

Document: EB 2007/92/R.27/Rev.1  
Agenda: 12(c) (ii)  
Date: 13 December 2007  
Distribution: Public  
Original: English

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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed loan to the People's Republic of China for the**

### **Inner Mongolia Autonomous Region Rural Advancement Programme**

Executive Board — Ninety-second Session  
Rome, 11-13 December 2007

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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:

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## Contents

<b>Abbreviations and acronyms</b>	<b>ii</b>
<b>Recommendation for approval</b>	<b>iii</b>
<b>Map of the programme area</b>	<b>iv</b>
<b>Loan summary</b>	<b>v</b>
<b>I. The programme</b>	<b>1</b>
A. Main development opportunity addressed by the programme	1
B. Proposed financing	1
C. Target group and participation	2
D. Development objectives	2
E. Harmonization and alignment	3
F. Components and expenditure categories	3
G. Management, implementation responsibilities and partnerships	3
H. Benefits and economic and financial justification	4
I. Knowledge management, innovation and scaling up	4
J. Main risks	5
K. Sustainability	5
<b>II. Legal instruments and authority</b>	<b>5</b>
<b>III. Recommendation</b>	<b>5</b>
<b>Annex</b>	
Important assurances included in the negotiated programme loan agreement	6
<b>Appendices</b>	
I. Key reference documents	
II. Logical framework	

## **Abbreviations and acronyms**

CIDA	Canadian International Development Agency
COSOP	country strategic opportunities programme
IMAR	Inner Mongolia Autonomous Region
MFI	microfinance institution
PBAS	performance-based allocation system
PMO	programme management office
RCC	rural credit cooperative

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed loan to the People's Republic of China for the Inner Mongolia Autonomous Region Rural Advancement Programme, as contained in paragraph 35.

**China**  
IMAR Rural Advancement Programme

*IFAD-financed ongoing activities and proposed programme*



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.



Map compiled by IFAD

## People's Republic of China

### Inner Mongolia Autonomous Region Rural Advancement Programme

#### Loan summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	People's Republic of China
<b>Executing agency:</b>	Department of Agriculture and Livestock in Inner Mongolia Autonomous Region
<b>Total programme cost:</b>	US\$70.9 million
<b>Amount of IFAD loan:</b>	SDR 19.1 million (equivalent to approximately US\$30.0 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum
<b>Cofinancier(s):</b>	Rural Credit Cooperatives (RCCs)
<b>Amount of cofinancing:</b>	RCCs: US\$5.7 million
<b>Terms of cofinancing:</b>	Loan
<b>Contribution of borrower:</b>	US\$31.1 million
<b>Contribution of beneficiaries:</b>	US\$4.1 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD





# Proposed loan to the People's Republic of China for the Inner Mongolia Autonomous Region Rural Advancement Programme

## I. The programme

### A. Main development opportunity addressed by the programme

1. The People's Republic of China has an impressive record of strong, sustained economic growth and is experiencing an unprecedented decline in poverty. However, inequalities have been rising, with rural poverty persisting mainly in disadvantaged areas in the western provinces. So far, area-based government and donor programmes have failed to eradicate the remaining rural poverty, which suggests that new approaches are required. In line with its new country strategic opportunities programme (COSOP), IFAD intends to re-emphasize its catalytic role and to pilot innovative approaches for poverty reduction in selected sectors, such as microfinance and organic farming and marketing. By programme end, innovative modules that have demonstrable and sustainable poverty impact will provide the Government and other donors with the means for further scaling up.

### B. Proposed financing

#### Terms and conditions

2. It is proposed that IFAD provide a loan to the People's Republic of China in the amount of SDR 19.1 million (equivalent to approximately US\$30.0 million) on highly concessional terms to help finance the Inner Mongolia Autonomous Region Rural Advancement 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 China under the PBAS is about US\$92 million for 2007 – 2009. This programme is the first within the current PBAS cycle and, in agreement with the Ministry of Finance, the loan amount has been set at US\$30.0 million.

#### Country debt burden and absorptive capacity of the State

4. China's capacity to service external debt is very good. Total external debt averaged 14.2 per cent of gross national income in 2005 and the debt service ratio fell from 9.3 in 2000 to 3.1 in 2005. Repayment performance has been excellent.

#### Flow of funds

5. The loan proceeds will be transferred through the Ministry of Finance into the Special Account opened at the Department of Finance of the Inner Mongolia Autonomous Region (IMAR). Funds will be made available to the finance bureaux at each administrative level. In accordance with the approved annual work programmes and budgets, the finance bureaux will transfer the required resources to each implementing agency.

#### Supervision arrangements

6. The programme will be supervised directly by IFAD.

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

7. No exceptions.

### **Governance**

8. IFAD resources have been managed with due diligence and no additional measures are required. The IMAR Audit Department will be responsible for auditing the programme accounts. Procurement will follow IFAD's procurement guidelines.

## **C. Target group and participation**

### **Target group**

9. The programme's targeting approach complies fully with IFAD's policy on targeting in that it targets the absolute poor and low-income households and places particular emphasis on women-headed households. Many of these households live below the poverty line. Farmers and poor women heads of household have low skills levels and limited access to financial resources. Labour resources are scarce and the productivity of economic activities is low. The programme has the potential to reach an estimated 125,000 households residing in 722 villages in nine counties, equivalent to 68 per cent of the total population in the targeted villages. The annual participatory village planning exercise will assess the actual number of beneficiaries.

### **Targeting approach**

10. Poor villages will be selected on the basis of the average net income per person. A poverty alleviation office public database will be used to identify poor households. Activities have been designed to be suitable for implementation by poor households in terms of physical resources, capital and skills; gender-mainstreaming will be achieved by ensuring that (i) the Women's Federation is part of the programme management offices (PMOs); (ii) all programme activities relate to women's capacities and interests, without excluding men; (iii) selected activities target women exclusively; (iv) for most activities, minimum participation rates by women are specified.

### **Participation**

11. Village-level activities will be decided on and implemented following decentralized participatory approaches, with full inclusion of poor households and women. A village implementation group will be established in each programme village to link communities with the programme.

## **D. Development objectives**

### **Key programme objectives**

12. The programme aims to reduce the incidence of poverty in the target villages in a sustainable and gender-equitable way by establishing enhanced access to information, technology, rural financial services and markets. Poor women and men will have improved their social and economic situation in a sustainable manner, with incomes exceeding the poverty line at all times; innovations will have demonstrated their potential for poverty reduction; and successful modules will be scaled up.

### **Policy and institutional objectives**

13. The programme supports the establishment of durable grass-roots institutions and the strengthening of relevant support services. The programme will directly contribute to the ongoing reform of the rural banking system. It responds to recent policies on rural finance in enhancing managerial capacities of formal rural banks and supporting the graduation of grass-roots credit groups to registered microfinance institutions (MFIs).

### **IFAD policy and strategy alignment**

14. The programme complies with the strategic objectives of IFAD's strategic framework 2007–2010 in that it promotes access by the poor to improved agricultural technology and transparent and competitive markets. The programme furthers the COSOP thrusts by focusing on innovations and access to information and knowledge, remunerative and quality premium markets, technology and services, including financial services.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

15. The Government's Development-oriented Poverty Reduction Programme for Rural China for 2001–2010 aims to reduce poverty by promoting ecologically sound agricultural development, strengthening marketing and financial services for the poor, encouraging private entrepreneurs and farmers' organizations and developing off-farm economic activities. The country's 11<sup>th</sup> five-year plan promotes rural productivity to raise farmers' living standards and promotes grass-roots decision-making. The policy on constructing the new socialist countryside re-emphasizes the above objectives and provides an extra political push and financing for rural issues.

### **Harmonization with development partners**

16. A number of donor-funded projects have been operating in IMAR. The experience of the World Bank poverty reduction project provides an important basis for the programme in terms of community-driven approaches. Projects funded by the Canadian International Development Agency (CIDA) support an extension system similar to the technical envoy system. Similar linkages to CIDA interventions can be established with regard to safe food codes. The programme will align with other microfinance projects supported by the United Nations Development Programme (UNDP), United Nations Children's Fund (UNICEF), Asian Development Bank (ADB) and German technical cooperation agency (GTZ) and will aim to enhance access to financial services for the poor.

## **F. Components and expenditure categories**

### **Main components**

17. The programme has four components: (i) production and market access, including agricultural and livestock development, organic farming, extension and market access support services; (ii) strategic support to women through the formation of village-based women's microcredit groups and township-based women's associations in support of economic activities; (iii) rural financial services through microfinance development, strengthening and scaling up the institutional efficiency of rural credit cooperatives (RCCs), and through mainstreaming successful microcredit schemes; and (iv) programme management, participation and village development fund.

### **Expenditure categories**

18. There are four main expenditure categories: (i) vehicles, equipment and materials (4 per cent); (ii) training, studies and implementation support (7 per cent); (iii) rural development modules (80 per cent); and (iv) recurrent costs (9 per cent).

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

19. The Department of Agriculture and Livestock is the key implementing agency and will guide the PMOs at the regional, prefecture, county and township levels. The Women's Federation will hold the position of gender focal point in each PMO. Technical implementation will be the responsibility of the line departments, the Women's Federation, private enterprises and the RCCs.

### **Implementation responsibilities**

20. The PMOs will coordinate annual programming and budgeting. The finance bureau at each level will ensure the timely flow of financial resources. Implementing agencies will carry out activities in accordance with the approved annual work programme and budget.

### **Role of technical assistance**

21. Reputable, qualified national consultants and institutions will provide implementation support. In exceptional cases, international expertise will be used.

### **Status of key implementation agreements**

22. A loan agreement has been negotiated. Subsidiary agreements will be concluded between the programme parties to outline financial and technical commitments. A programme implementation manual will specify roles and responsibilities.

### **Key financing partners and amounts committed**

23. The total programme costs amount to about US\$70.9 million over six years. The principal sources of financing are the Government of the Inner Mongolia Autonomous Region (44 per cent), IFAD (42 per cent), the RCCs (8 per cent) and beneficiaries (6 per cent).

## **H. Benefits and economic and financial justification**

### **Main categories of benefits generated**

24. The programme is expected to substantially increase incomes for poor households as a result of direct investments in agriculture and livestock production facilities, technical support services and capacity-building for farmers, improved market linkages and improved access to credit. Food safety will be improved by strengthening certification modalities and internal control mechanisms. Women will benefit from capacity-building opportunities, better access to assets for economic activities and an enhanced role in community activities. The programme will strengthen outreach by existing financial institutions to the poor while assisting new grass-roots MFIs in their graduation to formal institutions. Other institutional benefits include support to decentralized development models, which entails a facility for priority investments based on community demand.

### **Economic and financial viability**

25. Financial models confirm that all modules will be financially attractive to programme participants. All programme modules have the capacity to generate an economic rate of return well above the assumed cost of capital.

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

### **Knowledge management arrangements**

26. Annual joint IFAD-Government reviews will assess programme impact and will shape programming in the following year. Lessons will be shared with the entire country programme in China through various communications tools, with the China sub-site of the Electronic Knowledge Networking for Rural Development in Asia/Pacific Region (ENRAP) serving as a critical information forum.

### **Development innovations that the programme will promote**

27. The modular approach is designed to give implementers the required flexibility to respond swiftly to changing conditions without neglecting the required rigour of supervision. The programme will further decentralised development approaches such as self-managed village development funds. The technical envoy system will be geared towards an efficient tool that enhances access to technology and knowledge. Value chains will promote niche products that the poor know how to produce, such as organic products, while enhancing market linkages with private buyers. Developing successful examples of grass-roots MFIs graduating to registered new financial institutions will serve as a tool to shape future rural finance policies.

### **Scaling-up approach**

28. The modular approach remains the key approach to scaling up. A module provides the flexibility to test and adjust a set of activities to local conditions and needs. All modules include an innovative poverty reduction element, which will be attractive for scaling up by the Government and other donors.

## J. Main risks

### Main risks and mitigation measures

29. Possible risks to the successful implementation of a decentralized approach include the common tendency to favour return to a top-down approach. This risk is addressed by establishing village implementation groups. The potential threat of overuse of water is addressed by promoting water-saving technologies and greenhouse-based production that increase water use efficiency as compared to open land cultivation. The emphasis on value chain development, especially for organic and niche products, alleviates the risk of weakened market demand.

### Environmental classification

30. Pursuant to IFAD's environment assessment procedures, the programme has been classified as a Category B operation. The programme design provides a wide range of activities that are expected to result in a positive environmental impact.

## K. Sustainability

31. Strong support for the programme by the Government will enhance country ownership. Strengthening the capacity of grass-roots institutions and their support services remains a very effective means of ensuring sustainability. The targeted communities will have a high level of ownership of activities thanks to participatory planning and management processes. Demand for greenhouse, organic and other products is strong and increasing, with production already profitable at current prices. All activities are designed to be environmentally sustainable. The technical envoy and other support services will be partially self-remunerated through performance-based profit-sharing mechanisms, while the Government will ensure additional funding. The support to rural banks will contribute to their long-term institutional sustainability.

## II. Legal instruments and authority

32. A programme loan agreement between the People's Republic of China and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. Important assurances included in the negotiated agreement are attached as an annex.
33. The People's Republic of China is empowered under its laws to borrow from IFAD.
34. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

## III. Recommendation

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

RESOLVED: that the Fund shall make a loan to the People's Republic of China in various currencies in an amount equivalent to nineteen million one hundred thousand special drawing rights (SDR 19,100,000) to mature on or prior to 15 June 2047 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.

Lennart Båge  
President

## **Important assurances included in the negotiated programme loan agreement**

(Negotiations concluded on 28 November 2007)

### **Gender focus**

1. The programme strategy is to ensure gender-equitable participation in activities by the following approach:
  - (a) In each module, quantitative targets for women's participation will be determined, while implementation modalities will take into account the potential and constraints faced by women in taking part in activities. For the programme as a whole, women will represent at least 50 per cent of all beneficiaries;
  - (b) The programme includes a strategic support to women component, which will promote income generating activities, micro-credit, training and social and economical empowerment;
  - (c) Village participatory planning approaches will ensure that programme priorities will reflect the interests and demands from women as well as from men;
  - (d) The management of the village credit fund will be the responsibility of a specific village credit committee in which women are proportionately represented;
  - (e) The women's federation (WF) is an equal partner in each of the programme leading groups ensuring gender awareness at this level. Institutional support will be provided to the WF at all levels. Supervision will particularly review the actual implementation of this; and
  - (f) The women's development officer of the PMO at all levels will be a senior staff of the WF.

### **Pest management**

2. The Government of the People's Republic of China (the Government) will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the programme do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

### **Insurance of programme personnel**

3. The Government will insure programme personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.

### **Counterpart funds**

4. The Government will ensure that the participating region and each prefecture, county and rural credit cooperative union (RCCU) provide adequate counterpart funds and that each annual work plan and budget (AWPB) clearly reflects the source and use of such funds.

### **Use of programme vehicles and other equipment**

5. The Government will ensure that all vehicles and other equipment procured under the programme are allocated to the respective implementing partners as foreseen in the AWPBs.

**Fraud and corruption**

6. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the programme of which it has knowledge or becomes aware.

**Suspension**

7. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if:
  - (i) Any of the subsidiary agreements or any provision thereof, have been violated or have been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such violation or waiver, suspension, termination, amendment or other modification has had, or is likely to have, a material adverse effect on any portion of the programme.
  - (ii) IFAD has determined that the material benefits of the programme are not adequately reaching the target group, or are benefiting persons outside the target group to the detriment of target group members.
  - (iii) In consultation with the Government, a repeal, invalidation, suspension, amendment or other change to any national law may result in detriment of any of the terms and conditions of the programme loan agreement.
  - (iv) The AWPB and/or the procurement plan 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.
  - (v) 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 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.
  - (vi) 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.
- (b) Notwithstanding the above, if the audit required by the programme loan agreement has not been satisfactorily concluded within twelve months of the financial reporting date set forth therein, IFAD will suspend the right of the Government to request withdrawals from the loan account.

**Conditions precedent to withdrawal**

8. (a) No withdrawals shall be made until the programme implementation manual has been approved by IFAD in draft; a copy of the programme implementation manual as adopted by the Ministry of finance (the lead programme agency or LPA) substantially in the form so approved and certified as true and complete by a competent officer of the LPA, has been delivered to IFAD.

- (b) No withdrawals will be made in respect of expenditures under the strategic support to women category until:
  - (i) A draft county WF subsidiary agreement has been approved by IFAD, and
  - (ii) The guiding manual for women's group micro-credit and women's associations support referred to in the county WF subsidiary agreement mentioned above will have received a non-objection by IFAD.
- (c) No withdrawals will be made in respect of expenditures under the rural financial services category, until a draft of the RCCU subsidiary agreement has been approved by IFAD.

**Conditions precedent to effectiveness**

9. The programme loan agreement will become effective subject to the fulfilment of the following conditions precedent:
- (a) The PMOs have been duly established and composed;
  - (b) The Government has made the budgetary planning of counterpart funds for the first programme year;
  - (c) The Special Account has been duly opened;
  - (d) A copy of the lead subsidiary loan agreement, in form and substance acceptable to IFAD and certified as true and complete by a competent officer of the Government, has been delivered to IFAD; the signature and performance thereof by the Government has been duly authorized or ratified by all necessary, administrative and governmental action; and all conditions precedent to the effectiveness of the lead subsidiary loan agreement have been fulfilled;
  - (e) The draft AWPB for the first programme year and the procurement plan have been approved by IFAD;
  - (f) The programme loan agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by all necessary administrative and governmental action; and
  - (g) A legal opinion, issued by the Department of Treaty and Law of the Ministry of foreign affairs of the Government or other duly authorized legal counsel and in substance acceptable to IFAD, has been delivered by the Government to IFAD.



## **Key reference documents**

The Development-oriented Poverty Reduction Program for Rural China, 2001, White Paper. The State Council of the People's Republic of China.  
11<sup>th</sup> Five-Year Plan for the National Economy and Social Development.

### **IFAD reference documents**

Project design document and key files  
China COSOP  
Policy on Targeting  
Learning Note on Rural Finance  
Learning Note on Sustainability  
Policy on Rural Finance  
Administrative Procedures for Environmental Assessment  
Prerequisites of Gender-Sensitive Design  
Private-Sector Partnership and Development Strategy

## Logical framework<sup>1</sup>

Narrative Summary	Indicators	Means of Verification	Assumptions
<b>Goal</b>			
Successful innovative pilot approaches to poverty reduction are applied on a larger scale in IMAR by Government and other donors	<ul style="list-style-type: none"> <li>• Innovative poverty reduction approaches successfully tried (number and nature)</li> <li>• Successful approaches implemented by Government and other donors (number, scale and budget allocations)</li> </ul>	<ul style="list-style-type: none"> <li>• Government policy statements, laws and regulations</li> <li>• Government annual plans and budget allocations</li> </ul>	<ul style="list-style-type: none"> <li>• Continued policy support for poverty reduction</li> <li>• Continued donor support for poverty reduction programmes in IMAR</li> </ul>
<b>Objective</b>			
Poverty is reduced in a sustainable and gender-equitable way by establishing improved access to information, technology, rural financial services and markets	<ul style="list-style-type: none"> <li>• % decrease in poverty prevalence, by gender</li> <li>• *Number of households with improved food security</li> <li>• *% reduction in child malnutrition</li> <li>• *% increase in household asset ownership index</li> </ul>	<ul style="list-style-type: none"> <li>• Impact assessments, samples</li> <li>• PAO poverty statistics</li> <li>• BOH nutrition/malnutrition statistics</li> </ul>	<ul style="list-style-type: none"> <li>• Macro-policy framework remains favourable for continued economic growth and development</li> <li>• Increased incomes lead to higher asset ownership</li> <li>• Increased incomes lead to improved food security</li> </ul>
<b>Outputs (selected examples only)</b>			
<b>Module 1:</b> Improved adoption of technologies and knowledge by farmers, achieved through development of improved extension service	<ul style="list-style-type: none"> <li>• Number of technical envoys (TEs) assigned</li> <li>• Number of staff trained, by gender</li> <li>• Number of demonstrations held, by type</li> <li>• No. and type of new technologies introduced</li> <li>• *Number of farmers trained, by gender and poverty status</li> </ul>	<ul style="list-style-type: none"> <li>• IMARRAP progress reports</li> <li>• Adoption surveys</li> <li>• Township agricultural statistics.</li> <li>• Adoption and impact surveys</li> </ul>	<ul style="list-style-type: none"> <li>• Sufficient number of suitably skilled TEs can be recruited</li> <li>• Proposed incentive mechanisms are sufficient to motivate TEs</li> <li>• New technologies can be identified that do not place increased pressure on fragile land resources and scarce water resources</li> </ul>
<b>Module 6:</b> Improved linkage of farmers with buyers and markets, achieved through the establishment of farmer associations, cooperatives and joint companies, resulting in improved market returns	<ul style="list-style-type: none"> <li>• Number of associations formed</li> <li>• *Total membership by gender and poverty status</li> <li>• Number of members trained, by gender and poverty status</li> <li>• *Total quantity of production sold, by type</li> <li>• *Number of households reporting net income increase, by gender</li> <li>• Average prices received compared to normal market prices</li> </ul>	<ul style="list-style-type: none"> <li>• IMARRAP progress reports</li> <li>• Association records</li> <li>• Township and county agricultural statistics</li> <li>• Market surveys</li> </ul>	<ul style="list-style-type: none"> <li>• Strong motivated candidates for key association management roles are available, and appropriate management skills are developed</li> <li>• Buyers perceive benefit in being able to deal with an association/cooperative rather than with individual farmers</li> </ul>

<sup>1</sup> *Excerpt; for details, please refer to the appraisal report.*  
\*RIMS indicator

