

**Aide Memoire
Supervision Mission
Khyber Pakhtunkhwa-Rural Economic Transformation Project
(04–13 December 2024)**

A. Background

1. The Khyber Pakhtunkhwa-Rural Economic Transformation Project (KP-RETP) was approved by IFAD's Executive Board on 30th December 2021, the Financing Agreement was signed on 05th May 2022, and the Government of Pakistan's administrative approval was accorded on 30th June 2022. The total cost of the project is estimated at EUR 157.55 million with IFAD loan of EUR 74.09 million, EU grant co-financing of EUR 15.27 million, and provincial Government of Khyber Pakhtunkhwa (GoKP) and beneficiary contributions of EUR 25.09 and EUR 43.099 million respectively. The investments are to be carried out over a seven-year project life (2022-2029).

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. An IFAD Supervision Mission (SVM)¹ was undertaken during 04 to 13 December, 2024, following a partial Supervision during 08 to 15 October, 2024. The main objective of this SV Mission is to review i) status of onboarding of service providers under components 1 and 2; ii) activities of Business mobilizers for NMDs, Farm Service Centres, and youth training and employment under TEVTA; (iii) agenda for next project steering committee and organization of PSC; (iv) AWPB 2024-2025 approval status and provision of counterpart funds; (v) project's logframe and performance of M&E; (vi) procurement plan progress; (vii) project's communication, gender, youth and nutrition strategies and progress thereof; and, (viii) capacity and processes for smooth implementation of ESCMP guidelines.

4. The Mission held meetings with Additional Chief Secretary P&D, Acting PD, PMU core staff, TEVTA and Cooperatives Department. Mission also visited a newly formed PFO in Khyber District as well as a candidate TEVTA Centre of Excellence in Swabi District. A strategy formulation session was conducted with the Regional Coordinators to explore avenues for expeditious formation of PFOs and development plans for Farm Service Centres pending onboarding of Business Mobilization Partners (BMP). An Orientation workshop was held with the entire PMU and regional offices' staff as well. A wrap-up meeting was held with Additional Chief Secretary to share the key mission findings and recommendations for agreement. A wrap-up meeting with MoEA is also planned.

B. Progress Overview:

6. The Project was categorised as Actual Problem Project (APP) by the full Supervision Mission carried out in November 2023. It was followed by a Project Startup-cum-Implementation Support Mission (ISM) in April

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2024 and a Partial Supervision Mission in October 2024 to support the project progress². Current supervision mission is the third mission during the year.

7. A significant unexpected development since last Mission is the transfer of Project Director by the GoKP unilaterally and Chief Economist given the additional charge of PD. Nexus to that, the Mission also noticed with concern continuous external interference and attempts to change the lead agency. Unless quickly and effectively stopped, these attempts may further disrupt the momentum built over last few months.

8. Project has made reasonable progress on some of the actions agreed in Project Improvement Plan (PIP) but with considerable timeline slippages. Activities at the beneficiary level are yet to start. Financial progress remains very low at EUR 0.830 million expenditure against IFAD total disbursement of EUR 6.09 million (14 percent of disbursed funds).

9. **Component 1: Agribusiness Development.** Selection and on-boarding of Business Mobilization Partners was planned to be concluded in October 2024 but is still going on. Three firms have emerged as successful contenders and preliminary evaluation suggested award of two zones each to two firms and one zone to the third firm. One of the BMP contenders is already contracted for conduct of baseline survey. That firm's performance in baseline survey thus far has been very poor both in terms of output as well as adherence to agreed timelines. PMU is encouraged to carefully review that firm's capacity and relevant performance in the past, particularly in the target areas before deciding the BMP award.

10. Five Regional Offices are now established and are fully functional. Pending onboarding of BMPs, and to expedite commencement of field work, a plan has been agreed with the PMU to start mobilization of farmers through the regional coordination offices. Each region will organize at least 3 PFOs and make them ready for disbursement by end May 2025.

11. Recruitment of a consultant to undertake institutional assessment of Farm Services Centres experienced delays and could not be completed by October 2024 as initially planned. Pending onboarding of the consultant, the Regional Offices will continue to engage with the FSCs in their regions and identify the most promising ones on the basis of a criteria covering management effectiveness, annual business volume, expansion potential, registration status, audit performance etc. By 31 May 2025, each region will aim to have a minimum three FSCs ready with a business plan and disbursement.

12. The field activities in newly merged districts through inhouse capacity have made encouraging progress, especially the mobilization of farmers for the establishment of farmers' organizations. Seven PFOs have been identified of which 4 are currently in registration process with the Cooperatives Department. Based on the encouraging progress thus far, project will establish and finance 30 PFOs in NMDs by end of current financial year. In addition, the project will also engage with and finance five Farm Services Centres in the NMDs.

13. In collaboration with Agriculture Research System (ARS), potential agribusiness activities have been identified for the development of 4Ps around fruit tree nursery production bringing together private nurseries (as private sector), nursery plants farmers (producers), and germplasm units, and Agriculture Research System (public sector). A self-contained business plan should be now finalized and furnished for IFAD NO for implementation to commence latest by 01 April 2025.

14. The PMU, the field consultants, and the regional coordinators need capacity building notably in the process of the farmer organizations and their institutional development, but more importantly, in PFO business planning. It is also important that the project engages with the Cooperative Department to finalize the Memorandum of Agreement (MoA) to facilitate incorporation and legal compliance of the 550 farmers' organizations to be developed under the project.

15. **Component 2: Skills Development and Employment Promotion.** Addendum to the MOA with TEVTA was signed on 05 December incorporating the additional points suggested by previous missions. 1,800 eligible graduated trainees for enterprise grants were identified from the batch of February 2024 and another 3,200 are being identified from the on-going batch of 40,000 students. Business orientation training for the identified candidates is currently going on in their respective training institutions. Grants to five thousand eligible candidates from 0-40 BISP beneficiary families will be disbursed by end December 2024.

16. With regard to vocational training for marginalized and disadvantaged groups in remote area, no headway has so far been made in terms of institutional responsibility. PMU has largely left it to TEVTA and Social

² Besides formal missions, two Procurement specific field support were conducted in 2024 (May and June).

Welfare Department to settle the terms. As recommended by previous Mission, the PMU need to develop a separate detailed plan covering geographic and beneficiary targeting, training delivery modality, partner selection criteria, costs and phasing and furnish for IFAD NO and PSC approval.

17. For Job-market integration of unemployed graduates, TEVTA has been assigned the task and TEVTA has signed MOUs with the industries and entrepreneurs for the placement of the graduates. 2,000 unemployed graduates from disadvantaged families have been identified so far. Their placement will commence as soon as PMU transfers the required budget to TEVTA.

18. PMU, in consultation with TEVTA, have shortlisted three TEVTA institutions for conversion into Centres of Excellence. These are Swabi (Agro-industrial), Swat (hospitality skills) and DI Khan (Agri Business). Mission visited Swabi VTI, attended a presentation by the institution and reviewed the available infrastructure, courses offered and training capacity available. The institution presented an upgradation plan to address some of the existing gaps like lack of capacity to offer training courses to women. The Mission encouraged TEVTA to explore the possibility of a phased approach whereby the immediate upgrading needs to the three institutions, in particular for provision of training facilities to females, are met first and then phase 2 covers the inputs required for attaining the status of "Centre of Excellence".

19. **Project Management and Policy Support.** PMU and Regional Offices are now substantially staffed and fully equipped. All vehicles have been procured and assigned. 45 of the total 57 staff are in place in PMU and Regional Offices. Following transfer of previous PD, the charge was assigned to Chief Economist on Acting Charge basis. The Mission assisted the GoKP in identifying a suitable PD who joined as Project Manager and will remain as under-study with the Acting Project Director for a limited time before assumption of full charge as PD. He will also be the authorized signatory for IFAD loan funds with immediate effect. Gender & Youth Mainstreaming Officers and Office Assistants are yet to be recruited and the process need to be expedited.

20. **Baseline Survey:** M/s REPID was selected as consultant for the conduct of Baseline Survey. The Firm furnished its inception report which was reviewed and found unsatisfactory. PMU was assisted to prepare comments on the Inception Report and convey to the firm. The revised inception report, the survey questionnaire, the sample selection criteria and the quality of test survey in two districts were again found of unacceptable quality. The firm has also completely missed the agreed timelines for the completion of assignment. PMU need to carefully consider whether the selected firm has the required capacity and intent to complete this assignment as per recognized standards. If not, then PMU may propose an alternate arrangement for IFAD NO.

21. **Financial Management: Disbursement and Government Contribution:** Four disbursements totalling EUR 6.09 million (8.2 percent of IFAD loan) have been made so far to the project, of which two were received with considerable delay during the Mission. Total project expenditure of EUR 0.830 million (14 percent) has been incurred so far. The Government had released PKR 7 million for financial year 2023-24 while actual spending was PKR 6.8 million. In 2024-25 out of an allocation of PKR 170 million for the year, PKR 60 million have been released while PKR 43.9 million is actual spending making total spending to be PKR 50.78 million against government counterpart funds (approx. USD 190,000).

22. **IFAD Disbursements:** Timely disbursement of IFAD funds to project account is still problematic. PMU is encouraged to actively track disbursements at various channels involved including State Bank to ensure timely receipt.

23. **EU Grant Funding:** EU has committed a grant of EUR 15.27 million to address the financing gap in KP-RETP. Access to these grant funds requires clearance from Planning Commission that would lead to signing of revised Financing Agreement between IFAD and EAD. The process has experienced considerable delay. P&D Department needs to follow up with Planning Commission and EAD to expedite the processing.

24. **Procurement:** The approved procurement plan for the year 2023-24 was USD 3.684 million. During Jan-Nov 2024, PMU has procured IT equipment, furniture, and vehicles for PMU and RCUs for USD 0.687 million. The award of big-ticket contracts (USD 2.050) for engagement of five (5) agribusiness mobilization partners (BMPs) is still not concluded and requires attention on priority. The contract for maturity assessment of FSCs will be awarded during the month. The latest procurement plan is approved in OPEN.

25. **SECAP:** The Project has updated the Stakeholders Engagement Plan (SEP), Grievance Redress Mechanism (GRM) by including the Conflict Resolution Mechanism for NDMs as envisioned in the Guiding Manual for NMDs, Monitoring and Evaluation Plan for SECAP indicators, Communication Strategy and Nutrition Strategy. The approved M&E Plan incorporates SECAP indicators which shall facilitate proper

planning and monitoring these in the course of implementation. The Environment and Climate Change Officer has been actively involved now while a training on SECAP was also arranged for the regional coordination offices. ESCMP was already prepared during design but has been updated with more clarity on tangible activities.

C. Main Mission Recommendations and Agreements:

26. Main Mission recommendations and agreements are as following:

- a. **PMU's management and functional autonomy will be ensured** and no further attempts at management change will be allowed.
- b. **The regional coordination offices will initiate mobilization of professional farmers' organizations (PFOs) and engagement with farm services centers (FSCs) through inhouse capacity pending onboarding of BMPs.** Each RCU will complete the process for establishing 3 PFOs and 3 FSCs including registration, bank account opening, business planning, contract signing, and release of the first milestone payment by end of May 2025 and each region will disburse at least US\$ 1.5 million to the PFOs and FSCs by 31 May 2025.
- c. **PFOs in NMDs:** Based on the encouraging progress, PMU will establish and finance 30 PFOs in NMDs by end of current financial year. In addition, the project will also engage with and finance five Farm Services Centres in the NMDs.
- d. **Develop and sign MOA with the Cooperative Department and Agriculture Extension/Research.** Define the scope of support needed from the Cooperative Department in the registration and regulatory compliance of PFOs and FSCs and conclude the MOA by January 2025. Along similar lines engage with the Agriculture Extension and Research Departments to develop MOAs to be concluded before March 2025.
- e. **Organize training for field consultants and regional coordination and PMU in business planning.** Organize training in business planning in RuralInvest (business planning tool) by end of January 2025.
- f. **4P on Fruit Nurseries:** Finalize expeditiously a self-contained business plan for IFAD NO for implementation to commence by 01 April 2025.
- g. **Establish a revolving fund appraisal and approval panel at PMU.** A panel for the appraisal and approval of PFOs' and FSCs' Business Plans shall be constituted with representation from PMU, academia, research and the private sector by January 2025.
- h. **Enterprise Grants:** Ensure disbursement of enterprise grants to 5,000 eligible candidates before 31 December 2024 and towards that end expedite transfer of funds to TEVTA.
- i. **Centers of Excellence:** Adopt a phased approach for investments in the three centers of excellence whereby phase 1 will cover the immediate needs/gaps in particular to facilitate access to females in vocational/technical courses.
- j. **Strengthen PMU's coordination and engagement functions as well as gender empowerment.** Enhance capacity through relevant expertise, experience and skill sets including exploring options for reorganization of the team.
- k. **Financial Management/Authorized Signatory:** Proactively pursue the approval of "authorized Signatory" status for the newly appointed Project Manager at all levels to ensure that the pending disbursements to various quarters are cleared prior to 31 December 2024.
- l. **Disbursement of IFAD Loan:** To get out of Actual Problem Project status, PMU will ensure overall disbursement of EUR 10 million IFAD loan funds by 30 June 2025. The AWPB and Procurement Plan for 2024-2025 may be updated accordingly for PSC consideration/approval and IFAD NO.
- m. **EU Grant Funds:** Vigourously follow up grant approval and signing process at Federal level to ensure early access to these grant funds.
- n. **Procurement:** PMU to expedite preparation of responses to the comments shared by IFAD on three (3) negotiated contracts with BMPs. Upon addressing of comments, the three BMPs (cluster 2,3 and 5) may be mobilized by end of January 2025. PMU needs to carefully revisit the evaluation and verification of key experts of the firm under consideration for remaining two (2) contracts (cluster 1 and 4) of US\$ 1.000 million.
- o. **Baseline Survey:** Performance of the consultant hired for the purpose has been consistently poor in terms of output and timelines. PMU need to take a decision on further retention or adoption of an alternate course for the completion of exercise.

27. The above recommendations were discussed during the provincial wrap-up meeting held with the Additional Chief Secretary P&D/Chairman PSC and were duly endorsed.