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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed grant to the Kyrgyz Republic for the**

### **Agricultural Investments and Services Project**

Executive Board — Ninety-fourth Session  
Rome, 10-11 September 2008

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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:

**Ya Tian**

Country Programme Manager  
telephone: +39 06 5459 2062  
e-mail: [y.tian@ifad.org](mailto:y.tian@ifad.org)

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

**Deirdre McGrenra**

Governing Bodies Officer  
telephone: +39 06 5459 2374  
e-mail: [d.mcgrenra@ifad.org](mailto:d.mcgrenra@ifad.org)

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## **Abbreviations and acronyms**

AISP	Agricultural Investments and Services Project
IDA	International Development Association
MAWRPI	Ministry of Agriculture, Water Resources and Processing Industry
SDC	Swiss Agency for Development and Cooperation

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed grant to the Kyrgyz Republic for the Agricultural Investments and Services Project, as contained in paragraph 35.

## Kyrgyz Republic

Agricultural Investment and Services Project (National)



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 Kyrgyz Republic

### Agricultural Investments and Services Project

#### Grant summary

<b>Initiating institution:</b>	International Development Association (IDA)
<b>Recipient:</b>	Kyrgyz Republic
<b>Executing agencies:</b>	Agricultural Projects Implementation Unit of the Ministry of Agriculture, Water Resources and Processing Industry and the Community Development and Investment Agency
<b>Total project cost:</b>	US\$23.40 million
<b>Amount of IFAD grant:</b>	SDR 5.588 million (equivalent to approximately US\$9.0 million)
<b>Cofinanciers:</b>	IDA; Swiss Agency for Development and Cooperation (SDC)
<b>Amount of cofinancing:</b>	IDA: US\$9.0 million SDC: US\$1.85 million
<b>Terms of cofinancing:</b>	Grant
<b>Contribution of recipient:</b>	US\$0.49 million
<b>Contribution of beneficiaries:</b>	US\$3.06 million
<b>Appraising institution:</b>	IDA and IFAD
<b>Cooperating institution:</b>	IDA





# Proposed grant to the Kyrgyz Republic for the Agricultural Investments and Services Project

## I. The project

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

1. Agriculture is the structural backbone of the Kyrgyz economy. Among the key challenges facing agriculture are the limited supply of arable land, and the currently unsatisfactory management, and resulting suboptimal use, of the extensive pasture resources. The rural population, accounting for about two thirds of the total, is heavily dependent on these pastures since herding is the dominant livelihood system outside the few major valleys. For pasture management, a key problem is the current fragmentation of administrative control over pastures among different layers. This is compounded by inconsistencies within the legal framework governing pasture management. For livestock production, the main constraints to be addressed are inadequate animal nutrition, poor animal health, inappropriate farm management practices, and weak livestock marketing and processing.

### B. Proposed financing

#### Terms and conditions

2. It is proposed that IFAD provide a grant to the Kyrgyz Republic in the amount of SDR 5.588 million (equivalent to approximately US\$9.0 million), to help finance the Agricultural Investments and Services Project (AISP).

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

3. The allocation defined for the Kyrgyz Republic under the PBAS is US\$16.86 million over the 2007-2009 allocation cycle. AISP is the first project to be funded within this cycle.

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

4. The Kyrgyz Republic is considered as a "red" country under the Debt Sustainability Framework. Therefore, support is being provided in the form of a grant.

#### Flow of funds

5. Grant funds will flow to the project via disbursements to the special accounts maintained by the Agricultural Projects Implementation Unit of the Ministry of Agriculture, Water Resources and Processing Industry (MAWRPI) and the Community Development and Investment Agency (ARIS). Transaction-based disbursement procedures will be followed.

#### Supervision arrangements

6. The project's cooperating institution is the International Development Association, (IDA), which is the initiating agency in collaboration with IFAD and the Swiss Agency for Development and Cooperation (SDC). IFAD will provide implementation support where necessary.

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

7. In line with the harmonization principles embodied in the Paris Declaration on Aid Effectiveness, it is proposed that IFAD adopt the World Bank's policies for procurement, audit, duties and taxes. This implies a waiver of the associated sections of IFAD's General Conditions for Agricultural Development Financing in favour of World Bank (IDA) policies.

#### Governance

8. The following planned measures are intended to enhance the governance aspects of the IFAD grant: (i) project implementation will be governed by the guidelines and

procedures set out in the project operational manual, which defines processes, procedures, roles and responsibilities in project implementation, community selection and mobilization, community planning, and microproject preparation and implementation; (ii) overall project coordination and fiduciary management will be the responsibility of the Agricultural Projects Implementation Unit, which is adequately staffed and equipped and has eight years of experience in managing IDA- and IFAD-financed projects; (iii) a central role in project implementation will be played by the rural communities themselves, through community-level institutions; (iv) national-level government or quasi-government agencies and institutions will play mainly a supportive role, and will also have some oversight responsibilities; and (v) financial management will be handled by the financial management systems operated by the Agricultural Projects Implementation Unit and the Community Development and Investment Agency, which have been confirmed as capable and reliable.

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

### **Target group**

9. The project will be implemented country-wide, and will cover a total of 475 rural communities. In accordance with the IFAD Policy on Targeting, it will target the poor segments of the population and, more specifically, livestock and crop farmers, herders and other poor pasture users.

### **Targeting approach**

10. Project targeting will build on the successful approach of the IDA-funded Village Investment Project, which places a heavy emphasis on inclusion. For pasture management, the project has two strong pro-poor elements: (i) the poor communities will be the first to be supported by the project, from the first project year; and (ii) given that poor people suffer the most under from the current situation, they will thus benefit directly from institutionalization of a new system for pasture management. For agricultural services, the farmers' *koshuuns* (unions) established under the project will act as an interface between farmers and the rural advisory services. The community mobilization process and the work of the community adviser will ensure that the needs and priorities of the poor and vulnerable households are addressed in the extension programme.

### **Participation**

11. The project will follow a participatory and community-based approach for implementation. Focus groups will act as effective mechanisms to ensure that, within the community, the needs and interests of women, youth, and poor and vulnerable households are clearly articulated and factored into decision-making, and their access to benefits.

## **D. Development objectives**

### **Key project objective**

12. The project objective is to improve the institutional and infrastructure environment for farmers and herders, with a strong emphasis on the livestock sector. More specifically, the project will increase the productivity of farmers, particularly livestock farmers, in the project areas and reduce animal diseases that have a public health impact (e.g. brucellosis).

### **Policy and institutional objectives**

13. The project will assist in developing and adopting an adequate legal and institutional framework to govern the management and use of pastures. It will support the development and operation of a market-oriented rural advisory service system. The project will also provide technical assistance for the establishment of a suitable legal and regulatory framework for the delivery of veterinary services.

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

14. The project is aligned with the objectives of the IFAD Strategic Framework 2007-2010, as the activities it supports specifically relate to sustainable access to and management of natural resources, improved production services, and local and national processes that safeguard social inclusion.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

15. The project is consistent with the Government's key priorities for poverty reduction and agricultural development, as specifically set out in the Country Development Strategy for 2006-2010 and the agrarian policy concept of the Kyrgyz Republic to 2010.

### **Harmonization with development partners**

16. Seeking to enhance aid effectiveness, five major donors – the World Bank, Asian Development Bank, SDC, Department for International Development of the United Kingdom, and the United Nations agencies – prepared a Joint Country Support Strategy (JCSS) for 2007-2010. The project is an explicit part of the JCSS and supports JCSS programmatic areas.

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

### **Main components**

17. The project has three components: (i) pasture management and improvement; (ii) agricultural support services; and (iii) project management. IFAD support will be provided to all components.

### **Expenditure categories**

18. There are seven expenditure categories: (i) goods, works, training and operating costs under the first component (26 per cent); (ii) goods, works, training and operating costs under the second and third components (29 per cent); (iii) consultancy services under the first component (6 per cent); (iv) consultancy services under the second and third components (8 per cent); (v) sub-grants under the first component (17 per cent); (vi) sub-grants under the second component (13 per cent); and (vii) unallocated (1 per cent).

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

### **Key implementing partners**

19. MAWRPI, the Community Development and Investment Agency and the communities themselves will be the key partners in implementation.

### **Implementation responsibilities**

20. The Agricultural Projects Implementation Unit will have overall responsibility for project coordination and fiduciary management and will report on all project activities. Rural communities will play a central role in project implementation through community-level institutions, such as farmers' *koshuuns* and pasture management councils. The pasture management component will be implemented with support from the Community Development and Investment Agency, the rural advisory services, the Livestock, Veterinary and Pasture Research Institute and the Pasture Department of MAWRPI. Advisory services will continue to be provided by the regional rural advisory services agency. The reform of public veterinary services will involve the State Veterinary Department.

### **Role of technical assistance**

21. Technical assistance will be required for legal and regulatory framework reforms for pasture management and veterinary services; animal health; and management and operational reforms in the rural advisory services.

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

22. The project operational manual has been finalized by the Agricultural Projects Implementation Unit. A project agreement with the Community Development and Investment Agency was reached during the negotiations of the grant agreement between IFAD and the Kyrgyz Republic.

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

23. The total project cost is US\$23.40 million over five years. The sources of financing are IFAD (38.5 per cent), IDA (38.5 per cent), SDC (7.9 per cent), the Government (2 per cent) and beneficiaries (13.1 per cent).

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

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

24. The expected main development outcomes are: (i) establishment of an adequate legal and regulatory framework for pasture management; (ii) effective management of pastures by rural communities in an environmentally and socially sustainable manner; (iii) improved quality and outreach of crop and livestock extension services; and (iv) enhanced veterinary services, including expanded coverage by private veterinarians.

### **Economic and financial viability**

25. An analysis was undertaken to assess the financial feasibility of the project for farmers and the economic feasibility of the project for the economy as a whole. It is expected that the project will generate substantial economic benefits and improvements in farm profitability. The economic internal rate of return for the three major project investments – pasture improvement, brucellosis control and rural advisory services – is respectively 171 per cent, 56 per cent and 195 per cent.

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

### **Knowledge management arrangements**

26. The project has made specific provisions for knowledge management-related activities such as special studies, impact assessments and information dissemination.

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

27. The project will help institute a community pasture management system, which will effectively consolidate at the village level the currently fragmented management arrangements, through the direct and close involvement of the pasture users themselves. Private veterinary services play only a marginal role at present and these will be promoted under the project. These efforts will be backed up by project support for legal and regulatory reforms in pasture management and veterinary services. The project will also support a demonstration programme for brucellosis control in one of the regions (Naryn). In addition to the benefits for livestock production, this demonstration programme is likely to contribute significantly to improved public health.

### **Scaling-up approach**

28. The project's national coverage makes it a valuable platform for applying good practices and approaches across all rural communities. Meanwhile, the demonstration programme for brucellosis control in the Naryn Region has the potential to be scaled up in every region of the country.

## **J. Main risks**

### **Main risks and mitigation measures**

29. The project faces two main risks: (i) political instability, frequent changes in government and faltering government commitment to the agricultural reform agenda; and (ii) insufficient provision of government funding for public goods aspects of the rural advisory services and/or for the brucellosis control programme. The planned mitigation measures include: (i) the strong commitment of rural

communities and parliament, and the decentralized project implementation arrangements will help mitigate the potentially negative effects of conflict or apathy at the central level; and (ii) project financing will be on an annually declining basis, and trigger points have been established to cease donor support should the required public funding not be forthcoming.

#### **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. Investments made by the communities in pasture infrastructure will have a high probability of sustainability. All pasture infrastructure investments will be identified and agreed upon by the pasture users/communities themselves to ensure responsiveness to local priority needs. Investments will be accompanied by detailed plans for operation and maintenance and for sustainability. This is now a very familiar approach to all communities, which has shown to lead to strong local ownership and commitment. The rural advisory services to be provided involve both public and private goods. Public goods-related aspects require adequate governmental funding and timely payment of contracts. For the private advisory services, project support has been designed to establish a sustainable pattern of private funding by the actual clients of the advisory services, and the implementation arrangements are such that the rural advisory services will be in a position to function without further donor support by the end of the project. The project will help private veterinarians to improve their services and to function in a demand-driven environment. The sustainability of the reformed state veterinary service will be much strengthened by the envisaged downsizing and functional rationalization. Sustainability of the brucellosis control programme will require the provision of sufficient budgetary funds each year, once the project has ended, to cover the cost of vaccines and to expand it to all regions of the country.

## **II. Legal instruments and authority**

32. A project grant agreement between the Kyrgyz Republic and IFAD will constitute the legal instrument for extending the proposed grant to the recipient. Important assurances included in the negotiated project grant agreement are attached as an annex.
33. The Kyrgyz Republic is empowered under its laws to receive financing from IFAD.
34. I am satisfied that the proposed grant will comply with the Agreement Establishing IFAD.

### **III. Recommendation**

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

RESOLVED: that the Fund shall provide a grant to the Kyrgyz Republic in various currencies in an amount equivalent to five million five hundred and eighty-eight thousand special drawing rights (SDR 5,588,000) 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 grant agreement

(Negotiations concluded on 6 March 2008)

1. **Gender.** The Government of the Kyrgyz Republic ("the Government") will ensure that gender concerns are mainstreamed in all project activities throughout the project implementation period. The Government will ensure that: (i) the project promotes the role of women as agents of change in the local social and economic development; (ii) priority in training is given to women; (iii) the project encourages women to take on leadership roles and participate in decision-making both within the family and at the community level; and (iv) priority is given to qualified women, as per the Government's existing rules, to work as project staff for the project.
2. **Interests of Indigenous Peoples (IP) and national minorities.** The Government will ensure that the interests of the national minorities and those of the IP are given due consideration in implementing the project.
3. **Monitoring.** The Lead Project Agencies will each monitor the project and generate data and information on respective project activities and outcomes in a manner satisfactory to IFAD. Each Lead Project Agency will also perform results-and-impact monitoring to gather information on project impact.
4. **Pest management practices.** The Government will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the project do not include any pesticides classified as Extremely Hazardous or Highly Hazardous by the WHO.
5. **Resource protection.** The Government will take all reasonable measures to ensure that existing laws are enforced to safeguard water, forest and wildlife resources in the project area. The Government will take all measures to ensure sustainability of the project without any detriment to the environment, promoting local participation during project implementation which is essential for environment sustainability.
6. **Operation and maintenance.** The Government will ensure that adequate human and financial resources are provided to support the operation and maintenance of project-financed investments and the recurrent costs of the project operations both during and after the project implementation period, at least for the useful life of such investments.
7. **Insurance.** The Government will insure project personnel against health and accident risks in accordance with its customary practice in respect of its national civil service. The Government will insure all vehicles and equipment used in connection with the project against such risks and in such amounts as may be consistent with sound practice. The Government may, in either case, finance such insurance from the proceeds of the grant.
8. **Framework.** The Government will: (i) maintain, in a form and substance satisfactory to the IDA, the Environmental Management Framework and the Social Management Framework; and (ii) implement said Frameworks in accordance with the objectives, policies, procedures, time schedules and other provisions set forth in the Frameworks.
9. **Authorisations.** The Government will provide any project party with such delegations of authority or other authorisations as may be required under its national procedures to implement the project in accordance with this Agreement.
10. **Activities under the brucellosis control programme.** For the purpose of implementing a brucellosis control programme, the Government will, by

December 1, 2010, provide evidence to IFAD and the Cooperating Institution that adequate funding shall be allocated within the Government's budget for its fiscal year 2011, to cover fifty percent (50%) of the estimated cost for procuring vaccines for the brucellosis control programme in Naryn Oblast in year 2011. The said estimated costs will be agreed upon between the Government, IFAD and the Cooperating Institution.

11. **Coordination.** The Government will make effective arrangements to coordinate with other international agencies operating in the project area to ensure that: (i) uniform policies are adopted for the same sector or activity, such as extension methodology and staff incentives; (ii) project activities financed by different donors in the same project area are carefully phased to avoid constraints on the available human and financial resources; (iii) lessons learned from beneficiary impact assessments are given due consideration in future policy formulation.

12. **Use of project vehicles and other equipment.** The Lead Project Agencies will each ensure that: (a) the types of vehicles and other equipment procured under the project are appropriate to the needs of the project; and (b) all vehicles and other equipment transferred to or procured under the project are dedicated solely to project use.

13. **Fraud and corruption.** The Government will promptly bring to the attention of IFAD and the Cooperating Institution allegations or concerns of fraud and/or corruption, if any, in relation to the implementation of the project of which it has knowledge or becomes aware.

14. **Suspension.** (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the grant account in accordance with the General Conditions upon the occurrence of any of the events set forth therein, or if:

- (i) The IDA Financing Agreement has failed to enter into full force and effect within 180 days of the effective date, and substitute funds are not available to the Government on terms and conditions acceptable to IFAD;
- (ii) the right of the Government to withdraw the proceeds of the IDA grant has been suspended, cancelled or terminated, or any event has occurred which, with notice of the passage of time, could result in any of the foregoing;
- (iii) the Recipient's Community Development and Investment Agency's legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Recipient's Community Development and Investment Agency to perform any of its obligations under the project;
- (iv) the Project Operational Manual and/or the Subsidiary Agreement, or any provision thereof, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the project;
- (v) IFAD has determined that the material benefits of the project are not reaching the target group, or are benefiting persons outside the target group;
- (vi) IFAD has determined that a situation has arisen which shall make it improbable that the project, or a significant part thereof, shall be carried out;
- (vii) the Government and/or the Lead Project Agencies has(ve) defaulted in the performance of any covenant set forth in the Project Grant



Agreement, and IFAD has determined that such default has had, or is likely to have, a material adverse effect on the project;

- (viii) IFAD has given notice to the Government and the Cooperating Institution 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 matter to the satisfaction of IFAD; and
- (ix) procurement is not being carried out in accordance with the provisions of the IDA Financing Agreement.

(b) Notwithstanding the above, IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the grant account if IFAD has not been provided with a copy of the audited financial statements required by the IDA Project Agreement within twelve (12) months of the financial reporting date.

**15. Conditions precedent to withdrawals.** (a) No disbursement will be made in respect of expenditures under all categories of the allocation table set forth in the Project Grant Agreement, until the Government, the Agricultural Projects Implementation Unit and the Recipient's Community Development and Investment Agency, as appropriate, have duly opened the Special Accounts and the project accounts in accordance with the Agreement.

(b) No disbursement will be made in respect of expenditures under categories I (Goods, Works, Training and Operating Costs under Part 1 of the project), III (Consultants' Services under Part 1 of the project) and V (Sub-Grants under Part 1 of the project) of the allocation table set forth in the Project Grant Agreement, until the Government has passed a legal instrument, satisfactory to IFAD, to regulate community-based pasture management.

**16. Conditions precedent to effectiveness.** This Agreement will become effective in accordance with the General Conditions subject to the fulfilment of the following conditions precedent:

- (a) The IDA Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or the right of the Government to make withdrawals thereunder (other than the effectiveness of the Project Grant Agreement) have been fulfilled;
- (b) the Project Grant Agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorised and ratified by all necessary administrative and governmental action; and
- (c) a favourable legal opinion, issued by the Government's Minister of Justice, or other legal counsel approved by IFAD, in respect of the matters set forth in the Project Grant Agreement and in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.



## **Key reference documents**

### **IFAD reference documents**

IDA Project Appraisal Document (PAD) and key files  
Sub-regional Strategic Opportunities Paper

### **Other miscellaneous reference documents**

AISP: Social Assessment Issues

Promoting Inclusion – Social and Economic Targeting in AISP

## Logical framework

Narrative summary	Performance indicators	Means of verification	Risks
<b>Development goal</b> To raise the productivity and incomes of crop and livestock farmers on a sustainable, environmentally-friendly basis	(i) Improved household asset ownership by gender (ii) Reduced prevalence of child malnutrition by gender	National surveys & statistics WB and/or UNDP data	External economic shocks Natural hazards
<b>Project purpose</b> To improve the institutional and infrastructure environment for more productive, profitable and sustainable crop and livestock production by pasture users and smallholder farmers	(i) 350 AOs with improved pasture infrastructure and quality (ii) 250 farmers <i>koshuuns</i> with expanded access to farm and livestock support services (iii) 85 lambs per 100 ewes surviving to age 4 months	Project monitoring, impact surveys, case studies, participatory M&E	Political instability & frequent government turn-over Faltering government commitment to the overall reform agenda in the agricultural sector Slow pace in legislative reforms
<b>Expected outcomes</b>			
<b>Component One:</b> (1.1) Establishment of an adequate legal and regulatory framework for pasture management (1.2) Effective management of pastures by rural communities in a sustainable manner (1.3) Increased access to improved pasture infrastructure  <b>Component Two:</b> (2.1) Improved quality / outreach of RAS (2.2) Increased access to quality fodder seed (2.3) Strengthened SVD capacity (2.4) Expanded coverage by private veterinarians (2.5) Reduced brucellosis incidence  <b>Component Three:</b> (3.1) Effective project management	(1.1) Revised legal framework (1.2) (i) 400 pasture users unions with functioning pasture management councils established / fully operational; (ii) 400 community pasture management plans developed, implemented (1.3) 85% of pasture improvement micro-projects satisfactorily maintained  (2.1) 200 farmers <i>koshuuns</i> contracting RAS services with own funds (2.2) 80% of Community Seed Banks stable for expanding (2.3) Improved SVD ratings on OIE/PVS criteria (2.4) 600 private veterinarians operating; milk yields (1935 liter/cow/lactation by PY5) (2.5) Reduced prevalence of animal & human brucellosis (cattle 1%, sheep 2.6%, humans 0.9/1000 by PY5)  (3.1) Timely / complete project status reports, satisfactory audits, & satisfactory supervision ratings	Legislative approval Pasture component monitoring reports  RAS monitoring reports PVS self-evaluation SVD reports; periodic surveys Periodic sero-surveys, public health reports, project reports  Supervisions, audits, PCR	Conflicts within/between communities on pasture boundaries, use rights allocations, etc. Elite capture of decision-making process & benefits  Lack of or insufficient government funding for public-goods aspects of RAS Faltering government support for reform of the veterinary services

