

17 May 2023

Subject: Republic of India - Rural Enterprise Acceleration Project (REAP)
Supervision Mission (3 – 15 April 2023) Management Letter

Dear Mr Sandhu,

I refer to the first Supervision Mission of the Rural Enterprise Acceleration Project (REAP) fielded by the International Fund for Agricultural Development (IFAD) between 3 and 15 April 2023. The final *aide-mémoire* of the mission is attached.

The mission is pleased to note that since entering into force on 2 June 2022, the project has undertaken substantial preparatory work in the first year of implementation despite delays in onboarding the management consultancy firm and related staff. However, the project has utilized only 0.38% of the IFAD loan of US\$ 105 million. I take this opportunity to assure you that IFAD's team in India will provide all necessary support to help the Programme Management Unit to fast-track procurement-related activities, which I am advised have suffered delays, in compliance with international good practice and procedures, so that the implementation pace is accelerated.

In order to ensure the successful continuation of the project, IFAD recommends that the following agreed actions be implemented:

- Cement plans for expanding existing businesses involved as Livelihood Collectives (LCs) and starting new businesses in the same vein. Support should be given to the better performing LCs to facilitate their corporatization and transition to becoming Farmer Producer Organisations or Companies. Where feasible, private sector partnerships should be forged;
- Expedite the elaboration of detailed guidelines related to the enterprise promotion plan already in being, covering roles and responsibilities for the implementation teams for business ideation, business development service provision, and access to credit and mentoring;
- Prioritize the support provided to ultra-poor households through innovative approaches already established; and,
- Fast track project expenditure by identifying activities that can be implemented with existing human resources.

Mr S S Sandhu, IAS
Chief Secretary to the GoUK,
4 Subash Road, Uttarakhand Secretariat
Fourth Floor New Building
Dehradun, Uttarakhand

I would highly appreciate it if all necessary measures were taken under your guidance to implement the key mission recommendations, which are reflected in more detail in the enclosed supervision report. Finally, I respectfully request you to advise the REAP team to prepare and send a detailed action taken report to our New Delhi Office within three months of the date of receipt of this letter.

In closing, allow me to express my sincere gratitude to the Government of Uttarakhand and the project team for the courtesies, cooperation, and assistance offered to the Supervision Mission.

Yours sincerely,



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Investing in rural people

REAP-Rural Enterprise Acceleration Project

Supervision Mission, 3-15 April 2023

Aide Memoire

A. Introduction

1. REAP, a project with a total project outlay of USD 378.00 is funded by an IFAD loan of USD 105 million, co-financing of USD 24.3 million from Government of Uttarakhand (GoUK), convergence funding of USD 47.9 million; contribution of 0.3 million from Uttarakhand Parvatiya Ajeevika Samvardhan Company (UPASAC); loans from financing institutions of USD 185.8 million and beneficiary and private contribution of USD 14.7 million. The Rural Development Department (RDD) of GoUK is the nodal department and the Uttarakhand Gramya Vikas Samiti (UGVS) is the Lead Project Agency with UPASaC and Uttarakhand State Rural Livelihoods Mission (USRLM) as the two main project parties.

2. The project financing agreement was signed on 2 June 2022 and the project became effective on the same day. REAP covers all the 13 districts of Uttarakhand spread across all 95 blocks. The goal of this project is to contribute to doubling of farmers income and reduce distress migration. The development objective is to build resilience of rural households by diversifying their sources of income through intensified cluster-based climate resilient production systems of select value chains, promotion of farm and off-farm enterprises and a supportive ecosystem.

3. IFAD fielded its first Supervision Mission (SM)¹ during 3-15 April 2023 and the objectives of this SM were to (i) review the physical and financial progress of the project since launch; (ii) assess the project's likelihood of achieving the Development Objective; (iii) review progress made so far, against the Annual Work Plan and Budget (AWPB) and procurement plan ; (iv) review the project targeting effectiveness, gender equality and social inclusion; (v) review project compliance with covenants of the financing and project agreements; and (vi) make recommendations to improve project performance and help the project resolve any bottlenecks and develop a roadmap for enhancing performance of the project.

4. The mission members undertook field visits in two teams visiting 16 locations in 7 districts during 4-8 April 2023 and discussions were held with the project stakeholders. This Aide Memoire contains the findings and recommendations of the mission that were discussed and agreed upon with the project team.

5. The mission held a wrap up meeting with Mr S S Sandhu, Chief Secretary, GoUK, on 13 April 2023. During the wrap meeting, the Chief Secretary was briefed on the project implementation progress, the unique partnership with USRLM, the excellent studies undertaken on value chains, the bottom-up planning on enterprises and the emerging partnerships that will enable strong field level implementation. The mission acknowledged the Chief Secretary's concern regarding the team's frustration in terms of compliances with IFAD procurement guidelines, and assured redoubled engagement and support to help the PMU overcome any bottlenecks and challenges, so that disbursements can in fact pick up to expected level. On May 2, a wrap up meeting was held with Dr Prasanna V Salian, Director, Dept of Economic Affairs, Govt of India, to brief him about the progress made by the project so far, and the steps being taken to overcome any bottlenecks.

¹ The mission consisted of: Meera Mishra (Country Coordinator, ICO, IFAD); Shreekantha Shetty (Mission Leader - Institutions, Enterprises, Targeting and M&E), Arvind Jhamb (Specialist-Agri, Horti and Marketing); Vinay Tuli (Specialist- Agribusiness and Value Chains); Alok Kumar (Specialist-Rural Finance); Pratul Dube (Specialist - Financial Management); and Virender Garg (Specialist - Procurement). The mission was supported by Lorna Grace, (Project Technical Lead, IFAD) and Nguyen Quang, IFAD.

6. The mission is thankful to Dr. BVRC Purushottam, IAS, Secretary, Rural Development Department and Chief Project Director, Ms Nitika Khandelwal, IAS, Project Director, REAP and to the professionals of USRLM, UGVS and UPASaC for sharing their insights and facilitating the completion of tasks assigned to this mission.

B. Overview and Project Progress

Component 1: Inclusive Cluster Development

Sub-component 1.1: Livelihoods Diversification and Enterprise Development

Climate smart crop productivity

7. The project has engaged an Associate- Climate Resilient Practices to anchor this activity. To start with, one village per district will be identified for implementing a range of Climate smart Agriculture (CSA) activities and once these are practically demonstrated, refined and accepted by the farmers, the learning will be replicated. A draft manual on Climate smart Agriculture (CSA) has been sent to the DPMUs. This draft manual is long with highly technical terminology and this needs simplification.

Actions	Responsibility	Deadline	Status
CSA Manual Prepare a simple manual on CSA and take feedback from the line departments before finalizing.	UGVS	30 Jun 2023	Agreed
Seed supply Identify in consultation with the line department climate resilient seed varieties and planting materials (cereals, pulses, etc) and procure breeder/foundation seeds from the national research institutes and provide the same to the line departments to set-up a system of replication with LCs and CLFs.	UGVS	30 Aug 2023	Agreed

8. **Livestock, Off-farm and non-farm livelihoods:** The project intended to provide support for technical assistance, veterinary service, and avail loans to develop and their livelihoods through livestock packages and support about 10,000 households under ultra-poor support. The project has identified 660 ultra-poor households out of the total target of 10,000 households. The project has also initiated training of 75 Pashu Sakhis and attached to the Veterinary hospitals for practical training to upgrade them as A-Help. This activity may be expanded in collaboration with the Uttarakhand Cooperative Dairy Federation Ltd (UCDF) by training the Secretaries of the milk collection centres.

9. The livelihood enterprise (nano and micro) falling under category have an investment range of about Rs 100,000. The project has allocated 30% support for the off-farm and non-farm livelihoods and balance funding will have to be through bank loans.

Actions	Responsibility	Deadline	Status
Pashu Sakhi Training Prepare a joint plan with UCDF to train the Secretaries of milk collection centres as A-Help. In addition, identify candidates for training Pashu Sakhis and A-Help.	UGVS	30 Jun 2023	Agreed
Roll out of nano and micro-enterprise schemes Prepare a guideline for supporting livelihood expansion and also schemes (livestock, off-farm and non-farm).	UPASaC and UGVS	31 May 2023	Agreed

Nutrition

10. The design has plans to promote nutrition sensitive value chains and collaborate with government led programmes to introduce a nutritional literacy component incorporated into the training curricula targeted at priority districts and blocks where the incidence of

malnutrition is high. The project also has plans to scale up successful intervention by LCs by preparing and supplying highly nutritious ready-to-eat food through the ICDS Scheme under ILSP to cover more Anganwadi Centres. These activities are yet start and it is necessary to appoint a focal person for these activities. There is no specific allocation in the project design for nutrition related activities other than for nutrition sensitive value chains.

11. The key policy intervention undertaken by GoUK is the approval for millet procurement for inclusion in the public distribution system by GoI. The State was able to procure only 1,000 MT (against a target of 10,000 MT) from LCs and CLFs across the state at an MSP of Rs 3,574 per quintal during the last financial year. The introduction of Millet in the PDS system through procurement will help in addressing malnutrition challenges while creating new revenue lines for smallholder farmers.

Actions	Responsibility	Deadline	Status
Nutrition focal person Nominate the Manager- Institutions and Inclusion as the focal person for nutrition to anchor nutrition related activities.	UGVS	30 Apr 2023	Agreed

Skills training

12. The project is expected to train 1,000 persons in apprenticeship training using project funds and 46,200 persons in training using convergence funds. These training programmes are yet to start and the project is waiting for technical staff to be on-boarded through MCF.

Actions	Responsibility	Deadline	Status
Skill training focal person Nominate Dy Director – HR&T as the focal person start activities related to apprenticeship and skill training	UGVS	30 Apr 2023	Agreed

Enterprise development

13. In addition to livelihoods, the project has plans to set up commercial scale value chain linked enterprises requiring a higher level of investment of over Rs 0.1 million to Rs 9.0 million which will provide adequate volumes to attract buyers and provide a stimulus to the growth of livelihood activities.

14. As a part of value chain investments, the project intends to establish market linkages for the farmers to start production based on market needs. The project has conducted five detailed value chain analysis. Based on these, detailed Government Orders have been issued for implementing activities. During the mission, a meeting was organized with Gram Unnati. This company has indicated its interest to support a potato value chain in two clusters close to Chakrata and Haldwani to start production of short duration processing grade potato. The project will have to initiate a field survey with Gram Unnati and this will be the first non-financial partnership for market linkage with the private sector.

15. The enterprises are planned with three types of clients: (i) individuals; (ii) companies; and (iii) community institutions such as LCs and CLFs. The project support available for individuals and companies is 25% and for the community institutions the support is 60%. Proposal sourcing for new proposals from individuals, companies and community institutions require support for identification of the clients and business ideation with the identified clients by a team comprising Bank Mitras, CLF management and Block team of USRLM and REAP.

Actions	Responsibility	Deadline	Status
Roll out of small enterprise schemes Prepare a guideline (process map showing the interventions including specific market demand, sourcing producers, investments and training required, potential contracts, monitoring and evaluation of production, market/sales) with schemes (individuals, partnerships and companies) for supporting enterprise expansion	UPASaC and UGVS	15 May 2023	Agreed
Advisory support Engage retired professionals as Advisers to drive: (i) goat and sheep; (ii) food technology; (iii) off-season and exotic vegetables; and(iv) seed production.	UGVS	31 July 2023	Agreed
District level short-term task based technical Consultants Shortlist district level Consultants for providing technical support to LCs and CLFs. This support may be provided on a tapering basis.	UGVS	On-going	Agreed
Public Private Producer Partnerships Engage a Consultant/RBI/PPP cell/IIM to prepare a public private and producer modality for the LCs and CLFs to partner with private sector entities.	UGVS	31 Aug 2023	Agreed
Specialized training of LCs and CLFs Provide higher level training to LCs and CLFs members in food processing enterprise at NIFTEM, Haryana; CFTRI, Mysore, and NDRI Karnal. Use NIFT and NID for art and craft enterprise cohort.	UGVS	ongoing	Agreed
Food processing/Agribusiness start-ups Identify start-ups (at least 2) with IIM-Kashipur and State Start up Mission and provide support to establish food processing businesses in the state.	UGVS	On-going	Agreed
Non-financial partnership with Gram Unnati Enter into a non-financial partnership with Gram Unnati to promote production of processing grade short duration potato.	UGVS	30 June 2023	Agreed

Government sub-projects

16. As proposed in the project design report, the project requested the line departments to prepare and submit sub-projects for funding under REAP. Guidance was given during the ISM on preparation of these sub-projects. 14 sub-projects are under preparation of which 12 are in the final stages. These need to be sent to IFAD for no-objection.

Actions	Responsibility	Deadline	Status
Government sub-projects Upload the sub-project proposals on NOTUS and seek IFAD approval.	UGVS	30 Apr 2023	Agreed

Sub-component 1.2: Institutional strengthening of CBOs and partnerships

17. **Institutional support:** The project has provided variable support to only 127 LCs (based on performance) out of 161 LCs. In addition, the project has also supported first 86 out of 440 CLFs to engage staff to enable these CLFs emerge as business entities. These 86 CLFs have been registered under Cooperative legal framework. RBI has conducted a review of 10 LCs with Growth Centres and has provided valuable inputs. This exercise coupled with business plan preparation will have to expanded to all 161 LCs. The Block level and CLF staff requires further intensive training on governance, financial management and business development. CLFs will have to establish a separate accounting system for the businesses of CLFs.

Actions	Responsibility	Deadline	Status
FPO formation Facilitate formation of FPOs by profitable LCs and Federations and provide FPO support.	UGVS	31 Dec 2023	Agreed
PG formation Form PGs as a part of the value chain promotion for input and output aggregation and extension delivery. It is not necessary to open separate bank account for these PGs and to establish a separate savings and credit system since they are already part of the SHGs.	UGVS	ongoing	Agree
CLF Accountant Engage a CLF Accountant with tapering support and complete exit in three years.	UGVS/USRLM	31 Aug 2023	Agreed
Training of Block and CLF level staff Engage an agency for preparing curriculum, training curriculum and training materials, covering governance, financial management and business promotion and to conduct ToTs. Thereafter, CLF level staff may be trained by the trained trainers.	UGVS/USRLM	31 Dec 2023	Agreed
Computers Procure computers/printer and an accounting software for all the registered CLFs	UGVS/USRLM	31 Aug 2023	Agreed

Multi-stakeholder Platforms

18. The project design had planned to undertake multi-stakeholder platforms at the national, state and local levels. The project has conducted MSP for mushroom cultivation attended by 7 market players. The project has conducted a series of meetings one to one basis at the state and local level with several market players. REAP may explore the possibility of partnering with the World Economic Forum for assistance in organizing the MSPs.

Actions	Responsibility	Deadline	Status
MSPs Nominate a focal person within the project and engage RBI to reach out to various market players and prospective partners and organize MSPs	UGVS – DPM Dehradun	30 April	Agreed
World Economic Forum Engage with the World Economic Forum and obtain their assistance to organize MSPs.	UGVS	30 April	Agreed

Component 2: Ecosystem for enterprise Development

Sub-component 2.1 Strengthening support services and market infrastructure

Market infrastructure and support services

19. The marketing infrastructure and support services will have to be integrated around the value chains and enterprises for greater synergy. Value chain implementation and enterprise development related activities are constrained by the delay in procurement of a Management Consultancy Firm to provide the expertise required for this.

Business incubation:

20. GoUK has set up two Rural Business Incubators (RBIs) in the two regions (Kumaon and Garhwal). These are currently being managed by Price Waterhouse Coopers using the government's own resources. This support is expected to continue until June 2024. The RBI assists prospective customers to ideate on the business idea, facilitate compliance to legal and regulatory requirements and to access business development service. RBI incubates these businesses by providing handholding and mentoring support. During

design it was planned that REAP funds will be used for establishing two spokes for this RBI, provide support for innovative businesses and start-ups, apprenticeship training for youth; and youth/women enterprise training and support for 7,000 persons.

21. RBI has conducted a study of 10 LCs and provided valuable inputs to these LCs. In view of this, it is advisable to engage RBI/IIM for providing business and technical mentoring support for all 161 LCs in the project area to emerge as sustainable and profitable institutions.

Actions	Responsibility	Deadline	Status
Business Incubation Engage with IIM, IIT-Roorke and other existing Business Incubators to develop a strategy for support agri-based start-ups identify/shortlist start-ups for support and prepare documentation related to successful start-ups.	UGVS	31 Aug 2023	Agreed
Support for Spokes Prepare a proposal with the SPMU of RBI for funding the establishment of spokes and seek IFAD approval for the same.	UGVS	30 Jun 2023	Agreed
Support to LCs Engage RBI/IIM to conduct a review of all LCs, prepare business and investment plans and thereafter design and provide appropriate business and technical mentoring support.	UGVS	31 Aug 2023	Agreed

Innovation

22. REAP has established an Innovation Fund to assess and support innovative proposals. REAP will have to make a call for proposals from interested agencies, appraise them and select best proposal for support under innovations. The project may use three pathways to implement this activity: (i) seek innovative proposals from District Magistrates/Chief Development Officers of each project district; (ii) engage IIM, GBPUAT, Uttarakhand, etc, Start-up mission to identify innovative start-ups and submit their proposal for providing REAP support; and (iii) issue a call for proposals and proceed with selection based on the appraisal of the proposal received.

Actions	Responsibility	Deadline	Status
Innovative proposals Start the process of identifying innovative proposals as per the pathways listed above.	UGVS	31 Jul 2023	Agreed

HILANS Brand

23. HILAN has acquired good visibility over the years across the state including the district towns. Several community institutions use HILANS package for marketing their products. During this supervision mission, a discussion was held with Women on Wings to partner with UGVS. This will be non-financial engagement with Women on Wings (WoW) who will field Experts to work with HILANS team. Women on Wings will provide complete hand holding support for HILANS to emerge as separate commercial entity, develop HILANS brands and build marketing channels to improve sales.

Actions	Responsibility	Deadline	Status
WoW Engagement Seek a proposal from WoW and enter into a non-financial agreement.	UGVS	31 July 2023	Agreed

Sub-component 2.2: Support to financial services

24. The access to finance sub-component under REAP is designed to leverage private sources of financing in convergence with the state and central government schemes. The implementing partners for the sub-component are UPASaC and USRLM. The project has

signed formal agreements with UPASaC and USRLM. The institutional set-up on which business verticals are proposed under REAP is (i) at grass root- Self-Help Groups (SHGs) and Producers Groups (PGs) with 10- 15 members, and (ii) LCs and CLFs registered under the self-reliant cooperative act with 400-500 members from SHGs/PGs. UPASaC has Rural Finance Coordinators in each district and utilizes the existing CRPs, Bank Sakhi, and LCs/ CLF management network to identify financing needs and facilitate bank linkages.

SHGs/PGs financing

25. For the last financial year (2022-23), 18,571 SHGs/ PGs were financed by formal sources. The banks provided a Cash Credit Limit (CCL) limit of Rs 361.5 Cr (US\$ 44 Million), of which a drawdown of Rs 169 Cr (US\$ 20.6 Million) has been reported with Not Performing Asset (NPA- 90 days) at 4.34%. The Mission is pleased with the progress; however, it notes that the CCL utilization is only one-third. The SHGs/PGs reported limited scalability and product standardization, among other reasons. Addressing the gaps in product and business is essential for the SHGs/ PGs to utilise the CCL and reduce default.

Financing of micro and small enterprises

26. A few progressive SHGs members who have become entrepreneurs were visited during the mission and are now hiring other SHG members on a daily wage. Such entrepreneurs do not have adequate capital to expand their businesses. The project design has provisions to facilitate individual entrepreneurs to have access to commercial sources of financing. To facilitate this process, there is a provision under the project to hire Bank Mitras (Bank Sakhis), a significant aqueduct in the whole supply chain of financing. The pathways and agreements reached are provided under sections related to livestock, off-farm and non-farm livelihoods and enterprises.

Financing to CLFs/LCs

27. The LCs are engaged in various stand-alone and value-chain activities. The bookkeeping of these LCs is well-managed. The LCs have updated the minutes of the meetings, functional Tally accounting software, and defined chart of accounts. The LCs generate trial balances daily and monthly. They also have a fairly established system of reporting with financial statements including profit and loss accounts and balance sheet. There is a scope for improvement in the accounting system, specifically the ageing of receivables and the setting up of profit centre concept by product to measure cost of each product (direct material and apportioned labour and overheads costs) against the revenue from sales. The product costs are required to get capitalized as stock value in the inventory and the net stock value at the end of the reporting period becomes the value of stock on hand in the profit and loss account and the balance sheet. CLFs operate in line with NRLM's vision and act as financial intermediaries to VOs and SHGs using the funds provided by SRLM. The accounting system is functional, and plans are afoot to computerize in a phased manner using the application being developed by the NRLM.

28. A large number of LCs are investment ready for expansion of existing business and to establish new business. Though they are legal entities and meet normal credit underwriting criteria, the banks require collateral as primary security (lien over the asset financed & stock hypothecation) and secondary collateral such as fixed assets. This constrains expansion of business of community institutions. To address this market failure, it is proposed to establish a first loss guarantee fund to cover 1:10 (leverage ratio) of the risk. The project has provided graded incentives to LCs based on performance by undertaking a rating. This will be an annual exercise and the rating for 2022-23 has been completed. A score card for rating the LCs, CLFs and Individual entrepreneurs from next year onwards will be provided in the SM Report.

29. Based on the agreement in the last ISM and the revised cost tables, the project prepared a plan for 85 Farm Machinery Banks with the weaker CLFs and has already released funds for 65 CLFs FMBs. This intervention fast tracks CLFs into a business mode

with least investment, enhances the interest levels of the community to make CLFs a business entity and become sustainable, and reduces the drudgery of participating households, especially of the women. This intervention was reviewed by IFAD and a suggestion was made to source funding from financial institutions to cover the financing currently being provided by the project (IFAD). Banks are unable to lend as the machinery provided with grant support from the Govt cannot be hypothecated. In view of these reasons, the project has requested IFAD to reconsider the decision related to this intervention given the importance of this activity in building partnership with the USRLM CLFs, the demand for FMBs in the hill areas, the inability of the weaker CLFs to make major contributions and the small quantum of funds involved. As the activity has been initiated there may be some reputational risk involved if the project now backtracks on the decision. The grant requested is only 20% of the total investment of INR 1.00 million which works out to Rs 125,000 (US\$ 1,525) per CLF comprising 300-500 members. The project also has an intention of creating a revolving fund within the CLF to ensure maintenance, placement and also purchase of new farm machinery as requested.

Savings

30. The project emphasizes internal savings and lending, which forms the foundation of SHGs and also key criteria for CCL limit approval. UPASaC, in collaboration with Micro Save, is developing a training Module (Audio Visual delivery) for the bookkeeper and Bank Mitras (Bank Sakhis) to strengthen record keeping, which is important for members to have confidence with SHGs and save more.

Insurance

31. The project plans to leverage the ongoing government insurance scheme, i.e. PMFBY, RWBICS and livestock Insurance scheme. UPASaC, in 2021, as a pilot project, became an agent for the Agriculture Insurance Company of India. LCs were made sub-agents and shared 1/5th of the commission with LCs. The pilot has been fairly successful. UPASaC will have to scale up insurance product sales across the project districts.

Support from Bill & Melinda Gates Foundation

32. Micro Save through Bill & Melinda Gates Foundation is supporting UPASaC in facilitating access to finance, financial literacy and UPASaC's sustainability. Micro Save has undertaken a study on the SHGs bank linkage programme and has submitted the findings for course correction. Furthermore, an Assessment of the lokOS application (MIS software for SHGs/ CLF) has been undertaken to identify gaps for further improvement or customization.

Actions	Responsibility	Deadline	Status
Bank Mitra engagement Complete engagement and training of Bank Mitra using the modules developed by Micro-save – establish a system of assessment of Bank Mitras.	UPASac/UGVS	30 Nov 2023	Agreed
Rural credit consultant engagement Introduce task-based payment system linked to approval of proposals of individuals, partnerships, companies and community institutions.	UPASac/UGVS	30 Nov 2023	Agreed
Credit Guarantee Fund Conduct consultations with participating banks and prepare a credit guarantee scheme for review by IFAD	UPASac/UGVS	31 July 2023	Agreed
Support to CLFs for FMB Review the decision regarding 15% support to CLFs for FMB and convey decision to REAP.	IFAD	30 Apr 2023	Agreed
Data sharing Build a mechanism to capture savings level data at CLF/ LCs and PGs/ SHGs levels. Coordinate with USRLM to share CLF and SHGs level data with UGVS.	UPASac/UGVS	31 May 2023	Agreed

Sustainability of UPASaC Request Micro-Save to prepare plans to drive UPASaC towards sustainability.	UPASac/UGVS	31 May 2023	Agreed
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C. Project Implementation

i). Effectiveness and Development Focus

Development Effectiveness: rated moderately satisfactory (Score=4).

33. The project has started making progress to support community institutions comprising LCs and CLFs. The project has supported 660 ultra-poor households, 127 LCs variable performance-based incentive and provided staff for 85 registered CLFs. Value chain assessment and corresponding government order containing guidelines to the partner agencies have been issued. The project has made a detailed plan for enterprise promotion with district level targets for implementation.

Log frame Analysis and Main Issues of Effectiveness

The main goal and objective level indicators in the logframe include: (i) 70% of the households reporting increase in income by 30% or more above baseline; (ii) 30% of the returnee migrants supported; (iii) 50% of the households reporting adoption of environmentally sustainable and climate resilient technologies and practices; (iv) 70% of the rural enterprise reporting increases in income. These indicators are to be monitored as a part of the proposed Core Outcome Indicator (COI) survey scheduled during this year.

34. Outcome 1: Agriculture production of rural households intensified, farm, off-farm and non-farm enterprises promoted and employment opportunities created.

35. The outcome level indicators include: (i) 90% of the members reporting access to services provided by their organization; and (ii) 60% of the households reporting increase marketable volumes. The project has conducted value chain studies, issued government order and has made plans for implementation. An enterprise promotion plan has been prepared with district-level targets, of which 400 mushroom units have been established.

36. Outcome 2: Capacity for CBOs and partnerships strengthened

37. The outcomes level indicators include: (i) 80% of the Rural Producers' organization financially profitable and sustainable. The project has put in place an incentive-based system linked to sustainability of the rural producers' organization and has provided support to 127 LCs. Staff support has been provided to 86 CLFs who will be facilitated to enhance their both livelihoods and business opportunities. A system to measure the progress in terms of turnover, and profitability has been established.

38. Outcome 3: Conducive enterprise promotion ecosystem promoted

39. The outcome level indicator includes: i) 90% of the MSPs performing effectively; and (ii) partner financial institutions with portfolio at risk \geq 30 days of less of below 5% . The project intends to promote 29,100 enterprises of which 600 mushroom units have been established. REAP has conducted several informal MSPs. Overall PAR of the bank linkage programme of USRLM is 4.34% and have leveraged commercial sources of financing worth USD 20 Million.

Development Focus

40. Targeting and outreach is rated moderately satisfactory (Score= 4).

41. The project focussed largely on the poor households identified as a part of State Economic and Caste Census (SECC) data. The project has reached 139,610 (25%) households during the first year of implementation. The project has identified 660 ultra-poor households during the last financial year out of the total target of 10,000 households

based on the revised targeting criteria agreed during the last ISM. The project has also dovetailed this support with MGNREGS and the ultra-poor support per households is about Rs 75,000 which includes Rs 35,000 from REAP and the balance from MGNREGS and beneficiary contribution. SRLM has conducted a Participatory Identification of The Poor and as a part of this exercise poorest of the poor have been identified. This list will have to be considered as the list of ultra-poor.

42. The project has started covering all 13 districts (100% of the target) and 95 blocks (100% of the geographic target) and has reached in total 139,610 households being 25% of the project target.

Actions	Responsibility	Deadline	Status
Ultra-poor support Consider Poorest of the Poor list of USRLM as the ultra-poor for the project purposes.	UGVS	On-going	Agreed

Gender Equality and Women’s participation is rated moderately satisfactory (Score=4)

43. Project has made concerted efforts towards gender mainstreaming and social inclusion. For example, all the 660 beneficiaries of Ultra Poor support are women. Of the total outreach of 1,39,610 persons, 93% are women. Under REAP additional staff support has been provided to CLFs consisting of Business Promoters and group mobilisers. Of the 258 staff selected approx. 67% are women and 100% are youth. Orientation of all CLF staff has been completed. The project is currently disaggregating data by gender and is in the process of further disaggregating it by age. Over 40,000 youths are currently shareholders in the LCs and it is expected that they will be actively benefiting from participation in the project.

44. Women constitute 86% and 100% of the members in LCs and CLFs respectively. The project has started the process of establishing CLF-LCs and intend to include both non-members of SHGs and also men. The project intends to reach both male and female members of the target households. Since, the LCs and CLF membership is only women a large proportion of beneficiaries of sub-projects, cluster-based production, enterprise support and bank linkages will target women and contribute largely to their economic empowerment. This project has been classified as a gender inclusive project and aims to achieve women’s economic empowerment, equal voice and equitable distribution of workload.

Actions	Responsibility	Deadline	Status
Gender Strategy and Action Plan Prepare a Gender strategy and Action Plan and submit the same to IFAD for review.	UGVS Manager-I& SI	31 Jul 2023	Agreed
Baseline Ensure Gender and Youth are covered in the Baseline	UGVS Manager-I& SI		Agreed

45. Agriculture Productivity is rated moderately satisfactory (Score=N.R)

46. There is not enough data to rate this component. The project is working with the agriculture and allied sector line departments and also the agricultural universities in the state for capacity development of farmers to increase production and productivity of their crops through promotion of seed replacement strategies, training in package of practices and Good Agriculture Practices. REAP has made plans to provide technical training programs to enhance the production and productivity of value chain crops. The sub-project proposals from the line departments focus on value chain crops and also from ICRISAT with focus on cereal and pulse crops.

47. Nutrition is rated moderately satisfactory (Score=4)

48. The nutrition related interventions have been mainstreamed into the project

activities. The project is expected to promote nutrition sensitive value chains through crop diversification programme. The project is in the process of developing a sub-project for improving seed production systems of millets, pulses, and vegetables. Once this sub-project implementation start, there will be considerable improvement in the productivity of the these crops which is expected to have a direct impact of the nutrition security of the target group. Additionally, the integration of millets in the PDS system by the GoUk will also significantly contribute to improving nutrition situation at HH level.

49. Adaptation to Climate Change is rated moderately satisfactory (Score=4)

50. The project is categorized as a high climate risk project. The project’s grassroots institutions such as SHGs and PGs participate actively in GoUK’s soil and water conservation programme. The project intends to promote technologies such as drip and sprinkler irrigation systems, hydrams and solar lift irrigation systems. The project also intends to promote integrated fodder development activities wherever livestock activities are being promoted.

51. The needs to prepare a check list in consultation with IFAD for climate risk identification and enlisting mitigation measures. This check list needs to include the process of identifying climate risks and an adaptation plan will have to be incorporated into the community investment proposal appraisal. The project has to actively start converging with other government programmes related climate advisories and extension message related to changes required in the cropping practices, new heat resistant and early maturing varieties and pest management.

Actions	Responsibility	Deadline	Status
Adaptation measures Prepare a check-list in consultation with IFAD for assessing climate risks and identifying climate change adaptations to address these risks into the appraisal of investment proposals submitted by the community institutions.	UGVS	On-going	Agreed
Weather advisories Convergence with the GoUK’s activities related to weather and extension advisories.	UGVS	On-going	Agreed

ii) Sustainability and Scaling Up

52. Institutions and Policy Engagement is rated moderately satisfactory (Score=4)

53. The project’s sustainability depends on the sustainability of the LCs, CLFs and FPOs being supported under the project. USRLM has been providing support related to CIF and bank linkage. The bank linkage programme for SHGs which rolls out cash credit limits is progressing satisfactorily with loans amounting to Rs 361.5 Cr (US\$ 44 Million) has been rolled out by USRLM in collaboration with the banks. The project has already registered 86 CLFs as cooperatives and has plans to introduce the concept of business planning and cost coverage principles to ensure that these CLF-LCs become businesses that are managed and owned by the community.

54. SHGs and VOs being the primary and tertiary community institutions have become sustainable with their own savings and credit operation. The CIF funds provided by USRLM and the cash credit from banks is being used to provide loans to the members and the interest received from these loans is the source of income for SHGs. VOs receive a share in the interest on CIF funds lent to SHGs. However, the members of these SHGs require financial assistance of higher order to start enterprise.

55. Partnership Building is rated moderately satisfactory (Score=4)

56. The project has developed very good partnerships with the line departments. The project has engaged with the line departments to conduct value chain studies by forming technical teams for select value chains. The project has already signed agreements with both USRLM and UPASAC for implementing project activities.

57. **Human and Social Capital and Empowerment is rated moderately satisfactory (Score=4):** USRLM has established a social organization at three levels: (i) SHGs; (ii) Village Organizations; and (iii) CLFs. UGVS has established a social and business organization at two levels: (i) Producer Groups; and (ii) Livelihood Collectives. The governance structures of these organizations are well defined and these need to be further strengthened with regular changes in the leadership through transparent democratic processes.

58. **Quality of beneficiary participation is rated moderately satisfactory (Score=4).** REAP target group is drawn from the previous IFAD funded project ILSP and USRLM and the participation of members remain excellent. The beneficiary participation is evident from the participation in review of LCs for incentive support, registration of CLFs as LCs, selection of ultra poor households. The LCs continued to manage their affairs post closure of ILP and despite COVID induced business downturn/closure. The field visits indicate that the interest of beneficiaries for getting support for enterprise development remains high.

59. **Responsiveness of service providers** is rated moderately satisfactory (Score=4). The project has engaged a HR Agency for shortlisting and engaging project staff and this task has been completed. In total, 6 staff for state level, 84 for district level and 189 for block level have been engaged. The service provider has worked satisfactorily to provide the shortlist. There were initial glitches related to timely payment of staff salaries and this has been resolved. The project is in the process of engaging service providers for baseline and provision of management consultancy.

60. **Environment and natural resources management is rated moderately satisfactory (Score= N.R).** The important environmental parameters that have an impact on agriculture are increase in temperature, increase in warm spell and consecutive rainy days and changes in rainfall quantity and intensity. These impacts are being addressed through various convergence related activities. The project activities being implemented and proposed do not have any major impact on environment and natural resources management. The project has identified 20 pilot villages in 13 districts for conducting survey on climate friendly farming practices, training manuals on CSA practices are being prepared and village wise MAP layers of 95 blocks will be created. This is not rated at present as data has yet to be collected.

61. The project is taking up several activities related to climate resilient practices and has plans to use geo-spatial technologies to identify vulnerable areas and to assist the community to address these issues. However, to capture the results of these activities, it is necessary to identify and include a few outcome indicators while designing the Annual Core Outcome Indicator Survey.

Actions	Responsibility	Deadline	Status
Results reporting Identify outcome indicators relevant to environment and natural resources management and incorporate the same into the Annual Core Outcome Indicator Survey.	UGVS ACRP	31 Dec 2023	Agreed

62. **Exit strategy:** The project has exit strategy inbuilt into the very design. It is built on the partnership with SRLM and hinges on the sustainability of household level enterprise and the institutions promoted by UGVS and USRLM. Exit strategy depends on profitability and sustainability of the institutions/ households supported under these programmes. The project is in the process of building best practices related to sustainability into the LCs

already promoted and CLF-LCs that are being promoted. UGVS has put in place a system of variable incentive package to the LCs which incentivizes performance. Incentive provision is linked to the achievement of pre-determined performance standards. Sustainability at the community level depends on the profitability of the enterprise promoted. The project's market linkage and business focus with low levels of direct support from the project will make the exit easy. It is too early to rate this.

Actions	Responsibility	Deadline	Status
Weak LC support Provide a support of Rs 100000 to weak LCs by establishing targets for achievement. Once they achieve the targets, further release of remaining incentives 3 years can be considered. Targets will have to include indicators related to Governance and financial management.	UGVS	15 Jun 2023	Agreed

63. **Potential for scaling up:** Several (about 127 out of 161) LCs that have been promoted by the previous IFAD funded project have reached a stage where they can expand their business and become profitable and sustainable. In addition, new businesses verticals will have to established. These LCs require mentorship both business and technical for expanding their business. Too early to rate.

iii). Project Management

64. Quality of Project Management is rated satisfactory (Score=5)

65. The performance of the project management team headed by the Project Director under the overall supervision of the Chief Project Director has been very good. REAP has made substantial progress regarding the project start-up and other preparatory activities. However, delays related to MCF engagement and staff recruitment continue to hamper speedy project implementation. The project has established e-office system for REAP activities in UGVS. This is the first externally aided project in the state to implement this initiative which has enhanced efficiency in decision making and made it into a paperless office.

66. The project has been able to showcase the achievements of the businesses promoted by the community institutions and their products to the high-profile dignitaries including the President and Prime Minister of India. As a result, there has been a high level of visibility to the HILANS brand with increase in orders from the government institutions.

67. The project has constituted a Steering Committee chaired by the Chief Secretary. This committee has provided guidance related to the project on several matters as well as coordination with project partners. It has decided to include only the state level positions into the MCF contract, given the delay in procurement, and to provide additional charge of district level financial management to APD of SRLM, establish DPMU in CDO office, Block level office of REAP in the Block Development Office for facilitating convergence with other government programmes. The project has also constituted a PMC chaired by the Additional Chief Secretary/Agriculture Production Commissioner which has met in March 2023 to review the project progress.

68. The fact that the CPD holds charge of six key departments including Rural Development, Agriculture, Horticulture, Animal Husbandry, and Cooperation has been harnessed by him to benefit the project by enhancing the level of involvement of the various government agencies with the project.

69. The project has engaged Inductus Pvt Ltd, a human resource agency, to provide staff. Considering the personnel exits and also inability to find persons with appropriate experience, this agency has 71% of the planned staff in place. Vacancies related to 1 Asst Manager - Accounts at the district level and 51 Agriculture Extension Assistants at the block level remain vacant. The project has requested relaxation in the experience levels

of these staff. The experience, as originally approved, required 3 years of experience in externally aided projects for the Asst Manager-Accounts and +3 years of experience for the Agriculture Extension Assistant. The project has requested to relax: (i) the 3+ years of EAP project experience to 3+ years of experience in any project including national missions for the Asst Manager-Accounts; and (ii) 3+ year experience, to 1+ year experience for the Agriculture Extension Assistant.

70. The project is yet to engage MCF. The initial round of bidding was unsuccessful, and the project immediately thereafter started the bidding process afresh. REOI was again floated in November 2022 and the project has now shortlisted 4 agencies and IFAD NO has been obtained. The project is now finalizing the RFP based on the comments from IFAD. Despite this being the second time floating of RFP some issues (eg. whether this is a time bound or a lump sum contract) remained unresolved. During the Mission it was agreed that the project would opt for a lump sum contract; however this would need revision of ToRs with concrete and timebound deliverables. REAP must seek support from IFAD to fast track MCF engagement which will enable it to accelerate implementation.

Actions	Responsibility	Deadline	Status
Staff recruitment Revise the experience requirements of Asst Manager- Accounts and Agriculture Extension Assts and fast-track their recruitment	UGVS	31 July 2023	Agreed
Engagement of MCF Seek support from IFAD to finalize the MCF RFP	UGVS	30 Jun 2023	Agreed
Delegation of financial powers Increase the financial powers delegated to CDOs and also delegate financial powers to DPMs and Asst Manager Accounts. This expenditure to be ratified by CDOs subsequently.	UGVS	31 May 2023	Agreed
Training Manager Appoint a Training Manager through HR Agency to coordinate all training related activities in the project. Prepare ToR and send to IFAD for review.	UGVS	31 May 2023	Agreed

71. Knowledge management is rated moderately satisfactory (Score=4).

72. Overall significant activities have been undertaken by the project in a short span of time. The project engaged Consultant Knowledge Management in January 2023. REAP has identified Social Media Focal persons in the district teams- these are primarily Young Professionals (YPs). Where the YPs are not available the Assistant Managers in the District Teams take over this function. One workshop on Knowledge Management and Social Media was organised by the project in February 2023 focusing on KM tools, strategy, roles and responsibilities, use of Social Media etc. A repository of KM products and project documents has been prepared. A documentary film on Lakhpati Didi and how REAP will promote Lakhpati Didis as well as a 40 second ad on Hilans Brand has been produced. Support is also being provided to the project team in finalising documents, presentations etc.

73. Quick actions have been taken to create Social media platforms- Instagram, Twitter, Koo, Facebook, LinkdIn- at block level to bring quick visibility to the projects' activities. The Youtube channel is currently active at the PMU level and primarily showcases the work of the Agriculture and Rural Development Department. The project is planning an e Newsletter (Goonj Pahadon Ki). It would be good to plan this as a quarterly newsletter and engage district teams to source inputs for this. Project may also consider a stronger relationship between KM and M&E.

Actions	Responsibility	Deadline	Status
KM Strategy	UGVS	30 th June	Agreed

Develop a detailed KM strategy and Action Plan			
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74. **Value for money is rated moderately satisfactory (Score = 4):** The project expenditure until March 2023 is about INR 179 million of which INR 139 million is towards project management (78%). Since the project started during the year 2022-23, the set-up costs are considerable as compared to the costs of implementation of project activities. With the increase in project implementation activities during the year 2023-24 the percentage of management costs as compared to the overall expenditure will reduce sharply.

75. **Coherence between AWPB and implementation is rated moderately unsatisfactory (Score=3).** The achievement of this project as against the revised AWPB for the year 2022-23 is 56 percent. The AWPB for the year was Rs 2821 million against which the achievement was Rs 1,587 million. This achievement includes bank finance of Rs 1,408 million which is proportionate figure for a period of 10 months from the NIC portal of bank linkages loans disbursed by banks under USRLM through UPASaC. For the year 2023-24 the AWPB is set at Rs 5,598.6 million.

76. **Performance of M&E systems is rated moderately satisfactory (Score=4):** The project M&E system is based on the data collection systems built under ILSP which had a robust on-time MIS which covers LC profile, business plans and financial performance. It also has map-based profiles of different value chains. The MIS system for REAP is under development to include the new project activities covering: (i) REAP UGVS activities; (ii) UPASAC; (ii) Line Department proposals; (iv) Skills; and (v) employee management system. The project has taken household level data from SRLM and the MIS is being built around this data. This data collection will be at the household level with aggregation at the community institution, block, district and state level. This work is expected to be completed by the end of August 2023.

77. The project has shortlisted 7 agencies after evaluating EOI submitted by the agencies. RPF after approval from IFAD has been floated and the RFP will be opened on 12 April 2023. The project has planned to conduct COI survey in December by engaging a Consultant/agency and this has been included in the AWPB and PP. The project will have to consult IFAD and develop a questionnaire to develop to track the progress in achievement of core outcome indicators indicated in the log frame and also other indicators related to changes in income, nutrition and empowerment and climate change adaptation.

Actions	Responsibility	Deadline	Status
Baseline survey Seek IFAD support to ensure that the baseline captures data related to income, rural poverty, household assets, food and nutrition security, empowerment, and climate change adaptation while preparing questionnaire for baseline survey.	UGVS Manager- M&E	30 Nov 2023	Agreed
COI survey Develop a COI survey questionnaire in consultation with IFAD and undertake COI survey for 2023.	UGVS Manager- M&E	30 Nov 2023	Agreed

78. **Requirements of SECAP is rated moderately satisfactory (Score=4)**

79. REAP has been classified "Category B" with medium overall Environmental and Social risk. The potential environmental impacts can be readily remedied and/or considerably reduced with appropriate mitigation plans. The project investments into both farm and off-farm activities are being planned. The project has appointed a Associate (Climate Resilience) and this person is yet to be nominated as the Focal Point for Climate change adaptation.

80. This project being a "Category B" project it is necessary to nominate a person with environment and community institution background as the Focal Point to: (i) plan required

environment and natural resources related convergence measures; (ii) identify environment related concerns and incorporate mitigation plans while apprising investment proposals of community institutions; and (iii) monitor on a continuous basis the impact of various project investments on the environment. GoUK has a grievance redressal portal to register complaints about all government financed schemes and departments. The portal is also accompanied by a 24x7 call centre helpline to register complaints. This helpline number and IFAD's SECAP complaints email address will have to be provided to the leaders of all community institutions participating in the project.

Actions	Responsibility	Deadline	Status
Focal point Nominate the Associate (Climate Resilient Practices) as the Focal Point for Climate Change Adaptation and inform IFAD.	UGVS	31 May 3023	Agreed
Grievance redressal system (GRS) Establish a GRS by providing GoUK helpline numbers and IFAD's SECAP complaints email address to the leaders of community institutions.	UGVS	31 May 3023	Agreed

iv. Financial Management and Execution

Acceptable Disbursement rate is (auto calculated)

81. IFAD has so far disbursed 0.38% (USD 0.4 million as against USD 105 million) of its total loan allocation. The disbursement is for the period upto September 2022. Withdrawal Application for the quarter ended December 2022 has been submitted for an amount of INR 18.15 million (equivalent USD 0.2 million) which is pending disbursement. The claim for the period up to the date of effectiveness should have been claimed separately as Retroactive Financing but the claim from January 2022 to September 2022 has been claimed in one WA. This claim has however been processed and reimbursed.

Quality of Financial Management is rated Moderately Satisfactory (Score=4)

82. Staffing: The Finance & Accounts Section is headed by the Director (Finance) and supported by the Manager (Finance) who are both on deputation and not involved full time with the project. The PMU has an Assistant Manager (Accounts) and a senior project assistant in the accounts section and DPMUs have an AM(A) for their accounting function. The post of an AM(A) in one of the districts is vacant and needs to be filled up at the earliest.

83. Accounting: The project uses 'Tally' double entry accounting software at the PMU and the DPMUs. The accounts are grouped according to the project components. At month end the Trial Balance of all the DPMUs are sent to the PMU for consolidation of accounts which is done manually through excel sheets. The PMU needs to use the Cloud based Tally and use the feature of Group Company to consolidate the accounts of all the units. Further, it should customize the Tally software to enable it to generate the IFRs from the software itself. The customization will also include feeding the budget into the system to report the expenditure vis-à-vis the AWPB besides a system of locking to prevent back dated entries.

84. Budgets: The AWPB is prepared by the PMU based on the planned activities and interactions between the PMU and the DPMUs for which the activities to be undertaken by the block level units are considered. The AWPB for the year 2023-24 has already been submitted to IFAD but is in the process of refinement as the procurement plan is being prepared. Currently the budget is not fed into the accounting system but is tracked separately.

85. Fund Flow: The GoUK disburses funds to the project comprising its own share and that of IFAD. The PMU transfers funds to the districts based on their AWPBs for the quarter. The districts in turn will fund the CLF/LCs for the activities to be undertaken viz. the various sub-projects. During the year 2022-23 the units did not face any issue of fund flow as

adequate funds were made available and, besides incentives to LCs, only operational costs were incurred.

86. Internal controls: Internal controls exist at the PMU and the DPMUs. All transactions are approved by the competent authority before being entered into the books of accounts and payments being made. The recording of transactions and preparation of cheques are done by the same person as all units have just one accounts person. Some fixed assets have been procured which need to be recorded in the FA register and tagged for identification. Physical verification needs to be carried out at least once a year.

87. SOE review: The Mission test checked WA 1 (for the period up to September 2022) and WA 2 (for the period October 2022 to December 2022). WA 1 contained expenditure pertaining to Retroactive Financing but it has not been claimed separately. The amount claimed under WA 1 and 2 is INR 33.19 million and INR 18.15 million respectively. The supporting documents for the WAs were produced for verification during the Mission and found to be in order.

88. Internal audit: The project is yet to recruit internal auditors during the year as the activities were very limited. It is recommended that for the year 2023-24, the project introduces a system of quarterly internal and submits reports thereof to IFAD along with the Management responses to the observations of the internal auditor.

Actions	Responsibility	Deadline	Status
Tally Customization Ensure that the customized software is made operational from April 2023 onwards.	UGVS - Manager (Accounts)	01 Jun 2023	Agreed
Internal Audit Introduce the process of internal audit.	UGVS- Manager (Accounts)	31 May 2023	Agreed
Staffing Ensure that all accounts positions are filled up	UGVS	31 May 2023	Agreed

Quality and timeliness of audit

89. This is not rated as audit has not yet been carried out as it is due for submission on 30 September 2023. The loan became effective in June 2022 and hence audit for the year 2022-23 needs to be conducted. The auditor for the year 2022-23 needs to be appointed in accordance with IFAD's ToR which includes, besides the audit report, issuance of a Management Letter to the project. Replies to the Management Letter are to be provided by the project. The audited financial statements along with the report and Management Letter is to be submitted by 30th September every year.

Actions	Responsibility	Deadline	Status
Appointment of Auditor Appoint the auditor for the project.	UGVS	30 Apr 2023	Agreed
Timely Submission of Audit report Ensure submission of the audit report by 30 th September	UGVS - Manager (Accounts)	30 Sep 2023	Agreed

Counterpart funds is rated satisfactory (Score=5)

90. During the year 2022-23, the GoUK has disbursed a sum of INR 481.7 million against a budget of INR 500 million which includes its own share and that of IFAD. The share of GoUK expenditure includes staff salaries of the Govt Staff besides 20% of the operational costs, 20% of Goods and 10% of Grants and Subsidies. The GoUK's share of cumulative expenditure till March 2023 was INR 32.21 million. The financing from other co-financiers such as convergence, beneficiaries and private sector has not yet started/ recorded. The project has recorded contribution from banks from the figures obtained on the USRLM portal of financing of beneficiaries through UPASaC.

Actions	Responsibility	Deadline	Status
Funding of Co-financiers Ensure that adequate funds are sourced from other co-financiers to the project and track their contribution including beneficiary contributions and full records of bank financing is obtained and recorded at the PMU/DPMUs.	UGVS-Manager (Accounts)	On-going	Agreed

91. Compliance with loan covenants is rated moderately satisfactory (Score=4)

92. The project has generally complied with the loan covenants. Compliance with Clause 9 of Section B of the Project Agreement with regard to Tally customization and Para B of the FMFCL regarding appointment of auditors for the year 2022-23 are overdue and need to be complied with immediately.

Actions	Responsibility	Deadline	Status
Loan Covenants Comply with Clause 9 of Section B of the project agreement and Para B of FMFCL for appointment of auditor for the year 2022-23.	UGVS-Manager (Accounts)	31 May 2023	Agreed

iv) Procurement Review is rated moderately satisfactory (Score=4)

93. Desk review of the project's contracts portfolio in the Contract Monitoring Tool before the mission – rated moderately satisfactory

94. The Contract register was prepared and updated during the mission visit. The project is yet to input data in CMT. The project does not have a project procurement strategy since it was not mandated for them at the time of design. However, the project is encouraged to prepare a project procurement strategy for their own benefit. As per Procurement Plan (PP) and discussion with the project, there are two big ticket items including hiring of HR Agency and selection of Management Consultancy Firm. While HR agency was hired in October 2022, bid process selection for MCF was rejected due to various reasons and REOI process was re-initiated in October 2022. Shortlist has been prepared but draft RFP has not been finalized till this mission. Most recently, there was a delay of five week in raising a query on draft RFP for procurement of MCF by IFAD which is unacceptable and must be avoided in future. There is a need to prepare a revised ToR and payment schedule to fix SMART deliverables so as to have payment milestones linked to the deliverables. The Project with support from IFAD should proceed with this procurement expeditiously.

95. SECAP risk management – rated moderately satisfactory

96. The Project uses IFAD standard procurement documents and thus implement SECAP requirement as the provisions are part of standard template. The project has prepared project specific ESMP and included in the PIM. However, ESMP provisions have not been implemented in procurement of renovation of office building at districts. This is not serious as the project did not have any major construction contract so far. IFAD may provide SECAP training for the concerned staff including technical and procurement on issue including the ways and means to comply with SECAP requirements.

97. Procurement Strategy / Procurement Planning Process: rated moderately unsatisfactory

98. The Project is using the IFAD Procurement Planning (PP) format, including planned and actual timelines. However, the project is not following the practice of updating actual dates even at the time of revision of PP. The project procurement plan

has been revised once and the procurement plan should be reviewed quarterly and revised as required. During the Aide Memoire review, the project informed that a draft PP has been prepared and this will be submitted to IFAD upon clearance of AWPB. During the year 2022-23, the project has finalized contracts valuing Rs 21.9 crores as against revised procurement plan estimates for Rs. 58 crores i.e. performance is about 38 percent.

99. Package for Laptops, desktops and printers for PMU and districts was procured under post review as per LTB though IFAD changed it to prior review in January 2023 during the process of no objection for revised procurement plan. The project informed that clarifications related to this change was sought and the project did not receive any clarification from IFAD. However, PAL was issued in February 2023 with downward revision of prior review thresholds. However, the project procured this item as post review as per initially no objected PP. In view of the view, Mission agrees with post review of this procurement. The project staff was advised that in such eventuality in future, they should seek no objection from IFAD from the stage review method has been revised. In any case, PAL is being revised to enhance thresholds. However, procurement for this line item has been made @ Rs. 107,32,301 as against estimated cost of Rs. 93 lakhs in PP. Evaluation report has not discussed this issue of cost being higher than the estimated cost by 15 percent and justification thereof. The project, during Aide Memoire review, has reported that this deviation has been approved by the PMC and will be placed before the HPC by end May 2023. The Project should always analyze and justify the prices especially when the same are more than 10% higher than estimated cost.

100. AWPB for 2023-24 has been prepared and submitted but has not been no objected by IFAD till 12 April 2023 and the Procurement plan has not been submitted for IFAD no objection while the new financial year 2023-24 has already commenced. Procurement staff mentioned that they are waiting for finalization of AWPB, which is delayed due to late response from both sides i.e., IFAD and project. During discussion, PD mentioned that high power committee of Uttarakhand state has approved AWPB on 27 March 2023 and reply to IFAD query will be uploaded on NOTUS shortly. PP should also be uploaded immediately and without any further delay. The project has not issued GPN (General Procurement Notice) till now, which is mandatory.

101. The project may require procurement with community participation. However, the project has not yet prepared guidelines for procurement through community participation. The project may also review the guidelines prepared by other IFAD funded projects in India including LAMP, etc., and customize to their requirement.

102. Processes and Procedures from Prequalification/Shortlisting to receipt of bids/ proposals: rated- moderately satisfactory

103. Prequalification (including REOI) and bidding /request for proposals' (RFP) documents have used pre-approved standard templates issued by IFAD as agreed in PAL. These documents have been issued by IFAD aligned with IFAD's Guidelines/Handbook/Policies and SECAP-related procurement issues. The qualification criteria used in prequalification/shortlisting and bidding /RFP documents are reasonable. PMU uses e-procurement portal of UK tender (Uttarakhand Government) for open tenders. All clarifications, amendments, bid opening minutes, technical evaluations, NOITA etc. are put on UK Tender website.

104. The project explained problems faced by the staff in districts for using IFAD RFQ template being too big a document for procuring small value items. Mission clarifies that all small items like stationery and tea/coffee etc can be procured under operational expenditure and do not require usage of procurement process. Mission is neither authorized to revise the RFQ template nor recommend for the same. However, as per the procurement arrangement letter, the project has been allowed to make procurement of goods, works and services on single source basis up to US\$ 5,000 in each with an annual ceiling for the entire project. If the project delegates power for single source procurement

to the field units within the annual ceiling for the project, DMU can make procurement with more than one quotation under the delegation of single source procurement as more than one quotation is better than direct contract. The Project will monitor usage of funds are reported for such procurements under direct contract so that the same are within the annual ceiling for direct contract.

105. The project raised the issue of difficulties in getting no objection for Engagement of Government Construction agency for establishment of REAP PMU office. Currently, PMU office has been rented and is at a good distance from Secretariat. The project does not have technical skills to prepare estimates, drawings, construction supervision etc. IFAD had asked the project to either hire an engineer to do this work or hire Uttarakhand Agricultural Produce Marketing Board (UKAPMB) as consultant to do this work for the project. It was explained by the project that this work is one off and it is not justified to create skills for one contract. The UKAPMB has been authorized by the Government of Uttarakhand to take up work up to Rs. 10 crores for government departments. This comes under the category of direct contract and that the agency UKAMPB will carry out construction through a contractor. Mission advised that the project should clarify the issues raised by IFAD including how cost will be financed, justification for single source as per procurement handbook, profile of the agency, charges by the agency, method of construction supervision, method of their procurement and why the project does not want to hire an Engineer for the project to help them to make procurement directly.

106. **Processes and Procedures for Evaluation and Contract Award** – rated *moderately satisfactory*: Processes and procedures are **consistent** and comply with IFAD Procurement Guidelines and Handbook, other policies, and requirements, including with regard to prohibited practices, SECAP, IFAD’s right to audit, and provisions for prior review. ESMP has been prepared for the project but not implemented for procurement though major works contracts have not been taken up.

107. As for evaluation, the project has used 3 or more evaluation committee members as per IFAD norms, including at least 1 member with the technical knowledge and experience related to the type of procurement; evaluation done across 3 steps: Preliminary Examination, Technical Evaluation and Financial Evaluation, are **consistent** with the relevant procurement method.

108. The project has signed a memorandum of Agreement as subsidiary agreement with UPASaC on 6 Jan 2023 without obtaining no objection from IFAD. The project uploaded a dossier for no objection on 18 March 2023. Since all MOAs require IFAD prior review, project should be careful to avoid this omission in future. IFAD responded on 27 March 2023, with comments that *the draft Subsidiary Agreement should have been reviewed and no objected by IFAD. As the agreement has already been signed, IFAD will not be in a position to provide no objection.* IFAD also suggested some amendments to the agreement. Mission suggests that the project should submit draft amendment to the contract incorporating suggested changes by IFAD and put up a new dossier for no objection by IFAD as soon as possible.

109. As per the provisions of the Procurement Arrangement Letter for the project, all Memoranda of Agreement are subject to prior review by IFAD. It was clarified that all non-financial MOU, which does not bind the project to any financial expenditure will not be prior reviewed by IFAD. However, it is suggested to have an MOU template in PIM for ease of field units.

110. It is noted that the project does not follow the system of publishing the notification of award. As per the existing practice, only the bidders are informed of the outcome of bidding process. To enhance transparency, the project shall publish contract award notices on UGVS website.

111. **Contract Management and Administration and CMT data accuracy and timeliness:** Rating- *Moderately Unsatisfactory*

112. The project has not started inputting data in the CMT. The project does not keep updated contract register especially for districts and the same was prepared during the mission. There are not many contracts except the individual consultants including the majority hired through HR agency. There are delays in giving salary to staff hired through HR agency. Review at Pauri for office renovation work indicated that engineer from Rural Engineering Services helped in construction quality certification and measurement of works. Contract management need to be improved.

113. **Record Retention:** Rating- *Moderately satisfactory*. The project has implemented e-office system for the project in which all documents are uploaded in the system for the approval process. However, the files maintained are not serially numbered and all required documents have not been kept in the file including copy of PP. *In some cases, evaluation reports are not available in file. The Project to keep papers/records/documents in e-folder/s or hard copies for easy retrieval.*

114. **Overall procurement performance rating and justification:** The mission has rated the project procurement as 4, Moderately satisfactory given that processes, procedures, and systems applied exhibit some gaps and inconsistencies that have limited impact on project implementation and performance. Implementation support is required; however, prompt resolution of issues/constraints is likely.

Actions	Responsibility	Deadline	Status
Issue General Procurement Notice (GPN) after obtaining no objection from IFAD. Issue of GPN is mandatory	UGVS - DF/ SPS	30 April 2023	Agreed
Finalise guidelines for procurement through community participation and upload on NOTUS for IFAD's No Objection	UGVS - DF/SPS	15 May 2023	Agreed
Expedite: (i) issuance of RFP for critical procurement including procurement of consultancy services for MCF; and (ii) Finalise procurement issue for PMU office building	UGVS - DF/SPS	30 April 2023	Agreed
Expedite critical procurement activities including evaluation for baseline study and external auditor	UGVS - DF/SPS	20 May 2023	Agreed
Expedite preparation of Procurement plan for 2023-24 and submit for No Objection to IFAD	UGVS - DF/SPS	30 April 2023	Agreed
Procurement Unit, PMU staff to liaise with IFAD Procurement Unit on regular basis to for expediting procurement process	UGVS - DF/SPS	Immediate	Agreed
Publish notification of award on UGVS website to enhance transparency in procurement	UGVS - DF/SPS	30 April 2023	Agreed
As per procurement arrangement letter, all MOAs are prior review. Ensure to have no objection on draft MOAs. For MOAs of same nature e.g. MOA with CLF etc, have no objection for a template	UGVS - DF/SPS	31 May 2023	Agreed
Ensure that SECAP provisions (ESMP) provided in PIM are included in works bid documents, contracts and ensured in construction supervision	UGVS - DF/SPS	31 May 2023	Agreed
Input all contract data in CMT	UGVS-SPS	15 May 2023	Agreed
Review procurement plan on quarterly basis and submit updated or upgraded version including actual dates for all line items, for		Ongoing- 10 July, October,	Agreed

information and no objection respectively. However, there is no restriction on submitting revised Procurement Plan and can be done as and when a need arises.	UGVS-SPS	January and April every year	
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F. Key mission agreements and Conclusions

115. The project has reviewed the performance of LCs and has provided performance based variable incentive support to 127 out of 161 LCs. The project has also engaged the services of the Rural Business Incubator to review 10 LCs and recommendations have been made to improve their performance to drive them towards profitability and self-sustainability. The project will have to make plans for expanding the existing businesses and starting new businesses by LCs. This requires business and technical mentoring support and access to credit. The project will have to make these services available using the RBIs or other agencies engaged by the project. In addition, some of the better performing LCs will have to be facilitated to become FPOs/FPCs to corporatize their functioning and where feasible private sector partnerships will have to be forged.

116. The project, for the first time in India, is introducing business concepts into CLFs promoted by SRLM on a fast-track mode. Out of 440 CLFs promoted by SRLM, 86 have already made required changes to their legal framework to include nominal members and started process of mobilizing share capital from the members. To start new businesses, these CLFs require support for business ideation, business development service, technical and business mentoring, and support for access to credit. These support services will have to be provided by the project. Access to credit by the LCs and CLFs for expanding existing business and start new businesses remain an issue. Risk comfort mechanisms being considered by the project to facilitate the banks to provide loans to these community institutions is expected to facilitate this.

117. The project has supported 660 Ultra-poor households. The project has built two innovative features into the implementation of this activity: (i) converged with MGNREGS and other schemes to ensure the total support of about Rs 75,000 per household of which Rs 35,000 provided by the project; and (ii) the support provided to the ultra-poor households is repaid back to the LCs/CLFs to create a corpus for recycling these funds for giving second tranche support or to other poorest of poor households. This activity can be fast-tracked by identifying additional number of households considering poorest of the poor identified as a part of the participatory identification of the poor conducted by USRLM.

118. An excellent value chain analysis of 7 value chains covering potato, pea, ginger, millets, pulses, speciality rice, goat milk and value-added products has been undertaken by the project covering value chain identification, market identification, analysis of the market in terms of market location, quantity, prices, major buyers, and market seasonality, production systems, transportation and constraints in both production and marketing. A detailed guidelines in the form of Government Orders have been issued with flow charts specifying responsibilities and cost estimates for intervention promotion. These activities need expeditiously implemented by organizing multi-stakeholder platforms, establishing linkages with market players and implementing activities with clusters of producers.

119. The project has prepared a detailed plan for enterprise promotion identifying the potential enterprise cohorts with district level targets after a preliminary assessment by the district teams. This is expected to be followed up with detailed guidelines covering roles and responsibilities for the implementation teams for business ideation, business development service provision including business proposal/project report preparation, access to credit and mentoring.

120. The project has utilized only 0.38% of the IFAD allocation of US\$ 105 million. The delay in engaging a management consultancy firm that provides key professional staff has

contributed to slow implementation progress and this process is now being resolved. Meanwhile the project expenditure will have to be fast tracked by identifying some activities that can be implemented with existing human resource.