize and execute partnership agreements/contracts with NGOs, service providers and specialized institutions for implementing various project activities; (iv) establish an effective M&E and MIS system to track sub-component's progress; (v) prepare and submit consolidated annual and quarterly progress reports to CPCU; (vi) supervise and monitor their respective component related activities and their progress towards achieving physical, financial and outcome related targets; (vii) prepare financial statements and prepare statements of expenditures for submission to CPCU; (viii) submit annual audit reports and RIMS data to CPCU; and (ix) liaise with the State administration, line agencies and other Project Parties to ensure coordination in project implementation.

12. District Committees

12.1. *Establishment and composition.* District Coordination and Monitoring Committees shall be established in each district covered by the Project activities and shall be chaired by the Chairman of the Zila Panchayat (elected head of the district government). Members shall include the district Chief Development Officer, project staff (from UGVS and/or PSWMD), partner NGOs staff, members of government line departments and representatives of Gram Panchayats and other community based organisations. Block Development Officers may also be members of this Committee. The Committee shall coordinate project implementation at the district level and ensure linkages between the Project, line agencies and other government agencies.

13. Project Implementation Manual (PIM)

13.1. The CPD, with assistance from the Project Parties, shall prepare a draft PIM for approval by the PMC in consultation with the Fund. The PIM shall include procedures and processes for Project implementation including, *inter alia*:

- (a) Terms of reference for key Project staff;
- (b) Terms of reference for NGOs recruited as service providers;
- (c) Terms of reference for studies and surveys;
- (d) Procurement processes; and,
- (e) Terms of reference for external and internal audits of Project Accounts.

13.2. The PMC shall adopt the PIM substantially in the form mutually agreed with the Fund and make amendments from time to time in agreement with the Fund.

13.3. The Borrower shall cause the Project to be carried out in accordance with the PIM. In case of any discrepancies between the provisions of the PIM and those of this Agreement, the provisions of this Agreement shall prevail.

14. Mid Term Review

14.1. The Lead Project Agency and the Fund shall jointly carry out a review of the Project implementation no later than the fourth anniversary of the Project Implementation Period (the "Mid-Term Review") based on terms of reference prepared by the Lead Project Agency and approved by the Fund. Among other things, the Mid-Term Review shall consider the achievement of Project objectives and the constraints thereon, and recommend such reorientation as may be required to achieve such objectives and remove such constraints. The Borrower shall ensure that the agreed

recommendations resulting from the Mid-Term Review are implemented within the specified time therefor and to the satisfaction of the Fund. Such recommendations may result in modifications to this Agreement or cancellation of the Financing.

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:

Category	Loan Amount Allocated (expressed in SDR)	% of eligible expenditure to be financed
I. Civil works	1 990 000	100% net of taxes, government and beneficiaries contributions
II. Watershed treatment	11 500 000	100% net of taxes, government and beneficiaries contributions
III. Vehicle, Equipment and Materials	340 000	100% net of taxes and government contributions
IV. Capacity building	20 470 000	100% net of taxes, government and beneficiaries contributions
V. Livelihoods Financing	540 000	100% net of taxes, government and banks contributions
VI. Service providers contracts	10 320 000	100% net of taxes and government contributions
VII. Incremental salary and operating costs	5 880 000	100% net of taxes and government contributions
Unallocated	5 660 000	
TOTAL	56 700 000	

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

Civil works includes, but is not limited to, buildings, small-scale irrigation, roads and trails, bridges;

Watershed Treatment includes, but is not limited to, construction of earth bunds, water harvesting structures, check dams, terracing and levelling, diversion drains, contour trenches, stone wall protection works, biological protection measures and other watershed treatment works, and other minor village infrastructure;

Capacity Building includes activities related to training, workshops, technical assistance, surveys and studies, livelihood support, agri-business development support, project allowance, management and information system (MIS), geographic information system (GIS), as well as watershed experts to PSWMD;

Livelihoods Financing includes, but is not limited to, activities related to insurance pilots and viability gap funding;

Service providers contracts includes activities related to NGO contracts;

Incremental salary and operating costs includes incremental salaries, allowances and operation and maintenance costs, excluding existing Government salary costs of the PSWMD.

Logical framework

Objective hierarchy	Indicators	Means of verification	Assumptions
Goal Reducing poverty in hill districts of Uttarakhand	Child malnutrition (under 5 yrs old: chronic, acute, underweight) ¹ Household assets Food security	Impact surveys (including RIMS anchor indicators) at baseline, mid-term and completion	Price of food does not increase relative to earnings. No major natural disasters
Development objective: Enable 143,400 rural households to take up sustainable livelihood opportunities integrated with the wider economy	93,400 households report increase in income from sub-sectors supported by the project. 93,400 hh report increase in income (expenditure) Quality of housing improved for 93,400hh Access to water and sanitation improved for 53,400 hh Women's empowerment - 93,400f women report improvements in decision making, assets and mobility SC h'holds comprise at least 20% of all hh benefitting	Annual outcome surveys Impact surveys (including RIMS anchor indicators) at baseline, mid-term and completion	Employment opportunities in other parts of India do not mean that so many of the workforce migrates out of Uttarakhand that farming is affected.
Outcomes:			
103,800 households from hill communities benefit from increased food production, greater participation and returns in markets for cash crops, tourism and new employment opportunities.	70,000 farmers ¹ adopt improved technologies or increase in area irrigated by average of 0.15 ha 70,000farmers increase farm yield &/or output by average of 15%. 84,400 hh increase food self-sufficiency 5,000 hh establish new enterprises 5,000 hh expand existing enterprises. 18,000 hh report increased sales . 9,000 producers ¹ use new marketing channels. Increase in 5% of producers' share of retail price. 50% of producer organisations rated sustainable. 8,000 vocational training graduates ¹ gain employment.	Annual outcome surveys. KAP surveys Value chain studies Case studies of producer organisations VT reports & studies	Weather patterns do not change to the extent that seriously hinders farming. Food prices in hills do not fall to the extent that makes local production uneconomic. Markets for off season vegetables & other products not adversely affected by competition from imports or other areas. Communications (road and telecom) are developed. Vocational skills acquired are relevant to job market.
Farming systems in 41 project watersheds with a population of 36,600 households become more productive, and less vulnerable to erosion and drought.	Increase of 10% in vegetative biomass Increase of 10% in water availability Improved performance by 220 GP 22,000 farmers ¹ adopting new technologies Increase in farm yield & output by average of 15%. 4,500farmers increasesales of produce or use of new market channels	Watershed environmental monitoring Process monitoring of GP Annual outcome surveys KAP surveys	As above plus Treated watershed not damaged by erosion originating in reserve forests. GPs responsive to project & allocate required resources.
Increased investment in market-led opportunities by hill producers and their organisations.	UPASAC investments total Rs90 million. 40% increase in number and amounts of finance from other institutions. Five new financial products for project groups Recovery rate of bank loans and UPASAC Investments	Reports from UPASAC and other financial institutions	Regulatory framework allows financial innovation and encourages rural lending.
Lessons in development of hill communities learned and disseminated.	Lessons documented and disseminated via media and meetings.	Project progress reports	Project generates lessons which are widely applicable.
Outputs:			
Strengthen food production systems Support cash crops, market-orientated enterprises, tourism & institutions Develop market & other infrastructure Provide opportunities for vocational training	93,000 people ¹ trained & get other livelihood support 18,000 producers ¹ benefit from value chains. 80 market access infrastructure facilities provided. 60 producer organisations involved in value chains. 10,000 people ¹ complete vocational training.	Project progress reports	Improved technologies for hill agriculture are available & profitable. Private sector & other value chain participants are interested. Public sector input supply channels function efficiently, or allow space for private suppliers.
Soil and water conservation. Watershed management capacities strengthened Livelihoods developed	29,000 producers ¹ reached with improved technologies, irrigation, better communications and soil conservation. 125,000 ha covered by watershed conservation and development.	Project progress reports	Communities are interested and willing to prioritise watershed development. GP's able to play their role in implementing watershed development
Social venture capital company able to provide financial resources Other financial institutions strengthened to provide loans and other services.	UPASAC business plan 1,000 people attend training and exposure visits. 10 financial institutions participating in ILSP linkages. 20 new branches of SKGFS opened.	Project progress reports	Suitable staff can be recruited to UPASAC. Financial institutions willing to participate.
Effective and efficient systems for delivery of project outputs	Achievement of project targets at output and outcome levels.	Project progress reports	GoUK & IFAD establish efficient management framework.
Activities/components			
Food security and livelihood enhancement: Support for crop and livestock production via technology demonstrations and training, development of service providers, physical infrastructure for market access, irrigation, and soil conservation. Value chain sub-projects including market/sub-sector studies, introduction of new technologies, market linkage, skill development, product development and promotion, physical infrastructure for market access. Action-research and innovation sub-projects. Vocational training, apprenticeships and job placement services - implemented by UGVS			
Participatory watershed management: watershed planning and treatment, institutional strengthening, demonstrations and training, market linkages – implemented by PSWMD			
Livelihood finance: provision of debt and equity capital for enterprise start-up, piloting of risk management instruments, support for financial institutions – implemented by UPASAC			
Project management: Project management unit established, staff recruited, agreements with partner agencies, project coordination, monitoring and evaluation, knowledge management – implemented by RDD			

¹ indicators disaggregated by gender