

a

IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-seventh Session

Rome, 19-20 April 2006

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

BOSNIA AND HERZEGOVINA

FOR THE

RURAL ENTERPRISE ENHANCEMENT PROJECT

TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
MAP OF THE PROJECT AREA	iv
LOAN SUMMARY	v
PROJECT BRIEF	vi
PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY	1
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	2
C. IFAD’s Strategy for Collaboration with Bosnia and Herzegovina	3
PART II – THE PROJECT	4
A. Project Area and Target Group	4
B. Objectives and Scope	5
C. Components	5
D. Costs and Financing	7
E. Procurement, Disbursement, Accounts and Audit	9
F. Organization and Management	9
G. Economic Justification	10
H. Risks	10
I. Environmental Impact	11
J. Innovative Features	11
PART III – LEGAL INSTRUMENTS AND AUTHORITY	11
PART IV – RECOMMENDATION	11
ANNEX	
SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT	13

APPENDIXES

I. COUNTRY DATA	1
II. COUNTRY PORTFOLIO OF LOANS AND GRANTS	2
III. LOGICAL FRAMEWORK	3
IV. ORGANIGRAMME	7

CURRENCY EQUIVALENTS

Currency unit	=	convertible mark (BAM)
USD 1.00	=	BAM 1.62 (February 2006)
BAM 1.00	=	USD 0.62
BAM 1.00	=	EUR 0.975

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	=	0.405 hectare (ha)
1 ha	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

EU	European Union
OPEC	Organization of the Petroleum Exporting Countries
PCU	project coordination unit
PFI	participating financial institutions
PRSP	Poverty Reduction Strategy Paper
SME	small and medium-sized enterprise

GOVERNMENT OF BOSNIA AND HERZEGOVINA
Fiscal Year

1 January – 31 December

BOSNIA AND HERZEGOVINA
RURAL ENTERPRISE ENHANCEMENT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Bosnia and Herzegovina
EXECUTING AGENCY:	Ministries of Agriculture, Forestry and Water Resources in the Federation of Bosnia and Herzegovina and the Republika Srpska
TOTAL PROJECT COST:	USD 24.49 million
AMOUNT OF IFAD LOAN:	SDR 8.8 million (equivalent to approximately USD 12.62 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of 10 years with a service charge of three fourths of one percent (0.75%) per annum
COFINANCIERS:	Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development (OPEC Fund) Participating financial institutions (PFIs)
AMOUNT OF COFINANCING:	OPEC Fund: USD 5.95 million PFIs: USD 1.65 million
CONTRIBUTION OF BORROWER:	USD 2.25 million
CONTRIBUTION OF BENEFICIARIES:	USD 2.02 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROJECT BRIEF

Who are the beneficiaries? The project will directly benefit some 10 000 rural poor households engaged in small-scale dairy production, fruit growing and a variety of small-scale on- and off-farm enterprises and casual labour. To ensure that these poor small producers receive remunerative prices for their produce, the project will adopt a supply chain approach, which will require targeting entrepreneurs along the dairy and soft fruit value chains as well as producer organizations and groups. Membership by small producers in these producer associations will position them well to link effectively with the market.

Why are they poor? About 20% of the population of Bosnia and Herzegovina live below the poverty line. This is new poverty resulting from the loss of employment after the demise of Yugoslavia and the war that followed it. The rural population had to adjust to life without the stability of permanent employment, turning to their smallholdings, animals and forests, or to outmigration and remittances for survival. In addition, many people were uprooted from their homes and businesses by the war; these internally displaced people face even more severe problems.

What will the project do for them? The project aims to provide improved access to financial resources and business and technical support services so that small farmers can invest in starting and expanding a wide variety of rural enterprises on and off the farm. Within the country's two major commodity value chains – dairy and soft fruits – the project will adopt a supply chain approach to link small producers with the processing industry and the market for the final product. Because small producers individually are not well positioned to link effectively with value chains, the project will encourage the development of producer groups and associations, thereby affording small producers the opportunity to exploit economies of scale in production, collection and sale of produce, and increasing their bargaining power with the authorities and the market place.

How will beneficiaries participate in the project? Rural people, either individually and through their organizations, will access project-supported financial, technical and business support services to make investment and production decisions based on market demand and specifications.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO
BOSNIA AND HERZEGOVINA
FOR THE
RURAL ENTERPRISE ENHANCEMENT PROJECT**

I submit the following report and recommendation on a proposed loan to Bosnia and Herzegovina for SDR 8.8 million (equivalent to approximately USD 12.62 million) on highly concessional terms to help finance the Rural Enterprise Enhancement Project. 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 as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Bosnia and Herzegovina exists within the boundaries of the former Yugoslav republic of the same name. The break-up of the former Socialist Federal Republic of Yugoslavia in 1990 led to a war that altered the social and economic landscape and caused widespread physical damage. The Dayton Peace Accord (1995) provided the country with a new and complex governance structure. With strong international support, Bosnia and Herzegovina has made reasonable progress in post-war reconstruction and in economic integration, but social and political integration remains elusive. Nonetheless, under international community prodding, the country enjoys security and a measure of political stability. It started negotiations on a stabilization and association agreement with the European Union in November 2005.

2. Bosnia and Herzegovina's economy within the former Yugoslavia was fairly diversified, with a large industrial sector. The war caused economic collapse, the widespread reduction of industrial capacity and the loss of millions of jobs, with the result that almost 20% of the population now live below the poverty line. Strong economic growth (5%) has not yet resulted in a significant reduction in poverty, especially in rural areas where high unemployment (40%) and subsistence farming prevail. Gross national income per capita stands at USD 1 310 (2002). The country ranked 66 of 177 countries in the United Nations Development Programme's 2003 Human Development Report with a Human Development Index of 0.781. Its Gender Development Index in 2002 was 0.707, reflecting mild gender inequality.

3. Out of a total of 2.5 million ha of agricultural land, some 400 000 ha (less than 20%) is suited to arable farming. Globally, Bosnia and Herzegovina approaches the lowest levels of availability of arable land per person (0.17 ha). Most of the country is mountainous with steep wooded slopes characterized by shallow soils. Patches of flat pasture land and meadow land are interspersed within the wooded terrain. Over these areas, some 570 000 privately owned smallholder farms are engaged primarily in livestock production. The average farm is 3.6 ha in area, split up into 7-9 separate plots. The major enterprise is smallholder dairy production. Most dairy farms have one to two dairy cows, often of local low-productivity breeds although restocking efforts after the war are increasing the

¹ See Appendix I for additional information.

proportion of foreign breeds, commonly the dual milk- and meat-producing Simmental cattle. In Yugoslav times, most of these small farms were worked part-time by their owners who were employed as industrial workers. With reduced industrial activity in rural areas, farming that used to be a sideline has become the main source of livelihood to most rural people.

4. Despite its small share in the economy (15% in 2003), agriculture, together with its associated activities, has the potential to play a major role in rural economic revival and rural poverty reduction. Nearly half the rural population rely to a large extent on agriculture, primarily livestock production, for their livelihoods. The country's local agriculture produces less than half of its food needs, and there is substantial under-used land suitable for farming and grazing. However, local agriculture will have to become more productive and increase the quality of its produce to become competitive with imported food products.

B. Lessons Learned from Previous IFAD Experience

5. IFAD's involvement in Bosnia and Herzegovina dates from 1996 and comprises three operations. The first two interventions, the now completed Farm Reconstruction Project – Re-stocking Activities and the Small Farm Reconstruction and Development Project, reflected the need for emergency assistance focused on the distribution of livestock to poor farmers. These projects increased poor people's access to food and recapitalized war-affected small farms. The third intervention, the ongoing Livestock and Rural Finance Development Project, is aimed at developing a replicable model of sustainable, small-scale commercial livestock production. IFAD has drawn a number of lessons from this country experience.

6. The Fund's operations have shown that an increase in agricultural production and productivity can only be effective in reducing poverty if there is an accessible market for increased production at profitable prices. Constrained market access results in low produce prices, consumption-oriented production systems and low household incomes. Improved market linkages brought about by bulking of produce, a better feeder road network and an efficient processing industry can result in better prices for primary products and higher income for small farmers.

7. Experience has also shown that small producers on their own are not well suited to accessing the markets of most commodities, especially perishable ones such as milk. Only when these farmers are organized into producer associations or groups can they link effectively with markets for their produce; exploit economies of scale in production, collection, transport and marketing; and enhance their bargaining power with the authorities and with the market. Producer associations and other farmer organizations have enabled their members to acquire political and bargaining power in the marketplace by: (i) organizing milk collection networks; (ii) organizing the sale of milk and other produce; (iii) screening loan applicants for compliance with lending criteria; (iv) helping with the identification of infrastructure microprojects; (v) organizing purchases of fertilizers and other farm inputs; and (vi) playing a lobbying role in respect of government policies that affect the subsector (e.g. subsidy policy and import policy).

8. Finally, IFAD's work in the country has evidenced small producers' acute need for access to financial resources so that they can expand production and improve the productivity of their enterprises. While financial institutions are becoming increasingly interested in moving into rural lending, they need support to improve their knowledge of rural lending modalities in order to develop suitable financial products and to share risks in rural lending.

C. IFAD's Strategy for Collaboration with Bosnia and Herzegovina

9. **Bosnia and Herzegovina's policy for poverty reduction.** The national strategy for poverty reduction is articulated in the government Medium-Term Development Strategy (MTDS), also known as the Poverty Reduction Strategy Paper (PRSP), which was approved in 2003. The goals of the MTDS are to create the conditions for sustainable and balanced poverty-reducing and job-creating growth within a functioning market economy, and to accelerate integration into the European Union (EU) by demonstrating commitment to EU values and meeting the conditions for eventually joining the EU.

10. To secure the anticipated growth, the MTDS emphasizes the need to develop exports and export markets for production in which the country has a comparative advantage. In the agriculture sector, MTDS recognizes the strong organic relationship between livestock production and the country's natural resource endowment, and maintains that stronger development of the livestock subsector would result in greater use of domestic natural resources and increased local production of currently scarce products. It considers milk and associated meat production as the "engine" of the overall agricultural development strategy.

11. **Poverty eradication activities of other major donors.** The International Development Association/World Bank is providing assistance with a variety of programmes to improve the business environment, promote trade and exports, and develop small-scale commercial agriculture. EU assistance is designed to support Bosnia and Herzegovina in the framework of the stabilization and association process to consolidate the peace process, help ethnic reconciliation, establish functioning institutions and a viable democracy, lay the foundations for sustainable economic development and growth, and bring the country closer to EU standards and principles. Important to IFAD's country programme is the EU Public Sector Reform Project, which will work towards unifying into one federal ministry the ministries of agriculture in the country's two "entities" – the Federation of Bosnia and Herzegovina, and the Republika Srpska. The United States Agency for International Development is currently supporting rural enterprise development through its Linking Agricultural Markets to Producers Project, which seeks to increase the rate of economic growth through expanded production and sales of value-added agricultural products. By strengthening linkages among producers, processors and their markets, the project is enabling producers and agribusiness enterprises to locate and meet domestic and export market demand. Other donor countries active in agriculture and rural development in the country include Germany (finance/banking), Italy (lines of credit), Norway (private-sector development, agriculture, microcredit), Sweden (finance/banking, microcredit, small and medium-sized enterprise (SME) development and Switzerland (banking).

12. **IFAD's strategy in Bosnia and Herzegovina.** The country strategy opportunities paper (COSOP) approved in 2005 recognizes that strong economic growth leading to job creation is essential for poverty reduction. Rural growth would derive from helping thousands of farmers shift from inefficient subsistence to commercial production and other more productive pursuits. Since Bosnia and Herzegovina has relatively low agricultural potential, agriculture alone cannot be the sole vehicle for rural revival. Support to the wider rural economy will facilitate the creation of non-farm employment locally and offers some of the best opportunities to stimulate growth and build the markets needed for poverty reduction. It will also reduce the need for short- and long-term migration to the cities and abroad.

13. The COSOP recognizes the supply chain approach as providing the best opportunity for developing enhanced commercial linkages between small-scale producers and private markets. This requires a programmatic approach to commercial agriculture, primary production and the rural economy, which includes (i) investments in improved production, productivity and infrastructure; (ii) a suitable policy and institutional framework for commercialization (the financial system,

technology and information, market linkages, business training and skills transfer, and enforceable contractual arrangements); (iii) partnerships to address the needs of the marketing chain; and (iv) a learning environment for replication and scaling up of activities.

14. **Project rationale.** The loss of employment opportunities after the demise of Yugoslavia has profound implications for occupations, incomes and poverty. The immediate effect was that the rural people had to turn to their smallholdings, animals and forests, or to outmigration and remittances for survival. The industrial economy has not yet sufficiently recovered to provide employment and income opportunities for a significant number of those who lost their jobs. The futures of people wishing to stay in rural areas depend on investments in agriculture and agribusiness to lift productivity and incomes and avert wide-scale migration to cities.

15. The greatest opportunity arises from raising the efficiency and scale of enterprises that are already operating. Many farm enterprises, especially the predominant small farms in the dairy and soft fruit value chains, can be scaled up, upgraded or introduced to a wider range of farmers. Other opportunities in rural areas are also present: fruit and vegetable production, honey production, fish farming and the collection of medicinal and aromatic plants have proved profitable and could usefully be extended.

16. Rural producers can improve incomes by making small changes to their practices and by making small investments. However, farmers are limited in investing by their low savings and their inability to compete for funds in the formal credit market. They need improved access to credit for investments to start, expand or improve enterprises. Their investments will not be fully successful, however, unless they are supported by improved technical, business and marketing advisory services. But successful production depends on efficient markets, which, in turn, depend on effective demand for products and private-sector initiatives in processing and marketing enterprises. With improved capacity and capability for processing, there is need to strengthen the links between producers and collectors/processors by improving their working relationships, and to open further market outlets for processed products at home and abroad.

PART II – THE PROJECT

A. Project Area and Target Group

17. The project area was selected after lengthy discussions and negotiations with the Government aimed at ensuring that the project area met the four following considerations: (i) that low-income cantons and municipalities where employment opportunities were limited were included in the project; (ii) that the prevailing nationalities in the country were well represented so that ethnicity concerns and local ownership would be assured; (iii) that the selected areas had not benefited from ongoing or recently completed development initiatives; and (iv) that, to the extent possible, contiguous geographic areas were chosen to facilitate implementation and to enable essential commercial interactions among farmers, their suppliers, processors and marketers.

18. The project area in the Federation of Bosnia and Herzegovina covers three cantons: Una-Sana Canton (eight municipalities); Western Bosnia Canton (five municipalities); and Western Herzegovina Canton (one municipality). The area in Republika Srpska covers two contiguous but separate blocks: a group of four municipalities to the south-east of Banja Luka; and another group of seven municipalities to the north and north-west of Srebrenica. According to both the government poverty classification and IFAD's own analysis of the poverty situation, the selected cantons and municipalities are among the country's poorest in terms of incomes and living standards. According to the EU-financed Regional Economic Development Project, the selected project cantons and municipalities have per capita income well below the national average. The 2002 rural per capita income in the north-western part of the Federation of Bosnia Herzegovina (Una-Sana, Western Bosnia

and Western Herzegovina cantons) is estimated at USD 1 259, while that of the project municipalities in the eastern part of the Republika Srpska is USD 938, compared to a national per capita income of USD 1 380 for Bosnia and Herzegovina as a whole. The cantons and municipalities in the project area are facing poverty and the structural difficulties of reduced employment opportunities and dependence on smallholdings. The main farm enterprises are livestock for meat and milk. Income from farming is supplemented by contract work or collection of medicinal and aromatic plants, mushrooms and other forest products.

19. The project will provide direct assistance to four main groups: (i) rural inhabitants with little or no farming experience or with few productive farming resources, who will be assisted in developing and expanding fruit, vegetable or sheep production and in engaging in off-farm income-generation; (ii) subsistence or semi-commercial farmers in the dairy value chain relying on a few animals and small cropped areas, who will be supported to expand their operations to become “commercial”; (iii) rural entrepreneurs – farmers and non-farmers – who will be assisted in developing enterprises that create opportunities to add value to rural production and invigorate the rural economy. These will include small and medium-scale processing plants in the dairy and berry-marketing chains; and (iv) cooperatives, producer associations, processor associations and other forms of rural organization that will serve as agents linking small-scale producers to markets and will enable those producers to exploit economies of scale and increase their bargaining power with the authorities and the market.

B. Objectives and Scope

20. The overall goal of the proposed project will be to increase the incomes of the poorer rural inhabitants in the project area. The goal strongly accords with the Government’s policies and strategies as set out in its PRSP. The goal will find expression in farmers’ being able to earn greater cash from their farms and in greater off-farm incomes for those with and without holdings of agricultural land.

21. The project’s specific objectives will be the sustained growth of rural enterprises and employment opportunities in the project area. Rural enterprises will be supported to improve the linkages among various tiers of the value chains for commodities and services, thus contributing to dynamic local economies linked to dynamic regional and national economies.

C. Components

22. The project will have three components, which together will pursue the overall objective. They will be concerned with (i) creating a framework of organizational, technical and business advisory services, backed by market-linking infrastructure and a conducive policy environment, to support development of on- and off-farm enterprises; (ii) developing profitable on- and off-farm enterprises in dairy, soft fruit and short value chains with strong supporting financial services; and (iii) implementing the project effectively and efficiently.

Rural Enterprise Framework Support

23. Through this component, the project will create the basic conditions to support profitable on- and off-farm enterprises. It will focus on advisory services, infrastructure and policy needs for profitable enterprise development.

24. **Organizational capacity-building.** Small farmers on their own are not well suited to accessing markets, especially of perishable commodities such as milk and soft fruits. The project will support the establishment of producer organizations and other farmer organizations. By bulking the produce of their members, such organizations will provide effective linkages with the processing and marketing chains for dairy and soft fruits. They will also allow small producers to exploit economies

of scale. In addition, producer organizations can play an important advocacy role, helping create a policy environment that is favourable to the development of the respective commodity value chain.

25. **Technical and business services.** The project will retain a number of qualified local organizations (consulting firms, NGOs, ongoing projects) to provide business development services and technical advice to farmers and other enterprise owners. This will enable them to upgrade their production techniques and improve the quality of their products, which could lead to their getting higher prices for products. Dairy processors will be provided with technical advice to penetrate domestic and overseas markets (linkage with distributors, packaging and brand development).

26. **Market-linking infrastructure.** The project will provide support for the reconstruction of market-linking infrastructure as part of an integrated approach to reviving the rural economy and enhancing market linkages. These will include public/community infrastructure (such as feeder roads, water supply improvements and electricity connections), rural markets, village-level cold storage facilities and drying sheds.

27. **Elaboration of policy.** The project will work towards the evolution of an institutional and policy framework conducive to enterprise development. It will support the establishment of a dairy industry development council (DIDC), which will include in its membership representatives of dairy producers, dairy processors, consumer groups and policy-makers, and will act as an industry advocacy group. The project will provide the DIDC with support to build its capacity for analysis of policy issues that directly affect the value chains, thus strengthening its capacity for dialogue and lobbying with government for the benefit of the industry as a whole.

Enterprise Investment and Rural Finance

28. The objective of this component will be efficient financial systems serving rural enterprises. The project will improve the financial services available to entrepreneurs to ensure greater access to credit for on- and off-farm investments.

29. **Revolving funds for investments.** This sub-component will be made up of the investments by producers, processors and entrepreneurs to create new, or expand existing, enterprises. Dairy farmers will be provided access to loans so that they can advance from subsistence production to semi- and fully commercial operations by expanding herd size and upgrading the quality of milk to maximize their returns and improve the dairy industry's prospects in domestic and international cheese markets. Loans will also be made available for producer associations, cooperatives, other groups and private individuals to invest in produce collection (e.g. milk collection networks, aquaculture and gatherers of forest products), bulking and packaging, storage and transport. As a link between producers and processors/markets, they will provide services to their members in input supply, technical services, marketing and advocacy. Dairy processors will have access to investment and working capital loans to produce long-shelf-life dairy products, especially cheese. Fruit farmers will have access to loans for growing soft fruits to meet the needs of the processing industry, which was recently established by private-sector interests. Loans will also be made available to SMEs and other enterprises in "short value chains" on and off farm such as vegetables production, livestock fattening, fodder production, bee-keeping, fish farming, collection of mushrooms and aromatic and medicinal herbs, and ecotourism.

30. Investments in enterprises will be supported by equity of investors and loan finance delivered by participating financial institutions (PFIs). Credit lines will be extended at competitive rates to PFIs selected through tender after prequalifying against established criteria. Interest rates for end-borrowers will be defined by the PFIs, which will carry the credit risk.

31. The project will establish partnerships with commercial banks, which will concentrate on providing larger investment and term loans primarily to individual farmers, entrepreneurs and companies. It will also form partnerships with microcredit organizations that will service small farmers and rural entrepreneurs who are first-time borrowers, providing them, either as individuals or preferably as groups, with small investment and working capital loans.

32. **Rural finance services.** To ensure loans are extended efficiently to the investors, the project will assist PFIs in building up their capacities to: (i) increase the range of lending products they make available to investors to suit their circumstances; and (ii) develop microsavings, insurance and other risk and uncertainty management services. This will be done by providing PFIs with technical assistance tailored to their specific needs and implemented in coordination with the Microfinance Centre for Central and Eastern Europe and the New Independent States, with the Consultative Group to Assist the Poor and with the Association of Microfinance Institutions in Bosnia and Herzegovina.

Project Management and Coordination

33. This component will aim at ensuring the efficient and timely implementation of project activities. The project will emphasize implementation of project services through private-sector and NGO service providers, thus using existing institutional capabilities in the country rather than creating special project units for this function. The prime role of the project coordination offices (PCUs) will be to coordinate and synchronize project implementation and to manage the recruitment and supervision of service providers. The two standing PCUs currently implementing the Livestock and Rural Finance Development Project will be retained as the basic structure for coordination and management of this new project.

D. Costs and Financing

34. The project's investment and recurrent costs have been estimated at USD 24.49 million (24% of foreign cost component). The largest component is enterprise investment and rural finance, which accounts for 46% of base cost, with the revolving funds for investments its largest subcomponent (45% of base costs). The structure of costs for the parts of the project in each entity is similar. The share of total costs attributable to the Federation of Bosnia and Herzegovina is 59.4% and that to the Republika Srpska is 40.6%.

35. The financiers of the project will be: (i) IFAD, with a highly concessional loan of USD 12.62 million (51.5% of total costs); (ii) the Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development, with a loan of USD 5.95 million (24.3% of total costs); (iii) the Government, with a USD 2.25 million contribution (9.2% of total costs); (iv) project beneficiaries (farmers and others), who will contribute USD 2.02 million (8.3% of total costs) towards the costs of investments; and (v) PFIs, which will provide USD 1.65 million from their own resources (6.7% of total costs) to fund in part the cost of investments in enterprises. The OPEC Fund contribution will be for both enterprise investments and market-linking infrastructure.

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

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Rural enterprise framework support					
Organizational capacity-building	907.5	450.0	1 357.5	33	6
Technical and business services	1 351.4	570.4	1 921.8	30	8
Market-linking infrastructure	4 876.0	1 325.0	6 201.0	21	26
Elaboration of policy	81.4	84.4	165.8	51	1
Subtotal	7 216.3	2 429.8	9 646.0	25	41
Enterprise investment and rural finance					
Revolving funds for investments	7 846.9	2 828.1	10 675.0	26	45
Rural finance services	65.6	96.9	162.5	60	1
Subtotal	7 912.5	2 925.0	10 837.5	27	46
Project management and coordination	2 904.4	390.7	3 295.1	12	14
Total base costs	18 033.2	5 745.5	23 778.6	24	100
Physical contingencies	142.2	75.2	217.4	35	1
Price contingencies	387.1	103.6	490.7	21	2
Total project costs	18 562.5	5 924.3	24 486.8	24	103

^a Discrepancies in totals are due to rounding.

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

Components	IFAD		OPEC Fund		Government		Beneficiaries and PFIs		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
Rural enterprise framework support													
Organizational capacity-building	1 322.3	87.4	-	-	190.9	12.6	-	-	1 513.2	6.2	505.7	816.7	190.9
Technical and business services	1 445.3	67.4	-	-	205.5	9.6	490.8	22.9	2 141.6	8.7	639.0	1 297.1	205.5
Market-linking infrastructure	1 790.5	28.9	2 954.3	47.6	901.0	14.5	555.1	9.0	6 201.0	25.3	1 325.0	3 975.0	901.0
Elaboration of policy	178.0	96.2	-	-	7.1	3.8	-	-	185.2	0.8	94.3	83.8	7.1
Subtotal	4 736.2	47.2	2 954.3	29.4	1 304.5	13.0	1 046.0	10.4	10 041.0	41.0	2 563.9	6 172.6	1 304.5
Enterprise investment and rural finance													
Revolving funds for investments	5 048.7	47.3	2 996.5	28.1	3.7	-	2 626.1	24.6	10 675.0	43.6	2 828.1	7 846.9	-
Rural finance services	180.2	100.0	-	-	-	-	-	-	180.2	0.7	107.7	72.6	-
Subtotal	5 228.9	48.2	2 996.5	27.6	3.7	-	2 626.1	24.2	10 855.2	44.3	2 935.8	7 919.4	-
Project management and coordination	2 651.7	73.9	-	-	938.9	26.1	-	-	3 590.6	14.7	424.6	2 227.1	938.9
Total disbursement	12 616.8	51.5	5 950.9	24.3	2 247.1	9.2	3 672.1	15.0	24 486.8	100.0	5 924.3	16 319.1	2 243.3

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

36. **Procurement.** The procurement of goods, works and services under the project will be subject to IFAD guidelines. All goods, works and services procured will be exempt from duties and taxes. No contracts will be of a size that will warrant international competitive bidding. Any contract for the procurement of goods, civil works or services estimated to cost more than USD 30 000 equivalent will be awarded on the basis of local competitive bidding. Any contract for the procurement of goods, civil works or services estimated to cost between USD 5 000 and USD 30 000 equivalent will be awarded on the basis of local shopping. Any contract for the procurement of goods, civil works or services estimated to cost less than USD 5 000 equivalent may be awarded on the basis of direct contracting, subject to prior review. All tenders under the project will be issued by the respective PCUs. Responsibility and accountability for bid evaluation will be determined by the project steering committees and cleared with the cooperating institution prior to procurement actions being undertaken. The cooperating institution's prior review will be applicable for the award of: (i) any contract for goods or services estimated to cost more than USD 50 000 equivalent; (ii) any contract proposed on the basis of direct contracting; and (iii) any contract for services.

37. **Disbursement.** The IFAD loan will be disbursed over five years. Each PCU will open three accounts in banks acceptable to IFAD: a special account in United States dollars and two project accounts in local currency (one for the Government's contribution and one for transfers from the special account). In addition, where applicable, each PCU will open a special account in United States dollars and a project account in local currency to manage finance from the OPEC Fund. The IFAD special account will be used to receive advances from the IFAD loan account for the financing of eligible expenditures and to make eligible payments to suppliers. Disbursement from the IFAD loan account into the special account or for direct payment to suppliers for eligible expenditures will be authorized by the federal Ministry of the Treasury. Withdrawals from the special account for eligible expenditures will be authorized by the Ministry of Finance in each entity. Withdrawals from the project accounts for eligible expenditures will be authorized by the project director.

38. **Accounts and audit.** The Government will procure the services of an independent auditor acceptable to IFAD through a tender process to audit the project accounts, including the special accounts, the project accounts and contributions by beneficiaries in accordance with international standards on auditing and IFAD's project audit guidelines. The PCU will provide the cooperating institution with financial statements within two months of the end of a fiscal year, separately from the audit. The audited accounts, in a format agreed with IFAD and including separate opinions on the statements of expenditure and the operations of the special account, will (until closing of the loan) be submitted to IFAD no later than six months after the close of each government fiscal year (1 January-31 December), i.e. on 30 June each year. The audit report will be in a long form audit and will contain a separate management letter. The reply by PCU to the management letter will be submitted directly to the auditor with a copy to IFAD and the cooperating institution within one month of the receipt of the audited accounts. The accounts of the PFIs will be audited as per the stipulations of the banking law and other relevant laws in force in the country.

F. Organization and Management

39. The project will be implemented under the overall supervision of the Ministry of Agriculture, Forestry and Water Resources in each entity by the PCUs that are currently implementing the Livestock and Rural Finance Development Project. Each entity will establish a project steering committee (PSC) to provide policy and strategic guidance to the PCUs and to facilitate incorporation of the project in any new structures that may emerge from the proposed amalgamation of the two entity ministries of agriculture into a federal ministry. Each PSC will be chaired by the ministry and will include representatives from government, commercial banks, microcredit organizations and private-sector organizations (such as farmers' organizations and chambers of commerce).

40. The prime role of the PCUs will be coordination. Their functions will be: (i) annual programming, (ii) contracting and supervision of various implementing bodies, (iii) financial management, (iv) monitoring, (v) reporting and (vi) evaluation. The PCUs of the ongoing IFAD Livestock and Rural Finance Development Project have most of the skills needed to carry out the functions associated with the new project, although some additional professional staff will be needed to provide expertise associated with rural finance, private-sector operations and rural infrastructure. The directors of the existing two PCUs will incorporate the strategic emphasis on the private sector into all aspects of the PCUs' work and will ensure that their staff fully understand and apply the required principles and practices.

G. Economic Justification

41. The project is designed to have a substantial impact on the profitability of the two main commodity chains of the project area, dairy and soft fruits, as well as on the SMEs on and off farm, leading to increased income for rural poor households, job creation and the building-up of productive assets. No formal economic analysis could be undertaken for the project as its major intervention is demand-driven credit. The financial viability of the major enterprises being promoted under the project is estimated by a set of models depicting the many possibilities for production.

42. Most farmers in the areas covered by the project have herds of two to three dairy cows. A set of simple models is used to evaluate the outcomes of some investments to increase herd size and cow productivity. The analysis shows clearly that "improving" existing cattle enterprises (by expansion, better feeding or better herd management) is preferable to investing in new enterprises, as a way to increase incomes. Returns to upgrading the management standard are especially high, with a financial internal rate of return (FIRR) of over 50%. Returns to increasing herd size are high with a FIRR of between 17% and 36%, indicating that enterprises can be made larger to achieve commercial standing, with increases in herd size accompanied by better management (feeding of animals and retention of home-bred heifers to replace culled cows) having the highest FIRR.

43. Bosnia and Herzegovina was, in former times, a major producer of soft fruits, which found a valuable place in world markets. Donors and investors have in recent years initiated the revival of the soft fruits industry and, as a result, several processing plants have been established and many farmers have taken to growing soft fruits to supply them. Interest among farmers to take up berry production is very high given this assured market. The crop has special advantages for farmers with small landholdings and few options, as it requires only a small investment to start an enterprise that gives a significant lift in income. Initiation of new raspberry gardens requiring an investment of USD 1 420 would provide an incremental annual income of USD 740. This represents a FIRR of 53%.

H. Risks

44. The design of the project, with its heavy emphasis on private-sector actors, indicates several risks for successful implementation. The nascent nature of the private sector and the business environment might lead to a high degree of enterprise failure. This risk is lessened by the significant efforts of both government and donor programmes (especially those of the International Development Association/World Bank and the EU) to improve the business environment and promote trade and exports. In addition, the project is addressing this risk by requiring PFIs that will be exposed to loan repayment risks to apply their usual appraisal practices to loan applications. Furthermore, the project will also provide for enhanced access to business development services among potential enterprises, and it requires the preparation of business plans to access loan funds thereby further mitigating the risk of failure.

45. There is a risk that lending products suitable to banks and borrowers will not be able to be developed. This risk is addressed by including substantial inputs of: (i) market research consultants to

investigate the demand for lending products and (ii) experienced banking consultants to work with the commercial banks and microcredit organizations to develop these products.

I. Environmental Impact

46. The overall environmental impact is expected to be limited given that the incentives offered and opportunities created by the project will lead to a wide range of small farm and farming-related businesses being established, expanded or upgraded. The project will not result in a substantial change in land use. All farm investments will be made within the boundaries of existing farms and will involve enterprises that are already widely practised without adverse consequences for the environment. Considering the nature of enterprise activity that might be induced by the project, that the disturbance to the physical setting and natural resources will be minimal and that government controls are adequate, the project will justify placement in Category B classification.

J. Innovative Features

47. A significant innovation in the context of Bosnia and Herzegovina is the supply/value chain approach and the drive to organize small producers into associations and groups, which, by bulking produce, can more effectively link them with the processing industry, thereby affording them the opportunity to exploit economies of scale and increase their bargaining power with the market and the authorities. Another innovation is that the project, through its support to the formation of a dairy industry development council, will provide producer and processor organizations with capacity-building and knowledge acquisition support that will enable them to effectively engage in policy dialogue and advocacy aimed at creating a policy environment conducive to the overall health and prosperity of the dairy subsector.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

48. A loan agreement between Bosnia and Herzegovina and IFAD will constitute 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.

49. Bosnia and Herzegovina is empowered under its laws to borrow from IFAD.

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

PART IV – RECOMMENDATION

51. 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 Bosnia and Herzegovina in various currencies in an amount equivalent to eight million eight hundred thousand special drawing rights (SDR 8 800 000) to mature on or prior to 15 April 2046 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 on 11 April 2006)

1. **Annual workplans and budgets.** Bosnia and Herzegovina will make the proceeds of the loan available to the Federation of Bosnia and Herzegovina (the Federation) and the Republika Srpska (RS) in accordance with the respective annual workplans and budgets (AWP/Bs) and the Federation subsidiary agreement and the RS subsidiary agreement (subsidiary agreements). The Federation and the RS will each transfer loan funds and other resources called for in the AWP/Bs to the PCUs.
2. **Counterpart funds.** Bosnia and Herzegovina will ensure that the Federation and the RS make available promptly as needed such funds, facilities, services and other resources as may be required from time to time, and counterpart funds. The Federation and the RS will each deposit, as soon as practicable but in no event later than 30 days after the effective date, counterpart funds into their respective project accounts to cover the first project year's AWP/B, and will thereafter replenish the respective project accounts by depositing the counterpart funds called for in the respective AWP/Bs for the relevant project year annually in advance.
3. Bosnia and Herzegovina will ensure that the proceeds of the OPEC Fund loan are made available to the Federation in accordance with the OPEC Fund loan agreement.
4. **Additional events of suspension.** The following are specified as additional events of suspension of the right of Bosnia and Herzegovina to request withdrawals from the loan:
 - (i) if the right of the Federation to withdraw the proceeds of the OPEC Fund loan has been suspended, cancelled or terminated, in whole or in part, or has become due and payable prior to the agreed maturity thereof; or any event has occurred that, with notice or the passage of time, could result in any of the foregoing; or
 - (ii) the credit by-laws, or any provision thereof, has 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 project.
5. **Conditions precedent to effectiveness.** The following are specified as conditions precedent to the effectiveness of the loan agreement:
 - (i) the subsidiary agreements have been duly signed, and the signature and performance thereof by the Federation and the RS, respectively, have been duly authorized or ratified by all necessary administrative and governmental action;
 - (ii) the subsidiary agreements have been approved by IFAD in draft and the respective subsidiary agreement, substantially in the form so approved, has been delivered to IFAD and all conditions precedent to the effectiveness thereof have been fulfilled;
 - (iii) the OPEC Fund loan agreement has been duly signed, and the signature and performance thereof by Bosnia and Herzegovina have been duly authorized and ratified by all necessary administrative and governmental action;

- (iv) the loan agreement has been duly signed, and the signature and performance thereof by Bosnia and Herzegovina have been duly authorized and ratified by all necessary administrative and governmental action; and
- (v) a favourable legal opinion, issued by the Council of Ministers of Bosnia and Herzegovina or other competent authority approved by IFAD, in the form and substance acceptable to IFAD, has been delivered to IFAD.

Federation and RS project agreements

6. **Project accounts.** The Federation and the RS, as soon as practicable but in no event later than 30 days after the effective date, will each open – and thereafter maintain in a bank proposed by Bosnia and Herzegovina and accepted by IFAD – two current accounts denominated in local currency for project operations, to receive funds from the special account and for the receipt of counterpart contributions. The project director will be fully authorized to operate the respective project accounts.

7. **Pesticide management practices.** As part of maintaining sound environmental practices as required by IFAD, the Federation and RS will ensure that each project party maintains appropriate pest management practices under the project and, to that end, they will ensure that pesticides under the project do not include any pesticide proscribed by the Food and Agriculture Organization of the United Nations or the World Health Organization.

8. **Tax exemption.** The Federation's and the RS's financial contribution towards project cost will include all social contributions as required by national legislation as well as taxes (including value added tax) and duties (including custom duties) on all goods, civil works and consultant services procured under the project.

9. **Gender focus.** Each project party will ensure that the benefits of the project are not withheld from any potential beneficiary in the target group on the basis of gender, nationality or religious affiliation. Furthermore, all project parties will, to the extent feasible, encourage the participation of women in project activities, facilitating their participation in community-based organizations (community groups, farmer groups, producer associations and cooperatives) and their ability to access project funds.

10. Project monitoring will be the responsibility of the PCUs and will focus on the goal and development objectives of the project and the achievement of project impact in line with IFAD's Results and Impact Management System indicators. The major instruments for monitoring progress will include: (i) the records of physical and quantitative progress prepared regularly by all project parties for submission to the PCUs; (ii) regular financial reporting; and (iii) baseline and repeater surveys carried out before and in the course of project implementation.

APPENDIX I

COUNTRY DATA
BOSNIA AND HERZEGOVINA

Land area (km² thousand) 2003 1/	51	GNI per capita (USD) 2002 1/	1 310
Total population (million) 2003 1/	4.14	GDP per capita growth (annual %) 2003 1/	2.0
Population density (people per km²) 2003 1/	81	Inflation, consumer prices (annual %) 2003 1/	n/a
Local currency	Convertible Mark (BAM)	Exchange rate: USD 1.00 =	BAM 1.62 (February 2006)
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1997-2003 1/	2.1	GDP (USD million) 2003 1/	6 973
Crude birth rate (per thousand people) 2003 1/	12	Average annual rate of growth of GDP 1/ 1983-1993	n/a
Crude death rate (per thousand people) 2003 1/	8	1993-2003	17.8
Infant mortality rate (per thousand live births) 2003 1/	14	Sectoral distribution of GDP 2003 1/	
Life expectancy at birth (years) 2003 1/	74	% agriculture	15
Number of rural poor (million) (approximate) 1/	n/a	% industry	32
Poor as % of total rural population 1/	n/a	% manufacturing	15
Total labour force (million) 2003 1/	1.95	% services	53
Female labour force as % of total 2003 1/	38	Consumption 2003 1/	
Education		General government final consumption expenditure (as % of GDP)	22
School enrolment, primary (% gross) 2003 1/	n/a	Household final consumption expenditure, etc. (as % of GDP)	92
Adult illiteracy rate (% age 15 and above) 2003 1/	5 a/	Gross domestic savings (as % of GDP)	-14
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports 2003 1/	1 373
Malnutrition prevalence, height for age (% of children under 5) 2003 2/	10 a/	Merchandise imports 2003 1/	4 460
Malnutrition prevalence, weight for age (% of children under 5) 2003 2/	4 a/	Balance of merchandise trade	-3 087
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2003 1/	9 a/	before official transfers 2003 1/	-3 473
Physicians (per thousand people) 2003 1/	1 a/	after official transfers 2003 1/	-2 038
Population using improved water sources (%) 2002 2/	98	Foreign direct investment, net 2003 1/	382
Population with access to essential drugs (%)	n/a	Government Finance	
Population using adequate sanitation facilities (%) 2002 2/	93	Cash surplus/deficit (as % of GDP) 2003 1/	n/a
Agriculture and Food		Total expenditure (% of GDP) 2003 1/	n/a
Food imports (% of merchandise imports) 2003 1/	n/a	Total external debt (USD million) 2003 1/	2 921
Fertilizer consumption (hundreds of grams per ha of arable land) 2003 1/	327 a/	Present value of debt (as % of GNI) 2003 1/	37
Food production index (1999-01=100) 2003 1/	90	Total debt service (% of exports of goods and services) 2003 1/	6
Cereal yield (kg per ha) 2003 1/	2 544	Lending interest rate (%) 2003 1/	11
Land Use		Deposit interest rate (%) 2003 1/	4
Arable land as % of land area 2003 1/	20 a/		
Forest area as % of total land area 2003 1/	44 a/		
Irrigated land as % of cropland 2003 1/	0.3 a/		

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

1/ World Bank, *World Development Indicators* database, CD ROM 2004

2/ UNDP, *Human Development Report*, 2005

COUNTRY PORTFOLIO OF LOANS AND GRANTS

Project Id	Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
408	Farm Reconstruction Project	World Bank: IDA	World Bank: IDA	HC	17 Apr 96	16 May 96	31 Dec 98	L - I - 408 BA	SDR	4 347 401.49	100
408	Farm Reconstruction Project	World Bank: IDA	World Bank: IDA		17 Apr 96	25 May 96	31 Dec 99	G-I-C-316 - BA	SDR	700 000	100
1037	Small Farm Reconstruction and Development Project	World Bank: IDA	UNOPS		17 Mar 97	17 May 97	31 Mar 01	G-I-S-27-BA	USD	97 830.53	100
1037	Small Farm Reconstruction and Development Project	World Bank: IDA	UNOPS	HC	30 Apr 97	26 Feb 98	30 Sep 01	L - I - 449 - BA	SDR	10 060 077.87	100
1037	Small Farm Reconstruction and Development Project	World Bank: IDA	UNOPS		20 May 02	20 May 02	31 Dec 02	G-I-R 576-BA	USD	33 310.88	100
1157	Livestock and Rural Finance Development Project	IFAD	NA		23 Jan 01	31 May 01	30 Jun 02	G-I-S 119 - BA	USD	88 935.38	100
1157	Livestock and Rural Finance Development Project	IFAD	UNOPS	HC	26 Apr 01	17 May 02	31 Dec 08	L - I - 562 - BA	SDR	9 550 000	38.4
1157	Livestock and Rural Finance Development Project	IFAD	NA		05 Feb 04	30 Aug 04	30 Sep 06	G-C.IT 44-BA	USD	457 000	80.49
1157	Livestock and Rural Finance Development Project	IFAD	NA		05 Feb 04	30 Aug 04	30 Sep 06	G-C IT 45-BA	USD	328 000	60.98
1157	Livestock and Rural Finance Development Project	IFAD	NA		29 Mar 05	16 May 05	30 Nov 06	G-C.DE 4A -BA	EUR	78 600	95
1157	Livestock and Rural Finance Development Project	IFAD	NA		29 Mar 05	16 May 05	30 Nov 06	G-C NL 562 BA	USD	10 800	95
1157	Livestock and Rural Finance Development Project	IFAD	NA		28 Apr 05	03 Aug 05	30 Apr 07	G-C IT 50 - BA	USD	65 000	61.54
1157	Livestock and Rural Finance Development Project	IFAD	NA		26 Apr 01	17 May 02	31 Dec 08	G-C .DE 5 BA	EUR	15 000	

HC = highly concessional

LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<p>Goal</p> <p>Contribute to increased income of rural poor households</p>	<ul style="list-style-type: none"> • Increase in per capita income (disaggregated by gender) and household incomes, including off-farm income and expenditure patterns in the project area. • Reduced incidence of stunting of children, underweight children and acute malnutrition of children < 5 years and improvement in mother and child mortality in the project area 	<ul style="list-style-type: none"> • National-level household income and expenditure surveys • Nutrition surveys • PRSP monitoring system • Baseline and impact evaluation surveys • Project completion report 	<ul style="list-style-type: none"> • Political stability is maintained. • The macroeconomic situation continues to improve. • Social and economic environments remain conducive to market-based economic development.
<p>Purpose/Objective</p> <p>Sustained growth of rural enterprises and employment opportunities in the project area</p>	<ul style="list-style-type: none"> • No. of enterprises established still operating at the end of the project (by gender of entrepreneur) • Value and number of private-sector investments in project areas • Incremental value output of enterprises assisted by the project • No. of new jobs created in enterprises assisted by the project (by gender) 	<p>National and local budgets/tax records</p>	<ul style="list-style-type: none"> • The regulatory framework for business activities continues to improve. • The Government enforces compliance with domestic and EU food industry standards.

3

LOGICAL FRAMEWORK (cont.)

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<p>Outputs</p> <p>Profitable enterprises established</p>	<ul style="list-style-type: none"> No. of enterprises established disaggregated by gender of entrepreneur No. of enterprises accessing credit in the project area, disaggregated by gender of entrepreneur Value of credit extended by rural finance institutions in the project area, disaggregated by gender of loan recipient No. of consultations between enterprise owners and advisory services by gender of recipient. No. of business and market training exercises implemented for x participants (disaggregated by gender) 	<ul style="list-style-type: none"> Rural financial service providers' records Project disbursement statistics Records of contracted service providers 	<ul style="list-style-type: none"> There will be a positive development of the banking sector and microcredit organizations. There is continued financial services product development.
<p>Establishment of community institutions (producers' associations, savings and credit associations (SCAs) and microproject committees (MPCs) that meet the needs of rural communities, both men and women, for planning, implementing and managing their own development.</p>	<ul style="list-style-type: none"> No. of producers' associations, SCAs and MPCs established Proportion of women as members and in management committees of community organizations Increase in the range of services provided by producers' associations to members. 	<ul style="list-style-type: none"> Producers' associations/SCAs' participatory monitoring and progress reporting Ongoing impact evaluation by panel of project clientele 	<ul style="list-style-type: none"> Communities perceive clear distinctions between producers' associations and the former state-dominated, top-down cooperatives.
<p>Establishment and operation of market-linking rural infrastructure</p>	<ul style="list-style-type: none"> No. of communities reached No. and type of rural infrastructure schemes implemented Extent of community contribution Performance and effectiveness of maintenance arrangements 	<ul style="list-style-type: none"> NGO progress reports. PCU management information system. Municipality budget related to infrastructure 	
<p>Access to rural financial services for rural enterprises</p>	<ul style="list-style-type: none"> No. and type of products available No. of loans by type provided to farmers and to rural enterprises by PFIs (by gender of loan recipient) 	<ul style="list-style-type: none"> PFI reports PCU reports 	<p>A conducive policy and macroeconomic framework is maintained.</p>

LOGICAL FRAMEWORK (cont.)

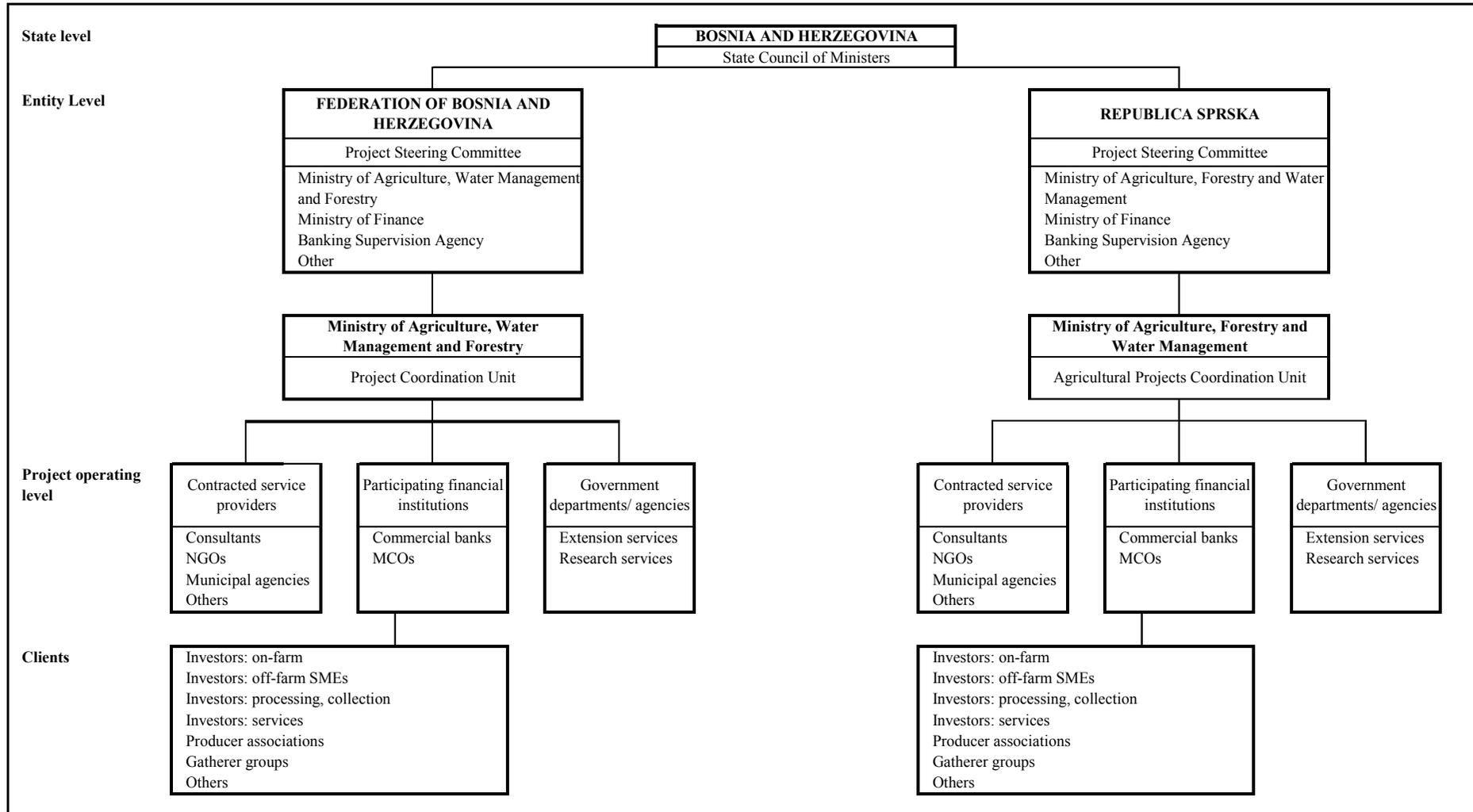
Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
	<ul style="list-style-type: none"> • % of portfolio at risk (outstanding balance of overdue loans) by gender of loan recipients • No. of clients and loans outstanding per credit officer • On-time repayment rates for working capital and investment loans 		
Effective project coordination and implementation arrangements established and operational	<ul style="list-style-type: none"> • PCUs adapt to new roles as coordinators • Effective partnerships with service providers are established. 	<ul style="list-style-type: none"> • PCU reports and process evaluation • Project disbursement statistics 	
Activities			
1. Rural Enterprise Framework Support Management and technology development Market-linking infrastructure Policy elaboration	<ul style="list-style-type: none"> • No. of SME investments disaggregated by gender • No. of producer groups formed, disaggregated by gender • No. of staff trained, disaggregated by gender • No. of policy initiatives undertaken • No. of successful policy initiatives 	PMU records and accounts Monitoring and evaluation (M&E) reports Adoption/re-adoption surveys Business development centre reports.	
2. Enterprise Investment and Rural Finance <ul style="list-style-type: none"> • Investment in enterprises • PFIs engaged to deliver credit and other financial services to farmers and entrepreneurs on sustainable basis. • Provide capacity-building support to PFIs 	<ul style="list-style-type: none"> • No. of investments in dairy and fruit enterprises, disaggregated by gender of recipient • No. of PFIs engaged • Volume and number of loans/other services provided disaggregated by gender of recipient. • No., type and cost of gender support provided to PFIs • Lending margins and technical assistance repayment rates • High client satisfaction (by gender) 	<ul style="list-style-type: none"> • PCU records and accounts • PFIs balance sheets and reports • Beneficiary monitoring surveys 	

5

LOGICAL FRAMEWORK (cont.)

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
3. Project coordination and management	<ul style="list-style-type: none"> • M&E system established. • Review processes (surveys and studies) and participatory M&E procedures (evaluations) established. 	<ul style="list-style-type: none"> • PMU records and accounts • Loan data • M&E reports • Evaluation and completion reports 	

ORGANIGRAMME



7