

**Aide Memoire  
Implementation Support Mission  
KP-Rural Economic Transformation Project  
(15– 19 April 2024)**

## **A. Background**

1. The Khyber Pakhtunkhwa-Rural Economic Transformation Project (KP-RETP) was approved by IFAD's Executive Board on 30<sup>th</sup> December 2021, the Financing Agreement was signed on 05<sup>th</sup> May 2022, and the Government of Pakistan's administrative approval was accorded on 30<sup>th</sup> June 2022. The total cost of the project is estimated at EUR 159.22 million with IFAD loan of EUR 74.090 million, EU grant co-financing of EUR 16.5 million, and provincial Government of Khyber Pakhtunkhwa (GoKP) and beneficiary contributions of EUR 25.46 and EUR 43.17 million respectively. The investments are to be carried out over a seven years project life (2021-2027).

2. The overall goal of the project is to contribute to poverty reduction, food and nutrition security and strengthened resilience of rural households. The development objective is to sustainably increase incomes of rural households through climate-resilient, high-value agriculture and off-farm/non-farm employment opportunities. KP-RETP will be implemented in all districts of KP province and will benefit around 785,000 households (4.35 million corresponding persons). KP-RETP targets: (i) smallholder farmers actively engaged in agriculture; (ii) households falling in 0-34 PSC; (iii) households experiencing food insecurity and malnourishment; and (iv) rural women and youth. Gender, youth, nutrition and climate change will be mainstreamed into all aspects of project implementation. The project will ensure participation of 50% youth and 25% women beneficiaries in all the project activities. The objective of the project will be achieved through an integrated approach of agribusiness development, skills development and employment promotion through a participatory demand driven approach. The project components are mutually supportive and complementary. The project components are:

- a. Agribusiness Development (Professional Farmers Organizations, 4P Development, Farm Service Centres, Support to MOA),
- b. Skills Development and Employment Promotion (Skills Development, start-up capital; Public-Private internship programme, support to TEVTA),
- c. Project Management and Policy Support.

3. The Planning and Development Department is the Project's execution agency, with implementation to be carried out through an autonomous Project Management Unit, with the support sourced from different implementation partners and service providers in complementarity with the public sector institutions (Departments of Agriculture, Livestock and Cooperatives, Environment, Local Government, Social Welfare, TEVTA and Industries as well as academia and industries). Private companies, in particular MSMEs, already in the agribusiness and other sectors and with financial capacity and demonstrated market share will also be involved notably under 4Ps (public-private-producer partnerships), youth's job market integration and many different partnerships.

4. An IFAD Start-up Support Mission<sup>1</sup> was undertaken during 15 to 19 April, 2024. Main objectives of the Mission were to: (i) conduct a project start-up workshop for the project and implementing partners' staff; (ii) review project progress since last supervision mission in November 2023, and assess the status of achievement against actions agreed during supervision; (iii) identify any issues and assist the project management in resolving them for a more expeditious implementation.

5. The Mission held meetings with Additional Chief Secretary, PD and newly recruited PMU core staff of KP-RETP, TEVTA and FAO. A debrief was held with the Additional Chief Secretary. A wrap-up meeting with Ministry of Economic Affairs, Economic Affairs Division is also planned. The Project Start-up workshop was held, with ACS as the Chief Guest, where the Mission members and relevant experts from IFAD HQ oriented the participants about the project objectives, components, IFAD's guidelines and processes.

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## B. Progress Overview:

6. The Project has been categorised as Actual Problem Project (APP) as a result of the full supervision mission carried out in November 2023. While there has been progress on some recommendations, these mostly relate to development of guidelines and processes, however, only partial progress was achieved on more concrete actions related to procurements and staff recruitment. While a more detailed project improvement plan (PiP) will be shared subsequently, a brief overview of assessment is as following.

7. **Component 1: Agribusiness Development.** The preparatory activities under the component include selection of Business Mobilization Partner(s), the process for which is yet to be completed. Based on advice of the latest supervision mission, selection process was reinitiated, however it is unlikely that it will be completed by 31 May 2024 as was agreed. REOI has now been advertised with the submission deadline of 07 May 2024. A realistic onboarding is anticipated in the last quarter of 2024 and initiation of activities by early 2025 which will significantly delay delivery of the component. However, PMU can start business mobilization in newly merged districts under component 1 by developing in-house capacity. For NMDs, PMU may also explore partnership with FAO, taking advantage of their ongoing interventions in the districts, the availability of tools (ruralinvest for business planning) and ability to work throughout KP and NMDs. Direct implementation by PMU in NMDs was envisaged in the project design owing to challenges in securing no objection by service providers. For this purpose, PMU needs to develop guiding manual for the business mobilization; hire field business mobilization consultants, orient the field consultants and initiate business mobilization for formation of farmers' organisations and 4Ps in NMDs. In addition, PMU also need to engage with farm service centres to undertake institutional assessment of all FSCs with a view to identify those having the highest potential for investment by the project. The mission provided guidance on adopting tool to undertake this assessment. TORs have also been developed for consultancy services to be utilised for this assessment.

8. **Component 2: Skills Development and Employment Promotion.** The project management unit has started engaging with TEVTA, and a draft MOA has been shared with TEVTA. The mission reviewed the scope of partnership with TEVTA and identified the need to clearly define the deliverables for the first Memorandum of Agreement (MOA) which can subsequently be extended and expanded as the component is rolled out. The mission held discussions with TEVTA and PMU and identified priority activities to be included in the MOA, notably: (i) undertaking job market assessment and preparation of employment outlook; (ii) identify 10 priority trades regarding revision of curricula to make it more experiential and to align it to the current/future skills requirements; (iii) identify 5 new curricula development related to agribusiness, hospitality and tourism, construction etc.; (iv) for the provision of start up support identify eligible graduated trainees from the batch completed in February 2024 (41,000 enrolment) and the current batch to be completed in July/August 2024 (43,000 enrolments). Assuming on average 6% of trainees falling in the eligible group (poverty score, youth and gender), the project can easily cover 5,000 who can be supported to start entrepreneurship through start up finance. In parallel the subsequent batch shall have absorbed up to 5,000 potential trainees under the different programs run by TEVTA. Selection of service provider(s) shall be initiated for the job market integration activities. The dedicated manager for the component is yet to be recruited which need to be expedited.

9. **Project Management and Policy Support.** The project is yet to make progress on completion of establishing PMU and regional office, staff recruitment and procurement of necessary assets. Following is the overall status of key aspects related to project management while progress against recommended actions of the previous supervision mission is given in Annex I.

- a. **Financial Progress:** Total project expenditure under current year 18-month AWPB (1st January, 2024 to 30th June, 2025) is Euro 87,140. There is nil expenditure under components 1 and 2 so far.
- b. **PMU and Regional Offices' Staffing:** Of the total 46 professional staff in PMU and RCUs, 15 have been recruited in the first round. Two Regional Coordinators are also on board, one will join in near future. Rest of the positions in PMU and RCUs could not be filled due to unavailability of qualified candidates. Vacancies have been re-advertised and recruitment process is expected to be completed by end May.
- c. **Establishment of PMU and Regional Offices:** A dedicated building has been rented in Peshawar for the PMU and Regional Office for central region. The two regional coordinators recruited so far are currently identifying building for their regional offices. Rest have to await recruitment of Regional Coordinators.
- d. **Financial Management:** A full time qualified and experienced Finance Manager is now managing FM function whereas the support staff is under hiring. The project favours using the provincial

government's SAP system—instead of buying a software, to book project expenditure in the provincial government's accounts automatically. A request was sent during the mission to the DG MIS Office, Controller General of Accounts, Islamabad to obtain SAP connectivity at PMU. The provincial government's rules and regulations—compliment with PIM, provide a reasonably robust internal control environment for the project. PIM, however, should be updated as implementation experience dictates. No internal audit function exists but the project agrees with IFAD to create one using one of its qualified staff for this role. Mission feels that the FM arrangements will be adequate—once all FM staff is on board, IA function established, and SAP system operational at PMU. No expenditure was incurred during FY 2022-23 so a nil expenditure report will be provided by external audit to EAD/IFAD.

- e. Procurement of Office Equipment and Vehicles: Furniture and fixtures have been procured for the PMU. IT equipment bids have been received and are currently being evaluated for award of contract, and procurement is expected to be completed by end May 2024. Chief Minister has approved the summary for the procurement of vehicles and it has now been submitted to the Cabinet for approval and exemption from ban on procurement of new vehicles. The summary is expected to be approved by Cabinet in next couple of weeks. And then process for procurement will be initiated.

10. The start up support mission organised and conducted a two-day workshop wherein orientation sessions were held covering diverse themes including technical, project management, fiduciary, procurement, SECAP, social inclusion and ethics etc. The workshop was attended by PMU staff and relevant government departments. In addition, the mission held bilateral discussions with key PMU staff to identify entry points for initiating project activities and provided guidance/clarity needed.

### **C. Main Mission Recommendations and Agreements:**

11. Main Mission recommendations and agreements are as following:

- a. Initiate business mobilization for PFOs and 4Ps in NMDs: It was recognized during the project design that coverage of NMDs by BMPs may face issues related to NOCs etc. and, therefore, an option of direct implementation by PMU was included. PMU shall prepare a self-contained strategy, budgeted action plan and business mobilization manual/guidelines for initiating PFO formation and 4Ps development in NMDs. FAO is already working in newly merged districts and in other parts of KP on several value chains. PMU shall take stock of lessons, geographic coverage and commodities covered before developing action plan for business mobilisation and explore options for partnerships with FAO taking advantage of their field presence and expertise in farmer organisation and business planning. Parallel to that, the process for the engagement of Business Service Providers for the region may be carried out more efficiently and ensure that the partners are on board by the 4<sup>th</sup> quarter of current year. The project should target, at minimum, 5 FSCs, 30 PFOs and at least 1 4P organised and made commercially functional before June 2025 through its in-house/collaborative implementation arrangement.
- b. Business Mobilization Partner Selection for Settled Districts: Based on advice of previous mission, previous selection process was scrapped. However, PMU could not adhere to the timelines agreed with the SV Mission whereby the process was agreed to be completed by 31 May 2024. Fresh REOI has now been advertised and last date for the submission of EOIs is 07 May 2024. PMU should now establish a clear timeline for the completion of remaining steps as quickly as possible and share with IFAD for review. Mission provided hands-on support in preparation and clarifications and a draft RFP.
- c. Establishing and Strengthening of Farm Service Companies: Engage consultancy services on the basis of TORs provided during the Mission to carry out institutional assessment of Farm Services Centres to prioritise the 35 most promising ones for their conversion into farm Services Companies in Public-Private Partnership mode having operational and commercial autonomy. The institutional assessment and prioritisation of FSCs should be completed by 31 July 2024.
- d. Conclude MOA with TEVTA: The first MOA with TEVTA shall cover: (i) undertaking job market assessment and employment outlook development; (ii) identification of 10 priority trades regarding revision of curricula to make it more experiential and to align it to the current/future skills requirements; (iii) identification and development of 5 new curricula related to agribusiness, hospitality and tourism, construction etc.; and, (iv) provision of start up support/grants to eligible graduated trainees (PSC 0-34) from the batch completed in February 2024 and the current batch to be completed in July/August 2024. In parallel selection of service provider(s) shall be initiated for the job market integration activities. MOA shall be signed before 31 May 2024 while targets related to TEVTA shall be included in the AWPB 2024/25. During the next 18 months,

the project should provide support to TEVTA in training 5,000 youth and start up financing to 5,000 graduates eligible as per Project's targeting under TEVTA's ongoing programs, undertake curricula revision and market study and strengthening 3 centres of excellence for experiential learning.

- e. Unit cost parity: In line with the approach in other IFAD assisted project, unit cost under the prevailing devaluation needs to be adjusted as per changing US\$/PKR exchange rate. The PMU shall use the USD unit cost equivalent in every year's AWPB and get approval from Project Steering Committee. IFAD's no objection shall also be sought once PSC has approved being a standard practice.
- f. PMU Autonomy: IFAD Financing Agreement stipulates an Autonomous PMU for the implementation of KP-RETP and PMU structure in PDR is designed on that basis to ensure enough capacities for self-contained decision-making on all aspects of project implementation under the strategic and policy guidance of PSC. Prior to the establishment of PMU, regular departmental channels were being used for approval of various activities which led to delays in decision-making. Now with the establishment of an autonomous PMU, autonomous nature of PMU needs to be recognized and once Project's AWPB is approved by PSC, all decisions related to recruitments, procurements etc. are to be taken at PMU level without any reference to any outside department or entity. Any Committees required for procurement, recruitment etc. will consist of PMU staff only.
- g. Early completion of staffing, procurement and office establishment: Project needs to expedite recruitment of staff, establishment of regional office and procurement of equipment/vehicles – completing these by 30 June 2024. On priority basis the positions of project coordinator, remaining regional coordinators and manager employment shall be completed. The on-boarding of public sector agencies for component 1 and component 2 shall be completed by 30 June 2024.
- h. Review of Salary Structure of PMU and RCU Positions: Mission attention was drawn to current anomalies in the salary structure applied to professional positions in the PMU and RCUs. Currently, applied salaries follow provincial guidelines and are considerably lower than those provided in the PC-I and this is identified as one key factor for lack of response for advertised positions. PMU shall prepare a self-contained case for the revision of current salary structure based on comparison of salary structure recommended by Planning Commission for foreign funded projects, prevailing salary structures in other foreign funded projects in KP and salaries proposed in Project PC-I/PDR and submit to PSC with its recommendations by 31 May 2024.
- i. Notification of Departmental Focal Persons and Project Coordination Committee: Nominations of focal persons have been received from the departments but notification of Project Coordination Committee and its TOR has not happened yet and need to be expedited. PMU shall institutionalise conduct of monthly planning and review meetings with PMU staff and line departments focal persons from now onwards.
- j. Accounting Software & Internal Audit: The project needs to follow-up on the letter sent to the DG MIS and get SAP functionality operational in PMU by 31 May 2024. The proposal for establishing IA function should also be firmed up, and approval obtained from the PSC by this timeline.
- k. Baseline Survey: PMU attempted direct contracting with Pakistan Institute of Development Economics (PIDE) for the conduct of Baseline Survey, however the costs proposed by PIDE were way above the available budget. Mission reviewed the costs proposed by PIDE and found them quite high when compared with similar exercises done earlier. Another reason is fixing of very large sample size by PMU at 30 percent of the beneficiary number. PMU needs to determine a more rational sample size (say 2,000 in each representative district of a region) and circulate the TOR among various research institutions and universities within the province for solicitation of technical and financial proposals. Selection to be completed by 30 June 2024. Mission provided support in developing a procurement strategy for hiring a firm for baseline survey through a competitive process within the approved budget.
- l. Communication Strategy: Though some communication activities have taken place including printing of a brochure in English and a TV Programme, a comprehensive strategy covering objective, key messages, target audience, communication products, communication mediums, frequency and budgets is still missing and PMU should attend to that on priority. To be completed by 30 June 2024.
- m. Procurement of BISP Poverty Data: PMU has made some effort to obtain BISP data without much success. PMU shall cause a formal request to be made by P&D to Secretary BISP for provision of data along with specific data parameters required. All other IFAD projects have BISP data and PMU should consult them about the right procedure.

- n. Environmental, Social and Climate Management Plan (ESCMP): Not finalized yet. Mission shared a plan sample with PMU which should be used to develop the plan for IFAD review.
  - o. Social Inclusion and Nutrition Strategies: PMU has prepared zero drafts which still need considerable work. PMU may circulate the drafts to obtain comments and suggestions from IFAD and other relevant agencies for finalization of strategies. To be finalized by end June 2024.
12. The above recommendations were discussed during the pre wrap-up held with the ACS, KP and were duly endorsed.