Report Number : ICRR0020461

1. Project Data

Project ID P143661	Project Name Competitive Industries Project for KP
Country Pakistan	Practice Area(Lead) Trade & Competitiveness

L/C/TF Number(s) TF-14957	Closing Date (Original) 30-Jun-2015	Total Project Cost (USD) 9,000,000.00
Bank Approval Date 28-Jun-2013	Closing Date (Actual) 12-Dec-2015	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	9,000,000.00	9,000,000.00
Revised Commitment	9,000,000.00	9,000,000.00
Actual	5,691,180.00	4,930,226.43

Sector(s)
Agricultural markets, commercialization and agri-business(40%):Mining(40%):Public Administration - Industry, Trade and Services(10%):Other Non-bank Financial Institutions(10%)

Theme(s)
Infrastructure services for private sector development(65%):Micro, Small and Medium Enterprise support(25%):Conflict prevention and post-conflict reconstruction(10%)

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2. Project Objectives and Components

a. Objectives

According to the Grant Agreement (page 5), the project development objective of the Competitive Industries Project for Khyber Pakhtunkhwa, formerly the Northwest Frontier Province (NWFP), of the Islamic Republic of Pakistan is: to improve the competitiveness of the marble and food processing sectors in Khyber Pakhtunkhwa by providing shared infrastructure and relevant skills along the marble value chain and by addressing knowledge and coordination gaps along the food processing sector value chain.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components

The project comprised three components:

Increasing Productivity and Employment in the Marble Sector (US$7.40 million estimate, US$3.69 million actual) aimed 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. The component had three sub-components: (a) the establishment of a machinery pool for marble quarries in Risalpur Marble City to increase productivity and reduce life threatening mining practices; (b) the establishment of a Common Facility and Training Center (CFTC) to improve marble processing to meet export requirements and standards and to provide skills training to benefit the processing facilities; and, (c) interventions to facilitate the integration of market linkages for Khyber Pakhtunkhwa 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.

Supporting the Development and Enhancing the Impact of the Food Processing Cluster (US$1.00 million estimate, US$0.08 million actual) aimed to assess the constraints and opportunities in Khyber Pakhtunkhwa's food processing sector. The component had three sub-components: (a) a value chain prioritization and analysis of Khyber Pakhtunkhwa's horticulture sector; (b) feasibility studies on selected projects along the food processing value chain; and, (c) a cluster development program to improve coordination among stakeholders in the food processing industry.

Institution Capacity Building (US$0.60 million estimate, US$0.37 million actual) was directed at: strengthening the institutional capacity of the Project Management Unit (PMU) within the Government of Khyber Pakhtunkhwa's Department of Industries, Commerce and Technical Education; establishing a Project Unit (PU) within the Department of Mines and Minerals; and, providing resources to the Pakistan Stone Development Company and the mines associations in Khyber Pakhtunkhwa to ensure the effective implementation of the project, including in reviewing Khyber Pakhtunkhwa's mining rules and regulations.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project cost was estimated at appraisal at US$9.00 million. The actual project at closing was US$5.69 million.

Financing: The IDA, acting as Administrator of the Khyber Pakhtunkhwa/Federally Administered Tribal Areas/Balochistan Multi Donor Trust Fund, financed the project with a grant in the amount of US$9.00 million. Only US$5.69 of the grant was disbursed.

Borrower Contribution: The Islamic Republic of Pakistan did not provide any contribution to the project.

Dates: The project was approved in June 6, 2013 and became effective in September 17, 2013. It was restructured twice, in June 29, 2015, which extended the project closing date by four months, and in October 21, 2015, which extended the project closing date by another month and a half. The original project closing date was June 30, 2015; the actual closing date was December 12, 2015.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The project continues to be relevant to economic conditions in Pakistan at project closing. Khyber Pakhtunkhwa, in the northeast region of the country, remains a fragile province. The marble and the food processing industries are key sectors in the local economy. Improving the competitiveness of the two sectors are to benefit small and medium enterprises in the province and create job opportunities particularly for the youth. More robust enterprise and employment opportunities are to help the province combat the insidious threats posed by militancy in the area.

The project continues to be well aligned, at project closing, with the strategic objectives of the World Bank Group's Country Partnership Strategy (CPS) for Pakistan for FY2015-19. Improving the competitiveness of the marble and food processing industries in Khyber Pakhtunkhwa are particularly relevant to two pillars of the CPS: "Supporting Private Sector Development", which aims to strengthen 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 the youth and women; and, "Reaching Out to the Underserved, Neglected and Poor", which includes a stronger focus on small and medium enterprises, women and the youth, and fragile provinces and regions and poorer districts.

Rating

High

b. Relevance of Design

The overall design of the project is broadly aligned to the project's objectives. The project development objective is well specified. And, the Results Framework for the project follows a logical chain from component activities to outputs and outcomes, and to the project objective (ICR, pages 22-23).

The formal statement of the project's development objective can be decomposed to recognize two primary objectives for the operation: the first, to improve the competitiveness of the marble sector in Khyber Pakhtunkhwa, and the second, to improve the competitiveness of the food processing sector in Khyber Pakhtunkhwa.

The first outcome --- the increased productivity and employment in the marble sector --- is to be evidenced by the number of mines that enhance production by 40 percent using new technologies supported by the project, and the number of direct and indirect jobs created for the relevant skills developed by the project for the marble sector.

The second outcome --- improved sector knowledge in food processing cluster --- is to be evidenced by the number of priority public sector shared infrastructure interventions identified for the food processing sector.

A shortcoming of the Results Framework lies in the limited scope and short duration within which the project outputs, outcomes and objective are targeted and measured. While the elements of the results chain are linked logically, it is questionable that the entirety of the results chain --- culminating in achieving improved competitiveness in the marble and the food processing industries in Khyber Pakhtunkhwa --- can be reasonably achieved within the two-year life of an emergency response operation. The PAD appears to have recognized this design shortcoming implicitly, defining improved competitiveness in the food processing sector not in terms of increased productivity or increased employment (as it does in the marble industry), but in terms of improved knowledge of the industry cluster. The ICR (page 2) explains the gap explicitly: "while the planned analysis and feasibility studies (in the food processing sector) would not directly improve competitiveness, they would help inform public sector interventions such as shared infrastructure which would make the sector more competitive". In short, the relationship between improved sector knowledge and improved competitiveness is not direct but indirect, and not immediate but more distant (i.e., when the knowledge gained is eventually applied).

Rating

Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To improve the competitiveness of the marble sector in Khyber Pakhtunkhwa

Rationale

Outputs

The project established and procured the equipment, including excavators and compressors, for the machinery pool, which aimed to support the marble miners with modern technology in marble quarrying and processing. The Agreement between the PMU and the Pakistan Stone Development Company (a not-for-profit public limited company) directed the Company to make the equipment available for rental to marble enterprises in Khyber Pakhtunkhwa. Although the project managed to procure the equipment for the machinery pool, it failed to establish the Common Training and Facility Center that would have built capacity vital to improve marble processing and to create additional employment in the sector. The project did achieve its targets for another aspect of capacity building, in terms of the number of Government of Khyber Pakhtunkhwa staff trained and in terms of the staff perception (based on a survey) of increased institutional effectiveness.

- Eight mines reported waste reduction of 65 percent following their rental of excavation machines. The target was to have 39 marble mines reduce waste from 65-85 percent by adopting better mining technology provided by the infrastructure created by the project.
- No workers were trained by the Common Facility and Training Center, as the training center was never established. The target was to have 100 workers trained by the training center.
- No processing facility made use of the Common Facility and Training Center, as the training center was never established. The target was for 40 processing facilities to make use of the training center for the improved processing --- cutting, polishing, sorting and grading, netting and filling, and quality packing --- of marble blocks.
- One hundred and one staff were trained in environmental and social safeguards, procurement, and financial management by the Bank and PMU staff. The target was to have 10 staff trained.
- Nineteen percent of the project staff reported an increase in institutional effectiveness, according to a perception survey. The target was to have 20 percent of the project staff report an increase in institutional effectiveness.

Outcomes

The degree of achievement of the objective is assessed as Modest . The utilization of the new excavation machines began to improve the production levels of marble miners participating in the project. The production and employment targets, however, were only partially achieved. It is also not clear that the training outputs achieved led to the desired outcome of improved capacity, given the procurement delays which affected the implementation of the project and the achievement of the project objective.

- Eight mines reported an increase in production exceeding 40 percent, following their rental of excavation machines. The target was to have 25 mines realize an increase in production through the use of new technologies supported by the project.
- Eight mines reported creating 202 jobs following their rental of excavation machines. The target was for 750 direct and indirect jobs to be created for the skills developed by the project for the marble industry.

Rating
Modest

Objective 2

Objective

To improve the competitiveness of the food processing sector in Khyber Pakhtunkhwa

Rationale

Outputs

The project partially achieved one of the three outputs aimed at addressing knowledge and coordination gaps in the food processing sector.

- No small and medium enterprise (SME) firm participated in the awareness campaigns and in the public-private sector dialogue. The target was to have 30 SMEs participate in the campaigns and dialogue. The campaigns had not been initiated by the project completion date.
- Two feasibility studies were completed. A comprehensive feasibility study on a "Dates Processing Facility" presented a strong case for establishing a dates processing unit to harness the dates export potential of the four southern districts of Khyber Pakhtunkhwa. A feasibility study for a "Fruits and Vegetables Dehydration Facility" was also completed. The target was to have five feasibility studies completed and disseminated.
- No cluster action plan was agreed upon by the sector stakeholders, because the value chain analysis --- the "Value Chain Prioritization Study" was not completed. The target was to have a cluster action plan formulated and agreed upon by the industry stakeholders.

Outcomes

The degree of achievement of the objective is assessed as Modest. The project addressed the knowledge gaps along the food processing industry value chain, with the identification of four public sector interventions to improve competitiveness in the sector. However, the project did not address the coordination gaps along the food processing industry value chain as neither the value chain analysis or the industry cluster action plan was completed.

- The two previously mentioned feasibility studies identified four interventions in the food processing sector. The target was to identify two priority public-sector-shared infrastructure interventions in the food processing sector. The establishment of a dates processing facility and a fruits and vegetables dehydration facility would help boost the food processing industry value chain in Khyber Pakhtunkhwa.

Rating
Modest

5. Efficiency

Economic Efficiency

An economic analysis of the project was conducted at appraisal for the first component of the project. The economic rate of return (ERR) was computed at 43.78 percent for investment in the machinery pool and 77.7 percent for investment in the Common Facility and Training Center (CFTC).

Similar analysis, conducted at project closing, yielded an ERR of 42.0 percent for the investment in the machinery pool. The computations assumed: that the machines (excavators and compressors) will be rented out every six months; that increased levels of production will be achieved and maintained for 13 mines; and, that higher levels of production will translate into higher sales at double the price per ton of marble. That the price of marble will was the same assumption used at appraisal. The assumption is reasonable and based on the expectation that, by using the new specialized equipment, miners will be able to produce marble of considerably higher quality than the cracked and fractured marble produced when blasting was used in mining operations (the poor extraction technique produced as much as 85 percent of waste). The higher quality marble will command higher prices (polished marble tiles sell at a considerable premium over unpolished tiles). The training center was never established as planned at appraisal, and no economic analysis for the investment was prepared at project closing.

The ERR for the second component was not computed, either at appraisal or at project closing. The two feasibility studies prepared under the component indicated some potential for sales of dates from the four southern districts of Khyber Pakhtunkhwa to other regions of Pakistan and to international markets. The ICR (page 14) deemed it inadvisable to calculate any ERR as the recommendations of the studies had yet to be implemented.

Operational Efficiency

The project suffered from operational inefficiencies --- procurement activities were either delayed or derailed, and at various points in the procurement cycle, including at bidding, at bid evaluation, at approval, and at closing (see Section 11B). One instance involved a breach of the terms of the project Grant Agreement. Another resulted in the cancellation of a vital sub-component of the project. Contract management was equally problematic. There were disputes with the contractor who won the first international competitive bid award --- over the currency in which the advance payment was to be made, and over which party was responsible for paying the sales tax. It took some time to resolve the contract issues.

Efficiency Rating
Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	43.80	44.70 ☐Not Applicable
ICR Estimate	✓	42.00	89.10 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The outcome for the project is rated as Moderately Unsatisfactory.

The relevance of objectives is rated High.

The relevance of design is rated Substantial.

The efficacy of achievement of both project objectives is rated as Modest.

The efficiency of the project is assessed as Modest.

Therefore, the project only partially achieved its outcomes, had major shortcomings and did not fully realize the project development objective.

a. Outcome Rating
Moderately Unsatisfactory

7. Rationale for Risk to Development Outcome Rating

Overall, the risk to the sustainability of the development outcome is Substantial.

The risk to the sustainability of the machinery pool has been mitigated with: (a) the conclusion of a subsidiary agreement between the Department of Mines and Minerals of the Government of Khyber Pakhtunkhwa and the Pakistan Stone Development Company, which defines the management of the machinery pool over the useful life of the equipment; (b) the launch of the machinery pool in December 2015 and its subsequent use by marble mines in Khyber Pakhtunkhwa (69 applications were received to use 13 marble block excavators in the first month of operation); (c) the gain in benefits from use of the machinery (participating mines increased production by 50 percent and reduced reserve losses by 65 percent); and, (d) the receipt of revenues from renting the equipment to the mines (the project earned US$500,000 in eight months from May to December 2016, with the amount utilized to maintain the equipment and to cover administrative expenses).

It is premature to speak of the sustainability of the development outcome of the Common Facility and Training Center, as the training center was never established under the project. Procurement activity for the training center could not be completed by the project closing date. The Government of Khyber Pakhtunkhwa still plans to establish the training center, but under another operation. It allocated funds in its Budget for FY2017 for the training center, with support expected from the Khyber Pakhtunkhwa/Federally Administered Tribal Areas/Balochistan Multi Donor Trust Fund II. A major risk, however, is that the implementation issues that derailed the establishment of the training center, if not adequately addressed, may continue to challenge the successor operation. Another risk is that the Pakistan Stone Development Company may not have the financial capacity to complete the civil works necessary to house the training center machinery.

Feasibility studies completed under the second component of the project identified shared infrastructure interventions to enhance the competitiveness of the food processing sector. But the interventions have yet to be implemented, and it remains uncertain that the recommendations advanced by the studies will be considered.

a. Risk to Development Outcome Rating
Substantial

8. Assessment of Bank Performance

a. Quality-at-Entry

The Bank responded to the challenges posed by the armed conflict in Khyber Pakhtunkhwa with a sensible project aimed at supporting the ability of two key industries in the province to enhance production and create employment. Improving the competitiveness of the marble and the food processing industries with shared infrastructure, skills training, knowledge provision, and coordination gap interventions made economic sense. Activities recommended by prospective studies would not immediately improve competitiveness in the food processing industry, but would be helpful in the long- if not in the medium-term.

Given the short duration of the project however, and the implementation risks posed by the armed conflict and the militancy crisis in the province, the development objective of the project appears to be too ambitious. The Bank underestimated the project implementation risks, in a conflict area and in a fragile environment, of even a relatively straightforward project as the Competitive Industries Project for Khyber Pakhtunkhwa. Overall, the quality at entry had significant shortcomings.

Quality-at-Entry Rating
Moderately Unsatisfactory

b. Quality of supervision

The Bank was proactive in monitoring progress with the project and in providing support to the Government of Khyber Pakhtunkhwa in implementing the project. When the security situation did not allow for missions to Peshawar, the capital city of Khyber Pakhtunkhwa, the project team invited representatives of the Government of Khyber Pakhtunkhwa to Islamabad, the capital of Pakistan, on "reverse" missions. The project team provided training in safeguards, procurement, and financial management to the PMU and guided other Government of Khyber Pakhtunkhwa agencies as well. The Bank was responsive to the mid-term review (MTR) findings and approved two project closing date extension recommendations to allow the Government of Khyber Pakhtunkhwa to complete the procurement activities of the project.

Using management letters, the Bank emphasized to the Government of Khyber Pakhtunkhwa the need to abide by the project operations manual, and to the Project Steering Committee, the need to finalize the appointment of a full-time Project Director of the PMU and to ensure the completion of project procurement activities. The Bank Country Director and staff of the Country Management Unit traveled to Khyber Pakhtunkhwa during portfolio reviews to convey these messages directly to the Government of Khyber Pakhtunkhwa.

While the MTR emphasized the need to extend the project closing date by at least a year (to end-June 2016), the recommendation could not be readily implemented because the project was bound by the closing date of the Khyber Pakhtunkhwa/Federally Administered Tribal Areas/Balochistan Multi Donor Trust Fund (MDTF) which financed the project. The project received the two short back-to-back omnibus extensions granted to all active projects under the MDTF, but their duration (a total five and a half months) proved insufficient to permit a meaningful Level I restructuring of the project. When the closing date of the MDTF itself was extended to end-December 2015, the project by then had little time to initiate pending procurement activities for the planned Common Training and Facility Center. The Bank closed the project in end-December 2015 and canceled the remaining balance on the grant funds.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Unsatisfactory

9. Assessment of Borrower Performance

a. Government Performance

The Government of Khyber Pakhtunkhwa lacked providing guidance for and oversight of the project. The Project Steering Committee did not adequately fulfill its mandate to coordinate the implementation of the project. It did not always help to resolve problems besetting the PMU. It did not respond in a timely manner to issues raised by the Bank. The PMU itself lacked official full-time leadership for half the project life. A Project Director was not appointed until halfway through project implementation.

Coordination across project components was a challenge. Work on the horticulture studies was duplicated and delayed. The PMU discovered after the Terms of Reference for the studies was completed, and in one case advertised, that government agencies were to undertake the studies. This delayed the implementation of the second component of the project, and resulted in the completion of only two of the five studies planned for the food processing sector.

The commitment to the project development objective was renewed and the management of the project improved, but only toward the end of the project, following two key appointments made by the Government of Khyber Pakhtunkhwa. A new Secretary of the Department of Mines and Minerals was appointed in September 2015, and a new Secretary of Department of Industries, in October 2015, both of whom pledged commitment to the project development objective. The machinery pool activities continued past the project completion date in December 2015, thanks to the continued engagement by the Additional Chief Secretary. The Government of Khyber Pakhtunkhwa has committed budgetary funds for completing the Common Facility and Training Center under a successor project to be supported by the Khyber Pakhtunkhwa/Federally Administered Tribal Areas/Balochistan Multi Donor Trust Fund.

Overall, Government performance had significant shortcomings.

Government Performance Rating
Moderately Unsatisfactory

b. Implementing Agency Performance

The Department of Industries, Commerce and Technical Education acted as implementing agency of the project.

The Project Management Unit, which lacked official full-time leadership for half the project life, started slow in implementing the project. Staffing at the PMU was delayed. The PMU delegated its fiduciary responsibility by seeking the endorsement by the Secretary of the Department of Mines and Minerals of the project procurement decisions. This action stalled and practically halted the implementation of the project.

While the Department of Mines and Minerals had a clear interest in the activities of the procurement committee for the first component of the project, it strayed beyond its mandate at times. The Department's observations on evaluation reports (bids) were not required. Moreover, the Department's actions were often inconsistent with Bank procurement guidelines. The actions by the Department led to the cancellation of a few contracts, including after contract signing.

Overall, both procurement and contract management by the PMU were a tangled web of responsibilitie that overlapped and strayed, and activities that were delayed or derailed (see Section 11B).

The Pakistan Stone Development Company was slow in completing the civil works for the first component of the project. Construction of the shed for equipment parked at the machinery pool is yet to be completed.

To the credit of the PMU, the Department of Mines and Minerals and the Pakistan Stone Development Company, the machinery pool continues to be utilized after project completion. The subsidiary agreement signed between the Department of Mines and Minerals and the Pakistan Stone Development Company has enabled the rental of all equipment in the machinery pool to the marble mines. The PMU continues to conduct field visits to the marble mines to monitor, on site in Risalpur, progress with the use of the machinery pool.

Implementing Agency Performance Rating
Moderately Unsatisfactory

Overall Borrower Performance Rating
Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

The project had a logical Results Framework and a coherent M&E design. The three outcome indicators picked to reflect the achievement of the project objective were appropriate and measurable, as were the output indicators for the project components.

The organizational and operational plans for the M&E were adequate. Industry value chain experts at the PMU were to regularly report on progress made toward achieving the output targets. A project officer was to monitor progress, on-site at the machinery pool, the utilization of the equipment after project closing. A third-party monitor was planned to be hired to assess the project results when the Bank project team could not visit the project site due to security issues, but this proved to be unnecessary.

b. M&E Implementation

The M&E for the project was, for the most part, provided by the Project Steering Committee, which oversaw the M&E function, and by the M&E staff at the PMU, which implemented the M&E.

At implementation, the mid-term review (MTR) pointed to the need to more clearly delineate roles and responsibilities for M&E across the three project components.

c. M&E Utilization

Data gathered from the M&E implementation were used to improve project performance. M&E reports showing lack of progress with the output and outcome indicators for the first component of the project were used by the Bank to press the Government of Khyber Pakhtunkhwa and the PMU to act on delays with the procurement of equipment for the machinery pool. The procurement of equipment for the machinery pool accelerated after the mid-term review (MTR) in January 2015, as the Government signed contracts with equipment suppliers. Similarly, M&E reports indicating meager results with the second component of the project motivated the PMU to show progress with the feasibility studies for the dates processing facility and the fruits and vegetables dehydration facility. The studies were completed after the second extension of the project closing date in October 2015.

The findings of the MTR led to the extension of the project completion date twice. The extension periods proved to be insufficient, however, to effect a meaningful restructuring of the project.

M&E Quality Rating
Modest

11. Other Issues

a. Safeguards

Environmental and Social Safeguards: The project was classified as an Environmental Category B at appraisal. The Government of Khyber Pakhtunkhwa adopted an Environmental and Social Management Plan (ESMP) for the project prior to approval. The ESMP was translated into Urdu, the official language of Pakistan, and published online. The Government of Khyber Pakhtunkhwa also engaged a full-time environmental specialist, who provided training on environmental and social safeguards to PMU and other staff.

There were some gaps in the implementation of the ESMP by the PMU, according to the findings of the mid-term review (MTR). The quarterly safeguards update report was three months overdue at the time of the MTR mission. The MTR recommended that the PMU improve the content and the structure, as well as timing, of the safeguards update report. The MTR also discovered that the specifications the machinery pool equipment lacked environmental items. Thankfully, the equipment suppliers were able to deliver compliance with Euro-II emission standards, notwithstanding the lack of environmental specifications for the equipment.

Compliance with safeguards was rated as Moderately Unsatisfactory at project closing.

b. Fiduciary Compliance

Procurement: There were significant delays in getting contracts signed and paid for. First, the PMU entrusted to the Department of Mines and Minerals the final approval of procurement. The participation of the Department was intended to strengthen project ownership and sustainability, as the Department was to assume supervisory responsibility over the utilization of the equipment by participating mines. The additional layer of procedure, however, slowed down, and at times paralyzed, the procurement process. The Department's reviews of evaluation reports were at odds with Bank procurement policies and project Operations Manual procedures. Second, the PMU sought the endorsement by the Government of Khyber Pakhtunkhwa Public Procurement Regulatory Authority of contract payments. The participation of the Authority was in line with the Provincial Accountability Drive, but constituted a breach of the terms of the project Grant Agreement. Third, the Government of Khyber Pakhtunkhwa created the Ehtesab Commission, an independent anti-corruption agency, in 2014. The creation of the Commission practically brought the implementation of the project and all related fiduciary matters to a halt. And fourth, the PMU was also unable to complete the procurement for the Common Facility and Training Center by the project closing date. The PMU had signed equipment supply contracts with international suppliers (Lots IV and V of International Competitive Bid-02) and with local suppliers (National Competitive Bid 1 and 2), expecting delivery of the equipment by September 2015. However, the contracts were suspended just as they were to become effective, after the Procurement Committee raised issues with the contracts.

The rating for procurement was downgraded from Satisfactory to Moderately Unsatisfactory at project closing.

Financial Management: Financial management systems were adequate and financial management staff were on-board throughout project implementation. Financial reports were submitted to the Bank on time and were found to be acceptable. Internal and external audits provided assurances that project funds were used properly for their intended purposes. The low utilization of the project funds throughout the project's life was due to the partial and incomplete implementation of the planned project activities and to the delays in contract payment.

The rating for financial management was maintained at Satisfactory throughout project implementation.

c. Unintended impacts (Positive or Negative)

The project did not have any unintended impacts.

d. Other

No other issues were raised by the ICR.

12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Borrower Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Quality of ICR		Substantial	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons

The five lessons are drawn from the ICR (pages 19-20), with some adaptation.

One, notwithstanding the inherent risks in emergency situations and in conflict and fragile areas, the Bank can support relevant projects that construct the building blocks for long-term development, by using a "start small, learn, and scale-up" approach. Projects should have simple and concrete development objectives to build on successes gradually. Realistic, even if modest, outcomes that are achievable within a project's duration yield demonstration effects that can lead to more ambitious results in the long-term.

Two, emergency response projects need to allow for flexible implementation arrangements. Implementation will need to be responsive to changes in the security setting, in the political order, including in the political leadership, and in economic conditions. Flexibility may involve amending the project objective, changing the output and outcome targets, or even cancelling non-performing components and activities. Project task teams should be prepared for some failure and be empowered to modify project elements to turn a troubled operation around.

Three, Bank-supported projects in conflict and fragile areas will require a detailed and incisive assessment of the political risks to the project, both during appraisal and during implementation. Country risks are significant in emergency conditions and a better understanding of the country's political situation affords project planners the opportunity to consider political risk mitigation measures and project implementation managers the ability to react quickly to political developments and challenges.

Four, government ownership of, and commitment to, a project is most vital and crucial in a fragile environment as it can determine the success or failure of the operation. Ownership and commitment is also difficult to ensure and can change at any time during project preparation and implementation. A stakeholder analysis can help shed light on the degree of government ownership of and commitment to a project. It can also help inform the Bank on how to persuade a government to address policy, institutional, and operational issues confronting a project.

And, Five, close attention to procurement issues and activities is necessary in a low institutional capacity context. When there is limited capacity, the Bank should consider outsourcing the procurement function rather than struggling to build the capacity to conduct procurement in-house. It normally takes some months, however, to engage private procurement agent, so the process needs to be started early on.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The strengths of the ICR are:

One, the document is concise. The ICR summarizes the background of the emergency project plainly. The project components and activities are listed in a straightforward manner. The project results, in terms of the values of the project outputs and outcomes, are tallied clearly. The discussion of the efficacy and efficiency of the project is simple and to the point. The analysis of the Bank's and the Government's performance is brief but comprehensive.

Two, the analysis of project implementation issues is candid. The ICR (page 10) recognizes that the decision by the PMU to entrust the final approval of the marble machinery procurement to the Department of Mines and Minerals was well intentioned --- "to strengthen project ownership and sustainability, since the responsibility for the marble equipment would ultimately rest with them". But, the ICR argues, the participation of the Department "added another layer of procedure" that stalled the approval of the contract. The ICR (page 10) also concedes that obtaining the Public Procurement Regulatory Authority's endorsement of contract payments was motivated by the Government's accountability drive. But, the ICR correctly points out, the participation of the Authority in the payment process constituted a "breach of the Grant Agreement".

And three, the assessment of the project results is evidence-based. The ICR relies on the results of the output and outcome indicators to judge the degree of achievement of the project objective. The ICR rates the efficacy of the achievement of the project objective as Moderately Unsatisfactory because, it argues (page 12), "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". Similarly, the ICR's assessment of the Grantee's performance is evidenced-based. The ICR (pages 17-18) cites the absence of full-time leadership at the PMU, the poorly coordinated and overlapping sets of responsibilities among the Government of Khyber Pakhtunkhwa's agencies, and the lack of procurement experience and contract management capacity at the PMU as grounds for rating the Grantee's performance as Moderately Unsatisfactory.

Overall, the ICR was written following OPCS guidelines.

a. Quality of ICR Rating
Substantial