

PC-I

Agribusiness Development and Diversification Project



**FEDERAL DEPARTMENT OF AGRICULTURAL AND
LIVESTOCK PRODUCTS MARKETING AND GRADING**

**MINISTRY OF FOOD, AGRICULTURE AND LIVESTOCK
GOVERNMENT OF PAKISTAN**

FEBRUARY 2005

ABBREVIATIONS

ADB	-	Asian Development Bank
ASF	-	Agribusiness Support Fund
BDS	-	Business Development Services
BSF	-	Business Support Fund
CSP	-	Country Strategy and Program
DALPMG	-	Department of Agricultural and Livestock Products Marketing and Grading
EA	-	executing agency
FSCRD	-	Federal Seed Certification and Registration Department
GCC	-	Government Commerce College
GDP	-	gross domestic product
ha	-	hectare
LDDB	-	Livestock and Dairy Development Board
MINFAL	-	Ministry of Food, Agriculture, and Livestock
mt	-	metric ton
NGO	-	non-government organization
NRSP	-	National Rural Support Programme
PCG	-	partial credit guarantee
PFI	-	participating financial institution
PMO	-	project (or area) management office
PHDEB	-	Pakistan Horticulture Development and Export Board
PMU	-	project management unit
PPTA	-	project preparatory technical assistance
SBP	-	State Bank of Pakistan
SME	-	small and medium enterprise
SMESDP	-	Small and Medium Enterprise Sector Development Program
SPS	-	sanitary and phytosanitary measures
TA	-	technical assistance
TBT	-	technical barriers to trade
VTI	-	Vocational Training Institute
WTO	-	World Trade Organization

Code Number for the Project _____

(To be filled in by Planning Commission)

PART-A

PROJECT DIGEST

- 1. Name of Project** Agribusiness Development and Diversification Project (Assisted by ADB)

- 2. Authorities responsible for**
 - i) Sponsoring**
 - Ministry of Food, Agriculture and Livestock, Islamabad.

 - ii) Implementation**
 - Ministry of Food, Agriculture and Livestock, Government of Pakistan.
 - State Bank of Pakistan.
 - Department of Agricultural and Livestock Products Marketing and Grading, Ministry of Food, Agriculture and Livestock, Islamabad
 - Provincial Agriculture, Livestock and Marketing Departments through PCC.
 - Agriculture and Livestock Departments of FATA, FANA and AJK.

 - iii) Execution**
 - Department of Agricultural and Livestock Products Marketing and Grading, Ministry of Food, Agriculture and Livestock, Islamabad
 - Agriculture and Livestock Departments of FATA, FANA and AJK.
 - Pakistan Horticulture Development and Export Board, Ministry of Commerce
 - Federal Seed Certification and Registration Department, Ministry of Food, Agriculture and Livestock

- Agricultural Support Fund, Ministry of Food, Agriculture and Livestock
- Livestock and Dairy Development Board, Ministry of Food, Agriculture and Livestock
- Agribusiness Finance Development, State Bank of Pakistan
- Small and Medium Private Sector Entrepreneurs
- Punjab Agriculture Marketing Company (PAMCO, Punjab)

iv) Operation and Maintenance:

- Department of Agricultural and Livestock Products Marketing and Grading, Ministry of Food, Agriculture and Livestock, Islamabad.
- Provincial Agriculture and Livestock Departments to the extent of their respective components.
- Agriculture and Livestock Departments of FATA, FANA and AJK.
- Pakistan Horticulture Development and Export Board, Ministry of Commerce
- Federal Seed Certification and Registration Department, Ministry of Food, Agriculture and Livestock
- Agricultural Support Fund, Ministry of Food, Agriculture and Livestock
- Livestock and Dairy Development Board, Ministry of Food, Agriculture and Livestock
- Agribusiness Finance Development, State Bank of Pakistan
- Small and Medium Private Sector Entrepreneurs

3. **Time required for completion of Project: (in months)** 60 Months
4. (a) Plan Provision:
- i) If the project is included in the 5 Year Plan, Specify actual allocation. The project is included in the Ten Year Perspective Plan 2001-11. It is one of the priority projects. An allocation of Rs. 400 million exists for this project. The project is also included in the Lending program of Asian Development Bank.
 - ii) If not included in the current Plan, how is it now proposed to be accommodated (inter/intra-sectoral adjustments in allocation or other resources may be indicated). NA
 - iii) If the project is proposed to be financed out of block provision for a program; indicate
 - a) Total block provision NA
 - b) Amount already committed NA
 - c) Amount proposed for this project NA
 - d) Balance available NA
 - (b) If the project is not in the plan, what warrants its inclusion in the Plan? NA
5. **Relationship of the Project with the objectives of the sector. Indicate the contribution of the project, quantified if possible, to the targets in the Five Year Plan, and the names of other projects (whether sanctioned or under preparation) which would form part of an integrated Programme within the sector.** The main objective of agriculture sector is to achieve self-reliance in agricultural commodities, ensure food security and improve productivity of crops and livestock. The main emphasis is on market oriented demand based production system which will lead to the increased production and productivity of crops and livestock sector. Consequently, income of the farmers will increase and rural poverty will decrease. In this context, following two sectors need close attention. The work plan and targets/goals is given at Appendix-1, 2 & 3.

- High value cash and horticultural crops.
- Livestock development for meat production, milk collection/processing and dairy development.

This will promote growth in the agriculture sector.

The agribusiness sector is in existence but could not grow and show its share in GNP. This is due to a large numbers of problems/constraints faced by this sector which kept it depressed. These occur throughout the product value chain from input supply to processing and exports, leading to low productivity and value added. The constraints must be addressed with a comprehensive and systemic approach throughout the value chain to remove production, market, and institutional failures and rigidities that impede the development of the sector, and promote demand driven development with maximum participation of the private sector, including farmers. World agricultural product markets are demanding increasingly higher product quality, and unless Pakistan's agribusiness products conform to these standards, the agribusiness sector will not be able to enter, let alone compete, on world markets under a WTO regime, including imports. It is therefore imperative that the key constraints in the agribusiness sector leading to its poor performance identified during the project preparatory technical assistance (PPTA) be removed, including (i) institutional constraints that include weak or nonexistent public-private partnerships, weak institutional capacity and poor coordination between government agencies, and an absence of demand-driven agricultural research and extension; (ii) market failures that include limited availability of business development services (BDS, para. 23) to small entrepreneurs to support business activities and to start new enterprises, limited access to finance, and limited capacity for farmer group formation for agribusiness or agro enterprise purposes to develop economies of scale, an effective lobby, or continuity of

supply to ensure strong market penetration; and (iii) the lack of a guiding national policy and long-term strategy aimed at developing a dynamic and competitive agribusiness sector.

These constraints have a national impact because the government decision-making process and facilitation capacity in agribusiness is limited and not cohesive; and the private sector is not dynamic, competitive, and internationally compliant.

The rationale of the project is to facilitate the alleviation of the aforementioned constraints.

Policy recommendations within the agribusiness sector concentrate, on the improvement of marketing and market intelligence, improved product quality and shelf life through sound post harvest practices, achievement of international compliance and, promoting the establishment of processing plants nationally to give greater value addition at source and improving the bulking up, collection and storage of raw materials. Special attention needs to be paid to the establishment of farmer groups for effective marketing and collective bargaining, and for them to increase production of quality raw material through improved production practices and the establishment of enterprise associations to produce quality brands, through grading, certification, quality control and labeling.

It has been advocated by the experts and policy makers that the increase of income, welfare and decrease in rural poverty is possible through diversification in agriculture sector which would be achieved through the present project. The diversification achieved through this project will lead to sustainable growth of agriculture sector and full exploitation of the potential of factors of production involved in agriculture sector. This is in line with the basic aim and objective of agriculture sector.

The Project is consistent with ADB's Country Strategy and Program (CSP) 2002/2006. The CSP incorporates the promotion of private

sector development by supporting the development of SMEs, rural finance and agribusiness, assisting in capital market development, and the restructuring and privatization of state owned financial Institutions. The CSP recognizes that the agribusiness sector has the potential to contribute substantially to greater economic growth and poverty reduction in Pakistan. Promotion of private sector development in agribusiness through the creation of an enabling environment, and the provision of appropriate support for agribusiness, and its raw material supply in particular, will increase rural employment income generation opportunities. The Project will complement other development partner interventions in the sector and in related areas, and those supported by ADB.

6. Capital cost of Project:

Local Costs:	Rs.3492.00 million
Foreign Exchange Costs:	Rs. 574.00 million
Total:	Rs.4066.00 million

7. Annual recurring expenditure after completion:

After completion of the project the annual recurring cost of the federal component will be met through regular non-development budget of the Ministry of Food, Agriculture and Livestock. The recurring expenditures of various federal government agencies/special areas will be Rs.142.31 million (only 3.5% of the total project cost). Cost break-up at Annex-.The provinces and other participating agencies will meet their respective recurring cost from their own resources.

Local	
FEC	Nil
Total	

8. Objectives of the Project preferably in quantities terms

The objective of the Project is to support economic growth and employment generation through agribusiness development by:

- creation of an enabling environment

- provision of appropriate support services for agribusiness.
- The re-structuring and strengthening of institutions to facilitate development of agribusiness,
- capacity building and enhanced coordination,

The project purpose is to develop a competitive and sustainable agribusiness sector.

As such the project design focuses on key interventions to create an enabling policy and institutional environment, based on strong public/private sector linkages, to catalyze private sector agro-enterprise development.

The project components are directed, in particular, to provide the policy framework and enabling environment for agribusiness, capacity building for the necessary agribusiness support and the provision of business support services to agro-enterprises to enhance entrepreneurial skills throughout the value chain (from the field to the consumer) and to provide the opportunity for demand driven research and extension. The aim in this regard is to create a flexible service delivery mechanism that is responsive to private sector demand within the provinces. The components will not be directly linked to specific provincial interventions or pre-set financing limits for each province. It will be on the basis of “first come first served” with requests for support being bottom up and demand driven.

The primary focus will be on the horticulture and the hortibusiness, livestock and dairy development sub sectors which is in line with the country’s development strategy of diversification into intensive high value crop production that will lend itself to value addition and labor intensive cultivation for the creation of rural employment and increased rural incomes. Emphasis has been placed on germplasm and raw material supply by

improving production and yields and enhancing product quality and uniformity. Without a quality raw material base the country's produce will be at a severe disadvantage when the national market has opened up fully.

The livestock for meat production and dairy for milk collection are also included in the project.

The project will help in:

- increasing the production of agriculture sector as a whole.
- exploiting potentials of non-conventional sub-sectors of agriculture sector such as horticulture, hortibusiness, vegetable production and floriculture.
- enhancing income of the farmers.
- improving production of livestock sector.
- arresting rural-urban migration by creating employment opportunities in agribusiness sector.
- poverty alleviation.
- skill enhancement in horticulture, hortibusiness, livestock, dairy, floriculture and in vegetable production.
- Formulation and re-orientation of national policies with regards to above sub-sectors of rural economy.

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PART-B

PROJECT DESCRIPTION AND FINANCING

9. Location: (indicate place and administrative districts and attach map)

The project activities will be carried throughout Pakistan including special areas (FATA, FANA and AJK). All the relevant stakeholders, i.e. farmers, traders, small and medium entrepreneurs, researchers, extension workers, policy makers and experts of agriculture sectors will be involved. The administrative headquarter will be at Islamabad.

10. Existing facilities. Size and economic characteristics of areas to be served by project. Present facilities in project area and availability of inputs (Water, seed, fertilizers, credit, extension facilities, etc). The market of the product of the project and the basis for calculating the size of the market.

A number of organizations have been identified as being active in the promotion and development of the agro-industrial sector, although in varying degrees. Some of them had only marginal impact on the agribusiness sector. The key players and functional activities identified are, as follows:

Agribusiness Cell, MINFAL: The Agribusiness Cell, established under a USAID initiative, was created to assist in the promotion of agro-industries but has ceased operations and therefore no longer supports this sector.

Agribusiness Cell, Pakistan Agricultural Research Council (PARC): The unit is primarily intended to act as catalyst and facilitator to develop concepts and prototypes for adoption by the private sector manufacturing industries. Work has been undertaken on 40 technologies, typically solar date driers, since the 1980's with potential interventions being determined by requirements identified at the grass-root level, vetted and sanctioned through a technical committee. The core personnel complements are only two persons with consultancy and development being outsourced to other divisions and appropriate and related industries. Liaison is also undertaken with regional and international institutions, e.g. Asian Institute of Technology (AIT) and the International Rice Research Institute (IRRI), to facilitate the promotion and adoption of appropriate technologies.

Pakistan Horticulture Development & Export Board (PHDEB): Only recently established in the last year under the Ministry of Commerce and funded by the Export Development Fund, through a 0.25 per cent levy on exports, the PHDEB effectively adopts the mandate previously assigned to the Export Promotion Board (EPB) for the promotion of horticultural exports. Operating with a small core of professional staff, its primary function is to act as a facilitator and to ensure effective networking between the interested parties in the sector. In terms of horticultural exports the basic philosophy adopted has been to identify key products that satisfy the parameters of

volume, variety and value. Based on these criteria, the primary focus is on mango, kinnow, onion, potato, date, peach and pear. Allied to these primary activities are the promotion, adoption and establishment of improved infrastructure and agro-allied support. Specifically, rehabilitation of existing grading facilities, establishment of cool chain distribution, cold storage facilities, vapor heat treatment and irradiation facilities. Its functions mostly relate to trade/export. The element of the promotion of domestic production is barely missing. More-over, it alone cannot meet all requirements of the agribusiness sector.

Small and Medium Enterprise Development Authority (SMEDA): Established to promote small and medium-scale enterprises, SMEDA has three core activities, namely Donor Coordination & International Linkages, Policy Planning & Strategy and Business Development Services. The latter being responsible for providing services in the field of finance, technical, regulatory, management and marketing support. The SMEDA definition of small-scale relates to businesses with 10-39 employees, and productive assets of Rs.2 million to Rs.19 million, whilst medium-scale is defined as an enterprise with between 40 to 100 employees and productive assets of up to Rs.40 million. The definition of SMEs at a national level is subject to interpretation, with the State Bank of Pakistan reportedly adopting a staffing level of up to 250 persons for SME classification. Clearly, definition solely on the basis of employees neglects the impact of automation and mechanization in the enterprise. The SMEDA information service provides and offers potential investors comprehensive details on the business environment, regulatory requirements, taxation, physical facilities and infrastructure. It does not cover all activities relevant to agribusiness sector. Since the establishment of PHDEB the mandate for hortibusiness has been passed to PHDEB with SMEDA taking on a service provider role.

Pakistan Council for Scientific and Industrial Research (PCSIR): PCSIR pays little attention to the agribusiness sector. Key personnel are not available and there is no involvement of PCSIR in agriculture. Clearly the mandate of PCSIR does not include agriculture sector, though it is one of only two ISO accredited laboratories in Pakistan. There is a need of a full fledged institution who could have a pivotal role to play in assisting and nurturing the potential development of both traditional and non-traditional crops.

Under the auspices of the Export Processing Zone Authority (EPZA) there is a current initiative to further develop the concept of export processing zones, specifically for the agro-industrial sector. The existing export zones are primarily designated for industries other than agro-industries, although in the case of Risalpur a fruit juicing company operates from this location. Three additional sites are to be developed and space was allocated for an export processing zone in the Karachi Wholesale Fruit and Vegetable Market, although nothing further has materialized. Clearly both the EPZA Multan and Hyderabad sites are ideally sited for the horticultural sector, but these are yet to be developed. However there are no direct export linkages out of Hyderabad and presently no flights out of Multan to the major fresh produce export markets.

All of these efforts could not achieve the desired results due to a number of constraints and issues which impinge the agribusiness sector and the horticultural

subsector. These will be addressed in the proposed project. Some of these constraints and issues are discussed in the subsequent paragraphs.

- A national policy aimed at developing a strong and dynamic market driven private agribusiness sector has not been formulated, but there is no long term agribusiness strategy. The interpretation of agribusiness varies depending on the individual's perception. The country needs a clear agribusiness policy in order that all stakeholders are aware of their responsibilities and obligations within the sector in which the public and private sectors play complementary roles. Any agribusiness policy must provide stability in the sector to encourage investment and growth.
- Provincial horticulture policies have not been formulated or approved. Apart from NWFP, no province has formulated or elaborated a horticulture policy. In Balochistan the horticulture sub-sector accounts for 17.53 percent of the cropped area but still horticulture is classified with minor crops and is not given the emphasis or the attention that it needs to become a leading component of the economy. Provincial policies with defined actions and activities are required, as the nature and scope of horticultural production varies from province to province.
- The coordination between government ministries that have an input in the sector is limited. MINFAL, Ministry of Commerce, Ministry of Finance and Ministry of Industry all have a role to play in agribusiness. Decision making is very important for a strong agribusiness sector. The private sector cannot develop fully unless there is more cohesion and consultation within the public sector institutions.
- Weak capacity in both the public and private sectors in which individuals or organizational units are unable to perform core functions, solve problems, define and achieve objectives is predominant. Weak agribusiness capacity is a significant limiting factor in agribusiness development. The donor coordination for supporting government policy formulation is extremely weak and requires well defined mechanisms as well as active and committed players in the sector.
- The horticulture sub-sector and its agro-enterprises are not classified as an industry and do not have access to competitive loans for enterprise establishment. Risk aversion amongst the private sector Financial Institutions is high with low lending comfort levels. The sub-sector is at a distinct disadvantage as compared with other sub-sectors such as industrial crops. Although there is a positive movement from Zarai Taraqati Bank Ltd (ZTBL) to reduce the mark up from 14 percent to 9 percent from 1 July, 2004, it is primarily for agricultural production. With the bulk of agro-enterprises being family owned they are characterized by investment based on internal sources of funding and organic growth. However many businesses prefer to adopt a rent seeking strategy and prefer to accumulate cash and invest it in low or no risk instruments, rather than reinvest enterprise earnings in the further development of their businesses. Amongst entrepreneurs there is a propensity to trade (buy and sell) rather than manufacture or create product value addition, the latter signifies capital investment and therefore permanency. Two thirds of the available credit is provided by informal sector at high rate of interest.

Seasonal production credit is also a very major constraint in the horticultural sub-sector and it is very difficult to borrow any money on a short-term seasonal basis for crop production. The result is that virtually all vegetable producers take credit from the commission agents at a higher rate of interest so that they can buy seeds, fertilizers and other production inputs. This is a further constriction on the producer and also compounds any move the grower may have to break away from the existing marketing system and debt cycle.

- The country's phytosanitary, hygiene, health and safety regulations are not compliant with international standards and they require revision. Knowledge of SPS and other WTO Standards as well as the EUREGAP regime is poor in both the Public and Private Sectors. The identification of new export markets and the expansion of existing markets will falter due to increased food safety, health and phytosanitary regulations and restrictions in importing countries. Quality and grading standards for fruit and vegetables have been applied to products destined for the export market for specific client needs primarily in the not so strict overseas markets (Afghanistan, Middle East, Russia etc). Quality and standards are still not taken seriously in the domestic market.
- The floriculture industry, which lends itself to small farmer development, is still developing away from its base of flower petal production and the market is expanding rapidly. There is a serious shortfall in trained manpower that has experience and technological knowledge of the floricultural industry at all levels. The marketing information system is very poor with no cool chain facilities or adoption of post harvest handling technology is limited. There is no research and extension for floriculture.
- Good quality seeds, fruit tree seedlings and disease free, true to type, propagation material is not widely available. Installed domestic seed processing capacity is primarily for commercial field crops. The non-availability of quality germplasm is a limiting factor in improving productivity and export to international markets. A most common complaint among farmers is that poor quality seeds and seedlings and the lack of enforcement of regulations in the seed industry is a major limiting factor in raising yields and achieving product uniformity. Furthermore a breeding program to develop hybrid vegetable varieties suited to local climatic and market conditions is non-existent. This has contributed in a major way to the existing situation of free import and sale of vegetable seed along with introduction of varieties never tested in Pakistan resulting in great variety of quality, reliability and yields.

The market information utilized in Pakistan is primarily price orientated which has flaws which does not take into account product quality, grade, volumes traded, consignment size, origin and the prices are disseminated without analysis. In addition, the information generated does not correspond to the specific needs (strategic, tactical and operational) of the various stakeholders. Typically, policy makers and researchers may require historical data to reflect trends and patterns, while producers and traders require information on a daily basis to make qualified business decisions. A comprehensive and holistic market information system primarily tuned to the commercial needs of the private sector is needed.

The marketing system for fresh produce is very poor, with no facilities for cool chain or adoption of normal post harvest handling methods. The existing marketing chain results in considerable post harvest losses and shelf life reduction. Non availability of suitable crop storage in production areas limits farmer marketing options and discourages producers from linking direct market demand with production and supply seasons.

- There is lack of farmer knowledge and awareness of modern production techniques and a need for practical training and extension to support development.
- All agricultural and agribusiness research in the country is funded by the public sector. There are fiscal constraints which affect operational research funding, with 90% of all funds assigned to staff salaries and only 10% is available for operational activities which are grossly insufficient to conduct tangible research activities. Research institutes are not commercially oriented and for example they are not allowed to sell their germplasm and breeding materials to the private sector.
- The extension service has a comparatively high cost, lacks efficiency and quality, with fiscal sustainability a major problem. The agriculture extension service's main focus is on the major staple and industrial crops, mainly on production with little work in the field of post harvest technology and processing. In horticultural production any advice provided is only of a very general nature and is usually broad based and non specific.

The present project has been designed keeping in view these constraints and bottlenecks. The methodology adopted in the project will reduce or minimize these constraints. Thus a full fledge sector will emerge in the rural economy. The proposed agribusiness project will help in using the abundance labour resources in the country in a most profitable way and it will serve as an engine of growth for the whole economy.

The Federal Agricultural and Livestock Products Marketing and Grading Department is one of the oldest departments under the Ministry of Food, Agriculture and Livestock. In the early 1930s the Royal Commission on Agriculture had recommended Grading and Marking of Agricultural Produce in order to ensure on one hand better return to the growers and farmers and on the other regularize export of uniform quality of the produce. Accordingly, an Act namely; the **Agricultural Produce (Grading and Marking) Act, 1937** was enforced in 1939. In pursuance of the said Act the Agricultural and Livestock Products Marketing and Grading Department was setup under the then Government of undivided India. In 1972 a-fore mentioned Act was amended to restrict the jurisdiction of the Federal Government to the Grading and Marking of Agricultural Produce meant for export or for trade between the provinces.

The Federal Agricultural and Livestock Products Marketing and Grading Department provide advice to the Federal Government in the marketing of Agricultural and Livestock Commodities and maintains liaison with the International Marketing Organizations. In order to create confidence among the foreign buyers of our

Agricultural and Livestock Commodities, the Department undertakes grading at the time of export and issues quality certificate under the Agricultural Produce (Grading and Marking) Act, 1937. For the formulation of National Grade Standards and Specifications of quality, the Department conducts field and laboratory research.

Feasibility study on Agribusiness Development was initiated during 2003-04. Under this comprehensive survey was conducted, all relevant stakeholders were interviewed. Discussions were held with all stakeholders and a feasibility study was prepared. This was sponsored by the Ministry of Food, Agriculture and Livestock in collaboration with and assistance of the Asian Development Bank. Program Implementation Unit (PIU) was established in the department of Agricultural and Livestock Marketing and Grading, Ministry of Food, Agriculture and Livestock. This Unit is still available and the managerial capabilities to run the present project are available with the Ministry of Food, Agriculture and Livestock. As the proposed project is a huge one and covers whole of the country, it is necessary to strengthen PMU in terms of man-power, equipments and vehicles. PIU along with the existing staff, will be merged into PMU subsequent upon approval and implementation of the present project.

11. Description of Project:

a) Brief history: Technical features and justification of project:

Pakistan's economic situation has improved considerably since 2001. In particular, economic growth has rebounded, inflation has remained low, debt indicators have improved considerably, and foreign exchange reserves have increased sharply. Recent growth trends have been particularly favorable, and growth is expected to exceed the target and reach 6.4% in FY 2004. However, the improvement in economic performance has not translated into progress in poverty reduction, particularly in rural areas where nearly 39% of the population was below the official poverty line in 2003. Pakistan's economy is agrarian based accounting for 25% of gross domestic product and remains a major source of exports (about 70%, including processed products), and employment (just under half of the labor force). About 66% of the population lives in rural areas and virtually all rural residents earn a livelihood from agriculture. Over 90% of farm output comes from irrigated land. Minor crops, which include horticultural crops, contributed 12% of agricultural GDP, but grew only 1.7% in FY 2004 compared to a target of 3.5%.

Pakistan is a major producer of fruit and vegetables, with most of the production consumed in the domestic market. The total area devoted to fruit and vegetable production has increased rapidly in recent years, reaching 1.5 million hectares (ha) in FY 2004, as has production of fruits and vegetables. Fruit production has recently been affected in several areas because of drought and restricted water supply. Nevertheless, production has increased for some fruit crops such as peach (103%), persimmon (76%), and pomegranate (67%), reflecting the strong domestic market demand for horticultural crops. Citrus, primarily the mandarin variety kinnow, is the largest horticulture crop group by volume, and is a major export revenue earner. Export volumes increases from 100,000 metric tons (mt) in FY 2003 to 150,000 mt in FY 2004, with total production of 2.1 million mt in FY 2004. Pakistan is the fourth largest producer of dates, with 11% of world production, and exported 77,471 mt in FY 2002. In FY 2003 1.1 million tons of mangoes were produced, accounting for 5.9% of global production, of which 5% was exported. Vegetable production slowly increasing, with 2.9 million mt

produced in FY 2003. Floriculture, which is dominated by petal and cut flower production, is a relatively new horticultural subsector, and has grown at an annual rate of at least 10% over the past three years, with annual export earnings of about \$2 million.

While many developing countries have seen a fairly rapid expansion in agricultural exports over the past decade, with China, Malaysia, Thailand, and India among the strongest regional performers, Pakistan's share in total world exports has actually declined. By contrast, India's total exports rose more than three-fold to over \$70 billion between 1990 and 2002, with its share of world trade increasing from 0.5 to 1%. Pakistan's exports have remained heavily concentrated in low value added goods, while other regional producers such as India and Sri Lanka have improved product technology and value addition. Even in the low technology segment, such as in fresh fruits, Pakistan's exports have declined or stagnated in recent years. The stagnation in the export market is largely because of the demand in world markets for a better quality product and improved traceability, related to World Trade Organization (WTO) regulations and standards, and other increasingly stringent standards in developed markets.

The last comprehensive survey of the manufacturing sector estimated that there were 4,474 firms based across all sectors and that the food and beverages sector accounted for 984 firms. Sub classifying the food and beverage industries into those directly related or allied to the agribusiness sector, there were about 94 firms, or 10% of the food, beverage, and tobacco sectors; and 2% of all industries in Pakistan, which is minimal given the potential for value addition and processing provided by the large volume of horticultural crops produced. It is estimated that about 1.5 million people may be employed in small and medium horticultural enterprises. The enterprises engaged in hortibusiness are generally either micro-scale village based activities, or large-scale operations being undertaken by nationally recognized companies. There is a need to promote the growth of micro-scale horticultural enterprises and mini processing units to support the transition to small and ultimately medium-scale enterprises to develop a competitive agribusiness sector in domestic and international markets.

Agribusiness sector has the potential to be a source of economic growth and income generation with small farmers as major beneficiaries. There is a need for implementation of a project that will help to enhance the quantum of export especially of horticulture and floriculture items as well as value addition. Asian Development Bank (ADB) agreed to provide technical and financial assistance to explore the potential of agribusiness sector. A technical assistance proposal (PC-II)/feasibility study costing Rs. 52.7 million was prepared which was approved by the CDWP on 04-09-2003. The basic purpose of the TA was to assist the Government in designing a private sector lead agribusiness development project. Detailed survey of the potentials and constraints of the agribusiness sector was carried out. Data, facts and figures were collected. Consultative workshops and strategy Group Work Sessions were held. The facts and figures thus gathered, were analyzed to present the findings and give recommendation in the form of a report. The consultants submitted their report in July 2004. The present project is based on this feasibility study. There is a firm commitment from ABD to finance this major project. A series of meetings have been held with the ADB in this regard. Preparation and approval of the present PC-I are some of the conditionalities of the loan effectiveness. The consent of the provinces and allied agencies has already been obtained for the implementation of this project. Aide memoir of the ADB has been approved by the concerned agencies. A copy of the Aide memoir is attached for ready reference. Final Loan Agreement will be signed in the first week of March, 2005.

To tackle all problems and issues of agribusiness, a comprehensive approach is required. As it is a multidimensional sector, of rural economy, it will be dealt in thoroughly and deeply under the present project. The project components have been carefully designed to tackle all issues and deal all aspects of agribusiness sector. It will emerge as a full fledged sector in the rural economy.

The justification of the Project is based on an overall assessment of the Project components and interventions, and financial analysis of model budgets of indicative agro-enterprises, mainly in the horticulture, livestock and dairy sub sectors, that could be supported under the Project. Through ASF cost sharing grants the project will support agro-enterprise business development, agro-enterprise start-ups, farmer group enterprise formation, demand driven research programs, private sector led extension service, and BDS providers to enhance their capacity in the agribusiness sector.

In the short run, qualitative improvements with reasonable monetary incentives are envisaged. In the medium term, it is expected that an environment for encouraging various stakeholders to invest in the sub sector and adopt good practices will be in place. It is also expected that farmers will be able to realize reasonable increases in income by minimizing post harvest losses. Without these improvements, it will not be possible to realize comparative and competitive advantages. These advantages are due to nearness to markets with increasing demand for quality products, ability to supply during the off-season, and the sub sector being labor intensive. Given the overall nature of project interventions that are mainly geared towards realizing quality improvement and achieving higher value added, justification has relied on the assessment of non-quantifiable benefits. In the long run, seven years after project completion, it is envisaged that traditional agribusiness practices will have matured to a more commercialized approach.

The Project will cover all four provinces of Pakistan and the Special Areas of FATA, FANA and AJK. The provinces of NWFP and Balochistan and the Special Areas grow a large variety of temperate, semi-temperate and dry areas deciduous and other fruits as well as vegetables, spices, medicinal and culinary herbs and plants and ornamental plants and flowers. The provinces of Punjab and Sindh are besides suitable for growing a number of tropical and subtropical fruits, vegetables, spices, herbs, ornamental plants and flowers. Cultivation is normally done in clusters in different areas. Some fruits such as oranges, mangoes, apples, stone fruits, pip fruits, soft fruits and likewise some vegetables like potatoes, tomatoes, onions and chilies are produced abundantly with big surpluses and shortages from year to year responding to market prices. It is assessed that between 30 – 40 % of fruits and vegetables are lost post harvest. Moreover, margin for producers are minimized because of market exploitation by intermediaries and lack of processing facilities. The cooler provinces and areas are also suitable to grow non traditional and of season horticulture product/crops. Orchards and vegetables cultivation is done mainly by large farmers in Punjab and Sindh with several of them marketing their own produce. In the Special Areas and in Balochistan and NWFP small farmers are involved in horticulture production.

Livestock sector represents 11.4% of the GDP, involves 6 million farms families or 38 million of the population for their livelihood. Pakistan is the 5th largest producer of milk in the world but only 2% of this is processed against 40% in India. Health safety aspects are totally absent in informal milk marketing. The Idara-e-Kisan in Halla Punjab has evolved a highly successful milk collection, processing and marketing and dairy production activities under a participative arrangement. This offers extremely promising prospects and the President of Pakistan himself has desired its expansion. The local market for meat is growing by 5% annually while demand for meat and live animals both organized and illicit in the neighboring countries is drawing down on availability of live animals and resulting in explosive meat prices. Pakistan has a large buffalo population in Punjab and Sindh. Small ruminants predominate in Balochistan, NWFP and the

Special Areas. Highly recognize breeds of cattle both local and crossbred are available. Livestock sector like horticulture sector offers promising prospects for agribusiness both for milk and dairy production and for meat of all types to the benefit of the local economy, consumers and millions of small livestock farmers.

Institutional capacity to back stock agribusiness and carryout promotional activities are generally limited all over the country though the Province of Punjab is somewhat better endowed. Business entrepreneurship lacks likewise in the different areas. The two resource deficit provinces and the special areas besides lack the technical capacity and financial resources to build up their support services, capabilities and entrepreneurs. The project is based on the concept of a private sector lead project with the public sector involved in a facilitating, coordinating and supporting role. It is proposed to bolster the existing Pakistan Horticulture Export Promotion Board and to create a new Livestock and Dairy Development Board in conjunction with an Agribusiness Support Fund and Business Support Finance Program through Participatory Financial Institutions. Within these parameters the provinces would have flexibility to operate in tandem their own programmes. The project would support the provinces and special areas on both initiatives. Besides the project incorporates a lump sum provision of Rs.1 billion out of Government of Pakistan funding for financial support of provincial and special areas programmes. Rs.800 million out of this amount shall be earmarked for agribusiness finance programmes identified by the provinces (for 80% of this amount on NEC formula basis) and 20% for the programmes of the special areas. The balance Rs.200 million would support capacity building and support services for agribusiness in the special areas and provinces of Balochistan and NWFP. The fund would be used based on the project strategy and priorities and identified priorities by the provinces and special areas. The input of various research and investigative studies perceived in the project will be kept in view. The identified proposals by the provinces and special areas after endorsement by the concerned Provincial/Special Areas Coordination Committee shall be reviewed and approved by the Project Steering Committee. On this approval the concerned provinces /special areas shall process project proposals for approval under the normative process.

Project Benefits

The benefits of the Project will be improvement in quality and standards appropriate for export. Though there will be increased income to farmers from cost savings by adopting Integrated Crop Management (ICM) and Integrated Pest Management (IPM), that are proven approaches, and from minimizing post harvest losses. Similarly, there will be value addition from processed products. Given this, it is assumed that there will be insignificant impact on the prices of farm produce.

The main benefits from the Project are (i) qualitative improvements in the overall agribusiness subsector, (ii) an enabling environment for private sector to develop small agro-enterprises that will increase household incomes from increased value added and improve the accessibility of the entrepreneurs to market information services that will facilitate investment decision making, and (iii) create awareness of quality standards required to enter export markets. The Project will provide assistance to about 500 farmers to acquire skills in training other farmers in ICM and IPM, and to serve as a resource for further training of 25,000 farmers for improved farm production, ICM and IPM and post harvest technology, 140 persons to acquire cut flower decoration skills, and over 3,000 farmers in managerial, processing and other agribusiness skills. A summary of potential beneficiaries from the indicative agro-enterprises that could be supported by the Project is given below.

Potential Beneficiaries from Indicative Agro enterprises

Agro-enterprise	Raw material suppliers	Direct Employment	
		Full Time	Contract
Cut-flower distribution and marketing	100 flower growers	5	22
Bulb production and marketing	Growers on contract	20	208
Date processing	660 date producers	6	133
Milk collection and chilling center	800 milk producers	30	3
Fruit tree nursery enterprise	Nursery producers (farmers)	4	6
Vegetable seed production enterprise	Seed producers (farmers)	6	12
Mango packing	150 mango growers	3	36
Kinnow waxing and polishing	150 kinnow growers	3	34
Livestock fattening yard	2,000 livestock producers	9	240
Fresh produce cold storage	600 fruit and vegetable growers	4	7

The project components comprise (i) agribusiness policy and enabling environment development, (ii) agribusiness capacity building (iii) agribusiness support services provision, (iv) agribusiness finance development, and (v) project implementation support.

I. Agribusiness Policy and Enabling Environment Development

(a) Policy Formulation

Lack of a central or federal agribusiness policy and provincial horticultural policies is one of the major constraints identified in the feasibility study. Policies are generally, prepared by Government. However there are important policies and regulations that do not and should not originate from Government. For example grades and standards may be established by producers, export associations and importers on the basis of international compliance.

The stability of the policy environment is important to both existing and potential agribusinesses. The private sector is wary that the Government has the power to intervene in almost any area of the economy and during the privatization of various industries during the 1990s, the Government devoted considerable effort and time, making laws to convince the private sector that in future the same industries would not be nationalized. Any policy must provide stability and an effective and realistic time horizon.

The Project will recruit an international Agribusiness Policy Advisor and a national Horticultural Policy Advisor.

(c) National Agribusiness Policy

There is no clear agribusiness policy or interpretation of agribusiness. The country will require an agribusiness policy in order that all stakeholders are aware of their responsibilities and obligations.

This component will assist the Government to develop an appropriate policy and enabling environment for private sector led agribusiness development. It includes interventions at the national and provincial levels to redefine roles and responsibilities in the sector, strengthen the regulatory framework, in particular for compliance with international standards, and create strategic alliances through public private partnerships to promote sector development. Consultants and funds for meeting costs will be provided to the Ministry of Food, Agriculture and Livestock (MINFAL) to establish a task force to develop a comprehensive national agribusiness policy based on a participatory and consultative approach. The project management unit (PMU) and consultants will supervise the task force in its activities. The policy will cover (i) definition, vision, and strategy; (ii) institutional framework and scope of government facilitation, including the need for investment incentives, and the creation of "win-win" strategic agricultural partnerships; (iii) sector objectives including priority subsectors and products to exploit comparative and competitive advantages; (iv) a time bound action plan for implementing the strategy with key production targets; and (v) other key issues identified by the task force.

The provinces and special areas will also constitute policy task forces, and consultant and meeting costs will be supported to formulate horticultural development policies for Sindh, Punjab, and Balochistan, and relevant special areas; and to review the existing policy in Northwest Frontier Province. These policies will emphasize promoting greater private sector participation and the rationalization of government program and project initiatives; and establishing crop-specific development priorities based on resource audits and comparative and competitive advantage analysis, including an action plan to implement the policies. Within one year of loan effectiveness, the Government will adopt the national agribusiness development policy, and the provincial and special area horticulture policies formulated under the Project, when the task forces will terminate. The task forces will have no more than four members, with the majority from the private sector. The international agribusiness policy advisor will chair the agribusiness task force while the national horticulture policy advisors will chair the provincial and special area task forces.

The Project will support the development of the regulatory framework, establish quality and certification requirements of locally produced products, and promote compliance with international standards. In particular, the Project will assist the World Trade Organization (WTO) cell in MINFAL to formulate amendments to the legal framework to comply with commitments made in regard to sanitary and phytosanitary measures in Pakistan's agreements with the WTO. The Project will also assist MINFAL to develop programs to collate and disseminate information relating to international standards to relevant stakeholders in both the private and public sectors.

(C) Provincial Horticultural Policies

Within the country horticulture and its products are deemed as minor and the sub-sector is not considered an industry and is not given due priority and emphasis as a potential income generator in rural areas. Horticulture production, cropping profiles, seasons and production vary between provinces. Pakistan Horticulture Development and Export Board (PHDEB) already has the mandate to assist in the formulation and implementation of the National

Horticulture Policy. The project will establish provincial policy task forces that will liaise with PHDEB to elaborate a horticultural policy in Sindh, Punjab and Balochistan provinces and review the NWFP policy that has been prepared and is still in the process of being revised.

In provincial policies emphasis will be placed on promoting greater participation of the private sector and the convergence of the programs and projects implemented by various developmental agencies and Government departments within the subsector at provincial level. The provincial policies must emphasis prioritizing crops and products based on a resource audit and comparative advantage and will include an action plan with realistic time horizons to implement the policies.

Provincial horticultural task forces will consist of three members, one representative from the public sector and two from the private sector (which may include a member from PHDEB). A national Horticulture Policy Advisor will be recruited within the first six months of the implementation period for two assignments of six and nine months in the first three years of the Project. The advisor with the Project Director will prepare the scope of work for the four task forces and be the chairperson of each task force. The advisor will work closely and coordinate with the international Agribusiness Policy Advisor.

The scheduling of the agribusiness policy and the four provincial policies are detailed in the following Figure.

Agribusiness and Horticultural Policy Timeframe

	Year 1 Months												Year 2 Months											
	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12		
Agribusiness Policy																								
Consultant mobilization																								
Scope of work & task force constitution																								
Agribusiness Policy preparation																								
Policy draft submission																								
Policy feedback																								
Policy reviews																								
Policy approvals																								
Horticultural Policy																								
Consultant mobilization																								
Scope of work & task force constitution																								
Horticultural Policy preparation																								
Policy draft submission																								
Policy feedback																								
Policy reviews																								
Policy approvals																								

Regulatory Framework and International Standards Compliance

International regulatory framework information is extensive but not user friendly in respect of conveying standards and compliance measures. During 1994, Pakistan signed a number of agreements with the World Trade Organization (WTO) which relate partly or wholly to food, agriculture and livestock. The agreements included the Agreement on Agriculture (AoA),

Sanitary and Photo Sanitary Measures (SPS), Technical Barriers to Trade (TBT) and Trade Related Intellectual Property Rights (TRIPS). Pakistan as a signatory is committed to implement and become compliant with these agreements.

Developed countries have prepared and enforced stringent standards and quality requirements for all food stuffs, in accordance with SPS and TBT, to counter the import of substandard poor quality food and ingredients. This implies that countries that export to the developed and even developing markets have to comply with and harmonize their standards accordingly. Implementation of the agreements and conformity of standards is not an easy task. However without it Pakistan's food exports will lose their traditional markets as regulations become more stringent. The country needs to amend existing laws that are relevant to WTO agreements and build capacity and knowledge of the agreements for all players in the agribusiness sector. To comply with the SPS agreement the Government is in the process of amending a number of laws and acts before WTO regime enforcement, namely:

- (i) Pakistan Plant Quarantine Act, 1976.
- (ii) Federal Seed Certifications Act, 1976.
- (iii) Pakistan Pure Food Laws, 1960.
- (iv) Pakistan Agricultural Research Council Act 1981.
- (v) Agricultural Produce (Grading & Marketing) Act, 1937
- (vi) Pakistan Animal Quarantine (Import & Export of Animals and their Products) Act 1985.

The Project will provide assistance in a number of areas with respect to regulatory framework and international compliance and certification. Activities will include (i) assisting the WTO cell in MINFAL in moving forward the amendment of the laws and acts that impinge on the WTO agreements, (ii) collating and disseminating international standards information to the relevant stakeholders in both the private and public sectors, through the capacity building component, (iii) coordinating with other trade related, WTO capacity building projects in MINFAL, the Ministry of Commerce and the Ministry of Industry to avoid duplication of activities and (iv) assisting in the strengthening and promotion of improving food standards and Hazard Analysis Critical Control Point (HACCP) certification.

In addition to capacity building activities, the project will identify and field a consultant to develop a program that will include legal framework amendments, the preparation of awareness seminars and elaboration of a plan of action for MINFAL to follow to harmonize standards and to become internationally compliant. The consultant will be fielded in the second year of the Project for a period of three months.

(d) MINFAL Departmental Coordination

There is no agribusiness coordination in the country. Under the auspices of MINFAL an agribusiness cell was established and funded by USAID from 1991 to 1993. Other sections or cells under MINFAL include a WTO section in the secretariat, a WTO section in the Agricultural Prices Commission (APCOM), an Agribusiness Cell based at the Pakistan Agricultural Research Council (PARC). Also related to agribusiness the DALPMG has a remit in market information and product uniformity and quality through grading standards.

After withdrawal of subsidy the existence of APCOM does not justify, therefore under ASPL-II there is a recommendation that APCOM shall be “Pakistan Agricultural Policy Research Institute”. The job description should be changed and shall be provide a research work for agricultural policy.

An international Institutions Consultant will work with the Policy, Institutional and Regulatory Specialist to be recruited in the PMU. The consultant will determine how to rationalize and if necessary, restructure the various cells and departments in order to make stronger linkages for the improvement of agribusiness and international compliance coordination in MINFAL. The consultant will be recruited once the national Agribusiness Policy is drafted in the second year of the Project for a period of four months, in order that the improved coordination will dovetail with agribusiness policy and international compliance recommendations.

(e) Strengthening of the Department of Agricultural and Livestock Product Marketing and Grading (DALPMG)

The Department of Agriculture Livestock Products Marketing and Grading (DALPMG) is a federal organization established within MINFAL. The department has the mandate for (i) market information services, (ii) quality control and grading standards, which includes international standards compliance, and (iii) agricultural commodity research. DALPMG provides advice to the federal Government in the marketing of agricultural commodities and maintains liaison with international marketing agencies.

(f) Export Quality Certification

DALPMG carries out compulsory grading before the export of 41 items, including many fresh fruits and vegetables. It operates eight offices at major export points and has recently initiated the “one window of operation system” at Karachi international airport in conjunction with Plant Health and Quarantine staff and Customs Department. Pakistan’s reputation as an exporter of fresh fruit and vegetable products is poor due to unreliability of quality and uniformity, poor use of packaging materials and non-standardization of presentation and grades. The continual pressure from some poorly informed sectors of the industry encouraging exports of low quality products, especially at times of over production and low domestic market prices has led to a downgrading of efforts by serious exporters to maintain and improve export quality at a crucial time

International requirements for standardization of fresh produce quality are very strict and with the likely introduction of WTO regimes, adoption of international operating standards will be necessary to facilitate easy movement of goods with no barriers. There is a requirement to improve and strengthen DALPMG export quality and certification procedures and practices in line with international market requirements in preparation for accession to WTO, enhancing the quality and reliability of fresh fruit and vegetable exports from Pakistan. It will support DALPMG in four activities:

- (i) international training for three members of DALPMG staff after which they will develop internal training programs for DALPMG inspectors on all aspects of international quality control and standardization for fresh fruits and vegetables. Further training will also be provided to other key actors in the marketing chain, especially exporters and producers in conjunction with PHDEB staff. A web site will also be developed whereby interested parties can find all information about quality regulations and procedures,
- (ii) revision and updating of existing quality standards in line with international standards. This would be mainly completed by an international consultant who has experience in quality standards and quality control of fresh fruits and vegetables,
- (iii) upgrading DALPMG export certification centers. It is proposed that the centers receive equipment to upgrade and improve efficiency and recording of data and also to start monitoring of pesticide residues in export consignments, and
- (iv) improvement and streamlining of DALPMG operating procedures. It is proposed to implement a system which is in line with international sampling, inspection and quality monitoring systems. This should streamline the certification process and relieve pressure on exporters.

DALPMG staff that receive international training would, on their return, set up and operate a training scheme for the remaining DALPMG Inspectors to ensure that the application and enforcement of quality standards is maintained at internationally acceptable levels. Consequently, they would also operate training for other sectors of the market chain. A total of 15 such programs annually have been targeted, in conjunction with PHDEB. To support this activity a national consultant in training and dissemination would be hired for 36 person month of input for years three, four and five. An international consultant would be required for a phased input of nine man months over a three year period to review the standards, legislation and operating procedures and to help in the training process.

The benefits of this subcomponent will be, (i) procedures for export inspection and certification will be streamlined, (ii) quality standards and procedures will be compliant with world requirements, facilitating easier trade and free movement on world markets, (iii) key players in the production and marketing chain will be informed and trained in the requirements of the quality oriented approach and specific standards, (iv) linkages will be developed with international agencies monitoring export quality in an attempt to resolve identified problems at an early stage at source, and (v) the reputation and reliability of exports will be improved leading to increased export market penetration and greater demand.

(g) Private Sector Market Information Service

The lack of regular market information is a major constraint in the understanding of markets and determining what to grow and process. DALPMG collects market prices for 26 essential items on a daily basis and 200 products on weekly basis, from 11 wholesale markets throughout the country. In addition to the data collection at the federal level, provincial and district level data are also collated. However the information generated does not correspond to the specific needs (strategic, tactical and operational) of the various stakeholders and are mainly for the consumption of the public sector. In addition there is dearth of information about exports and export markets. In the past efforts have been made to establish a MIS mainly with the donors' support, but such initiatives have mainly failed. Various issues that have impaired the development, implementation and sustainability of market information services include, (i) the variation in grades and weights, (ii) the inability to analyze and disseminate information, (iii) the lack of appropriate mechanisms for monitoring and feedback, (iv) limited attention to capacity building, (v) inability to reach financial sustainability; and (vi) irrelevant data generated and limited coverage.

Although market information is usually regarded as a public service, there is an increasing interest in the development of information services in the private sector particularly in response to the commercial needs of traders and exporters. Agritel in South Africa and Jaangda Agencies in Pakistan are commercial service providers in market information. In addition Integrated Marketing and Enterprise Service (IMES) a spin-off of the Pak-Swiss Project for Horticulture Promotion (PHP) and Jamal yellow pages also have the relevant experience.

There is a need to develop market information system in the private sector with the medium-term objective being full-cost recovery and the phasing out of DALPMG's MIS responsibility for some crops and products and at the same time strengthening DALPMG's MIS capability for other crops not taken over by the private sector. Through the provision of a diminishing level of project funding, the service provider will, in the medium-term, cover its operational costs based on fees generated by commercial sponsorship and a service charge for information provided to target beneficiaries. DALPMG will be strengthened to support the private service provider and market committees to establish the MIS. Under these arrangements the market committees will be responsible for the collection of data and transmission to the private service provider and DALPMG, which will be analyzed and disseminated by the private service provider on a commercial basis. For export information collaboration will be in place with the Export Promotion Bureau (EPB), PHDEB, Customs Department and international organizations. Under this activity the Project will provide support to DALPMG, market committees and a private service provider in upgrading its facilities to establish an MIS.

Initially five main markets will be covered by the MIS which will later be extended to encompass 11 major wholesale markets for fruit and vegetables. The service will encompass six major horticulture crops including mangoes, citrus, dates, onion, potatoes and tomatoes initially and be expanded to cover other crops, based on client demand. For export information the same number of crops will be covered initially, in the country's major markets.

In accordance with the proposed strategy a private sector MIS will be developed. An institution with relevant experience and strong profile that satisfies the requirements of the Project will be identified. The PMU will invite proposals from firms with relevant experience and a comprehensive network and working relationship with exporters, traders and organizations. The service provider through the facilitation of the PMU will develop a close affiliation with relevant project partners and clients.

The PMU will be responsible for liaison with the private sector service provider, developing Terms of Reference (TORs), monitoring the smooth functioning of the service and providing as part of the project staff complement, an MIS and Market Information Analyst and an MIS Database Manager to work full time with DALPMG. The service provider will work under a contractual arrangement whereby it will be provided with a mandate schedule and requisite funds. The contract will be initially for one year, extendable for another four years subject to the satisfactory fulfillment of obligations stipulated in the contract. The Project will assist in the strengthening of private MIS through:

- (i) establishment and strengthening of DALPMG's MIS, through the provision of staff, training and equipment,
- (ii) strengthening of market committees in market information standardization and collection,
- (iii) strengthening and supporting a private sector service provider to run a commercially sustainable market information service for mangoes, citrus, dates, onions, potatoes and tomatoes,
- (iv) a needs assessment study to identify the requirements of various stakeholders for market information,
- (v) training of data collectors of the market committees in data collection, collation and processing and data analysis for the private sector service provider,
- (vi) awareness and training workshops in the use and effectiveness of market information, and
- (vii) assisting the private sector service provider in marketing and promoting the MIS service.

The expected outcome of this sub-component will be (i) a private sector MIS providing reliable, impartial market information on a commercially viable and sustainable basis, (ii) growers, traders, development projects, NGOs, exporters and policy makers provided with market information which meet their articulated needs, (iii) with easy availability of the market information, improved market efficiency and competitiveness.

The activity will be supported by one person month of international consultancy and two months national consultancy within the first year of the Project.

(h) Upgrading and Strengthening of Federal Seed Certification and Registration Department (FSCRD)

The horticulture industry is constrained by indiscriminate production and distribution of poor quality seeds and propagation materials resulting in declining yields in both fruit and vegetable production and leading to reduced product quality and increased management production problems. This not only affects domestic markets, but also directly affects export development potential as production is unreliable, not uniform and quality levels are not sufficiently high to meet export demand.

The Federal Seed Certification and Registration Department (FSCRD) is mandated by the Government to control seed quality and is currently also working on the introduction of standards for fruit propagation materials. At present, FSCRD does not have the facilities with which to effectively implement the necessary control in the vegetable seed sector and has yet to become active in regulation of fruit tree nursery production mainly due to the lack of amenities located in the main production center.

There is a requirement that a fruit tree nursery “Registration and Certification” scheme, similar to that successfully operating in NWFP, be established at a federal level and made applicable in all four provinces for all major fruit tree crop production. FSCRD will be responsible for the operation of the registration scheme and for carrying out all monitoring of quality in the certification scheme. It is also intended that proper control of the vegetable seed market should also be implemented through the execution of a vegetable seed variety registration scheme and that all vegetable seed being sold in Pakistan must be registered and then tested for suitability of local production before being cleared for general certification and sale.

Under these arrangements public and private sector nurseries and seed producers will be able to produce quality-propagating materials which will be disease and virus tested and will be true-to-type. The Project will ultimately aid expansion of commercial horticulture through establishment of reliability, trust and transparent working practices in the sector.

The Project will assist in the strengthening of FSCRD through:

- (i) establishment and equipping of nine regional testing laboratories located in the main commercial production regions in Punjab (3), Sindh (2), Balochistan (3) and NWFP (1);
- (ii) development of a systemized and quality approach to production of fruit and vegetable propagation materials;
- (iii) introduction of suitable standards in line with internationally accepted norms;
- (iv) training for FSCRD staff in testing for virus infection, standards, their application and correct inspection techniques in the field;
- (v) strengthening of FSCRD through improvements in operating system;
- (vi) training of nursery producers in improved production techniques and better plant propagation and hygiene practices and

- (vii) the review and updating of existing vegetable seed and fruit tree seedling standards certification and legislation.

To support this subcomponent an international consultant will be required in year one to prepare adequate standards for tropical and sub tropical fruit tree propagation, registration and certification. Inspection procedures and techniques in fruit tree nurseries will also be prepared for the field staff. It is therefore proposed that a period of four months consultancy be provided in year one in a split input of three months and a subsequent one month. Follow-up inputs would be for a split input of two individual person months in year two followed by a one month input in year three to provide support and to monitor implementation of inspection and certification procedures in the field.

The outcome of FSCRD strengthening will be (i) a practically based efficient and effective FSCRD with testing facilities located in or close to all major commercial production areas, (ii) farmers' confidence will be restored in public and private sector nurseries and seed producers producing quality propagating materials which will be disease and virus tested and will be guaranteed true-to-type, (iii) a local vegetable seed industry will be established producing selected varieties, (iv) the quality of all planting materials will be improved leading to greater reliability and increased quality of basic fruit and vegetable production and (v) fruit nursery producers will be registered and have their own producers association to promote their activities. The Government will finance virtually all the recurrent costs of this subcomponent.

(i) Livestock and Dairy Development Board

The Project will also support the establishment of a private sector-led LDDDB that will play a similar role to that of PHDEB. The responsibilities of LDDDB will be to (i) coordinate national and provincial activities in livestock and dairy, (ii) promote investment in the sector, and (iii) promote livestock as the primary vehicle for poverty alleviation amongst small and landless farmers, especially women. The Project will support the LDDDB by commissioning a comprehensive livestock study that will clearly identify constraints, and suggest possible ways to improve the livestock and dairy subsectors, and determine possible agro enterprise interventions for future support. The findings and recommendations of the study will provide a basis for a livestock and dairy policy that would be prepared by LDDDB. Training service providers will be contracted by the Project to assist LDDDB, particularly in terms of stakeholder agro enterprise development and business support, standards compliance, and livestock and dairy farmer group formation, including women only livestock groups.

At present it is envisaged that the Board would consist of 15 members, of which seven members would represent Government, the Federal Minister MINFAL, the Secretary MINFAL, the Animal Husbandry Commissioner MINFAL and the provincial secretaries of Livestock and Dairy Development. The private sector will be represented by one livestock representative and one dairy representative from each of the four provinces. There is also provision for provincial governments to establish provincial LDDDBs.

The private sector in the livestock and dairy subsectors has expressed a need for a board similar to PHDEB that has a physical presence in terms of offices staffed with well qualified personnel recruited from the private sector that can work on behalf of the subsectors. The latter is recommended in order that livestock and dairy can be represented in a similar way to that of horticulture. The Project will support the establishment of an LDDDB through the provision of funds for the establishment of offices, communications, utilities, equipment and transportation. The Project will also provide a livestock and dairy specialist who will be located within the Board's offices. The livestock and dairy specialist will be the resource person that forms the linkage between the Project and LDDDB. The Government will provide a Livestock and Dairy Development Coordinator.

II. Agribusiness Capacity Building

During the PPTA interim phase all stakeholders were consulted to determine deficient or weak areas in the knowledge and skills capability and capacity of the agribusiness value chain. A number of clear cut themes were identified, all of which require attention and need to be included in the Project's capacity building program, they are (i) agricultural institutions throughout the country both in research and extension remain very weak due to high establishment costs and inadequate funding for operational activities, (ii) linkages among research, extension and farmers are weak and services for farmers are inadequate, (iii) training is generally carried out on a top down basis and is not demand driven i.e. it does not address the most pressing problems of the links within the value chain, (iv) extension personnel are mostly generalists for all crops and lack specialization in horticulture (floriculture extension is almost non existent) and thus, their extension activities are not at all farmer responsive for horticultural crop growers, and (v) training in particular in rural areas to develop entrepreneurial and, marketing skills is not available.

To improve the horticultural extension service and effective dissemination of technologies an alternative to the training and visit (T&V) system has been successfully replicated throughout Southeast Asia in the form of integrated crop management through Farmer Field Schools (FFS) using the Training of Trainers (ToT) and Training of Facilitators (ToF) approach. The success of this new system lies in its focus on farmers as the decision makers in crop and pest management and on the facilitation of a discovery learning process using non-formal adult education methods. In this technique of training/learning, the farmers own field is utilized as the primary classroom giving a real and practical basis for learning. In NWFP this new extension methodology of farmer training has already been very successfully imparted by the Pak-Swiss funded PHP in tomato, onion and guava crops. Post harvest handling and marketing of these perishable commodities was an integral part of this training program. From the year 2000, this program has also been replicated on a modest scale for mango in Punjab and for cotton in Sindh and Punjab in connection with an integrated pest management program under MINFAL with financing from ADB.

Although the overall aim of project is the development of agribusiness from the farm gate onwards, it is apparent that the agribusiness sector will only develop if the raw material is of a suitable quality and type and available in sufficient quantity on a regular basis for continuity of supply. At present, farmers are not producing enough quality products in

sufficient quantity or of a suitable quality to provide the basis for concerted agribusiness development, especially for commercial exports where value addition is potentially high. In an attempt to address this shortcoming it is proposed to focus a coordinated training program on basic crop producers, along with a complementary component on development of low level technical and entrepreneurial skills for value addition, drying, processing and packaging, mainly in rural areas and a final component which will focus on higher level knowledge and skills development for agribusiness entrepreneurs, managers and supervisors.

(a) Capacity Building Focus

The primary focus in capacity building will be on horticulture and hortibusiness. Training will be needs based in support of the agribusiness sector value chain from farm production, through post harvest processing, marketing, and international standards compliance and in agribusiness in general. Similarly, the capacity building component will also support the activities to be undertaken for the dairy and livestock sector, particularly higher level knowledge and skills development for entrepreneurs and farmer group agro-enterprise development where such training can be directly transposed and replicated from the general horticultural capacity building program. The project will support the rationalization, restructuring and coordination of relevant MINFAL departments concerned with WTO regulations and international standards compliance to facilitate agribusiness development and international compliance with the assistance of an institutional specialist.

The management of training interventions will be the responsibility of a National Training Coordinator, at Horticulture Project Unit to be established under the Projects. During the process of the specific training needs assessment undertaken in the second phase of the PPTA, various stakeholders from all levels of the agribusiness value chain were consulted. This assessment revealed that stakeholders at every level are largely aware of the problems hindering the development of agribusinesses. Furthermore, they are convinced that growers and entrepreneurs can tackle these problems if they are provided with relevant skills training which is delivered in the appropriate place at a convenient time and in an apt manner.

The range of topics that were identified in the feasibility study, as training needs was extensive and can be categorized into six groups (i) improved horticultural crop management and post harvest technology, (ii) processing, packing and value addition technology (iii) enhanced profitability by adopting best management practices in business and agro-enterprise by management training, (iv) how to start-up agro-enterprises, (v) WTO and international compliance, and (vi) agribusiness in general.

The scope of the training and capacity building requirements of the Project's stakeholders is extensive. The Project will not attempt to undertake capacity building in-house and will outsource the majority of the training to service providers. A similar example of this activity is the Pakistan Poverty Alleviation Fund (PPAF) which is involved in entrepreneurial skill development for the poorer section of the community. The PPAF out sources training and disburses funds to service providers to undertake training on its behalf.

The Project will need to develop clearly defined contractual relationships with selected service providers. Memoranda of Understanding and contracts will be drawn-up to include the envisaged scope of work, roles and responsibilities of both parties, details of technical support from the Project, contributions to be made by each implementing partner, roles and contributions of the beneficiaries and planned and clearly defined, results oriented, exit strategy, all within a plainly delineated timescale. The Project will also provide scheduled backstopping support to service providers, facilitate impact assessment of the implemented activities and provide some needs assessment support on a regular basis.

Within the country there is at the disposal of the Project a variety of implementing agencies, service providers and bodies that have varying degrees of competence and can offer their services to the project to undertake training or support roles. Some have grass roots contacts and networks that will require support in training their field staff, such as the Rural Support Programs (RSPs), that are primarily involved in community mobilization in village infrastructure projects. However there is an ever increasing demand for groups of individuals in community organizations to form agro-enterprises creating a need for training in business skills and entrepreneurial development that the RSPs cannot provide. Of particular interest will be the significant number of Master Trainers which have already been trained by Commonwealth Agricultural Bureau International (CABI), based in Rawalpindi, in subject matter which is highly relevant to the proposed FFS approach being proposed.

Another level of training is required for existing and potential entrepreneurs, contractors, traders and businessmen in the agribusiness sector, particularly in the fields of enterprise development, management and management psychology, contract farming, establishing out-grower programs, national and international marketing and international standards compliance. This type of capacity building can be undertaken at GCCs and VTIs providing that the trainers and college staff have the capacity to undertake such courses.

For an effective post project exit strategy, emphasis will be placed on the adoption of a market development approach, with a gradual reduction in dependency on the Project, so that some of the supported service providers can, in the medium term, market their services independently, particularly at the business and agro-enterprise level. Thus, it is imperative for the Project to support the managers and principals of the collaborating service providers through capacity building in order to run their organizations in a commercial manner.

(b) Curriculum Development

Before training and capacity building of project stakeholders can take place, course content and the type of training of the service providers have to be developed to comply with project activities and objectives. Curricula and course content are required that will satisfy the training needs of agribusiness employees and entrepreneurs, including (i) crop management, (ii) post harvest processes, in fresh fruit handling, fruit and vegetable processing, and cut flower trading, (iii) small business management training needs and entrepreneurial skills and (iv) orientation on WTO regulations and standards, in conjunction with international compliance. There is a requirement to develop the curricula, ToT training manuals and tools for the key service providers including:

- (i) 3 Technical Skills Manuals, relating to fruit, vegetables and flowers for VTIs,
- (ii) 1 Schools Management Skills Manual for VTIs,
- (iii) 1 WTO – Training Manual on Total Quality Management (TQM) for VTIs,
- (iv) 1 Business Management Skills Manual for GCCs,
- (v) 1 WTO – Training Manual on Regulations for GCCs.

A national consultant will be identified to develop the seven training manuals, training tools and the demand led curricula to be used in VTIs and GCCs. The assignment will be undertaken over a period of six person months. The consultant will be supported by subject matter specialists from the Project and the private sector to ensure that manuals contain appropriate and accurate technical information relating to the agribusiness sector value chain of fruit, vegetables and cut flowers. The consultant will be assisted by an institute competent in issues of WTO regulations and TQM. PHDEB has access to key specialists in most of the identified disciplines which require attention. These experts could be approached through PHDEB and employed on short term contracts with very specific scope of work to support the development of the technical training manuals. A total of seven person months have been allocated for this activity (one month input for each manual).

(C) Capacity Building and Entrepreneurial Interventions

The capacity building and skills levels required by the whole spectrum of stakeholder can be divided into three broad categories (i) extension services at the farmer level (mainly for horticultural production, but general skills could be transposed to other sectors, particularly dairy and livestock where relevant, e.g. record keeping skills, simple marketing, hygiene, etc.), (ii) technical skills for value addition, drying, processing and packaging etc., and (iii) higher level technical knowledge and skills in management and enterprise development for agribusiness entrepreneurs, managers and supervisors, including product quality and international compliance where required and relevant.

(d) Farmer Field Schools

The FFS extension methodology is a relatively new approach for farmer training but has been successfully piloted in Pakistan by CABI, a Pak-Swiss funded horticultural project, other NGOs and MINFAL extension staff. The FFS concept is basically integrated crop management through ToT and ToF. The FFS focus is on farmers as decision makers in crop and pest management techniques and the use of non-formal adult education methods using farmers' fields as the primary classroom for the training/learning process to develop.

Keeping in view the ineffectiveness of the extension service in Pakistan, especially pertaining to horticulture cropping and the success of the FFS/ToT methodology where farmers become primary decision makers, a comprehensive training program for fruit growers, vegetable farmers, vegetable seed producers, fruit tree plant nursery men and cut flower growers has been proposed. The integrated crop management training deals with one crop at a time, during the whole growing season. Each class of FFS comprises not more than 25 farmers although more than one training course on the same crop could be held concurrently. Each FFS will be issued with production and harvesting equipment. In the first year of the project implementation period, only training on ToT and ToF would be completed, with farmers

training beginning in earnest in the second year and continuing in subsequent years of the Project. The FFS concept will be implemented as a pilot program in each of the four provinces and special areas over a period of five years, targeting a minimum of five crops per province (fruit, vegetables and/or flowers) on a demand-led basis. It is estimated that during the Project life:

- (i) 5 crops per province will be targeted,
- (ii) 125 master trainers familiar with the FFS concept will develop ToT curricula and training modules per crop,
- (iii) 500 staff from Agricultural Extension, NGOs research institutes, private sector and projects will receive ToT training to enable them to facilitate FFS events.
- (iv) 1,000 FFS events involving crop specific seasonal interventions will take place.
- (v) 25,000 farmers, including woman farmer groups, will receive on-farm training on IPM, ICM and related issues.

(e) Institutional Capacity Building for Skills Development

It is proposed that during the project life a total of 40 GCCs and VTIs will be supported in all four provinces. The decision on which institutions to support will depend on a number of factors (i) demand from the area of influence, (ii) major horticultural production and processing areas, (iii) favorable Government commitment and support and (iv) existing infrastructure. Both types of institutes work at the provincial level and operate under different parent organizations in their respective province. The concerned parent organizations are the Directorate of Technical Education and Manpower Training (DTEMT) in NWFP, the Technical Education and Vocational Training Authority (TEVTA) and the Punjab Vocational Training Council (PVTTC) in Punjab, the Directorate of Technical Education (DTE) and the Directorate of Manpower and Training (DMT) in Balochistan; and the District Office of Technical Education (DOTE), DTE and DMT in Sindh.

GCCs and VTIs mainly have operational autonomy to start short courses in new subjects based on demand and with the approval of Center Management Committees (CMCs) in NWFP and Balochistan, District Board of Management (BOM) in Punjab and Executive District Officers (EDO) and CMCs in Sindh. The introduction of agribusiness development to GCCs and VTIs should therefore not merely be seen as the introduction of another managerial or technical skill, but more as restructuring to include a whole new aspect of appropriate training which will involve food processing and marketing activities and opportunities, all of which are in great demand in rural areas. The introduction of agribusiness development skills to GCCs and VTIs will entail specific interventions related to ToT, curriculum development, school management skills and the procurement of training equipment. In order to develop sustainability in the long term, it will be necessary to develop key management and development skills at the GCCs and VTIs initially. Therefore in the early stages, there will be great emphasis on trainer development on the basis that this cadre of trained personnel will be able to offer training in a broad range of subjects and disciplines which in the long term could be on a fee or cost sharing basis. It is proposed to extend the following support to GCCs and VTIs:

- (i) training of principals in school management skills. To enable the training management and organizers to operate effectively in a demand-driven environment the principal from each of the 40 supported GCC and VTI will be trained initially with a subsequent refresher course a year later by PIM in school management skills,
- (ii) training of trainers in technical training skills. To enable the trainers to deliver training effectively in new trades encompassing different processing skills in fruit and vegetables, the trainers of VTIs will be trained in technical skills at the Food Processing Laboratories of the Agricultural Research Institute and PCSIR Laboratories. It is proposed to train 40 trainers of 20 partner VTIs in fruit and vegetable processing skills during the Project. In cut flower decorative skills it is proposed to engage a cut flower consultant with South East Asian experience of floral decoration techniques to conduct TOT courses. The consultant will be hired for a total of 6 months during the project period, with 2 months during the first year and one month in each for the following years. The total outreach will be 144 trained trainers capable of imparting cut flower decorative skills for florists. The participants of ToT will be the instructors of partner VTIs, master craftsmen and women from cut flower traders, florists associations and instructors of women skills training centers,
- (iii) training of trainers in business management skills. GCCs will be the service providers for tailor made courses to agribusiness entrepreneurs, managers and supervisors. To initiate result oriented management skills training it is proposed to develop the curricula suiting the needs of the target group and train the teachers of the service providers with special emphasis on short course delivery mechanism and suitable methodology for adult training. It is proposed to engage private service providers for capacity building of GCC teachers to conduct ToT at their respective institutes such as the International Islamic University (IIU) and IMES. It is proposed to train 40 trainers of 20 partner GCC (two from each GCC) in business management skills under the Project,
- (iv) training of trainers in WTO and international compliance. In order to meet international trading requirements, it is imperative that agribusiness entrepreneurs, managers and supervisors are acquainted with WTO requirements. It is proposed to organize an orientation training program for the trainers of the GCCs. The IIU can offer a three day standard course at its campus covering orientation on WTO regulations and international compliance. Forty trainers of 20 partner GCCs (two from each GCC) are proposed for training in this subject under the Project,
- (v) training the trainers in TQM. It is proposed that technical skills trainers undergo a short training program in quality assurance systems required for the manufacturing sector. This will further influence the quality of the product made by the trained target groups. VTI trainers receive their training at IIU and participate in a three day standard course in TQM. Forty trainers from 20 partner VTIs (two from each VTI) will be trained in TQM under the Project.

The 40 selected GCCs and VTIs that collaborate under the capacity building component will be provided with limited financial assistance in order to enable them to launch management courses and food processing skills training courses respectively with specialized curricula addressing agribusiness entrepreneurs' and workers' needs. The minimum required training equipment for starting management skills courses has been proposed for each partner GCC with a set of didactic equipment so that they can impart training in an effective manner. Similarly it is estimated that VTIs would need a set of food processing and quality testing laboratory equipment for training purposes. Women's participation in all training activities will be practically promoted by the PMU.

(f) Training of beneficiaries

The estimated outreach of management courses in five years will be 2,016 beneficiaries through 252 courses, and in skills training 3,022 beneficiaries through 252 courses. It is assumed that during the first and second years, target beneficiaries would not be willing to pay fees for the courses provided. Thus the Project will bear the full cost incurred in training and capacity building during the first two years for the courses specified. By the third year it is expected that greater awareness will exist regarding the caliber of training and there would be a market developed for offering training on a fee basis. It is recommended that in the third year trainees would pay 30% of the course cost and by year five 50%. The Training providers would also develop an exit strategy and endeavor to develop a market for such types of training in order to make it sustainable.

(g) International Training:

Within the public sector knowledge of agribusiness is weak and there is a requirement to strengthen the WTO and International compliance capacity. It is proposed that two individuals go on international training specifically to support this sector of development, as follows:

- (i) a MINFAL nominated officer will undertake a nine-month post graduate agribusiness course. Once qualified the recipient will return to join Project staff, which will be a condition for selection,
- (ii) the National Training Coordinator in the HPU will attend a three month regional course on WTO policy and regulations specific to agribusiness development.

During year one, the National Training Coordinator will be involved in the recruitment of a consultant to prepare curricula, manuals and training tools and a service provider to hire master trainers to conduct ToT. The actual implementation of the training component will start year two. As this is a new and rather complex program it is considered necessary to provide some monitoring and backstopping assistance during the period of implementation to ensure the smooth delivery of project outputs and activities. Monitoring in skills development should be seen in a broad context, i.e. change of attitudes, behavior and values. The parameters to assess impact will be (i) training methodology adopted, (ii) performance of service providers according to their contract and activities, (iii) outreach attainment against

targets, (iv) social and gender issues, (v) sustainability and replication issues regarding cost benefit ratios and sustainability, the move towards withdrawal/reduction in subsidies in training new agribusiness enterprises developed, and (vi) the possible exit strategy.

In order to oversee and coordinate the capacity building component the Project will provide an international Human Resource Development and Capacity Building Specialist to assist and backstop the National Training Coordinator. The specialist will deliver a six month input for two month durations in years two, three and four and will assist the Project Coordinator by reviewing the agribusiness policy, strategic plans and undertaking an assessment of the performance of capacity building service providers.

III. Agribusiness Support Services Provision

Access to effective Business Development Service (BDS) has proven in many countries to act as a catalyst to enhanced enterprise productivity and profitability. In Pakistan, technical, managerial, marketing, financial and legal advisory services are limited and, in the context of agribusiness, almost non-existent. Those services that do exist have tended to be in the public sector and have not performed well due to a lack of policy direction, management and staff capacity, service marketing, and adequate financing within such organizations, and, more broadly, limited choice in the BDS market as the private sector has effectively been prevented from entering the market by uncompetitive service pricing by public sector entities. This is also true of research and extension services, which have been largely unresponsive to the needs of private sector agribusiness enterprises. These supply-side constraints are exacerbated by a lack of demand on the part of agribusiness enterprises, which have yet to understand the benefits of BDS and have limited choice of competitively priced services geared to meeting their business development needs.

There is clearly a need to develop BDS related to agribusiness. One approach that has worked effectively for SMEs in other developing countries is to establish a time-bound cost-sharing grant scheme that will support BDS providers in developing and upgrading the type of service they are able to offer to agribusiness clients, and will support agribusiness enterprises to access such services. The Project will facilitate increased access to BDS by agribusiness enterprises by financing eligible services including technical, managerial, financial, and marketing capacity building and related assistance. The availability, range, and quality of BDS delivered will be improved by financing services aimed at enhancing the capability of BDS providers. The Project will also support access to BDS by small farmers both as raw material suppliers to agribusiness, and as agro enterprise operators. The Project will work with NGOs working in rural communities to identify groups of small farmers willing to join together to form an agribusiness enterprise (such as processing, marketing, and product distribution). The groups will receive support both to establish agro enterprises, and to secure BDS. Finally, the Project will promote the development of demand-driven research and private sector extension services where there are clearly demonstrated benefits and opportunities for their commercial application.

The Project will establish and fund on a grant basis an Agribusiness Support Fund (ASF) that will provide matching funds to eligible agribusiness enterprises, farmers, research and

extension service providers, and BDS providers Eligible enterprises will be required to finance 50% of the cost of the services they employ, the remaining 50% being contributed by the ASF as a grant. Services that will be eligible for ASF finance will include:

- (i) technical, managerial; and financial planning capacity building and related assistance (including short to medium-term management contracts) in existing agribusiness enterprises and in enterprise start-ups with the aim of increasing enterprise profitability;
- (ii) support as appropriate in seeking equity and/or debt financing from third parties including venture capital funds and financial institution,
- (iii) development and promotion of national product markets by contracting consulting services and market information surveys, and providing assistance for focused publicity campaigns to enter new markets or to increase market share within an existing market,
- (iv) development and promotion of international product markets through the financing of specific overseas market awareness exposure and benchmarking visits and of visits from international importers and distributors,
- (v) upgrading enterprise knowledge-based technology, but excluding the financing of capital equipment,
- (vi) support to individual farmers and farmers' groups for the formation of agribusiness enterprises that will then be able to access ASF support for other eligible services,
- (vii) demand-driven research by private or public sector research institutions that will lead to increased and better quality production, improved production processes, or meeting an identified market demand,
- (viii) development of private sector extension services to be provided to small-scale farmers proposing to supply raw materials to agribusiness enterprises, and,
- (ix) support for private sector BDS providers which will provide such services to agribusiness enterprises.

To promote the entry of small farmers into the agribusiness sector, and to assist them in developing more favorable marketing systems to reduce the transaction costs of the traditional arrangements with produce traders, ASF funding will be available to finance 100% of eligible BDS services contracted by farmers, including the costs of establishing farmers' group agribusiness or marketing enterprises. Assistance to prepare farmer enterprise grant applications, their evaluation, and the disbursement of grant funds to farmer enterprises will be outsourced to eligible NGOs (and possibly microfinance institutions) that are involved in the creation of farmer groups for both community mobilization and credit delivery. Participating NGOs will utilize the ASF to identify small groups of farmers, including women only groups, willing and able to form a farmers' enterprise, and assist them with enterprise incorporation and establishment procedures. Farmers trained in farmer field schools would be encouraged to associate and apply to the ASF for support. Following establishment as an enterprise, the farmers' enterprise would be able to access ASF funds for

eligible services through NGOs involved in their establishment, or a third party BDS provider. Rural support programs and other service providers would associate with the ASF in farmers' enterprise creation and BDS provision, which has clear synergy with rural support programs' microfinance programs.

A key feature of the ASF will be the promotion of private sector research and extension services in agribusiness, an area in which public sector services have traditionally been weak. By providing matching funds to private sector enterprises, including farmers' groups, enterprises will subcontract research to existing research institutions. The enterprises concerned will determine research topics and retain ownership of results. Research institutions subcontracted will be accountable to the enterprises financing the research for the quality of the research output.

Support to BDS providers to enhance their capacity to provide services to agribusiness will be dependent upon the provider being able to demonstrate a history of providing such services (not necessarily in agribusiness) in the form of satisfactorily completed client contracts, and an acceptable plan for expanding service provision that should include potential clients and the services to be provided to them.

The focus of ASF financing will be on the horticulture subsector. A number of illustrative projects that could potentially benefit from ASF funding have been prepared and preliminary technical and financial analyses performed to determine the impact of ASF funding on enterprise profitability. In addition, applications will be considered for projects in the livestock and dairy sectors where they involve small farmers and/or farmers groups as beneficiaries.

The following are examples, with the associated number and range and weighted average value of grants to be provided, of the areas in which eligible services may be funded. No part of the ASF will be earmarked for particular geographic areas, or types of activity or service to be financed:

- (i) agribusiness enterprise support: 215 grants ranging from Rs. 0.12 million to Rs.6.0 million (weighted average of Rs. 0.536 million), totaling Rs. 115.2 million,
- (ii) agribusiness enterprise start-up: 228 grants ranging from Rs. 0.06 million to Rs. 0.45 million (weighted average Rs. 0.176 million), totaling Rs. 40.2 million,
- (iii) farmers' group enterprise formation: 410 grants of Rs. 0.180 million totaling Rs. 73.8 million,
- (iv) demand-driven research: 15 grants ranging from Rs. 0.504 million to Rs. 1.369 million (weighted average of Rs. 1.104 million), totaling Rs. 16.8 million,

- (v) private sector extension services: seven grants ranging from Rs. 2.348 million to Rs. 13.096 million (weighted average of Rs. 7.744 million), totaling Rs.76.8 million, and,
- (vi) support to BDS providers: 55 grants of ranging from Rs. 0.3 million to Rs. 1.2 million (weighted average Rs. 1.113 million), totaling Rs. 61.2 million.

It is estimated that a total of 930 individual grants will be made at a total cost to the ASF of US\$ 6.0 million.

The output of this component will be the creation of commercially viable agribusiness enterprises of varying sizes producing a more diversified variety of products that would meet the increasingly discerning consumer demand in both domestic and international markets for product uniformity, presentation, and continuity of supply. Pakistan's reputation for the supply of standards compliant agricultural produce would be significantly enhanced. In addition, the Project will develop the demand for, and supply of, private sector BDS and research and extension services specifically geared to serving the agribusiness sector. Finally, through the provision of support to farmers, the Project will develop numerous farmers' group enterprises, including those operated by women, enabling small farmers to compete effectively in the supply of agribusiness produce, and to capture a greater proportion of value added, and net incomes in the agricultural supply chain.

IV. Agribusiness Finance Development

SME access to formal sector financial services has been limited as a result of both a restrictive policy and regulatory framework in the financial sector and traditional risk-aversion to SME lending on the part of financial institutions. The situation in respect of agribusiness finance is exacerbated by the additional aversion amongst financial institutions to lending for agriculture and related activities. In order to address the regulatory constraint, SBP introduced new prudential regulations specific to SMEs with effect from January 1 2004. These regulations amongst other things free financial institutions from previous loan ceilings and, in order to encourage cash flow based lending, allow them to offer "clean facilities" to SME clients that are secured only against personal guarantees, rather than against legally documented immovable assets, subject to a facility ceiling of Rs.3 million. Although some financial institutions appear to remain reluctant at present to take advantage of these changes by continuing to require collateral to secure lending, the new regulations represent a significant step toward removing the barriers to expanding SME lending. Success in the pilot SME lending programs initiated by other financial institutions will act as a catalyst for improving access to SME finance generally. Under the SMESDP, it is proposed to support SBP in reviewing the impact of the new SME regulations and in enhancing its supervision of financial institutions with SME portfolios.

A further constraint to expanding agribusiness lending is the lack of effective credit information on potential borrowers. Four credit information bureaus currently operate in Pakistan, one in the public sector in SBP and three in the private sector. Their coverage and

accountability are however limited and they are not regarded as an effective tool by financial institutions, which rely largely on their internal assessment of client creditworthiness. In an effort to rationalize and enhance the delivery of credit information to financial institutions, SBP has commissioned a study to review international and domestic experience, and to establish a strategy for the development of credit information to determine the scope, accountability and relative roles of public and private sector institutions.

Financial sector policy and regulation and improving access to credit information relating to SMEs, are already being addressed by SBP with ADB support through the SMESDP. As the majority of agribusinesses to be supported under the proposed ADP will be SMEs, further interventions in these areas through the Project are not considered necessary. While these steps will establish a more favorable environment for agribusiness lending, there remains the issue that financial institutions have very little exposure to the agribusiness sector apart from lending to very large agribusiness concerns. In respect of SMEs generally, the SMESDP is addressing financial institutions' aversion to SME lending through the provision of consulting services to enhance SME lending capacity and a partial credit guarantee (PCG) facility to address credit risk, thereby acting as a catalyst to the development of new financial products for SMEs and leveraging financial institutions' existing funds to expand lending to SMEs. The Project will adopt a similar approach by providing capacity building support for participating financial institutions (PFIs) encouraging them to expand lending into the agribusiness sector. Financial institutions eligible for the PCG will also be supported to enable them to access the facility for agribusiness lending.

While there is a clear need to address capacity building in the supply of agribusiness finance, on the demand side, ASF enterprise capacity building will enhance technical, managerial, financial and marketing skills within potential borrowers. By addressing the perception amongst financial institutions' management that agribusiness practitioners are not well qualified, the ASF will complement activities in agribusiness finance development.

(a) Agribusiness Finance Capacity Building

The Project will provide support in two phases, first in awareness building and second, in specific in-house consulting services for PFIs in agribusiness finance. Given concerns over confidentiality and conflict of interest, it is proposed to conduct all contact with financial institutions in-house. The first phase will involve the selection of private sector financial institutions (commercial banks and leasing companies) from amongst those identified during the PPTA as having an interest in developing an agribusiness loan portfolio. Selected financial institutions will also be required to satisfy basic eligibility criteria that will be determined during the awareness-building phase by consultants in collaboration with State Bank of Pakistan (SBP). A senior financial/banking consultant will be contracted for a period of two months to undertake this phase. He/she will hold a series of one-to-one meetings with senior management of selected financial institutions to build their awareness of the agribusiness sector as a potential market and to discuss broad proposals relating to developing a strategy and approach to establishing or expanding agribusiness lending. It is expected that the awareness building phase will identify a shortlist of financial institutes that will go on to receive specific support for developing their agribusiness finance capacity. For

each PFI, the consultant will assist in preparing a broad outline of the scope of support required by the PFI during the second, capacity building phase. This will be dependent upon the PFI's perceived capacity building needs and, as such, may vary from one PFI to another. A further two person months has been included to allow for subsequent visits, one each in years two and three of the Project, to monitor progress in agribusiness lending by supported PFIs and to identify additional potential PFIs for capacity building support, subject to availability of project funds.

The capacity building phase will assist PFIs to develop an agribusiness finance strategy and work plan, identify market opportunities, design appropriate financial products, establish lending targets, prepare necessary operating procedures and manuals, loan supervision and recovery mechanisms, and monitoring and management information systems in the context of the PFI's existing procedures and systems. For this purpose, a PFI will have access to customized consulting support to be provided by the Project. Each consultant team will establish and operate an agribusiness lending function or separate unit for a period of 12-21 months. At the end of this period the PFI will have a commercially viable agribusiness loan portfolio, and appropriately qualified and experienced staff who can further expand the PFI's agribusiness lending. Capacity building support will also assist PFIs in meeting the eligibility criteria for participation in the PCG facility established under Small and Medium Enterprises Sector Development Program (SMESDP). Further guarantee support may be considered as and when required.

The consultant undertaking the awareness building phase will establish a shortlist of senior financial/banking consultants that will be made available to PFIs for agribusiness finance capacity building. Each PFI will be free to select a consultant from the shortlist. Alternatively, the PFI may nominate its own consultant subject to approval by the PMU and ADB. The selected consultant will be contracted initially only to review the scope of work identified in the first phase with senior management of the PFI and to propose revisions thereto. The revised scope of work (together with terms of reference and cost estimates for the consulting services proposed) will be agreed with the PFI and submitted to the PMU and ADB for approval. Once the scope of work is approved, the PFI will be free to request the services of either the same consultant or an alternative, again subject to approval by the PMU and ADB, to undertake the work proposed. The selected consultant will then be contracted for this purpose through the PMU. On the basis that over the life of the Project up to five financial institutions will participate in the capacity building phase and up to four months will be required for each PFI (allowing for initial capacity development and subsequent performance monitoring visits), a total of 20 person months has been estimated for the capacity building phase. In all respects, the agribusiness finance capacity building under the Project is intended to complement rather than duplicate the capacity building component of the SMESDP. Where a PFI identified for support under the Project has not been supported under SMESDP, the consulting input requirement under the Project may be greater.

A high degree of flexibility is incorporated in the provision of capacity building consulting services in order to provide PFIs with confidence both in the scope of work they require and in the selection of consultants. This flexibility will help to ensure confidentiality and to minimize the risk of conflict of interest that may arise from a consultant working in more than one PFI. Given that there is very limited experience in Pakistan in lending to

agribusiness enterprises, especially in the SME sector, it is envisaged that all consultants engaged in both the awareness building and capacity building phases will be recruited internationally. All consultants will be contracted by the PMU subject to approval by ADB, in accordance with an ADB's Guidelines for the Use of Consultants.

Under the SMESDP, it is proposed to provide capacity building services to PFIs on a cost-share basis. Given that financial institutions are particularly risk adverse in respect of agribusiness financing, it is proposed to provide a greater incentive for participation by financing the foreign exchange cost of capacity building support under the Project, including consultant fees and international travel costs. The PFI will be required to cover all local costs of consultant subsistence (at approved ADB rates), office accommodation, office supplies, transport, etc. To further encourage their commitment to agribusiness lending, PFIs that fail to meet targets for agribusiness lending specified in the work plan agreed with the capacity building consultant will not be eligible to access the PCG for future agribusiness loans.

(b) Access to the Partial Credit Guarantee Facility

Under the SMESDP, ADB has established a partial credit guarantee facility to act as a catalyst to expanding lending to the SME sector. The essence of the scheme is to provide a market based mechanism, rather than the now discredited credit line approach, to leverage existing financial sector resources for SME lending and in doing so to build capacity amongst financial institutions. The PCG will operate initially with two international PFIs and, based on experience and subject to meeting eligibility criteria and due diligence, domestic financial institutions will also be able to access the facility. It is proposed that eligible PFIs will also be able to submit agribusiness loans within the portfolio of loans to be covered by the PCG, providing the PFIs concerned have received agribusiness finance capacity building under the ADP. In this manner, the Project will capitalize on the experience gained under SMESDP in operating the PCG. Agribusiness enterprises receiving support under the Project will be SMEs and are therefore expected to meet the SME eligibility criteria as defined in the SMESDP for PCG backed lending.

In respect of agribusiness finance, it is expected that the first clients of PFIs seeking to access the PCG for agribusiness lending will be existing suppliers to the larger agribusiness enterprises that are currently able to access commercial bank lending. This will help to reduce the level of risk to PFIs by concentrating lending on enterprises that already have proven market outlets with existing PFI clients. From the point of view of the agribusiness enterprise, it will enable them to launch new products or enter new markets, while maintaining a steady cash flow from existing customers that can be used to service the debt to the PFI.

It is expected that capacity building in SME lending will be a prerequisite for domestic PFIs' eligibility to access the PCG. The agribusiness finance capacity building component of the Project will target those PFIs that have also received capacity building under SMESDP. As such, PFIs seeking to access the PCG facility for SME lending will, subject to the eligibility of potential agribusiness borrowers, equally be able to access the facility for agribusiness lending. However, it is proposed that PFIs which only take advantage of the agribusiness finance capacity building under the Project and not SME capacity building under SMESDP,

will become eligible to access the PCG subject to appropriate due diligence being undertaken and the PFI in question meeting the eligibility criteria established under the SMESDP.

V. Project Implementation Support

(a) Project Management

The PMU will be attached to the Islamabad office of DALPMG, within MINFAL, and will be responsible for project management and implementation of project activities, coordinating consultant inputs, reporting, and monitoring and evaluation. A project horticulture unit will be established in PHDEB, to support project activities in horticulture and hortibusiness. The existing staff of the PIU will be merged into PMU subsequent upon the approval and implementation of this project. At the provincial level and in the three special areas, PMOs will be established by PHDEB. They will coordinate with, and provide technical support in horticulture and hortibusiness to the provincial agriculture ministries; and will also support livestock and dairy agribusiness. The Project will also undertake studies on key agribusiness related issues, including studies to determine the comparative and competitive advantage of a select number of targeted markets and products within hortibusiness, and to identify agribusiness oriented livestock interventions in areas of comparative advantage.

The Project will recruit a national expert to establish an internal Project Monitoring and Evaluation system utilizing a performance measuring framework that has the scope for corrective action in case verifiable indicators have to be changed. This will include an initial baseline survey and any benchmarking that is required, as a reference point or standard against which progress and achievements may be compared and feedback utilizing provincial workshops. The national consultant will have intermittent inputs of between two to three months throughout the life of the Project.

Technical Assistance

A number of consulting inputs are required to provide assistance primarily for project start-up, institutional strengthening and stakeholder capacity building.

(i) Project Implementation Support

It is recommended that prior to loan effectiveness, an international consultant be recruited to assist the Executing Agency in project implementation, primarily in the recruitment of the Project Director, Deputy Project Director and the ASF Manager and to assist the Project Director and ASF Manager to set up mechanisms to recruit staff, prepare tenders, identify office space and establish a working relationship with MINFAL, the Ministry of Commerce and PHDEB. The assignment will be for two months.

(ii) Comparative and Competitive Advantage

The Project will engage a national consultant to determine comparative and competitive advantage for a select number of targeted markets and products within hortibusiness. Competitive advantage involves all factors that concern the final price of the product such as the cost of raw materials, packaging, tolls, taxes, freight charges and the cost of labor and inputs etc. Comparative advantage assesses factors including the availability of raw materials, access to credit, in-country road conditions and infrastructure (collection centers, packhouses, processing units, ports etc), climate, distance from the final market, the availability of labor and other inputs and political context. It will be the responsibility of the national consultant to submit information regarding Pakistan's competitors and markets as well as to assess and analyze local factors that could be improved to enhance the country's international competitiveness. It is estimated that the study will take four months and will be implemented in year two.

(iii) Livestock Agribusiness Study

Very little emphasis has been given to post production technology in livestock and dairy, particularly in improving marketing and efficient processing technology and the use of livestock byproducts. The quality and traceability of livestock and associated products are important components to satisfy international compliant standards.

A livestock study will be undertaken to identify agribusiness oriented livestock interventions in areas of comparative advantage. The scope of the study will include (i) a review of post production technologies and operations relating to livestock products including dairy, meat, and by-products, (ii) evaluating livestock marketing systems, (iii) identifying the livestock and dairy production areas, that have a comparative advantage, (iv) formulating a database for various animal species and breeds relating them to production and processing potential, (v) determining policy, institutional and regulatory constraints in the subsectors, and (vi) identifying agribusiness and agro-enterprise interventions that a proposed agribusiness development project could support. The livestock and dairy consultant will undertake the assignment in the fourth and fifth year of the Project over a period of ten months.

(iv) Environmental Monitoring

Agro-enterprise development and horticultural production will raise a number of environmental issues and considerations which may have a positive or negative impact on the environment. The Project will commission a national environmental consultant to ensure that any enterprises or production activities supported by the Project adhere to ADB's environmental guidelines. The consultant will also undertake and update environmental impact assessments that will complement the Project's monitoring and evaluation subcomponent. Producers, processors and entrepreneurs must be aware of the environmental control measures that the Project will support, particularly with respect to environmental pollution and degradation and public and worker health and safety. An environmental monitoring consultant will undertake a number of two month assignments throughout the life of the Project between the second and fifth year.

(vi) Unallocated Consultancy Inputs

Given that the Project is relatively new to Pakistan and some components may require a greater consultancy input that cannot be envisaged during the PPTA, it is proposed that there are six person months and 12 person months of international and national consultancies respectively are included but not allocated to specific tasks. The scheduling for the consulting inputs from all the components of both the national and international consultants is given in Figure 2. The scheduling and mobilization of the consultants are subject to change, depending on the pace of project implementation and at the discretion of project management.

The Terms of Reference for all international and national consultants are given in Annexure-

Schedule for Consultant Inputs

	Pre	Year 1	Year 2	Year 3	Year 4	Year 5	Person Months
International Consultants							
Agribusiness Policy (1)							12
Institutional Restructuring & Coordination (1)							4
Regulatory Framework & Compliance (1)							3
Seed & Fruit Nursery Certification & Standards (1)							7
International Quality Standards (1)							9
Market Information Service (1)							1
Floriculture Training Consultant (2)							6
HRD to Capacity Building (2)							6
Agribusiness Support Fund Promotion (3)							1
Agribusiness Finance Awareness Building (4)							4
Agribusiness Finance Capacity Building (4)							20
Project Implementation Advisor (5)							2
<i>Unallocated (5)</i>							6
							81
National Consultants							
Horticultural Policy(1)							15
DALPMG Training and Dissemination Coord. (1)							36
Market Information Service (1)							2
Curriculum and Training Manual Development (2)							6
Agribusiness Support Fund Promotion (3)							3
Monitoring & Evaluation (5)							13
Comparative and Competitive Advantage (5)							4
Environmental Monitoring (5)							8
Livestock & Dairy Study (5)							10
<i>Unallocated (5)</i>							12
							109

Note: The figures in parentheses refer to the component number

Inputs Required for the Project Implementation

(a) Manpower:

For successful implementation of the project, technical, professional and managerial skill is needed. The requirement of the staff is in accordance to the bare minimum need as calculated in the PPTA. All the staff will be recruited on contract basis with lump sum salary. Selection will be on the strict merit criteria. The selection of the staff will be made in consultation with the ADB. The salary package will be based on the qualification of the candidates and will be negotiable. The outstanding candidates (candidates having high and superior qualification) will be encouraged by more salary. The PIU along with the existing staff will be merged into PMU subsequent upon approval and implementation of the present project. The Project Coordinator nominated by MINFAL for this project, will be entitled to get 20 per cent of his or her salary as project allowance which is permissible under the rules.

(b) Vehicles

The project activities involve a lot of traveling. The project staff including staff and officers will have to meet stallholders in connection with project activities. The technical, professional staff and consultants will have travel from place to place frequently in connection with workshops and discharging their duties. The demand of the vehicles was higher but it was curtailed to a rational level. The make and model of the vehicles will be decided by the Steering Committee. The selection criteria will be best suited and most economical one.

(C) Computers and other office equipments

Computers, other computers accessories, fax machines, multimedia projectors and furniture and fixtures will be purchased for the project. The specifications of the computers will be decided by the Steering Committee and selection criteria will be same as that of the vehicles.

Unit cost of the vehicles, computers and other office equipments is given in the Annexure- to The detail of these items is given as under.

(i) PHDEB

Vehicle	one
Double Cabin pick-up	two
Motor Cycle	one
Computers	five
Multimedia Projector	one
Video Recorder	one
Digital Camera	one
Photocopier	one
Fax machine	one
Binding machine	one
Air conditioners	two
Heater	six
Water cooler	one

(ii) Market Information System

Vehicle	one
Computers	fourteen
Multimedia Projector	one
Digital Camera	one
Photocopier	one
Fax machine	twelve
Communication Equipment	one
Other Equipment	fifteen

(iii) Federal Seed Certification Department Strengthening

Vehicle	ten
Motor Cycle	nine
Computers	nine
Lab. Equipments	nine sets
Other equipments	nine sets
Photocopier	nine
Fax machine	nine

(iv) Department of Agricultural and Livestock Products Marketing and Grading

Residue Testing Equipments	seven sets
Computers	eight
Handheld Computers	eight
Digital Cameras	eight
Multimedia Projector	one
Overhead Projector	one
Other Equipments	one

(v) Agribusiness Support Services Provision

Vehicles	two
Motor cycle	one

(vi) Livestock & Dairy development Board

Vehicle	one
Motor Cycle	one
Computers	two
Multimedia Projector	one
Photocopier	one
Fax machine	one
Binding machine	one
Other Equipment	one
Air conditioners	two
Heater	four
Water cooler	one

(vii) Program Management Unit

Vehicle	two
Motor Cycle	one
Computers	eight
Multimedia Projector	one
Video Recorder	one
Digital Camera	one
Photocopier	one
Fax machine	one
Binding machine	one
Other Equipment	one
Air conditioners	four
Heater	ten
Water cooler	one

(viii) Provincial Project Management Offices

Vehicle	twenty one
Motor Cycle	Seven
Computers	fourteen
Multimedia Projectors	seven
Video Recorders	seven
Digital Cameras	seven
Photocopiers	seven
Fax machines	seven
Binding machines	seven
Air conditioners	fourteen
Heaters	forty two
Water coolers	seven
Other Equipments	seven

b) For all projects indicate effect on farm income and comment for income distribution effects. Give basis for pricing out-puts and indicate farm gate and international prices.

NA

c) Give relationship of project with schemes in the same sector or in other sectors. Indicate if coordination with other sectors has been achieved.

The development schemes pertaining to research, extension, marketing, horticulture and livestock have directly or indirectly impact on the agribusiness. There are a number of schemes, relating to aforementioned sub-sector which are in operation and some of these have completed. None of them was designed for agribusiness development in the country. But they can give some input to the agribusiness development project. The project will enhance the utilities of these projects and help in aligning their line of actions in right direction to serve the actual need of agriculture sector and the economy. Present scheme is a comprehensive one and cover all aspects of agribusiness. It is a complete package for the development of horticulture, hortibusiness, floriculture, vegetable production and livestock and dairy development in the country.

d) Give administrative arrangements for the implementation and operation of the project.

The executing agency will be MINFAL which will support and monitor the implementation of the Project. MINFAL will be supported by the Ministry of Commerce. Both ministries will be represented in the Project Steering Committee. The association of the Ministry of Commerce with the Project is justified by the fact that it has a strong mandate in horticultural development and export promotion. Any project in agribusiness with a horticultural and agro-enterprise development focus cannot work without Ministry of Commerce collaboration.

There shall be a 22 member Project Steering Committee chaired by Secretary MINFAL with representation from various related federal and provinces agencies and private sector stakeholders. The Steering Committee by consensus decide to increase the membership by up to 3 members for well established reasons. The composition of the Project Steering Committee and its terms of reference shall be as below. The Project Steering shall convene as frequently as necessary but at least once every six months.

Project Steering Committee Composition

Member	Status	No.
Secretary MINFAL	Chairman	1
Joint Secretary Ministry of Finance	Member	1
Joint Secretary Ministry of Commerce	Member	1
Joint Secretary Ministry of Industries	Member	1
Chief Executives PHDEB/LDDB ¹	Member	2
Chief Executive SMEDA	Member	1
Director Agriculture Credit SBP	member	1
Provincial/Special Areas Representatives ²	Member	7
Federation of Chamber of Commerce	Member	1
Provincial Agribusiness Representatives one from each of the provinces and one representing all the special areas ³	Member	5
Director PMU	Member cum Secretary	1
Total		22

The primary functions of the Project Steering Committee shall be:

- (i) to provide overall guidance/supervision on implementation of the different project components,
- (ii) to assist in the establishment of linkages between various government agencies at the federal level and between the government agencies and the private stakeholders,
- (iii) to steer and facilitate on matters relating to policy, strategy, implementation and regulatory frame work relating to project activities,

¹ CE LDDB shall attend on the LDDB being established.

² To be nominated by the concerned provincial/special area authority.

³ Nominated by Chambers of Commerce & Industry and Chamber of Agriculture.

- (iv) to review and approve annual and other work/operational plans and operational budget for the project and any subsequent adjustments thereto,
- (v) to receive and review periodic progress and implementation reports from the various project implementing and executing agencies including the PCCs, PFIs/SBP, ASF, PHDEB and LDDB and to lay down priorities, guidelines and directions for their operation with regard to project activities, and

There shall be a Provincial Coordination Committee each for the horticulture agribusiness and the livestock & dairy development component established for each of the provinces. There shall be one Provincial (Special Area) Coordination Committee for both horticulture and livestock components in each of the special areas. The PCC shall be convened as frequently as necessary but shall meet at least once every three months. The composition of the Provincial Coordination Committee and its terms of reference shall be as below:

Provincial Coordination Committees

Member	Status	No.
Provincial Secretary Agriculture/Livestock as the case may be*	Chairman	1
Additional Secretary Department of Industry*	Member	1
Additional Secretary Department of Finance*	Member	1
Representative of Provincial P&D Board/Deptt.*	Member	1
Representative of Provincial Chamber of Commerce & Industries**	Member	1
Representative of Provincial Chamber of Agriculture. **	Member	1
Private Sector Business Representatives***	Members	2
Representative of Farmers Association ***	Member	2
Representative of PMU****	Member	1
Any other person nominated by the Chair with prior approval of Project Steering Committee	Member	1
Representatives of concerned PMO	Member cum Secretary	1
	Total	13

* In case of FATA the PCC shall be chaired by the Secretary to the Governor and in case of FANA by the Secretary Development FANA. The Finance Departments shall be represented by an officer not less than a provincial additional secretary in rank. On the position of representative of Industry Department there shall be an officer of appropriate

senior level representing both agriculture and industry department who shall also be the coordinating officers for that special area for implementation.

- ** To be nominated from a panel submitted by the concerned Chamber and approved by the Project Steering Committee.
- *** To be nominated from a panel submitted by the chair of the PCC and approved by the Project Steering Committee.
- **** Shall be invited to attend all meetings relating to approval of work plan and budget and the six monthly review meetings.

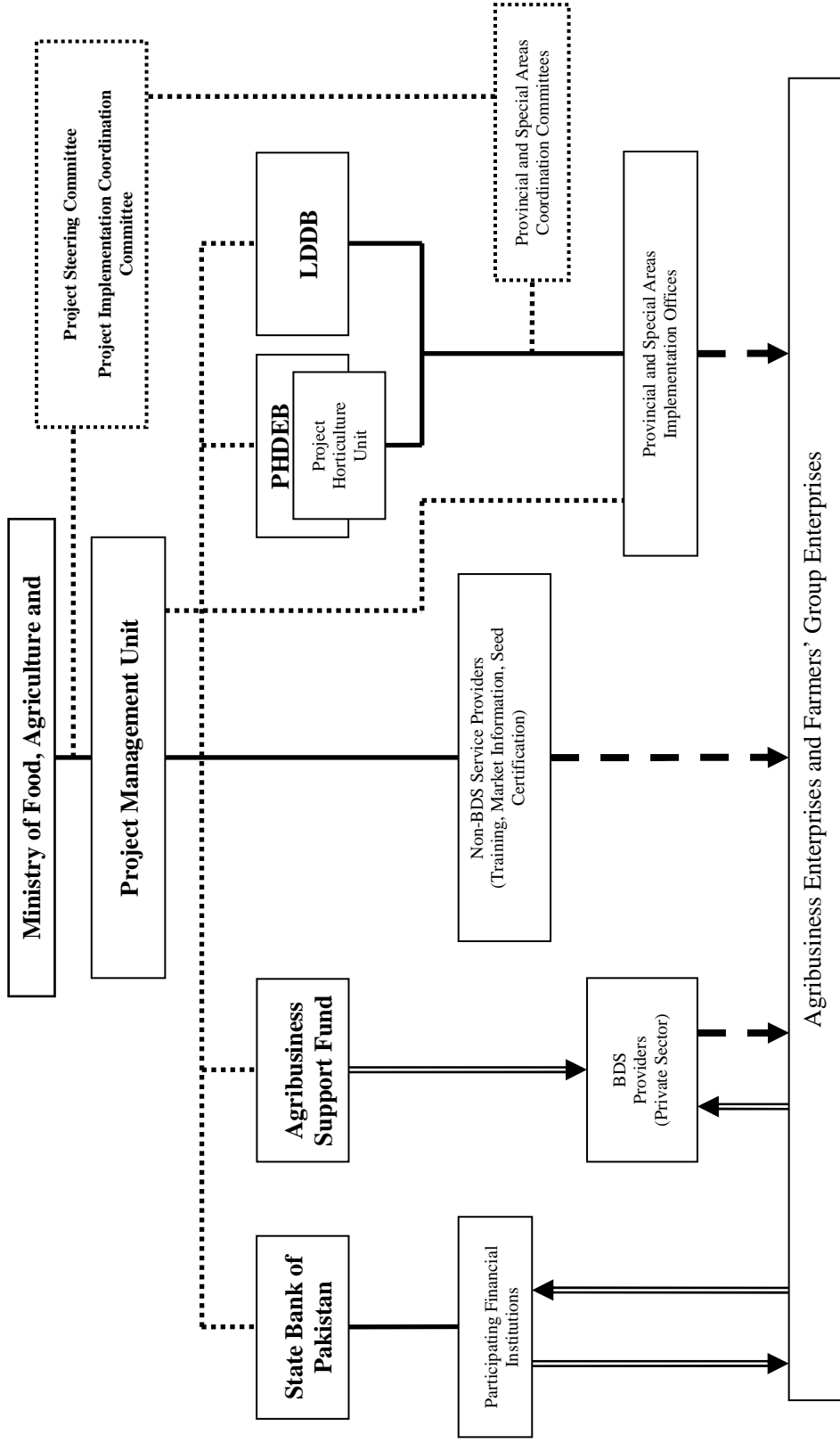
The functions of the Provincial/Special Areas Coordination Committee shall be as below:

- (i) to oversee and coordinate project implementation at the province/special area level within the parameters of the project and the guidance/supervision of the project steering committee,
- (ii) to assist in the establishment of linkages between various government agencies at the provincial level and between the government agencies and the private stakeholders within the province/special area,
- (iii) to receive from the PIOs annual and other work plans and budget proposals, review, prioritize and endorse these to the Project Steering Committee through the PMU for approval,
- (iv) to receive from provincial agencies proposals under the provincial support and capacity development fund, review and prioritize and endorse these to the PSC for approval, and
- (v) to receive and review periodic project implementation and performance reports and submit these for review of the PSC through the PMU.

Prior to loan effectiveness, a small-scale technical assistance will be used to support MINFAL and the PMU to prepare for project implementation.

Implementation Arrangements

The overall indicative project organizational structure is presented in Project Implementation Chart.



1. Project Management Unit

PMU will be attached to the Islamabad office of the DALPMG, within MINFAL. On reviewing all the existing and relevant departments and sections within MINFAL the justification for associating the PMU with DALPMG is that the department has the mandate for (i) market information services, (ii) quality control and grading standards, which includes international standards compliance, and (iii) agricultural commodity research. DALPMG provides advice to the federal Government in the marketing of agricultural commodities and maintains liaison with international marketing agencies and bodies. DALPMG will complement a number of project activities.

The PMU will be headed by a highly qualified and experienced project director well versed with agribusiness subject. He/She will be assisted by a project coordinator; two deputy project directors for monitoring and evaluation, and finance and administration; a policy, institutional, and regulatory specialist, and necessary support staff, including programmer and an accounts officer.

The PMU will be responsible for day-to-day implementation requirements, overall project management, formulating agribusiness policy, the upgrading and strengthening of FSCRD and DALPMG, working with the public/private sector partnership boards of horticulture and livestock and dairy, coordinating external technical assistance inputs, reporting, monitoring and evaluation during project implementation as well as working closely with service providers through the line agencies to achieve the targets in capacity building and institutional strengthening. The PMU unit will be staffed by:

- (i) a Project Director,
- (ii) a MINFAL nominated Project Coordinator,
- (iii) a Deputy Project Director (Finance and Administration),
- (iv) a Deputy Project Director (Monitoring and Evaluation),
- (v) a Policy, Institutional and Regulatory Specialist,
- (vi) a Computer Programmer,
- (vii) a Project Accounts officer,
- (viii) administrative and ancillary support staff.

As part of the subcomponent for the strengthening DALPMG's market information system and its eventual phasing out for certain horticultural products, two full time professional staff will be provided to work with DALPMG; a Market Systems and Market Information Analyst and an MIS Database Manager.

The terms of reference for all professional staff to be recruited and contracted by the Project are detailed in **Annex-36** . The Project Coordinator will be the representative of MINFAL within the

Project and will work directly under the Project Director. The Project Director and Project Coordinator will be joint signatories on Project accounts.

The PMU will support the Project Steering Committee in the overall coordination of the project and in interaction with the various implementation agencies under the project. The PHDEB, LDDDB, ASF and PFIs shall have full autonomy of operation subject to the arrangements laid down in the PC-I and the project loan agreement.

II. Project Implementation and Coordination Committee

A project implementation coordination committee will be chaired by the Agricultural and Livestock Marketing Advisor (ALMA) and include representatives of FSCRD, PHDEB, the PMOs, the ASF general manager, provinces and special areas, PFIs, and private sector representatives. The committee will meet at least every 6 months. Its responsibility will be to address and resolve implementation issues, and to advise the PMU on technical matters, and the project steering committee on policy matters. Composite provincial or special area coordination committees for horticulture and livestock will be established to coordinate project activities. The Project Implementation Coordination committee and provincial and special area coordination committees would be established within one month of loan effectiveness.

Agribusiness Support Fund (ASF)

(a) Management and Operation

Consistent with the approach adopted for the SMESDP BSF, the ASF will be established under the auspices of MINFAL within six months of loan effectiveness. It will be a not for profit company with limited liability, following the same procedures used to establish the BSF. An independent board of directors comprising eight members, five from the private sector and three from project-related government agencies, will oversee its operations. The ASF will be run by a full-time general manager of international standard to be appointed by the board based on a transparent, openly publicized, and competitive recruitment process, on a no objection basis from ADB. An appraisal panel will be established within the ASF to appraise all applications for ASF funding. The appraisal panel will be chaired by the general manager and will consist of three additional members who will also be appointed through transparent, openly publicized recruitment procedures. Three financial analysts will be recruited to review applications prior to submission to evaluation by the appraisal panel. Additional financial analysts will be recruited to reflect the volume and type of applications received. The Project will provide the ASF with its initial funds on a grant basis, and will finance consultants to review applications for which an expert opinion beyond the scope of the financial analysts may be required. The ASF will take sole responsibility for processing applications for grant support.

The PMU, PMOs, and other project-related institutions (such as the Punjab Agriculture Marketing Company) will promote the ASF and link potential ASF clients to the ASF. NGOs may be contracted through the ASF to identify existing NGO farmer group clients willing and able to form a legally registered farmers' group enterprise, and support them through enterprise incorporation and establishment procedures. Following their establishment as an enterprise, the farmers will be able to submit applications to access ASF funds for eligible services that may be provided either by the NGO involved in their establishment, or a third party BDS provider. In all cases, responsibility for completing grant applications will be that of the grant applicant. Project-related institutions will not participate in the application process other than to forward applications to ASF on behalf of applicants when necessary. All contractual arrangements relating to approved grants will be made between the ASF and grant recipients, and will not involve any intermediary or agent.

SBP will select and recruit consultants for the agribusiness finance awareness campaign who will work with potential PFIs to advise them on the preparation of proposals for establishing or expanding an agribusiness lending function. Subject to the review of PFIs' proposals and PFI eligibility criteria that will be formulated by SBP with support of the awareness building consultants, SBP will select a number of PFIs that will receive customized capacity building support. The selection of the PFIs will also reflect the need to avoid the risk of duplication, and undermining capacity building efforts in PFIs selected under the SMESDP. SBP will then, in consultation with individual PFIs, select and recruit consultants for PFI capacity building. SBP will be responsible for monitoring consultants' performance throughout the capacity building period.

The ASF will be available only to eligible enterprises operating in the agribusiness sector and will not be used to finance enterprises that would otherwise be able to access the SMEBSF. As a unit of the SMEBSF, the ASF will be subject to the same governance, management and operating procedures as the SMEBSF. In this respect, the structure and operation of the ASF will benefit from experience gained in operating the SMEBSF between the time of establishment of the SMEBSF and the implementation of the Project and may, as a result, change prior to its establishment. Irrespective of changes in the structure and operating procedures of the SMEBSF, the ASF target group, eligible services and enterprises, and scale of funding will remain as defined in the ADP. The State Bank of Pakistan (SBP) definition of an SME as having up to 250 employees and a maximum turnover of Rs.300 million will be used as the principal criterion for ASF eligibility.

It is envisaged that any service that leads to output(s) for which there is a specific market and which develops new products or adds value to existing products will be eligible. As such, proposals aimed at increasing production alone will not be eligible. All applicants will be required to identify (i) quantitative or qualitative verifiable output(s) that will result from the receipt of ASF support, and (ii) the means of verification. Both will be agreed with ASF prior to disbursement of a grant. ASF grants will in general be subject to a ceiling of Rs. 1.5 million equivalents (representing a total cost for the service to be funded of Rs. 3.0 million). In exceptional circumstances, the ASF will accept applications from enterprises in excess of this

amount provided they are supported by appropriate documentation and clearly demonstrate the outputs expected from the support. Applications for the provision of private sector extension services will in general exceed the ceiling and may reach Rs. 15.0 million. All applications for grants in excess of the Rs. 1.5 million ceiling will require the approval of the Board of Directors of the SMEBSF. An individual enterprise will be eligible to receive more than one grant but the maximum amount payable to a single agribusiness enterprise will be Rs. 6.0 million.

ASF management will establish a database of qualified BDS providers that will be available to grant applicants who have not identified a suitable provider for the service for which they are requesting ASF funding. In establishing the database, ASF management will take account of experience gained in establishing a similar database in SMEBSF. The choice of BDS provider will be at the discretion of the applicant, with the proviso that there should be no commercial or similar relationship between the provider and the applicant that may lead to conflict of interest or collusion in respect of obtaining ASF funding in excess of that which is actually required for the service in question.

MINFAL will oversee the establishment of ASF until its board of directors has been appointed. Thereafter, ASF will operate as an autonomous private sector company independent of government, which will be responsible only for channeling project funds to the ASF through MINFAL. SBP will be the implementing agency for the agribusiness finance development component, and will be responsible for (i) establishing PFI eligibility criteria, (ii) approving PFIs that will benefit from agribusiness finance capacity building, and (iii) coordinating the selection and recruitment of the agribusiness finance awareness and agribusiness finance capacity building consultants

The ASF will be run by a full-time Manager to be appointed by the Board of Directors of the SMEBSF based on transparent, openly publicized recruitment procedures, his/her appointment being subject to the approval of a Steering Committee to be set up for the Project. Eligibility criteria for the post of Manager will include a minimum of 10 years' proven successful experience in agribusiness enterprise and/or financial institution management. The Manager will be supported by two Financial Analysts who will each be responsible for a portfolio of applications and grants. The Financial Analyst will primarily be responsible for the initial screening and review of funding applications and monitoring the implementation of projects supported by the Fund. He/she will have finance or accounting degree or similar qualification and a minimum five years professional experience in a financial or similar institution. An Appraisal Panel will be established within the ASF to appraise all applications for ASF funding. The Appraisal Panel will be chaired by the ASF Manager and will consist of three additional members who will also be appointed through transparent, openly publicized recruitment procedures. Eligibility criteria for Appraisal Panel members will include agribusiness experience gained through private sector agribusiness enterprises and/or financial institutions, NGOs, donor agencies, or the legal profession. Panel members will be engaged on a retainer basis. As necessary, the Appraisal Panel may request the ASF to contract individuals from relevant private or public sector institutions as consultants to evaluate funding applications in respect of private sector research and extension activities or for activities for which specialized knowledge may be

required. The ASF Manager, Financial Analysts and Appraisal Panel members and appropriate secretarial and support staff and facilities for the ASF will be financed entirely from the proceeds of the Project loan.

Funding proposals will be submitted in a standard application form to the ASF by existing and nascent agribusiness enterprises, farmers' groups, private sector research and extension organizations, and BDS providers through provincial coordinators in Project provincial offices. Applications will be handled strictly on a first-come-first-served basis to avoid undue influence being exerted on the application decision-making process by larger, influential enterprises. In the case of individual or groups of farmers wishing to access ASF funds alongside credit provided by a financial institution or NGO, applications may be submitted on their behalf by the financial institution or NGO concerned. The ASF Financial Analyst under supervision of the ASF Manager will undertake an initial review of each application and prepare necessary documentation relating to eligible applications for submission to the Appraisal Panel. The Appraisal Panel will meet on a monthly basis as a minimum, or more frequently as determined by the ASF Manager according to the number of applications received. The Appraisal Panel will reach a decision on each application presented to its meeting. In certain circumstances the Panel may request additional information from the ASF Manager and in turn the applicant in order to properly evaluate an application. Such applications may be re-submitted at any time once the requested information has been added to the application, which will then be re-presented at the next meeting of the Panel. The decision of the Panel on all applications will be communicated in writing to applicants within a period of seven days. There will be no right of appeal for applicants whose applications are rejected. Applicants whose applications are approved but who do not proceed with employing the service to be supported will not be eligible for future applications except where they are able to furnish adequate justification acceptable to the ASF Manager and the Appraisal Panel for not proceeding with a provisional grant.

All grants payable for approved applications will be paid on a reimbursable basis. As part of the application appraisal process, the Financial Analyst will verify that the applicant has sufficient funds freely available to finance the entire cost of the service for which the application is being made, except in the case of small farmers and grants to complement credit received from participating financial institutions for which documentation confirming loan disbursement from the financial institution to the grant applicant will suffice. Once eligible expenditures have been made and appropriate documentation confirming those expenditures or loan disbursement confirmation from a financial institution have been presented to the ASF, the ASF Manager will arrange for disbursement of ASF funds. Where the service in question is to be provided over an extended period in clearly identified separate phases, reimbursement will be made only for expenditures actually incurred. Prior to the release of subsequent tranches of the grant, the Financial Analyst will again verify that the recipient has sufficient freely available funds to meet his proportion of the cost of the next phase of the service being supported. All requests for disbursement will be submitted to the SMEBSF management for approval. For the purpose of financing approved grant applications, an ASF grant account will be established in a commercial bank acceptable to ADB. The initial deposit into this account will be based on the proposed program of grant financing to be made during the first six months of ASF operations. Subsequent

deposits into the account will be made on a semi-annual basis to replenish amounts disbursed in the preceding six months and to cover targeted grant amounts for the coming six months.

The ASF will establish a database of all funding applications received (whether approved or rejected), maintaining separate records for each application and grant made. In this respect, the ASF database will comprise a subset of the database that will be maintained by the SMEBSF and use its information technology (IT) system for the purpose. The ASF will prepare quarterly activity and status reports and financial statements for submission to the PMU and ADB. It will also be subject to an annual audit by independent auditors acceptable to the PMU and ADB. Audited financial statements will be submitted to the PMU and ADB.

At the end of the second year of operation, ASF staff will undertake a review of a sample of supported projects to determine the impact of the grant on the recipient enterprise, including an assessment of whether funded enterprises have achieved the outputs specified in their applications. The review will be based on quantitative indicators provided from, for example, enterprise accounts and financial statements, and qualitative indicators in the form of, for example, product quality certifications received and from interviews with grant recipients.

(b)Promotion

Effective promotion of the ASF will be critical to its success. Under the supervision of the ASF Manager and with the support of consultants, the ASF will develop a promotion campaign to disseminate the ASF concept, objectives, application procedures and eligibility criteria amongst agribusiness enterprises, small farmers and BDS provided and within financial institutions and relevant Government agencies. One person month of international and three person months of domestic consultant inputs will be engaged to prepare a promotion campaign once the ASF is formally established. The international consultant will work with the ASF Manager to design the promotion campaign and identify target audiences. He/she will also design an ASF web site and road shows and workshops. Domestic consultants will be employed to develop and implement the web site and support the ASF Manager in the preparation of inaugural road shows and workshops. The ASF Manager will be responsible for replicating road shows and workshops at provincial level and, as necessary to replicate them on an annual basis. ASF administrative staff will be provided with basic training in managing and updating the ASF web site.

Horticulture Implementing Agencies

In recognition of the requirement to provide a private/public sector delivery platform for project implementation in the horticulture sector and the request from MINFAL that the Project should work with existing institutions and in the private sector, the body that has the best profile to satisfy the requirements of the Project was identified as the PHDEB. The PHDEB was established in August 2002 to enhance horticultural production and export potential. The Board

consists of 17 members, of whom 14 incumbents are from the private sector and three from the public sector. PHDEB is financed by the Export Development Fund (EDF) of the Ministry of Commerce, through a 0.25% levy on exports, with an annual budget of Rs.25 million (\$435,000). PHDEB acts primarily as a facilitator, networking between agro-enterprises, support institutions and policy makers. Networking creates linkages with a significant number of organizations and bodies in the horticultural sector and allied industries. PHDEB has an approved staff complement of 25 personnel, with a head office in Lahore, a regional office in Karachi and Regional Business Centers in the key horticultural production areas of Mirpurkhas, Multan, Peshawar, Quetta and Sargodha. PHDEB's organizational structure is attached with the Board's specific mandate.

It the relatively short period since formation of PHDEB, a comprehensive network of linkages and working relationships has been established. A particularly close affiliation has been fostered with SMEDA which is perhaps demonstrated by the complementary nature of their mandates, specifically (i) represent the interests of SMEs at various levels of policy formulation, (ii) acting as a key resource and information base for SMEs in Pakistan, (iii) providing and facilitating support services to new and existing SMEs, (iv) institutional development for SMEs, and (v) collaborating with private and public sector to achieve SME development.

Horticultural Project Unit (HPU)

The Horticulture and Hortibusiness will be operated through PHU. An HPU will be established within PHDEB with a staff of two professional personnel (Horticulture Agribusiness Manager and Training Coordinator), accounts administrative and supporting staff. The role of HPU will be to support PHDEB in its existing operations and undertake additional activities under Agribusiness Project.

HPU management will be attached to PHDEB and will undertake overall responsibility for project horticultural activities both directly and through provincial offices, back-stopping support, where necessary from the PMU. The HPU will undertake a pro-active promotional campaign to stimulate awareness of project activities, the outcome of specific interventions and potential areas demonstrating potential in the horticultural agribusiness sector. The HPU will work closely with PHDEB, to undertake a number of activities either directly or through the Project and board's provincial representation including:

- (i) contributing to and supporting provincial horticultural policy task forces,
- (ii) in association with provincial offices, identifying recipients for ASF cost sharing grants and forwarding their applications to the ASF,
- (iii) identifying enterprises, farmer group enterprise and processors to determine extension and research needs and assisting sponsors to forward grant applications for private sector led research and extension to ASF,
- (iv) identifying farmer groups, exporters, packers and processors that wish to become internationally compliant and assisting them to obtain project support, either through training or utilizing ASF cost sharing grants,

- (v) working closely with the consultants whose assignments are relevant to horticulture and hortibusiness in order to enhance their activities.

The operations of the HPU will be overseen, in terms of quality control management, by the PHDEB Chief Executive or his designated appointee. In this capacity he/she will represent PHDEB on the Project Steering Committee.

Provincial Project Representation

At the provincial level provision is made for eight managerial and professional staff and 12 support staff, to be based in the Project's premises. The office will work closely with the provincial ministries of Agriculture and where possible provide technical support to the provincial ministries in horticulture and hortibusiness. The line management for the provincial offices will work through the HPU located in Lahore. The primary function of these provincial offices will be to promote the Project's concepts and create awareness of the ASF, identify potential areas of intervention, interface with existing and prospective agribusiness enterprises and respond to their specific needs. In addition, provincial office will act as the link with HPU in Lahore to implement activities concerned with horticultural production and agro-enterprise development. The staff complement in each provincial office will include provincial coordinators, agribusiness specialists and finance and administration manager, a training coordinator and support staff.

Livestock and Dairy Implementing Agency

The Project will establish and support the LDDB through the provision of funds and a livestock and dairy specialist to be located in the Board's offices. The Government will make provision of a livestock and dairy coordinator and ancillary staff to work with the Project's livestock and dairy specialist. Although horticulture and hortibusiness if the main focus of the Project, livestock and dairy are also included. LDDB activities under the project include:

- (i) collaborating in the national livestock and dairy study, by supporting the consultant fielded by the Project,
- (ii) identifying applicants for ASF grants and forwarding their applications to ASF,
- (iii) identifying enterprises, farmer group enterprise and processors to determine extension and research needs and assisting the sponsors to forward grant applications for private sector led research and extension to ASF,
- (iv) identifying farmer groups, exporters and processors that wish to become international compliant and assisting them to obtain project support, either through the training or utilizing ASF grants,
- (v) identifying, developing and preparing livestock and dairy agribusiness activities and work that could become components of a future agribusiness project.

Service Providers

Given that the project cannot realistically provide adequate human resources to cover all capacity building required to successfully achieve project outputs emphasis is placed on out-sourcing specific tasks to service providers. Such tasks include preparation of feasibility studies, business plan elaboration, agro-enterprise and farmer group agro-enterprise start-ups, entrepreneurial skills enhancement, processing for value addition, horticultural production and post harvest practices and international and national standards compliance. Service providers will include extension and research departments, GCCs, VTIs, RSPs, NGO's and private sector companies and individuals.

Pre-loan Effectiveness

The Project will be implemented over a period of five years from the time of loan effectiveness which is expected to be mid to late 2005. It is recommended that prior to loan effectiveness the recruitment of the Project Director and the ASF Manager be undertaken with the assistance of an international consultant familiar with ADB recruitment procedures. Both the Project Director and ASF Manager will need to set up the mechanisms to recruit staff, prepare tenders, identify office space and establish a working relationship with MINFAL, the Ministry of Commerce, PHDEB, and the SMEBSF

Disbursement Arrangements

The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook*. For the timely release of funds, imprest accounts will be established at the National Bank of Pakistan for the use of MINFAL, ASF, PHDEB, and SBP for implementation of the agribusiness finance development component of the Project. The imprest accounts will be established, managed, replenished, and liquidated in accordance with ADB's *Loan Disbursement Handbook* and detailed arrangements agreed to by the Borrower and ADB. The initial cumulative amount to be deposited in the imprest accounts will not exceed 6 months of estimated expenditure or 10% of the total loan amount, whichever is less. The ADB's statement of expenditure procedures may be used to reimburse eligible expenditures and to liquidate advances made to the imprest account in accordance with ADB's loan disbursement guidelines. Any individual payment to be reimbursed or liquidated under statement of expenditure procedures will not exceed the equivalent of \$100,000.

Accounting and Auditing

MINFAL, ASF, PHDEB, and SBP will prepare and maintain separate accounts for project-related disbursements. ASF, PHDEB, and SBP, as implementing agencies, will prepare and submit to MINFAL their accounts. MINFAL will consolidate the accounts and, after audit, submit them to ADB. MINFAL will establish an audit review process and commission financial and performance audits of the PMU by an audit agency in accordance with auditing standards acceptable to ADB. ASF, PHDEB, and SBP will establish similar audit procedures using auditing firms associated with internationally recognized firms, or an audit agency acceptable to

ADB, in accordance with auditing standards acceptable to ADB. Certified copies of the audited accounts and financial statements will be submitted to ADB in English within six months of the end of each fiscal year, and should include an audit with a separate opinion on the use of the imprest account and statement of account procedure.

Consulting Services

Consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants by ADB and its Borrowers* and other arrangements satisfactory to ADB for engaging domestic consultants. A total of 137 person-months of international and 118 person-months of domestic consulting inputs will be financed under the Project. Consulting services will be engaged in two packages. Under the first package there will be three contracts. One contract will be issued for agribusiness support fund promotion (4 person-months; 1 international and 3 national), and project management and studies (70 person-months; 8 international and 62 national). Consultants will be selected by MINFAL. A second contract will be issued for agribusiness capacity building (74 person months; 29 international and 45 national), and agribusiness policy and regulatory framework development (17 person-months; 9 international and 8 national). Consultants will be selected by the PMU. A third contract will be used for agribusiness finance awareness building and monitoring (6 international person-months). Consultants will be selected by SBP. Each contract will engage an international firm in association with domestic firms. Quality- and cost-based selection procedures will be used to recruit the consultants, using full technical proposals. The second consultant package will be to establish and operate an agribusiness lending function within selected PFIs. There will be four separate performance-based contracts (up to 21 person-months of international consultancy for each PFI). The quality-based selection method will be used because the services to be performed are highly specialized, and only available from a limited number of companies. A high degree of flexibility will be written into each consulting contract to allow implementing agencies to recruit consultants according to needs determined as project implementation proceeds. The ASF general manager will be recruited directly by MINFAL. The summary terms of reference for the consultants are in **Annex-36**.

Project Performance Management System (PPMS)

Project performance management will be the responsibility of MINFAL and be established within three months of project start-up. MINFAL will set-up central PPMS within the PMU as part of the overall management information system, and establish linkages with PHDEB and provincial project representation. The PMU will assist national and international project staff and consultants in the implementation of the system.

To ensure the system works efficiently particularly with respect to feedback from the provinces, 13 person months of local consultant input will be provided annually. Consultants will run workshops in the provinces primarily to review the project framework, implementation schedule, ASF operations and consulting schedule, which will be used as an information source for both progress reports and the PPR.

PPMS activities will include both implementation and impact monitoring of Project components and subcomponents. Particular attention will be paid in the PPMS to the effective and appropriate disbursement of funds for project activities, the effectiveness of consulting inputs and the performance of third party service providers.

The PMU will prepare a brief quarterly and a concise annual report on overall project implementation which will be submitted to ADB through MINFAL. Reports will be in a format that enables information to be easily incorporated into the PPR. PHDEB and LDDDB will also prepare quarterly and annual reports of project implementation in their areas based on information obtained from the provinces. These will be submitted to the PMU and incorporated in PMU reports. The Project will contract an independent national firm with monitoring and evaluation experience to undertake a technical audit on an annual basis.

12. Arrangements for monitoring and evaluation of the project during implementation period.

To ensure smooth functioning of the project, it is important to monitor the project activities during the implementation. This will help in putting the project activities on right track and this will pave path for realization of the objectives of the project. This will save national resources and will serve as a future guideline for project management. The project will be monitored on quarterly basis. The PMU will have a monitoring and evaluation capability to firstly determine a baseline at loan effectiveness. The baseline survey will present the current situation of the sub sector that will serve as a starting point from which project performance will be measured. Impact assessments of the components will be carried out utilizing the performance indicators and targets in the project framework. Project activities will also be monitored and evaluated through stakeholder feedback and participative appraisals. The monitoring and evaluation information collated will serve as base data which can be used as an information source for both progress reports and the Project Performance Report (PPR) and to provide information for a Project Performance Management System (PPMS) that MINFAL will establish.

Semi-annual impact monitoring will be undertaken through workshops and stakeholder consultation in the province. The results and feedback from these will be utilized to recommend, if required, necessary changes in the project framework and implementation schedule, and will be used to highlight further opportunities within the project scope and any new constraints and issues that may arise.

Project activities are of critical nature and need to be on right track all the time. Due to this fact it is necessary to monitor activities on regular basis. For this purpose a national Monitoring and Evaluation consultant will be engaged to work with the Project's Deputy Director (monitoring and evaluation) and undertake the following tasks:

(i) review the current data collection process and systems that will be used to generate relevant data, for comparison with baseline/program data, on the issues and actions that are being addressed under the Project,

(ii) help to put in place a reliable system to monitor the implementation of Project activities including the formulation of process indicators and delivery of service providers. When the data on the indicators become available, in later assignments, the consultant will carry out periodic reviews and prepare regular evaluation and progress reports, based on the verifiable indicators in the project framework,

(iii) determine methods to evaluate the effectiveness of capacity building activities, as part of the PPMS the consultant will run workshops in the provinces primarily to review the project framework and obtain feedback in the field regarding project

(iv) output targets and make recommendations accordingly, if adjustments and revisions are required,

(v) review the work program of the Deputy Director and make recommendations, if necessary, regarding the scope and efficiency of collecting and collating data and information, review all consultant outputs and ensure that information for carrying an effective monitoring system for the implementation of the Project is effectively collected or collated for the consultant outputs.

In the first 3 years of the Project, ADB will carry out semiannual reviews to determine whether the implementation and monitoring arrangements are appropriate and effective. These reviews will monitor relevant indicators, to be identified at the beginning of project implementation, to assess whether the process-oriented approach is working. During the third year of the Project, a detailed study will review project progress before the ADB comprehensive midterm review to assess performance; identify any problems and constraints affecting project implementation, including changes in the policy and institutional environment; and reach agreement on required changes to address any shortcomings. Any required changes in scope, activities, and associated financial reallocation will be incorporated following the midterm review. These periodic reviews will draw upon information provided by the project performance monitoring system.

13. Give date when capital expenditure estimates were prepared. If prepared more than one year ago, confirm they are still valid.

February, 2005.

14. Break up to the Capital cost of the Project (Rs. Million)

15. Basis of estimates: Give details.

Cost estimates are based on current market prices.

16. Financial Plan

(i) Give complete source of financing.

Total cost of the project is Rs. 4066 million. The agency-wise breakup of the cost is as under:

(Rs. Million)

Agency	FEC	Local	Total
ADB	474.0	1386.0	1860.0
GOP	100.0	1424.0	1414.0
Agribusiness Enterprises	0.0	750.0	750.0
Private Sector Institutions	0.0	36.0	36.0
Beneficiaries	0.0	6.0	6.0
Total	574.0	3492.0	4066.0

The share of GOP will be met through Federal PSDP of MINFAL.

(ii) Provide details of recurring expenditure on the basis of fixed and variable costs also specify the items such as establishment charges.

After completion of the project the annual recurring cost of the federal component will be met through regular non-development budget of the Ministry of Food, Agriculture and Livestock. The recurring expenditures of various federal government agencies/special areas will be Rs.142.31 million (only 3.5% of the total project cost). The provinces and other participating agencies will meet their respective recurring cost from their own resources.

(iii) Give detailed profit and loss statement.

N.A.

17. Beneficiary participation.

The farmers and traders, businessmen, NGOs, as well as the researchers dealing with agriculture will be the prospect beneficiaries of this project. They will be provided awareness, necessary information and technical know-how on WTO related issues, policies and government strategies to deal with the challenges imposed on them by WTO. In this regards, their rights and duties would be informed to them. Their views will be sought on various issues of WTO and thus strategies and policies would be streamlined to

tackle the challenges of WTO and gain maximum possible benefits. This approach will make the project successful.

18. Risk Analysis. Give detailed list of assumptions and the basis of changes therein. Also indicate likely events which may delay the project and means of addressing these delays.

The risks are divided into two:

- i- Risk from project to the external environment
- ii- Risks to project from external environment

The environment problems which may arise from the implementation of the project and their remedial measures are given separately in Item No. 24 of the PC-I.

It is assumed that Pakistan will not suffer any adverse geopolitical and macroeconomic changes affecting its external and internal stability.

An agribusiness project is a new concept for Pakistan and the implementation capacity of the MINFAL and DALPMG will be stretched. This has to be considered as a risk to project implementation.

Federal and provincial governments may reduce their commitment to agribusiness development and may not seek approval for and implement the agribusiness and provincial horticultural policies that will be formulated under the Project.

PHDEB was created through a resolution and not through an Ordinance, which as a consequence does not provide the same degree of permanency. The medium-term objective is, however, to ensure the future status of PHDEB and LDDB by securing an appropriate Ordinance. A similar mechanism was followed by SMEDA, after its creation in 1997, but it was not until 2002 that the permanent status of SMEDA was confirmed through an Ordinance.

The trained professional and technical personnel to run the project successfully are available in the market. The consultancy required and not available in the country will be arranged from the international market. The experience gained from the expertise of the national and international consultants will enhance the professional capability of the Ministry of Food, Agriculture and Livestock. Hence there will be no problem with regard to the trained man-power needed for the project. The funds are available for the project. The Ministry of Food, agriculture and Livestock is anxious to run the project as quickly as possible. All the stakeholders involved will be benefited from the project. There will be active involvement of all the beneficiaries. It is hoped that the project will get the required cooperation of all concerned. The procedural set up in the Ministry of Food,

Agriculture and Livestock is very supportive for the project. More over the promotion of Agribusiness in the country is the burning issue of the time.

Once the professional experience and expertise are gained through national and international consultants, it will go a long way to enhance the professional capabilities and reduce the dependence on foreign expertise.

19. Unit cost of each category of service, e.g., cost per demonstration plot, cost per 1000 population covered.

N.A.

20. Comparative unit cost of similar projects under implementation and completed.

N.A.

21. Give statement showing phasing of repayment of loans. Indicate debt servicing capacity of:

- | | | |
|------|-----------------------------|------|
| (i) | Project | N.A. |
| (ii) | Loan receiving organization | N.A. |

22. Annual phasing of the physical work and financial requirements for the project. (Attach Bar Diagram)

Year	Physical Work (%age)	Financial requirement (Rs. Million)		
		Local	FEC	Total
1 st	24.6	812.000	188.000	1000.000
2 nd	21.2	703.000	158.000	861.000
3 rd	18.7	661.000	98.000	759.000
4 th	17.9	655.000	74.000	729.000
5 th	17.6	661.000	56.000	717.000
Total	100	3492.000	574.00	4066.000

Year-wise detail of the physical activities is given in **Annex-19** to **Annex-35**. Item-wise/Activity-wise and Agency-wise yearly financial requirement is given in **Annex-1** to **Annex-18**.

PSDP Liability (Million Rs.)								Private Sector Contribution
	Local			FEC			Total PSDP Liability	
Years	ADB	GOP	Total	ADB	GOP	Total		
1 st	291.9	435.6	727.5	168.0	20.0	188.0	915.5	84.5
2 nd	260.5	279.3	539.8	138.0	20.0	158.0	697.8	163.2
3 rd	256.9	237.8	494.7	78.0	20.0	98.0	592.7	166.3
4 th	246.0	238.1	484.1	54.0	20.0	74.0	558.1	170.9
5 th	330.7	123.2	453.9	36.0	20.0	56.0	509.9	207.1
Total	1386.0	1314.0	2700.0	474.0	100.0	574.0	3274.0	792.0

23. Result of the project. Indicate any result of project not mentioned earlier. Give details of revenue likely to accrue to Government.

List of potential beneficiaries is given in **Annex- 37**.

24. Give impact on environment.

The use of inappropriate chemical fertilizers can cause nutrient imbalances in the soil. The application of fertilizers based on soil analysis will ensure good yields on a sustainable basis. The promotion of an Integrated Plant Nutrient Management System (IPNMS) will further improve the soil's condition. Nitrate and nitrite contamination of ground water from chemical fertilizers and the leaching of fertilizers through the soil is limited due to high evaporation rates at the soil surface.

The indiscriminate use of pesticides and the uncontrolled disposal of pesticide containers and packaging will cause a slight environmental impact but of little significance. Training of farmers in pest scouting and Integrated Pest Management (IPM) and the correct disposal of containers will effectively reduce the use of chemical pesticides and consequently any possible environmental hazard.

Because of the inequitable distribution of surface irrigation water, farmers at the tail of irrigation systems face water shortages. Improved water management is required and application efficiencies will overcome water shortages significantly. In pursuit of increasing the area under cultivation, new areas are being developed on hilly or sloping land, which will hasten soil erosion. The proper design and construction of terraces and adoption of other soil and water conservation practices will alleviate any potential

problems of soil erosion. However, most high value crops are given priority and cultivated in the fertile sections of farms which are invariably in river basins.

For cut flower production the use of chemical fertilizer may cause nutrient mining of the soil and with the resultant production of flowers of low quality. The application of fertilizers based on soil analysis and promoting IPNMS, with the training of farmers for effective fertilizer use will enhance flower production on a sustainable basis. Similarly the use of sub-standard pesticides has an environmental impact and increases production costs. There is a tendency for flower growers to use highly poisonous pesticides such as organophosphates and organochlorides because flowers are not for human consumption. The Project will train farmers in the correct use of pesticides, pest scouting and IPM practices.

The Pattoki area is faced with a shortage of irrigation water. At times poor quality groundwater is used to supplement surface water, the soils then degrade with salt formation and heavy metal contamination. Improved water management for increasing application efficiencies will reduce the water shortage problem. Better scheduling is also required. The cut flower agro-enterprise is planning to bore more tube wells to overcome the problem along with the use of skimming well technology where the inlet for the pump is situated at the top of the well where the fresher water is found, in conjunction with the reduction of irrigation usage through drip or trickle irrigation application methods. The raw material for the processing plant has in the past come from farmers and wholesale markets. For enterprises supported by the Project all produce will come from known sources and not from wholesale markets, so that processors know exactly what pesticides have been applied to the crop in order to establish consumer safety standards. A prerequisite to any processing plant is traceability of raw material to ensure that all efforts have been made to purchase fresh produce that have not been sprayed with banned and poisonous products. This will ensure that the resultant waste from the process will not be contaminated with poisonous and long residue chemicals.

Solid waste is produced at fruit processing plants and its improper disposal will have an environmental impact. The solid waste, if discarded without treatment, will produce micro-organisms that cause disease, primarily the spread of malaria and cholera through the mosquitoes and flies that feed on the waste products. Similarly, liquid waste containing a combination of chemicals and biological materials increase Chemical Oxygen Demand (COD) and Biological Oxygen Demand (BOD) levels in water courses and water tables in the vicinity of the plant. Solid waste can be utilized for composting which can subsequently be used as a source of organic manure. An alternative is to use the solid waste as animal feed.

The packhouse must ensure that raw material purchased is safe and it can be traced back to farms that keep good pesticide application records. In packhouses the major effluent is

the water which is required for washing the fruit prior to grading and packing. If post harvest fungicides and waxes are not used then the waste water will not have an environmental impact and the water after de-silting can be used for irrigation purposes. However, if fungicides, waxes and ripening agents are used then the packhouse must include settling and fermentation tanks in the design. The disposal of organically-active solid waste can be returned to the field after the material has been composted.

Farmyard Manure (FYM) and that wash from animal sheds (especially in peri-urban areas) will pollute the local environment and choke the drainage systems. Dairy farms located in peri-urban areas should be moved outside city limits to cattle colonies in environmentally sound areas. Peri-urban farms will not be supported by the Project. FYM is an organically active waste and should be composted and used as an organic fertilizer. The installation of a biogas plant will also reduce the pollution problem and generate environmentally friendly energy.

Effluent and wash from milk chilling units rarely contain toxic waste, but are bio-chemically active, exerting large BOD and COD on water courses where the effluent is disposed. The effluent of milk processing plants contains some sodium hydroxide and nitric acid which contributes to levels of COD as well as chlorine and sulfate ions in the waste water. However after reviewing industrial waste analysis reports from a number of milk processors the amount of chemicals in the waste water are below that of the National Environmental Quality Standards. Organically active waste (FYM) can be disposed of by returning it to fields, where organic decomposition will occur naturally.

Groundwater is the major source of water supply in the area. The water is mainly extracted from tube wells that are deeper than 300 meters. The adoption of water efficient irrigation methods, the use of water conservation measures, and construction of check dams and delayed action dams will assist in the recharging of the aquifers. In addition the adoption of low water requirement crops/plants such as grapes, pistachios, guava and citrus, etc. along with improved agronomic practices will increase the water use efficiencies.

In Quetta groundwater is the major source of water supply. For fodder production water efficient irrigation methods coupled with improved agronomic practices need to be adopted. Collection of green fodder from adjoining areas will reduce the pressure on water which is at premium in the area.

The environmental concerns associated with agro-enterprise are the discharge of FYM waste from the fattening yard and the slaughterhouse wash which contains mainly blood and FYM. These will mainly comprise organically active semi-solids and liquids. The proper treatment of slaughterhouse wash and the composting of FYM and return of these materials to the fields, where organic degradation will occur, will reduce the risk of

environmental pollution. The byproducts of slaughterhouses, blood, bones, skins and offal are collected by contractors. Blood is processed into poultry feed, bones are crushed and made into bone meal or gelatin, with hides going to tanneries. Nothing is wasted.

An Environmental Management Plan (EMP) will be implemented. Once the Project starts, to ensure efficient implementation of EMP, appropriate capacity building of stakeholders will be undertaken. Organizing farmers into associations for effective management of natural resources on a sustainable basis will be a focal point. Project management in association with farmers' organizations will be responsible for detailed environmental monitoring. The EMP will focus on the maintenance of soil structure and health (nutrient mining and imbalances, pesticide residues, etc) and groundwater levels and water quality. Databases will be developed for the evaluation of possible long-term environmental impacts due to Project activities and ways to address them before they become a hazard. An environmental monitoring consultant will be engaged to design and implement the EMP.

25. Economic life of component of project (building, equipment etc.)

N.A.

PART-C

PROJECT REQUIREMENT

27.	<p>(a) Manpower <u>For Execution man months)</u> <u>For operation (Numbers)</u></p> <p><u>I. Regular project staff</u></p> <p>(i) Professional and Technical</p> <p>(ii) Administrative Executive & Managerial</p> <p>(iii) Clerical</p> <p>(iv) Service</p> <p>(v) Skilled</p> <p>(vi) Un-skilled</p> <p>(vii) Others</p> <p><u>II. Consultants</u></p> <p>i) Local</p> <p>ii) Foreign</p> <p>(b) Give list of employment to be generated by gender</p> <p>(c) Give manpower requirements during the first year of the implementation of the project.</p>	<p>Agency-wise requirement of officers and supporting staff is given in Annex-1 to Annex-18.</p> <p>Persons</p> <p>-</p> <p>Persons</p> <p>Persons</p> <p>-</p> <p>-</p> <p>-</p> <p>118 Man-months</p> <p>137 Man-months</p> <p>The duties, responsibilities and TORs of the Professional staff and Consultants are given at Annex-36.</p> <p>23 persons</p> <p>23 persons</p>
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	<p>(d) Likely shortage of manpower by occupation.</p> <p>(e) Steps to be taken to assure availability of manpower</p> <p>(f) Approximate number of persons required to be trained per year (Locally and abroad) and the kind of skills to be earned</p>	<p>There will be no shortage of the manpower.</p> <p>NA</p> <p>NA</p>
28.	Civil Works	Some necessary civil work will be carried out in FATA and FANA where necessary infrastructure is not available. The detail of this will be determined by the concerned consultants and approved by the Steering Committee.
29.	Physical and other facilities required for project	Office building will be hired for the project staff and Consultants. However, some necessary civil work will be carried out in FATA and FANA where necessary infrastructure is not available. The detail of this will be determined by the concerned consultants and approved by the Steering Committee.
30.	Materials, supplies and Equipment requirements	Detail of material supply and equipment required is given at Annex-1 to Annex-18
31.	<p>In case of imported material and equipment for execution, indicate:</p> <p>i. Justification for import</p> <p>ii. Proposed source of supply</p>	<p>NA</p> <p>NA</p>