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INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
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Rome, 1-2 December 2004

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF ARMENIA

FOR THE

RURAL AREAS ECONOMIC DEVELOPMENT PROGRAMME

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CURRENCY EQUIVALENTS

Currency Unit	=	Armenian dram (AMD)
USD 1.00	=	AMD 510
AMD 1 000	=	USD 1.96

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

ACBA	Agricultural Cooperative Bank of Armenia
COSOP	Country Strategic Opportunities Paper
OPEC Fund	Organization of the Petroleum Exporting Countries Fund for International Development
PAAU	Programme Analysis and Administration Unit
PFI	Participating Financial Institution
PRSP	Poverty Reduction Strategy paper
RAEDP	Rural Areas Economic Development Programme
RBIS	Rural Business Intermediation Services
RFF	Rural Finance Facility
SME	Small and Medium Enterprises
USAID	United States Agency for International Development

GLOSSARY

<i>Marzes</i>	Administrative districts
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GOVERNMENT OF THE REPUBLIC OF ARMENIA**Fiscal Year**

1 January – 31 December

MAP OF THE PROGRAMME AREA



Source: Map traced by project staff of the Agricultural Services Project.

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.

REPUBLIC OF ARMENIA

RURAL AREAS ECONOMIC DEVELOPMENT PROGRAMME

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Armenia
EXECUTING AGENCY:	Ministry of Agriculture
TOTAL PROGRAMME COST:	USD 28.7 million
AMOUNT OF IFAD LOAN:	SDR 10.45 million (equivalent to approximately USD 15.3 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	United States Agency for International Development (USAID) Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development Clients Participating financial institutions (PFIs) Rural Finance Facility (RFF)
AMOUNT OF COFINANCING:	USAID: USD 521 650 (proposal under preparation) OPEC Fund: USD 5.0 million, subject to Government's acceptance of terms Clients: USD 3.7 million PFIs: USD 1.8 million RFF: USD 107 760
TERMS OF COFINANCING:	Grants and loan
CONTRIBUTION OF BORROWER:	USD 2.3 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROGRAMME BRIEF

The programme. The goal and objectives of the Rural Areas Economic Development Programme (RAEDP) in Armenia are to increase sustainable employment and incomes among rural people in the mountain areas of seven disadvantaged *marzes* (administrative districts) and to stimulate the sustained growth of rural enterprise activity in the defined programme area. The principal outputs will be the provision of medium- and long-term financing to small and medium rural enterprises, effective access to the required business intermediation services and commercially justifiable infrastructure in the programme area. The proposed programme orientation is consistent with IFAD's strategic framework, its regional strategy for Central and Eastern Europe and the Newly Independent States, and the recently approved country strategic opportunities paper. It is also in line with the IFAD draft strategy for private-sector development and partnership.

Who are the beneficiaries? The client group for RAEDP will include unemployed rural men and women, small and medium farmers, rural entrepreneurs, agro-processors and traders. The programme approach puts in place investment response mechanisms, primarily through the commercial financial sector, that can be accessed by the rural population at large in the most disadvantaged parts of the country. Households benefiting from earlier phases of IFAD support, including farmer members of water users' associations, producer groups and village associations, will have the opportunity to improve their circumstances further, either by borrowing for seasonal/capital investment or by taking advantage of jobs created by other, more commercially oriented investors.

Why are they poor? The persistence of poverty in Armenia, despite recent years of economic growth, can be attributed to continuing low income and high inequality following the collapse of the former Soviet Union; the unequal pattern of economic growth; and the aftermath of the Russian financial crisis. Armenian output is still only about 65% of its 1990 level. Current output is predominantly from low-productivity informal activities in agriculture, commerce and urban services, which are not providing sufficient earnings to lift households out of poverty.

What will the programme do for them and how will clients participate in it? At the farm enterprise level, investments will increase returns to on-farm household labour. Productivity improvements will result in higher levels of disposable income: and, in most cases, the modernization of farming practices and adjustment of cropping patterns are expected to provide greater income security against external shocks (e.g. droughts and price changes). At the non-farm, rural enterprise level, investments in agriculture-related businesses and infrastructure will further enhance opportunities for employment and will facilitate farmers' access to markets for produce, inputs and services. It is expected that ultimately thousands of small- and medium-scale enterprises in rural areas will be created or enlarged with the support of increasingly proactive financial institutions. The programme's emphasis on rural development, as opposed to a more narrow focus on agricultural enterprise development, will provide opportunities for the large number of temporary subsistence farmers to move back into occupations for which they are better trained and vocationally experienced.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
REPUBLIC OF ARMENIA
FOR THE
RURAL AREAS ECONOMIC DEVELOPMENT PROGRAMME**

I submit the following Report and Recommendation on a proposed loan to the Republic of Armenia for SDR 10.45 million (equivalent to approximately USD 15.3 million) on highly concessional terms to help finance the Rural Areas Economic Development Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one percent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Armenia is a small, mountainous landlocked country with few natural resources. It covers an area of 29 800 square kilometres (km²) in the Caucasus region and borders Azerbaijan, Georgia, Iran and Turkey. The average elevation is 1 650 metres. The low-lying Ararat Valley has relatively rich, deep soils and is the principal irrigated area. At higher elevations, soils tend to be shallower, often stony and with only scattered areas suited to irrigation. The 2001 census revealed a permanent population in Armenia of some 3.2 million, with an estimated 53.4% living in urban areas. The country presently ranks 88th in the United Nations Human Development Index. In 2002, gross national income (GNI) per capita was estimated at USD 790. Despite fast economic growth in particular in the last four years, poverty is geographically widespread, persistent and severe. Extreme poverty tends to be concentrated in national border areas, mountain areas and earthquake zones. An estimated 48% of the population live below the poverty line, with 20% living in extreme poverty. However, the latest survey data suggest that overall poverty incidence has declined by 12% and extreme poverty by 25% since 1998/99.

2. Since the 1988 earthquake, the break-up of the Soviet Union in 1989-1991 and Armenia's independence in 1991, the country has faced numerous traumas, including the war with Azerbaijan, the Azerbaijan-Turkish blockade and the economic collapse of neighbouring Georgia. It is estimated that gross national product per capita fell by about 75% from 1991 to 1994. At the end of 1994, the Government launched a comprehensive programme of macroeconomic stabilization and structural reform. The restrictive policies of the Central Bank of Armenia successfully eliminated hyperinflation and stabilized the exchange rate. Inflation fell from 5 273% in 1994 to 18.6% in 1996. Average annual growth in gross domestic product (GDP) was 6% between 1994 and 1998. Real GDP growth has continued, reaching 9.6% in 2001 and 12.9% in 2002. The sectoral composition of GDP has shown a marked shift from 1990 to the present. In 1990, the share of agriculture was 12.6%, industry 62.5% and services 24.9%. The share of agriculture rose to 46.3% in 1993 and thereafter began to fall again to its present estimated level of 23% (2002). The expansion in the rural economy and growth of agricultural GDP during the 1990s mainly resulted from the redistribution of land through privatization and the absorption of labour into agriculture from former industries. Armenia was the

¹ See Appendix I for additional information.

first former Soviet Union country to distribute agricultural land to individual households, thereby helping the rural population to ensure a minimum basic food supply. Land was distributed on an egalitarian basis, depending on household size. As a result of the land reform programme, some 330 000 smallholder farms have been created with an average size of 1.3 hectares (ha). While the main issues facing the rural and farming populations in the 1990s were related to food security and survival, the present challenges concern increased income through market access.

3. Since 1995, food processing has been one of the leading growth areas in the industrial sector and presently constitutes some 37% of gross industrial output. Food processing enterprises mainly specialize in fruit and vegetable canning, beverages, meat and meat products, milk and other dairy products. Armenian produce is now entering export markets, principally via Georgia and Iran. Investment in smaller-scale processing facilities is increasing in small towns and villages in mountain area *marzes* (administrative districts).

B. Lessons Learned from Previous IFAD Experience

4. IFAD has financed three projects in Armenia: the Irrigation Rehabilitation Project (IRP), cofinanced with the World Bank, with a loan of SDR 5.4 million (approved in April 1995 and closed in June 2000); the IFAD-initiated and directly supervised North-West Agricultural Services Project (NWASP), with a loan of SDR 9.6 million (approved in December 1997 and closed in July 2001); and the ongoing Agricultural Services Project (ASP) with a loan of SDR 12.4 million (approved in April 2001). The ASP is due to close at the end of March 2006. The project is, however, nearly fully disbursed and is some ten months ahead of its anticipated implementation schedule. All three projects have focused on institutional development appropriate to the context of transition to a market economy, particularly at the beneficiary level.

5. Investments under NWASP and ASP have been directed very effectively towards improving financial service availability in the disadvantaged rural areas. Most notably this has included contributions to the establishment and operations of the Agricultural Cooperative Bank of Armenia (ACBA). Financial support provided by IFAD to ACBA has revolved nearly three times providing short-term loans to about 30 000 borrowers.

6. IFAD undertook a project completion evaluation of NWASP in December 2001. Armenia was also one of the ten countries covered by the July 2002 external review of the results and impact of IFAD operations, and most recently by the independent external evaluation (IEE) in 2004. All assessments noted positive outcomes of projects, including: a substantial rise in beneficiary households' output of basic food crops and a capability in ACBA to extend commercial banking to rural communities. The IEE considered the efficiency of service delivery to beneficiaries satisfactory, concluding that "...the projects have contributed to enabling the poor to overcome their poverty, though not significantly (in part due to the low levels of investments per capita)". As to the future, the country strategic opportunities paper (COSOP) for Armenia, approved by the Executive Board in December 2003, notes: "Experience under the IRP, NWASP and ASP shows that setting up and providing essential elements for productive activities in agriculture has rapidly contributed to reducing poverty... What is still needed for sustainable growth is a longer-term strategy of moving beyond the current focus on increased production (although this will remain important) to improved input supply, essential infrastructure and financing. Future interventions will need to take more account of demand characteristics, i.e. marketing and processing constraints..."

C. IFAD's Strategy for Collaboration with Armenia

7. **Armenia's policy for poverty eradication.** The Government's approach to poverty reduction until 2015 is articulated comprehensively in the Poverty Reduction Strategy Paper (PRSP). Priorities in the strategy include: (i) promoting sustainable economic growth through macroeconomic stability

and development of the private sector; (ii) enhancing human development and improving social safety nets; (iii) maintaining prudent fiscal policies and reforming the tax system; (iv) upgrading infrastructure; and (v) improving core public-sector functions. The PRSP shifts the focus of poverty reduction – including rural poverty reduction – from an assistance approach providing cash or in-kind support, towards a development approach promoting self-employment and private enterprises.

8. **The poverty eradication activities of other major donors.** A number of donors are currently supporting activities that will complement the Rural Areas Economic Development Programme (RAEDP). The Department for International Development in the United Kingdom is seeking to improve national, provincial and local capacities to implement pro-poor policies. The European Bank for Reconstruction and Development, together with the European Union, is supporting a business advisory services programme, which will complement services to be offered under RAEDP's proposed rural business intermediation services (RBIS) component (see paragraph 18). The German-Armenian Foundation manages a programme, financed primarily by the German Credit Institute for Reconstruction, of technical assistance and loan funds (deposits) for five Armenian banks. The United States Agency for International Development (USAID), as part of its strategy in Armenia for 2004-2008, is supporting two projects on rural enterprise development: the first, the Agribusiness Small and Medium Enterprise Development Project, provides various forms of technical and financial support for emerging rural enterprises, with a specific focus on import substitution and export development; the second, the Microenterprise Development Initiative, has a mandate to work in rural areas with financial institutions and agricultural/rural clients.

9. The World Bank is continuing its substantial support for irrigation rehabilitation and the conversion of schemes from pumped to gravity-based systems through its Irrigation Development Project (IDP). IDP investment is principally for engineering aspects of the primary and secondary water delivery and drainage systems, regulatory and institutional aspects of water management, and the formation and subsequent training of water users' associations. IFAD initiated the formation of participatory organizations for water management in the mid-1990s. The World Bank is currently developing its new country assistance strategy for 2004-2007, which posits three goals: (i) promoting private-sector-led economic growth; (ii) making growth more pro-poor; and (iii) reducing non-income poverty.

10. **IFAD's strategy in Armenia.** IFAD's strategy Armenia in the 1990s consisted of broad poverty reduction activities achieved through agricultural growth; a focus on the poorest areas in the country, including highlands and border areas; institution-building through increased responsibilities; and further involvement of grass-roots organizations and the private sector in implementation and management. As noted in the 2003 COSOP, it is envisaged that new IFAD investments will facilitate responses to the rapidly changing business, financial and agricultural environments. Investment will be geared to increasing production and productivity where the returns are highest, using private-sector development as the main engine for poverty reduction while diversifying the non-farm rural economy on the basis of small and medium enterprises (SMEs) to promote accrual of value added to rural poor people. IFAD will continue to direct resources towards improving the circumstances of rural poor households, which are mostly located in mountain areas. Appendix V illustrates the consistency of the proposed programme with the regional strategy for Central and Eastern Europe and the Newly Independent States.

11. **Programme rationale.** To realize the strategic and policy objectives of the PRSP and the COSOP, the programme will address a number of key constraints contributing to the persistence of rural poverty. These include the mutually reinforcing factors of low productivity, antiquated technology, poor physical infrastructure, lack of knowledge and skills for private enterprise development in a market economy, and lack of access to medium and long-term loans for investment and working capital. The last elements, in particular, are strong impediments to real sustainable development of the rural areas of Armenia. In view of these considerations, the RAEDP seeks to

deliver an interrelated package of: (i) on and off-farm private business development training, (ii) loans for investment and working capital for SMEs, and (iii) grant financing of commercially justifiable small-scale infrastructure in the public domain and through public-private partnerships. The programme approach is based on maintaining a consistent implementation focus on stimulating economic activity and growth through private-sector initiative and development. This approach deliberately avoids interference with the commercial functioning of the financial sector, while at the same time seeking sustainable improvement in financial sector performance in the interests of rural enterprise development, job creation and income growth among the rural poor.

PART II – THE PROGRAMME

A. Programme Area and Target Group

12. The geographical focus of RAEDP investment will be the mountain area *marzes* of Aragatsotn, Gegharkunik, Lori, Shirak, Syunik, Tavush and Vayots Dzor. In total this represents some 80% of the land area of Armenia. The 2001 census revealed a population in the seven *marzes* of 1.29 million, or about 40% of the country's total population. Following land privatization, land-use and cropping patterns have shifted considerably as new smallholders have adopted a small-scale, mixed farming system as their means of survival. The privatization process led to very small farm sizes averaging about 1.4 ha. Typically allocations comprised three separate parcels including, where feasible, at least one parcel of irrigated land. The share of the national commercial bank portfolio in the *marzes* included under the RAEDP is presently very small (between 0.6% and 4%). This reflects not only the low level of economic and banking activity in these areas but also people's lack of formal engagement with the financial sector, the exception being the IFAD-financed ACBA, which has focused on these areas.

13. The client group for RAEDP will include unemployed rural men and women, small and medium farmers, rural entrepreneurs, agro-processors and traders. The programme approach puts in place investment response mechanisms, primarily through the commercial financial sector, that can be accessed by the rural population at large in the most disadvantaged parts of the country. Households benefiting from earlier phases of IFAD support, including farmer members of water users' associations, producer groups and village associations, will have the opportunity to improve their circumstances further, either by borrowing for seasonal but mostly capital investment or by taking advantage of jobs created by other, more commercially oriented investors.

B. Objectives and Scope

14. The programme's overall goal and objectives are to increase sustainable incomes among rural people in the mountain areas of seven disadvantaged *marzes* and to stimulate sustained growth of rural enterprise activity in the defined programme area. The principal outputs will be to: (i) provide medium- and long-term financing to rural commercial entities in a competitive environment, (ii) ensure that SMEs have effective access to required business intermediation services, and (iii) establish commercially derived infrastructure in the programme area. More specifically, the RAEDP is expected to contribute to a number of beneficial results at institutional and operational levels within the financial sector. For example, it will increase the competence and interest of commercial banks to serve SME clients, and it will provide new and more appropriate financing instruments to the client population. Financial sector reforms and operations will also constitute the principal areas for future policy dialogue with the Government.

C. Components

15. Programme investments will be organized under four components:

16. **Rural enterprise finance.** A substantial part of IFAD loan funds will be used to provide refinancing capital to pre-qualified commercial banks and other eligible financial institutions. The capital will be channelled to financial institutions through a permanent, autonomous unit, the Rural Finance Facility (RFF), to be established under the Ministry of Finance by Government decree. The IFAD loan agreement and a subsidiary financing agreement between the Government and the RFF will specify the conditions that will apply for the establishment and refinancing operations of the RFF. Two general types of loan applications by programme clients are anticipated: (i) loans up to USD 5 000 by household-based on-farm and off-farm microenterprises; and (ii) rural SME development loans of between USD 5 000 and 150 000. The kind of loans seen as appropriate for RFF refinancing include those for: intensifying primary agricultural production; expanding livestock operations; developing machinery-contracting businesses offering mechanized services to smallholders; establishing factory/outgrower schemes; and developing small agroproduce processing factories. RFF funds will also be used to refinance rural leasing contracts.

17. The RFF and its operations will be organized and implemented according to the following main principles: (i) the RFF will be a refinancing (or discount) facility; i.e. pre-qualified financial institutions will be eligible to draw down refinancing for a whole loan or a percentage of a loan ('sub-loan') to qualifying beneficiaries at an interest rate set by the RFF; (ii) the duration of the loans that can be refinanced will be from one to seven years; (iii) different refinancing percentage shares will be applied depending on the duration of the sub-loans. As a start-up position, for short-term loans up to 18 months, the RFF will finance a maximum of 70% of each sub-loan, while the financial institution will finance a minimum of 30% from its own funds. For longer loans, RFF can initially finance 100% of each sub-loan. This rule will be reviewed when the Armenian banks start to accumulate longer-term deposits, which is not the case today. The share of the short-term loans in the total refinanced portfolio will not exceed 30%. Each borrower will contribute a minimum of 20% to the cost of the enterprise for which the investment loan/leasing contract is sought; (iv) financial institutions will pay interest for the discounted amount at a level reflecting the IFAD lending rate to the Government, which will serve as a financial incentive for them to expand their rural lending activities and to apply lowest possible market interest rates on sub-loans. The full credit risk in on-lending operations will be with the financial institutions, which will be allowed to apply to the sub-loans their own policies on collateral requirements, grace periods and interest rates; and (v) the financial institutions will repay the discounted portion of the sub-loan back to the RFF in accordance with the repayment schedule set for the sub-loan. The principles guiding the RFF operation will ensure that preference is given to refinancing investments biased towards establishing the optimum number of working places and in particular employment for rural women.

18. **The rural business intermediation services** component will seek to improve the operating environment in the programme area for the lending activities of financial institutions foreseen under the rural enterprise finance component. The objective is to develop a network of RAEDP-accredited business service providers in the programme area who will help loan applicants prepare supportive business plans and provide technical advice. Emerging service providers already supported by other donors such as USAID will receive training in: (i) analysis of business development options; (ii) market research and development services; (iii) technology options; and (iv) general business services (accountancy and tax and regulation compliance, including food hygiene/safety and environmental regulations). RBIS providers will be enabled to assess the commercial feasibility of an investment proposal, prepare a financing proposal and seek financing on behalf of their clients. As a targeting mechanism for giving added encouragement to smaller prospective investors, funds will be available to support first-time clients of business services with a discounted cost of services during the first two years.

19. **The commercially derived infrastructure** component will seek to improve operational efficiencies in supply/value chains by reducing constraints imposed by the condition of essential infrastructure. This will be achieved by establishing a programme mechanism for responding to investment proposals for small-scale, commercially derived infrastructure arising from the facilitation of public-private investment partnerships. Examples of such investments include water points for livestock, small irrigation and road works, and environmental investments related to dairy and slaughterhouse enterprises. Terms and conditions for the award of grants, eligibility criteria and detailed procedures for the assessment and analysis of investment requests will be set out in an operations manual. Potentially eligible proposals will need to: (i) be consistent with the underlying philosophy of RAEDP; (ii) include an equity contribution of at least 10% of the investment cost (cash or kind) by those requesting the grant; (iii) be demonstrably financially viable and strongly linked to business developments that are clearly in the interests of generating sustainable income growth among the rural poor in the seven programme *marzes*; (iv) ensure that workable arrangements are in place for infrastructure operation and maintenance, consistent with Armenian legislation and with the overall programme strategy; and (v) be consistent with nationally applicable regulations on environmental impact assessments and environmental controls in order to avoid potentially adverse environmental effects.

20. **Programme analysis and administration.** A programme analysis and administration unit (PAAU) will oversee operational aspects and day-to-day programme management. The PAAU will be responsible for the planning, coordination and continual review of programme outputs and effectiveness in relation to the RAEDP goal and objectives. It will also have overall financial and administrative reporting functions as stipulated in the loan agreement. While the PAAU will have no direct implementation responsibility, it will have the administrative and financial autonomy to contract with third parties for programme implementation requirements.

D. Costs and Financing

21. Based on 2004 prices, total programme costs, including physical and price contingencies, are estimated at USD 28.7 million. The foreign exchange element accounts for USD 5.4 million or 19% of total programme costs. An estimated 92% of total programme costs will directly support programme clients through capital for refinancing and contributory grants for infrastructure. Besides IFAD, it is expected that the programme will be financed by the Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development, USAID, the Government of Armenia, participating financial institutions (PFIs), the RFF and programme clients. The IFAD loan will amount to USD 15.3 million (or 53.3% of total costs); the OPEC Fund loan of USD 5.0 million (17.4%) will cover additional investments in infrastructure; the USAID grant of USD 521 650 (1.8%) will finance technical assistance and training requirements linked to the rural enterprise finance and the RBIS components. The domestic contribution (the Government, PFIs, the RFF and clients) will amount to USD 7.9 million (27.6% of programme costs). The proposal for support from USAID is under preparation, while the OPEC Fund has indicated its willingness to present the financial proposal to its board in December 2004. Tables 1 and 2 provide further details.

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

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Rural enterprise finance					
Rural Finance Facility	13 866 000	-	13 866 000	-	49
RFF secretariat	349 148	213 220	562 368	38	2
Subtotal	14 215 148	213 220	14 428 368	1	50
Rural business intermediation services	95 000	115 000	210 000	55	1
Commercially derived infrastructure	7 640 000	4 775 000	12 415 000	38	43
Programme analysis and administration					
Yerevan bureau	1 050 090	156 830	1 206 920	13	4
Marz units	231 144	80 976	312 120	26	1
Subtotal	1 281 234	237 806	1 519 040	16	5
Total base costs	23 231 382	5 341 036	28 572 408	19	100
Physical contingencies	29 697	8 539	38 236	22	-
Price contingencies	90 673	19 575	110 259	18	-
Total programme costs	23 351 752	5 369 141	28 720 894	19	101

^a Discrepancies in totals are due to rounding.

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

	IFAD		OPEC Fund		USAID		Clients		PFIs		RFF		Government		Taxes and Duties		Total		Foreign Exchange	Local (Excl. Taxes)	Duties : Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
Rural enterprise finance																					
Rural Finance Facility	9 290.22	67.0	-	-	-	-	2 773.20	20.0	1 802.58	13.0	-	-	-	-	-	-	13 866.00	48.3	-	13 866.00	-
RFF secretariat	243.94	41.0	-	-	222.14	37.3	-	-	-	-	107.76	18.1	-	-	21.75	3.7	595.59	2.1	222.89	333.90	38.80
Subtotal	9 534.16	65.9	-	-	222.14	1.5	2 773.20	19.2	1 802.58	12.5	107.76	0.7	-	-	21.75	0.2	14 461.59	50.4	222.89	14 199.90	38.80
Rural business intermediation services	41.04	18.9	-	-	176.11	81.1	-	-	-	-	-	-	-	-	-	-	217.15	0.8	117.98	99.17	-
Commercially derived infrastructure	4 400.00	35.4	5 000.00	40.3	-	-	955.00	7.7	-	-	-	-	150.00	1.2	1 910.00	15.4	12 415.00	43.2	4 775.00	5 730.00	1 910.00
Programme analysis and administration																					
Yerevan bureau	1 037.27	80.3	-	-	123.40	9.6	-	-	-	-	-	-	-	-	131.37	10.2	1 292.04	4.5	166.94	993.72	131.37
Marz units	288.38	86.1	-	-	-	-	-	-	-	-	-	-	-	-	46.74	13.9	335.12	1.2	86.33	202.04	46.74
Subtotal	1 325.64	81.5	-	-	123.40	7.6	-	-	-	-	-	-	-	-	178.12	10.9	1 627.16	5.7	253.27	1 195.76	178.12
Total	15 300.84	53.3	5 000.00	17.4	521.65	1.8	3 728.20	13.0	1 802.58	6.3	107.76	0.4	150.00	0.5	2 109.87	7.3	28 720.89	100.0	5 369.14	21 224.83	2 126.92

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

22. **Procurement.** All goods, works and services to be financed from the proceeds of the IFAD loan will be procured in accordance with IFAD procurement guidelines. Any contract for the procurement of goods estimated to cost more than USD 25 000 equivalent will be awarded on the basis of local competitive bidding, while goods estimated to cost USD 25 000 equivalent or less will be awarded on the basis of local shopping. Goods estimated to cost less than USD 15 000 will be awarded on the basis of direct contracting. For civil works, any contract of works estimated to cost more than USD 50 000 equivalent will be awarded on the basis of local competitive bidding, while works estimated to cost USD 50 000 equivalent or less will be awarded on the basis of local shopping. Any contract for the procurement of civil works estimated to cost less than USD 15 000 equivalent will be awarded on the basis of direct contracting. For consultant services, each contract will be awarded on the basis of procedures acceptable to IFAD.

23. **Disbursement.** The proposed IFAD loan of USD 15.3 million equivalent will be disbursed over a four-year period. The Ministry of Finance will open and maintain a special account in United States dollars in a commercial bank acceptable to IFAD, either in Armenia or abroad. The purpose of the special account will be to receive advance liquidity from the IFAD loan account and finance IFAD's share of programme expenditures. Specifically, the special account will be used to: (i) effect payments to suppliers and contractors for the procurement of goods, works and services; (ii) pre-finance the programme operating account; and (iii) pre-finance the RFF incremental credit account. The initial deposit to the special account will be up to USD 2.0 million.

24. **Accounts and audit.** The PAAU and RFF secretariat will adopt accounting systems consistent with international accounting standards and government requirements. The PAAU will be responsible for consolidating all financial information and periodically reporting to the Government, IFAD, the cooperating institution and auditors. The audit of programme accounts and financial statements will be undertaken for each fiscal year on the basis of international standards on auditing and in accordance with IFAD's audit guidelines. An independent auditor will be selected for this purpose on the basis of IFAD guidelines.

F. Organization and Management

25. The programme will be implemented under the overall responsibility of a programme coordination committee (PCC), with a composition acceptable to IFAD, which will ensure compliance of implementation with RAEDP policies and criteria. Day-to-day programme management will fall under PAAU, which will be responsible for the planning, coordination and continual review of programme outputs and effectiveness in relation to the RAEDP goal and objectives. The demand-driven nature of RAEDP calls for a results orientation to programme administration and planning. The lack of explicit ex ante physical targets makes it essential that decisions and modifications are made on the basis of observed results and trends. The monitoring and evaluation function will be subsumed within this overall approach to results management as recently developed by IFAD and reflected in the logical framework. RFF refinancing operations will be managed and administered by three different bodies: the PCC, an RFF loans committee and an RFF secretariat.

G. Economic Justification

26. The strong financial results of the investment models prepared during programme design are indicative of the positive and multiplier effects that the programme will have on the rural economy. The foundation of the financial analysis lies in the interrelationships between primary producers and other business/public-sector entities involved in supply and value chains, and the condition of associated infrastructure in the rural areas. The financial success of one element in the chain relies on

the success and/or efficient functioning of the other elements. Additional models illustrate the benefit to the government budget of reducing the amount of subsidy paid on irrigation water that derives from the upgrading of irrigation infrastructure; and the feasibility of a machinery services business, which shows that certain services might only be viable if the primary producers they serve raise higher-value crops and/or achieve higher levels of productivity and are thereby able to afford the higher charge-out rates needed to achieve service viability. Programme-financed investments at farm level lead to higher productivity, greater returns to family labour and more disposable income, while the technological modernization and commercialization associated with these investments will, in many cases, provide greater security against external shocks (e.g. droughts and price changes). Some farm-level investments will also directly induce a greater demand for hired labour, particularly at peak times such as harvest periods. Increased access to seasonal labour will be especially relevant to able but non-entrepreneurial rural residents, and will be a specific boost to the incomes of the most vulnerable groups. An associated benefit will also be the rationalization of the rural labour market, transferring the large number of temporary subsistence farmers into secondary production employment for which they are better trained and vocationally experienced.

H. Risks

27. Commercial experience in Armenia remains limited, and much of Armenian enterprise, especially rural enterprise, can be considered risky. However, access to RBIS among actual and prospective rural entrepreneurs, and especially the requirements for detailed and convincing business plans from loan applicants to PFIs, is expected to mitigate potential adverse effects of inadequate business experience. The programme will promote the use of sensitivity analysis among RBIS providers to allow them to identify any design adjustments necessary for improving the financial feasibility of proposed investments.

28. Similarly, technical risks will be mitigated by proper PFI loan appraisals, for which the programme makes provision and, in the case of commercially derived infrastructure, by appraisal and supervision from the PAAU technical services and construction supervision sections. Finally, there is a risk that the commercial and business policy environments may deteriorate, which, in turn, could inhibit enterprise and farm investment. Such a risk can only be mitigated by close monitoring of programme implementation and dialogue with relevant government and private stakeholders.

I. Environmental Impact

29. The overall environmental impact of RAEDP investments is expected to be neutral and has therefore been classified as category B. Programme investments are expected to be in infrastructure and buildings directly related to farming. They will include irrigation system improvements; investments in modern irrigation technology, livestock watering points, produce handling and storage facilities, housing for livestock and farming-related and non-farming light industries; and access road and public utility system improvements. No major shift in designated land use is envisaged. Any irrigation works will be confined to improving existing schemes on current agricultural land. The programme will generally establish or expand off-farm enterprises in a part of previously established industrial and commercial facilities, mainly in small towns and villages. The eligibility criteria for programme support to commercially derived infrastructure stipulate that works should be environmentally acceptable.

J. Innovative Features

30. The RAEDP has various innovative features. It provides a risk-sharing mechanism, new for Armenia, and hence incentives for both banks and clients. Two important consequent innovations are: first, the RFF is a vehicle for unprecedented leverage of private-sector capital in support of poverty reduction; and second, the mechanism unlocks the door to long-term loans for agricultural and rural

development enterprises, up until now a significant barrier to economic progress in Armenia's rural areas. The third programme innovation is the packaging of finance, information and technology transfer, and commercially viable and sustainable infrastructure development in the context of area-based strategic investment plans. The proposed approach is in line with the draft IFAD strategy for private-sector development and partnership.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

31. A loan agreement between the Republic of Armenia 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.

32. The Republic of Armenia is empowered under its laws to borrow from IFAD.

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

PART IV – RECOMMENDATION

34. 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 Republic of Armenia in various currencies in an amount equivalent to ten million four hundred and fifty thousand Special Drawing Rights (SDR 10 450 000) to mature on or prior to 1 December 2044 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such 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**

(Negotiations concluded in Yerevan, Armenia, on 1 November 2004)

1. **Annual workplans and budgets.** The PAAU will prepare and/or consolidate draft annual workplans and budgets (AWP/Bs) for each programme year, based on the logical framework for the programme. The draft AWP/Bs will include, among other things, a detailed description of planned programme activities during the coming programme year, and the sources and uses of funds therefor, based on the respective workplans and budgets prepared by each of the programme parties. The PAAU will submit the draft AWP/Bs to the programme coordination committee (PCC) for its approval. When so approved, the PCC will submit each draft AWP/B to IFAD for its comments and approval no later than 60 days before the beginning of the relevant programme year. The PCC will adopt the AWP/Bs substantially in the form approved by IFAD.
2. **Progress reports.** The PAAU will submit to IFAD annual progress reports on programme implementation no later than three months after the end of each programme year during the programme implementation period. Each progress report will include the comprehensive and mandatory data, disaggregated by gender to the extent possible, specified in the applicable indicators for IFAD's Results and Impact Management System, as indicated in the logical framework for the programme.
3. **Mid-term review.** The Ministry of Agriculture and IFAD will jointly carry out a mid-term review of programme implementation within the 30 months following the effective date based on terms of reference prepared by PAAU and approved by IFAD. Among other things, the mid-term review will consider the achievement of programme objectives and the constraints thereon, and recommend such reorientation as may be required to achieve such objectives and remove such constraints. In addition, the mid-term review will specifically review technical, financial and institutional progress, the evolution of the implementation environment, the efficiency of the implementation approach and the impact on women and their access to programme activities and benefits.
4. **Suspension.** An additional condition for the suspension of the loan is:

The RFF credit by-laws, or any provision thereof, have been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the rural enterprise finance component.
5. **The rural finance facility.** The programme will support a RFF, to be established by governmental decree, under the Ministry of Finance and Economy (MFE) as a permanent, autonomous unit. A portion of the loan will be channelled through the RFF to provide refinancing capital to pre-qualified commercial banks and other eligible financial institutions, approved by the Government of Armenia (the "Government") and IFAD, as a means for improving access to appropriate financial services by small and medium-scale rural producers and enterprises in the programme area, thereby stimulating sustained growth of rural economic activity. The RFF will continue its operations as an autonomous unit under the MFE after the end of the programme for a period to be determined by the Government, IFAD and any other donor financing the RFF.
6. **Participating financial institutions.** PFIs will pay interest for the discounted amount at a level that will reflect the IFAD lending rate to the Government and serve as a financial incentive for them to expand their rural lending activity and to apply the lowest possible market interest rates on sub-loans. Within two months of the effective date of the loan agreement, the Government and IFAD will establish the formula for fixing the refinancing interest rates for short-term loans up to 18 months

and for loans of longer duration and will so fix those rates for an initial period of six months. Thereafter the said refinancing interest rates will be reviewed by the PCC and IFAD semi-annually to reflect, *inter alia*, changes in the financial market.

7. **The programme analysis and administration unit.** A PAAU will be established by governmental decree. The PAAU will enjoy administrative, financial and operational autonomy and be empowered to enter into contractual relations with third parties. The PAAU will be headed by the programme director, with a complement of appropriate staff acceptable to IFAD. The staff of the PAAU will be appointed by the programme director, on a contractual basis, after public announcement of the vacancies and selection of candidates on the grounds of qualifications, experience and motivation.

8. **Implementation agreements.** The Government will cause the PAAU to enter into implementation agreements, acceptable to IFAD, with the following agencies for the implementation of their respective parts of the programme. Each implementation agreement will specify the objectives and range of activities to be undertaken by the respective agency, including, in particular, defining the implementation modalities, the programming and financing arrangements with the PAAU and the reporting formats required by the PAAU:

- (a) The RFF for the rural enterprise finance component; and
- (b) The agents needed for activities associated with the rural business intermediation services component.

9. **Rural finance facility staff.** The RFF secretariat's director, banking specialist and accountant may only be removed by the Government after prior consultation with IFAD and the replacements therefor shall be acceptable to IFAD.

10. **The rural finance facility subsidiary agreement.** The MFE will enter into a subsidiary agreement with the RFF that will provide, among other things, that the PAAU will transfer funds available from the proceeds of the loan as financing in accordance with the RFF's AWP/Bs, as approved by the PCC and IFAD. That portion of the approved RFF budget required for on-lending by PFIs will be met by the transfer of funds to the RFF incremental credit account and that portion required for the payment of RFF secretariat staff and operating costs will be met through the transfer of funds to the RFF operating account. The Government will submit a draft of the RFF subsidiary agreement to IFAD for its comments and approval before signature.

11. **The rural finance facility by-laws.** The RFF will prepare draft by-laws delineating its status and providing the regulatory framework within which its detailed operating procedures will be drawn up for the implementation of the rural enterprise finance component. These draft by-laws will be prepared as soon as practicable but in no event later than 60 days after the effective date of the loan agreement. The RFF, through the PAAU, will submit the draft of the by-laws to the PCC for approval. Upon approval by the PCC, the PAAU will submit the draft of the RFF by-laws to IFAD for its respective comments and approval. The PCC will adopt the RFF by-laws, substantially in the form approved by IFAD, for application to all credits extended to programme beneficiaries under the rural enterprise finance component that are financed (directly or indirectly) by the loan. The PAAU will provide copies thereof to IFAD promptly after adoption.

12. **The rural finance facility revolving fund.** The RFF will establish and maintain a revolving fund account into which all net revenues from credits extended to programme beneficiaries financed (directly or indirectly) by the loan will be deposited. The RFF will use this revolving fund account to fund further credits to programme beneficiaries in accordance with the loan agreement at least until such date as shall be specified in the RFF subsidiary agreement or, if no date is specified, until all loan service payments have been made in full.

13. **Tax exemption.** The Government will exempt the programme from all import duties, excise taxes and value added taxes (VAT) on investment expenditures, including, but not limited to, vehicles, motorcycles, computers, printers and software, office equipment, laboratory equipment and supplies, cold storage equipment, veterinary supplies, seeds, fertilizers, agricultural chemicals, topographical equipment, video sets and any other investment goods. Contracts for civil works and all operating expenses, including vehicle operations, office operation and rent, will be exempted from VAT. The MFE will exempt the PAAU and the RFF from paying all social security charges for programme staff to the social security fund. Income taxes will be paid by the contracted staff and individual service providers directly and shall not be retained by the PAAU, RFF or other implementing agencies.

14. **Gender focus.** Each programme party will ensure that the investment and employment opportunities provided under the programme support the national strategy for enhancing the status of women, including carrying out projects that ensure employment for women in the context of population employment programmes, as well as facilitating the development of women-owned and controlled small and medium-sized enterprises.

15. **Procurement committee.** All invitations to tender for procurement under the programme will be issued by the PAAU. A procurement committee, to be established and chaired by the Ministry of Agriculture and with composition acceptable to IFAD, will be responsible for the evaluation of bids under the programme.

16. **Conditions precedent to withdrawals.** No withdrawals shall be made in respect of expenditures under the rural enterprise finance component until:

- (a) The director, the banking specialist and the accountant of the RFF secretariat shall have been duly appointed through an open and competitive process, with qualifications and experience acceptable to IFAD;
- (b) The RFF subsidiary agreement shall have been approved by IFAD in draft; a copy of the signed RFF subsidiary agreement, substantially in the form so approved and certified as true and complete by a competent officer of the MFE, shall have been delivered to IFAD; the signature and performance thereof by MFE and RFF have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof shall have been fulfilled;
- (c) An RFF incremental credit account shall have been duly opened by the RFF;
- (d) An RFF revolving fund account shall have been duly opened by the RFF; and
- (e) An RFF operating account shall have been duly opened by the RFF.

17. **Conditions precedent to effectiveness.** The conditions precedent to the effectiveness of the loan agreement are:

- (a) A programme director shall have been duly appointed by the Ministry of Agriculture, with qualifications and experience acceptable to IFAD;
- (b) The PCC shall have been duly established, with composition acceptable to IFAD;
- (c) The Government shall have duly opened the special account;
- (d) The Government shall have ensured that the PAAU shall have duly opened the programme operating account and the Government shall have made the deposit of counterpart funds into the programme operating account;
- (e) the 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, issued by the Ministry of Justice or other legal counsel approved by IFAD and in form and substance acceptable to IFAD, shall have been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

ARMENIA

Land area (km² thousand) 2001 1/	28	GNI per capita (USD) 2001 1/	570
Total population (million) 2001 1/	3.09	GDP per capita growth (annual %) 2000 1/	9.4
Population density (people per km²) 2001 1/	135	Inflation, consumer prices (annual %) 2001 1/	3
Local currency	Armenian Dram (AMD)	Exchange rate: USD 1.00 =	AMD 510
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1995-2001 1/	-1	GDP (USD million) 2001 1/	2 118
Crude birth rate (per thousand people) 2001 1/	11	Average annual rate of growth of GDP 1/ 1981-1991	n.a.
Crude death rate (per thousand people) 2001 1/	7	1991-2001	1.6
Infant mortality rate (per thousand live births) 2001 1/	31	Sectoral distribution of GDP 2001 1/	
Life expectancy at birth (years) 2000 1/	74	% agriculture	28
Number of rural poor (million) (approximate) 1/	n/a	% industry	34
Poor as % of total rural population 1/	n/a	% manufacturing	22
Total labour force (million) 2001 1/	1.93	% services	38
Female labour force as % of total 2001 1/	49	Consumption 2001 1/	
Education		General government final consumption expenditure (as % of GDP)	11
School enrolment, primary (% gross) 2001 1/	78 a/	Household final consumption expenditure, etc. (as % of GDP)	91
Adult illiteracy rate (% age 15 and above) 2001 1/	2	Gross domestic savings (as % of GDP)	-2
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 2/	2 371	Merchandise exports 2001 1/	340
Malnutrition prevalence, height for age (% of children under 5) 2001 1/	13 a/	Merchandise imports 2001 1/	870
Malnutrition prevalence, weight for age (% of children under 5) 2001 1/	3 a/	Balance of merchandise trade	-530
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2001 1/	8 a/	before official transfers 2001 1/	-402
Physicians (per thousand people) 2001 1/	n/a	after official transfers 2001 1/	-201
Population using improved water sources (%) 2000 3/	n/a	Foreign direct investment, net 2001 1/	n/a
Population with access to essential drugs (%) 1999 3/	0-49	Government Finance	
Population using adequate sanitation facilities (%) 2000 3/	n/a	Overall budget deficit (including grants) (as % of GDP) 2001 1/	n/a
Agriculture and Food		Total expenditure (% of GDP) 2001 1/	n/a
Food imports (% of merchandise imports) 2001 1/	25 a/	Total external debt (USD million) 2000 1/	1 001
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	141	Present value of debt (as % of GNI) 2000 1/	30
Food production index (1989-91=100) 2001 1/	71	Total debt service (% of exports of goods and services) 2000 1/	8
Cereal yield (kg per ha) 2001 1/	1 859	Lending interest rate (%) 2001 1/	27
Land Use		Deposit interest rate (%) 2001 1/	15
Arable land as % of land area 2000 1/	18		
Forest area as % of total land area 2000 1/	12		
Irrigated land as % of cropland 2000 1/	51		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD ROM 2003.

2/ UNDP, *Human Development Report*, 2000.

3/ UNDP, *Human Development Report*, 2003.

PREVIOUS IFAD FINANCING IN ARMENIA

Project Id	Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/ Grant Acronym	Denominated Currency	Approved Loan/ Grant Amount	Disbursement (as % of Approved Amount)
433	Irrigation Rehabilitation Project	World Bank: IDA	World Bank: IDA	HC	12 Apr 95	06 Oct 95	30 Jun 00	L - I - 380 - AM	SDR	5 400 000	100
1038	North-West Agricultural Services Project	IFAD	IFAD	HC	04 Dec 97	14 Apr 98	31 Jul 01	L - I - 455 - AM	SDR	9 550 000	100
1177	Agricultural Services Project	IFAD	UNOPS	HC	26 Apr 01	26 Sep 01	31 Mar 06	L - I - 561 - AM	SDR	12 350 000	86

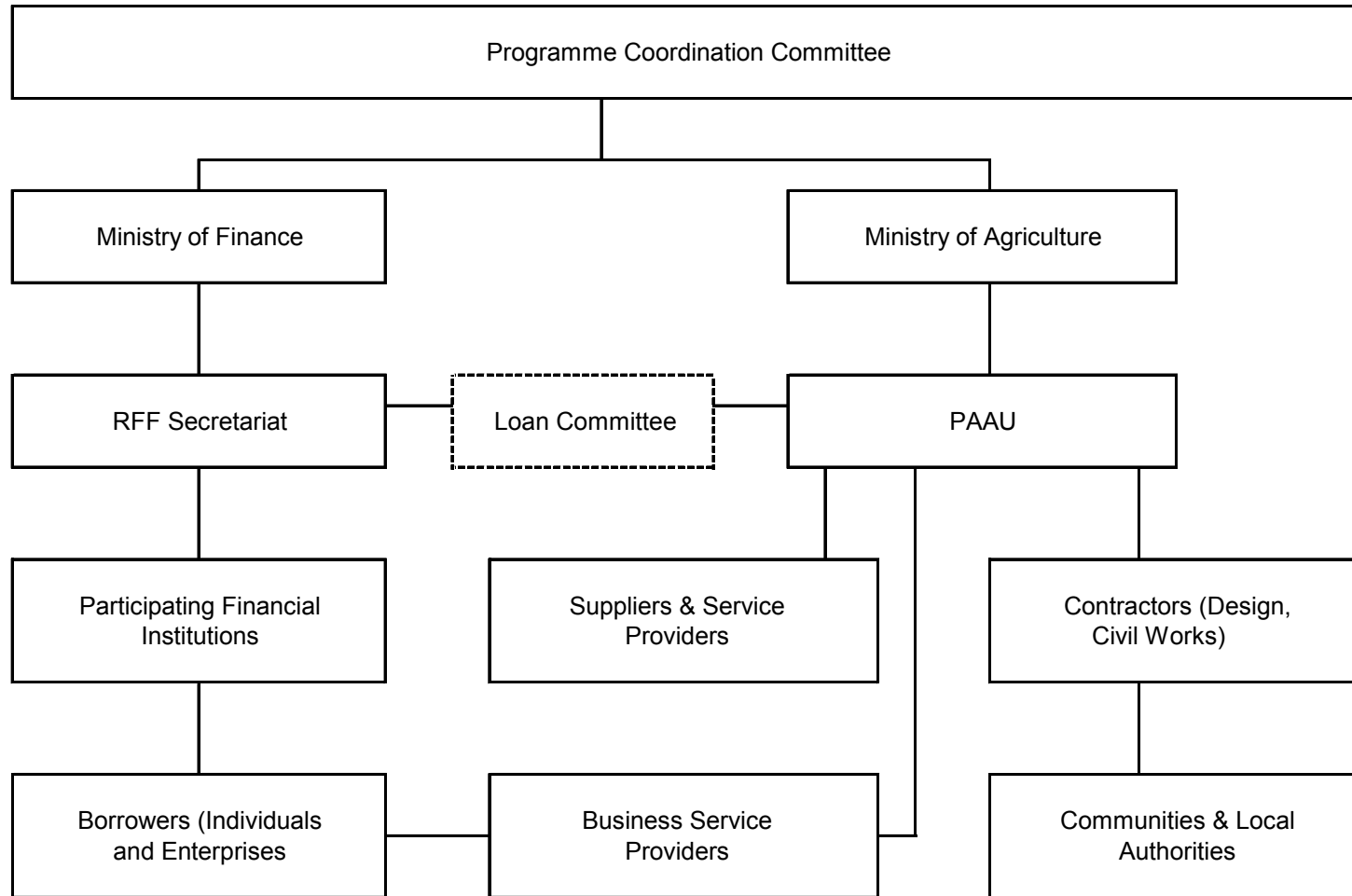
LOGICAL FRAMEWORK

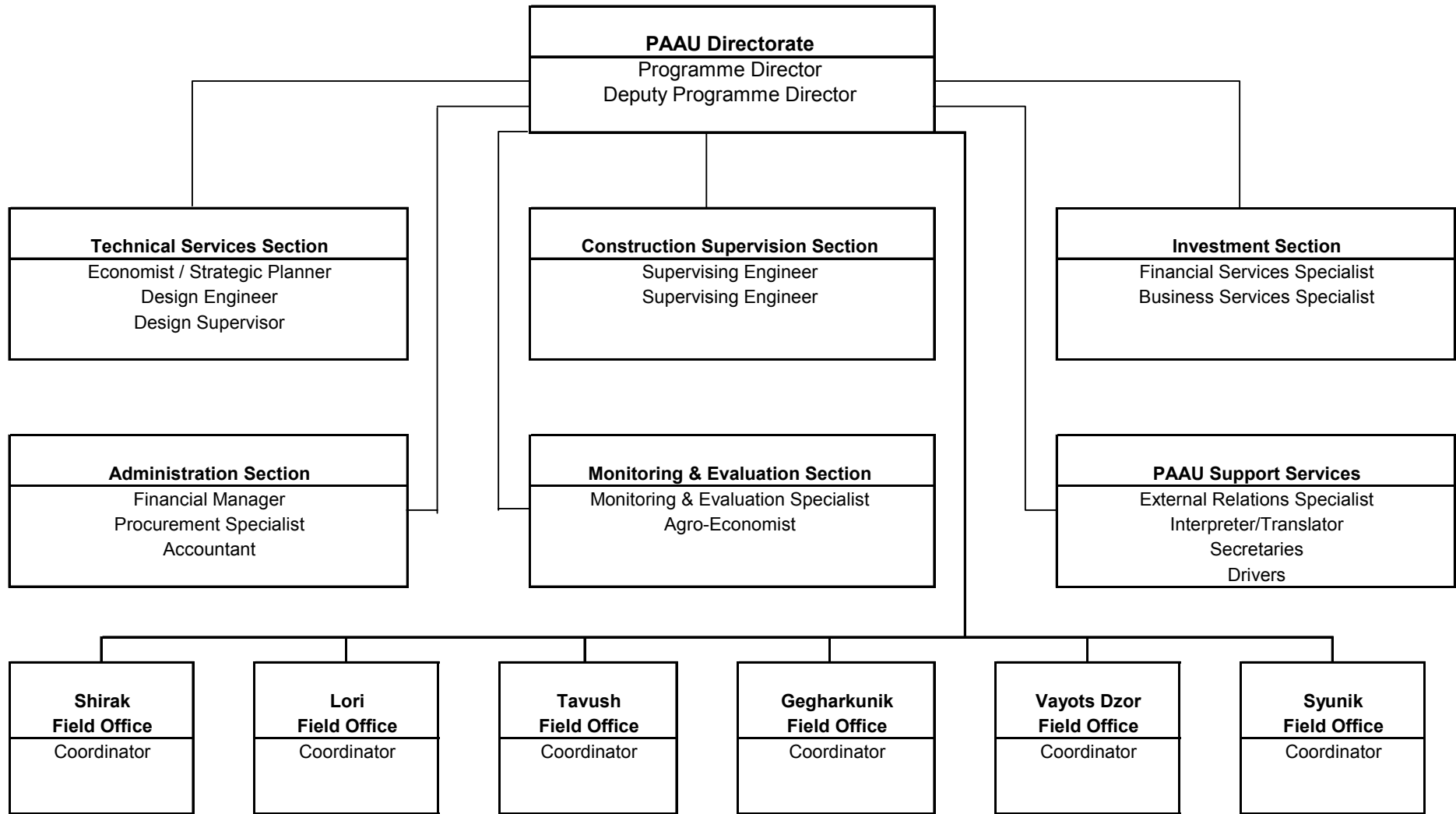
Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
Goal			
Incomes of poor rural people living in disadvantaged <i>marzes</i> in the mountain areas sustainably increased.	<ul style="list-style-type: none"> • Reduction in % of rural people living on USD 2/day • Increase in household asset ownership • Reduction in the prevalence of under-height for age children (below 5 years old) 	National Statistical Service Benchmark and completion assessment Ministry of Health records	
Purpose/Objective			
Sustained growth of rural enterprise activity stimulated in the defined programme area.	<ul style="list-style-type: none"> • # of enterprises operating after three years • revenue growth of enterprises • # of jobs generated by small and medium enterprises • # of applications received/accepted by PFIs, % BASP/RBIS assisted 	PFI records Case studies by <i>marz</i> Benchmark and completion assessment	Absence of large external economic shocks No deterioration in external trade routes
Outputs			
Medium and long-term financing made available to rural commercial entities in a competitive financing environment.	<ul style="list-style-type: none"> • # of banks/branches operating in the programme area • reduction in lending interest rate • collateral requirements liberalized • # and value of loans made to enterprises/farmers (RFF refinanced and bank resources) • repayment % • # of enterprises established, jobs created • # and type of financial products • # and value (increase) of seasonal loans, by type 	PFI records and transaction audits <i>Marz</i> administration: tax records/registrations Review Forum	Absence of political interference in operation of the facility Demand for medium, long-term loans from small, medium entrepreneurs Continued reforms in financial sector (policy and regulatory framework)
Effective access to required business intermediation services provided to small and medium enterprises.	<ul style="list-style-type: none"> • # of business plans accepted by banks for financing • # of clients by type of service • # of contracts brokered, farmers served • # of service providers in each <i>marz</i> 	RBIS records PFI records	Appointed contractor accredit RBIS providers Effective implementation of regulations and standards. Complementary support provided by other development programmes to RBISs, MoA
Commercially derived infrastructure established in programme area.	<ul style="list-style-type: none"> • # of infrastructure arising from VICSA • # of farms/businesses served • infrastructure operational after 3 years 	PAAU Technical Services and Construction Supervision Sections records	Transparent criteria developed and applied. Positive or neutral environmental impact Convergence w/other infrastructure plans Procurement undertaken by competent agency acceptable to IFAD.
Programme effectively managed.	<ul style="list-style-type: none"> • Disbursement percentage • MIS set up and used for decision-making • Interest income from RFF 	Supervision missions IFAD follow-up missions Audit Reports	Interest income from RFF used to defray recurrent costs of RFF Secretariat
Inputs (USD '000)			
	Financing USD	Timing	
Civil works 12 434	IFAD 15.30 million	• Draft Formulation Rpt June 2004	
Equipment and goods 67	OPEC 5.00 million	• Appraisal Report October 2004	
Vehicles 114	USAID 0.52 million	• IFAD loan negotiations Oct/Nov 2004	
Technical Assistance 447	PFIs 1.80 million	• IFAD Executive Board presentation Confirmed Dec 2004	
Training 135	Clients 3.73 million		
Refinancing/investment capital 13 866	RFF 0.10 million		
Recurrent costs 1 656	Government 2.26 million		
Total 28 720	Total 28.72 million		

All results/impact measures to be disaggregated by *marz* and gender.

GOAL indicators are outside of control by programme but demonstrate the programme's contribution to Armenia's PRSP; will only be reported on at programme end.

ORGANIGRAMME





LINKS TO THE REGIONAL STRATEGY FOR CEE AND NIS

Regional Strategy	RAEDP Project Design
Strengthen capacity of private financial institutions.	provides: <ul style="list-style-type: none"> ▪ targeted training, technical assistance and specialist service to develop the banking sector's ability to provide services to smaller enterprises in the programme area. ▪ improved environment for financial institutions by developing a network of accredited business service.
Foster new market linkages needed to support the transition process and access to productive resources and technology.	<ul style="list-style-type: none"> ▪ refinancing credit to PFIs for processing activities. ▪ information and technology transfer for commercial viable rural enterprises. ▪ investments either through the rural finance or the CDI component which are expected to support irrigation systems improvements, on-farm investments in modern technology, livestock watering points, procedure handling/storage facilities and housing for livestock.
Increase access to rural financial services and markets.	<ul style="list-style-type: none"> ▪ a risk-sharing mechanism and hence incentives for both banks and clients to expand business. ▪ a leveraging of additional private sector capital in support of poverty reduction.

