IFAD
Investing in rural people

Islamic Republic of Pakistan

Economic Transformation Initiative Gilgit-Baltistan

Supervision report

Main report and appendices

Mission Dates: 2-12 Oct 2017
Document Date: 28 November 2017
Project No. 2000001114
Report No: 4590-PK

Asia and Pacific Division
Programme Management Department

Contents

Appendices

Abbreviations and acronyms

4Ps	Producer, public, private partnerships
AKRSP	Agha Khan Rural Support Programme
AWPB	Annual Workplan and Budget
BISP	Benazir Income Support Programme
CPM	Country Portfolio Manager
EAD	Economic Affairs Division
EOI	Expression of Interest
ETI	Economic Transformation Initiative
FOs	Farmer Organizations
G-B	Gilgit-Baltistan Province
hhs	Households
IFAD	International Fund for Agriculture Development
JICA	Japan International Cooperation Agency
Km	Kilometer
M&E	Monitoring and Evaluation
MOU	Memorandum of Understanding
NADEP	National Agribusiness Development Programme, Sri Lanka
NOC	No Objection Certificate
O&M	Operation and management
P&D	Planning & Development Department
PC-I	Planning Commission Proforma-I for project aproval
PCU	Programme Coordination Unit
PDR	Programme Design Report
PIM	Programme Implementation Manual
PP	Procurement Plan
PSC	Programme Steering Committee
PWD	Public Works Department
RCU	Regional Coordination Unit
RFP	Request for proposal
RIMS	Results and Impact Management System
SMP	Social Mobilization Partner
SMT	Scheme Management Team
TOR	Terms of Reference
USAID	United States Agency for International Development
VCF	Value Chain Fund
VCTAT	Value Chain Technical Assistance Team
WMD	Water Management Directorate

A. Introduction[1]

1. The USD 120 million Economic Transformation Initiative in Gilgit Baltistan (ETI-GB) was approved by IFAD's Executive Board in April 2015 and entered into force 2 years back on 16 September 2015. The completion date is 30 September 2022.

2. ETI-GB's development objective is to increase agricultural incomes and employment as well as to reduce poverty level and malnutrition for 100,000 rural households in the overall Gilgit-Baltistan region (half of the population targeted). The programme components are: (i) productive infrastructure with the main objective of developing 50 000 acres of new irrigated land, 400 km of Farm to Market roads and 100 m bridges) (ii) value chain development with the establishment of 100 Public Private Producer Partnerships (aiming at benefitting 60,000 households with clear incremental, sustainable and significant increase of income and nutrition at farmers level) as well as annual production of 40,000 mt of certified seed potatoes through Village and Valley Producer Association. The last component is related to programme management and policy support (land tiling, provincial roads master plan).

3. This second supervision mission was organized from 02 to 12 October 2017. The main objectives of the mission were to: (i) assess the progress made in the implementation of the project; (ii) review progress against the 2016-17 and 2017 – 2018 AWPB and procurement plan; (iii) identify actual and potential/emerging operational problems; and (iv) propose solutions, corrective measures or improvements required.

4. The mission held extensive meetings with PCU staff, provincial departments, rural communities and potential private sector value chain partners. The mission also visited districts and project intervention sites in 3 regions (Skardu/Ghanche, Astore and Hunza), interacted with communities on the sites for irrigation, FMR and potatoes seed production and also visited Tissue Culture Labs (Skardu and Gilgit). Mission also met three Directorates of Agriculture Department and PWD. The mission had several meeting with private sector agri-business promoters, Farmer/producer organizations who are working on fruits/nuts and seed value chains. The mission conducted a two-day technical and learning exchanges involving PCU staff and 4Ps to explain effective project management tools, implementation modalities, programme approach, expected results and strategies to expedite implementation.

5. This Supervision Report presents the mission's main findings and agreed actions following the wrap-up meetings with Chief Secretary in Gilgit and EAD in Islamabad. The mission wishes to express its sincere thanks to the provincial government, PCU and implementing agencies for their warm welcome, full cooperation and organisation of the mission.

B. Overall assessment of ETI-GB implementation

6. **Overall implementation progress *is rated moderately satisfactory (4)*.**

7. The ETI-GB entered into force in September 2015. The overall implementation strategy agreed during first supervision was to finalize all the irrigation development schemes (50 000 acres) and Farm to Market roads (400 km) as well as to contract a significant number of 4Ps by the Mid Term Review in order to concentrate the efforts of the programme in the second period on the farmer income generation activities and the capacity building of individuals and institutions. This strategy was discussed and agreed in September 2016 during the last supervision as it would have allowed to maximize the impact of the programme, demonstrate the capacity of the GoGB to implement such ambitious program and ensure sufficient time for implementation of an exit strategy.

8. As of today and despite all the efforts and support, the overall level of implementation is below expectation. Last year AWPB implementation rate was 37% and is 6% for the current one. The total disbursement is 6.3% (1% justified from the IFAD loan advance) while one WA equal to SDR 1.25 million is pending making a total of 8.9% disbursement.

[1] Mission composition: Hubert Boirard, IFAD Country Portfolio Manager - Mission Leader, Rab Nawaz, Institutions and Management Specialist, Arsalan Vardag, Financial Management Expert , Dr. Yasantha Mapatuna, Value Chain/4-P Specialist and Fazna Mariam, M&E/Poverty and Gender Specialist

9. In terms of activities, 14,500 acres of irrigation land (of 50 000), 35 km of FMR (of 400), one 4P (of 100) and 335 mt. ton of seed potatoes (of 40,000 mt. ton) have been produced or are under implementation. The quality of the infrastructures visited by the mission is good, the first cycle of potatoe seed production through the Farmers organization has generated significant additional incomes at farmer level (revenue triple to quadruple on average). The first Mamo Dairy 4 Ps contract seems very promising. The communities visited confirmed their high interest with (i) the type of activities developed by ETI-GB which are their real priority needs and (ii) the modality of implementation which positions them as lead implementation partners of their own development.

10. The major delays observed are mainly due to structural, organizational and communication issues, in particular the PCU's capacity to articulate and lead a coordinated and effective implementation strategy and manage the MOU based partnerships with the implementing partners in an accountable manner. The presence of three Regional Coordination Units has not so far been effectively used and over-centralization at PCU level has generated major efficiency constraints. The major tools for effective programme management are either not finalized or not deployed (Programme Implementation Manual, Baseline survey, timely AWP/B preparation, agenda based planning & coordination meetings, integrated programme implementation strategy). The overall implementation strategy has been repeatedly and sufficiently explained to the PMU and partners by current and previous Missions but not pro-actively implemented. The transfer of ownership and management to the community for irrigation and FMR implementation has not been fully effective and the support / close monitoring-mentoring by SMP and WMD remains weak. The Results Based MOU with the line departments has not generated the required level of integration, coordination and accountability for results and resources provided largely due to weak follow-up and monitoring. The M&E function has to improve in order to be used as a real decision making tool. A better integrating approach of the programme is immediately needed including selection of priority valleys, a clear articulation of function of Gender and Poverty, Social Mobilizer, 4Ps, infrastructures, M&E and Fiduciary aspects and how they come together at targeting, planning and implementation level.

11. The Finance Wing of PCU has performed poorly and need a serious reorganization and reinforcement to ensure proper financial controls, efficient management of project accounts, effective performance of procurement functions and maintaining a sufficient pipeline of liquidity. No Withdrawal Application has been submitted to IFAD since May 2017 (the LTB specifies that expenditures have to be submitted maximum 3 months after being incurred). Contract and Procurement management checking have revealed serious weaknesses or deviations. Cash forecast and planning is not properly done which is likely to result in significant liquidity crunch if projected pace of field activities is maintained in the coming weeks. The reconciliation of the Special account has been difficult and the PMU has struggled to clarify the source of funding per activities. PCU has sufficient staff (65) but not always well positioned to ensure the best efficiency of the programme.

12. The main recommendations of this supervision mission to implement by December 2017 are the following:

Agreed actions	Responsibility	Agreed date
Develop a proper integrated implementation strategy ensuring synergetic implementation of all programme activities in priority valleys and communities together with decentralization to regional coordination units	PCU	31 Dec 2017
Comprehensive assessment of suitability and performance of key PCU and RCU staff and restructuring of the PMU and RCUs to strengthen decentralization	PSC, IFAD	31 Nov 2017
Finalize the PIM and the Baseline without any further delay.	PCU	31 Oct 2017
Review Irrigation and FMR contract arrangements, including advance payments to SMTs, in order not to generate any slowdown of	PCU	31 Oct 2017

the activities because of lack of cash at field level.		
Provide specific internal control procedures for the cash payment to Labour on irrigation schemes to ensure full and transparent payment	PCU/WMD	31 Oct 2017
Assess and amend if necessary all contracts (SMP, VCTA, AG3, Line departments) in order to better respond to the needs of the Programme	PCU	31 Oct 2017
Ensure notification of dedicated staff of line departments at all levels, together with description of their responsibilities and the provision of project funded vehicles and budgets to such staff backed by effective monitoring of results	PCU	31 Oct 2017
Prepare a proposal for IFAD NOL to contract local social mobilizers, on the payroll of RCUs, living in the communities, for coordinating and facilitating all ETI-GB activities in their communities/valleys	PCU	30 Nov 2017
Refine/revamp current potato seed production strategy to ensure early attainment of programme targets including progressive transfer of lead to Seed Potato Production to the Farmer Organizations in line with the exit strategy and position them from 2018 in the driver seat with close support / monitoring of ETI-GB.	PCU/Directorate of Research/ Value Chain Focal Person	31 Oct 2017
Transfer the Gilgit Tissue Culture Lab and incremental staff provided by the project to the Extension Department along with a revamped Lab production plan, as it was previously the case.	PCU/Agriculture Department	31 Oct 2017
Develop a strategic and integrated plan for contracting, implementing and monitoring of 4Ps including decentralization of responsibilities and receive NOC	PCU	30 Nov 2017
Scrutinize all proposals received for the initial call of 4Ps and short-list the potential partnerships and develop BPs in consultation with partners and submit for NOC – 3 from each RCU	PCU and the VCTAT in close collaboration with RCUs	Immediate
Revise the 2017 – 2018 AWPB and PP in line with agreed actions and get approved from Steering Committee for IFAD NOL	PCU/RCUs	31 Oct 2017

C. Outputs and outcomes

13. **Component 1: Economic Infrastructure for Value Chain Development (US$ 61.45 million/61% of base cost):** This component *is rated as moderately satisfactory (4)*.

The component consists of two linked sub-components which, together, support the overall programme objective of increased incomes through value chain development: (i) The irrigation sub-component seeks to add 50,000 acres of new irrigated land (ii) Farm to Market Roads sub-component seeks to link existing production areas and newly developed irrigated areas through construction of 400 kms of farm to market roads and 100 meter of bridges.

14. **Sub-component 1.1- Irrigation and Land Development (US$ 44.36 million/44% of base cost):** This sub-component *is rated as moderately satisfactory (4)*. The project has so far initiated work on 17 schemes (Ghizer 6, Diamer 3, Astore 4 and Ghanche 4) covering 14,298 acres and

overall physical progress on the schemes is 28%. This is considerably behind the target of 25,000 acres under-construction/completed by Sep 2017 agreed during previous supervision mission. Another 19 schemes are currently in detailed design and costing phase covering 18,170 acres. The under-construction and under design schemes cover 32,468 acres or 65% of the project target of 50,000 acres. Another 21 schemes equal to 6,459 acres have been identified for survey and design. Remaining 11,000 acres/schemes are yet to be identified.

15. The strategic aim of this sub component is to have operational/productive 50,000 acres of new irrigated land by December 2018 so as to leave sufficient time for successful completion of land-titling and 50% cost payback. The quality of work underway was found to be very good however the project would need to revisit its strategy and approach to catch up with current progress lags. A number of issues were identified which need urgent redressal to improve the pace of implementation:

- **Centralization of Survey & Design:** Currently all survey and design work has been centralized at Gilgit level which is not only constraining pace of work but also keeping RCUs out of effective supervision and coordination loop. The current number of accredited consultants is not sufficient and they are also managed at PCU level. Together this is resulting in slow pace and may not allow completion of all schemes and land development by December 2018.
- **Lack of dedicated WMD Staff:** WMD has so far not been able to recruit incremental engineering staff due to court cases. Director WMD has Masters in Agronomy and lacks engineering expertise to effectively lead the implementation. Of the available staff, there exists no formal notification to identify staff responsible in each region for ETI schemes constraining RCUs in calling on their services and holding them accountable. Similarly, the ETI provisioned vehicles and operational budgets are being controlled at Directorate level with complaints from field staff about their non-availability and constrained mobility.
- **Scheme Approval Committee:** In order to ensure sound technical and financial parameters, and transparent equity based selection in all districts, a Scheme Approval Committee be notified along with TOR at PCU level consisting of PC, Infrastructure Specialist, WMD Director and representatives of PWD, P&D and Finance Departments. PCU will be the convenor.
- **Scheme Implementation Schedule:** The current MOU with the community does not contain a timeline-based schedule of construction activities to benchmark the progress and to ensure completion within stipulated timeframe and provide basis for regular progress review and accountability.
- **Sufficiency of Advances:** As per previous mission recommendation, and as per approved MOU format, the Scheme Management Team was to be provided 20% of scheme cost as advance where as the PCU has so far provided only 10 per cent as advance which constrains Scheme Management Teams in ensuring timely payments to labour and for materials.
- **SMP Engagement:** Availability of staff of Social Mobilization Partner during scheme implementation has been found insufficient and irregular. The SMP, region and district-wise staff, must be notified along with TOR/responsibility to ensure adequate support and oversight to the beneficiary communities.
- **Cash Payments to Labour:** ETI funded schemes are expected to make cash payments of around US$ 25 million to the labour engaged on irrigation schemes. This is a very large amount and currently there is no proper monitoring mechanism to ensure accurate and transparent disbursements to labour.
- **Lack of Progress on Land Development:** As per programme approach, land development has to take place along with irrigation scheme construction to ensure that land becomes productive immediately after completion of scheme. However, this aspect is currently completely neglected despite payment of land-development advance to the communities.
- **Land Development Costing Principles:** The provision of Rs. 10,000 per acre for land development is average cost and actual payment for each scheme should be on the basis of real cost which means the payment may be much less where land development involves flat and soft lands and higher in case of tough uneven surfaces. So mutual adjustment of costs between various schemes within a region would be required under proper guidelines which are currently not available.

- **Payback Computation:** There are still confusions about computation of 50% payback. The 50% payback computation is to be on the basis of actual final cost minus the payback amount written off for women-headed and landless households. Any savings made by the community against the approved scheme cost should be made part of the community account for other development works but such amounts will not be adjusted against 50% owed as payback by community.
- **Conflict of Interest Situations:** An instance has been noted where a SMT President has also become one of the contractors on scheme which is a clear conflict of interest situation. The current MOU need to be amended to prevent such eventuality in future and all SMT's be properly briefed to guard against this. For the scheme in question, the SMT should be immediately revamped.
- **SMT Financial Management:** Maintenance of accounts at SMT level has been found to be reasonable but requires monthly review/check by RCU to ensure proper accountal of all expenditures.
- **Installation of Micro-Hydels on ETI Sponsored Irrigation Schemes:** GB Energy Department has identified potential of micro-hydel power generation on some of ETI financed schemes and approached the project in this regard. ETI should agree to same as long as it does not effect the core purpose of the scheme i.e. irrigation and also does not lead to any issues/conflicts in terms of generated power's distribution and usage.
- **Training of Youth Construction Groups:** The training has been found to be perfunctory and supply/target driven rather than purpose and objective driven. The objective is to provide remunerative skills to local youth in infrastructure construction so that they can get gainful work on schemes being implemented under ETI and subsequently elsewhere on government and other donor funded schemes for sustainable income generation. Current training appears to be irrelevant and aimless.

Agreed action	Responsibility	Agreed date
Decentralize survey and design to RCUs along with list of accredited consultants for scheme survey, design and costing to ensure completion of all scheme and land development by December 2018	PCU/RCUs/WMD	31 Oct 2017
Immediately notify WMD staff for each region responsible for ETI Schemes along with TOR and make sure that ETI provisioned vehicles and operational budget is made available to field staff	PCU/WMD	31 Oct 2017
Appoint a competent engineer as head of WMD to lead programme activities	PCU/Agriculture Department	31 Oct 2017
Establish/notify Scheme Approval Committee with approval of Chief Secretary with proper TOR to approve ETI Irrigation Schemes	PCU	31 Oct 2017
For all on-going and future schemes, negotiate and agree detailed month-wise implementation schedule with SMTs and annex to MOUs	PCU/WMD	31 Oct 2017
Provide 20% advance to SMTs on approval of scheme and signing of MOUs	PMU/WMD	On-going
Reassess SMP Contract to ensure close support by SMP staff during preparation and implementation of irrigation schemes	PCU	30 Nov 2017
Establish necessary systems and controls to ensure transparent and accurate payment of cash wages to labour	PCU/RCUs	Immediate/ongoing
Ensure concurrent development of land along with irrigation development and establish necessary procedures for that	PCU/RCUs/WMD	Immediate/ongoing
Issue detailed guidelines for land development costing on the basis of principle explained above	PCU/WMD	31 Oct 2017
50% payback may be computed on the basis of principle/ explanation above and issue necessary guidelines accordingly	PCU/WMD	31 Oct 2017
Issue guidelines to address conflict of interest situations, insert necessary conditions in MOU with SMT and address current situation in one scheme in Diamer	PCU/WMD	31 Oct 2017
Ensure monthly checking of SMT accounts by RCU Finance Manager	PCU/RCUs	Immediate/ On-going
Micro-hydels of ETI irrigation schemes be only agreed if community is willing and the power generation activity does not compromise scheme’s original purpose.	PCU/WMD	On-going
Revisit Youth Construction Team training and objectives to align it with PDR stated purposes and objectives	PCU/WMD/SMP	Immediate

Sub-Component 1.2 – Farm to Market Roads (US$ 17.08 million/ 17% of base cost). This component *is rated as moderately satisfactory (4)*.

16. This component is aimed at improving critical road linkage for the irrigation/land development sites and supported value chains for linking the production areas to valley roads and main roads. The sub-component will finance upgrading of 400 km of shingle compacted roads. Existing pony tracks will be upgraded to jeep able roads (40% of total) and jeep able roads will be upgraded to truckable roads

(60% of total). In addition, a lump sum provision of 100 meters of bridges is available. The aim is to finalize the completion of target by the MTR.

17. In line with previous Mission recommendations, the PCU has adopted a community-led road development model and currently 35 km roads are under implementation (as against 50 km target agreed during previous mission). Another 18 Km is ready for implementation awaiting signing of MOU with communities. 44 km is under design and cost estimation. Additional 186 km have been identified. Demand for road linkage has surfaced from non-core districts as well in support of value chain and seed multiplication activities which appear to be justified and need to be considered by PCU on case to case basis. Current pace of work will not allow completion of all roads by mid-term and need to be revisited. The survey and design work should be decentralized to RCUs along with proper guidelines on selection and provision of a list of accredited consultants/PWD engineers for survey and design and cost estimation.

18. There has been no progress on development of provincial road master plan and O&M policy as no consultant could be identified following an advertisement. The baseline related to cost of transportation and constraints recommended by previous mission has also not been established yet.

19. PWD appears to have reservations on community led construction model as it is not in line with their rules and PEC guidelines. They expressed the same in previous Steering Committee meeting leading to formation of a Committee under Secretary Finance to develop a policy response. On the project side, the constraint is that PWD design and contracting procedures are lengthy and likely to delay implementation. Further, a contractor led model would discourage communities from providing land/right of way free of cost. PWD also suggested provisions in the draft MOU between PCU and PWD (e.g. payment of 17% as premium to department) that are not in line with IFAD FA and PDR and hence unacceptable. The Mission recommends that a provincial policy may be notified for community led implementation of roads infrastructure which also lays down parameters for adherence to PWD specifications and final certification and O&M arrangements vis-à-vis PWD. PCU should then accordingly develop a financial and technical manual for such roads for promulgation by the provincial government. Pending that, the PCU may follow up with PWD on rest of capacity building provisions for the PWD duly considering the revised PWD role that emerges from provincial policy on community led road development.

Agreed action	Responsibility	Agreed date
Decentralize design and cost estimation to RCUs as in case of Irrigation	PCU	20 Oct 2017
Consider road linkages in non-core districts where justified in terms of volume of production and value chain development potential	PCU	On-going
A provincial Policy on community led construction be developed and notified and pending that continue with current model and approach	PCU/PWD	30 Nov 2017
Update PWD capacity development support/plan and MOU on the basis of provincial policy on community driven road development	PCU/PWD	31 Dec 2017and

Component 2: Support Services/PPPP for Value Chain Development (US$ 31.25 million/31% of base cost): This component *is rated as moderately unsatisfactory (3)*.

20. The component revolves around a commercial and market oriented production and value addition by organized groups of farmers and other value chain players initially focusing on apricot and potato plus a pilot in dairy marketing. The component is being implemented with the support of multiple partners including public sector extension and research institutions, private/corporate sector and farmers organizations. The overarching principle will be to follow 4-P model

21. ***Sub-Component 2.1 Value Chain Support Fund and Technical Assistance:* (US$ 20.29 million/20% of base cost.** *This sub-component is rated as moderately unsatisfactory* (3).

22. The objective of this sub-component is to increase the agricultural income, production and productivity of the target group by at least 25% and to increase the surplus marketed, in particular for apricot and potato, by 35%. For that, ETI-GB will develop Public Private Producer Partnerships (4Ps), which will facilitate /co-finance the needs of value chain actors. A specific fund (VCDF) will be dedicated to this objective and will be available for Valley Producer Associations (VPA), Village Producer Groups (VPG), local and external private sector service providers for various segments of value chain, youth and women groups involved in marketing and processing, existing processors, packagers etc. It will operate on a "matching-grants basis". By the end of the programme, up to 100 partnerships would be assisted and up to 60,000 smallholder farmers would directly and indirectly benefit from such matching grant partnerships.

23. A strategic shift has been made in implementation approach of this component from a grant-based value chain promotion and development to a more robust and sustainable 4P model (Producer, Public Sector, Private Sector Partnership). A Business Development Unit headed by DPC (ETIGB) has been established in PCU and long-term VCTAT has been hired in March 2017. A base value chain strategy has been developed for key value chains potato and apricot. A manual for Gender mainstreaming in value chain strategy has also been developed and related training for ETIGB staff and partners conducted. Two study-tours to Sri Lanka, to IFAD-funded NADeP, helped in development of implementation modalities of 4Ps partnerships including guidelines. One 4Ps training session and 2 international learning programmes (Turkey – Apricot, Netherlands – Potato) were conducted for ETI staff, partners and potential private sector value chain stakeholders. Participation in one local trade fair (DAWN Exposition in Lahore) was facilitated. Ist call for partnerships was issued in November 2016 resulting in large number of applications out of which seven potential 4P proposals were short-listed and one of them since has received No Objection from IFAD. Meetings have been conducted with financial institutions and scheduled banks in GB for their participation in 4P model for financing. VCTAT has also Identified 25 prospective private sector investors from local and down country who have expressed interest for investing in both targeted value chains. Work is in progress for organizing participation of apricot and potato value chain stakeholders for their participation in Gulf Food Dubai & Fruit logistica Berlin (both are scheduled for February 2018). The purpose is to orient VC stakeholder to new technology, Standard compliances (certification system) etc.

24. Mission observed that cohesion and integration is still weak between VCTAT, Research and Extension and all are working in disjointed and isolated manner. Extension established Green Houses in communities which are currently not part of any other prorgamme activities in their traditional top-down manner. The results of first potato seed multiplication campaign have been very good and 328 tons of seed potato has been procured but below full potential due to lack of effective monitoring and advice for growers and the procured seed is being stored in conventional stores as Agriculture Research failed to establish the planned purpose-built 8 seed stores. The Research team is also not very clear about overall strategy and future direction of seed multiplication programme and no clear-cut 4Ps business model/proposal is developed under this direction to fulfill the target of marketing 40,000 mt, of quality seed potato locally. The recruitment of incremental staff is still not complete and Tissue Culture Labs and Green Houses remain incomplete. A seed certification Officer provisioned for Federal Seed Certification Officer has been recruited by Research for in-house placement which is contrary to project objectives. There are complaints from the field staff on non-availability of project provisioned vehicles and operational budgets and quarterly acquittal of ETI funds by Research Directorate has been incomplete.

25. The project and Research Directorate, together with SMP, need to pay more attention to establishment of Valley Producer Groups (Project Target 220) and Valley Producer Associations as that will quickly open avenues for more 4P businesses as well as early attainment of Seed Potato targets. Identification of priority valleys together with Extension, Research, SMP and VCTAT should be the priority step and then a strategy for establishment of VPGs and subsequent collaborative engagement by Extension, Research, SMP and VCTAT would be the key. Existing social capital in form of COs and VOs and LSOs, established under AKRSP and DPAP/NADP offer opportunities for quick organization and mobilization. However, potential of these organizations has been neglected and not absorbed in to development of appropriate 4Ps. Overall planning and implementation

coordination with VPGs should then be led by RCUs supported by notified staff of extension, research and SMP.

26. Local and national market opportunities for both potato seed and dried apricot are high and should be captured strategically as first priority. Demand for seed potatoes are high as seasonality of harvesting in GB can capture the planting seasons demand in other areas of Pakistan and number of strong actors in seed industry have started approaching the project. With high inflow of domestic and international tourists to GB (nearly one million last season) also has created a good market opportunity for fruits and nuts. Before focusing on international market which needs bulking, quality and certification, PMU should concentrate on the national demand and international market will be a graduation in 3-4 years' time. Since two international exposure visits have already conducted for Apricot and Potato respectively to Turkey and to Holland the mission is of concern whether the ETIGB need to work on another similar visits to Dubai and Berlin at this stage of the project.

27. Present format of RFP invitation from local producers and businesses was reviewed by Mission, together with the process followed by VCTAT and PCU for their evaluation and both were found to be procedure and formality centric and not appropriate for small existing businesses and farmer organizations currently operating in project area. Requirements like registration, Tax number etc. are not appropriate to develop a 4P based in remote region like GB. Mission assisted the VCTAT to revise it using one existing proposal as an example. Out of currently shortlisted 7 4P proposals processed, one proposal is in line with the project objectives and ready for implementation.

28. RCUs also received a large number of private sector business proposals which have remained unprocessed due to lack of clarity on how they should be processed and at what level. A quick review revealed that several of them hold good promise and can be brought to an acceptable level of bankability with little guidance and assistance from project and VCTAT. These should be quickly processed to move to next stage of partnerships. Henceforth, the applications should be received at RCUs for initial scrutiny by RCU and assistance to proponents to address any weaknesses. The proposals that meet minimum standard should then be forwarded to PCU. VCTAT members should be assigned to RCUs to help in initial scrutiny of proposals as per agreed monthly/quarterly schedules. A strategic and more integrated methodology was established with the assistance of mission and this will assist to expedite the establishment of 4Ps.

29. Current VCTAT has spent reasonable amount of time in Project and PCU should carry out a comprehensive assessment of their performance and suitability for the project purposes to determine further retention or replacement of individuals. Further, as advised earlier, the PCU should quickly add a financial/banking specialist to the team to assist in ensuring proper assessment of bankability of the received 4P proposals. Most of the finalized 4Ps are company centric and the core principle of contracting 4Ps to serve FO/POs were neglected this need to be changed accordingly to absorb potential of local organizations and 4Ps should be farmer centric.

Agreed Action	**Responsibility**	**Agreed date**
Design a strategic methodology and small holder focus process for contracting, implementing and monitoring of 4Ps including decentralization of responsibilities to RCUs and submit for IFAD NO	PCU/VCTAT	Immediately
Call for EOIs for 4Ps under revised approach in different media	PCU/RCU	Immediately
Asses the performance and capacities of PMU business development team including the VCTAT and share it with IFAD including recommendations for retention/replacement	PCU	31 Oct 2017
Review existing proposals available in PCU and RCUs to reassess their potential in the light of discussions and guidance during current mission and quickly bring the potential ones to acceptable level of bankability for 4P partnership – achieve at least 10 4Ps in short-term	PCU/VCTAT	31 Oct 2017
All Extension Activities should be integrated with project's research and value chain development activities including focus	PCU/Agriculture Department	On-going

on newly developed lands and village producer groups		
Sign improved/approved 4Ps contract with MAMU Dairy	PCU/VCTAT	31 Oct 2017
Finalize selection of priority valleys and prioritize establishment of Village Producer Groups/Valley Producer Associations, establish integrated interaction strategy for Extension, Research, SMP and VCTAT and help develop 4Ps with these Groups and Associations	PCU/VCTAT	30 Nov 2017
Revise/update the Potato seed value chain business plan in the light of first year experience with an aim to reach target of 40,000 tons of seed potato covering 30,000 farmers and furnish action plan for IFAD NO	DPC/VC Focal Person/VCTAT	30 Nov 2017
Complete all remaining works on TC Lab and Green Houses and shift management of Gilgit Lab to Extension Department with direct supervision from PCU for pre-basic and basic potato tuber production	PCU/Agriculture Department	30 Nov 2017
Submit Apricot and other fruits and nuts value chain business plan/4P proposal with MUNAFA for IFAD NO	PCU/VCTAT	31 Oct 2017
Submit Pine nuts and other vegetable value chain and honey value chain business plans for IFAD NO	PCU/VCTAT	30 Nov 2017
Track national trade fairs in down country and organize participation for local PO/FOs in these trade fairs with added value products	PCU/VCTAT	Continuous

Sub-Component 2.2 – Social Mobilization (US$ 4.01 million/4% of base cost): *This sub-component is rated as moderately satisfactory (4).*

30. Social mobilization and organizing the farmers in village level production groups and valley level producers associations is meant to address the current challenges of scattered production, lack of aggregation and quality control forums. Social Mobilization partners engaged through competitive process are also supposed to assist in all facets of Component 1 and 2 implementation including 50% payback mechanism. Nutrition and gender and youth related activities are other areas of focus and assistance. SMP's are expected to be the forefront in the selection of priority valleys and target communities, organizing the Producer Groups/organizations and facilitating the selection and execution of irrigation, land development and value chain activities.

31. AKRSP was selected as Social Mobilization Partner (SMP) in April 2017 for two regions while no SMP could be selected for Diamer Region. It was subsequently agreed to establish in-house social mobilization capacity in RCU Diamer but the process has yet to be concluded. As part of the interim strategy, the PCU used its existing RCUs and PCU staff to reach out to communities in prioritised valleys for initial information dissemination and organization before SMP finally came on board. Since its engagement, the SMP has primarily worked on identification of target villages with barren land and FMR needs. SMP helped in identification of 6 sites, formation of 33 SMTs, and mobilization of 10 communities. It also carried out poverty assessments in valleys being currently covered. It also helped mobilize 10 youth construction groups. SMP is assisting in some activities of value chain development like mobilization and formation of 15 Village producer groups under Mamu Diary 4P and formation of 14 Potato producer groups engaged with seed potato. A training module was developed for scheme management teams (SMT) and 3 trainings were conducted for the SMTs. SMP has deputed a total of 37 staff for ETI related work, which consist of 11 Social Moblizers while rest are administrative staff and specialist based in headquarter and regional centers. However, specific region and district wise staff is still not notified and RCUs are not clear as to who works where.

32. Number of issues have been observed in operational and quality aspects of social mobilization arrangements. The lack of integrated implementation strategy at project level has effected the quality and logical sequencing of social mobilization work and SMP staff's effective engagement in all facets of infrastructure and value chain development. Social Mobilizers engagement with target communities is sporadic, inadequate and unstructured. There is still no notified SMP staff that would enable RCUs

to ensure their proper deployment and monitor their work. There is no proper quarterly and monthly activity planning and coordination at RCU level to organize the work of SMP and line departments at community level. Social mobilization is weakest in Diamer due to absence of a partner and lack of in-house social mobilization capacity.

Agreed action	Responsibility	Agreed date
Carry out holistic assessment of SMP performance and amend/revise results based SMP agreement if necessary to ensure improved quality of delivery	PCU	Immediate
Notify dedicated SMP staff for all regions including focal persons for each RCU	PCU/SMP	31 Oct 2017
As part of integrated implementation strategy, issue necessary guidelines for Monthly Activity Plan based close coordination at community level planning and implementation between SMP, line departments and RCU staff	PCU	Immediate
Develop and furnish a proposal for IFAD NOC for community/valley based social mobilizers, engaged directly by RCUs, in addition to SMP and their close engagement with project activities, irrigation, FMR, land rehabilitation including 4Ps.	PCU	15 Nov 2017
Immediately furnish a fresh proposal for either in-house SM capacity for Diamer Region or engagement of GBRSP for the purpose with GBRSP co-financing part of SM costs	PCU	30 Nov 2017

Sub-Component 2.3 – Agriculture Extension (US$ 2.13 million/02% of base cost): *This sub-component is rated as moderately unsatisfactory (3).*

33. Main objective of this sub-component is to provide demand driven extension services to organized groups of men and women farmers in priority valleys and to groups supported in value chain activities including training in pre and post-harvest practices, soil testing soil improvement, farmer operated commercially run nurseries for improved fruits and vegetable plants and assistance to Agriculture Research in operating contract based potato seed multiplication and adaptive trials.

34. All equipment and vehicles for the component have been procured and handed over to the department. 25 plastic tunnels have been procured and installed. However, there has still been no progress on fruit nurseries nor a proposal on private nurseries development furnished for IFAD N.O on the pretext that current budget availability is not adequate. The department activities implemented thus far have not been integrated into overall programme implementation logic and approach and being done in isolation. Pre and post harvest training for farmers has been conducted in areas which may never be covered by ETI under other programme activities. Same applies to plastic tunnels which as per project design were to be closely linked to project's value chain and seed potato activities. The plastic tunnels established are an expensive design that no local farmer group can adopt through own means. Staff for ETI activities at the regional and district level has yet to be formally notified along with clear allocation of equipment and vehicles to such staff. Collaboration between Research and Extension in terms of potato seed multiplication and between extension and other value chain activities not yet fully elaborated. There have been constant complaints in the field about non-availability of project provided operational budget, vehicles and TA/DA.

Agreed action	Responsibility	Agreed date
Immediately notify staff dedicated for ETI activities along with project funded equipment and vehicles and ensure provision of operational budget to implementation levels	PCU/ Agriculture Extension	20 Oct 2017
Properly develop collaboration and integration guidelines between Extension and Research (Seed Potato) and other value chain supported activities (apricot, private nurseries for fruit plants, new irrigated land production plan etc.)	PCU/ Agriculture Extension	30 Oct 2017
Develop a plan and proposal for the production of quality fruit plant material at Department nurseries and private nursery operators and furnish for IFAD NO	PCU/Agriculture Department	30 Nov 2017
Develop and demonstrate a model of low cost plastic tunnels based on locally available materials for support structure covered with plastic sheet.	PCU/Agriculture Department	31 Dec 2017
Develop plan for commercial scale production of improved fruit varieties including apricot at newly developed lands under project's irrigation component and submit for IFAD NO	PCU	31 December
Plastic Tunnel establishment should be linked to project's potato seed and other value chain activities and a low cost model based on local materials be adopted	PCU/ Agriculture Extension	On-going
The TA/DA to ETI linked Extension staff may be paid directly by PCU upon certification from RCU	PCU	On-going

Sub-Component 2.4 – Agriculture Research (US$ 2.69 million/ 3% of base cost): *This sub-component is rated as moderately unsatisfactory (3).*

35. Main aim of this subcomponent is to address the current paucity of quality potato seed in the region through a farmer and contract centered basic seed production programme with surplus being sold to down-country farmers based on seasonal advantage of GB region. The sub-component will also strengthen local capacity for seed certification and product certification for export.

36. Equipment and vehicle procurement has been completed. Incremental staff recruitment has mostly been completed except for five Scientific Officers. Contrary to PDR requirement, a Seed Certification Officer has been recruited as part of Directorate whereas this position was meant for the Federal Seed Certification Office, Gilgit. Construction activities covering Green Houses, Screen Houses, and repair of existing green houses remain behind schedule and yet to be completed. There are serious issues in production of in-vitro potato seed in existing labs both in terms of quality and quantity. There is still no progress on construction of eight seed potato stores. The site shown to Mission for one such store in Skardu is not appropriate. Seed multiplication Revolving Fund has been established and operational guidelines notified. Imported seed was used for the current year campaign and against the target of 528 metric tons of seed potato, 328 m. tons has been achieved. The shortfall is largely due to weaknesses in monitoring and technical support which resulted in oversized tubers on number of locations. The multiplied seed has been procured and placed in existing stores of agriculture department majority of which are not designed for potato storage. The production and quality of multiplied seed was found to be very good with high impact on contracted farmers' incomes. However, there is still lack of clarity on part of Research Directorate as to future sale/disposal of multiplied seed. There is also lack of clarity on attainment of project target of 40,000 tons of certified potato seed and its phasing and methodology.

37. The current approach and management of labs and screen/green houses for potato seed multiplication leave much to be desired. The management and control appear to be lax and

unprofessional. With two years of project life already over, there is urgent need to address this to ensure quality production of reasonable quantities of in-vitro basic and pre-basic seed and sustainable establishment of systems in remaining project life. The Gilgit Lab should therefore be put under the management of Agriculture Extension with close supervision by PCU together with a proper R&D plan for production of quality pre-basic and basic potato seed.

38. The Directorate of Research has not been able to account for advances provided to it and PCU has provided subsequent quarter advances without proper accountal of previous advance. This is contrary to MOU signed and PDR guidelines. The Directorate also failed to produce record before the recently conducted Audit of Project Accounts. The PCU must not release quarterly funds to any agency that fails to render accounts for the previous quarter. In the given situation, the PCU Finance Wing should carry out a detailed examination of Directorate Accounts in respect of previously provided funds and their usage and furnish findings to PCU and IFAD.

Agreed action	Responsibility	Agreed date
Complete all infrastructure activities including seed stores	PCU/ Agriculture Research	31 Dec 2017
Complete recruitment of remaining positions and notify staff and equipment/vehicles dedicated for ETI activities	PCU/ Agriculture Research	31 Oct 2017
Jointly develop clear business plan for multiplied potato, including certification of multiplied seed, proper security of stored seed against “switching” and pilferage	PCU/ Agriculture Research	31 Oct 2017
Clearly articulate strategy for attainment of 40,000 tons of multiplied potato seed within PDR specified timeframe and share with IFAD	PCU/Agriculture Research	15 Nov 2017
Place Gilgit Lab under control of Agriculture Extension with close support from PU Value Chain Component	PCU/Secretary Agriculture	15 Nov 2017
Make a proposal to privatize the Gilgit Tissue Lab	PCU	31 Dec 2017
Develop proper R&D Plan for Gilgit Lab for potato seed production	PCU/Secretary Agriculture	30 Nov 2017
Undertake thorough examination of use of project funds provided for potato multiplication and operational budgets	PCU Finance Wing	30 Nov 2017
The post of Seed certification Officer and Assistant provided by ETI be immediately shifted to Federal Seed Certification Office Gilgit along with budget and equipment to enable them to carryout seed certification of ETI sponsored initiative	Secretary Agriculture/PCU	30 Nov 2017

Sub-Component 2.5 – Land Titling and Record System (US$ 2.13 million/2% of base cost): *This sub-component is rated as satisfactory (5).*

39. Main objective of this sub-component is to secure land titles for the beneficiaries of irrigation land development through issuance of legally valid land titles by District land revenue agency. To initiate establishment of a proper land records and titling system in GB, the programme will adopt a two pronged strategy whereby it will assist the provincial government to carry out the required legislative work for a provincial land titling framework but, at the same time, get an interim regulation promulgated that safeguards the interests of programme’s beneficiaries for the newly developed irrigated areas.

40. Deputy Programme Coordinator has been notified as focal person for this activity. An interim regulation has been endorsed by Law Department for ETI Developed lands for the purpose of land ownership certification. A technical assistance agreement has been reached with Punjab Land

Records Authority and an MOU is due to be signed in coming fortnight. This will include free provision of land records software and training to relevant GB staff. PCU has obtained record of all lands in settled districts including land being developed under Irrigation Component while for unsettled four districts, the rough maps of ETI developed lands have been prepared for subsequent computerisation and issuance of certificates.

Agreed action	**Responsibility**	**Agreed date**
Rough maps of lands being developed with indication of plots and beneficiary allocation be prepared during implementation and agreed prior to completion of scheme and land development	Programme Coordinator/ Deputy Programme Coordinator	Immediate

D. ETI implementation progress

41. **Programme Management** performance *is assessed as moderately unsatisfactory (3).*

42. Despite extensive implementation support from IFAD over the last two years, the project still does not have the minimum management tools and practices in place to effectively implement the project in an integrated manner. Today, progress against the AWPB is very low at 5%, and there is an evident lack of leadership and pro-activity. Consequently, RCU's capacity remains minimally utilized for planning, coordination and implementation and implementing partners go about their activities in isolation and without any accountability for the resources and funds provided for programme implementation.

43. In terms of tools, there is no monthly/quarterly agenda and AWP/B based planning and review meetings at PCU level nor is this system operational at regional level. PIM is still incomplete and there is no Baseline Study to measure results and impacts. There is still no integrated programme implementation strategy clearly linking target areas, identification of interventions, RCU and line department roles, vertical and horizontal coordination and accountability, proper and regular reporting etc. There are no RCU level monthly activity plans that would ensure integrated and synergetic implementation by all partners. M&E system and baseline report are still missing. MOUs signed with partner departments but proper use and deployments at appropriate levels not ensured nor regular monitoring of fund utilization carried out. There are still no formally notified line agencies staff at regional and district levels answerable to RCUs. Priority valley selection and diagnostics leading to coherent strategy for value chains and infrastructure development are yet to be completed. The interim strategy proposed by previous mission to cover existing progress lags has been taken as "the Strategy" and being pursued haphazardly.

44. Of concern, is that the mission has observed capacity gaps related to operational, technical and private sector/ business know-how in the current staffing of the PCU. This has had negative consequence for project implementation, with lack of strategic orientation, and lack of clarity regarding responsibilities and accountability. Therefore, to some extent, front-level staff in the RCUs and PCU have implemented activities in an ad-hoc manner, and with limited training and management direction.

45. The mission has reviewed the current organizational structure (PCU and RCUs), and given the gaps and project performance to-date, recommends for an overhaul of the structure, including repositioning of some of the existing staff, strengthening role and capacity of RCUs (decentralization) and rationalization leading to elimination of some of the positions that are not required. A comprehensive suitability and performance assessment exercise is also needed from top to bottom to determine retention or removal of unsuitable/underperforming staff.

46. In summary and in view of the above, there is need to: (i) review all position TORs and expected deliverables; (ii) complete the staff performance assessment; and (iii) propose a revised structure of the PCU and RCUs. The mission recommends that the staff performance assessment

should include an IFAD external observer for key management positions before end November; for the performance assessment of the Project Coordinator, the Secretary P&D and an IFAD representative will undertake the assessment, and the recommendation should be provided for IFAD's no objection by end-November. Where the assessment recommends a replacement or cancellation of a position, these should be strictly adhered to. Furthermore, effective training must be provided to staff, especially at the field level.

47. **Coherence between AWPB and Implementation** *is rated as moderately unsatisfactory (3)*. The 2017-2018 AWPB has yet to be approved and submitted for IFAD no-objection thereby delaying implementation of activities as well as recourse to IFAD funds. The implementation pace of all critical activities remains behind schedule. Those being implemented are not integrated and mostly being done in isolation particularly in case of Extension and Research. Based on Mission recommendations, the AWP/B need to be revised both in terms of targets as well as processes to ensure integration, coherence, and decentralization for improved quality and pace of implementation.

Agreed action	**Responsibility**	**Agreed date**
Comprehensive staff assessment in terms of performance and suitability including Programme Coordinator, RCU heads and all technical staff to determine their future retention/ replacement	P&D, PCU	30 Nov 2017
Develop a clear programme strategy covering priority valley selection, integration of all programme activities, strengthened role of RCUs, deployment of dedicated line department staff etc.	PCU	31 Oct 2017
Assign clear targets along with quarterly phasing to all RCUs and their line department counterparts based on AWP/B	PCU	31 Oct 2017
Revise organogram and job descriptions for more effective deployment of staff together with annual performance assessment for decision on retention or removal of staff	PCU	30 Nov 2017
Finalize the PIM and furnish for IFAD review/approval	PCU	31 Oct 2017
Get dedicated staff notified for all levels as per MOU from line departments along with ETI provided vehicles and budgets	PCU	31 Oct 2017
Revise the annual work plan and budget as per Mission recommendations, incorporate procurement plan and obtain approval of Steering Committee and IFAD NOC	PCU	30 Nov 2017
Conduct quarterly planning and coordination meetings with all partners on the basis of AWP/B and implementation strategy	PCU	On-going
Conduct monthly planning and coordination meetings leading to detailed date-wise and location-wise monthly activity plans guiding deployment of RCU and line department staff and vehicles in coordinated and accountable manner	RCUs	On-going
Strengthen internal and intra-partner communication to ensure common understanding of targets and strategies and reinforce through regular planning, review, and coordination meetings at central and regional levels	PCU/RCUs	On-going

48. **Monitoring and Evaluation** performance *is assessed as moderately unsatisfactory (3)*. An effective M&E System is critical for ETI-GB for effective management and attainment of results. ETI

still has considerable work to do to ensure an effective M&E system that fully captures project progress and impacts and generates timely information for management decision-making. The baseline is yet to be completed to measure future impacts. Other recommendations and agreed actions from the last Supervision Mission are yet to be implemented. There is no M&E activity plan outlining activities, responsibilities, formats for reporting and budgets required to carry out those activities. Generation of information on key project performance and impact indicators from community level and implementing partners is still not functional. Understanding and capacity of M&E staff about their assigned tasks is insufficient. The Annual Progress Report for 2016-17 AWP/B has poor structure and quality and does not provide detailed information of physical and financial progress, issues and challenges and lessons for next AWP/B.

49. **RIMS Indicators.** The mission held discussions with the programme team to review the indicators suggested in the 2017-2018 AWPB and finalize appropriate indicators on first and second level of RIMS. The Programme Coordinator should ensure that M&E staff in the PMU and regional offices are fully aware of the RIMS reporting requirements and collect required data/information accordingly.

50. **Baseline Survey.** The baseline survey needs to be finalized quickly – latest by December 2017 to enable the project to measure results and impacts against logframe indicators. In doing so, the PCU has to ensure that all RIMS indicators are incorporated in baseline survey, together with project logical framework.

51. **Participatory Monitoring & Evaluation.** The PCU needs to develop systems, processes and guidelines from the very start for participatory monitoring and evaluation, as ETI-GB's main approach is community and beneficiary driven. M&E Wing should immediately develop formats, guidelines and processes as well as conduct training for the relevant staff of Project and implementing partners.

Agreed action	Responsibility	Agreed date
Prepare detailed Annual M&E plan as part of AWP/B to guide M&E activities during the year	Director M&E, PCU	Immediate
Complete the ETI-GB baseline and furnish to IFAD for NO	PCU	31 December 2017
Revise the M&E framework as per the revised logical framework	PCU/RCUs/GLDs	31 December 2017
Ensure incorporation of RIMs indicators in AWP/B format	PCU	31 October 2017
Prepare detailed gender sensitive reporting formats and guidelines for a bottom-up M&E system and provide training to M&E staff at RCU and implementing partner level	Director M&E/PCU	31 December 2017
Develop proper formats/outline for annual and bi-annual progress reports and furnish to PSC and IFAD as per prescribed schedules	PCU	31 December 2017

52. **Gender and Youth focus:** Gender and youth focus is *moderately satisfactory (4).* The design envisages mainstreaming gender into project approaches and activities and creates means and incentives for a balanced participation of both the males and females. In Economic Infrastructure; New Irrigated Land and Land Development 5000 acres of each shall go to women beneficiaries, which is 10% of the total target. In Value Chain development; 10% of Village Producer Organizations, 25% of Processes/Value addition Groups, 20% of Training in Value Chain Process, 50% of Training in packages, grading, etc. and 10% of Access to Value Chain matching funds shall be women beneficiaries. In the Program Management atlases 20% of women staff shall be in PCU/SMP and 15% in RCU/SMP.

53. Project has developed a Gender and Poverty strategy to guide the project components and Project management in gender mainstreaming during the whole project cycle. However, this strategy

is yet to be fully mainstreamed into project approaches and activities in terms of targeting, mobilization, implementation and monitoring. The activities under components 1 and 2 need to be made more gender sensitive and pro-active in terms of targeting and access to benefits from programme interventions. The indicative activities and approaches described in PDR need to be pursued more vigorously to enhanced gender and youth impact.

54. Currently the youth focus is only to the extent of Youth Construction Groups and that too is being done in a prefunctory manner. The opportunities for youth in project's value chain and 4P activities is yet to be explored and exploited. The project needs to, together with the gender strategy, articulate a proper youth engagement strategy for both components mainstream it into project implementation approach and activities.

55. **Knowledge Management-Learning & Innovation:** *Knowledge management and learning is rated as moderately unsatisfactory (3).* ETI is pursuing number of innovative approaches for its infrastructure and value chain activities including a strong community driven approach. These approaches provide an ideal platform to capture the experience and impacts for wider dissemination. However, weaknesses of M&E system and absence of a knowledge management strategy is constraining the project from adequately capturing the knowledge and sharing it. The programme has established a website but quality of content and its regular updating needs serious attention. Systematic documentation of results and lessons learnt is still a very weak area.

56. Progress Review workshops should be used as knowledge sharing venues for capturing lessons learned and best practices. The knowledge generated through M&E studies, progress reviews, field observations etc. should be converted into knowledge products such as newsletters, publications, case studies and reports, etc. and disseminated through IFAD and other appropriate portals and avenues.

Agreed action	Responsibility	Agreed date
Develop Communication & KM strategy and furnish for IFAD N.O.	PCU/RCUs/GLDs	31 December 2017
Assign specific responsibilities within PCU, RCUs and implementing partners for Communication & KM	PCU	30 November 2017
Establish protocols and assign responsibility for regular updating of project website and link the website to IFAD Asia.	PCU	30 Nov 2017

57. **Poverty Focus** *is rated as moderately satisfactory (4)*. ETI-GBs goal is the improvement of income, food security and general living conditions of poor rural households particularly women headed households. Gender and Poverty section of PCU leads strategy formulation in this regard but the strategy implementation across all activities requires further reinforcement. ETI has conducted a social assessment in all communities/valleys covered so far to identify the four poorest segments (Women-headed households, poor, landless and vulnerable). Under the project's irrigation and land-development activities, these four segments are being targeted on priority and all women-headed and landless households get equitable share in the new newly developed lands. Such sharing of benefits has been made a condition in the MOUs signed with beneficiary communities. ETI will pump an estimated US$ 25 million in cash in the shape of cash wages in irrigation and FMR components and all such wage labour opportunities are on priority being offered to the poor and landless in the beneficiary villages. Immediate impact of this is quite visible as observed by the Mission and needs to be systematically captured.

58. **Effectiveness of Targeting Approach** *is rated as moderately satisfactory (4)*. As per original implementation strategy given in PDR, project's targeting had to start with selection of priority valleys on the basis of population, poverty, current production of priority crops and development potential, potential for new irrigation and land development and market access challenges and opportunities.

However, the initial progress lags led the previous mission to recommend an interim strategy revolving around direct selection of irrigation schemes with big potential and allied road access. PCU is still pursuing this approach which needs to change as initial gains in irrigation and road development have been made. PCU, together with SMP and line departments, should now apply a targeting strategy as per original PDR scheme and identify priority valleys leading to establishment of Village Producer Groups and Valley Producer Associations with due regard for poverty and gender targeting. As for the irrigation schemes and communities already targeted, the project should use them as fulcrum to branch-out to incorporate surrounding villages/valleys (if they fulfil other targeting criteria) for establishment of Village Producer Groups and Valley Producer Associations and their linkage with project's value chain and 4P activities as well as extension support services.

59. **Climate and Environment Focus** *is rated as moderately satisfactory (4)*. Project is investing in agriculture products that are locally well-established and organic in nature with minimal environmental or climatic impacts. The irrigation and road activities are small and local in nature with minimal adverse impact on stability of mountain slopes. However, project needs to pay more attention to soil conservation and slope stability in newly developed lands through social forestry, fruit tree planting on field embankments between terraces and efficient utilization of irrigation supplies.

60. **Partnerships** *are rated as moderately satisfactory (4)*. ETI is pursing a large number of partnerships for prorgamme implementation. These include government line departments, social mobilization partners, Village Producer Groups, value chain technical assistance team, and private sector marketing entities for priority crops and milk. Project has signed results based MOUs with the line departments, VPGs and irrigation Scheme Management Teams while it has signed contracts with other service providers and 4P partners (one so far). One area that needs particular attention in these partnerships is effective enforcement of terms of MOUs contracts and regular performance assessments. PCU, as part of its quarterly and annual progress review and planning process, must establish a system for performance assessments of all partners to make a decision for appropriate follow up actions including revision or cancellation of MOU/Contract to address any emerging issues.

E. Fiduciary aspects

61. **Financial management** is rated as *moderately unsatisfactory (3)*. Although the finance team has been recruited and accounting software implemented, still the financial management department needs a serious reorganisation and need to be much more aligned with the contractual agreements. PIM has not yet been finalised and approved, WA are not submitted to IFAD on regular basis, designated account has not been reconciled, contract and procurement management checking have revealed serious weaknesses or deviations, cash forecasting and planning is not properly done which will cause significant slowdown in the implementation of the field activities.

62. Accounting and Financial Reporting: The Program has procured and implemented TOMPRO accounting software since last supervision mission and the finance team has been trained in its use. The software is being used both at the PCU and in the RCUs as well for posting accounting transactions. The mission has evaluated the software against IFAD requirements and found that it fulfills most of the requirements. The mission however noted that the finance team needs further training on the advanced functions of the software including its reporting functions. The Finance department also needs to prepare monthly financial reports[2] as recommended in the previous SB to support decision-making by program management and send quarterly Interim Financial Reports to IFAD as required in LTB.

63. Staffing. The Finance team includes: at the PCU, a Director Finance & Administration, a Deputy Director Finance, a Finance Manager and a Finance Assistant; and in each RCU, a Manager Admin & Finance and an Admin & Finance Assistant. The finance team needs to complete IFAD e-learning course immediately to fully familiarise themselves with IFAD policies, procedures and requirements. The mission further recommends that the finance team may be provided additional capacity building trainings to ensure that they are able to do planning, budgeting and monitoring functions.

[2] Monthly financial reports should include analyses of disbursement rates by category, AWPB financial execution by sub-component, cash situation and forecast, IPs' financial situation, procurement plan execution and administrative issues.

64. Internal controls. The project has developed reasonable internal control procedures including segregation of duties, expenditure authorisation processes, bank reconciliations, etc. Bank Reconciliation Statements (BRS) are prepared on a monthly basis. However, it needs to develop and implement controls over issuance and adjustment of advances to line departments/implementing partners (Directorate of Water Management, Agriculture Extension and Agriculture Research) and service providers (SMP and VCTAT) described in more detail in the relevant paras.

65. Administrative management. The second phase of recruitment was completed during the year and now the PCU and RCUs currently have 34 officers and 29 support staff and a number of trainees. The program has provided health, accident and life insurance to its staff and implemented automated attendance system. The mission noted that the program needs to develop annual objectives for each staff member linked to the AWPB and conduct annual performance evaluation according to annual objectives.

66. Since the last SV, controls have been developed over fixed assets, consumable stores and monitoring of fuel consumption. Fixed Assets registers have been maintained with distinctive numbers for identification and verification and tagging of assets was conducted. Insurance for vehicles has also been obtained. The program also need to conduct tagging of assets provided to line departments.

67. The mission noted with concern that despite assistance by IFAD in the development of PIM and strong recommendation in the previous SV report, it has not yet been finalised and approved. The importance of PIM cannot be overemphasised. The program is strongly recommended to complement missing areas (particularly in the operations and M&E) and to finalize the financial and administrative section of the PIM and to get it approved from the PSC and obtain IFAD NO on the final document.

68. AWPB and budgeting system. The table below shows performance against annual budgets for 2016 and three months of 2017 (amounts in USD):

Table 1: Performance against Annual Budgets (USD)

	Productive Infrastructure	**Value Chain Development**	**Project Management & Policy Support**	**TOTAL**
2016-17				
Budget	7,362,605	3,734,417	1,450,669	**12,547,691**
Actual	1,766,368	1,418,848	1,426,723	**4,611,939**
% execution	24.0%	38.0%	98.3%	**36.8%**
2017-18				
Budget	12,806,669	6,326,705	1,153,342	**20,286,715**
Actual (3 Months)	760,196	1,522	369,319	**784,023**
% execution	5.9%	0.0%	32.0%	**5.6%**

69. 2016-17 was practically the first year of the project, second round of hiring was completed by Feb/Mar of 2017, MOUs with line departments were signed in December 2016, hiring of SMP, VCTAT and G-3 Consultants was done in the second half of the financial year and accordingly the implementation of AWPB for 2016-17 was around 37%.

70. For 2017-18, the AWPB has not yet been finalised and approved, however, the draft AWPB (amounting to USD 20.3 million) was only executed 5.6% at 30 Sept 2017. It is recommended that the AWPB should be finalised immediately and approval from PSC and IFAD No Objection obtained. The revised AWPB should indicate, for each activity, the staff responsible and the expense category. It should also include (i) full documentation of unit costs (ii) disbursement tables by category and by component and (iii) financier. Finally, reference codes for individual activities should be indicated in order to facilitate linkage with the procurement plan, as well as monthly actual-to-budget variance analyses.

71. Treasury and funds flow. The project has a Special Account (denominated both in US Dollars and PKR) in National Bank of Pakistan (NBP), an operational account in NBP (where both IFAD and Government funds are pooled) and three regional accounts in NBP. The project has been unable to fully reconcile the funds received from IFAD / Government and expenditure charged to each financier and financing by IFAD of Government's share or financing by Government of IFAD's share.

72. The mission strongly recommends that the PCU/RCUs prepare half-yearly cash forecasts (with monthly updates) taking into account financial commitments and forecasted expenditures. After preparation of realistic cash flow forecasts, the program needs to evaluate the adequacy of initial advance of USD 3 million, considering that the AWPB for 2017-18 is for USD 20 million, and request IFAD for increase of initial advance if needed.

73. Implementing Partners. The program has entered into MOUs with line departments / implementing partners (Directorate of Water Management, Directorate of Agriculture Extension and Directorate of Agriculture Research) for implementation of various components. The MOU with the Directorate of Water Management contains reasonable fiduciary related clauses, however, the MOUs with the Directorate of Agriculture Extension and the Directorate of Agriculture Research needs to be strengthened with regards to fiduciary clauses. The mission also noted that the program had provided additional advances to the implementing partners without adjustment of previous advances. Accordingly the mission recommends the following:

74. Service Providers. The program has signed contracts with various service providers (AKRSP as SMP, ASF as VCTAT), however, the mission noted with concern that the contract clauses related to financial matters are not complied with. The contract with ASF stipulates that advance would be recovered in equal installments from monthly invoices, however, further payments were made without adjustment of advance. The contract also stipulated that professional indemnity insurance would be obtained which has not been obtained. The guarantee against advance also needs to be confirmed from the insurance company. In case of AKRSP, the contract stipulates that advance would be paid against bank guarantee, however, the mission noted that a payment of PKR 22.2 million (USD 214 k) was made without obtaining bank guarantee.

75. Scheme Management Team (SMT) / Community Organisation. Major part of the infrastructure component (construction of water channels, construction of farm to market roads, land development) will be implemented through SMTs and the program is entering into MOUs with a number of SMTs, under which the program is transferring funds to the SMTs while procurement and infrastructure development would be conducted by SMTs. It is critical that the financial arrangements (fund flow, maintenance of records, audit etc.) are clearly defined in a simple financial manual for the SMTs.

76. **Disbursement** is rated as *unsatisfactory (2)*. By 30 Sept 2017, IFAD had released an aggregate amount of SDR 3.0 million (USD 4.2 million), a disbursement of 6.3% inclusive of initial advance. The mission urges the PCU to urgently prepare and submit to IFAD a WA covering all expenses incurred to date (nearly USD 1.7 million at the end of September 17). Once the outstanding expenses are claimed, the total disbursement rate would increase to 8.9%.

77. The mission noted with concern that the disbursement rate in category 2 (equipment and materials), has already exceeded and after considering the pending WA, it will increase to 116% of the allocation. The mission recommends that the PCU freeze all expenditure in this category to avoid overspending and in case where any expenditure in this category is absolutely necessary, it should be authorised by the PSC and financed from Government funding.

78. The following table shows disbursements from the IFAD loan of 30 September 2017 (amounts in SDR):

Table 2: Disbursements from IFAD Loan (SDR)

Category	Category description	Original Allocation	Disbursement	WA Pending	Balance	Per cent disbursed
I	Civil works	22 850 000	15 299	611 655	22 223 046	2.7
II	Equipment & materials	400 000	408 260	57 552	(65 812)	116.5
III	Grants & subsidies	10 620 000	10 423	18	10 609 559	0.1
IV	Training & consultancies	3 140 000	40 049	177 180	2 922 771	6.9
V	Salaries & allowances	4 250 000	251 929	189 077	3 808 994	10.4
VI	Operating costs	2 430 000	168 972	214 790	2 046 238	15.8
	Unallocated	4 860 000	0	0	4 860 000	0
	Initial deposit	0	2 181 899	0	(2 181 899)	0
	Total	**48 550 000**	**3 076 831**	**1 250 272**	**44 222 897**	**8.9**

79. The program has unpaid commitments to SMT amounting to USD 5.78 million and to implementing partners amounting to USD 4.25 million, a total of USD 10.03 million. Accordingly, the total of disbursed and committed funds amount to USD 15.95 million and 23.8% of IFAD funding.

80. Withdrawal applications. The program has only submitted 2 WAs for reimbursement since the beginning of the program and WA has not been submitted for the period June to September 2017. A review of the WA and SOE revealed the following weaknesses:

- Special Account Reconciliation needs to be properly supported (detail of cash in hand, detail of advances made but not claimed, detailed reconciliation of financing of Government share by IFAD funding or IFAD share by Government Funding)
- Details in the SOE need to be properly filled up e.g. columns for name of supplier, contract/invoice number have not been properly filled up;
- SOE limit to be properly followed up;
- Expenditure need to be properly classified between categories;
- Taxes withheld from employees and suppliers should not be charged to IFAD;
- In some cases, evidence of delivery of goods or services was not available on record;

81. Designated Account reconciliation. The program's DA reconciliation as of 30/09/17 is shown below (amounts in USD):

Table 3: Designated account reconciliation (USD)

IFAD initial deposit (A)	**3 000 000**	
USD Special Account balance at 30/09/2017		399 609
Program Accounts balances at 30/09/2017		651 984
Cash in Hand balances at 30/09/2017		3 613
Amount withdrawn from the DA and not yet claimed (June to Sept 17 expenses)		1 724 874
Advances **(Note 1)**		783 022
Total advance accounted for (B)		**3 563 102**
Difference (A) - (B) (Note 2)	**(563 102)**	

Note 1: Detail of Advances is not available.
Note 2: Reconciliation of funds provided by IFAD and GoGB is not available.

82. The mission noted with concern that the project had not reconciled the designated account since the start of the project. After substantial efforts during the mission, the project finance team was able to "reconcile" overall funds received from both IFAD and Government sources and expenditure incurred and balance remaining in the bank accounts – upto the date of WA 4 (31 Jan 2017) and WA 5 (31 May 2017). However, the overall funds have not been reconciled for 30 Sept 2017 balances. By the end of the mission, the finance team was working with the accounting software company to generate WA and Form 104 for Government Funding, which will conclusively "reconcile" the funds from both sources.

83. The mission strongly recommends that project finance team work with the accounting software company to fully reconcile the funds from both IFAD and GoGB and that the DA reconciliation must be prepared monthly, regardless of whether a WA is prepared or not.

84. **Counterpart funds** *is rated as moderately satisfactory (4)*. The GoGB contributes to program costs through cash contributions (for co-financing of project costs) and tax and duty exemption. As of 30/09/17, the GoGB has contributed PKR 243.6 million (USD 2.3 million) or 9.8% of the USD 23.6 million total GoGB commitment. For fiscal year 2016-17, government contribution amounting to Rs. 200 million (about USD 1.9 million) has been fully released. The mission recommends that in the future, the annual GoGB contribution be calculated on the basis of the AWPB.

85. Co-Financing: The Program was planned to be co-financed by an amount of USD 22.98 million, 19% of the programme cost. The Government is in negotiations with the Italian Government for financing of Euro 20.5 million (approx. USD 24.16 million). The draft agreement was reviewed by the mission and it was noted that it did not describe eligible categories of expenditure and/or ratios of financing for the Italian funds.

86. In the absence of Co-financing, the program has been charging full amount of expenditure, in the ratio specified in the financing agreement, to IFAD. This has resulted in overspending in Category 2 (Equipment & Materials) and also higher charging to IFAD in other categories.

87. Beneficiary contributions to ETI-GB is planned to be in the form of land costs for irrigation schemes. Although the irrigations schemes have been initiated in the 2016-17 financial year, the

program has not yet developed procedures for the valuation, monitoring/reporting and recording of these contributions in the program accounts.

88. **Compliance with loan covenants** *is rated as moderately unsatisfactory (3)*. The program has complied with some financing agreement covenants, while compliance on the following is still outstanding:

- Finalisation and approval of PIM;
- Timely submission and approval of AWPB;
- Compliance with procurement rules and procedures;
- Submission of progress reports to IFAD;
- Taxes not to be paid from IFAD funding;
- Submission of WA at the earliest of elapse of 90 days or disbursement of 30% of the initial advance;
- Monthly submission of Contract Register to IFAD CPM;
- Submission of Quarterly Interim Financial Statements to IFAD within 45 days of the end of the quarter;
- Appointment of Internal Audit Firm after No Objection from IFAD;
- Submission of regular internal audit reports to IFAD.

89. **Procurement** *is rated as moderately unsatisfactory (3)*. The program has hired a procurement associate during the second half of 2016-17 financial year, however, procurement officer has not yet been hired. To support the procurement associate, a procurement consultant has also been engaged on a retainer basis as recommended by previous SV mission. The procurement associate has improved upon the preparation of procurement plan, preparation of a contract register and contract monitoring forms, however, the mission noted the following observations;

- All contracts need to be listed in the contract register;
- Contract monitoring forms need to be fully filled up including information on bank guarantees, payment schedule, progress certificate, invoice number and cheque number;
- Procurement files need to be maintained properly and documents related to procurement process need to be filed in procurement files instead of payment vouchers;

90. The mission reviewed some procurements completed since previous supervision mission, and found that:

- In one case, the quotations obtained are identical except the name of the party and price quoted;
- In one case, quotations of two suppliers have the same address and phone number;
- In one case, quotations of two suppliers appear to be prepared by the same person;
- In case of one supplier, different types of letterhead signed by at least four different authorised representatives are submitted;
- Individual consultant files reviewed did not include evidence of a competitive selection process;

91. The mission strongly recommends that the program management take serious note of irregularities in procurement and ensure that all procurements are conducted in accordance with IFAD guidelines and Government procedures.

92. **Audit** *is rated as moderately satisfactory (4)*. As agreed by IFAD, the Auditor General of Pakistan (AGP) was appointed as ETI-GB's external auditor for the first financial period, which covers the 22-month period from the date of entry into force of the financing agreement (16/09/15) until 30 June 2017[3]. External Audit TORs were prepared and IFAD provides its No Objection on these. The TORs were accordingly provided to the AGP and audit was conducted in August / September 2017. The AGP has shared draft observations to the program and the program has provided its responses. The mission reviewed the draft observations and noted that there were no serious observations. The program is recommended to coordinate with the AGP to expedite resolution of the observations and

[3] Even though the date of effectiveness is 16/09/15, program activities (and consequently financial transactions) did not start until May 2016.

finalisation of the report to ensure submission to IFAD by 31 Dec 2017. The project is also recommended to ensure that the opinions required by IFAD are included in the AGP's report.

93. Despite recommendation by previous SV, the procurement process of a firm for Internal Audit has not yet been initiated. The mission strongly recommends that the procurement of a private audit firm for internal audit of the project be immediately initiated in accordance with IFAD procurement guidelines and LTB.

94. Key agreed actions related to fiduciary aspects are provided in below table while detailed recommendations are in Appendix 3 to the SV report.

Agreed action	Responsibility	Agreed date
Finalisation and approval of PIM by PSC and IFAD.	PC, FD	30 Nov 2017
MOUs of implementing partners be reviewed and strengthened with regards to financial obligations including funds flow, financial reporting, auditing, ownership and monitoring of assets, etc.	PC, FD	30 Nov 2017
Advances to implementing partners should be justified on a monthly basis and further advances released after justification of previous advances.	PC, FD	30 Nov 2017 and ongoing
Contracts with Service Providers to be fully complied with, with regarding to financial matters including obtaining bank guarantees, adjustment of advances and release of payments on completion/certification of deliverables.	FD	Immediate and ongoing
Development of a financial manual for Scheme Management Team and its approval by IFAD.	PC, FD	30 Nov 2017
Preparation of half-yearly cash forecasts (with monthly updates).	FD	31 Oct 2017 and ongoing
Submission of Monthly Withdrawal Applications	FD	31 Oct 2017 and ongoing
Full reconciliation of funds from IFAD and GoGB.	FD	31 Oct 2017 and ongoing
Co-financing agreement with the Italian Government to describe eligible categories of expenditure and/or ratios of financing.	PC, FD	30 Nov 2017
Develop procedures for the valuation, monitoring/reporting and recording of beneficiary contributions in the program accounts.	FD	30 Nov 2017
AWPB to be properly prepared and submitted to IFAD for No Objection.	PC and FD	Immediate
Program management to take serious note of irregularities in procurement and ensure all procurements are conducted in accordance with IFAD guidelines and Government procedures.	PC and FD	Immediate and ongoing
Appointment of private audit firm for internal audit of the program.	PC and FD	30 Nov 2017

F. Sustainability

95. *ETI sustainability is rated as moderately satisfactory (4)*. ETI programme approach and interventions promise high degree of sustainability. The largest investments in irrigation and farm to market roads both follow community driven implementation with future O&M being community responsibility. GB has very well developed traditional community based irrigation management systems and the project would further refine and strengthen these systems. Road network development also banks on free provision of land for right of way by communities and design parameters are technically assessed and approved by PWD. These are small roads with low to

medium traffic density with appropriate cross drainage and support structures which would ensure minimal regular maintenance. The Land Titling System for newly developed land is being embedded in regular government land revenue systems along with training, staffing and equipment that would ensure its future sustainability. The 50% irrigation scheme cost recovery would be jointly managed by SMP and community and would be expended on agreed community development plans approved by ETI. In value chain development, the 4P model is designed to link producers and private sector into commercially sound win-win partnerships that should attain sufficient maturity during project duration to be sustained once project is over.

96. The key for sustainability however would be to quickly develop all supportive processes, procedures, methodologies and guidelines so as to test and refine them with accumulated experience during implementation.

97. **Institution Building:** Institution building under ETI GB is rated as *moderately satisfactory (4).* ETI is investing in a range of institutions for both programme management as well as beneficiary level engagement and implementation. In management, the key institutions are Programme Steering Committee, Programme Coordination Unit and Regional Coordination Units. The Prorgamme Steering Committee has played its role quite effectively however there is need for considerable improvement in timely consideration and approval of Annual Work Plans as well as effective performance assessment of the programme management staff and service providers. IFAD has made considerable effort in building capacity of PCU in planning, coordination and implementation however the PCU still has considerable weaknesses in effective coordination and overall management and would need to work on that. Despite three RCUs being in the field, the planning and coordination has largely remained centralized at PCU level with negative implications for pace of implementation. PCU would need to revisit current division of labour with attendant decentralization of functions and capacities at RCU level. The institution building at beneficiary level is in the form of Scheme Management Teams (SMT) for irrigation and land development and Village and Valley producer Groups for value chain development. Detailed guidelines and standard MOUs have been developed for the first and are currently being further fine-tuned on the basis of experience on the initial schemes. The performance of SMTs is generally very good and efficient however the support and backup from SMP and WMD needs further improvement, in particular on financial management and cash disbursement of wages to labour. The Village and Valley Producer Group formation is still at nascent stage with one round of seed potato production completed and some apricot production enterprises identified for further development. A clear strategy from targeting to full development need to formalized quickly for clear delineation of steps and assignment of roles.

98. **Empowerment:** Empowerment of rates as *Satisfactory (5).* ETI, GB gives a lead role to beneficiary communities in all major aspects of implementation under both components. Men, women and youth are all being proactively engaged and their opinions given due weight. Allotment of all new developed land to every household in the village on equitable basis, including women headed households, and engagement of youth in scheme construction has led to sense of ownership and empowerment for all in the beneficiary communities.

99. **Quality of Beneficiary Participation:** Quality of beneficiary participation is rated as *Satisfactory (5).* A well defined participatory approach, based on tried and tested approaches in the programme are, is being followed including targeting of the poorest on the basis of BISP Poverty Score card. Partnership with an experienced Social Mobilization Partner has greatly facilitated this aspect.

100. **Responsiveness of Service Providers:** Responsiveness of Service Providers is rated as *moderately unsatisfactory (3).* The main service providers include government line departments (Agriculture Extension, Agriculture Research, Water Management Directorate & PWD), AKRSP/Social Mobilization Partner and a Value Chain Technical Assistance Team. Results/Output based MOAs have been signed with all service providers except PWD. The MOA’s list the resources that the project would provide and the outputs and results that are expected from the Service Providers. Number of weaknesses have been noted in this arrangement which have been described

in detail under relevant components/sub-components. The primary one being lack of accountability of the service providers by PCU and PSC in the light of MOAs. None of the agencies has so far notified dedicated staff for programme work in each region/scheme and the programme provided facilities and vehicles are generally not available to the staff working on project work.

101. **Exit Strategy:** Readiness of exit strategy is rated as *moderately unsatisfactory (3).* Preparation of a comprehensive exit strategy was one of the key agreed actions during previous supervision mission but no progress has been made in this regard so far. Main reason appears to be lack of clarity and capacity within PCU on the structure and process for the development of an Exit Strategy. It would be helpful for PCU staff if some good examples of Exit Strategies from within IFAD are shared with them.

102. **Potential for Scaling-up and Replication:** Potential for scaling-up and replication is rated as *Satisfactory (5).* ETI GB has introduced number of innovations for both infrastructure development and value chain development. The initial results have clearly demonstrated the soundness of these innovations and underlying assumptions. This includes communities eagerness and willingness to assume a lead role in developing very challenging irrigation schemes, willingness to payback 50% of the scheme cost for further investments in community development, provision of right of way for roads free of cost, engagement in seed potato production initiative under stringent quality controls, engagement in 4-P value chain development etc.

Agreed action	Responsibility	Agreed date
Formulate a clear strategy and guidelines for the formation and development of Village and Valley Producer Groups for various value chains and submit for IFAD N.O.	PCU, VCTAT	30 Nov 2017
Share two/three good samples of Exit Strategies with PCU from within IFAD Portfolio	IFAD	31 Oct 2017
Prepare and furnish an Exit Strategy for IFAD Review	PCU	31 Dec 2017

G. Other

103. **Italian Co-Financing:** Italian Cooperation has approved a co-financing of US$ 20.5 million for ETI and Draft Financing Agreement was shared with the mission by PCU. This is fifth draft of the agreement and so far none of them have officially been shared by Italian Cooperation or EAD with IFAD. There also appears to be a lack of communication within EAD as IFAD and Italian Cooperation are managed by two different wings of EAD. The draft shared with the mission has one serious omission i.e. it does not contain any description of eligible categories or ratios for the use of Italian funds. This is very important if the PCU has to effectively deploy and account for these funds together with IFAD and Government Funds. A mission meeting with Italian Cooperation Staff[4] in Islamabad led to following understanding:

(a) Italian Cooperation will officially share the Financing Agreement with IFAD

(b) IFAD will share Schedule 1 and 2 of its Financing Agreement to help Italian Cooperation in determining their component/activity wise allocation of funds in a manner that they address the co-financing needs identified in IFAD agreement and making the same part of their financing agreement

(c) IFAD and Italian Cooperation will discuss with EAD the options for better communication and coordination between the two wings dealing with IFAD and Italian Cooperation.

[4] Dr. Daniele Lenci, Manager. Phone# +92 317 577 7237

H. Conclusion

104. ETI loan became effective in September 2105 and programme is now completing its second year. Despite some very good results in terms of quality and pace of work on already initiated irrigation and some road schemes, overall pace is still not good enough for attaining the objective of completing all irrigation and substantial part of road targets by December 2018. The value chain, potato seed production and 4P activities are also in need of serious boost. Many of the current issues are due to lack of an integrated and coherent implementation strategy that clearly links all processes and actors effectively in entire programme implementation cycle and clearly assigns targets, roles and responsibilities to all levels and partners followed by regular review and accountability for results. The role of RCUs in planning, implementation and coordination also need to be revamped with clear assignment of decision-making and implementation role. Regular performance assessment of all implementing partners against project targets assigned to them and agreements contained in their MOUs/Contracts also need to be ensured for performance for results. All these together with a sincere effort to implement the agreed actions contained in this supervision report, would definitely enable the programme to attain much better progress from now to Mid-term Review.

105. The findings and recommendations of ETI GB Supervision Mission (23 Sep to 03 October 2016) and agreed/endorsed.

Appendix 1: Summary of project status and ratings

Basic Facts

Country	Pakistan	Project ID	2000000836	Loan/DSF/Grant/ASAP FI No.	2000001114
Project	Economic Transformation Initiative - Gilgit Baltistan			Top-up Loan/DSF/Grant/ASAP FI No.	

Date of Update	16-Nov-2017		
Supervising Inst.	IFAD		
No. of Supervisions	2	No. of Implementation Support/Follow-up missions	2
Last Supervision	15-Oct-2017	Last Implementation Support/Follow-up mission	29-Feb-2016

					USD million	Disb. rate %
Approval	22-Apr-2015			Total financing	120.15	
Agreement	16-Sep-2015	Effectiveness lag	4.9	IFAD Total	67.00	
Entry into force	16-Sep-2015	PAR value	--------	IFAD loan	67.00	7
First disbursement	11-Apr-2016			DSF grant		
MTR		Last amendment		IFAD grant		
Original completion	30-Sep-2022	Last audit		ASAP grant	0.00	0
Current completion	30-Sep-2022			Domestic Total	30.17	
Current closing	31-Mar-2023			Beneficiaries	6.54	0
No. of extensions	0			National Govern	23.63	0
				External Cofinancing Total	22.98	
				TBD	22.98	0

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	3	3	1. Quality of project management	3	3
2. Acceptable disbursement rate	2	2	2. Performance of M&E	3	3
3. Counterpart funds	4	4	3. Coherence between AWPB & implementation	3	3
4. Compliance with financing covenants	3	3	4. Gender focus	4	4
5. Compliance with procurement	3	3	5. Poverty focus	4	4
6. Quality and timeliness of audits	4	4	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	3	3
			8. Climate and environment focus	4	4

B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Productive Infrastructure	4	4	1. Institution building (organizations, etc.)	4	4
2. value chain development	3	3	2. Empowerment	5	5

	3. Quality of beneficiary participation	5	5
	4. Responsiveness of service providers	3	3
	5. Exit strategy (readiness and quality)	3	3
	6. Potential for scaling up and replication	5	5

B.5 Justification of ratings

Fiduciary Aspects: PIM has not yet been finalised and approved, WA are not submitted to IFAD on regular basis, designated account has not been reconciled, contract and procurement management checking have revealed serious weaknesses or deviations, cash forecasting and planning is not properly done which may cause significant slowdown in the implementation of the field activities. Project Implementation: The PCU still lacks essential management tools and practices to effectively implement the project in an integrated manner. Progress against the AWPB is at 5%, and there is an evident lack of leadership and pro-activity. In terms of tools, there is no monthly/quarterly agenda and AWP/B based planning and review meetings at PCU level nor is this system operational at regional level. Gender and poverty focus remains satisfactory under a well-developed gender and poverty strategy and use of BISP Poverty Score Card for targeting. Outputs and Outcomes: Qualitative and quantitative progress under Component 1 is slightly behind the targets agreed during previous supervision but qualitatively quite satisfactory and the current progress lag can be quickly overcome if mission recommendations are properly implemented. Progress under value Chain Development has remained slow due to lack of understanding of 4P concept both within PCU and VCTAT despite exposure visits to Sri Lanka. Sustainability: Effective coordination and accountability of service providers has remained weak and there is need for ensuring that service providers use the project resources for purposes described in MOAs and implement activities as per project strategy and phasing and in close coordination with SMP and RCUs.

Overall Assessment and Risk Profile

		Last	Current
C.1	Physical/financial assets	3	3
C.2	Food security	4	4
C.3	Quality of natural asset improvement and climate resilience	4	4
C.4	Overall implementation progress (Sections B1 and B2)	4	4

Rationale for implementation progress rating
ETI GB management has struggled over the last one year in developing and deploying effective management tools for coordinated and integrated implementation. However, recent developments under both components promise to address some of the existing progress lags, particularly under irrigation and value chain components particularly if the close hand-holding and supervision is ensured over the coming six months and project's authorized advance is enhanced to US$ 3 million to ensure sufficient liquidity for the likely improved pace of implementation.

C.5	Likelihood of achieving the development objectives (section B3 and B4)	4	4

Rationale for development objectives rating
The revised implementation strategy agreed during the mission along with decentralization of implementation responsibilities to RCUs under both components will provide the needed impetus to implementation. Over 60% of the irrigation and land development sites have been identified and feasibilities completed while around 30% of road linkages also identified. First 4P value chain was signed during the Mission's presence establishing a model and guideline for at least two more in the pipeline which will further pave way for many more promising ones currently being evaluated in VCTAT. This, together with other improvements agreed in terms of overall management and coordination would lead to much better delivery over the coming six months and put the project on track to achieve its development objectives.

C.6 **Risks** *Short description of major risks for each section and their impact on achievement of development objectives and sustainability*

Fiduciary aspects	Despite installation of TOMPRO Accounting software, the finance wing has demonstrated poor control and adherence to good financial management protocols . Reconciliation of IFAD and Government funds had been challenging leading to delays in submission of WAs. PCU needs to quickly assess the suitability of current team and make necessary adjustments where needed.
Project implementation progress	Absence of a strategy for integrated implementation of programme activities and weak coordination at both PCU and RCU level with implementing partners and service providers. Needs to be addressed immediately to ensure synergies, accountability for performance and enhanced impact.
Outputs and outcomes	It is imperative that development of land is synchronised with development of irrigation so as to allow the payback mechanism to kick-in in the first year of scheme completion and project still has the leverage to ensure equitable distribution of land among all households. This is not happening at the moment. A large part of irrigation scheme cost is in shape of cash payment for labour and there is need for an effective oversight mechanism to ensure that full agreed payments are made and accounted for.
Sustainability	Community led implementation with technical support by a SMP that has a permanent stake in the region and permanent line departments would greatly contribute to sustainability of programme's approach and investments. Project is investing in legal and institutional development to ensure legal cover for land entitlements of the beneficiaries.

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Implementation	Develop proper strategy and guidelines for integrated and coordinated implementation of all project activities; decentralize to maximum extent to the RCUs;	immediately	done

	hold service providers accountable for proper coordination, reporting and use of programme provided facilities for programme purposes; get notified staff of all service providers for each region; institute system of quarterly and monthly meetings at PCU and RCU level for AWP/B implementation and coordination together with regional monthly activity plans covering all components		
Management	PSC to assess performance and suitability of all key staff and make necessary changes where necessary	15 November 2017	
Fiduciary Aspects	Assess the competence and capacities of Finance Wing staff and take remedial measures where warranted; ensure regular pipeline of Withdrawal Applications; furnish request for enhancement in authorized advance to cater for likely higher expenses on irrigation scheme advances; improve financial forecasting	30 November 2017	
Regular supervision and back-up	IFAD to Institute short follow-up support missions to ensure effective implementation of all Mission recommendations and address any emerging issues	on-going	
staffing	Fill all remaining vacant positions; revise the existing organogram to provide capacities where needed including RCUs. Continue with short-term additional staff deployment as consultants for irrigation and road works on need basis and subject to IFAD No Objection	15 November/ on-going	

Additional observations

PCU needs to improve vertical and horizontal communication to ensure that all stakeholders are fully aware about programme purpose, approach, methodology and roles and responsibilities. It must be ensured that all key staff at all levels is fully conversant with PDR and findings and recommendations of supervision mission’s are shared with all key staff and progress reviewed on all such recommendations as part of monthly/quarterly progress review meetings.

Appendix 2: Status of previous recommendations

Action Agreed	Whom	Date	Status as per Project	Status as per SV
Finalization of procurement and installation of the accounting software; preparation of Excel worksheet to facilitate transfer of data into accounting software	Finance Manager	31/12/16	Installed and training conducted in December 2016	Completed
Coding of all transactions (since program start) with account number, component, AWPB activity and district codes	Finance Manager	31/10/16		Completed
Preparation of monthly financial reports including analyses of disbursement rates by category, AWPB financial execution by sub-component, cash situation and forecast, IPs' financial situation, procurement plan execution and administrative issues	Finance Manager	Monthly		Not Completed
Administration: a. Provision of staff health/accident insurance b. Implementation of performance evaluation system for professional and support staff, as well as consultants c. Tagging of all program assets d. Insurance policy for all program assets e. Monitoring of fuel consumption on a monthly basis using the Excel model provided by the mission	Admin Officer (acting)	31/10/16	a. Health/accident insurance obtained b. c. Tagging of assets completed. d. Insurance of assets obtained. e.	a. Completed b. Not Completed c. Completed (except assets at Implementing partners) d. Completed only for vehicles and not for other assets. e. Completed
Finalization of Program Implementation Manual, including Operations, Finance & Admin procedures and M&E	PCU/RCUs	31/10/16	Admin and finance manual is complete, but not approved as of year end.	Not Completed Operation and M&E portions yet to be developed. Final document to be approved by PSC and IFAD.
Revision of AWPB: a. Include specific detailed activities to be undertaken for Component 3 (program management, finance/administration and M&E) b. For each activity in the AWPB, include individual reference codes, expense categories, and staff responsible. c. Attach a sheet showing full documentation of unit costs and assumptions d. Include recap disbursement tables by category and by component (cumulative disbursements, forecasted expenditure per AWPB and expected disbursement rate/funds balance against the loan allocation and PDR	Program Coordinator (PC) Finance Manager	15/12/16	Agreed	Not Completed
Analyse budget-to-actual variances each month during a budget review meeting with PC and component heads	Finance Manager	Monthly		Not Completed
Recruitment of a senior procurement consultant on a retainer basis and recruitment of a full-time Procurement Officer	PC	31/10/16	On time.	Completed
Finalization of the draft procurement plan and revision of the PP in December, based on revised AWPB	Procurement expert	31/10-15/12	Procurement associated has finalized	Completed

Update of the PP on a real-time basis (every time a procurement action is completed) and monitoring of PP execution	Procurement Officer	Continuous		Not Completed
Submission of updated contract register to IFAD each month; preparation of contract monitoring forms (C11) as needed	PO and FM	Continuous		Not Completed
Finance staff and component heads to become fully conversant with procurement rules and procedures	PCU/RCUs	31/10/16		Not Completed
Procurement process: a. Use of appropriate procurement methods and procedures as per applicable rules and PIM b. Use of generic technical specifications, avoiding brand names c. Complete procurement files including advertisement, bid submission form, IFAD no objection, etc. d. Identification of all procurement with an individual procurement number	Procurement Officer	Continuous		Not Completed
Preparation of half-yearly cash forecasts taking into account commitments and expenditure forecasts; update monthly	Finance Manager	Monthly		Not Completed
Receipt of monthly bank statements (showing designated account balances and movements in USD, not PKR) and preparation of monthly bank reconciliations for all accounts	Finance Manager	Monthly	Bank reconciliation are being prepared regularly for all the accounts	Completed
Designation of alternate signatories for all bank accounts (to be used only in the absence of the main signatories)	PC	30/11/16		Completed
Definition of contractual modalities and financial obligations to be included in MOAs with implementing partners (advances/funds flow, financial reporting, dedicated bank account, audit, ownership and monitoring of assets, etc.)	PC/Finance Manager	30/11/16		Not Completed
Preparation of WA #2 covering all outstanding expenses to date	Finance Manager	31/10/16	All the expenses claimed as of 31 May 2017 with drawal application will be sent till 30 September by the end of October.	Completed
Request for 2nd tranche of initial advance (upon installation of accounting software)	Finance Manager	31/12/16	Received 2nd tranche	Completed
Close monitoring of category 2 expenses to avoid exceeding the loan allocation; purchase of equipment from GoGB funds as prescribed in the Project Design Report	Finance Manager	Continuous	Almost all the procurement is carried out and details of equipment procured from government fund can be extracted from system	Not Completed
Reimbursement from IFAD account of eligible expenditure pre-financed by GoGB	Finance Manager	15/10/16	PCU is pooling fund in one account for the purpose of payments and funds can't be deposited into bank account.	Not Completed
Preparation of designated account reconciliation (Form 104) at the end of each month	Finance Manager	Monthly		Not Completed
Calculation of GoGB contribution requirement based on AWPB funding requirements; maintenance of a counterpart file including fund request letters,	Finance Manager	Annually	System automatically separates GOGB contribution	Not Completed

confirmations of funds releases from GoGB and monthly reconciliations of account				
Establishment of procedures for the valuation, reporting and recording of land cost (beneficiary contributions) in the accounts	Finance Manager	31/10/16	Is not finalized. Finance and Engineering section has meeting and agreed that valuation will be done by the engineering section of contribution by the community	Not Completed
Submission of internal audit TOR for IFAD no objection and launch of procurement process	Finance Manager and PC	31/10/16	Internal audit TORs were prepared recently, process was delayed because of the management wanted to recruit internal auditors within the PCU for close monitoring, but later on Aziz advice prepared TORs and submitted to Aziz, These are now in RFP stage, these RFPs have been shared with Shankar, once these are cleared from Shankar, This will be submitted to IFAD for NO.	Not Completed
Submission of external audit TOR for IFAD no objection and planning of audit work with the Auditor General's office		15/02/17	NOC was awarded and audit was carried out by the DG audit	Completed

Appendix 3: WA verification

TESTING OF REPLENISHMENT WITHDRAWAL APPLICATIONS AND SOEs (October 2016 to SEPTEMBER 2017)

WA n°	Date of WA signature / Period covered	Amount (in USD)	Prepared per IFAD instructions	Relevance / eligibility of expenditure	Exp. incurred in past 3 months	Expenditure recorded in correct category	Verification of support. documents	Amount and % of SOE tested	Comments
2	29 Dec 16	1,500,000	Yes	N/A	N/A	N/A	N/A	N/A	Initial Advance - Second Tranche
3	19 Apr 16	23,891	Yes	Yes	Yes	Yes	Yes	N/A	Direct Payment to Accounting Software Supplier outside Pakistan
4	15 Jun 17 / 01 Apr 16 to 31 Jan 17	821,334	Yes	Yes	No	Yes	Note 2	Note 3	
5	12 Aug 17 / 1 Feb 17 to 31 May 17	401,702	Yes	Yes	No	Yes	Note 2	Note 3	
		2,746,927							

NOTES AND OBSERVATIONS:

1. WA 1 and 2 were for initial advance. WA 3 was for Direct Payment. WA 4 and WA 5 were for reimbursement and sample SOE were tested.
2. Selection of SOEs to test in each WA: few item in each category, selected to ensure sample of each type of expenditure.
3. Verification of supporting documents: see table below.

GENERAL COMMENTS:

1. Expenditure incurred was for more than 3 months.
2. Special Account Reconciliation needs to be properly supported (detail of cash in hand, detail of advances made but not claimed, detailed reconciliation of financing of Government share by IFAD funding or IFAD share by Government Funding);
3. Details in the SOE need to be properly filled up e.g. columns for name of supplier, contract/invoice number have not been properly filled up;
4. SOE limit to be properly followed;

Appendix 4: Actual financial performance by financier; by component and disbursements by category

106. **Table 5A: Financial performance by financier**

Financier	Appraisal (USD '000)	Disbursements (USD '000)	Per cent disbursed
IFAD loan	67 000 000	5 969 802	8.9
Co-financier	22 980 000	0	0
Government	23 630 000	2 320 514	9.8
Beneficiaries	6 540 000	0	0
Total	**120 150 000**	**8 290 316**	**6.9**

Table 5B: Financial performance by financier by component (USD '000)

	IFAD Loan (Note 1)			Government			Co-financier			Beneficiaries			Total		
Component	**Approval**	**Actual**	**%**	**Approval**	**Actual**	**%**	**Approval**	**Actual**	**%**	**Approval**	**Actual**	**%**	**Approval**	**Actual**	**%**
1. Productive infrastructure	36 950 000	1 637 824	4.4	15 550 000	1 552 192	10.0	14 000 000	0	0	6 540 000	0	0	73 040 000	3 190 016	4.4
2. Value Chain Development	24 870 000	1 102 373	4.4	4 970 000	380 332	7.6	7 040 000	0	0	0	0	0	36 880 000	1 482 705	4.0
3. Programme Management & policy support	5 180 000	229 606	4.4	3 110 000	387 990	12.5	1 940 000		0	0	0	0	10 230 000	617 596	6.0
Initial deposit	0	3 000 000	-	0	0	-	0	0	-	0	0	-	0	3 000 000	-
Total	**67 000 000**	**5 969 802**	**8.9**	**23 630 000**	**2 320 514**	**9.8**	**22 980 000**	**0**	**0%**	**6 540 000**	**0**	**0**	**120 150 000**	**8 290 316**	**6.9**

Note 1: Amounts of actual expenditure from IFAD loan are not available component wise. The amounts are presented on pro-rata basis.

Appendix 5: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Section B.6 **Section B.7**	Opening of a designated account, a PCU program account and 3 RCU sub-accounts	At program start	Done	DA at State Bank of Pakistan, Program account and sub-accounts at National Bank of Pakistan
Section B.8	Provision of counterpart financing of approx. USD 24 million from the GoGB	Throughout program implementation	On-going	Yes - Ongoing
Section E.1 (i)	Appointment of Program Coordinator and Finance Manager	Condition precedent to withdrawal	Done	
Section E.1 (ii)	No objection from IFAD on the draft Program Implementation Manual	Condition precedent to withdrawal	Partially done	IFAD NO was received on draft PIM. However, the PIM has not yet been finalized and approved.
Section E. 2	Installation and operationalization at the PCU of a computerized accounting system, acceptable to IFAD	3 months after entry into force of FA	Done	Procurement, installation and operationalization of accounting software has been completed.
Schedule 1 – II.8	Establishment of a Program Steering Committee at GB provincial level, headed by the Chief Secretary	At program start	Done	
Schedule 1 – II.9 and 10	Establishment of a Program Coordination Unit and 3 Regional Coordination Units (for Diamer, Gilgit and Baltistan regions)	At program start	Done	
Schedule 1 – II.12	Conduct of a Mid-Term Review jointly by the Borrower and IFAD.	By end of 2018	Not yet due	
GC-Section 7.01 (b) (ii)	Submission of AWPB to IFAD for its review and comments	30 April each year	Done with delay	• 2015-16: No AWPB (activities started in May 16). • 2016-17: AWPB submitted in September 2016 • 2017-18: AWPB submitted in September 2017 but IFAD required to revise it, as it needed substantial improvements.
GC-Section 7.05 (a)	Procurement of goods, works and services carried out in accordance with the applicable rules and procedures	Throughout program implementation	Partially complied	See Procurement section of supervision report
GC-Section 7.08 (a)	Insurance of program assets in accordance with sound	Throughout program	Partially done	Insurance of Vehicles done.

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
	commercial practice	implementation		Insurance of other assets not done.
GC-Section 7.11	Health & accident insurance for project staff	Throughout program implementation	Done	
GC-Section 8.03 (a)	Submission of progress reports to IFAD	Quarterly	Not Complied	Not submitted.
GC-Section 8.04	Submission of a project completion report	Before loan closing date	Not yet due	
GC-Section 9.02	Submission of program financial statements for each fiscal year	31 October each year	Not yet due	2015-16: Not submitted as practically program was not started. 2016-17: Not yet due
GC-Section 9.03	Submission to IFAD of audit report and reply to management letter	31 December each year	Not yet due	
GC-Section 11.01 (c)	Taxes not to be paid from IFAD financing	Throughout the program implementation		Taxes deducted from payments to suppliers and employees charged to IFAD.
LTB - A - 8	Withdrawal application to be submitted at the earliest of elapse of 90 days or disbursement of 30% of the initial advance.	Throughout the program implementation	Not Complied	WA 4: 1 Apr 2016 to 31 Jan 2017 - Submitted on 24 May 2017 WA 5: 1 Feb 2017 to 31 May 2017 - Submitted on 14 August 2017
LTB - B - 11	Statement of Expenditure Threshold USD 50,000	Throughout the program implementation	Not fully complied	Purchase of vehicles although higher than SOE threshold, still claimed under a form which is designated for below SOE threshold.
LTB - F - 28	Contracts to be listed in Register of Contracts and submitted to IFAD CPM on a monthly basis.	Throughout the program implementation	Not Complied	Contract register not submitted to IFAD CPM on a monthly basis.
LTB - G - 30	Summary Interim Financial Reports (IFR) to be submitted to IFAD on Quarterly Basis within 45 days	Within 45 days of each quarter end	Not Complied	
LTB - G - 31	Appointment of Independent Auditors within 120 days after the beginning of each year	30 Oct 2016 30 Oct 2017	Complied but late compliance	2016: 20 June 2017 2017: Not yet appointed.
LTB - G - 34	Appointment of Internal Audit Firm after No Objection by IFAD.	Immediate	Not Complied	
LTB - G - 34	Submission of Internal Audit Report to IFAD	Immediate	Not Complied	