

20 June 2016

Dear Mr. Singh,

Subject: India: Integrated Livelihoods Support Project (ILS) in Uttarakhand, IFAD Loan 856-IN – Management Letter of the Mid-Term Review mission 16 May – 6 June 2016

I have the pleasure to inform you that IFAD that IFAD fielded a Mid-term Review Mission (MTR) to review the subject project during 16 May – 6 June 2016 and that the management of IFAD has concurred with the findings and recommendations which were discussed and agreed at the wrap up meeting chaired by you on 4 June 2016, which are contained in the Mission's Aide Memoire.

I am pleased to note that there has been considerable acceleration in the project activities during 2015-16 despite a start-up delay of about two years mainly on account of floods in 2013 and resultant restructuring. Uttarakhand Gramya Vikas Samiti (UGVS) which is implementing Food Security and Livelihoods Enhancement component of the project has supported 4,654 Producer Groups (PGs), 651 Vulnerable Producer Groups (VPGs), 77 Livelihood Collectives (LCs) and 54 federations covering 82,218 households. The project has provided direct support to PGs and VPGs, which is used for collective purchase of improved seeds and other agricultural inputs with a system of returning the value of inputs taken back into their group account, after crop harvest. ILSP deserves credit for implementing this best practice, which has put the groups on a path of sustainable use of project support. In addition, UGVS has also provided support for 146,600 flood affected households.

The Project Society for Watershed Management Directorate (PSWMD) that implements Participatory Watershed Development component has started implementation of activities in 22 micro-watersheds covering 186 Gram Panchayats (GPs) of the targeted 187 GPs. PSWMD has implemented several innovative activities such as fodder and horticulture crop promotion on fallow land, and moveable fence to reduce man-animal conflict. PSWMD has mobilized 1,462 PGs, 171 VPGs and 4 LCs covering 13,908 households. Under this component, the project has provided in-kind support to PGs and VPGs over 3 seasons. And mechanisms should be developed to ensure sustainable farmers' access to inputs similar to the practice in UGVS.

The performance of Uttarakhand Parvatiya Aajeevika Samvardhan Company (UPASaC) in implementing Livelihood Financing component remains a cause of concern with no progress on establishing financial linkages to the project beneficiaries or in providing development finance to LCs and federations.

Mr. Shatrughna Singh, IAS
Chief Secretary
Government of Uttarakhand
Uttarakhand Secretariat

Concerted efforts are required to substantially improve the outreach and impact of this project for which necessary agreements were reached during MTR and the project logframe was revised accordingly. I fully endorse these efforts which include: (i) expanding outreach of this project by about 10,000 households through implementing a saturation approach in UGVS project area; (ii) incorporating some of the best practices of PSWMD into UGVS activities especially in the area of rainwater harvesting and micro-irrigation; (iii) harmonizing the modality of mobilizing and supporting PGs, VPGs and LCs being implemented by UGVS into PSWMD activities; (iv) extending performance linked support to federations promoted under the former ULIPH project to drive them towards sustainability; (v) implementing a harmonised system for engaging Technical Agencies by UGVS and PSWMD; and (vi) strengthening CPCU to ensure coherent implementation through centralizing monitoring, evaluation and knowledge management functions in addition to finance and planning functions.

I wish to bring to your attention that the financial performance of the project remains a cause of concern despite significant acceleration of disbursements during 2015-16. Indeed, the project has received to date less than 10% of the budget allocation for the financial year 2016/2017 resulting in postponement of pre-monsoon activities. The likelihood of achieving project objectives now hinges on timely and sufficient release of funds by the State to the 3 PIAs and robust facilitation from UPASaC for bank linkages and financial services to LCs and Federations. I am pleased to note that during the wrap up meeting chaired by you, agreements were reached to immediately release the approved funds for the annual work plan and budget 2016/2017 to the project and also to set up a system for timely release of funds. Please be advised that in view of the effective procurement and contract management procedures and minimal risks, IFAD is pleased to recommend that the prior review threshold for consultancy services be increased to USD 100,000 equivalent or above.

Based on the request of your government for a two year extension to address the *force majeure* situation of devastating floods in 2013, a revised financing plan has been prepared by MTR to fully utilize the balance IFAD loan of USD 64.4 million. You are requested to, accordingly, submit a proposal to the Department of Economic Affairs (DEA), Ministry of Finance, Government of India seeking an extension to the project closing date by two years. The DEA will, thereafter, examine the request and determine whether it should be submitted to IFAD for consideration.

I am confident that the recommendations of the Mission which are further elaborated in the Aide-Memoire will be addressed in a timely manner. As per our operational modality, ILSP is expected to prepare and send an Action Taken Report to our Delhi Office after three months from this letter.

Assuring you of our constant support towards successfully implementing this programme,

Yours sincerely



Hoonae Kim
Director
Asia and the Pacific Division

Copy with compliments to:

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Investing in rural people

Aide memoire

India

Integrated Livelihoods Support Project

Mid-Term Review Mission: 16 May to 6 Jun 2016

A. Introduction¹

1. The Integrated Livelihoods Support Project (ILSP) is being implemented by three Project Implementation Agencies (PIAs) comprising Uttarakhand Gramya Vikas Samiti (UGVS), Project Society of Watershed Management Directorate (PSWMD) and Uttarakhand Parvatiya Aajeevika Sanvardhan Company (UPASaC). IFAD Executive Board approved the project on 1 November 2011, which became effective on 1 February 2012 and is expected to be completed on 31 March 2019 with loan closing on 30 September 2019. ILSP is financed by an IFAD Loan of SDR 56.7 million (USD 89.9 million as estimated at the time of loan negotiation which currently works out only USD 79.7 million), together with USD 48.0 million contribution from the Government of Uttarakhand (GoUK), USD 10.9 million contribution from beneficiaries, and USD 109.9 million as loans from banks and other financial institutions. The overall goal of the project is to reduce poverty in the hill districts of Uttarakhand by enabling rural households to take up sustainable livelihoods integrated with the wider economy.

2. IFAD fielded a Mid-term Review Mission (MTR) during 16 May-6 June 2016. The mission met senior officials of GoUK, UGVS, PSWMD and UPASaC, the project team in the three PIAs and various stakeholders in 9 out of 11 project districts to discuss project results to date and potential changes to implementation during the remaining period of the project. This Aide Memoire summarises the findings and recommendations of the mission that were discussed and agreed with all the three PIAs and then presented at a wrap-up meeting with the State Government held on 4 June 2016, chaired by Mr Shatrughna Singh, Chief Secretary, GoUK.

3. During the wrap-up meeting it was confirmed that the Government Order (GO) issued by the finance department has been amended to give powers to the administrative department to release funds to all externally aided projects (EAPs) including those on a reimbursement mode such as ILSP. Agreements were reached during the wrap up meeting for: (i) releasing Rs 350.00 million immediately to the project in addition to Rs 150.00 million already released; (ii) releasing next tranche of funds subject to ILSP obtaining reimbursement of 70-80% of the amount released in the previous tranche; (iii) seeking an extension to the project completion date by two years; (iv) providing full financial powers to a finance committee to be constituted under UGVS with Principal Secretary, Rural Development Department (RDD), as the Chairperson; (v) increasing the financial powers of the Project Director (PD), UGVS to Rs 2.5 million; and (vi) harmonizing the support to Producer Groups (PGs), Vulnerable Producer Groups (VPGs), and Livelihood Collectives (LCs) including the costs and process of engagement of Technical Agencies (TAs) between UGVS and PSWMD by issuing a suitable order to modify implementation modalities of PSWMD to release funds to PGs/VPGs/LCs.

4. The Secretary-Finance, GoUK also indicated that in view of the modified guidelines of the finance department on release of funds to EAPs, it is not necessary to consider other options such as revolving fund or transfer of the initial advance of USD 3.00 million from Government of India (GoI) to the state government (even if it is increased to USD 5.00 million) as it is not of significant value to the state.

¹ Ms Rasha Omar, Country Representative, IFAD, Ms. Meera Mishra, Country Coordinator, IFAD-ICO, Mr. Shreekantha Shetty (Mission Leader, Institutions, Livelihoods and M&E), Mr N Srinivasan, (Rural Finance and Enterprise), Dr Venkatesh Thagat (Soil and water Conservation), Mr Norman Messer (Knowledge Management) and Mr. SankaraSubramaniam Sriram (Financial Management & Procurement). Mr. A.M Alam (Economist) joined the mission during 24 May-6 June.

5. The mission briefed Mr Rishikesh Singh, Director (MI), Department of Economic Affairs, Ministry of Finance, GoI on 10 June 2016. The mission explained the force majeure justification for this extension.

B. Overall assessment of project implementation

6. The overall project implementation has been rated as Moderately Satisfactory (Score=4 out of 6). The project had a delayed start-up of 2 years. Amongst others, the delay in start-up was largely due to the devastating floods in the state in June 2013 and the request to increase budget of UGVS by reducing the scope of work of PSWMD. Progress was further hampered due to Assembly, Panchayat and national elections in 2012, 2013 and 2014. In total, the project currently covers 96,126 households (471,017 persons) against the target of 126,000 households (617,400 persons). The IFAD loan disbursement rate as on 31 March 2016 is only 19.16% (excluding initial advance). During 2015-16, there has been substantial acceleration in implementation. Total expenditure during 2015-16 was Rs 997.90 million being about 70% of the total expenditure of Rs 1,452.20 incurred during the last three years. However, the situation during 2016-17 does not appear encouraging. GoUK has approved an AWPB of Rs 1,886.10 million for 2016-17 but only Rs 150.00 million has been released till date, delaying pre-monsoon activities of PIAs.

7. **Outcome 1: Food security and livelihood enhancement**- It is expected that out of 106,000 UGVS supported households, 75% adopt improved technologies, 75% report improved farm yield/output, 90% report food self-sufficiency, 10% establish new enterprise, 50% report increased sale of produce and 20% use new marketing channels. It is also expected that 50% of the producer organizations become self-sustainable, and 15,000 youth provided with vocational training.

8. UGVS has achieved 78% of outreach target (82,218 households). As per the Annual Outcome Survey (AOS), 57% of the households adopt improved technologies (target 75%), 21% report improved farm output/yield (target 75%), 36% report improved food self-sufficiency (target 90%), and 71% report using new marketing channels (target 20%). PGs and VPGs recycle the project support for input purchase during next production season indicating progression of PGs and VPGs towards sustainability. The performance in achieving the expected outcomes is rated Moderately Satisfactory.

9. **Outcome 2: Participatory Watershed Development** is being implemented by PSWMD and the expected outcomes include: (i) 10% increase in vegetative mass; (ii) 10% increase in water availability; (iii) 80% of Gram Panchayats (GPs) with improved performance; (iv) 75% of the households adopting improved technologies; (v) 75% of the households reporting increased farm yield/output; (vi) 50% of the households reporting increased sale of produce; and (vii) 50% of the of hhlds using new marketing channels.

10. The outreach performance of this component is 67% (13,908 households). AOS of 2015 indicates that 91% households adopted improved technologies (target 75%), 60% report improved farm output/yield (target 75%) and 54% report increased sale of produce (target 50%). 1,462 PGs and 171 VPGs have been promoted by PSWMD. VPGs support for Income Generating Activities (IGAs) has been lower than the expected target (215 households against a target of 1,229). The promotion of LCs has been slow with only 4 LCs registered so far. The performance in achieving the expected outcomes is rated Moderately Satisfactory.

11. **Outcome 3: Livelihood financing** is being implemented by UPASaC. The expected outcomes include: (i) investment of Rs 90.00 million in loans by UPASaC; (ii) 40% increase in number of households receiving loans; (iii) introduction of 5 new financial products; (iv) 95% cumulative repayment rate of bank; and (v) 95% cumulative repayment rate of UPASaC loans.

12. The AOS of 2015 reported that 22% of project households accessed credit and 79% of borrowing households indicated better access to financial services. This facilitation was undertaken by the ULIPH promoted federations. UPASaC neither provided any support from its development finance facility so far nor facilitated any new financial product in the project area. 98% households have been bank linked with savings accounts facilitated by UGVS appointed TAs. The performance under this outcome is rated Moderately Unsatisfactory.

13. **Likelihood of achieving development objectives** is rated Moderately Satisfactory (Score=4). Field level implementation started only during the second half of the third project year (2014-15). There has been substantial progress during 2015-16 in terms of outreach, and fast-tracking support to PGs, VPGs and LCs. This indicates that both UGVS and PSWMD will largely achieve the development objectives of reducing poverty in hill districts of Uttarakhand through support to generate cash incomes via the introduction and expansion of cash crops through improved technology, better marketing and value addition. This is subject to adequate flow of funds and continuous acceleration in project implementation. However, if the below par performance of UPASaC continues in the future the development objectives of access to finance may not be achieved. It is to be noted that the project was restructured following the floods in 2013 and as a result in the project outreach was reduced, the government counterpart funding decreased and the project focus on livelihoods was strengthened (increased allocation to component 1). This MTR has proposed an increase in ILSP outreach by 10,000 households and the harmonization in the approaches for implementing livelihood activities between components 1 and 2.

C. Outputs and outcomes

Component 1: Food Security and Livelihoods Enhancement: The progress of this component is rated Moderately Satisfactory (Score=4).

(a) Food security and scaling up

14. UGVS has engaged 10 TAs for field implementation covering 17 blocks and most of the TAs have been allocated two new blocks. The project is yet to appoint TAs in four blocks. The process for hiring TAs is underway. UGVS has mobilized 4654PGs and 651VPGs. ILSP provided funding to 4,697 PGs/VPGs for implementing Food Security Improvement Plan (FSIP) calculated at Rs 3,600 per member. This amount is being used as a revolving fund; the members aggregate the demand and purchase inputs (seed and fertilizer) using funds in the group account and on harvesting their crop return the value of inputs taken and this amount is credited back into the group account. More than 90% of the PGs/VPGs funded by the project have started using project support as revolving fund. The project has mobilized 77 Livelihood Collectives (LCs). PGs/VPGs have contributed the second year project support as share capital from the members to these LCs. This amount remains with LCs and UGVS is in the process of issuing guidelines for its utilization which were reviewed by the mission. The project supported LCs are still young and substantial efforts are required to drive them on the path of sustainability.

15. The project is supporting 54 out of the 72 ULIPH promoted federations. The remaining 18 federations on account of limited number of members and limited activities are being treated as satellite federations and receive limited project support. The project provides funding for staff and operating costs for 54 federations and this support ends on 30 September 2016. This needs to be extended with support for governance improvement and business plan preparation and implementation. The strategies for strengthening federations will be outlined in Appendix 10 of the Main Report. As indicated in SM of 2015, ILSP's success largely hinges on the ability of the institutions promoted to sustain their operations beyond project life.

16. An integrated model of ILSP and State Rural Livelihoods Mission (SRLM) was proposed to be implemented in Khaljikhali block in Pauri district at the request of the RDD. UGVS engaged a TA using a unified SRLM and ILSP modality with capacity building and other financial support from SRLM. Implementation progress was limited as the implementation modality required coordination between district and block level officials of RDD, UGVS and TA. RDD has realized the difficulties in implementing an integrated model and also coordination and hence requested that in Khaljikhali block, PGs/ VPGs be formed by UGVS as in other blocks as per ILSP mandate taking NRLM principles into account to the extent possible. In order to fast track implementation, there is a need to establish a camp office in Pauri district with changes to implementation modalities.

17. UGVS has excluded villages within the project blocks where major projects such as Himotthan, Integrated Watershed Management Programme (IWMP), Gramya-II and Japan International

Cooperation Agency (JICA) operate. This needs to be reviewed to ensure coverage of left out households in the villages excluded from ILSP due to other major projects.

18. Each TA engaged by UGVS in general covers 2 blocks with a technical team comprising four officers. They devote 15 days in each block which is resulting in considerable time spent in travel. Apart from this, given the low staff salary levels, it is also becoming difficult to attract experienced staff and as result substantial number of these positions is vacant.

19. The project has supported activities related to micro-irrigation infrastructure by providing low cost LDPE lined tanks. In total, 472 micro-irrigation tanks have been constructed and as result additional irrigation has been provided for 34 ha of land covering 2,544 households. Currently the project is implementing this activity through LCs and support is provided to PGs. The results of these activities are encouraging when coupled with production plans. There is a possibility to expand the area under horticultural crops and fodder crops by encouraging the households to use fallow lands.

Agreed action	Responsibility	Agreed date
Complete all actions related to engagement of TAs for four blocks – provide same cost and level human resource input.	UGVS-PMU	31 Jul 2016
Implement strategies for driving LCs and Federations towards sustainability – Refer Appendix 10 of the Main Report	UGVS-PMU, DMU and TAs	Start from 15 Jun 2016
Provide two years additional support to Federations with 100% support for the first half-year from October 16–Mar 17 and reducing by 25 percentage points every six months thereafter as per conditions in Appendix 10 of the Main Report.	UGVS-PMU and DMU	Start from 1 Oct 2016
Initiate steps to merge satellite federations with that of lead federations– follow due process specified in the Uttarakhand Self Reliant Cooperative Act 2003	UGVS-PMU and DMU	1 Oct 2016
Two experienced UGVS staff to function as Programme Manager – Institutions and Gender (PM-IG) to support field level activities in two regions. Federation Coordinators engaged by TAs to be placed in DMUs and working under the supervision of DPMs and the PM-IGs.	UGVS-PMU	Immediate
Conduct structured training of Asst Manager- Institutions and Gender (AM-IGs) in institution building aspects and conduct exposure visits for staff and LC/federation leaders.	UGV-PMU	31 Aug 2016
Provide a team comprising Agri Horti Officer, Agri Business Officer, and Livestock Extension Asst/Officer for 3 years for each Block through TA – Review qualification, experience and salary of these staff. Position of Junior Engineer at the block level (with all TAs) to be discontinued.	UGVS-PMU	31 Aug 2016
Establish a camp office in Pauri district with a team comprising Asst Manager – Agri Horti (AM-AH), Asst Manager – Market Access (AM-MA) and Asst Manager – Institutions and Gender (AM-IG). Revise the contract with TA to amend the implementation and monitoring clauses in consultation with RDD.	UGVS-PMU	31 Jul 2016
UGVS to allocate to Himotthan the tasks of implementing FSIP and Market Access activities in the villages where Himotthan is already operating. Project support will be directly provided to PGs/VPGs and to existing federations.	UGVS-PMU	31 Jul 2016
Establish a user fee system within LCs for LDPE tanks users – Include funding for purchase of pipes, etc. Provide support for rehabilitation of existing tanks.	PMU, DPMU and TAs	Immediate
Make an assessment of seedling requirements for both horticultural crops, and fodder crops and trees and provide support to LCs to procure and sell seedlings to members.	PMU, DPMU and TAs	Immediate

(b) Market access

20. Value chain development: UGVS has identified seven value chains. They include: (i) Offseason vegetables, (ii) spices; (iii) fruit crops; (iv) dairy, (v) goat rearing; (vi) poultry; and (vii) Ecotourism. The beneficiaries have taken up cultivation of off-season vegetables and spices using the support

provided for FSIP by procuring seeds and fertilizers. LCs are in the process of aggregating produce and marketing the same collectively. Project support for the remaining value chains remains limited which will be addressed in the post MTR allocations. In addition, the project has started the process of linking with the market players for production of seed. This activity is highly profitable compared to growing off-season vegetables. Potato, Rajma (kidney beans) and onion are some of the crops best suited for seed production.

21. **Take home Ration (THR):** GoUK has provided an opportunity to the federations promoted by UGVS to take up delivery of THR under Integrated Child Development Scheme. This activity has been the backbone of viability of 12 federations in different districts, provided employment to around 600 women and enabled farmers to sell their produce particularly millets to these federations. In addition, THR recipients also appreciated the good quality and quantity of federation supplied rations. However, the ambitious plan of UGVS to expand this activity to all federations did not materialize due to the amendment of government rules. This apart, there is a need to bring about stability into the THR business of federations with a fixed term contract between the Department of Women and Child Development (DWCD) and the federations.

22. **Market infrastructure:** The project has completed construction of 2 collection centres, 10 more are under construction and land required for building collection centres has been registered in respect of 10 more LCs. This progress is against the total target of 60 collection centres. The field visits indicate that there is potential for building more collection centres and also low cost satellite collection centres at the villages.

Agreed action	Responsibility	Agreed date
Provide cluster level micro-livelihood plan based support to establish support services for value chains related to dairy, goat rearing, poultry and seed cultivation.	UGVS-PMU, DMU and TAs	Start from 1 Aug 2016
Identify low cost cold storages technologies for keeping potato and potato seeds and introduce these in select seed clusters.	UGVS-PMU, DMU and TAs	Start from 1 Jul 2016
Request GoUK to amend the rules of THR to allocate this activity to federations and LCs. Request DWCD to provide at least one year contract to the federations to facilitate better management of inventory.	UGVS-PMU, DMU and TAs	Start from 1 Jul 2016
Make allocation for low cost village level storages and also increase number of collection centers allocated in the project.	UGVS-PMU, DMU and TAs	Start from 1 Jul 2016

(c) Innovation linkages

23. The project has nine ongoing innovation sub-projects. Three more proposals are under consideration. The sanctioned proposals cover animal husbandry, horticulture, apiculture, fibre development, etc. and are expected to work with about 9,000 households. Of the sanctioned funds of Rs13.69 million, Rs 10.79 million has been disbursed. The sub-projects sought to introduce new and non-traditional crops and new technologies. In case of sub-projects managed by agencies such as GB Pant University, Bamboo and Fibre Development Board (BFDB) and Sheep and Wool Development Board (SWDB), efforts to forge linkages with project households remain limited.

24. Three proposals out of nine on-going sub-projects are for setting up livestock development centres and multi-activity (artificial insemination/milk collection) centres and also technical services for goat rearing. These proposals are expected to cover 49,700 households. Since the proposals do not appear to be 'innovative' in spirit, these need to be considered as normal partnerships that can make available much needed services in the state. There is not enough justification for supporting more such sub-projects. The existing sub-projects should be intensively monitored through the DMU staff. The sub-projects should align their activities with the requirements of PGs, VPGs, LCs and federations to the maximum extent possible.

Agreed action	Responsibility	Agreed date
Ensure alignment of sub-project activities with interests and requirements of PGs, VPGs and their LCs/federations. District staff to be involved in monitoring of innovation linkage with existing sub-projects.	UGVS-PMU and DMU	Start from 1 Jul 2016

Stop entertaining new proposals on innovation linkages.	UGVS-PMU	Immediate
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(d) Vocational training

25. Based on its experience of training 619 youth in vocational skills, an ambitious plan to cover 15,000 youth over the next three years has been prepared. 24 agencies to provide training and placement have been identified. Currently 2,063 students are undergoing training in six major disciplines – information and communication technology, tailoring, medical and nursing, beautician, retailing and hospitality. Field missions indicate widely varying quality of service providers. The courses are likely to provide basic skills of a general nature with limited possibility to get employment based on the skill. In a few cases, choice of candidates did not seem appropriate as many college students were seen pursuing these courses. Field visits indicate that residential courses attract serious candidates ready to take up employment offered anywhere after the training. The service providers experienced difficulties with the tough conditions as well as low remuneration of the vocational training services compared to the revised rates as per the common guidelines of the National Skill Development Mission. Placement rate of more than 75% did not seem likely in the light of past experience of some of these agencies. Students failing in the assessment were left with only facilitation support for placement but without support for reassessment and certification, whereas they were selected with an implicit promise of skill training, certification and placement.

Agreed action	Responsibility	Agreed date
Reduce overall targets to 10,000; and focus more on residential courses, with 80% trainees being covered by residential courses with top performing service providers after completing first round.	UGVS-PMU	Immediate
Select trades that are linked to the value chains promoted by the project and that provide livelihood skills of a specific nature leading to wage or self-employment; avoid basic, generic skill courses such as computer training of different types.	UGVS-PMU	Immediate
Review rates and conditions of payments to service providers and reset the same to ensure better focus on deliverables.	UGVS-PMU	31 Aug 2016
Provide for additional support for coaching and reassessment of trainees who fail assessment tests.	UGVS-PMU	31 Aug 2016

Component 2: Participatory Watershed Development. The progress of this component is rated Moderately Satisfactory (Score=4).

(a) Social mobilization and participatory planning

26. PSWMD has facilitated participatory watershed planning processes at Gram Panchayat (GP) and revenue village level by conducting PRAs, preparing GP-wise watershed management plans and organizing gram sabha to approve the plans. Watershed Management Committees (WMCs) in each GP and about 324 revenue village committees (RVCs) have been formed in 187 GPs. Women motivators have been appointed in all the revenue villages, and Accounts Assistants for each GP have been appointed in 187 GPs. During the PRA exercise, the process of identifying vulnerable families in the watershed area was undertaken and 3,213 families have been identified and formed into 171 VPGs. In addition, 1,462 PGs have been formed covering 13,908 families. Only 4 LCs have been formed and need capacity building measures to stabilize their input supply and procurement operations. PSWMD has contracted a FNGO which started work last year and has deployed field level staff in all PSWMD project blocks. The performance of this agency with regard to PG, VPG and LC mobilization has been far below expectations.

(b) Village and watershed development

27. During 2015-16, PSWMD has completed preparation of Gram Panchayat Watershed Management Plans (GPWMPs) in all the 186 GPs of the targeted 187 GPs. These GPWMPs have been approved for implementation and have prioritized soil conservation on arable lands, terrace repair, drainage line treatments like gabions, dry stone check dams and gully plugs, regeneration of oak trees, afforestation in van panchayat land, fodder development, and construction of irrigation tanks. Implementation of the planned treatments has been initiated in 22 micro-watersheds of 183 GPs. The implementation of the watershed works has started last year and so far 55,484 cubic meters

of soil and water conservation (SWC) and drainage line treatment measures, and 141 irrigation water tanks covering approximately 8,900 ha of watershed area..

28. The quality of SWC measures and drainage line treatments are generally satisfactory. Due to inadequate facilitation during the initial participatory processes while preparing the GPWMPs, the focus seems to have shifted to household level investments as against treatment of community land and van panchayat land based on the principles of ridge to valley. The ridge to valley discipline should be adopted with priority for community land and van panchayat land treatment. Natural resources management components benefiting farmer groups may be supported after the completion of the area/ drainage line treatments for better impact of SWC measures.

29. The cost estimates for soil and water conservation works in the project design were based on the 2012 schedule of rates. There has been a considerable revision in these rates since then. In order to ensure that adequate soil and water conservation works take place in the proposed micro-watersheds, PSWMD has requested for an increase in unit cost from Rs 4.00 million to Rs 8.00 million per GP.

(c) Food security enhancement support

30. PSWMD has mobilized 1462 PGs covering 13,908 farmers and in-kind support has been provided in the form of vegetable seeds, and spices planting materials. However, the financial support to VPGs is yet to be provided in many watersheds. Last year, the total area under off season vegetables was 990.58 ha and area under spices was 249 ha. Activities like dissemination of technologies and agro advisory, production and distribution of quality seeds and seedlings, and establishing linkages between PGs and markets were undertaken during the last year. PSWMD is in the process of short-listing an agency for implementing activities related to value addition and marketing support.

31. PSWMD has followed the Gramya Model of providing support for PGs and VPGs and promotion of federations. PSWMD's core strength being soil and water conservation coupled with limited ability and human resource support from FNGOs, it has not been able to build strong PGs, VPGs and LCs. The process, phasing and flow of funds adopted by PSWMD needs to be harmonized with that of UGVS modalities. Training farmers on production technologies and arranging exposure visits for the benefit of the PGs especially for production of off-season vegetables needs to be prioritized.

(d) Livelihood up-scaling support

32. Promotion of Income generation activities (IGA) and support to vulnerable groups has not been satisfactory. Though about 3,213 families have been identified as vulnerable; only 171 VPGs have been formed. Financial support to these groups has recently started. Support to livelihood collectives for up-scaling IGA activities has been initiated and around 4 LCs have been formed so far. PSWMD has piloted new initiatives like group farming of pomegranates and walnuts, and moveable fencing to control wild animal attack on crops. These pilots show promising results. These can be expanded but the focus will have to be on cost recovery/user charges and redeployment within the LC and not as a give-away to a small number of households.

(e) Institutional Strengthening

33. PSWMD was established as an independent society to implement this component. Implementation at the field level started in August 2014 and progress during 2015-16 has been satisfactory. Substantial capacity building of Panchayat Raj Institutions (PRIs) and local community based institutions have been implemented during 2015-16 with 393 technical trainings at the village level and 86 trainings on production technology. In addition, 106 exposure visits were organized within the state for the farmers and members of multi-disciplinary teams (MDTs).

Agreed action	Responsibility	Agreed date
Prioritize implementation on community land/van panchayat/ridges through better sequencing of SWC interventions.	PSWMD- PD/DPDs	30 Sept 2016
Mapping existing soil and water conservation structures as a part of the GPWMP and making plans to make them operational and	PSWMD- PD/DPDs	31 Dec 2016

effective will have to be prioritized.		
Emphasis should be on area treatments as against household level investment. Fix a cap of not more than 20% of the budget from SWC works for household level investment.	PSWMD- PD/DPDs	Start immediately
Prepare guidelines and create a watershed maintenance fund within each GP equivalent to 5% of the common assets with equal contribution from the GP/households and the project.	PSWMD- PD/DPDs	31 Dec 2016
Explore the feasibility of implementing Sloping Agriculture Land Technology (SALT) on a pilot basis – Refer to Appendix 10 of the Main Report	PSWMD- PD/DPDs	31 Dec 2016
Prepare common guidelines for mobilization, fund flow and handholding of PGs, VPGs and LCs for PSWMD using UGVS experience. Obtain approval of PMC for direct funding of PG/VPG/LC instead of routing through GP.	CPD, PD PSWMD and PD UGVS	31Jul 2016
Terminate the contract of FNGOs and stop the process of recruiting Direct Support Agency for Market Access.	PSWMD- PD	Immediate
Engage TAs for PSWMD areas by using fixed cost method of procurement using the same costs (to be revised) as UGVS by advertising RFP afresh.	PSWMD- PD	30Sep 2016

Component 3: Livelihood Financing: The progress of this component is rated Moderately Unsatisfactory (Score=3).

(a) Banking Support

34. UPASaC has been able to facilitate credit linkages to project households to the tune of Rs. 61.4 million (target Rs143.5 million) during the year. In terms of providing development finance to federations and LCs there has been little progress.

(b) Risk Management

35. The insurance studies proposed in the AWPB were not initiated. UPASaC had issued a Request for Proposals(RFP) to insurance companies for livestock insurance. However, the initiative did not progress further as the ISM had advised that RFP route may not be the most appropriate for insurance linkage. Presently discussions with insurance companies are being held to introduce a master livestock insurance policy. UPASaC should focus on dairy and goat clusters and persuade the insurers to integrate insurance products with the animal healthcare systems designed with Uttarakhand Livestock Development Board (ULDB), and Department of Animal Husbandry (DAH) involving paravets (both in Livestock Development Centres and in project clusters). Madua, a local millet, has been notified for coverage under new crop insurance under the new Prime Ministers Crop Insurance Scheme. UPASaC should work closely with NABARD to link up federations and LCs for coverage of eligible farmers under this scheme. UPASaC also proposes to enrol households under Jeevan Jyoti life insurance coverage, which is a part of the financial inclusion package of Gol.

(c) Financial Inclusion

36. UPASaC has not made progress on establishing business correspondents and facilitators, as banks did not show interest in the proposal. The level of activity under this initiative was very low. Four financial product workshops for LCs have been carried out. The courses on loan appraisal for LCs proposed in the AWPB 2015-16 and also Bankers' exposure visits were not conducted. Though provided in the AWPB, support for rural branches has not been extended to any bank. There was also no progress under the proposal for strengthening of Primary Agricultural Credit Societies.

(d) Development Finance Fund

37. Despite the last two mission's recommendations, no initiatives to finance working capital and investment requirements of federations have been implemented. The suggestion made with regard to using the funds already made available by the project to UPASaC for patient capital has not been implemented. UPASaC had discussions with NABFINS and NABKISAN and is expecting to conclude

the financing arrangements shortly. During the mission, a meeting with NABFINS was arranged to examine the modalities of collaboration.

(e) UPASaC Support

38. For most of the year, barring the CEO, there were no other staff to attend to the tasks entrusted to UPASaC. A full time CEO should be hired to ensure adequate oversight over financial linkages. Recently six Rural Finance Coordinators (RFCs) have been placed in the districts to deal with financial service linkages in the project area. The staff of UGVS have provided information on the number of groups, the nature of their activities and credit needs to UPASaC to enable it to take up the matter with the banks for credit support. UPASaC should place RFCs in each district so that they can coordinate financial linkages along with staff of UGVS and PSWMD. A nodal person has been designated to coordinate all bank finance related issues in UGVS. UPASaC should take full advantage this arrangement and ensure that required financial linkages are achieved on time

39. Discussions with UPASaC and other stake holders indicate that during the remaining project period the support available from UPASaC for direct financial linkages to project households may be limited. UPASaC should focus on: (i) developing institutional partnership such as with NABFINS, NABKISAN and others to provide customised support to project groups and LCs/federations; (ii) designing a suitable process by which livestock, life and crop insurance can be extended through the federations/ LCs; and (iii) assessing patient capital requirements for long term investments to be made by federations and LCs. The proposal for viability gap funding of federations and groups should be scrapped in the light of other support being made available under the livelihood component. Instead of this, UPASaC has proposed provision of interest subvention on loans from banks and other financial institutions to reduce cost of credit taken by federations and LCs for their long term investments. UPASaC can also initiate insurance, literacy and risk management awareness among the project households.

Agreed action	Responsibility	Agreed date
Expedite institutional partnership with financial institutions such as NABFINS, etc. to disburse development finance and establish financial linkages for LC/federations	UPASaC	15 Jul 2016
Explore feasibility of interest subvention support and initiate life and livestock insurance coverage.	UPASaC	30 Sep 2016
With support of NABARD, work with Federations/LCs for enrolment of households under the crop insurance scheme for notified crops.	UPASaC	30 Nov 2016
A fulltime CEO should be hired and RCCs for each district. Prepare time bound plans to link project households with bank finance in close collaboration with UGVS-PMU and DMU and TA staff	UPASaC	30 Sep 2016

D. Project implementation progress

40. **Programme management performance** is rated Moderately Satisfactory (Score=4). The project has made substantial progress during the last 1.5 years in terms of engagement of staff. UGVS has conducted 3 rounds of recruitment and has engaged 50 professionals. UGVS has also engaged Uttarakhand Purv Sainik Kalyan Nigam (UPNL) to hire support staff. However, 13 important positions remain vacant at the district level. This apart, the positions of AM-AH are vacant in 5 out of 8 district and positions of AM-MA is vacant in 4 out of 8 districts. Given the agriculture based livelihoods in the project area, these positions are critical. The main reasons for the inability to attract persons to these critical positions include: (i) unattractive compensation package; and (ii) high levels of qualification and experience requirements of the project. These issues need to be addressed.

41. UGVS has engaged a Consultant to review the human resource policies. The draft report is weak on the following aspects: (i) the salary suggested is based on 7th pay commission recommendations which are yet to be implemented; (ii) the comparisons in respect of salary and perks are made with that of Health & Family Welfare Society, and Disaster Management Society and Drinking water and Cleanliness Society but not with that of other societies promoted by RDD and WMD; (iii) efforts are not made to review the terms of references, qualification and experience

requirements, human resource requirements based on workload and reporting structures; and (iv) additional staffing is proposed without a thorough analysis and clear rationale.

42. In Uttarkashi district, the DPMO is located in Purola whereas the project activities are in 73 villages of Bhatwari block, about five hours drive from Purola. This apart, the district administration is located in Uttarkashi. A camp office has been established in Uttarkashi and the staff continue to travel from Purola. The DPMO should be shifted to Uttarkashi to cut down loss of staff time and costs.

43. UGVS byelaws and the financial regulations have vested financial powers of Rs 1.5 million to the PD-UGVS and sanctions exceeding this limit are given by the Additional Chief Secretary (ACS) and Forest and Rural Development Commissioner (FRDC) who is the chairperson of UGVS. Sometimes based on the assessment of the FRDC, a few of the files are sent to the Project Management Committee chaired by FRDC. FRDC indicated that UGVS sends several files seeking financial approval and suggested that a Finance Committee be established. This problem is mainly on account of low financial power threshold of the PD-UGVS and absence of an intermediate sanctioning authority between PD-UGVS and FRDC. This needs to be addressed with the required changes to the byelaws of UGVS.

44. PSWMD has a central unit in Dehradun headed by a PD supported by team of 9 professionals. Field activities are coordinated by two Regional Project Directors covering Kumaon and Garhwal regions. PSWMD has also posted a Deputy Project Director in each of the three project districts. 13 positions are yet to be filled. PSWMD has also engaged service providers for engaging support staff but this has been decentralized to districts.

45. UPASaC is headed by a part-time CEO who has other responsibilities. A full time CEO is required to secure undivided attention on a day to day basis and achieve financial linkages. The field staff (Rural Finance Coordinators currently only in 5 districts) should be available in all the project districts. These staff should work to coordinate the project efforts with banks. They shall also be responsible for recording the periodic progress in the normal MIS prepared for ILSP. UPASaC field staff should coordinate with DPMs and instructions from UPASaC in relation to engagement with project households should be routed through UGVS-PMU in order to ensure cohesion in the field. A nodal person has been designated to coordinate all bank finance related issues in UGVS-PMU.

46. The Central Programme Co-ordinating Unit (CPCU) headed by the Chief Project Director (CPD) currently plays a very nominal role in co-ordination and harmonization of the initiatives being undertaken by the 3 PIAs as CPD is not a member on the board of PSWMD and UPASaC. There is also limited interaction and knowledge sharing between the PIAs. PD-UGVS holds the additional responsibility of CPD-ILSP. It is proposed to strengthen the M&E and KM related functions of CPCU, in addition to the finance functions which it is already discharging so that the project has a unified system for planning, monitoring, reporting and also knowledge management.

Agreed action	Responsibility	Agreed date
Develop ToRs and seek approval for both state and district level staff positions that are yet to be approved –2 positions for CPCU, 2 positions for PMU, 3 staff position each in 3 districts and additional 3 staff for Pauri district.	UGVS-PMU	31 Jul 2016
Review the qualification and experience requirements and also TOR for PM-IG, PM-AH, PM-MA, AM-AH, AM-MA and AM-IG. Expedite the staff engagement process.	UGVS-PMU	31 Jul 2016
UGVS, PSWMD and UPASaC to set up a joint exercise to draw up salary scale and perks including yearly increments comparable to contract staff in RDD and WMD Societies.	CPCU	31 Jul 2016
Shift Uttarkashi DPMO from Purola to Uttarkashi. In the event, there is resistance to shift, stop reimbursing staff salary and operating costs of Purola DPMO from IFAD funds.	UGVS-PMU	31 Jul 2016
Establish a Finance Committee under UGVS with Principal Secretary, RDD as the Chair with full financial powers. The financial powers of the PD-UGVS to be increased to Rs 2.50 million.	UGVS-PMU	Immediate

47. **Project costs post MTR:** The total IFAD loan amount for the project is SDR 56.700 million. As on 31 March 2016, the cumulative expenditure out of IFAD loan was SDR 10.864 million equivalents to USD 15.324 million excluding initial deposit. The balance available for expenditure is SDR 45.835 million equivalents to USD 64.4 million. A summary of project appraisal estimate, expenditure as on 31 March 2016 and balance amount available is provided in Table below.

Details	Total Project cost (Rs million)	Available resources and Financing Plan (million)			
		GoUK (Rs)	IFAD (SDR)	Banks (Rs)	Beneficiaries (Rs)
-Appraisal estimates	12,228	2,335.0	a/ 56.700	5,000.0	526.0
-Expenditure as on 31 Mar 2016	1,450	2,12.3	10.864	184.0	60.1
-Available balance \resources	10,778	2,122.7	45.836	4,816.0	
-Post MTR project cost estimates	7,183	1,012.4	45.836	1,430.0	256.3
a/ Amount available at loan signing was about USD 90 million and due to changes in exchange rate and its current value if about USD 80 million. This has impacted on committing the available counter-part funds for the post MTR periods.					

48. Revisions to the cost tables for post MTR activities have been undertaken taking into account the request of GoUK to extend the project completion date by two years considering the *force majeure* situation of devastating floods in 2013 and consequent delayed start-up, and also USD 64.4 million available for post MTR activities from IFAD loan. The main inclusions are: (i) expansion of coverage by 10,000 households to comply with RDD request of covering all deprived households in the project villages; (ii) support to ex-ULIPH on a tapering basis for the next two years; (iii) expansion of construction of water tanks and irrigation support under component 1; and (iv) incorporation of modalities of PG, VPG and LC support similar to UGVS in PSWMD micro-watersheds. The financing plan by project component has been worked out and provided in Table below.

INDIA										
Uttarakhand: ILSP MTR										
Components by Financiers										
(US\$ '000)										
	Government		IFAD		Banks		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Food Security & Livelihood Enhancement										
1. Food Security & Scaling up	1,294	7.2	15,964	88.5	-	-	770	4.3	18,029	17.4
2. Access to Market	382	9.6	3,579	89.9	-	-	19	0.5	3,981	3.8
3. Innovation Linkages	597	10.0	5,373	90.0	-	-	-	-	5,970	5.8
4. Vocational Training	99	1.9	4,694	88.3	-	-	522	9.8	5,314	5.1
5. UGVS: Project Management Unit	3,571	38.2	5,779	61.8	-	-	-	-	9,350	9.0
Subtotal Food Security & Livelihood Enhancement	5,943	13.9	35,390	83.0	-	-	1,311	3.1	42,644	41.1
B. Participatory Watershed Development										
1. Participatory watershed development	5,677	21.2	19,038	71.2	-	-	2,027	7.6	26,742	25.8
2. Food security and scaling up	331	5.3	5,588	88.8	-	-	374	5.9	6,293	6.1
3. Access to market	68	9.5	642	89.9	-	-	4	0.6	715	0.7
Subtotal Participatory Watershed Development	6,076	18.0	25,269	74.9	-	-	2,405	7.1	33,750	32.5
C. Livelihood Finance										
	1,464	6.1	1,302	5.4	21,343	88.5	-	-	24,109	23.2
D. Project Management										
1. Central Project Coordinating Unit	320	27.0	866	73.0	-	-	-	-	1,185	1.1
2. M&E and Knowledge Management	469	23.2	1,552	76.8	-	-	-	-	2,021	1.9
Subtotal Project Management	789	24.6	2,418	75.4	-	-	-	-	3,206	3.1
Total PROJECT COSTS	14,272	13.8	64,379	62.1	21,343	20.6	3,716	3.6	103,710	100.0

Agreed action	Responsibility	Agreed date
Submit a request to DEA to extend the project completion date by two years	CPCU	Immediate

49. **Coherence between AWPB and implementation** is rated Moderately Satisfactory (Score=4). ILSP is being implemented during the last three years. Overall, the budget for first three years (2013-14, 2014-15 and 2015-16) was Rs1,893.10 million and the achievement was Rs1,452.20 million being about 77% of the allocation. Year-wise budget and achievement are provided in table below.

Year	Amount in Rs. million		Achievement (%)
	AWPB	Achievement	
2012-13	0	0	0
2013-14	244.90	151.20	62
2014-15	350.00	303.10	87
2015-16	1298.20	997.90	77
Total	1893.10	1452.20	77

50. **Monitoring and Evaluation** is rated Moderately Satisfactory (Score=4). The project has completed AOS of 2015 separately for UGVS and PSWMD comparing the results of a control group with project beneficiary group. An extended baseline has been completed separately for UGVS and PSWMD. A web based MIS software has been operationalized by UGVS which generates predefined reports for review by the management. Currently data entry is undertaken at TA level and also at the DMU level. MIS of UGVS is highly evolved with ability to track the beneficiaries and performance of staff and agencies involved in project implementation. At the same time data overload concerns remain. CPCU has started the process of integrating data from PSWMD and UPASaC but it is necessary that data validation and primary consolidation is done at PIA level and further data integration at CPCU level.

Agreed action	Responsibility	Agreed date
Strengthen the M&E and KM functions of CPCU – MIS need to be consolidated at CPCU level with input data formats finalized in consultation with PIAs– CPCU to take up M&E and KM related tasks of all three components which includes a standardized AOS and budget to be allocated accordingly	CPCU and PIAs	31 Jul 2016
MIS data input formats of UGVS to be reviewed and rationalized to reduce the data input requirements–Develop specific reports that can be generated by the district and state staff for reviewing performance. The input and output formats will be reviewed during next ISM.	UGVS-PMU	31 Jul 2016
Baseline survey reports to be reviewed to address the inconsistencies related to presentation of data, use of different denominators and lack of definitions for the terms used. All percentage calculations need to be uniform and should be against the sample size.	UGVS-PMU	31 Aug 2016
Either control group selection or data collection and compilation have been faulty in case of PSWMD-AOS and as a result, in case of the indicator such as change in income (page 23 of AOS), the control group results are way ahead of project beneficiaries. This needs to be reviewed and rectified.	PSWMD	31 Jul 2016

51. **Innovation and Learning** is rated as satisfactory (Score = 5). Four innovations were identified during the mission. First, the project provided support to the PGs and VPGs through direct benefit transfer and facilitated the groups to collectively purchase quality seeds and inputs for vegetable and crop production. The members after harvest and sale of produce return the value of inputs taken and the same is credited into the bank account of the respective PG/VPG. This is an innovation in the context of PGs to ensure regular access to quality seeds and inputs. Second, the project provided the second instalment of PG/VPG support to LCs directly and the LCs issued share certificates to each member. This modality in one stroke provided required capital to the LCs for business activity and at the same time enhanced ownership of members. Third, the project implemented a system of leasing fallow lands by the PG members. The members took up cultivation of fruit trees on these lands on a collective basis. This experimentation of collective farming will possibly become a solution for issues of labour shortage and also wild animal damage of crop that impact crop production in the hilly region. Fourth, the project introduced moveable chain fencing the deal with wild animal damage of crops. These chain fences can be folded and moved to various locations in the farm to protect crops as against traditional fixed fences.

52. ILSP has a KM strategy and an action plan that was developed for component 1. The objectives of the KM strategy is to develop ILSP as a learning organisation which generates relevant and timely knowledge for project stakeholders and external audiences, with the potential to leverage policy influence and serve as a knowledge resource for livelihoods promotion in Uttarakhand. UGVS produced a large number of studies, case studies on project effects, training and learning materials for building the capacity of PGs/VPGs/LCs in governance issues, production matters, business planning and agricultural marketing. The mission noticed that all the guidelines for crop cultivation are clearly posted in the offices of LCs and has resulted in high adoption rates (exceeding 70%) for a number of improved practices.

53. Areas that the project plans to work further include: (i) ensuring that the KM is a function that cuts across the 3 PIAs and provides a consistent message about ILSP objectives and approach; (ii) expanding the target group of the KM activities to traders; and (iii) using the knowledge for development and policy impact. ILSP has the ability to organise a high profile Uttarakhand Himalaya Festival (food, handicrafts, culture, dance, theatre, poetry, etc.) on an annual basis.

54. **Gender focus** is rated satisfactory (Score=5). ILSP has made concerted efforts to include majority of women into PGs and VPGs. Under UGVS supported activities, of the total 82,218 beneficiary households, 82% are women. In case of PSWMD implemented activities the proportion of women is 59% out of 13,908 beneficiary households. In watershed area there is a provision of Women Aam Sabha to discuss priority issues of women in GPWDP. All motivators (324) in watershed GPs are women. The participation of women is much high compared to the 50% women membership in PGs and VPGs targeted at the time of project design. Similarly women's representation is 80% in top 3 positions of LCs. About 69% of the members are women in old federations with an average of more than 75% female representation in the Board of Directors of LCs and Federations. The participation of women in village level meetings and Annual General Body meetings is 80% and 81% respectively. The project has been promoting women friendly agricultural technologies such as cattle troughs, sickles, chaff cutters, winnowing fans, etc.

55. **Poverty focus** is rated satisfactory (Score=5). The project area comprises blocks in the hill districts of Uttarakhand with no other major project or programme of the government and other donors. The project put in place two strategies to sharpen the poverty focus. First, PGs have been mobilized excluding the households with persons in government jobs, taxpayers and those with more than 25% of land. These selection criteria effectively blocked the entry of better off households into the project. Second, VPGs comprising widows/ single women, disabled persons, SC/ ST and the poorest populations have been mobilized and these VPGs receive higher level of project support compared to PGs. This strategy of mobilizing VPGs with poorest households has led to provision of focussed attention to these households.

56. **Targeting performance** is Moderately Satisfactory (Score=4): UGVS has targeted 82,218 households in 2,211 villages which is 78% of the revised target (106,000 HHs) by mobilizing 4,654 PGs and 651 VPGs. The project had estimated to mobilize 3,000 households per block. However, the average number of households per block works out to only 2,418 taking into account 82,218 households in 34 Blocks. A rough estimate by RDD based on Socio-Economic Caste Census, indicates that UGVS covers only about 50% of the total number of households in the project area. In addition, it is necessary that ILSP saturate project area blocks so as to exclude these from SRLM implementation. Field visit indicates that there is a possibility to cover another 10-15% of the households in the ILSP area. PSWMD activities have targeted 13,908 households covering the whole population of the 22 MWS. In parts of the ex-ULIPH areas, other projects such as Gramya II have started their activities and it is also planned that Federations will be established in these areas.

Agreed action	Responsibility	Agreed date
Expand the project outreach by another 10,000 households to reach uncovered households and villages. Provisions for engaging technical agencies, VPG and PG support will have to be made.	CPCU and UGVS-PMU	Post MTR
Coordinate with WMD to ensure engagement of existing federations by Gramya II and other similar projects.	CPCU and UGVS-PMU	Immediate

57. **Climate and Environment Focus** is Satisfactory (Score=5). During 2014-15, the project invested in disaster recovery and 146,600 households have been supported with seeds and other agriculture inputs. The regular activities of the project are directed towards soil and water conservation and agriculture related activities that are focussed on productivity enhancement largely using organic cultivation systems which have a positive impact on the environment. Increased income is contributing to investment in toilets. In addition, demand for cooking gas cylinders is emerging from the project communities, which is likely to substantially reduce pressure on fuel wood and as result tree cutting. The programme is set to support goat rearing interventions which are considered to have negative environmental impact but plans are afoot to incorporate fodder development, stall feeding and breed improvement into these plans to minimise adverse effects.

Agreed action	Responsibility	Agreed date
All livestock activities (both dairy and goat rearing) to focus on fodder development, stall feeding, vaccination and breed improvement.	UGVS, PS-WMD	Ongoing

58. **Partnerships** is rated Moderately Satisfactory (Score=4). UGVS has partnership with 10 TAs and PSWMD has partnership with a FNGO. The project has developed partnerships with 24 agencies for delivering vocational training out of which 21 agencies have initiated training programmes. UGVS has also forged collaboration with 11 government agencies to implement sub-projects. The largest amongst them is with ULDB. As a part of this collaboration, ULDB trained and stationed 57 paravets in the project area who provide artificial insemination service, vaccination and first aid. Progress of activities implemented in partnership with ULDB, USWDB and AHD is reported to be satisfactory. Partnership with GBP University, UBFDB, KVKs, and Sanjeevani is not progressing as anticipated.

E. Fiduciary aspects

59. **Financial Management** is rated is moderately satisfactory (Score=4). Three PIAs implement the project and CPCU coordinates fund flow. All PIAs undertake accounting on a cash basis. UGVS (responsible for Component 1) accounts are fully maintained using accounting software and linked to the MIS. In PSWMD, the accounts are maintained both manually and in Tally Accounting Software and the 3 Divisions report to PSWMD-PMU on manual formats. While the manual maintenance of records at PSWMD is satisfactory, extracting different types of reports manually takes time. PSWMD also reports to CPCU manually. UPASaC's and CPCU's accounts are also computerised and data consolidation takes place through synchronisation. Data from PSWMD needs to be synchronised with that of CPCU. As IFAD has introduced Smart SoE formats, PSWMD has to customise its accounting software to comply with these formats.

60. The Finance Controller of the Irrigation Department has been vested with additional charge as Finance Controller of ILSP. All finance staff of PIAs state level offices are in place, but at the district level some vacant positions exist. UGVS has a Finance Manager and two Assistant Managers. In PSWMD, Finance Manager is for the entire Directorate and the cheque signing officer is the Project Director (Administration). In the PSWMD divisions, the Deputy Project Director of the division is the cheque signatory. The internal controls for approval and payment for expenditure exist and functioning satisfactorily. Payments are done through cheque or bank transfers with limited cash handling. Pursuant to the recommendation of the SM 2015, UGVS has taken action to rationalise the number of ledgers. Supporting documentation for all expenditure is available.

61. UGVS has also introduced Tally Accounting software at the LC level, which is a welcome initiative. As LCs expand their activities with higher volume of fund management, UGVS needs to customise the software to cover all activities and provide financial management support. Watershed treatment activities are done through Gram Panchayats and Watershed Management Committees of GP. PSWMD Divisions transfer funds to GPs based on the GSWMP. 10% of the approved GSWMP is provided as an advance and further payments are as per measurement and the Schedule of Rates. The advance to GP is adjusted at the full completion of the sanctioned works. Finance staff at PMU of UGVS and PSWMD are experienced and sufficiently qualified for undertaking finance functions.

62. FMAQ was done with the overall summary rating of low risk.

63. **Withdrawal Applications**- CPCU submits regular withdrawal applications (WAs) at least once in a quarter or when the expenditure reaches a threshold level. So far, the project has submitted 14 WAs for project expenditure and 2 WAs for initial deposit withdrawal. The WAs submitted provide detailed summary sheets of expenditures for each category with cumulative and reporting period expenditures. The mission reviewed the 2 most recent WAs and is satisfied with the documentation and trail to the expenditure under SOE. The WAs comply with the financing percentages identified in the Cost Tables for each financier. Beneficiary share is captured in project MIS and not in Accounting Software.

64. **Disbursement** is rated is moderately Unsatisfactory (Score=3). Though the project entered into force on 1 February 2012, the first disbursement occurred only in September 2013; a lag of 19 months. The first project expenditure WA was disbursed in February 2014. In calendar year 2014, the disbursement was USD 1.65 million which improved significantly to USD 7.39 million in 2015, and in

2016 till 31 May 2016 the disbursement level has reached USD 7.29 million. Out of projected USD 89.90 million from IFAD (actual IFAD loan works out to only USD 79.70 million based on computation of balance in the IFAD loan account in SDR with the current exchange rate), the total disbursement till date is USD 18.384 million including initial deposit of USD 3.00 million. In SDR terms, the disbursement is 22.75% (including initial deposit) but as per the disbursement profile, the project should have disbursed 45%. Disbursement picked up after restructuring of project costs due to floods in 2013. The project is yet to report expenditure on Livelihood Financing Category. The balance of the IFAD loan of about USD 64.40 million is available for the remaining 33 months of implementation. Subject to the resolution of fund flow issues, the project has prepared plans for increasing expenditure over its remaining period.

65. **Counterpart funding** is rated Moderately Unsatisfactory (Score=3). As per the Financing Agreement, GoUK will contribute USD 48.028 million as counterpart funding to the project. After the restructuring of this project in 2014, the requirement of counterpart funds has reduced by about 50% though not quantified. As at 31 March 2016, GoUK has contributed USD 3.332 million being 6.94% of the originally agreed counterpart funding. Government counterpart funding covers expenditures of about 25% in equipment and materials, 10% in service provider contracts and civil works, 10-20% in some of capacity building/action research, 50% in salary and operating costs and 100% in the PSWMD government staff positions. Counterpart funding is provided along with advance funding of IFAD financing to the project and hence delays fund flow. The current trend indicates that the actual utilization of counterpart funding will be much less than the originally envisaged amount.

66. **Beneficiary contribution.** The mission is pleased that the project is tracking the beneficiary contribution. It has now reached approximately Rs 60.00 million equivalent being 12.74% of the contribution estimated at project design. This reflects the relevance of the project and its modalities for beneficiary participation.

67. **Fund Flow** is rated Moderately Unsatisfactory (Score=3). AWPB comprising share of IFAD financing and counterpart funding is included in the State budget. RDD through its office in Pauri releases the funds to CPCU. Funds are transferred to the three PIAs by CPCU. Accessing government advance funds was not smooth with every tranche of release requiring Finance Department's approval. Each request for fund release has to pass through at least 6 levels in RDD and another 5-6 levels at the Finance Department which takes anywhere between 6-8 weeks.

68. As per the Subsidiary Agreements, GoUK has to release advance funding including its counterpart funding share as per the approved AWPB, either in quarterly or six monthly instalments in a timely manner. There have been significant delays in release which have affected the financial and physical achievements. In 2015-16, GoUK has released only 59% of the budget but UGVS spent 77% of the budget due to availability of unspent balance from the previous year. The fund flow issue has to be resolved urgently to fully utilise the IFAD financing.

69. **Compliance to Loan Covenants** is rated moderately unsatisfactory (Score=3). The project and GoUK have complied with key legal covenants that have become due till now. The non-compliance relates to the covenants relating to UPASaC and fund release as per the subsidiary agreements. This has delayed/affected the project implementation. CPCU is complying with submission of physical and financial reports (annual) and submission of project financial statements audit reports within the timeline prescribed. Other key legal covenants like opening of programme accounts, Project Implementation Manual (PIM), establishment of Project Steering Committee (PSC), PMC and CPCU, subsidiary agreements, appointment of key staff in the PIAs were complied with. The detailed compliance of loan covenants will be provided in the Main Report.

70. **Procurement** is rated is satisfactory (Score=5). Procurement under the project is to be done on the basis of Uttarakhand Procurement Rules (UPR) consistent with IFAD Procurement Guidelines. The project prepares a detailed procurement plan for each of the implementing agencies and also for CPCU and submits along with the AWPB. Procurement is carried out as per the plan. There have been some minor delays in procurement as per the plan due to non-availability of adequate funding. TAs and other consultancy services were engaged through competitive bidding and all single source contracting of Government agencies/institutions were done after obtaining IFAD no objection. The bid

documents and the contracts are prepared in standard templates and are of satisfactory quality. Procurement Committee exists and evaluates all the bids/proposals. Competitive bidding is transparent. For all single source engagement, detailed proposals are obtained and evaluated. All documents related to EOI, technical and financial evaluation reports, recommendation of award and approval and contracts are available. In Component 2, PSWMD Divisions are procuring agricultural inputs to be provided to PGs in accordance with the provision of the UPR in consistent with IFAD Procurement Guidelines. Contract Management forms and monitoring forms (C-10 and C-11) are linked to the online MIS system and the deliverables as per the contract are reviewed and monitored.

71. UGVS has obtained advance bank guarantee from all TAs that have opted for advance payment system except two who have opted for reimbursement system. In respect of TAs that have provided bank guarantee, the bank guarantee amount far exceeds the advance released by the project. This is mainly on account of insufficiency of funds with the project. If the project intends to mitigate its risks of releasing advance in the case of non-performance and default by TAs, then the advance should be secured with an equivalent amount of bank guarantee. If the project does not see this as a significant area of risks meaning that they are adequately convinced that in case of default it has adequate measures in the contract to pursue and recover the advances, then these provisions should be simply removed.

72. IFAD prior review thresholds were established through the Letter to Borrower (LTB) at USD 50,000 equivalent and above for consultancy services and at USD 100,000 equivalent and above for goods and works. The LTB also stipulated single source selection for consultancy services at USD 25,000 equivalent or below. At the time of establishing these thresholds, the UPR thresholds were much lower for single source, which has now been increased to Rs2.5 million (equivalent to about USD 38,300). For direct contracting of goods/works, though higher IFAD thresholds are available, the project is following the government order issued for the project after receipt of LTB. Thresholds for other selection methods will remain unchanged. In view of the effective procurement and contract management procedures and minimal risks, the mission recommends that IFAD prior review threshold for consultancy services be enhanced to USD 100,000 equivalent or above. All single source procurement above the Government Order threshold will continue to be subject to IFAD prior review. The recommended changes to be made effective by amending the LTB.

73. **Audit** is rated as Moderately Satisfactory (Score=4). The annual audit reports along with Project Financial Statements as per IFAD templates are submitted on time and are unqualified for the CPCU. The audit opinion for FY 2014/2015 was however qualified for the 3 PIAs due to some exceptions relating to tax treatment and frequency of internal audit, incorrect application of procurement procedures for purchase of equipment, few deficiencies in the documentation of expenditures. The project submits three individual audit reports from each PIA and a consolidated financial statement from CPCU. The audit is being done through an independent CA firm. UGVS currently has one Internal Auditor from a CA firm but the effectiveness and support of the internal audit needs significant improvement. The auditor who carried out the audit for 2014-15, will be retained by CPCU, for conducting the audit for 2015-16, for all the three PIAs. This process will be completed by 30 June 2016.

74. In PSWMD, the Audit Manager and the Assistant Audit Manager perform the internal audit functions. UPASaC does not have an internal auditor. Subsequent to the last annual audit, the accounts of GP were also audited. The financial statements submitted sufficiently disclose the expenditures both in category and components. Due to the prevalence of advance funding by the State Governments in the country, there is no direct link between IFAD disbursements and the project expenditures which is acceptable to IFAD. CPCU should ensure that management letters are issued by the auditor to all the PIAs and that the management responses to the audit report are included in the audit report. The Special Account audit was performed by the Office of CAG for CAA&A and provided an unqualified report.

Agreed action	Responsibility	Agreed date
PSWMD accounting should be fully on accounting software with system consolidation at CPCU and Smart SoE forms to be incorporated in the accounting software.	CPCU/PIAs	31 Jul 2016
Non/Partially complied loan covenants relating to UPASaC operations and Subsidiary Agreements to be complied.	CPCU/RDD	Starting from 31 Jul 2016
Engage a team comprising a Cooperative/Federation Specialist and a Chartered Accountant for supporting District offices and LC/Federations in financial management and also LC/federation business plan preparation and implementation.	UGVS	30 Sep 2016
Reduce the level of bank guarantee in consultation with TAs to match the amount of salary advance being released. In the event project opines that the risk to default by TAs is low in respect of advance for training and other project activities, then suitable documentation will have to be prepared and executed between the project and TAs to recover the advance in case of default.	UGVS	Immediate
Revise the threshold for prior review for consultancy services from USD 50,000 to USD 100,000 by issuing an amendment to LTB	IFAD	Immediate
Undue delay and hardship in getting the monthly payment by staff engaged through UPNL in Pithoragarh district need to be rectified by instructing UPNL to release payments promptly.	UGVS	Immediate
Management responses to audit observations to be included in the audit report.	CPCU	30 Sep 2016

F. Sustainability

75. **Institution building** is rated Moderately Satisfactory (Score=4). The project promoted two tier institutions PG/VPGs at the village level and LCs at the cluster level in the new project areas. PGs/VPGs have started the system of recycling the project support to purchase seed and other agriculture inputs so that the project support is recovered from the members and remains with the PGs/VPGs level at the end of each production cycle for reuse. The project has fast tracked formation of LCs and the second year support to the members is being provided as share capital of the members to the LC. It is expected that the LCs will use this share capital for starting LC level business and move towards sustainability. LCs should focus on the two main functions of bulk input procurement and bulk marketing and will need to further enhance their capacities to attract private sector partners to engage in profitable agri-business. In the erstwhile ULIPH project areas SHGs are at the village level and federations at the cluster level. SHGs continue to save and undertake internal lending and are sustainable. 16 and 33 federations out of 54 federations promoted under ULIPH are graded "A" and "B" respectively and these are on progressing towards sustainability.

76. **Empowerment and social sustainability** is rated Satisfactory (Score =5). The project largely focuses on women and development of community institutions. The project has also focussed on mobilizing socially disadvantaged groups into VPGs leading to enhanced social cohesion amongst members of the community and low level of exclusion. The project interventions have led to: (i) equitable transfer of resources directly to members with the women largely having control over resources; (ii) enhanced ability to meet, save, inter-loan and plan activities of the group; and (iii) enhanced interaction with market. These have empowered the women and socially disadvantaged members.

77. **Quality of beneficiary participation** is rated satisfactory (Score=5). The project has used participatory processes to mobilize households to participate in project activities. UGVS has also successfully adopted direct benefit transfer mechanisms and in PSWMD implemented activities control over resources lies with Gram Panchayats for both SWC works and livelihood activities. In terms of financial contribution, beneficiary participation is largely in terms of labour contribution. Field visits indicate high level of participation by the community in planning and implementing activities. This is also evident from the recycling of funds within the groups. Financial contribution has been introduced to increase beneficiary participation levels. The AOS 2015 indicates that beneficiaries of ILSP are satisfied with the project activities and more than 70% of them report occasional to frequent contact with project staff.

78. **Responsiveness of service providers** is rated Moderately Satisfactory (Score=4). The TAs employed by the UGVS have responded to the need of the project to accelerate implementation process. However, issues related to staff shortages and also limited supervision of the field staff by the senior management of the NGOs remains. The performance of FNGO working with PSWMD has deteriorated with the expansion of project area in which they operate. Recommendations have been made to address these issues in this Aide Memoire.

79. **Exit strategy** is rated Moderately Satisfactory (Score=4). Exit strategy for the new project areas involves nurturing the capacity of the LCs to deliver services sustainably to the members and at the same time become profitable and financially independent. The exit strategy for the LCs encompasses three aspects; (i) governance and management improvement; (ii) introduction of a service charge concept to deepen community ownership and partially offset operating costs; (iii) business planning to specify the activities (including services) to be undertaken and revenue and expenditure projections for pursuing these activities; and (iv) phased withdrawal of project support towards staff salaries.

80. In respect of federations promoted under ULIPH that are being supported under this project, the exit strategy include: (i) closing down unviable federations and transferring members with assets and liabilities to an existing nearby federation; (ii) providing handholding support to these federations to fine tune governance, management and business plan implementation; and (iii) tapering support to offset salary and operating costs to be reviewed every six months and complete stoppage of support to federations that do not achieve the profitability targets.

81. **Potential for scaling up and replication** is rated Moderately Satisfactory (Score=4). The project uses sustainable and transparent approaches to implementation. This includes direct benefit transfer in case of UGVS, systems built to recycle the amount within the groups, and efforts to build sustainable LCs/federations. In PWSMD this includes transfer of funds to the GP based on the work plan which is clearly displayed in public and the schedule of rates approved by the Government. The results are evident with the RDD requesting the project to saturate the entire block with PGs/ VPGs to exclude these blocks from implementation of NRLM.

G. Other

82. **Impact on physical and financial assets** is rated moderately satisfactory (Score=4). AOS of 2015 indicates that 91% of the households in the project area own livestock compared to 84% from the control groups. One of the reasons for this is the placement of 57 paravets trained by ULDB in the project area who provide artificial insemination and healthcare service. The members have started savings in PGs/VPGs and the support provided by the project is being recycled. The average support provided to each PG is about Rs 36,000 which has increased to about Rs 44,000 at the end of the first cropping season indicating that there has been improvement in the financial assets of the participating households. Field visits indicate increase in irrigated land, cultivation of higher value of crops and cultivation on fallow land which are likely to contribute in increasing physical and financial assets. Moreover, according to AOS, 89% of beneficiary households report land tenure security compared 73% in control households.

83. **Impact on food security** is rated Satisfactory (Score=5). AOS of 2015 conducted by UGVS indicates that 99% of the households have reported engagement in cultivation as against 92% in the control group and 44% of the households in the project area are involved in cultivation of high value crops compared to 10% in the control group. 15% of the households reported increase in irrigation as against 2% in the control group. In the project area with UGVS activities, 1% of the households reported food shortage in the project areas as against 13% in the control group. Similarly in project area with PSWMD activities 3% of the households reported food shortage compared to 8% in the control group. The period for food shortage is approx. 2 months for beneficiary households and 3 months for control households.

84. **Quality of natural asset improvement and climate resilience** is rated Moderately Satisfactory (Score=4). Component 2 of this project being implemented by PSWMD which focuses on soil and water conservation efforts with a ridge to valley approach. PSWMD has prepared a plan for each Gram Panchayat and implementation of activities has started. In addition, UGVS under

Component 1 has focussed on low cost LDPE tanks for water harvesting and also on micro-irrigation. Project's efforts are directed towards tree crops and high value vegetables with reduced focus on cereal crops resulting in reduced stress on both water and soil fertility.

H. Conclusion

85. The project has witnessed considerable acceleration in implementation during 2015-16 despite a start-up delay of about two years mainly on account of floods in 2013 and resultant restructuring. UGVS which is implementing Food Security and Livelihoods Enhancement component of the project has supported 4,654 PGs, 651 VPGs, 77 LCs and 54 federations covering 82,218 households. The project has provided direct support to PGs and VPGs, which is used for collective purchase of improved seeds and other agricultural inputs with a system of returning the value of inputs taken back into their group account, after crop harvest. ILSP deserves credit for implementing this best practice, which has put the groups on a path of sustainable use of project support. In addition, UGVS has also provided support for 146,600 flood affected households.

86. PSWMD that implements Participatory Watershed Development component has started implementation of activities in 22 micro-watersheds covering 186 Gram Panchayats (GPs) of the targeted 187 GPs. PSWMD has implemented several innovative activities such as fodder and horticulture crop promotion on fallow land, and moveable fence to reduce man-animal conflict. PSWMD has mobilized 1,462 PGs, 171 VPGs and 4 LCs. However, the performance of UPASaC in implementing Livelihood Financing component remains a cause of concern with no progress with regard to establishing financial linkages to the project beneficiaries and also in providing development finance to LCs and federations.

87. Concerted efforts are required to substantially improve the outreach and impact of this project for which necessary agreements were reached during MTR and accordingly logframe was revised. These efforts include: (i) expanding outreach of this project by about 10,000 households through implementing a saturation approach in UGVS project area; (ii) incorporating some of the best practices of PSWMD into UGVS activities; (iii) harmonizing the modality of mobilizing and supporting PGs, VPGs and LCs being implemented by UGVS into PSWMD activities; (iv) extending performance linked support to federations promoted under ULIPH to drive them towards sustainability; (v) implementing a harmonised system for engaging TAs by UGVS and PSWMD; and (vi) strengthening CPCU to ensure coherent implementation through centralizing monitoring and evaluation and knowledge management functions in addition to finance and planning functions.

88. The financial performance of the project remains a cause of concern despite acceleration during 2015-16. The situation is grim during 2016-17 as the project has received less than 10% of the budget allocation during the first two months resulting in postponement of pre-monsoon activities of AWPB for 2016-17. This violates Section 7.02 of Article VII of the General Conditions of the programme financing agreement and also the subsidiary agreement wherein the state government has committed to timely release of funds as planned in the project design. The likelihood of achieving project objectives now hinges on timely and sufficient release of funds to PIAs and robust facilitation from UPASaC for bank linkages and financial services to LCs and Federations. During the wrap up meeting chaired by the Chief Secretary, GoUK, agreements were reached to immediately release AWPB approved funds to the project and also to set up a system for timely replenishment.

89. In view of the effective procurement and contract management procedures and minimal risks, IFAD is pleased to recommend that the prior review threshold for consultancy services be increased to USD 100,000 equivalent or above. All single source procurement above the Government Order threshold will continue to be subject to IFAD prior review. The Letter to the Borrower will be amended to incorporate these changes and duly communicated to the Government.

90. Based on the request of GoUK for a two year extension to address the *force majeure* situation of devastating floods in 2013 resulting in delayed start up and also to allow adequate handholding time for community based institutions to mature, a revised financing plan has been prepared by MTR to utilize the balance IFAD loan of USD 64.4 million. The revised financing plan indicates a sharp reduction in government contribution from originally envisaged USD 48.028 million to USD 17.604

million, which is mainly on account of 50% reduction in the scope of work of PSWMD during post flood restructuring. GoUK will have to submit a proposal to the DEA, MoF, GoI seeking an extension to the project closing date by two years.