President’s report

Proposed loan and grant to the Republic of Senegal for the

Agricultural Value Chains Support Project

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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## Abbreviations and acronyms

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<tr>
<td>COSOP</td>
<td>country strategic opportunities paper</td>
</tr>
<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries Initiative</td>
</tr>
<tr>
<td>PBAS</td>
<td>performance-based allocation system</td>
</tr>
</tbody>
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Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and grant to the Republic of Senegal for the Agricultural Value Chains Support Project, as contained in paragraph 35.
Map of the project area

Senegal
Agricultural Value Chains Support Project - (PAFA)

The Project Areas

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.

Map compiled by 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.
Map of the Country Programme area

Senegal
Agricultural Value Chains Support Project - (PAFA)

Country Programme

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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.
Republic of Senegal

Agricultural Value Chains Support Project

Financing summary

<table>
<thead>
<tr>
<th><strong>Initiating institution:</strong></th>
<th>IFAD</th>
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</thead>
<tbody>
<tr>
<td><strong>Borrower:</strong></td>
<td>Republic of Senegal</td>
</tr>
<tr>
<td><strong>Executing agency:</strong></td>
<td>Ministry of Agriculture</td>
</tr>
<tr>
<td><strong>Total project cost:</strong></td>
<td>US$31.61 million</td>
</tr>
<tr>
<td><strong>Amount of IFAD loan:</strong></td>
<td>SDR 9.1 million (equivalent to approximately US$14.89 million)</td>
</tr>
<tr>
<td><strong>Amount of IFAD grant:</strong></td>
<td>SDR 0.17 million (equivalent to approximately US$0.27 million)</td>
</tr>
<tr>
<td><strong>Terms of IFAD loan:</strong></td>
<td>Highly concessional</td>
</tr>
<tr>
<td><strong>Cofinancier(s):</strong></td>
<td>OPEC Fund for International Development (OFID)</td>
</tr>
<tr>
<td><strong>Amount of cofinancing:</strong></td>
<td>OFID: US$9.03 million</td>
</tr>
<tr>
<td><strong>Terms of cofinancing:</strong></td>
<td>Parallel</td>
</tr>
<tr>
<td><strong>Contribution of borrower:</strong></td>
<td>US$5.75 million</td>
</tr>
<tr>
<td><strong>Contribution of beneficiaries:</strong></td>
<td>US$1.68 million</td>
</tr>
<tr>
<td><strong>Appraising institution:</strong></td>
<td>IFAD</td>
</tr>
<tr>
<td><strong>Cooperating institution:</strong></td>
<td>Directly supervised by IFAD</td>
</tr>
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</table>
Proposed loan and grant to the Republic of Senegal for the Agricultural Value Chains Support Project

I. The project

A. Main development opportunity addressed by the project

1. Thanks largely to groundnut-growing, Senegal’s “groundnut basin” (Bassin Arachidier) has long been the country’s most vibrant agricultural region. However, an extended slump in world groundnut markets, continued degradation of the land base and climate change have contributed over the years to a steady economic decline. Rural poverty has been spreading and deepening, leading to a massive exodus, particularly of young people. Although the region has the potential for agricultural diversification, most smallholders are unable to enter the markets that are opening up. The project will foster strong and well-integrated local value chains based on environmentally sound agricultural practices. Smallholders – including the most vulnerable – will be assisted in gaining access to markets through production/purchase contracts between their organizations and market operators. In this way, the project will provide a strong impetus to growth and poverty reduction, both regionally and nationally.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide to the Republic of Senegal a loan in the amount of SDR 9.1 million (equivalent to approximately US$14.89 million), on highly concessional terms, and a grant in the amount of SDR 0.17 million (equivalent to approximately US$0.27 million) to help finance the Agricultural Value Chains Support Project.

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

3. The country allocation under the PBAS for the Republic of Senegal over the 2007-2009 allocation cycle is US$15.18 million. The entire amount will be used to finance the proposed project.

Country debt burden and absorptive capacity of the State

4. In June 2000, Senegal became eligible to receive support under the Heavily Indebted Poor Countries (HIPC) Debt Initiative, and in April 2004, it reached completion point. Senegal has exited the recent enhanced HIPC Initiative and the Multilateral Debt Relief Initiative with a good basis for maintaining sustainable external debt levels over the medium term. The country has received 14 loans from IFAD between 1978 and 2007, amounting to a total of about US$135 million, with disbursements averaging US$7 million over the past seven years. The Government’s repayment record for IFAD loans is good.

Flow of funds

5. IFAD will establish a loan and grant account in the name of the Borrower. During implementation, the loan and grant proceeds will be deposited into a special account held in CFA francs with a commercial bank in Dakar and disbursed on the basis of annual work programmes. Funds will be used to finance IFAD’s share of the project’s eligible expenditures.

Supervision arrangements

6. IFAD will be responsible for supervision of the technical and fiduciary aspects of the project. A detailed implementation support and supervision plan has been developed for the first two years of the project, to be implemented through the Country Presence Office in Dakar.
Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions are foreseen.

Governance

8. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (i) procurement of goods and services awarded on a competitive basis and in accordance with the IFAD Procurement Guidelines; (ii) audit of project accounts performed by independent auditors; (iii) performance-based contracting of staff and implementation partners with yearly evaluations on the basis of clear performance indicators; and (iv) organization of annual stakeholder evaluation workshops for producers and market operators to evaluate project performance.

C. Target group and participation

Target group

9. In accordance with the IFAD Policy on Targeting, the project will reach some 32,000 family-run farms and focus on three categories of producers: (i) vulnerable smallholders with limited family labour, small and often degraded land holdings, and a narrow range of income sources; (ii) women and girls and their organizations; and (iii) underemployed young people aged 18 to 30. Market operators and other actors instrumental in facilitating the entry of the target group into the supported value chains will also be eligible for project support.

Targeting approach

10. The project’s priority value chains were identified on the basis of their potential profitability and their accessibility to vulnerable farm families, women and young people. A detailed targeting strategy for each value chain will be formulated at the start of the project. In addition to raising awareness and providing guidance and training on poverty and gender issues, a specialist in inclusion/gender equity within the project coordination unit will monitor the effectiveness of the targeting strategy.

Participation

11. The economic activities to be supported by the project will be identified by the promoters themselves, who will cofinance the corresponding investments. The emphasis on strengthening grass-roots organizations (particularly of producers and women) and their apex bodies is designed to allow members to have a say in decision-making and policymaking at the local, regional and national levels. As such, opportunities for actors from each value chain to exert their influence will be created by organizing regional consultative forums around a given value chain, in addition to national interprofessional forums and annual participatory evaluation workshops. Local permanent institutions will receive the support needed to assume ownership responsibilities (maîtrise d’ouvrage) in such areas as contracting of external expertise, tendering and supervision of works, and operations and maintenance.

D. Development objectives

Key project objectives

12. The project’s overall development goal is to improve the incomes and livelihoods of farm families in the groundnut basin sustainably, by integrating them into profitable value chains based on local agroecological potential. The specific objectives are to help: (i) smallholders, including highly vulnerable people, women and young people, to develop profitable economic activities through direct contracting between their producers’ organizations and market operators in selected value chains; and (ii) all actors in the value chains to play an active role in dialogue at the regional and national levels and thereby obtain easier access to markets and a more equitable distribution of profits.
Policy and institutional objectives

13. The project will strengthen the capacity of small-scale producers, especially the most vulnerable producers, to participate actively in developing value chains. Major emphasis is given to strengthening the capabilities of producers’ organizations to increase their influence on development processes and progressively widen the range of services they can provide to their members through new and effective forms of partnerships. By fostering representative interprofessional organizations, the project will help smallholder producers have a greater voice in decision-making and policymaking at the regional and national levels.

IFAD policy and strategy alignment

14. The project is fully aligned with the IFAD Strategic Framework 2007-2010. It is also in line with the country strategic opportunities paper (2004-2008) (COSOP) for Senegal that was formulated jointly with Government and representative producers’ organizations. The COSOP aims at contributing to the achievement of the first Millennium Development Goal by supporting local initiatives that will raise household incomes and improve the livelihoods of the rural poor, within a framework that ensures gender equity. The two thrusts of the COSOP addressed directly by the project are: (i) strengthening grass-roots organizations and (ii) promoting access to markets.

E. Harmonization and alignment

Alignment with national priorities

15. The project complies fully with the objectives and strategic direction of (i) the Poverty Reduction Strategy; (ii) the Agro-sylvo-pastoral Law and related sectoral programmes; and (iii) the Accelerated Growth Strategy.

Harmonization with development partners

16. The presence of an active donor thematic group on food security, in which IFAD can regularly participate through its Country Presence Office, greatly facilitates regular exchanges with other development partners. The project design takes ample account of the interventions financed by others and builds on successful approaches piloted by partners in the rural sector of Senegal, such as the World Bank, European Union, African Development Bank, Food and Agriculture Organization of the United Nations, Agence Française de Développement, the German Agency for Technical Cooperation and the Canadian International Development Agency. Synergy-building in the field will be emphasized during implementation through the establishment of formal mechanisms for collaboration with other agencies. The regional and national consultation forums will also promote exchange of information, joint learning and partnership-building.

F. Components and expenditure categories

Main components

17. The project is structured around three components at three levels: (i) agricultural diversification and market access at the local level; (ii) development and structuring of value chains at the regional level; and (iii) policy dialogue, knowledge management and coordination at the national level.

Expenditure categories

18. There are seven expenditure categories: (i) civil works (35 per cent); (ii) equipment and vehicles (2 per cent); (iii) training, studies and technical assistance (20 per cent); (iv) contracts with services providers (7 per cent); (v) funds to support production/purchase contracts (26 per cent); (vi) operating costs and maintenance (3 per cent); and (vii) salaries and allowances (7 per cent).
G. Management, implementation responsibilities and partnerships

Key implementing partners

19. Building on the positive experiences of several projects financed by IFAD and the World Bank, the key implementing partners will be existing institutions, which will be engaged under performance-based contracts that provide for significant capacity-building support. These include the National Agricultural and Rural Advisory Agency (ANCAR) and the Regional Development Agency (ARD). Other specialized service providers – such as microfinance networks; the chambers of commerce, industry and agriculture; the department of statistics; and research institutes – will be mobilized.

Implementation responsibilities

20. The lead agency will be the Ministry of Agriculture. The project will report directly to the Directorate for Analysis, Forecasting and Statistics. Implementation responsibilities will be initially assigned to the project management unit while the capacity of the potential key implementing partners, ANCAR and ARD, is being strengthened. The readiness of ANCAR and ARD, and of the producers’ and women’s organizations to take over additional implementation responsibilities will be assessed at midterm and as many responsibilities as possible will be transferred to them.

Role of technical assistance

21. Technical assistance will play a substantial role in addressing the many methodological issues raised by the project’s innovative features, particularly with regard to: (i) value-chain development; (ii) knowledge management, and monitoring and evaluation; and (iii) inclusion/gender equity. The IFAD grant will cover part of these costs.

Status of key implementation agreements

22. Performance-based contracts, discussed in detail during project design, will be signed at the beginning of the project with ANCAR and ARD. Arrangements with service providers will be made on the basis of each annual work programme and budget.

Key financing partners and amounts committed

23. The total project cost is US$31.61 million over six years. The sources of financing are an IFAD loan (47.1 per cent), an IFAD grant (0.8 per cent), the OPEC Fund for International Development (OFID) (28.6 per cent), the Government (18.2 per cent) and beneficiary contributions (5.3 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

24. The project will result in: (i) higher output from crops (rainfed and irrigated) and poultry and higher incomes; (ii) enhanced food security; (iii) lower transaction costs due to better roads and economic infrastructure, stronger producers’ and women’s organizations and easier access to information and markets; (iv) more sustainable use of natural resources; (v) enhanced professionalism of producers’ and women’s organizations, which are better able to provide useful services to their members; (vi) better marketing conditions for higher surpluses; (vii) better road connections; (viii) improved terms of trade for small producers; and (ix) enhanced inclusion, a greater voice and more power for vulnerable groups.

Economic and financial viability

25. A detailed financial analysis was carried out for the various value chains to ensure profitability. Given the current worldwide increase in oil and food prices, provision was made for financial contingencies in the calculation of project costs. Economic analysis based on total project costs and prudent assumptions for the build-up of incremental production generated a rate of return of 12 per cent over 30 years, which is acceptable considering the many real but unquantifiable benefits.
I. Knowledge management, innovation and scaling up

Knowledge management arrangements

26. Particular emphasis will be placed on monitoring and evaluation (US$1.6 million) and learning with a view to generating useful information for a broad range of users: (i) for key implementation partners to guide and adjust implementation and detect opportunities for synergy; (ii) for national institutions and services to monitor poverty and growth and to inform policymaking; and (iii) for IFAD and development partners as a source of learning that can feed back into the design of more effective interventions. Strong ties with research and training institutions will be sought. The project will ensure wide access to information and the sharing of lessons through the FIDAfrique regional network and the organization of exchange visits with other projects in the region.

Development innovations that the project will promote

27. The most innovative aspect of this project is its focus on consolidating local value chains as instruments for fostering broad-based, self-sustaining and inclusive local development. Innovative features include (i) the promotion of mutually beneficial partnerships between actors in each value chain; (ii) the establishment of consultative round tables and interprofessional forums at the regional and national levels, as a means of strengthening the ability of smallholders, including women, to influence decisions and policymaking; and (iii) proactive information dissemination and identification of learning objectives.

Scaling-up approach

28. As experience is acquired, new value chains may be added to the range supported by the project and/or its approach may be replicated in other regions.

J. Main risks

Main risks and mitigation measures

29. The main risks faced by the project are linked to (i) declining and increasingly irregular rainfall patterns due to climate change; (ii) lack of access to inputs by the poorest producers; (iii) competition for resources, e.g. loss of control by women of activities that have become profitable; and (iv) high price volatility. The design of the project seeks to minimize the impact of such risks through: (i) careful selection of value chains adapted to the arid and semi-arid conditions and soils of the groundnut basin; (ii) promotion of micro-irrigation and environmentally sound practices; (iii) provision and costs of inputs partially covered by the project on a declining basis, as the self-financing capacity of smallholders improves along with their incomes; (iv) close monitoring of impact on gender equity issues and positive discrimination for women’s participation; (v) the ability of women to defend their market positions and to gain access to land and other factors of production enhanced through strengthened organizations. The risks attached to price volatility on local and national markets will be reduced by: (i) supporting a range of value chains; (ii) encouraging producers and traders to establish mutually beneficial production/purchase contracts; (iii) strengthening the bargaining power of producers’ organizations; and (iv) building storage facilities.

Environmental classification

30. 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

31. The sustainability of project achievements will be reinforced by: (i) systematically building the capacity of local institutions; (ii) providing substantial training and backstopping for actors and their organizations at all levels; (iii) adopting a proactive
approach to the inclusion of vulnerable groups in the supported value chains; and (iv) constantly monitoring the impact of project-supported activities so that they can rapidly adapt to changing circumstances and risks.

II. Legal instruments and authority

32. A project financing agreement between the Republic of Senegal and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. Important assurances included in the negotiated agreement are attached as an annex.

33. The Republic of Senegal is empowered under its laws to borrow from IFAD.

34. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD.

III. Recommendation

35. 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 Republic of Senegal in various currencies in an amount equivalent to nine million one hundred thousand special drawing rights (SDR 9,100,000) to mature on or prior to 15 July 2048 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 Republic of Senegal in various currencies in an amount equivalent to one hundred and seventy thousand special drawing rights (SDR 170,000) and 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 project financing agreement

(Negotiations concluded on 17 July 2008)

**Pest management practices**
1. As part of maintaining sound environmental practices, the Government of the Republic of Senegal (the Government) will maintain appropriate pest management practices under the project and, to that end, the Government will ensure that pesticides under the project do not include any pesticide either proscribed 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 or included in table 1 (extremely hazardous) or 2 (highly hazardous) of the Recommended Classification of Pesticides by Hazard and Guidelines to Classification 1996-1997 of the World Health Organization (WHO) as amended.

**Monitoring and evaluation**
2. The project will set up a monitoring and evaluation (M&E) system in line with the basic principles of IFAD’s Results and Impact Management System (RIMS) and the project for support of monitoring and evaluation of IFAD’s country programme (PASYME). The M&E system used will be participatory and will involve stakeholders from value chains, implementing agencies, service providers and privileged partners in collecting and analysing results. In accordance with IFAD’s guidelines on M&E and impact analysis, three impact surveys will be conducted during the life of the project (baseline, midterm and final surveys).

**Insurance of project personnel**
3. The Government will insure project personnel against health and accident risks to the extent consistent with regulations in force within the Government’s territory.

**Recruitment**
4. Recruitment of project personnel will be undertaken through national calls for bids published in the national press, in accordance with current procedures of the Government and on the basis of two-year renewable contracts. The recruitment of key project staff, namely the coordinator and the team of specialists responsible for value chain development, infrastructure, gender mainstreaming and equality, administrative and financial management and M&E, and any decision to interrupt their contracts will be undertaken in agreement with IFAD. Project personnel will be subject to annual performance evaluations and their contracts may be terminated on the basis of the findings of those evaluations. Recruitment and management of support staff will be subject to procedures in force within the Government’s territory.

**Equality**
5. No discrimination based on sex, age, ethnic background or religious affiliation will be permitted in the recruitment of project personnel, in accordance with the legislation in force within the Government’s territory. However, all other things being equal, the Government will give preference to women candidates, especially to fill technical positions under the project.

**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 project of which it has knowledge or becomes aware.
Suspension

7. IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account or the grant account upon occurrence of any of the following events:

(a) The agreement has not become effective by the stipulated date or such other date as may be set for such purpose;
(b) The counterpart funds are not available under conditions satisfactory to IFAD;
(c) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the project have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD;
(d) The operating manual, or any provision thereof, has been suspended, rescinded in whole or in part, waived or otherwise modified without the prior consent of IFAD and IFAD has determined that any such event has had, or is likely to have, a material adverse effect on the project.

Suspension in the event of non-compliance of audit requirement by the Government

8. IFAD will suspend the right of the Government to request withdrawals from the loan account and the grant account if it has not received the audit reports within the six months following the period set forth in the financing agreement.

Conditions precedent to withdrawal

9. The financing will not be disbursed under any category until the following conditions have been fulfilled:

(a) The draft annual work plan and budget for year one, including a procurement plan for eighteen months, have been approved by the senior project officer and by IFAD;
(b) The Government has opened a special account for the loan and the grant.
(c) The project operations manual and a draft administrative, financial and accounting manual have been submitted to IFAD;
(d) The value chain development, infrastructure, and gender mainstreaming and equality specialists have been recruited.

Conditions precedent to effectiveness

10. The financing agreement will become effective upon the fulfilment of the following conditions precedent:

(a) The Government has delivered to IFAD a favourable legal opinion, acceptable in form and substance, issued by the authority having competence within the territory of the Government.
(b) The project coordinating unit and the steering committee have been set up by ministerial decree.
(c) The coordinator, the administrative and financial officer, and the M&E officer have been recruited.
(d) The project is part of the public investment programme for the three-year period 2009/2011.
Key reference documents

Country reference documents
Poverty reduction strategy paper
Agro Sylvo pastoral Framework Law
Accelerated Growth Strategy
CG meeting – proceedings October 2007
Economist Intelligence Unit – Senegal Country Profile 2007

IFAD reference documents
Project design document (PDD) and key files
COSOP
Administrative Procedures on Environmental Assessment
Country Programme Evaluation, 2004
Western and Central Africa regional Strategy
PAFA Project Design Report – main text
PAFA Project Design Report - Working papers
PAFA Preformulation report and proceedings form the national workshop, 2007
PROMER II – Appraisal Main Report 2005
PROMER – Interim evaluation 2004
PRODAM 2 Appraisal report 2003

Other miscellaneous reference documents
Agricultural markets development programme (PDMAS), Project Appraisal Document,
World Bank 2004
Local development national Programme (PNDL), Project Appraisal Document, World Bank
2006
Agricultural Services and Producers Organisations support Programme (PSAOP), 2006
USAID value chain studies
## Logical framework

<table>
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<tr>
<th>Narrative Description</th>
<th>Objectively Identifiable Indicators (R=RIIMS)</th>
<th>Means of Verification</th>
<th>Assumptions</th>
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</thead>
<tbody>
<tr>
<td>OVERALL DEVELOPMENT GOAL</td>
<td>Where applicable, indicators are to be disaggregated by category of producers (male/female, vulnerable, young producers), by region/zone and by value chain</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Improve the incomes/ livelihoods of farm families in the Groundnut Basin sustainably by integrating them into diversified and profitable value chains
- % of families with 30% better food security
- % of families with increased assets
- % of productive time saved
- % increase in marketable production

### SPECIFIC OBJECTIVES

1. Smallholders and vulnerable categories, participate in consultative forums at regional and national levels, to identify and plan measures to address blockages in their value chain and thereby create an enabling environment for its development
- % of value added accruing to smallholders (regional level)
- % of producers/MOs satisfied with quality of dialogue and services
- % of smallholders satisfied with community infrastructure

2. All actors in the value chain, including smallholders, vulnerable categories, participate in consultative forums at regional and national levels, to identify and plan measures to address blockages in their value chain and thereby create an enabling environment for its development
- % of families with 30% better food security
- % of value added accruing to smallholders (regional level)
- % of recommendations of forums benefiting vulnerable categories (regional level)

### OUTPUTS by COMPONENT

#### A. Agricultural Diversification/ Market Access
- % of MASP prepared/financed/No. of MAsPS in MASP
- % of MAsPS prepared/financed/No. of MAsPS in MASP
- % of MAsPS prepared/financed/No. of MAsPS in MASP

#### B. Value Chain Structuring and Development
- % of PoS representing target group in forums
- % of recommended actions carried out
- % of smallholders satisfied with improved practices

#### C. National-level Dialogue, Knowledge Management and Coordination/M&E
- % of PoS and MAsPS satisfied with information
- % of productive time saved through micro-irrigation
- % of MAsPS satisfied with quality of dialogue and services

## Means of Verification

- Project impact surveys
- Project surveys & progress/activity reports
- Thematic studies on value chains
- Thematic studies on value chains

## Assumptions

- No severe climatic or natural shocks
- No serious leadership struggles