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IMPLEMENTATION COMPLETION AND RESULTS REPORT
(TF-14957)

ON A

GRANT

IN THE AMOUNT OF US$ 9.0 MILLION

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR A

COMPETITIVE INDUSTRIES PROJECT FOR KHYBER PAKHTUNKHWA

September 30, 2016

Trade & Competitiveness Global Practice
Pakistan Country Department (SACPK)
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective 12/31/2015)

Currency Unit =

PKR 1.00 = US$ 0.01

US$ 1.00 = PKR 104.73

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

CFTC	Common Facility and Training Center
CIPK	Competitive Industries Project for Khyber Pakhtunkhwa
CMU	Country Management Unit
CPS	World Bank Country Partnership Strategy
DMM	Department of Mines and Minerals, Government of Khyber Pakhtunkhwa
DO	Development Objective
EFI	Equitable Growth, Finance and Institutions
ERKF	Economic Revitalization of Khyber Pakhtunkhwa and the Federally Administered Tribal Areas Project
ERR	Economic Rate of Return
ESMP	Environmental and Social Management Plan

FATA	Federally Administered Tribal Areas
FM	Financial Management
GoKP	Government of Khyber Pakhtunkhwa
ICB	International Competitive Bidding
ICR	Implementation Completion and Results Report
IP	Implementation Progress
IRR	Internal Rate of Return
ISR	Implementation Status and Results Report
KP	Khyber Pakhtunkhwa
M&E	Monitoring and Evaluation
MDTF	Multilateral Donor Trust Fund
MSME	Micro, Small and Medium Enterprise
MTR	Mid-Term Review
P&D	Planning and Development Department, Government of Khyber Pakhtunkhwa
NPV	Net Present Value
PASDEC	Pakistan Stone Development Company
PDO	Project Development Objective
PMU	Project Management Unit
PSC	Project Steering Committee
PU	Project Unit
SME	Small and Medium Enterprise
SMEDA	Small and Medium Enterprise Development Authority
ToR	Terms of Reference
TTL	Task Team Leader
USD	United States Dollars

WBG	World Bank Group

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ISLAMIC REPUBLIC OF PAKSITAN

Competitive Industries Project for Khyber Pakhtunkhwa

CONTENTS

Datasheet

A. Basic Information			
Country:	Pakistan	Project Name:	Competitive Industries Project for Khyber Pakhtunkhwa
Project ID:	P143661	L/C/TF Number(s):	TF-14957
ICR Date:	5/6/2016	ICR Type:	Core ICR
Lending Instrument:	ERL	Grantee:	ECONOMICS AFFAIRS DIVISION, GOVERNMENT O
Original Total Commitment:	USD 9.00M	Disbursed Amount:	USD 5.69M
Revised Amount:	USD 9.00M		
Environmental Category: B			
Implementing Agencies: Department of Industries, Commerce and Technical Education, Government of KP			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	11/08/2012	Effectiveness:	07/31/2013	09/17/2013
Appraisal:	01/24/2013	Restructuring(s):		06/29/2015 10/21/2015
Approval:	06/06/2013	Mid-term Review:	01/21/2015	01/23/2015
		Closing:	06/30/2015	12/12/2015

C. Ratings Summary

C.1 Performance Rating by ICR

Outcomes:	Moderately Unsatisfactory
Risk to Development Outcome:	Substantial
Bank Performance:	Moderately Unsatisfactory
Grantee Performance:	Moderately Unsatisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Unsatisfactory	Government:	Moderately Unsatisfactory
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	Moderately Unsatisfactory
Overall Bank Performance:	Moderately Unsatisfactory	Overall Borrower Performance:	Moderately Unsatisfactory

C.3 Quality at Entry and Implementation Performance Indicators

Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Unsatisfactory		

D. Sector and Theme Codes

	Original	Actual
Sector Code (as % of total Bank financing)		
Agro-industry, marketing, and trade	40	40
General finance sector	10	10
Other Mining and Extractive Industries	40	40
Public administration- Industry and trade	10	10

Theme Code (as % of total Bank financing)		
Conflict prevention and post-conflict reconstruction	10	10
Infrastructure services for private sector development	65	65
Micro, Small and Medium Enterprise support	25	25

E. Bank Staff

Positions	At ICR	At Approval
Vice President:	Annette Dixon	Philippe H. Le Houerou
Country Director:	Patchamuthu Illangovan	Rachid Benmessaoud
Practice Manager/Manager:	Esperanza Lasagabaster	Henry K Bagazonzya
Project Team Leader:	Kiran Afzal	Gabi George Afram
ICR Team Leader:	Farah Dib	
ICR Primary Author:	Farah Dib	
	Connor P. Spreng	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

Improve the competitiveness of the marble and food processing sectors in KP by providing shared infrastructure and relevant skills along the marble sector value chain and by addressing knowledge and coordination gaps along the food processing sector value chain.

Revised Project Development Objectives (as approved by original approving authority)

Not applicable.

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Number of mines that enhance production by 40 percent through use of new technologies supported by the project			
Value (quantitative or Qualitative)	0	25	N/A	8
Date achieved	09/17/2013	06/30/2015		07/22/2016
Comments (incl. % achievement)	Thirty two percent achievement. The excavation machines procured under the machinery pool were deployed in June 2016, and eight mines have reported an increase in production exceeding 40 percent.			
Indicator 2 :	Direct and indirect jobs created for relevant skills developed by the project for the marble sector in KP			
Value (quantitative or Qualitative)	0	750	N/A	202

Date achieved	09/17/2013	06/30/2015		07/22/2016
Comments (incl. % achievement)	Twenty seven percent achieved. Six mines that have rented excavation machines have reported that they have recruited 202 additional workers in total since the deployment of the machines.			
Indicator 3 :	Improved sector knowledge through identification of priority public sector shared infrastructure interventions for KP's food processing sector (number of interventions)			
Value (quantitative or Qualitative)	0	2	N/A	4
Date achieved	09/17/2013	06/30/2015		11/12/2015
Comments (incl. % achievement)	Target exceeded. The two feasibility studies completed under CIPK identified four interventions.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Number of marble mines that will reduce waste from 85% to 65% by adopting better mining technology provided by infrastructure established by project (no.)			
Value (quantitative or Qualitative)	0	39	N/A	8
Date achieved	09/17/2013	06/30/2015		07/22/2016
Comments	Twenty percent achieved. The eight mines that have already increased production using the excavation machines have also reported a reduction in			

(incl. % achievement)	waste which is now at no more than 20 percent. It is to be noted that none of these mines reported a waste level exceeding 60 percent before the deployment of the machines.			
Indicator 2 :	Number of workers trained by the CFTC over the life of the project			
Value (quantitative or Qualitative)	0	100	N/A	0
Date achieved	09/17/2013	06/30/2015		11/12/2015
Comments (incl. % achievement)	Not achieved.			
Indicator 3 :	Number of processing facilities in KP that make use of the CFTC for the improved processing of marble blocks (cutting, polishing, sorting and grading, netting and filling, and quality packing)			
Value (quantitative or Qualitative)	0	40	N/A	0
Date achieved	09/17/2013	06/30/2015		11/12/2015
Comments (incl. % achievement)	Not achieved.			
Indicator 4 :	Number of firms (SMEs) participating in awareness campaigns and public-private dialogue			
Value (quantitative or Qualitative)	0	30	N/A	0
Date achieved	09/17/2013	06/30/2015		11/12/2015
Comments	Not achieved.			

(incl. % achievement)				
Indicator 5 :	Number of feasibility studies completed and disseminated			
Value (quantitative or Qualitative)	0	5	N/A	2
Date achieved	09/17/2013	06/30/2015		11/12/2015
Comments (incl. % achievement)	Forty percent achievement.			
Indicator 6 :	Cluster Action Plan agreed upon by all stakeholders			
Value (quantitative or Qualitative)	0	1	N/A	0
Date achieved	09/17/2013	06/30/2015		11/12/2015
Comments (incl. % achievement)	Not achieved.			
Indicator 7 :	Number of staff trained; disaggregated by institution, level of administration, and gender			
Value (quantitative or Qualitative)	0	10	N/A	101
Date achieved	09/17/2013	06/30/2015		11/12/2015
Comments (incl. % achievement)	Target exceeded.			

Indicator 8 :	Increase in institutional effectiveness through strengthened capacity			
Value (quantitative or Qualitative)	N/A	20%	N/A	19%
Date achieved	09/17/2013	06/30/2015		11/12/2015
Comments (incl. % achievement)	Achieved. Percentage calculated through a perception survey of the target organizations.			

G. Ratings of Project Performance in ISRs

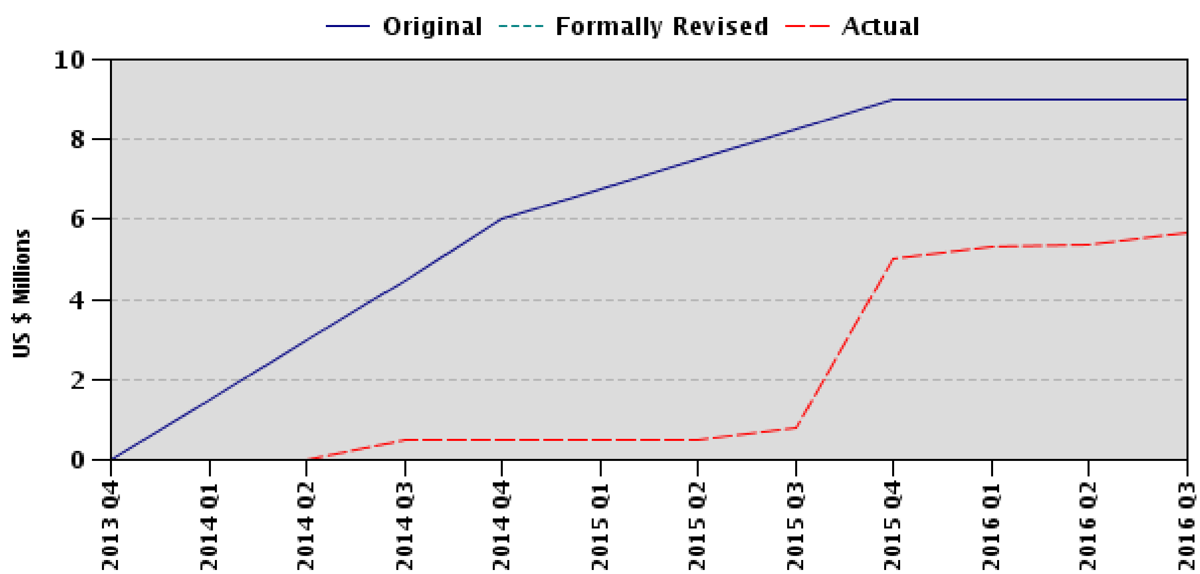
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	11/22/2013	Satisfactory	Satisfactory	0.00
2	03/03/2014	Moderately Satisfactory	Moderately Satisfactory	0.50
3	10/13/2014	Moderately Satisfactory	Moderately Satisfactory	0.50
4	04/28/2015	Unsatisfactory	Moderately Unsatisfactory	5.03
5	11/18/2015	Unsatisfactory	Moderately Unsatisfactory	5.32

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
06/29/2015		U	MU	5.03	Closing date extended by four months.
10/21/2015		U	MU	5.32	Closing date extended by a month and a half.

I. Disbursement Profile



1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

1. **In 2013, the province of Khyber Pakhtunkhwa (KP) in Pakistan was still recovering from the 2011 floods and emerging from a crisis which had stalled growth as well as economic and social development**. The Government of KP (GoKP) had embarked on a post-crisis recovery and reconstruction effort anchored in a needs assessment supported by a number of development partners, including the World Bank (Bank). In support of this effort, GoKP and donors asked the Bank to administer a multi-donor trust fund (MDTF for KP/the Federally Administered Tribal Areas (FATA)/Balochistan) for the recovery and rehabilitation of the crisis-affected areas as a pilot to learn from and later build on.

2. **One of the strategic objectives of MDTF is to "enhance employment and livelihood opportunities", measured by "immediate job creation", a "sustainable employment base in KP and FATA" and an "improved investment climate generating growth and employment"[1]**. Similarly, the World Bank Group (WBG) 2010-2013 Country Partnership Strategy (CPS) for Pakistan recognized the need to stimulate growth in the production sector, create adequate employment opportunities, and harness the country's economic competitiveness to boost Pakistan's economic growth. The CPS also recognized the absence of employment opportunities and adequate livelihoods in FATA and KP as a contributor to the persistent conflict[2].

3. **The Government of Pakistan requested the support of MDTF to strengthen critical value chains adversely affected by the conflict and negatively impacting the competitiveness of and the livelihoods of those directly or indirectly employed by these sectors**. GoKP identified marble and food processing given their strong comparative advantage (owing to KP's natural resource endowments) and potential for growth and job creation[3]. The two sectors were operating at a basic level, using outdated technology, thus having a significant untapped potential for value creation. In addition, another MDTF-funded project that was already under implementation (Economic Revitalization of KP and FATA, ERKF[4]) had identified the marble and food processing sectors for further investment and knowledge transfer[5].

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[1] From Competitive Industries Project for Khyber Pakhtunkhwa (CIPK) Project Paper, August 2013.
2 From WBG CPS FY10-13.

[3] The food processing sector is the biggest employer in KP. While the marble sector only employed 0.5% of the workforce at the time, the project's economic analysis estimated the creation of close to 25,000 jobs over 10 years. Marble was a US$2.6 billion global industry in 2011, growing from US$1.9 billion in 2008 (averaging 9 percent growth per year over that period) and Pakistan could tap into important global and regional markets such as the Gulf region.

[4] P124268.

[5] From CIPK Project Paper, August 2013 and Appraisal Mission Aide Memoire, February 2013. ERKF had approved 72 matching grants for the marble sector at the time of CIPK appraisal.

4. **In this context, the Bank approved in June 2013 a US$9 million MDTF emergency response grant to GoKP** to support the marble and food processing sectors through the Competitive Industries Project for Khyber Pakhtunkhwa (CIPK), to be implemented over the period of two years.

Theory of Change:

5. **In the marble sector**, the project's components addressed all four stages of the value chain: (i) obtaining a mining license, (ii) quarrying/mining, (iii) processing, and (iv) transporting and marketing distribution. CIPK intended to focus on infrastructure for steps (ii) and (iii) mainly, given the pressing need for modern machinery and technology to reduce serious wastage and enhance the sector's productivity. The theory of change was that by creating shared infrastructure, CIPK would allow beneficiary MSMEs to access modern technology for extracting and processing marble, which would increase their production as well as the value of the marble for domestic sale and export. This in turn would create both direct and indirect jobs in the marble industry.

6. **In the case of the food processing sector**, the value chain consists of (i) harvesting the fruits and vegetables, (ii) processing, (iii) storing, and (iv) transporting to the main markets. This value chain also suffers from market failures (particularly the lack of coordination among stakeholders, leading to underutilization of storage and processing facilities) as well as considerable knowledge and market information gaps which CIPK set out to address through studies and coordination efforts[6]. The theory of changes was here that Project activities would directly address the knowledge gaps and coordination failures characteristic of the sector. While the planned analysis and feasibility studies would not directly improve competitiveness, they would help inform public sector interventions such as shared infrastructure which would make the sector more competitive.

1.2 Original Project Development Objectives (PDO) and Key Indicators

7. **The Project Development Objective** (PDO) was to improve the competitiveness of the marble and food processing sectors in KP by providing shared infrastructure and relevant skills along the marble sector value chain and by addressing knowledge and coordination gaps along the food processing sector value chain.

8. **The PDO level indicators were as follows**:
   1. Twenty five marble mines enhance production by 40 percent through the use of new technologies supported by the project.
   2. Seven hundred and fifty direct and indirect jobs created for relevant skills developed by the project in KP's marble sector.

[6] From CIPK Project Paper, August 2013.

3. Improved sector knowledge through identification of two priority public sector shared infrastructure interventions for KP's food processing sector.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

9. **Neither the PDO nor the key indicators were revised.**

1.4 Main Beneficiaries

10. **The main beneficiaries identified in the Project Paper are micro, small, and medium-sized enterprises (MSMEs) along the selected value chains.** The project would also benefit marble sector workers, private investors, and the various Departments of GoKP involved in project implementation.

11. **In the marble sector, intended beneficiaries are the marble entrepreneurs accessing new technologies and skills through shared infrastructure** (including a machinery pool and the establishment of a Common Facility and Training Center, CFTC) **and training** to enhance their quarrying and processing capacity and reduce wastage. Project outcomes were expected to lead to a 40 percent increase in production and to direct and indirect job creation. Additional interventions to improve market linkages as well as a review of the sector's rules and regulations (aligning them to international standards) were expected to further increase marble sales and exports out of KP.

12. **The food processing sector would benefit from feasibility studies, awareness campaigns, stakeholder consultations, and a Cluster Action Plan** to identify priority interventions for shared infrastructure and improve coordination within the sector, thereby addressing the knowledge gaps and providing credible information to the private sector for crowding in investment.

1.5 Original Components

13. The project had three components:

14. **Component 1**: **Increasing Productivity and Employment in the Marble Sector (US$7.40 million)**: The objective of this component was to reduce marble losses, and increase the economic value added of the marble sector by improving the extraction and processing methodologies within the value chain through three subcomponents:

(i) <u>Sub-Component 1.1: Establishing a Machinery Pool (US$4.02 million):</u> establishment of a machinery pool for marble quarries in Risalpur Marble City, to increase productivity and reduce life threatening mining practices.

(ii) Sub-Component 1.2: Strengthening the CFTC (US$3.15million): establishment of a CFTC in Risalpur Marble City to: (a) improve marble processing in order to meet export requirements/standards; and (b) provide skills training to benefit processing facilities.

(iii) Sub-Component 1.3: Providing Access to Markets (US$0.23 million): interventions to facilitate the integration of market linkages for KP marble products to both domestic and export markets to ensure that gains from the first and second stages of the value chain are actually translated into high-value-added sales.

15. **Component 2: Supporting the Development and Enhancing the Impact of Food Processing Cluster (US$1.0 million)**: The objective of this component was to assess the constraints and opportunities in KP's food processing sector, by undertaking the following three activities:

(i) Value chain Prioritization and Analysis: Carrying out value chain prioritization and analysis for KP's horticulture sector;

(ii) Feasibility Studies: Carrying out feasibility studies on selected projects along the food processing value chain; and

(iii) Cluster Development Program: to improve coordination among the stakeholders in the food processing industry.

16. **Component 3: Institutional Capacity Building (US$0.6 million)**: This entailed strengthening institutional capacity of the Project Management Unit (PMU) within GoKP's Department of Industries, Commerce, and Technical Education (Department of Industries), establishing a project unit (PU) within the Department of Mines and Minerals (DMM), and providing resources to the Pakistan Stone Development Company (PASDEC) and mines associations in KP to ensure effective implementation of CIPK, including a review of KP's mining rules and regulations.

1.6 Revised Components

17. None of the project **components** were revised.

1.7 Other significant changes

18. **The project closing date was extended twice in 2015, initially for four months, and then for another six weeks.** The extension periods were determined by the closing date, at the time, of December 31, 2015 of the parent MDTF. In light of discussions with MDTF donors about a further extension of the parent fund, all MDTF child projects, including the CIPK, were first part of an omnibus restructuring by 4

months, from June 30, 2015 to October 31, 2015 and then, again by 6 weeks, to December 12, 2015[7]. The closing date extensions gave the CIPK some more time for the completion of procurement of machinery and consultancies which had been experiencing delays. However, when the MDTF parent fund was finally extended by another five years, which was only decided in November 2015, the decision was taken to proceed with closing the CIPK and cancel the non-disbursed amount of US$3.31 million, given that the Project performance was unsatisfactory with insufficient prospects of a turnaround.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

19. **The project was based on sound background analysis, and the Project Paper included adequate justification for why the two sectors were chosen** based on an extensive review of analytical work and a stakeholder consultation process. The marble sector beneficiaries requested support for accessing sophisticated machinery and modern technology for quarrying and processing[8]. While the marble sector required investment in infrastructure, the food processing sector suffered from information gaps. A relatively small component was thus allocated to food processing to fill these gaps through feasibility studies and analyses. In addition to being properly informed by background analysis, the interventions were small, select, and focused - in line with the pilot nature of MDTF ("learn and scale up"). The Bank had limited prior engagements in the province and thus a small and select approach was appropriate.

20. **The two-year project duration, bound by the initial MDTF closing date, was too short to ensure achievement of the project objective, particularly in light of the (partly anticipated) delays in government approvals and the fragile context**. As part of MDTF, the Bank aimed to learn by piloting interventions and gradually scaling them up, knowing it would encounter delays along the way. CIPK aimed to demonstrate benefits from shared infrastructure interventions so the private sector could scale them up. However, these effects need time to materialize, particularly in fragile environments where political economy risks are difficult to mitigate. In fact, in the Project Paper, the Bank acknowledged that "any delays in implementation […] would make it difficult for the project to achieve the intended outputs and outcomes within the existing project closing date. […] In such case, to enable CIPK's impacts to be captured fully, the project closing date would be extended, provided that the MDTF's end disbursement date is extended beyond 2015"[9]. In the end, implementation went off track, and the MDTF closing date was not extended early enough for CIPK to be granted a one-year extension beyond 2015.

[7] The original closing date of the MDTF was December 31, 2015.

[8] Pakistan's poor extraction technique is one of the greatest contributors to the marble mining sector's low productivity, including its high proportion of waste, which can reach 80% or 85%. Additionally, unpolished marble tiles sell at a considerable discount to polished marble tiles. The Bank's task team included a Bank staff who is a marble industry expert and had already worked in the North West of Pakistan. He provided expert views during project preparation to validate these findings and the interventions under CIPK.

[9] Page 57, footnote 25.

21. **The activities and associated results for KP's food processing sector did not directly contribute to the objective of improving competitiveness, although they did address some of the identified critical knowledge gaps leading to market failures.** Even though Component 2 activities produced some outputs (see Annex 2), they did not lead to higher aggregate outcomes. The theory of change turned out to be not feasible given the scope and duration of the project.

22. **The overall implementation risk, rated 'Substantial', did not adequately reflect the high-risk environment**[10]. The risk assessment framework did not reflect the short project duration and its implication on the design risk of not achieving the PDO and results indicators, particularly given the risk of donors not extending MDTF. While capacity, governance, and sustainability were recognized as high risks, the mitigation measures put in place, as explained in the following paragraphs, did not prove to be sufficiently robust.

23. **Given the limited preparation and implementation periods, CIPK rightly leveraged the implementation arrangements in place for ERKF which was running smoothly at the time**. The existing PMU led by a Project Director within GoKP's Department of Industries was the implementing agency in charge of procurement, to be supported by a new procurement officer and technical experts. A procurement committee comprising members from the PMU, DMM (who would ultimately oversee the utilization of the machinery), PASDEC[11] (as the operator), and academia evaluated bids for Component 1. Finally, the ERKF Project Steering Committee (PSC) headed by the Department of Planning and Development (P&D) was modified to include representatives from DMM, the Agriculture Department of KP, and PASDEC, in addition to the Department of Industries and the private sector. The involvement of multiple Departments was meant to strengthen government commitment and ownership (as well as the technical soundness of the project), and the role of each was described in detail in the operations manual which was ready before effectiveness (along with the procurement plan and safeguards documents).

24. **However, capacity and institutional shortcomings were revealed, particularly as the context surrounding CIPK became increasingly challenging.** The need for internal coordination among various Departments at times dissipated responsibilities and led to disagreement[12]. The continuity of the PMU leadership put in place under ERKF could not be maintained, which led to gaps in project management. As was the case for ERKF, the Small and Medium Enterprises Development Authority (SMEDA) was initially foreseen to undertake procurement for CIPK as a service provider under

[10] Risks were rated 'High' in three categories (Capacity, Governance, and Delivery Monitoring and Sustainability).

[11] PASDEC entered into a legal agreement with GoKP (PASDEC-Agreement) to develop the CFTC and machinery pool under Component 1.

[12] This may have also been affected by the grant agreement negotiations during which P&D proposed moving the PMU to DMM. Ultimately it was agreed to stay with the already-established PMU in the Department of Industries for the reasons explained above.

Component 1 and enter into the PASDEC-Agreement[13]. However, fiduciary responsibility for CIPK, a project with more complex procurement and coordination requirements than ERKF, instead rested with the PMU. This turned out to be a challenge given that the limited project timeframe did not allow to build sufficient institutional capacity.

2.2 Implementation

25. **A change in leadership and bureaucratic hurdles at the start of the project delayed numerous activities that were required to get the project underway**. By the time the project became effective in September 2013, less than two years remained for implementation. However, shortly after, the Project Director of the PMU was suspended for two months due to internal transfers within GoKP. He later went on a long leave of absence and was only replaced in August 2014 by an Acting Director who had the additional charge of the PMU. This gap and change in the project leadership slowed down decision-making, leading to several delays, particularly since the project relied on the experience of the existing PMU and its longstanding Project Director. In breach of the legal covenants, the PASDEC-Agreement was signed four months late in February 2014 due to delays in KP's Law Department. The PMU finally brought on board the procurement officer and technical experts two months post effectiveness of CIPK. The PSC met for the first time in January 2014 to endorse the list of machinery and terms of reference (ToRs) for the consulting services. These delays held back project implementation, such that the bidding documents for the first round of machinery and the call for expression of interest for feasibility studies were only issued in the spring of 2014 (at least six months later than envisaged in the procurement plan which was ready prior to project approval).

26. **Substantial delays in the initial rounds of procurement interfered with the procurement plan and revealed limited contract management capacity**. In the first round of international competitive bidding (ICB) for the marble machinery pool, one package received no responses from the market and had to be re-advertised. The potential bidders cited security concerns, particularly since the machinery was being introduced to Pakistan for the first time. The second time around, the market was more responsive, as the advertising specifically targeted bidders familiar with the country context. Under Component 2, a lack of internal coordination slowed down procurement for conducting the feasibility studies. While the PMU sought inputs from the Agriculture Department on the studies and analysis for the horticulture sector, it discovered on a couple of occasions that similar studies were being conducted by other parts of GoKP and had to re-draft ToRs, in one instance after they had been advertised. This was symptomatic of coordination failures within GoKP and disagreements over which department ought to lead the studies. By the end of the project, only two out of five feasibility studies were completed. Finally, GoKP ran into disagreements with the

[13] Under ERKF, SMEDA was an independent implementing agency for the matching grants – the largest component of the project.

contractor who won the first ICB award over the responsibility for paying the sales tax as well as the currency in which the advance payment was to be made. It took some time to resolve these issues, which revealed shortcomings in GoKP's contract management capacity.

27. **An increasingly challenging political economy slowed down decision-making due to risk aversion and a lack of project ownership**. The Provincial Accountability Drive[14] which began at project effectiveness intensified, particularly around June 2015, and affected all MDTF-funded projects. A number of federal and provincial audit bodies were investigating various GoKP departments and projects for misuse of public funds, and a few senior officials from the concerned departments (DMM and Department of Industries) were arrested on previous allegations. As a result, there were a number of changes in the senior GoKP leadership which instilled a sense of risk aversion throughout GoKP. This atmosphere discouraged government officials from signing off on any procurement decisions, particularly in instances where the federal and provincial procurement rules differed from Bank rules. This context hindered coordination and diluted the sense of project ownership. The leadership in DMM and the Department of Industries failed to endorse decisions taken by the procurement committee, despite instructions set out in the operations manual. Several layers of approval were added to the process from the very beginning of project implementation, and the coordination between the two departments proved to be time-consuming. A number of contracts were thus suspended/withdrawn, including signed contracts under national competitive bidding, ultimately preventing any procurement for the CFTC. The PSC did not provide sufficient guidance, coordination, and oversight of project implementation, contrary to its mandate.

28. **Throughout project implementation, the Bank was proactive in providing support and training (such as in procurement and safeguards) as well as in sending management letters to the government**. Implementation support was continuous and not just limited to official missions. On several occasions, and particularly after the mid-term review (MTR), the Bank sent management letters to highlight key issues for the government to address to get implementation back on track. The Country Management Unit (CMU), including the Country Director, visited KP to meet with the GoKP counterparts during portfolio reviews.

29. **However, the closing date extensions given to CIPK were not adequate considering the project's fragile implementation context**. There was recognition at the outset that CIPK likely needed more than two years to capture results and that more time would be given once the MDTF closing date was extended beyond 2015. As such, a one-year closing date extension was requested by GoKP after the MTR, given that only six percent of the grant had been disbursed. The Bank granted a four-month extension to all MDTF projects in anticipation of MDTF's extension. In the fall of 2015, it was clear that more time was needed to complete the procurement of

[14] In 2015, a new government in KP launched an anti-corruption campaign that investigated various departments in KP.

machinery and equipment essential for delivering on the project results. However, by the time MDTF was extended until June 2016, CIPK was a problem project and was therefore closed after a second short extension. GoKP requested again a one-year extension, but only in December 2015 when CIPK had already closed, which was at that point no longer possible.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

30. **The project design included appropriate M&E mechanisms**, whereby the value chain experts hired within the PMU were to regularly report on progress made toward targets in their respective areas of expertise. Even after project closing, the PMU appointed a project officer to monitor progress on-site at the machinery pool and facilitate machinery utilization. While CIPK envisaged hiring the services of a third party monitor to assess the results achieved under the project, particularly when the Bank team could not go on site due to security concerns, this was ultimately not needed.

31. **The MTR mission found that monitoring of CIPK was for the most part being provided through the PSC as well as dedicated M&E staff within the PMU**. However, the MTR pointed to the need to further clarify roles and responsibilities for monitoring and reporting on all three components as well as to develop tools for data collection and reporting.

32. **The PDO overly-ambitiously targeted an improvement in the competitiveness of two sectors within a short project duration**. Particularly for Component 1 which involved complex procurement, a few more intermediate indicators may have better captured progress along the way instead of mainly outcome- and impact-level indicators (in some cases difficult to measure such as indirect job creation). The PDO indicators related to Component 1 were partly achieved, given that utilization of the machinery pool started after the project closed and that the CFTC was not procured. Additionally, Component 2 interventions were not sufficient to affect competitiveness - the results framework rightly captured the expected outputs from these interventions as well as adequate intermediate indicators but could not measure an increase in competitiveness.

2.4 Safeguard and Fiduciary Compliance

Safeguards

33. **Safeguards were ‘Moderately Satisfactory’ by the end of the project**. GoKP adopted an Environmental and Social Management Plan for the project (ESMP) prior to approval, which was translated into Urdu and published online, and engaged a full-time

environmental specialist who conducted training within the PMU and for other relevant personnel.

34. **The MTR found some gaps in ESMP implementation by the PMU**. The MTR recommended that the PMU improve the content, structure, and timing of the quarterly safeguards update reports (during the MTR mission, the latest quarterly report was three months overdue). The MTR also found that environmental aspects were not included in the specifications of the equipment for the machinery pool. However, an undertaking was obtained from the equipment suppliers regarding the compliance of the equipment with Euro-II emission standards.

Financial Management

35. **Financial Management (FM) was 'Satisfactory' throughout project implementation**. Experienced FM staff was on-board throughout the project and adequate FM systems were in place. Financial reports were submitted to the Bank in a timely fashion and were found to be acceptable. Internal and external audits provided assurances that funds were being used for intended purposes.

36. **However, low utilization of funds was persistent throughout the project's life**. This was mainly due to partial implementation of project activities as well as to payment delays caused by hierarchical decision-making which violated the procedures laid out in the operations manual and did not follow the Bank procurement and FM rules that applied to the project.

Procurement

37. **Procurement was downgraded from 'Satisfactory' to 'Moderately Unsatisfactory' by the end of the project owing to the significant delays** in getting contracts signed and paid and to the fact that CFTC procurement could not be completed by project closing. Although the participation of DMM was meant to strengthen project ownership and sustainability (since the responsibility for the marble equipment would ultimately rest with them), it ended up slowing down and at times paralyzing the process. Because the PMU effectively entrusted final procurement approvals to DMM, this created an additional layer of procedure. DMM's internal review of and observations on evaluation reports were at odds with the instructions in the operations manual and with Bank procurement policies. The PMU also sought GoKP's procurement regulatory authority's endorsement prior to making payments, in breach of the grant agreement, owing to the Provincial Accountability Drive. The establishment of an independent anti-corruption agency in 2014 brought the project and all fiduciary matters to a halt.

38. **In hindsight, outsourcing project procurement may have been a suitable alternative had there been more time**, given the PMU's limited experience with procurement-heavy Bank projects, the need to coordinate among multiple entities, and the very limited time to build sufficient capacity in a complex environment. However, given the short project duration, alternatives to entrusting the PMU with the project's fiduciary responsibility – such as hiring a private sector procurement agent or packaging the CFTC as a single responsibility contract whereby the operator would be in charge of procurement – would have taken too long and could have faced resistance during implementation.

2.5 Post-completion Operation/Next Phase

39. **Following the site visit of the Bank ICR team to Risalpur marble city in March 2016, where the machinery pool is parked, DMM and PASDEC signed a subsidiary agreement to the original PASDEC-Agreement in order to specify the ownership and management of the equipment procured**. DMM then notified the rental policy, and PASDEC started receiving, processing, and approving applications for the use of the machines which have all been rented out now. The Bank is following up closely to capture the results from the utilization of the machinery pool.

40. **GoKP has allocated some of its own funds from the provincial Annual Development Plan towards the CFTC.** PASDEC has had financial issues, and it is unclear whether its financial position will allow it to complete the necessary civil works to host the CFTC machinery at the marble city.

41. **The feasibility studies completed under Component 2 have been handed to the Agriculture Department** who would potentially take the lead in implementing the interventions identified through the studies.

42. **GoKP has requested additional support to its development agenda to be financed as part of MDTF II.**[15] It will be important going forward to ensure that the appropriate capacity, leadership, and implementation arrangements are in place.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

43. **The project objectives were highly relevant and the design substantially relevant.** Project objectives were closely aligned with the country's objectives and remain relevant today. The design was simple and streamlined and reflected lessons learned but had some shortcomings.

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[15] The exact modalities of this support are currently being developed in consultations between GoKP and the Bank.

44. **The private sector development agenda remains relevant, and CIPK's objective of improving the competitiveness of two sectors in a fragile province, specifically to benefit MSMEs, especially so**. Generating more and better job opportunities for a rapidly growing population is one of the greatest challenges facing the country today and facing the Northwest of the country in particular – combatting militancy by more alternative employment options for KP's youth. The marble and food processing sectors were a relevant choice given their job creating potential and importance for KP.

45. **CIPK was aligned with two pillars of the WBG Country Partnership Strategy (FY15-19) for Pakistan,** notably (a) 'Supporting private sector development'[16], and (b) 'Reaching out to the underserved, neglected, and poor'[17].

46. **CIPK's technical design was simple and streamlined and incorporated lessons learned from value chain development appropriately**. However, the Project's simple and relevant technical design[18] was compromised by a short project duration (and insufficient periods of extension) and a limited institutional capacity in a challenging context. The PDO was too ambitious given the timeframe and high-risk environment, and there was disconnect between Component 2 outcomes and indicators and the PDO. While CIPK dedicated an entire component to institutional capacity building, the project duration of two years and the two short closing date extensions were not enough to ensure successful implementation in light of the delays and increasingly challenging context.

3.2 Achievement of Project Development Objectives

47. **The achievement of the PDO is "Modest".** While the project achieved some of its outputs and outcomes, it did not fully achieve the overall objective of improving the competitiveness of the two target sectors. In the marble sector, the utilization of the new excavation machines has begun improving miners' production levels. In the food processing sector, some of the knowledge gaps have been filled, and the findings from the studies now ought to be implemented to improve the value chains.

48. **In the marble sector, the objective of improving competitiveness by providing shared infrastructure and relevant skills was partially achieved.** The two PDO indicators were partially achieved (in the 20 percent and 30 percent range), and one out of three intermediate indicators was partially achieved (20 percent). The project managed to procure the equipment for the machinery pool, but the CFTC, which would

[16] This pillars aims at "strengthening the business environment, including in the provinces, to improve competitiveness and expand investment, improve productivity of farms and businesses, and make cities more growth friendly to create productive and better jobs (especially for youth and women)".

[17] This pillar includes "stronger focus on MSMEs, women and youth, [and] fragile provinces/regions and poorer districts".

[18] As noted above, the technical design was relevant and properly informed by background analysis.

have been critical for improvements in marble processing and job creation in the marble sector, was not established. The machinery pool started being utilized by a few mines to enhance their extraction methods, which has already translated in some cases into an increase in production exceeding 40 percent (and into waste reduction) as well as into the creation of relevant jobs[19]. The miners using the new machinery have benefitted from relevant training. More time is needed to evaluate whether this improvement might translate into increased sales and revenues for the mines in the future.

49. **In food processing, the project addressed knowledge gaps along the value chain but did not address coordination gaps nor did it lead to an improvement in competitiveness.** The PDO indicator on improved sector knowledge was exceeded, though this only reflects achievement of an output rather than the objective of improving competitiveness. Of the five feasibility studies planned, only two studies were completed which identified four public sector interventions in the sector. None of the other intermediate indicators for Component 2 were achieved, as the value chain prioritization and analysis could not be undertaken, hence the cluster development program could not be initiated.

50. **Finally, the project did achieve its targets on capacity building in support of the overall objective.** The intermediate indicators under Component 3 were exceeded in one case (number of staff trained) and met in the other case (increase in institutional effectiveness). A perception survey of the target organizations concluded a 19 percent increase in institutional effectiveness, relative to a target of 20 percent. However, it is unclear that these outputs led to the desired outcome of improved capacity, given the procurement delays which affected implementation and achievement of the PDO.

3.3 Efficiency

51. **Efficiency is substantial given high expected returns on the investment over the next ten years in the marble sector**. The Project Paper included a sound economic and financial analysis of the costs and benefits from Component 1 interventions over a ten-year horizon. The analysis estimated economic rates of return (ERR) of 43.78 percent and 77.70 percent on the investments in the machinery pool and the CFTC, respectively. Although the machinery pool has not had enough time to yield sufficient returns, a similar analysis based on the latest results from the mines using the machines shows a similarly high total return of 42 percent over the next ten years. This is assuming the machines will be rented out every six months, similar levels of increased production will be maintained (and achieved by all 13 mines), and higher production will translate into higher sales at double the price per ton of marble (an assumption used in the Project Paper[20]).

[19] The results on number of mines and number of jobs would go up in the future if machinery utilization is sustained.
[20] The machinery pool will increase the value of raw marble due to a considerable improvement in quality. While marble mined through the use of dynamite is often fraught with cracks and other fractures, the use of specialized mining equipment eliminates most of the factors that would diminish quality.

52. **It is not yet possible to measure the ERR on the food processing interventions**. While the two studies prepared under Component 2 showed potential for the four southern districts of KP for dates exports to other parts of Pakistan and abroad, this is not sufficient to calculate benefits or measure improvements in the competitiveness of the food processing sector given that the findings have not yet been implemented. The Project Paper anticipated that the feasibility studies would expedite the planning and implementation of any future project aimed at reducing waste in the sector and would help donors undertake projects that had the best value for money. It acknowledged that while the impact is small in the short-run, the long-run impact would be significant.

3.4 Justification of Overall Outcome Rating

Rating: Moderately Unsatisfactory

53. **Given "high" relevance of objectives and substantial relevance of design, "modest" achievement of objectives, and "substantial" efficiency, the overall assessment of outcomes is Moderately Unsatisfactory.** Albeit a relevant and potentially highly efficient project, the PDO indicators were only partially achieved, and the objective of improving competitiveness in two sectors was not fully realized and had major shortcomings.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

54. **Beyond improving competitiveness in two sectors, CIPK contributes to the overarching objective of peacebuilding, as part of the post-conflict recovery effort**. Still emerging from a militancy crisis, KP needs to create more and better jobs, particularly for young men who may otherwise find militancy to be the only available employment. As such, CIPK's impacts may go beyond the immediate improvement in marble production or food processing and may be more long-term.

(b) Institutional Change/Strengthening

55. Not applicable.

(c) Other Unintended Outcomes and Impacts (positive or negative)

56. Not applicable.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

57. Not applicable.

4. Assessment of Risk to Development Outcome

Rating: Substantial

58. **At the time of writing the ICR report, the excavation machines had been rented out to the first wave of applicants, the CFTC was yet to be initiated, and the implementation of interventions identified under Component 2 was uncertain**. Through the subsidiary agreement signed between DMM and PASDEC, management of the machinery pool is well defined over the useful life of the machines. GoKP has allocated funds from its own FY17 budget for the CFTC (to be supported by MDTF II), but procurement has not yet been initiated. It is uncertain whether the interventions identified through the feasibility studies completed under Component 2 (and other Component 2 activities meant to enhance coordination within the food processing sector) will be implemented. These interventions are a key part of achieving the PDO, and as such the risk that the development outcome will not be realized is Substantial.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: Moderately Unsatisfactory

59. **The Bank responded to an emergency situation through a project relevant to the country and provincial context**. There was (and still is) a need to create jobs in KP in response to the militancy crisis and to support sectors that were affected by the conflict. Improving competitiveness in the marble and food processing sectors thus made sense. Though Component 2 activities and their associated outputs and results indicators would not directly lead to improved competitiveness in the food processing sector within the short project duration, they were expected to do so in the medium run.

60. **The PDO was too ambitious, particularly given the short project duration and high implementation risks**. The Bank underestimated the implementation risks (rated 'Substantial') associated with fragile environments, even for projects with a simple technical design such as CIPK. This became evident when the political economy changed in the province and brought the project to a halt.

(b) Quality of Supervision

Rating: Moderately Satisfactory

61. **The Bank was very proactive throughout project implementation (and even after project closing) in monitoring progress and providing support**. Even when the security situation did not allow for missions to visit Peshawar, the team invited GoKP representatives to Islamabad on 'reverse missions'. The team provided training in procurement, FM, and safeguards to the PMU and guided the other implementing agencies as well. The team was also responsive to the MTR findings and processed two project closing date extensions to allow more time for GoKP to complete the procurement process.

62. **Through a number of management letters, the Bank communicated to GoKP the need to abide by the operations manual and the need for the PSC to ensure completion of the procurement process and appointment of a full-time Project Director**. The CMU, including the Country Director, visited KP to meet with the GoKP counterparts and convey these messages directly during the portfolio reviews. The two extensions granted were conditional on the accomplishment of specific milestones.

63. **While the MTR pointed out the need to extend the project closing date, the two extensions processed by the Bank were not sufficient to turn the project around, and did also not allow for a meaningful project restructuring**. The Bank knew that any delays in implementation would hinder the achievement of results, in which case more time would be needed provided the MDTF deadline was extended. The Bank could have done more to ensure an early enough extension of MDTF. The MTR could have been an opportunity to consider other remedial action and potentially restructure. However, the short implementation timeframe partly limited options and opportunities to adjust implementation arrangements besides cancelling part of the project[21]. When the MDTF was extended beyond December 2015, the Bank assessed the project situation once again as well as the results achieved and decided to close the operation.

(c) Justification of Rating for Overall Bank Performance

Rating: Moderately Unsatisfactory

64. **Although the Bank's supervision activities were moderately satisfactory, the overall Bank performance is moderately unsatisfactory due to the moderately unsatisfactory achievement of the PDO**. CIPK was a relevant project in a high-risk

[21] The MTR mission took place 14 months after effectiveness and just five months before project closing, so a Level 1 restructuring would not have been possible. Given that the project closing date extensions were too short, a Level 1 restructuring would have still taken too long to process.

environment which lacked adequate GoKP capacity and ownership and sufficient time to achieve results. The awareness at the start of the project that (i) the time was probably too short and (ii) the objectives were probably too ambitious, was – after internal reviews – insufficiently reflected in the project documents.

5.2 Borrower Performance

(a) Government Performance

Rating: Moderately Unsatisfactory

65. **Implementation guidance and oversight for the project was often lacking.** For over half of the implementation period of the project, a full-time project director was not assigned to the PMU; for some of this time a part time project director was present, and for some no project director was in position. In addition, the PMU had implementation and procurement issues, which the PSC did not always help to resolve. The PSC did not adequately fulfill its mandate of providing guidance, coordination, and oversight of project implementation and could not take the necessary actions in response to issues raised by the Bank in a timely fashion.

66. **Coordination across projects was a challenge, which led to the duplication of and delay in the proposed horticulture studies**. Two of the studies suggested to be financed under CIPK were being undertaken by other government entities, which the PMU discovered only after the ToRs were put together (and in one case advertised). This slowed down implementation of Component 2 and resulted in only two completed feasibility studies by project closing, out of the planned five. As such, only one of the intermediate indicators for Component 2 was partly achieved.

67. **Renewed commitment and improved project management transpired towards the end of the project upon two new appointments**. GoKP appointed a new Secretary at the Department of Industries in October 2015 as well as a new Secretary at DMM in September 2015 who both showed commitment to the project. After the project closed in December 2015, the machinery pool activities continued thanks to continued engagement by the Additional Chief Secretary of KP, and GoKP has committed some funds towards completing the CFTC under MDTF II.

(b) Implementing Agency or Agencies Performance

Rating: Moderately Unsatisfactory

68. **The PMU (and Department of Industries) were slow to get the project started, and fiduciary oversight was lacking**. The leadership gaps in the PMU were not swiftly addressed (by project closing, the PMU still did not have a dedicated full-

time project director), and led to delays in staffing the PMU and signing the PASDEC-Agreement, among other actions. When the provincial accountability drive intensified, the PMU delegated its fiduciary responsibility by seeking the DMM secretary's endorsement of procurement decisions. This stalled implementation and ultimately brought the project to a halt.

69. **While DMM had a clear role on the procurement committee for Component 1 as laid out in the operations manual, it went beyond its mandate at times**. DMM's observations on evaluation reports were not required and often inconsistent with the Bank's procurement guidelines which applied to CIPK and all MDTF projects. By the end of the project, these additional steps led to the cancellation of a few contracts, including after contract signing.

70. **PASDEC was slow in completing the civil works at the project site for Component 1**. The construction of a shed to cover the equipment parked at the machinery pool is not yet completed. The construction of the CFTC might be completed once PASDEC has confirmation of the machines that will be procured for marble processing.

71. **Following project closing, the PMU and other agencies involved in implementation ensured continued implementation**. DMM and PASDEC signed a subsidiary agreement which led to the rental of all the machines in the machinery pool. The PMU assigned a focal point to follow up on machinery utilization on-site in Risalpur and is conducting field visits to the marble mines to capture results and monitor progress.

(c) Justification of Rating for Overall Borrower Performance

Rating: Moderately Unsatisfactory

72. **While some results have been achieved, both the government and implementing agency (and other entities involved in implementation) at times fell short of their responsibilities under the project**. Guidance, oversight, and coordination were often lacking. Implementation often deviated from what was agreed in the operations manual. PASDEC was slow in delivering on the civil works needed at the site in Risalpur, although this ultimately did not impact project results. Nonetheless, the Borrower procured the machinery pool and ensured its utilization (and sustainability) through the subsidiary agreement between DMM and PASDEC. In food processing, the Borrower procured two feasibility studies but could not complete the value chain analysis and related activities (after the ToR were redrafted, the closing date extensions did not allow sufficient time to complete the analysis). Finally, the Borrower has committed to completing the CFTC under MDTF II.

6. Lessons Learned

73. **When responding to emergency situations, the Bank should continue to encourage task teams to pursue relevant projects despite the inherent risks and time needed to achieve results; a 'start small, learn, and scale up' approach can be appropriate. Therefore, projects should have simple and concrete objectives in order to build on successes gradually.** In environments of fragility and conflict, Bank-funded projects can provide the building blocks for long-term development. However, given the risks involved, it is important to set realistic, even if modest, objectives, which reflect quick wins along the way and are achievable within the project's duration. This will help bring about the momentum and demonstration effects needed to implement additional projects and achieve more results.

74. **Projects in fragile environments (and particularly in KP) should include a detailed assessment of the political economy, both in project design and during implementation**. Country risks in these environments are particularly high; a deep understanding of the country's political landscape is thus crucial to incorporate adequate risk mitigation measures in project design and also to react adequately to political changes during implementation. The political economy context in KP in particular has impacted a number of donor-funded projects and should be carefully assessed going forward.

75. **Project ownership and government commitment is also particularly important in fragile environments**. This is often difficult to ensure and can change during implementation. However, it can determine the success or failure of a project. Undertaking a stakeholder analysis in a project can help gain an understanding of ownership and commitment and identify root causes of implementation delays. It can also inform how much pressure the Bank should apply and where to address institutional issues.

76. **Close attention should be given to procurement in fragile and low capacity contexts**. Where there is limited capacity and not enough time during the project for adequate capacity building, it could make sense in some cases to outsource this key project function rather than build in-house capacity. It usually takes a few months, however, to get a private procurement agent on board, so the process should be kick-started early on in a project.

77. **Emergency response projects should allow for flexible implementation which adapts to a changing and challenging context**. Implementation should be responsive to changes in leadership, political economy, or others which affect the success of project activities. This could imply revising the project objective and targets or even cancelling non-performing components along the way. The Bank should be prepared in these situations for (at least partial) failure and should expect it early on in the project. Task teams should therefore be empowered to take the necessary steps to turn the project around.

78. **Interventions in fragile and conflict-affected areas require long-term commitments to achieve results, as progress is often gradual.** This means that projects supported by donor trust funds such as the MDTF need to have a proper timeframe in line with a need for a long-term commitment. This is particularly relevant for MDTF round 2 which was recently approved and which plans to fund a follow-on operation to CIPK in KP to support growth and job creation.

7. Comments on Issues Raised by Grantee/Implementing Agencies/Donors

(a) Grantee/Implementing agencies

79. The draft ICR report was shared with GoKP on August 22, 2016 and a deadline of September 15, 2016 was given to submit comments. However, no comments were received by the deadline (including following a reminder after the deadline had passed). A summary of GoKP's ICR report is provided in Annex 7.

(b) Cofinanciers/Donors

80. Not applicable.

(c) Other partners and stakeholders

81. Not applicable.

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Component 1: Increasing productivity and employment in the marble sector	7.40	3.69	50%
Component 2: Supporting the development and enhancing the impact of food processing cluster	1.00	0.08	8%
Component 3: Institutional capacity building	0.60	0.37	62%
Total:	9.00	4.14	46%

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Trust Funds		0.00	0.00	
MDTF for Crisis Affected Areas of NWFP/FATA/Balochistan		9.00	0.00	.00

Annex 2. Outputs by Component

Component	Output/Outcome	End target	Actual	Comments
Component 1: Increasing productivity and employment in the marble sector	Number of mines that enhance production by 40 percent through use of new technologies supported by the project	25	8	Eight mines have reported an increase in production exceeding 40 percent following rental of the excavation machines
	Direct and indirect jobs created for relevant skills developed by the project for the marble sector in KP	750	202	Eight mines have reported the creation of 202 jobs in total following rental of the excavation machines
	Number of marble mines that will reduce waste from 85% to 65% by adopting better mining technology provided by infrastructure established by project (no.)	39	8	Eight mines have reported waste reduction of no more than 65 percent following rental of the excavation machines
	Number of workers trained by the CFTC over the life of the project	100	0	CFTC not established
	Number of processing facilities in KP that make use of the CFTC for the improved processing of marble blocks (cutting, polishing, sorting and grading, netting and filling, and quality packing)	40	0	CFTC not established
Component 2: Supporting the development and enhancing the impact of food processing cluster	Improved sector knowledge through identification of priority public sector shared infrastructure interventions for KP's food processing sector (number of interventions)	2	4	Two feasibility studies conducted which identified four interventions
	Number of firms (SMEs) participating in awareness campaigns and public-private dialogue	30	0	Not yet initiated
	Number of feasibility studies completed and disseminated	5	2	Two feasibility studies conducted which identified four interventions
	Cluster Action Plan agreed upon by all stakeholders	1	0	Not done because value chain analysis could not be completed
Component 3: Institutional capacity building	Number of staff trained; disaggregated by institution, level of administration, and gender.	10	101	Bank and PMU staff provided training on procurement, FM, and safeguards. GoKP officials participated in fairs and conferences

	Increase in institutional effectiveness through strengthened capacity	20%	19%	Perception survey conducted among project staff

Annex 3. Economic and Financial Analysis

1. The Project Paper included a sound economic and financial analysis of the returns on the machinery pool and CFTC. A separate analysis in food processing was to be generated during implementation, as part of the value chain analysis, feasibility studies, and cluster development, which was not done due to incomplete activities under Component 2.

2. The analysis estimated a financial rate of return (IRR) of 5.4 percent and 5.07 percent, respectively, on the machinery pool and CFTC. This is equivalent to a Net Present Value (NPV) of US$1.3 million and US$0.9 million, respectively, over a ten-year time horizon. This report replicated the original analysis (using similar assumptions) to calculate returns on the machinery pool procured under CIPK and representing close to 45 percent of the total project cost (and over 70 percent of the total disbursed funds).

3. Similar to the original analysis, assuming 13 excavators and 13 compressors will continue to be rented out every six months for US$3,000 per month each and $400 per month each, respectively, the machinery pool is expected to generate a return of 4.22 percent over the next ten years (with an NPV of US$1.04 million). This is slightly lower than the originally estimated return given that the machines were rented out for just half of 2016.

4. Looking at the ERR on the total funds disbursed, the analysis quantifies the benefits to the economy from utilizing the machinery pool. The original analysis assumed that mines would enhance production from 2,500 tons per year to 3,600 tons per year (over 40 percent improvement). It further assumes that the price of marble would go from $15 per ton to $30 per ton due the use of precision equipment in mining the marble. Results from the initial five mines that have already increased production using the machines show that, on average, annual production would increase by over 160 percent (mainly due to the fact that three of the mines were not producing any marble prior to CIPK). Assuming this level of enhanced production is sustained and achieved for all 13 mines (and that the entire production is sold), and assuming the price of marble indeed doubles, the ERR is estimated at 42 percent over the next ten years (with an NPV of US$22.42 million). The original analysis had estimated an ERR of 43.78 percent and 77.70 percent, and an NPV of US$14 million and US$20.4 million, respectively, for the machinery pool and CFTC.

5. While the machinery pool has not yet generated enough return on the investment (given that mines have only been utilizing it for a short period of time), it has the potential to generate high returns in the long run, making CIPK an efficient project.

Annex 4. Grant Preparation and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Grant Preparation			
Gabi George Afram	Senior Financial Economist	SASFP	Task Team Leader
Kiran Afzal	Private Sector Development Specialist	SASFP	Team member
Isfandyar Zaman Khan	Senior Financial Sector Specialist	ECSF2	Team member
Rehan Hyder	Senior Procurement Specialist	SARPS	Procurement specialist
Syed Waseem Abbas Kazmi	Financial Management Specialist	SARFM	Financial management specialist
Chau-Ching Shen	Senior Financial Officer	CTRLN	Finance officer
Martin M. Serrano	Senior Counsel	LEGES	Senior Counsel
Duangrat Laohapakakul	Counsel	LEGES	Counsel
Javaid Afzaal	Senior Environment Specialist	SASDI	Safeguards specialist
Kwang Wook Kim	Consultant	LCSPF	Team member
Joan Toledo	Finance Analyst	CTRLN	Team member
Anwar Ali Bhatti	Financial Analyst	SACPK	Team member
Fouad Muhammad Khan	Environmental Specialist	SASDI	Safeguards specialist
Salma Omar	Social Safeguards Specialist	SASDS	Safeguards specialist
Maha Ahmed	Monitoring and Evaluation Officer	SACPK	Monitoring and evaluation specialist
Mehreen Saeed	Communications Officer	SACPK	Communications specialist
Muhammad Waqas Mushtaq	Procurement Specialist	SACPK	Procurement specialist

Sohail Younas Moghal	Consultant	SASFP	Team member
Rafay Khan	Consultant	SASFP	Team member
Ehtesham-ul-Haq	Program Assistant	SASFP	Team member
Supervision/ICR			
Kiran Afzal	Private Sector Development Specialist & TTL	SASFP	Task Team Leader
Gabi George Afram	Senior Financial Economist	SASFP	Team member
Rehan Hyder	Senior Procurement Specialist	SARPS	Procurement specialist
Qurat ul Ain Hadi	Financial Management Specialist	GGO24	Financial Management Specialist
Javaid Afzal	Senior Environment Specialist	SASDI	Safeguards specialist
Anwar Ali Bhatti	Financial Analyst	SACPK	Team member
Salma Omar	Social Safeguards Specialist	SASDS	Safeguards specialist
Imran ul-Haq	Consultant	GSURR	Safeguards specialist
Mohammad Omar Khalid	Consultant	GENDR	Safeguards specialist
Rafay Khan	Consultant	SASFP	Team member
Ehtesham-ul-Haq	Program Assistant	SASFP	Team member
Mirza Omer Baig	Consultant	SACPK	Team member
Mohammad Azhar Ul Haq	Program Assistant	SACPK	Team member

(b) Staff Time and Cost

Stage of Project Cycle	**Staff Time and Cost (Bank Budget Only)**	
	No. of staff weeks	**USD Thousands (including travel and consultant costs)**
Lending		
Total:	11.63	83,417.60
Supervision/ICR		

Total:	46.68	215,615.12

Annex 5. Beneficiary Survey Results

Not applicable.

Annex 6. Stakeholder Workshop Report and Results

Not applicable.

Annex 7. Summary of Grantee's ICR and/or Comments on Draft ICR

Key Factors Affecting Implementation and Outcomes:

Implementation of developmental projects in KP in particular, and in Pakistan, in general, has suffered from implementation delays and low ownership. In large measures, this owes to changes in key project management positions due to civil service management practices. However, following were the main factors affecting successful implementation of the project:

i. Flaw in project design: CIPK involved multiple stakeholders in implementation from the provincial government (Department of Industries, DMM, and Agriculture Department) and the federal government (PASDEC). This created problems in execution as coordinating all members/representatives was difficult due to their availability; coordination took longer than usual and caused delays in implementation.

ii. Lack of stakeholders' awareness of World Bank guidelines: CIPK was an MTDF project to which World Bank guidelines applied. However, due to the lack of awareness of these guidelines by all stakeholders and the changes in the procurement committee's members, new members had to be trained constantly, which caused delays and added extra layers of vetting from the Public Procurement Regulatory Authority, the KP Procurement Regulatory Authority, and the Finance and Law Departments at different stages of the procurement and project implementation process. Additional capacity building on World Bank policies and procedure could have been beneficial. Only one training was conducted on procurement and FM and was limited to PMU staff; other stakeholders, such as DMM, PASDEC, academia, and the private sector did not receive similar training. As a result, the procurement committee unnecessarily compared and vetted World Bank procurement against government procurement, which caused delays in implementation.

iii. Cumbersome procurement process for Component 1: The Industries Department was the main implementing agency, while the procurement committee for Component 1 was headed by DMM, which meant that effectively the procurement process went through two departments. This caused unnecessary observations from various stakeholders and created considerable delays affecting achievement of the project's development objective.

Lessons Learned:

Project design: CIPK involved multiple stakeholders in implementation from the provincial government and the federal government which created problems in execution as coordinating all members/representatives was difficult due to their availability; coordination took longer than usual and caused delays in implementation. The project could have been designed with the involvement of a limited number of stakeholders and with one effective implementing agency.

Applicable rules: CIPK was an MTDF project to which World Bank guidelines applied. However, due to the lack of awareness of these guidelines by all stakeholders and the changes in the procurement committee's members, new members had to be trained constantly, which caused delays and added extra layers of vetting from the Public Procurement Regulatory Authority, the KP Procurement Regulatory Authority, and the Finance and Law Departments at different stages of the procurement and project implementation process. Additional capacity building on World Bank policies and procedure could have been beneficial.

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

Not applicable.

Annex 9. List of Supporting Documents

1. Pakistan CPS FY10-13 and FY15-19
2. PCNA executive summary, 2011
3. Aide memoires, management letters, and minutes of meetings during preparation and appraisal
4. Procurement plan, CIPK, March 2013
5. Agreed minutes of negotiations, CIPK, April 2013
6. Summary of negotiations, CIPK, May 2013
7. Regional Vice President request for approval memorandum, June 2013
8. Operations manual, CIPK, June 2013
9. Emergency Project Paper, CIPK, August 2013
10. Grant agreement, CIPK, September 2013
11. Project agreement, CIPK, September 2013
12. PASDEC-Aagreement, February 2014 and Subsidiary agreement, March 2016
13. ISR reports, aide memoires, and management letters from five implementation support missions
14. MTR report, January 2015
15. Restructuring Paper on a Proposed Project Restructuring of Pakistan: Competitive Industries Project for Khyber Pakhtunkhwa, June 2015

16. Omnibus restructuring paper for MDTF-funded projects, October 2015

Annex 10. List of Persons Interviewed

GoKP officials:

Adnan Nawab	PMU, CIPK/ERKF
Dr. Aftab Akbar Durrani	Secretary, Industries Department
Amir Nawaz	Financial Management Specialist
Dr. Atta-ur-Rehman	Secretary, DMM
Ilyas Hassan	OMU Horticulture Expert
Khalid Ilyas	Chief Foreign Aid, P&D Department
Mian Khalid	Project Director at CIPK effectiveness
Munir Gul	Project Director, CIPK/ERKF
Sohail Ahmad	PMU SME Officer, ERKF
Syed Asif Raza	PMU Project officer, ERKF
Syed Bilal Ahmad	Off-farm Economist ISU PCNA KP
Syed Bilal Khisro	Director Planning, DMM
Waqar Ahmad	PMU Procurement Officer, CIPK/ERKF

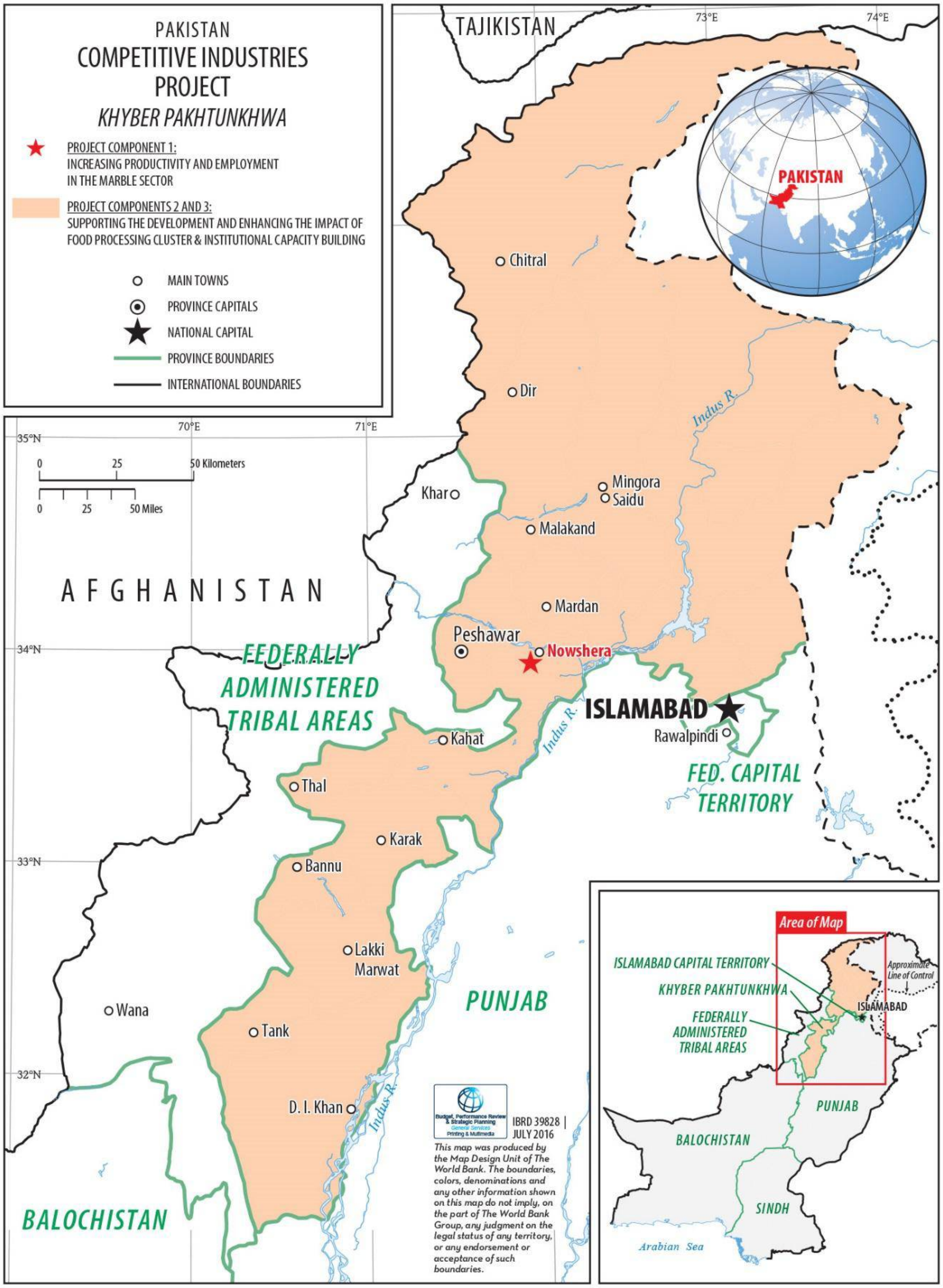
Other project stakeholders:

Sarmad H Khan	Former ERKF Project Manager, SMEDA PU
Toufeeque Ahmed	Director General Manager, PASDEC
Zahid Maqsood Sheikh	Chief Executive Officer, PASDEC

World Bank staff and consultants:

Anthony Cholst	Program Leader, EFI	TTL
Gabi George Afram	PSD Specialist	M&E specialist
Kiran Afzal	M&E Officer	Safeguards specialist
Maha Ahmed	Consultant	Procurement specialist
Mohammad Omar Khalid	Procurement Specialist	MDTF coordinator
Muhammad Waqas Mushtaq	Program Coordinator	FM Specialist
Ousman Jah	FM Specialist	Team member
Qurat ul Ain Hadi	Consultant	Procurement specialist
Rafay Khan	Sr Procurement Specialist	Former Operations adviser
Rehan Hyder	Lead Energy Specialist	
Reynold Duncan		
	Operations adviser, CMU	
Operations Adviser	Former TTL	

MAP


PAKISTAN
COMPETITIVE INDUSTRIES PROJECT
KHYBER PAKHTUNKHWA
PROJECT COMPONENT 1:
INCREASING PRODUCTIVITY AND EMPLOYMENT IN THE MARBLE SECTOR
PROJECT COMPONENTS 2 AND 3:
SUPPORTING THE DEVELOPMENT AND ENHANCING THE IMPACT OF FOOD PROCESSING CLUSTER & INSTITUTIONAL CAPACITY BUILDING
MAIN TOWNS
PROVINCE CAPITALS
NATIONAL CAPITAL
PROVINCE BOUNDARIES
INTERNATIONAL BOUNDARIES
0 25 50 Kilometers
0 25 50 Miles
TAJIKISTAN
PAKISTAN
AFGHANISTAN
FEDERALLY ADMINISTERED TRIBAL AREAS
FED. CAPITAL TERRITORY
PUNJAB
BALOCHISTAN
ISLAMABAD
Chitral
Dir
Kharo
Mingora
Saidu
Malakand
Mardan
Peshawar
Nowshera
Rawalpindi
Kahat
Thal
Karak
Bannu
Lakki Marwat
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74°E
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71°E
35°N
34°N
33°N
32°N
IBRD 39828 | JULY 2016
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Area of Map
ISLAMABAD CAPITAL TERRITORY
KHYBER PAKHTUNKHWA
FEDERALLY ADMINISTERED TRIBAL AREAS
Approximate Line of Control
ISLAMABAD
PUNJAB
BALOCHISTAN
SINDH
Arabian Sea