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Document of
The World Bank

Report No: 32513

IMPLEMENTATION COMPLETION REPORT
(TF-25388 TF-26592 IDA-32480)

ON A

CREDIT

IN THE AMOUNT OF US$90 MILLION

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR A

POVERTY ALLEVIATION FUND PROJECT

June 15, 2005

Finance and Private Sector Development Unit
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 28, 2005)

Currency Unit	=	Pakistan Rupee (Rs)
Rs 1	=	US$ 0.0168
US$ 1	=	59.40

FISCAL YEAR

July 1 - June 30

ABBREVIATIONS AND ACRONYMS

BCR	-	Benefit-Cost Ratio
BOD	-	Board of Directors
CED	-	Credit and Enterprise Development
CO	-	Community Organization
CPI	-	Community Physical Infrastructure
DMPP	-	Drought Mitigation and Preparedness Project
EDF	-	Enterprise Development Facility
ERR	-	Economic Rate of Return
FRR	-	Financial Rate of Return
GB	-	General Body
GOP	-	Government of Pakistan
IA	-	Impact Assessment
IADP	-	Integrated Area Development Project
ICR	-	Implementation Completion Report
IDA	-	International Development Association
IRR	-	Internal Rate of Return
MTR	-	Mid-Term Review
NGOs	-	Non Government Organizations
NPV	-	Net Present Value
OM	-	Operational Manual
O&M	-	Operations and Maintenance
PAD	-	Project Appraisal Document
POs	-	Partner Organizations
PPAF	-	Pakistan Poverty Alleviation Fund
ROI	-	Return on Investment

Vice President:	Praful Patel
Country Director	John W. Wall
Sector Manager	Simon C. Bell
Task Team Leader/Task Manager:	Qazi Azmat Isa

PAKISTAN
POVERTY ALLEVIATION FUND

CONTENTS

Project ID: P049791	*Project Name:* POVERTY ALLEVIATION FUND
Team Leader: Qazi Azmat Isa	*TL Unit:* SASES
ICR Type: Core ICR	*Report Date: June 15, 2005*

1. Project Data

Name:	POVERTY ALLEVIATION FUND	*L/C/TF Number:*	TF-25388; TF-26592; IDA-32480
Country/Department:	PAKISTAN	*Region:*	South Asia Regional Office

Sector/subsector: Micro- and SME finance (50%); Other social services (19%); Roads and highways (15%); Water supply (8%); Irrigation and drainage (8%)

Theme: Gender (P); Access to urban services and housing (P); Rural services and infrastructure (P); Participation and civic engagement (S); Rural markets (S)

KEY DATES			*Original*	*Revised/Actual*
PCD:	07/15/1998	*Effective:*	09/17/1999	08/26/1999
Appraisal:	10/20/1998	*MTR:*	09/10/2002	11/01/2002
Approval:	06/17/1999	*Closing:*	12/31/2004	12/31/2004

Borrower/Implementing Agency: The Islamic Republic of Pakistan / Pakistan Poverty Alleviation Fund

Other Partners:

STAFF	Current	At Appraisal
Vice President:	Praful C. Patel	Mieko Nishimizu
Country Director:	John W. Wall	Sadiq Ahmed
Sector Manager:	Simon C. Bell	Marilou Jane D. Uy
Team Leader at ICR:	Qazi Azmat Isa	Qazi Azmat Isa
ICR Primary Author:	Rashed ul Qayyum	

2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome:	S
Sustainability:	L
Institutional Development Impact:	M
Bank Performance:	S
Borrower Performance:	S

	QAG (if available)	ICR
Quality at Entry:	S	S
Project at Risk at Any Time:	No	

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

The project aimed at alleviating poverty and empowering the rural and urban poor, by providing them with access to resources and services, especially women as the burden of poverty falls disproportionately on them. The development objective was clear and had no ambiguity. It was realistic and achievable in the sense that it was to be pursued through an autonomous body, the Pakistan Poverty Alleviation Fund (PPAF), which was already established and the entity was to support poverty alleviation programs of nongovernment organizations (NGOs) who had a good track record of poverty alleviation and met with PPAF's eligibility criteria. The objective was to be achieved through an integrated approach by: (i) increasing incomes of poor households by providing them with loans and technical support; (ii) increasing access of the poor to physical infrastructure in order to improve their livelihood opportunities; and (iii) enhancing the institutional capacity and financial sustainability of NGOs and PPAF. NGOs were seen as conduits for transferring resources to the poor. The components were based on well tested interventions that the more successful NGOs were undertaking and that were impacting poverty. The emphasis on institutional development and capacity building better positioned NGOs and PPAF to deliver on the development objective. Furthermore, by acting as a true apex PPAF and not getting into implementation, PPAF concentrated on partnering with good institutions and focussing on appraising their proposals and once approved closely monitoring progress. This allowed PPAF to remain lean and focus on a few core competencies. The good governance structure, the high quality of PPAF Board of Directors which comprised well respected professionals from the private and public sectors, private sector recruited chief executive and management ensured that PPAF was run on sound principles and decisions were taken on merit without political interference. The development objective was consistent with the provisions of the Bank's country assistance strategy, which also aims at reducing poverty by investing in people, raising productivity, and promoting sustainable economic growth.

3.2 Revised Objective:

The development objective was not revised. At the Mid-Term Review (MTR), project components were found to be contributing to the development objective, which, therefore, remained as originally stated.

3.3 Original Components:

1)	**Services to the Poor**		
	(i)	Micro-Credit	($45.0 m)
	(ii)	Community Infrastructure	($35.0 m)
2)	**Capacity Building to deliver Services to the Poor**		
	(i)	Capacity Building of POs	($10.0 m)
	(ii)	Capacity Building of PPAF	($ 7.0 m)
3)	**PPAF's Equity**		
	(i)	Endowment from GOP	($10.0 m)

Micro-Credit, for providing loans to the partner organizations for on-lending to individuals or groups of individuals who met the eligibility criteria of PPAF. The partner organizations were to on-lend to the poor, at least on market rates. By capping loan sizes at Rs. 30,000 (US$ 500 app) and giving a lower rate for loans below Rs 10,000 (US$ 150 app) PPAF hoped to use this as a proxy for targeting the poor.

Community Infrastructure, for supporting small scale community infrastructure sub-projects in the form of grants on a cost sharing basis. The partner organizations were to act as intermediary agencies, to assist communities in organizing as groups and preparing, implementing and managing these schemes. Typical scheme sizes were expected to be $10,000 on an average, with community contribution expected to be 20% of the total capital cost. Community infrastructure schemes were envisaged to focus on drinking water supply, irrigation channels, culverts, excavation and rehabilitation of karezes, flood diversion and protective works, and link roads.

Capacity Building of Partner Organizations, for supporting, on a declining basis, in the form of grants, capacity building of communities and partner organizations in order to improve their effectiveness in implementing poverty alleviation programs. The component covered the cost of the initial investment required by the partner organizations when expanding micro-credit to new clients and new areas. Capacity building of communities by partner organizations comprised training community activists to assume leadership at local level, providing specialized technical and managerial training to community members for them to manage enterprises they initiate with micro-credit loans and to plan and manage community infrastructure projects.

Capacity Building of PPAF, for supporting the (i) operational cost of PPAF, on a declining basis, (ii) technical assistance costs to carry out various studies and impact evaluations, and (iii) the cost of fixed assets.

Endowment from the Government of Pakistan, to serve as PPAF's equity.

3.4 Revised Components:

Component	Rating
Service to the Poor	S
Capacity Building to Deliver Services to the Poor	S

Project components were not revised. However, there were some adjustments within the two sub-components of the *Capacity Building* component, to the extent that allocation for the *Capacity Building of Partner Organizations* sub-component was increased from $10 m to $14 m by taking off $4 m from the original allocation of $ 7 m for the *Capacity Building of PPAF* sub-component.

3.5 Quality at Entry:

Rated satisfactory. The Project Appraisal Document (PAD) does not indicate any performance rating for quality at entry, nor does it specify any actions that would need to be taken to meet the requirements of the Bank's safeguard policies. Nevertheless, the project design was adequate in that its objectives were consistent with Government's development plans and the Bank's country assistance strategy for poverty alleviation. The approach adopted in the PAD for using NGOs was simple and pragmatic because of worldwide experience of credible delivery record of well established NGOs. Several other options, such as commercial banks or government line departments or local councils or existing apex funding organizations were considered at the design stage, but were rejected in favor of PPAF. While some risks were perceived that a majority of the NGOs would be weak, the emphasis on the institutional capacity and financial sustainability was certainly a key step in enhancing quality at entry.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

Rated satisfactory. After a relatively modest start PPAF and its partner organizations (POs) made rapid gains resulting in the credit being fully disbursed by the closing date. Early effort in building capacity has had high payoffs and PPAF supported interventions have had a positive impact on the lives of the poor and its performance surpassed most targets set at appraisal. Detailed impact assessments for both micro-credit and infrastructure projects as well as case studies tracked by the Bank supervision missions point to a definite improvement in the lives of the poor.

4.2 Outputs by components:

Services to the Poor: Rated satisfactory. This component consisted of two sub-components: Micro-Credit and Community Infrastructure. The purpose of this component, which was to (i) provide loans to POs for on-lending to the poor; and (ii) support small scale community infrastructure sub-projects through POs acting as intermediaries and assisting communities in organizing as groups and preparing implementing and managing these schemes was achieved. Internal monitoring reports of PPAF, external evaluation and the Bank's supervision aide memoirs confirm that these services have been delivered to the poor. An external outcomes assessment of PPAF's micro credit was carried out by Gallup. Adopting a counter factual "combined approach" (ex ante/ex post and with / without dimensions), it covered 100% of PPAF's POs (as of June, 2001), focused on a 5% sample of 1800 households in 17 districts of the country. The sample represented all four provinces and various ecological zones of the country. Focusing on equally represented control and borrowing samples of households, several hypothesis with respect to income, consumption as well as non-income and social indicators were tested. Evidence suggests that lower income households borrowing from PPAF were better off than they would have been in they had not borrowed. On average, their incomes and consumption had increased, there was an improvement in their personal and business assets; their life styles by way of housing facilities was better than before and their social status, especially that of women borrowers, had undergone a positive change. Admittedly, the scale of change was limited, but this was to be expected considering the short time span between intervention and impact evaluation, the small amount of loan and the fact that mostly single cycle loanees were assessed. The report is included in the annex. Furthermore, PPAF maintain focus on women borrowers attaining forty eight percent overall women borrowers of micro credit by the closing date. With women being 33% of all borrowers in the first year (FY00); they were 54% by the last year (FY05 1st half). The small average loan size of less than Rs. 10, 000 is a proxy indicator that loan beneficiaries, close to half a million during the project period belong to poor household. Repayments of loans from POs to PPAF have been 100%. An independent impact assessment was also done on infrastructure in three provinces. The assessment sampled 365 completed schemes funded by PPAF. The assessment concluded that community infrastructure investments were robust, low-cost and sustainable and that projects had nearly universal community participation in identification, design, implementation and maintenance. The report is included in the annex. Starting with less than 1000 schemes in the first year of the project PPAF rapidly increased grants to communities for infrastructure development. With over 12000 schemes approved for implementation, nearly 8000 initiated and 5200 completed by the project completion date. The World Bank supervision missions confirmed that eligibility criteria were being followed and schemes visited clearly showed full participation of communities in the identification, planning, implementation and maintenance of these schemes.

Capacity Building to Deliver Services to the Poor: Rated satisfactory. This component consisted of two sub-components: Capacity Building of POs and Capacity Building of PPAF. The purpose of this component, which was to (i) support, on a declining basis, in the form of grants, capacity building of communities and partner organizations in order to improve their effectiveness in implementing poverty alleviation programs, and (ii) support technical assistance costs to carry out various studies and impact evaluations, was achieved. Capacity building, training and institutional development efforts have been focused on increasing outreach and operational efficiency at all three levels i.e. at the community, PO and PPAF; 200 additional field units of POs had been supported and nearly 3000 training sessions for over 90,000 community members of which 40% were women; and 3000 PO staff had been held. PPAF had also conducted training needs assessment of its own staff and invested in training them including sending them on exposure visits to good practices in South and East Asia. All this has had high payoffs in that these investments have resulted in allowing these institutions to deliver much more to the poor. In fact, without the investment in this component, outcomes of the services to the poor could not have been as impressive.

4.3 Net Present Value/Economic rate of return:

While it is difficult to calculate economic rate of return (ERR) for the overall project, given the complexity of quantifying the benefits of some of its activities, such as capacity building and training, and short term nature of the micro-credit loans, ERR for the CPI sub-component, computed by the ICR mission using the terminal impact assessment data of 18 CPI sub-projects taken from four main partner organizations that account for 27% of the CPIs financed (completed) from 2001-2004 by the project (PPAF-I), is estimated at 31% (Annex 3). This compares favorably with similar Bank funded social funds, where the rate of return for activities with quantifiable benefits is, on an average, 20%. The net present value (NPV) determined at 12% discount rate for 10 year cash flow on an average for 5,289 completed CPIs, is Rs 1,462 million. It must however be added that the ERR of 31% is an aggregate of 18 CPIs, the individual ERRs vary from 7% for simple drinking water supply schemes to 59% for improvements to irrigation channels where higher benefits accrue from water savings and increased agricultural productivity.

4.4 Financial rate of return:

The financial rate of return (FRR) of 18 sampled CPIs, on an aggregate basis, is 32%. Overall FRR of irrigation oriented CPIs is 34%, drinking water supply and sanitation type CPIs is 21%, and communications infrastructure type CPIs is 37%. Details of the FRRs are provided in Annex 3. Aggregate FRRs of the CPIs completed in the earlier years of the project implementation (for 356 CPIs in 2002) were computed as 34%. Another measure of the FRR in the case of micro-credit loans is the mean return on investment (ROI). Mean ROI for 58,486 micro-credit loans given by June 2002 is estimated at 30% per annum, based on outcomes of micro-credit study carried out in August-September 2002 by a third party evaluator, Gallup Pakistan. PPAF has commissioned a repeat evaluation of the impact of micro-credit to Gallup Pakistan to capture a wide set of borrowers, as of June 30, 2004. Data collection has recently been completed and analysis of the data is underway. Although result of this analysis is not available, there is a strong indication that because of a steadily increased size of the average loan amounts and a faster increase in the outreach, an equivalent if not better mean ROI is likely for the latter round of micro-credit loans' financial returns.

4.5 Institutional development impact:

The Capacity Building component of the project focused on institutional development of key stakeholders including POs, COs and PPAF itself. This resulted in improved effectiveness of these institutions in implementing poverty alleviation programs and the relationship between these three has developed in to a stronger, deeper and more rewarding partnership. The increased outreach and impressive outputs and outcomes of the services to the poor component is a testimony to capacity building efforts and institutional development impact. Through the technical assistance facility the project provided to the PPAF, a number of studies and impact evaluations were carried out. A number of lessons learned from these studies and findings of the mid-term as well as interim impact evaluations provided a direction to PPAF management to refine its policies and introduce innovative programs such as pilot Drought Mitigation and Preparedness Projects (DMPP), Integrated Area Development Projects (IADP), and an Enterprise Development Facility (EDF).

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

The overarching framework of the project was embedded in the transition from a public sector dominated service delivery system to promoting public-private partnerships that lead to private sector led dispensation. While there was government support for the project, however, as PPAF was an untested institution there was some apprehension as to how it would perform and whether the nongovernment sector had the capacity to deliver at a larger scale. And though in the end this did not affect project implementation and outcomes but it did present PPAF with a major challenge. To its credit PPAF rose to the challenge and established its credibility through adhering to its eligibility criteria, building capacity and stuck to its core principles enshrined in its constitution thereby winning over the trust and confidence of not only its POs but also the public sector.

The commencement of the project coincided with a longer drought cycle, which set in around 1999 and continued unabated with minor fluctuations until the recent spell of extended winter rains (2005). Some areas of the country were seriously hit by the drought, including most of Balochistan province, the eastern part of Sindh (Thar), and southern and western desert areas of Punjab (Cholistan and Thal), where a great number of livestock perished, groundwater resources were seriously exhausted and people started migrating. This posed an additional challenge for PPAF as drought and poverty has a causal relationship. In an effort to address this PPAF consciously made an effort to promote partnerships in drought stricken areas right from the beginning. Furthermore, inspite of the fact that it was on a steep learning curve it started a pilot DMPPs in the second half of the project implementation period, At any given point in time during project implementation, no less than 25 percent of PPAFs POs were working either in the acute drought affected areas or had special-focus activities in its core programs of micro-credit and infrastructure.

5.2 Factors generally subject to government control:

A commitment of the government to poverty alleviation, as reflected in its 'Poverty Reduction Strategy', has been the main driving force to adopt this innovative public-private partnership model that deviated from previous government sponsored and/or donor assisted poverty reduction programs. The government deliberately assumed the role of an enabling facilitator and entrusted the private sector with management and execution of the newly launched program, PPAF. The government commitment continues and PPAF has been delivering, growing from strength to strength.

Other critical factors that have better guaranteed success and have been subject to government control have been: an independent and autonomous Board of Directors (BOD) of PPAF which has comprised of individuals with excellent reputations, competency and integrity, majority of whom are drawn from the private sector; and a Chief Executive and management team hired by the Board from the private sector. These factors have enabled PPAF to adhere to its mandate and principles and develop into a dynamic, decentralized, and result oriented organization.

5.3 Factors generally subject to implementing agency control:

A key factor that has proved to be critical in the project's performance has been that PPAF avoided achieving quick results, did not concentrate on making rapid disbursements and attain higher outreach within a short span of time despite pressure from various stakeholders. Instead, it concentrated on developing institutional capacity, devising appropriate appraisal and monitoring mechanisms etc. The time spent on this approach built not only trust between the apex and its POs but also ensured that capacity was enhanced prior to taking initiatives to scale. There are several examples of organizations that initially signed-up with PPAF for a couple of million rupees mostly for their capacity building and now have agreements well over a hundred million rupees. PPAF has also needed to change a grant driven sector, where NGO had been used to small amounts of bilateral grant money to one of loans. This has also required building financial information systems of its POs and putting in due diligence mechanisms that have resulted in 100% recovery. On the other hand, PPAF continuously learns from the partner organizations as PPAF staff makes regular monitoring field visits. The close interaction with the partner organizations and their communities provides a pool of precious knowledge that helps PPAF determine its future directions and correct its procedures and modify its policies where warranted.

For itself PPAF supports a lean and efficient corporate structure, which makes the organization cost effective and gives a better chance to make PPAF operations sustainable. Although it was envisaged at the time of project formulation that PPAF would open provincial and district level offices, it chose to operate from one central office. In order to avoid adding to its corporate and operational structure, it communicated and monitored its POs and COs by relying on frequent field visits and better IT usage.

5.4 Costs and financing:

The total project expenditure was $110 m against the appraisal estimate of $107 m, caused due to exchange rate fluctuations The ratio of actual financing, compared with appraisal estimates, remained almost unchanged for IDA, i.e., 84% estimated at appraisal versus 82% actually achieved. Component-wise cost estimates made at appraisal and actual expenditures are shown in Annex 2. Government's contribution to PPAF's equity came as per the legal agreement (the DCA) and has been used by PPAF as an endowment fund. Contributions to the infrastructure sub-component from the community has been 25%, which is 5% higher than the covenanted percentage.

Disbursements were slow for the first two years then picked up dramatically The allocation of the Credit proceeds in the disbursement categories was adequate and adjustments were made in a timely manner when in 2004 $ 4 million was reallocated from one sub-component to another. Final disbursement was 100% of the Credit amount.

6. Sustainability

6.1 Rationale for sustainability rating:
Sustainability of the project is rated as **likely** as PPAF has had a favorable impact of the sustainability of its POs, moving them towards market access by building their institutional and managerial capacity; assisting them in developing business and outreach plans, and enhancing their absorptive capacity to access larger quantum of PPAF credit lines in the short to medium-term and in the long run access commercial credit. Moreover, PPAF encourages its POs to lend at rates that will ultimately cover their credit operations costs. However, PPAF does not make it mandatory and only imposes a minimum lending rate to ensure that they do not on-lend to borrowers below commercial rates to avoid market distortions and lead to sustainability. With regard to sustainability of PPAF's own credit operations, 100% repayments from POs has ensured that it continues to lend money generated from these reflows until such time as repayments become due to Government. On the infrastructure side PPAF financed assets created at the village level have a much better chance of sustainability because they have full participation and ownership of beneficiaries who also maintain them. As for grant money that PPAF provides to POs and COs for infrastructure and capacity building it will need to rely on transfers from Government and Donors for the foreseeable future.

6.2 Transition arrangement to regular operations:
An efficient management structure has already made PPAF capable of sustaining its current scale of operations, whereby, interest earned on its micro-credit operations and from its endowment fund invested in long-term Government Securities is contributing towards PPAF's operational expenses. Moreover, as PPAF is an independent and autonomous institution registered under the Companies Ordinance no transition arrangements as such are envisaged. Continued good performance will guarantee its funding. In fact the success of its operations has meant that the Bank has since approved a second much larger project, which it is currently implementing. PPAF through its second project is well poised to introduce second generation innovations of delivery of financial and infrastructure services as well as provide support for education and health of the poor.

7. Bank and Borrower Performance

Bank

7.1 Lending:
Satisfactory. The project was prepared and appraised in a relatively short time of about eight months. Subsequent processing of the project within the Bank was even faster and within four months of the appraisal, the Credit was negotiated and Board approval was secured. The preparation and appraisal teams benefited from a wide array of Borrowers' documents and good practices within the Bank of an array of Social Funds and a very successful Micro-Credit Apex in Bangladesh. They reviewed the Bank's sectoral assessments and other relevant documents prepared by the Government and other institutions and made their own special focus assessments on status and collaboration of NGOs in Pakistan and the status of micro-credit in Pakistan. The Bank team had sectoral experts in micro-credit, infrastructure, capacity building, monitoring and evaluation, social development and environment alongwith core service specialists in procurement, disbursement and financial management.

7.2 Supervision:
Satisfactory. The Bank fielded supervision missions twice a year throughout the implementation period, with 4 to 6 members, including social development, micro-credit, infrastructure, environmental, capacity building, and financial management/disbursement and procurement specialists. Continuity in task leadership during the project implementation period has been seen as a strength of the Bank's interlocution with the key stakeholders of poverty alleviation programs in quickly understanding the issues. The role of the Bank was perceived by the implementing agency (PPAF), its POs and the communities to be supportive, constructive and helpful in resolving the issues. There were several innovative features about the Bank's supervision, including "Immersion", "360 degree feedback" and

"Twinning". Nearly every supervision included Immersion, which meant the Bank team members spending at least three nights in a poor client village or urban slum, to know first hand the lives of the poor, their hopes and dreams and most importantly if the project interventions were making a difference in their lives. During these immersions the mission developed over thirty case studies of the poor of which several were visited more than once over the life of the project to track progress and change in the lives of these clients. This method also helped in resolving various issues, big and small amongst the stakeholders, i.e. PPAF, POs, COs and the Bank at the field when there was clarity of what needed to be fixed and how it could be done. This method helped considerably in developing trust and a sense of partnership amongst the various players who see each other as part of a whole in which each had a key role and outcomes depended on everyone's performance, the system being as strong as the weakest link. The 360 degree feedback was developed early on to solicit feedback from PPAF's partners about its performance. This was done independently by a senior consultant when neither PPAF or anyone from the Bank was present and then these findings were shared in an open forum with everyone present. This greatly assisted in streamlining procedures and reducing red tape early on which had been in many cases seen as "Bank requirements". As a major feature of the design the project had benefited from the successful and ongoing PKSF micro-finance apex in Bangladesh. A twinning arrangement between the two organizations was developed whereby management and staff from both organizations visited each other and had extended periods of interaction. Overall, the close interaction between the Bank Supervision Team and PPAF and the quality of discussion between them provided an excellent learning opportunity for PPAF and helped them in understanding the Bank's various legal, financial and reporting requirements. Supervision was not confined to 6-monthly visits but a more continuous interaction of the Bank with the client was maintained, which has been greatly appreciated by the client and helped in resolving issues expeditiously. Timely clearances by the Bank of procurement decisions, quick disbursement in a remarkably short turn-around time for clearances, usually within less than 2 weeks, was highly satisfactory and contributed significantly to the successful implementation of the project.

7.3 Overall Bank performance:
Satisfactory.

Borrower
7.4 Preparation:
Satisfactory. The Government of Pakistan was keen on building upon the experiences gained from earlier poverty alleviation interventions both within the government and nongovernment sectors. They were instrumental in setting up PPAF as an autonomous private/public nonprofit entity that would handle funds directly from the Bank. Despite routing funds through accredited civil society organizations which was a major departure from the previous norms of Bank projects to route funds through government line agencies, the project preparation and its subsequent processing moved on a fast track. The entire process showed commitment to incorporate community participation in the project design and recognized the importance of working with communities and using institutions that were pro-poor.

7.5 Government implementation performance:
Satisfactory. The Government of Pakistan, especially the Ministries of Finance and Economic Affairs who are both represented on PPAF's Board have been extremely supportive and facilitative during the implementation of this project. The complete independence of the General Body and the Board of Directors of PPAF was ensured and respected. As a result there was little outside interference in the operational work of PPAF. Because of the autonomous character of PPAF and complete independence of the management structure of PPAF, its policy formulation remained consistent with the stated project goal. The transfer of endowment funds from the government to PPAF was prompt, and there have never been any problems with the transfer of IDA disbursements to the special account of PPAF through the State Bank of Pakistan. Overall, the government's performance has been satisfactory.

7.6 Implementing Agency:
Highly Satisfactory. The quality, credibility and competence of the General Body and the Board of Directors and management and staff of PPAF has been critical in the projects implementation record and success. Despite being a new institution, it learned quickly, was open to new ideas, learnt to adapt

and by setting clear criteria and openness, developed trust and confidence with its partners. Conscious of its national agenda it has managed to keep a diverse portfolio of POs representing all the four provinces, the Northern Areas and Azad Jammu and Kashmir. It has focused on areas that needed special attention for instance where drought impact has been the severest. By the close of the project it had partnered with 42 institutions, varying in size and ideology, with preference to institutions who concentrated their work with women. It had invested early on in building capacity of its partner's which had high pay-offs later on. In fact, the effective use of IDA resources by PPAF in this project has resulted in a much larger follow on project that PPAF is currently implementing.

7.7 Overall Borrower performance:

Satisfactory.

8. Lessons Learned

Key lessons learnt during the implementation of this project are also reflected in the design of the follow on PPAF-II project. These include:

a. *A holistic approach is needed to improve access to services and reduce poverty.* Poverty alleviation type of projects should combine provision of micro-credit with small scale infrastructure, education, health facilities as well as skill development for improving the standards of living and empowering the poor quicker.

b. *Autonomy and freedom from political pressures is critical for effective functioning of apex institutions.* PPAF, having been incorporated under the Companies Ordinance that ensures its autonomy and clearly identifies the role of its Board and the Chief Executive Officer, was insulated from outside pressures by virtue of key principles enshrined in its Article and Memorandum of Association. Key principles included that "the Board of Directors shall ensure that the resources of the company shall not be used for political patronage or for any other purpose"; and that board members and their institutions would not be eligible for PPAF funding.

c. *Institutional development of pro-poor institutions is critical for poverty alleviation.* PPAF learnt this lesson early on in the implementation phase of this project and it has been a source of drive and strength in using the capacity building component to its fullest potential. PPAF's institutional development of the partner organizations includes strategic reviews, SWOT (strength, weaknesses, opportunities and threats) analysis, mandatory submissions of business plans, targeted training, capacity building of staff, and strengthening of financial and monitoring functions.

d. *Decentralization enables organizations to respond rapidly and successfully to community needs.* PPAF has a fully decentralized functional organizational structure that is lean, flexible and results oriented. Its General Managers (GM) have full authority to take decisions based on the organization's operational manual (OM) that has been approved by the Board of Directors of PPAF to reflect transparency and be consistent with the mission. Consequently key operational decisions regarding the selection of partner organizations, disbursements, project implementation, supervision and benefit monitoring are made at the GM level.

e. *Good quality of staff helps achieve organizational goals.* Hiring of staff by PPAF is through a transparent and merit based procedure. Policies of compensation and staff development are clearly articulated in the OM and reviewed from time to time to incorporate best practices and keep staff motivated.

f. *Program interventions should be demand driven.* A core principle that PPAF promotes with its partner organizations is to incorporate demand driven mechanism for subproject generation with effective grassroots level participation. This creates a sense of ownership of the subprojects by the communities not only through cost-sharing but also by promoting a clear understanding of the rights and responsibilities of the users and service provides.

Some of the key lessons articulated by PPAF in its self analysis for the first three years are worth reproducing:

- Government support is absolutely essential for the success of the apex institution.
- The level of donor support and facilitation, or the absence of it, can make or break the project.
- A competent and committed Board of Directors makes the task at hand much easier.
- A fully competent Chief Executive can achieve better and quicker results.
- Institutional building is the key to long term success.
- Building of trust is the key to achieving sustainable development.
- Development is an on going process which is continually evolving.

9. Partner Comments

(a) Borrower/implementing agency:

PPAF as you know, had been visualized as an apex wholesaler, covenanted to operate in a strategic framework which is diverse and broad based. The overall objective of alleviating poverty and assuring sustainable livelihoods has, required the institution to undertake activities at different levels and, inter alia address attendant challenges of the sector:

- Cater to a retail market ranging from small/emerging organizations to large/mature institutions.
- Maintain balanced portfolio on a national basis, among organizations with high degree of variation in absorption capacity and/or managerial capability.
- Serve rural as well as urban areas with equal vigor.
- Afford special consideration to women and disadvantaged communities.
- Enable large access to funding without resorting to micro management, and maintaining a demand driven orientation, at all times.
- Facilitate adoption of market pricing of products and services, encourage economies of scale prudent risk management and long term sustainability/cost effectiveness.
- Focus on rigorous evaluation, outcomes and impact on the poor and marginalized communities.

Its extremely satisfying to note that ICR has recognized performance of PPAF along a range of parameters and indicators. In our view the primary achievement of PPAF over the five years has been that the efficacy and effectiveness of the model of public/private partnership stands fully demonstrated. At the time of commencement of operation in April 2000, the concern on poverty targeting, elite capture and ineffectiveness of resource deployment have proved to be unfounded.

Secondly, the issues of absorption capacity of civil society organizations and the upscale potential offered by such organizations have also been laid to rest. Not only in terms of uptake of PPAF funds, but the exponential growth, as well as third party evaluation of outcomes and impact, have shown that initial investments in the quality of retail intermediation, capacity building and institutional development have provided a high rate of financial, social and economic return.

By establishing and maintaining an institutional structure that is lean, merit based and performance driven has enabled PPAF to set benchmarks and standards of service delivery. We have also endeavored to lead by example in inculcating in the POs a mindset of cost consciousness and strategic direction. Focus on long term sustainability has required considerable dedication of time and energies of PPAF in developing meaningful disclosure, good governance, standard operating procedures, and internal controls within the POs, and following a set of cardinal principals and core values within the PPAF.

We were particularly fortunate in having a shared vision and commitment from the World Bank team, both at Islamabad and Washington D.C. who provided support flexibility and course correction whenever required. The distinguishing feature of relationship with the Bank has been that the project has been implemented in the true spirit of partnership allowing the PPAF to go to scale, in a short span of time while assuring and protecting program quality.

The PPAF also received unprecedented support from the Government of Pakistan. The role of GOP in ensuring autonomy and independence has been critical to the PPAF. The GOP has provided the necessary space and protected the private sector status of the institution. In allowing us operational autonomy, the GOP has enabled PPAF to act as an effective vehicle of public policy in a conducive environment, in the overall framework of poverty reduction.

The oversight and leadership exercised by a facilitative Board of Directors, had enabled PPAF management team to meet and exceed all major forecasts and outcomes set out in the PAD two years ahead of schedule, manifested in PPAF – II being approved on a fast track basis. Today PPAF is the largest project of its kind in the World Bank portfolio, well positioned to meeting the challenges of PPAF – II, over next four years.

(b) Cofinanciers:
Not applicable.

(c) Other partners (NGOs/private sector):
None.

10. Additional Information

None.

Annex 1. Key Performance Indicators/Log Frame Matrix

Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
Increase in incomes and assets of project beneficiaries	CPI assessment completed. Impact assessment of micro-credit operations also completed.	(ia) CPI: An independent impact assessment (IA) of 356 CPIs completed with two major POs of PPAF in 4 districts (2 in Sindh and one each in Punjab and Balochistan) concludes that most CPI investments are robust, low cost, and sustainable. On an average, these CPIs have 100 percent participation in identification, design, implementation and maintenance. Salient features by districts are: Tharparker: 150 CPIs with investment of Rs 12.7 million will generate benefits of Rs 123 million in 10 years; average weighted benefit-cost ratio (BCR) computed was 9.7; Badin: 123 CPIs with investment of Rs 23.4 million will generate benefits of Rs 150 million in 10 years; average weighted benefit-cost ratio (BCR) computed was 6.5; Turbat: 41 CPIs with investment of Rs 6.3 million will generate benefits of Rs 39 million in 10 years; average weighted benefit-cost ratio (BCR) computed was 6.1; and Khushab: 42 CPIs with investment of Rs 9.1 million will generate benefits of Rs 78 million in 10 years; average weighted benefit-cost ratio (BCR) computed was 8.6. (ib) Micro-credit: An independent assessment carried out by Gallup Pakistan; obtained data from 1,800 households in 140 community organizations in 17 districts in all provinces concludes that, on an average, low income households who borrowed from PPAF are better off today than they could have been if they had not borrowed. Specifically: 8% higher personal income was reported by 41% borrowers compared to 5% higher personal income by 32% non-borrowers; and 9% higher household income was reported by 44% borrowers compared to 6% higher personal income by 33% non-borrowers. Both the key findings were statistically significant at 95% level of confidence.
Increase in the number of beneficiaries, especially women, reached through project interventions	More than 2 million poor reached through project interventions – 278,000 micro-credit loans, of which 45% women; 3,414 CPI schemes completed; and 59,900 people trained.	More than 7 million poor reached through project interventions – 423,430 micro-credit loans, of which 47% women; 5,289 CPI schemes completed; and 101,000 people trained.

Output Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
Increased grants to communities for infrastructure development who are identifying, implementing and maintaining schemes	6,992 CPI schemes approved for implementation, of which 4,718 have been initiated and 3,414 completed. All completed schemes are being effectively maintained by the communities.	12,663 CPI schemes approved for implementation, of which 7,831 have been initiated and 5,289 completed. All completed schemes are being effectively maintained by the communities.
Increased number of POs and communities participating in PPAF's work.	PPAF has signed up with 38 POs in 79 of the total 105 districts of the country.	PPAF has signed up with 47 POs in 94 of the total 105 districts of the country.
Increased capacity of PPAF and its POs to undertake poverty alleviation work, especially delivery of micro-credit and infrastructure to a greater number of poor	Assessment of the work of POs, including their increased outreach and capacity completed.	Assessment of the work of six bigger POs, carried out by an independent chartered accountancy firm during appraisal of the PPAF-II, indicate that POs are broadly following prudent policies regarding credit approvals, disbursements, recoveries, provisioning, and write offs. PPAF has provided subsidies to POs to build their capacity and increase their outreach.
Progress towards financial sustainability of the PPAF and its POs	Financial indicators are improving (as of 6/20/2001).	Financial indicators show major improvement in terms of profitability, efficiency, sustainability and liquidity from base year (FY00) to completion year (FY04): Financial ratio FY00 FY04 Profitability Loan income/operating income,% 1 31.4 Loan income/total assets,% 7.4 30.9 Return on Equity,% 1.5 10.7 Efficiency Personnel cost/operating cost,% 34.4 37.9 Operating cost/avg. total assets,% 4.2 1.9 Sustainability Debt/equity ratio 1.2 3.4 Capital adequacy,% 44.6 21.8 Interest margin,% -67 67 Operating income/total expense ratio 1.1 2.4 Liquidity Current assets/total assets ratio 0.55 0.79

[1] End of project

Archived version #13 (actuals *as of 9/30/2003)*

Annex 2. Project Costs and Financing

Project Cost by Component (in US$ million equivalent)

Component	Appraisal Estimate US$ million	Actual/Latest Estimate US$ million	Percentage of Appraisal
I. Services to the Poor			
i) Micro-Credit	45.00	45.00	100
ii) Community Infrastructure	35.00	39.00	111
II. Capacity Building to Deliver Services to the Poor			
iii) Capacity Building of POs	14.00	14.00	100
iv) Capacity Building of PPAF	3.00	2.00	67
Sub Total			
III. PPAF's Equity			
v) Endowment from GOP	10.00	10.00	100
Total Baseline Cost	107.00	110.00	
Total Project Costs	107.00	110.00	
Total Financing Required	107.00	110.00	

Project Costs by Procurement Arrangements (Appraisal Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1]				Total Cost
	ICB	NCB	Other[2]	N.B.F.	
1. Works	0.00 (0.00)	0.00 (0.00)	28.00 (28.00)	7.00 (0.00)	35.00 (28.00)
2. Goods	0.00 (0.00)	0.70 (0.70)	1.00 (1.00)	0.00 (0.00)	1.70 (1.70)
3. Services	0.00 (0.00)	0.00 (0.00)	2.00 (2.00)	0.00 (0.00)	2.00 (2.00)
4. Civil Works (for office)	0.00 (0.00)	1.00 (1.00)	1.00 (1.00)	0.00 (0.00)	2.00 (2.00)
5. Miscellaneous	0.00 (0.00)	0.00 (0.00)	56.30 (56.30)	10.00 (0.00)	66.30 (56.30)
6. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Total	0.00 (0.00)	1.70 (1.70)	88.30 (88.30)	17.00 (0.00)	107.00 (90.00)

Miscellaneous includes Micro-credit and PPAF/PO's institutional costs
1/Figures in parenthesis are the amounts to be financed by the IDA Credit. All costs include contingencies.
2/Includes civil works and goods too be procured through national shopping, consulting serevices, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	0.00 (0.00)	0.00 (0.00)	29.00 (29.00)	10.00 (0.00)	39.00 (29.00)
2. Goods	0.00 (0.00)	1.00 (1.00)	2.00 (2.00)	0.00 (0.00)	3.00 (3.00)
3. Services	0.00 (0.00)	0.00 (0.00)	1.00 (1.00)	0.00 (0.00)	1.00 (1.00)
4. Civil Works (for office)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
5. Miscellaneous	0.00 (0.00)	0.00 (0.00)	57.00 (57.00)	0.00 (10.00)	57.00 (67.00)
6. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Total	0.00 (0.00)	1.00 (1.00)	89.00 (89.00)	10.00 (10.00)	100.00 (100.00)

[1/] Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

[2/] Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Project Financing by Component (in US$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	Bank	**Govt.**	**CoF.**	**Bank**	**Govt.**	**CoF.**	**Bank**	**Govt.**	**CoF.**
I. Services to the Poor									
i) Micro-Credit	45.00	0.00		45.00			100.0	0.0	
ii) Community Infrastructure	28.00	7.00		29.00	10.00		103.6	142.9	
II. Capacity Building to Deliver Services to the Poor									
i) Capacity Building of POs	14.00	0.00		14.00			100.0	0.0	
ii) Capacity Building of PPAF	3.00	0.00		2.00			66.7	0.0	
III. PPAF's Equity									
i) Endowment from GOP		10.00			10.00			100.0	

represents contribution by the communities in implementing the CPI schemes (average 25% of total project cost
i.e. US$ 39 million

Annex 3. Economic Costs and Benefits

PPAF-I draft ICR Annex 3 (revised: June 1, 2005)

Highlights:

- Aggregate *economic internal rate of return* (ERR) of three main categories of CPI subprojects related to irrigation, drinking water supply and communication infrastructure completed by four major partner organizations, which accounts for one third of all CPIs completed under the project (2001 to 2004), is estimated at 31.0% Based on detailed impact assessment by the ICR mission of 18 CPIs, randomly selected from the 5,289 CPIs completed under the PPAF-I project since inception by four major partner organizations (Taraqee Foundation, Balochistan; NRSP Badin, Sindh; Thardeep Rural Development, Tharparker, Sindh; and NRSP Khushab, Punjab). Together, the partner organizations accounted for about one third of all CPIs implemented under the project. at project completion. Aggregate *financial internal rate of return* (FRR) is estimated at 31.8%.
- Overall aggregate FRR of 356 CPI subprojects completed in 2002 was estimated at 33.6% (ICR mission, based on interim impact assessment data Generated by an independent study led by Bhandara in 2002-2003) of CPI subprojects).
- Mean *return on investment* (ROI) for 58,486 micro-credit loans given by June 2002 was estimated at *30% per annum* (based on outcomes of micro-credit study carried out in August-September 2002 by a third party evaluator, Gallup Pakistan).

1. As a result of the project, it was envisaged that the partner organizations will: i) increase their lending, thereby increasing access to the poor; ii) develop and invest more in human capital, thereby increasing the capacities of the poor; and iii) build more productive infrastructure with communities, thereby increasing the joint capital of the poor. Rough estimates at the time of appraisal, based on past pattern of growth, indicated that the project would benefit approximately 1.2 million people.

2. At the ICR stage, estimates prepared by PPAF indicate that millions of poor have been reached through project interventions – 423,430 micro-credit loans disbursed, of which 47% were women; 5,289 CPI schemes were completed; and 101,000 people were trained. In quantitative terms, the PAF disbursed micro-credit loans of Rs 4,417 million and attained an *average loan size* of ***Rs 10,431*** against the appraisal estimate of Rs 13,445.

Financial Return of Micro-Credit Loans

3. According to a study conducted by an independent third party evaluator (Gallup Pakistan), the mean *return on investment* for the loans was approximately *30% per annum*. However, the study was carried out early in the project in August-September 2002 when PPAF has reached 58,486 micro-credit borrowers by the end of FY02. It therefore represented 14% of the final outreach for micro-credit at the completion stage.

4. Gallup Pakistan evaluated the functioning of PPAF through a survey of 1,700 borrower and non borrower households in 140 community organizations of 17 districts in all four provinces of Pakistan. This study found that borrowing households were better off than those that had not borrowed. On the average, their incomes and consumption had increased and there was an improvement in their personal and business assets, housing facilities and other amenities/services, and in their social status (especially for women borrowers). The most striking outcome came from the borrower's tendency to spend 110% more on improving their living conditions after they have benefited from the micro-credit as compared to 44% more spending by non-borrowers. However, the borrowers were not able to obtain as much credit as they wanted, however. In the survey sample, the mean value of loans received by the borrower group was Rs. 9,138, which was 53 percent of their desired amount (Rs.17, 136).

5. PPAF has commissioned a repeat evaluation of the impact of micro-credit to Gallup Pakistan to capture a wide set of borrowers, as of June 30, 2004. Data collection has recently been completed and analysis of the data is underway. It was not possible for the ICR mission to glance through the interim findings, but from all indicators of the first evaluation, a slow but steady increasing size of the average

loan amounts and a faster increase in the outreach point towards a better mean return on investment than the 2002 computed 30% per annum.

6. The economic impact of the micro-credit on what percentage of the poor would cross the poverty line in how many years is extremely difficult to assess from the micro-credit interventions alone. By the project completion (December 2004), PPAF has reached barley 1% of the poor (estimated above 40 million in the country) through micro-credit, and only top quintile (10%) below the official poverty would cross line the poverty line in about 2 years. Therefore, the project beneficiaries must continue to receive loans of increasing amounts (with their debt capacities increasing through higher incomes, training and human development), and this must be continuously complemented by the productive community infrastructure schemes to enhance their earning potential, if majority of them are to cross the poverty line in about 6-8 years.

Financial Returns of Community Productive Infrastructures (CPI)

7. An independent impact assessment[1] (IA) of 356 CPIs completed by two major partner organizations of PPAF in 4 districts across the country (2 in Sindh and one each in Punjab and Balochistan) by June 2001 concludes that most CPI investments are robust, low cost, and sustainable. On an average, these CPIs have 100 percent participation in identification, design, implementation and maintenance. Highlights of the IA findings indicate that for the district of: (1) Tharparker, 150 CPI subprojects with investment of Rs 12.7 million will generate benefits of Rs 123 million in 15 years with an average weighted benefit-cost ratio (BCR) of 9.7 in *nominal terms*; (2) Badin, 123 CPIs with investment of Rs 23.4 million will generate benefits of Rs 150 million with an average BCR of 6.5; (3) Turbat, 41 CPIs with investment of Rs 6.3 million will generate benefits of Rs 39 million with an average BCR of 6.1; and (4) Khushab, 42 CPIs with investment of Rs 9.1 million will generate benefits of Rs 78 million with an average BCR of 8.6. The BCRs in real terms, however, on net present values (NPV) basis discounted at 12% annual rate, are much lower but still positive, and range from 1.1 (Turbat district) to 2.4 (Tharparkar district).

1 By Bhandara (2002). Because of data limitations, the FRRs cannot be refined to express ERRs. The benefits shown in the 2002 Bhandara study are cumulative for 15 years on an average for a great diversity of subprojects that range from hand pumps to lift irrigation, water storage ponds, link roads, and flood protection bunds. The benefit stream ranges from 5 years to 20 years or more; the individual items of benefits are not available in disaggregated form, which makes it difficult to convert them into economic benefits.

8. It is difficult to calculate economic or financial internal rates of return (ERR/FRR) for the overall project, given the complexity of quantifying the benefits of some of its activities, such as capacity building and training. For the micro-credit component, returns on investment (ROI) already computed by the Gallup Pakistan stand a good proxy for the ERR/FRR. For the CPI subcomponent, although the rates of return depend on the final distribution among different types of subprojects as they are demand driven, FRR computed by the ICR mission using the interim impact assessment data of 356 CPI subprojects completed in 2002 indicate an overall FRR of 33.6%. The FRRs computed for this study, summarized for aggregates of all CPIs by four districts, are shown in Table 1 of the Annexure. The FRRs indicate a fair degree of variation, ranging from 28% to 42%, among the various districts.

Economic and Financial Returns of CPIs

9. The ICR mission made a terminal impact assessment, through two independent consultants, of 18 CPIs that were selected by a random multistage process from the 5,289 CPIs completed under PPAF-I project since inception. In the first stage, five major partner organizations were identified that represented all regions of the country and had a major share of all CPIs implemented under the project. These partner organizations were: Taraqee Foundation, Balochistan; National Rural Support Program (NRSP) Badin, Sindh; Thardeep Rural Development Program (TRDP), Tharparker, Sindh; NRSP Khushab, Punjab; and Agha Khan Rural Support Program (AKRSP), Sakardu, Northern Areas. In the second stage, 5 CPIs from each of these partner organizations were randomly selected focusing on the major categories of CPIs demanded by the communities of that area. Of these 25 CPIs identified for detailed evaluation, the team could visit 18 CPIs; the visit to Northern Areas had to be aborted because of inclement weather while two other CPIs were left out because of their remoteness.

10. In the final analysis, the four partner organizations from where the assessment of CPIs was made had a wide regional spread and they still accounted for 27% (1,421 CPIs) of all the CPIs implemented under the project. The category wise spread was: Irrigation CPIs, 400 (28%); Drinking Water Supply and Sanitation (DWSS) CPIs, 898 (63%); and Communication Infrastructure CPIs, 123 (9%). A separate report (in project files) describes impact and outcomes of these CPIs; the Table below summarizes financial and economic rates of returns of these categories of CPIs based on sample number of CPIs evaluated.

Major Types of CPIs	**CPIs** (Nr)	**BC, 12%**	**FRR**	**BC, 12%**	**ERR**
Irrigation	8	2.0	34%	2.1	38%
Drinking Water Supply & Sanitation	7	1.3	21%	1.0	14%
Communications	3	1.9	37%	1.5	29%
Overall/Aggregate	18	1.8	31.8%	1.7	31.0%
NPV (extrapolated), million Rs	5,289		1,701		1,462

BC = Benefit cost ratio, determined on the basis of net present value of 10 years cash flow discounted at 12% annual rate.

NPV = Net Present Value at 12% discount rate

11. The aggregate ERR of the 18 sampled CPIs is estimated at 31%. This compares favorably with similar Bank funded social funds, where the rate of return for activities with quantifiable benefits is, on an average, 20%. The ERRs of the irrigation CPIs range from 26% in the case of a tubewell based lift irrigation CPI in Badin district to 59% in the case of a watercourse lining CPI in Khushab district. Both ends of the range show robust ERRs for this category of CPIs. The ERRs of the drinking water supply and sanitation CPIs, which are in the highest demand regime by the communities, range from a modest 7% in three cases (a small DWSS in Pishin district, a small DWSS in Badin district, and a rainwater harvesting pond in Thar desert) to 32% in the case of a tubewell for drinking purpose in Tharparker district. The ERRs of the communication infrastructure oriented CPIs range from 16% in the case of a link road in Badin district to 44% for a canal bridge in the same district. It must be noted that these economic returns are based on a 10 year benefit yield period across the board used for the ease of computations (the 10 year period is most suited for simpler CPIs such hand pumps, while for more durable CPIs such as watercourse lining, link roads and culverts, it could be 20 years or more) and take into account benefits that are very modest. For example, time saving benefits are taken for all DWSS type of CPIs while in the actual case several have added benefits in the form of improved livestock productivity and use of water for irrigating small plots of vegetables and minor field crops.

12. A summary cost benefit analysis, including financial and economic rates of return, of the individual CPIs made as a result of the terminal impact evaluation is presented in Table 2 of the Annexure. Brief notes on parameters used for the analysis, including conversion factors from financial to economic are given in the footnotes of the Table.

Annexure to Annex 3

Table 1: Financial Rates of Returns of 356 CPIs completed in 2002 in four districts

District/Stakeholders	Costs	Benefits	NPV (12%)	FRR, %
Tharparkar	.... PKR million...........			
Subprojects (Nr)	150			
PPAF	12.74	123.66		
Communities	5.20	50.51		
Year 1 (Total Invst)	17.94	174.17	PKR 43.7	41.5%
Year 2 (O&M)	0.45	(cumulative)		
Year 15 (O&M)	0.90			
Badin				
Subprojects (Nr)	123			
PPAF	23.36	150.74		
Communities	9.08	58.62		
Year 1 (Total Invst)	32.44	209.36	PKR 40.5	28.9%
Year 2 (O&M)	0.81			
Year 15 (O&M)	1.62			
Turbat				
Subprojects (Nr)	41			
PPAF	6.35	38.92		
Communities	2.72	16.68		
Year 1 (Total Invst)	9.07	55.60	PKR 10.3	27.6%
Year 2 (O&M)	0.23			
Year 15 (O&M)	0.45			
Khushab				
Subprojects (Nr)	42			
PPAF	9.09	78.15		
Communities	4.48	38.49		
Year 1 (Total Invst)	13.57	116.64	PKR 27.6	37.4%
Year 2 (O&M)	0.34			
Year 15 (O&M)	0.68			
Overall				
Subprojects (Nr)	356			
PPAF	51.23	391.47		
Communities	21.48	164.330		
Year 1 (Total Invst)	73.01	555.77	PKR 122	33.6%
Year 2 (O&M)	1.83			
Year 15 (O&M)	3.65			

Note: O&M at 2.5% for 3 yrs; 3% for yr 4-6; & 5% thereafter.
* Cumulative benefits over 15 years on an average

Annexure to Annex 3

Table 2: Benefit Cost Analysis (FRR and ERR) of 18 CPIs completed during project implementation (2001-2004)

Community Productive Infrastructure (CPI)	BC, 12%	FRR	BC, 12%	ERR
1. Taraqee Foundation (TF), Balochistan				
TF-1: Kareze Rehabilitation & Water Storage Reservoir	1.5	25%	1.6	27%
TF-2: Watercourse Lining	2.3	39%	2.0	33%
TF-3: Watercourse Lining	2.7	47%	3.5	59%
TF-4: Watercourse Lining	1.7	29%	2.1	37%
TF-5: Drinking Water Supply Scheme (DWSS)	1.0	13%	0.9	7%
2. NRSP Khushab, Punjab				
Khushab-1: Tubewell Network for DWSS	1.2	19%	1.0	10%
Khushab-2: Lift Irrigation Network Scheme (Extension)	2.1	60%	1.7	38%
Khushab-3: Bridge (Agri marketing access)	3.2	52%	2.1	30%
Khushab-4: Watercourse Lining	2.4	42%	2.8	49%
3. NRSP Badin, Sindh				
NRSP Badin-1: Drinking Water Supply Scheme (DWSS)	1.0	12%	0.8	7%
NRSP Badin-2: Watercourse Lining	1.9	32%	2.0	34%
NRSP Badin-3: Canal Bridge	3.8	57%	2.2	44%
NRSP Badin-4: Link road	1.3	22%	1.1	16%
NRSP Badin-5: Tubewell (lift irrigation) for agriculture	1.7	34%	1.3	26%
4. Thardeep Rural Development Program, Sindh				
TRDP-1: Tubewell for DWSS	1.8	43%	1.5	32%
TRDP-2: Dug well for DWSS	1.2	19%	1.0	13%
TRDP-3: Hand pump DWSS	2.6	52%	2.2	42%
TRDP-4: Rainwater harvesting pond for DWSS	1.0	11%	0.8	7%
Overall aggregate IRRs (all 18 CPIs)	1.8	32%	1.7	31%
NPV at 12% (for all 18 CPIs), m Rs		5.79		4.98
NPV at 12% (extrapolated for 5,289 CPIs), m Rs		1,701		1,462

Notes:

Economic prices for tradable commodities are based on import parity price (international commodity prices, 2005; World Bank Pink Sheets); with exchange rate of US$=Rs 60, as follows:

Economic price for wheat taken as Rs 525/40kg, urea taken as Rs 700/50 kg bag, and for DAP taken as Rs 900/50 kg bag; fuel price taken as Rs 24 for Financial and Rs 18 for Economic

Wage rate for women taken as Rs 50 for Financial and Rs 37.5 for Economic, based on the shadow wage rate factor of 0.75. For all other commodities, a standard conversion factor of 0.9 used to allow for overall local taxes.

Wage rate for Tharparker taken as Rs 40 for financial and Rs 30 for Economic

Operations and maintenance (O&M) for tubewell taken as 15% of capital cost for DWSS CPIs

O&M for Tubewell/ Lift irrigation schemes taken as 15% and 25 % for Financial and Economic analyses

No salvage taken for any of the CPI; 10 years cash flow employed for all CPIs irrespective of greater longevity for certain kind of CPIs.

Rain probability taken as 50% for rainwater harvesting CPIs in the case of TRDP-4.

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation				
July 1998 / August 1998	*3*	TASK LEADER (1), TEAM MEMBERS (2)	S	S
Appraisal/Negotiation				
January 1999 / May 1999	*4*	TASK LEADER (1), TEAM MEMBERS (3)	S	S
Supervision				
06/21/2000	*13*	TASK LEADER (1); FINANCE (1); SOCIAL DEVELOPMENT (1); FINANCIAL POLICY (1); ENVIRONMENT (2); INFRASTRUCTURE (1); DISBURSEMENT (1); FINANCIAL MANAGEMENT (1); PROCUREMENT (1); TEAM ASSISTANT (1); HUMAN RESOURCE (1); CONSULTANT (1)	S	HS
11/03/2000	*3*	COMMUNITY SPECIALIST (1); ENVIRONMENTAL SP. (1); ENGINEER (1)	S	S
11/03/2000	*1*	TASK LEADER (1)	S	S
03/05/2002	*12*	TEAM LEADER (1); ENTERPRISE DEVELOPMENT (1); MICRO-CREDIT (1); CPI (1); MIS (1); ADMINISTRATION (1); PUBLICITY (1); TEAM ASSISTANT (1); MER/GENDER (1); MEDIA/COMMUNICATIONS (1); LEGAL/COMPLIANCE (1); HID (1)	S	S
04/07/2004	*1*	COMMUNITY DEVELOPMENT (1)	S	S

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ ('000)
Identification/Preparation	8	9.0
Appraisal/Negotiation	4	5.0
Supervision	300	285.2
Total	332	314.2

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	Rating
☐ *Macro policies*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Sector Policies*	● *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Physical*	○ *H* ● *SU* ○ *M* ○ *N* ○ *NA*
☐ *Financial*	○ *H* ● *SU* ○ *M* ○ *N* ○ *NA*
☐ *Institutional Development*	○ *H* ○ *SU* ● *M* ○ *N* ○ *NA*
☐ *Environmental*	○ *H* ○ *SU* ○ *M* ● *N* ○ *NA*
Social	
☐ *Poverty Reduction*	● *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Gender*	○ *H* ● *SU* ○ *M* ○ *N* ○ *NA*
☐ *Other (Please specify)*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*
☐ *Private sector development*	○ *H* ● *SU* ○ *M* ○ *N* ○ *NA*
☐ *Public sector management*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
☐ *Other (Please specify)*	○ *H* ○ *SU* ○ *M* ○ *N* ○ *NA*

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance	*Rating*			
☐ *Lending*	● *HS*	○ *S*	○ *U*	○ *HU*
☐ *Supervision*	○ *HS*	● *S*	○ *U*	○ *HU*
☐ *Overall*	○ *HS*	● *S*	○ *U*	○ *HU*

6.2 Borrower performance	*Rating*			
☐ *Preparation*	● *HS*	○ *S*	○ *U*	○ *HU*
☐ *Government implementation performance*	○ *HS*	● *S*	○ *U*	○ *HU*
☐ *Implementation agency performance*	○ *HS*	● *S*	○ *U*	○ *HU*
☐ *Overall*	○ *HS*	● *S*	○ *U*	○ *HU*

Annex 7. List of Supporting Documents

Sr. No.	Baseline	Conducted by	Year	Partner Organization	Districts
1.	Baseline Survey by PIDE	Pakistan Institute of Development Economics	2001	2 PO (TT, KASHF)	3 districts
2.	Baseline Survey By PIDE	Pakistan Institute of Development Economics	2002	2 PO (TRDP & JWS)	2 districts
3.	Case studies	Salman Rashid	2002	BRSP, PRSP, RCDS, SRSP, SAFWCO, DAMEN, TRDP, AKRSP	
4.	Impact Assessment of Community Physical Infrastructure projects (CPI)	Aazar Wali Bhandara	2000	2 PO (TRDP & NRSP)	6 districts
5.	PPAF Micro Credit Financing (Gallup)	Gallup-Pakistan	2003	9 PO (NRSP,SRSP, SAFWCO, DAMEN, JWS, TT, BRSP, RCDS, TRDP)	17 districts
6.	Assessments of outcomes of HID Community Trainings	Semiotics	2005	13 PO (WWOP, SRSP-NWFP, SRSP-(Sindh) DAMEN, PRSP, NRSP, KK, TRDP , RCDS TARAQEE SAFWCO NRSP, RCDS)	4 provinces & AJK
7.	Assessments of outcomes of Strategic review	AKIDA	2005	5 PO (DAMEN, SRSP, TRDP, TF, OPD)	4 provinces (POs head offices)
8.	Partner organizations (POs) Monitoring and Evaluation Systems	Arshad Waheed	2002	7 PO (TRDP, TT, KK, Kashf, DAMEN, RCDS, AKRSP)	4 provinces
9.	Knowledge, Approaches and Practices in Poverty Alleviation.	Moiz Ali	2002	PRSP, DAMEN, SAFWCO, BRSP, TF, NRSP, SRSP, KK	10 districts
10.	Baseline Study of Health Program of POs	Dr. Irum Qamar Raja	2004	8 PO (KK,SUNGI, TF, NRSP, SAFWCO, TRDP, CSC, PRSP)	11 districts
11.	Baseline Study of Education Program of Partner Organizations	Ahmad Nadeem	2004	6 PO (Baanhn Beli, BLCC, BRSP, KK, NRSP, PRSP)	6 districts
12.	Periodic Review of RSP study	Development Research Group (DECRG) of the World Bank and PIDE	2003 On-going	2 PO (NRSP, PRSP)	8 districts
13.	Milk Marketing (Consumption) through Cooperatives	Tahir Medhi	2003	-	2 Districts