

**INDIA**

**INTEGRATED LIVELIHOOD SUPPORT PROJECT**

**PROJECT DESIGN REPORT – APPRAISAL**

**MAIN REPORT**

Report No.:  
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**INDIA**  
**INTEGRATED LIVELIHOOD SUPPORT PROJECT (ILSP)**  
**PROJECT DESIGN REPORT – APPRAISAL**

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### **Working Papers**

Working paper 1: Poverty and Gender Analysis

Working paper 2: Agriculture

Working paper 3: Livestock

Working paper 4: Marketing of Rural Produce

Working paper 5: Infrastructure

Working paper 6: Tourism and Rural Poverty

Working paper 7: Vocational Training

Working paper 8: Development of Rural Livelihoods

Working paper 9: Participatory Watershed Development

Working paper 10: Livelihood Finance

Working paper 11: Planning, Monitoring and Evaluation and Knowledge Management

Working paper 12: Project costs and financing

Working paper 13: Financial and Economic Analysis

**Fiscal Year**  
1 April to 30 March

**Currency and Equivalents**

Currency Unit	=	Indian Rupee (INR)
May 2011 USD 1.00	=	INR 45.00

**Units and Conversions**

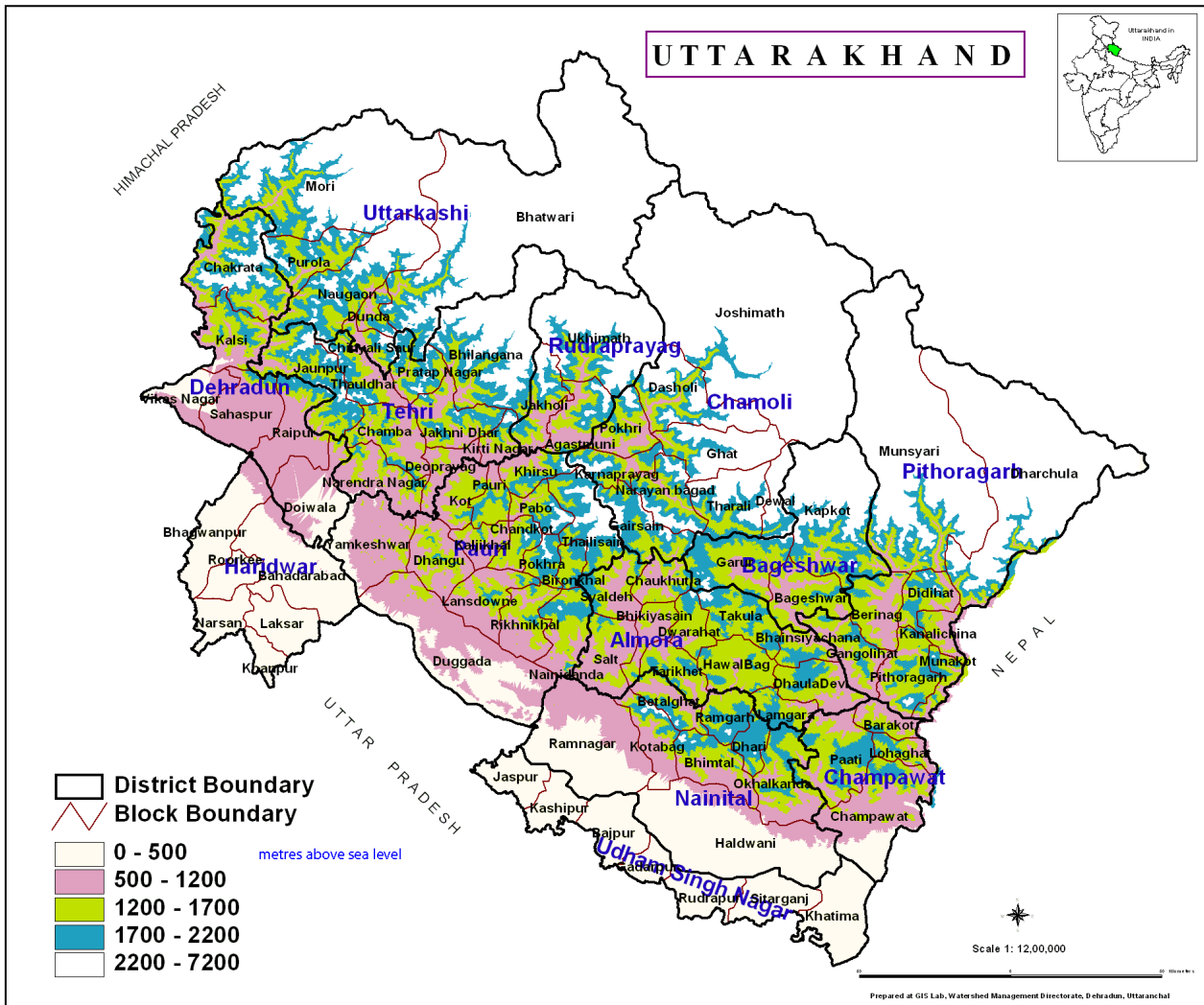
1 lakh (lk.)	=	100,000
1 crore (cr.)	=	10,000,000
1 acre	=	0.407 ha
1 decimal	=	0.01 acre

**Abbreviations, Acronyms and Glossary**

AGMARK	Agricultural Marketing Certification Agency
APEDA	Agricultural and Processed Food Products Exports Development Authority
APMC	Agriculture Produce Market Committee
AUP	Agribusiness Up-scaling Plan
AWP/B	Annual Work-Plan / and Budget
BAIF	Bharatiya Agro Industries Foundation (NGO)
BC/BF	Business Correspondent, Business Facilitator
BCR	Benefit cost ratio
BPL	Below Poverty Line
CAMPA	Compensatory Afforestation Fund Management and Planning Authority
CAP	Centre for Aromatic Plants
CEO	Chief Executive Officer
CPCU	Central Project Coordinating Unit
CPD	Chief Project Director
CPM	Country Programme Manager
DSA	Divisional Support Agency
EC	European Commission
EIRR	Economic Internal Rate of Return
FAO	Food and Agriculture Organisation of the United Nations
FGD	Focus Group Discussion
FIG	Farmer Interest Group
FIRR	Financial Internal Rate of Return
FRDC	Forest and Rural Development Commissioner
FM	Financial Management
FNGO	Field NGO
FSIP	Food Security Improvement Plan
FWM	Fresh Whole Milk
FY	Financial/Fiscal Year
GBPUAT	G B Pant University of Agriculture and Technology
GDP	Gross Domestic Product
GC	General Conditions (for IFAD loans and grants)
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Development Agency),
GoI	Government of India
GoUK	Government of Uttarakhand
GP	Gram Panchayat
GVO	Gross Value of Output
HARC	Himalayan Action Research Centre
HDI	Human Development Index
HH	Household
ICIMOD	International Centre for Integrated Mountain Development
ICO	India Country Office (of IFAD)
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
IHD	Institute of Human Development
ILRI	International Livestock Research Institute
ILSP	Integrated Livelihoods Support Project
IP	Implementation Partner

ITI	Industrial Training Institute
KAP	Knowledge Attitude Practice
KGFS	Kshetriya Grameen Financial Services
KM	Knowledge Management
LC	Livelihood Collective
MAPs	Medicine and Aromatic Plants
M&E	Monitoring and Evaluation
MIS	Management Information System
MOU	Memorandum of Understanding
MTR	Mid Term Review
MWS	Micro Water Shed
NRLM	National Rural Livelihoods Mission
M asl	metre above sea level
NDDB	National Dairy Development Board
NGO	Non-Government Organisation
NHM	National Horticulture Mission
NPV	Net Present Value
NRLM	National Rural Livelihoods Mission
OSV	Off-season Vegetables
PG	Producer Group
PD	Project Director
PFS	Project Financial Statement
PIA	Project Implementing Agency
PIM	Project Implementation Manual
PMC	Project Management Committee
PME	Participatory M&E
PMU	Project Management Unit
PNGO	Partner NGO
PSC	Project Steering Committee
RED	Regional Economic Development (project supported by GIZ)
RDD	Rural Development Department
RIMS	Results and Impact Monitoring System
SC	Scheduled Castes
SHG	Self Help Group
SOE	Statement of Expenditure
ST	Scheduled Tribes
SVCC	Social Venture Capital Company
TDC	Terai Development Corporation
UDWMP	Uttarakhand Decentralised Watershed Management Project ( <i>Gramya</i> )
UGVS	Uttarakhand Gramya Vikas Samiti ( <i>Ajeevika</i> )
ULIPH	Uttarakhand Livelihood Improvement Project for the Himalayas
UOCB	Uttarakhand Organic Commodity Board
UN	United Nations
UPASAC	Uttarakhand Parvthiya Ajeevika Samvardhan Company
UPR	Uttarakhand Procurement Rules
US	United States
USA	United States of America
VG	Vulnerable Group
VP	Van Panchayat (community forest)
VPG	Vulnerable Producer Group
VPKAS	Vivekanand Parvatiya Krishi Anusandhan Shala
WA	Withdrawal Application
WB	World Bank
WFP	World Food Programme
WMD	Watershed Management Directorate
WVMC	Water and Watershed Management Committee

# MAP OF UTTARAKHAND



## EXECUTIVE SUMMARY

1. Background: The Integrated Livelihood Support Project (ILSP) will follow on from, and up-scale, the Uttarakhand Livelihood Improvement Project in the Himalayas (ULIPH) which will be completed at the end of 2012. ULIPH has been implemented by Uttarakhand Gramya Vikas Samiti (UGVS), a society within the Rural Development Department, and Uttarakhand Parvthiya Ajeevika Samvardhan Company (UPASAC), a social venture capital company. However, for ILSP, the approach will be significantly changed – rather than forming Self-Help Groups (SHG) and provision of micro-finance services, ILSP will focus on supporting producer organisations with technology and access to markets to improve food security and livelihoods.

2. Location: Uttarakhand is a hill state in the north-west of India, covering 54,483 km<sup>2</sup> with a population of about 8.5 million (2001 census). Nine of its 13 districts are classed as hill districts, covering 77% of the area of the state, but with only 44% of the population. Livelihoods are still predominantly rural, but most economic and population growth has also been in the plains, which are becoming industrialised.

3. Poverty: Uttarakhand is one of the poorest states in India. The major driver of rural poverty is the difficult mountain environment. Land holdings are very small (average 0.8 ha) and fragmented into 6 or 7 different locations. Tiny terraced plots on steep hillsides makes mechanisation virtually impossible. Shallow and immature soils require high levels of organic matter, but yields are very low. There is little use of modern varieties, mineral fertilisers and other inputs. Only about 10% of land in hill districts is irrigated. Most households keep cattle or buffalo, but improved crossbreds are relatively scarce, there is minimal investment in feeding and health care. With 65% of the state covered in forest, damage to crops by wild animals is a major problem. Farmers and others report that the climate in Uttarakhand is changing, with rainfall patterns becoming more erratic.

4. Agriculture is very largely for subsistence, but very few households are able to produce enough food to last for more than three or four months. People rely on non-farm earnings and safety net programmes. With few rural employment opportunities, more and more people are migrating to jobs outside of hill districts. Between one third and one half of households send migrants and, as it is mainly men who migrate, this places more and more of the burden of farm labour, as well as domestic work, on women. Lack of labour, low productivity and wild animal damage are all contributing to land being abandoned, and it is said that as much as 30% of land in the hills that was once used to grow crops is no longer in production.

5. Rationale: the justification for ILSP is the need to stop the deterioration of the productive infrastructure, make farm labour more productive and farming more remunerative, and hence provide incentives for people to invest their time and resources in agriculture. Despite the disadvantages that agriculture faces in the hill areas, Uttarakhand does have the advantage of cooler temperatures at higher altitudes, allowing production of out of season vegetables and temperate fruits. The horticultural sector is less developed than in the other hill states, so there is considerable potential for growth, as there is in other niche products such as spices, medicinal and aromatic plants, and nuts.

6. Another area with growth potential is tourism. However more needs to be done to ensure that local people fully participate in, and benefit from, this sector. The population is well educated, but the level of youth unemployment is relatively high. Better vocational training could help such people find good quality employment in the growth sectors of the country.

7. The overall objective (goal) of ILSP will be to reduce poverty in hill districts of Uttarakhand. This would be achieved via the more immediate development objective of “enable rural households to take up sustainable livelihood opportunities integrated with the wider economy”.

8. The strategy behind ILSP will be to adopt a two pronged approach to building livelihoods in hill districts. The first of these is to support and develop the food production systems which remain the main means of support for most households. The second main thrust of the project is to generate cash incomes via the introduction and expansion of cash crops. These would be grown on a significant scale for markets outside of the state. ILSP will also support non-farm livelihoods, especially community involvement in rural tourism, and vocational training.



9. Component 1: Food security and livelihood enhancement implemented by UGVS, will support crop and livestock production for food security, and develop higher value cash crops and other products (such as rural tourism) to provide cash incomes. Crop and livestock production will be developed via support to Producer Groups (PG) and higher level organisations (Livelihood Collectives - LC) formed by a number of PGs. To up-scale enterprises generating cash incomes, and to introduce new income sources. ILSP will also improve access to markets through a value chain approach and the provision of physical infrastructure for market access. The value chain approach involves market/sub-sector studies, introduction of new technologies, market linkage, skill development, product development and promotion, physical infrastructure for market access. These activities will cover 93,800 households in 17 blocks in five districts. The project will also improve access to employment in the non-farm sector by supporting vocational training linked to job placement – with a target of 10,000 training places to be offered.

10. Component 2: Participatory Watershed Development implemented by the Watershed Management Directorate (WMD), will use processes that have been established through a series of watershed development projects in the state, but with an increased focus on food security, livelihoods and market linkages. It will protect and improve the productive potential of the natural resources in selected watersheds, alongside the promotion of sustainable agriculture with formation of PGs and LCs, and with improved access to markets. The component would cover a total of 41 micro-watershed (MWS) covering an area of about 125,000 ha in six clusters in six districts, with a population of 39,600 households. It will complement the ongoing watershed development programme funded by the World Bank and GoI, and takes into account availability of required WMD institutional capacity in the selected project districts.

11. Component 3: Livelihood financing implemented by UPASAC. Despite making significant strides in financial viability, banks have not been able to provide significant numbers of poor households with basic financial services. The activities under this component include:

- a) Banking support – capacity building, expansion of branches of SKGFS (a rural finance institution),
- b) Risk management – piloting and scaling up of insurance services,
- c) Financial inclusion initiatives – training to LC to be bank agents, product literacy training,
- d) Provision of development finance via UPASAC including loan and quasi equity funding
- e) Establishment cost support to UPASAC.

12. Component 4: Project coordination and monitoring: Each executing agency, UGVS, WMD and UPASAC, will have their own project management units headed by a Project Director. To provide overall coordination, the state nodal agency, RDD, will set up a Central Project Coordination Unit (CPCU) within the RDD, headed by a part time Chief Project Director (CPD). The CPCU will have two Units: (i) Finance Unit; and (ii) Planning and M&E Unit. The Finance Unit will be located within RDD whereas the M&E Unit will be housed within UGVS.

13. Targeting: By covering complete blocks or MWS on a saturation basis any households in these project areas may participate in ILSP activities. Data from the population census show that, of the total population in project districts, 18.6% are Scheduled Caste (SC) and 0.9% are Scheduled Tribe (ST). The SC population is disadvantaged, with a relatively high proportion being below the poverty line. In line with the GoUK policy that at least 20% of project resources go to SC households, implementing agencies would ensure that this disadvantaged group participate and benefit from project activities by establishing special groups for vulnerable households. These would amount to at least 20% of all producer groups and would receive additional support.

14. Gender: the flow of benefits directly to women would be ensured by at least 50% of all producer groups being female. The project would also ensure that women participate in higher level Livelihood Collectives, Water and Watershed Management Committees and other institutions involved in project management. The project would promote livelihood activities that specifically address the needs of women – such as by improving access to fodder and fuel, and easing the manual work involved in crop production.

15. Implementation approach: The investment in ILSP is more than a five-fold increase over the on-going ULIPH. Given limitations on the capacity of UGVS/UPASAC to up-scale to this extent, funds for ILSP will be divided between UGVS/UPASAC and WMD. WMD would establish a society to implement the project. WMD has an established track record in implementing participatory watershed management projects, and their inclusion will allow the project to be up-scaled, while avoiding the risks involved in relying entirely on UGVS/UPASAC. The dual implementation

structure will also generate new lessons in livelihood development using two different approaches to livelihood development.

16. Coordination: The Rural Development Department (RDD) will be the nodal agency at the state level. A Central Project Coordination Unit (CPCU) within the RDD. A state level Project Steering Committee (PSC) would be chaired by the Forest and Rural Development Commissioner (FRDC). The PSC will establish a Project Management Committee (PMC) chaired by the Secretary of RDD.

17. Convergence: the National Rural Livelihoods Mission (NRLM) will start operations in 2012 and will be responsible for forming and supporting SHGs. ILSP will provide complementary support for livelihoods for SHG members, many of whom will also join PGs. Producers supported by ILSP will be expected to receive support from other government programmes and from formal financial institutions. ILSP will also implement livelihood enhancement activities in blocks selected for watershed development by the Integrated Watershed Management Programme (IWMP), a centrally sponsored scheme.

18. M&E system will generate management information and provide the government and IFAD with evidence of results and impact against logframe indicators (and also for IFAD's RIMS system). This will involve activity/output, process, outcome and impact monitoring.

19. Financial management will be on the lines of current IFAD funded projects in India. Accounting software will be used to maintain accounting records and generate financial statements in IFAD formats. Periodic inputs from an IFAD Financial Management and Procurement Specialist will provide training and support for project financial staff.

20. Procurement will follow the procurement regulations of GoUK (with some project-specific amendments) to the extent they are consistent with IFAD's Procurement Guidelines. Wherever, the national regulations are inconsistent with IFAD's Procurement Guidelines, the latter shall prevail. Implementation partners (NGOs and research agencies) may be directly contracted by the project. This will avoid the delays and risks associated with a competitive selection process.

21. Key risks at the objective level include increases in the prices of food relative to wages, natural disasters, and migration out of the hills creating a labour shortage for agriculture. There are also risks to project outcomes including changing weather patterns, competition in external markets for cash crops, an unfavourable policy environment for rural finance. None of the risks have been identified as having a high impact on the achievement of project objectives.

22. Project cost is estimated to be USD 259 million. The Project will be financed by an IFAD loan of USD 90 million, a contribution of USD 48 million from the Government, USD 110 million as credit funds from banks, and USD 11 million from beneficiaries. Significant additional funds will flow to members of project groups through convergence with other government programmes.

23. Benefits: The project investment has an overall Economic Internal Rate of Return of 23% and remains viable if costs increase and/or benefits decrease by 20%. Farm model analysis shows average annual net income of participating households increasing from INR 19,000 to INR 33,000. A total of 143,400 households would directly benefit from the project.

24. Sustainability of benefits is based on the following assumptions:

- (a) The adoption of improved livelihoods will be sustained providing they continue to be profitable for households, and linkages for inputs and outputs are maintained. These linkages should be sustainable providing they are, in themselves, also financially viable for private sector actors and/or Livelihood Collectives.
- (b) Physical works such as watershed treatment, irrigation and market infrastructure will need to be maintained by user groups for irrigation, market infrastructure etc. The participation of local government in watershed development will help ensure the sustainability of these works.
- (c) Capacity building will result in sustained benefits providing this training is relevant and effective.
- (d) Improved access to financial services will be provided by banks, insurance companies and other agencies. Providing these services are profitable, they will be sustained.

## LOGICAL FRAMEWORK

Objective hierarchy	Indicators	Means of verification	Assumptions
<b>Goal</b> Reducing poverty in hill districts of Uttarakhand	Child malnutrition (under 5 yrs old: chronic, acute, underweight) <sup>1</sup> Household assets Food security	Impact surveys (including RIMS anchor indicators) at baseline, mid-term and completion	Price of food does not increase relative to earnings.  No major natural disasters
<b>Development objective:</b> Enable 143,400 rural households to take up sustainable livelihood opportunities integrated with the wider economy	93,400 households report increase in income from sub-sectors supported by the project. 93,400 hh report increase in total income (expenditure) Quality of housing improved for 93,400 households Access to water and sanitation improved for 53,400 hh Women's empowerment - 93,400 women report improvements in decision making, assets, mobility SC h'holds comprise at least 20% of all hh benefitting	Annual outcome surveys  Impact surveys (including RIMS anchor indicators) at baseline, mid-term and completion	Employment opportunities in other parts of India do not mean that so many of the workforce migrates out of Uttarakhand that farming is affected.
<b>Outcomes:</b>			
103,800 households from hill communities benefit from increased food production, greater participation and returns in markets for cash crops, tourism and new employment opportunities.	70,000 farmers <sup>1</sup> adopt improved technologies or increase in area irrigated by average of 0.15 ha. 70,000 farmers <sup>1</sup> increase farm yield &/or output by average of 15%. 84,400 hh increase food self-sufficiency 5,000 hh establish new enterprises 5,000 hh expand existing enterprises. 18,000 hh report increased sales. 9,000 producers <sup>1</sup> use new marketing channels. Increase in 5% of producers' share of retail price. 51 producer organisations rated sustainable. 8,000 vocational training graduates <sup>1</sup> gain employment.	Annual outcome surveys. KAP surveys  Value chain studies Case studies of producer organisations VT reports & studies	Weather patterns do not change to the extent that seriously hinders farming. Food prices in hills do not fall to the extent that makes local production uneconomic. Markets for off season vegetables & other products not adversely affected by competition from imports or other areas. Communications (road and telecom) are developed. Vocational skills acquired are relevant to job market.
Farming systems in 41 project watersheds with a population of 36,600 households become more productive, and less vulnerable to erosion and drought.	Increase of 10% in vegetative biomass Increase of 10% in water availability Improved performance by 220 GP 22,000 farmers <sup>1</sup> adopt new technologies and increase farm yield and/or output by average of 15%. 4,500 farmers <sup>1</sup> increase in sales of produce or use new market channels.	Watershed environmental monitoring Process monitoring of GP Annual outcome surveys KAP surveys	As above plus Treated watershed not damaged by erosion originating in reserve forests. GPs responsive to project & allocate required resources.
Increased investment in market-led opportunities by hill producers and their organisations.	UPASAC investments total Rs90 million. 40% increase in number and amounts of finance from other institutions. Five new financial products for project groups Recovery rate of bank loans and UPASAC Investments	Reports from UPASAC and other financial institutions	Regulatory framework allows financial innovation and encourages rural lending.
Lessons in development of hill communities learned and disseminated.	Lessons documented and disseminated via media and meetings.	Project progress reports	Project generates lessons which are widely applicable.
<b>Outputs:</b>			
Strengthen food production systems Support cash crops, market-orientated enterprises, tourism & institutions Develop market & other infrastructure Provide opportunities for vocational training	93,000 people <sup>1</sup> trained & get other livelihood support 18,000 producers <sup>1</sup> benefit from value chains. 80 market access infrastructure facilities provided. 60 producer organisations involved in value chains. 10,000 people <sup>1</sup> complete vocational training.	Project progress reports	Improved technologies for hill agriculture are available & profitable. Private sector & other value chain participants are interested. Public sector input supply channels function efficiently, or allow space for private suppliers.
Soil and water conservation. Watershed management capacities strengthened Livelihoods developed	29,000 producers <sup>1</sup> reached with improved technologies, irrigation, better communications and soil conservation. 125,000 ha covered by watershed conservation and development.	Project progress reports	Communities are interested and willing to prioritise watershed development. GP's able to play their role in implementing watershed development
Social venture capital company able to provide financial resources Other financial institutions strengthened to provide loans and other services.	UPASAC business plan 1,000 people attend training and exposure visits. 10 financial institutions participating in ILSP linkages. 20 new branches of SKGFS opened.	Project progress reports	Suitable staff can be recruited to UPASAC. Financial institutions willing to participate.
Effective and efficient systems for delivery of project outputs	Achievement of project targets at output and outcome levels.	Project progress reports	GoUK & IFAD establish efficient management framework.
<b>Activities/components</b>			
<b>Food security and livelihood enhancement:</b> Support for crop and livestock production via technology demonstrations and training, development of service providers, physical infrastructure for market access, irrigation, and soil conservation. Value chain sub-projects including market/sub-sector studies, introduction of new technologies, market linkage, skill development, product development and promotion, physical infrastructure for market access. Action-research and innovation sub-projects. Vocational training, apprenticeships and job placement services - implemented by UGVS			
<b>Participatory watershed management:</b> watershed planning and treatment, institutional strengthening, demonstrations and training, market linkages – implemented by WMD			
<b>Livelihood finance:</b> provision of debt and equity capital for enterprise start-up, piloting of risk management instruments, support for financial institutions – implemented by UPASAC			
<b>Project management</b> Project management unit established, staff recruited, agreements with partner agencies, project coordination, monitoring and evaluation, knowledge management – implemented by RDD			

<sup>1</sup> indicators disaggregated by gender,



## **I. Strategic Context and Rationale**

### **A. Country and rural development and poverty context**

#### **1. Economic and Social Development**

25. Despite remarkable economic growth, poverty remains a major issue for India, with 41.6% of the population living on less than USD1.25 per day. India has 33 per cent of the world's poor people, and nutritional levels are unacceptably low, with 42.5% of children underweight, one of the highest rates globally. Distribution of the benefits of growth to poor rural people has been limited by: inadequate physical and social infrastructure, poor access to services, low investment, a highly stratified and hierarchical social structure, characterized by inequalities in assets, status and power; and ineffective, inefficient implementation of pro-poor programmes, owing to governance failures. There is now a genuine and widespread recognition that, without inclusive growth, the social and political consequences of rising inequalities could be very adverse. About one third of Indian districts are affected by civil unrest and left-wing terrorism, which represent the main national security threats. A summary of related issues is in Key File Table 1.

26. Agricultural wage earners, smallholder farmers and casual workers in the non-farm sector constitute the bulk of poor rural people. Within these categories, women and tribal communities are the most deprived. In terms of gender deficit, India is ranked 114 by the World Economic Forum Global Gender Gap Index 2009. Finally, about 300 million young people aged between 13 and 35 live in rural areas, most of them being forced to migrate seasonally or permanently, without the skills and competencies required by the modern economy. More information is in Annex 1.

#### **2. Policies and programmes**

27. National poverty reduction policies and initiatives that have particular relevance for this project include the National Rural Livelihood Mission (NRLM), under the Ministry of Rural Development (MORD). NRLM builds on the experience of the Swarnjayanti Gram Swarozgar Yojana (SGSY). It emphasizes capacity-building of SHGs and their federations, and allows state-level flexibility to respond to emerging demands, provides for enhanced financial support, multiple loans, improved monitoring and evaluation, and facilitation of market linkages.

28. Another key programme is the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), the largest employment programme in the world. Not only does it provide wage labour, but it also aims to generate productive assets in the process. The Government, through the National Rainfed Area Authority (NRAA), has issued Common Guidelines for Watershed Development. These were followed by the 2008 Integrated Watershed Management Programme, which emphasizes capacity-building, M&E, learning and social audit. It introduces a livelihoods perspective from the very inception of the project, with a special emphasis on families without assets. It also delegates approval and oversight of watershed project implementation to the states.

29. The Government of Uttarakhand has recently set out its plans for the broad agricultural sector in a new Agricultural Policy document. A summary of this document showing how ILSP will support this policy (especially regarding food security and agricultural diversification) is in Annex 2 of Working Paper 2.

30. The new project, ILSP, will be fully aligned with IFAD's country strategy for India (COSOP) and with its two strategic objectives: SO 1: Increased access to agricultural technologies and natural resources; and SO-2: Increased access to financial services and value chains. A table showing this alignment and the contribution of ILSP to COSOP targets and milestones is in Working Paper 11 (Monitoring and Evaluation).

#### **3. Poverty in Uttarakhand**

31. Uttarakhand is a hill state in the north-west of India, covering 54,483 km<sup>2</sup> with a population of about 8.5 million (2001 census). Nine of its 13 districts are classed as hill districts, covering 77% of the area of the state, but with only 44% of the population. Livelihoods are still predominantly rural, with 80% of the population still employed in agriculture, however this sector only accounts for 22% of the state's GDP. Most economic and population growth has also been in the plains, which are becoming industrialised, and the growth rate of the agricultural sector has

also been only been 1.8% per year, compared with the industrial and service sectors growing at over 10% per year. More information on poverty and gender in Uttarakhand is in Annex 2.

32. Uttarakhand is one of the poorest states in India, with 41% of the population below the poverty line in 2004-5 (Planning Commission). Orissa, Bihar, Jharkhand and Chhattisgarh are the other states with at least 40% of the population below the poverty line (nationally 27.5% of the rural population were below the poverty line). Participatory wealth ranking, carried out for the formulation mission in 12 hill villages, classed 46% of households as poor – with 6% being ultra poor. Of the remaining 54% of households, 37% were “not-so-poor” and 18% were better-off. This study found little difference in poverty rates by altitude or by accessibility, however 32% of households were from scheduled caste (*dalit*) households, and almost two-thirds (63%) of this group were poor compared with 36% for the upper castes.

33. The Scheduled Castes (SC) generally have little land and poor education. Their settlements tend to be outside and at a distance from the ‘main’ village. Scheduled Tribes (ST) in Uttarakhand are generally herders and traders, and they are generally not as poor as they are elsewhere in India<sup>1</sup>. The 2001 census showed that the SC and ST proportions in the population of the state were 17.9% and 3.2% respectively, and data from project areas shows that less than 1% of households in these areas are ST.

34. The major driver of rural poverty is the difficult mountain environment. Although the vast majority of households have land, land holdings are very small (average 0.8 ha) and fragmented into 6 or 7 different locations. Tiny terraced plots on steep hillsides makes mechanisation virtually impossible. Hill agricultural is also unproductive. Shallow and immature soils require high levels of organic matter, but yields are very low. Agriculture is very largely for subsistence. There is little use of modern varieties, mineral fertilisers and other inputs. Only about 10% of land in hill districts is irrigated. Most households keep cattle or buffalo, but improved crossbreeds are relatively scarce, there is minimal investment in feeding and health care.

35. To a large extent livestock rely on grazing or fodder from the forests that cover 65% of the state. Manure from livestock and leaf litter from the forests are vital as sources of organic matter to maintain soil fertility. Forest cover is reported to be deteriorating, putting pressure on both livestock and soil fertility, and crop yields are reported to be deteriorating. Farmers report that damage to crops from wild animals is a major problem which is getting worse.

36. Low and declining farm productivity on one hand, and growing opportunities for employment in other part of India on the other, is encouraging more and more people to migrate to jobs outside of hill districts. Between one third and one half of households send migrants and, as it is mainly men who migrate, this places more and more of the burden of farm labour, as well as domestic work on women. Lack of labour, low productivity and wild animal damage are all contributing to land being abandoned, and it is said that as much as 30% of land in the hills that was once used to grow crops is no longer in production. Land use data shows that there is almost as much land classed as cultivatable waste and fallow as land that is cropped.

37. Agriculture is highly dependent on weather, with most rainfall in a three to four month monsoon season. While crops often suffer from lack of moisture, monsoon storms cause much damage, including soil erosion, waterlogging and landslides. Farmers and others report that the climate in Uttarakhand is changing, with rainfall patterns becoming more erratic. A study by ICIMOD<sup>2</sup> reported that 64% of farmers say that crop yields have declined, and many cite causes that they claim are related to climate change – such as less rainfall, less irrigation water and soil erosion. However it should be noted that most farmers thought that other factors were also contributing to reduced yields – such as less use of manure due to decline in animal husbandry, and less labour for agriculture and for upkeep of terraces and irrigation systems.

38. Although almost all crops and livestock products are consumed at home, and little is sold, very few households are able to produce enough to last for more than three or four months. People rely on non-farm earnings, and a survey<sup>3</sup> found that the majority of people also access safety net programmes, with at least 90% of households in all hill districts having access to, and

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<sup>1</sup> Results of participatory wealth ranking in Table 2 of Annex 2 show that 55% of ST are non-poor, compared with 54% of the overall population.

<sup>2</sup> Jain, Anmol, *Labour Migration and Remittances in Uttarakhand*, ICIMOD 2010

<sup>3</sup> *Hunger and Malnutrition Mapping in Uttarakhand*, WFP/GoUK 2010

using, the Public Distribution System shops to purchase food at subsidised prices. Despite this support, just over one third of children are underweight, with smaller proportions being stunted and wasted (Table 1).

**Table 1: Child malnutrition in the hill districts**

Indicators of malnutrition	Percentage of children under 5 years old		
	Boys	Girls	All
Underweight (weight for age*)	37.5	35.4	36.4
Stunted – chronic malnutrition (height for age*)	26.1	26.1	26.1
Wasted – acute malnutrition (weight for age*)	10.8	9.4	10.1

Source: Hunger and Malnutrition Mapping, WFP/GoUK 2010, \* z score under 2 SD of WHO norms

39. With a poorly developed agricultural sector, and a poorly developed rural-non-farm sector, many households rely on migration to jobs outside of the hills. Such migration can be temporary for long or short periods, or permanent if a family moves away to live elsewhere. Between one third to one half of households are involved in some way in migration – either sending temporary migrants or receiving remittances and other support from family members who have permanently migrated.

40. With high levels of male-out migration, most agricultural work, other than ploughing, is performed by women. Although migration pushes women into the labour force, cultural factors continue to limit the roles of women, and there is a very little female participation in rural non-farm employment. Moreover women’s work in agriculture is very largely as unpaid family labour on their own fields and not as agricultural wage labour. The high level of women’s participation in the overall labour force is not reflected in their autonomy and access to money. They have little, if any, more participation in decisions or access to money that women in other parts of India.

## B. Rationale

### 1. Constraints and opportunities

41. The rural economy of the hill region of Uttarakhand is under increasing strain. Natural resources are becoming stressed with declining soil fertility and pressure on farm labour resources. These two are linked – out-migration of men has left women to do most farm-work, and there is not enough labour to maintain terraces and irrigation systems, and to look after the livestock needed to produce manure to make soil fertile, as well as to apply this manure and carry out other cultivation work. This has led to yields declining and large areas of land being abandoned. More food is purchased – this is available at subsidised rates for poor households.

42. The justification for ILSP is therefore based on the need to stop the deterioration of the productive infrastructure, make farm labour more productive and farming more remunerative, and hence provide incentives for people to invest their time and resources in agriculture as a genuinely remunerative activity rather than being a traditional pastime for those with no other work.

43. Despite the problems of farming in the hill areas, Uttarakhand does have some climate-related advantages. The cooler temperatures at higher altitudes allows it to produce out of season vegetables and temperate fruits, which are grown in significant quantities and transported to markets in the plains. However this commercial horticulture sector is less developed than in the other hill states of Himachal Pradesh and Kashmir – partly because it got little support while the state was part of Uttar Pradesh. There is therefore considerable potential for growth, as there is in other niche products such as spices, medicinal and aromatic plants, and nuts. These opportunities can be realised by building on, and up-scaling, the achievements of the on-going IFAD support Uttarakhand Livelihood Improvement Project in the Himalayas (ULIPH). This project, which will continue through to late 2012, has demonstrated that hill communities are cohesive and enthusiastic to work together for collective marketing.

44. Another area where the hill region of Uttarakhand has growth potential is tourism. This takes advantage of its cool climate, magnificent scenery and important religious sites. However more needs to be done to ensure that local people fully participate in, and benefit from, this sector. Despite the difficult environment and high levels of poverty, the population is well educated, with

above average levels of literacy. Although well-educated people should be able to take up job the opportunities that exist outside of the hill districts, the level of youth unemployment is relatively high. Better vocational training could help such people find good quality employment in the growing industrial and service sectors of the country.

## 2. Priorities of hill communities

45. In the FGDs held for the formulation mission, people from 12 sample hill villages put forward their priority needs. These are shown in Table 2. Overall, health facilities are listed as a priority in 11 out of 12 villages, followed by employment in 8 villages and protection of crops from wild animals and insects in 7 villages. These are followed by skill development and drinking water in 5 villages each. The inadequate public provision of health facilities is a key factor in the poor Indian performance in the Human Development Index (HDI). High out-of-pocket expenditure on medical services is also a key factor in pushing near-poor households into the ranks of the poor. Although health services are not an area in which IFAD undertakes investments, ILSP does plan support pilot schemes for health insurance.

**Table 2: Priority needs of villages**

		Schools	Health facilities	Drinking water	Sanitation	Electricity	Employment	Skill development	Road	Irrigation	Crop protection from insects	Crop protection from wild animal
Altitude	High	2	4	1	0	0	3	1	2	0	1	1
	Medium	1	3	2	1	1	3	2	1	1	1	2
	Low	1	4	2	1	1	2	2	1	0	0	2
	Total	4	11	5	2	2	8	5	4	1	2	5
Location	Near	1	5	3	1	1	5	3	0	0	2	4
	Distant	3	6	2	1	1	3	2	4	1	0	1
	Total	4	11	5	2	2	8	5	4	1	2	5

Source: IHD Report, 2011 Note: Numbers represent the number of villages (out of 12) where the need was listed.

46. Following health services, the next priority was employment. With little growth in the agricultural sector, migration is seen as a key livelihood option. However moving up the job ladder requires better education and skills, and it is no surprise that skill development is listed as a priority in 5 villages. The priorities identified in agriculture were protection from wild animals (in 5 villages) and insects (in 2 villages). Although irrigation was identified as a priority in only one of the 12 villages, a number of farmers at other locations who the mission met said that, with increasingly unreliable rainfall, irrigation facilities were badly needed.

47. In separate FGDs women put forward their own opinions about how their situation could be improved (Table 3). In all villages they mentioned the high work burden of family and household responsibilities. In 11 out of 12 villages they noted lack of education and skills as the main reason for their vulnerability. Next in order came not earning cash (8 villages) and then the structure of male-dominated society (7 villages). Insufficient education and skills and the lack of income-earning are both connected, with lack of knowledge and skill acting as a barrier to earning income. Further information is in Annex 2.

**Table 3: Women's views on how to improve their situation**

Altitude and location of villages		Ownership of land/resources	Access to education, training and skill	Gender sensitization & mainstream policies	Reservation in political and economic sphere	Access to technologies which can reduce drudgery	Other
Altitude	High	0	4	2	1	2	1
	Medium	2	4	3	3	2	1
	Low	0	4	2	1	2	1
	Total	2	12	7	5	6	3

Source: IHD Report, 2011. Note: Figures indicate number of villages. There are 4 villages in each altitude category.



### **3. Justification of the proposed approach**

48. The project will upscale two established approaches to poverty reduction. The livelihood improvement activities of the on-going ULIPH being implemented by UGVS (a society established by the Rural Development Department), and the livelihood plus watershed development activities of the Watershed Management Department, will be up-scaled in different hill areas. Although both agencies have somewhat different focus<sup>4</sup>, both will use the strategy outlined in paragraphs 61 and 62 for livelihood improvement. The differing focus will provide opportunities for cross-learning and support between UGVS and WMD – for example lessons from value chain development and market access from UGVS may be adopted by WMD (which has less specific market interventions), while the limited amount of irrigation development by UGVS can utilise approaches from the more extensive programme of WMD.

49. Groups established by both UGVS and WMD will be enabled to access a range of supportive financial services by the livelihood finance activities of UPSAC, a social venture capital company established by ULIPH. All three of these agencies will have their own project management, and will be able to operate largely independently – with UGVS and WMD covering different areas, and UPASAC in a different sector.

### **4. Convergence with other programmes**

50. The project is expected to converge with other ongoing projects and interventions of the government at three levels. First, the project's primary aim is to converge with NRLM that is expected to be implemented in the state from the next financial year. The project will not implement self-help group (SHG) mobilization and strengthening including building of SHG federations which form the core of NRLM. Rather the focus of ILSP will be to complement and support NRLM by mobilising Producer Groups (PG) and Livelihood Collectives (LC) to plan and implement livelihood up-scaling activities to transform subsistence production system into market led production system. NRLM financial resources channelled through SHGs and their federations will enable the ILSP Producer Groups PG and LC to further scale up production. As a result, the project's strategy converges with that of NRLM.

51. Second, the project intends to allocate financial resources to the PGs and LCs to plan and implement agricultural production activities of high priority. The project will establish the leveraging norms to ensure that the PGs and LCs take steps to converge with support from government agencies and formal financial institutions. Third, the project plans to implement livelihood enhancement activities in blocks selected for watershed development by the Integrated Watershed Management Programme (IWMP), a centrally sponsored scheme. The major thrust area for IWMP is physical watershed development, with little support for livelihood promotion. Implementation of livelihood up-scaling activities by the project in the IWMP areas will provide these communities with a holistic development package. ILSP, in providing support for a range of livelihood activities will ensure that its approach and activities are coordinated with other agencies that are involved in these sectors. This will enable groups sponsored by ILSP to gain access to additional resources and support from these agencies, and will ensure the greatest impact of the overall development effort. Information other programmes is in Key File Table 3.

52. ILSP will help up-scale and complement two other donor supported projects. The World Bank-supported watershed programme (UDWMP) is finishing its first phase and a second phase is planned which, like ILSP, will develop further watersheds in the overall watershed development plan for the state. Like ULIPH, ILSP will cooperate with the Regional Economic Development programme of GIZ, which has recently been extended for two more years, and which will focus on five areas of specific interest to ILSP (market information systems, organic farming, tourism, nettle fibre and knowledge management).

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<sup>4</sup> Differences between the UGVS and WMD approaches and opportunities for synergy are shown in Table 2 of Annex 5.

## II. Project description

### A. Project Area and Target Group

#### 1. Project area and number of beneficiaries

53. Direct project activities will be mostly implemented in 30 blocks (sub-districts) in 10 hill districts of the State. This compares with ULIPH which covered about 40% of the village clusters in 17 blocks in five districts. Of this total area, livelihood enhancement activities of Component 1, implemented by UGVS, will cover 17 blocks in five districts<sup>5</sup>. These five districts, Uttarakhashi, Tehri, Chamoli, Bageshwar and Almora are the same as the five districts covered by ULIPH, but rather than only including selected village clusters in each block, the entire block will be covered - apart from any areas that are being developed by the World Bank supported Gramya-1 and Gramya-2 Watershed Development Projects (UDWMP)<sup>6</sup>. This means the total coverage by UGVS will increase from 42,000 households in ULIPH to 91,800 households in ILSP. Further details are in Annex 4.

54. Component 2 will cover 41 micro-watersheds (MWS) which have a total area of about 125,000 ha and population of 39,610 household (all of who will benefit from watershed development). The major part of these watershed are located in 13 blocks in six districts (one of which overlaps with Component 1, but is in a different block). The project, under component 1, will also provide vocational training scholarships and other support to about 10,000 school leavers from all hill areas in the state.

55. Based on these calculations the total number of beneficiary households will be:

Component 1: Food security scaling up:	91,800
Citrus action-research pilot	2,000
Vocational training	10,000
Sub-total	103,800
Component 2: Watershed management	<u>39,600</u>
Total direct beneficiary households	143,400

56. Additional households will participate in, or indirectly benefit from improved the market access, technical and institutional innovations, in downstream benefits of watershed conservation, and in initiatives of the livelihood finance components that spill over from the group of direct project beneficiaries.

#### 2. Targeting

57. Covering complete blocks or MWS on a saturation basis means any households in these project areas may participate in ILSP activities, although the delivery of project services via farmer groups is less likely to be attractive for the richest 20% of households. Data from the population census show that, of the total population in project districts, 18.6% are SC and 0.9% are ST. The gender and poverty analysis has confirmed that the SC population is disadvantaged, with a relatively high proportion being below the poverty line. In line with the GoUK policy that at least 20% of project resources go to SC households and 4% to ST households, implementing agencies would ensure that the disadvantaged SC group participate and benefit from project activities by establishing special groups for vulnerable households. These would amount to at least 20% of all producer groups and would receive additional support, so their share of expenditure would be more than 20%. Profiles of target groups are in Key File Table 4.

58. As part of innovation activities, a pilot scheme for forest fringe area development is proposed. This would specifically target some of the poorest households to be members of forest user groups. The vocational training scholarships would also be targeted at disadvantaged and poor households, and could provide a higher level of support to the poorest.

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<sup>5</sup> Blocks have been selected on the basis of potential for development of livelihood activities and lack of overlap with Gramya (the World Bank supported watershed programme). They include eight of the 17 ULIPH blocks.

<sup>6</sup> Uttarakhand Decentralised Watershed Management Project, known as Gramya, implements a comprehensive watershed development programme including livelihoods and market linkage, and therefore, to a significant extent, duplicates the proposed activities of ILSP component 1.

59. The project would ensure that benefits flow directly to women by maintaining that at least 50% of all producer groups are female. The project would also ensure that women participate in higher level Livelihood Collectives, Water and Watershed Management Committees and other institutions involved in project management. The project would also promote livelihood activities that specifically address the needs of women – such as by improving access to fodder and fuel, and easing the manual work involved in crop production.

### **B. Project development objective**

60. The overall objective (goal) of ILSP will be to reduce poverty in hill districts of Uttarakhand. This would be achieved via the more immediate development objective of “enable rural households to take up sustainable livelihood opportunities integrated with the wider economy”. A project logframe is at the front of this report.

61. The strategy behind ILSP will be to adopt a two pronged approach to building livelihoods in hill districts. The first of these is to support and develop the food production systems which remain the main means of support for most households. This involves improving technologies for production of traditional food crops and livestock, and developing supporting services for input supply and marketing of any surpluses. To make food production more secure the project will also contribute to watershed development to conserve water and soil resources. ILSP will also support the production of fodder and other non-timber forest products in community forest areas (Van Panchayats).

62. The second main thrust of the project is to generate cash incomes via the introduction and expansion of cash crops. These would be grown on a significant scale for markets outside of the state. There is already significant production of off-season vegetables, such as potatoes, tomatoes and peas, and some fruit. This can be expanded through improved technologies and the development of new production areas, with returns to farmers improved via better marketing and by value addition. It should also be possible to develop the production new crops and products (such as nuts and aromatic plants) for growing external markets. ILSP will also support non-farm livelihoods, especially community involvement in rural tourism. Many people migrate to jobs outside of the hill areas, and ILSP will support vocational training to help people obtain more remunerative employment.

### **C. Components and outcomes<sup>7</sup>**

#### **Component 1: Food security and livelihood enhancement**

63. This component will support crop and livestock production for food security, and also develop higher value cash crops and other products (such as rural tourism) to provide cash incomes. Crop and livestock production will be developed via support to producer groups (PG) and higher level organisations (federations or livelihood collectives - LC) formed by a number of PGs. To up-scale enterprises generating cash incomes, and to introduce new income sources, ILSP will improve access to markets through a value chain approach and by the provision of physical infrastructure for market access. The value chain approach involves market/sub-sector studies, introduction of new technologies, market linkage, skill development, product development and promotion, physical infrastructure for market access. The project will also improve access to remunerative employment in the non-farm sector by supporting vocational training linked to job placement.

64. This component will be implemented by UGVS and comprise the following sub-components:

- (a) Food security and scaling up
- (b) Access to markets
- (c) Innovation linkages
- (d) Vocational training

#### **(a) Food security and scaling up**

65. Producer groups: this sub-component will set up 6,120 PGs each comprising of about 15 households with an interest to undertake similar basic livelihood activity (or activities) at the village level. To ensure full participation of the poorest, the project will also mobilize Vulnerable Producer Groups (VPG) comprising poorest households particularly those belonging to scheduled

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<sup>7</sup> Further details on project components are in Annex 4.

castes (SC). At least 20% of PGs will be VPGs. A significant proportion of PG/VPG could be existing SHGs formed by ULIPH and other programmes and these would continue in these programmes (which would gradually be absorbed into NRLM) for micro-finance activities and other institutional support. At least 50% of PG/VPG would be women's groups.

66. The project will engage Partner NGOs to mobilize the PGs and VPGs. The Partner NGO will engage Livelihood Facilitators trained in implementing livelihood activities. These Facilitators will be responsible for PG and VPG mobilization at the village level. The PGs and VPGs will be federated at the cluster level to form Livelihood Collectives (LCs). LCs will be formed at the cluster level taking into account ease of access and possibility of up-scaling agricultural activities to achieve required economies of scale for establishing market linkages. The project, through the Partner NGOs, will support the setting up an office for each LC and provide trained staff.

67. ILSP will finance activities related to mobilization of PGs and VPGs, and preparation and implementation of Food Security Improvement Plans (FSIP). The project will allocate Rs. 35,000 per PG for implementation of their plans. Additionally, the project will also provide Rs 30,000 each year for two years to VPGs to implement their own plans. More details are in Annex 4 paragraphs 7 to 10.

68. Livelihood Collectives: The second step in the livelihood enhancement process is to federate about 65 PGs/VPGs at the cluster level to form a total of about 70 Livelihood Collective (LC). In some places suitable institutions may already exist (such as the SHG Federations formed by ULIPH) and can be supported straight away by the project. These LCs will be the focal points to establish input supply linkages and aggregate production for establishing market linkages.

69. LCs will be facilitated to expand cultivation of economically important crops and off-farm activities at the individual household level. LCs will also build irrigation and water and soil conservation related infrastructure as required by their communities. As they develop their capacity, LCs will be facilitated by partner NGOs to move into agribusiness and establish linkages with buyers. LCs may also take up initiatives in the non-farm sector, such as community tourism. To provide input and output services for their members LCs may set up and operate Input-Output Centres on the pattern that have been established by ULIP Federations.

70. The LC will draw up an Agribusiness Up-scaling Plan (AUP), which will both consolidate and up-scale the FSIP of its member PG/VPG, develop more economically important crops, and build market linkages. The project will provide LCs with financial support up to Rs 200,000 per LC each year for two years to prepare a plan and implement a set of livelihood up-scaling and agribusiness activities. This may also be supported via bank loans and investment enabled through the Livelihood Finance component. Additional funds will be available for irrigation development and for soil and water conservation – although the scope of this work will be very much less than that undertaken by watershed management projects. Further details are in Annex 4 paragraphs 11 to 15.

## **(b) Market access**

71. This sub-component will aim to increase access for hill producers to wider markets, and help them take advantage of the climatic advantages offered by Uttarakhand's hill regions. Details are in Annex 4 paragraph 16. Specific initiatives to be supported by ILSP will include:

- (a) Sub-sector development will use a value chain approach to focus on produce where the state has a comparative advantage. Specific opportunities have been identified to improve returns to producers in off-season vegetables, fruit trees, and milk production. There is also great potential to produce tree nuts for domestic and external markets, as well as to up-scale production of spices and aromatic crops.
- (b) Market infrastructure: the project will fund development of the physical infrastructure of markets. At the moment the 20 wholesale markets (*mandis*) in the state are located in the plains or on the edge of the hills. Most hill producers are located at a long distance from these markets. The project will fund the establishment of 12 assembly markets (major collection centres): one in each of the nine hill districts, with three more in high potential locations.

Establishment of such markets will take advantage of the new Agricultural Produce Marketing Committee (APMC) Act which allows private sector involvement in construction and management of such markets – previously all produce that was sold outside of the state had to pass through the 20 official *mandis* where a number of charges were levied.

ILSP will also have funds to support APMC reform and other policy initiatives through studies of the new *mandi* system together with workshops to gather the feedback and opinions of market actors. The project will also support the establishment of farmers' markets based on the popular *rythu* concept. Provision has been made for 20 storage-cum-collection points, each servicing a few villages where produce can be stored for a few days before moving it to a road head or higher level market.

ILSP will also improve 'last mile' access to markets. This will help producers in more remote areas to be competitively connected to markets. The project will build 40 kms of four foot wide concrete pathways and 27 river crossing ropeways. The project will give consideration to supporting a cell-phone query based market information system as a means to deliver relevant and timely information to farmers.

(c) Capacity building will be focused on changing attitudes to dealing with markets. Depending on needs, the following training programmes may be scheduled:

- Farmers – importance of cleaning, sorting, and grading; managing money and keeping accounts, improving negotiation skills, calculating net return, etc.
- NGO Staff – understanding markets, forecasting trends, planning efficient logistics, managing stocks and payments
- Steering Committee members and senior PMU staff – workings of markets, need to understand and adapt to market needs, tuning project needs to market needs

Capacity building will be supported by the proposed linkage with a high level business school or consulting company – which would provide the business school or consulting company with real life examples of community businesses for their own training and research, while providing support that will develop the capacity of project staff, NGOs, Livelihood Collectives and other enterprises.

### **(c) Innovation and market linkage:**

72. ILSP will fund the testing and dissemination of innovative technologies and approaches to improving food security, livelihoods and access to markets. A number of research institutions have developed improved seeds and other technologies for the benefit of hill farmers. However these organizations are unable to disseminate these research outputs due to the lack of linkages with the community organizations – but which can be provided by ILSP NGOs. Annex 3 of Working Paper 2 has specific proposals for ILSP to work with Vivekanand Parvatiya Krishi Anusandhan Shala (VPKAS), a research institution of Indian Council of Agricultural Research, and G B Pant University of Agriculture and Technology (GBPUAT) to test and disseminate technologies appropriate to the needs of hill farmers. This work could include: (i) surveys into specific constraints in hill agriculture and livelihoods; (ii) field testing, with project group members, of potential solutions; (iii) field days, visits and other events to disseminate successful interventions; (iv) training of project staff and leaders of project groups in technologies and approaches; and (v) monitoring and evaluation of the outcome of the initiatives.

73. There is an opportunity to pilot an intervention that will provide sustained access to forest based livelihoods for the poorest households. It will be achieved through assigning user rights for plots of degraded community forest to groups of targeted poor households and facilitating the members of the groups to develop the degraded forest plot. This innovation sub-project could be implemented by a contracted NGO in close coordination with the Forest Department.

74. The draft Project Implementation Manual (PIM) includes a proposal for a small action research sub-project in citrus production to be implemented by HARC, an NGO, in partnership with a specialised citrus research agency. There is also a need for action research in the livestock sector, which could include development of an improved model for poultry production in the hills. Another area for action research and studies is marketing and enterprises in the non-farm sector. This could include working with the Khadi and Village Industries Board, Bamboo and Fibre Development Board and other agencies who are developing interventions for off-farm enterprises at the

community level. Support from ILSP could enable community-owned organizations to develop their supply chains, market linkage and brand building.

75. IFAD is on the verge of grant funding the project "Enhancing dairy-based livelihoods in India and Tanzania through feed innovation and value chain development approaches", which will be implemented by ILRI. The purpose is to improve dairy-derived livelihoods in India and Tanzania via the intensification of smallholder production focusing on feed enhancement. The proposed programme will tackle feed scarcity from a value chain perspective and employ innovation system principles. The objectives of the programme are three-fold: (i) to strengthen use of value chain and innovation approaches among dairy stakeholders to improve feeding strategies for dairy cows; (ii) to develop options for improved feeding strategies leading to yield enhancement with potential income benefits; and (iii) to strengthen knowledge sharing mechanisms on feed development strategies at local, regional and international levels."

#### **(d) Vocational training**

76. In its concept note for ILSP GoUK suggested that the project also fund vocational training. Employment in jobs outside the hill districts is a major source of income for households, and with the rapid development of the Indian economy, these opportunities are expanding – provided people have the right skills. To plan how to implement this initiative, it is proposed that ILSP commission a study at project start up that would provide recommendations on:

- The most appropriate sectors / industries for training
- Key skills and competencies that should be covered
- The funding model most likely to be effective for the target learners
- Additional support learners may require
- Any actions required to ensure training institutions have capacity to deliver
- Mechanisms to ensure quality

77. The design team has identified Manipal City and Guilds Joint Policy Advisor Group as the appropriate agency to carry out this study. Terms of reference for this study will be in the draft Project Implementation Manual. More information is in Annex 4, paragraphs 22 to 24.

### **Component 2: Participatory Watershed Development**

78. **Overall objectives and scope:** the project will support implementation of a Participatory Watershed Development Component following processes that have been established through a series of watershed development projects in the state, but with an increased focus on food security, livelihoods and market linkages. This component, to be implemented by WMD, will aim to protect and improve the productive potential of the natural resources in selected watersheds along with increasing household income through inclusive and sustainable approaches.

79. A total of 41 micro-watershed (MWS) covering an area of about 125,000 ha in six clusters in the six hill districts of Rudraprayag, Tehri, Pithoragarh, Pauri, Nainital and Champawat will be treated under this project. These MWS, with a population of 39,610 households, have been identified as priority MWS in the State Perspective and Strategic Plan for Watershed Development. They up-scale the ongoing watershed development programme funded by the World Bank, GoUK and GoI, and take account of the required WMD institutional capacity in the project districts.

80. Gender and social sensitivity will be ensured by having at least 50% of livelihood groups as women's groups and 20% as vulnerable producer groups and ensuring that women and Scheduled Castes participate in decision making processes and are represented in the institutional arrangements. Sub-components and activities to be implemented are as follows:

#### **(a) Participatory Watershed Management**

##### **(i) Social mobilization and participatory planning**

81. The involvement of stakeholders at grass root level is a vital element of watershed management. It is of utmost importance to involve them in such a manner that they feel ownership of project at every step. Village level local government, the Gram Panchayat, along with its Water and Watershed Management Committee (WWMC), and Van Panchayats, Producer Groups, Vulnerable Producer Groups and Women's Forums, will be the vehicles for planning and

implementation at the village level. More information social mobilisation and community planning are in Appendix 1 of Working Paper 9.

(ii) Village and watershed development

82. Soil and Moisture Conservation Measures: different soil and moisture conservation treatment methods are used in arable and non arable areas. In arable lands vegetative and engineering soil and moisture conservation measures will be used. Systems of water harvesting will be built where needed. Trees will be planted for fuel, fodder, fibre, fruits and timber. Trees are also important for the environment and conservation of soil and water. Pasture and grassland management to produce forage for livestock on non-arable land requires range improvement measures, especially reseeding and planting, and maintenance of optimum productivity through a proper grazing system. Poor common property lands can be planted with high yielding perennial grass species by reseeding and/or planting of root slips.

83. Alternative Energy Sources: in Uttarakhand the main source of energy is firewood. Collection results in degradation of forests and drudgery for women. To reduce this pressure, energy saving devices and alternative sources of energy can include solar cooker, bio-gas plant, smokeless stoves, and pine needle briquetting.

84. More details are in Annex 4, paragraphs 30 to 39. Watershed Development activities will be implemented on the basis of a budget allocation provided at the GP level calculated based on watershed area and total population. Within this allocation the communities will have to prioritize, implement, operate and maintain watershed and other priority investments of the village.

**(b) Food security enhancement support**

(i) Rainfed agriculture and agribusiness systems improvement

85. Producer Groups (PG) would be formed to introduce, promote and disseminate improved technologies and farming practices. Support for PG would follow a similar pattern to that proposed for component 1 – with each PG drawing up a Food Security Improvement Plans (FSIP) and receiving funding of Rs72,000 from the project for its implementation, alongside contributions of Rs18,000 from PG members into a group revolving fund. A total of 3,900 PGs will be formed, with an average of 6 members each (at least 50% being women). Training and demonstrations on new technologies may also be provided. Linkages may be made to research agencies and other technology providers.

(ii) Value addition and marketing support

86. Under this sub-component, the project will: (i) identify the market potential for the agricultural produce; (ii) develop collection centres and good storage facilities; (iii) create centres for value addition of the raw produce; and (iv) identify market linkages, develop market information and logistic services. The private sector (NGOs and private firms) will be encouraged to play a major role in supporting agribusiness development.

87. To up-scale production, develop markets for high value crops, and to leverage producers' access to production and marketing services, the project would support farmers to organise their PG and VPG into Livelihood Collectives. The project would appoint specialised NGOs as six Divisional Support Agencies (DSA) to provide technical and agribusiness support. The project would provide input support. For financial support, PG/LC would be linked with banks and other financial institutions. Details of this sub-component are in Annex 4, paragraphs 40 to 43.

**(c) Livelihood up-scaling support**

(i) Promotion of income generation activities (IGAs) and support to VPGs

88. Vulnerable Producer Groups (VPG) will be formed comprising of scheduled castes, landless and very poor households. A total of 1,464 VPGs will be formed, each with an average of four members. VPGs will be self managed institutions of the poor, and will be federated at the village and block level. These VPGs will be given sustained capacity building, orientation and training to encourage their entrepreneurial development. Each VPG will draw up a livelihood improvement

plan which, after approval by the Gram Panchayat, will be implemented with funding from the project. Support for each VPG be up to Rs80,000, of which 10% would come from VPG members.

(ii) Support to livelihood collectives for up-scaling IGA activities

89. LCs are a group of PGs and VPGs (between 60 and 90 PGs) which come together with a common enterprise and to facilitate backward and forward linkages for input supply and output marketing, and for access to information, credit, technology, markets etc. LCs will engage in co-production (particularly value-addition activities) and delivery of livelihood services to their group members. A total of 70 LCs will be formed with project support to each LC being an average of Rs400,000, with another Rs100,000 being contributed from the LC's own resources. Individual and collective enterprises may be supported by bank loans and investment funds from the Livelihood Finance component. Details of this sub-component are in Annex 4, paragraphs 44 and 45.

**(d) Institutional Strengthening**

- Capacity Building of Watershed Committee: Gram Panchayats / WWMCs will have pivotal role to play in planning and implementing the sub-project, and their capacity will be strengthened through capacity building programmes.
- Capacity Building of CBOs: such as Revenue Village Committees (RVC), PGs, VPGs, Users Groups (such as for irrigation works), Van Panchayats, Mahila and Yuvak Mangal Dals and their Apex bodies, villager leaders and vulnerable sections.
- Capacity building of WWMCs, local community institutions and PRIs: training of members of WWMCs and other people involved in implementation in core project processes.
- Information, Education and Communication: targeted messages to increase general awareness about the project, terms of participation and transparency.

**Component 3: Livelihood financing**

90. Despite making significant strides in financial viability, profitability and competitiveness, the banks have not been able to provide significant numbers of poor households with basic financial services. With support to develop their capacity, banks could do more, but developing an effective delivery system requires additional channels at the retail level such as SHGs, producer organisations and other institutions. More details on this component are in Annex 4, paragraphs 56 to 69.

**(a) Banking support**

91. Options for increasing availability of bank funding for project groups and enterprises include:
- Agreement with local banks for livelihood and enterprise financing of project groups.
  - Workshops with banks, Government programmes and NABARD to discuss an annual credit need assessment
  - Training for bank branch and senior staff in for lending to PG, LC and other social enterprises, and also on new methods such as value chain financing.
  - KGFS, a local rural finance institution, will be contracted to expand operations in the project blocks in order to introduce innovative new products and to fill gaps in what is available from banks and the SHG system.

**(b) Risk management**

92. Options for risk reduction initiatives will include:
- Weather risk insurance: product development; improving the infrastructure for weather data; client education; and linking with banks and local financial institutions;
  - Cattle insurance: pilots for technology driven systems and integrated risk mitigation.
  - Mutual Health Insurance: study of needs and potential for community based mutual risk management solutions. Details of what insurance initiatives the project may fund are in Annex 4, paragraph 61.



**(c) Financial inclusion**

93. Livelihood Collectives to be BF/BC: UPASAC will facilitate the Livelihood Collectives to act as banking facilitators/ correspondents for providing small savings, livelihood credit, remittance etc. LCs will require in depth training from a specialised institution.

94. Financial product literacy will include training modules on lifecycle needs and suitable financial products, risk and insurance, savings, insurance, and pensions. Training and promotional material will be provided to NGOs and LCs, with ToT provided by specialised agencies.

**(d) Development finance fund**

95. UPASAC was provided with USD 1 million in funding via ULIPH, which has not yet been utilised. The budget for ILSP will allocate an additional USD 1.5 million (from Government resources) but these funds will not be disbursed to UPASAC until an IFAD review has assessed the utilisation of the ULIPH funds and the requirement for additional finance.

96. UPASAC's governance and management systems will be revised as follows:

- Governance - an Advisory Board will be headed by Secretary Rural Development and will include as members senior officers from relevant departments, bankers and a few social entrepreneurs. The Advisory Board will meet at least quarterly.
- Staff - A CEO will manage the day-to-day operations of UPASAC and will be professionally qualified and experienced in the financial sector. The CEO will report to the Project Director of ILSP. The CEO will be supported by two qualified professionals in the rank of deputy manager with enterprise funding/ banking experience. UPASAC will also maintain a roster of consultants to appraise funding proposals.

97. UPASAC will solicit proposals from community enterprises, enterprises promoted by NGOs, social entrepreneurs, etc. UPASAC will fund up to 49% of the financial outlay of the enterprise. The rest will be owners' equity/contribution, Government grant, bank loans etc. UPASAC investments may take the following forms:

- First lender loan to create the credit history needed to access bank loans at the initiation of the enterprise. This would be for up to two years.
- Loan term loan of 3 to 5 years - this would aim to supplement, not replace, bank loans
- Equity and quasi-equity - UPASAC funds would mean allow an enterprise to be funded in situations where the promoters are unable to invest sufficient equity capital.
- Viability gap grants for Livelihood Collectives. UPASAC will support community enterprises for up to two years until these enterprises achieve viability.

**(e) Establishment cost support to UPASAC**

98. UPASAC's salary and overhead costs including consultants' fees will be supported by the project in the initial 3 years and on a tapering basis thereafter. Based on the business plan of UPASAC and the robustness of income from development finance funding, the position will be reviewed at mid-term and further support will be determined. Promotional expenses for dissemination of the financing facility will also be funded by the project. UPASAC will receive a management fee for managing the activities (other than the Development Finance Fund) of the component on behalf of ILSP.

**Component 4: Project coordination and monitoring**

99. Each executing agency, UGVS, WMD and UPASAC, will have their own project management units heads by a Project Director or Chief Executive who will implement the three main components of the project. To provide overall coordination, the state nodal agency, RDD, will set up a Central Project Coordination Unit (CPCU) within the RDD, headed by a part time Chief Project Director (CPD). The CPCU will have two Units: (i) Finance Unit; and (ii) Planning and M&E Unit. The Finance Unit will be located within RDD whereas the M&E Unit will be housed within UGVS. Further details on project management structure and roles of the various agencies are in Annex 5 and Key File Table 5. Details on monitoring and evaluation (M&E) are in Annex 6.

#### **D. Lessons learned reflected in project design**

100. A number of lessons have also been learned from past and current projects regarding what has worked well, and what could be done better in future. Details of relevant lessons are in Annex 3. These lessons include:

- Poverty can be effectively reduced through an empowerment process, which in turn requires investment in people's institutions and in intangible assets. Each intervention should have an adequate implementation period, allowing sufficient time to establish and strengthen strong and sustainable grass-roots institutions.
- The selection of qualified resource NGOs (RNGOs) and facilitating NGOs is critical. The process of selection needs to be completed promptly and without political interference. IFAD has been asked to participate as an observer in the selection process to ensure its fairness.
- Developing livelihood opportunities for smallholder farmers and tribal communities in rainfed and marginal areas requires broader partnerships that combine the competencies and resources of government, civil society and people's organizations, and the corporate private sector.
- India allocates very large resources to agriculture and rural development through state and centrally sponsored schemes. Ensuring convergence with such efforts would multiply the impact of project interventions.
- Undertaking fewer, focused projects with larger average loan size can contribute to lowering transaction and administrative costs for both the Government and IFAD, and would permit greater attention to implementation support, learning and impact achievement.
- Enterprise promotion among SHG members has been challenging since not all SHG members are interested in the same enterprise, and integrating livelihood activities in federations requires adequate staff capacity and financial resources.
- Livelihood financing through SHGs has been limited since the flow of funds from banks is often insufficient
- Delivery of subsidised inputs by various programmes has led to an imbalance in markets, and has discouraged commercial suppliers of non-subsidised inputs (which limits the range of inputs available). Farmers are often more motivated by access to the subsidy, than by a desire to take up the enterprise as a means of livelihood.
- There is often a poor understanding in the community, and among project and NGO staff, on how markets work and the need to compete in terms of price, quality, delivery and volume.
- Most farm work, other than ploughing, is done by women. A number of programmes, including ULIPH, have distributed tools and other support to women with the aim of reducing women's work burden and the drudgery of women's work. However these are often not taken up in a sustainable way, or spread to other households, unless women are also engaged in economically remunerative activities that increase the opportunity cost of their time.
- Weather index insurance schemes are more likely to work if they: a) provide ongoing technical assistance, training, and product development; b) educate clients about insurance; c) promote innovation; d) facilitate access to reinsurance; e) develop weather data services; f) create an enabling legal and regulatory environment, g) design sound national rural risk-management strategies; and g) support impact studies.
- Health insurance has potential to meet a real need. Community owned health mutuals are better able to meet health needs as: a) healthcare services are provided at the right time and without risk of debt; b) limited possibility for health service providers charging high prices; and c) built-in monitoring system that ensures transparency.

### **III. Project Implementation**

#### **A. Approach**

101. The IFAD-funded ULIPH established two independent organizations to implement its activities. This twin track implementation was planned to ensure that the enterprise development component was handled in a business-like manner to wean the community away from the welfare oriented subsidy driven approach. The first track, implemented by Uttarakhand Gramya Vikas Samiti (UGVS), comprised of empowerment and capacity building component for SHG mobilization and linkage to banks. NGOs played a major role in this activity. The second track consists of business promotion, technology and business service related functions. It included establishing demonstrations and up-scaling profitable activities by facilitating access to business services, venture capital and credit. This activity is being implemented by the Uttarakhand Parvthiya Ajeevika Samvardhan Company (UPASAC). This twin track implementation mode created management difficulties and, as a result, based on the recommendations of the MTR, a unified command structure was later established. The Project Director in charge of UGVS became responsible for UPASAC. This has improved coordination between both the arms of ULIPH.

102. ILSP will be a considerably larger project than ULIPH, with an investment of USD 149 million compared with USD 27 million for ULIPH. Given limitations on the capacity of UGVS/UPASAC to up-scale to this extent, funds for ILSP will be divided between UGVS/UPASAC and WMD. WMD has an established track record in implementing participatory watershed management projects funded by the World Bank and EC. The inclusion of a watershed management component in the project will bring in WMD and allow the project to be up-scaled, while avoiding the risks involved in relying entirely on UGVS/UPASAC. The dual implementation structure will also generate new lessons in livelihood development using two different approaches. To avoid any overlap UGVS and WMD will work in different locations.

103. To support both these approaches a third component will ensure that producers (as individuals and as organisations) have access to the finance they need for investment in livelihoods. This will complement the flow of resources through SHGs and SHG Federations that will be supported by NRLM. This component for will be implemented by UPASAC, a social venture capital company that was established by ULIPH.

104. The Rural Development Department (RDD) is the nodal agency for implementing the National Rural Livelihoods Mission (NRLM), a project targeted at improving the livelihoods of poor households by mobilizing and strengthening of SHGs and their federations. NRLM will be the flagship program of the Government of India (GOI) and Government of Uttarakhand (GoUK) in the arena of poverty alleviation. It will therefore make imminent sense to dovetail coordination of ILSP with that of NRLM within RDD to build synergy between these two projects.

#### **B. Organizational Framework**

##### **1. Project management structure**

105. The Department of Economic Affairs will be the nodal agency at the GOI level to review and monitor the project progress. GoUK will establish a state level Project Steering Committee (PSC) chaired by the Forest and Rural Development Commissioner (FRDC). The Secretary of RDD will be the Secretary of this Committee. The PSC will meet once in six months to review progress, provide overall guidance and policy support and to facilitate inter-departmental coordination. The members of the PSC will include: (i) Finance Secretary; (ii) Secretary, Watershed; (iii) Principle Chief Conservator of Forests; (iv) Secretary, Agriculture; (v) Secretary, Animal Husbandry and Livestock, (vi) Secretary, Horticulture, (vii) Secretary, Industry; and (viii) Project Directors of ILSP. More details on project coordination arrangements, including at district level, are in Annex V, Section II C.

106. RDD will be the nodal agency at the state level. A Central Project Coordination Unit (CPCU) within the RDD will be established headed by a part time Chief Project Director (CPD). If an officer of sufficient seniority is not available, the post of CPD may be held as an additional charge by the PD of the UGVS or WMD components of ILSP.

107. The project will be implemented by three Project Implementation Agencies (PIAs) each headed by a full time Project Director (PD). The PSC will establish a Project Management Committee (PMC) chaired by the Secretary of RDD. The Secretary, Watershed will be Co-chairperson. The CPD, PDs and Implementation Partners (NGOs, Innovation Linkage Partners, etc.) will be the members. The PD of UGVS will be the Secretary of the PMC. The PMC will meet every quarter and the main function include: (i) approving the AWPB, (ii) reviewing physical and financial progress; (iii) reviewing progress towards achieving outcome indicators; (iv) resolving implementation issues; and (v) working towards achieving convergence between various government sponsored activities and ILSP activities.

108. The CPCU will have two Units: (i) Finance Unit; and (ii) Planning and M&E Unit. The Finance Unit will be located within RDD whereas the M&E Unit will be located in the UGVS office. The main functions of the Finance Unit of CPCU will include:

- a) formulate and sign Sub-Projects with the PIAs;
- b) organize PSC and PMC meetings;
- c) Incorporate the budget requirements into the overall budget of the GOUK;
- d) Operate the Project Account for timely release funds to the PIAs;
- e) Receive statements of expenditure and supporting documents related to fund release to PIAs and keep an account of fund release and utilization by each PIA;
- f) prepare overall project financial statements;
- g) Prepare and submit the withdrawal applications to DEA for onward transmission to IFAD;
- h) Ensure preparation and submission of annual audit reports of the PIAs and annual RIMS data to IFAD;

109. The main functions of the Planning and M&E Unit of CPCU will include:

- a) Submit the consolidated AWPB for approval of IFAD, PMC and PSC;
- b) Prepare a 18 month Procurement Plan and submit it to IFAD for approval;
- c) prepare and submit consolidated progress reports annually and quarterly to IFAD based on the progress reports submitted by PIAs;
- d) Undertake M&E and KM activities related to the project covering all the PIAs; and
- e) Prepare RIMS data for submission to IFAD.

110. The project will have three PIAs: (i) UGVS; (ii) WMD; and (iii) UPASAC. The PIAs will be responsible for day to day implementation of the allocated sub-project, with field offices as needed. Each PIA will be headed by a full time PD. The main functions of PIAs include:

- a) coordinate and implement Sub-Project activities including procurement and consultation with IFAD and under the guidance of PSC;
- b) prepare AWPB procurement plan and submit it to CPCU;
- c) finalize and execute partnership agreements/contracts with NGOs, service providers and specialized institutions for implementing various project activities;
- d) establish an effective M&E and MIS system to track sub-project's progress;
- e) prepare and submit consolidated annual and quarterly progress reports to CPCU;
- f) supervise and monitor the Sub-Project related activities and their progress towards achieving physical, financial and outcome related targets;
- g) prepare sub-project financial statements and prepare statement of expenditure;
- h) submit annual audit reports of PIAs and RIMS data to CPCU; and
- i) liaise with the State administration, line agencies and other PIAs to ensure coordination in project implementation.

111. Each PIA will enter into a Sub-Project Agreement with CPCU/RDD to implement allocated sub-projects. The PSC, in consultation with IFAD, will appoint a Senior Government Official, preferably from the Central Services, as PD for each of the PIA (UGVS/UPASAC and WMD Society). In order to ensure continuity and smooth implementation of project activities, the minimum tenure of the PDs will be not less than three years and subject to satisfactory performance as determined by the PSC. The PD will be assisted by a core team staff comprising agribusiness, finance, planning and monitoring and evaluation specialists. The PD will be responsible for the day to day operations. More details on the management structure are in Annex 5, Section II B.

## **2. Project Implementing Agencies**

### **(a) UGVS and UPASAC**

112. In ILSP, UGVS will use livelihood promotion (including soil and water conservation and irrigation) and agribusiness development strategy to implement the project, as against the SHG mobilization, federation promotion, demonstration and enterprise finance strategy of ULIPH. The following actions will be required to enable UGVS to become a PIA for implementing ILSP.

- a) Create a nested institutional structure with UGVS hosting UPASAC unifying the command structure of both UGVS and UPASAC by appointing an experienced official from the central services as full time Secretary of UGVS as well as Executive Vice Chairperson of UPASAC.
- b) Review staffing requirements based on the needs of ILSP and review the compensation and perquisites package of staff to bring about uniformity between the staff of UGVS/UPASAC with that of contract staff of WMD Society.

113. The Secretary of UGVS/Executive Vice Chairperson UPASAC will be the Project Director of ILSP responsible for UGVS and UPASAC activities. Depending upon the districts allocated to UGVS for ILSP implementation, UGVS will establish about six Divisional Project Management Offices (DPMO) to implement ILSP. Each DPMO will cover about one district, but with boundaries adjusted according to the planned number of project group members in the blocks in each district.

### **(b) WMD Society**

114. WMD will establish a separate Society to implement ILSP. This society will be a PIA to implement the watershed development, livelihood promotion and agribusiness development activities in selected micro-watershed clusters. WMD will nominate an experienced official from the central services as full time Secretary of WMD Society and this person will be the full time Project Director for implementation of ILSP activities allocated to WMD Society. WMD will be completing implementation of the World Bank funded watershed development project by at the end of FY2011-12. WMD will transfer the staff from this project to ILSP, and so will be geared up for ILSP from the beginning of FY 2012-13. The project management structure of WMD Society will be similar to that of the World Bank project, with Divisional Offices in the MWS clusters.

## **3. Implementation Partners**

### **a. NGOs**

115. For component 1, UGVS will engage Partner NGOs (PNGOs) capable of undertaking all activities related to livelihood support. The PNGOs will be responsible for implementation of project activities through the mobilized Producer Groups (PGs), Vulnerable Producer Groups (VPGs) and Livelihood Collectives (LCs) under the overall direction of the Divisional Project Management Offices of UGVS.

116. For component 2, WMD will engage Field NGOs (FNGO) and NGOs as Divisional Support Agencies (DSA). The FNGOs will assist the Gram Panchayat in drawing up watershed development plans, organise and train communities, supervise watershed development, authenticate project accounts, provide technical advice, monitor implementation and set up institutional arrangements for post-project O&M. The DSA will facilitate and implement sub component B (Food Security Enhancement Support) and sub-component C (Livelihood Up-scaling Support).

117. There are a number of well established and qualified NGOs based in the state with experience in working with ULIPH, and with WMD watershed projects funded by the World Bank. There are also NGOs which have been working with value chain, marketing and enterprise development projects funded by GIZ and other agencies. Some national NGOs have also been involved in this work in Uttarakhand. It is envisaged there will not a problem to recruit suitable NGOs. ToR for PNGO, FNGO and DSA will be in the draft PIM. A more detailed description of the roles NGOs in Annex 5, Section IV A.

### **(b) Producer Groups**

118. Both UGVS (component 1) and WMD (component 2) will, with the assistance of PNGOs (UGVS) and DSA (WMD) mobilize PGs and VPGs. Group formation will start with a participatory

wealth ranking and activity selection. The poorest households, especially SC, with limited cultivable land will be facilitated to form VPGs for poultry, small ruminants and non-farm IGAs. Households with cultivable land will be facilitated to form PGs depending upon the selected activity. The group size will be about 15 for UGVS and 4 to 6 for WMD, with composition will depend on the geographical proximity of the households, affinity amongst group members to work together, and common interest by all members to take up similar activities. PGs will be either women only groups or men only groups but all VPGs will be women only groups. A minimum of 50% of PGs will be women's groups.

### **(c) Livelihood Collectives**

119. Components 1 and 2 will promote LCs at the cluster level. Each LC will be formed out of around 70 PG and/or VPG. The location of the LCs will depend on the ease of access for PGs and VPGs, market linkage potential and cluster formation to achieve economies of scale. This means administrative boundaries are not of relevance. The Self Reliant Cooperative Legal Framework is the most dominant legal framework available in Uttarakhand for such groups. A specific growth trajectory for these LCs will not be prescribed by the project, but LCs will have to become self-reliant within four years. The project will support each LC via PNGO and DSA and by providing grant funding. LC enterprises will also be able to access funds for UPASAC (loans, equity and viability gap grants) and should also get support from other government programmes and banks. This will enable the LC to take up activities that accrue benefits to their members and to charge service fees to sustainably deliver these services.

### **(d) Other watershed organisations**

120. Village level local government, the Gram Panchayat (GP) and its Water and Watershed Management Committee (WWMC) will have pivotal role to play in planning and implementing component 2. Participatory watershed development may also involve other village level institutions such as the Revenue Village Committees (RVC), Van Panchayats (community forest groups), and Mahila and Yuvak Mangal Dals (women and youth groups) may also be involved. In some locations where much of the watershed is covered by community forest, Van Panchayats may take a lead in project implementation in place of the WWMC.

121. User Groups will also be formed to operate and maintain infrastructure created by the project – such as irrigation works and collection centres. This will be primarily be in component 2, but some will also be formed in component 1.

## **C. Planning, monitoring and evaluation and knowledge generation**

### **1. Planning process**

122. The Project would follow the planning process undertaken by the Forest and Rural Development Department of the State Government. In the third quarter of the financial year in the month of December /January the CPCU requests the Government to make budgetary provisions for the project based on AWPB drawn out by UGVS, UPASAC and WMD. A participatory process would be followed by implementing agencies to draw up the AWPB whereby GIS information would be used for watershed development plans. This exercise would also focus on performance planning. Each agency would prepare their respective procurement plans corresponding to their AWP. The CPCU compiles the AWPB and the procurement plans and sends it to the CPCU for approval in the month of February. The approved AWPB is then prepared in the IFAD AWPB format and sent to IFAD along with the procurement plans for approval. The approved AWPB would be used for reviewing performance and progress during the supervision missions.

### **2. Monitoring and evaluation system**

123. The Monitoring and Evaluation system will collect data and information to measure performance and progress towards objectives, and be a learning tool to provide information for critical reflection on project strategies and operations. It would support decision-making at various levels and be a basis for results-based management.

124. Given that the principal components of ILSP are going to be implemented by UGVS, WMD, and UPASAC, the performance and progress of the activities and outputs would be monitored by these agencies independently. Each agency will draw up its own M&E plan within the overall ILSP

M&E framework. The M&E unit in the CPCU will support this output and activity monitoring. In addition it will implement a programme of outcome and impact monitoring, as well as producing consolidated reports on project progress and results, and coordinating overall learning and knowledge management. Details of the M&E and knowledge management system are in Annex 6.

### 3. Project M&E Framework

125. **Output monitoring** will measure the progress of activities and achievement of outputs against annual targets in the AWP for each project component. The output indicators in the project operational logical framework will form the basis for monitoring. Physical and financial progress reports will be recorded via each PIA's MIS. Wherever necessary, data will be collected disaggregated by gender and social groups, particularly those related to training, exposure and access to services.

126. **Participatory Monitoring and Evaluation (PME)** at the community level would involve the M&E managers and field staff and NGO staff. PME forums will be set up in villages, with simple activity sequencing charts and other tools to help the communities monitor their progress, evaluate performance, and identify implementation issues. These forums will be also used for social audits of activities and associated expenditure involving community members, contractors and service providers.

127. **Process monitoring** involves monitoring the processes leading to outputs and outcomes. Specific areas where progress monitoring will be useful in ILSP include: access to rural financial services, provision of technical services, and the functioning of community organisations. Information on these may be gathered via PME, as well as from the records of community organisations and financial service providers. In addition, the Project will undertake specific studies related to food security, women's empowerment, market access, outreach of producer groups, value chain development, infrastructure, and benefit of project services for disadvantaged groups. Training effectiveness will be assessed via KAP surveys.

128. **Outcome monitoring** measures the changes coming about as a result of project interventions. In ILSP this would entail annually measuring and assessing whether the project is moving towards achieving the project objective of enabling rural households to take up sustainable livelihood opportunities integrated with the wider economy. The surveys will also collect data for 2<sup>nd</sup> level RIMS indicators. The surveys would be conducted separately in UGVS and WMD with two separate random samples of 400 households, and will monitor the changes in six cohorts of beneficiaries, with two new cohorts receiving project services (with one group each in UGVS and WMD) each year up to the third year. The first rounds of the surveys will act as a rolling baseline.

129. **Impact evaluation** will assess the contribution of ILSP in achieving the overall goal of the project. It will consist of baseline, mid-term and end-of-project surveys. This survey will be coordinated by the M&E Unit, and contracted to an external agency. Information to be collected will include the impact level indicators of IFAD's Results and Impact Monitoring System (RIMS). These include mandatory 'anchor indicators' relating to household assets, food security and child malnutrition (anthropometric data of children under five years of age).

### 4. RIMS indicators

130. The Results and Impact Monitoring System of IFAD reports annually on a number of first and second level results indicators that correspond to the output and outcome indicators. IFAD has produced a standard list of these indicators, but only some of these will apply to an individual project. Prior to mid-term review, the project will report on only the first level results, but after the mid-term report it reports on second level indicators. These second level indicators are used as evidence to support ratings of the effectiveness and likely sustainability of each component. The third level RIMS results are the anchor indicators used for impact assessment.

### 5. Special studies

131. Special Studies will be undertaken before mid-term review related to the following: (i) agribusiness and marketing; (ii) agricultural production and productivity; (iii) environment and NRM; (iv) outcomes of the SFGFS branch expansion; and (v) education and employment. Cost effectiveness studies will be also undertaken to assess delivery systems and implementation methodology/approaches adopted by UGVS and WMD for implementing similar project activities.

## **6. Implementation of M&E**

132. The M&E unit will form part of the central PCU, but will be located in the UGVS office. Details of its staffing are in Annex 6, Section F.

## **7. Management Information System (MIS)**

133. MIS systems would be established in the first year of project implementation by the PMUs of UGVS, WMD and UPASAC. They will include information on physical and financial progress, impact evaluation analysis and reports, RIMS first and second level indicator tracking, and other pertinent information. WMD already has an established MIS that could be adapted for ILSP.

## **8. Reporting and Communication**

134. Timely reporting and communication is important to take timely corrective actions and to learn from implementation experience to further improve project management effectiveness and efficiency. Monthly, quarterly and annual reports would be produced by project implementation agencies and the M&E unit will generate half-yearly, annual and RIMS progress reports for IFAD. .

## **9. Learning System**

135. The project learning system comprises of monthly, quarterly and annual review meetings, capturing information on progress, lessons and finding solutions for implementation constraints. IFAD in cooperation with the Government would undertake a mid-term review by the fourth year of the project to review achievements and implementation constraints. A mutually agreed action plan will be prepared based on the MTR findings. If needed, IFAD may appoint, in consultation with the Government, an external agency to evaluate the impact of the project.

136. As the project reaches completion point, the CPCU would prepare a draft Project Completion Report in agreement with IFAD and Government of Uttarakhand. IFAD and the Government will then carry out a Project Completion Review based on the information in the Project Completion Report and other data.

## **10. Knowledge Management**

137. In the first year the Project will prepare a project level KM strategy in line with the IFAD India and IFAD policy on KM. The project website will be completed within the first year of implementation and used as a knowledge sharing tool, and also linked to the IFAD Asia website. Key information from M&E studies, reviews and exposure visits, lessons and best practices will be disseminated through knowledge products such as news letter, publications, case studies and reports.

# **D. Financial management, procurement and governance**

## **1. Financial Management**

138. It is envisaged that a Central Project Coordinating Unit (CPCU) will be housed within the Rural Development Department (RDD), Government of Uttarakhand. The CPCU will be constituted as a Society registered under The Societies Act, 1860, and will coordinate the project related activities of the three implementing agencies, namely UGVS, UPASAC and WMD. Further details on financial management are in Annex 7.

139. Books of accounts The project will maintain accounts and records in accordance with consistently maintained appropriate accounting practices. It is proposed that the project will maintain its accounts on TALLY financial software at all levels and in all Implementing Agencies and at the CPCU.

140. Financial Personnel The CPCU will have a Finance Controller who will be ultimately responsible for book keeping of the CPCU, financial reporting to IFAD and other stakeholders, coordination with auditors and internal auditors, payments, bank operation, funds flow, and coordination with finance staff of implementing agencies. It is recommended that the Finance Controller be deputed by the GoUK in consultation with IFAD. He will be assisted by an Accounts



Officer. Each Implementing agency will have its own Finance Controller who will handle Project related responsibilities. The project will share the services of the district level financial staff of UGVS and WMD.

141. Funds flow: the Project will be funded from four sources – IFAD and Government, with contributions from beneficiaries and financial institutions. The CPCU will be responsible for preparing the Annual Work Plan & Budget for the project and submitting the same to the Department of Finance of the State through the Department of Rural Development. This AWPB (net of beneficiary contribution) will be included as a line item in the budget of the Department of Rural Development and will be presented for legislative sanction from the State assembly. IFAD's share of the reimbursed to the Government of India and by the Government of India to the Government of Uttarakhand through the conventional national procedures for budgetary support to State Governments.

142. IFAD loan funds will be delivered to a Designated Account at a bank and operated by the authorized representative(s) of the Ministry of Finance. IFAD will pay an initial advance into the Designated Account to cover roughly six months of estimated project expenditure, and then replenish the Designated Account on the basis of Withdrawal Applications submitted by the Project through the State Government to the CAA&&A, Government of India. On receipt of legislative sanction from the Uttarakhand State Assembly, the budgetary allocation for the Project (including counterpart funds) will be released to the Project in one or two tranches. To avoid delay in flow of funds to the Project, it is required that the Chief Project Director (CPD) or Finance Controller of the CPCU be vested with Drawing & Disbursement Powers by the Government of Uttarakhand. The funds will be transferred from the State Treasury to the Project bank account opened and operated by the CPCU. From this Project account, funds will flow to the sub-project accounts maintained by the three PMUs at UGVS, UPASAC and WMD.

143. While UGVS and UPASAC funds will flow from the sub-project accounts at their respective PMUs to their District Level bank accounts, it is expected that WMD funds will flow from the WMD sub- project account to bank accounts maintained exclusively for the project at Divisional / District levels, and a large proportion of the funds will further flow from these bank accounts to exclusive project bank accounts maintained by Water & Watershed management Committees (WWMCs) which are part of the Gram Panchayats (GPs).

144. IFAD's FM Support: IFAD will provide financial management support to the project by deputing a Financial Management Specialist to the project at periodic intervals in the first year of implementation.

145. Audit: each Fiscal Year the Government will have the Project accounts audited in accordance with auditing standards acceptable to IFAD, submitting an audit report within six months of the end of each Fiscal Year;

146. Internal Audit: The project will have a cost effective but efficient internal audit mechanism. For UGVS/UPASAC the internal audit shall be conducted by a Manager (Internal Audit). For WMD, the internal audit function will be outsourced to a firm of independent Chartered Accountants. The TOR will include key aspects of financial management and procurement contained in IFAD's fiduciary aspects checklist. The Internal Auditor will submit quarterly reports simultaneously to the Coordinating Project Director and the IFAD CPM. Corrective follow up action will be decided jointly by a committee which includes the CPD, the IFAD ICO FM Specialist and the Internal Auditor.

147. Withdrawals from the Loan Account will be made according to the terms in the Loan Agreement between IFAD and the Government and IFAD standards terms of financing. Funds from the Loan Account will be used exclusively to finance eligible expenditures.

## **2. Procurement**

### **(a) Introduction**

148. Procurement of goods, works and services financed by funds from IFAD would follow the Government's procurement regulations, the Uttarakhand Procurement Rules 2008, with certain project specific modifications (as set out in the draft PIM), to the extent that they are consistent with the IFAD Procurement Guidelines. Each Annual Procurement Plan will identify procedures which must be implemented by the Borrower/ Lead Project Agency in order to ensure consistency

with the IFAD Procurement Guidelines. Since the UPR does not include Standard Bidding Documents (SBD), IFAD may attach these to the Financing Agreement / Letter to the Borrower, if it deems fit to do so. Further details on procurement are in Annex 8.

149. As all the proposed implementation agencies for ILSP have considerable expertise and experience in the area of procurement, a major capacity building exercise in this area, may not be necessary. However, to further strengthen procurement processes, it is proposed that an IFAD Financial Management and Procurement Specialist support the project with a number of short inputs, especially at the start-up phase.

**(b) Procurement of Civil Works**

150. Construction of civil works for rural infrastructure such as irrigation systems, link roads, and markets, It is expected that most of the procurement of civil works will be done under Paragraph 40 of UPR (Procurement of Works by obtaining of Bids/Tenders).

**(c) Community Level Procurement**

151. Construction of watershed conservation works will be carried out following the established practices of the WMD using the WWMC of the Gram Panchayats. Such procurement may be undertaken in general compliance with the IFAD Procurement Guidelines, and by adopting the Community Procurement Manual of World Bank-funded UDWDP in the ILSP PIM.

**(d) Procurement of vehicles and equipment**

152. Vehicles and office equipment for the project will most likely be procured through 'Purchase of Goods Directly Under rate Contract' method under Paragraph 1.9 of the UPR.

**(e) Procurement of operating materials**

153. Vehicle operating costs would be procured using 'Purchase without quotations' under paragraph 3.8 of the UPR or under 3.9 of the UPR referred earlier. Procurement for office running expenses would follow the same procedure.

**(f) Procurement of training services**

154. Training directly organised by the PMU or by the PMU of one of the Implementing Agencies could be procured via 'Consultancy by Nomination' Method under Paragraph 58 of the UPR – where there is only a single qualified supplier or the supplier is a specialized government agency (such as an agricultural research institute). If there are a small number of qualified organisations, then the RFP method under Paragraphs 50-57 of the UPR may be used. However for many training courses, the PMU will organise each element of the training, and individual trainers may be hired via 'Consultancy by Nomination' Method (Single Source Selection) under Paragraph 58 of the UPR.

**(g) Procurement of studies**

155. The procurement of consultants to carry out studies would follow the Request for Proposals (RFP) method, with either QCBS (Quality and Cost Based Selection under Paragraph 59 of the UPR) or SFB (not specifically mentioned in the UPR) being used to select successful tenderers. IFAD would make a prior review of the selection of firms to undertake Consultancy work if the contract value exceeds the threshold mentioned in the Letter To the Borrower or LTB.

**(h) Procurement of staff and consultants**

156. Some project staff, including the Project Coordinating Director (PCD) of the PMU and Project Directors (PDs) for each Implementing Agency, would be seconded from Government of Uttarakhand, but some project staff would be recruited by the PMU and the Implementing Agencies on a contract basis. For such recruitment, the PMU would form a recruitment committee headed by the PCD with representatives from the Implementing Agency concerned and, if needed, other agencies.

### **(i) Procurement of NGOs**

157. ILSP proposes to outsource much of the field level implementation of the project activities to well qualified and experienced NGOs. The selection and contracting of NGOs will be done as per methods listed in 'Identification of likely sources' under paragraph 4.50 of the UPR 2008 with QCBS (Quality and Cost Based Selection) under paragraph 4.59 of the UPR 2008, being used to select successful bidders. In the first year of the Project, the following methods will be applied to ensure that there is no undue delay in implementation of scheduled project activities.

- (a) Competitive selection via National Competitive Bidding would be used to select NGOs for UGVS as discussed in 'Identification of likely sources' under paragraph 4.50 (2 & 3) of the UPR 2008
- (b) Direct contracting or Consultancy by Nomination under paragraph 4.58 of the UPR may be used by WMD to re-nominate NGOs who have proved themselves to be good performers under UDWDP. It could be followed by a competitive selection process as discussed in paragraph 4.50 (2&3). This will require special IFAD approval.
- (c) NGOs and other agencies may be asked to do specific tasks that reflect their unique capabilities, "Outsourcing by choice" method (vide Paragraph 4.64) or single source selection may be most appropriate (as per paragraph 4.58 of the UPR).

### **3. Governance**

158. A framework for good governance has been drafted and is included in Annex 12. This framework aims to ensure: (i) transparency, with information in the public domain; (ii) accountability in the use of resources; and (iii) participation with the people having a voice in decisions that may affect them. The involvement of affected communities in all stages of projects can simultaneously improve development outcomes and reduce the scope for fraud and corruption. Key features of this framework are:

- (a) Targeting of women and disadvantaged households.
- (b) Local level participation in planning with participation from Gram Panchayat GP representatives
- (c) Community and participatory monitoring of project activities using participatory M&E and process monitoring to obtain feedback from community members.
- (d) Rotation of project group leaders and audits of project group accounts.
- (e) Audits of project accounts – both internal and external
- (f) IFAD supervision and support, including spot checks by regular supervision missions, implementation support for financial management and procurement, and technical audits if needed.
- (g) Regular outcome and KAP surveys will provide information on how well project outputs are being delivered – both in terms of coverage and quality.
- (h) Reporting of results to PSC, IFAD, and to local government institutions, with key information published on a project website.
- (i) Complaints and remedies mechanism including circulation of phone numbers of project group leaders and project managers.

### **E. Supervision**

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

### **F. Risk identification and mitigation**

160. Key risks and assumptions are identified in the logframe. At the goal level the main risk is that there is a real increase in the price of food relative to wages. This can mean that, even if livelihoods improve as a result of the project, malnutrition may increase as food consumption falls

in response to higher prices. Experience shows that such price hikes tend to be short lived, and real wages soon catch up. But the risk is that they could coincide with impact surveys and thus the anthropometric indicators would show a negative outcome. A secondary risk is that a major natural disaster prevents adoption of better livelihoods. This is not a major risk as the project has been designed in response to climate-related risks.

161. A risk at the development objective level is that employment opportunities in other parts of India expand to the extent that so many of the workforce migrates out of Uttarakhand that there is insufficient labour left for farming. ILSP will address this by seeking to increase productivity in farming so that returns to labour become competitive with other jobs – in particular by developing high value cash crops. The project will also promote tree crops which, once established, have lower labour requirements and will appeal to households where members have migrated out.

162. There are eight significant risks to the outcome level. These are:

- a) Weather patterns change to such an extent as to seriously hinder farming. Although this could affect rainfed foodcrops, it is less likely to impact on high value cash crops, where climatic (temperature) advantages make it worthwhile to invest in irrigation and other technologies (e.g. greenhouses) to mitigate weather risk. Weather index insurance may also have a role here.
- b) Food prices fall to an extent that makes basic food production in the hills uneconomic. This is unlikely given increasingly tight world food supplies. In addition this will not affect out of season vegetables and other niche products.
- c) Markets for off-season vegetables and other niche products are adversely affected by competition from other areas and from imports. Ultimately the production potential from other hill areas is limited, and Uttarakhand has the chance to catch up by expanding production. Transport costs make imports expensive for perishable produce.
- d) Wild animals pose such a risk that they discourage farmers from investing and developing improved cropping. This can be partly mitigated by growing less attractive crops (spices, aromatic plants, nuts, citrus) and by more intensive cropping with adequate protection (which will be justified by high income from OSV). The project will commission a study into the extent of the risk and possible mitigation measures.
- e) The main road communication infrastructure is not maintained and further developed to provide links to outside markets. This is unlikely given increasing public resources and the priorities for infrastructure development.
- f) Vocational skills developed by the project are not relevant to needs of the job market – but ILSP will work with a new generation of private sector vocational training agencies with close links to employers.
- g) Treated watersheds are damaged by erosion originating in reserve forests (which are outside of the scope of WMD activities) – this is an issue that WMD is seeking to address, however most erosion originates in cultivated rather than forest areas.
- h) Gram Panchayats are responsive to watershed development initiatives and allocate the required effort. The positive outcomes of past watershed development has motivated GPs to support this initiative.
- i) The regulatory framework for rural and micro-finance allows innovation and encourages rural lending. The regulatory framework is currently under development, and it will take time to see how it develops and what impact it has on service provision. ILSP will spread its risks by support a number of alternative financing channels (banks, KGFS, UPASAC) as well as linking with the SHG system being supported by NRLM.

163. At the output level there are a number of risks, including:

- a) Improved technologies for hill agriculture are available and profitable. ILSP will work with research agencies, such as VPKAS, which have a specific remit to develop such technologies.
- b) Private sector and other value chain participants are interested. The formulation mission heard of a number of examples where the private sector is interested in becoming involved and ILSP will aim to promote such interest. In any case producer organisations can take on the role of market linkage.
- c) Public sector input supply channels function efficiently or allow space for private suppliers. This is a more significant risk, but can be mitigated by LCs and other producer organisations developing input supply channels.

164. The risk analysis in Table 4 shows the probability of each of these risks occurring and the degree to which they could, if they occurred, have an adverse impact on project objectives and outputs. Further risk analysis is in Working Paper 13, Section III C.

**Table 4: Risk analysis**

Logframe	Risk	Probability of occurrence	Impact on project objectives
Goal	Real price of food rises relative to wages.	Medium	Low
	Natural disasters	Medium	Low
Development objective	Migration out of the hills creates a labour shortage for agriculture	Medium	Low
Outcomes	Changing weather patterns adversely affect farming	Medium	Low
	Falling food prices make crop production uneconomic	Low	Low
	Markets for high value crops affected by completion from other production areas	Low	Medium
	Risk of damage by wild animals	Medium	Medium
	Road and communications infrastructure not maintained and further developed.	Low	High
	Vocational skills do not meet the need of jobs market	Low	Low
	Watershed projects not able to address erosion originating in reserve forests.	Low	Low
	GPs not responsive to watershed development initiatives	Low	Low
	Unfavourable regulatory framework for rural finance	Medium	Medium
Outputs	Improved technologies not available for hill agriculture	Low	Medium
	Private sector interested in participating in value chains	Low	Low
	Public sector input supply channels do not operate efficiently	High	Medium

## IV. Project Costs, Financing, Benefits

### A. Project costs

#### 1. Assumptions

- (a) **Project Period:** seven-year period starting in April 2012 (start of FY 2012-13).
- (b) **Contingencies:** price: 4.5% per year, physical - zero
- (c) **Exchange Rate:** base rate of INR 45.5 to USD 1.00. It is assumed that local and foreign inflation differences would only be balanced by INR devaluation, the exchange rate at project completion (2019) would be INR 51.6 = USD 1.00.
- (d) **Taxes and Duties:** 5% on technical assistance, training, studies, staff and operating costs, 15% on vehicles, and 10% on office equipment and computers.

#### 2. Project costs

165. Based on current 2011 prices, total project costs are estimated at USD 247.3 million (INR 11,252 million). Price contingencies add a further 5 percent, to make a total cost of USD 258.8 million (INR 12,229 million). Taxes amount to USD 2.3 million of total project costs. A summary is in Table 5, with further details in Annex 9.

**Table 5: Project Costs by Component**

Components	Total		% of total base cost
	(INR '000)	(US\$ '000)	
A. Food Security & Livelihood Enhancement	1,896,944	41,691	17
B. Participatory Watershed Development	4,020,325	88,359	36
C. Livelihood Finance	5,211,460	114,538	46
D. Project Management	122,799	2,699	1
<b>Total base cost</b>	<b>11,251,528</b>	<b>247,286</b>	<b>100</b>
Price Contingencies	977,207	11,525	5
<b>Total PROJECT COSTS</b>	<b>12,228,735</b>	<b>258,812</b>	<b>105</b>

## B. Financing

166. The Project will be financed by an IFAD loan of USD 90 million, USD 48.6 million from the Government, UDS 109.9 million from banks as loans to enterprises, with contributions from beneficiaries (Table 6). Project groups will also benefit from convergence with other government and NGO programmes. Further details are in Annex 9.

**Table 6: Financing Plan by Component**

	Government (US\$ '000)	IFAD (US\$ '000)	Banks (US\$ '000)	Beneficiaries (US\$ '000)	Total (US\$ '000)
A. Food Security & Livelihood Enhancement	7,036	32,936		4,810	44,783
B. Participatory Watershed Development	37,081	53,212		6,166	96,460
C. Livelihood Finance	3,071	1,660	109,890	3	114,624
D. Project Management	839	2,106			2,945
<b>Total PROJECT COSTS</b>	<b>48,028</b>	<b>89,914</b>	<b>109,890</b>	<b>10,979</b>	<b>258,812</b>
<b>Percentage of total</b>	<b>18.6</b>	<b>34.7</b>	<b>42.5</b>	<b>4.2</b>	<b>100.0</b>

## C. Summary benefit analysis

### 1. Financial analysis

167. Results of the two sub-project models are in Table 7. These are based on a combination of different enterprises. For the Ajeevika (UGVS) sub-project (Food Security and Livelihood Enhancement Component) cropping intensity increases from 121% to 131% at full development. For the watershed (WMD) sub-project cropping intensity increases from 117% to 124% at full development.

**Table 7: Results of sub-project models<sup>1</sup>**

Details	Ajeevika (INR/hh)		Watershed (INR/hh)		Project (INR/hh)	
	WOP	WP	WOP	WP	WOP	WP
Gross income (INR)	32,553	50,243	39,795	53,102	34,439	50,737
Purchased Inputs (INR)	4,874	5,689	5,179	5,538	4,931	5,621
Labour (INR)	9,505	11,543	12,974	15,076	10,401	12,446
Net income (INR)	18,174	33,011	21,642	32,988	19,017	32,670
BCR at 0% discount rate	2.26	2.92	2.19	2.57	2.24	2.80

<sup>1</sup>At full development stage and assuming all labour requirements met by households themselves.

### 2. Economic analysis

168. The principal assumptions for economic analysis include:

- A 25 year analysis period has been used, including a 7 year investment period.
- Border pricing of traded agricultural inputs and outputs
- Economic costs are net of duties, taxes and price contingencies, credit, office rent, grant and subsidies
- A standard conversion factor (SCF) of 0.85 is applied to traded and non-traded items.
- Financial rural wage rate (INR 100/day) taken as the economic value of labour.
- The analysis includes only on-farm benefits, including benefits from soil and water conservation, but excludes benefits from milk production.
- Full benefits assumed after 9 years;
- No significant changes or shifts in cropping patterns are assumed;
- The analysis employs an Opportunity Cost of Capital (OCC) at 10%.

169. The overall project EIRR is 23%. The estimated NPV at a 12% discount rate is INR 4,758 million and the BCR is 1.55. Sensitivity analysis shows that project performance is robust, with a 20% increase in cost only reducing the EIRR to 22% and a 20% reduction in benefits reducing the EIRR to 21%. A combination of a 20% cost increase and 20% reduction in benefits, reduced the EIRR to 13%.

### **3. Beneficiaries and benefits**

170. The total number of households benefited by the project is about 143,400 or roughly 0.72 million people. On an average, a household's food production benefits will increase from 2,461 kg/household to over 3,000 kg, excluding fruits, vegetables and spices. Increased production of fruits and vegetables, along with livestock products, will help/ improve human nutrition. Farm incomes, including the value of family labour will increase from INR 29,508 to some INR 45,116. There are marginal increases in demand on family labour from the existing level of 112 person-days to some 134 person-days.

171. The promotion of tree and fodder cultivation is expected to have a positive impact on natural resources by providing alternatives to cutting of trees. Enhanced soil moisture will result in increases in cropping intensities from 117% to 131% at full development. No major shifts in cropping patterns are envisaged, but the focus is on improved farming and agronomic practices and production for market. Additional benefits will come from the project's capacity building interventions. There will also be benefits from improved market access, improving the volume of produce that can be sold, and reducing the costs of marketing. Further details on economic and financial analysis, and quantification of project benefits are in Annex 10.

### **D. Sustainability**

172. The sustainability of benefits is based on the following assumptions:

- (a) The adoption of improved livelihoods including more productive technologies and new enterprises will be sustained providing they continue to be profitable for households in hill districts, and linkages for inputs and outputs are maintained. These linkages should be sustainable providing they are, in themselves, also financially viable for private sector actors and/or Livelihood Collectives. ILSP is putting considerable resources into institution building of LC to ensure their sustainability, and the use of local NGOs to implement this capacity building will help ensure that there is still some back-up after the project ends.
- (b) Physical works such as watershed treatment, irrigation and market infrastructure will need to be maintained. At the time of construction arrangements will be made for continued operation and maintenance via user groups for irrigation, market infrastructure etc. The participation of local government (Gram Panchayat) in watershed development will help ensure the sustainability of these works.
- (c) The project will carry out significant capacity building for rural producers, the members of producer organisations, and the staff of implementing agencies and NGOs. Village youth will also get vocational training. Providing this training is relevant and effective, it will result in a sustained increase in the knowledge and skills of those receiving the training. The use of KAP surveys to evaluate the effectiveness of training will help ensure that training is relevant and effective.
- (d) ILSP will aim to improve access to financial services, including loans for enterprise development, and insurance for risk reduction. These services will be provided by banks, insurance companies and KGVS, and, providing these agencies find these services profitable, they will be sustained.

**Key File Table 1: Rural Poverty and Rural Sector Issues**

Priority areas	Affected groups	Main issues	Actions needed
Food security – average household only produces enough for 3-4 months	Women as the main household food producers.	Reducing soil fertility stemming from reduced application of organic matter. Damage from soil erosion and erratic rainfall Increasing damage from wild animals Declining crop yields Land being abandoned Reduced labour available as men migrate out Minimal use of purchased inputs or new technology	Low cost improved technologies for food crops – primarily better seeds / varieties and fertiliser, better in-field management. Soil and water conservation works in selected villages and watersheds Reduced losses from wild animals Livelihood Collectives act as suppliers of inputs, seed producers, and provide linkage to other programmes supporting agriculture.
Livestock: little growth in production		Lack of fodder in deteriorating forest biomass Poor genetic quality of livestock Lack of access to animal health care services and other inputs Low prices for milk offered by Dairy Cooperatives	Support for fodder production (planting material and nurseries) for fodder to be produced in forest fringe areas, field boundaries and on abandoned farmland. Livelihood Collectives support input supply, animal health services and collect and sell milk in local markets. Also support poultry and goat production
Access to wider markets	Small producers	Remote location with difficult communications Opportunities for out-of season vegetables and other products but limited scale of production and producers not well tuned to market needs. Inefficient and costly production methods	Scale-up production to meet demand of local markets. Livelihood Collectives to aggregate production and act as a link to markets. Value chain approach to identifying constraints and planning interventions. Construction of market infrastructure. Greater involvement of private sector in supporting value chains Gradual shift to horticultural crops and other low volume and high value products.
Tapping growth in tourism to benefit local communities	Women, dalits, poor communities	Large proportion of tourist expenditure does not flow to rural communities in tourist areas Women and dalits have minimal work in tourist sector	Support for community-based tourism and supportive infrastructure. Targeting to increase participation by women and dalits
Jobs in growth sectors	Youth	Young people who do not complete secondary school lack qualifications for jobs in modern industrial and service sectors Public vocational training institutions do not provide the type and quality of training demanded by employers Private training institutions exist, but poor people cannot afford fees.	Scholarships to fund fees at private vocational training institutions with links to employers
Finance for enterprise	Small and community enterprises	Flow of funds from SHG limited and loan sizes small. Need larger amounts of funds and extended repayment term Community enterprises lack a credit history and sufficient equity to raise bank loans	Activate existing Social Venture Capital Company to provide quasi equity / equity to social enterprises. Need based gap financing to community enterprises and other businesses before they can access bank loans. Provide training and support to banks and other institutions to extend financial services to target group
Innovation		Need for more research on hill agriculture New technologies exist, but do not reach hill farmers Need to incubate new concepts for improving livelihood of hill farmers	Innovation fund to develop and extend new technologies. Innovation fund to incubate new concepts



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**Key File Table 2: Organisation Capabilities Matrix**

Organisation	Strengths	Weaknesses	Opportunities	Threats
<b>UGVS (Ajveeka)</b>	<ul style="list-style-type: none"> <li>Main implementation agency for current ULIPH so familiar with IFAD processes</li> <li>Closely involved in planning of ILSP</li> <li>Enthusiasm for concept of ILSP</li> </ul>	<ul style="list-style-type: none"> <li>Although ULIPH outreach targets met, SHG micro-finance is not vibrant and livelihood development limited.</li> <li>ULIPH management structure weak, lacking clear chains of command.</li> <li>Unable to fill some posts</li> </ul>	<ul style="list-style-type: none"> <li>With NRLM taking over SHGs, UGVS can focus on livelihoods.</li> <li>A Project Director for both UGVS and UPASAC can provide unified management structure and greater continuity.</li> <li>Improved M&amp;E will generate useful management information.</li> </ul>	<ul style="list-style-type: none"> <li>Frequent changes in project director</li> <li>Excessive turnover of staff</li> </ul>
<b>UPASAC</b>	<ul style="list-style-type: none"> <li>Established as Section 25 company with considerable flexibility in activities.</li> </ul>	<ul style="list-style-type: none"> <li>Yet to become operational as a financial institution</li> <li>Role in ULIPH vis-a-vis UGVS not clear</li> </ul>	<ul style="list-style-type: none"> <li>Could provide finance to fill gaps in what is available from banks and act as a catalyst for other financial institutions.</li> <li>Recruit experienced financial sector management.</li> </ul>	<ul style="list-style-type: none"> <li>Fails to find a useful role in ILSP</li> <li>Does not generate sufficient income to become sustainable.</li> </ul>
<b>WMD</b>	<ul style="list-style-type: none"> <li>Proven performance in implementation of watershed programme over 30 years.</li> <li>Established model for community participation</li> </ul>	<ul style="list-style-type: none"> <li>Although involvement of local government increases community ownership, it risks becoming a bottleneck due to limited capacity at this level</li> </ul>	<ul style="list-style-type: none"> <li>ILSP can address bottlenecks at local government level</li> <li>Working with UGVS will build partnerships with a range of market and financial agencies.</li> </ul>	<ul style="list-style-type: none"> <li>Watershed development could be seen as excessively costly relative to the number of benefited households</li> </ul>
<b>NGOs</b>	<ul style="list-style-type: none"> <li>Well established in local communities with good understanding of priorities of local people.</li> <li>Senior management well motivated and capable</li> <li>Experience in working with UGVS &amp; WMD</li> <li>Some already support marketing initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Funding largely depends on donor and government programmes - so periodically expand and contract.</li> <li>Most NGOs are small, with limited number of staff, resources and area of operations.</li> <li>Marketing activities mostly small-scale</li> </ul>	<ul style="list-style-type: none"> <li>Use local knowledge and links to communities to implement ILSP at field level.</li> <li>Broaden NGOs horizons by up-scaling marketing and involving private sector.</li> </ul>	<ul style="list-style-type: none"> <li>Competition for staff leads to high staff turnover.</li> <li>Vulnerable to departure of senior management</li> <li>Good NGOs not inclined to participate in competitive bidding process.</li> </ul>
<b>Private sector</b>	<ul style="list-style-type: none"> <li>Clear focus on financial viability and hence sustainability</li> <li>Ability to connect hill producers with large markets in the rest of India</li> </ul>	<ul style="list-style-type: none"> <li>Unwilling to make long term investments</li> <li>May not always be fair in dealing with small producers</li> </ul>	<ul style="list-style-type: none"> <li>Livelihood Collectives can give producers bargaining power and reduce transaction costs</li> <li>Improved market linkage will increase competition between private sector buyers.</li> </ul>	<ul style="list-style-type: none"> <li>Hill producers in Uttarakhand cannot compete with more commercial farmers from other parts of India or imported produce with the exception of produce having location and season specific advantage.</li> </ul>
<b>Community based organisations</b>	<ul style="list-style-type: none"> <li>Firm roots in local community.</li> <li>ULIPH Federations are cohesive and have gained confidence in group marketing</li> </ul>	<ul style="list-style-type: none"> <li>ULIPH Federations lack vision, management and financial skills, and operate on a small scale. Depend heavily on project staff</li> <li>Poor understanding of markets and business</li> </ul>	<ul style="list-style-type: none"> <li>ILSP can build capacity of Federations/ Livelihood Collectives.</li> <li>Little competition from local traders in supply of inputs.</li> <li>Can link up with other government programmes for additional resources</li> </ul>	<ul style="list-style-type: none"> <li>Failure to adopt good governance processes (such as auditing) will increase risk of failure.</li> </ul>
<b>Banks</b>	<ul style="list-style-type: none"> <li>Established branch network</li> <li>Good coverage in terms of number of account-holders</li> <li>Access to capital resources</li> </ul>	<ul style="list-style-type: none"> <li>Many accounts have little activity</li> <li>Not pro-active in lending to local enterprises</li> <li>Financial products to not meet local needs</li> </ul>	<ul style="list-style-type: none"> <li>Staff can be trained to better understand needs of enterprises.</li> <li>Support can be given to introduce new products.</li> </ul>	<ul style="list-style-type: none"> <li>Little motivation to expand in hills as the economy is less vibrant than in the plains.</li> </ul>
<b>KGFS</b>	<ul style="list-style-type: none"> <li>Top quality management</li> <li>Innovative approach to rural financial services.</li> </ul>	<ul style="list-style-type: none"> <li>Recent start-up so number of branches limited</li> </ul>	<ul style="list-style-type: none"> <li>ILSP support establishment of more branches.</li> <li>Sharing lessons on innovation via KGFS knowledge management system.</li> </ul>	<ul style="list-style-type: none"> <li>Branches need to become viable within available interest rate margins</li> </ul>

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**Key File Table 3: Complementary Donor Initiative/Partnership Potential**

Donor/Agency	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
Gol-World Bank/ Rural Development Department	National Rural Livelihoods Mission: social mobilisation, micro-finance, complementary support	States in northern India including Uttarakhand	Started June 2011	ILSP will complement the social mobilisation of NRLM
World Bank/ Watershed Management Department	Uttarakhand Decentralised Watershed Development Project - a phase II is planned covering another 125 MWS	76 micro-watersheds (MWS) covering 2348 km <sup>2</sup> in 11 districts	On-going, runs from 2004 to 2012	Propose to implement a similar watershed programme as a sub-project of ILSP
Gol / Watershed Management Department	Integrated Watershed Management Programme (IWMP) formulated State Perspective and Strategic Plan	Whole state – proposing to develop 102 MWS in 2009-14	On-going 2009-27	ILSP MWS development would come under the umbrella of IWMP, while ILSP UGVS would complement IWMP MWS developed 2009-14
Gol/Horticultural Department	National Horticulture Mission: support for horticultural development including subsidies on equipment (such as polyhouses and inputs).	State-wide (and in other states)		ILSP will aim to converge with this and other horticultural initiatives so group members can take advantage of the support provided.
GoUK	Atal Adarsh Gram Yojna (AAGY): integrated infrastructure development at the village level	670 villages in Uttarakhand	Planned completion in 2011	Provides infrastructure that will support livelihoods developed through ILSP
Gol/Rural Development Department	Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS)	National	On-going	MNREGS may provide labour for watershed conservation works & other local infrastructure.
GoUK/BAIF	Dairy Breeding programme: establish 116 AI centres with GoUK support	Most blocks in Uttarakhand	On-going	AI services for ILSP participants
World Bank-Gol/ VPKAS / BAIF / other agencies	National Agricultural Innovation Project: implementation in Uttarakhand led by VPKAS (ICAR institute)	National – includes Chamba and Tehri districts in Uttarakhand	Ongoing 2006-14	VPKAS and its state partners could implement proposed innovation component of ILSP.
Sir Ratan Tata Trust / Himmottan Society / 25 NGOs	Integrated Fodder and Livestock Development Project : fodder development on VP land, breed improvement, milk marketing via 10 federations	120 villages in 6 districts, 8,000 households	In phase II	Approaches and technologies for dairy production (fodder, support services – and animal nutrition via link to ILRI )
Sir Ratan Tata Trust / Himmottan Society / NGOs	Watershed Plus Initiative Phase II: build on Phase I (covered 15,000 ha in 24 watersheds)	133 villages in 3 districts, 6,200 households, 600 ha developed	Ongoing 2010-12	Lessons from linking livelihoods to markets and cost-effective watershed development
Gol / Forest Department	Green India Project – forest plantation including in Van Panchayat (VP) forests	National – Rs44,000 cr.	Soon to start 2012-2022	Aims to improve forest cover which will have a beneficial effect on watersheds
Gol / Forest Department	Compensatory Afforestation Fund Management and Planning Authority (CAMPA) - forest protection, reforestation, watershed, VP strengthening	National	Started 2010	Participation in ILSP to develop forest fringe areas targeting the poorest households.
GIZ/Rural Development Department/NABARD	Regional Economic Development (RED) programme: develop agro-based value chains, improve business and investment opportunities and promote of rural MSMEs.	Whole of Uttarakhand	Started 2007, ends 2014	Market information system, organic agriculture, tourism, nettle fibre and knowledge management all have synergy with ILSP.

**Key File Table 4: Target Group Priority Needs and Project Proposals**

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Support from Other Programmes	Project Response
<b>Small rural producers</b>	<ul style="list-style-type: none"> <li>• 41% of rural households below poverty line</li> <li>• Small and scattered landholdings</li> <li>• Infertile soil, steep slopes, erosion, uncertain climate</li> <li>• Minimal irrigation</li> <li>• Little use of purchased inputs</li> <li>• Support services not available</li> <li>• Low crop yields, unproductive animals</li> <li>• Most land forested – limited access to this resource.</li> <li>• Farming generates very little cash income, and only provides food for 3-4 months</li> <li>• Weather related risks</li> </ul>	<ul style="list-style-type: none"> <li>• Rely largely on non-farm earnings, especially migration and remittances. However many lack education and skills for better paid job</li> <li>• Tourism sector is growing, but local people often miss out on employment and do not own tourist enterprises.</li> <li>• Social safety nets</li> <li>• Spread risks over a number of enterprises – but this means loose benefits of specialisation</li> </ul>	<ul style="list-style-type: none"> <li>• Cash income</li> <li>• Access to growing market opportunities within and outside of the state.</li> <li>• Improved technologies to raise productivity of land and labour</li> <li>• Reduced risk from environmental and market factors</li> </ul>	<p>NRLM – SHG savings, credit and social mobilisation Agricultural, horticultural and livestock programmes – largely subsidised inputs IWMP – watershed treatment works in selected watersheds Roads being constructed to all settlements of &gt;250 HH</p>	<ul style="list-style-type: none"> <li>• Formation of Producer Groups (PG)</li> <li>• Basic agricultural interventions to enhance food security</li> <li>• Formation of Livelihood Collectives (LC)</li> <li>• Up-scaling of production to meet local market demand</li> <li>• Value chain initiatives aimed at external markets.</li> <li>• Market access infrastructure</li> <li>• Risk transfer arrangements for agri production</li> </ul>
<b>Women</b>	<ul style="list-style-type: none"> <li>• Increasingly have the burden of both household and farm work</li> <li>• Hard physical work for many hours per day</li> <li>• Little role in decision making and financial management.</li> <li>• Often malnourished</li> </ul>	<ul style="list-style-type: none"> <li>• Try and reduce workload by cutting back on area of land cultivated and numbers of animal kept.</li> <li>• Increasingly rely on earnings from migration and remittances.</li> <li>• Not all households have such earnings, many rely on PDS and other safety nets.</li> </ul>	<ul style="list-style-type: none"> <li>• Cash income</li> <li>• Skill development and training</li> <li>• Information</li> </ul>	<p>NRLM – SHG savings, credit and social mobilisation</p>	<ul style="list-style-type: none"> <li>• Minimum of 50% of Producer Groups will be female.</li> <li>• UPASAC will take gender into account when selecting projects for funding</li> </ul>
<b>Schedule caste households</b>	<ul style="list-style-type: none"> <li>• Smaller landholdings than other households</li> <li>• Higher poverty levels (62% BPL)</li> <li>• Lack access to work in tourism</li> </ul>	<ul style="list-style-type: none"> <li>• Rely more on NTFP collection, but uncertain access, completion for resource resulting in depletion, little</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunities to increase income from NTFP</li> <li>• Non-farm enterprises such as tourism</li> <li>• Livestock enterprises, especially poultry</li> </ul>	<p>NRLM – SHG savings, credit and social mobilisation</p>	<ul style="list-style-type: none"> <li>• 20% of Producer Groups will be for vulnerable households such as SC. These will get additional support and funding.</li> <li>• Support for poultry, goats, NTFP, tourism and vocational training</li> </ul>
<b>Youth</b>	<ul style="list-style-type: none"> <li>• 13% of youth are unemployed</li> <li>• Those who have not completed secondary school lack skills required by employers</li> </ul>	<ul style="list-style-type: none"> <li>• Poorly paid casual work</li> <li>• Live at home</li> </ul>	<ul style="list-style-type: none"> <li>• Remunerative and secure employment</li> </ul>	<ul style="list-style-type: none"> <li>• NSDC is supporting vocational training, but trainees have to pay for the cost of training</li> </ul>	<ul style="list-style-type: none"> <li>• Scholarships for poor and disadvantaged households with "next generation" vocational training agencies</li> </ul>

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**Key File Table 5: Stakeholder Matrix/Project Actors and Roles**

Component	Activity	Coverage	Perennial Institution(s) Involved	Potential Contractors/ Periodic Inputs	Other Possible Partners in Execution
<b>Food Security and Livelihood Enhancement</b>	Institutional support Food security crops and livestock Access to markets Innovation linkages Vocational training	17blocks in five districts 93,000 households 10,000 vocational trainees	UGVS NGOs Research institutions (VPKAS) CAMPA (Forest Department)	Vocational Training Agencies Mandi Parishads Terai Development Corp.	ILRI Private sector agribusiness Himothan Society
<b>Participatory Watershed Development</b>	Social mobilisation and community planning Watershed & village development Food security enhancement Livelihood development Institutional development	19 micro-watersheds in 4 districts 19,000 households	Watershed Management Directorate Gram Panchayats NGOs		ILRI Private sector agribusiness Himothan Society
<b>Livelihood Financing</b>	Loans and equity finance from UPASAC Capacity building of bank staff Support for new branches of KGFS Risk reduction instruments	Hill areas of the state, focusing on where components 1 and 2 are operating	UPASAC KGFS Banks	Financial training agencies Insurance companies	Metrological Department Depts of Agriculture and Horticulture
<b>Project Management</b>	Coordination Consolidated financial statements and withdrawal applications M&E and knowledge management	Entire project	CPCU M&E unit	Auditors Survey contractors	Knowledge sharing networks

## **Annex 1: Country and rural context background**

### **1. Country background**

1. The most striking feature of India is its diversity, with a population approaching 1.2 billion composed of several ethnic groups, speaking more than 1,000 languages, identifying themselves in more than 5,400 castes, following six major religions, and an area of 3.28 million km<sup>2</sup> covering totally different agroecological zones. Poverty remains a major issue, with 41.6% of the population living on less than USD1.25 per day. In 2010 Human Development Index of the United Nations Development Programme (UNDP) ranked India 119th out of 180 United Nations member states.

2. India's economy is the fourth largest in the world. After decades of limited growth, during the last 10 years economic growth has taken off, with an average GDP growth of about 8.8 per cent from 2002/03 to 2007/08, mainly led by the service sector. In 2009/10, despite the financial crises, growth declined to a still robust 7.9 per cent. Inflation is a major economic challenge for the country, and has a bearing on rural poverty and growth in the rural sector. In December 2009 the whole price index was 7.3 per cent, while food inflation reached a double digit of 19.8 per cent.

3. There is a broad consensus that the recent growth has roots in the economic reforms introduced in the early 1990s, which unleashed the enterprise of those adequately endowed with infrastructure, resources, skills, power and influence. However, distribution of the benefits of growth to poor rural people has been limited by: inadequate physical and social infrastructure; poor access to services; low investment; a highly stratified and hierarchical social structure, characterized by inequalities in assets, status and power; and ineffective, inefficient implementation of pro-poor programmes, owing to governance failures. There is now a genuine and widespread recognition that, without inclusive growth, the social and political consequences of rising inequalities could be very adverse. About one third of Indian districts are affected by civil unrest and left-wing terrorism, which represent the main national security threats.

4. Despite this growth 72% per cent of the population live in rural areas, with over half (52% in 2009) employed in the agriculture sector which contributes 15.7 per cent of GDP. Although production of food grains reached a total of 234 million tons in 2008/09, growth in output is falling behind the 1.4% per annum growth in population. Over the last decade, wheat yields have grown at a rate of 0.1% and rice at 1.3% per annum and, with the area under cultivation remaining largely constant, there are serious concerns about medium-term food security. Increasing population pressure has led to fragmentation of land holdings with the number of operational holdings increasing from about 70 million in 1970 to 121 million in 2000. Over the same period, the average size of landholdings has declined from 2.3 to 1.3 ha, and 10% of rural households are reported to be landless. Only 40% of cultivated land is under irrigation, with groundwater levels and soil fertility are rapidly depleting in the food bowl of India. Over 121 million ha are degraded: 68% by water erosion, 20% by chemical contamination and 10% by wind erosion.

5. India has 33 per cent of the world's poor, and poverty has not fallen at the pace of economic growth. Nutritional levels are unacceptably low, with 42.5% of children underweight, one of the highest rates globally. Malnutrition is linked to half the child deaths and a quarter of cases of disease. On the Global Hunger Index of the International Food Policy Research Institute, India is ranked 66th out of 88 countries.

6. Agricultural wage earners, smallholder farmers and casual workers in the non-farm sector constitute the bulk of poor rural people. Within these categories, women and tribal communities are the most deprived. In terms of gender deficit, India is ranked 114 by the World Economic Forum Global Gender Gap Index 2009. Finally, about 300 million young people (in India this covers ages 13 to 35) live in rural areas, most of them being forced to migrate seasonally or permanently, without the skills and competencies required by the modern economy that India is rapidly becoming.

## **2. National rural poverty reduction strategy**

7. The 11th Five-Year Plan (2007-2012) aims to achieve inclusive growth in all sectors and to double agricultural growth from 2 to 4% per annum by expanding irrigation, improving water management, bridging the knowledge gap, fostering diversification, increasing food production to ensure food security, facilitating access to credit and enabling access to markets. The mid-term assessment of the plan, released in July 2010, underscores the urgency of increasing capital formation and investments in agriculture, as well as of improving access to water and good quality seed, replenishing soil nutrients, expanding agricultural research and extension, reforming land tenancy systems and facilitating agricultural marketing.

8. There are several important policies, strategies and acts that provide the framework for agriculture, forestry, rural development and tribal development, and which are central to IFAD's efforts in India. They include the National Agricultural Policy of 2000, the National Policy for Farmers of 2007, the National Environment Policy of 2006, the National Forest Policy of 1988, the Protection of Plant Varieties and Farmers' Rights Act and National Water Policy of 2001, and the Biological Diversity Act of 2002.

9. Among several rural poverty programmes, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is now considered the largest employment programme in the world. Its objective is not only to provide wage labour, but also to generate productive assets in the process, which could lead to sustainable livelihood opportunities and thus gradually reduce dependence on such a public works programme. During the period 2006-2009, MGNREGA generated 6 billion person-days of work, involving an outlay of about US\$16 billion.

10. The National Rural Livelihood Mission (NRLM), under the Ministry of Rural Development (MORD), aims to provide livelihood development opportunities to poor rural families. NRLM builds on the experience of the highly subsidized Swarnjayanti Gram Swarozgar Yojana (SGSY), under which most groups disappeared once the subsidy was received. Only 6 per cent of the funds were used for training and capacity-building, and only 23 per cent of the self-help groups (SHGs) graduated to the microenterprise level, which was the objective of the SGSY. The NRLM, which was expected to roll out in 2010 with an initial allocation of US\$2 billion, emphasizes formation, training and capacity-building of SHGs and their federations; state-level flexibility to respond to emerging demands; hiring of qualified professionals and facilitators/animations at the community level; enhanced financial support; replacement of capital subsidy with interest subsidy as an incentive to repayment of loans; provision of multiple loans; establishment of dedicated skills-training institutes in each district; improved monitoring and evaluation (M&E); and facilitation of domestic and global marketing linkages.

11. The Government, through the National Rainfed Area Authority (NRAA), has issued Common Guidelines for Watershed Development. These were followed by the 2008 Integrated Watershed Management Programme, which emphasizes capacity-building, M&E, learning and social audit. It introduces a livelihoods perspective from the very inception of the project, with a special emphasis on families without assets. It also delegates approval and oversight of watershed project implementation to the states.

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Prj Id	Project Name	Board Approval	Loan Effect.	Board - Effect. (months) (arrears)	Current Project Completion	Extension (years)	% Disb. to 30/06/11	IFAD Amount (USD m)	Days Susp.
<b>Closed</b>									
23	Bhima Command Area Development	18/9/1979	14/12/197	2.9	31/10/1984	0.0	100%	50.0	0
32	Rajasthan Command Area Development and Settlement Project	19/12/1979	3/3/1980	2.5	30/6/1988	2.5	100%	55.0	0
49	Sundarban Development Project	3/12/1980	4/2/1981	2.1	31/12/1988	3.0	100%	17.5	0
81	Madhya Pradesh Medium Irrigation	17/12/1981	17/9/1982	9.0	30/9/1987	1.5	100%	25.0	0
124	Second Uttar Pradesh Public Tubewells Project	21/4/1983	6/10/1983	5.5	31/3/1990	3.0	85%	35.3	0
214	Orissa Tribal Development Project	3/12/1987	27/5/1988	5.8	30/6/1997	2.3	100%	12.2	0
240	Tamil Nadu Women's Development	26/4/1989	26/1/1990	9.0	30/6/1998	1.5	98%	17.0	0
282	Andhra Pradesh Tribal Development	4/4/1991	27/8/1991	4.8	30/9/1998	0.5	92%	20.0	0
325	Maharashtra Rural Credit Project	6/4/1993	6/1/1994	9.0	31/3/2002	2.0	89%	29.2	0
349	Andhra Pradesh Participatory Tribal Development Project	19/4/1994	18/8/1994	4.0	30/9/2002	1.5	100%	26.7	0
432	Mewat Area Development Project	12/4/1995	7/7/1995	2.8	31/12/2004	1.8	99%	15.0	0
1012	Rural Women's Development and Empowerment Project	5/12/1996	19/5/1999	29.4	30/6/2005	3.5	49% (81%)	19.2	0
1210	Livelihood Security Project for Earthquake-Affected Rural Households	12/9/2001	4/11/2002	13.7	9/10/2006	-3.2	8%	15.0	0
<i>13 projects</i>		<i>Average</i>		<i>7.7</i>		<i>1.5</i>	<i>90%</i>	<i>25.9</i>	<i>0.0</i>
<i>Sub-total Closed projects</i>		<i>Region</i>		<i>8.2</i>		<i>1.4</i>	<i>85%</i>	<i>15.2</i>	<i>132.9</i>
		<i>IFAD Average</i>		<i>11.9</i>		<i>1.8</i>	<i>84%</i>	<i>11.7</i>	<i>50.3</i>
<b>Completed</b>									
1121	National Microfinance Support	4/5/2000	1/4/2002	22.9	30/6/2009	0.0	100%	22.0	0
<i>1 project</i>		<i>Average</i>		<i>22.9</i>		<i>0.0</i>	<i>100%</i>	<i>22.0</i>	<i>0.0</i>
<i>Sub-total Completed projects</i>		<i>Region</i>		<i>10.6</i>		<i>0.9</i>	<i>90%</i>	<i>17.6</i>	<i>20.5</i>
		<i>IFAD Average</i>		<i>12.7</i>		<i>1.0</i>	<i>88%</i>	<i>16.2</i>	<i>86.3</i>
<b>Ongoing</b>									
1040	North Eastern Region Community Resource Management Project for	29/4/1997	23/2/1999	21.9	31/3/2008	4.0	5% (100%)	20.0 (22.9)	0
1063	Jharkhand-Chhattisgarh Tribal Development Programme	29/4/1999	21/6/2001	25.8	30/6/2011	2.0	72% (90%)	23.0	0
1155	Orissa Tribal Empowerment and Livelihoods Programme	23/4/2002	15/7/2003	14.7	31/3/2013	0.0	53%	20.0	0
1226	Livelihoods Improvement Project in the Himalayas	18/12/2003	1/10/2004	9.5	31/12/2012	0.0	60%	39.9	0
1314	Tejaswini Rural Women's Empowerment Programme	13/12/2005	23/7/2007	19.3	30/9/2015	0.0	22%	39.4	0
1348	Post-Tsunami Sustainable Livelihoods Programme for the Coastal Communities of Tamil Nadu	19/4/2005	9/7/2007	26.7	30/9/2015	0.0	11%	29.9	0
1381	Women's Empowerment and Livelihoods Programme in the Mid-Gangetic Plains	14/12/2006	4/12/2009	35.7	31/12/2017	0.0	6%	30.2	0
1418	Mitigating Poverty in Western Rajasthan Project	24/4/2008	11/12/200	7.6	31/12/2014	0.0	9%	31.0	0
1470	Convergence of Agricultural Interventions in Maharashtra's Distressed Districts Programme	30/4/2009	4/12/2009	7.2	31/12/2017	0.0	5%	41.1	0
<i>9 projects</i>		<i>Average</i>		<i>18.7</i>		<i>0.7</i>	<i>27%</i>	<i>31.0</i>	<i>0.0</i>
<i>Sub-total Ongoing projects</i>		<i>Region</i>		<i>11.1</i>		<i>0.2</i>	<i>48%</i>	<i>24.0</i>	<i>0.0</i>
		<i>IFAD Average</i>		<i>13.5</i>		<i>0.3</i>	<i>47%</i>	<i>18.9</i>	<i>107.0</i>

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Prj Id	Project Name	Board Approval	Loan Effect.	Board - Effect. (months) (arrears)	Current Project Completion	Extension (years)	% Disb. to 30/06/11	IFAD Amount (USD m)	Days Susp.
23 projects				Total				656.4	
Total All Projects				% share of Regional Financing				16.6%	
				% share of Total IFAD Financing				5.4%	

Notes:

All dates are project-related.

For not effective projects, Board-Effect. refers to Board-30/6/2011

Figures for % disbursement refer to the original loan amounts.

Averages for % disbursements are equivalent to sum of disbursement divided by sum of original loan amounts.

If the loan amount was reduced/closed during implementation, figures in brackets refer to % disbursement of net loan amount and value.

USD loans included with SDR loans to calculate % average disbursement.

IFAD amount is at approval and includes component grants.



## Annex 2: Poverty, Targeting and Gender

### A. Introduction

1. Uttarakhand is one of three hill states in the north-west of India (the others being Himachal Pradesh, and Jammu and Kashmir). The area of Uttarakhand is 54,483 sq km with a population of about 8.5 million (2001 census). It has a total of 13 districts, of which 9 are classed as hill districts, two are partly hill and two are in the plains. The 9 hill districts cover 77% of the area of the state, but only contain 44% of the population, with a much lower population density (91 persons/km<sup>2</sup>) than in the plains (387/km<sup>2</sup>).

2. Livelihoods in Uttarakhand are still predominantly rural, with 80% of the population still employed in agriculture, however this sector only accounts for 22% of the state's GDP. Most economic and population growth has also been in the plains, which are becoming industrialised, and the growth rate of the agricultural sector has also been only been 1.8% per year with the industrial and service sectors growing at over 10% per year over this period (2000-05).

### B. Level of Poverty

3. Many rural people are poor, with over 40% households below the poverty line<sup>8</sup> - see Table 1. Uttarakhand is one of the poorest states after Orissa, Bihar, Chhattisgarh and Jharkhand.

**Table 1: Population below Poverty Line**

State	Population below poverty line (%)					
	1993-94			2004-05		
	Combined	Rural	Urban	Combined	Rural	Urban
Uttarakhand	NA	NA	NA	39.6	40.8	36.5
All India	35.97	37.27	32.36	27.5	28.3	25.7

Source: Based on uniform recall period (30 days), Planning Commission, Government of India.

4. Participatory wealth ranking carried out for the formulation mission in 12 hill villages classed 46% of households as poor – with 6% being ultra poor (Table 2). Of the remaining 54% of households, 37% were “not-so-poor” and 18% were better-off. This study found little difference in poverty rates by altitude or by accessibility, however 32% of households were from scheduled caste (dalit) households, and almost two-thirds (63%) of this group were poor compared with 36% for the upper castes. Ultra-poor households account for 11% of dalit households, while only 4% of upper caste households fall into this category.

5. The Scheduled Castes or dalits have generally little land and poor educational status. Their settlements tend to be outside and at a distance from the ‘main’ village. Scheduled Tribes or adivasis in Uttarakhand are generally herders and traders, are there are not so many of them in hill districts, and they are generally not as poor as they are elsewhere in India. The 2001 census showed that the dalit and adivasi proportions in the population were 17.9% and 3.2% respectively.

6. Working Paper 1, Poverty and Gender Analysis, has more details on poverty in Uttarakhand, including data and information from the survey of 12 villages carried out for the formulation mission by the Institute of Human Development (IHT), Delhi.

<sup>8</sup> The Below Poverty Line (BPL) survey conducted by the Rural Development Department (BPL Survey, 2002) in the state estimated the proportion of BPL families at 47.20 per cent, which is somewhat higher than the Planning Commission estimates.

**Table 2: Poverty Analysis across 12 Villages**

Classification	Village category	Total HHs number	Ultra poor %	Poor incl. ultra poor %	Not so poor %	Better-off %
All 12 villages		1644	6.32	45.70	36.58	17.71
Accessibility	Near	834	5.52	47.12	36.33	16.55
	Distant	810	7.16	44.20	36.91	18.89
Altitude	High	787	5.84	41.17	42.06	16.77
	Medium	468	6.62	47.43	29.91	22.65
	Low	389	6.94	52.70	33.68	13.62
Social group	Upper caste	1031	3.97	35.79	43.55	19.98
	Scheduled caste (Dalit)	535	11.00	63.36	25.42	12.33
	Scheduled Tribe	78	2.56	55.13	20.51	24.36

Source: IHD Report, 2011

7. The higher incidence of poverty among dalits is corroborated by the data on quality of housing in Table 3. Housing quality is 'poor', i.e. with thatched roof, for 15.1% of dalits, but only for 1.8% of upper castes and 5.7% of adivasis. The high incidence of those not getting two meals a day and those having poor housing together reinforce the high poverty condition of dalits.

**Table 3: Distribution of Social Groups by Housing Quality (%)**

	Poor Housing	Better Housing
Upper castes	1.18	98.92
Dalits (Scheduled castes)	15.05	84.95
Scheduled tribes	5.72	94.28

Source: IHD Report, 2011

8. The poverty condition of the dalits is borne out by their very low land ownership. Almost 90% of dalits are either landless or own less than 0.5 acre, and none have more than 5 acres.

**Table 4: Land Ownership by Social Group**

Caste/ Social Groups	Landless	Sub-marginal (up to 0.50 acres)	Marginal (up to 2.50 acres)	Small (2.50-5 acres)	Medium (5-10 acres)	Large (10 +acres)	Total
Upper Castes	-	60.61	27.44	11.45	0.49	-	100.00
Lower Social Groups	7.22	82.92	7.06	2.79	-	-	100.00
Dalits (Scheduled Castes)	6.48	82.06	8.20	3.24	-	-	100.00
Total	2.71	68.99	19.79	8.20	0.31	-	100.00

Source: IHD, Report, 2011 Note: Upper Castes include Brahmins and Kshatriyas; Lower Social Groups include Scheduled Castes, Other Backward Castes, Scheduled Tribes and Muslims; Dalits are the Scheduled Castes

### C. Drivers of Poverty

9. The major driver of rural poverty is the difficult mountain environment. Although the vast majority of households have land, land holdings are very small (average 0.8 ha) and fragmented into 6 or 7 different locations. Tiny terraced plots on steep hillsides makes mechanisation virtually impossible. Hill agricultural is also unproductive. Shallow and immature soils require high levels of organic matter, but yields are very low. Agriculture is very largely for subsistence (98% of grain, 92% of vegetables and 90% of milk are consumed at home – Table 5). There is little use of modern

varieties, mineral fertilisers and other inputs. Only about 10% of land in hill districts is irrigated. Most households keep cattle or buffalo, but improved crossbreds are relatively scarce, there is minimal investment in feeding and health care. More information on agriculture in Uttarakhand is in Working Paper 2 and on livestock in Working Paper 3.

10. To a large extent livestock rely on grazing or fodder from the forests that cover 65% of the state. Manure from livestock and leaf litter from the forests are vital as sources of organic matter to maintain soil fertility. Forest cover is reported to be deteriorating, putting pressure on both livestock and soil fertility, and crop yields are reported to be deteriorating. Farmers report that damage to crops from wild animals is a major problem which is getting worse.

11. Low and declining farm productivity on one hand, and growing opportunities for employment in other part of India on the other, is encouraging more and more people to migrate to jobs outside of hill districts. Between one third and one half of households send migrants and, as it is mainly men who migrate, this places more and more of the burden of farm labour, as well as domestic work on women. Lack of labour, low productivity and wild animal damage are all contributing to land being abandoned, and it is said that as much as 30% of land in the hills that was once used to grow crops is no longer in production. Land use data shows that there is almost as much land classed as cultivatable waste and fallow as is cropped.

**Table 5: Consumption and Marketing**

Location	Means of disposal	Grain	Vegetables	Fruits	Milk	Goats	NTFP	Other
Near	Self-consumption	97	90	62	87	33		10
	Sold to neighbours	3	2	10	7	40		
	Taken to market to sell		8	28	6	27		90
	Total	100	100	100	100	100		100
Distant	Self-consumption	99	94	80	93	10	20	
	Sold to neighbours	1	4	4	5	50	80	
	Taken to market to sell		2	16	2	40		
	Total	100	100	100	100	100	100	
Total	Self-consumption	98	92	70	90	23	20	10
	Sold to neighbours	2	3	7	6	44	80	
	Taken to market to sell		5	23	4	33		90
	Total	100	100	100	100	100	100	100

Source: IHD Report, 2011

12. Agriculture is highly dependent on weather, with most rainfall in a three to four month monsoon season. While crops often suffer from lack of moisture, monsoon storms cause much damage, including soil erosion, waterlogging and landslides. Farmers and others often report that the climate in Uttarakhand is changing, with rainfall patterns changing and becoming more erratic. A study by ICIMOD<sup>9</sup> reported that 64% of farmers say that crop yields have declined, and many cite causes that they claim are related to climate change – such as less rainfall, less irrigation water and soil erosion. However it should be noted that most farmers though that other factors were also contributing to reduced yields – such as less use of manure due to decline in animal husbandry, and less labour for agriculture and for upkeep of terraces and irrigation systems.

13. Despite the disadvantages that agriculture faces in the hill areas, it does have some climate-related advantages. The cooler temperatures at higher altitudes allows it to produce “out of season” vegetables and temperate fruits, which are grown in significant quantities and transported from the hill areas to Dehradun, Delhi and beyond. However this commercial horticulture sector is less developed than in the other hill states of Himachal Pradesh and Kashmir – partly because it got little

<sup>9</sup> Jain, Anmol, *Labour Migration and Remittances in Uttarakhand*, ICIMOD 2010

support while the state was part of Uttar Pradesh. Analysis of the Gross Value of Output (GVO) for different crops<sup>10</sup> shows that horticulture accounted for 27.2% of Uttarakhand's agricultural GVO, which is very close to the national average of 26.7%. However, it is much lower than other hill states such as Himachal Pradesh and Jammu and Kashmir where horticulture accounts for 62% and 58% respectively. More information on marketing is in Working Paper 3.

14. Good communications are the key to moving bulky vegetables to distant markets, and Uttarakhand has almost 17,000 km of metalled roads. However only 41% of villages are located within 1km of a tarred road and 28% are more than 5km away. This has considerable impact on agricultural development as transport of inputs and outputs are often by head loads and mules.

#### D. Food Security

15. Although the main role of agriculture is to produce food for home consumption, very few households are able to produce enough to last for more than three or four months. A survey into hunger and malnutrition in Uttarakhand commissioned by GoUK and WFP found that almost 90% of households reported having at least two "full stomach" meals per day all year round, but 8.8% suffered from seasonal food shortages, being unable to eat two full meals for between one and five months, and 1.4% of households have chronic food shortages with at least 6 months without at least two full meals per day. Just over one third of children are underweight, with smaller proportions being stunted and wasted (Table 6). Given that few people are able to grow enough food to feed their families, this suggests that people largely rely on non-farm earnings. The majority of people also access safety net programmes, with at least 90% of households in all hill districts having access to, and using, the Public Distribution System shops to purchase food at subsidised prices; and 80% of households reported that rations were regularly available in these shops (WFP 2010).

**Table 6: Child malnutrition in the hill districts**

Indicators of malnutrition	Percentage of children under 5 years old		
	Boys	Girls	All
Underweight (weight for age*)	37.5	35.4	36.4
Stunted – chronic malnutrition (height for age*)	26.1	26.1	26.1
Wasted – acute malnutrition (weight for age*)	10.8	9.4	10.1

Source: Hunger and Malnutrition Mapping, WFP/GoUK 2010, \* z score under 2 SD of WHO norms

16. A significant number of vulnerable women and children are also able to obtain supplementary food via the Integrated Child Development Service (ICDS) – see Table 7. In addition, the WHO/GoUK survey reported that 56% of rural children go to government primary schools where 87% of them get a free cooked mid-day meal.

**Table 7: Percentage of people receiving supplementary food from ICDS**

	Percentage of households with these members
Pregnant women	49.1
Lactating mothers	42.6
Children aged 6 months to 3 years	12.0
Children aged 3 to 6 years	30.3
Adolescent girls	8.6

Source: Hunger and Malnutrition Mapping, WFP/GoUK 2010

#### E. Access to services

17. The population of the hills lacks access to basic household-level infrastructure. The IHT study of 12 villages found that less than one third of households had access to water via pipes or hand pumps, and 68% relied on streams and rivers – which could be polluted and result in water-borne

<sup>10</sup> High-Value Crops and Marketing; Strategic Options for Development in Uttarakhand, published by IFPRI (2009)

diseases. Health risks are also increased by the fact that 46% of households do not use any type of latrine, but defecate in the open. However the IHT study found that 84% of houses had electrical connections – higher than the reported state average of 50% - although over 80% of villages have connections. However the IHT study also reported that power supplies were sporadic, with an average of only 11 hours per day of supply.

18. The IHT study reported a literacy rate of 81.2% (people aged 5 years and above), with male literacy 85.3% and female literacy 77.1%. These figures are comparable with the 2011 Census figures, which give an overall literacy rate of 79.6%, with male literacy at 88.3% and female literacy at 70.7%.

19. The population of the hills also lacks access to basic household-level infrastructure. The IHT study of 12 villages found that less than one third of households had access to water via pipes or hand pumps, and 68% relied on streams and rivers – which could be polluted and result in water-borne diseases. Health risks are also increased by the fact that 46% of households do not use any type of latrine, but defecate in the open. However the IHT study found that 84% of houses had electrical connections – higher than the reported state average of 50% - although over 80% of villages have connections. However the IHT study also reported that power supplies were sporadic, with an average of only 11 hours per day of supply. More information on issues regarding infrastructure is in Working Paper 5.

### F. Employment and Migration

20. With a poorly developed agricultural sector, youth unemployment in the IHT study villages is high - 13% of 15 to 29 years age group (male 12.7%, female 13.3%). Even if local jobs are available, those with education want jobs that are commensurate with their educational status. One such man is quoted as saying, "After studying for so many years it is pointless for me to go back to agriculture. If I had to be a farmer there was no need for me to study so much," (ICIMOD 2010). People therefore look for work outside of the hill districts.

21. The IHT study found that temporary migration involved 30% of the 1,640 households in the 12 villages, but this figure does not include permanent migrants - those who migrated with their families but still retain some connection with the village, through remittances (for parents and siblings) and occasional visits. An ICIMOD study (2010) calculated from the 2001 Census that 39% of men migrated for temporary work and another 27% had permanently migrated with their households. Another study of 44 households (Awasthi, 2010) found that 48 percent of households had a migrant. Each of the above percentages was calculated in a different way – and so are difficult to compare, but it would seem that between one third to one half of households are involved in some way in migration.

22. One part of the economy of the hill districts which is growing strongly is tourism. The numbers visiting the state each year are said by some to be as high as 20 million – double the number of the local population. The formulation mission collected data on the impact of tourism from Pali village in Tehri District. Pali has 110 households. Out of these, 80 households have someone working outside the village, and it was felt that remittances account for 40% to 50% of village income, while tourism contributed 20% to 25% of village income. Together this makes at least 60% of income from non-farm sources. Food grown by the village is sufficient for just one or two months; the rest has to be bought from the market. Potato is the main cash crop, but there has been little change in agriculture. The growing parts of the livelihood system are remittances and tourism – and it is these that have significantly reduced poverty levels (Table 8). More information on tourism and poverty reduction is in Working Paper 6.

**Table 8: Pali village – poverty levels**

	20 years ago	Now
Poor	90	20
Better-off	20	90
Brick houses	5	105

Source: Working Paper on Tourism

## G. Gender Issues

23. With high levels of male-out migration, most agricultural work, other than ploughing, is performed by women. As a result women's rural labour force participation rate in Uttarakhand is higher than the all-India average (Table 9). Migration certainly pushes women to be in the labour force. However cultural factors continue to limit the roles of women, and there is a very low level of women's participation in rural non-farm employment. Women work largely in the primary sector (Table 10), which means basically agriculture, and have minimal wage employment in the secondary and tertiary sectors. Their share of wage employment in the non-agricultural sector was just below 10%, as against the all-India average of 20% (CSO, 2010). Not only are women are confined to agricultural labour, but this is very largely as family labour on their own fields and not as agricultural wage labour.

**Table 9: Rural Labour Force Participation Rate (%) 2004-05**

	Women	Men
Uttarakhand	46.85	52.65
All-India	33.30	55.51

Source: NSSO

**Table 10: Sectoral distribution of rural workers by gender (%) 2004-05**

		Primary	Secondary	Tertiary	RNFE
Uttarakhand	Men	64.22	15.23	20.56	35.78
	Women	96.55	1.68	1.78	3.45
India	Men	66.5	15.5	18.0	33.5
	Women	83.3	10.2	6.6	16.8

Source: NSSO

24. Women's work in agriculture is in addition to their household duties. Even in agriculture they perform many more tasks than men, though they spend about half an hour per day less than men in agricultural work. But the real difference between the genders is due to women's much greater time spent on 'reproductive' or household labour, 7.4 hours by women as against 1.6 hours by men. A fair amount of time is spent by women in collecting firewood and water. Overall, women spend 12.7 hours working per day, while men spend 7.6 hours, resulting in an excess work burden of 5.1 hours per day on women (Table 11).

**Table 11: Average hours of work per day by women and men**

	Productive	Household	Community	Total
Women	4.1	7.4	1.2	12.7
Men	4.6	1.6	1.4	7.6

Source: IHD Report, 2011

25. Women's high labour force participation rate is not reflected in their autonomy and access to money. They have little, if any, more participation in decisions or access to money than women in other parts of India (Table 12).

26. In separate FGDs women put forward their own opinions about the reasons for their vulnerability. In all villages they mentioned the high work burden of family and household responsibilities. In 11 out of 12 villages they noted lack of education and skills as the main reason for their vulnerability. Next in order came not earning cash (8 villages) and then the structure of male-dominated society (7 villages). Insufficient education and skills and the lack of income-earning are both connected. The former is an important enabling factor for the latter, which in itself would allow for some autonomous decision-making power. At present, despite high male out migration, women do not have more decision-making power than they do in India as a whole.

**Table 12: Women's Autonomy**

	% involved in decision-making on				% who participate		% with Access to money
	Own health care	Making major household purchases	Purchasing daily HH needs	Visits to family and relatives	In all four decision	In none of the four decisions	
Uttarakhand	60.8	49.4	56.4	56.0	36.0	24.6	56.2
India	62.2	52.9	60.1	60.5	31.6	24.4	59.6

NFHS-III in CSO, 2010

**Table 30: Reasons for vulnerability of women compared to men**

Altitude and location of villages		Number of villages (out of 12) reporting						
		Excessive drudgery due to family and household responsibilities	No right to productive resources	Lack of education and skills	Male dominated society	No cash income earning	No gender mainstreaming policies	Other
Altitude	High	4	0	3	3	3	1	0
	Medium	4	1	4	2	2	1	1
	Low	4	0	4	2	3	1	0
	Total	12	1	11	7	8	3	1

Source: IHD Report, 2011. Note: there are 4 villages in each altitude category.

## Annex 3: Country Performance and Lessons Learned

1. In 2009 the independent IFAD Office of Evaluation (IOE) carried out the first country programme evaluation (CPE) since IFAD began operations in India in 1978. The CPE team affirmed the value of IFAD's role in addressing rural poverty and highlighted the Fund's particular contributions to promoting pro-poor innovation and serving as a demonstrator of the design, implementation, supervision and M&E of pro-poor and rural development projects. The CPE rated the overall performance of the India portfolio as satisfactory, but called for increased operational efficiency, and a more strategic and systematic approach to the replication and scaling up of pro-poor innovations. The evaluation recommended that, while continuing to focus on rural women and tribal communities, more attention should be devoted to smallholder farming households. It recommended discontinuing the practice of two projects funded by one loan and supported by one supervision budget. The CPE suggested enhanced engagement with the private sector, in line with corporate social responsibility, to enable and facilitate provision of services and development of inclusive market/value chains.

2. Some of the key lessons learned by the overall IFAD programme in India include:

- Poverty can be effectively reduced through an empowerment process, which in turn requires investment in people's institutions and in intangible assets. Each intervention should have an adequate implementation period, allowing sufficient time to establish and strengthen strong and sustainable grass-roots institutions.
- The selection of qualified resource NGOs (RNGOs) and facilitating NGOs is critical. The process of selection needs to be completed promptly and without political interference. IFAD has been asked to participate as an observer in the selection process to ensure its fairness.
- Developing livelihood opportunities for smallholder farmers and tribal communities in rainfed and marginal areas requires broader partnerships that combine the competencies and resources of government, civil society and people's organizations, and the corporate private sector.
- India allocates very large resources to agriculture and rural development through state and centrally sponsored schemes. Ensuring convergence with such efforts would multiply the impact of project interventions.
- Undertaking fewer, focused projects with larger average loan size can contribute to lowering transaction and administrative costs for both the Government and IFAD and would permit greater attention to implementation support, learning and impact achievement.

### Lessons from IFAD and other programmes in hill regions

3. **Self-Help Groups and livelihoods:** While ULIPH has formed women SHGs and their federations, the enterprise promotion among SHG members and forming livelihood collectives have been challenging since not all SHG members are interested in the same enterprise, and integrating livelihood activities in federations requires adequate staff capacity and financial resources. Livelihood financing through SHGs has been limited since banks follow savings to credit ratios and loan sizes are not adequate to take up enterprises. Forming producer groups and livelihood collectives around a specific activity or commodity, and promoting appropriate financial linkages would enable livelihood promotion to become more effective.

4. **Dependence on subsidies:** Many development programmes are built around the delivery of subsidised inputs. This has led to an imbalance in markets, and has discouraged commercial suppliers of non-subsidised inputs (which limits the range of inputs available). Farmers are often motivated by access to the subsidy – seeing the opportunity for a bargain – rather than by a desire to take up the enterprise as a means of livelihood. This means poor use is often made of subsidised inputs, such as greenhouses. ULIPH was designed with the intention of weaning farmers away from this dependency culture by demonstrating profitability of activities that have potential and thereafter allowing them to expand using funding from banks and from a Social Venture Capital Company (SVCC) established by



the project. This strategy did not work, partly because SVCC has not become operational, but largely because the farmers who did not get demonstrations were hoping to also get demonstrations from the project or subsidised inputs from other government programmes. It is possible to break free from this ineffective subsidised input delivery strategy by shifting to household-led planning of activities with potential for growth coupled with provision of core funding for implementing the plan along with targets to leverage funds from other sources (government departments, MNREGA and financial institutions).

5. **Connecting to markets:** Although considerable efforts have been made to connect poor households to markets, there is usually a poor understanding in the community, and among project and NGO staff, on how markets work and the need to compete in terms of price, quality, delivery and volume. Adopting a value chain approach to identify and address key bottlenecks holds promise in terms of adapting production and marketing strategies to meet the demand of buyers.

6. **Rural development** programmes need to understand and adapt to the realities of the rural economy of Uttarakhand. This includes increasing pressure on natural resources due to declining soil fertility and pressure on farm labour resources. These two are linked – out-migration of men has left women to do most farm-work, and there is not enough labour to maintain terraces and irrigation systems, look after the livestock needed to produce manure to make soil fertile, as well as to apply this manure and carry out other cultivation work. This has led to yields declining and large areas of land being abandoned. More food is purchased – this is available at subsidised rates for poor households. Initiatives to develop rural livelihoods need to stop the deterioration of the productive infrastructure, make farm labour more productive and farming more remunerative, and hence provide incentives for people to invest their time and resources in agriculture as a genuinely remunerative activity rather than being a traditional pastime for those with no other work.

7. **Feminisation of agriculture and drudgery reduction:** Most farm work, other than ploughing, is done by women (NSSO data shows 97% of work in the primary sector in the state is done by women). A number of programmes, including ULIPH, have distributed tools and other support to women with the aim of reducing women's work burden and the drudgery of women's work. In the 1980s and 90s both India and China had substantial programmes to promote the use of fuel-efficient stoves, which reduced women's burden in collecting fuel wood. The Chinese programme did not provide a subsidy for the purchase of stoves, while the Indian programme virtually gave away stoves for free. The Chinese programme was vastly successful, while the Indian programme failed and was eventually abandoned.

8. In China there was repeat buying of stoves. In India, women took the free stoves, but did not subsequently spend the small amount of money (just about a couple of hundred rupees or so) in getting new stoves when the old ones were worn out. The difference stems from the fact that in China women were very much into economic activities and production for the market, so there was a high opportunity cost of women's labour. In India women worked in the home and on the family farm. Their possibilities for using the time saved by reduced fuel collection needs were almost zero, which did not justify the cash cost of buying an improved stove. The key is women's entry into income earning activities that increases the opportunity cost of women's labour, and thus demands that time be saved in collecting fuel wood. If the opportunity cost of labour were very low, because of the lack of income-generating opportunities for women, there would not be a sustainable adoption of labour-saving devices by women.

9. The lesson here is that the introduction of drudgery reduction technologies and activities will not be taken up in a sustainable way, or spread to other households, unless women are also engaged in economically remunerative activities that increase the opportunity cost of their time.

10. **Insurance:** IFAD and WFP<sup>11</sup> reviewed index insurance programmes in several countries and concluded that many show promise and, while not yet achieving large scale, are providing valuable lessons for the future. Some guiding principles and key support areas have been arrived at for donors

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<sup>11</sup>From the publication "The potential for scale and sustainability in weather index based insurance" [www.ifad.org/ruralfinance/pub/weather.pdf](http://www.ifad.org/ruralfinance/pub/weather.pdf)

and Governments that include: a) providing ongoing technical assistance, training, and product development; b) educating clients about insurance; c) promoting innovation; d) facilitating access to reinsurance; e) developing national weather services, infrastructure, data systems and research; f) creating an enabling legal and regulatory environment, and designing sound national rural risk-management strategies; and g) supporting impact studies.

11. The integrated cattle insurance and risk mitigation product designed by HDFC Ergo and offered through KGFS incorporates technological Innovations in cattle health care and insurance and has enabled significant reduction in insurance premium apart from ensuring veterinary care. Cattle identification through uniquely coded electronic RFID tags and storing of the entire health history of the cattle in the tags has ensured that frauds are minimized<sup>12</sup>. The recording of preventive healthcare measures in Dairy Health and Productivity Management software<sup>13</sup> has ensured better delivery of veterinary services, reduction in transaction time and cost, and faster settlements of claim.

12. Health mutuals that address the gaps in health insurance and care can be sustainable. DHAN Foundation, UPLIFT India and Micro Insurance Academy are a few of the organisations who have promoted successful people's mutual models. Community owned health mutuals are better able to meet the health needs of a specific community on account of: a) healthcare services being provided at the right time and without risk of debt; b) limited possibility for health service providers to charge high prices for care; and c) built-in monitoring system operated by community representatives and NGOs/promoting organization that ensures transparency.

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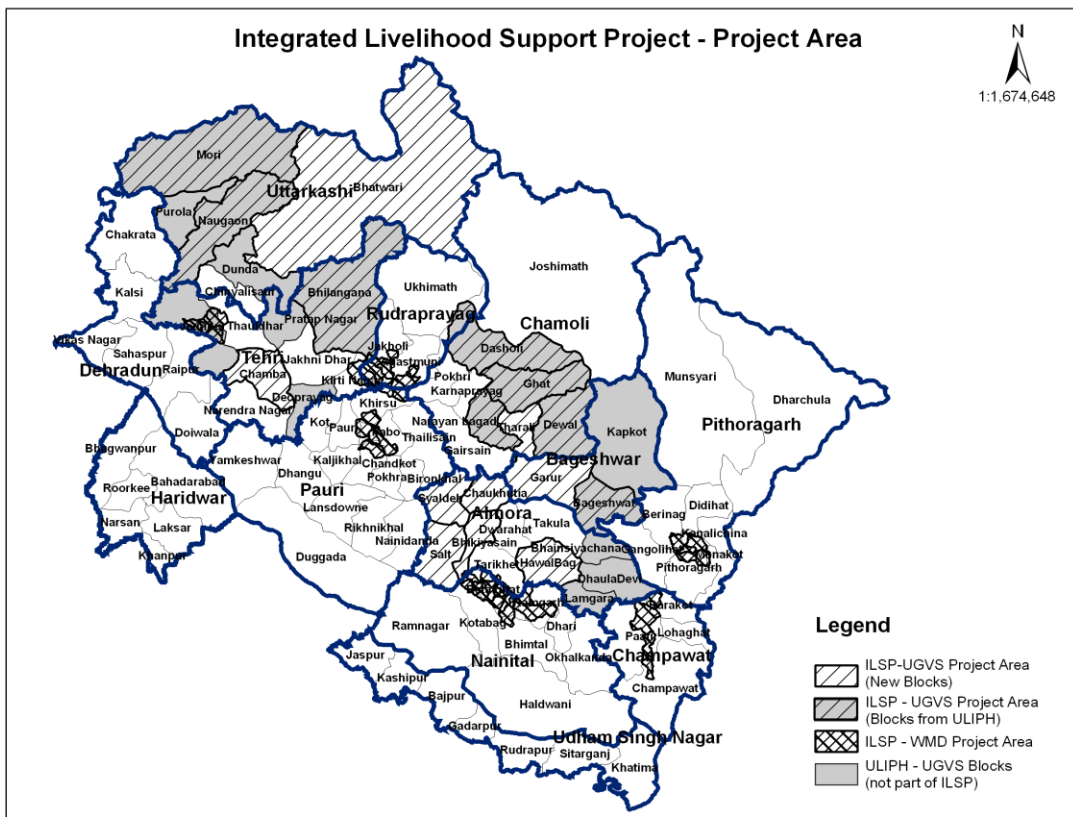
<sup>12</sup> IFFCO Tokio General insurance has also been piloting RFID tags to reduce frauds with the ILO Micro Insurance Innovation grant facility.

<sup>13</sup> If the veterinarian has to issue cattle insurance or update data about vaccination being done on a particular animal, s/he has to visit the animal and read the tag. Only then can s/he update the data that the animal has been vaccinated. This reduces chances of veterinarian not administering vaccines but simply entering the data that the animal has been vaccinated while at his/her office.

## Annex 4: Project Description

1. The project will use a twin track modality for livelihood support. The first track will consist of livelihood support along with complementary infrastructure development and initiatives to improve market access. This will be implemented through UGVS. It will focus on food security, livelihood up-scaling and agribusiness with investments in water conservation and irrigation. Producer Groups and Livelihood collectives will be formed and facilitated to prepare and implement their agribusiness plans.
2. The second track consists of implementation through the Watershed Management Directorate (WMD) that has developed an implementation modality through a series of watershed management projects, the most recent of these being the Uttarakhand Decentralized Watershed Development Project (UDWDP). This approach focuses on micro-watersheds and incorporates livelihood interventions and market linkages with the participatory mode of physical watershed development.
3. This twin track modality through UGVS and WMD will enable the results of these two approaches to be up-scaled and compared from the perspective of increase in production, impact on livelihoods, building of grassroots institutions, the ability to leverage funding to implement plans, and cost effectiveness of service delivery. To avoid any overlap UGVS and WMD will work in different locations. Figure 1 shows the proposed location of the UGVS and WMD components.

**Figure 1: Location of UGVS and WMD sub-projects**



4. To support both these approaches a third component will ensure that producers (as individuals and as organisations) have access to the finance they need for investment in livelihoods. This will complement the flow of resources through SHGs and SHG Federations that will be supported by NRLM. This component will be implemented by UPASAC, a social venture capital company that was established by ULIPH.

## **Component 1: Food security and livelihood enhancement**

5. This component will support crop and livestock production for food security, and also develop higher value cash crops and other products (such as rural tourism) to provide cash incomes. Crop and livestock production will be developed via support to producer groups (PG) and higher level organisations (federations or livelihood collectives - LC) formed by a number of PGs. To up-scale enterprises generating cash incomes, and to introduce new income sources. ILSP will also improve access to markets through a value chain approach and the provision of physical infrastructure for market access. The value chain approach involves market/sub-sector studies, introduction of new technologies, market linkage, skill development, product development and promotion, physical infrastructure for market access. The project will also improve access to remunerative employment in the non-farm sector by supporting vocational training linked to job placement.

6. This component will be implemented by UGVS and comprise the following sub-components:
- (e) Food security and scaling up
  - (f) Access to markets
  - (g) Innovation linkages
  - (h) Vocational training

### **(c) Food security and scaling up**

7. Producer groups: this sub-component will set up 6,120 PGs each comprising of about 15 households with an interest to undertake similar basic livelihood activity (or activities) at the village level. To ensure full participation of the poorest, the project will also mobilize Vulnerable Producer Groups (VPG) comprising poorest households, particularly those belonging to scheduled castes (SC). At least 20% of PGs will be VPGs. A significant proportion of PG/VPG could be existing SHGs formed by ULIPH and other programmes and these would continue in these programmes (which would gradually be absorbed into NRLM) for micro-finance activities and other institutional support. At least 50% of PG/VPG would be women's groups.

8. The project will engage Partner NGOs to mobilize the PGs and VPGs. The Partner NGO will engage Livelihood Facilitators trained in implementing livelihood activities. These Facilitators will be responsible for PG and VPG mobilization at the village level. Further details on the process of group mobilisation are in Working Paper 8 Section III B. It is expected that a Livelihood Facilitator will be responsible for about 25-30 PGs and VPGs. The PGs and VPGs will be federated at the cluster level to form Livelihood Collectives (LCs).

9. The project will build the capacity of the PGs and VPGs to make informed choices of livelihood activities (primarily agricultural) with potential for scaling up, prepare plans and implement schemes with support from formal financial institutions, government programmes and ILSP, as well as contribution from members. These schemes will focus on food security and basic livelihoods, and include activities related to seeds (cereals, vegetables and pulses), soil fertility improvement, livestock fodder, poultry and other on and off-farm sectors to improve the basic livelihood and food supply system. The main thrust of the project is to move away from prescriptive activity led implementation approach to a decentralized planning approach at the PG/VPG level.

10. ILSP will finance activities related to mobilization of PGs and VPGs, and preparation and implementation of Food Security Improvement Plans (FSIP). The project will allocate Rs 35,000 per PG for implementation of their plans. Additionally, the project will also provide Rs 30,000 each year for two years to VPGs to implement their own plans. More details are in Working Paper 8 Sections III B and IV A.

11. Livelihood Collectives: The second step in the livelihood enhancement process is to federate about 65 PGs/VPGs at the cluster level to form a Livelihood Collective (LC). In some places suitable institutions may already exist (such as the SHG Federations formed by ULIPH) and can be supported straight away by the project. These LCs will be the focal points to establish input supply linkages and aggregate production for establishing market linkages. A total of 102 LCs will be formed and

supported in component 1 of ILSP. These may include some federations of SHGs established by ULIPH in ILSP blocks, which may be adopted as ILSP LCs providing they fulfil the livelihood role of LCs.

12. LCs will be facilitated to expand cultivation of economically important crops and off-farm activities at the individual household level. LCs will also build irrigation and water and soil conservation related infrastructure as required by their communities. As they develop their capacity, LCs will be facilitated by partner NGOs to move into agribusiness by identifying crops with potential for expansion to wider market and where linkages can be established with buyers to increase output value and/or with input suppliers to reduce the cost of production. LCs may also take up initiatives in the non-farm sector, such as community tourism<sup>14</sup>. To provide input and output services for their members LCs may set up and operate Input-Output Centres on the pattern that have been established by ULIP Federations.

13. The LC will draw up an Agribusiness Up-scaling Plan (AUP), which will both consolidate and up-scale the FSIP of its member PG/VPG, develop more economically important crops, and build market linkages. More details on AUP are in Working Paper 8 Sections III B and IV B. The project will provide LCs with financial support of up to Rs 200,000 per LC each year for two years to prepare a plan and implement a set of livelihood up-scaling and agribusiness activities. Further funding for developing individual and community enterprises will be enabled by the improved access to bank credit and investment funds resulting from component 3 of ILSP. Additional grant funds will be available for irrigation development and for soil and water conservation – although the scope of this work will be very much less than that undertaken by watershed management projects.

14. Table 1 summaries the numbers of groups (PG, VPG and LC) to be included in component 1, and numbers of households who will be members of these groups. Additional households will be directly involved in the project via the proposed pilot scheme for citrus trees (see section c below) and in vocational training (see section d below).

**Table 1: Numbers of groups and households in Component 1**

	No. of groups	Avg members	total HH
PG	4,896	15	73,440
VPG	1,224	15	18,360
sub-total	6,120		91,800
HARC citrus pilot (or other pilot scheme)			2,000
Vocational training			10,000
Total component 1			103,800
		Average members	
	No. of LC	PG/VPG	HH
LC	102	60	900

15. Table 2 shows the numbers of these households that will be involved in food and high value crop activities and estimated area of these crops. The number of landless households who will be involved in non-crop income generating activities is also shown, along with the area to be developed for irrigation. These estimates are consistent with the assumptions used in the financial and economic analysis in Working Paper 13.

16. The General Assembly of the LC will comprise of all the members of the PGs/VPGs. LCs will be able to register under the Self Reliant Cooperative Legal Framework. This legal framework does not allow the PGs/VPGs to be the members, but requires individual members of PGs/VPGs to be the members of LCs. However, the PGs/VPGs in each of the Gram Panchayat will elect two members (one

<sup>14</sup> Support for tourism could include capacity building, marketing and infrastructure - such as guest houses, guest rooms, points of sale, trails, and environmental improvements to tourist villages (cleanliness, hygiene, alternative energy, water supply). Marketing initiatives could benefit from linkages with the GIZ-supported RED project.

female and one male member) to Governing Council of the LC. The Governing Council will then elect a six person management committee, with three positions being reserved for women. The Partner NGO will provide a Livelihood Coordinator and an Accountant to manage the activities of LC and to provide necessary management support to the Governing Council.

**Table 2: Numbers of households involved in activities**

	household	ha/hh	total ha
Food crops	89,964	0.75	67,473
High value crops	18,360	0.10	1,836
HARC citrus pilot	2,000	0.10	200
Non-crop activities	1,836		
	schemes	ha/scheme	total ha
Irrigated land	204	5.00	1,020

17. This sub-component will be implemented by UGVS through Partner NGOs. All field level activities will be implemented by Partner NGOs, with UGVS via its Divisional Offices providing technical backstopping, supervision and monitoring. The Partner NGOs will need to have the capacity to provide full spectrum of support including food security enhancement, livelihood up-scaling, agribusiness development, water conservation and irrigation. It is proposed to engage one or two NGOs to cover all project blocks in a district. More information on the role of NGOs is in Working Paper 8 Section IV D.

**(d) Market access**

18. This sub-component will aim to increase access for hill producers to wider markets, and help them take advantage of the climatic advantages offered by Uttarakhand's hill regions. Specific initiatives to be supported by ILSP will include:

- (a) Sub-sector development will use a value chain approach to focus on produce where the state has a comparative advantage. Opportunities exist to: (i) increase the productivity and efficiency of production to both increase the income of farmers and also provide the scale needed to meet the needs of markets; and (ii) improve marketing systems and access new markets with existing or new products. More details are in Working Paper 4 Section G. The following specific market opportunities have been identified:
- Off-Season Vegetables: selling directly to more distant and out-of-state markets can increase returns to farmers. This opportunity has been enhanced by the recent reform of the APMC Act.
  - Spices: production could be scaled up with marketing linkages to major private sector spice processing and marketing companies. There are also niche markets for locally processed and branded spices, capitalising on Uttarakhand's clean and organic image.
  - Tree fruits: the price of fruit can be greatly increased by switching to production of better quality table fruit. There may also be opportunities to expand the processing of low quality fruit, and produce sub-tropical fruits (litchi and mango) in valleys for off-season markets.
  - Tree nuts: there is an opportunity to scale-up production of walnut for domestic and export markets. There may also be potential for hazel, pecan and other nuts.
  - Dairying: the producer price of milk can be significantly increased by local aggregation and then sale to local consumers, and by production of a range of milk products.
  - Aromatic Plants have potential for cultivation and local processing into products such as essential oils.
  - Other potential products: seeds for locally produced crops, mushrooms, honey, handicrafts (especially weaving), and fibres (especially nettle fibre). There is also potential to produce poultry and goats for local markets (see sector analysis in Working Paper 4 Section F summarised in Working Paper 8 Annex 1).

The first step in a value chain approach is to make a study of the target sub-sector (which may be a single product or group of products). Guidelines for value chain analysis are in the draft PIM.

- (b) Market infrastructure: the project will fund development of the physical infrastructure of markets. At the moment the 20 wholesale markets (*mandis*) in the state are located in the plains or on the edge of the hills. Many hill producers are located at a long distance from these markets. The project will fund the establishment of 12 assembly markets (major collection centres): one in each of the nine hill districts, with three more in high potential locations. Establishment of such markets will take advantage of the new APMC Act which allows private sector involvement in construction and management of such markets – previously all produce that was sold outside of the state had to pass through the 20 official *mandis* where a number of charges were levied.

Opening new market locations close to production areas will give opportunities to traders to come into the hills. It is recommended that 12 new marketing points be established as soon as possible, though the exact format for these new marketing points should be flexible. Discussions suggest that it may be best to first establish them as informal collection centres and only later possibly convert them to formal *mandis*. This approach will allow the market system to adapt to recent changes in the law concerning agricultural marketing - in particular it needs to be seen how much produce will now by-pass the official *mandis* and whether private *mandis* will be established. See Working Paper 5 Sections C and D.

The project will also have funds to support APMC reform and other policy initiatives through studies of the new *mandi* system together with workshops to gather the feedback and opinions of market actors. Other options for market infrastructure include supporting the establishment of farmers' markets based on the popular *rythu* concept. Provision has been made for 20 storage-cum-collection points, each servicing a few villages where produce can be stored for a few days before moving it to a road head or higher level market.

ILSP will also improve 'last mile' access to markets. This will help increase the area of land from which production can economically reach the market, and will help producers in more remote areas to be competitively connected to markets. Even a distance of one km from the road head can change the fate of growers, and 41% of villages in hill districts are more than this far from a metalled road. The project will build 40 kms of four foot wide concrete pathways of an all weather quality, which would connect roughly 30 locations to road heads. In addition, 27 river crossing ropeway trolleys have been included in the project budget. Sometimes goods have to move 4-5 kms along the side of a river to get to a crossing point where transport is available. These will be backed with appropriate institutional arrangements to manage their continued operations.

The project will give consideration to supporting a cell-phone query based market information system as a means to deliver relevant and timely information to farmers. This information could include logistical movement updates, stocks available/expected at various collection points, price data, and input availability. Should such a phone-based system be found not to be feasible, a web based system of communication accessible at the LC level will help implementers be better informed about needed efforts to best manage the market system.

- (c) Capacity building will be focused on changing attitudes to dealing with markets. Capacity building efforts will not only aim to better equip farmers but also improve the ability of NGO staff and others involved with execution of market related functions. Exposure visits, including experience sharing with successful farmers, would help open the eyes of producers to real life situations. It also will be useful to invite external resource persons to view ILSP efforts, share experiences, and offer "out of the box" suggestions. Beyond improving skill sets of community members, there is a need to invest in management capability. Depending on needs, the following training programmes may be scheduled:
- Farmers – importance of cleaning, sorting, and grading; managing money and keeping accounts, improving negotiation skills, calculating net return, etc.

- NGO Staff – understanding markets, forecasting trends, planning efficient logistics, managing stocks and payments
- Steering Committee members and senior PMU staff – workings of markets, need to understand and adapt to market needs, tuning project needs to market needs.

Capacity building will be supported by the proposed linkage with a high level business school or consulting company – which would provide the business school or consulting company with real life examples of community businesses for their own training and research, while providing support that will develop the capacity of project staff, NGOs, Livelihood Collectives and other enterprises. See Working Paper 4 Section G 4.

19. Further information on the approach to market development in ILSP is in Working Paper 4.

### **(c) Innovation and market linkage**

20. ILSP will fund the testing and dissemination of innovative technologies and approaches to improving food security, livelihoods and access to markets. A number of research institutions in Uttarakhand and other Himalayan States have developed improved seeds and other technologies for the benefit of hill farmers. However these organizations are unable to expand the outreach of tested research outputs due to the lack of linkages with the community organizations. ILSP will have, via its partner NGOs, the field staff needed to extend useful technologies. Annex 3 of Working Paper 2 has specific proposals for ILSP to work with VPKAS, a research institution of Indian Council of Agricultural Research, and G B Pant University of Agriculture and Technology (GBPUAT) to test and disseminate technologies appropriate to the needs of hill farmers. This work could include: (i) testing, with ILSP PGs, improved varieties of crops; (ii) investigation of soil fertility issues and testing the use of mineral fertilisers; (iii) trials of new production methods, such as conservation farming; (iv) studies and testing vermicompost and other bio-fertilisers; (v) demonstration of methods for control of white grubs; (vi) testing of cultivation of Napier grass; and (vii) testing/demonstration of use of greenhouses to support vegetable production. Partner agencies would also (i) organise field days, visits and other events to disseminate successful interventions; (ii) train project staff and leaders of project groups in technologies and approaches; and (iii) monitor the outcome of the initiatives.

21. There is an opportunity to pilot an intervention that will provide sustained access to forest based livelihoods for the poorest households. It will be achieved through assigning usufruct (user) rights for plots of degraded community forest to groups of targeted poor households and facilitating the members of the groups to develop the assigned degraded forest plot. This innovation sub-project could be implemented by a contracted NGO in close coordination with the Forest Department.

22. The draft Project Implementation Manual (PIM) includes a proposal for a small action research sub-project in citrus production to be implemented by HARC, an NGO, in partnership with a specialised citrus research agency. There is also a need for action research in the livestock sector, which could include development of an improved model for poultry production in the hills. Another area for action research and studies is marketing and enterprises in the non-farm sector. This could include working with the Khadi and Village Industries Board, Bamboo and Fibre Development Board and other agencies who are developing interventions for off-farm enterprises at the community level. Support from ILSP could enable community-owned organizations to develop their supply chains, market linkage and brand building.

23. The above activities and other emerging innovative ideas will be funded by the project. The funding will be based on a proposal submitted by the interested organizations appraised and approved by UGVS. Other opportunities for innovation will come from linking with IFAD grant-funded projects – in particular the dairy project now being agreed with ILRI (see main report).

### **(d) Vocational training**

24. In its concept note for ILSP GoUK suggested that the project also fund vocational training. Employment in jobs outside the hill districts is a major source of income for households, and with the rapid development of the Indian economy, these opportunities are expanding – provided people have



the right skills. To plan how to implement this initiative, it is proposed that ILSP commission a study at project start up that would address the following key issues:

- The need to develop a skilled workforce for the new industries that have been attracted to Uttarakhand, particularly in the automotive and pharmaceutical sectors.
- The need to ensure that the benefits of economic development reach the more rural hill regions of the state as well as the more urbanised plain districts
- The need to address high youth unemployment levels in Uttarakhand
- The need to foster new avenues for education and training by encouraging private sector involvement, and by supporting poor households who cannot afford to pay for training.
- The need to ensure training offers are taken up by genuinely motivated individuals who will go on to pursue work and careers in their chosen training areas.
- The need to ensure quality of any training delivered.

25. The study would provide recommendations on;

- The most appropriate sectors / industries for training
- Key skills and competencies that should be covered
- The funding model most likely to be effective for the target learners
- Additional support learners may require
- Any actions required to ensure training institutions have capacity to deliver
- Mechanisms to ensure quality

26. The design team has identified Manipal City and Guilds Joint Policy Advisor Group as the appropriate agency to carry out this study. Terms of reference for this study will be in the draft Project Implementation Manual. Working Paper 7 has more information on Vocational Training.

#### **(e) Project area and number of beneficiaries**

27. Direct project activities will be implemented in 22 blocks (sub-districts) in eight hill districts of the State. This compares with ULIPH which covered about 40% of the village clusters in 17 blocks in five districts. Of this total area, Component 1, implemented by UGVS, will cover 17 blocks in five districts<sup>15</sup>. These five districts, Uttarakhashi, Tehri, Chamoli, Bageshwar and Almora are the same as the five districts covered by ULIPH, but rather than only including selected village clusters in each block, the entire block will be covered - apart from any areas that are being developed by the World Bank supported Gramya-1 and Gramya-2 Watershed Development Projects (UDWMP)<sup>16</sup>. This means the total coverage by UGVS groups will increase from 42,000 households in ULIPH to 91,800 households in ILSP (see Working Paper 8, Section E and Table 1).

28. Additional households will participate in, or indirectly benefit from improved the market access, technical and institutional innovations, and in initiatives of the livelihood finance components that spill over from the group of direct project beneficiaries.

#### **Component 2: Participatory Watershed Development**

29. **Overall objectives and scope:** the project will support implementation of a Participatory Watershed Development Component following processes that have been established through a series of watershed development projects in the state, but with an increased focus on food security, livelihoods and market linkages. This component, to be implemented by WMD, will aim to protect and improve the productive potential of the natural resources in selected watersheds along with increasing household income through inclusive and sustainable approaches.

30. A total of 41 micro-watershed (MWS) covering an area of about 125,088 ha in six clusters in the six hill districts of Rudraprayag, Tehri, Pithoragarh, Pauri, Nainital and Champawat will be treated

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<sup>15</sup> Blocks have been selected on the basis of potential for development of livelihood activities and lack of overlap with Gramya. They include eight of the 17 ULIPH blocks.

<sup>16</sup> Uttarakhand Decentralised Watershed Management Project, known as Gramya, implements a comprehensive watershed development programme including livelihoods and market linkage, and therefore, to a significant extent, duplicates the proposed activities of ILSP component 1.

under this project. These MWS will include 693 Revenue Villages, involving around 275 Gram Panchayats, spread over 13 blocks, with a population of 39,610 households. These watersheds have been shortlisted as they have been identified as priority MWS in the State Perspective and Strategic Plan for Watershed Development. They up-scale the ongoing watershed development programme funded by the World Bank, GoUK and GoI, and take account of the availability of required WMD institutional capacity in the selected project districts. Details on the coverage of component 2 are in Working Paper 9 Section V and Table 2.

31. Gender and social sensitivity will be ensured by having at least 50% of livelihood groups as women's groups and 20% as vulnerable producer groups and ensuring that women and Scheduled Castes participate in decision making processes and are represented in the institutional arrangements. Sub-components and activities to be implemented are as follows:

**(a) Participatory Watershed Management**

(i) Social mobilization and participatory planning

32. The involvement of stakeholders at grass root level is a vital element of watershed management. It is of utmost importance to involve them in such a manner that they feel ownership of project at every step. The stakeholders so motivated, will provide relevant information about the natural resource prevailing within the watershed, their traditional practices in harnessing them as well as specific local wisdom and practice with in the community. They will also spell out their needs for improvement of their economic status by sustainable use of natural resources.

33. To inculcate the values of ownership of community assets, a User's Group Fund will be created where contribution from the user's of community assets will be generated which shall be used in future for the operation and maintenance of the assets, thereby ensuring sustainability beyond the project. The Gram Panchayat along with its Water and Watershed Management Committee (WWMC), and Van Panchayats, Producer Groups, and Vulnerable Producer Groups as well as individual beneficiaries, are the vehicles for planning and implementation at the village level. Women will have the opportunity to make an input into these plans via Women's Forums to be established for this purpose. More information social mobilisation and community planning are in Appendix 1 of Working Paper 9.

(ii) Village and watershed development

34. Soil and Moisture Conservation Measures: different soil and moisture conservation treatment methods are used in arable and non arable areas. In arable lands soil and moisture conservation measures can be categorized as: (i) biological, and (ii) mechanical and engineering.

35. Biological or vegetative measures are preferred as they are eco-friendly, sustainable and cost-effective. These measures are normally adopted on lands having milder slopes, less run off and sediment flow. These can be adopted singly or in combination with mechanical measures depending upon the intensity of soil erosion problem. Commonly used biological measures consist of vegetative barriers, alley cropping, strip cropping, contour farming, tillage and mulching.

36. Mechanical and Engineering measures are used in situations where biological measures only are insufficient to check erosion. Basically these measures constitute a series of mechanical barriers constructed across the slope to dissipate the energy of flowing water. Establishment of vegetation on highly degraded non-arable land is difficult, so engineering or mechanical measures are often needed before undertaking a re-vegetation programme to stabilize the slopes.

37. Water Harvesting Techniques: systems of water harvesting include: (a) in-situ rain water harvesting through bunding and terracing, contour farming, mulching etc.; (b) rain water / direct surface run off harvesting through roof top collection, dug ponds, storage tanks, diversion bunds, channels etc.; (c) stream flow or run off harvesting through nala bunding, water harvesting dam, percolation tanks/ ponds; and (d) sub surface flow harvesting.

38. Afforestation: besides production of fuel, fodder, fibre, fruits and timber, trees are important for the environment and conservation of soil and water.

39. Pasture and grassland management to produce forage for livestock on non-arable land requires range improvement measures, especially reseeding and planting, and maintenance of optimum productivity through a proper grazing system. Poor common property lands can be planted with high yielding perennial grass species by reseeding and/or planting of root slips.

40. Alternative Energy Sources: in Uttarakhand the main source of energy is firewood. Collection results in degradation of forests and drudgery for women. To reduce this pressure, energy saving devices and alternative sources of energy can include solar cooker, bio-gas plant, smokeless stoves, pine needle briquetting and up-gradation and modernization of Gharats.

41. More details are in Working Paper 9, Section III A 2. Watershed Development activities will be implemented on the basis of a budget allocation provided at the GP level calculated based on watershed area and total population. Within this allocation the communities will have to prioritize, implement, operate and maintain watershed and other priority investments of the village.

## **(b) Food security enhancement support**

### (i) Rainfed agriculture and agribusiness systems improvement

42. Producer Groups (PG) would be formed to introduce, promote and disseminate improved technologies and farming practices. Support for PG would follow a similar pattern to that proposed for component 1 – with each PG drawing up a Food Security Improvement Plans (FSIP) and receiving funding of Rs72,000 from the project for its implementation, alongside contributions of Rs18,000 from PG members into a group revolving fund. A total of 3,900 PGs will be formed, with an average of 6 members each – a total of 23,400 members. At least 50% of these PG members will be women. Training and demonstrations on new technologies may also be provided. Linkages may be made to research agencies and other technology providers who are involved in component 1.

### (ii) Value addition and marketing support

43. Under this sub-component, the project will: (i) identify the market potential for the agricultural produce; (ii) develop collection centres and good storage facilities; (iii) create centres for value addition of the raw produce; and (iv) identify market linkages, develop market information and logistic services. The private sector (NGOs and private firms) will be encouraged to play a major role in supporting agribusiness development.

44. To up-scale production, develop markets for high value crops, and to leverage producers' access to production and marketing services, the project would support farmers to organise their PG and VPG into Livelihood Collectives. The project would appoint specialised NGOs as six Divisional Support Agencies (DSA) to provide technical and agribusiness support. The project would provide input support. For financial support, PG/LC would be linked with banks and other financial institutions.

45. A cluster of two or three villages would select one or two crops, and develop season specific production plans. The focus would be on opportunities for off-season vegetable production, but other high value crops and livestock could also be included. Sub-sectors with potential for commercial production are summarised in Working Paper 8 Annex 1, while approaches to improving marketing are in Working Paper 4 Section G.

## **(c) Livelihood up-scaling support**

### (i) Promotion of income generation activities (IGAs) and support to VPGs

46. Vulnerable Producer Groups (VPG) will be formed comprising of scheduled castes, landless and very poor households. A total of 1,464 VPGs will be formed, each with an average of four members. VPGs will be self managed institutions of the poor, and will be federated at the village and block level. These VPGs will be given sustained capacity building, orientation and training to encourage their

entrepreneurial development. Each VPG will draw up a livelihood improvement plan which, after approval by the Gram Panchayat, will be implemented with funding from the project. Support from the project for each VPG be disbursed through the WWMC and will be up to Rs80,000 per VPG, of which 10% would come from VPG members.

(ii) Support to livelihood collectives for up-scaling IGA activities

47. LCs are a group of PGs and VPGs (between 60 and 90 PGs) which come together with a common enterprise and to facilitate backward and forward linkages for input supply and output marketing, and for access to information, credit, technology, markets etc. LCs will engage in co-production (particularly value-addition activities) and delivery of livelihood services to their group members. A total of 70 LCs will be formed with project support to each LC being an average of Rs400,000, with another Rs100,000 being contributed from the LC's own resources. Additional support will be available from the bank linkage and investment funds enabled through component 3.

48. Table 3 summaries the numbers of micro-watersheds, households and groups (PG, VPG and LC) to be included in component 2.

**Table 3: Numbers of watersheds, groups and households in Component 2**

	number	total area ha	agric area ha
MWS	41	125,088	35,205
	no. groups	avg member	total HH
PG	3,900	6	23,400
VG	1,464	4	5,856
sub-total	5,364		29,256
Other watershed HH*			10,344
Total HH population in watershed			39,600
	No. of LC	Average members	
		PG/VPG	HH
LC	70	77	418

\* households who are not PG or VPG members will benefit from soil and water conservation activities.

49. Table 4 shows the numbers of these households that will be involved in food and high value crop activities and estimated area of these crops. The number of landless households who will be involved in non-crop income generating activities is also shown, along with the area to be developed for irrigation and for fodder, NTFP and tree crop production in community forest land. These estimates are consistent with the assumptions used in the financial and economic analysis in Working Paper 13.

**Table 4: Numbers of households involved in activities**

	household	ha/hh	total ha
Food crops	23400	0.89	20826
High value crops	4680	0.10	468
Non-crop activities	5856		
	schemes	ha/scheme	total ha
Irrigated land	200	5.00	1000
Fodder/forest dev.	275	14.18	3900

#### **(d) Institutional Strengthening**

50. Capacity Building of Watershed Committee: Gram Panchayats / WWMCs will have pivotal role to play in planning and implementing the sub-project. The members of GPs, WWMC have to work with government officials and are required to be strengthened through capacity building programmes to achieve the project objectives and to bear the responsibilities regarding their own development. For this capacity building programme as will be organized on an ongoing basis and will include regular access to resource persons.

51. Capacity Building of CBOs and Community Members: The target groups would be Revenue Village Committees (RVC), PGs, VPGs, Users Groups (such as for irrigation works), Van Panchayats, Mahila and Yuva Mangal Dals and their Apex bodies, villager leaders and vulnerable sections. Besides, community members not included in the above CBOs would also be covered.

52. Capacity building of WWMCs, local community institutions and PRIs: This sub-component will finance: (i) training of members of WWMCs in core administrative functions: (ii) all other stakeholders on the applications of the ESMF and other project objective (iii) training of community representatives, SHGs, VGs and community organisations in project related activities.

53. Information, Education and Communication: Through this subcomponent a strategy will be implemented that identifies specific audiences and develops targeted messages to increase general awareness about the project, terms of participation and transparency amongst all stakeholders.

54. More details on the activities of this component are in Working Paper 9, Section III.

#### **Institutional Arrangements**

55. Central: WMD will establish a separate Society to implement ILSP, which allows the flexibility to retain unspent funds at the end of the financial year. WMD will nominate an experienced official from the central services as full time Secretary of WMD Society and to be the full time Project Director for ILSP activities. WMD will be completing implementation of the World Bank funded watershed development project by end FY 2011-12, and will transfer this staff to implement ILSP. As a result, WMD will be able to start implementation in ILSP from the beginning of the financial year 2012-13. The project management structure of WMD Society will be similar to that of the World Bank Funded Watershed Development project. The WMD Society will establish Divisional Offices in the clusters selected for watershed development.

56. This will include (i) Project management costs including hiring technical and non technical staff on contractual basis (ii) Development of links between the Management Information Systems (MIS) and impact evaluation.; (iii) Monitoring and Evaluating Agency/Firm for external monitoring (iv) Participatory monitoring and, (vi) incremental operating costs of the project.

57. District level: the PMU will have branches in the project districts termed as District Management Unit (DMU). These DMUs will oversee the implementation of the sub-project. The district unit is envisaged to have a team of Subject Matter Specialists (SMS) on the sub-project i.e., Agriculture Engineering/ NRM etc.

58. Local level Institution – Village Committee in the Panchayati Raj Institutions there are six sub committees of which one is Water and Watershed Management Committee (WWMC) and the institution of Van Panchayat (VP) is also present in most of the villages. Thus, WWMC or VP can implement the activities at village level.

59. Implementation Partners: the project will engage NGOs as: (i) Field NGO (FNGO); and (ii) Divisional Support Agency (DSA). It is anticipated that two FNGO be appointed, one for each the two regions of the State, along with six DSAs – one for each district or cluster of MWS. The FNGOs will provide guidance to the GP to prepare development plans through PRA, organise communities, provide training, supervise watershed development activities, check accounts, monitor and review implementation, and set up institutional arrangements for post-project operation and maintenance. The DSA will facilitate and implement sub components B (Food Security Enhancement Support) and C

(Livelihood Up-scaling Support). Specific tasks include formation and support of PG, VPG and LC, dissemination of improved agricultural technologies, development of sub-sector value chains and overall technical support. More information on institutional and implementation arrangements is in Working Paper 9, Sections IV and VI.

### **Component 3: Livelihood financing**

60. This component will be implemented by UPASAC, the social venture capital company established by ULIPH. In order to be effective in financing enterprise promotion, UPASAC will need to develop specialised expertise in capital structuring and financing. However the business promotion role will be carried out by UGVS and other resource organisations. Despite making significant strides in financial viability, profitability and competitiveness, the banks have not been able to provide significant numbers of poor households with basic financial services. With support to develop their capacity, banks could do more, but developing an effective delivery system requires additional channels at the retail level such as SHGs, producer groups, livelihood collectives and other institutions.

61. Livelihood Collectives have to play a crucial facilitating role in ensuring adequate credit for production in order to break the nexus of marketing agent, and also to ensure timely production for marketing. In order to be organisationally sustainable LCs will need year round activities. Households in distant villages need a range of financial services for which banks need the services of business facilitators/ agents. A stand alone bank Business Correspondent model is not likely to be viable in hill districts. Some LC can act as business facilitators/ correspondents of banks to provide savings, small loans, and remittances. They can also act as agents of insurance companies for insurance services.

62. As households shift from subsistence to market based production, they will need adequate insurance against shocks and risks in increasingly volatile climate and market conditions.

63. The activities under this component, to be implemented by UPASAC, may include:

- a) Banking support – capacity development support to banks and expansion of branch network of a local financial institution.
- b) Risk management – piloting and scaling up of weather index based insurance, cattle insurance and health mutuals.
- c) Financial inclusion initiatives – training to livelihood collectives to act as BF/BC, and product literacy training to project households.
- d) Provision of development finance via UPASAC including (i) viability gap funding support to LC; and (ii) loan and quasi equity funding.
- e) Establishment cost support to UPASAC.

#### **(f) Banking support**

64. Options for developing banking support include:

- Agreement with banks: State Bank of India, Regional Rural Banks and District Co-operative banks have a major presence in the project districts. UPASAC will carry out a stock taking exercise of the availability of bank branches and their outreach, and enter into MoUs for livelihood and enterprise financing with the banks having a larger presence in project blocks. UPASAC will conduct a quarterly review with the banks to smooth implementation.
- Workshops: Livelihood Collectives or Field NGOs will carry out an annual credit need assessment. These plans will be discussed with banks, Government programmes and NABARD at annual district and state-level workshops.
- Training will be imparted to the branch and senior staff of the banks especially in appraisal skills for lending to producer groups, livelihood collectives and larger social enterprises and also new methods such as value chain financing. These trainings will be conducted by reputed bank training institutions. Exposure visits will be arranged to other hill states and countries to study good practices in enterprise promotion and financing.

- **Branch expansion:** KGFS, a local rural finance institution, will be contracted by UPASAC to expand operations in the project blocks through opening 20 new branches in order to provide comprehensive financial services at the door step of the clients and to set good practices in innovative products for main stream institutions to adopt. This will fill gaps in what is available from banks and the SHG system. KGFS should be selected for this role as it has: a) over two years of experience of working in the hill districts, b) proven systems and technology to upscale operations, c) good quality of management, d) comprehensive financial services and products which suit needs of target group, e) viable business model, and f) availability and willingness to commit their own resources to provide branch capital and the costs of management support. UPASAC will provide support in the form of: a loan of Rs 30 million as subordinate debt; a grant of Rs 7 million for branch expansion overheads and product development; and a comprehensive impact assessment in year 4 of the project.

**(g) Risk management**

65. Options for development of risk management instruments include:

- **Weather risk insurance:** UPASAC will enter into MOUs with the Department of Agriculture and/or Horticulture, insurance companies and a Technical Assistance provider to develop weather index based insurance products. The support will include: (i) product development Technical Assistance for the insurer; (ii) improving the infrastructure of weather stations and quality of weather data; (iii) linking with LC for client education and integrating with a wider package of services; (iv) linking with banks and local financial institutions;
- **Cattle insurance:** technology driven pilots in cattle insurance in coordination with NGOs/LCs. UPASAC will study the integrated cattle insurance and risk mitigation model of KGFS and pilot this initiative through KGFS and/or other interested institutions.
- **Mutual Health Insurance:** UPASAC will contract experienced institutions to carry out a study of existing health care in project districts, the possibilities for linking with existing schemes, gaps in health insurance products, and the possibility for community based mutual risk management solutions. If found to be feasible, ILSP will provide initial funding for a mutual health insurance scheme.

**(h) Financial inclusion**

66. The project will seek to improve financial inclusion using one or both of the following initiatives:

- **Livelihood Collectives to be BF/BC:** UPASAC will facilitate the Livelihood Collectives to act as banking facilitators/ correspondents for providing small savings, livelihood credit, remittance etc. LCs will require in depth training from a specialised institution such as the Indian Institute of Banking and Finance.
- **Financial product literacy** will include training modules on lifecycle needs and suitable financial products, risk and insurance, savings, insurance, and pensions. Training will be provided to NGOs and LCs, with ToT provided by specialised agencies. Promotional material with details of products and their benefits will be displayed in project villages, Livelihood Collectives as well as distributed to client households.

**(i) Development finance fund**

67. UPASAC was provided with USD 1 million in funding via ULIPH, which has not yet been utilised. The budget for ILSP will allocate an additional USD 1.5 million (from Government resources) but these funds will not be disbursed to UPASAC until an IFAD review has assessed the utilisation of the ULIPH funds and the requirement for additional finance. UPASAC's governance and management systems will also be revised – details are in Working Paper 10.

68. UPASAC will solicit proposals from community enterprises, enterprises promoted by NGOs, social entrepreneurs, etc. To be eligible for support the enterprises will need to meet one or more of the following criteria: (i) source products/services from hill area communities, (ii) provide products/services to these communities, (iii) provide employment opportunities for these households; (iv) allow

members of hill areas communities to share in the ownership/profits of the businesses; and (v) provide specific work opportunities for women and persons from the Scheduled Castes.

69. Focus areas - The sectors for development capital support will be largely related to livelihood opportunities in the hills such as:

- Agriculture and allied activities such as livestock, horticulture
- Non farm sector
- Clean energy and water
- Tourism including eco tourism
- Aggregated marketing of products of community groups; post harvest processing
- Input supply to project area households
- Other rural enterprises with downstream benefits to community

70. The instrument for financing will depend on the legal form, the stage of growth of enterprise and risk/return potential of the enterprise. Development capital will be backed by the cash flow from the business rather than its assets, but personal guarantees from the entrepreneur may also be taken. UPASAC will fund up to 49% of the financial outlay of the enterprise. The rest will be owners' equity/contribution, Government grant, bank loans etc.

71. The UPASAC investment may take the following forms:

- First lender loan to create the credit history needed to access bank loans at the initiation of the enterprise. This would be for up to two years.
- Loan term loan of 3 to 5 years – this would aim to supplement, not replace, bank loans
- Equity and quasi-equity – UPASAC funds would mean allow an enterprise to be funded in situations where the promoters are unable to invest sufficient equity capital that will allow loans to cover the balance of the financing needs with an acceptable level of gearing. UPASAC funds will provide additional equity finance, but with a planned exit strategy. This could involve the business refunding the equity at a later date along with a share of profits, or conversion of the equity into a loan when the net worth of the business can support a higher level of borrowing.
- Viability gap grants for Livelihood Collectives. Some LCs may establish collective enterprises. Traditionally such enterprises are provided grant funds to cover their operational costs for a limited number period, but a sudden transition to self-financing can stress the business and lead to loss of staff. UPASAC will support community enterprises for up to two years until these enterprises achieve viability and cash flows are stabilised.

**(j) Establishment cost support to UPASAC**

72. UPASAC's salary and overhead costs including consultants' fees will be supported by the project in the initial 3 years and on a tapering basis thereafter. Based on the business plan of UPASAC and the robustness of income from development finance funding, the position will be reviewed at mid-term and further support will be determined. Promotional expenses for dissemination of the financing facility will also be funded by the project. UPASAC will receive a management fee for managing the activities (other than the Development Finance Fund) of the component on behalf of ILSP – the fees will be paid as a percentage of the budget spent during the year on the basis of satisfactory performance indicators.

73. More information on this component is in Working Paper 10.

**Component 4: Project coordination and monitoring**

74. Each executing agency, UGVS, WMD and UPASAC, will have their own project management units heads by a Project Director or Chief Executive who will implement the three main components of the project. To provide overall coordination, the state nodal agency, RDD, will set up a Central Project Coordination Unit (CPCU) within the RDD, headed by a part time Chief Project Director (CPD). The CPCU will have two Units: (i) Finance Unit; and (ii) Planning and M&E Unit. The Finance Unit will be located within RDD whereas the M&E Unit will be housed within UGVS. Further details on project



management structure and roles of the various agencies are in Annex 5 and the working paper on project management and organisation. Details on monitoring and evaluation (M&E) are in Annex 6 and the working paper on M&E.

## **Annex 5: Implementation Arrangements**

### **I. INTRODUCTION**

1. The Uttarakhand Livelihood Improvement Project for the Himalayas (ULIPH) established two independent organizations for implementing project activities. This twin track implementation was planned to ensure that the enterprise development component is handled in a business-like manner to wean the community away from the welfare oriented subsidy driven approach. The first track comprised of empowerment and capacity building component leading to SHG mobilization and linkage to banks/cooperative network. NGOs played a major role in this activity, which is being implemented by Uttarakhand Gramya Vikas Samiti (UGVS). The second track consists of provision of business promotion, technology and business service related functions. It included establishing demonstrations and upscaling profitable demonstrations by facilitating access to business service, venture capital and credit. This activity is being implemented by the Uttarakhand Parvthiya Ajeevika Samvardhan Company (UPASAC). UGVS had a direct implementation and supervision role on the empowerment and capacity building component whereas UPASAC undertook business service, venture capital and credit related activities. This twin track implementation mode created management difficulties and, as a result, based on the recommendations of the MTR, a unified command structure was established. The Project Director in charge of UGVS became responsible for UPASAC. This has improved coordination between both the arms of ULIPH.

2. Despite being one of the younger states, Uttarakhand has a satisfactory track record of implementing projects involving the community in developmental initiatives. The state also has the benefit of some well known research institutions in the agriculture sector, which has led to several lab-to-land transfer of technology as well as upgrading of the technical capacity of personnel in the line departments. This apart, the state also has some well functioning commodity boards, social entrepreneurs and NGOs that have developed expertise over several years of trial and error to improve livelihoods of the communities in the hilly areas. The ULIPH funded by IFAD has done considerable work in the field of SHG mobilization, federation formation, and developing demonstrations of livelihood activities. However, the enterprise promotion related activities to upscale demonstrations are yet to start despite the project being in its penultimate year of implementation.

### **II. PROPOSED PROJECT MANAGEMENT STRUCTURE**

#### **A. Rationale**

3. The Integrated Livelihood Support Project (ILSP) is a large project compared to that of ULIPH with an investment outlay of USD 148 million. UGVS that has been implementing the much smaller ULIPH with an investment cost of about USD 27 million. UGVS/UPSAC is expected to utilize about 50% of the total allocation for ILSP as the absorption capacity of UGVS/UPASAC remains limited. It is both time consuming and cost ineffective to build capacity of UGVS/UPASAC to single handedly implement ILSP. As a result, it will be necessary to identify and work in partnership with other implementing agencies who have the required implementation capacity.

4. The Rural Development Department (RDD) is the nodal agency for implementing the National Rural Livelihoods Mission (NRLM), a project targeted at improving the livelihoods of poor households by mobilizing and strengthening of SHGs and their federations. NRLM will be the flagship program of the Government of India (GOI) and Government of Uttarakhand (GoUK) in the arena of poverty alleviation. It will therefore make imminent sense to dovetail coordination of ILSP with that of NRLM within RDD to build synergy between these two projects.

#### **B. The Structure**

5. RDD will be the nodal agency at the state level. A Central Project Coordination Unit (CPCU) within the RDD will be established headed by a part time Chief Project Director (CPD). If an officer of sufficient seniority is not available, the post of CPD may be held as an additional charge by the PD of

the UGVS or WMD components of ILSP. The project will be implemented by the Project Implementation Agencies (PIAs) each headed by a full time Project Director (PD). The PSC will establish a Project Management Committee (PMC) chaired by the Secretary of RDD. The Secretary, Watershed will be Co-chairperson. The CPD, PDs and Implementation Partners (NGOs, Innovation Linkage Partners, etc.) will be the members. The PD of UGVS will be the Secretary of the PMC. The PMC will meet every quarter and the main function include: (i) approving the AWPB, (ii) reviewing physical and financial progress; (iii) reviewing progress towards achieving outcome indicators; (iv) resolving implementation issues; and (v) working towards achieving convergence between various government sponsored activities and ILSP activities.

6. The CPCU will have two Units: (i) Finance Unit; and (ii) Planning and M&E Unit. The Finance Unit will be located within RDD whereas the M&E Unit with the UGVS. The main functions of the Finance Unit of CPCU will include:

- a) formulate and sign Sub-Projects with the PIAs;
- b) organize PSC and PMC meetings;
- c) Incorporate the budget requirements into the overall budget of the GOUK;
- d) Operate the Project Account for timely release funds to the PIAs;
- e) Receive statementd of expenditure and supporting documents related to fund release to PIAs and keep an account of fund release and utilization by each PIA;
- f) prepare overall project financial statements;
- g) Prepare and submit the withdrawal applications to DEA for onward transmission to IFAD; and
- h) Ensure preparation and submission of annual audit reports of the PIAs and annual RIMS data to IFAD;

7. The main functions of the Planning and M&E Unit of CPCU will include:

- a) Submit the consolidated AWPB for approval of IFAD, PMC and PSC;
- b) Prepare a 18 month Procurement Plan and submit it to IFAD for approval;
- c) prepare and submit consolidated progress reports annually and quarterly to IFAD based on the progress reports submitted by PIAs;
- d) Undertake M&E and Knowledge management activities related to the project covering all the PIAs; and
- e) Prepare RIMS data for submission to IFAD.

8. The PIAs will be responsible for day to day implementation of the allocated sub-project. Establishment of Divisional Offices at the cluster/district level by the PIAs will be need based. Each PIA will be headed by a full time PD. The main functions of PIAs include:

- a) coordinate and implement Sub-Project activities including procurement and consultation with IFAD and under the guidance of PSC;
- b) prepare AWPB and 18 month procurement plan for implementing the Sub-Project and submit it to CPCU;
- c) finalize and execute partnership agreements/contracts with NGOs, service providers and specialized institutions for implementing various project activities;
- d) establish an effective M&E and MIS system to track sub-project's progress;
- e) prepare and submit consolidated annual and quarterly progress reports to CPCU;
- f) supervise and monitor the Sub-Project related activities and their progress towards achieving physical, financial and outcome related targets;
- g) prepare sub-project financial statements and prepare statement of expenditures related to sub-project expenditure for submission to CPCU;
- h) submit annual audit reports of PIAs and RIMS data to CPCU; and
- i) liaise with the State administration, line agencies and other PIAs to ensure coordination in project implementation.

9. The project will have three PIAs: (i) UGVS; (ii) WMD; and (iii) UPASAC. The Project Management structure is in Attachment 1. Each PIA will enter into a Sub-Project Agreement with CPCU/RDD to implement allocated sub-projects. The PSC, in consultation with IFAD, will appoint a Senior Government Official preferably from the Central Services as PD for each of the PIA (UGVS/UPASAC and WMD Society). In order to ensure continuity and smooth implementation of project activities, the minimum tenure of the PDs will be not less than three years and subject to satisfactory performance as determined by the PSC. The PD will be assisted by a core team staff

comprising agribusiness, finance, planning and monitoring and evaluation specialists. The PD will be responsible for the day to day operations including the following functions:

- a) ensure that the PIA carries out its functions as set out in the Sub-Project Agreement;
- b) supervise and monitor the activities of the PIA and its progress towards achieving physical, financial and outcome related targets;
- c) oversee field operations related to the Sub-Project and provide overall implementation guidance;
- d) operate the PIA Project Account;
- e) recruit staff required for implementing the project;
- f) undertake project procurement;
- g) ensure that the PIA Project Accounts are audited annually and in accordance with IFAD audit requirements and submitting the same to CPCU;
- h) submit annual RIMS data to CPCU; and
- i) ensure that the PIA receives required level of funding for carrying out the activities.

### **C. Coordination**

10. The Department of Economic Affairs will be the nodal agency at the GOI level to review and monitor the project progress. GoUK will establish a state level Project Steering Committee (PSC) chaired by the Forest and Rural Development Commissioner (FRDC). The Secretary of RDD will be the Secretary of this Committee. PSC will meet once in six months to review progress, provide overall guidance and policy support and to facilitate inter-departmental coordination. The members of the PSC will include: (i) Finance Secretary; (ii) Secretary, Watershed; (iii) Principle Chief Conservator of Forests; (iv) Secretary, Agriculture; (v) Secretary, Animal Husbandry and Livestock; (vi) Secretary, Horticulture; (vii) Secretary, Industry; and (viii) Project Directors of ILSP. The Special Invitees to the PSC will include, the Chief General Manager- NABARD, representatives of Confederation of Indian Industry (CII), Chamber of Commerce-Kumaon (CCI-K), Chamber of Commerce-Garhwal (CCI-G), Khadi and Village Industry Board (KVIB), Bamboo Board and NGOs.

11. If needed, to advise the project on technical matters and to assist in building linkages with other programmes and sector actors, Sector Advisory Committee (SAC) could be formed for overarching sectors in which the project is involved (such as land-based enterprises, livestock, and non-farm). Membership of SAC would include: committee would include staff from project management, partner NGOs, research agencies, GoUK technical line departments and commodity boards, and other sector stakeholders such as private sector companies, other projects and NGOs. On one hand the external (non-project) members of an SAC would inform the project about other programmes being implemented in the sector that may be of assistance to project groups, and which would help the other programmes of the government to reach out more widely to the rural population. On the other hand the internal (project) members of SAC can seek advice from the external members on technical and other issues that concern project groups, as well as disseminating information about lessons learned and emerging opportunities.

12. District Coordination and Monitoring Committees would be established in each district covered by ILSP activities and would be chaired by the Chairman of the Zila Panchayat (elected head of the district government). Members would include the district Chief Development Officer, project staff (from UGVS and WMD), partner NGO staff, members of government line departments and representatives of ILSP Livelihood Collectives, Gram Panchayat Water and Watershed Management Committees and other community organisations. Block Development Officers would also be members of this committee. The committee would coordinate project implementation at the district level and ensure linkages between the project, line agencies and other government agencies.

### **III. PROJECT IMPLEMENTING AGENCIES**

#### **A. UGVS and UPASAC**

13. GoUK established a not-for-profit society UGVS under the Societies Registration Act, 1860 for implementation of ULIPH. This society took the overall responsibility of SHG mobilization and savings and credit related activities of ULIPH. It engaged NGOs for implementing field level activities. UGVS has a Governing Council comprising the Chief Secretary, FRDC and Secretaries of the relevant line ministries. In addition, GOUK established UPASAC, a Section 25 company to implement demonstrations, enterprise promotion and enterprise finance. UPASAC was successful in implementing demonstration related activities but could not move into enterprise promotion related activities using the venture capital funds provided in the project. Both these organizations reported directly to their respective Governing Council /Board of Directors. The issues related to dual control of the project coordination and management impacted negatively the implementation capacity of ULIPH. MTR taking this account, suggested harmonization of the management structures of both UGVS and UPASAC. This has been achieved with the Chief Executive Officer and staff of UPASAC reporting to the Secretary of UGVS (Project Director of ULIPH).

14. In ILSP, UGVS will use livelihood promotion and agribusiness development strategy to implement the project, as against the SHG mobilization, federation promotion, demonstration and enterprise finance strategy of ULIPH. The following actions will be required to enable UGVS to become a PIA for implementing ILSP.

- a) Create a nested institutional structure with UGVS hosting UPASAC unifying the command structure of both UGVS and UPASAC by appointing an experienced official from the central services as full time Secretary of UGVS as well as Executive Vice Chairperson of UPASAC.
- b) Review staffing requirements based on the needs of ILSP and review the compensation and perquisites package of staff to bring about uniformity between the staff of UGVS/UPASAC with that of contract staff of WMD Society. The organizational structure proposed for UGVS and UPASAC at the state level are provided as Attachment 2 and 3.

15. The Secretary of UGVS/Executive Vice Chairperson UPASAC will be the Project Director of ILSP responsible for UGVS. Day-to-day management of UPASAC will be devolved to a Chief Executive Officer, recruited through open completion and with a development finance background.

16. Depending upon the districts allocated to UGVS for ILSP implementation, UGVS will establish Divisional Project Management Offices (DPMO) to implement ILSP. The organizational structure of DPMO at the divisional /Cluster level is provided as Attachment 4.

#### **B. WMD Society**

17. WMD of GoUK will establish a separate Society to implement ILSP. This society will be a PIA to implement watershed development, livelihood promotion and agribusiness development activities in selected watershed clusters. The society mode is preferred as it has the flexibility to retain unspent funds at the end of the financial year as against the normal system of surrendering the unspent balance to the government treasury. WMD will nominate an experienced official from the central services as full time Secretary of WMD Society and this person will be the full time Project Director for implementation of ILSP activities allocated to WMD Society. WMD will be completing implementation of the World Bank funded Watershed development project by end 2011-12. WMD will transfer the staff complement engaged for implementing the World Bank project to implement ILSP. As a result, WMD will be gear up and start implementation in ILSP from the beginning of the financial year 2012-13. The project management structure of WMD Society will be similar to that of the World Bank Funded Watershed Development project and the same is provided as Appendix 5. WMD Society will establish Divisional Offices in the clusters selected for watershed development.

## **IV. IMPLEMENTATION PARTNERS**

### **A. NGOs**

18. For component 1, UGVS will engage Partner NGOs (PNGOs) capable of undertaking all activities related to livelihood support. The PNGOs will be responsible for implementation of project activities through the mobilized Producer Groups (PGs), Vulnerable Producer Groups (VPGs) and Livelihood Collectives (LCs) under the overall direction of the Divisional Project Management Offices of UGVS. The functions of PNGO will include:

- a) Establish a Divisional level office with a multidisciplinary team to support project implementation comprising agribusiness, livestock, horticulture and Civil Engineering Specialist;
- b) Establish a cluster level office with a Livelihood Coordinator and an Accountant. This office will eventually become the office of the Livelihood Collective owned by the PGs and VPGs;
- c) Engage a Livelihood Facilitator for to support about 20-25 PGs and VPGs;
- d) Mobilize PGs and VPGs after conducting a participatory wealth ranking;
- e) Develop a Food Security Improvement Plan PGs and VPGs, facilitate sourcing of funds and support the group members to implement the plan;
- f) Develop and implement a Agribusiness Up-scaling Plan for the Livelihood Collective that includes both agribusiness and irrigation and water conservation activities;
- g) Implement a clear exit strategy to hand over functions of the Livelihood Facilitators to the Livelihood Collective during the third year of the project;
- h) Implement a clear exist strategy at the level of Livelihood Collective by developing adequate financial capacity to employ staff comprising Livelihood Coordinator, Accountant and Livelihood Facilitators after the project support ends;
- i) Ensure flow of funds to the LCs, PGs and VPGs, for implementing their plans;
- j) Supervise and monitor implementation of all activities related to project implementation; and
- k) Link up with the Service Providers including private companies and Specialist NGOs to implement agribusiness development activities depending upon the potential of the area.

19. For component 2, WMD will engage Field NGOs (FNGO) and NGOs as Divisional Support Agencies (DSA). The FNGOs will provide assistance to the Gram Panchayat in drawing up development plans for the watershed through PRA, undertake community organization, train village communities, supervise watershed development, authenticate project accounts, provide technical advice, monitor and review the project implementation and set up institutional arrangements for post-project operation and maintenance. This work will be based on an Action Plan for sub-project activities drawn up by FNGO for approval of the WMD Divisional Office. FNGOs shall submit periodical progress reports to the Divisional Office, and shall also arrange physical, financial and social audit of the work undertaken. It will also facilitate the mobilization of additional financial resources from other state government programmes, such as MNREGA, SGRY, National Horticulture Mission, NRLM etc.

20. The DSA will facilitate and implement sub component B (Food Security Enhancement Support) and sub-component C (Livelihood Up-scaling Support). Specific tasks include:

- (a) Development of Division level action plan: an analysis of farming systems and livelihoods to select sub-sectors with the most income potential for project communities. Sub-sector value-chain analyses of relevant sub-sectors will then be conducted by a contract agency.
- (b) Formation and promotion of Producer Group (PGs) and Livelihood Collective (LCs) according to interest of farmers and needs of the sub-sector. The DSA will help group members to plan their production and marketing of crops, and also provide technical assistance and managerial support to LCs, building their capacity for record keeping and business planning.
- (c) Dissemination of improved agricultural practices and extension services: promote new and commercially viable technologies, and provide training with a compact area for demonstration of new crops. The DSA may contract specific resource consultants and enter into sub-partnerships with technical institutions. The DSA will also facilitate technical training and innovative practices for vulnerable groups and individuals.
- (d) Development of sub-sector value chains through improved post-harvest handling and logistics. The DSA will help establish partnerships with input suppliers, market operators and agro-

processing companies, and identify niche market opportunities. Project interventions may be with farmers or further up the value-chain. Partnerships or collaboration with public or private agencies can be developed.

- (e) Overall technical support, training and capacity building: the DSA will provide technical support to the farmers in the project villages on agribusiness related issues and will work in close cooperation with the project management unit (WMD) and the state level organizations.

21. There are a number of well established and qualified NGOs based in the state with experience in working with ULIPH, and with WMD watershed projects funded by the World Bank. There are also NGOs which have been working with value chain, marketing and enterprise development projects funded by GIZ and other agencies. Some national NGOs have also been involved in this work in Uttarakhand. It is envisaged there will not a problem to recruit suitable NGOs. ToR for PNGO, FNGO and DSA will be in the draft PIM.

## **B. Community Based Organizations**

### **(a) Producer Groups**

22. Both UGVS (component 1) and WMD (component 2) will, with the assistance of PNGOs (UGVS) and DSA (WMD) mobilize PGs and VPGs. Group formation will start with a participatory wealth ranking and activity selection. The poorest households, especially SC, with limited cultivable land will be facilitated to form VPGs for poultry, small ruminants and non-farm IGAs. Households with cultivable land will be facilitated to form PGs depending upon the selected activity. The group size will be about 15 for UGVS and 4 to 6 for WMD, with composition will depend on the geographical proximity of the households, affinity amongst group members to work together, and common interest by all members to take up similar activities. PGs will be either women only groups or men only groups but all VPGs will be women only groups. A minimum of 50% of PGs will be women's groups. The PGs/VPGs will become the vehicle for delivery of services for enhancing the productivity of the activities being undertaken by these households. As a result, their income levels and risk taking ability will increase to move them into an agribusiness mode.

### **(b) Livelihood Collectives**

23. Components 1 and 2 will promote LCs at the cluster level. Each LC will be formed out of around 70 PG and/or VPG. The location of the LCs will depend on the ease of access for PGs and VPGs, market linkage potential and cluster formation to achieve economies of scale. This means administrative boundaries are not of relevance. The Self Reliant Cooperative Legal Framework is the most dominant legal framework available in Uttarakhand for such groups. A specific growth trajectory for these LCs will not be prescribed by the project but these LCs will have to become self-reliant within four years of project implementation. The project will support each LC via PNGO and DSA and by providing grant funding. LC enterprises will also be able to access funds for UPASAC (loans, equity and viability gap grants) and should also get support from other government programmes and banks. This will enable the LC to take up activities that accrue benefits to their members and to charge service fees to sustainably deliver these services.

### **(c) Other watershed organisations**

24. Village level local government, the Gram Panchayat (GP) and its Water and Watershed Management Committee (WWMC) will have pivotal role to play in planning and implementing component 2. Participatory watershed development may also involve other village level institutions such as the Revenue Village Committees (RVC), Van Panchayats (community forest groups), and Mahila and Yuvak Mangal Dals (women and youth groups) may also be involved. In some locations where much of the watershed is covered by community forest, Van Panchayats may take a lead in project implementation in place of the WWMC.

25. User Groups will also be formed to operate and maintain infrastructure created by the project – such as irrigation works and collection centres. This will be primarily be in component 2, but some will also be formed in component 1.

26. The total number of PG, VPG and LC to be formed, and their total membership, is shown in the Table 1. This table also shows other households who will be direct beneficiaries of ILSP. For component 1 these include 2000 farmers participating in the HARC pilot citrus action research sub-project. Participants in other action research activities will probably also be members of PG or VPG. There will also be 10,000 people benefitting from vocational training. In component 2, 9,744 households living in project watersheds (25% of the total of 39,000) are likely not to wish to join PG or VPG. However they are still considered to be direct beneficiaries as they will gain from the watershed soil and water conservation works, which will protect the environment, and secure supplies of fuel, fodder and water for the entire community.

**Table 1: Number of project groups and benefiting households**

		no.groups	avg members	total member
Component 1	PG	4896	15	73,440
	VPG	1224	15	18,360
	sub-total	6120		91,800
	LC	102	60 (PG/VPG)	
	HARC citrus pilot (action research)			2,000
	Vocational training			10,000
	total component 1			103,800
Component 2	PG	3900	6	23,400
	VG	1464	4	5,856
	Sub-total	5364		29,256
	LC	70	77 (PG/VPG)	
	Other watershed HH			9,744
	Total HH population in watershed			39,000
Grand total				142,800

## V. IMPLEMENTATION RESPONSIBILITIES

27. At project start up a state level start up workshop will be held with participation from IFAD's ICO and key project design consultants. This will be followed up by district level workshops organised by UGVS and WMD. These workshops will explain and discuss project objectives, strategies and processes, and will provide an opportunity to fine tune implementation plans. Either prior to start-up (using ULIPH funds) and/or shortly after start-up, UGVS will employ a consultant to assist them in revising and adapting the ULIPH Financial and Accounting Rules, Human Resource Guidelines and other implementation processes for ILSP. WMD may also up-date its various guidelines.

28. The annual process of planning is described in Section A of Annex 6. This will involve UGVS and WMD conducting a participatory process with project groups (via their NGO partners) and plans than being consolidated at the component level before the CPCU produces an overall annual plan in line with GoUK and IFAD processes.

29. The overall process adopted to achieve project objectives by UGVS and WMD is similar. They will follow a two stage process, to building livelihoods in hill districts. The first of these is to support and develop the food production systems which remain the main means of support for most households. The second stage is to generate cash incomes via the introduction and expansion of cash crops. Although both UGVS and WMD will form PG, VPG and LC, the implementation process for components 1 and 2 will have significant differences, with both agencies building on their previous



experience and comparative advantages. WMD will have a much more intensive approach, supporting local government to implement physical watershed development works, forming LCs and VPGs which have significantly fewer members, and giving them higher levels of financial support. This means the cost per benefitting household of component 2 is relatively high. Although this follows accepted GoI expenditure norms and has proven results, the less intensive support offered by UGVD in component 1 has the potential to be more cost-effective.

30. Table 2 below summarises and compares key features of components 1 and 2 and shows where there will be synergies between the two. However it should be emphasised that they will take place in different locations of the state and will be able to proceed in a largely independent manner, without needing a great deal of field level coordination.

**Table 2: Approaches used by components 1 and 2, and linkages between these components**

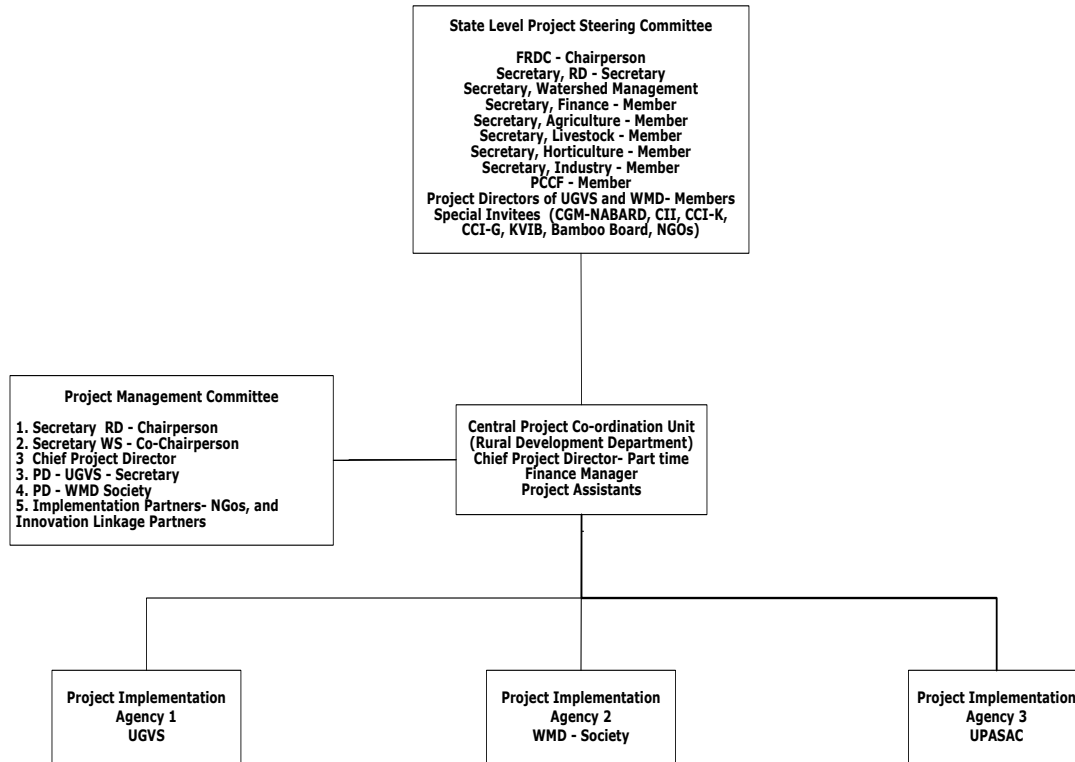
	<b>Component 1 (UGVS)</b>	<b>Component 2 (WMD)</b>	<b>Comments and linkages</b>
Groups formed	Producer Group (PG) and Vulnerable PG (VPG), these federated into Livelihood Collectives (LC).	Same as component 1	Similar approach to group formation, but work in different geographical areas
Group members	6,120 PG and VPG have 91,800 members (15 members per PG/VPG). Total of 102 LC (about 60 PG/VPG in each LC)	5,364 PG and VPG have 29,256 members (6 members per PG and 4 per VPG). Total of 70 LC (about 77 PG/VPG in each LC)	WMD support is much more intensive, with larger numbers of staff to supervise and support groups. UGVS support is more thinly spread over much larger area and larger number of households, but could be more cost-effective.
Support for groups	Grants of Rs35,000 for each PG, Rs60,000 for VPG, and Rs400,000 for LC. PGs & LCs to provide an additional 15% from their own resources.	Grant budget of Rs90,000 per PG (20% funded by PG members), Rs80,000 per VPG (10% from members) and Rs500,000 per LC (20% from own resources).	
Implementation	Six partner NGOs, supervised by PMU office in each of six divisions	Two field NGOs, six Divisional Support Agency (DSA) NGOs, plus field based Multi-Disciplinary Team of WMD staff. Work with WWMC (part of Gram Panchayats).	UGVS approach will avoid problems of ULIPH in overlap between field level NGO and project staff. WMD approach allows such overlap but is based on successful system used in World Bank watershed projects.
Marketing support	Value chains, collection centres, and last mile infrastructure, policy studies	Collection centres, last mile infrastructure. Value chains are part of ToR of DSAs.	WMD provide more support for infrastructure per household. UGVS policy and market studies will be applicable for both components.
Irrigation and water/soil conservation	Limited funds for each LC (Rs 1 million) = Rs1,100 per PG/VPG member. Plus 25% mobilised from other resources	Watershed treatment funding avg. of Rs27,000 per household in project watersheds. 10% of this from local GP resources.	WMD approaches may be adopted by UGVS WMD funding level as per national guidelines from GoI.
Innovation	Innovation /research sub-component with research partners	No specific research funding, but FNGO and DSA will introduce new crops and technologies.	Lessons coming out UGVS research and innovation activities may be adopted by WMD component.
Livelihood finance	Finance and other financial services from component 3 and via NRLM SHG support	Same as component 1 – watershed groups will get support from component 3.	Component 3 will work with both UGVS and WMD groups, and may also benefit other households in the hills
Vocational training	Organised as part of this component.	Students may come from watersheds covered by component 2	Students may come from any hill community in the state,
M&E and KM	UGVS will monitor own activities, outputs and processes. Central M&E unit will support this, and carry out outcome and impact surveys.	WMD will monitor own activities, outputs and processes, including watershed environment. Central M&E unit will support and carry out outcome and impact surveys.	Considerable learning from comparison of WMD and UGVS approaches. Established MIS/GIS of WMD may be replicated by UGVS.

31. Table 3 summaries the various funds to be established by the project to support expenditure by project community organisations and partners.

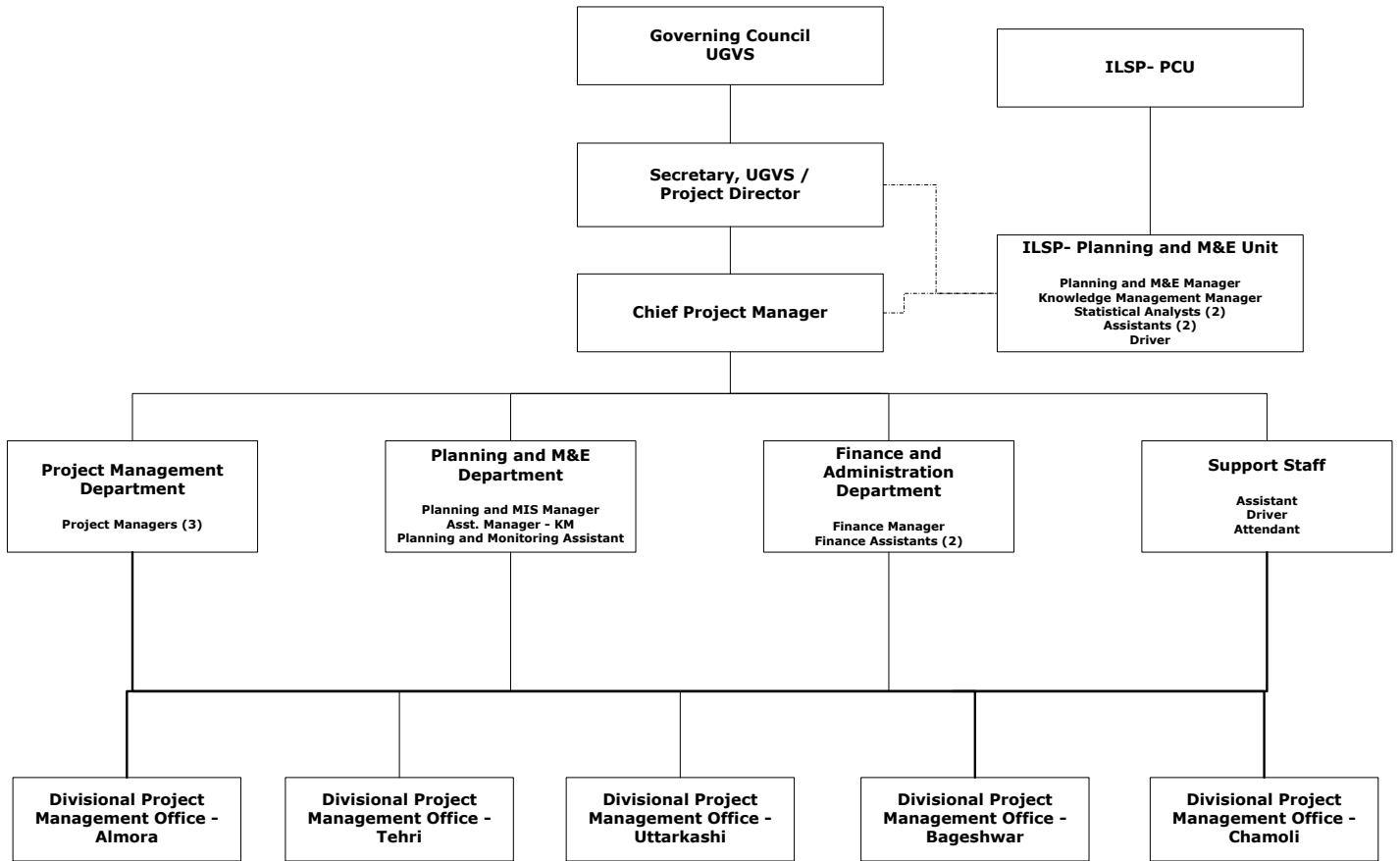
**Table 3: Project funds allocated for spending by community organisations and partners**

Component	Fund	Fund managed by:	Fund allocation / disbursement
1 (UGVS)	Food Security Improvement Plan	Producer Group and Vulnerable Producer Group	Rs35,000 per PG and Rs60,000 per VPG. An extra 15% contributed by PG members.
	Agribusiness Upscaling Plan	Livelihood Collective	Rs400,000 per LC for cash crop up-scaling and value addition, plus Rs1,000,000 for irrigation and other infrastructure. An extra 15% contribution from LC for up-scaling and 25% for irrigation.
	User group funds	Livelihood Collective	Funds collected from users for infrastructure O&M, especially irrigation.
2 (WMD)	Food Security Improvement Plan	Producer Group and Vulnerable Producer Group	Rs90,000 per PG and Rs80,000 per VPG. Of this amount, 20% will be contributed by PG and 10% by VPG members.
	Agribusiness Upscaling Plan	Livelihood Collective	Rs500,000 for cash crop up-scaling and value addition. Of this, 20% contributed by LC.
	User group funds	Livelihood Collective	Funds collected from users for infrastructure O&M, especially irrigation.
	Gram Panchayat Watershed Development Plan	WWMC of GP	As per GoI and GoUK cost norms. Average of Rs3.85 million per GP and Rs8,500 per ha.
3 (UPSAC)	Development Finance Fund	UPASAC	Enterprise financing : equity and loans. Will finance value chain enterprises that improve returns for producers.

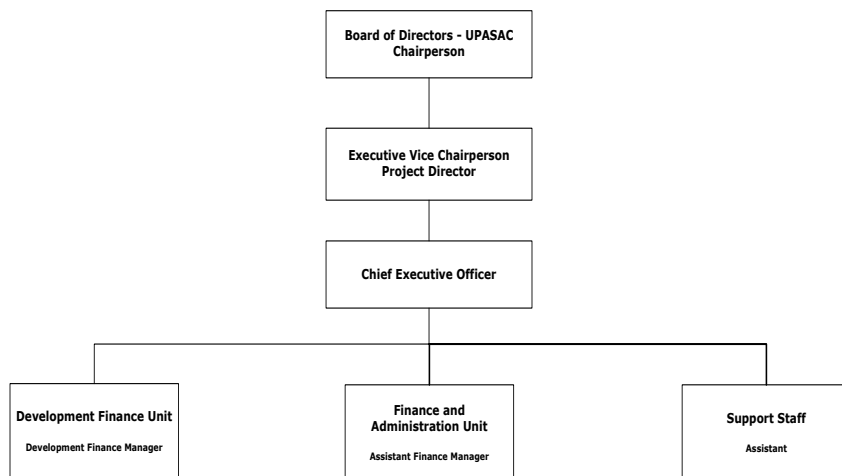
## Attachment 1 Project Management Structure of ILSP



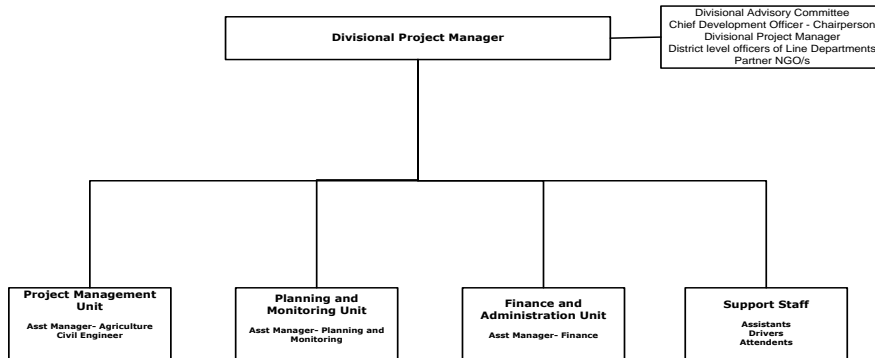
## Attachment 2 Organizational Structure of UGVS



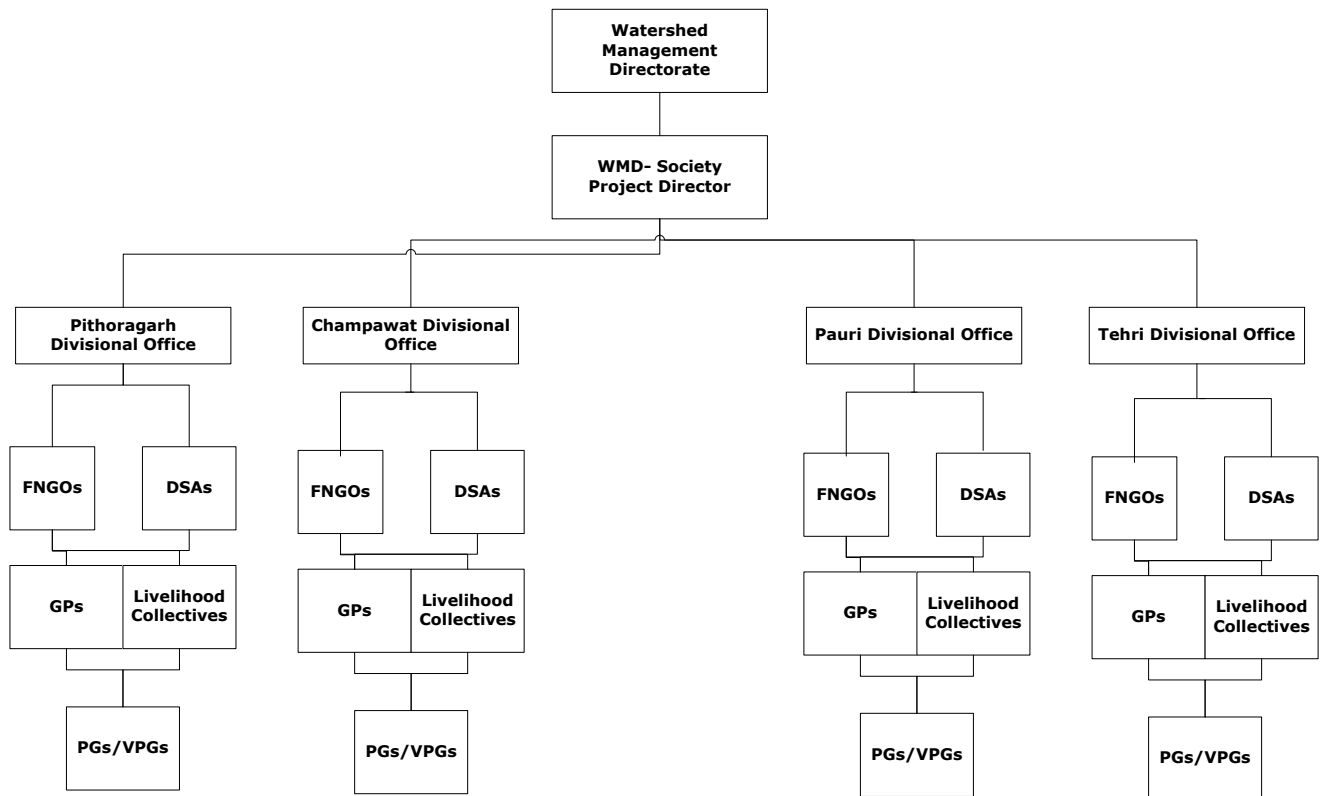
## Attachment 3 Organizational Structure of UPASAC



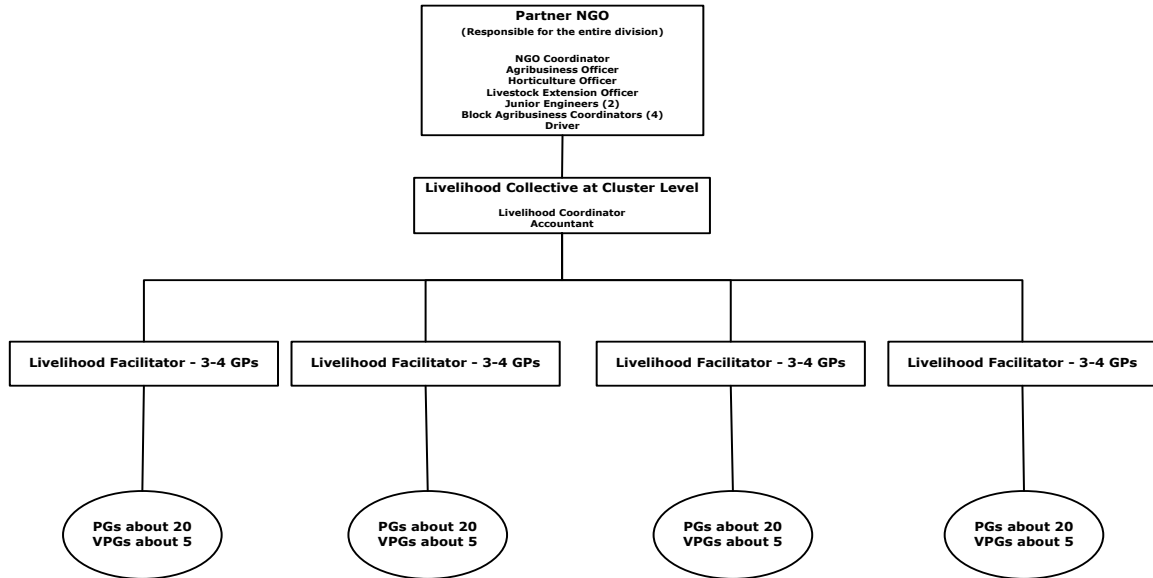
### Attachment 4 Organizational Structure of UGVS-District Project Management Offices



### Attachment 5 Organizational Structure of WMD Society



## Attachment 5 Field level Organizational Structure of Partner NGO



## **Annex 6: Monitoring and Evaluation**

### **A. Planning process**

1. The Project would follow the planning process undertaken by the Forest and Rural Development Department of the State Government. In the third quarter of the financial year in the month of December /January the CPCU requests the Government to make budgetary provisions for the project based on AWPB drawn out by UGVS, UPASaC and WMD. A participatory process would be followed by implementing agencies to draw up the AWPBs whereby GIS information would be used for watershed development plans. This exercise would also focus on performance planning. Each agency would prepare their respective procurement plans corresponding to their AWP. The CPCU compiles the AWPBs and the procurement plans and sends it to the CPCU for approval in the month of February. The approved AWPB is then prepared in the IFAD AWPB format and sent to IFAD along with the procurement plans for approval. The approved AWPB would be used for reviewing performance and progress during the supervision missions.

2. The first step to initiate participatory planning would be to make the communities aware of the various kinds of support and investments that the project will make under each component. Sensitisation about the project goal and objectives is an important step prior to need assessment, which has been missed out during the planning process undertaken in the ongoing ULIPH project. Second step, is to assess the community needs and to support communities to priorities their needs and to realistically develop a perspective plan for a period of four years keeping in view the different activities they can possibly take up under each project component. The NGOs will take a lead in building a vision for planning and facilitate the process with the full involvement of Gram Panchayats (GP), and the staff from the Division office of UGVS, WMD and UPASAC.

3. Once the community perspective plans are drawn-up, they will be made into annual plans. WMD will continue to adopt their existing watershed planning methodology including the use of GIS; they will also share these maps with UGVS whenever necessary. On the basis of these annual community plans the UGVS, WMD, and UPASAC will prepare the project management plan and send their respect AWPBs to the CPCU for preparing the Annual Work Plan and Budgets of the project. To ascertain high quality of participatory planning at the community level and consistent use of appropriate PRA tools across the project, training will be provided to all NGOs and Division level staff with the help of a reputed institute, which will be selected through competitive procurement process. In the event of non-availability of such an institute, the role will be performed by CPCU staff. The lessons and best practices from ULIPH and WMD planning methodologies will be also shared and adapted to the ILSP.

### **B. Monitoring and evaluation system**

4. Monitoring and Evaluation in ILSP will be a tool is to collect reliable data and information for measuring performance and progress towards achievement of results; and to provide information about success and failures, so that corrective measures can be taken for successful implementation of project activities. M&E would be also used as a learning tool to provide information for critical reflection on project strategies and operations to support decision-making. The system is described in the following paragraphs and in Working Paper 11.

5. Given that the principal components of ILSP are going to be implemented by UGVS, WMD, and UPASAC, the performance and progress of the activities and outputs would be monitored by these agencies independently. Each agency will draw up its own M&E plan within the overall ILSP M&E framework. The M&E unit in the CPCU will support this output and activity monitoring. In addition it will implement a programme of outcome and impact monitoring, as well as producing consolidated reports on project progress and results, and coordinating overall learning and knowledge management.

### **C. Project M&E Framework**

6. **Output monitoring** will measure the progress of activities and achievement of outputs against annual targets in the AWP for each project component. The output indicators in the project operational logical framework will form the basis for monitoring. Physical and financial progress reports will be fundamental outputs of the project MIS. Data will be collected by Field NGOs and

other implementation units from registers and accounts kept by community organisations such as Van Panchayats, PGs, LCs, vocational training institutes, Gram Panchayats, WWMC, from contractors building rural infrastructure. Wherever necessary, data will be collected disaggregated by gender and social groups (ST & SC), particularly those related to training, exposure and access to services.

7. **Participatory Monitoring and Evaluation (PME)** at the community level would involve the M&E managers and field staff and NGO staff. PME forums will be set up in villages, with simple activity sequencing charts and other tools to help the communities monitor their progress, evaluate performance, and identify implementation issues. These forums will be also used for social audits of activities and associated expenditure involving community members, contractors and service providers. The PME process will be established with support from a national Consultant.

8. **Process monitoring** involves monitoring the processes leading to outputs and outcomes. Specific areas where progress monitoring will be useful in ILSP include: access to rural financial services, provision of technical services, and the functioning of community organisations. Information on these may be gathered via PME, as well as from the records of community organisations and financial service providers. In addition, the Project will undertake specific studies related to food security, women's empowerment, market access and outreach of producer groups, value chain development, and functionality of infrastructure and benefit assessment of project services for disadvantaged groups such as Dalits, ST and SCs. The Planning and M&E Manager in the CPCU will jointly plan process monitoring with UGVCS, WMD and UPASaC.

9. Information on the effectiveness of training will be assessed via KAP (Knowledge, Attitude and Practice) surveys carried out each year. The Manager MIS at the CPCU will coordinate with UGVS and WMD to complete the surveys.

10. **Outcome monitoring** measures the changes coming about as a result of project interventions. In ILSP this would entail annually measuring and assessing whether the project is moving towards achieving the project objective of enabling rural households to take up sustainable livelihood opportunities integrated with the wider economy. The surveys will also collect data for 2<sup>nd</sup> level RIMS indicators. The surveys would be conducted separately in UGVS and WMD with two separate random samples of 400 households, and will monitor the changes in six cohorts of beneficiaries, with two new cohorts receiving project services (with one group each in UGVS and WMD) each year up to the third year. The first rounds of the surveys will act as a rolling baseline.

1. **Impact evaluation** is the process which will assess the contribution of ILSP in achieving the overall goal of the project. It will consist of baseline, mid-term and end-of-project surveys. This survey will be coordinated by the Planning and M&E Manager of the CPCU, and contracted to an external agency. Information to be collected will include the impact level indicators of IFAD's Results and Impact Monitoring System (RIMS). These include mandatory 'anchor indicators' relating to household assets, food security and child malnutrition (anthropometric data of children under five years of age). ToR for this survey will be in the draft PIM.

#### **D. RIMS indicators**

11. The Results and Impact Monitoring System of IFAD reports annually on a number of first and second level results indicators that correspond to the output and outcome indicators. IFAD has produced a standard list of these indicators, but only some of these will apply to an individual project. Prior to mid-term review, the project will report on only the first level results, but after the mid-term report it reports on second level indicators. These second level indicators are used as evidence to support ratings of the effectiveness and likely sustainability of each component. The third level RIMS results are the anchor indicators used for impact assessment (see impact assessment paragraph above).

#### **E. Special studies**

12. Special Studies will be undertaken before mid-term review related to the following: (i) agribusiness and marketing (growth and development of value chain activities and impact of management and maintenance of rural infrastructure); (ii) production and productivity (fodder development in livestock, cropping system studies in agriculture and horticulture crops); (iii) environment and NRM (impact of soil and water conservation measures, and impact of tourism on



environment, precipitation, soil erosion, stream flow monitoring and flood discharge in micro-watersheds); (iv) outcomes of the SFGFS branch expansion; and (v) education and employment (impact of vocational education and employment on rural environment and economy). Cost effectiveness studies will be also undertaken to assess delivery systems and implementation methodology/approaches adopted by UGVS and WMD for implementing similar project activities.

#### **F. Implementation of M&E**

13. Staffing: the M&E unit will form part of the central CPCU, but will be located in the UGVS office. It will consist of the following staff:

- Planning and M&E Manager
- Knowledge Management Manager
- Statistical Assistants (2)
- Project Assistants (2)
- Driver
- Enumerators (10)

14. The two Statistical Assistants will be responsible for data analysis and basic report writing. The two Project Assistants will assist with computer data entry. However it is planned to use mobile phone based software for much field data collection which will eliminate the need to data entry as data will be entered directly into mobile phones rather than using a paper questionnaire and uploaded directly from the phone into a survey database. The 10 enumerators will be responsible for most field data collection, and will be based in the field offices of UGVS and equipped with motorcycles and data-enabled mobile phones. It has been calculated that a team of 10 enumerators will be able to carry out the annual outcome surveys and KAP surveys (KAP surveys will also involve project staff responsible for training implementation). For each enumerator this work will take no more than 120 days per year, leaving adequate time to assist executing agencies collect activity and output data and carry out PME, as well as assisting with special studies. Should there be any periods of high workload for enumerators, there is provision to hire temporary enumerators.

15. UGVS headquarters staff includes an MIS and Monitoring Manager, an Assistant Manager for Knowledge Management and a Planning and Monitoring Assistant. At Divisional UGVS offices there will be an Assistant Manager for Planning and Monitoring. These staff will be responsible for managing and coordinating monitoring of activities and outputs, and for working with field NGOs on participatory M&E and process monitoring. The WMD participatory watershed management component also has funds for M&E and KM. UPASAC will monitor and report on the performance of the livelihood finance component.

16. Capacity building of project staff will be undertaken through structured orientation training programme, refresher training, and information sharing. Orientation training will be done during induction of new staff, and the refresher training on a half yearly basis. In addition, the project will also facilitate the establishment of partnerships with training organisations (APMAS grant programme), consultants (KAP survey and PME technical assistance), and other development projects, to enhance exchange of information and mutual learning. It will facilitate the use of the IFAD M&E tool kit.

17. Technical assistance for: a) KAP surveys, b) participatory M&E, and c) anthropometric surveys would also form part of the capacity building strategy. The Planning and M&E Manager will be responsible for procuring these services in consultation with the Chief Project Director and IFAD India Country Office. The aim of technical assistance is to bring in expert and specialist knowledge into the project to improve the adoption of practices and knowledge imparted through training in IGA activities, improve the process of review by GPs, PGs, LCs along with NGOs and Project Staff, and enhance the quality of anthropometric surveys. KAP survey expertise will be provided by a specialist international consultant as part of Implementation Support to the project.

#### **G. Management Information System (MIS)**

18. MIS systems would be established in the first year of project implementation by the PMUs of UGVS, WMD and UPASAC. They will include information on physical and financial progress, impact evaluation analysis and reports, RIMS first and second level indicator tracking, and other pertinent information. Initially they may be run manually in MS Excel to create the database for

report generation, and automated by the first quarter of the second year to generate, monthly, quarterly and annual progress reports on physical and financial progress and outcome progress. Once the automated version of the MIS is tested for 6 months, the other half of the year would be spent in making the MIS operate, as far as possible, via on line service. The WMD already has an established MIS that could be adapted for ILSP. UGVS and UPASAC will design their MIS as per the requirement of ILSP.

## **H. Reporting and Communication**

19. Timely reporting and communication is important to take timely corrective actions and to learn from implementation experience to further improve project management effectiveness and efficiency. Monthly, quarterly and annual reports including reports from studies would be produced by the Project. For IFAD corporate reporting, Half-yearly, Annual and RIMS Progress Reports are required to be prepared.

20. Monthly Progress Reports (MPR) will be prepared from the project MIS developed to generate information at the Block, division and state level implementing agencies and compiled at the CPCU. Information in the report will contain component wise physical and financial progress against annual targets. This report will form the basis for monthly progress review at all levels.

21. Quarterly Progress Reports (QPR). Besides reporting physical and financial progress this report will contain information on difficulties encountered in implementation and corrective actions and solutions to address constraints as well as communities response to project initiated activities.

22. Half yearly and Annual Progress Reports (HR/AR) will be prepared from information compiled by the CPCU on component wise physical and financial progress, and loan category wise progress from the project MIS. It will contain summarised information from villages visited by M&E staff, findings from PME and annual outcome surveys. They will show progress towards development objectives, and also problems that are not adequately addressed, degree of responsiveness of the staff of different support agencies, and usefulness of training (information from KAP surveys), benefits from rural infrastructure, performance of value chains, successes and failures, gender and knowledge management. These reports will be prepared based on the reporting format to be included in the draft PIM (Project Implementation Manual). The CPCU will prepare the half-yearly progress report by the end of October and the annual progress report by the end of May.

23. RIMS Annual Report. The key RIMS indicators corresponding to the project components are included in the project's Logical Framework and will be reported annually by the end of December. In the first year the project information on RIMS first level indicators (list of indicators included in RIMS Handbook) associated with outputs would be reported. After mid-term review the report will include ratings of effectiveness and sustainability of 2<sup>nd</sup> level indicators, validated from the results of annual outcome surveys. A standard table will be included in the PIM for this report.

## **I. Learning System**

24. The project learning system comprises of monthly, quarterly and annual review meetings, capturing information on progress, lessons and finding solutions for implementation constraints.

25. Monthly progress review will be done on the basis of monthly progress reports. It would include reviewing physical and financial progress at the community level by NGOs through the process of PME and by Project Staff at the Division and State levels. Each implementation agency will review implementation of activities leading to project outputs in terms of adequacy and timely utilisation of project resources.

26. Quarterly Review Meetings (QRMs). The quarterly progress report will be used during the QRMs at the Block, Division office, and at the State level. Over and above reviewing physical and financial progress for the quarter against annual targets the project will also review the performance of NGOs and service providers, implementation constraints, document lessons, emerging best practices and decide on actions to improve implementation.

27. Annual Project Review will be carried out towards the end of the fiscal year around first week of April, to assess performance in the achievement of physical and financial progress against annual targets. In addition, review of progress towards development objectives as reflected in the

Outcome Surveys will be done assessing success and failures and reasons thereof and lessons learned. Annual reviews will be institutionalised by NGOs at the community level.

28. Mid-Term Reviews (MTR). IFAD in cooperation with the Government would undertake a mid-term review by the fourth year of the project lifecycle to review project achievements and implementation constraints. In particular it would review the following: (i) achievement and improvements in the production systems, improvement in food security, and increase in income; (ii) the performance of value chains; (iii) performance of PGs, LCs and other community institutions; (iv) impact of other project activities; (v) financial and procurement management; (vi) and human resources management. A mutually agreed action plan will be prepared based on the MTR findings. IFAD may appoint, in consultation with the Government, an external agency to evaluate the impact of the project if necessary.

29. Project Completion Review. As the project reaches completion point, the CPCU would prepare a draft Project Completion Report. IFAD and the Government will then carry out a Project Completion Review based on the information in the Project Completion Report and other data.

#### **J. Innovation in M&E tools and methods**

30. The Project will promote innovations in the use of M&E tools and methods. EpiSurveyor, a mobile phone based application, will be piloted in the project for collecting data for annual outcome, KAP and RIMS impact surveys to reduce cost and increase accuracy in data collection. Trained enumerators will collect and transfer data via cell phones to a web based system for analysis and reporting.

#### **K. Knowledge Management**

31. In the first year the Project will prepare a project level KM strategy in line with the IFAD India and IFAD policy on KM. The strategy will focus on the processes that will be involved in building a robust KM system in the project. The KM system will enable the project to generate, capture, share and disseminate relevant information and knowledge to various stakeholders in a timely manner. The project website will be completed within the first year of implementation and used as a knowledge sharing tool, and also linked to IFAD Asia website. The KM team will extensively document and share knowledge generated in the project. The QRM forums will be used as potential KS venues for capturing lessons learned and best practices leading to development of related knowledge products. Key information from M&E studies, reviews and exposure visits, lessons and best practices will be disseminated through knowledge products such as news letter, publications, case studies and reports, etc. The KM team will strive to build a culture of knowledge documentation and sharing within the project.

32. More details on the M&E system are in Working Paper 11, with relevant ToR for staff and consultants in the draft PIM.

## **Annex 7: Financial Management and disbursement arrangements**

**A. Financial Management Arrangements:** The financial management arrangements of the previous IFAD funded Project (ULIPH) implemented by UGVS/UPASAC have stood the test of time. WMD is currently implementing UDWDP project financed by The World Bank, which has robust financial management arrangements. The proposed financial management arrangements for ILSP will attempt to draw from the best practices observed in both projects and will be tailored to suit the specific requirements of ILSP.

**A.1. Books of accounts** The project will maintain accounts and records in accordance with generally accepted and consistently applied accounting practices adequate to reflect the operations, resources and expenditures related to the project until the Financing Closing Date, and shall retain such accounts and records for at least ten (10) years thereafter.

It is proposed that the project will maintain its accounts on off the shelf financial software (e.g. Tally accounting software) which can be modified to meet the purposes of the Project. The books of accounts will be maintained centrally at the CPCU housed within UGVS and will be based on the double entry system of book keeping and will use the cash basis of accounting. The software will accurately record transactions and balances related to the project and will capture financial transactions at all levels of implementation. IFAD's ongoing ULIPH Project uses Tally software which is currently undergoing customization to generate withdrawal applications, SoEs and Project Financial statements in IFAD's Standard reporting Formats. This customized Tally software can be implemented by ILSP at all implementation levels of UGVS, UPASAC and WMD. In UGVS/UPASAC books of accounts for the project will be maintained at the PMU and all DMUs. In WMD, books of accounts for the project will be maintained at the PMU, 2 regional PD offices, and 6 DPD offices. Monthly Trial Balances from UGVS/UPASAC DMUs will be consolidated at the UGVS/UPASAC PMU and then a consolidated monthly Trial Balance for each of these Implementing Agencies will be sent to the CPCU. Similarly, monthly trial balances from RPD and DPD offices of WMD will be consolidated at the WMD PMU and a Consolidated trial Balance for WMD will be sent to the CPCU.

**A.2. Financial Personnel** The Finance Controller of the CPCU will be ultimately responsible for the financial management of the Project. He will maintain centralized books of accounts of the Project, compile and submit Withdrawal Applications to CAAA amongst other duties listed in his TOR (included in the PIM). The PMU of each IA will have one Finance Manager/ Controller who will be responsible for all financial management of the project at all levels of the IA. He will also be responsible for accounting matters relating to the Project including book keeping, financial reporting, coordination with auditors and internal auditors, vendor payments, bank reconciliations and bank operation, funds flow to sub accounts, monitoring of expenditure against budgets, preparation of reimbursement claims to be submitted to CPCU etc.

Each Divisional Management Unit of UGVS and WMD will have a Finance Manager who will maintain books of accounts, oversee and reconcile bank operations, prepare periodic financial reports and record/ monitor advances and other payments to be made to NGOs, Livelihood Collectives, Producer groups and to other implementation partners besides expenditure related to their own offices, and also monitor expenditure against budgeted expenditure, etc. Accounts staff at Offices in the Divisions will maintain books of accounts, oversee and reconcile bank operations, prepare periodic financial reports and record/ monitor advances and other payments to be made to NGOs, Unit Officers, WWMCs and to other implementation partners besides expenditure related to their own offices and also monitor expenditure against budgeted expenditure, etc.

**A.3. Funds flow:** The Project will be funded from four sources: IFAD, the Government, financial institutions, and beneficiary contributions. The CPCU will be responsible for preparing the Annual Work Plan & Budget for the project and submitting this to the Department of Finance of the State through the Department of Rural Development. This AWPB (net of beneficiary and bank contributions) will be included as a line item in the budget or the Department of Rural Development. IFAD's share of the reimbursed to the Government of India and by the Government of India to the Government of Uttarakhand through the conventional national procedures for budgetary support to State Governments.

Proceeds of IFAD loan funds will be disbursed using one of the following four methods: (i) advance withdrawals or replenishments to the bank account(s) designated to receive loan resources; (ii) direct payment; (iii) Special Commitment (under letter of credit); and (iv) reimbursement. The

Designated Account will be maintained in a bank acceptable to IFAD and operated by the authorized representative(s) of the Ministry of Finance, Government of India. IFAD will make an initial advance to cover roughly six months of estimated project expenditure into the Designated Account and then replenish the Designated Account on the basis of Withdrawal Applications submitted by the Project through the State Government to the CAA&A, Government of India. The budgetary allocation for the Project (including counterpart funds) will be released to the Project in one or two tranches. To avoid delay in flow of funds to the Project GoUK will nominate an officer with Drawing & Disbursement Powers as the Finance Controller of the CPCU (unless the power is vested in the CPD). The funds will be transferred from the State Treasury to the Project bank Account opened and operated by the CPCU in a bank acceptable to IFAD. From this Project account, funds will flow to the Sub-project Accounts maintained by the three PMUs at UGVS, UPASAC and WMD.

While UGVS and UPASAC funds will flow from the Sub project accounts at their respective PMUs to their existing District Level bank accounts. WMD funds will flow from the WMD Sub project Account to bank accounts maintained exclusively for the project at Divisional / District levels and a large proportion of the funds will further flow from these bank accounts to exclusive project bank accounts maintained by Water & Watershed Management Committees (WWMCs) which are part of the Gram Panchayats (GPs).

**A.4. Financial Statements:** The Borrower/Recipient shall deliver to the Fund detailed financial statements of the operations, resources and expenditures related to the Project for each Fiscal Year prepared in accordance with standards and procedures acceptable to the Fund and deliver such financial statements to the Fund within four months of the end of each Fiscal Year. The financial Statements shall include those prepared in IFAD's standard financial reporting formats (enclosed to the Project Implementation Manual).

**A.5. Financial Reports:** The following reports / other financial information need to be furnished.

- (a) The Borrower/Recipient and the Project Parties shall promptly furnish to the Fund such other reports and information as the Fund shall reasonably request on any financial matter relating to the Financing or the Project or any Project Party.
- (b) The Borrower/Recipient shall promptly inform the Fund of any condition that interferes with, or threatens to interfere with, the maintenance of Loan Service Payments.
- (c) The Project Member State shall promptly furnish to the Fund all information that the Fund may reasonably request with respect to financial and economic conditions in its territory, including its balance of payments and its external debt.

**A.6. Taxation:** The proceeds of the financing may not be used to pay taxes

**A.7. Financial Standard Operating Practices (SOPs):** The Mission has reviewed the following Manuals and have tabulated its findings below.

<b>Manual</b>	<b>IA</b>	<b>Comments</b>
Finance % Admin Rules	UGVS	Needs to be revised for ILSP
Finance & Admin Rules	UPASAC	Needs to be revised for ILSP
Financial Systems Manual	WMD	Needs to be revised for ILSP
Financial Systems manual for GPs	WMD	Can be adopted with minor project specific modifications.

**B. IFAD's FM Support:** IFAD may provide ongoing financial management support to the project by deputing a Financial Management Specialist to the project at periodic intervals. Such support is envisaged in the first year of project implementation and thereafter only when requested by the PDs and/ or IFAD Supervision Missions/ CPM. The level of support to be provided to the Project will be decided by the IFAD Country Portfolio Manager in consultation with the Project Director. Such support is particularly relevant in the case of WMD, which has not implemented IFAD Projects in the past. The IFAD FM Specialist can provide implementation support in the areas of financial management and procurement and will specifically help the project cope with preparation of Withdrawal Applications, Designated Account Reconciliations and will conduct prior review of procurement transactions on behalf of IFAD. His/her Terms of Reference will include other aspects

of financial management which are contained in IFAD's fiduciary aspects checklist (attached to PIM) if the IFAD CPM deems necessary. The role of the IFAD FM Specialist is that of a mentor and facilitator and not that of an auditor. At the same time he will protect IFAD's interests and will try and ensure efficient utilization of economic resources.

**C. Audit:** The Borrower shall:

- (a) each Fiscal Year, have the accounts relating to the Project audited by independent auditors acceptable to the Fund, and in accordance with Article 9 of the Fund's General conditions and the Fund's *Guidelines on Project Audits (for Borrowers' Use)*. In this connection, an audit by an independent firm of Chartered Accountants selected through a fair, transparent and competitive process will be considered to meet the requirements if they use International Standards of Auditing, follow IFAD approved Audit Terms of Reference and express audit opinions on project financial statements prepared in IFAD's standard financial reporting formats;
- (b) within six (6) months of the end of each Fiscal Year, furnish to the Fund a certified copy of the audit report. The Borrower shall submit to the Fund the reply to the management letter of the auditors within one month of receipt thereof;
- (c) if the Borrower does not timely furnish any required audit report in satisfactory form and the Fund determines that the Borrower is unlikely to do so within a reasonable period, the Fund may engage independent auditors of its choice to audit the accounts relating to the Project. The Fund may finance the cost of such audit by withdrawal from the Loan Account.

**D. Internal Audit:** The project will have a cost effective but efficient internal audit mechanism in place before the end of 3 months of project implementation. In the case of UGVS & UPASAC, the internal audit will be conducted by their Manager (Audit) assisted by a team of District level Compliance Auditors. In the case of WMD, the internal audit function will be outsourced to a firm of independent Chartered Accountants, selected through a fair, transparent competitive process. Clear and unambiguous terms of reference for the internal audit are included in the Project Implementation Manual. The TOR includes key aspects of financial management and procurement contained in IFAD's fiduciary aspects checklist. The internal auditors will submit semi annual reports to the Coordinating Project Director and the IFAD CPM. Corrective follow up action will be decided jointly by a committee which includes the PD, the Finance Controller and the internal auditors. The committee will evaluate action on previous internal audit reports, and effectiveness thereof. The quality of internal audit reports submitted by the internal auditors in the first year of implementation will be carefully monitored by IFAD CPM and if these reports are found to lack quality, he may request the IAs to make alternate arrangements, acceptable to IFAD, for conducting the internal audit in later years.

**E. Withdrawals from the Loan Account:** Between the date of entry into force of the Financing Agreement and the Financing Closing Date, the Borrower/Recipient may request withdrawals from the Loan Account of amounts paid or to be paid for Eligible Expenditures. The Fund shall notify the Borrower/Recipient of the minimum amount for withdrawals.

- No withdrawal shall be made from the Loan Account until the first AWPB has been approved by the Fund and the Fund has determined that all other conditions specified in the Financing Agreement as additional general conditions precedent to withdrawal (if any) have been fulfilled. The Financing Agreement may also establish additional specific conditions precedent to withdrawal applicable to particular categories or activities. Withdrawals to meet the costs of starting up the Project may be made from the date of entry into force of the Agreement, subject to any limits established in the Financing Agreement. In this connection, the following additional provisions need to be kept in mind.
- When the Borrower/Recipient wishes to request a withdrawal from the Loan Account or a Special Commitment, the Borrower/Recipient shall deliver to the Fund an application in the form specified there for by the Fund, together with such documents and other evidence in support of such application as the Fund shall reasonably request.
- The Borrower/Recipient shall furnish to the Fund satisfactory evidence of the authority of the person or persons authorised to sign such applications and the authenticated specimen signature of each such person. Under the provisions of the General Conditions (article IV, section 4.04(b)), the Fund requires the borrower's (or recipient's) representative, as

designated in the financing agreement, to furnish satisfactory evidence of the authority and authenticated specimen signatures of the individuals who will sign WAs on behalf of the borrower. This evidence must reach the Fund before the first WA is presented by the borrower and should be the original (photocopies, facsimiles or other means of transmission are not acceptable). A sample template is provided in Annex 1 of the Loan Disbursement Handbook. In order to avoid delays in disbursements, this documentary evidence should be furnished to IFAD as soon as possible after entry into force of the financing agreement. Each WA should be signed by such duly authorized individuals, and the Fund must be notified of any change in the signatories authorized to withdraw funds from the loan account. The Fund must also be notified of the designated signatories for operating any designated and/or programme or other accounts, including changes thereto, whether or not these authorized signatories are included in the financing agreement. Such changes, as effected during the life of the project, must be communicated promptly to the Fund. The borrower, guided by the sample in annex 1, should provide the names and specimen signatures of the newly appointed signatories and include the date when such change is to take effect. The original of such changed documentary evidence is to be provided to the Fund. If the authorized signatories have been specified in the financing agreement, a change in authorized signatories shall constitute a need for modification of the financing agreement, and such amendment will need to be effected quickly so as to ensure uninterrupted processing and expeditious payment of WAs.

- Each such application, and the accompanying documents and other evidence, must be sufficient to satisfy the Fund that the Borrower/Recipient is entitled to such withdrawal or Special Commitment.
- If the Borrower/Recipient requests a withdrawal from the Loan Account for amounts to be paid thereafter for Eligible Expenditures, the Fund may, before transferring such amount to the Borrower/Recipient, require that the Borrower/Recipient provide evidence satisfactory to the Fund showing that previous withdrawals have been properly spent for Eligible Expenditures. The Fund may place reasonable limits on the amount that the Borrower/Recipient may withdraw in advance or the overall balance of such advance withdrawals, and may require that such amounts be held in a freely convertible currency and/or be held in an account designated for that purpose in a bank acceptable to the Fund.
- Items to be financed are usually grouped into categories of expenditures and are shown as a schedule in the financing agreement. The financing schedule presents the amount allocated to each category and subcategory, and the percentage of financing of eligible project expenditures as assessed at the time of project design and approved by IFAD's Senior Management. Reallocation of funds from one category to another may be allowed, unless the financing agreement prohibits this. During project implementation, should the need to reallocate financing resources among categories of expense arise, such reallocation would be processed in the applicable schedule(s) to the financing agreement after prior consultation and agreement between the borrower and the Fund.
- Although Withdrawal Applications have to be forwarded to the Fund under signature of the Borrower's authorized signatory, the application will be prepared by the CPMU on the basis of reimbursement claims received from the three Implementing Agencies.
- Detailed withdrawal procedures, forms and templates are available in IFAD's Loan Disbursement Handbook and IFAD Loan Administration Manual which will be provided to the Project as part of the Start Up Kit.

**F. Eligible Expenditure.** The Financing shall be used exclusively to finance expenditures meeting each of the following eligibility requirements:

- (i) The expenditure shall meet the reasonable cost of goods, works and services required for the Project and covered by the relevant AWPB and procured in conformity with the Fund's Procurement Guidelines.
- (ii) The expenditure shall be incurred during the Project Implementation Period, except that expenditures to meet the costs of winding up the Project may be incurred after the Project Completion Date and before the Financing Closing Date.
- (iii) The expenditure shall be incurred by a Project Party

- (iv) If the Agreement allocates the amount of the Financing to categories of Eligible Expenditures and specifies the percentages of such Eligible Expenditures to be financed by the Financing, the expenditure must relate to a category whose allocation has not been depleted, and shall be eligible only up to the percentage applicable to such category.
- (v) The expenditure shall be otherwise eligible in accordance with the terms of the Financing Agreement.
- (vi) The Fund may from time to time exclude certain types of expenditure from eligibility.
- (vii) Any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations, shall not be eligible for financing by the Financing.

Any payments to a person or an entity, or for any goods, works or services, if making or receiving such payment constitutes a coercive, collusive, corrupt or fraudulent practice by any representative of the Borrower/Recipient or any Project Party, shall not be eligible for financing by the Financing.



## **Annex 8: Procurement**

### **1. Introduction:**

1.1 Procurement Regulations applicable to ILSP: Procurement of goods, works and services financed by funds from IFAD would follow the GoUK's Uttarakhand Procurement Rules 2008 with project specific modifications (notified in the PIM), to the extent that they are consistent with the IFAD Procurement Guidelines. Each Annual Procurement Plan will identify procedures which must be implemented by the Borrower in order to ensure consistency with the UPR 2008 & IFAD Procurement Guidelines. IFAD may require that all bidding documents and contracts and other records for procurement of goods, works and services financed by the loans are:

- (i) Available for full inspection by the Fund of all bid documentation and related records;
- (ii) Maintained for three years after completion of the bid or contract; and

IFAD may also require that the project cooperate with agents or representatives of the Fund carrying out an audit or investigation into procurement issues.

The Government's procurement procedures will follow the Uttarakhand Procurement Rules 2008, as specifically modified for ILSP. These are based on international best practice. All procurement financed by the proceeds of the loans will be undertaken as per UPR 2008 specifically modified for ILSP to the extent they are consistent with IFAD's Procurement Guidelines. Wherever, if the UPR 2008 are inconsistent with IFAD's Procurement Guidelines, the latter shall prevail. Project specific modifications have been made in the UPR 2008, especially in relation to thresholds for triggering various procurement methods and approval processes, to ensure smooth functioning of the Project and timely execution of Project activities. IFAD may attach Standard Bidding Documents (SBD) to the Financing Agreement / Letter to the Borrower, so that these are used for undertaking procurement under this project, if need be. Concepts relating to Accountability, Competition, Fairness, Transparency, Efficiency, Effectiveness and Value for Money, which are central to IFAD's Procurement Philosophy are discussed in the Procurement Guidelines in the draft PIM.

The Procurement Process involves the purchasing, acquiring, hiring or obtaining of goods, works and services by any contractual means and can be defined in more detail as procurement of goods, procurement of works and procurement of services. The procurement cycle consists of General Procurement Notice, Tender Document Preparation, Pre-Qualification, Advertisement, Receipt of Tenders, Public opening of Tenders, Evaluate of Tenders, Award of Contract, Issue of Work Order or Purchase Order and Performance of contract. Details of the Government's procurement methods are included in the PIM.

As all the implementation agencies for ILSP have considerable expertise and experience in the area of procurement, a major capacity building exercise in this area, may not be necessary. However, to further strengthen procurement processes, it is proposed that an IFAD Financial Management and Procurement Specialist support the project with a number of short inputs, especially at the start-up phase.

### **2. ILSP Procurement at Community level**

#### **(a) Community Level Procurement**

Construction of watershed conservation works will be carried out following the established practices of the WMD using the Water and Watershed Management Committees of the respective Gram Panchayats. As Procurement with Community Participation method is not specifically covered by the UPR, so such procurement may be undertaken in general compliance with the IFAD Procurement Guidelines, and by adopting the Community Procurement Manual of World Bank-funded UDWDP as the ILSP manual (included in the draft PIM).

### **3. Procurement of Civil Works**

173. Construction of civil works for rural infrastructure such as irrigation systems, link roads, and markets, It is expected that most of the procurement of civil works will be done under Paragraph 40 of UPR (Procurement of Works by obtaining of Bids/Tenders).

#### **4. ILSP Procurement of Goods**

##### **(a) Procurement of vehicles and equipment**

Vehicles and motorcycles for the project will most likely be procured through 'Purchase of Goods directly under Rate Contract' under paragraph 1.9 of the UPR 2008. The option exists for procurement from other suppliers through 'Purchase of Goods by Obtaining Bids/Tenders' under paragraph 3.10 of the UPR. Purchase of computers, other office equipment and office furniture would primarily be from local suppliers under paragraph 3.9 or 3.10 referred above. – although there is also the option of 'Purchase of Goods by Purchase Committee' under paragraph 3.8 of the UPR if the estimated contract value is below the threshold. Care should be taken to see that requirements are bulked up wherever practical.

##### **(b) Procurement of operating materials**

Vehicle operating costs would be procured using 'Purchase without quotations' under paragraph 3.8 of the UPR or under 3.9 of the UPR referred earlier. Procurement for office running expenses would follow the same procedure.

#### **4. ILSP Procurement of Services**

##### **(a) Procurement of NGOs**

ILSP proposes to outsource much of the field level implementation of the project activities to well qualified and experienced NGOs. UGVS will engage about six experienced and competent Partner NGOs to implement field level activities. WMD will engage two Field NGOs for social mobilization and six NGOs Divisional Support Agencies (one for each district) for agribusiness development. Under the innovation and linkage sub-component of Component 1, NGOs may also be engaged. The selection and contracting of NGOs will be done as per methods listed in 'Identification of likely sources' under paragraph 4.50 of the UPR 2008 with QCBS (Quality and Cost Based Selection) under paragraph 4.59 of the UPR 2008, being used to select successful bidders. In the first year of the Project, the following methods will be applied to ensure that there is no undue delay in implementation of scheduled project activities.

- (d) Competitive selection via National Competitive Bidding would be used to select NGOs for UGVS as discussed in 'Identification of likely sources' under paragraph 4.50 (2 & 3) of the UPR 2008
- (e) Direct contracting or Consultancy by Nomination under paragraph 4.58 of the UPR may be used by WMD to re-nominate NGOs who have proved themselves to be good performers under UDWDP, and to avoid any delay in the start-up of the project. It could be followed by a competitive selection process as discussed in paragraph 4.50 (2&3) to select a suitable NGO. This will require special IFAD approval.
- (f) NGOs and other agencies may be asked to do specific tasks that reflect their unique capabilities, "Outsourcing by choice" method (vide Paragraph 4.64) or single source selection may be the most appropriate procurement methods (as per paragraph 4.58 of the UPR).

##### **(b) Procurement of training services**

Training directly organised by the PMU could be procured via "consultancy by Nomination" under paragraph 4.58 of the UPR or Single Source Selection – where there is only a single qualified supplier, or the supplier is a government agency (such as an agricultural research institute). If there are a small number of qualified organisations, then RFQ method discussed in 'Identification of likely sources' under paragraph 4.50 (1) may be used subject to the limits in the UPR 2008. However for many courses, the PMU and/or other implementing offices will organise each element of the training, and individual trainers may be hired via Selection of Individual Consultant (SIC), with training allowances, food and miscellaneous costs paid for via Purchase without Quotations under paragraph 3.8 of the UPR.

**(c) Procurement of studies**

It is envisaged that most of the required studies and surveys would be carried out by the CPMU (M&E unit) & PMUs. There will also be some requirement to recruit specialised agencies to carry out additional studies such as the RIMS anchor indicator studies. The procurement of consultants to carry out these studies would follow the methods listed in 'Identification of likely sources' under paragraph 4.50 of the UPR 2008 with QCBS (Quality and Cost Based Selection) under paragraph 4.59 of the UPR 2008, being used to select successful bidders. In some cases Consultancy by Nomination under paragraph 4.58 of the UPR 2008 (Single Source Selection) may also be used if the topic is highly specialised and there is only a single qualified bidder (such as for the RIMS surveys). IFAD would make a prior review of the selection of firms to undertake this work, if the contract value exceeds the prior review threshold mentioned in the LTB.

**(d) Procurement of staff and consultants**

Some key project staff, including the Chief Project Director (CPD), Project Directors (PDs) and Finance Controllers (FCs) would be seconded from GoUK, but most project staff would be recruited by IAs on a contract basis. For such recruitment, the CPMU/ PMUs would form a recruitment committee headed by the CPD/PD with representatives from the IAs and other agencies. Candidates would be short listed according to ToR which specifies the tasks to be carried out and required qualifications, experience and age limits if any. Short listed candidates would then be interviewed. For senior positions the CVs of the top three candidates for each position would be sent to IFAD for approval prior to their appointment. Draft ToRs would be included in the draft Project Implementation Manual.

Some senior and specialised advisory posts would be filled by consultants. All 3 Implementing Agencies have an existing team of Consultants who implement ULIPH/UDWDP. The IAs have an option to extend the contracts of these Consultants after a transparent performance appraisal process. In case new Consultants need to be recruited by IAs, the process to be followed will be the same as for ILSP contract staff, with a recruitment committee, ToRs and IFAD review of the top three CVs prior to appointment.

**(e) All other Procurement of Services**

All other procurement of services other than those specifically discussed above would be carried out under the RFP Method (Paragraph 49- 58 of the UPR) using QCBS (Paragraph 59 of the UPR) as the basis of selection from among shortlisted candidates.

## Annex 9: Project Cost and Financing

### 1. Assumptions

- (e) **Project Period.** The Project would be financed over a seven-year period starting in April 2012 (start of FY 2012-13).
- (f) **Price contingencies** have been applied at a rate of 4.5% per year. Although domestic inflation is currently higher (over 8%), the international inflation rate is 2.5% and it can be assumed that the Indian Rupee will lose some of its value against the dollar, and higher domestic inflation will, to some extent, be offset by this devaluation.
- (g) **Exchange Rate.** The base rate of exchange has been set at INR (Indian Rupee) 45.5 to USD 1.00, the prevailing in August 2011. Future exchange rates have been calculated assuming constant purchasing power parity is maintained. Based on this, the exchange rate at project completion (2019) would be INR 51.6 = USD 1.00.
- (h) **Taxes and Duties.** Almost all items procured under the Project would be purchased locally. Taxes are assumed to be 5% on technical assistance, training, studies, staff and operating costs, 15% on vehicles, and 10% on office equipment and computers.
- (i) **Physical contingences** – no physical contingencies have been added as only a very small proportion of project funds will be used for construction.

### 2. Project costs

Based on current 2011 prices, total project costs are estimated at USD 247.3 million (INR 11,252 million). Price contingencies add a further 5 percent, to make a total cost of USD 258.8 million (INR 12,229 million). Livelihood Finance accounts for 46% of project costs, but this is large bank funds flowing to enterprises supported by the project. The Participatory Watershed Development component accounts for 36% of base cost, and Food Security and Livelihood Enhances component accounts for 17% of base cost while the central project management and M&E unit accounts for 1% of project costs.

**Table 1: Project Costs by Component**

Components	(INR '000)	(US\$ '000)	% of total base cost
	Total	Total	
<b>A. Food Security &amp; Livelihood Enhancement</b>			
1. Food Security & Scaling up	1,041,408	22,888	9
2. Access to Market	129,083	2,837	1
3. Innovation Linkages	97,815	2,150	1
4. Vocational Training	222,000	4,879	2
5. UGVs: Project Management Unit	406,638	8,937	4
<b>Subtotal Food Security &amp; Livelihood Enhancement</b>	<b>1,896,944</b>	<b>41,691</b>	<b>17</b>
B. Participatory Watershed Development	4,020,325	88,359	36
C. Livelihood Finance	5,211,460	114,538	46
<b>D. Project Management</b>			
1. Project Coordination Unit	17,917	394	
2. M&E and Knowledge Management	104,882	2,305	1
<b>Subtotal Project Management</b>	<b>122,799</b>	<b>2,699</b>	<b>1</b>
<b>Total BASELINE COSTS</b>	<b>11,251,528</b>	<b>247,286</b>	<b>100</b>
Physical Contingencies	-	-	-
Price Contingencies	977,207	11,525	5
<b>Total PROJECT COSTS</b>	<b>12,228,735</b>	<b>258,812</b>	<b>105</b>

### 3. Financing

The Project will be financed by IFAD and the Government, with contributions from beneficiaries. Significant additional funds will flow from financial institutions such as banks, and project groups will also benefit from convergence with other government and NGO programmes. The IFAD loan will be USD 89.9 million (35% of total project costs), the Government funding is estimated at USD 48.0 million (19% of the total), bank credit USD 109.9 million (42% of total), while the beneficiaries contribution is USD 11.0 million (4% of total project costs). Taxes (funded out of the Government contribution) amount of USD 2.3 million. Table 2 provides a summary by expenditure categories of the proposed financing arrangement. Other summary financing tables are in Working Paper 12.

**Table 2: Financing Plan by Expenditure Accounts**

	IFAD USD'000	Government USD'000	Banks USD'000	Beneficiaries USD'000	Total USD'000	percent	Taxes USD'000
<b>I. Investment Costs</b>							
A. Civil work	6,930	430	-	2,258	9,618	3.7	195
B. Watershed treatment	20,260	2,533	-	3,270	26,063	10.1	-
C. Vehicles	301	100	-	-	401	0.2	60
D. Equipment and materials	744	138	-	-	882	0.3	23
E. Training and workshops	2,175	220	-	21	2,416	0.9	86
F. Capacity Building	14,499	1,355	-	2,198	18,052	7.0	302
G. Survey & studies	133	15	-	-	147	0.1	-
H. Technical Assistance	403	45	-	-	447	0.2	10
I. Agribusiness	308	34	-	-	343	0.1	-
J. Livelihoods support	20,952	1,300	-	3,232	25,484	9.8	-
K. Viability Gap Fund	813	-	-	-	813	0.3	-
L. Livelihoods financing	140	2,637	109,890	-	112,667	43.5	-
M. Service Providers contracts	2,269	252	-	-	2,522	1.0	67
<b>Total Investment Costs</b>	<b>69,927</b>	<b>9,059</b>	<b>109,890</b>	<b>10,979</b>	<b>199,855</b>	<b>77.2</b>	<b>743</b>
<b>II. Recurrent Costs</b>							
A. Salary and allowances	6,202	34,417	-	-	40,619	15.7	617
B. Operations and maintenance	13,786	4,551	-	-	18,337	7.1	963
<b>Total Recurrent Costs</b>	<b>19,988</b>	<b>38,969</b>	<b>-</b>	<b>-</b>	<b>58,956</b>	<b>22.8</b>	<b>1,580</b>
<b>Total PROJECT COSTS</b>	<b>89,914</b>	<b>48,028</b>	<b>109,890</b>	<b>10,979</b>	<b>258,812</b>	<b>100.0</b>	<b>2,323</b>

The value of that will accrue to members of ILSP groups through convergence with other programmes, including NRLM, the Prime Minister's road programme, and programmes for horticulture, livestock and market development, is estimated to be USD 65 million (INR 2,964 million) over the project period. Adding this on to the cost of USD 259 million, gives a total of USD 324 million, of which IFAD is contributing USD 90 million (or 28%).

The financing rules adopted for each of the disbursement accounts are summarised in Table 3. The IFAD loan would fund between 75% and 100% of the cost of most categories of expenditure other than staff and operating costs, where IFAD and the Government would each contribute 50% of the cost, and the supplementary capital for UPASAC development finance funds, which will be 100% funded by the Government.

**Table 2: Disbursement Accounts and Financing Rules**

<b>Description</b>	<b>Financing Rules</b>
1. Watershed development works	IFAD 80%, Beneficiaries 20%, gross of taxes
2. Civil works & infrastructure <sup>1</sup>	IFAD 80%, Government 20% gross of taxes
3. Vehicles, equipment, materials	IFAD 75%, Government 25%, gross of taxes
4. Capacity building	IFAD 90%, Government 10%, gross of taxes
5. Funding of community groups <sup>1</sup>	IFAD 100%
6. Salaries and operating costs	IFAD 50%, Government 50%, gross of taxes
7. Vocational training <sup>2</sup>	IFAD 100%
8. Development Finance Funds <sup>3</sup>	Government 100%

<sup>1</sup> Net of beneficiary contributions of to up to 25% of total amount of investment

<sup>2</sup> Scholarship recipients will contribute around 50% of the total cost of their vocational courses, depending on their circumstances.

<sup>3</sup> Capital funds for UPASAC for equity investments and loans

## Annex 10: Economic and Financial Analysis

### I. FINANCIAL ANALYSIS

#### A. Introduction

1. Financial analysis has been carried out to: (i) evaluate the viability of the improved agricultural production technologies; (ii) analyse the impact of these improvements on adopting households; (iii) assess the incremental production; and (iv) provide a basis for the economic analysis of the project. The analysis is based on prices and costs collected by the Formulation mission during its field work in May 2011. Carrying out the analysis has been extremely complex given varying agro-ecological regions and hilly terrains, soil types, complex cropping patterns, even more complex land distribution patterns and socio-economic settings and highly varying prices of agricultural inputs and farm outputs at farmgate levels. In developing models, therefore several adjustments have been made in order to ensure that a reasonable outcome of estimates of benefits is obtained.

**Table 1: Production Models**

<u>Production models</u>	Model size	No. of HH per unit
<u>Cereal crops:</u> Paddy, Wheat, Barley, Finger millet, Maize, Amaranthus, Sorghum, Soybean, Kidney beans, Pulses,	1 ha	2 hh or less
<u>Vegetable crops:</u> Tomato, Pea, Cabbage, Capsicum, Cauliflower, French beans, Potato	1 ha	10 hh
<u>Orchards &amp; flowers:</u> Apple, Stone fruits, Marigold, Gladiolus	1 ha	10 hh
<u>Medicinal and Aromatic plants:</u> Kuth, Kutki, Lemon Grass, Rosemary, Tulsi	1 ha	10 hh
<u>Spice:</u> Turmeric, Garlic, Ginger, Coriander, Chilli	1 ha	10 hh
<u>Livestock:</u> 2 animal dairy unit, Goat farming (5 goats + 1 buck) unit, Kroiler (50 day old chicks) unit, Bee-keeping units: improved wall hive and box type	1 unit	1 hh
<u>Pellet making from pine needles</u>	1 unit	1 hh
<u>Afforestation:</u> Fodder trees, Tree crops, Fuelwood trees, Bamboo plantation	1 ha	5 to 6 hh

#### B. Farm models

2. Using indicative crop, activity and plantation models, several Farm and Household Models were prepared using FARMOD software. The models broadly illustrate the project's expected impact on the incomes, and labour use of households adopting and/or adapting both on-farm and non-farm technology options, and are briefly described below.

Rainfed crops: includes rainfed paddy, wheat, vegetables, potato, pulses, millet and oilseed with a cropping intensity of about 120%. No major shift in cropping patterns proposed. For UGVS the average size of farm is 0.75 ha with 91,140 households. For WMD watersheds the farm size is 0.89 ha and 39,610 households participate.

Improved agriculture: for the watershed subproject, 2,310 PGs each year participate in improved agriculture with seed and other input support, with each household cultivating 0.1 ha of area, primarily under rainfed conditions

Irrigated agriculture: Under Ajeevika subproject, some 204 irrigation schemes covering 2,040 ha and 10,200 households, with an average area of 0.2 ha/household and 123% cropping intensity.

Vegetables production: Off-season vegetables are cultivated under rainfed and irrigated conditions on about 300 ha, involving 3,000 households each year.

Seed production: Major seed crops are rain fed paddy, maize, Amaranthus, soybean, pulses etc. In all 2,295 ha and involving some 22,950 households are supported under the project.

**Spices production:** Major spice crops promoted are turmeric, garlic, ginger, coriander and chilli. Some 3,000 households participate each year, each cultivating no more than 0.1 ha.

**Orchards and floriculture:** Apple and stone fruits like peach, plum, pear, kiwi etc are supported under the project involving some 1,150 households and each cultivating 0.1 ha of area. While a “new planting” model is assumed, there is scope for improvement of existing orchards. Under floriculture both marigold and gladiolus are supported by involving some 1,150 households and each cultivating about 0.1 ha.

**MAP cultivation:** Major medicinal and aromatic plants promoted by the project include kuth, kutki, lemon grass, Rosemary, Tulsi etc. In all, 1150 ha involving some 11,500 households.

**Afforestation:** Some 2,100 ha of area is proposed and planted with fodder trees, tree crops, fuel wood trees and bamboo, involving 275 van panchayats, each managing some 14 ha.

**Kroiler production:** Individual households, who are landless, are provided Kroiler unit with 50 day old chicks and facilities for a 5 cycles a year. In all 688 households are supported.

**Goat-keeping:** Individual, landless households are provided a goat unit (5 goats and one buck) and in all some 920 households are supported.

**Bee-keeping:** Both wall-hive and box type bee units are supported and in all 4,350 households participate in this intervention.

**Fuel pellet-making:** Some 1,710 individual households are assisted in the installation of briquette making unit using pine needles with a capacity of 50 kg pellets/hr.

3. Details of the financial analysis of models presented in the Financial and Economic Analysis Working Paper 13, and are summarized in Table 2 below:

**Table 2: Results of Farm Models**

Model	Income (INR)	Input Cost (INR)	Labour (INR)	BCR (ratio)	FIRR (%)	NPV (INR)
Agriculture –Ajeevika (0.75 ha)	34,487	3,982	11,067	2.42		42,648
Agriculture- watershed (0.89 ha)	40,357	4,087	12,789	2.93		48,864
Irrigated agriculture (1 ha)	45,146	3,982	11,541	3.60		143,467
Improved agriculture (0.89 ha)	36,561	2,860	11,110	2.94		57,920
Vegetable production (1 ha)	89,297	14,270	13,058	11.11		337,970
Seed production (1 ha)	52,250	5,517	9,040	2.21		83,226
Spices cultivation (1 ha)	296,000	66,280	14,400			297,563
MAP (1 ha)	61,000	23,200	6,000	1.79	83	509,391
Afforestation (1 ha)	28,000	3,391	3,150	2.26	20	90,223
Orchards & floriculture(1 ha)	345,625	207,344	34,525	3.82	216	2312,993
Kroiler unit 1/	9,000	9,375	1,000	0.93	-13	-23,846
Goat-farming 2/	32,900	21,900	10,000	0.93	-6	-94,167
Bee-keeping 3/	4,200	200	3,000	1.09	7	-2,445
IGA unit	15,000	3,000	5,000	1.41	116	51,370

1/ 50 day old chick unit; 2/ Five goats and one buck unit; 3/ one wall-hive and box type unit;

NPV & BCR estimated at a 10% discount rate on incremental costs and benefits streams.

4. In general, the livestock-based activities including dairy are not financially profitable due to their low productivity, high feed cost and market access. But when the nominal cost of household labour excluded, these activities tend to be viable.

### C. Sub-project models

5. Two sub-project models were developed: (i) Ajeevika (UGVS) sub-project for Food Security and Livelihood Enhancement and (ii) watershed subproject. The Ajeevika sub-project includes the following



farm models: rainfed agriculture, irrigated agriculture, seed production, spices cultivation, MAP, orchards and floriculture, livestock etc. Cropping intensity increases from 121% without project to 131% at full development. The watershed subproject has rainfed agriculture, improved agriculture, vegetable production, spices cultivation, afforestation models. Cropping intensity increases from 117% at present to 124% at full development. Results of analysis of these two subprojects are summarised in Table 3 below with more details are in the Financial and Economic Analysis Working Paper 13.

**Table 3: Results of sub-project models<sup>1</sup>**

Details	Ajeevika (INR/hh)		Watershed (INR/hh)		Project (INR/hh)	
	WOP	WP	WOP	WP	WOP	WP
Gross income (INR)	32,553	50,243	39,795	53,102	34,439	50,737
Purchased Inputs (INR)	4,874	5,689	5,179	5,538	4,931	5,621
Labour (INR)	9,505	11,543	12,974	15,076	10,401	12,446
Net income (INR)	18,174	33,011	21,642	32,988	19,017	32,670
BCR at 0% discount rate	2.26	2.92	2.19	2.57	2.24	2.80

1/ At full development stage and assuming all labour requirements met by households themselves.

## II. ECONOMIC ANALYSIS

6. Economic analysis has been carried out to evaluate the contribution of the project to the wider economy of the state. The analysis includes all incremental costs and incremental benefits that are quantifiable and associated with the project's investments in development. The principal assumptions that underlie this economic analysis are:

- A 25 year analysis period has been used, including a 7 year investment period.
- All agricultural inputs and outputs that are traded are valued at their border prices as of June 2011. These have been adjusted to allow for transport and marketing costs between the state border and target districts, to give an economic export parity value at the farm gate.
- Economic costs are net of duties, taxes and price contingencies, credit, office rent, grant and subsidies but inclusive of physical contingencies. All costs directly associated with the incremental production are included in full, including incremental farm inputs and family labour.
- A standard conversion factor (SCF) of 0.85 is applied to both traded and non-traded items for adjusting financial prices.
- The average financial rural wage rate is taken to be the best estimate of the economic value of labour. This wage of INR 100 per day reflects seasonal variation in employment opportunities in the project area. The financial wage rate is thus taken to reflect the value of the marginal product of agricultural male and female labour without the project;
- The analysis includes only on-farm benefits and including attributable benefits from soil and water conservation but excludes benefits from milk production, which was not associated with breed improvement;
- Time required for the full development has been assumed to be 9 years to allow for farming system development, technology transfer and improved access to markets;
- No significant changes or shifts in cropping patterns are assumed;
- The analysis employs an Opportunity Cost of Capital (OCC) at 10%.

7. Project Performance Indicators: The overall project EIRR is 23%. The estimated NPV at a 12% discount rate is INR 3,432 million and the BCR is 1.55. Sensitivity analysis shows that project performance is robust, with a 20% increase in cost only reducing the EIRR to 18% and a 20% reduction in benefits reducing the EIRR to 17%. A combination of a 20% cost increase and 20% reduction in benefits, reduced the EIRR to 13%. Switching values<sup>17</sup> indicate that the investments are viable if costs increase by 55% or benefits decline by 35%. Further sensitivity analysis is in Working Paper 13 Section II C.

<sup>17</sup> Switching values are yet another measure of sensitivity analysis They demonstrate by how much a variable would have to fall (if it is a benefit) or rise (if it is a cost) to make it not worth undertaking an option.

**Table 4: Sensitivity analysis**

Scenario	Internal Rates of Return of Net Streams				
	Base Case	Cost Increases by		Benefits down by	
		10%	20%	10%	20%
Net incremental benefits stream for a 25 year period used.	23	20	18	20	17

### III. BENEFITS AND BENEFICIARIES

8. **Beneficiaries:** The total number of households benefited by the project is about 143,000 or roughly 0.72 million people (Table 5).

**Table 5: Number of Benefited Households**

Subproject households	Project Year							
	1	2	3	4	5	6	7	
Ajeevika households	0	23,250	46,500	69,750	93,000	93,000	93,000	Cumulative
Watershed households	2,175	7,250	15,950	25,375	34,075	37,700	40,000	Cumulative
Vocational training hh	0	2,000	4,000	6,000	8,000	10,000	10,000	Cumulative
<b>Total</b>	<b>2,175</b>	<b>32,500</b>	<b>66,450</b>	<b>101,125</b>	<b>135,075</b>	<b>140,700</b>	<b>143,000</b>	<b>cumulative</b>

9. **Benefits:** On an average, a household's food production benefits will increase from 2,461 kg/household to over 3,000 kg, excluding fruits, vegetables and spices. Increased production of fruits and vegetables, along with livestock products, will help improve human nutrition. Farm incomes, including the value of family labour will increase from INR 29,508 to some INR 45,116. There are marginal increases in demand on family labour from the existing level of 112 person-days to some 134 person-days.

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

## **Annex 11: Draft Project Implementation Manual**

The PIM will contain, in addition to material in these annexes and the project design working papers, the following information:

- Terms of reference for project staff and consultants
- Terms of reference for NGOs
- Guidelines for value chain analysis
- Guidelines for market education and extension
- Guidelines for KAP surveys
- Terms of reference for impact survey
- Annual RIMS reporting table
- Annual Workplan and Budget for project year 1
- Procurement Plan for first 18 months
- Procurement Guidelines
- Fiduciary Aspects Capacity Assessment Tool
- Terms of reference for IFAD implementation support
- Terms of reference for audits

## Annex 12: Adherence to IFAD policies

This annex reviews the adherence of project design to the following IFAD policies and strategies:

- Gender sensitive design
- Targeting policy
- Climate change strategy
- Scaling up
- Good governance
- Environment (Environmental and social screening and scoping note)

### Pre-requisites for gender sensitive design<sup>18</sup>

	Yes	No	Partial	Issues and Recommendations
<b>1. Project document contains poverty and gender analysis data.</b>	X			
<b>2. Based on the above, the project articulates a gender strategy that aims to:</b>				
<ul style="list-style-type: none"> <li>• Expand women's access to and control over fundamental assets – capital, land, knowledge and technologies;</li> </ul>	X			The project will focus on agriculture where women are the primary workforce. Specific actions will be taken to promote the role of women in management of farm and related enterprises.
<ul style="list-style-type: none"> <li>• Strengthen their agency – thus their decision-making role in community affairs and representation in local institutions;</li> </ul>	X			The project will enable women to take management roles in community marketing and agricultural support institutions.
<ul style="list-style-type: none"> <li>• Improve well-being and ease workloads by facilitating access to basic rural services and infrastructures.</li> </ul>	X			The introduction of new technologies and enterprises will aim to reduce the workload of women, while a move to from subsistence to cash crops will result in an increase in male participation on farming.
<b>3. The project identifies operational measures to ensure gender-equitable participation in, and benefit from, planned activities, and in particular:</b>				
Sets specific targets in terms of proportion of women participants in different project activities and components;	X			Overall membership of producer organisations will aim to be at least 50% female.
Ensures women's participation in project-related decision-making bodies; and	X			
Clearly reflects actions identified in the gender strategy in the cost tables;	X			
Ensures that the Terms of Reference of project coordinating unit or project management unit (PMU) include responsibilities for gender mainstreaming, especially at level of project director, M&E officer, extension officer and microfinance officer;	X			
Explicitly addresses the issue of present and likely availability of field staff to ensure outreach to women, and designs activities accordingly;	X			Experience of UHIPL shows that project staff have no problem in reaching women. A significant proportion of project and of partner NGO staff will be women.
Establishes experience working with women and marginalized groups and willingness to work with these groups is a criterion for NGO selection.	n/a			This will be included in NGO selection NGOs will not be contracted for this project.
<b>4. The project logframe and suggested monitoring system specify sex-disaggregated performance and impact indicators.</b>	X			Further details are in the M&E annex
<b>5. The project provides opportunities for policy dialogue on issues related to gender equality and empowerment of women.</b>	X			Will be part of project knowledge management.

<sup>18</sup> Adapted from: "Mainstreaming a gender perspective in IFAD's operations – Plan of Action, 2003-2006"

### Compliance with IFAD targeting policy

	<b>Key policy principals</b>	<b>Degree of compliance</b>	<b>Comments and observations</b>
1	Focus on rural people who are living in poverty and experiencing food insecurity, and who are able to take advantage of the opportunities to be offered (sometimes referred to as "the productive poor" or "active poor");	Yes	A major thrust will be to improve food security.
2	Expand outreach to proactively include those who have fewer assets and opportunities, in particular extremely poor people as referred to in MDG 1;	Yes	Extra assistance will be provided to groups of vulnerable people – specifically scheduled castes
3	Include marginalized groups, such as minorities and indigenous peoples, and address their specific needs;	Yes	Specific target for scheduled castes – 18% of population, but few indigenous people in the area
4	Address gender differences and have a special focus on women within all identified target groups – for reasons of equity, effectiveness and impact – with particular attention to women heads of household, who are often especially disadvantaged;	Yes	At least half of all Producer Groups must be female. Women headed households may be included as a vulnerable group.
5	Recognize that relative wealth or poverty can change rapidly due to external shocks and that this vulnerability needs to be addressed;	Yes	Climate change will be addressed and there will be measures to reduce risk – such as various types of insurance.
6	Clearly identify at the programme or project design stage who the intended target groups are and why, and consistently apply these categories, during implementation, in monitoring and evaluation (internal and external) of targeting performance. There will be cases when better-off people may need to be included – because of economic and market interdependencies, to avoid conflict, or to engage them as leaders and innovators. In such cases, the rationale and justification should be provided, and risks of excessive benefit capture carefully monitored;	Yes	Monitoring, including annual outcome surveys, will establish the degree to which people participating on project activities are from the poorer categories of the population.
7	Identify and work with like-minded partners at local, country, regional and international levels to develop a shared understanding of both the dynamics of rural poverty in different contexts and successful targeted approaches;	Partly	To simplify implementation, formal partnerships with other poverty-focused agencies are being limited. However the project will work with a number of NGOs and research agencies.
8	Pilot and share learning on successful approaches to targeting hard-to-reach groups; and	Yes	Knowledge management will disseminate lessons – especially regarding livelihoods, and access to markets
9	Build innovative and complementary partnerships with actors that can reach target groups that IFAD cannot reach with the instruments at its disposal.	Partly	Will share lessons with other government agencies, NGOs and other donors who can address health, education and other needs.

### Compliance with IFAD climate change strategy

<b>Goal:</b> To maximize IFAD's impact on rural poverty in a changing climate	
<b>Statements of purpose:</b>	<b>ILSP response</b>
1. To support innovative approaches to helping smallholder producers build their resilience to climate change.	Climate resilient livelihoods – including improved food crop production with irrigation and watershed conservation works. Introduction of risk reduction measures such as weather index insurance.
2. To help smallholder farmers take advantage of available mitigation incentives and funding.	No specific plans in project design to mobilise additional funds for mitigation, but opportunities may arise during implementation
3. To inform a more coherent dialogue on climate change, rural development, agriculture and food security.	M&E systems will generate information on the outcomes of project activities focused on climate resilience. Lessons will be disseminated via knowledge management activities.

### Good Governance Framework

This Good Governance Framework is based on the following key principals:

- **Transparency** is the foundation for accountability and participation. Information in the public domain and an open & visible decision-making processes signals that there is nothing to hide.
- **Accountability** implies probity in how resources are mobilized and used, and for what ends.
- **Participation (or inclusion)** represents the “demand side” of good governance, and implies that people should have a voice in the decisions that may affect them. The involvement of affected communities in all stages of projects can simultaneously improve development outcomes and reduce the scope for fraud and corruption.

Project processes	Actions to be taken	Accountability and transparency	Participation and inclusion	Guidelines/regulations to be followed
<b>Targeting</b>	<ul style="list-style-type: none"> <li>▪ Ensure inclusion of disadvantaged groups in project activities. This requires targeting policies and monitoring of composition of PGs etc.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Progress reports</li> <li>▪ Outcome surveys</li> <li>▪ IFAD supervision reports</li> </ul>	<ul style="list-style-type: none"> <li>▪ Report back to GPs on composition of PGs and other project groups</li> </ul>	<ul style="list-style-type: none"> <li>▪ IFAD appraisal report</li> <li>▪ ILSP group formation guidelines</li> </ul>
<b>Planning (project level)</b>	<ul style="list-style-type: none"> <li>▪ Annual plans for project activities need to conform to GoUK processes and IFAD appraisal, and be approved by PMC and IFAD</li> </ul>	<ul style="list-style-type: none"> <li>▪ CPCU report to PMC</li> <li>▪ IFAD &amp; GoUK approval of AWPB</li> <li>▪ Progress reports on implementation of AWPB</li> </ul>	<ul style="list-style-type: none"> <li>▪ PRA at design stage got feedback from local people.</li> <li>▪ Disclosure of AWPB</li> </ul>	<ul style="list-style-type: none"> <li>▪ GoUK procedure for annual budget</li> <li>▪ IFAD AWPB guidelines</li> </ul>
<b>Planning (local level)</b>	<ul style="list-style-type: none"> <li>▪ Participation in plans at local level by Gram Panchayat and field level groups</li> </ul>	<ul style="list-style-type: none"> <li>▪ Progress reports with information on GP participation (especially for watersheds)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Progress reports feedback to GPs and LCs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Participatory planning guidelines</li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>▪ Transparent and efficient procurement process to ensure best quality/price.</li> <li>▪ IFAD implementation support to train staff in procurement processes.</li> <li>▪ IFAD prior reviews</li> <li>▪ WMD fund accountants in GP offices</li> </ul>	<ul style="list-style-type: none"> <li>▪ External audits cover procurement processes</li> <li>▪ IFAD supervision missions spot check procurements</li> <li>▪ IFAD technical audits if needed to check value for money and leakages.</li> </ul>	<ul style="list-style-type: none"> <li>▪ PMC and IFAD receive audit report</li> <li>▪ IFAD supervision reports and any technical audits to IFAD &amp; GoB.</li> <li>▪ GP involved in checking procurement for watershed development.</li> </ul>	<ul style="list-style-type: none"> <li>▪ GoUK Procurement Regulations</li> <li>▪ IFAD procurement guidelines</li> <li>▪ Annual procurement plan</li> </ul>
<b>Physical activities and outputs</b>	<ul style="list-style-type: none"> <li>▪ Need to monitor progress in terms of quantity and quality.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Outcome surveys check on outputs delivered to benef. hh.</li> <li>▪ Progress reports of implementing agencies</li> <li>▪ KAP studies on training quality</li> <li>▪ Project website</li> <li>▪ IFAD supervision reports assess progress</li> </ul>	<ul style="list-style-type: none"> <li>▪ Internal coordination workshops</li> <li>▪ Project progress reports to RDD, WMD, IFAD &amp; PMC</li> <li>▪ Reports to local government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government budget</li> <li>▪ IFAD appraisal report</li> <li>▪ Micro-watershed plans</li> <li>▪ Producer Group and Livelihood Collective plans</li> </ul>
<b>Financial management</b>	<ul style="list-style-type: none"> <li>▪ Minimise cash transactions</li> <li>▪ Training of Livelihood Collective and other group leaders and members in accounts.</li> <li>▪ IFAD implementation support will train staff in project accounting and financial processes.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Consolidated financial statements</li> <li>▪ Internal audit</li> <li>▪ External audit</li> <li>▪ IFAD supervision mission reports will check financial statements &amp; accounting system</li> </ul>	<ul style="list-style-type: none"> <li>▪ LC and other CBO accounts discussed and agreed with all members.</li> <li>▪ Rotation of group leaders and regular elections.</li> <li>▪ Audit report to PMC &amp; IFAD</li> <li>▪ Consolidated financial statements to IFAD</li> <li>▪ IFAD supervision reports to IFAD &amp; GoUK.</li> </ul>	<ul style="list-style-type: none"> <li>▪ IFAD financial reporting guidelines</li> <li>▪ Government accounting systems</li> <li>▪ ToR for internal and external audit</li> </ul>
<b>Results and impact</b>	<ul style="list-style-type: none"> <li>▪ Reporting of outcomes and results</li> <li>▪ Knowledge management to utilise information generated</li> </ul>	<ul style="list-style-type: none"> <li>▪ IFAD supervision reports</li> <li>▪ IFAD RIMS indicator reporting</li> <li>▪ Outcome and KAP surveys collect evidence on how well project outputs are delivered.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project website with results of M&amp;E</li> <li>▪ Experience sharing publications and workshops.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project M&amp;E guidelines</li> <li>▪ IFAD RIMS guidelines</li> <li>▪ Project KM strategy</li> </ul>
<b>Complaints remedies</b>	<ul style="list-style-type: none"> <li>▪ Complaints procedure</li> <li>▪ Ethical code for staff to avoid conflicts of interest and including sanctions for fraudulent and corrupt practices</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investigative processes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reports to RDD, WMD &amp; IFAD</li> <li>▪ Feedback to GP if needed</li> <li>▪ Phone numbers of leaders of project groups &amp; project managers circulated to relevant persons.</li> </ul>	<ul style="list-style-type: none"> <li>▪ LGED complaints guidelines</li> <li>▪ Staff ethical code</li> </ul>

## **IFAD Framing Questions for Scaling Up**

### **1. What is the intervention that is to be scaled up? Is it a new idea (innovation) or an idea adopted and adapted from prior practice elsewhere?**

Interventions that are going to be scaled up in ILSP include:

Crops production technologies: greenhouses, vermicompost, new crop varieties, farmer seed production, etc. These have already been tried in Uttarakhand by ULIPH and other agencies.

Fodder production – grasses and fodder trees, along with feed supplements. These have already been tried in Uttarakhand by ULIPH and other agencies.

Backyard poultry – kuroiler breed and possibly mini-hatcheries. Kuroilers were promoted by ULIPH, while mini-hatcheries have been part of IFAD-funded projects in Bangladesh.

Value chain development approach to market development. This has been done by a number of agencies – including IFAD projects in Bangladesh and other countries.

Participatory watershed development – this has been used in Uttarakhand by the Watershed Management Directorate, and in other states in India – including in projects funded by IFAD

Insurance – weather index for crops, cattle, health – these are innovations for the target group of poor households, and has been tried elsewhere – both by IFAD projects (weather index insurance via grant projects, cattle insurance in Bangladesh) and by other programmes in India and other countries.

Forest fringe area development – user rights for poor households. This is an innovation for India based on the IFAD-funded leasehold forestry programmes in Nepal

### **2. Whose idea is it?**

The exact origins of these interventions have not been identified.

### **3. Has it been tested/piloted/evaluated?**

As described in paragraph one, these interventions have been tested and piloted elsewhere.

### **4. What is the appropriate ultimate scale of the intervention which the IFAD project or program supports in country X? I.e., how many people, households, districts, etc. could and should ultimately be reached, not merely by IFAD's own program and also by others (government, IFIs, etc.)?**

The planned outreach of ILSP is about 120,000 households. There are a total of approximately 800,000 households in the nine hill districts of Uttarakhand, of whom 75% (600,000) may be involved in agriculture. In addition interventions could be upscaled to other states – especially hill states, although interventions in insurance will be applicable elsewhere.

### **5. What or who are the drivers that are pushing, or are expected to push, the scaling up process ahead? Including local leaders or champions, external catalysts and incentives? What is IFAD doing to develop and support these drivers?**

The drivers pushing scaling up will be the financial incentives that will encourage farmers to adopt viable new technologies, together with support from the project (ILSP) and institutions created by ILSP (Livelihood Collectives etc.). ILSP will also be working with partners who are well positioned to advocate and act as catalysts for further upscaling. These partners include KGFS, banks, insurance companies, and financial support agencies in the financial sector, VPKAS and K P Pant University as well as leading NGOs in the agricultural sector.

### **6. Space has to exist or be created so the intervention can grow to achieve the desired scale. What are the government and IFAD doing to ascertain or help create this space in its multiple dimensions?**

ILSP will be implemented by government sponsored societies (UGVS in RDD and a new society in WMD), along with UPASAC, a not-for-profit company. This institutional arrangement, together

with the project design, allows considerable flexibility in the activities to be carried out to implement the project. This will create the space for up-scaling.

**7. What are the pathways that define the way interventions in country X are (to be) scaled up with IFAD support, moving from idea/innovation to learning to scaling up?**

ILSP will have significant resources to gather data on the performance and outcomes of interventions and to share these via a knowledge management system. This, together with the KM systems of partners such as KGFS and VPKAS, will support scaling up beyond the confines of the project. In addition ILSP will be implemented alongside NRLM, which is the major programme for poverty reduction in India, and there will be opportunities for ideas and approaches from ILSP to be taken up by NRLM.

**8. What is the time horizon over which the pathways are expected to extend?**

The time horizon is expected to be the duration of the project, ie. approx 7 years, but upscaling may well continue after the end of the project.

**9. How do the drivers and spaces define these pathways?**

The drivers and spaces define the upscaling pathways in terms of the incentives for adoption of interventions, the flexibility of the support from the project and the mechanism for lesson learning as the project progresses. The financial resources available are sufficient to ensure that the project achieves a significant scale and impact.

**10. What are the most serious likely obstacles and risks, and what can be done to mitigate them?**

The main risk is that producers will be discouraged from adopting interventions and investing in improved livelihoods by the programmes of subsidies. Subsidies on the price of purchased food acts as a disincentive to produce food crops. ILSP's approach is to aim to move farmers towards cash crops and other income generating activities, where there are good opportunities and incentives. There are also subsidies on some production inputs – equipment, seeds, chemicals, feeds etc. These can act to discourage farmers investing in purchasing these items at full cost, so the supply of inputs is constrained by the availability of inputs through public channels which operate the subsidy schemes. Legal barriers also exist to constrain movement of some inputs over state boundaries and via the private sector. ILSP will seek to mitigate these barriers by encouraging producer organisations to act as input suppliers where the private sector is unable or unwilling. ILSP will also aim to link up these producer organisations with government subsidy and input supply programmes so they get the same support as other farmers.

**11. What is IFAD's specific role in promoting the scaling up process?**

IFAD's specific role will be to lead the design process, and to undertake supervision of the project. Through regular supervision, IFAD will maintain pressure to ensure the upscaling is successful.

**12. How do IFAD's policies, procedures and resources support the implementation of the scaling up process?**

IFAD's policy enabling direct supervision will be particularly useful in ensuring IFAD has a strong role in supporting scaling up.



## **Environmental and social screening and scoping note**

### **I. Description of Project**

This ESSN was drafted as part of the formulation mission for the Integrated Livelihood Support Project (ILSP) in Uttarakhand State in India.

The overall objective (goal) of ILSP will be to reduce poverty in hill districts of Uttarakhand. This would be achieved via the more immediate development objective of “enable rural households to take up sustainable livelihood opportunities integrated with the wider economy”.

The strategy behind ILSP will be to adopt a two pronged approach to building livelihoods in hill districts. The first of these is to support and develop the food production systems which remain the main means of support for most households. This involves improving technologies for production of traditional food crops and livestock, and developing supporting services for input supply and marketing of any surpluses. To make food production more secure the project will also contribute to watershed development to conserve water and soil resources. ILSP will also support the production of fodder and other non-timber forest products in community forest areas (Van Panchayats).

The second main thrust of the project is to generate cash incomes via the introduction and expansion of cash crops. These would be grown on a significant scale for markets outside of the state. There is already significant production of off-season vegetables, such as potatoes, tomatoes and peas, and some fruit. This can be expanded through improved technologies and the development of new production areas, with returns to farmers improved via improvements to marketing and by value addition. It should also be possible to develop the production new crops and products (such as medicinal and aromatic plants) for growing external markets. ILSP will also support non-farm livelihoods, especially community involvement in rural tourism. Many people migrate to jobs outside of the hill areas, and ILSP will support vocational training to help people obtain more remunerative employment.

The project is expected to converge with other ongoing projects and interventions of the government at three levels. First, the project’s primary aim is to converge with NRLM that is expected to be implemented in the state from the next financial year. The project will not implement SHG mobilization and strengthening including building of SHG federations which form the core of NRLM. Rather the focus of ILSP will be to complement and support NRLM by mobilising PGs and LCs to plan and implement livelihood up-scaling activities to transform subsistence production system into market led production system. NRLM financial resources channelled through SHGs and their federations will enable the PGs and LCs to further scale up production. As a result, the project’s strategy converges with that of NRLM.

Second, the project intends to allocate financial resources to the PGs and LCs to plan and implement agricultural production activities of high priority. The project will establish the leveraging norms to ensure that the PGs and LCs take steps to converge with support from government agencies and formal financial institutions. Third, the project plans to implement livelihood enhancement activities in blocks selected for watershed development by the Integrated Watershed Management Programme (IWMP), a centrally sponsored scheme. The major thrust area for IWMP is physical watershed development, with little support for livelihood promotion. Implementation of livelihood up-scaling activities by the project in the IWMP areas will provide these communities with a holistic development package. ILSP, in providing support for a range of livelihood activities will ensure that its approach and activities are coordinated with other agencies that are involved in these sectors. This will enable groups sponsored by ILSP to gain access to additional resources and support from these agencies, and will ensure the greatest impact of the overall development effort.

The project implementation will use a twin track modality for livelihood support. The first track will consist of livelihood support along with complementary infrastructure development and initiatives to improve market access. This will be implemented through UGVS. It will focus on food security, livelihood up-scaling and agribusiness with investments in water conservation and irrigation. Producer Groups and Livelihood collectives will be formed and facilitated to prepare and implement their agribusiness plans.

The second track consists of implementation through the Watershed Management Directorate (WMD) that has developed an implementation modality through a series of watershed management projects, the most recent of these being the Uttarakhand Decentralized Watershed Development Project (UDWDP). This approach focuses on micro-watersheds and incorporates livelihood interventions and market linkages with the participatory mode of physical watershed development.

This twin track modality through UGVS and WMD will enable the results of these two approaches to be compared from the perspective of increase in production, impact on livelihoods, building of grassroots institutions, the ability to leverage funding to implement plans, and cost effectiveness of service delivery. To avoid any overlap UGVS and WMD will work in different locations.

To support both these approaches a third component will ensure that producers (as individuals and as organisations) have access to the finance they need for investment in livelihoods. This will complement the flow of resources through SHGs and SHG Federations that will be supported by NRLM. This component will be implemented by UPASAC, a social venture capital company that was established by ULIPH.

## **II. Major Site Characteristics**

**Geographic location:** The Indian Himalayan region is more than 2 800 km long and 220 to 300 km wide. It has a total geographical area of 461,000 sq. km (18% of the total area) and is inhabited by almost 45 million people. Longitudinally, it can be further sub-divided in eastern and Western parts. The Eastern Himalayas extending 800 km east of Nepal is mostly in political India, a gap being formed by Bhutan. It covers the states of Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya and part of Assam. Longitudinally, it can be further sub-divided in eastern and Western parts. The Eastern Himalayas extending 800 km east of Nepal. is mostly in political India, a gap being formed by Bhutan. It covers the states of Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya and part of Assam. Meghalaya, with an area of 22,429 sq. km. became a separate state in 1972. and before that it was part of Assam. It shares 423 kms border with Bangladesh in the south and the west, and is surrounded by Assam on the north eastern side.

Formed on November 9, 2000 Uttarakhand has become the 27th state of India. The elevation extends from approximately 300 to 7000 meters above sea level. The newly formed state (previously part of Uttar Pradesh) is located in the Central/Western Himalayas covering a geographical area of 53,485 square km.

The Western Himalayas extending 870 km and with a width of about 480 km, covers Jammu and Kashmir, Himachal Pradesh and the newly formed state of (Uttarakhand). The climate is influenced by the westerly cyclones and is markedly dry. The economy is primarily rain fed agriculture with minimum irrigation and partly nomadic. Some groups still practice seasonal transhumance. Forest resources play a critical role in the region's economic life.

The region of Uttarakhand extends from the foothills in the south up to the snow-capped peaks of the Himalayas marking the Indo-Tibetan boundary and contains the upper watershed of two of India's major rivers, the Ganga and the Yamuna, which flow out of these hills to eventually benefit hundreds of millions of people living in the Indo-Gangetic plains. The state is interspersed with rivers, deep valleys, glaciers, and high peaks. The altitudinal range is 300m to 7500m.

**Biophysical Characteristics:** The total geographic area of Uttarakhand has been divided into four physiographic zones on the basis of mean altitude from the sea level. The Terai low lying valley up to 1000m (zone A) have hot and humid climate and support crops like paddy, wheat, pulses etc. The subtropical zone lies in between the altitude of 1000m to 1500m and is capable of growing a diverse range of crops including horticulture crops. The area lying in the altitude of 1500m to 2400m is classified as temperate region, and hence supports temperate fruit cultivation, floriculture as well as medicinal plants. The region above the altitude of 2400m is further classified as sub-alpine as well as alpine. The soils of Uttarakhand especially in the Terai region are very fertile and support a large number of crops. On the other hand the soils of the hilly region are prone to constant erosion due to steep slopes making it less and less fertile.

The dramatic variation in altitude (300m to 7500m) in Uttarakhand divides the climate into sub tropical, temperate, sub-alpine and alpine. The year is divisible into three distinct seasons: cool and dry winter (December to February), warm and dry summer (April to mid-June), and warm wet

monsoon (mid June to mid-September). The annual rainfall ranges between 92 cm. and 237 cm in various parts of the region. Two thirds of this occurring during the rainy season. Winter rains are usually sparse with snowfall occurring quite frequently above 2000m elevation.

### **III. Issues in Natural Resource Management**

The project areas are located in ecologically sensitive ecosystems of the Himalayan region.

**Forestry:** The project area of Uttarakhand is endowed with abundant forest resources with 44.8% of Uttarakhand being covered by forests and woodlands. Forest is the largest land use pattern in the project districts and occupy 42% of the total geographical area of the project districts in Uttarakhand. Bi-annual surveys by Forest Survey of India indicate that in Uttarakhand there is a complex pattern of forest loss and gains. In Uttarakhand, most of the dense forest areas lie in Reserved Forests away from habitations.

**Livestock/Animal husbandry:** Farming systems in Uttarakhand are subsistence-oriented, crop-livestock-forest integrated. Livestock provide draught power, manure, and contribute to family nutrition and household cash income. In Uttarakhand, keeping 1-2 buffaloes and 1-3 cattle is common and many households, particularly in the mountains rear sheep and goats largely under migratory system. The farmers and herders in Uttarakhand rear their cattle and livestock in the grasslands and forests.

**Non-Timber Forest Products:** The project area contain a wide range of NTFPs registered by the Department of Environment and Forests. Non-Timber Forest Products (NTFPs) include all goods of biological origin from forest, grassland or any land under similar use, excluding timber. Examples of NTFPs in these Himalayan States include grasses and leaves; fuel wood: bamboo, canes and ringal; nuts, fruits, tubers; barks; plant fibres; medicinal and aromatic products; resins. NTFPs play a major role in the livelihoods of the rural poor. A large proportion of the population is dependent on them for income and employment as well as for meeting their daily needs of goods. The needs that are served by NTFPs include food and nutrition, medicines, spices, fibres, dyes, edible oils, incense, fuel, fodder, brooms, bio-fertilizer, building materials, agricultural implements, and a variety of other products.

**Gender Roles:** In Uttarakhand, the women have traditionally been the stewards of the environment and mobilised themselves to oppose the indiscriminate felling of trees by the timber lobbies that led to the genesis of the world famous 'Chipko movement. The gender situation is favourable with women enjoying more respect than in many other parts of India.

**Grassroots Institutions:** In Uttarakhand there are a number of civil society organisations working in areas including environment, forestry, traditional and indigenous statutory community based organisations like Panchayats and Village Forest Committees. These organisations have varying degrees of effectiveness in the state. However, there are areas where such organisations do not exist and have no strategic spaces for women or participation. These organisations are also sometimes subject to capture by vested interests.

### **IV. Policy, Legal and Institutional Framework for Environmental and Natural Resources Management**

**Environmental Assessment:** The Government of India (GOI) recognises the need to pursue development policies and strategies that are environmentally friendly, so as to ensure sustainable development. The environment policy is articulated in the "National Conservation Strategy and Policy Statement on Environment and Sustainable Development" prepared and issued by the Ministry of Environment and Forests in 1992. The strategy defines the priorities for conservation of natural resources, namely: (i) regeneration and rehabilitation of habitats and threatened species; (ii) securing the participation of civil society; and (iii) ensuring the benefits of biological resources to local communities. India is a signatory to International Agreements and Conventions on Biological Diversity and Desertification.

The principal legislation regulating the use of environment and natural resources in India are:

- The Panchayats Act to Scheduled Areas; which deals with the socio-economic development of Tribal communities;

- The Forest Conservation Act (last amended in 1991); which controls the delineation of forest areas for non-forest uses:
- The Wildlife Protection Act (last amended in 1991); which provides guidelines for the management of wildlife and protected areas by both the central government and the states in the respective areas under their jurisdiction; and
- The Environment Act (amended in 1993); which deals exclusively with environmental issues and regulations throughout the country. The Central Governments Environmental Assessment Policy states that all policies, programmes, and projects, including formal land- use activities, which may have a significant impact on the environment, must be subjected to an Environmental Impact Assessment (EIA).

In addition to these national laws, each state has its own legislation. Major constraints to the implementation of the laws include ineffective enforcement, low penalties and level of public participation, and inadequate institutional capacity and human resource development. The various line ministries/departments create a further problem through overlapping responsibilities thus hampering the enforcement of the relevant policies and acts.

**Institutional Framework:** The institutional set-up involves a number of national, regional and state institutions responsible for the management of the environment and natural resources in the Programme area. At the National level, the Ministry of Forests and Environment is responsible for the implementation of the Environment Action Plan and the three latter aforementioned Acts. A National Afforestation and Eco-Development Board was established to coordinate the rehabilitation of degraded forests in the country. The Forestry Department, through its District Forest Officers, is responsible for the management of the state forests. Village community participation in forestry is encouraged through Joint Forestry Management (JFM) programmes. Vana Sangrakhana Samiti (VSS) has been established in villages where JFMs are already in place. Agricultural development is the responsibility of the Department of Agriculture, with the latter organised at the field level through the regional Sub-Divisional officers and Agricultural Development Officers. At the state level, the Integrated Tribal Development Agency is responsible for empowering the tribal communities to gain greater control over their own development and to manage their natural resources. However, both the constitution and various laws related to tribal rights (intended to benefit the tribal populations) are not comprehensive and thus work against the interest of the tribals.

The project will empower some of the existing grassroots institutions including the Panchayats and the Gram Sabbas. At the village level, the Gram Sabha, recognised as the legal body in the Panchayat Act, has the power to lay down principles and priorities in village development, approve development plans and programmes and manage natural resources (land, water, forests and minor minerals) within their jurisdiction.

**National Environmental Assessment Guidelines:** Central government has prescribed requirements for EIA before certain activities are taken up. These are summarised in the Table below. These prescriptions are intended to assess the environmental implications of projects in terms of their location, suitability of technology, efficiency in resource utilisation and recycling etc. Of particular relevance to natural resources are deforestation and loss of flora and fauna including gene pool reserves, and land degradation.

**Table 1: Summary of Different Activity Specific Requirements Prescribed by the Central Government for EIA**

Environment	Policy Area	Legislation/Executive procedures	Projects and activities requiring mandatory assessment
	Atmosphere, land and water	- Pollution control acts - Directives on EIA	1) River valley projects 2) Thermal power 3) Industrial projects 4) Transportation sector 5) Coastal area management
	Biomass, Biodiversity	- Forest (Conservation), 1980	All activities involving diversion of forest land to non-forest purpose

IFAD EA Administrative Procedures: As for all IFAD initiated projects, the project design has been subject to IFAD's own internal EA process. This ESSN comprises the first step in this process.

Conservation and Biodiversity: India participates in many international agreements and programmes concerned with aspects of nature conservation and sustainable development. These range from legal instruments such as the Convention on Biological Diversity, which place obligations on those nations which become contracting parties, to scientific programmes such as the UNESCO Man and the Biosphere Programme, a global programme of international scientific cooperation. Examples of agreements and programmes with which India is collaborating include:

- Convention on International Trade in Endangered Species (CITES). Since India became a party to CITES on 18th October 1976 it has provided data annually to the CITES secretariat on the trade of endangered species through its CITES Management Authority.
- World Heritage Convention. India ratified the World Heritage Convention in 1977 and since then five natural sites have been inscribed as areas of outstanding universal value. These sites are: Kaziranga National Park Keoladco National Park; Manas National Park; Sundarbans National Park; Nanda Devi National Park.
- Convention on Biological Diversity. India signed the Convention on Biological Diversity on 5th June 1992. ratified it on 18th February 1994 and brought it into force on 19th May 1994. This convention will provide a framework for the sustainable management and conservation of India's natural resources.
- Ramsar (Wetlands) Convention. India has been a contracted party to the Ramsar Convention since 1st February 1982. India has now six sites covering some 192,973 hectares of important wetlands.

## **V. Potential Social and Environmental Impacts / Concerns**

The project has been designed to have a positive impact on the environment. It contains components and pilot activities specifically focused on improving environmental quality. These activities include:

- Soil fertility improvement;
- Increased production of livestock fodder;
- Water conservation, water harvesting;
- Pilot for community forestry management;
- Participatory watershed management;
- Pilot for weather index insurance.

The following activities that the project will finance will be managed carefully by the project to ensure they do not lead to negative impacts on the environment:

- Construction of 12 assembly markets;
- Construction of 20 collection points; and,

- 40 km of pathways connecting villages.

## **VI. Environmental Classification**

The project is not likely to have any adverse environment impacts on the project area and instead will have beneficial impacts through the development of an environmentally sensitive approach including the development of watersheds and forestry. However, it is by requirement classified as **Category B** as it will operate in fragile mountain areas.

## **VII. Recommended Features to Improve NRM and Mitigate ENV Impacts**

Since the project will operate in ecologically fragile areas environmental safeguards are built into the design as follows:

- A specific sub-component on community forestry;
- A component focusing on improving watershed management;
- Pilot activities to reduce environmental risk (index based weather insurance).

**Forest Management:** Building on the very successful leasehold forestry concept in Nepal, another opportunity for innovation is to pilot an intervention that will provide sustained access to forest based livelihoods for the poorest households. It will be achieved through assigning usufruct (user) rights for plots of degraded VP/civil forest to groups of targeted poor households and facilitating the members of the groups to develop the assigned degraded forest plot. This innovation sub-project will: (i) identify potential VPs with suitable areas of forest; (ii) mobilise communities and provide capacity building; (iii) assign usufruct rights and prepare management plans; (iv) develop assigned degraded forest plots; (v) support livelihoods; and (vi) strengthen institutions.

Around 50 or 60 potential forest areas will be identified on the basis that they have a total area of at least than 50 ha of VP or civil forest land – and so have scope to allocate some of this to poor households (1,800 VPs in the state have over 50 ha). In addition, the members of these VPs will need to agree to allocate about 5 ha of degraded VP forest to a group of the 10-15 poorest households of the same VP. Care will be taken to ensure adequate representation of Scheduled Castes in these groups. As an incentive for them to do this, the project will offer to develop another 15 ha of degraded forest for the benefit of all the VP members.

**Watershed Development:** The project will support implementation of a Participatory Watershed Development Component following processes that have been established through a series of watershed development projects in the state, but with an increased focus on food security, livelihoods and market linkages. This component, to be implemented by WMD, will aim to protect and improve the productive potential of the natural resources in selected watersheds along with increasing household income through inclusive and sustainable approaches. Activities will include: (i) improving the productive potential of land, water and biomass through community participation; (ii) increasing agricultural productivity with emphasis on food security; (ii) providing livelihood opportunities to the vulnerable including SC and ST households; (iv) strengthening the administrative capacity of the Gram Panchayats (GPs) and Revenue Villages on a sustainable basis; (v) providing equity through ensuring access of vulnerable groups to user rights for common property resources; and (vi) ensuring ensuring gender and social sensitivity by enhancing role of women and Scheduled Castes in decision making processes and their representation in the institutional arrangements.

A total of 19 micro-watershed (MWS) covering an area of about 64,744 ha in four clusters in the four hill districts of Tehri, Pithoragarh, Pauri and Champawat will be treated under this project. These MWS will include 403 Revenue Villages spread over 11 blocks (but with major areas falling in five blocks), with a population of 18,289 households. These watersheds have been shortlisted as they have been identified as priority MWS in the State Perspective and Strategic Plan for Watershed Development. They complement the ongoing watershed development programme funded by the World Bank, GoUK and GoI, and takes into account availability of required WMD institutional capacity in the selected project districts.

Under this component, WMD will undertake: (i) promotion of social mobilization and Community Driven Decision Making; (ii) watershed and village development to augment soil and moisture resources to create viable water harvesting structures; (iii) food security enhancement through

improvement of rainfed agriculture and livelihood support; (iv) livelihood development through promotion and up-scaling of income generating activities and high value crops; and (v) institutional strengthening. The activities related to enhancing livelihood opportunities of this component will finance introduction of improved technologies and practices for agriculture, horticulture, silvi-pastoral treatments and animal husbandry with PGs; support agribusiness activities including value addition and marketing and mobilize and support VPGs to take up off-farm activities.

**Risk management instruments:** To reduce risk for livelihood activities, weather index insurance will be piloted through product development, support for installing automatic weather monitoring instruments and education of farmers in collaboration with Departments of Agriculture/Horticulture, Agriculture Insurance Company. Technology based cattle insurance will also be piloted. The present health care and insurance arrangements for the target households will be studied and if found feasible mutual health insurance schemes will be piloted and scaled up.

## Annex 13: Project Readiness Checklist

The Government's project readiness checklist has been completed below, showing the current status of each checklist item:

	<b>Milestones</b>	<b>Action points / points to check</b>	<b>Agency responsible</b>	<b>Current status</b>
<b>1</b>	<b>Before sending a project proposal to DEA</b>			
	Checklist for conception stage	i. The concept note identifies clearly defined components of the project, activities, cost estimates and implementing agencies, coordinating mechanism in case of multiple agencies.	Project submitting agency	All are included in the formulation report
		ii. Lessons learned from the previous projects implemented in the sector have been incorporated.	Project submitting agency	Included as Annex 3 for formulation report
		iii. The project preparation milestones, in months, taking the date of posing as the zero date, have been identified.	Project submitting agency	Key dates are in formulation Aide Memoire
<b>2</b>	<b>Before posing the project to MFI</b>			
		i. Project has been cleared by DEA	DEA	Done
		ii. The approvals of Planning Commission, Line Ministry and Dept of Expenditure, Budget Division, as required in the specific case, have been obtained.	Project submitting agency	
<b>3</b>	<b>Before Appraisal</b>			
	PMU/PIU	i. Institutional structure for project implementation and funds flow arrangement defined and agreed with DEA and WB	Project Implementing Agency (PIA)	Proposals in design report
		ii. Designation of PMU/PIU staff completed and core staff from the project assigned. Key project staff (project director, procurement, FM, safeguard) should be identified early in the project cycle.	PIA	Staff structure and list in design report (cost tables)
		iii. Tenure of key staff should be, to the extent possible, for three years or more	PIA	Could be included in Loan Agreement
	Procurement plan and actions	iv. Procurement plan for the project detailing contract packages, modes of procurement, pre-requisites for awarding the contracts, approval flow chart, decision making structure and schedule for each contract to be in place.	PIA	Procurement plan will in draft PIM
		v. Terms of reference (ToR) for all consultancy contracts including Project Management consultants, shortlist of consultants / consulting firms and documents for pre-qualification of contractors are prepared and approved /reviewed by WB	PIA	ToR will in draft PIM
		vi. RFP for major / critical consultancies issued.	PIA	No such consultancies are envisaged
	R&R	vii. Bidding documents for all contracts to be awarded during first 18 months should be prepared, approved and issued.	PIA	PIM includes ToR for NGO service providers
		viii. Budgeting for at least 30% of land acquisition and resettlement requirements has been made. Land acquisition / pre-construction activities, including utility shifting and tree cutting, where relevant, have started.	PIA	No land acquisition is envisaged
		ix. Land acquisition and resettlement plans are ready, where relevant.	PIA	No land acquisition is envisaged
		x. Relief and Resettlement Plan, where relevant, for the first two years of the project implementation should be finalised and confirmation that R&R activities are aligned with the Procurement Plan, to be conveyed.	PIA	No land acquisition is envisaged
		xi. Environmental Management for the first two years of project implementation has been finalised. Complete IEE/EIA and secure approval of MFI.	PIA	ESSN is in Annex 12 of formulation report



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	<b>Milestones</b>	<b>Action points / points to check</b>	<b>Agency responsible</b>	<b>Current status</b>
<b>4</b>	<b>Before loan negotiations</b>			
	Institutional arrangement and HR	i. Necessary budget / counterpart fund provision has been made.	PIA	
		ii. Key policy and institutional reforms, if critical to the successful completion of the project, should be implemented prior to negotiations.	PIA	None are envisaged
		iii. Project Implementation Plan / Administration Manual / Memorandum covering scope, organisation and its ToR, procurement, budgeting, disbursement, reporting and auditing arrangement has been finalised.	PIA	Draft PIM is completed
		iv. Project Management consultant, if critical to the successful implementation of the project, should be in place before negotiations.	PIA	Not envisaged
	Implementation readiness	v. At least 50% of land acquisition (if required) to be completed.	PIA	No land acquisition is envisaged
		vi. All statutory clearances like environmental / forest clearances are in place.	PIA	Not envisaged
		vii. Administrative clearances for temporary use of land i.e. right of way taken	PIA	Not envisaged
		viii. Administrative approval for shifting of utilities taken	PIA	Not envisaged
		ix. Bids for contract worth at least 30% of the project cost (or the first phase) are received and award finalised prior to negotiations.	PIA	Major contracts with NGOs should be in place
		x. Establish (a) Financial Management System, (b) auditing arrangement and (c) system of oversight.	PIA	Should be done
<b>5</b>	<b>Before loan signing</b>			
	Ready to go	i. Award of contracts for consultancy services to be completed and at least 30% contracts for civil works, if applicable, to be awarded before signing of the loan.	PIA	
		ii. Entire PMU / PIU is in place.	PIA	
<b>6</b>	<b>Before loan effectiveness</b>			
		Legal opinions taken	DEA	

## **Annex 14: Contents of Project Life File**

Project concept note

Scoping mission Aide Memoire

Formulation mission Aide Memoire

Appraisal mission Aide Memoire

Design document: appraisal (plus annexes)

Working paper 1: Poverty and Gender Analysis

Working paper 2: Agriculture

Working paper 3: Livestock

Working paper 4: Marketing of Rural Produce

Working paper 5: Infrastructure

Working paper 6: Tourism and Rural Poverty

Working paper 7: Vocational Training

Working paper 8: Development of Rural Livelihoods

Working paper 9: Participatory Watershed Development

Working paper 10: Livelihood Finance

Working paper 11: Planning, Monitoring and Evaluation and Knowledge Management

Working paper 12: Project costs and financing

Working paper 13: Financial and Economic Analysis

Poverty and Gender Analysis of Uttarakhand – final study report