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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board - Sixty-Fourth Session

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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

ROMANIA

FOR

THE APUSENI DEVELOPMENT PROJECT

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CURRENCY EQUIVALENTS

Currency Unit	=	Romanian Leu (ROL)
USD 1.00	=	ROL 8 000
ROL 1.00	=	USD 0.00013

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

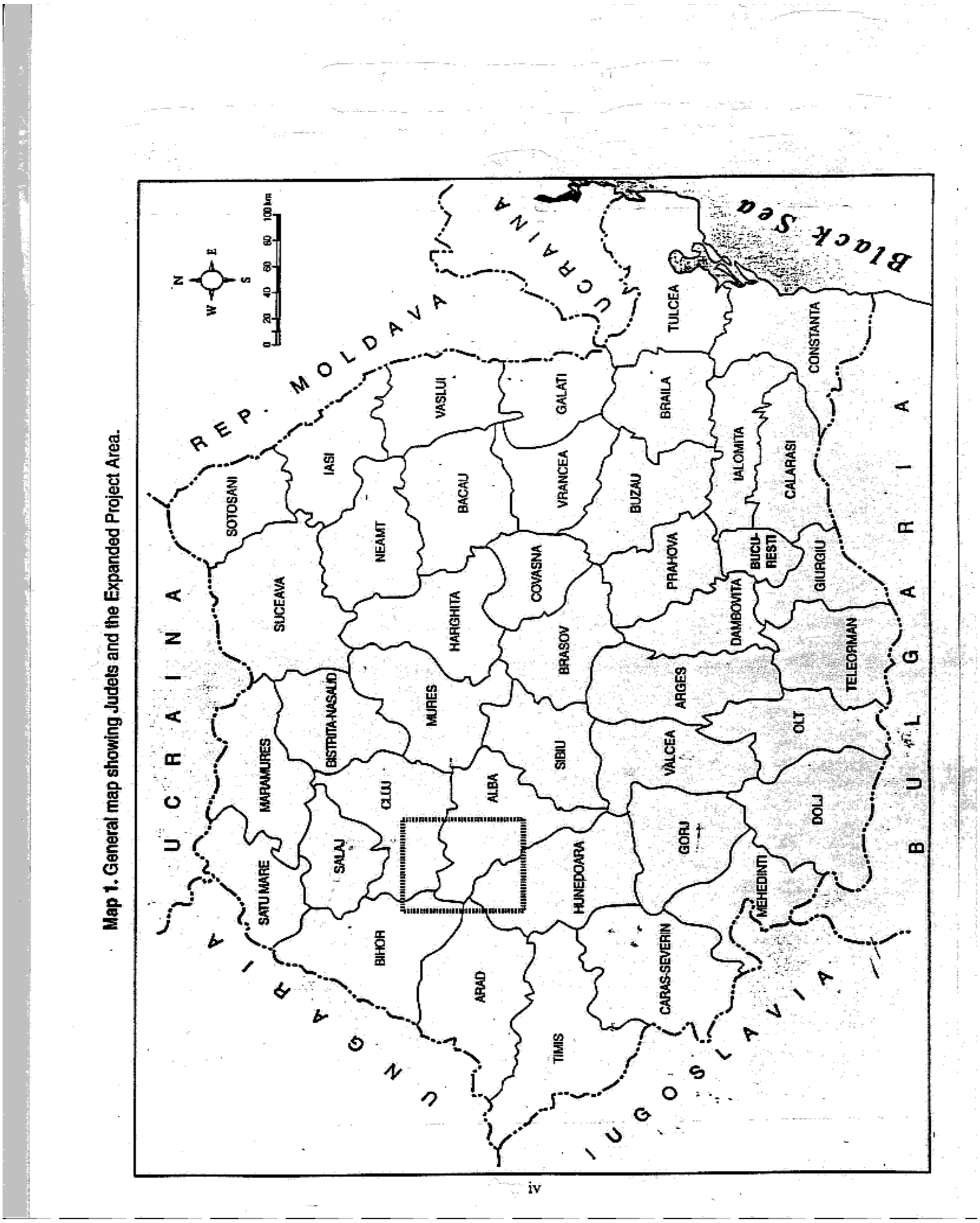
ARCF	Apuseni Revolving Credit Fund
AWPBs	Annual work programmes and budgets
DGRD	Directorate General for Rural Development
MOF	Ministry of Finance
NARD	National Agency for Regional Development
PCC	Project Coordination Committee
PCI	Participating credit institution
PIU	Project Implementation Unit
SFA	Subsidiary financing agreement

GOVERNMENT OF ROMANIA

Fiscal Year

1 January - 31 December

MAP OF THE PROJECT AREA



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

ROMANIA

APUSENI DEVELOPMENT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Romania
EXECUTING AGENCY:	Ministry of Agriculture and Food
TOTAL PROJECT COST:	USD 34.11 million
AMOUNT OF IFAD LOAN:	SDR 12.4 million (equivalent to approximately USD 16.46 million)
TERMS OF IFAD LOAN:	20 years, including a grace period of five years, with an interest rate of one half of the reference interest rate per annum as determined by the Fund annually
COFINANCIERS:	Germany (Bundesministerium für Wirtschaftliche Zusammenarbeit - BMZ (Ministry of Economic Cooperation)) (tentative)
	Grant cofinancier to be identified
AMOUNT OF COFINANCING:	Germany: USD 2.47 million
	Grant cofinancier: USD 2.62 million
TERMS OF COFINANCING:	Grant
CONTRIBUTION OF BORROWER:	USD 0.36 million
CONTRIBUTION OF BENEFICIARIES:	USD 5.20 million
CONTRIBUTION OF PARTICIPATING BANKS:	USD 7.00 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)

PROJECT BRIEF

Project activities will be focused on the mountain districts in the Apuseni highlands and project services will be available to rural families who have been subject to considerable social and economic deprivation in the past. In the present harsh economic conditions, they face the prospect of a continuing decline in their standard of living. The typical smallholder in the project areas farms an average area of 2.6 ha. The estimated annual income from farming for a private farmer in the Apuseni Mountains is about USD 1 000 (USD 330 per capita) compared to a GNP per capita of USD 1 450.

The underlying poverty of the Apuseni region, in common with much of Romania's mountain areas stems from decades of neglect under the former communist regime. The zone was never collectivized but as a mater of policy mountain communities were allowed to decay. The remote highland sections of the region were not fully integrated into the national economy. Under the communist regime, however, farmers were obliged to provide forage and livestock to state farms at prices below the levels prevailing for local barter and often below the cost of production. The recent radical reforms necessary for the introduction of a market economy, have initially had a cost in terms of decreases in remittances from family members previously employed in factories and mines that have now closed. In addition, there has been a sharp reduction in the level of social services, further adding to the vulnerability of the population. Lack of funding for inputs and capital equipment is keeping the smallholder at a low level of production and marketing structures still need to be further developed to ensure that the primary producer obtains a fair share of the marketed output.

Based on the experience of IFAD in other transitional economies, the immediate needs of the target group - namely, the provision of financial assistance - and the specifics of Romania, a simple, two component project design has been adopted comprising the provision of rural financial services and very limited support to the Government for the coordination of rural services. In an IFAD context, the project will pioneer a new concept, the establishment of an Apuseni Revolving Credit Fund (ARCF) that will function as a discount or refinancing facility for the provision of both investment and working capital loans for qualifying beneficiaries. The activities eligible for financing include improved livestock production, small processing plants and income and employment facilities like agro-tourism and other small business activities. In view of a reasonably well-functioning banking system, about 90% of project funds will be directly available to beneficiaries. The ARCF discount facility will refinance about 50% of capital investment loans, while participating credit institutions, which assume the full risk of the operation, will provide 20%; the remaining part being provided by beneficiaries and a minor capital grant.

The provision of financial services require the active involvement of beneficiaries, in terms of loan appraisal and the provision of contributions from borrowers. It is anticipated that existing beneficiary- managed cooperatives that are currently being reorganized, will act as one of the main financial intermediaries, thus ensuring strong participation by the clients in refinement of policies and practices for the provision of financial services. Based on the experience gained in rural development activities supported by Germany, the project will also promote the formation of specialist producer groups to facilitate access to credit and marketing activities.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO ROMANIA FOR THE APUSENI DEVELOPMENT PROJECT

I submit the following Report and Recommendation on a proposed loan to Romania for SDR 12.4 million (equivalent to approximately USD 16.46 million) on intermediate terms to help finance the Apuseni Development Project. The loan will have a term of 20 years, including a grace period of five years, with an interest rate of one half of the reference interest rate per annum as determined by the Fund annually. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY[1]

A. The Economy and Agricultural Sector

1. Romania, with a land area of 233 440 km^2 and a population of 22.7 million, shares borders with Bulgaria, the Federal Republic of Yugoslavia (Serbia and Montenegro) and Hungary to the south and west; to the north and east it borders with Ukraine and the Republic of Moldova. In December 1989, the previous, highly centralized administration was deposed, a new constitution was adopted and presidential and legislative elections were held in September 1992. The post-election minority Government formed in 1992 pursued a broadly reformist course, and the average annual growth of the gross national product (GNP) per capita fell 4% annually between 1992 and 1995. Romania lagged behind other Eastern European countries in transitional reform. Under the new administration, elected in November 1996, the pace of reform has intensified as Romania consolidates its status as a market-oriented economy. A policy of stabilization, liberalization and economic growth is now being pursued. However, between 1990 and 1996 the economic situation had worsened which inhibited the full implementation of new policies. In 1997 the relatively stable leu/dollar rate deteriorated rapidly with devaluation and the removal of subsidies and price controls have more recently had a strong impact on domestic inflation. In consequence, stronger monetary policies have been introduced in an attempt to stabilize inflation and the exchange rate. Tariff protection has been reduced, and the process of privatization accelerated. The programme is being supported by more than USD 1 billion of external loans. Supplementary austerity measures introduced by the new Government with the International Monetary Fund agreement also include a ceiling on the amount of aid loans which the Government may receive, increased taxes and a closer scrutiny of commercial bank performance. The measures taken are beginning to make an impact and there are expectations for a sustainable reduction in the inflation rate. Such a fall is partially linked to future trade prospects, which are improving. The transition towards a market economy has rendered many production facilities economically obsolete, caused a severe decline in living standards and reduced the Government's capacity to provide social and other services to the population.

2. Romania has traditionally been one of the major agricultural economies of Central and Eastern Europe. Agriculture accounted for 21% (1996) of the gross domestic product (GDP), while

[1] See Appendix I for additional information.

industry made up 40% and services 39%. Some 35% of the population are employed, either formally or informally, in the agricultural sector. The country has a varied topography and climatic conditions give rise to a range of farming systems. About one-third of the country can be classified as mountainous, one-third as hills and tablelands, and one-third as lowlands and plains. Before 1989, approximately 90% of agricultural land was farmed by the state, either as agricultural production cooperatives or as state farms. About 10% consisted of private farms, mostly confined to the mountainous areas. Following the change of Government in 1989, the agricultural production cooperatives were privatized and redistributed to some 5 million individuals, with a limit on private ownership of 10 ha. Under the accelerated reform programmes of the new administration, state farms are being either privatized or broken up. Agricultural production patterns largely reflect the changing economic conditions and shifts in farm structure. There has been a substantial reduction in crops that need to be sold for processing to manufacturing industries; increased crop and animal production for home consumption and domestic processing; and reduced output of produce marketed via the state system. Small-scale, individual farmers responded to the political and economic pressures of the previous regime by reverting to a low input, subsistence mode of production.

3. While past constraints are reflected in the farmers' present approach to production and they remain cautious of additional investment in production-based activities, smallholders have responded quickly to the opportunities of the market place. This is demonstrated in the current demand in the project area for good quality dairy cows. With the increase in prices that followed the removal of milk subsidies in February 1997, hill farmers moved back into dairy production traditional to the mountain areas, thus proving that demands of the market are an effective engine of change in rural Romania.

B. Lessons Learned from Previous IFAD Experience

4. Although Romania is one of the founding members of the Fund, the proposed intervention will be IFAD's first in the country. The project as conceived reflects partly the experience of other donors in Romania, as well as the knowledge gained by IFAD projects in other transitional economies. In the case of Romania, important lessons are that the policy framework for proposed activities often needs further development and that there is a need for sharply technical assistance in this respect. Programming and management are other areas where substantial support is required. Finally, proposed interventions should be simple and few thus facilitating implementation and monitoring.

C. IFAD's Strategy for Collaboration with Romania

5. **Romania's Policy for Poverty Eradication**. In the Romanian context, the poor are defined as those with a per capita consumption below a critical threshold. This criterion is based on a daily per capita intake of 2 425 calories per person and an estimated minimum daily nutritional requirement costing the equivalent of USD 3.30 per day. By this definition, nearly 22% of the Romanian population live below the poverty threshold. Long-term, endemic poverty is found among such groups as farmers and pensioners; and transient poverty, exacerbated by the restructuring of the industrial and commercial sectors, is concentrated among the unemployed urban work force. The Government is addressing the issue of poverty in both its reformed system of social benefits, which alleviate immediate hardships; and through longer term programmes within the framework of structural reforms. Public transfer programmes are comprised of the following elements: compulsory pension contributions from wage earners for the provision of retirement incomes; unemployment benefits, currently about USD 21 per month; and a child allowance programme and the social assistance programme that includes discretionary assistance to the poor. While the Government has

undertaken an extensive programme of legal reform and investment incentives aimed at the privatization and rehabilitation of the nation's substantial industrial, agricultural and commercial base, the proposed project represents its initial intervention in tackling the inherent problems of poverty and underdevelopment of its disadvantaged mountain areas through an investment programme.

6. **The Poverty Eradication Activities of Other Major Donors**. The major donor activities of relevance to the proposed project are the joint Romanian/German project for establishment of farmers' associations in the Suceva district which is likewise located in a mountainous area and a credit programme financed by the European Union. The project, funded by Germany, has gained considerable experience in working with smallholder farmers and in promoting small enterprise development. The principal activities have been livestock production, agro-tourism and cottage industries. The European Union credit programme has been funding enterprise projects in designated mountain areas which have provided important lessons in terms of participation of local banks and beneficiaries in the cofinancing of activities. In addition, Switzerland is supporting a foundation for the promotion of agriculture which trains farmers in a wide range of farm and off-farm enterprises. The United Nations Development Programme (UNDP) has undertaken a number of activities in Romania, including support to small and medium private enterprises which has funded the creation of a network of business centres throughout the country. One of the small and medium private enterprise centres is located in the project area and could provide training and advice to beneficiaries interested in taking up small-scale agro-food enterprises. In June 1997, the World Bank approved a USD 350 million agricultural sector adjustment loan aimed primarily at assisting in the privatization of the sector and liberalization of agricultural markets. An agricultural support services project (around USD 20 million) to support research and extension is presently under appraisal.

7. **IFAD's Strategy in Romania**. The Government's sectoral policies and the problems of improved smallholder production provide a framework for targeted IFAD intervention. IFAD strategy in Romania focuses on the eradication of rural poverty by increasing farm incomes through improved crop and animal husbandry and production; and promoting rural enterprise and commerce in the disadvantaged mountain areas. Funding will be provided for productive on-farm investments, including: water supply and stock handling facilities; crop storage and crop marketing services and the primary processing of livestock and agricultural produce; and the establishment of small village and cottage industries. The services offered by the project will not only induce support for primary production but also for processing activities thus creating employment and assuring that a fair amount of the marketed output remains in the hands of beneficiaries. Given the experience that IFAD has gained in transitional economies, small-scale credit and rural financial services will provide the most appropriate niche for IFAD assistance; and will have the most immediate impact. Furthermore, it is the single most important sector of Romania's rural economy, the needs of which have yet to be addressed by the major multilateral and bilateral donors. In line with IFAD's corporate strategy, the project will work closely with the private sector, in this case, private banks and credit cooperatives who will be the main implementers of activities.

8. **Project Rationale**. Government strategy for the social and economic development of its long neglected, non-collectivized rural *communa* (commune) or districts has three principle strands. First, it aims to rehabilitate, strengthen or establish, as required, the basic physical facilities and social services in the designated disadvantaged rural communities, thus providing a more attractive ambience, particularly for younger families. Implementation of this facet of the strategy will be through public-sector investment, and the use of external grant financing. Second, it intends to encourage small commercial farming enterprises village and cottage industries in these communities, compatible with the need to protect the natural environment. It recognizes, however, that such development is sustainable only if it can satisfy the demands of the market place. Although prepared,

therefore, to provide limited capital support, it looks to commercial credit for necessary financing and investment discipline. Third, through the newly established Directorate General for Rural Development (DGRD) within the Ministry of Agriculture and Food and the National Agency for Regional Development (NARD) under the auspices of the Prime Minister’s Office, the Government provides the regulatory and promotional services to stimulate the development, and to coordinate the numerous, bilateral development initiatives, planned or in progress, in the disadvantaged areas. It is within the last two elements that the proposed project has been conceived and developed. The project initially has a limited geographic coverage but a national scope for developing sustainable mechanisms for smallholder support and coordination of these initiatives. The legislative framework for NARD has been stipulated by the European Union (EU) as part of the pre-accession conditions.

PART II - THE PROJECT

A. Project Area and Target Group

9. The project area will consist of the 121 designated disadvantaged *communa* of the six *Judete* (district) which cover the Apuseni Mountain zone. It has a population of about 384 400 living in 850 villages. The zone is among the poorest in Romania. The underlying poverty of the Apuseni Mountain zone, is common with much of Romania's mountain areas, stems both from the paucity of its agricultural resource base and a long period of neglect under the previous regime. Communist policies aggravated the poverty inherent in traditional, low-potential mountain agriculture, and locked these areas into systematic underdevelopment. Smallholders were motivated not by incentives to improve production and productivity, but by the avoidance of penalties for failing to meet quotas. Consolidation of smallholdings was precluded by the absence of a land market. Smallholders, however, were able to retain their independence, and remittance income from employed family members supplemented their subsistence living gained from the farms. The transition to a market economy, however, has yet to benefit the sector. The wide-spread closure or contraction of industry and mines has placed a heavy burden on many rural communities, since remittances have decreased, and many of the urban unemployed have turned to traditional agricultural and livestock production of the family homesteads to supplement the meagre monthly social security benefits.

10. Typically, a household in the Apusenis owns 2.6 ha of land comprising 1.6 ha of meadow, 0.3 ha pasture and 0.7 ha arable. Crop produce is not normally sold. Any income comes from livestock production and sale. Under a typical production pattern, the farm will generate the cash equivalent of an estimated USD 1 000 per annum per household, or a per capita income in the order of USD 330 per annum. This amounts to USD 0.90 per day, compared with the World Bank poverty line definition of USD 3.30 per day. The typical target group family consists of three persons and lives in villages and hamlets of 25 to 150 households. During the initial phases of project activities, the target group will be drawn from the rural households of the designated disadvantaged *communa* of the Alba *Judet* and thereafter, from similar households in the five neighbouring Apuseni Mountain zone *Judete.*

B. Objectives and Scope

11. The proposed development aims to improve and stabilize the economic environment of the rural communities of the Apusenis through the promotion and credit-funding of on and off-farm enterprises and the provision of rural development services. In lieu of IFAD experience and in order to achieve a rapid and demonstrable impact and to establish a mechanism for an expanded programme, the scope and design of the project has been kept simple and well-focused. The approach to the design of the project has been influenced by the need to provide a sustainable source of investment credit for the establishment of rural enterprises and a delivery mechanism that both uses

the proven expertise of existing institutions and facilities and is responsive to sector requirements and to strengthening national institutional capacity in carrying out rural development programmes. The major technical and operational factors taken into account in the design of the credit component were: (a) the need to improve target group access to the banking services; (b) the need to maintain the value of the credit funds in real terms; (c) the persistent high rates of interest; (d) the need to ensure full participation; by financial institutions; (e) the need to encourage borrower participation and cost-sharing; and (f) the need to provide technical support to borrowers.

C. Components

12. **Credit and Services.** The project will establish a fund, to be designated ARCF, for the provision of credit to target group producers for improved agricultural and livestock production, and for a range of cottage and village industries. In order to create the widest catchment area of potential borrowers, all formal banking institutions and other financial intermediaries (participating credit institutions (PCIs) approved by the National Bank of Romania in the project area will have access to ARCF for on-lending to qualifying borrowers. To achieve such ready access, the following mechanism will be employed: (a) ARCF will be established as a government fund which will be administered by NARD under the terms of credit regulations and operating procedures contained in a subsidiary financing agreement (SFA) acceptable to IFAD. (b) ARCF will be administered as a discount or refinancing facility, i.e. a PCI could recoup a given percentage of a qualifying credit from ARCF. The PCIs will be required to pre-qualify loans to beneficiaries (sub-loans) which they intended to discount with ARCF at a rate set by SFA. The PCIs will bear the full credit risk for sub-loans. (c) To protect the value of ARCF in real terms, PCIs will repay loans drawn down from ARCF in constant-dollar terms. (d) Capital investments (excluding working capital), for which target group borrowers seek ARCF credit, and to which they will contribute a minimum of 20%, will qualify for an ARCF investment grant of up to 10%. (e) The denomination of the loan to final beneficiaries, either in local currency or USD will be at the discretion of the borrower. The structure of a typical loan for capital investments will be as follows: financing from ARCF of 49%, PCIs of 21%, beneficiaries of 20% and an approved grant of 10%.

13. The range of potential production opportunities suitable for credit assistance varies throughout the area, as do the market conditions facing the primary producer and small tradesmen and potential processing units. Tentatively, about USD 8.6 million will be allocated in loans for capital investment principally in milk and beef production but also in sheep farming, pasture improvement, apiculture, pig production and small fish farming. An amount of USD 5.8 million will be made available for a wide range of enterprises upon which primary production will depend. This will furnish added value for potential export to urban markets which will provide local employment. Such ventures in primary production activities will include village and larger-scale dairy processing units, meat plants and agro-tourism. About USD 4.3 million will be provided for village and cottage industries including agro-tourism facilities, small workshops, traditional craft-making, etc.; USD 4.3 million will be available for working capital for the production enterprises and for the inventory financing of general goods and produce trading.

14. A minimum of 80% of ARCF funds will be allocated to small loans with a maximum size of USD 7 000. Allocation of larger loans, principally in processing facilities will be linked to, and in support of loans to small primary producers. Conservative models indicate the favourable cash flows and financial rates of return from small farm and off-farm investments. The projected increases in production, productivity and household incomes resulting from project investments will ensure a steady uptake of investment credit. The project will support the formation of specialist producer groups. Such groups will not only facilitate access to credit, but will be able to secure the benefits of bulk input supply and of improved prices for members’ produce.

15. The key instrumentality for selecting credit beneficiaries from the target group will be a revolving credit fund and coordination committee to be established within NARD. The criteria for loan eligibility will be: residence in designated disadvantaged *communa* of the project area; the creditworthiness of the applicant; and his or her technical competence in relationship to the loan purpose. After the first year of implementation, if loan returns and social indicators show that there is a case for refining the targeting mechanism, the principal optional criteria will be size of landholding, size of livestock holding, age and gender.

16. **Rural Development Support.** NARD will assume full responsibility for the coordination of, and support to projects and development programmes including the Apuseni Development Project. The DGRD will be in charge of group development and the training or re-training of the rural work force to develop small on and off-farm enterprises are essential to the proposed credit programme. The project will support the NARD headquarters through the funding of essential capital and recurrent costs, and DGRD for studies and training. Provision for logistic support will also be made for NARD field services in the Alba *Judet*; office-associated operating and maintenance cost; and staff training. Policy coordination of project affairs will lie with the project coordination committee (PCC) and its executive, the project coordination unit (PIU) which will be located in NARD. The project will fund through cofinancing sources, long-term technical assistance and the training of professional staff in the areas of policy generation, programming and planning at the DGRD and NARD central level, farm-business development and credit administration at the project area level.

17. The project will provide for beneficiary training in simple techniques for improving their production and processing and in the opportunities offered by the project to invest in small income-generating activities. Business and technical training will be provided for a typical beneficiary starting an on or off-farm enterprise. Successful completion of training will be a mandatory condition of an ARCF sub-loan and incorporated in the typical loan package.

D. Costs and Financing[2]

18. **Costs**. Total project costs are estimated at USD 34.11 million including price and physical contingencies of USD 0.24 million. The low contingency provisions are accounted for by the fact that 91% of base costs consist of credit funds to which contingencies are not applied. The foreign exchange element is estimated at 5% (USD 1.90 million) of total costs. Costs, including identifiable taxes, estimated at USD 0.17 million will be covered by the Government's contribution to project costs. Total costs are summarized in Table 1.

[2] See Appendix III for additional information.

TABLE 1: SUMMARY OF PROJECT COSTS[a]
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Credit and technical services					
Apuseni credit revolving fund	30 800.0	-	30 800.0	-	91
Technical services for credit	434.6	644.9	1 079.5	64	3
Subtotal	**31 234.6**	**644.9**	**31 879.5**	2	**94**
B. Rural development support					
Headquarters	419.3	163.6	582.9	28	2
Field services (Alba *Judet*)	230.4	51.5	281.8	18	1
Project coordination	180.8	938.2	1 119.0	84	3
Subtotal	**830.5**	**1 153.3**	**1 983.7**	58	**6**
Total base costs	**32 065.1**	**1 798.2**	**33 863.2**	**5**	**100**
Physical contingencies	28.8	8.0	36.8	22	-
Price contingencies	109.6	100.7	210.3	48	1
Total project costs	**32 203.5**	**1 906.9**	**34 110.3**	**6**	**101**

[a] Discrepancies in totals are due to rounding.

19. **Financing**. The IFAD contribution is estimated at USD 16.46 million (48% of total costs) and will finance principally the ARCF credit and administration; beneficiaries will contribute USD 5.20 million (15% of total costs) through a minimum average share of the investments in the activities for which ARCF credits were made; participating credit institutions will provide USD 7.00 million (21%) through their sub-loans to beneficiaries; the Government will contribute USD 0.36 million in incremental operating costs; contributions of USD 5.09 million (15%) for the investment grant element of sub-loans, technical services and training will be sought from cofinanciers. Germany has indicated its willingness to cofinance the technical services part of the project. The indicative financing plan is set out in Table 2.

TABLE 2: FINANCING PLAN[a]
(USD '000)

Components	IFAD		Beneficiaries		PCI		Government		Germany[b]		Grant Financier[c]		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	**%**	**Amt.**	**%**	**Amt.**	**%**	**Amt.**	**%**	**Amt.**	**%**	**Amt.**	**%**	**Amt.**	**%**			
A. Credit and technical services																	
Apuseni credit revolving fund	15 985.2	97.1	5 205.2	100.0	6 991.6	100.0	-	-	-	-	2 618.0	100.0	30.800.0	90.3	-	30 800.0	-
Technical services for credit	63.4	0.4	-		-	-	29.3	8.1	1 075.6	43.6	-	-	1 168.2	3.4	687.0	451.9	29.3
Subtotal	**16 048.6**	**97.5**	**5 205.2**	**100.0**	**6.991.6**	**100.0**	**29.3**	**8.1**	**1 075.6**	**43.6**	**2 618.0**	**100.0**	31 968.2	93.7	687.0	31 251.0	29.3
B. Rural development support																	
Headquarters	242.0	1.5	-	-	-	-	205.1	56.6	198.0	8.0	-		645.1	1.9	178.1	391.8	75.2
Field services (Alba *Judet*)	173.8	1.0	-	-	-	-	109.1	30.1	29.0	1.2	-		311.9	0.9	55.4	212.2	44.2
Project coordination	-	-	-	-	-	-	18.	5.2	1 166.3	47.2	-		1 185.1	3.5	986.3	180.0	18.8
Subtotal	**415.8**	**2.5**	-	-	-	-	**333.0**	**91.9**	**1 393.3**	56.4	-		2 142.1	6.3	1 219.8	784.0	138.2
Total disbursement	**16 464.4**	**100.0**	**5 205.2**	**100.0**	**6.991.6**	**100.0**	**362.3**	**100.0**	**2 468.9**	**100.0**	**2 618.0**	**100.0**	**34 110.3**	**100.0**	**11 906.8**	**32 035.9**	**167.5**

[a] Discrepancies in totals are due to rounding.
[b] Technical assistance is estimated at USD 2.47 million while finance for capital grants will be USD 2.62 million.
[C] To be identified.

E. Procurement, Disbursement, Accounts and Audit

20. **Procurement**. Procurement of goods and services financed by the IFAD loan will observe IFAD's guidelines. Government procurement procedures are being revised with the assistance of the World Bank. The current public-sector procedures, subject to compliance with IFAD procurement guidelines, will be adequate for project procurement. Since 90% of project investments related to the project are sub-loans, project procurement requirements are modest. Purchase of equipment and goods worth USD 100 000 or less will be on the basis of local shopping with *pro forma* invoices obtained from three different suppliers. It is anticipated that no procurement package will exceed this amount. Contracts for the procurement of goods and services worth less than USD 20 000 will be awarded on the basis of direct contracting. Technical services will be procured according to procedures of the cofinancier. All contracts for items financed by IFAD will be subject to ex-post review by the cooperating institution.

21. **Disbursement**. The proposed IFAD loan of USD 16.46 million equivalent will be disbursed over a five-year period with the closing date of 30 June 2004. Withdrawals from the loan account will be effected in accordance with procedures acceptable to IFAD. To facilitate project implementation, a special account will be established by the Government in the National Bank of Romania into which IFAD will make an initial deposit of USD 2.6 million.

22. **Accounts**. ARCF accounts will be maintained in accordance with the accounting practices of NARD. Separate, clearly coded accounts will be maintained for administration and credit funds. Maintenance of the project accounts, which will be compiled from NARD, DGRD, PIU and ARCF, accounts will be the responsibility of PIU.

23. **Audit**. Each government spending agency maintains a full account of its transactions and submits a monthly balance to its headquarters and to MOF. Under the terms of national audit legislation, these are also submitted to the local branch of the National Audit Office which carries out a continuous audit of government expenditure. The National Audit Office has the necessary capacity and resources to ensure the timely audit of project accounts in accordance with IFAD requirements. The financial statements and the auditor's opinion and reports will be submitted to IFAD and the cooperating institution no later than six months after completion of the fiscal year. Audit of ARCF transactions will be the responsibility of NARD and international auditors in accordance with central bank regulations.

F. Organization and Management

24. **Project Organization.** Coordination of project activities at the national level will be provided through the PCC, whose membership is to be acceptable to IFAD. The PCC responsibilities will be to ensure that project activities are in compliance with government polices for the sector and with the conditions of the project loan agreement. The PCC will coordinate the activities of government departments and other agencies in the rural development field and provide a forum for the settlement of any policy or financial impasse. The PIU will be constituted within NARD and, in addition to its duties as the PCC secretariat, it will: maintain project accounts; submit reports in accordance with the requirements of PCC, and of project documentation; conduct the physical, financial and impact monitoring of project activities against annual work programmes and budgets (AWPBs); prepare, collate and submit replenishment claims in accordance with MOF instructions; administer project workshops; and supervise or carry out project reviews and studies. Both components of the project will be implemented on the basis of approved AWPBs, which will be based upon appraisal estimates adjusted to reflect changes in costs and development policies. For project credit funds, NARD will collate all PCI estimates of sub-loans for the following year. For

government institutional support expenditure, AWPBs will be prepared in conformity with government financial regulations and with the timing for budgetary submissions. Prior to their transmission to MOF for further processing and inclusion in the national budget, AWPBs will be submitted to PCC and IFAD for approval.

25. ARCF will be administered by NARD under the terms of SFA acceptable to IFAD which, *inter alia*, will cover: fund accounting and reporting; discount procedures and rates; indexing and repayment; sub-loan beneficiary eligibility; collateral and guarantee conditions for sub-loans; technical and financial preparation of sub-loans; sub-loan appraisal and approval; and disbursement, supervision and recovery. Fund administration will be directed by an ARCF loan and coordination committee which will: (a) receive all PCI applications for the discounting of sub-loans and ensure that they met SFA terms and conditions; (b) approve or reject all applications; (c) submit all required accounts, financial statements and other reports on ARCF operations in accordance with SFA conditions and government requirements; (d) prepare the ARCF annual budget (lending programme) for submission to IFAD; and (e) generally manage ARCF to ensure its viability and efficient operation.

26. A small ARCF secretariat will be established. The duties of the secretariat will include: (a) ARCF accounting and management of the discount facility; (b) managing development grant funds; (c) ensuring that borrower identification, eligibility and technical skills; the technical and financial preparation of sub-loans; sub-loan appraisal and approval; and the disbursement, supervision and recovery procedures comply with the SFA conditions; (d) arranging technical, industrial and business training for beneficiaries; (e) assisting PCI in all aspects of the ARCF promotion and sub-loan processing; preparing AWPBs for the component; (f) submitting reports in accordance with the requirements of the loan and coordination committee and project documentation; (g) component monitoring and evaluation; and (h) coordinating with other national and donor-assisted rural finance projects.

27. All PCI approved by the central bank and operating in the project area can make use of ARCF. It is, however, anticipated that the Casa de Credit Cooperatist which is a beneficiary-owned and managed institution and has an excellent record in the project area, will be the prime user of the facility. An important feature of the lending practice of the Casa de Credit Cooperatist is the insistence on guarantees rather than reliance purely on collateral for loan security. Currently the Casa de Credit Cooperatist has more than 6 000 members and its current portfolio comprises about 3 500 small loans.

28. **Reporting, Monitoring and Evaluation**. Quarterly financial and progress reports will be prepared by ARCF and DRGD for submission to PIU, and will record financial and physical activities carried out against AWPB targets. The project coordinator will prepare the reporting formats, and will produce a consolidated six-monthly report for submission to PCC at its regular half-yearly meeting and to the routine IFAD supervision mission. The project annual report will be submitted within two months of the end of the fiscal year.

29. The monitoring system as conceived under the project will introduce the recording and reporting procedures required for the adequate flow of data to assess project impact on beneficiaries and simultaneously providing management with an important tool to guide the project. Loan preparation will require an inventory of the current production of the smallholding, an estimate of its current income, the restructuring of the current cropping cycle to accommodate any increase in production, and detailed projections of the investment, production parameters, sales and operating costs, and after-debt-service cash flows. Additional 'before-development' information against a range of standard-of-living indicators will be incorporated into the preparation document. Thereafter, regular production and income data will be collected by the supervision and technical staff provided

for each loan. Second, the regular reporting of actual against planned production targets will provide a broad array of up-dated information to project management. This will permit timely action to be taken on such matters as adjustment or amendment to the type and scale of farm developments funded, key areas of services and training to be supported or provided, and marketing and input supply problems. Finally, the effect of the project-funded investment on the living standards and well-being of the household will be recorded by the same staff on final repayment of the loan according to criteria set by the PIU monitoring and evaluation section. A baseline survey to be carried out during the first six months of project implementation will facilitate this process.

30. In this manner, the project will introduce comprehensive monitoring procedures for the implementation of the credit component and for the related technical services; and will provide for the systematic evaluation of its impact upon the target group. The approach also reflects the new strategic focus of IFAD emphasizing impact assessment. In view of its innovative character, a monitoring and evaluation specialist attached to PIU will work closely with the ARCF secretariat to draw up the key reporting formats and procedures to be employed for each category of loan. The process will be subject to regular review during the course of project supervision.

G. Economic Justification

31. The principal project benefits will flow from the range of economic activities financed through the project credit facility. In particular, the facility will stimulate improved animal production which is central to the economy of the region through funding the purchase of improved breeding stock, the timely supply of good quality animal feed and comprehensive animal health care; and by establishing processing outlets able to pay quality produce premiums. In addition, it will finance small rural businesses in food processing, marketing and supply, and in associated rural activities including agro-tourism. Illustrative models for a variety of rural enterprises have been prepared using conservative variables and parameters for both prices and production. They show satisfactory cash flows and high financial rates of return, a typical characteristic of the improved use of existing resources and of the low real cost of labour. It is estimated that between about 6 000 and 6 500 households, or 15% of the target group, will initially take up small loans averaging about USD 3 000. Such investments will result in significant increases in household incomes, and thus ensure a steady up-take of the credit. Of equal importance, project financing will allow smallholders to escape from the ’subsistence trap’ by becoming specialized commercial producers. Loans of USD 50 000 and above for the construction of local processing facilities will have similar returns to those of smallholder investments and will create employment opportunities for the sector of the population not engaged in primary production.

32. Due to the wide range of on and off-farm enterprises that will be suitable for credit funding, and the marketing conditions that vary throughout the Apusenis, no accurate estimate of the up-take of each category of loan can be made. It is, therefore, not possible to quantify project benefits in an exact manner. Accordingly, no economic analysis of the project has been carried out.

33. There are no legislative or cultural prohibitions to equal access by women to project credit. Women, particularly where they are the heads of the household, can borrow on their own account; they are already recognized by the banks as the most reliable clients. The requirement for guarantors or a chattels mortgage for loans of up to USD 2 000 will allow women to borrow where it will not be possible, e.g. by the absence of the husband in employment abroad, to offer secure title on jointly owned property.

H. Risks

34. The project has two principal risks. First, there is an ingrained reluctance on the part of smallholders to offer the hard-won security of their land title for project loans. Second, the PCI may attempt to insist on too high a multiple of collateral from the small borrower. However, full account of these risks has been taken in the project design, and four specific incentives offered to both parties to overcome them *vis-à-vis*: (a) qualifying borrowers will benefit from a capital grant for approved capital investments which will stimulate demand for credit; (b) as part of interventions, collateral requirements for project sub-loans will be limited, and the project will emphasize the use of guarantors and chattels rather than house or land mortgages; (c) borrowers will be offered the alternative of an index-based loan, accompanied by a low real interest charge. This solution has proved both effective and attractive elsewhere in the transitional economies and a similar reaction may be anticipated in Romania; and (d) the PCI:(i) will enjoy the financial benefits of a project loan discount facility; and (ii) will be assisted in the provision of technical and supervisory services to clients.

I. Environmental Impact

35. The environmental impact of project activities will range from neutral to positive. Project-funded loans for income generation for village and cottage industry will have no effect on the environment. Improved livestock production will tend to accelerate off-take through the increase in the number of breeding females in the herds and flocks. Past policies which restricted smallholder livestock production resulted in the spread of secondary growth and a reduction in the area of common grazing or *communa*-administered pastures which remain under-utilized. There are no proposals to improve any pastures other than those already owned and cultivated by smallholders; and the Government intends to apply Council of Europe policies for the protection of the mountain environment, flora and fauna. Intensive dairy and small stock production will be encouraged on widely scattered homesteads. There is a high demand for farmyard manure and animal waste from these units will be quickly claimed and used as fertilizer. Project investments will not lead to any significant increase in the use of agro-chemicals; and technical preparation and supervision of loans will ensure that small intensive holdings will not pollute local surface water through discharge or effluent run-off. Based on the stipulated IFAD screening procedures, and taking into consideration that the likelihood of disturbance to the physical setting or resources will be minimal, the project has been given a Category C classification. No further environmental analysis or specific action will be required during the implementation of the project.

J. Innovative Features

36. The approach taken for project design has been to apply and to match well-proven financial techniques to the existing capacity of the Romanian banking and administrative sectors; and to ensure that, at each stage of project processing, it addresses the perceived needs of all participants. In so doing, the project aims to provide the required means and incentive for the planned rate of disbursement and take-up of the sub-loans; to meet targeting objectives; and to ensure the positive impact on beneficiaries of project investments. Discounting provides a mechanism through which domestic cofinancing can be attracted to the funding of project activities. It requires a relatively sophisticated banking system which Romania possesses, but its flexibility ensures that it can provide incentives in lending conditions and rates to satisfy the expectations of both credit institutions and sub-borrowers. Further the discount mechanism ensures active participation of the private sector in terms of sharing of risks and the establishment of an overall sustainable delivery mechanism. While financial monitoring of beneficiary credit will be assured by the terms of SFA and its accounting provisions, the project will establish a seamless linkage between project loans and impact monitoring.

Substantial data are required and recorded in loan processing and, with minimal additional formatting and follow-up on-site visits, regular and orderly impact monitoring will be assured.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

37. A loan agreement between Romania and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

38. Romania is empowered under its laws to borrow from IFAD.

39. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

40. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

> RESOLVED: that the Fund shall make a loan to Romania in various currencies in an amount equivalent to twelve million four hundred thousand Special Drawing Rights (SDR 12 400 000) to mature on and prior to 1 December 2018 and to bear an interest rate of one half of the reference interest rate per annum as determined by the Fund annually, and to be upon such other terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Negotiations concluded on 27 August 1998)

1. The Government of Romania (GOR) will make available to NARD and DGRD the proceeds of the Loan, together with other funds required for the carrying out of the Project, under Subsidiary Financing Agreements, acceptable to IFAD, for carrying out the Project.

2. The counterpart funds to be contributed by GOR to the Project will be allocated annually in the GOR's State Budget Law. Records for the said counterpart funds will be separately maintained.

3. GOR will ensure that all identifiable taxes, duties and similar levies on expenditure incurred under the Project are paid by GOR from its contribution to the Project costs.

4. GOR will take reasonable measures to ensure that the Project is carried out with due diligence in regard to environmental factors and in conformity with national environmental legislation and any international environmental treaties to which GOR may be a party, including the maintenance of appropriate agricultural pest management practices, where applicable.

5. GOR will establish and maintain, through NARD, an Apuseni Revolving Credit Fund (ARCF) for the credit component of the Project and will keep therein the principal and interest, received on the sub-loans made to farmers from the proceeds of the Loan provided for incremental credit. Amounts available in the ARCF will be used by NARD and the PCIs for the expansion of credit facilities to the beneficiaries in a manner consistent with the Loan Agreement and the Subsidiary Financing Agreement with NARD.

6. During the execution of the Project, GOR and IFAD will periodically review the interest rates to be applied to the sub-loans to be made out of the proceeds of the Loan by NARD, through the PCIs. GOR will, if necessary, take appropriate measures, consistent with GOR's policies in order to harmonise the interest rates on sub-loans with IFAD's policy on relending rates.

7. GOR and NCRD will constitute the PCC to coordinate Project activities at the national level. The PCC will be responsible for: (i) ensuring that Project activities are in compliance with government policies for the sector and with the terms and conditions of the Loan Agreement; (ii) defining, through an agreement, the respective duties and responsibilities of NARD and DGRD in the execution of the Project; and (iii) the settlement of any policy or financial impasse concerning the Project.

8. The PIU will be constituted within NARD and, in addition to its duties as the PCC secretariat, it will maintain the Project accounts, submit reports in accordance with the requirements of the Loan Agreement; conduct the physical, financial and impact monitoring of Project activities against the AWPB; prepare, collate and submit replenishment claims in accordance with MOF instructions; administer Project workshops; and supervise or carry out Project reviews and studies. NARD, in collaboration with DGRD, will appoint four officers to the PIU: the Project Director, a Financial Officer, a Monitoring and Evaluation Specialist and a DGRD Rural Development Specialist.

9. GOR will cause NARD to make appropriate arrangements for the administration of the ARCF, which administration will: (i) receive all PCI applications for the discounting of sub-loans and

ensure that they meet the terms and conditions specified in the Subsidiary Financing Agreement with NARD; (ii) approve or reject all such applications; (iii) submit all accounts, financial statements and other reports on ARCF operations in accordance with the requirements and conditions of GOR and the Subsidiary Financing Agreement with NARD; (iv) prepare the ARCF annual budget and lending programme for submission to IFAD; and (iv) generally manage the ARCF to ensure its viability and sustainable operation.

10. GOR will submit to IFAD, for its review and comments, the draft AWPB, based on the work programmes and budgets prepared by each of the implementing agencies for the Project, no later than two months before the commencement of each fiscal year of GOR. GOR will consider the comments of IFAD on the AWPB prior to its finalisation.

11. No withdrawals from the Loan Account will be made in respect of payments made:

(a) until GOR shall have submitted to IFAD the AWPB for the first year of the implementation of the Project, satisfactory to IFAD; or

(b) for expenditures for incremental credit, until the Subsidiary Financing Agreement with NARD, in form and substance acceptable to IFAD, shall have been duly executed and shall have become legally binding upon GOR and NARD in accordance with its terms.

12. The following are specified as additional conditions precedent to the effectiveness of the Loan Agreement:

(a) GOR shall have established the PCC, with terms of reference and composition satisfactory to IFAD; and

(b) GOR, through NARD, shall have selected and apponted the Project Director, with qualifications and experience and on terms and conditions satisfactory to IFAD.

COUNTRY DATA - ROMANIA

Land area (km^2 thousand) 1994 1/	**230**	**GNP per capita (USD) 1995 2/**	**1 480**
Population (million) 1995 1/	**23**	**Average annual real rate of growth of GNP per capita, 1985-95 2/**	**-4.0**
Population density (population per km^2) 1995 1/	**99**	**Average annual rate of inflation, 1985-95 2/**	**69.1**
Local currency	**Leu (ROL)**	**Exchange rate: USD 1 =**	8 000

Social Indicators		**Economic Indicators**	
Population (average annual rate of growth) 1980-95 1/	0.1	GDP (USD million) 1994 1/	35 533
Crude birth rate (per thousand people) 1995 1/	11	Average annual rate of growth of GDP 1/	
Crude death rate (per thousand people) 1995 1/	12	1980-90	0.5
Infant mortality rate (per thousand live births) 1995 1/	23	1990-95	-1.4
Life expectancy at birth (years) 1994 3/	69.5		
		Sectoral distribution of GDP, 1995 1/	
Number of rural poor (million) 1/	2.9	% agriculture	21
Poor as % of total rural population 1/	28.0	% industry	40
Total labour force (million) 1995 1/	11	% manufacturing	n.a.
Female labour force as % of total, 1995 1/	44	% services	39
Education		Consumption, 1995 1/	
Primary school enrolment (% of age group total) 1993 1/	95	Government consumption (as % of GDP)	12
Adult literacy rate (% of total population) 1994 3/	96.9	Private consumption (as % of GDP)	66
		Gross domestic savings (as % of GDP)	21
Nutrition			
Daily calorie supply per capita, 1992 3/	n.a.	**Balance of Payments (USD million)**	
Index of daily calorie supply per capita (industrial countries=100) 1992 3/	n.a.	Merchandise exports, 1995 1/	7 548
Prevalence of child malnutrition (% of children under 5) 1989-95 1/	n.a.	Merchandise imports, 1995 1/	9 424
		Balance of trade	-1 876
Health			
People per physician, 1993 1/	*538*	Current account balances (USD million)	
People per nurse, 1993 1/	n.a.	before official transfers, 1995 1/	-1 705
Access to safe water (% of population) 1990-96 3/	n.a.	after official transfers, 1995 1/	-1 342
Access to health service (% of population) 1990-95 3/	n.a.	Foreign direct investment, 1995 1/	419
Access to sanitation (% of population) 1990-96 3/	n.a.	Net workers' remittances, 1995 1/	3
		Income terms of trade (1987=100) 1995 1/	*43*
Agriculture and Food			
Cereal imports (thousands of metric tonnes) 1994 1/	529	**Government Finance**	
Food imports as percentage of total merchandise imports 1993 1/	14	Overall budget surplus/deficit (as % of GDP) 1994 1/	-2.5
Fertilizer consumption (hundred grams of plant nutrient per arable ha) 1994/95 1/	389	Total expenditure (% of GDP) 1994 1/	31.9
Food production index (1989-91=100) 1995 1/	99	Total external debt (USD million) 1995 1/	6 653
Food aid in cereals (thousands of metric tonnes) 1994-95 1/	*75*	Total external debt (as % of GNP) 1995 1/	18.3
		Total debt service (% of exports of goods and services) 1995 1/	10.6
Land Use			
Agricultural land as % of total land area, 1994 1/	64	Nominal lending rate of banks, 1995 1/	n.a.
Forest and woodland area (km^2 thousand) 1990 1/	63	Nominal deposit rate of banks, 1995 1/	n.a.
Forest and woodland area as % of total land area, 1990 1/	27		
Irrigated land as % of arable land, 1994 1/	31.3		

n.a. not available.
Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1997.
2/ World Bank, *Atlas*, 1997.
3/ UNDP, *Human Development Report*, 1997.

LOGICAL FRAMEWORK

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
Development objectives • To improve the living conditions of the target population in the Apuseni Mountains through increased economic activity in the area; and • To assist the Government (NARD and DGRD) is becoming more effective in managing development in the disadvantaged rural areas	Increases in household income and/or expenditures Outmigration halted (or decline less than in comparable mountain areas)	Income & expenditure surveys Census reports Commerce reports	No abrupt macroeconomic and/or political changes.
Strategies • Provide participating credit institutions (PCIs) with sufficient incentives to lend to smallholders through participation in the Apuseni Revolving Credit Fund (ARCF) • Strengthen capacity of NARD and DGRD staff at both headquarters and field level in managing demand-driven rural development initiatives	Disbursements from ACRF Capacity of NARD to attract and utilize additional funds for rural development	PCI records Project annual reports Mid -term review Beneficiary assessment Donor review meetings	Continued free market economic framework.
Activities • Provision of short and medium-term credit to farmers and small entrepreneurs in the mountain *commune* of Alba and other selected *judete* to take up or expand productive activities • Strengthen (mainly through training and provision of equipment) NARD and DGRD (Bucharest and Alba *Judete*)	Number of loans made/repayments received Degree of interaction between DGRD at *Judet* level and clients (beneficiaries)	PCI records Project annual reports Mid -term review	Financial integrity of Apuseni Revolving Credit Fund maintained.
Outputs ⇒ Livestock productivity and production improved ⇒ Small rural enterprises established ⇒ New marketing outlets created ⇒ Beneficiary technical and managerial skills improved ⇒ Loan appraisal and review (bank staff) improved ⇒ Articulation of strategy for disadvantaged areas improved	Amount of meat and milk Amount of loan repayments Number of new/improved rural enterprises Management and reporting documentation produced	Contact beneficiary monitoring PCI records Government records statistical bulletins	
Inputs ⇒ Credit (from ARCF and commercial banks) ⇒ Capital grant ⇒ Beneficiary contribution (cash or kind) ⇒ Vehicles and equipment ⇒ Training & studies ⇒ Technical assistance ⇒ Recurrent expenses	Loans made Vehicles and equipment operational Training completed TA accepted	PCI records Project AWPB; and Quarterly and annual progress reports	

COSTS AND FINANCING

Table 1: Expenditure Accounts by Components - Base Costs (USD '000)

	Credit and Technical Services		Rural Development Support				Physical Contingencies	
	Apuseni Credit Revolving Fund	Technical Services for Credit	Headquarters	Field Services (Alba *Judet*)	Project Coordination	Total	%	Amount
I. Investment costs	-							
A. Civil works	-	7.5	2.3	1.4	-	11.2	15.0	1.7
B. Equipment and goods	-	38.5	89.0	49.9	26.0	203.4	5.0	10.2
C. Vehicles	-	33.0	9.0	33.0	-	75.0	5.0	3.8
D. Technical assistance training and studies	-							
Technical assistance	-	615.0	-	-	848.0	1 463.0	-	-
Training		219.0	181.9	27.8	-	428.7	-	-
Studies		-	-	-	150.0	150.0	-	-
Subtotal technical assistance training and studies		834.0	181.9	27.8	998.0	2 041.7	-	-
E. Credit	30 800.0	-	-	-	-	30 800.0	-	-
Total investment costs	30 800.0	913.0	282.1	112.1	1 024.0	33 131.3	-	15.6
II. Recurrent costs	-							
A. Salaries and allowances	-	42.0	168.9	84.4	42.0	337.3	-	-
B. Operation and maintenance	-	49.0	44.4	49.8	13.0	156.1	6.0	9.3
C. Other operating costs	-	75.5	87.5	35.5	40.0	238.5	5.0	11.9
Total recurrent costs-	-	166.5	300.8	169.7	95.0	731.9	2.9	21.2
Total BASELINE COSTS	30 800.0	1 079.5	582.9	281.8	1 119.0	33 863.2	0.1	36.8
Physical contingencies		12.4	11.8	8.6	4.0	36.8	-	-
Price contingencies		76.4	50.4	21.4	62.1	210.3	1.2	2.6
Total PROJECT COSTS	30 800.0	1 168.2	645.1	311.9	1 185.1	34 110.3	0.1	39.4
Taxes	-	29.3	75.2	44.2	18.8	167.6	1.7	2.9
Foreign Exchange	-	687.0	178.1	55.4	986.3	1 906.9	0.4	8.4

Table 2: Disbursement Accounts by Financiers (USD ‘000)

	IFAD		Germany		Grant Financier		Participating Credit Institutions		Beneficiaries		Government of Romania		Total		Foreign Exchange	Local (Excl Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
Civil works	3.6	27.0	7.2	55.0	-	-	-	-	-	-	2.4	18.0	13.2	--	-	10.8	2.4
Vehicles and equipment	224.0	74.4	22.9	7.6	-	-	-	-	-	-	54.2	18.0	301.1	0.9	125.3	121.6	54.2
Tech. assis.. & training	-	-	2 168.0	100.0	-	-	-	-	-	-	0.0	-	2 168.0	6.4	1 740.2	427.8	-
Investment projects	15 985.0	51.9	-	-	2 618.0	8.5	6 991.6	22.7	5 205.2	16.9	-	-	30 800.0	90.3	-	30 800.0	-
Salaries and allowances	-	-	64.4	17.4	-	-	-	-	-	-	305.7	82.6	370.1	1.1	-	259.1	111.0
Operation and maintenance	109.5	60.0	73.1	40.0	-	-	-	-	-	-	0.0	-	182.6	0.5	41.4	141.2	-
Other operating costs	142.1	51.6	133.3	48.4	-	-	-	-	-	-	-	-	275.4	0.8	-	275.4	-
Total	16 464.4	48.3	2 468.9	7.2	2 618.0	7.7	6 991.6	20.5	5 205.2	15.3	362.3	1.1	34 110.3	100.0	1 906.9	32 035.9	167.6
Foreign	127.5	6.7	1 779.5	93.3	-	-0	-	-	-	-	-	-	1 906.8	5.6			
Local	16 336.9	51.0	689.4	2.2	2 618.0	8.2	6 991.6	21.8	5 205.2	16.2	194.7	0.6	32 035.9	93.9			
Taxes and duties	-	-	-	-	-	-	-	-	-	-	167.6	100.0	167.6	0.5			
	16 464.4	48.3	2 468.9	7.2	2 618.0	7.7	6 991.6	20.5	5 205.2	15.3	362.3	1.1	34 110.3	100.0			

ORGANIZATION AND MANAGEMENT [3]

Organization

1. This project has been designed to support the Government's rural development objectives, which aim to improve the livelihood of communities in the nation's disadvantaged mountain areas; project interventions are being undertaken within the broader context of European policies for regional development. The newly established NARD will have six branches throughout the country and will be the main agency for channelling rural development funds from the EU and other donors. As part of its mandate, NARD will have responsibility for policy direction and coordination of project activities.

2. Coordination of project activities at the national level will be provided through a PCC whose membership is to be acceptable to IFAD. The project coordinator will act as the secretary to the committee, and PIU will serve as its secretariat. The PCC will meet every six months. Its responsibilities will be: to ensure that project activities are in compliance with government polices for the sector and with the conditions of the project loan agreement; to coordinate the activities of government departments and other agencies in the rural development field; and to provide a forum for the settlement of any policy or financial impasse.

3. The PIU will be constituted within NARD and, in addition to its duties as PCC secretariat, it will: maintain the project account; submit reports in accordance with the requirements of PCC and of project documentation; conduct the physical, financial and impact monitoring of project activities against AWPBs; prepare, collate and submit replenishment claims in accordance with MOF instructions; administer project workshops; and supervise or carry out project reviews and studies. The NARD will appoint three officers to PIU: the project coordinator, a financial officer and a monitoring and evaluation specialist. The post of project coordinator calls for substantial technical and administrative expertise.

Implementation

4. Both components of the project will be implemented on the basis of approved AWPBs that will be based upon project estimates adjusted to reflect changes in costs and development policies. For project credit funds, NARD, working through ARCF, will collate all PCI estimates of sub-loans for the following year. These estimates, together with any estimate of expenditure to be charged to the ARCF revenues, will constitute the credit component of AWPB and will be submitted to PIU and IFAD for approval in the last quarter of each year.

5. For government institutional support expenditure, AWPBs will be prepared in conformity with government financial regulations and timing for budgetary submissions. Prior to their transmission to MOF for further processing and inclusion in the national budget, AWPBs will be submitted to PCC and IFAD for approval.

6. ARCF will be administered by NARD under the terms of the subsidiary financing agreement (SFA). NARD will be paid a management fee of 1.0% of ARCF turnover to cover the costs of fund administration.

[3] See Organizational Chart.

7. Fund administration will be directed by an ARCF loan and coordination committee whose membership is to be acceptable to IFAD. A small professional unit, the ARCF secretariat, will be established to implement loan committee policies and decisions.

8. PCI will be required to pre-qualify sub-loans with the ARCF loan committee. Following ARCF approval, a PCI will make the sub-loan, for which it will bear full credit risk, and then be permitted to draw back from ARCF a percentage of the value of the sub-loan ('the discount rate'). The initial discount rate will be set as follows: (a) non-indexed loans 70%; and (b) indexed loans 90%. These rates will be subject to approval by MOF, and will be revised every six months during routine project supervision. Any change to the initially approved rates will require prior IFAD approval. No interest will be charged by ARCF on amounts of sub-loans discounted. However, a once-and for-all transaction charge of 2.25% will be levied to cover ARCF administration costs and to provide a contingency fund for expansion expenses. The PCI will repay the discounted portion of the sub-loan, together with the transaction charge, over the same repayment schedule set for the sub-loan. Thus, if the final beneficiary had to repay in three equal instalments on 1 January each year, PCI will repay the same amounts to ARCF on the same due dates. The sustainability of ARCF funds in their original dollar terms will be ensured by indexing the discount facility. Amounts drawn down from ARCF will be made in lei but repayment expressed in constant-dollar terms.

9. PCI sub-loans to beneficiaries will be administered in accordance with the PCI's internal credit regulations, and with the terms and conditions of SFA which will take precedence in any interpretation of the terms for such credit. Lending will be directed principally to individual small primary producers and small cottage or village industries, including agro-tourism; and dairy or meat processing plants which will provide an essential marketing outlet for primary producers. The upper limit of primary producer capital investment loans will be USD 7 000 equivalent but clustered in the USD 1 500 to USD 3 000 range. Given the average size of farms throughout the project area, and the common and prevailing poverty of rural families, eligibility for this category will be limited to: (i) residence in the area; and (ii) evidence of the technical competence of the borrower. The ARCF will ensure that a minimum of 80% of ARCF funds are directed to this category of borrower.

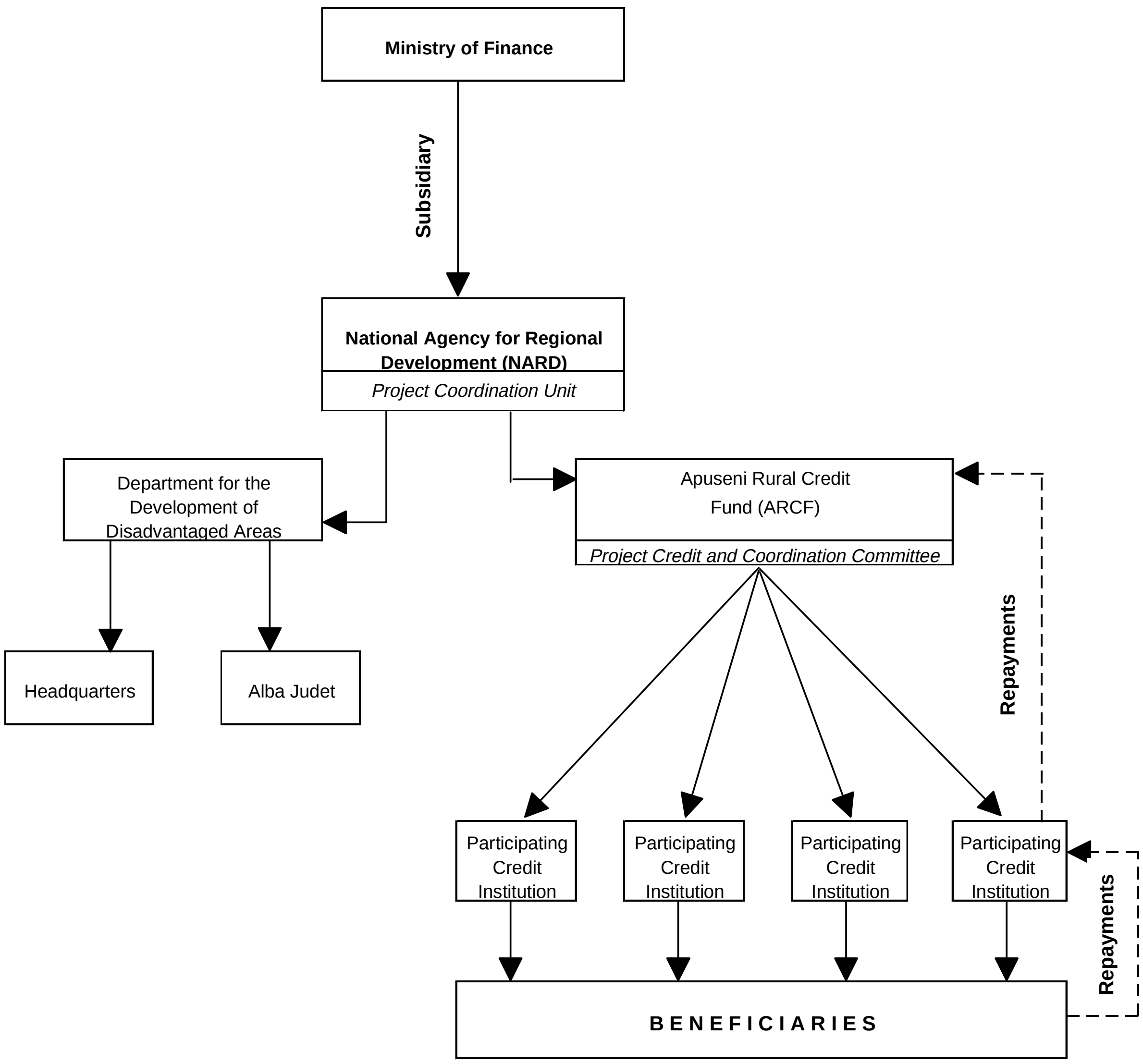
10. The upper limit of processing loans, which will account for a maximum of 20% of ARCF funds, will be USD 50 000. However, applications for capital investments requiring credit funding in excess of this figure will be considered on a case-by-case basis. Prior approval by IFAD will be required for any such loan. The sole eligibility criterion for a processing loan will be the technical competence and experience of the applicant.

11. Sub-loans will be made in domestic currency and borrowers will have the option to receive and repay the loan in current terms at prevailing rates of interest or as an indexed credit at prevailing dollar rates. The effect of the options will be as follows: (a) **Current Terms.** The sub-loan will be made in lei with the principal held at its original level but with a variable interest charge which will cover any depreciation in the lei. (b) **Indexed Terms.** The sub-loan will be expressed in lei but repayments fixed in constant dollar-equivalent terms. In effect, the sub-borrower will carry the foreign exchange risk but will benefit from a lower fixed interest rate on dollar-denominated loans.

12. Long-term technical assistance will be provided in the areas of policy generation, planning and programming for NARD and DGRD at the central level, while assistance will be provided for credit administration (ARCF secretariat) and for farm business advice for NARD and DRGD at the project area level.

13. All financial institutions (PCI) approved by the central bank and operating in the project area can make use of the ARCF facility. It is, however, anticipated that the Casa de Credit Cooperatist, which is a beneficiary-owned and managed institution with an excellent record in the project area, will be the prime user of the facility. An important feature of the lending practice of the Casa de Credit Cooperatist is insistence on guarantees rather than reliance purely on collateral for loan security; loans are guaranteed by five guarantors who accept joint and several liability in case of default. Currently the Casa de Credit Cooperatist has more than 6 000 members and the current portfolio comprise about 3 500 small loans. The Casa de Credit Cooperatist is perceived by beneficiaries as an easily accessible channel for financial services.

Project Organization Chart



FINANCIAL ANALYSIS

1. Significant financial benefits are expected to accrue to individuals taking up project credit to invest in productive activities/enterprises. The financial attractiveness of the models is underscored by the sound internal rates of return (IRRs), positive net present values and benefit cost ratios, calculated under the without-financing scenarios. The IRRs were calculated over a ten-year period and vary depending on the type of activity taken up and range from a low of 40% for the family/group dairy enterprise to a high of 88% for the wood processing enterprise. In large measure the variability of IRRs reflects the risks associated with each model, and the potential for high returns. The relatively high rates of return reflect the underdeveloped potential of the area and the decades of economic neglect under previous regimes. Table 1 summarizes the key financial ratios for each model and the background financial data is provided in Tables 3 to 8.

Table 1: Summary of Financial Ratios

Model/Enterprise	Internal Rate of Return (IRR)	Net Present Value	Benefit/ Cost Ratio
Small-scale dairy model	74%	12 173	2.55
Group/family dairy enterprise	40%	59 714	1.31
Dairy processing unit	56%	134 554	1.26
Meat processing enterprise	69%	246 119	1.10
Agro-tourism model	55%	11 693	2.56
Wood Processing Enterprise	88%	75 241	1.57

2. Sensitivity analysis shows that the models will remain attractive even if costs increase or benefits decrease. Table 2 summarizes the switching values, i.e., the percentage by which the costs will need to rise or benefits decrease before IRR reaches zero, associated with each of the values. With the exception of the meat processing enterprise, all the models are robust *vis-à-vis* changes in prices of produce or the cost of inputs.

Table 2: Sensitivity Analysis

	Incremental	
Model/Enterprise	Inflows (Benefits)	Outflows (Costs)
Small-scale dairy model	-61	155
Group/family dairy enterprise	-25	33
Dairy processing unit	-22	28
Meat processing enterprise	-9	10
Agro-tourism model	-77	337
Wood processing enterprise	-41	70

3. The key characteristic of the models is their financial attractiveness to potential beneficiaries. Beneficiaries will not be in a position to make the necessary investments without the project's credit financing. However, those that do participate will be significantly better off. The models are illustrative of the wide range of opportunities which presently exist in the Apusenis.

Table 3: Small-Scale Dairy Model: Financial Budget (Detailed, USD)

	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
Main production										
Milk	1 134.4	1 225.1	1 633.5	1 848.0	1 848.0	1 848.0	1 848.0	1 848.0	1 848.0	1 848.0
Cull cows	200.0	-	-	-	-	-	-	-	-	-
Heifers (1-2 years)	-	600.0	600.0	1 320.0	1 320.0	1 320.0	1 320.0	1 320.0	1 320.0	1 320.0
Steer (1 to 2 years)	200.0	200.0	400.0	440.0	440.0	440.0	440.0	440.0	440.0	440.0
Other livestock production	31.6	31.6	31.6	31.6	31.6	31.6	31.6	31.6	31.6	31.6
Subtotal main production	1 566.0	2 056.8	2 665.1	3 639.6	3 639.6	3 639.6	3 639.6	3 639.6	3 639.6	3 639.6
Production cost										
Investment										
Dairy shed	480.0	-	-	-	-	-	-	-	-	-
In-calf heifer	1 500.0	-	-	-	-	-	-	-	-	-
Dairy equipment	300.0	-	-	-	-	-	-	-	-	-
Subtotal investment costs	2 280.0	-	-	-	-	-	-	-	-	-
Operating										
Land rental	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5
Pasture improvement	31.3	-	-	-	-	-	-	-	-	-
Meadow fertilization (1.6 ha)	49.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Herd insurance	180.0	180.0	180.0	180.0	180.0	180.0	180.0	180.0	180.0	180.0
Artificial insemination	5.0	15.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Brewers grain	-	-	-	-	131.3	131.3	131.3	131.3	131.3	131.3
Grazing fees	9.4	11.3	13.1	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Veterinary care	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Building maintenance	75.0	237.8	237.8	237.8	237.8	237.8	237.8	237.8	237.8	237.8
Equipment maintenance	75.0	262.5	262.5	262.5	262.5	262.5	262.5	262.5	262.5	262.5
Subtotal operating costs	487.1	789.0	815.9	817.8	949.0	949.0	949.0	949.0	949.0	949.0
Subtotal production cost	2 767.1	789.0	815.9	817.8	949.0	949.0	949.0	949.0	949.0	949.0
OUTFLOWS	2 767.1	789.0	815.9	817.8	949.0	949.0	949.0	949.0	949.0	949.0
Cash flow before financing	-1 201.1	1 267.8	1 849.3	2 821.9	2 690.6	2 690.6	2 690.6	2 690.6	2 690.6	2 690.6
Financial inflows										
Disbursements on long-term loan	1 596.0	-	-	-	-	-	-	-	-	-
Contribution from own savings	1 014.5	-	-	-	-	-	-	-	-	-
Grants	156.6									
Subtotal financial inflows	2 767.1	-	-	-	-	-	-	-	-	-
Financial outflows										
Long -term principal	-	319.2	319.2	319.2	319.2	319.2	-	-	-	-
Long-term interest	-	111.7	89.4	67.0	44.7	22.3	-	-	-	-
Subtotal financial outflows	-	430.9	408.6	386.2	363.9	341.5	-	-	-	-
Net financing	2 767.1	-430.9	-408.6	-386.2	-363.9	-341.5	-	-	-	-
Cash flow after financing	1 566.0	836.8	1 440.7	2 435.6	2 326.7	2 349.1	2 690.6	2 690.6	2 690.6	2 690.6

Table 4: Group/Family Dairy Enterprise: Financial Budget (Detailed, USD)

	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
Main production										
Milk	20 418.8	20 418.8	20 418.8	23 100.0	23 100.0	23 100.0	23 100.0	23 100.0	23 100.0	23 100.0
Cull cows	2 000.0	1 600.0	1 600.0	1 760.0	1 760.0	1 760.0	1 760.0	1 760.0	1 760.0	1 760.0
Heifers (1-2 years)	-	-	9 000.0	9 900.0	9 900.0	9 900.0	9 900.0	9 900.0	9 900.0	9 900.0
Heifers (2 to 3 years)	-	-	12 750.0	-	-	-	-	-	-	-
Steer (1 to 2 years)	1 600.0	5 200.0	4 800.0	5 280.0	5 280.0	5 280.0	5 280.0	5 280.0	5 280.0	5 280.0
Steer (2 to 3 years)	2 280.0	-	-	-	-	-	-	-	-	-
Subtotal main production	26 298.8	27 218.8	48 568.8	40 040.0	40 040.0	40 040.0	40 040.0	40 040.0	40 040.0	40 040.0
Production cost										
Investment										
Dairy shed	4 800.0	-	-	-	-	-	-	-	-	-
In-calf heifer	22 500.0	-	-	-	-	-	-	-	-	-
Dairy equipment	3 000.0	-	-	-	-	-	-	-	-	-
Mechanical mower	1 500.0	-	-	-	-	-	-	-	-	-
Subtotal investment costs	31 800.0	-	-	-	-	-	-	-	-	-
Operating										
Mechanical mower	1 500.0	1 500.0	1 500.0	1 500.0	1 500.0	1 500.0	1 500.0	1 500.0	1 500.0	1 500.0
Land rental	375.0	375.0	375.0	375.0	375.0	375.0	375.0	375.0	375.0	375.0
Herd insurance	12 060.0	15 120.0	18 000.0	14 940.0	14 940.0	14 940.0	14 940.0	14 940.0	14 940.0	14 940.0
Artificial insemination	270.0	500.0	1 000.0	1 000.0	1 000.0	1 000.0	1 000.0	1 000.0	1 000.0	1 000.0
Concentrates	1 287.3	1 287.3	1 287.3	1 287.3	1 287.3	1 287.3	1 287.3	1 287.3	1 287.3	1 287.3
Grazing fees	155.6	206.3	232.5	200.6	200.6	200.6	200.6	200.6	200.6	200.6
Veterinary care	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0
Building maintenance	-	750.0	2 377.5	2 377.5	2 377.5	2 377.5	2 377.5	2 377.5	2 377.5	2 377.5
Equipment maintenance	-	750.0	2 700.0	2 700.0	2 700.0	2 700.0	2 700.0	2 700.0	2 700.0	2 700.0
Subtotal operating costs	15 897.9	20 738.6	27 722.3	24 630.4	24 630.4	24 630.4	24 630.4	24 630.4	24 630.4	24 630.4
Subtotal production cost	47 697.9	20 738.6	27 722.3	24 630.4	24 630.4	24 630.4	24 630.4	24 630.4	24 630.4	24 630.4
OUTFLOWS	47 697.9	20 738.6	27 722.3	24 630.4	24 630.4	24 630.4	24 630.4	24 630.4	24 630.4	24 630.4
Cash flow before financing	-21 399.2	6 480.2	20 846.5	15 409.6	15 409.6	15 409.6	15 409.6	15 409.6	15 409.6	15 409.6
Financial inflows										
Disbursements on long-term loan	22 260.0	-	-	-	-	-	-	-	-	-
Contribution from own savings	22 257.9	-	-	-	-	-	-	-	-	-
Grants	3 180.0	-	-	-	-	-	-	-	-	-
Subtotal financial inflows	47 697.9	-	-	-	-	-	-	-	-	-
Financial outflows										
Long-term principal	-	4 452.0	4 452.0	4 452.0	4 452.0	4 452.0	-	-	-	-
Long-term interest	-	1 558.2	1 246.6	934.9	623.3	311.6	-	-	-	-
Subtotal financial outflows	-	6 010.2	5 698.6	5 386.9	5 075.3	4 763.6	-	-	-	-
Net financing	47 697.9	-6 010.2	-5 698.6	-5 386.9	-5 075.3	-4 763.6	-	-	-	-
Cash flow after financing	26 298.8	470.0	15 147.9	10 022.7	10 334.3	10 645.9	15 409.6	15 409.6	15 409.6	15 409.6

Table 5: Dairy Processing Unit: Financial Budget (Detailed, USD)

	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
Main production										
Telemea cheese	10 576.3	21 151.3	31 691.3	42 302.5	42 302.5	42 302.5	42 302.5	42 302.5	42 302.5	42 302.5
Cascaval cheese	15 440.0	30 882.5	46 372.5	61 762.5	61 762.5	61 762.5	61 762.5	61 762.5	61 762.5	61 762.5
Milk	1 887.2	3 774.4	5 667.8	8 235.0	8 235.0	8 235.0	8 235.0	8 235.0	8 235.0	8 235.0
Subtotal main production	27 903.4	55 808.1	83 731.5	112 300.0	112 300.0	112 300.0	112 300.0	112 300.0	112 300.0	112 300.0
By-products										
Whey	256.1	512.3	768.5	1 024.5	1 024.5	1 024.5	1 024.5	1 024.5	1 024.5	1 024.5
Gross value of production	28 159.6	56 320.4	84 500.0	113 324.5	113 324.5	113 324.5	113 324.5	113 324.5	113 324.5	113 324.5
Production cost										
Investment										
Dairy processing equipment	49 800.0	-	-	-	-	-	-	-	-	-
Operating										
Purchased inputs										
Raw milk	12 009.4	26 687.5	40 075.0	53 375.0	53 375.0	53 375.0	53 375.0	53 375.0	53 375.0	53 375.0
Utilities	968.8	1 937.5	2 906.3	3 875.0	3 875.0	3 875.0	3 875.0	3 875.0	3 875.0	3 875.0
Transportation	4 062.5	8 125.0	12 187.5	16 250.0	16 250.0	16 250.0	16 250.0	16 250.0	16 250.0	16 250.0
Spare parts and repairs	-	625.0	937.5	1 250.0	1 250.0	1 250.0	1 250.0	1 250.0	1 250.0	1 250.0
Legal financial and administrative	2 500.0	2 500.0	2 500.0	2 500.0	2 500.0	2 500.0	2 500.0	2 500.0	2 500.0	2 500.0
Miscellaneous	350.0	1 400.0	2 100.0	2 800.0	2 800.0	2 800.0	2 800.0	2 800.0	2 800.0	2 800.0
Subtotal purchased inputs	19 890.6	41 275.0	60 706.3	80 050.0	80 050.0	80 050.0	80 050.0	80 050.0	80 050.0	80 050.0
Hired labour										
Unskilled labour	245.5	491.0	736.5	982.0	982.0	982.0	982.0	982.0	982.0	982.0
Subtotal operating costs	20 136.1	41 766.0	61 442.8	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0
Subtotal production cost	69 936.1	41 766.0	61 442.8	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0
OUTFLOWS	69 936.1	41 766.0	61 442.8	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0
Cash flow before financing	-41 776.6	14 554.4	23 057.2	32 292.5	32 292.5	32 292.5	32 292.5	32 292.5	32 292.5	32 292.5
Financial inflows										
Disbursements on long-term loan	34 860.0	-	-	-	-	-	-	-	-	-
Disbursements on short-term loan	20 136.1	41 766.0	61 442.8	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0
Contribution from own savings	9 960.0	-	-	-	-	-	-	-	-	-
Grants	4 980.0	-	-	-	-	-	-	-	-	-
Subtotal financial inflows	69 936.1	41 766.0	61 442.8	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0
Financial outflows										
Long-term principal	-	6 972.0	6 972.0	6 972.0	6 972.0	6 972.0	-	-	-	-
Long-term interest	-	2 440.2	1 952.2	1 464.1	976.1	488.0	-	-	-	-
Short-term principal	20 136.1	41 766.0	61 442.8	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0	81 032.0
Short-term interest	1 409.5	2 923.6	4 301.0	5 672.2	5 672.2	5 672.2	5 672.2	5 672.2	5 672.2	5 672.2
Subtotal financial outflows	21 545.7	54 101.8	74 667.9	95 140.4	94 652.3	94 164.3	86 704.2	86 704.2	86 704.2	86 704.2
Net financing	48 390.5	-12 335.8	-13 225.2	-14 108.4	-13 620.3	-13 132.3	-5 672.2	-5 672.2	-5 672.2	-5 672.2
Cash flow after financing	6 613.9	2 218.6	9 832.1	18 184.2	18 672.2	19 160.2	26 620.3	26 620.3	26 620.3	26 620.3

Table 6: Meat Processing Enterprise: Financial Budget (Detailed, USD)

	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
Main production										
Beef (dressed)	39 812.5	65 910.0	98 800.0	169 000.0	169 000.0	169 000.0	169 000.0	169 000.0	169 000.0	169 000.0
Pork (dressed)	14 175.0	28 350.0	28 350.0	28 350.0	28 350.0	28 350.0	28 350.0	28 350.0	28 350.0	28 350.0
Lamb (dressed)	680.0	1 360.0	2 720.0	5 440.0	5 440.0	5 440.0	5 440.0	5 440.0	5 440.0	5 440.0
Salami/speciality meats	38 557.5	97 582.0	194 000.0	290 515.0	290 515.0	290 515.0	290 515.0	290 515.0	290 515.0	290 515.0
Hides and skins	450.0	900.0	1 440.0	2 160.0	2 160.0	2 160.0	2 160.0	2 160.0	2 160.0	2 160.0
Subtotal main production	93 675.0	194 102.0	325 310.0	495 465.0	495 465.0	495 465.0	495 465.0	495 465.0	495 465.0	495 465.0
Production cost										
Investment										
Meat processing equipment	64 248.0	-	-	-	-	-	-	-	-	-
Operating										
Purchased inputs										
Beef animals	50 000.0	100 000.0	160 000.0	240 000.0	240 000.0	240 000.0	240 000.0	240 000.0	240 000.0	240 000.0
Pigs	19 350.0	38 700.0	64 500.0	103 200.0	103 200.0	103 200.0	103 200.0	103 200.0	103 200.0	103 200.0
Lambs (for meat processing)	468.8	937.5	1 875.0	3 750.0	3 750.0	3 750.0	3 750.0	3 750.0	3 750.0	3 750.0
Condiments stabilizers membranes etc.	7 353.8	18 611.0	37 000.0	55 407.5	55 407.5	55 407.5	55 407.5	55 407.5	55 407.5	55 407.5
Smoking fuel and other materials	3 657.0	9 255.2	18 400.0	27 554.0	27 554.0	27 554.0	27 554.0	27 554.0	27 554.0	27 554.0
Utilities (meat processing)	321.5	643.0	964.5	1 286.0	1 286.0	1 286.0	1 286.0	1 286.0	1 286.0	1 286.0
Transport	215.3	430.5	645.8	861.0	861.0	861.0	861.0	861.0	861.0	861.0
Repairs and maintenance	-	2 248.5	4 497.0	4 497.0	4 497.0	4 497.0	4 497.0	4 497.0	4 497.0	4 497.0
Publicity	357.0	357.0	357.0	357.0	357.0	357.0	357.0	357.0	357.0	357.0
Financial and administrative expenses	1 071.0	1 071.0	1 071.0	1 071.0	1 071.0	1 071.0	1 071.0	1 071.0	1 071.0	1 071.0
Subtotal purchased inputs	82 794.3	172 253.7	289 310.3	437 983.5	437 983.5	437 983.5	437 983.5	437 983.5	437 983.5	437 983.5
Hired labour										
Unskilled labour	-	491.0	736.5	982.0	982.0	982.0	982.0	982.0	982.0	982.0
Subtotal operating costs	82 794.3	172 744.7	290 046.8	438 965.5	438 965.5	438 965.5	438 965.5	438 965.5	438 965.5	438 965.5
Subtotal production cost	147 042.3	172 744.7	290 046.8	438 965.5	438 965.5	438 965.5	438 965.5	438 965.5	438 965.5	438 965.5
OUTFLOWS	147 042.3	172 744.7	290 046.8	438 965.5	438 965.5	438 965.5	438 965.5	438 965.5	438 965.5	438 965.5
Cash flow before financing	-53 367.3	21 357.3	35 263.3	56 499.5	56 499.5	56 499.5	56 499.5	56 499.5	56 499.5	56 499.5
Financial inflows										
Disbursements on long-term loan	44 973.6	-	-	-	-	-	-	-	-	-
Disbursements on short-term loan	82 794.3	86 372.4	145 023.4	219 482.8	219 482.8	219 482.8	219 482.8	219 482.8	219 482.8	219 482.8
Contribution from own savings	12 849.4	-	-	-	-	-	-	-	-	-
Grants	6 425.0	-	-	-	-	-	-	-	-	-
Subtotal financial inflows	147 042.3	86 372.4	145 023.4	219 482.8	219 482.8	219 482.8	219 482.8	219 482.8	219 482.8	219 482.8
Financial outflows										
Long-term principal	-	8 994.7	8 994.7	8 994.7	8 994.7	8 994.7	-	-	-	-
Long-term interest	-	3 148.2	2 518.5	1 888.9	1 259.3	629.6	-	-	-	-
Short-term principal	82 794.3	86 372.4	145 023.4	219 482.8	219 482.8	219 482.8	219 482.8	219 482.8	219 482.8	219 482.8
Short-term interest	5 795.6	6 046.1	10 151.6	15 363.8	15 363.8	15 363.8	15 363.8	15 363.8	15 363.8	15 363.8
Subtotal financial outflows	88 589.8	104 561.3	166 688.3	245 730.2	245 100.5	244 470.9	234 846.5	234 846.5	234 846.5	234 846.5
Net financing	58 452.4	-18 188.9	-21 664.9	-26 247.4	-25 617.8	-24 988.1	-15 363.8	-15 363.8	-15 363.8	-15 363.8
Cash flow after financing	5 085.2	3 168.4	13 598.4	30 252.1	30 881.7	31 511.4	41 135.7	41 135.7	41 135.7	41 135.7

Table 7: Agro-Tourism Model: Financial Budget (Detailed, USD)

	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
Main production										
Lodging	843.8	1 687.5	2 531.3	3 375.0	3 375.0	3 375.0	3 375.0	3 375.0	3 375.0	3 375.0
Production cost										
Investment										
Agro-tourism renovations	4 437.5	-	-	-	-	-	-	-	-	-
Operating										
Meals	66.0	132.0	198.0	264.0	264.0	264.0	264.0	264.0	264.0	264.0
Utilities and heating	33.3	66.6	99.8	133.1	133.1	133.1	133.1	133.1	133.1	133.1
Agency fees (advertising and promotion)	88.8	88.8	88.8	88.8	88.8	88.8	88.8	88.8	88.8	88.8
Repairs and maintenance	-	-	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5
Subtotal operating costs	188.0	287.3	474.1	573.4	573.4	573.4	573.4	573.4	573.4	573.4
Subtotal production cost	4 625.5	287.3	474.1	573.4	573.4	573.4	573.4	573.4	573.4	573.4
OUTFLOWS	4 625.5	287.3	474.1	573.4	573.4	573.4	573.4	573.4	573.4	573.4
Cash flow before financing	-3 781.8	1 400.2	2 057.2	2 801.6	2 801.6	2 801.6	2 801.6	2 801.6	2 801.6	2 801.6
Financial inflows										
Disbursements on long-term loan	3 106.3	-	-	-	-	-	-	-	-	-
Contribution from own savings	1 079.3	-	-	-	-	-	-	-	-	-
Grants	440.0	440.0	440.0	440.0	440.0	440.0	440.0	440.0	440.0	440.0
Subtotal financial inflows	4 625.5	440.0	440.0	440.0	440.0	440.0	440.0	440.0	440.0	440.0
Financial outflows										
Long-term principal	-	540.1	578.0	618.4	661.7	708.0	-	-	-	-
Long-term interest	-	217.4	179.6	139.2	95.9	49.6	-	-	-	-
Subtotal financial outflows	-	757.6	757.6	757.6	757.6	757.6	-	-	-	-
Net financing	4 625.5	-317.6	-317.6	-317.6	-317.6	-317.6	440.0	440.0	440.0	440.0
Cash flow after financing	843.8	1 082.6	1 739.6	2 484.0	2 484.0	2 484.0	3 241.6	3 241.6	3 241.6	3 241.6

Table 8: Wood-Working Enterprise: Financial Budget (Detailed, USD)

	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
Main production										
Doors and windows	-	4 131.0	5 508.0	5 508.0	5 508.0	5 508.0	5 508.0	5 508.0	5 508.0	5 508.0
Semi-finished pine	-	18 008.0	21 609.6	21 609.6	21 609.6	21 609.6	21 609.6	21 609.6	21 609.6	21 609.6
Semi-finished beech	-	6 357.0	8 052.2	8 052.2	8 052.2	8 052.2	8 052.2	8 052.2	8 052.2	8 052.2
Subtotal main production	-	28 496.0	35 169.8	35 169.8	35 169.8	35 169.8	35 169.8	35 169.8	35 169.8	35 169.8
Production cost										
Investment										
Workshop buildings	7 360.8	-	-	-	-	-	-	-	-	-
Workshop equipment	7 428.3	-	-	-	-	-	-	-	-	-
Subtotal investment costs	14 789.0	-	-	-	-	-	-	-	-	-
Operating										
Purchased Inputs										
Fittings for doors and windows	-	282.0	376.0	376.0	376.0	376.0	376.0	376.0	376.0	376.0
Pine wood	-	2 000.0	2 400.0	2 400.0	2 400.0	2 400.0	2 400.0	2 400.0	2 400.0	2 400.0
Beech wood	-	2 850.0	3 610.0	3 610.0	3 610.0	3 610.0	3 610.0	3 610.0	3 610.0	3 610.0
Additional raw material	-	1 875.0	1 875.0	1 875.0	1 875.0	1 875.0	1 875.0	1 875.0	1 875.0	1 875.0
Utilities	-	1 187.5	2 375.0	2 375.0	2 375.0	2 375.0	2 375.0	2 375.0	2 375.0	2 375.0
Transport	-	1 406.0	2 812.0	2 812.0	2 812.0	2 812.0	2 812.0	2 812.0	2 812.0	2 812.0
Insurance	187.5	187.5	187.5	187.5	187.5	187.5	187.5	187.5	187.5	187.5
Advertising	187.5	187.5	187.5	187.5	187.5	187.5	187.5	187.5	187.5	187.5
Spare Parts	-	625.0	625.0	625.0	625.0	625.0	625.0	625.0	625.0	625.0
Miscellaneous office/workshop supplies	850.0	850.0	850.0	850.0	850.0	850.0	850.0	850.0	850.0	850.0
Subtotal purchased inputs	1 225.0	11 450.5	15 298.0	15 298.0	15 298.0	15 298.0	15 298.0	15 298.0	15 298.0	15 298.0
Hired labour										
Carpenters	-	1 179.0	2 358.0	2 358.0	2 358.0	2 358.0	2 358.0	2 358.0	2 358.0	2 358.0
Electrician/mechanic	343.9	687.8	687.8	687.8	687.8	687.8	687.8	687.8	687.8	687.8
Bookkeeper	393.0	393.0	393.0	393.0	393.0	393.0	393.0	393.0	393.0	393.0
Unskilled labour	-	492.0	984.0	1 476.0	1 476.0	1 476.0	1 476.0	1 476.0	1 476.0	1 476.0
Subtotal hired labour	736.9	2 751.8	4 422.8	4 914.8	4 914.8	4 914.8	4 914.8	4 914.8	4 914.8	4 914.8
Subtotal operating costs	1 961.9	14 202.3	19 720.8	20 212.8	20 212.8	20 212.8	20 212.8	20 212.8	20 212.8	20 212.8
Subtotal production cost	16 750.9	14 202.3	19 720.8	20 212.8	20 212.8	20 212.8	20 212.8	20 212.8	20 212.8	20 212.8
OUTFLOWS	16 750.9	14 202.3	19 720.8	20 212.8	20 212.8	20 212.8	20 212.8	20 212.8	20 212.8	20 212.8
Cash flow before financing	-16 750.9	14 293.8	15 449.1	14 957.1	14 957.1	14 957.1	14 957.1	14 957.1	14 957.1	14 957.1
Financial inflows										
Disbursements on long-term loan	10 352.3	-	-	-	-	-	-	-	-	-
Disbursements on short-term loan	490.5	-	-	-	-	-	-	-	-	-
Contribution from own savings	4 428.1	-	-	-	-	-	-	-	-	-
Grants	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0
Subtotal financial inflows	16 750.9	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0	1 480.0
Financial outflows										
Long-term principal	-	2 070.5	2 070.5	2 070.5	2 070.5	2 070.5	-	-	-	-
Long-term interest	-	724.7	579.7	434.8	289.9	144.9	-	-	-	-
Short-term principal	490.5	-	-	-	-	-	-	-	-	-
Short-term interest	34.3	-	-	-	-	-	-	-	-	-
Subtotal financial outflows	524.8	2 795.1	2 650.2	2 505.3	2 360.3	2 215.4	-	-	-	-
Net financing	16 226.1	-1 315.1	-1 170.2	-1 025.3	-880.3	-735.4	1 480.0	1 480.0	1 480.0	1 480.0
Cash flow after financing	-524.8	12 978.6	14 278.9	13 931.8	14 076.7	14 221.7	16 437.1	16 437.1	16 437.1	16 437.1