

21 April 2015

Dear Mr. Ravi Shanker,

Subject: India Integrated Livelihood Support Project in Uttarakhand (ILSP) - Management letter Supervision Mission, 6-18 April, 2015

I kindly refer to the recent Supervision Mission to Integrated Livelihood Support Project in Uttarakhand that took place from 6 to 18 April, 2015 and confirm that IFAD endorses the agreement reached at the wrap-up meeting.

In the last few months ILSP has made considerable progress, but still has a long way to go to catch up on achievement of targets. The total expenditure of project funds is also far below the amount expected after three years of implementation. A further acceleration in the pace of implementation is urgently needed, which requires that staff vacancies in UGVS and WMD PMUs are filled along with the recruitment of some additional Technical Agencies for component 1.

The Project has agreed for a major acceleration of work this year, with a total AWPB of INR 151 crore (approx.). This requires a total of INR 123 crore of project (IFAD and GoUK) funds, the balance being bank financing and beneficiary contributions. There are savings of INR 27 crore from the previous year's release that can be carried forward, and GoUK has already approved a release of INR 65 crore for 2015-16. This leaves an additional requirement of INR 31 crore that will be approved by GoUK.

IFAD concurs with the request of GoUK for ILSP to focus on seed supply, tree planting, fodder development, animal health *via* paravet services, water conservation and storage, and addressing man-animal conflict in the current year. However, we recommend that these activities should primarily be implemented through the community organisations that are being supported by ILSP, and only if these organisations are unable to deliver the required volume of work, should ILSP channel its funds via the line agencies of GoUK. Any tree planting should be on community land and aimed at livelihood enhancement. Tree planting in government reserve forest by the Department of Forest is not within the scope of ILSP and cannot be funded. However IFAD is agreeable to ILSP providing, as a one-time support in response to the recent unseasonable rain, funds of INR 100 million (approx.) to purchase seed kits for crops and vegetables that will be distributed via Departments of Agriculture and Horticulture.

Mr. N. Ravi Shanker, IAS
Chief Secretary
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Uttarakhand Secretariat,
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Additionally, a number of proposals have been made by government agencies for ILSP to fund various sub-projects supporting innovations to address problems of hill agriculture. With some modifications, most of these should go ahead and be implemented by the concerned government agencies. However IFAD will not fund the proposed mobile soil testing laboratories, although an action research pilot on addressing soil fertility needs in the hills could be funded.

I would like to bring to your notice that relatively little progress has been made in component 3 on Livelihood Financing, which is being implemented by UPASaC. UPASaC was created as a financing institution and should focus on activities that have been agreed during this mission to facilitate access of farmers and federations to credit. IFAD confirms that UPASaC must not expand its role into marketing at this stage, and any UPASaC activities related to marketing will not be funded by the IFAD loan.

Finally, although there has been a considerable improvement in performance, the mission considers that the project is still in the "at risk" category. However this could be reviewed at an ISM in about 6 months, and a recommendation could be made to remove the "at risk" rating if overall performance continues to improve.

I thank you for the excellent co-operation given to the Mission and assure you of our continued support towards your endeavour to implement the programme successfully. As is the practice, please ensure that an Action Taken report is sent to the IFAD India office within 3 months of receiving the Aide Memoire.

Please accept, Mr Shanker, the assurances of my highest consideration.

Yours sincerely,



Hoonae Kim
Director
Asia and the Pacific Division

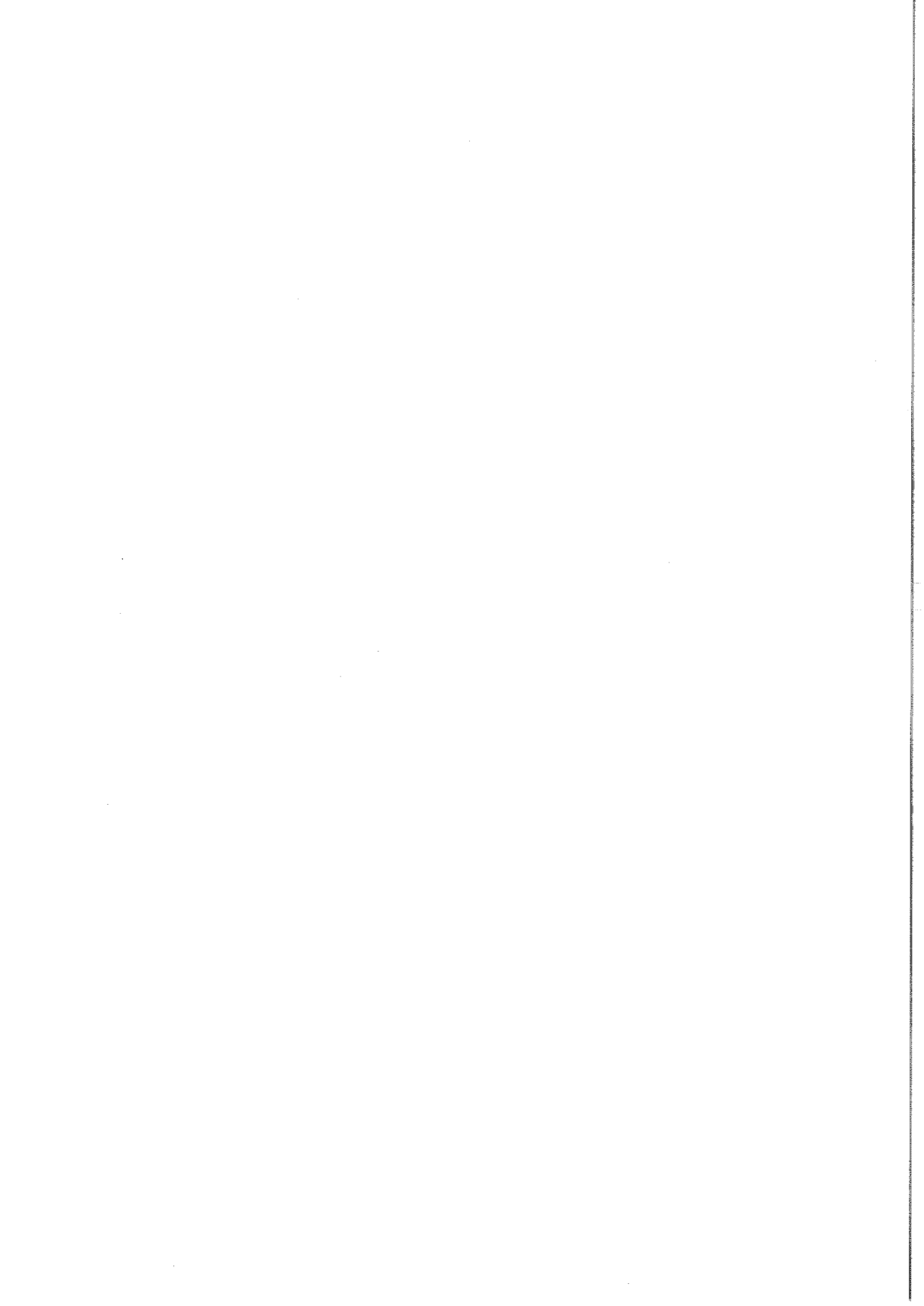
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Investing in rural people

Aide memoire

India

Integrated Livelihood Support Project

Supervision mission: 6 to 18 April, 2015

A. Introduction

1. The Integrated Livelihood Support Project (ILSP) was approved by the IFAD Executive Board on 1 November 2011 and became effective when the loan agreement was signed on February 2012. The project is financed by an IFAD Loan of SDR 56.7 million (USD 89.9 million), together with USD 48.0 million from the government of Uttarakhand, a USD 10.9 contribution from beneficiaries, and USD 109.9 million as loans from banks and other financial institutions. The overall goal of the project is to reduce poverty in hill districts of Uttarakhand. This is to be achieved via enabling rural households to take up sustainable livelihood opportunities integrated with the wider economy.

2. The objective of this Supervision Mission¹ is to review progress, make recommendations regarding plans and proposed implementation modalities, and to reach agreement with the project and government on any actions needed to accelerate progress and to ensure impact. This is the second Supervision Mission, the first taking place in March-April 2014 and being followed by an IFAD Implementation Support Mission (ISM) in November 2014.

3. On arrival the mission met with Mr Vijay Kumar, the Chief Project Director (CPD) of ILSP and the PMU staff of the three implementation agencies UGVS (responsible for component 1), WMD (component 2) and UPASAC (component 3). The mission then visited four project districts where it met participating households, community organisations and implementation partners including local government. On return to Dehradun the mission had meetings with a government agencies and banks as well as with PMU staff and implementation partners. The mission also had meetings with Mr S Raju, ACS and Forest and Rural Development Commissioner, and Mr S Ramaswamy, Principal Secretary, Planning and Watershed Development Department. This Aide Memoire summarises the findings and recommendations of the mission as discussed at a wrap-up meeting with the State Government on 16April, chaired by Mr N Ravi Shanker, Chief Secretary, Government of Uttarakhand. The recommendations listed below were previously discussed and agreed with the PMUs of UGVS, WMD and UPASAC.

B. Overall assessment of programme implementation

4. **Annual implementation progress:** A number of bottlenecks have now been largely overcome – especially relating to staffing and selection of partner agencies – and after a very slow start much better progress has been made by WMD and UGVS in the last few months. However UPASAC has made relatively little progress. Total expenditure to the end of March 2015 amounts to 6% of the total project allocation of Rs754crore. Including the initial deposit, 5.7% of the IFAD loan has been disbursed.

5. **Likelihood of achieving development objectives:** UGVS and WMD have drawn up plans for this mission that show them achieving the planned outputs for components 1 and 2 in the four years that now remain for project implementation. Evidence from the field indicates that delivery of these outputs should result in most objectives being achieved. However the lack of progress in component 3 could mean that

¹ Mr Edward Mallorie (Mission Leader, Marketing Linkages and M&E), Mr Shreekantha Shetty (Livelihoods and Project Management), Mr N Srinivasan, (Rural Finance and Enterprise), Mr Kajal Chakraborty (Financial Management & Procurement), and Ms Meera Mishra, IFAD India Country Coordinator (Partnership, Gender, NRLM and Knowledge Management). The mission was joined in its later stages by Mr S Sriram, IFAD ICO (Financial Management and Procurement)

participating households and community organisations lack the access to finance needed to scale-up livelihood activities.

C. Outputs and outcomes

Component 1: Food Security and Livelihood Enhancement

(a) Food security and scaling up

6. Cereal cultivation in the hills is becoming uncompetitive due to shortage of labour, high production costs and wild animal damage. As a result, there is a shift to off-season vegetables where farmers are able to protect these crops from wild animals and to chilly, onion, ginger and turmeric that are less attractive to wild animals. Livestock also has potential. ILSP has engaged seven Technical Agencies (TAs) for field implementation. Each TA has been allocated two new blocks. TAs have established their offices and engaged majority of the required staff. In total 971PGs and VPGs have been mobilized. A bank account has been opened for each PG/MPG and a system of monthly savings by the members has been introduced. The PGs/VPGs mobilized largely comprise women members. Involvement of men in managing PG/VPS becomes necessary for accessing distant markets and also to deal with market intermediaries.

7. ILSP provides funding to each Producer Group for implementing Food Security Improvement Plan (FSIP) calculated at INR 3600 per member per year for two years. In respect of 648PGs and VPGs across the project area, support for the first year has been released. Only some PGs/VPGs have used this funding to purchase improved seed and other agricultural inputs. However, this support has helped the PGs/VPGs to avoid exploitative bartering of seeds and inputs with produce after harvest. Project support for the first year is released in one instalment there is no funds available for the second cropping cycle within the same year unless the members save funds from the sale proceeds of the first crop. It is necessary to set up a system of recycling the funds at the level of PGs/VPGs and at the level of Livelihood collectives in order to enable the members to continuously access services. This requires changes to the modality of releasing support to PGs which includes: (i) release of first instalment of PG support (INR 3,600) to the bank account of PG with a condition that the members will repay the amount within a time frame to be set the PG members themselves and use the same for the next crop cycle; and (ii) release the second instalment of the PG support (INR 3,600) to the Producer Collective who will buy improved seeds, agricultural inputs and sell the same to the PGs. The second instalment of the PG support shall be treated as share capital of the members and a system of payment of dividend to be put in place for the share capital every year. This will require fast tracking to incubate Livelihood Collectives.

8. In the project area covered ILSP has provided support of INR 200,000 to all federations promoted under ULIPH. These federations have started various income generating activities such as sale of animal feed and other dairy inputs, sale of ready to use spices, grocery shops and milk collection. In addition some of the enterprising federations have taken up supply of ICDS rations. This activity has completely turned around the operations of the federations with improved profitability and gainful employment for women to pack and deliver rations. This has also resulted in increased market interaction and local sourcing of some of the products such as millets and pulses giving a boost to local production. However, there is a need to develop business plans for federations to service its members, mobilize finance required for implementation of these plans with the aim of diversifying federation's revenue streams. Accounting and audit systems and statutory compliances at federation level needs to be improved.

Agreed action	Responsibility	Agreed date
1. Revise the guidelines of PG/MPG mobilization and grant support to release first instalment of support to the bank account of PG/MPG with systems to release it to members and recover the same after harvest for redeployment during the next season. Second instalment of support to flow through LCs and treated as share capital of the members.	PM-G&I	30 Jun 2015
2. Fast track establishment of LCs by designing a guideline, in consultation with WMD, for establishment of LCs with model objects, functions, financial and administrative regulations, statutory compliance requirements, etc.	PM-G&I	30 Jun 2015
3. Train professional staff of TAs in LC establishment and management and provide immersion training some of the staff of TAs in the working of existing	TAs, DPMs and PM-G&I	30 Sept 2015

Agreed action	Responsibility	Agreed date
federations.		
4. Start formation of LCs and introduce the system of collective purchase of seeds and inputs and also aggregation of produce for marketing from the very beginning at the LC level.	TAs and DPMS	30 Sept 2015
5. Provide support for business planning by the federations taking into account investment mobilization capacity and implementation. Undertake regular review of performance.	DPMS and PM-G&I	Start by 15 May 2015

(b) Market access

9. Value chain development: UGVS has shortlisted a number of individual consultants to carry out value chain and market studies, and terms of reference have been drawn up. Visits to the new ILSP blocks and discussions with the older Federations have identified a number of opportunities and issues in development of value chains. These include:

- (a) Dairy: value chain mapping identified milk as the most widespread priority sector for development. Initial interventions are focusing on production issues but households will be unwilling to invest in increasing production without improved access to markets. This will usually require establishment of milk collection centres linked to milk transport routes. With an assured market for milk, households will be encouraged to invest (and will need access to loan finance) and be interested in adopting new technologies and methods – which will need to be disseminated for TA and LC. Aanchal, the state dairy cooperative, is being reinvigorated and ILSP is able to support milk collection centres and other services where Aanchal agrees to establish milk collection routes.
- (b) Off season vegetables (including potatoes) and spices are the other main sub-sectors now being developed. Currently producers are constrained by being: (i) not fully aware of the market conditions in major markets and the most advantageous cropping and harvesting calendar to take advantage of high off-season prices; (ii) unable to increase production due to shortage of labour and wild animal damage; (iii) unaware of improved production technologies and pest control methods; and (iv) not yet equipped to handle markets both within and outside the state to achieve better sale price.
- (c) Goat and poultry rearing are emerging as the main activities of the VPGs and as livelihood diversification for other PGs. Current support for goat producers is restricted to purchase of goat kids using VPG/PG support, and to buy poultry birds. Provision of support services (training, para-vets and CRP, health service plans, breed improvement, feeding and weighing/marketing) are vital if the household level investments are to succeed and expand.
- (d) Organic crops: ILSP has continued to support 7 organic producer groups with 1920 registered members on 829 ha, of which 1480 farmers and 543 ha now certified for organic production. Sales in 2014-15 were INR 1.29 million. To date the cost of certification has been funded by ILSP and given average sales per household of INR 872, it may be difficult for farmers to pay this cost. ILSP in the process of handing over responsibility for these groups to the Uttarakhand Organic Commodity Board (UOCB) and it is hoped that UOCB will be able to mobilise continuing support, possibly from Gol programmes. Notwithstanding the cost of certification, there is a ready market for non-certified products sold as naturally produced.

10. Market infrastructure: ILSP has plans to build collection centres for Federations and other producer organisations. However to date only one has been built, and another is under construction, as it is taking time for Federations to acquire suitable sites. Thirty-two more are planned in the current year.

11. Collective marketing: There has been satisfactory growth in the volume of farm products aggregated and marketed via Federations. This is primarily from ex-ULIPH SHGs and other producers who have recently joined Federations, but potatoes from two of the new ILSP blocks have also been sold through an existing Federation. Total value of these marketed products in 2014-15 was around INR 44 million², of which 45% was traditional crops, 28% vegetables (mainly potatoes and peas), and 11% milk.

² Total Federation sales were INR 82.7 million and included INR 18.7 million from materials purchased in the market for ICDS rations and INR 20.1 million from other sales such as groceries and non-farm products.

Agreed action	Responsibility	Agreed date
6. Enter into an MOU with Aanchal in all the districts with potential for dairy to identify milk collection routes and locations for new milk collection centres.	DPMUs and PM-G&I and PM-MA	30 Sept 2015
7. Carry out a business study with Aanchal into the viability and financial constraints of a district level milk cooperative federation with the objective of finding a modality to ensure ILSP producers are promptly paid for the milk that they produce.	PM-AH and PM-MA	October 2015
8. Prepare and implement plans to improve producers' knowledge and skills and provide support services for dairy, goat and poultry. These include the selection and training of CRPs and paravets (who can also manage milk collection centres), and establishing links for financing of animals. Specialist service providers may be contracted to provide advice, training and technical information materials.	TAs, DPMUs, PM-G&I and PM-MA	31 Dec 2015
9. Conduct a small study using historical data of prices of off-season vegetables in major markets within and outside the state and current cropping calendar of project blocks and work out a sowing and harvesting calendar to take full advantage of favourable off-season market conditions.	PM-AH and PM-MA	30 Jun 2015
10. Contact reputed seed companies to ascertain their interest in contracting seed production to ILSP Federations – conduct a meeting with such companies and develop a working modality.	PM-AH and PM-MA	30 Sept 2015
11. Map varieties grown, current production and production potential of each variety of OSV and spice of each cluster in the ILSP area as a base document for discussion with the Research Institutions for introduction of new variety and for discussion with market intermediaries to find out the varieties and quantity demanded by the markets.	PM-AH and PM-MA	30 Jun 2015
12. Conduct buyer and seller meet by inviting traders who deal with OSV and spices from Mandis located outside the state and also traders not dealing with OSV and spices but interested in starting this trade from the Mandis within the state.	PM-MA	31 Mar 2015
13. Accelerate construction of market infrastructure, including improvement of market access communications.	PM-MA, TA Jnr Engineer	From June 2015
14. Investigate the feasibility and potential benefits of provided a limited amount of temperature controlled storage for potatoes to help manage short term market fluctuations and transport interruptions.	PM-MA	October 2015
15. Explore potential for improved technologies for boiling of turmeric and drying of other spices.	PM-MA	August 2015
16. Project staff and farmers should visit other districts and states to see initiatives of potential application in ILSP. The mission report will include suggestions.	PM-AH & PM-MA	From May 2015

(c) Innovation linkages

12. The project has invited government agencies to make proposals to implement sub-projects and has received 11 proposals. Of these four have been approved, four are awaiting final approval and three have made draft proposals (of which one has been dropped). The mission reviewed the outstanding 10 proposals and, with a few changes, ILSP should go ahead and enter into MOUs with the agencies for most of these. However the proposal is from the Department of Agriculture for four mobile soil testing laboratories does not address the issue of soil fertility management in the hills and should be dropped.

13. The 2014 supervision mission suggested a challenge fund mechanism to invite innovative proposals from government, non-government and private agencies. Draft guidelines have been developed and the mission report will include a revised draft and suggestions for specific invitations. With the idea of eliciting new and innovative approaches, a challenge fund will typically invite invitations that aim to address broad project objectives. In addition there are also a number of issues that would benefit from specific studies and pilot schemes (see recommendation below).

Agreed action	Responsibility	Agreed date
17. Subject to some small changes and IFAD prior review, go ahead with contracting government agencies to implement sub-projects including sheep, nettle and ringal fibre, honey, horticulture, poultry, cereals and vegetables, fruits, and animal fodder.	CPM UGVS	May 2015
18. Ensure these agencies produce comprehensive reports on their progress and results in terms of specific outputs and outcomes. In addition consultants should be hired by the PMU to carry out short reviews of the sub-projects on behalf of the PMU.	CPM UGVS	From November 2015
19. Finalise guidelines for the challenge fund and implement two rounds of challenge fund bidding in the coming year.	CPM UGVS	June 2015
20. Contract agencies or individuals to carry out studies and/or pilot projects into issues concerning wild animal damage, development of tree nuts, appropriate pest	CPM UGVS	From June 2015

control methods, protected cropping (polyhouses and polytunnels), the use of SRI methods for paddy (and maybe other crops), new methods of cold storage, and piloting of new and underutilised crops.

(d) Vocational training

14. Vocational training courses commenced in 2013-14, with 692 students (65% girls) completing 11 different courses in the year provided by six different agencies. Of these 125 students were on Uttarakhand Open University courses and 567 on six different vocational trades linked to job placement. Of the latter group, 56% received job offers and 41% (69% of whom were girls) took up employment (some were unwilling to move to a new location to take up employment). Useful lessons have been learned in terms of success rates for different courses and providers. Successful courses included those retailing and food services (79% job offers, 72% placement) and nursing (69% job offers, 49% placement) and a specific type of computer software (69% jobs offers and placement). Less successful in terms of getting jobs were courses that might result in self-employment – hardware and mobile phone mechanic, and beauty management.

15. Gol has announced a new programme for skill development which provides 100% support for the cost of courses of 500 hours duration. ILSP has been offering support of 75% for courses of 150 to 390 hours. Student contributions are good to show their commitment, but these need to match those in other programmes.

Agreed action	Responsibility	Agreed date
21. Scale-up vocational training, if needed adjusting the duration of course and degree of ILSP support to align with other major programmes. The current ILSP budget has additional resources for VT if required.	MKM	May 2015
22. Consider linking training in sub-sectors that are likely to result in self-employment to support for establishment of enterprises – such as access to finance and convergence with other government programmes.	MKM	May 2015

Component 2: Participatory Watershed Development.

16. WMD has established an independent society to implement the activities under this component. Implementation of the field level activities started only in August 2014. This delay was mainly due to restructuring of the project resulting in a reduction in scale of this component. In addition a considerable delay occurred in getting staff positions and the financial manual approved, along with selection and contracting of an FNGO (which started work on 1 March 2015). Most staff positions are now filled, but WMD is still in the process of recruiting some contractual staff.

17. WMD has fast tracked field level implementation during the last six months, and has prepared Gram Panchayat Watershed Management Plans (GWMPs) in 104 out of 187 GPs after an extensive household survey along with wealth ranking and community planning PRA. Implementation of some of these plans has started in 95 GPs, with 787 village level trainings, 55 technical trainings, 57 trainings on production technology and 12 exposure visits. Work has started on physical infrastructure. WMD has appointed a Village Motivator for each revenue village and an Accounts Assistant has been engaged in each GP. The system of book writing and file maintenance at the GP level needs improvement, with a system of internal audit of GP watershed accounts using the Internal Auditor, and thereafter train the GP Accounts Assistants on the identified issues.

18. WMD has mobilized 960 Producer Groups (PGs) with 8,895 members (64% women). Vulnerable Producer Groups of (VPGs) of 4-5 members are yet to be mobilized. WMD has provided support of INR 40,000 (less 20% beneficiary share) per PG to 945 PGs for seeds and other agricultural inputs. Total support per PG will be INR 120,000 (less 20%) spread over three years. There is a need to adjust the process of PG/VPG formation and delivery of ILSP support to ensure that the PGs/VPGs and LCs continue to sustain beyond project life (see the sections related to Food Security and Scaling up and Market Access). The recommendations made under these sections are relevant to WMD. Implementation of food security and livelihood scaling up activities requires cross learning between UGVS and WMD.

19. WMD projections show that the total budget for component 2 of INR 2,359 million will be fully utilised over the next four years. In addition to this, WMD has requested for funding of INR 269 million for

demonstrations. This proposal needs to be revised with a focus on testing new technologies and addressing value chain constraints.

Agreed action	Responsibility	Agreed date
23. Establish a system of internal audit of watershed accounts of GP and build capacity of GP level Accounts assistants to address the weaknesses identified.	PD-WMD and Divisional PDs	Start from 1 Oct 2015
24. Develop and implement a system of social audit of the watershed works by the Gram Sabha at the end of each financial year.	PD-WMD and Divisional PDs	Design to be completed by 31 Dec 2015
25. Prepare a technical paper on the best practices, costs and benefits of various options available for water harvesting and irrigation, including water storage structures made of HDPE, concrete and other materials. Disseminate this knowledge to WMD and UGVS staff	PD-WMD and Divisional PDs	30 Nov 2015
26. Prioritise implementation of community/common activities and activities of Van Panchayats in the upper reaches of micro-watersheds.	Divisional PDs	Immediate
27. Design PG and VPG mobilization processes and LC promotion modalities jointly with UGVS (see recommendations under Component 1) and adopt the system of using PG/VPG support as revolving funds within PG/VPG and LCs	PD-WMD and PD-UGVS	30 Sept 2015
28. Fast track engagement of Divisional Support Agency, identify clusters for value chain development, assess value chain constraints and make plans with workout budget requirements for provision of support services to address value chain constraints to inclusion into the project budget at MTR.	PD-WMD	31 Dec 2015
29. The proposal for additional funding for demonstrations should be revised to cover testing of really new technologies, exposure visits to see successful innovations and commercial farming, and to address value chain constraints.	PD-WMD	31 May 2015
30. The 2015-16 AWPB allocation has been reduced to INR 300 million and should be increased to INR 500 million	CPD	30 Jun 2015

Component 3: Livelihood Financing

20. Progress in livelihood finance in 2014-15 has been limited to facilitation of bank loans to the tune of INR 50million for 861 loanees, including 275 SHGs. UPASaC did not move ahead on providing any support to existing federations through SVCF or as loans, and there were no mature ILSP PGs or LCs for any kind of financial linkage, grant or viability gap funding. No support has been given to banks for expansion of branches in the project. Similarly no initiatives have been taken to strengthen PACS in the project area during the year.

21. After some enquiries and discussions the project has reached a conclusion that the project should try to make arrangements for project beneficiaries to link with mainstream insurance companies for suitable products and not proceed further on mutual insurance arrangements. UPASaC has concluded that weather insurance is not suitable for the state.

22. An MOU was signed between UPASaC and IDBI bank for facilitation of loans to individual borrowers in the project area. However potential loan disbursements have not been cleared by UPASaC. The MOU has a number of infirmities, including provision of a subsidy of 15% of the loan outlay to individual loanees – this is not provided for in the project.

23. The staffing of UPASaC has been thin. Barring recently appointed Rural Finance Coordinators in the district, for most of the year the CEO and Manager Finance were the only staff. A recruitment process is to shortly be initiated to hire the required staff. The role of the rural finance coordinators recently appointed by UPASaC overlap with the livelihood facilitators and coordinators hired by the TAs, who can handle loan facilitation for project households and groups. This role is well recognized by TAs. The rural finance coordinators may have to be redeployed as they do not seem to have a role to play in the field.

24. Till the mission visit, there is a lack of clarity to the role that UPASaC wants to play, though the need for this has been pointed out the ISM (November 2014) report. UPASaC needs to set itself some clear time-bound targets. Over the next three months it should identify some of the larger (turnover over Rs 20 lakh) or more profitable federations for financial support and facilitate fulfilling their funding requirements based on business plans. UPASaC can provide quasi-equity funding to the federations and facilitate bank loans to leverage the equity funds. UPASaC should coordinate with NABARD to ensure that the federations and TA staff are trained in business planning.

25. Based on discussion during the last ISM, NABARD has visited 11 federations to study their business operations. NABARD had expressed an interest in financing federations directly which should be followed up. Uttarakhand Gramin Bank seems willing to explore an arrangement for financing households that have firm marketing arrangements through a tripartite agreement between the federation, individual/group and bank. NABFINS, a subsidiary of NABARD, is a potential financier. Initial discussions of the mission with NABFINS have been encouraging and should be pursued.

Agreed action	Responsibility	Agreed date
31. The overall responsibility of ensuring that the financing requirements for production, investment and marketing activities in ILSP rests with the CPD. Where necessary the project should bring in suitable partners.	CPD	April 2015 onwards
32. UPASaC should clarify its role in the project and set up time-bound targets for facilitating financial linkages to the different levels of beneficiary institutions. UPASaC should focus on strategic facilitation that covers a number of households and their activities rather than on individual requirements.	CEO, UPASaC	15 May 2015
33. Identify financial requirements of large federations (turnover of 20lakhs) based on business plans and provide quasi equity; facilitate bank loans	UPASaC and UGVS	31 July 2015
34. Dialogue with insurance companies to prepare a framework to facilitate insurance cover for project households for health, assets and crop/weather risks. The crop/weather risk cover should be available for the next crop season.	UPASaC, PM_AH UGVS	31 July 2015
35. Dialogue with UGB and SBI for opening branches or ultra-small branches in project area with support from the project.	UPASaC/UGVS	30 Sept 2015
36. Assign clearly the role of loan facilitation for individuals and groups under the project to the livelihood facilitators and livelihood coordinators with TAs (and similar staff in WMD). Issue suitable communication to TAs and if necessary organize a workshop for the concerned staff on facilitation of loans.	UGVS/WMD	31 May 2015
37. Carry forward the dialogue with NABARD to give a concrete shape to the preparation of business plans for federations, training of staff and securing NABARD finance. This might require framing a guarantee arrangement to comply with NABARD financing conditions	UGVS/UPASaC	30 Sept 2015
38. Engage UGB, NABFINS and other willing financial institutions to come to an understanding on financing all project beneficiaries for bank finance through tripartite agreements that obviate the need for hard collateral.	UGVS/UPASaC	31 October 2015
39. Review the MOU signed with IDBI bank and remove the infirmities that conflict with project PIM; also examine the hidden costs of the arrangement and make them transparent.	UPASaC	31 May 2015
40. Establish selection criteria for grant support PGs/SHGs under livelihood finance component; prepare guidelines for identification of viability gap and a framework for funding of LCs under the livelihood finance component of the project.	UPASaC/UGVS	31 May 2015
41. Complete recruitment of staff and ensure adequate staffing in UPASaC	UPASaC	15 June 2015

D. Programme implementation progress

26. **Programme management performance** – Substantial progress has been made in the last four months in terms of staff recruitment and engagement of TAs. UGVS has engaged most of the staff for the state level office. A Chief Programme Manager (deputy to the PD) has been selected and is expected to join within a month. UGVS has followed the staff salary norms as indicated in the PIM. The estimates made in the project cost tables are indicative and can be adjusted taking into account the experience of staff and their previous salaries.

27. ILSP's success largely hinges on the ability of institutions (PGs, VPGs, LCs and existing federations) it promotes to operate sustainably beyond the project life. This requires persons with abilities to handhold district teams and to conceptualize, design and implement institutional development efforts. As new and less experienced staff join the project, the expertise of the original experienced core staff are being diluted. To address this issue it will be useful to nominate, on an additional charge basis, two State/Divisional Managers with substantial previous experience in project management and institution development with UGVS to support field operations. Each of these two Managers will be responsible as nodal officers for a cluster districts with functions related to institution building, livelihoods and planning.

28. UGVS implements ILSP in eight districts through eight Divisional Project Management Offices (DPMOs). In addition ILSP has taken up Kaljikhil block in Pauri district, which is also a NRLM block. It has

been agreed that NRLM will mobilize SHGs on the pattern on PGs and VPGs and hand them over to ILSP for livelihood scaling up. There is a need to ensure that NRLM largely promotes mixed groups as against women only focus of NRLM as men also have important role in marketing of the produce. UGVS has not established a DPMO in Pauri district and plans to attach this district to one of the nearby districts. Staffing at the DPMO level continues to be scarce in at least two districts; 24 professional positions are vacant and the recruitment process is yet to start. This needs to be expedited.

29. UGVS in total covers 35 blocks under ILSP component 1 that include 18 new blocks and 17 blocks of ULIPH. UGVS has appointed seven TAs to implement activities in 14 new blocks and plans to also allocate an old block (ULIPH block) to each of these agencies. As result, 4 new blocks and 3 old blocks need alternate arrangements to project implementation. If GoUK agrees to allow UGVS to take up a further three blocks, TAs will also be needed in these blocks. Options available include: (i) allocation of additional blocks to already engaged TAs resulting in increasing the workload of TAs who are yet to demonstrate their performance; (ii) advertising RFP with fixed cost procurement open to all agencies after relaxing the experience requirements related to federation mobilization which may lead to selection of already engaged TAs; and (iii) advertising RFP with fixed cost procurement preventing agencies already engaged by UGVS from applying which may lead to engagement of less experienced agencies and may also result in inability to allocate two new blocks for newly recruited agencies impacting cost effective service delivery. UGVS management will have to take a decision quickly on any of the above options and start the TA engagement process.

30. GoUK has approved 149 posts for UGVS and UPASaC which is almost the same as 144 staff approved for ULIPH, but ILSP is required to invest approximately almost three times the amount of funds allocated under ULIPH. The project design had recommended 178 staff positions. There is a need to review the staffing requirements and personnel policies of UGVS.

Agreed action	Responsibility	Agreed date
42. UGVS to take necessary approvals from the Management Committee to make any adjustments needed to the salaries of UGVS staff and also bring parity in salary levels between CPM of UGVS and CEO of UPASaC.	PD-UGVS and CPM	30 Sept 2015
43. Identify two experienced UGVS staff to function as nodal officers, initially on an additional charge basis. Possible revision of management structure to be taken up during the MTR.	PD-UGVS and CPM	30 Jun 2015
44. Fast track engagement of TAs for the remaining blocks after taking due approval of the process to be followed.	PD-UGVS and CPM	Complete by 31 Jul 2015
45. Handover the task of supporting federations in old blocks to DPMOs or existing nearby TAs in the event TAs are not available for this task.	PD-UGVS and CPM	30 April 2015
46. Conduct a study to assess the human resource requirements and to review the personnel policies of UGVS and present the same during MTR.	PD-UGVS and CPM	31 Dec 2015

31. **Coherence between AWPB and Implementation.** The original 2014-15 AWPB totalled INR 1,308 million. This was later revised to INR 360million, and total expenditure was INR 292 million, 84% of the revised AWPB and 22% of the original AWPB. Actual expenditure was an increase of 93% on the INR 151 million of 2013-14.

32. **Monitoring and Evaluation – UGVS** The computerised web-based MIS is now fully operational, with data being entered in TA cluster offices and DPMUs. The MIS includes data on participating households, project activities and outcomes in terms of production and sales. The MIS includes a map-based module showing the location of groups and the activities of each group. A set of periodic standard reports are generated and signed off by the appropriate project staff. The system also generates reports for first level RIMS indicators, although these have more indicators than are really needed by IFAD. The MIS has been developed by the PMU's Manager MIS, who continues to develop it to meet emerging needs.

The PMU is collecting data for the first AOS. Baseline socio-economic and RIMS surveys have been carried out by contracted agency (Inspire) and draft reports produced. The draft report for the socio-economic survey has not included all data analysis. The mission met the survey team and discussed the methodology and way forward with the planned mid-term socio-economic survey.

33. **Monitoring and Evaluation - WMD.** The WMD's M&E system feeds into overall project reporting. Detailed registers and books of accounts are maintained in each GP, with data on the activities of each member of PGs as well as on watershed development. The MIS developed by UGVS has a section for data to be entered by WMD. WMD has commissioned the same agency as UGVS to carry out baseline RIMS and socio-economic surveys using some similar indicators so results will be comparable. However data collection has not yet started as WMD is collecting preparatory data.

34. **Knowledge Management(KM)**UGVS has produced, with assistance from GBPUAT a series of technical posters, information sheets, and leaflets with key technical and economic information about key crops and vegetables. These are aimed at farmers. Federations and cluster offices have been given a booklet with details of 15 government schemes which can support livelihood development. Two editions of a newsletter aimed participants and local stakeholders have been produced. In January 2015 over 250 people attended a meeting of Federations in Dehradun, which was addressed by the Hon'able Chief Minister of the State. A new website www.ilsip.in provides much detailed information on the project, and there is an on-line knowledge management resource centre in use by project staff to share information. External stakeholders are also informed by a project brochure and a book of case studies.

35. For component 2, WMD has produced a brochure and series of leaflets and posters on different aspects of watershed development, along with a communication strategy and success story tools The WMD model for watershed development includes a comprehensive Information, Education and Communication initiative to produce and disseminate targeted messages to increase awareness about the project, terms of participation and transparency.

Agreed action	Responsibility	Agreed date
47. To avoid problems of poor internet connectivity the MIS system needs to have a capability for data to be entered off-line and later uploaded.	Manager MIS	15 May 2015
48. The impact survey agency should send IFAD the questionnaires being used for baseline surveys for components 1 and 2, and the proposed sampling plan for component 2. After a quick review IFAD may suggest some improvements to the survey for component 2.	Manager PME UGVS and IEC in WMD	30 April 2015
49. Once both baseline reports have been produced, a consolidated report on comparing and aggregating the results from both components should be produced. If needed, pay an additional fee to Inspire for this work.	Manager PME UGVS and IEC in WMD	October 2015
50. A mid-term impact socio-economic survey for component 1 should be carried out prior to the MTR next year. This would (i) expand the sample covering the ex-ULIPH federation area, (ii) include some additional information on production and marketing of commercial products; and (iii) household level employment	Manager PME, IFAD	Complete by January 2016
51. More knowledge sharing events should be organised to synthesis and share lessons emerging from implementation.	MKM UGVS & IEC WMD	From June 2015
52. Information on dairy, goats and poultry should be produced to inform farmers and front line field staff on key technical and economic parameters.	MKM	November 2015
53. There are opportunities to use videos to introduce new ideas and share information between communities.	MKM, UGVS & IEC WMD	From July 2015
54. More experience sharing tours and visits should be organised for farmers and staff to visit successful initiatives inside and outside the state.	MKM UGVS & IEC WMD	From July 2015

36. **Gender focus:** The project has been working strategically on gender issues. In the eight disaster affected blocks women were proactively engaged for vocational training. Out of 694 persons who received vocational training, 450 were women of whom 161 are already placed, although many girls could not accept placement as the jobs were outside their hometown. To some extent the gender focus tilts heavily towards women. Almost 89% of participants in Component 1 and 63% in Component 2 are women. The higher coverage of women in Component 1 is mainly due to the fact that ULIPH, NRLM, SGSY and other such government initiatives were essentially women centric with an emphasis on group formation. Hence women were more enthusiastic participants and easily accessible. This means that women are members of PGs so the project benefits flow to their household thereby enhancing her status within the family. However, the project understands the importance of increasing men's participation in the PGs as they have comparative advantage in managing activities such as marketing, aggregation and transportation of produce etc. They can also share the in the hard physical work of farming. Therefore the project has decided to proactively engage with men in order to create more gender balanced PGs.

37. Learning from the experiences of ULIPH the project has been promoting women friendly agricultural technologies (eg cattle troughs, sickles, chaff cutters etc). The winnowing fan has been especially popular. Women in the hill areas spend maximum time and energy in collecting potable water, fuelwood and fodder. The project is promoting fodder nurseries. Access to drinking water at doorstep/ within community is supported in Component 2 and can also be facilitated through convergence with Government schemes. However the issue of firewood remains a challenge especially in upland areas during winter. The project could promote a combination of smokeless stove (that use pellets) along with induction cookers on a pilot basis. With regards to staffing in Component 1 it must be noted that out of 46 staff in the state and District PMUs only 6 are women. Bageshwar, Chamoli and Pithoragarh DMUs do not have any women staff. There are significantly more female staff in the TAs (approx. 50%).

38. **Poverty focus:** To ensure that the poor are not excluded from the project activities, the project has been forming VPGs where widows/ single women, disabled persons, SC/ ST and the poorest populations are included. Members of the VPGs are given additional support. At the same time, to ensure that the PGs which have more relaxed criteria for membership (than VPGs), essentially benefit the poor families, the project has introduced specific criteria for membership which automatically excludes the well-off: e.g. persons in government jobs, taxpayers and those with more than 25 nalis of land are excluded.

Agreed action	Responsibility	Agreed date
55. Create a budget head for drudgery reduction activities and develop and implement a plan for reducing drudgery. Include this in the AWPB	PM-G&I	April 2015
56. Increase participation of men in the PGs under Component 1	DPMU, TA	From April 2015
57. To the extent possible recruit more women to fill the remaining vacant staff positions	PDs UGVS & WMD, UPASaC	

39. **Targeting performance:** Component 1 has now formed 966 PG/VPG with 8,344 members, 14% of the project target of 59,000 members. Although around 80% of households in selected villages want to join PGs (more than was anticipated in project design), there are some problems with overlapping with other projects which was not anticipated at the time the blocks were selected. An average of 3,000 members per block in 16 new blocks would only result in 48,000 members, and expansion to other blocks is needed to reach the target number of households. Attracted by their useful services, new members are joining ex-ULIPH Federations, with total membership increasing by 2,208 during the year.

Table 2: Number of households participating in ILSP

	Appraisal Target	Revised target	Actual number (31/03/15)		Actual as % of revised
			Number	Of whom women	
Component 1					
Groups in new areas	91,800	59,000	8,344	86%	14%
ex ULIPH federations	18,525	30,000	34,150	90%	114%
Vocational training	10,000	15,000	692	65%	5%
Action research	2,000	2,000			
Total component 1	122,325	106,000	43,186	89%	41%
Component 2	39,600	20,000	8,895	63%	44%
Grand total	161,925*	126,000	52,081	85%	41%

* the total in the appraisal report was 143,400 as it did not include ex-ULIPH federations, although they were mentioned in the report and included in the cost tables

40. Component 2 has formed 960 PG with 8,895 members. The whole population of the 21 micro-watersheds (MWS) will ultimately benefit from watershed development, but as works are only just starting, the number of PG members has been taken as the number of participating households. Detailed planning has revealed the actual population of the selected MWS is 18,404 households, rather less than the projected population of 20,000 in the revised targets for component 2.

Agreed action	Responsibility	Agreed date
58. While avoiding overlap with projects that provide similar or higher levels of support for livelihood development (such as Gramya, NRLM and SRTT), component 1 could form PGs in IWMP watersheds, as the amount of livelihood support here is quite limited, and mainly only covers goats and poultry and the non-farm sector. This needs further discussion with WMD.	PD-UGVS	From June 2015
59. To achieve outreach targets component 1 should cover additional blocks where there are now no major livelihood programmes. These include Pokhariblock in Chamoli district and Tardikhet and Dwarahat blocks in Almora district.	PD-UGVS	August 2015
60. Cover a significant number of additional households in the action research sub-component of Component 1.	CPD UGVS	July 2015

41. **Climate and environment.** The flood disaster of 2013 underlines the vulnerability of livelihoods in hill areas. Not only were lives and property lost but damage to roads prevented local produce, such as off-season vegetables and fruit, from reaching markets. The PMU has drawn up a value chain risk matrix which identifies risks for specific products and identifies how these can be mitigated, such as by using alternate access routes. ILSP has also funded some activities aimed at helping households recover from the 2013 disaster – distribution of seeds via DoA and veterinary health camps.

Agreed action	Responsibility	Agreed date
61. In order to increase focus on disaster recovery, and to increase resilience to future disasters, a new subcomponent for disaster recovery and resilience should be established. A study should be carried out to identify specific activities (and gaps in the assistance that has already been provided by a range of agencies). Support could include livelihood related infrastructure, supply of critical inputs such as seed and animal health care, and community level planning for Disaster Risk Reduction. Sub-projects to be implemented by other agencies in the disaster-affected area could also be supported, including funding of up to INR 80 million for the provision of seed kits in response to recent unexpected rainfall that caused much damage.	PD-UGVS	April 2015

42. **Partnerships** UGVS had a useful partnership with the ILRIMilkIT project for dairy development. MilkIT has now ended, but there are opportunities to adopt some ideas from this project. In one block (Kaljikhali in Pauri district) UGVS will, as a pilot, work in partnership with NRLM – with NRLM covering group formation and social mobilisation, and UGVS supporting livelihood development. Component 1 is being implemented in partnership with Technical Agencies. Apart from expertise in field implementation these agencies have experience in value chain development for specific commodities which will be useful across the project. Partnerships are being formed with a number of government agencies who are implementing innovation linkage sub-projects.

E. Fiduciary aspects

43. **Financial Management.** The project has financial management units at: (i) the Central Project Coordination unit (CPCU); (ii) Component 1 (implemented by UGVS) has a Project Management Unit (PMU) and eight divisional offices; (iii) Component 2 (implemented by UDWU of WMD) has a PMU and two Project Director (PD) offices and three Deputy Project Directors' (DPD) Offices covering the three districts of the component; and (iii) Component 3 (implemented by UPASaC), with a single office in Dehradun.

44. Currently the finance and accounts department of UGVS is headed by the Finance Manager (FM) based in Dehradun who has the additional charge of the CPCU finance along with one Assistant Manager Finance (AMF), and one AMF for the PMU. The finance and accounts function of each divisional office of UGVS is under the charge of an AFM. The Finance and Accounts Department of UPASaC is temporarily supervised by the CEO of UPASaC along with a Project Assistant, there being no finance personnel at all at present. For UWDU PMU, the finance department is currently overseen by the WMD PD Administration along with an Accountant in each of the two PD offices and the three district offices. Based on the review of the books and records of CPCU, UGVS, UPASaC and UWDU maintained in Dehradun and the district

offices and PD offices as applicable and a few federations under UGVS, the mission's findings are as follows:-

45. UGVS and UPASaC The overall internal controls in the PMU, the divisional offices of UGVS and in UPASaC were found to be generally satisfactory. Bank Reconciliation Statements (BRS) have been regularly prepared in all these offices. Fixed Assets and Non Fixed Assets Registers are maintained properly across UGVS and in UPASaC. District balances as per district offices were found to cross match with the PMU books in UGVS.
46. In Baghewsar, Chamoli, Pithoragarh and Almora districts substantial payments were found to be made in cash which should be avoided. Currently the project has a system of booking all expenses through an expense payable account and then making another entry for payment using the relevant expense account. This leads to passing of entries exactly twice the number of entries that is actually required which is a sheer duplication of efforts and waste of time.
47. For UGVS and UPASaC there are as many as 930 account groups with 2,899 ledger heads in the customized Tally Software. This is far too many for a project of this size. Moreover the ledger heads do not represent an activity and hence the information from a particular ledger head cannot be linked to a particular activity. The ledger heads capture information which are hardly relevant and little use. Moreover against a particular transaction, there is no way to make an entry being made under only one particular ledger head, ignoring all the other ledger heads. This implies that the extent of correctness of ledger entries can never be verified.
48. Federations: The mission reviewed the books and records of four federations and noted that: (a) lack of a concept of double entry book keeping, (b) non preparation of Trial Balances; (c) absence of BRS; (d) non-writing / non-updating of stock registers; (e) non matching of grant figures from divisional offices with those in the federation books; (f) opening balances not brought forward; and (g) share capital account balance not cross matching with figures calculated on the basis of the number of shareholders and contribution rate per member. Accounts for the year ended 31st March, 2014 of all 53 federations have been compiled by a firm of Chartered Accountants but not audited.
49. UDWU: the PMU based in Dehradun receives funds from the CPCU and transfers these to the PDs in Haldwani and Garwal Regions and also to the DPDs, heading the operations of Pauri, Nainital and Champawat districts. The DPD offices in turn transfer funds to the Unit Officers of the three districts and Gram Panchayats (GP) in the project micro-watersheds. Funds from the GPs may also move to Revenue Village Committees (RVC) under the various GPs. Fixed Assets registers have been maintained properly. The overall internal controls were found to be generally satisfactory.
50. The books of accounts for Nainital district, the PMU office and the two PD offices are maintained in the Tally Accounting package. For Champawat and Pauri districts, the transactions and balances are likely to be fed in the Tally system very shortly. However training for Tally is required to be given to all concerned accounts personnel across UWDU.
51. BRS has been prepared in Nainital district on a regular monthly basis. However for Champawat and Pauri districts this has not been done. BRS needs to be prepared on a monthly basis as a mandatory procedure for every accounting unit across UWDU.
52. Internal Audit. An internal audit of UGVS was carried out for the half year ended 30th September 2014 by a firm of Chartered Accountants based in Dehradun. The internal audit of the half year to 31st March 2015 is likely to be taken up shortly. There is a need to improve their ToR to focus on internal controls and assisting project finance staff to correct deficiencies. No internal audit has been carried out for UPASaC. For UWDU a Chartered Accountant has been recently recruited to carry out internal audits and the first internal audit report is expected in May 2015.
53. **Disbursement**. Till 31st March 2015, IFAD has reimbursed an amount of SDR 2.65 million (including the initial deposit of SDR 1.32 million), this being 4.67% of the total loan. One withdrawal application amounting to SDR 0.60 million for expenses incurred during January and February 2015 is pending disbursement. If this is released, the rate of disbursement would marginally increase to 5.73%. Withdrawal

Application 7 covering expenses for March 2015 amounting to INR 50.5 million (USD 0.82 million) was sent to CAAA on 10.4.2015 for its concurrence.

54. **Counterpart funds.** The project receives funds from the Government of Uttarakhand (GoUK) based on budgetary allocation. The amount transferred to the project is not bifurcated between loan and counterpart funds. During 2014-15 the project had budgeted for a total amount of INR 350 million including INR 78.71 million as the government counterpart share. GoUK released the entire amount of INR 350 million, and at the by the year-end a total of INR 67.16 million in government counterpart expenditure had been incurred, giving cumulative GoUK expenditure since the start of the project of INR 95.97 million.

55. **Compliance with loan covenants.** The Project has generally complied with the Project Loan covenants except that the requirements under Paragraph 5.2 and Paragraph 6.2 of Section II of Schedule I of the Finance Agreement regarding the holding of PSC and PMC meetings. These were partly complied with as only one meeting was held PSC and PMC as against the required number of two and four respectively. Section 7.01(b)(ii) of the General Conditions was not complied with as the AWPB for 2014-15 was not sent to IFAD exactly within the stipulated time.

56. **Procurement.** During the year ended 31st March 2015 the project has made substantial procurement of equipment, vehicles, goods and services. This procurement has been made according to the Uttarakhand Procurement Rules (UPR) 2008. These are not in conflict with IFAD Procurement Rules. The mission examined procurements on a test basis with tender documents, quotations, suppliers' lists, evaluation statements (technical and financial), works orders, agreements and other relevant documents; and found the procurement procedures to be satisfactory. Concurrence has been obtained from IFAD for procurements that required IFAD prior review.

57. **Audit** The audit of the project for the year ended 31st March, 2014 was carried out by a firm of Chartered Accountants in accordance with the Indian Auditing Standards. The audit report generally complied with the standard template and did not contain any qualifying observation. A management letter was also issued but the observations reported were of a routine nature with no major internal control weakness highlighted. The auditors also need to comment on the adequacy/ correctness of the procurement process according to their TOR, but no such comment was noticed. However there was no adverse comment in this regard. From next year the auditors should be asked to give a comment on this aspect. The project maintains a detailed Audit Log.

Agreed action	Responsibility	Agreed date
62. In UGVS and UPASaC, the numbers of Account Groups and Account heads should be reviewed and rationalised to the extent possible.	FM UGVS and UPASaC	August 2015
63. The practice of recording every payment through expense payable should be discontinued to avoid unnecessary duplication of work. Necessary modification in Tally needs to be done in this regard	FMUGVS &UPASaC	From May 2015
64. The practice of granting fresh advances before settlement of earlier advances should be discontinued	FM UGVS &UPASaC	April 2015 onwards
65. BRS should be prepared in all accounting units of UWDU	PSWMD	May 2015 onwards
66. Cash disbursements should be minimized and replaced through cheque payments.	FM UGVS &UPASaC	From April 2015
67. Training needs to be given for: (i) general accounting to UGVS federation accountants; and (ii) on the job Tally to UGVS Federation accountants and to all UWDB accountants	FM UGVS &UPASaC / PSWMD	By July 2015

F. Sustainability

58. **Institution building.** The ex-ULIPH Federations are well on their way to sustainability, with a growing business, and some would be trading profitably if ILSP support for administrative costs were removed. For the new Component 1 producer groups to be sustainable the new Livelihood Collectives will need to be established and become sustainable. Component 2 activities are already embedded in GPs which should help ensure sustainability as GPs can continue to access government support after the end

of the project. However UPASAC (component 3) needs to start developing a viable financing business if it is to be sustainable.

59. **Empowerment and social sustainability** Development of community institutions (PG, VPG, LC, Federations, GP WWMC) are at the heart of ILSP and have been shown to result in significant empowerment of their members – most of whom are women and from poor households. Empowerment can be enhanced through experience and knowledge sharing between these institutions.

60. **Quality of beneficiary participation.** Participating households and their community organisations have the major role in determining project activities and selecting enterprises. Both components 1 and 2 have used a participatory process for planning livelihood, value chain and watershed development. Participating households are expected to contribute towards the cost of livelihood development, but the size of this contribution is often limited by the existence of other schemes which offer higher levels of support.

61. **Responsiveness of service providers** appears (at this early stage) to be good. This mission was impressed by the capacity of the component 1 TA (barring some staff shortages) and the component 2 FNGO. These agencies should be able to add value to the project by bringing in their experience and networks in livelihood and value chain development. ULDB in implementing the cattle breeding centres and is going beyond this by also supporting provision of animal health services and allowing incorporation of milk collection and feed supply services.

62. **Exit strategy.** An exit strategy will need to be drawn up after the MTR, and is likely to focus on ensuring that community institutions are sustainable.

63. **Potential for scaling up and replication.** The approaches adopted in ILSP have good potential for replication and scale up. The PMU has had many requests that ILSP be implemented in additional blocks.

G. Other

64. **Impact on physical and financial assets** is only just starting. Watershed development has bought 7.2 ha of land under irrigation. Dissemination of technical knowledge and support for inputs is making land more productive in components 1 and 2.

65. **Impact on food security** The growing role of Federations in supply of Take Home Rations for ICDS is improving the food security of children aged under 5 and pregnant women. Although these rations were available earlier, involvement of Federations has meant that they are now of better quality and provided on a more reliable basis.

66. **Quality of natural asset improvement and climate resilience** Watershed development focuses on improving natural assets and making livelihoods more resilient to the effects of climate change. Component 1 is also adopting approaches that will improve the productivity of land through environmentally-friendly interventions. In addition the planned disaster management and resilience sub-component will aim to help communities draw up plans for livelihoods disaster risk reduction.

H. Conclusion

67. In the last few months ILSP has made considerable progress, but still has a long way to go to catch up on achievement of outputs, and total expenditure of project funds is far below the amount expected after three years of implementation. What is now needed is a further acceleration on the pace of implementation, which requires that staff vacancies in UGVS and WMD PMUs are filled along with the TA's for component 1. Additional TA's need to be contracted for seven new component 1 blocks (including three additional blocks).

68. With restructuring of the project, funding for component 1 has considerably increased, yet only 159 posts have been approved. The project design had recommended 178 staff positions. The mission suggests that a review of UGVS staffing requirements (taking account of the additional blocks) and personnel policies is made prior to the MTR next year.

69. A number of proposals have been made by government agencies for ILSP fund a number of sub-projects supporting innovations to address problems of hill agriculture and assist in disaster recovery from the recent rains. With some modifications, most of these should go ahead, and the mission has recommended a new sub-component be created in component 1 for disaster management and resilience.

70. Relatively little progress has been made in component 3, Livelihood Financing, which is being implemented by UPASaC. UPASaC has not provided any support to the mature ex-ULIPH federations, which have significant funding needs, and during the last year only facilitated 861 bank loans to individuals and SHGs. UPASaC needs to clarify its role in ILSP, with loan facilitation for individual and groups being the task of TA staff. UPASaC's interventions in finance should be strategic, aimed at building partnerships and developing products. There is also a need to engage with other banks and financial institutions, including NABARD, rather than relying on UPASaC to be the sole channel for livelihood financing.

71. Although there has been a considerable improvement in performance, the mission considers that the project is still in the "at risk" category. However this could be reviewed at an ISM in about 6 months, and a recommendation could be made to remove the "at risk" rating if overall performance continues to improve. In particular ILSP should have achieved the following milestones: (i) expenditure of 10% of the IFAD loan; (ii) completion of formation of 90% of PGs in both components 1 and 2; (iii) filling of all vacant staff positions; (iv) selection and contracting of TA agencies to cover all new blocks in component 1; and (v) an agreed and feasible plan for the future of UPASaC

72. Given devaluation of the Rupee since the project was planned, and the low level of expenditure in the first three years, ILSP is unlikely to be able to utilise the entire IFAD loan, even if progress accelerates and physical targets are achieved during the next four years. An MTR will be held next year at which time a recommendation could be agreed to cancel IFAD loan funds which are surplus to the needs of the project. Alternatively components 1 and 2 could be scaled up, with some additional project blocks, more market-based interventions (such as for milk) and additional micro-watersheds. Draft plans and financial projections should be drawn up by each component and discussed with the ISM.

Agreements reached at the wrap-up meeting and subsequent discussions with GoUK:

- a) Plans have been agreed for a major acceleration of work this year, with a total AWPB of about INR 151 crore. This requires a total of INR 123 crore of project (IFAD and GoUK) funds, the balance being bank financing and beneficiary contributions. There are savings of INR 27 crore from the previous year's release that can be carried forward, and GoUK has already approved a release of INR 65 crore for 2015-16. This leaves an additional requirement of INR 31 crore that will be approved by GoUK.
- b) GoUK would like external assistance for agriculture to focus on seed supply, tree planting, fodder development, animal health via paravet services, water conservation and storage, and addressing man-animal conflict. The ILSP PMU and IFAD have drawn up plans to focus ILSP activities in 2015-16 on these areas (see attached note). It was agreed that where community organisations being supported by ILSP are unable to deliver the required volume of work, ILSP will channel its funds via the line agencies of GoUK.
- c) ILSP will, as a one-time support in response to the recent unseasonable rain, fund seed kits for crops and vegetables via Departments of Agriculture and Horticulture at a total cost of about INR 10 crore.
- d) ILSP is supporting tree planting on community land in micro-watersheds being developed by GPs supported through component 2 of the project. Tree planting in government reserve forest by the Department of Forest is not within the scope of ILSP and cannot be funded.
- e) Although ILSP will not fund the proposed mobile soil testing laboratories, an action research pilot on addressing soil fertility needs in the hills could be funded. IFAD will draw up a proposal for this.
- f) UPASaC has been created as a financing institution and should focus on activities that have been agreed during this mission to facilitate access of farmers and federations to credit. UPASaC should not expand its role into marketing at this stage as UGVS has already engaged staff required to

help federations and communities in marketing. UPASaC activities related to marketing will not be funded by the project.

Summary of ILSP plans for 2015-16

Summary by Implementing Agency

Details	Main Implementing Agency	Physical Targets for 2015-16	Financial Targets for 2015-16Rs.
1. Horticulture mini kit	Horticulture Dept.	100,000	87,400,000
2. Agricultural mini kit	Agricultural Dept	65,000	13,000,000
3. UGVS- Producer Group/VPGs	UGVS	5,100	191,600,000
4. UGVS -LCs/Federation	UGVS	80	16,600,000
5. WMD -Producer Groups/VPGs	WMD	1,842	81,600,000
6. WMD -Gram Panchayat Support	WMD	187	210,000,000
7. Dairy development	Aanchal/ULDB /AHD	100	85,700,000
8. Collection centres	Federations/LCs	30	32,000,000
9. Support to Line Departments and Boards (sub-projects)		9	43,200,000
Total			761,100,000

Summary for key activities

Sector	Financial Targets for 2015-16 Rscore	No of households	Comments
Seed, fertilizer and agriculture inputs	31.83	238,591	DoH, DoA, UGVS, WMD
Fodder production	3.58	26,286	WMD, UGVS and DAH
Trees planted	4.10	14,736	760 ha WMD
Check dams and water storage	15.80	14,736	187 GP, WMD
Paravets	3.72	24,400	ULDP: 172 paravets
Man-animal conflict	2.14	16,000	Pilot: UGVS, 160 villages

Activity 1: Horticulture Mini-kit distribution

Description: Horticulture Department has prepared a plan for disaster recovery by distributing input mini-kits to farmers in the hill districts

Main Implementing Agency: Department of Horticulture

Mini-kit Composition: It comprises vegetable seeds, ginger and turmeric, pesticide and micronutrients.

Physical and Financial Target:

Details	Physical target for 2015-16	Financial Target for 2015-16
Horticulture kits	100,000 farmers	8.74 crores

Procurement Process: All procurement with Terai Development Corporation through rate contract.

Activity, Responsibility and Deadline

Activity	Responsibility	Deadline
Provision of MOU draft to Dept of Horticulture	UGVS	20 April
Approval by PS Horticulture and submission to UGVS	Dept. of Horticulture	22 April
Approval by UGVS management committee	UGVS	25 April
Signing MOU		26 April
Procurement and submission of invoice to UGVS	Dept of Horticulture	15 May
Release of funds	UGVS	15 May
Distribution of mini-kits	Dept of Horticulture	30 May
Study of benefits	UGVS	Sept 2015

Activity 2: Agricultural Mini-kit distribution

Description: Department of Agriculture has prepared a plan for disaster recovery by distributing seed mini-kits to farmers in the hill districts

Main Implementing Agency: Department of Agriculture

Mini-kit Composition: It comprises paddy, millet, maize, pulse and soyabean seeds to plant 0.1 ha.

Physical and Financial Target:

Details	Physical target for 2015-16	Financial Target for 2015-16
Crop seed kits	65,000 farmers	1.30 crores

Procurement Process: DoA has already procured these seeds and they are being held in the blocks. All procurement was done through the Terai Development Corporation and National Seed Corporation through rate contract.

Activity, Responsibility and Deadline

Activity	Responsibility	Deadline
Provision of MOU draft to Dept of Agriculture	UGVS	20 April
Approval by PS Horticulture and submission to UGVS	Dept. of Agriculture	22 April
Approval by UGVS management committee	UGVS	25 April
Signing MOU		26 April
Submission of invoice to UGVS	Dept of Agriculture	15 May
Release of funds	UGVS	15 May
Distribution of mini-kits	Dept of Agriculture	30 April
Study of benefits	UGVS	Sept 2015

Activity 3: UGVS Producer Group /Vulnerable Producer Group Support

Description: The project will provide Rs 3,600 per member per year for two years to a Producer Group of 8-10 members and Rs4,400 per member per year for two years to a Vulnerable Producer Group. This is mainly to purchase seed and agricultural inputs based on a food security enhancement plan with a built in system of recovering the funds provided into the group account to recycle the funds for subsequent crops. Total physical target of the project is 4080 PGs and 1020 VPGs and total financial allocation available is Rs. 38.32 crore

Main Implementing Agency:UGVS

Physical and Financial Target:

Details	Physical target for 2015-16	Financial Target for 2015-16
PG Support	4080	14.68 crore
VPG Support	1020	4.48 crore
Total	5100	19.16 crore

Procurement Process: No procurement involved. Direct release of funds to PGs/VPGs based on a food security improvement plan.

Activity, Responsibility and Deadline:

Activity	Responsibility	Deadline
Identifying PGs and VPGs in UGVS blocks	UGVS	30 June 2015
Disbursement of PG/VPG Support in UGVS blocks – Q 1 – 2250 PGs and 255 VPGs – Rs 8.3 crore	UGVS	30 June 2015
Disbursement of PG/VPG Support in UGVS blocks – Q 2 – 1250 PGs and 255 VPGs – Rs 4.70 crore	UGVS	30 Sept 2015
Disbursement of PG/VPG Support in UGVS blocks – Q 3 and Q4 – 1600 PGs and 510 VPGs – Rs 6.2 crore	UGVS	Start October 2015

Activity 4: UGVS Federation/LC Support

Description: The project will provide support of 200,000 per year to LCs for two years to undertake activities related to business development.

Main Implementing Agency:UGVS

Physical and Financial Target:

Details	Physical target for 2015-16	Financial Target for 2015-16
Federation support	83	1.60 crore

Procurement Process: No procurement involved. Direct release of funds to federations based on a business plan.

Activity, Responsibility and Deadline:

Activity	Responsibility	Deadline
Identifying federations in UGVS blocks	UGVS	30 June 2015
Disbursement of PG/VPG Support in UGVS blocks – Q 1 – 16 LCs/Federations - Rs 0.4 crore	UGVS	30 June 2015
Disbursement of PG/VPG Support in UGVS blocks – Q 2 – 16 Cs/Federations - Rs 0.4 crore	UGVS	30 Sept 2015
Disbursement of PG/VPG Support in UGVS blocks – Q 3 and Q4 – 48 LCs/Federations - Rs 0.8 crore	UGVS	Start October 2015

Activity 5: WMD Producer Group /Vulnerable Producer Group Support

Description:WMD purchases seed and other inputs and provide these to PGs and VPGs based on food security improvement plan. The project will provide Rs60,000 per year per PG (8-10 members) for two years and Rs80,000 per year per group for two years per VPG (405 members). A system of recovering the funds provided into the group account to recycle the funds for subsequent crops will be implemented. Total physical target of the project is 1642 PGs and 200 VPGs and total financial allocation available is Rs 15 crores.

Main Implementing Agency:WMD

Physical and Financial Target:

Details	Physical target for 2015-16	Financial Target for 2015-16
PG Support	1642	6.56 crore
VPG Support	200	1.60 crore
Total	1842	8.16 crore

Procurement Process: No procurement involved. Direct release of funds to PGs/VPGs based on a food security improvement plan.

Activity, Responsibility and Deadline:

Activity	Responsibility	Deadline
Identifying PGs and VPGs in WMD blocks	WMD	30 June 2015
Disbursement of PG/VPG Support in WMD blocks – Q 1 – 410 PGs and 50 VPGs – Rs 2.1 crore	WMD	30 June 2015
Disbursement of PG/VPG Support in WMD blocks – Q 2 – 410 PGs and 50 VPGs – Rs 2.1 crore	WMD	30 Sept 2015
Disbursement of PG/VPG Support in WMD blocks – Q 3 and Q4 – 822 PGs and 100 VPGs – Rs 3.4 crore	WMD	Start October 2015

Activity 6: Gram Panchayat Support

Description:WMD implements activities for fodder development, water harvesting and storage, and tree plantation by providing support to GPs.

Main Implementing Agency: WMD and Gram Panchayat Support

Physical and Financial Target:

Details	Physical target for 2015-16	Financial Target for 2015-16
Fodder development	600 ha	1.0 crore
Tree plantation	760 ha	4.2 crore
Water harvesting	187 GP	15.8 crore
Total		21.0 crore

Procurement Process: No procurement involved. Direct release of funds to GPs based on a watershed plan.

Activity, Responsibility and Deadline:

Activity	Responsibility	Deadline
Preparation of watershed plans in WMD blocks	WMD	30 June 2015
Disbursement of GP support in WMD blocks – Q 1 – Rs 4.2 Crore	WMD	30 June 2015
Disbursement of GP support in WMD blocks – Q 2 – Rs 4.2 Crore	WMD	30 Sept 2015
Disbursement of GP support in WMD blocks – Q 3 & 4 – Rs 8.4 Crore	WMD	Start October 2015

Activity 7: Dairy Support

Description: The project will support establishment of milk routes, milk collection centres, para vet and fodder development using a cluster approach.

Main Implementing Agencies: Aanchal, ULDB and Animal Husbandry Department

Physical and Financial Target:

Infrastructure	Physical target for 2015-16	Financial Target for 2015-16
Milk Collection centers	100	2.50 crore
Para vet and AI services	172	3.72 crore.
Fodder development	200 plots	2.00 crore
District Milk Federation restructuring support	7	0.35 crore
Total		8.57 crore

Procurement Process: GoUK procurement process

Activity, Responsibility and Deadline

Activity	Responsibility	Deadline
Identify milk routes and identify location for establishing collection centres	Aanchal/AHD/UGVS	31 May 2015
Identify paravet / secretary for training	UGVS/ULDB	30 June 2015
Establish primary milk cooperative/milk collection centre	UGVS	31 July 2015
Undertake a study on the operational issues of district federations	Aanchal	31 Aug 2015

Activity 8: Collection Centres

Description: The project will support construction of collection centres for use by the federations for vegetables, fruit, spices and crops, and construction of river crossing trolleys and ropeways in ILSP blocks.

Main Implementing Agency: Federations

Physical and Financial Target:

Infrastructure	Physical target for 2015-16	Financial Target for 2015-16
Collection centers	32	3.20

Procurement Process: GoUK procurement process

Activity, Responsibility and Deadline

Activity	Responsibility	Deadline
Provision of land to Federations	DMs	31 July 2015
Submission of proposals	DPMO	31 August 2015
Approval of proposal and signing of MoU	PMU	15 September 2015
Release of funds	DPMO	Start from 15 September 2015

Activity 9: Support to Departments and Boards approved by Supervision Mission of April 2015

Description: The Supervision Mission of April 2015 has approved nine proposals from various government departments and Boards for implementing project activities in the ILSP blocks.

Activity	Responsibility	Budget
Support to alpine sheep herders - 330 households	USWDB	0.55 crore
1300 bamboo/fibre based enterprises	UBFDB	1.44 crore
Honey development, 325 bee keepers	NBB	0.40 crore
Nursery for planting material	KVK	0.26 crore
Fodder development – AHD	AHD	0.66 crore
Fodder development, Teri district	AHD	0.14 crore
Poultry	KVK	0.14 crore
Vegetables, Pithogargh	KVK	0.15 crore
Vegetables	GBPAUT	0.58 crore
Total		4.31 crore