



Project Readiness Financing Report

Project Number: 53189-001
December 2020

India: Himachal Pradesh Subtropical Horticulture, Irrigation, and Value Addition Readiness Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 16 October)

Currency unit	–	Indian rupee (₹)
₹1.00	=	0.0136
\$1.00	=	₹73.3830

ABBREVIATIONS

ADB	–	Asian Development Bank
CHPMA	–	community horticulture production and marketing association
COVID-19	–	coronavirus disease
DIPH	–	Department of Irrigation and Public Health
DOH	–	Department of Horticulture
PAM	–	project administration manual
PMU	–	project management unit
PRF	–	project readiness financing
WUA	–	water user association

NOTE

In this report, "\$" refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 53189-001	
Project Name	Himachal Pradesh Subtropical Horticulture, Irrigation, and Value Addition Readiness Project	Department/Division	SARD/SAER
Country	India	Executing Agency	Department of Horticulture, Government of Himachal Pradesh
Modality	Project Readiness Financing (Loan)		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=53189-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=53189-001-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Agriculture, natural resources and rural development	Agricultural policy, institutional and capacity development		10.00
		Total	10.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		Climate Change impact on the Project	Medium
✓ Promoting rural development and food security			
✓ Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	1.25
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Poverty Targeting	
SDG 1.a		General Intervention on Poverty	✓
SDG 2.4, 2.c			
SDG 13.a			
4. Risk Categorization: Low			
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		10.00	
Sovereign Project Readiness Financing (Regular Loan): Ordinary capital resources		10.00	
Cofinancing		0.00	
None		0.00	
Counterpart		2.50	
Government		2.50	
Total		12.50	
Currency of ADB Financing: US Dollar			

I. PROJECT READINESS FINANCING

A. Rationale

1. Himachal Pradesh is a small state in a mountainous region: more than 50% of its land area is mountainous and less than 10% is used for agriculture. Despite the importance of agriculture in the livelihood of its large rural population, there is a distinct agricultural development gap between the northern (or temperate horticulture areas) and southern (or subtropical horticulture areas) parts of Himachal Pradesh. Subtropical horticulture farmers earn only \$116 per month while temperate horticulture farmers earn about \$1,550 per month. Subtropical horticulture in the state is lagging mainly because (i) access to perennial water sources is limited as rainfall is concentrated during the 3-month monsoon season (July–September) and lost as runoff; (ii) only about 25% of potential irrigated areas are developed; (iii) monkey and other wild animal encroachment leads to significant crop losses, discouraging farmers to cultivate fruits, vegetables and maize; and (iv) farmers have limited access to high value markets as there is no marketable scale of production.

2. The ensuing loan, the Himachal Pradesh Subtropical Horticulture, Irrigation, and Value Addition project, aims to increase the income of at least 25,000 farm households in seven districts (Bilaspur, Hamirpur, Kangra, Mandi, Sirmour, Solan and Una) of subtropical areas of Himachal Pradesh. The outcome of the ensuing project is productivity, market access and climate resilience of targeted farming households in subtropical areas of Himachal Pradesh improved. The impact of the ensuing project is rural household income and climate resilience increased in Himachal Pradesh.

3. The project readiness financing (PRF) project is provided to (i) build capacities of the executing and implementing agencies, which have not previously implemented an Asian Development Bank (ADB)-financed project; (ii) establish a high level of readiness for the ensuing project; and (iii) roll out new irrigated subtropical horticultural farming and marketing practices in the areas where subtropical horticultural production has not been developed in scale through the PRF pilot activities. The PRF facilitates the timely and cost-effective achievement of ensuing project outcome. The PRF is aligned with pillar 2 (inclusive provision of infrastructure networks and services) of ADB's country partnership strategy for India, 2018–2022, which also promotes increased rural incomes.¹ The PRF is included in the country operations business plan for India, 2021–2023.²

B. Outputs and Activities

4. **Output 1: Irrigation infrastructure development and farmer management systems established.** This output, to be implemented by the Department of Irrigation and Public Health (DIPH), will (i) establish 4 new and rehabilitate 12 existing irrigation schemes for water extraction, distribution and storage (as part of the PRF pilot activities); (ii) establish water user associations (WUAs) on the completed irrigation schemes and enhance women's participation and gender equitable leadership; and (iii) finalize the draft WUA act to be submitted for the state legislative assembly's enactment.

5. **Output 2: Subtropical horticulture production technology and marketing systems demonstrated.** This output, to be implemented by the Department of Horticulture (DOH), will

¹ ADB. 2017. *Country Partnership Strategy: India 2018–2020–Accelerating Inclusive Economic Transformation*. Manila.

² ADB. 2020. *Country Operations Business Plan: India, 2021–2023*. Manila.

(i) develop 17 subtropical horticulture plots covering 168 hectares, engaging about 600 farmers for high- and ultra-high density production of citrus, guava, lychee, and pomegranate (as part of the PRF pilot activities); (ii) fence the horticulture plots to protect from animal predation (part of the PRF pilot activities); (iii) form community horticulture production and marketing associations (CHPMAs) in the PRF areas and build their capacities for business; and (iv) assist CHPMA meetings with private sector market representatives and help CHPMAs develop investment plans for subtropical horticulture value addition and market development.

6. Output 3: Enabling environment, tools and capacity for promoting irrigated subtropical horticulture provided. This output, to be implemented by the DOH and DIPH, focuses on developing capacity building and creating an enabling environment for the implementation of the ensuing project. Specifically, the output will (i) support the DOH to prepare the Himachal Pradesh Horticulture Sector Development Strategy and Investment Plan 2023–2030; (ii) provide technical training and study tours on project design and management, such as climate-smart design, safeguards, procurement, gender, financial management, and institutional strengthening for DOH and DIPH staff; (iii) prepare the “packages of practice”, which are crop-specific best practices for orchard husbandry and post-harvest procedure; (iv) provide on-site training for CHPMA members on orchard management and the packages of practice; and (v) establish scientific, and project monitoring and evaluation systems in the project management unit (PMU).

7. Output 4: Ensuing investment project and its implementation readiness prepared. This output will be implemented by both the DOH and DIPH to prepare the ensuing project. This includes conducting (i) a baseline survey; (ii) feasibility studies; (iii) detailed engineering designs and cost estimates; (iv) due diligence assessment; (v) safeguards preparation work; and (vi) bid documents for the ensuing project. Possible public–private partnership pathways will be explored in collaboration with ADB’s Private Sector Operations Department as part of the ensuing project preparation. The ensuing project will include provision for female farmers’ participation in all related capacity building activities and ensure female farmers’ participation in CHPMAs both as members and in leadership roles.

8. Coronavirus disease pandemic. The coronavirus disease (COVID-19) pandemic is likely to affect the PRF’s group-based activities, such as farmer and government official training and the formation of and discussion among WUAs and CHPMAs. The PRF will mitigate these risks through (i) organizing phone-call based consultation with farmers to the extent possible; (ii) limiting meetings to small groups of no more than 10 people when any demonstration is required; (iii) designating a health safety officer to monitor compliance with the COVID-19 health and safety measures when a group meeting is required; and (iv) postponing the study tours to 2022. The COVID-19 pandemic will have limited impact on farmers’ field work, which is done primarily with family labor and is exempt from quarantine requirements.

C. Ensuing Project

9. The PRF will support the preparation of the ensuing project, which is estimated to amount to \$114 million. ADB is requested to finance \$90 million and the government will provide about \$24 million as counterpart funding. The ensuing project will expand irrigation, increase subtropical horticulture production and its climate resilience, and enhance profitability of subtropical horticulture production through value chain development of targeted commodities. It is expected to be approved in 2022.

D. Cost Estimates and Financing Arrangements

10. The PRF is estimated to cost \$12.5 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).³

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Output 1: Irrigation infrastructure and farmer management systems established	2.7
2. Output 2: Subtropical horticulture production technology and marketing systems demonstrated	3.1
3. Output 3: Enabling environment, tools and capacity for promoting irrigated subtropical horticulture provided	3.7
4. Output 4: Ensuing investment project and its implementation readiness prepared	2.1
Subtotal (A)	11.6
B. Contingencies^c	0.8
C. Interest During Implementation^d	0.1
Total (A+B+C)	12.5

^a Includes taxes and duties of \$1.55 million. Such amount does not represent an excessive share of the project cost. ADB will finance taxes and duties of \$0.66 million. The government will finance taxes and duties of \$0.87 million in the form of reimbursement.

^b In mid-2020 prices as of 27 August 2020.

^c Physical contingencies computed at 10% for civil works, equipment, training, vehicles and administrative costs and 5% on consultancy. Price contingencies are calculated at an average of 4.6% on local currency costs on a cumulative basis in line with domestic and international cost escalation factors as projected by ADB's Economics and Research Department and posted on the ADB intranet.

^d Interest during implementation for the ordinary capital resources loan has been computed at the 3-year United States dollar fixed swap rate plus an effective contractual spread of 0.5%.

Source: Asian Development Bank estimates.

11. The government has requested a regular loan of \$10.0 million from ADB's ordinary capital resources to help finance project preparation and design activities. The cost of piloting activities will not exceed \$5 million of ADB's loan for the PRF project. The loan will have a 15-year term, including a grace period of 3 years; an annual interest rate of determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; and such other terms and conditions set forth in the draft loan agreement.

12. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to capacity building, consulting services, goods and civil works, and part of taxes and duties. The government will finance taxes and duties, PMU operating costs, and interest charges.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	10.0	80.0
Government	2.5	20.0
Total	12.5	100.0

Source: Asian Development Bank.

³ Project Administration Manual (accessible from the list of linked documents in the Appendix). Climate financing is estimated at \$1.25 million for climate adaptation and is detailed in the PAM. Climate change assessment of the ensuing loan will also cover the PRF given that (i) all the PRF target areas are part of the ensuing project and (ii) PRF pilot activities will be expanded under the ensuing project.

E. Implementation Arrangements

13. The implementation arrangements are summarized in Table 3 and described in detail in the PAM. Procurement will follow the ADB Procurement Policy (2017, as amended from time to time) and its associated staff instructions.

Table 3: Implementation Arrangements for Project Readiness Financing

Aspects	Arrangements		
PRF Implementation period	January 2021–December 2022		
Estimated PRF completion date	30 December 2022		
Management			
(i) Executing agency	State government of Himachal Pradesh acting through the DOH		
(ii) Key implementing agencies	DOH and DIPH		
Procurement	OCB national	7 contracts	\$4.24 million
	Request for quotations	Multiple contracts	\$1.39 million
Consulting services	QCBS 90:10	1,733 person-months	\$3.57 million
	LCS for construction supervision	132 person-months	\$0.21 million
	ICS and SSS	171 person-months for ICS; one university for SSS	\$0.95 million
Advance contracting and retroactive financing	Advance contracting and retroactive financing for works, goods and consulting services. Retroactive financing is available up to 20% of the loan amount of expenditures incurred up to 12 months before loan signing.		
Disbursement	Disbursements under PRF will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, DIPH = Department of Irrigation and Public Health, DOH = Department of Horticulture, ICS = individual consultant selection, LCS = least-cost selection, OCB = open competitive bidding, PRF = project readiness financing, QCBS = quality- and cost-based selection, SSS = single source selection.

Source: ADB.

II. DUE DILIGENCE

14. **Technical.** The PRF pilot activities will adopt and roll out high-density and ultra-high-density planting technologies, which require a relatively shorter period to fruit bearing and achieve higher cumulative yield.⁴ The PRF will develop the packages of practices on climate-smart horticulture production (including innovative low-cost management of soil health, pests, and water) and train farmers and DOH extension officers on these practices. The PRF will also support the state to implement three Acts passed in September 2020 for agriculture marketing reforms by incorporating these into the scope of the ensuing project.⁵

15. **Governance.** The overall financial management risk assessment for the project is *substantial*, mainly because of the (i) implementation arrangements with two government agencies; (ii) lack of experience with ADB's financial management requirements and disbursement procedures; and (iii) outstanding audit observations at the implementing agency level. These risks will be mitigated by (i) engaging designated account staff and a financial management expert to the project; (ii) providing continuous training in ADB's financial management requirements; (iii) including comprehensive financial information in the quarterly project progress reports; and (iv) establishing a project audit review committee.

⁴ The selection criteria for piloting activities are elaborated in the PAM.

⁵ Three Acts refer to: The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020; the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020; and the Essential Commodities (Amendment) Act, 2020.

16. The procurement risk assessment noted that DOH and DIPH have no prior experience working with ADB, although the DOH has been the executing agency of a World Bank-financed project since 2017. PMU staff attended ADB procurement training programs and workshops during project design. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the DOH and DIPH. No significant integrity risks are identified.

17. **Safeguards.** The PRF will establish a grievance redress mechanism (GRM) to support environmental and social safeguards implementation. The GRM will receive, evaluate and facilitate the resolution of impacted people's feedback, including concerns, complaints and grievances about the PRF's social and environmental performance. The WUAs and CHPMAs will receive orientation on safeguards with respect to their involvement in the GRM. In compliance with ADB's Safeguard Policy Statement (2009), the safeguards categories for the PRF are as follows.

18. **Environment (category C).** The PRF's pilot activities will comprise mainly rehabilitation of existing irrigation infrastructure and a small amount of new construction and installation of storage tanks, intake structures, distribution pipes and conveyance systems. These activities are likely to have only minor environment impacts during implementation, mostly related to an increase of dust and noise levels and occupational health and safety hazards during construction. These activities are unlikely to have any permanent impact on the surrounding environment. The environment, health and safety risk mitigation measures are included in the employer's requirements in the bidding documents and the PMU will monitor and document the contractors' compliance with these measures as part of the quarterly progress reports.

19. **Involuntary resettlement (category C).** The DIPH's construction of the pilot irrigation schemes will be done only on government land or right-of-way, with no non-titleholders present in the pilot construction areas. The 17 plots for the demonstration of subtropical horticulture production will be developed on farmer beneficiaries' own land, with no land acquisition or physical and/or economic displacement. The PMU has secured consent from farmer beneficiaries. In case of land donation for the laying of drip irrigation pipelines or small tanks in farmer beneficiaries' fields, the PMU will enter into agreements with the farmer beneficiaries in the form of memorandums of understanding. The PRF will not cause physical or economic displacement resulting from involuntary land acquisition or involuntary restriction on land use.

20. **Indigenous peoples (category C).** While there are some indigenous peoples in the PRF districts, (i) they do not have collective attachment to distinct habitats and territories, or to natural resources in these habitats and territories, and (ii) they are not present in the PRF target areas and are not among the 600 farmer beneficiaries. Hence, the PRF will not affect the dignity, human rights, livelihood systems, or culture of IPs, or affect the territories or natural or cultural resources that indigenous peoples own, use, occupy, or claim as their ancestral domain.

III. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the loan of \$10,000,000 to India for the Himachal Pradesh Subtropical Horticulture, Irrigation, and Value Addition Readiness Project, from the ordinary capital resources of the Asian Development Bank (ADB), in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement; and hereby reports this action to the Board.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=53189-001-PRF>

1. Loan Agreement
2. Project Agreement
3. Project Administration Manual