

Document: EB 2008/93/R.12/Rev.1
Agenda: 6(d)
Date: 25 April 2008
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the Republic of Panama for the

Participative Development and Rural Modernization Project

Executive Board — Ninety-third Session
Rome, 24–25 April 2008

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Abbreviations and acronyms

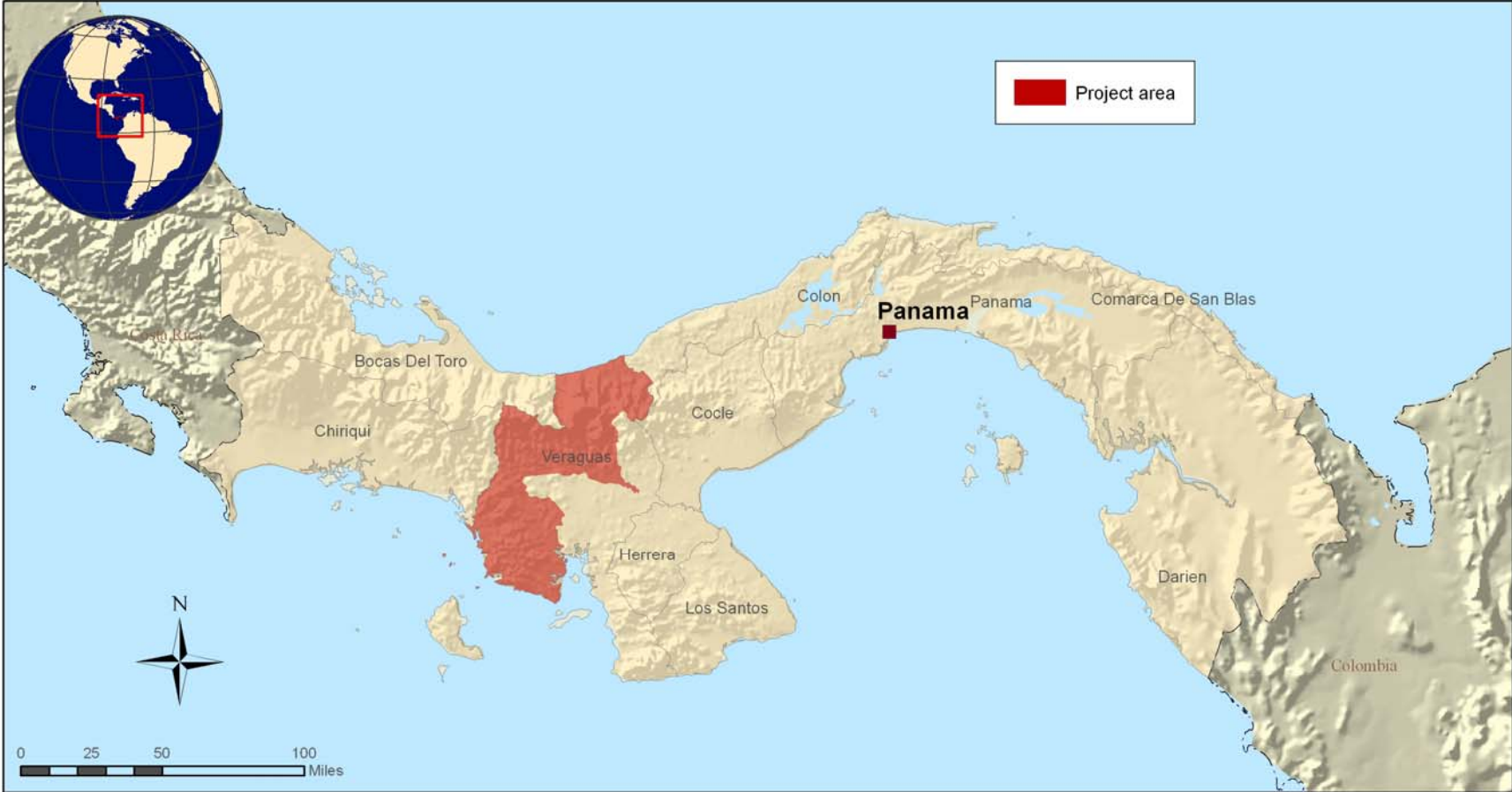
IDB	Inter-American Development Bank
INADEH	National Institute for Professional Formation and Training for Human Development
M&E	monitoring and evaluation

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Republic of Panama for the Participative Development and Rural Modernization Project, as contained in paragraph 37.

Panama

Participative Development and Rural Modernization Project



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

Map compiled by IFAD

Republic of Panama

Participative Development and Rural Modernization Project

Loan summary

Initiating institution:	IFAD
Borrower:	Republic of Panama
Executing agency:	Ministry of Agricultural Development
Total project cost:	US\$12.3 million
Amount of IFAD loan:	SDR 2.6 million (equivalent to approximately US\$4.2 million)
Terms of IFAD loan:	18 years, including a grace period of 3 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually
Cofinancier(s):	OPEC Fund for International Development
Amount of cofinancing:	US\$1.8 million
Terms of cofinancing:	Parallel
Contribution of borrower:	US\$6.0 million
Contribution of beneficiaries:	US\$0.3 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan to the Republic of Panama for the Participative Development and Rural Modernization Project

I. The project

A. Main development opportunity addressed by the project

1. The main issues addressed by the project include: (i) persistent poverty in the rural areas of Panama; (ii) limited access to financial and non-financial services markets; and (iii) exclusion based on limited citizenship rights.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the Republic of Panama in the amount of SDR 2.6 million (equivalent to approximately US\$4.2 million) on ordinary terms to help finance the Participative Development and Rural Modernization Project. The loan will have a term of 18 years, including a grace period of 3 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually.

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

3. The allocation defined for Republic of Panama under the PBAS is US\$4,381,082 over the three-year allocation cycle (2007-2009).

Relationship to national medium-term expenditure framework criteria

4. The project is in line with the national medium-term expenditure framework.

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

5. The project is consistent with the Government's poverty reduction, food security and agricultural diversification goals, and with its market-led approach to agricultural sector development.

Country debt burden and absorptive capacity of the State

6. Panama's currency unit is the balboa, fixed at parity with the United States dollar. In the light of this, international reserves are generally defined as those foreign assets of the official bank, the National Bank of Panama, that are held in United States dollars. Official reserves are estimated in US\$1.2 billion at the end of 2005. The total public debt amounts to US\$7.3 billion and the debt/service ratio is 14.3.

Flow of funds

7. IFAD loan proceeds will be channelled through a special account to be opened with the National Bank of Panama by the Ministry of Agricultural Development with previous authorization from the Office of the Comptroller General.

Supervision arrangements

8. The project will be directly supervised by IFAD, with the support of the Andean Development Corporation (CAF), the Regional Unit for Technical Assistance (RUTA) and national and international development institutions, both public and private.

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

9. No exceptions are foreseen.

Governance

10. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) procurement, audit and supervision procedures have been agreed between IFAD and the Government; (ii) support for capacity-building and

empowerment of the project beneficiaries' organizations to enable them to participate effectively in local rural development forums and processes; (iii) use of private auditing firms and full adherence to IFAD's guidelines for audit reporting; and (iv) implementation of a knowledge management, monitoring and evaluation component to ensure efficient loan delivery and achievement of the project goals.

C. Target group and participation

Target group

11. The project's target group has been determined using both the poverty line and unmet basic needs approaches, based on the Government's poverty map and targeting mechanism. The direct beneficiaries are an estimated 10,000 poor or extremely poor people according to living standards measurement surveys, whose income is less than US\$953 per capita and who inhabit districts having an incidence of poverty of over 75 per cent and an index of unmet basic needs of less than 0.61. Beneficiaries include 31 per cent women and 12 per cent indigenous people.

Targeting approach

12. In accordance with the IFAD Policy on Targeting, specific criteria are being applied to identify the target groups. These include: (i) poor small-scale farmers with agricultural and non-agricultural productive potential, with access to 2-5 hectares of land; (ii) poor and extremely poor indigenous and non-indigenous landless and rural labourers; (iii) indigenous and non-indigenous women heads of household; and (iv) extremely poor rural households with young people who are presently unemployed.

Participation

13. Stakeholders took a very active part in preparation of the country strategic opportunities programme (COSOP) and in project inception and formulation, and the project design includes numerous mechanisms to ensure that their influence will continue during project implementation, as well as in local governments' rural development processes. This approach is reflected in the project's emphasis on inclusive and participative mechanisms, supported by strong beneficiaries' organizations.

D. Development objectives

Key project objectives

14. The project objective is to improve the social, economic and living conditions of men, women and young people in rural poor communities through an environmentally sustainable and participative social and economic development process with gender equity. Specific objectives are: (i) empowerment of poor rural inhabitants and their grass-roots organizations to enable them effectively to participate in local development processes; (ii) improvement of the target population's income-generating capacity; (iii) establishment of a knowledge management and monitoring and evaluation (M&E) system capable of systematizing and disseminating best practices and methodologies; and (iv) reduction of gender disparities in economic activities.

Policy and institutional objectives

15. The project is in line with Panama's poverty reduction strategy. Its main policy and institutional objectives are to: (i) facilitate production and market development for traditional and non-traditional products and increase the capacity of rural organizations to manage their production and marketing operations successfully and sustainably, through formal links to the private sector; and (ii) strengthen mechanisms promoting participative rural development.

IFAD policy and strategy alignment

16. The project is consistent with IFAD's policies and country strategy. It targets rural poor and extremely poor people, with a particular focus on woman-headed

households, women, young people and other vulnerable groups. It supports the enhancement of farmers' assets and the development of financial and non-financial services, and recognizes the importance of building and strengthening infrastructure, institutions and organizations, and human capacity. Further, at all stages of the project, attention will be paid to gender, economic viability and environmental sustainability issues.

E. Harmonization and alignment

Alignment with national priorities

17. The national priorities for the rural sector emphasize poverty reduction, agricultural diversification, enterprise development and balanced regional development. The project covers the five poorest districts of the Province of Veraguas and focuses on increasing income-earning opportunities through successful product and market diversification.

Harmonization with development partners

18. This IFAD intervention will be harmonized with the World Bank's Rural Productivity Project and with the Inter-American Development Bank (IDB) project in support of the Complementary Agenda. Through IFAD's resident country programme manager, coordination mechanisms have been established with the World Bank, United States Agency for International Development, Japan International Cooperation Agency, Spanish Agency for International Cooperation, World Health Organization and the United Nations system.

F. Components and expenditure categories

Main components

19. The project has three main components: (i) human capital development and citizen participation; (ii) development of economic initiatives; and (iii) knowledge management and M&E. Project coordination accounts for 9 per cent of total base costs.

Expenditure categories

20. There are four expenditure categories: (i) vehicles and equipment (4 per cent); (ii) contracts and agreements (40 per cent); (iii) investment funds (25 per cent); and (iv) operational costs (31 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

21. The key partners will be the Ministry of Agricultural Development and the Ministry of Economy and Finance by virtue of its mandate for economic and social development. Other implementing partners will include the Veraguas Chamber of Commerce, Industries and Agriculture and the National Institute for Professional Formation and Training for Human Development (INADEH).

Implementation responsibilities

22. The Ministry of Agricultural Development will be responsible for overall project implementation. A project implementation unit will be established in the city of Santiago, with territorial offices in the districts of Santa Fe, Soná and Cañazas. Overall guidance for project implementation will be provided by a project steering committee composed of representatives of MIDA and MEF, local governments, the private sector and beneficiaries' organizations.

Role of technical assistance

23. Technical assistance services have been designed and targeted to specific extremely poor and poor beneficiaries' groups and organizations. Support for the preparation of production plans for extremely poor farmers will fill major gaps in human production capacity and material resources. Support for business plans will enhance the entrepreneurial and marketing skills of poor small-scale farmers and will also involve participation by private production and financial sectors.

Status of key implementation agreements

24. During appraisal, implementation agreements were reached with partners at four different levels: (i) government (Ministry of Agricultural Development, Ministry of Economy and Finance, INADEH); (ii) international development partners (IDB and the World Bank); (iii) private sector (Veraguas Chamber of Commerce, Industries and Agriculture and microfinance institutions); and (iv) beneficiary stakeholder organizations (cooperatives Juan XXIII and Esperanza de los Campesinos, and local producers' organizations and interest groups).

Key financing partners and amounts committed

25. The total project cost is US\$12.3 million over six years. IFAD will contribute US\$4.2 million; the Government, US\$6.0 million; the OPEC Fund for International Development, US\$1.8 million; and beneficiaries, US\$0.3 million. The implementation period is six years, but costs were estimated and phased over a seven-year period to facilitate and reflect negotiations with the Government whereby 2008 (the first year) will include implementation costs only for the last three months (project launching) and 2014 (the last year) will include costs only for the first nine months. The estimate of 2008 costs will facilitate internal governmental procedures to make provision in the budget to start the project this year, as intended by the Government.

H. Benefits and economic and financial justification

Main categories of benefits generated

26. The main categories of benefits generated are economic (increased incomes, job opportunities, stronger public and private service providers, private-sector intermediaries, production and productivity, markets and enterprise efficiency) and social (rural development participatory mechanisms, stronger local NGOs and beneficiary groups and, at the beneficiary level, improved human development).

Economic and financial viability

27. The project will support the identification of dynamic markets and will make it easier for producers to market products on a competitive basis in these markets. Under a "with project" scenario, aggregate analysis of production and business initiatives yields a financial internal rate of return (IRR) of 19 per cent and an economic IRR of 26 per cent. Through small farmers' links to national and external markets, the project will prepare producers to adjust to market and production fluctuations.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

28. The project design has scaled up the role of knowledge management and M&E to the category of a component. As such, specialists will be devoted on a full-time basis to analysing project results and lessons learned. The component will communicate these lessons to the direct stakeholders, partners and stakeholder organizations associated with poverty reduction, rural women's advocacy and rural development groups, and, more broadly, to the Government as an input to policy dialogue, as well as to generate proven rural development best practices and tools.

Development innovations that the project will promote

29. The project's approach is innovative in the country context in that it links equitable participation by vulnerable groups in decentralized rural social and economic development with demand-led market-oriented enterprise development. Organization and human capacity development/strengthening and affirmative action are both a means and an end to the empowerment of the rural poor and extremely poor.

Scaling-up approach

30. The lessons learned from implementation activities in the Sustainable Rural Development Project for the Ngöbe-Buglé Territory and Adjoining Districts, the Sustainable Agricultural Development and Environmental Protection Project for the Darien, and the Sustainable Rural Development Project in the Provinces of Cocle, Colon and Panama have been guiding principles for the design of the present project. The proposed participatory mechanisms are innovative and of great interest to the Government, and once tested and further developed, they can be scaled up in other provinces.

J. Main risks

Main risks and mitigation measures

31. The project faces three main risks: (i) inequitable growth; (ii) political disturbances; and (iii) project staff instability. The planned mitigation measures include (i) capacity-building for extremely poor and poor rural people and local regional stakeholders to enable them to monitor and audit pro-poor development actions; (ii) strong and systematic human capital development for organization leaders that will empower them to successfully confront political meddling, complemented by the role of the administrative facilitator during the project's initial 18 months of operations; and (iii) staff selection through open public competition, with three-year contracts and annual performance evaluations.

Environmental classification

32. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

33. Participative dialogue between national, regional and local authorities and grass-roots organizations on aligning investments in favor of the rural poor will be a key element for sustainable development. As communities are empowered and acquire the knowledge to better their physical assets and continue to do so, local social and economic development processes will become sustainable.

II. Legal instruments and authority

34. A project loan agreement between the Republic of Panama 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.
35. The Republic of Panama is empowered under its laws to borrow from IFAD.
36. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

III. Recommendation

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

RESOLVED: that the Fund shall make a loan to the Republic of Panama in various currencies in an amount equivalent to two million six hundred thousand special drawing rights (SDR 2,600,000) to mature on or prior to 1 February 2026, and to bear an interest rate equal to the reference interest rate per annum as determined by the Fund annually, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Lennart Båge
President

Important assurances included in the negotiated project loan agreement

(Negotiations concluded on 17 April 2008)

Pest management

1. Pursuant to the provisions of section 7.15 (environmental factors) of the General Conditions for Agricultural Development Financing on maintaining sound environmental practices, the Government of the Republic of Panama (the Government) will ensure that pesticides procured under the project do not include any pesticides prohibited by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations (FAO), as amended from time to time, or included in tables 1 (extremely hazardous) or 2 (highly hazardous) of the Classification of Pesticides by Hazard recommended by the World Health Organization (WHO) and classification guidelines of 1996-1997, as amended from time to time.

Gender equity

2. The project, in all its activities, will act in such a manner as to give preference to women's participation, so as to achieve gender equity.

Equal access and affirmative action

3. The Government will ensure equal access to the project benefits for weaker and more marginal groups such as landless peasants, indigenous people, women and young people. In addition, activities will favour equal access to the project benefits by all communities, by all families within communities and by all members of family groups.

Tax waiver

4. The Government will waive taxes on the import, purchase and supply of all goods, civil engineering works and services financed under the loan. The value of such tax waivers will be credited as part of the Government's obligation to provide counterpart funding for the project.

Insurance of project personnel

5. The lead project agency will ensure that project personnel are insured against health and accident risks to the extent consistent with national legislation.

Resource protection

6. The Government will take all reasonable measures to ensure that prevailing legal provisions on the safeguarding of water, forests and wildlife resources are adhered to within the project area. In addition, the Government will make every effort to ensure project sustainability without detriment to the environment.

Indigenous peoples

7. The Government undertakes to ensure that indigenous peoples are full participants in and beneficiaries of all project activities and that their interests are respected during project implementation, ensuring to this end that:
 - (a) The project is conducted in accordance with the provisions of national legislation relating to the indigenous peoples benefiting from the project;
 - (b) Indigenous communities are appropriately and equitably represented in the project activities;
 - (c) Indigenous communities benefiting from the project participate in policy dialogue and local government;

- (d) Any declarations, agreements and/or conventions that the Government may have ratified with respect to the protection of the indigenous peoples benefiting from the project are respected;
- (e) The project does not involve any encroachment upon land traditionally occupied by indigenous communities.

Counterpart funds

- 8. The Government's contribution will cover all contributions so required by national legislation and all taxes and import tariffs on goods, public works and services acquired under the project.

Fraud and corruption

- 9. 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 project.

Project administrative facilitator

- 10. The Government will select and contract, with the non-objection of IFAD, an organization to act as project administrative facilitator. The project administrative facilitator will, for the first 18 to 24 months of the project implementation period, be responsible for, inter alia, procurement and contracting under the project and the administration of the related project funds, the channelling of loan proceeds and other functions as determined by IFAD and the Government. The project administrative facilitator will apply IFAD's 2004 Procurement Guidelines in any such procurement and contracting.

Suspension

- 11. (a) IFAD will suspend the right of the Government to request withdrawals from the loan account if the required audit has not been conducted satisfactorily within six months following the due date thereof.
- (b) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account in any of the events stipulated in the General Conditions or in any of the following circumstances:
 - (i) The project manager has been removed from the project without the prior agreement of IFAD;
 - (ii) More than 20 per cent of the project personnel have been removed without evaluation or justification within one calendar year during project implementation;
 - (iii) IFAD has determined that the material benefits of the project are not adequately reaching the target group;
 - (iv) The right of the Government to withdraw loan funds has been suspended, cancelled or terminated, in whole or in part, or the loan has become due and payable prior to the agreed maturity date; or an event has occurred which, by means of notification or through the passage of time, could give rise to one of the circumstances stipulated above;
 - (v) The operating manual or the personnel management and evaluation 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 project;
 - (vi) A competent authority has taken steps to dissolve the lead project agency or suspend the operations thereof, or an action or procedure has been initiated to distribute any of the Government's assets among its creditors and the Government has not proposed another institution acceptable to

IFAD to act as the lead project agency or, if it has so proposed, such institution has failed to accept the obligations incumbent upon the lead project agency pursuant to the loan agreement on terms acceptable to IFAD;

- (vii) Procurement has not been or is not being carried out in accordance with the loan agreement;
- (viii) The Government has defaulted on any provision complementary to the loan agreement, and IFAD has determined that such default has had, or is likely to have, a material adverse effect on the programme;
- (ix) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the Government and the project have come to the attention of IFAD and the Government has failed to take appropriate action to remedy such allegations to the satisfaction of IFAD.

Conditions precedent to effectiveness

12. The loan agreement will become effective subject to the fulfilment of the following conditions precedent:
- (a) The project manager, administrator and component coordinators have been selected, with the prior non-objection of IFAD, in accordance with the loan agreement;
 - (b) The project management unit has been set up pursuant to the provisions of the loan agreement;
 - (c) IFAD has approved the first annual workplan, including a first procurement and contracting plan;
 - (d) The loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary institutional, administrative and governmental action; and
 - (e) A legal opinion, issued by the Government's Attorney General or other legal counsel approved by IFAD, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

Key reference documents

Country reference documents

Gobierno de Panamá, 2004. Visión estratégica del desarrollo económico y del empleo hacia el 2009.

Ministerio de Economía y Finanzas, 2007. Informe Económico Anual 2006. Dirección de Análisis de Políticas Económicas.

Ministerio de Economía y Finanzas, 2007. Mapa de Pobreza en Panamá a nivel de Distrito y Corregimiento. MEF, Dirección de Políticas Sociales.

PNUD, 2007. Cerrando Brechas. Evaluación Común del País y Marco de la Cooperación de las Naciones Unidas para el Desarrollo de Panamá.

Ministerio de Desarrollo Agropecuario. 2004. Plan Estratégico Agropecuario 2004 – 2009 "Manos a la Obra".

USAID, 2004. Gender Assessment for USAID Panama. 2004. USAID Office in Panama

IFAD reference documents

IFAD, 2007. Country Strategic Opportunities Programme.

IFAD, 2004. Evaluación Terminal del Proyecto de Desarrollo Rural para la Comunidades Ngöbe.

IFAD, 2007. Evaluación Terminal del Proyecto de Desarrollo Sustentable para las Provincias de Coclé, Colón y Panamá (Versión preliminar).

IFAD, 2006. Evaluación Terminal del Proyecto de Desarrollo Agrícola Sustentable y Protección Ambiental para la Provincia de Darién.

Logical framework

Objective hierarchy	Key performance indicators and targets (RIMS indicators are in ITALICS)	Monitoring mechanisms and information sources	Assumptions and risks
Goal Poverty and extreme poverty in rural communities of the project area significantly reduced	<ul style="list-style-type: none"> 20% of reduction of the prevalence of child malnutrition, disaggregated by sex 3.000 households with sustainable food security 6.000 beneficiaries with improved assets ownership, disaggregated by sex 	<ul style="list-style-type: none"> RIMS benchmark, mid-term and terminal evaluation studies 	<ul style="list-style-type: none"> Government poverty reduction and rural development policies remain constant
Project purpose Social, economical and living conditions of men, women and youth are improved	<ul style="list-style-type: none"> 4.000 organized extremely poor and poor actively participate in the rural development planning of their districts 2.380 rural poor have expanded and consolidated their businesses increasing sales and assets 1.310 job positions are generated by project supported economic initiatives 60% of beneficiaries' households have increased their income by 40% 50 economic groups and organizations with women leaders 	<ul style="list-style-type: none"> Terminal and mid-term evaluations and results from systematizations studies M&E reports GIS mapping and project reports 	<ul style="list-style-type: none"> Clearly defined mechanism for poverty reduction and decentralization process Political environment favorable for inter/intra institutional initiatives
Component Output 1: Rural poor and their grass root organizations are empowered in their capacities to participate in local development processes Output 2: Extremely poor young men and women are trained for the local and national labor market	Human capital development and citizen participation <ul style="list-style-type: none"> 6.000 people are enrolled in economic organizations, by sex, age and type 30 economic organizations strengthened in their production/marketing capacities 5 Territorial Development Councils established 5 district strategic development plans are completed and in implementation 4.000 small extremely poor and poor with production plans access financial support from the Productive Investment Fund 50 economic groups and organizations with women leaders 2.000 young men and women undergo labor skills training 1.300 young people are inserted permanently in the labor market 	<ul style="list-style-type: none"> Terminal and mid-term evaluations and results from systematizations studies Reports from participatory diagnostics in communities Minutes from Territorial Development Councils and Development Plans 	<ul style="list-style-type: none"> Clearly defined mechanism for an effective decentralization process Systematic support from municipal governments Effective intra/inter institutional coordination at local level Labor demand
Component Output 3: The target population has improved its income generating capacities transforming subsistence economic activities into profitable agricultural and non agricultural business	Development of economic initiatives <ul style="list-style-type: none"> 130 beneficiaries' organizations access technical support services 39 collective irrigation plans completed 30 economic organizations prepare and implement business plans 60% of small farmers (711 women and 1.600 men) with Business Plans access financial support for their initiatives 10 strategic alliances with the private sector established 90% of beneficiaries economic organizations have access to dynamic markets 10% of beneficiaries economic organizations have access to export markets 50% of small farmers and micro-entrepreneurs consolidate profitable and sustainable business 1 business and market opportunities study is completed 	<ul style="list-style-type: none"> Terminal and mid-term evaluations and results from systematizations studies M&E reports Annual reports from economic organizations 	<ul style="list-style-type: none"> Stable process of macro economical development
Component Output 4: The project systematize and disseminate best practices applied to participative rural development and poverty reduction	Knowledge management, monitoring and evaluation <ul style="list-style-type: none"> A Learning Consortium composed of representatives of national/international organizations devoted to rural development is organized 30 local innovation workshops (brain storming) will be held with beneficiaries organizations before production and business plans are prepared 8 systematizations studies on project experiences and knowledge will be completed 1 analytical document on rural development and poverty reduction strategies and tools will be published 	<ul style="list-style-type: none"> Terminal and mid-term evaluations and results from systematizations studies M&E reports Workshops proceedings 	<ul style="list-style-type: none"> Effective intra/inter institutional coordination at local and national level

