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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

LEBANESE REPUBLIC

FOR THE

COOPERATIVE RURAL FINANCE PROGRAMME

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CURRENCY EQUIVALENTS

Currency Unit	=	Lebanese Pound (LBP)
USD 1.00	=	LBP 1 508
LBP 1 000	=	USD 0.663130

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

AWP/Bs	Annual Workplans and Budgets
AFESD	Arab Fund for Economic and Social Development
CRFP	Cooperative Rural Finance Programme
FLM	Flexible Lending Mechanism
MFIs	Microfinance Institutions
MOA	Ministry of Agriculture
MOF	Ministry of Finance
NGOs	Non-Governmental Organizations
NGUC	National General Union of Cooperatives
NUCC	National Union for Cooperative Credit
PCB	Participating Commercial Bank
PMU	Programme Management Unit
PSC	Programme Steering Committee
RSCCs	Rural Savings and Credit Cooperatives
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

GLOSSARY

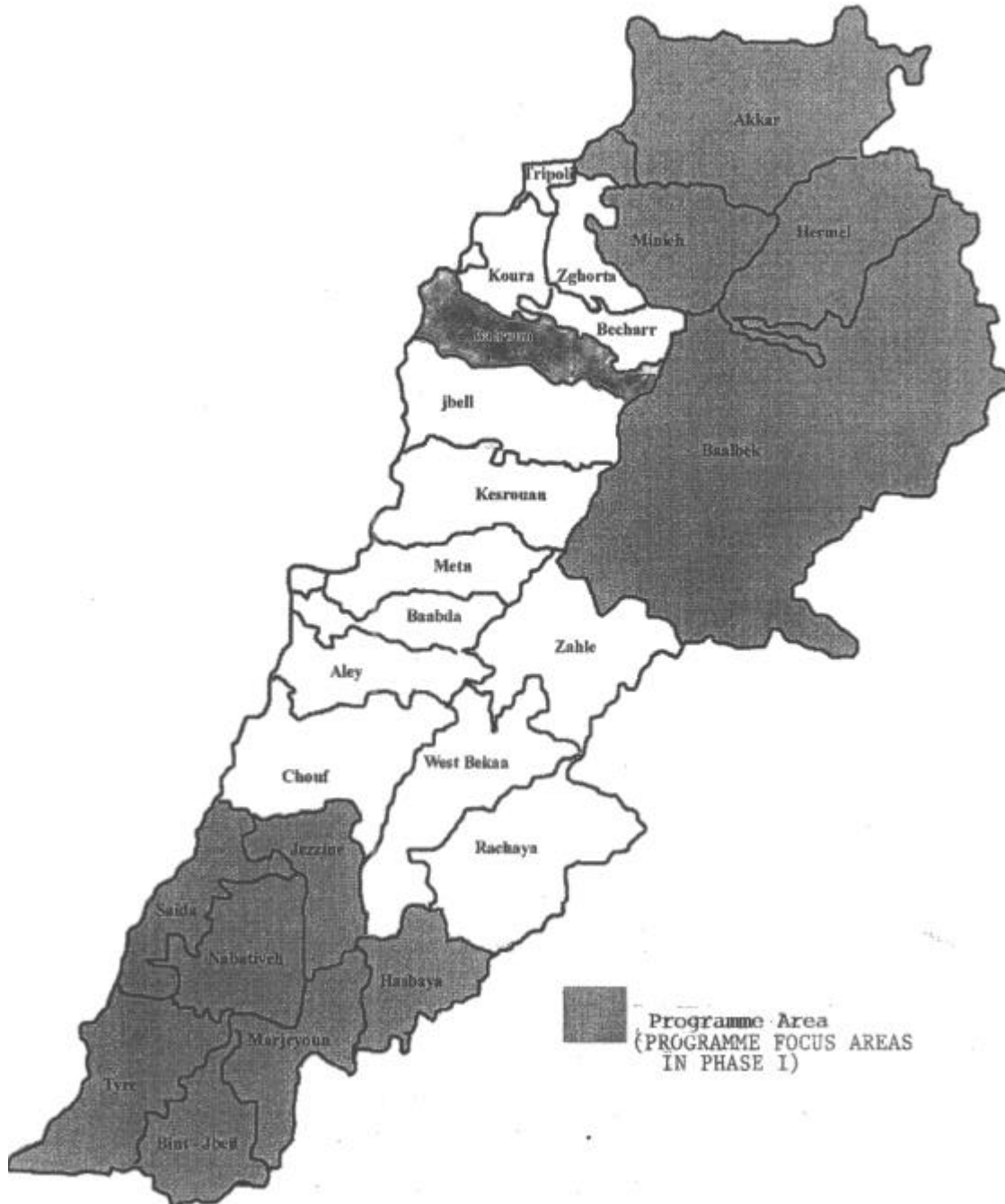
<i>muhafazats</i>	provinces
<i>cazas</i>	districts
<i>kafalat</i>	loan guarantee scheme

GOVERNMENT OF THE LEBANESE REPUBLIC

Fiscal Year

1 January - 31 December

MAP OF THE PROGRAMME 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.

LEBANESE REPUBLIC
COOPERATIVE RURAL FINANCE PROGRAMME
LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Lebanese Republic
EXECUTING AGENCY:	Ministry of Agriculture (MOA)
TOTAL PROGRAMME COST:	USD 37.35 million
AMOUNT OF IFAD LOAN:	SDR 10.25 million (equivalent to approximately USD 12.84 million)
TERMS OF IFAD LOAN:	18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually
COFINANCIER(S):	To be determined
CONTRIBUTION OF COFINANCIER(S):	USD 4.28 million
CONTRIBUTION OF BORROWER:	USD 2.56 million
CONTRIBUTION OF THE NATIONAL UNION FOR COOPERATIVE CREDIT (NUCC):	USD 1.35 million
CONTRIBUTION OF THE NATIONAL GENERAL UNION OF COOPERATIVES (NGUC):	USD 840 000
CONTRIBUTION OF THE NATIONAL LEASING CORPORATION:	USD 300 000
CONTRIBUTION OF THE PARTICIPATING COMMERCIAL BANKS (PCBs):	USD 15.19 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	To be determined. (The cooperating institution will be determined by early September; either the United Nations Office for Project Services (UNOPS) or the Arab Fund for Economic and Social Development (AFESD), depending on AFESD cofinancing currently under consideration.)

PROGRAMME BRIEF

Programme beneficiaries. On the basis of available information related to rural poverty incidence, it is estimated that the target group will comprise around 250 000 people in about 50 000 households, and will include agricultural smallholders, the landless, rural women and fishermen. They are or will be members of rural producers' cooperatives or rural savings and credit cooperatives (RSCCs). Most beneficiaries are located in Akkar, Batroun and Minieh in North Lebanon; Baalbek and Hermel in the Bekaa Valley; Bint-Jbeil, Hasbaya, Marjeyoun and Nabatiyeh in Nabatiyeh province; and Jezzine, Saida and Tyre in South Lebanon province. All of South Lebanon is included. These areas have the highest concentration of low-income households.

Causes of poverty. Poverty in Lebanon, unlike in some other parts of the world, is not endemic structural poverty, but rather income poverty arising out of urban-rural and regional disparities in per capita incomes and in earning opportunities. Some 80% of households consider their income insufficient, and more than 50% even grossly insufficient. Most heads of rural households identified the lack of access to credit as the main obstacle to the betterment of their income, followed by the lack of options for women. The lack of credit prevents the poor are kept from engaging in productive activities, including small or medium on-farm and off-farm income-generating activities. They encounter great difficulties in access to banking and financial facilities.

Programme assistance to the target group. In addition to supporting and financing activities of indirect benefit to the rural poor, such as the development of a national microfinance policy (including a cooperative policy), the Cooperative Rural Finance Programme (CRFP) will directly provide training, technical assistance and credit funds to the rural poor by: (i) establishing and developing RSCCs; (ii) strengthening rural producers' cooperatives; and (iii) providing USD 24.86 million in credit funds.

Beneficiary participation. The National General Union of Cooperatives (NGUC) and the National Union for Cooperative Credit (NUCC) will contribute about USD 2.19 million towards the financing of incremental staff. Cooperative members will contribute, as borrowers, around 20% of investment costs, either in cash or in kind.

Innovative features. CRFP will introduce five important innovative features, listed below. The most important innovative feature is partnership building with the private sector, i.e. commercial banks:

- (i) policy development and dialogue including support for establishing a national microfinance policy group to provide a facilitating environment for the growth of the microfinance institution (MFI) industry;
- (ii) support for establishing new rural financial cooperatives;
- (iii) building of linkages between rural financial and producers' cooperatives and commercial banks for a sustainable client-banker relationship;
- (iv) mobilization of a significant proportion of credit costs from local lending institutions; and
- (v) development of innovative lending products, namely micro-leasing.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
LEBANESE REPUBLIC
FOR THE
COOPERATIVE RURAL FINANCE PROGRAMME**

I submit the following Report and Recommendation on a proposed loan to the Lebanese Republic for SDR 10.25 million (equivalent to approximately USD 12.84 million) on ordinary terms to help finance the Cooperative Rural Finance Programme (CRFP). The loan will have a term of 18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually. It will be administered by a cooperating institution to be determined.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Lebanon is a small mountainous country with an area of 10 450 km². It had an estimated population of about 4.0 million in 1997, of whom only 12% were rural. Administratively, Lebanon comprises six provinces (*muhafazats*): Beirut, the Bekaa Valley, Mount Lebanon, Nabatiyeh, North Lebanon and South Lebanon. The six *muhafazats* are subdivided into 24 districts (*cazas*).

2. Until the end of the 1960s, Lebanon was a prosperous middle-income country, with a strong service sector. Thereafter, Lebanon's economy suffered badly due to prolonged regional conflict and internal civil war. During the 1989-99 period, with the end of civil strife, the economy recovered significantly. Real gross national product (GNP) per capita increased to over USD 3 720 in 1999. The annual average growth rate of the economy was around 4% during the five-year period ending in 1999, but has subsequently declined. Lebanon's fiscal and trade imbalances reflect the inherent vulnerability of its economy. The ratio of budget deficit to gross domestic product (GDP) was 13.3% in 1999. The total debt to GDP was high at 128% in 1999. The trade deficit is huge and amounted to USD 5.0 billion in 1999. However, owing to increasing capital inflows, the balance of payments registered a surplus of USD 261 million in 1999. The Ministry of Finance (MOF) prepared a five-year fiscal adjustment plan (1999-2003) to improve fiscal management through tax reform, expenditure control, privatization and public debt management. Monetary management has been impressive. Through a tight monetary policy, inflation was brought under control (less than 1% in 2000), the Lebanese pound has been stable against the United States dollar, and the dollarization of the economy has declined. With an inflation rate close to zero, the interest rates are expected to decline.

3. The Lebanese economy is driven by the service sector, mainly trade, finance and tourism, which contributed about 50% of GDP in 1999. Agriculture accounted for 13% of GDP in 1999. Cultivated land in Lebanon is estimated at 360 000 ha, or 29% of its total area. Of this, around 145 000 ha is irrigated by permanent sources of water, and the rest depends on rainfall, which averages about 800 mm/annum. Crop production dominates the agricultural sector. The livestock sub-sector, which includes meat, milk and egg production, constitutes around 30% of agricultural production. With plentiful sunshine, abundant water resources and fertile soil, Lebanon's agricultural sector is potentially one of the most productive in the region. Instead, it is underdeveloped and poorly

¹ See Appendix I for additional information.

managed. Most holdings are small and use outdated, inefficient production techniques. Farmers have low education levels and are poorly advised on crop planning and farming systems. The fishing sub-sector in Lebanon may be characterized as artisanal, with around 20 000 people engaged on a full-time basis and a similar number in associated activities. There is also significant potential for commercial aquaculture for high-value species such as shrimp. Small farmers, rural women and fishermen lack access to financial services.

B. Lessons Learned from Previous IFAD Experience

4. The lessons learned from IFAD-financed operations and other donors' activities are related mainly to the high sensitivity of the political system, the lack of coordination among intergovernmental agencies; and the long gestation period of development projects before becoming fully functional.

5. Overall, the implementation of IFAD's portfolio in the country has much improved recently, particularly with regard to the Smallholder Livestock Rehabilitation Project and the Irrigation Rehabilitation and Modernization Project. Several activities relating to extension, applied research, credit, rural women's development, and the promotion of cooperatives are highly visible. These achievements are not fully reflected in loan disbursements. Supervision missions and the latest country portfolio review mission (March 2000) noted increased satisfaction among project beneficiaries for the assistance provided thus far by the two projects even though start-up had been slow. The major lesson learned is that implementation of development projects in Lebanon may start slowly, but once the project is launched, it proceeds at a quick pace to meet project objectives.

6. The political system is highly sensitive, and depends on consensus-building among the various political interest groups. This has led to undesirable political interference in the selection of project staff, and has not always resulted in the most appropriate candidate being selected for a post. This weakness is further exacerbated by the low public salary structure as compared to private-sector salaries. Hence, the need for incentives to attract and retain qualified project staff.

7. Projects involving different institutions in their implementation have suffered from the lack of cooperation and coordination between the project coordination unit and the executing agencies, even within the same ministry. The management structure for future projects should be simple, involving very few agencies, and should have large financial and administrative autonomy.

C. IFAD's Strategy for Collaboration with Lebanon

8. **Lebanon's policy for poverty alleviation.** The Government's policy on poverty alleviation has been centred on the following: (i) employment creation through technical education and vocational training; (ii) development of small-scale enterprises and productive sectors; (iii) wage policy whereby real average wages have increased in recent years, even though much less than the minimum wage due to both budget constraints in the public sector and low levels of productivity in both the public and private sectors; and (iv) safety nets, where government action has tended towards direct, on-the-spot and temporary transfers, monetary and in kind, rather than assuming the role of the welfare state. The Government has also envisioned measures to step up public investment in under-served rural areas and to develop local-level public services.

9. **Poverty alleviation activities of other major donors.** Donor assistance is directed mostly to the rehabilitation of socio-economic infrastructure, the resettlement of displaced persons and the regeneration of the rural economy covering different sub-sectors. The most active promoters of microfinance are: the United States Agency for International Development (USAID) (rural community development and microfinance), the European Union (Social and Economic Development Fund), the United Nations Development Programme (UNDP) (Integrated Rural Development Programme in Baalbek and Hermel, and the Regional Socio-Economic Development Programme for

South Lebanon) and some international non-governmental organizations (NGOs). Other donors indirectly involved with poverty alleviation include the Arab Fund for Economic and Social Development (AFESD), the French Cooperation, the Islamic Development Bank (IsDB), the Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development and the World Bank. There is no donor activity directed to building rural financial cooperatives or building the institutional capacity of rural service cooperatives.

10. **IFAD's strategy in Lebanon.** In line with the Government's strategy and within a programme approach, IFAD aims to assist the Government in its efforts to alleviate poverty by seeking to make the rural economy more competitive at the levels of smallholder production, processing and marketing. For this purpose and in order to be more effective, IFAD's future medium-term assistance will address the need for institutional building in the area of financial services and key non-financial services, such as post-harvesting cold storage and/or processing, marketing and export promotion in the context of Lebanon's open economy. IFAD's main strategic thrusts are: (i) the simultaneous promotion of on-farm and off-farm enterprise development; (ii) the reduction of production costs through investment in new technologies, the use of high-yielding varieties and water-use efficiency; (iii) increase in the value added of products such as crops, fruits, vegetables, livestock and fishing, through promotion of post-harvesting and/or marketing enterprises and diversification into export-oriented commodities; (iv) promotion of local associations and grass-roots organizations, mainly savings and credit cooperatives; and (v) empowerment of rural women through better access to assets, income-generating activities and decision-making on the use of resources. In terms of implementation, IFAD will give priority to institution-building for rural financial services.

11. **Programme rationale.** Among the factors providing both a framework and a rationale for IFAD intervention are the Government's commitment to rural development, poverty reduction and the lessening of regional disparities; its focus on the agricultural sector; and the absence of a national rural and microfinance policy. Development activities in rural areas will only be sustainable if rural institutional capacity is built and rural households gain access to financial services. No other multilateral or bilateral donor is promoting initiatives for the development of sustainable rural financial institutions in the cooperative sector.

PART II - THE PROGRAMME

A. Programme Area and Target Group

12. Poverty in Lebanon, unlike in some other parts of the world, is not endemic structural poverty, but rather income poverty arising out of urban-rural and regional disparities in per capita incomes and earning opportunities. Despite being national in scope, CRFP will focus during Phase I (1-4 years) on 12 *cazas* (districts) in four administrative provinces. These are Akkar, Batroun and Minieh in North Lebanon; Baalbek and Hermel in Bekaa Valley; Bint-Jbeil, Hasbaya, Marjeyoun and Nabatiyeh in Nabatiyeh province; and Jezzine, Saida and Tyre in South Lebanon province. All of South Lebanon is included. These areas have the highest concentration of low-income households.

13. On the basis of available information related to rural poverty incidence, it is estimated that the target group will comprise around 250 000 people in about 50 000 households and will include agricultural smallholders, the landless, rural women and fishermen. Although rural cooperatives are formed by people of different socio-economic levels, all evidence shows that the majority are low-income households. Design criteria of rural savings and credit cooperatives (RSCCs) and an appropriate loan ceiling will ensure that benefits flow to the target group.

B. Objectives and Scope

14. The programme aims to reduce rural poverty through an increase in household incomes in rural areas. This objective will be achieved by building linkages between cooperative financial systems and the Lebanese financial system. Overall, investment will be geared to the development of the rural economy and will, in particular, support low-income households, in both farm and non-farm sectors, including production, processing, businesses and services. Support will also be provided to rural women for income-generating activities.

C. Components

15. CRFP will support and finance activities under four major components over a ten-year period: (i) national rural and microfinance policy; (ii) institutional development; (iii) credit fund; and (iv) programme management and coordination.

National Rural and Microfinance Policy

16. The programme will help develop an appropriate policy framework, the first step for developing legal, regulatory and supervisory mechanisms. Assistance will take the form of regional and national seminars, policy studies, international study tours and logistic support unit to assist the national rural and microfinance policy group. CRFP will also support the process of developing an appropriate cooperative policy framework, an important step in facilitating the growth and sound functioning of the cooperative system.

Institutional Development

17. **Establishment and development of RSCCs.** CRFP will assist in the establishment of RSCCs in the programme areas to provide access to financial services to low-income households and rural women in particular, and rural households in general.

18. **Promotion and strengthening of rural service cooperatives.** The programme will support the process of promotion and capacity-building of selected service cooperatives with a view to building them into strong and efficient organizations. CRFP will also support the formation of new service cooperatives and networks based on community demand, potential and institutional gaps. It will also help those service cooperatives that have chosen to incorporate a savings and credit function while retaining their limited service functions to amend their by-laws or adopt new ones.

19. **Capacity-building of the Directorate of Cooperatives.** CRFP will assist the Directorate of Cooperatives by providing adequate staffing and some equipment (personal computers, photocopiers, vehicles) and by promoting staff knowledge and skills development through training programmes, international study tours and technical assistance.

20. **Restructuring of the National Union for Cooperative Credit (NUCC).** The programme will assist NUCC to play a strong role as the national apex institution for cooperative credit. The Directorate of Cooperatives, in association with NUCC, will prepare a restructuring plan of NUCC. Subject to a satisfactory restructuring plan with time-bound implementation strategies, CRFP will support NUCC by providing some equipment (personal computers and photocopiers), and international and national training programmes.

21. **Restructuring and strengthening of the National General Union of Cooperatives (NGUC).** Subject to the Directorate of Cooperatives preparing a satisfactory plan for the revival of the Union, CRFP will support it by providing some equipment, technical assistance and training.

22. **Innovative lending and savings products.** The programme will fund a study for development of innovative lending products (micro-leasing) and workshops to facilitate the adoption of the products through linkages and partnerships between rural and microfinance institutions (MFIs) and the National Leasing Corporation, and through institutional innovation in the cooperative sector.

Credit Fund

23. RSCCs will finance the seasonal crop production and farm investments of member agricultural households. They will also provide a variety of rural microenterprises in the off-farm (livestock, fisheries, etc.) and non-farm sectors with access to investment finance and short-term working capital. The target beneficiaries will mainly be low-income households and rural women. The service cooperatives will need investment and working capital loans for financing investments in tractors, sprayers, other farm machinery, and post-harvest infrastructure such as processing and fruit-drying facilities. CRFP will provide technical support for the business development plans of service cooperatives to plan for feasible investment programmes. The cooperative enterprises for rural women will also be eligible to receive credit.

24. CRFP will provide a credit fund of USD 24.86 million for on-lending to RSCCs, who will sub-lend to their members, and for financing rural service cooperatives for their enterprises and support service functions. The credit allocation is determined on the basis of net financing needs after providing for use of savings of rural services cooperatives in lending and return cash flows, i.e. principal loan repayments during the programme period, both in respect of participating commercial banks (PCBs) and CRFP shares. The use of credit will be demand-driven and not supply-led by a process of sub-sectoral allocations.

25. The programme management unit (PMU) will not operate credit funds directly. CRFP will seek to build on the successful experience of bank-NGO/MFI linkages by entering into partnerships with selected commercial banks and the Lebanon Leasing Corporation for micro-leasing. The arrangement will be based on resource and risk-sharing on a 50-50 basis in Phase I, and the bank share will increase over time. A tripartite agreement between MOF, the PCB and PMU will specify the procedures and terms and conditions. In addition, these procedures will be agreed upon and be incorporated into a memorandum of understanding between PMU and the bank.

26. CRFP will also use the restructured NUCC for credit fund operations, provided NUCC is able to provide at least 50% of the resources. In this case, CRFP will on-lend to NUCC up to 50% of its credit disbursement to programme clients. Under this arrangement, NUCC, as the apex financial institution of the cooperative institutions, will assume the credit risk. On the other hand, if NUCC is not able to mobilize at least 50% of the resources, CRFP will not use it as a lending vehicle.

27. The credit allocation includes USD 600 000 for the leasing of small equipment (micro-leasing). This amount will be used to build a partnership with the National Leasing Corporation for micro-leasing in partnership with MFIs and/or to finance cooperative institutions that will engage in micro-leasing. PMU will develop implementing mechanisms and terms and conditions after a study has been completed on product development and following workshops on product marketing.

28. CRFP will thus mobilize national resources while operating the credit fund either through PCBs or the restructured NUCC. In the former case, PMU will deposit its share with the PCBs, which will be responsible for documentation and full sub-loan disbursement and will follow up by issuing recovery notices when necessary. In the latter case, NUCC will assume responsibility for the sub-loan screening and management. In either case, sustainability beyond the programme period will be assured by building bank-client relationships through the credit fund and the institutional development support provided by CRFP.

Programme Management and Coordination

29. The overall responsibility for programme implementation will rest with PMU, headed by a programme director. PMU will be established within the Directorate of Cooperatives of the Ministry of Agriculture (MOA). It will be autonomous and will have full management and coordination authority over the programme. It will be responsible for the day-to-day management and supervision of various activities and will also have reporting functions. CRFP will, *inter alia*, provide equipment, vehicles, personal computers, training and technical assistance to PMU.

D. Costs and Financing

30. Under the flexible lending mechanism (FLM), the experience gained in Phase I of the programme will guide and determine the cost estimates for Phases II and III. However, based on the existing knowledge, cost projections have been made and will be reviewed after Phase I. Total investment and incremental recurrent programme cost, including physical and price contingencies, over a ten-year implementation period is estimated at USD 37.35 million.

31. IFAD will contribute about USD 12.84 million (34.4% of the total programme cost) towards the financing of the programme. External cofinanciers, such as AFESD, the European Union, USAID and UNDP, have shown a strong interest in the programme and are expected to provide around USD 4.28 million (11.5% of total cost). The national contribution, covering 50% of total costs, is distributed as follows: PCBs will contribute about USD 15.19 million (40.7% of total cost); NUCC and NGUC will contribute about USD 2.19 million (6% of total costs) towards the financing of incremental staff; the National Leasing Corporation will contribute about USD 300 000 towards the cofinancing of the micro-leasing sub-component; and the Government will contribute about USD 2.56 million (6.9% of total costs) towards taxes and duties foregone and all salary costs.

TABLE 1: SUMMARY OF PROGRAMME COSTS^a
(USD '000)

Components	Local	Foreign	Total	% Foreign Exchange	% Total Base Cost
A. National rural and microfinance policy	589.4	72.0	661.3	11	2
B. Institutional development					
Establishment and development of RSCCs	2 043.0	-	2 043.0	-	6
Promotion and strengthening of rural service cooperatives	831.0	-	831.0	-	2
Capacity-building of the Directorate of Cooperatives	1 544.8	618.4	2 163.2	29	6
Restructuring of NUCC	1 352.1	67.1	1 419.2	5	4
Restructuring and strengthening of NGUC	795.3	36.8	832.1	4	2
Innovative lending and savings products	15.3	30.0	45.3	66	-
Subtotal institutional development	6 581.6	752.2	7 333.8	10	20
C. Credit fund					
Savings and credit cooperatives	17 370.8	-	17 370.8	-	48
Rural service cooperatives	6 893.1	-	6 893.1	-	19
Micro-leasing	600.0	-	600.0	-	2
Subtotal credit fund	24 863.9	-	24 863.9	-	68
D. Programme management and coordination	2 573.9	995.0	3 568.9	28	10
Total base cost	34 608.7	1 819.2	36 427.9	5	100
Physical contingencies	233.9	15.2	249.1	6	1
Price contingencies	530.2	147.2	677.3	22	2
Total programme cost	35 372.8	1 981.6	37 354.4	5	103

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

	IFAD		Cofinancier(s)		PCBs		NUCC		NGUC		National Leasing Corp.		Government		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. National rural and microfinance policy	448	63.0	110	15.5	-	-	-	-	-	-	-	-	153	21.5	711	1.9	84	626	1
B. Institutional development																			
Establishment and development of RSCCs	20	93.2	-	-	151	6.8	-	-	-	-	-	-	-0	-0.0	223	6.0	-	22	-
Promotion and strengthening of rural service cooperatives	899	97.6	-	-	-	-	-	-	-	-	-	-	23	2.4	922	2.5	-	899	23
Capacity-building of the Directorate of Cooperatives	950	41.1	187	8.1	-	-	-	-	-	-	-	-	117	50.8	231	6.2	658	15	61
Restructuring of NUCC	143	9.5	-	-	-	-	134	89.5	-	-	-	-	14	0.9	150	4.0	71	14	14
Restructuring and strengthening of NGUC	34	3.9	-	-	-	-	-	-	840	95.5	-	-	6	0.7	880	2.4	38	836	6
Innovative lending and savings products	32	67.3	16	32.7	-	-	-	-	-	-	-	-	-	-	48	0.1	31	16	-
Subtotal institutional development	41	52.4	202	2.6	151	1.9	134	17.0	840	10.6	-	-	121	15.4	789	21.1	799	69	103
C. Credit fund^b																			
Savings and credit cooperatives	39	22.6	261	15.1	1082	62.3	-	-	-	-	-	-	0	-	1737	46.5	-	1737	-
Rural service cooperatives	16	23.3	107	15.6	421	61.1	-	-	-	-	-	-	-	-	689	18.5	-	689	-
Micro-leasing	300	50.0	-	-	-	-	-	-	-	-	300	50.0	-	-	600	1.6	-	600	-
Subtotal credit fund	58	23.5	369	14.8	1503	60.5	-	-	-	-	300	1.2	0	-	2486	66.6	-	2486	-
D. Programme management and coordination	24	62.2	278	7.1	-	-	-	-	-	-	-	-	119	30.7	388	10.4	109	26	126
Total disbursement	128	34.4	428	11.5	1518	40.7	134	3.6	840	2.2	300	0.8	256	6.9	3735	100.0	198	351	230

^a Discrepancies in totals are due to rounding.

^b The local contribution shown under the heading "PCBs" also includes NUCC contribution under the credit programme, if NUCC becomes eligible for participation under the credit component.

E. Procurement, Disbursement, Accounts and Audit

32. **Procurement.** Procurement of goods and services will be in accordance with the Government's procedures to the extent that they are compatible with IFAD's current procurement guidelines. Hiring of consultants will be in accordance with procedures proposed by the borrower and approved by IFAD. Each annual workplan and budget will include a procurement plan and schedule detailing the goods and services to be procured. International competitive bidding (ICB) will be used for all contracts estimated to cost USD 100 000 or more, local competitive bidding (LCB) between USD 20 000 to 100 000, local shopping less than USD 20 000, and direct contracting less than USD 5 000. Whenever possible, vehicles will be grouped into packages exceeding USD 100 000 for ICB.

33. **Disbursement.** The IFAD loan will be disbursed over a ten-year period using the FLM. Disbursements may be made against certified statements of expenditures (SOEs). Documentation supporting SOE claims will be kept at PMU and will be made available for audits and review by supervision missions.

34. **Special Accounts.** To facilitate programme implementation, PMU will open two special accounts – one for the credit fund (Special Account A) and the other for non-credit components (Special Account B) – in a bank acceptable to IFAD, to be used for the disbursements of eligible expenditure. Special Account A will have an authorized allocation of USD 500 000 after arrangements are made with PCBs for programme lending and client institutions have become eligible for sub-loan disbursements. Special Account B will have an authorized allocation of USD 500 000 for programme implementation after satisfying conditions for disbursement and based on the request of PMU/MOF. The special accounts will be denominated in United States dollars and will be replenished periodically on presentation of appropriate documentation to the cooperating institution and IFAD. The replenishments into the credit fund account (Account A) will be limited to net financing requirements to meet PMU's share, i.e. net of principal loan recoveries in respect of CRFP's share. In other words, remittances into this account will be made if the credit balance in the account is below the estimated CRFP share for a quarter, net of anticipated recoveries during the period. Each recipient of funding through CRFP will have accounting responsibility for its expenditure, while PMU will hold the main accounting responsibility.

35. **Programme accounts and audit.** Separately identifiable programme accounts (denominated in Lebanese pounds and United States dollars) will be required for CRFP-related expenditures at all levels, in a form that complies fully with the Government's accounting instructions. PCBs, including NUCC, will maintain separate coded accounts for the credit fund. Financial reports and accounts will be submitted regularly by implementing organizations, including contracted NGOs and PCBs, to PMU for consolidation at the PMU level by the programme accountant. Accounts will be subject to annual external audit in accordance with terms and conditions to be specified in the Government-IFAD loan agreement and the financing agreement(s) of the cofinancier(s). The external auditor appointed by the Central Bank of Lebanon for audit of PCBs will audit the programme accounts. Certified copies of audit reports will be sent to IFAD within six months of the close of the fiscal year.

36. **Reports.** PCBs and contracted NGOs will submit quarterly financial and progress reports to PMU for incorporation into the programme's consolidated six-monthly and annual reports. The reports will record physical activities and financial status against annual workplans and budgets (AWP/Bs) and vis-à-vis appraisal estimates and impact assessments, in as much detail as possible, of programme activities of members of cooperatives, RSCCs, service cooperatives and NUCC. Key PMU members with the assistance of an information technology specialist will prepare the reporting formats, which will be designed to ensure that information is gathered to guide day-to-day management decision-making and to provide a basis for the future assessment of programme achievements in relation to specified programme objectives. An annual report will be submitted to IFAD and the cooperating institution within two months of the end of the financial year.

F. Organization and Management

37. A programme steering committee (PSC) chaired by the Minister for Agriculture will oversee and guide programme implementation. PSC functions will include: reviewing and approving AWP/Bs; reviewing progress of programme implementation; and reviewing programme accounts, finance and disbursement.

38. A policy group will be responsible for national rural and microfinance policy development. This group will be empowered to take decisions, which will be subject to the approval of the prime minister and/or cabinet. It will analyse various issues and recommendations that emerge from policy studies, stakeholder workshops and donor reviews and makes appropriate decisions. It will also follow up with relevant authorities for the implementation of agreed decisions. The Directorate of Cooperatives, with technical assistance provided under the programme, will be responsible for the institutional development sub-components of (i) capacity-building of the Directorate of Cooperatives; and (ii) restructuring NUCC and NGUC. PMU, with the help of service providers such as NGOs, will be responsible for implementation of the other components of institutional development. PCBs and PMU will manage the credit fund.

39. An adequately staffed and strengthened Directorate of Cooperatives will develop a national cooperative policy, organize training programmes for its staff, develop a restructuring plan of NUCC and revival plan of NGUC. The policy group will approve policy aspects relating to rural financial cooperatives. The Directorate will also be responsible for the incorporation of new cooperatives and their supervision and for ensuring the soundness of annual financial audits of cooperatives and follow-up of any irregularities.

40. NGOs or other service providers specifically contracted by the PMU will be responsible for community mobilization, sensitization and capacity-building inputs. They will set up well-structured training programmes and on-site participatory processes for the establishment and development of RSCCs, and the promotion and strengthening of rural service cooperatives. A number of NGOs in Lebanon are familiar with community mobilization, farmers' training and the organization of women's cooperatives. They could provide CRFP with appropriate support for the training of trainers, and with resource persons in training methodologies, design and rural communications.

41. Three of the PCBs, namely Bank Audi, the Fransas Bank SAL (FBS) and the Jammal Trust Bank (JTB), have shown an interest in collaborating with CRFP to provide credit services to programme clients, for example to RSCCs for on-lending to members and to service cooperatives for the financing of investments and working capital. JTB collaborates successfully with the Cooperative Housing Foundation, an NGO, in providing microfinancial services. Bank Audi has built a similar partnership with another NGO, the *Association d'aide du développement rural*, in Tyre, South Lebanon. Both FBS and JTB are also involved in financing farmers in the Baalbek-Hermel region in connection with UNDP's Integrated Rural Development Programme. PMU will decide upon the choice of PCBs subject to their presence in the programme area.

42. Once restructured institutionally, organizationally and financially to the satisfaction of IFAD and the Government, NUCC will also participate as an on-lending institution for delivery of CRFP credit services.

43. The newly established RSCCs will on-lend programme credit funds to members following sound financial and business practices and will be governed by management and supervisory boards and general assemblies. RSCCs will establish lending procedures, systems, appraisal criteria and portfolio management as may be satisfactory to the lending institution, PMU and IFAD.

44. To ensure that the implementation design parameters and the promotion and capacity-building processes of rural cooperatives are geared to actual realities and needs, the programme will be divided into three phases: Phase I, which will last four years, and Phases II and III, which will each last three

years, covering a ten-year period using the FLM. Under this arrangement, joint stakeholder/Government/IFAD reviews and evaluations will be held prior to the end of Phases I and II to ensure that targets that have been agreed upon have been reached prior to triggering the financing for the next phase.

G. Economic Justification

45. The programme's main contribution is expected to be the development of a range of sustainable, responsive and dynamic rural institutions. CRFP will help define a national rural and microfinance policy framework, thus providing a facilitating environment for the growth, diversification and legalization of the rural and microfinance industry. This policy environment will also help commercial banks to increase their financial intermediation, through the wholesaling of credit through financially sound and efficient retail intermediaries, with a full range of financial services to all segments of the rural population, including women and the poor. The exposure of PCBs under CRFP to the rural economy will also lead to improved direct rural financial services.

46. CRFP will support the establishment and development of an estimated 90 rural savings and credit cooperatives with over 9 000 households as members. It will not only increase the capacity of rural financial institutions for enhanced rural and microfinancial service delivery, but will also contribute to the creation of a competitive environment leading to better-quality, efficient and demand-driven rural financial services. Another major impact of the programme will be the sustainable linkages it builds between rural financial cooperatives and the Lebanese financial system. It will finance a variety of investments in the farm, off-farm and non-farm sectors, which will contribute to an increase in rural household incomes.

47. CRFP will support the promotion and strengthening of over 139 rural service cooperatives, which will reach an estimated 13 900 rural households. Households are expected to benefit directly from input supply, equipment hire services, post-harvest facilities, processing, drying of fruits, cold storage facilities, packaging and transportation, among others. Financial analysis in respect of typical investment models shows satisfactory returns to cooperatives.

48. Another major benefit flowing from rural service cooperatives will be technical, extension and market information, which will help improve crop planning, product quality and marketing. Strong and well-managed rural cooperatives will also be able to access available grant funding under various donor or other ongoing programmes for community-level economic and social infrastructure projects. Thus, the economic and social impact of the programme's support for the strengthening of service cooperatives will be immense.

49. **Impact on women.** There are no legislative or cultural barriers to equal access by women to programme credit or other services. The lending products of RSCCs will suit the type of activities women undertake, i.e. microeconomic activities. CRFP will be pro-active in its support for women. The NGOs involved in the programme by contract will be specifically required to be gender-sensitive and ensure that women have equal access to CRFP-financed programmes. The design criteria for the formation of RSCCs will provide for women to be represented on each cooperative's management committee. The CRFP credit fund will provide access to credit to women's cooperatives for food processing or any other mutually beneficial activity.

H. Risks

50. Monetary management has significantly improved. Inflation is fully under control. The exchange rate of LBP to USD has stabilized. It is reasonable to assume that there are no major macroeconomic risks that will destabilize investments in rural microenterprises including in the agriculture sector. There is, however, a risk that political pressures will interfere with the programme's objectives, particularly pressures for highly concessional lending rates (lower than the current market rates), which will undermine the financial sustainability of the RSCCs. This risk will

be mitigated, first, through the programme's emphasis on microfinance policy development, which will create an environment for market-related lending rates and the acceptance of sound principles for the development of rural financial systems; and, second, through the involvement of PCBs, which will minimize the scope for outside interference.

I. Environmental Impact

51. The programme will focus on building institutional capacity and providing financial services to assist farm and non-farm rural microenterprise development. The overall environmental impact of programme activities will range from neutral to indirectly positive. Sub-loans for smallholder agriculture or village-based enterprises will have little or no effect on the environment. Sub-loans related to agricultural activities will be expected to have a positive impact, principally through farmers' increased ability to use fertilizers efficiently and to avoid declines in soil fertility. However, the extent and manner of agro-chemical use will need to be monitored, and this will be one of the inputs in training programmes to service rural services cooperatives and RSCCs.

J. Innovative Features

52. CRFP will introduce a number of important innovative features, the most important being partnership-building with the private sector, i.e. PCBs for a sustainable banker-client relationship. The programme will also enhance IFAD's policy development and dialogue, including support for establishing a national rural and microfinance policy group to provide a facilitating environment for the growth of the MFI industry in rural Lebanon. In addition, it will promote the development of innovative lending products such as micro-leasing.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

53. A loan agreement between the Lebanese Republic 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.

54. The Lebanese Republic is empowered under its laws to borrow from IFAD.

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

PART IV - RECOMMENDATION

56. 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 the Lebanese Republic in various currencies in an amount equivalent to ten million two hundred and fifty thousand Special Drawing Rights (SDR 10 250 000) to mature on and prior to 1 December 2019 and to bear an interest rate equal to 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.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

1. The Government of the Lebanese Republic (hereinafter called ‘the Government’) will cause PMU within MOA to enter into subsidiary loan agreements with each PCB, with the approval of the Central Bank, with respect to the implementation of the credit fund component.

2. The PMU will open, and thereafter maintain in a manner acceptable to IFAD, (a) a current account denominated in LBP for programme operations (the ‘LBP programme account’); and (b) a current account denominated in USD for operations (the ‘USD programme account’). The programme director will be fully authorized to operate the programme accounts.

3. In consultation with IFAD, PCBs will establish and maintain revolving funds into which all net revenues from credits extended to programme beneficiaries financed (directly or indirectly) by the loan will be deposited. PCBs will use the revolving funds to fund further credits to programme beneficiaries in accordance with the programme Loan Agreement during the duration of the programme. For purposes of this paragraph, the term ‘net revenues’ means all repayments of principal and all payments of interest, *less* reasonable operating and other costs.

4. PMU will prepare a draft manual for the credit fund component as soon as practicable, but in no event later than the end of the first programme year (PY) and will submit the draft lending policies and procedures manual to PSC for approval. When the manual is approved by PSC, PMU will submit it to IFAD for comments and approval.

5. (a) MOA, PMU and IFAD, will jointly carry out a review of programme implementation no later than the latter halves of PY4 (‘Phase I Review’) and PY7 (‘Phase II Review’) (collectively referred to as the ‘phase reviews’), based on terms of reference prepared by PMU and approved by IFAD. Among other things, the phase reviews will consider the achievement of programme objectives during the respective Phase I and Phase II and the constraints thereon, and recommend such reorientation of activities and/or reallocation of programme resources as may be required to achieve such objectives and remove such constraints.

(b) The results of the Phase I and Phase II reviews and recommendations thereon will be the basis upon which a mutually acceptable action plan and design for the respective Phase II and Phase III will be prepared and an overall evaluation of the programme will be concluded, as indicated in sub-paragraph (c)(iii) below. Unsatisfactory performance during Phase I or Phase II, as evaluated according to and based on a review of the trigger indicators set forth in paragraph 6 below, may result in a decision by IFAD to delay the commencement of, or cease funding for, the subsequent phase.

(c) Should IFAD decide to:

- (i) Cease funding for the programme, any unused loan proceeds will be cancelled.
- (ii) Delay the commencement of the Phase II or Phase III, the Government will make any necessary corrections/adjustments as recommended and communicated by IFAD. Such delay will be for a maximum of one year from the date of IFAD’s decision. In the latter half of such year, a second review will be conducted in accordance with the procedures set out in paragraph (a), above. The results of such review will be communicated to IFAD, which will then make a final determination of whether to continue to the respective Phase II or Phase III or to cease funding under the programme. In no event will the Government be entitled to receive funding from the loan relating to the delay period.

- (iii) Proceed with Phase II or Phase III, a mutually acceptable action plan and design for the phase in question, based on the findings of the respective phase review, will be prepared. Such action plan and design will have been finalized at the latest by three months before completion of the respective phase I or phase II, and will result in reallocations of loan proceeds and modifications to the loan documents.

(d) The Government will ensure that, should IFAD decide that the programme would continue to the subsequent phase, the recommendations resulting from the respective phase review are implemented within the time specified therefor and to the satisfaction of IFAD. It is agreed and understood that such recommendations may result in modifications to the loan documents including partial cancellation of the loan. It is further agreed and understood that failure to implement the recommendations resulting from a phase review within the time limits specified may result in cancellation of the loan.

6. The programme will be divided into three phases (Phase I: four years; Phase II: three years; and Phase III: three years) covering a total period of ten years. The review of Phase I will analyse the following specific minimum indicators that will be used as triggers for the confirmation, by IFAD, of funding and subsequent detailed design of Phase II of the programme:

- (a) A national rural and microfinance policy, including legal and regulatory framework, is established with an implementation plan and time frame, and sent to IFAD for review and comments on/or before 18 months from the effective date.
- (b) A national cooperative policy including all relevant aspects of cooperative institutional patterns, criteria for incorporation of cooperatives, promotional and support mechanisms are established and sent to IFAD for review and comments on or before 18 months from the effective date.
- (c) A comprehensive review of the cooperative legal framework is undertaken and proposals for amendment to present laws or enactment of new laws are prepared, with time frame for implementation, on or before 18 months from the effective date.
- (d) Satisfactory prudential standards for RSCCs and supervision systems (both on site and off site) for rural cooperatives are established on or before 12 months from the effective date.
- (e) Satisfactory and adequate systems for the financial audit of cooperatives are instituted on or before 12 months from the effective date.
- (f) A staff development plan for the Directorate of Cooperatives, with implementation time frame, is prepared on or before nine months from the effective date.
- (g) A plan for the restructuring of NUCC with implementation strategies and time frame is prepared by the Directorate of Cooperatives on or before 12 months from the effective date.
- (h) A plan for strengthening NGUC including an implementation plan and time frame is prepared by the Directorate of Cooperatives on or before six months from the effective date.

ANNEX

- (i) The lending policies and procedures manual of RSCCs is sent to IFAD for review and comments on or before 18 months from the effective date and is adopted with the concurrence of IFAD.
 - (j) At least three subsidiary loan agreements are entered into on or during the three years after the effective date.
 - (k) The lending policies and procedures manual of PCBs to RSCCs is sent to IFAD for review and comments on or before 15 months from effective date and is adopted with the concurrence of IFAD.
 - (l) At least 20 RSCCs are established and functional by the end of PY4.
 - (m) The disbursements on an incremental basis (i.e. net of loan principal recoveries recycled for lending under the programme) to RSCCs and service cooperatives reach a level of about USD 3 000 000 by the end of PY4.
 - (n) Satisfactory sub-loan recovery rates are close to 90%.
7. Phase III trigger indicators will consist of a process of review and refinements and adjustments in all parameters, relevant for entry into Phase II, based on experience, lessons learned, feedback from the programme, monitoring and impact assessment and emerging developments in the rural financial markets (RFMs). The programme output parameters, as planned and healthy functioning of RSCCs and rural services cooperatives (RSCs), will also be very relevant. The triggers for moving from Phase II to Phase III will be sharply defined at the end of Phase I review.
8. During PY1, the Government will have to fill the four vacant positions in the Directorate of Cooperatives and provide the necessary supporting staff.
9. Six months from the effective date, the Government will ensure that a staff development plan for the Directorate of Cooperatives is finalized, with an implementation time frame, to enable it to perform all the required tasks. The plan will include a gradual and planned increase of staff strength linked to the needs and planned increase in grass-roots rural cooperatives' qualifications, experience and knowledge, and skill development programmes. The Government will strengthen the Directorate by reallocating the staff from other departments in MOA or other ministries.
10. No disbursements shall be made in respect of expenditures under the credit fund component:
- (a) with respect to any PCB, until a subsidiary loan agreement, referred to under paragraph 1 above, shall have been approved by IFAD;
 - (b) until the chief implementation advisor to PMU (an international expert) shall have been appointed in a manner satisfactory to IFAD; and
 - (c) until the international cooperative institutions specialist entrusted to provide technical assistance to the Directorate of Cooperatives shall have been appointed in a manner satisfactory to IFAD.

11. The following are the additional conditions precedent to the effectiveness of the programme loan agreement:

- (a) a programme director shall have been duly appointed in a manner satisfactory to IFAD;
- (b) the ministerial decree issued by MOA establishing the PSC shall have been passed;
- (c) the ministerial decree issued by MOA establishing the PMU shall have been passed;
- (d) the programme accounts and the special accounts shall have been duly opened;
- (e) the programme loan agreement shall have been duly signed, and the signature and performance thereof by the Government shall have been duly authorized and ratified by all necessary administrative and governmental action; and
- (f) a favourable legal opinion, in form and substance acceptable to IFAD, shall have been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA
LEBANON

Land area (km² thousand) 1997 1/	10	GNP per capita (USD) 1999 4/	3 700
Total population (million) 1998 1/	4.2	Average annual real rate of growth of GNP per capita, 1990-98 2/	4.5
Population density (people per km²) 1998 1/	412	Average annual rate of inflation, 1990-98 2/	24
Local currency	Lebanese Pound (LBP)	Exchange rate: USD 1 000=	LBP 0.663130
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-98 1/	1.9	GDP (USD million) 1998 1/	17 229
Crude birth rate (per thousand people) 1998 1/	21	Average annual rate of growth of GDP 1/ 1980-90	n.a.
Crude death rate (per thousand people) 1998 1/	6	1990-98	7.7
Infant mortality rate (per thousand live births) 1998 1/	27	Sectoral distribution of GDP, 1998 1/	
Life expectancy at birth (years) 1998 1/	70	% agriculture	12.4
Number of rural poor (million) (approximate) 1/	n.a.	% industry	26.5
Poor as % of total rural population 1/	n.a.	% manufacturing	17.3
Total labour force (million) 1998 1/	1.4	% services	61.1
Female labour force as % of total, 1998 1/	29	Consumption, 1998 1/	
Education		General government consumption (as % of GDP)	14.5
Primary school gross enrolment (% of relevant age group) 1997 1/	110.7	Private consumption (as % of GDP)	98.3
Adult literacy rate (% age 15 and above) 1998 3/	85.1	Gross domestic savings (as % of GDP)	-12.8
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 3/	3 277	Merchandise exports, 1998 1/	n.a.
Prevalence of child malnutrition (height for age % of children under 5) 1992-98 1/	12.2	Merchandise imports, 1998 1/	n.a.
Prevalence of child malnutrition (weight for age % of children under 5) 1992-98 1/	3	Balance of merchandise trade	n.a.
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 1990-98 1/	10	Before official transfers, 1998 1/	-6 577
Physicians (per thousand people) 1990-98 1/	2.8	After official transfers, 1998 1/	-3 888
Percentage population without access to safe water 1990-98 3/	6	Foreign direct investment, 1998 1/	200
Percentage population without access to health services 1981-93 3/	5	Government Finance	
Percentage population without access to sanitation 1990-98 3/	37	Overall budget surplus/deficit (including grants) (as % of GDP) 1997 1/	-25.6
Agriculture and Food		Total expenditure (% of GDP) 1997 1/	42
Food imports as percentage of total merchandise imports 1998 1/	n.a.	Total external debt (USD million) 1998 1/	6 725
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	2 971	Present value of debt (as % of GNP) 1998 1/	40.6
Food production index (1989-91=100) 1996-98 1/	138.2	Total debt service (% of exports of goods and services) 1998 1/	18.7
Land Use		Nominal lending rate of banks, 1998 1/	20.3
Arable land as % of land area, 1997 1/	17.6	Nominal deposit rate of banks, 1998 1/	13.6
Forest area (km ² thousand) 1995 1/	0.5		
Forest area as % of total land area, 1995 1/	5.1		
Irrigated land as % of cropland, 1995-97 1/	36		

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*, 2000

2/ World Bank, *Atlas*, 2000

3/ UNDP, *Human Development Report*, 2000

4/ World Bank, *World Development Indicators database*, 2001

PREVIOUS IFAD LOANS TO LEBANON

<i>Project Id</i>	<i>Project Name</i>	<i>Initiating Institution</i>	<i>Cooperating Institution</i>	<i>Lending Terms</i>	<i>Board Approval</i>	<i>Loan Effectiveness</i>	<i>Current Closing Date</i>	<i>Loan/Grant Acronym</i>	<i>Denominated Currency</i>	<i>Approved Loan/Grant Amount</i>	<i>Disbursement as at April 2001</i>
305	Smallholder Livestock Rehabilitation Project	IFAD	AFESD	I	15 Apr 92	08 Dec 93	31 Dec 01	L - I - 305 - LB	SDR	7 300 000	66%
370	Irrigation Rehabilitation and Modernization Project	World Bank: IBRD	World Bank: IBRD *	I	05 Dec 94	04 Jan 96	31 Dec 01	L - I - 370 - LB	SDR	6 700 000	29%
1036	Agriculture Infrastructure Development Project	World Bank: IBRD	World Bank: IBRD	I	30 Apr 97	09 Apr 99	30 Jun 03	L - I - 448 - LB	SDR	8 700 000	51%

* International Bank for Reconstruction and Development.

SUB-SECTOR CONTEXT – FINANCIAL SECTOR

1. The strong and well-articulated banking sector of Lebanon has not served the rural economy. On average less than 2% of bank lending has been given to the agricultural sector. To encourage new lending to agriculture, the Government has introduced a number of special incentives. Loans for agricultural purposes can be used to offset the statutory reserve requirement of banks with the Central Bank of Lebanon. In addition, there is a special programme to encourage commercial bank loans to industry, agriculture and tourism, which carry interest subsidy. Yet, these measures have not improved the flow of credit to agriculture because of delivery constraints.
2. **Kafalat.** Another important development in the financial sector is the newly established *kafalat*, which is a semi-public agency providing guarantees up to 75% of principal and interest on bank loans and up to seven-year loan maturities. The guarantee is given for small and medium-size loans not exceeding USD 200 000 for a premium of 2.5%. The guarantee is given on a case-by-case basis following a borrower's specific request to *kafalat* and the bank. In respect of guaranteed loans, the bank does not ask for a mortgage, but instead requires a so-called negative pledge whereby the borrower gives the bank a written statement authorizing it to mortgage his or her property in case of default. An interest subsidy of 7% from the Government is provided in respect of loans guaranteed by *kafalat*. Activities eligible for *kafalat* guarantee are industry, agriculture, tourism and information technology (software and Internet services).
3. **Savings guarantee institution.** A savings guarantee institution, owned by commercial banks and the Government, was established in 1968. Its objective is to guarantee public deposits with banks in case of banks' bankruptcy. An annual premium is paid by the banks of 0.005% of outstanding deposits at the end of the year. The Government makes a matching contribution. The institution guarantees public deposits in the participating banks, up to LBP 5.0 million for each depositor for each bank.
4. **Leasing company.** Under Lebanese banking regulations, banks are prohibited from directly owning productive assets that may be used under a financial lease scheme. To conform with these regulations, the National Leasing Corporation was created in 1995 with the following shareholders: Fransa Bank 45%; *Unité Crédit Agricole Bail* (UCABAIL) (a 100%-owned subsidiary of Crédit Agricole), 25%; the International Finance Corporation (IFC) 15%; German Investment and Development Company (DEG) 15%. The National Leasing Corporation today provides financing for equipment leases (not operating leases) to the construction, medical and manufacturing sectors. The average lease size is USD 100 000, and there are currently over 600 leases outstanding. After a lease term of between three and seven years, the borrower may purchase the equipment outright for 1% of its original price.
5. **Rural financial markets (RFMs).** Paradoxically, although banking services are well developed in Lebanon, RFMs are very poorly developed. Formal financial institutions to deliver rural financial services are lacking. It is estimated that fewer than 12% of farmers have access to financing for seasonal crops. Even within this group, large landowners receive a major share of credit. Only 2.5% of farmers owning less than one *dunum* (about 0.1 ha) of land – or 10% of all farmers – have access to crop financing compared with 53% of farmers owing more than 500 *dunums*. Agricultural producers often receive credit in the form of suppliers' credits for inputs such as seeds, fertilizers and pesticides. Interest rates charged for these credits are often exorbitant, even more than 100%. Similarly, fishermen who receive credit from wholesaler middlemen are obliged to sell their harvest to the same middlemen at prices often below market rates.
6. **Microfinance sector.** As there are no formal institutions providing microfinancial services, some NGOs started providing these services with the assistance of bilateral donors. NGOs are

APPENDIX III

incorporated as charity and self-help (*jama'at*) societies under a 1906 law, and the legality of microfinancial provision is not clear as these societies are not licensed to provide financial services. There are no laws governing the microfinance industry, nor is there a national policy. The major NGOs involved in the provision of microfinancial services include: Save the Children, the Cooperative Housing Foundation (CHF), *Association d' Aide du Développement Rural* (ADR) and Catholic Relief Services (CRS). Save the Children created a local NGO, Al-Majmoua, in 1997 to operate its microfinancial activities. In addition to NGOs and MFIs, the UNDP Integrated Rural Development Programme has a rural and microfinance component in the Baalbek-Hermel region of Bekaa and there is also a microfinance component under the IFAD Smallholder Livestock Rehabilitation Project, also in the Bekaa region.

7. The delivery mechanisms are either through small groups of seven to ten women or directly to individual beneficiaries. Most programmes lend to individuals rather than groups. Interest rates vary considerably among programmes – from 8% (UNDP Baalbek-Hermel) to about 27% (flat rate) per annum. The maximum effective rate is close to 50% per annum. Repayment rates are satisfactory. Unlike in some of Asian and African countries where microfinance needs are small, ranging from USD 50 to around USD 500, the average requirements in Lebanon are high. This is reflected in the average loan size of the microfinance industry, which is considered inadequate. Another distinguishing feature is that most programmes require investment capital ranging from USD 1 000 to 5 000. Non governmental MFIs do not provide access to savings and are not real rural financial intermediaries. Most loans are for the short term and for financing trade. There is very little investment financing. Even if some non-governmental MFIs promote non-banking finance companies, they are not permitted under current financial laws to accept savings of the public. Over time, if donor support is not forthcoming, the sustainability of non-governmental MFIs is at stake. While they bridge a critical gap in the rural financial markets in the short to medium term, as they now operate they are not a solution for the sustainable development of rural financial systems.

8. **Cooperatives.** There are over 400 rural service cooperatives, including agricultural (316), bee-keeping (39), livestock (32) and fishermen's (30) cooperatives. Most village-based cooperatives started with a small group of members of 10 to 15, often belonging to a well-knit family or ethnic group, and expanded in membership over time. Yet, the coverage of most cooperatives is low. Nearly 39% of cooperatives (180) have fewer than 20 members and another 33% (150) from 20 to 50 members. Only 13% of cooperatives (60) have more than 100 members. Another interesting feature is that nearly two thirds of cooperatives were formed in the 1990s after the end of civil war, reflecting the potential for the role of rural cooperatives in the regeneration of the rural economy. A large proportion of members are smallholders, which indicates that any assistance to these cooperatives will indirectly benefit low-income households. Some are actively engaged in input supply, the provision of equipment services on hire (tractors, sprayers, etc.) and the operation of processing facilities (olive oil processing units). As the Directorate of Cooperatives and the apex organizations (NGUC and NUCC) are weak, the grass-roots cooperatives have not received any systematic orientation, training and institutional development support. Most cooperatives have no paid staff or office space. Thus, rural cooperatives suffer from major weaknesses: absence of institutional dynamics and a cooperative culture; passive participation of members and domination by a few; weak management and leadership; undercapitalization; lack of commercial and business orientation; a dependency, grant and subsidy syndrome; and above all, a lack of vision and goals. Yet rural cooperatives have the potential to develop into strong, broad-based (expanding coverage of membership) and self-reliant institutions, capable of organizing more effective and diversified services to members. They have the opportunity to build linkages and networks for various support functions and services such as input supply, technical information, extension advice, market information and linkages. They need a paradigm shift in their orientation and capacity-building inputs. They also need financial services, both short-term loans for input supply services, and longer-term investment loans.

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE PERFORMANCE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Strategic Goal</p> <ul style="list-style-type: none"> Rural poverty reduction through an increase in the incomes of low-income rural households in particular and rural households in general. 	<ul style="list-style-type: none"> Rural household income increase and/or expenditure. Decrease in the number of rural households that fall below the cut-off point for low income in Lebanon. 	<ul style="list-style-type: none"> Periodical national statistics. Poverty assessment surveys. CRFP evaluation and impact assessment/studies. CRFP monitoring reports. 	<ul style="list-style-type: none"> Political stability is maintained. Macroeconomic stability is maintained. Government commitment to the development of rural areas and poverty reduction continues.
<p>Programme Development Objectives</p> <ul style="list-style-type: none"> To support development of Rural Financial Markets (RFMs) in general through an appropriate policy environment including legal and regulatory framework and policy dialogue. 	<ul style="list-style-type: none"> Increase in the range of rural financial institutions: <ul style="list-style-type: none"> NGO microfinance providers Informal MFIs Formal MFIs Cooperative financial institutions. 	<ul style="list-style-type: none"> CRFP evaluation and impact assessment/studies. CRFP monitoring reports. 	
<ul style="list-style-type: none"> To strengthen, promote and develop a dynamic, responsive, sustainable and efficient rural cooperative financial institutional framework to provide access to financial services to rural households including smallholder households and women. To develop partnership/linkages between the cooperative institutional systems and the Lebanese financial system. 	<ul style="list-style-type: none"> No. of rural household clients of NGOs/MFIs and rural cooperative financial institutions Outstanding loan portfolio of NGOs/MFIs and of cooperative rural financial institutions (no. of accounts disaggregated by urban/rural households, gender, activity, investment/working capital finance). Savings mobilization by MFIs and cooperatives. 	<ul style="list-style-type: none"> NGO/MFI annual/progress reports. Annual/progress reports of cooperative financial institutions. Annual statistics of the Directorate of Cooperatives. Annual reports of PCBs. Rural financial studies/surveys. Beneficiary assessments. Supervision mission reports. 	<ul style="list-style-type: none"> A critical assumption is that the rural financial institutions cover their operational/financial costs and maintain financial and institutional sustainability. Another important assumption is that marketing opportunities for agricultural products and other products and services of microenterprises are sufficiently developed to make a profitable sale of these products.
<p>Programme Outputs</p> <ul style="list-style-type: none"> A national rural and microfinance policy is developed and adopted A national cooperative policy covering rural financial systems and other forms of cooperative institutions is developed and adopted. 	<ul style="list-style-type: none"> A national rural and microfinance policy group is established. No operational legal constraints. Regulatory framework conforms to prudential financial standards of MFIs and cooperative institutions. 	<ul style="list-style-type: none"> Policy dialogue of IFAD. Supervision mission reports. Periodical policy assessment and review studies. Donor assessments, if any. Participatory stakeholder beneficiary evaluation. 	<ul style="list-style-type: none"> Private sector, NGOs and MFIs use the policy environment for the expansion of their financial services into rural areas with a diversified product range and mix. Rural households are able to organize themselves into viable and sustainable cooperatives.
<p>(a) Rural Savings and Credit Cooperatives (RSCCs) are established and operational.</p>	<ul style="list-style-type: none"> No. of RSCCs established. No. of villages covered, membership savings mobilization (no. and amount). Credit portfolio (no. and amount disaggregated by gender, activity, investment/working capital finance and size of agricultural holding). 	<ul style="list-style-type: none"> CRFP monitoring and evaluation reports. Annual reports and statistics of the Directorate of Cooperatives. Annual reports of RSCCs. Periodical impact assessment surveys. 	<ul style="list-style-type: none"> Rural households, particularly low-income ones, save and deposit with their society.
<p>(b) Rural service cooperatives strengthened and operational.</p>	<ul style="list-style-type: none"> No. of service cooperatives strengthened. No. of service cooperatives able to access credit services. No. of service cooperatives that have incorporated savings and credit as a primary function. 	<ul style="list-style-type: none"> CRFP monitoring and evaluation reports. Annual reports and statistics of the Directorate of Cooperatives. Annual reports of service cooperatives. Periodical impact assessment surveys. 	<ul style="list-style-type: none"> Subsidy and dependency syndrome of cooperatives is abolished.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE PERFORMANCE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
(c) Directorate of Cooperatives is adequately staffed with suitably qualified and trained people.	<ul style="list-style-type: none"> Staff strength in the head office and provincial bureaux is increased. Services to cooperatives enhanced. 	<ul style="list-style-type: none"> Supervision mission reports. Annual report of the Directorate of Cooperatives. 	
(d) NUCC and NGUC are appropriately restructured.	<ul style="list-style-type: none"> Restructuring plan implemented. Implementation strategy and time frame. 	<ul style="list-style-type: none"> Supervision mission reports. Progress reports on the implementation of restructuring plan. 	<ul style="list-style-type: none"> Government and cooperative members pressing for NUCC and NGUC restructuring.
(e) Innovative lending (e.g. micro-leasing) and savings products are developed and offered.	<ul style="list-style-type: none"> Portfolio of MFIs includes innovative lending and savings products. 	<ul style="list-style-type: none"> CRFP monitoring reports. Supervision mission reports. 	
(f) Partnerships and linkages between rural cooperative institutions, PCBs and CRFP established. (g) CRFP credit fund results in a larger cumulative loan portfolio through leveraging resources from the partner banking institutions.	<ul style="list-style-type: none"> Linkages are in operation for financial services. Cumulative withdrawals under credit fund. Cumulative loan portfolio of partner institutions to programme clients. 	<ul style="list-style-type: none"> CRFP monitoring and progress reports. Mission supervision reports. Annual reports of PCBs. 	<ul style="list-style-type: none"> Participating banks maintain their commitment. Rural cooperative institutions become acceptable to clients of PCBs/NUCC for their retail banking.
Programme Components/Activities A. Policy Development and Dialogue - National/regional seminars, policy study and development, training, study tours, provision of equipment, technical assistance (TA).	Programme costs (Phases I-III) USD 661 300	<ul style="list-style-type: none"> Progress reports and disbursement reports. Supervision mission reports. 	<ul style="list-style-type: none"> Effective cooperation and coordination among policy-related ministries (MOF, Central Bank of Lebanon, the Council for Development and Reconstruction (CDR), MOA, Ministry of Legal Affairs and Prime Minister's Office) is a critical assumption.
B. Institutional Development <i>a. Establishment and development of savings and credit cooperatives</i> - National/regional seminars, policy study and development, training, study tours, provision of equipment, TA, seed capital and business development plans.	USD 2.043 million	<ul style="list-style-type: none"> Progress reports and disbursement reports. Supervision mission reports. Participatory monitoring and evaluation. 	<ul style="list-style-type: none"> There is effective cooperation among NGOs, NGUC, NUCC and cooperatives.
<i>b. Strengthening of rural service cooperatives</i> - Diagnostic study, training, study tours, provision of equipment, TA, seed capital, business development plans.	USD 831 000	<ul style="list-style-type: none"> Progress reports and disbursement reports. Supervision missions reports. Participatory monitoring and evaluation. 	<ul style="list-style-type: none"> There is effective cooperation among NGOs, NGUC, NUCC and cooperatives.
<i>c. Strengthening of Directorate of Cooperatives, NUCC and NGUC, through</i> - Staffing, training, study tours, TA, equipment and vehicles.	USD 2.163 million for Directorate of Cooperatives; USD 1.419 million for NUCC; and USD 832 000 for NGUC	<ul style="list-style-type: none"> Progress reports and disbursement reports. Supervision mission reports. 	
<i>d. Innovative lending and savings product development through</i> study and workshops	USD 45 300	<ul style="list-style-type: none"> Progress reports and disbursement reports. Supervision mission reports. 	

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE PERFORMANCE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
C. Credit Fund	USD 24.864 million <ul style="list-style-type: none"> • The credit disbursement by category of institutions disaggregated by activity, gender and loan maturities. • Outstanding credit portfolio by category of institution disaggregated by activity, gender and loan maturities. 	<ul style="list-style-type: none"> • Progress reports and disbursement reports. • Supervision mission reports. • Banks reports. 	<ul style="list-style-type: none"> • There are effective liaison and cooperation among rural cooperative institutions, PMU, NGO service providers and lending banks/institutions.
D. Programme Management and Coordination	USD 3.569 million	<ul style="list-style-type: none"> • Progress reports and disbursement reports. • Supervision mission reports. 	

QUANTITATIVE INPUTS, TARGETS AND KEY PROGRAMME FACTORS

OBJECTIVES							INSTRUMENTS						
<p>The programme aims at rural poverty reduction through an increase in low-income household incomes in rural areas. This objective will be achieved through building linkages between the cooperative financial systems and the Lebanese financial system. Overall investment will be geared towards the development of the rural economy and in particular, support to low-income households in the farm and non-farm sectors including production, processing, businesses, services and rural women for income-generating activities.</p>							<p>The main instruments used in the implementation of the listed components are :</p> <ul style="list-style-type: none"> • Policy dialogue; • Technical assistance; • Training and studies (workshops); • Credit funds; • Managerial inputs. 						
COMPONENTS	PY1	PY2	PY3	PY4	Phase II	Phase III							
A. Policy development and dialogue	124.3	79.7	57.4	58.0	194.2	197.0							
B. Institutional development	362.7	908.9	665.7	710.5	2 767	2 478.0							
C. Credit funds	-	427.5	790.4	1 940	13 701	8 003.7							
D. Programme management and coordination	551.5	404.6	366.6	322.5	1 182	1 059.2							
PROJECT COSTS			FINANCING				BENEFICIARIES		ECONOMIC ANALYSIS				
COMPONENTS	USD million	% Base Costs			USD million	%	It is estimated that around 250 000 people in about 50 000 households will constitute the eligible IFAD target group, which includes agricultural smallholders, the landless, rural women and fishermen. All evidence shows that the majority will be low-income households. Design criteria of rural savings and credit cooperatives and an appropriate loan ceiling will ensure that benefits flow to the target group.		Economic Rate of Return (ERR) Costs				
A. Policy development and dialogue	0.71	2	IFAD	12.84	34	Not applicable (rural finance project)							
B. Institutional development	7.9	20	Cofinancier	4.28	11.7.2001	Financial Internal Rate of Return (FIRR)							
C. Credit funds	24.9	68	Commercial bank	15.19	41	FIRR for modern oil-pressing mill model 36%							
D. Programme management and coordination	3.9	10	NUCC	1.35	4	FIRR for food-processing model 20%							
Total including contingencies	37.35	103	NGUC	0.84	2	FIRR for fruit-drying unit model 18%							
			National Leasing Corp.	0.30	1	Total cost per beneficiary USD 150							
			Government	2.56	7	Total cost of IFAD loan per beneficiary USD 50							
			Total	37.35	100								

SUMMARY COST AND FINANCING TABLES

Table 1: Components Project Cost Summary

	(LBP '000)			(USD '000)			% Foreign Exchange	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
	A. Policy development and dialogue	884 025.0	107 925	991 950	589.4	72.0		
B. Institutional development								
Establishment of rural savings & credit cooperatives	3 064.5	-	3 064	2 043.	-	2 043.	-	6
Promotion and strengthening of rural service cooperatives	1 246.5	-	1 246	831.0	-	831.0	-	2
Capacity-building of the Directorate of Cooperatives	2 317.2	927 535	3 244	1 544.	618.4	2 163.	29	6
Restructuring of NUCC	2 028.1	100 620	2 128	1 352.	67.1	1 419.	5	4
Strengthening of NGUC	1 192.5	55 200	1 248	795.3	36.8	832.1	4	2
Development of innovative and savings credit products	22 950.0	45 000	67 950	15.3	30.0	45.3	66	-
Subtotal Institutional development	9 872.3	1 128	11 000	6 581.	752.2	7 333.	10	20
C. Credit funds								
Savings and credit cooperatives	26 056.1	-	26 056	17 370.	-	17 370.	-	48
Rural service cooperatives	10 339.6	-	10 339	6 893.	-	6 893.	-	19
Micro-leasing	900 000.0	-	900 000	600.0	-	600.0	-	2
Subtotal Credit funds	37 295.7	-	37 295	24 863.	-	24 863.	-	68
D. Programme management and coordination	3 860.8	1 492	5 353	2 573.	995.0	3 568.	28	10
Total BASELINE COSTS	51 913.0	2 728	54 641	34 608.	1 815	36 427.	5	100
Physical contingencies	350 900.3	22 727	373 627	233.9	15.2	249.1	6	1
Price contingencies	795 226.6	220 761	1 015	530.2	147.2	677.3	22	2
Total PROJECT COSTS	53 059.1	2 972	56 031	35 372.	1 98	37 354.	5	103

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Table 2: Expenditure Accounts Project Cost Summary

	(LBP '000)			(USD '000)			%	% Total
	Local	Foreign	Total	Local	Foreign	Total	Foreign Exchange	Base Costs
I. Investment Costs								
A. Equipment	77 467.4	315 787	393 255.	51.6	210.5	262.2	80	1
B. Vehicles	121 578.0	407 022	528 600.	81.1	271.3	352.4	77	1
C. Studies, training and technical assistance								
Studies	13 500.0	262 500	276 000.	9.0	175.0	184.0	95	1
Training	1 241.8	202 500	1 444	827.9	135.0	962.9	14	3
Technical assistance	396 090.0	1 291	1 687	264.1	861.1	1 125	77	3
Subtotal Studies, training and technical assistance	1 651.4	1 756	3 408	1 101.	1 171.	2 272	52	6
D. Contract services	3 262.4	-	3 262	2 175.	-	2 175	-	6
E. Credit fund	37 295.7	-	37 295	24 863.	-	24 863	-	68
F. Seed capital	675 000.0	-	675 000.	450.0	-	450.0	-	1
Total Investment Costs	43 083.5	2 479	45 563	28 722.	1 652.	30 374	5	83
II. Recurrent Costs								
A. Salaries and allowances	6 331.8	-	6 331	4 221.	-	4 221	-	12
B. Operation and maintenance								
Equipment	129 594.0	32 398	161 992.	86.4	21.6	108.0	20	-
Vehicles	687 884.8	171 971	859 856.	458.6	114.6	573.2	20	2
Subtotal Operation and maintenance	817 478.8	204 369	1 021	545.0	136.2	681.2	20	2
C. Annual expenses	1 680.0	45 000	1 725	1 120.	30.0	1 150	3	3
Total Recurrent Costs	8 829.2	249 369	9 078	5 886.	166.2	6 052	3	17
Total Baseline Costs	51 913.0	2 728	54 641	34 608.	1 819.	36 427	5	100
Physical contingencies	350 900.2	22 727	373 627.	233.9	15.2	249.1	6	1
Price contingencies	795 226.0	220 761	1 015	530.2	147.2	677.3	22	2
Total Project Costs	53 059.2	2 972	56 031	35 372.	1 981.	37 353	5	103

ORGANIZATION AND MANAGEMENT

1. A Programme Steering Committee (PSC) chaired by the Minister for Agriculture will oversee and guide the implementation of CRFP. The members of PSC will include the Director-General of the Cooperatives, the Director-General of Agriculture, a representative of MOF, a representative of the Council for Development and Reconstruction (CDR), a representative from the Central Bank of Lebanon, the director of the PMU, a representative of NGUC, a representative of NUCC, and representatives of participating lending institutions and *kafalat* (loan guarantee scheme). PSC functions will include reviewing and approving of annual workplans and budgets, reviewing progress of programme implementation, reviewing monitoring and evaluation reports, ensuring coordination among implementing agencies, and reviewing programme accounts, finance and disbursement.
2. Management authority for the overall implementation of CRFP will rest firmly with the PMU. National rural and microfinance policy development will be the responsibility of the policy group. The institutional development sub-components of capacity-building of the Directorate of Cooperatives and restructuring NUCC and NGUC will be handled by the Directorate of Cooperatives with technical assistance provided under the programme. The implementation of other institutional development components will be the function of the PMU with the help of service providers. The credit fund will be managed by PCBs and PMU.
3. The institutional development sub-components relating to RSCCs and service cooperatives will be implemented through contractual arrangements between PMU and the service providers (NGOs). The NGO service providers will be able to build synergy between the programme components and their other ongoing or potential new programmes funded by various donors for business and skill development programmes. PMU will award a service contract to NGOs for community dialogue and mobilization, sensitization, diagnostic analysis, training, technical assistance, guidance and follow-through services adopting participatory processes.
4. **Monitoring and evaluation (M&E).** M&E of programme achievements will be the responsibility of PMU. Technical assistance is provided to PMU for capacity-building process-impact monitoring by an independent local M&E specialist. The chief technical advisor and M&E officer of the PMU will establish appropriate M&E systems to serve the objective, assisted by a local information technology specialist. PMU will also develop a performance rating system for RSCCs based on quality of management, institutional criteria, range of services, financial products, savings mobilization, financial performance (capital, asset quality, earnings, liquidity) and outreach. Similarly, a rating system for service cooperatives will be developed, based on quality of management, institutional criteria, range and development of services, business and commercial orientation, financial viability, institutional linkages and outreach. This will help institutional development impact assessment as well as guide PMU in directing capacity-building inputs. PMU will organize the assessment through auditors of the cooperatives and initially also from NGO service providers. Good proxy indicators of household impact will be loan recovery rates at RSCC level and average savings per household.
5. **Programme implementation phasing.** To ensure that the implementation design parameters and rural cooperatives' promotion and capacity-building processes are geared to actual realities and needs, the programme will be divided into three phases: Phase I of four years and Phases II and III of three years each, covering a ten-year period using the IFAD/FLM. Under this arrangement, joint stakeholder/Government/IFAD reviews and evaluations are held prior to the end of Phases I and II to ensure that agreed milestones are reached prior to triggering the financing of the next phase.

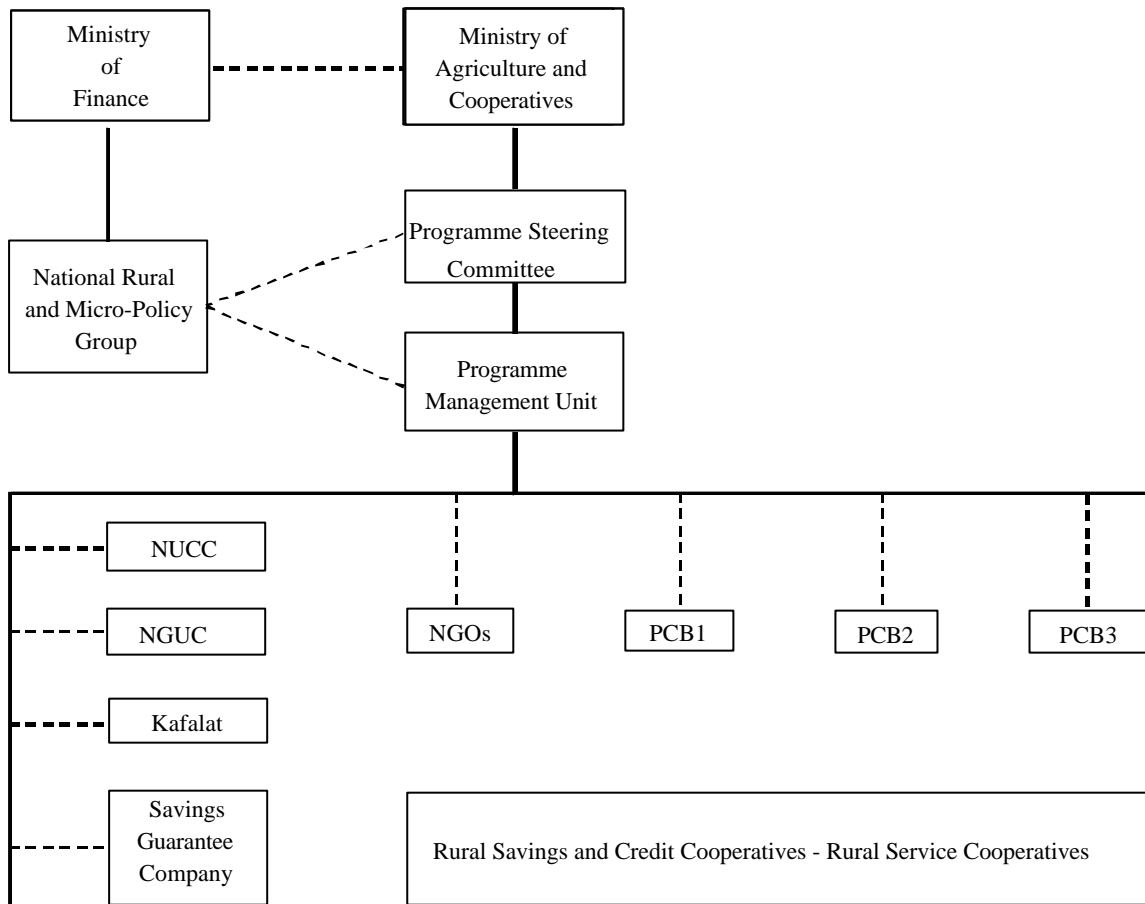
APPENDIX VII

6. **Triggers from Phase I to Phase II.** The main actions that will trigger the implementation of the programme from Phase I to Phase II, to be included as dated covenants of the loan agreement, are:

- (a) A national rural and microfinance policy, including a legal and regulatory framework, is established with an implementation plan and time frame and sent to IFAD for review and comments on/or before 18 months from loan effectiveness.
- (b) A national cooperative policy, including all relevant aspects of cooperative institutional patterns, criteria for incorporation of cooperatives, promotional and support mechanisms, is established and sent to IFAD for review and comments on or before 18 months from loan effectiveness.
- (c) A comprehensive review of the cooperative legal framework is undertaken, and proposals for amendment to present laws or enactment of new laws are prepared, with time frame for implementation, on or before 18 months from the date of loan effectiveness.
- (d) Satisfactory prudential standards for RSCCs and supervision systems (both on site and off site) for rural cooperatives are established on or before 12 months from loan effectiveness.
- (e) Satisfactory and adequate systems for the financial audit of cooperatives are instituted on or before 12 months from loan effectiveness.
- (f) A staff development plan for the Directorate of Cooperatives, with implementation time frame, is prepared on or before nine months from date of loan effectiveness.
- (g) A plan for restructuring of NUCC is prepared by the Directorate of Cooperatives with implementation strategies and time frame on or before 12 months from loan effectiveness.
- (h) A plan for strengthening NGUC is prepared by the Directorate of Cooperatives with implementation plan and time frame on or before six months from loan effectiveness.
- (i) Lending policies and procedures manual of RSCCs is sent to IFAD for review and comments on or before 18 months from loan effectiveness and is adopted with the concurrence of IFAD.
- (j) Tripartite agreements between PMU, MOF and a minimum of three PCBs are entered into on or before three years loan effectiveness.
- (k) The statement of lending policies and procedures of PCBs to programme clients is sent to IFAD for review and comments on or before 15 months from loan effectiveness and is adopted with the concurrence of IFAD.
- (l) A minimum of 20 RSCCs are established and functional by the end of PY4.
- (m) The loan disbursements on an incremental basis (i.e. net of loan principal recoveries recycled for lending under the programme) to RSCCs and service cooperatives reach a level of about USD 3 million by end of PY4.
- (n) Satisfactory loan recovery rates close to 90%.

7. **Triggers from Phase II to Phase III.** These will be more a process of review and refinements and adjustments in all parameters relevant for entry into Phase II, based on experience, lessons learned, feedback from programme, monitoring and impact assessment and emerging developments in the RFMs. The programme output parameters, as planned, and healthy functioning of RSCCs and service cooperatives will also be very relevant. The triggers for moving from Phase II to Phase III will be sharply defined at end review of Phase I.

APPENDIX VII



Line of Control: _____
 Line of Coordination, Cooperation and Partnership: - - - - -

LEGEND
 NUCC: National Union for Cooperative Credit
 NGUC: National General Union of Cooperatives
 PCB : Participating Commercial Bank

ECONOMIC AND FINANCIAL ANALYSIS

1. The provision of rural financial services to the target group being the main, if not the only, activity supported by the programme makes CRFP not suitable for a full economic analysis. Financial analysis in respect of typical investment models shows satisfactory and acceptable returns to a cooperative. If members' financial benefits are integrated into the analysis, the returns will be high. For example, the financial IRR of a modern oil-pressing mill over a 20-year period is estimated at 36%. A food-processing unit and a fruit-drying unit will generate a financial IRR of 20% and 18% respectively.
2. Development of a range of sustainable, vibrant, responsive and dynamic rural institutions is the quintessence of the programme contribution. CRFP's contribution for evolution of a national rural and microfinance policy provides a facilitating environment for the growth, diversification and legalization of rural and microfinance industry that will increase its outreach. The policy environment will also help commercial banks to increase their financial intermediation, through wholesaling of credit through financially sound and efficient retail intermediaries, with a full range of financial services to all segments of the rural population including women and the poor. The exposure of PCBs under CRFP to the rural economy will also lead to improved direct rural financial services.
3. CRFP will support the establishment and development of an estimated 90 rural savings and credit cooperatives with over 9 000 households as members. The evolution of rural financial institutions will not only increase their capacity for enhanced rural and microfinancial service delivery, but will also contribute to a competitive environment leading to qualitative, efficient and demand-driven rural financial services. Another major impact of the programme lies in building sustainable linkages between rural financial cooperatives and the Lebanese financial system. A variety of investments in the farm, off-farm and non-farm sectors will be financed, which will contribute to an increase in rural household incomes.
4. CRFP will support the promotion and strengthening of over 139 rural service cooperatives, which will reach an estimated 13 900 rural households. The tangible economic benefits to households will mainly consist of: (i) input supply (availability of quality material and better prices); (ii) equipment hire services (timely availability and competitive rates); (iii) private market rates will decline; (iv) post-harvest facilities (processing, drying of fruits, cold storage facilities, packaging and transportation). This helps marketing of horticultural products.
5. Another major benefit that will flow from a rural service cooperative will be in the nature of technical, extension and market information. This will immensely help in improving crop planning, the quality of the product and marketing. A strong and well-managed rural cooperative will also be able to access available grant funding under various donor or other ongoing programmes for community economic and social infrastructure projects. Thus, the economic and social impact of CRFP support for the strengthening of service cooperatives will be immense.
6. **Impact on human capital.** CRFP's initiatives in community mobilization, sensitization and awareness-building will increase capacity and trust among rural households to organize themselves into self-help and self-reliant grass-roots organizations for mutual benefit and support. This will also result in better awareness of civic-society management, responsibilities and obligations. CRFP grass-roots institutional impact will have a demonstration effect that will go beyond the programme period.
7. **Impact on women.** There are no legislative or cultural barriers to equal access by women to programme credit or other services. The lending products of RSCCs will suit the type of activities women undertake, i.e. microeconomic activities. CRFP will be pro-active in its support for women.

APPENDIX VIII

The contracted NGOs will be specifically required under their respective contracts to be gender-sensitive and ensure that women are equally able to take part in CRFP-financed programmes. The design criteria for the formation of RSCCs will provide for women's representation on the management committee. The CRFP credit fund will provide access to credit to women's cooperatives for food processing or any other joint mutual benefit.

8. **Impact on household food security.** Food security is not a main problem among the rural households in Lebanon. Almost all rural households have agricultural land or private homestead garden plots. Basic foodstuffs are widely available in markets. The programme investments will lead to an increase in agricultural production, dairy products and fish production, which will improve nutritional standards.

9. **Programme sustainability.** The rural cooperative institutional sustainability will be safeguarded through CRFP support provisions for training and technical assistance by way of follow-through services including support to business development plans. RSCCs will adopt lending interest rates that will cover all their costs and sound financing criteria to ensure their financial viability. The service cooperatives will also be required to adopt sound principles of cost recovery for their services. RSCCs are resource-based institutions, and CRFP's design to build linkages between RSCCs and commercial banks will result in a banker-client relationship that will help RSCCs to have access to resources beyond the programme period. Similarly, rural service cooperatives will continue to access credit subject to their sound management and financial criteria. The Lebanese commercial banking system has high liquidity, and banks need good retail intermediaries for the expansion of retail banking. The CRFP credit fund is a trigger and catalyst in building sustainable linkages between rural financial cooperatives and the banking system for provision of financial services to rural households. Thus, CRFP-supported financial services are sustainable beyond the programme period and become an integral part of the financial sector.

10. Through access to financial services, rural clients invest in productive enterprises of their own choosing. As such, the sustainability of programme benefits at the household level will be ensured principally through the continued self-motivation and initiative of individual, commercially oriented clients, each of whom will have taken pro-active steps to take advantage of market opportunities. In short, market forces will operate. The financial, commercial and technical viability of their investments will be assessed as part of standardized loan appraisal and approval systems.