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President's report

Proposed loan and grant to the United Republic of Tanzania for the

Rural Micro, Small and Medium Enterprise Support Programme

Executive Board — Eighty-ninth Session
Rome, 12-14 December 2006

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

Samuel Eremie

Country Programme Manager
telephone: +39 06 5459 2079
e-mail: s.eremie@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer
telephone: +39 06 5459 2374
e-mail: d.mcgrenra@ifad.org

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Abbreviations and acronyms

SIDO	Small Industries Development Organisation
SMEs	small and medium enterprises

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and grant to the United Republic of Tanzania for the Rural Micro, Small and Medium Enterprise Support Programme, as contained in paragraph 37.

Map of the programme area



Source: IFAD

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

United Republic of Tanzania

Rural Micro, Small and Medium Enterprise Support Programme

Financing summary

Initiating institution:	IFAD
Borrower:	United Republic of Tanzania
Executing agency:	Ministry of Industry, Trade and Marketing
Total programme cost:	US\$25.32 million
Amount of IFAD loan:	SDR 12.95 million (equivalent to approximately US\$19.50 million)
Amount of IFAD grant:	SDR 300,000 (equivalent to approximately US\$450,000)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum
Cofinancier(s):	Irish Aid (proposed)
Amount of cofinancing:	US\$0.91 million
Terms of cofinancing:	Grant
Contribution of borrower:	US\$4.23 million
Contribution of beneficiaries:	US\$0.23 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan and grant to the United Republic of Tanzania for the Rural Micro, Small and Medium Enterprise Support Programme

I. The programme

A. Main development opportunity addressed by the programme

1. The programme is designed to assist the Government in pursuing the goals of the country's National Strategy for Growth and Reduction of Poverty, namely (a) reduced rural unemployment and underemployment; and (b) greater productivity, profitability and off-farm incomes through increased access to markets and services, and through improved rural small and medium enterprises (SMEs). The programme, widely known by its Swahili acronym MUVI, targets rural entrepreneurs to provide them with improved skills, knowledge and access to markets, and hence improved household food security and cash incomes.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide to the United Republic of Tanzania a loan in the amount of SDR 12.95 million (equivalent to approximately US\$19.50 million), on highly concessional terms, and a grant in the amount of SDR 300,000 (equivalent to approximately US\$450,000) to help finance the Rural Micro, Small and Medium Enterprise Support Programme. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for the United Republic of Tanzania under the PBAS is US\$48.82 million for the 2007-2009 cycle. The total proposed financing of US\$19.95 million for this programme falls within that allocation.

Relationship to national sector-wide approaches or other joint funding instruments

4. The programme will not operate through a basket-fund arrangement.

Country debt burden and absorptive capacity of the State

5. The United Republic of Tanzania was declared eligible to participate in the Heavily Indebted Poor Countries (HIPC) Debt Initiative in November 2001. The resulting debt-service relief of US\$3 billion will keep the net present value of the debt-to-export ratio below the target ceiling of 150 per cent throughout the period 2000-2020. Debt service payments will fall from US\$193 million in 1999 to US\$116 million during the period 2001-2010, and debt service as a percentage of government revenue will decrease from 19 per cent in 2000 to 7.7 per cent during the period 2001-2010. Resources made available by debt relief are allocated to key poverty reduction programmes, including the programme being proposed here, which are outlined in the National Strategy for Growth and Reduction of Poverty. The United Republic of Tanzania has thus far received 12 loans from IFAD (between 1978 and 2005). Total annual disbursements from all ongoing projects in the country average US\$16.6 million.

Flow of funds

6. The Ministry of Industry, Trade and Marketing (MITM) through the Ministry of Finance will open and thereafter maintain programme accounts in a commercial bank acceptable to IFAD. The programme funds will flow from the United States dollar special account through the Exchequer directly into MITM's accounts, according to the respective annual workplan and budget and the related cash-flow

forecasts prepared quarterly by the two ministries. Funds will subsequently be transferred from MITM's headquarters accounts to its regional accounts.

Supervision arrangements

7. The IFAD loan and grant will be supervised directly by IFAD.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

8. No exceptions are foreseen. The procurement plan will be finalized during loan negotiations.

Governance

9. The United Republic of Tanzania is one of the front-runners in implementing the harmonization and alignment agendas promoted by the Paris Declaration on Aid Effectiveness. Through the National Strategy for Growth and Reduction of Poverty, a process has been established to achieve the Millennium Development Goals based on livelihood improvement, policy and regulatory reforms for economic growth, and good governance. The country is rated highly (above 50 per cent) in the overall governance index for African countries, according to a 2005 United Nations Economic Commission for Africa study.

C. Target group and participation

Target group

10. The target group includes (i) rural microenterprises, which are mostly owned by economically active poor households including women and youths, as well as households with chronically ill, disabled and HIV/AIDS-affected members); (ii) smallholder farmers and fishers with potential to produce and sell their produce to processors; and (iii) economically active, rural poor households with available workforce to seize the increased employment opportunities in improved value chains.

Targeting approach

11. The programme will intervene in 6 of the 21 regions of the mainland (Iringa, Manyara, Mwanza, Pwani, Ruvuma and Tanga), selected on the basis of two main criteria: **poverty** and **entrepreneurship**. Compared with the national average of poverty incidence for mainland Tanzania (36 per cent), Mwanza, Pwani and Ruvuma are poorer (respectively 43 per cent, 38 per cent and 37 per cent), while Manyara, Iringa and Tanga are less poor (respectively 31 per cent, 28 per cent and 26 per cent). The six selected regions appear to be somewhat more entrepreneurial, as more than 4 per cent of the rural population is already engaged in some form of off-farm self-employed activity, with or without employees, against a lower national average of 3 per cent.

Participation

12. The target group will participate in a number of ways: (i) as members of guided listening groups; (ii) as actors in the value chain (producers, small processors, full-time and seasonal employment, entrepreneurs); and (iii) as rural service providers.

D. Development objectives

Key programme objectives

13. The programme will seek to provide targeted rural entrepreneurs (including rural poor people, women and youth) with improved skills and knowledge for their rural livelihoods and better access to markets, in order to increase their household food sufficiency and cash incomes.

Policy and institutional objectives

14. In line with the Public Service Reform Programme aimed at improving civil service performance, it is anticipated that SIDO will become more responsive and effective in providing enterprise development services, especially in rural areas. The

programme also aims to support the Local Government Reform Programme by building capacity to support enterprise development in rural areas. Finally, the Small and Medium Enterprise Policy will be under pressure to ensure that rural entrepreneurs have access to information, services and markets for improved economic activity.

IFAD policy and strategy alignment

15. The aim of the first outcome cluster of the National Strategy for Growth and Reduction of Poverty is to transform the United Republic of Tanzania's agriculture-based economy into an export-led, competitive, semi-industrial economy. It was in this context, as well as that of the Millennium Development Goals, that IFAD's country strategic opportunities paper (COSOP) conceived the idea of this programme in 2003 following discussions with the Ministry of Finance, the Ministry of Industry, Trade and Marketing, and other development partners.

E. Harmonization and alignment

Alignment with national priorities

16. The programme is in line with the goals of the country's National Strategy for Growth and Reduction of Poverty, namely reducing unemployment and poverty, especially among the vulnerable rural population. It also fits in with the overall objective of the country's 2003 Small and Medium Enterprise Policy to foster job creation and income generation through the promotion of small and medium enterprises.

Harmonization with development partners

17. In line with the Paris Declaration on Aid Effectiveness, the Government of the United Republic of Tanzania with the support of development partners has prepared the Joint Assistance Strategy for Tanzania, with which the programme design complies.

F. Components and expenditure categories

Main components

18. The programme has three components: communication in rural business (20 per cent of base cost); rural business support services (58 per cent); and institutional strengthening (22 per cent).

Expenditure categories

19. Investment costs account for 93.5 per cent of the base cost and are composed of contracts for service provision (48 per cent); vehicles, equipment and materials (6 per cent); training and workshops (27 per cent); technical assistance (10.5 per cent); support to media agencies (1 per cent); and studies (1 per cent). Recurrent costs include salaries and allowances (2.5 per cent) and operations and maintenance (4 per cent).

Retroactive financing

20. Project expenditure related to start-up activities totalling approximately SDR 400,000 may be incurred prior to programme effectiveness and after 1 January 2007, and shall be eligible for reimbursement from the loan and the grant after programme effectiveness.

G. Management, implementation responsibilities and partnerships

Key implementing partners

21. The Ministry of Industry, Trade and Marketing and SIDO will partner with the media implementation partner and the value chain implementation partners, all of whom will be selected on a competitive basis. Local government authorities, microfinance institutions, farmer organizations and rural enterprises will also be involved in various stages of programme implementation.

Implementation responsibilities

22. The Ministry of Industry, Trade and Marketing and SIDO will be responsible for programme coordination, monitoring and evaluation; the media implementation partner will be the key partner for implementation of the communication in rural business component; the value chain implementation partners will be the key partners for implementation of the rural business support services component; regional and district councils will be responsible for programme facilitation at the regional and district levels; and farmer organizations, microfinance institutions and rural enterprises will be participants in the value chains.

Role of technical assistance

23. Technical assistance will play a key role in capacity-building of public institutions and private-sector participants. Studies of capacity at the national level have helped to identify areas where international technical assistance would be required.

Status of key implementation agreements

24. Contracting plays a major role in the programme and will be used for the majority of implementation activities. Contracting will commence upon effectiveness, and the Government's and IFAD's procurement procedures will be followed.

Key financing partners and amounts committed

25. Irish Aid is a proposed cofinancier and would commit about US\$0.91 million, mainly for capacity-building.

H. Benefits and economic and financial justification**Main categories of benefits generated**

26. The communication in rural business component will provide business information to all rural dwellers with access to a radio or other media, such as a cellular telephone, the Internet or village billboards. The media implementation partner's terms of reference will be written in such a way to ensure that the programme content targets disadvantaged groups (illiterate individuals, women and woman-headed households, people living in remote areas, those living with HIV/AIDS, and the elderly). The rural business support services component will create and strengthen backward and forward linkages for selected value chains. These linkages will have a multiplier effect in creating new jobs, increasing demand for farm produce, and increasing the demand for professional and input services.

Economic and financial viability

27. Value chains to be supported by the programme were not pre-identified at the design stage because one of the first activities at the implementation stage will be to identify value chains that respond to two main criteria: (i) overall financial viability for the various players in the value chain (both poor and non-poor); and (ii) increased income for the target group. A review of recent subsectoral studies¹ shows that cashew production, dairy-farming and mud crab fattening are some of the value chains that meet these criteria.

I. Knowledge management, innovation and scaling up**Knowledge management arrangements**

28. The communication in rural business component provides for the preparation of a communication and knowledge management strategy to enable rural businesses to enhance livelihood capacities in rural households, communication agencies, local organizations and support networks; the improvement of rural livelihoods; implementation of the communication strategy, with emphasis on the use of radio; and implementation of the knowledge management strategy with a view to the learning and sharing of innovative experiences within IFAD and among its partner organizations in the United Republic of Tanzania.

¹ See the programme design document and associated files.

Development innovations that the programme will promote

29. This programme will build the capacity of selected radio stations to reach – on a sustainable basis – the poorest and the most remote entrepreneurs in a way that has been successfully piloted in other rural areas of eastern Africa. At the end of programme years 2 and 5, independent reviews will be undertaken to assess the effectiveness of the targeting approach in reaching the target groups, especially women.

Scaling-up approach

30. By situating programme implementation in an existing government ministry (Ministry of Industry, Trade and Marketing) and parastatal entity (SIDO) and by strengthening their capacity to support value chain development, the programme will reorient national systems to extend programme activities beyond the 6 programme regions to the remaining 15 regions. It is expected that the Government will commit to providing the necessary resources to SIDO for replication in the other regions; this commitment will be reviewed in programme year 5.

J. Main risks

Main risks and mitigation measures

31. Six critical risks have been identified: (i) that the radio programmes will not reach the target group – to be mitigated by establishing listening groups to ensure that the programmes are understood by potential beneficiaries, conducting independent reviews to ensure that the poor are benefiting, and rating the programmes; (ii) that the value chains selected are not pro-poor – to be mitigated by IFAD review and approval of terms of reference and criteria for selecting bidders to ensure compliance with government and IFAD procurement procedures, and the issuing of procurement contracts in two parts to separate studies from implementation; (iii) that the poor have no access to the value chains – to be mitigated by independent evaluations of project design (e.g. using a university), annual meetings with beneficiaries (including women and woman-headed households) to report on their perspective of access to each value chain; (iv) that the value-chain participants do not have access to collateral requirements – to be mitigated by close linkages with IFAD-assisted and other microfinance institutions/marketing programmes on financing; the programme should commence in districts/regions where such programmes (e.g. the Rural Financial Services Programme and the Agricultural Marketing Systems Development Programme) are already operating and, in the event that beneficiaries do not have access to credit, the programme will make alternative arrangements; (v) that procurement of consultants does not follow IFAD procurement principles of competition, economy and efficiency – to be mitigated by an independent review of procurement process in programme year 2 to ensure compliance with government and IFAD procurement guidelines, including approval by IFAD; and (vi) that SIDO may not perform – to be mitigated by the establishment of performance targets; the first review of SIDO would be in programme year 2 and, should SIDO not reach its targets, assurance would be required that IFAD and the Government will explore alternative institutional arrangements.

Environmental classification

32. Pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.² The small scale and diverse nature of most of the programme-supported entrepreneurial activities do not justify an environmental impact assessment. However, SIDO and the National Environmental Management Council will develop an environmental impact assessment toolkit that

² The full details of the environmental screening and scoping note and proposals for MUVI can be found in the project files.

will equip SIDO to undertake its own assessment of each operation in order to identify the possible risks and necessary mitigation measures.

K. Sustainability

33. For the communication in rural business component, sustainability is built in from the start by promoting viable private-sector companies, e.g. in the case of radio, private radio stations with the capacity to respond to demand from the listening target group and in which advertising may pay for programme costs. For the rural business support services component, sustainable business development and brokerage services – as indicators of success – are a requirement to establish sustainability. Efforts will be made to ensure that fees charged are sustainable. This would be reviewed in programme year 5. Finally, the institutional strengthening component ensures the sustainability of SIDO and requires that SIDO continue to reach the target group in the other 15 regions of the country at the end of the programme.

II. Legal instruments and authority

34. A financing agreement between the United Republic of Tanzania and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A summary of the important supplementary assurances included in the negotiated agreement is attached as an annex.
35. The United Republic of Tanzania is empowered under its laws to borrow from IFAD.
36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD.

III. Recommendation

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the United Republic of Tanzania in various currencies in an amount equivalent to twelve million nine hundred and fifty thousand special drawing rights (SDR 12,950,000) to mature on or prior to 1 October 2046 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the United Republic of Tanzania in various currencies in an amount equivalent to three hundred thousand special drawing rights (SDR 300,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge
President

Summary of important supplementary assurances included in the negotiated financing agreement

(Negotiations concluded on 12 December 2006)

Monitoring

1. The programme monitoring and evaluation (M&E) system will be stakeholder-driven and supported by national and international short-term consultants providing ad hoc assistance when required by SIDO and/or the Ministry of Industry, Trade and Marketing (MITM). The programme will assist the Government and stakeholders in designing and implementing an M&E system, based on the programme's logical framework, to assess programme performance at the grass-roots level and the programme's annual workplans and budgets. The selection of indicators and overall design of the monitoring system will be results-based and objective-oriented, and will be satisfactory to and approved by IFAD. The overall responsibility for the proper functioning (and reporting thereunder) of the M&E system will rest with the M&E specialist within SIDO/MITM, which will also monitor the programme's financial and physical progress and report back to the stakeholders to create a better learning environment. The Government will ensure that the M&E system for the programme integrates, inter alia, the framework under IFAD's Results and Impact Management System (RIMS), which IFAD will communicate to the Government.

Gender focus

2. The Government will ensure that women participate in all programme activities in such a way that full gender equality and equity would be achieved and that in the recruitment of programme staff, all things being equal, preference will be given to female candidates.

Procurement and use of programme vehicles

3. The Government will ensure that all vehicles procured under the programme are insured and used for programme implementation, and that the types of vehicles procured under the programme are appropriate to the needs of the programme.

Counterpart contributions

4. The Government will take all necessary action to ensure that its counterpart contributions for the programme are accurately reflected in its annual public investment budget. Such counterpart contributions will, in accordance with the annual workplan and budget for each programme year, be applied to the payment of forgone taxes and office space. The Government will further ensure that its counterpart contributions are made available to the programme in a timely fashion throughout the programme implementation period.

Tax exemption

5. The Government will exempt from taxes the importation, procurement and supply of all goods and services financed by the loan. The value of such exemptions will be credited against the obligation of the Government to provide counterpart funds for the programme.

Insurance of programme personnel

6. The Government will insure key programme personnel against health and accident risks to the extent consistent with the Government's procedures and regulations.

Content of broadcasts

7. The Government will take all necessary action to ensure that materials produced and/or broadcast in any type of media are (i) factually accurate and not misleading

or deceptive; (ii) do not infringe or misappropriate any right of any third party; (iii) are not libellous, defamatory or obscene; (iv) do not violate civil or criminal laws, including those regulating the use and distribution of content on the radio and protection of personal privacy; (v) do not contain information of a political or religious nature; (vi) do not promote adverse environmental practices; and (vii) do not use the name, emblem or official seal of IFAD for advertising or for any other promotional purpose.

Additional events of suspension

8. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account upon the occurrence of any of the following events:
- (i) the programme implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or 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 programme;
 - (ii) IFAD has determined that the material benefits of the programme are not reaching the target group, or are benefiting persons outside the target group; and
 - (iii) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to the attention of IFAD and the Government has failed to investigate the matter fully and promptly to the satisfaction of IFAD; or thereafter, based on the conclusions of the aforesaid investigation and any other information available to it, IFAD – in consultation with the Government – determines that such practices have occurred, and the Government has failed to take timely and appropriate action to remedy the matter to the satisfaction of IFAD.
- (b) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and/or grant account if the audit report(s) required by the financing agreement has/have not been satisfactorily completed within 12 months after the end of the fiscal year.

Conditions precedent to withdrawal

9. The conditions precedent to withdrawal are as follows:
- (a) No withdrawals from the loan and grant accounts will be made until:
 - (i) the first draft annual workplan and budget and procurement plan have been approved by IFAD;
 - (ii) the Government has made arrangements for and provided proof of the availability of counterpart contributions for programme year 1.
 - (b) No withdrawals will be made from the loan account in respect of expenditures in support of media agencies nor for contracts for service provision until the programme implementation manual has been finalized and approved by IFAD.

Conditions of effectiveness

10. The following are specified as conditions precedent to the effectiveness of the financing agreement:
- (a) the programme coordinator has been duly appointed by the Government;
 - (b) the Government has duly opened the special account, the grant bank account and the programme accounts;
 - (c) the memorandum of understanding has been approved by IFAD in draft; a copy of the signed memorandum, substantially in the form so approved and certified as true and complete by a competent officer of the Government, has been delivered to IFAD; the signature and performance thereof by MITM and SIDO have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof (other than the effectiveness of the loan documents) have been fulfilled;
 - (d) the financing agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
 - (e) a favourable legal opinion, issued by the Attorney-General of the Government in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

Key reference documents

Country reference documents

National Strategy for Growth and Reduction of Poverty (MKUKUTA), 2005
Small and Medium Enterprises Development Policy, 2003
2000/01 Household Budget Survey, 2002
Environmental Management Act, 2005

IFAD reference documents

Regional Strategy for Eastern and Southern Africa
2002 Tanzania COSOP
2003 Private Sector Partnership and Development Strategy
Administrative Procedures on Environmental Assessment
Prerequisites of Gender Sensitive Design
Key files in appraisal report

Other miscellaneous reference documents

Economic Commission for Africa, 2005. African Governance Report. ECA, Addis Ababa
World Bank. Tanzania Debt Relief.

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20035067~menuPK>

Logical framework

Narrative	Indicators	Means of Verification	Assumptions
Support Goal (PRSP goal) Reduced unemployment Greater productivity, profitability and off-farm incomes through access to markets and services and SMEs (MKUKUTA cluster 1 goal)	Impact (3rd level indicators) In selected six regions: <ul style="list-style-type: none"> those below poverty line reduced from 39 per cent to 25 per cent by 2014; agric. GDP grows goes from 5 per cent to 6 per cent p.a. by 2014; Child malnutrition reduced by 25 per cent by 2014 	National statistics	Political will for progressive commercialisation Improved business environment at the local level Stable macro-economic conditions
Support Purpose (or Development Objective) Targeted rural entrepreneurs (including the rural poor, women and youth) have improved skills, knowledge and access to markets, in order to increase household food security and cash incomes	Outcomes (2nd level or headline indicators) 30 per cent and 60 per cent of 3.8m. rural adults assess improved information and market access as contributing to family food sufficiency and cash income by end Year 3 and 7; 25 per cent of above fall among disadvantaged groups, e.g. food insecure households, women-headed, orphan headed and HIV/AIDS affected households, unemployed youth etc.	National and District reports Programme reports Professional organisations, Chamber of Commerce and association reports	Improved business environment Infrastructure improvement
Component 1. Communication in Rural Business			
Objectives/Purposes Design and implementation of a communication strategy in support of the three MUVI programme components.	A Communication Strategy document with production and dissemination plans, training and budget allocated and Knowledge Audit. Integrated activities with the Knowledge Management (KM) dimension	Strategy document, impact assessment, KM documentation, KM needs assessment	A communication contractor (MIP) can be hired by SIDO. Readiness of participants to respond to new tools and technologies
Component 2. Rural Business Support Services			
Objectives/Purposes, Improved value chain coordination and cohesion	150 per cent rise in supply contracts between producers and RMSMEs by Yr 3 175 per cent rise supply contracts between RMSMEs and market by end Yr 3	Quarterly reports by VCIPs M&E reports by SIDO M&E reports by MITM	Favourable business climate Favourable weather Competitiveness in financial sector maintained
Component 3. Institutional Strengthening			
Objective Public and Private Sector institutions provided with skills and capacity to ensure efficient and effective support to rural SMEs in target regions	Outcomes (2nd level or headline indicators) 860 person-courses for technical training and institutional capacity building 12 regional, 18 district and 3 national awareness campaigns completed Contracts with 6 VCIPs and 1 MIP (service providers) correctly awarded in Yr. 1 and 3, and supervised.	M& Reports by MITM, SIDO, MIP and VCIPs. Feedback from listener clubs (Component 1)	National support to rural MSME continues. Adequate human capacity in MITM/ SIDO available for implementation Service providers available for contracts

