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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the Republic of Costa Rica for the

National Rural and Entrepreneurial Development Programme

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

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Contents

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

Abbreviations and acronyms

CABEI	Central American Bank for Economic Integration
M&E	monitoring and evaluation
PMU	programme management unit
PRODAPEN	Agricultural Development Project for the Peninsula of Nicoya

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Republic of Costa Rica for the National Rural and Entrepreneurial Development Programme, as contained in paragraph 35.

Map of the programme area

Costa Rica

National Rural and Entrepreneurial Development Programme Area



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.

IFAD Map compiled by IFAD

Republic of Costa Rica

National Rural and Entrepreneurial Development Programme

Loan summary

Initiating institution:	IFAD
Borrower:	Republic of Costa Rica
Executing agency:	Ministry of Agriculture
Total programme cost:	US\$17.33 million
Amount of IFAD loan:	SDR 5.85 million (equivalent to approximately US\$9.19 million)
Terms of IFAD loan:	18 years, including a grace period of 3 years from the effectiveness date, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually
Cofinancier:	Central American Bank for Economic Integration
Amount of cofinancing:	US\$4.29 million
Terms of cofinancing:	10 years, including a grace period of 2 years
Contribution of borrower:	US\$3.10 million
Contribution of beneficiaries:	US\$0.75 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan to the Republic of Costa Rica for the National Rural and Entrepreneurial Development Programme

I. The programme

A. Main development opportunity addressed by the programme

1. The programme combines the Government's poverty reduction priorities with IFAD's strategic objectives for Costa Rica as defined in its country strategic opportunities paper. The Government seeks to reduce poverty by: (i) increasing competitiveness and value added through the participation of small-scale agricultural producer organizations in value chains; (ii) focusing on regions with low socio-economic indicators and high environmental vulnerability; (iii) coordinating actions between the public and private sectors; and (iv) introducing structural and functional modernization of public institutions related to the production sector to make them more effective and efficient. IFAD will support institutional coordination and poverty reduction with a view to increasing incomes, creating rural jobs, and developing human and social capital. The programme will pay special attention to vulnerable groups – women, indigenous communities and young people – implementing a gender approach as defined by IFAD's Action Plan for Improving its Development Effectiveness.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the Republic of Costa Rica in the amount of SDR 5.85 million (equivalent to approximately US\$9.19 million) on ordinary terms to help finance the National Rural and Entrepreneurial Development Programme. The loan will have a term of 18 years, including a grace period of 3 years from the effectiveness date, with an interest rate equal to the reference interest rate per annum as determined by IFAD annually.

Relationship to IFAD's performance-based allocation system (PBAS)

3. The allocation defined for Costa Rica under the 2007-2009 PBAS cycle is US\$10.2 million, based on consistently improving annual scores.

Country debt burden and absorptive capacity of the State

4. Costa Rica's external debt is managed under a strict financial policy, thus the country has adequate capacity to absorb and service the proposed loan. Costa Rica has received three IFAD loans, approved between 1982 and 1994, for a total of SDR 11.15 million (with an average loan size of SDR 3.7 million).

Flow of funds

5. IFAD loan proceeds will be deposited into a special account operated by the Ministry of Finance within the Central Government Expenditure System. The Ministry of Finance will make the proceeds of the loan available to the Ministry of Agriculture as may be required from time to time to carry out the programme in accordance with the approved annual workplan and budget.

Supervision arrangements

6. The programme will be directly supervised by IFAD.

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

7. No exceptions foreseen.

Governance

8. The following planned measures are intended to enhance governance of the IFAD loan: (i) annual audits, performed by either independent auditors or the Office of the Auditor General of the Republic of Costa Rica in accordance with international auditing standards and the IFAD Guidelines on Project Audits; and (ii) funds will be channelled through the Ministry of Agriculture to beneficiary organizations by means of joint-execution agreements, similar to the procedures followed under the Agricultural Development Project for the Peninsula of Nicoya (PRODAPEN), which closed in 2005.

C. Target group and participation

Target group

9. The target group comprises poor rural households in 21 cantons of the Brunca, Chorotega and Pacifico Central Regions – regions that are characterized by environmental fragility and high rural poverty levels. Programme beneficiaries will include small-scale producers, microentrepreneurs, craftworkers, subsistence fishers, rural workers, indigenous communities and jobless young people. With the exception of former PRODAPEN beneficiaries, most households have never had access to the technical and financial support services needed to consolidate their organizations and businesses. An estimated 25,400 people (6,500 households) will benefit directly from the programme and 6,000 people (4,000 households) indirectly.

Targeting approach

10. The programme's targeting strategy is in line with the IFAD Policy on Targeting. Direct beneficiaries will access the programme through existing or newly formed organizations. Key qualifying and selection criteria for these organizations will be the commercial potential of their business ideas and poverty indicators.

Participation

11. Beneficiaries will be assisted in formulating business plans, which will define the programme support they require. Selected organizations will implement the approved business plans, including administration of financial resources, after having received adequate training and with technical assistance from public and private service providers. Monitoring and evaluation (M&E) of business plan implementation will also be participatory.

D. Development objectives

Key programme objectives

12. The general objective of the programme is to improve the living conditions and increase the income-generating activities of small-scale producers, rural women (including heads of households), young people, indigenous communities and other poor and/or vulnerable populations by broadening their access to competitive markets in a context of gender equity, youth promotion and environmental protection. The specific objectives of its four components are to: (i) strengthen the organizational, management and entrepreneurial capacities of select beneficiaries and their organizations through the development of local (economic and social) enterprises; (ii) strengthen the productive and entrepreneurial capacities of producer organizations by establishing and developing sustainable and competitive (agricultural and non-agricultural) agribusinesses; (iii) establish and strengthen local technical and financial service markets to support business plan implementation; and (iv) strengthen the management and institutional structures of the Agrarian Development Institute so that it can become a national rural development institute.

Policy and institutional objectives

13. From a country programme perspective, the programme will facilitate the coordination of rural and entrepreneurial development stakeholders (public and private) and the harmonization of poverty reduction strategies by: (i) consolidating national institutions for rural development, beginning with the Ministry of

Agriculture's Rural Development Programme,¹ and transforming the Agrarian Development Institute into a national rural development institute; and
 (ii) establishing and developing local technical and financial service markets to promote the sustainability of development processes and impacts.

IFAD policy and strategy alignment

14. In line with the 2004 country strategic opportunities paper and the IFAD Strategic Framework 2007-2010, the strategic elements of the programme will be to:
 (i) increase incomes and create rural jobs; and (ii) develop human and social capital. Special attention will be paid to vulnerable groups (women, indigenous communities and young people) and to the implementation of a gender approach as defined by IFAD's Action Plan.

E. Harmonization and alignment

Alignment with national priorities

15. Enhanced rural competitiveness and poverty reduction are the Government's stated priorities as outlined in the National Development Plan (2006-2010). This plan, which includes seven policies relating specifically to the agricultural productive sector, aims to involve all public sectors in the national poverty reduction strategy and effectively coordinate all institutions and special programmes. The proposed IFAD programme will contribute to these objectives.

Harmonization with development partners

16. Development partners include: (i) the Inter-American Development Bank, specifically its Support for Competitiveness Program; and (ii) the Food and Agriculture Organization of the United Nations.

F. Components and expenditure categories

Main components

17. The programme has four components, whose objectives are to: (i) strengthen local capacities (16 per cent of base cost); (ii) create sustainable agribusinesses (66 per cent); (iii) expand local service markets (6 per cent); and (iv) strengthen institutions and provide programme management (12 per cent).

Expenditure categories

18. There are seven IFAD-financed expenditure categories: (i) marketing infrastructure, 25 per cent of programme base costs, cofinanced with Central American Bank for Economic Integration (CABEI); (ii) marketing equipment, 6 per cent; (iii) programme equipment and vehicles, 1 per cent; (iv) training, 23 per cent; (v) technical assistance for business plans, 8 per cent; (vi) public technical services, 3 per cent; and (vii) other operating costs, 4 per cent. Rural road infrastructure, 23 per cent of base costs, will be financed by CABEI. Salaries for programme management unit (PMU) staff, 7 per cent, will be financed by the Government.

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. Primary implementing partners include: community organizations, public sector agricultural and production institutions (including decentralized technical institutes), technical service providers (organizations and individuals) in the programme area, banking and rural financial intermediaries, and municipalities involved in business plan implementation (rural roads).

Implementation responsibilities

20. Programme implementation will be carried out by a programme management unit located in the Ministry of Agriculture's Rural Development Programme. The PMU will be responsible for coordinating technical and financial service provision. A programme steering committee will provide policy, strategy and management

¹ *Programa de Desarrollo Rural.*

guidance and be responsible for the approval and supervision of annual workplans and budgets.

Role of technical assistance

21. Training events, technical advisory services, and technical assistance will help beneficiaries acquire the organizational, management and entrepreneurial capacities needed to implement their business plans and manage microenterprises efficiently.

Status of key implementation agreements

22. In addition to the loan agreement, the programme will establish institutional agreements with public institutions and beneficiary organizations involved in the implementation of the components. To transfer programme funds to implement business plans, contracts to be executed jointly by the Ministry of Agriculture and beneficiary organizations will be drawn up, as previously authorized by the Office of the Comptroller General of the Republic at the request of PRODAPEN.

Key financing partners and amounts committed

23. The total programme cost is estimated at US\$17.33 million over six years. Financing sources comprise: IFAD, 53 per cent; CABI, 24.7 per cent; the Government, 17.9 per cent; and beneficiaries, 4.4 per cent. IFAD will provide a loan of US\$9.19 million and CABI a loan of US\$4.29 million. The Government will provide US\$3.10 million toward PMU salaries and taxes. Beneficiaries will make in-kind contributions of about US\$0.75 million.

H. Benefits and economic and financial justification

Main categories of benefits generated

24. Principal benefits include: (i) participation of 110 small-scale agricultural producer organizations in structured and functional value chains and improved access to dynamic markets; (ii) strengthened human capacities for organizational, productive and entrepreneurial activities, including women (28 per cent of beneficiaries), indigenous communities (19 per cent) and young people (10 per cent); (iii) increased employment and incomes; (iv) environmental protection; (v) expanded and improved infrastructure for marketing; (vi) access to technical and financial services; and (vii) strengthened institutional capacities for rural development and broader IFAD policy dialogue.

Economic and financial viability

25. The largest share of resources (84 per cent) will go toward business plan implementation (basic and specialized training, productive and marketing technical assistance, marketing infrastructure and equipment, rural roads) for targeted beneficiaries. A systematic economic and financial analysis was conducted during programme preparation. The income-generating activity models used by the programme demonstrate that the investments to be funded are profitable. The resulting net present value of the aggregated investments is positive, with an economic internal rate of return of 24 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

26. The programme includes acquisition and dissemination of implementation experience and knowledge management by beneficiaries and the implementing entity. Training, communication and M&E materials and activities will be made available in printed and digital publications and dedicated Internet-based websites.

Development innovations that the programme will promote

27. The programme will introduce the following innovations: (i) cooperation between public and private sectors, including value chain agents and private service providers; (ii) strengthening of local service markets, including existing financial resources in microfinance entities and the public development fund; and (iii) location of the PMU within the Ministry of Agriculture to facilitate institutional learning.

Scaling-up approach

28. The programme was conceptualized as having national coverage, beginning operations in priority geographic areas (cantons) identified in the National Development Plan. Based on lessons learned, the programme will be rapidly expanded so as to reach all of the proposed areas of intervention.

J. Main risks**Main risks and mitigation measures**

29. Although the programme is a priority for the Government, it faces one main risk, and that is the limited financial execution capacity of the Ministry of Agriculture. This risk will be mitigated by transferring financial execution responsibility of mostly programme resources to beneficiary organizations by means of contracts to be executed jointly by the Ministry of Agriculture and these organizations. Furthermore, periodic audits will be carried out on the administration and financial execution of those contracts.

Environmental classification

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

K. Sustainability

31. Programme sustainability will depend mainly on the capacities of beneficiary organizations to manage their businesses based on the effective adoption of business plan M&E mechanisms.

II. Legal instruments and authority

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

III. Recommendation

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

RESOLVED: that the Fund shall make a loan to the Republic of Costa Rica in various currencies in an amount equivalent to five million eight hundred and fifty thousand special drawing rights (SDR 5,850,000) to mature on or prior to 15 October 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 programme loan agreement

(Negotiations concluded on 5 September 2008)

Pest management practices

1. In order to comply with the International Code of Conduct on the Distribution and Use of Pesticides, as amended from time to time, the Government will, through the organization responsible for the programme, ensure that pesticides procured under the programme do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

Protection of resources

2. The Government will, through the organization responsible for the programme, take all reasonable steps to ensure compliance with current legislation on safeguarding water, forests and wildlife in the programme area. In addition, the Government will take all steps within its power to ensure the sustainability of the programme without detriment to the environment.

Monitoring, evaluation and systematization

3. The monitoring, evaluation and systematization (M&E/S) unit will be located within the programme management unit (PMU). The M&E/S unit will prepare the terms of reference for a baseline study and relevant surveys, including results and impact measurement system (RIMS) indicators, for which purpose an independent entity will be hired and supervised by the PMU. The M&E/S unit will provide to IFAD, through the PMU, semiannual monitoring reports and an annual evaluation report for use in the annual planning of operations, including an analysis of each of the components and providing for any corrective measures that may be needed.

Gender equity

4. The Government will ensure that the programme contributes to diminishing existing gender inequities in the programme area, ensuring also that gender-based operational activities are carried out under the programme and that gender equity is maintained in all opportunities created by the programme. The gender specialist will supervise all training and/or gender awareness activities provided to community organizations and beneficiary families, as well as all programme activities in which it is necessary to maintain clear gender equity. At least 20% of the staff of the organizations contracted to provide technical assistance will be women.
5. Gender activities include: (a) gender equity in developing human and social capital; (b) capacity-building to involve rural men and women under equal conditions in economic initiatives; and (c) strengthening of participation by rural men and women under equal conditions in the management of natural resources.
6. During programme implementation, each component will be provided with a differentiated intervention strategy for traditional families and households headed by women. The composition of the PMU will be equitable and include the skills and experience required to apply the programme's gender equity strategies and methodologies.

Indigenous populations

7. The Government undertakes to ensure that populations with strong indigenous cultural traditions are full participants and beneficiaries of all programme activities, and that their interests are respected during programme implementation. To this end, the Government will ensure that:
 - (a) The programme is carried out in accordance with national legislation on the indigenous populations benefiting from the programme;

- (b) Indigenous communities are adequately represented in programme activities; and
- (c) The communities of indigenous populations benefiting from the programme participate in policy dialogue and local governance.

Counterpart funds

8. The Government's contribution will cover all such contributions required under national legislation, all salaries of programme personnel and all taxes and import duties on goods, public works and services acquired under the programme.

Insurance of personnel

9. The Government, through the organization responsible for the programme, will insure the programme personnel against health and accident risks in accordance with good commercial practice.

Fraud and corruption

10. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the programme.

Cooperation by communities in procurement and contracting

11. Those associations or groups which meet the business plan eligibility criteria will be able to cooperate in the procurement of goods, infrastructure works and services, and to perform programme activities with the loan proceeds under co-implementation agreements to be signed between such organizations and the Ministry of Agriculture (MAG) in accordance with the procurement plan and the operating manual.

Participation by beneficiaries

12. The mechanisms for business plan preparation and performance will ensure full participation by beneficiaries at every stage of the sustainable rural business initiatives concerned. This process will begin with identification of the initiative, which is to be responsive to the beneficiaries' interests; continuing with business plan implementation, including the selection and contracting of service providers; and ending with an evaluation of results to contribute to the sustainability of such business initiatives.

Procurement and contracting under business plans

13. All goods and services that are to be acquired or contracted for in accordance with the business plans of participating organizations will be so acquired or contracted for by MAG and transferred to such organizations by means of a grant on terms to be set forth in the appropriate document.

Suspension

14. (a) IFAD may suspend the right of the Government to request withdrawals from the loan account if the required audit has not been satisfactorily performed within the six-month period following the stipulated date.
- (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 circumstances provided for in the loan agreement or in any of the events outlined below:
- (i) The programme manager has been removed from the programme without the prior agreement of IFAD;
 - (ii) IFAD has determined, following consultations with the Government, that the material benefits of the programme are not adequately reaching the target group or are benefiting persons outside the target group;
 - (iii) The cofinancing agreement with the Central American Bank for Economic Integration (CABEI) has been suspended;

- (iv) The programme operating manual, related regulations, or any provision thereof, have been suspended, rescinded in whole or in part, waived or otherwise modified without the prior consent of IFAD, and IFAD has determined, following consultations with the Government, that such event has had, or is likely to have, a material adverse effect on the programme;
- (v) Procurement and contracting have not been or are not being carried out in accordance with the loan agreement;
- (vi) The Government has failed to comply with any of its commitments set forth in provisions complementing the loan agreement, and IFAD has determined, following consultations with the Government, that such non-compliance has had, or is likely to have, a material adverse effect on the programme; and
- (vii) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD.

Conditions precedent to effectiveness

15. The loan agreement will become effective upon the fulfilment of the following conditions precedent:
- (a) The cofinancing agreement with CABEI has been signed;
 - (b) The loan agreement has been duly signed, the law approving the loan has been published in the Official Gazette, and all other government requirements have been fulfilled;
 - (c) The Government has delivered to IFAD a favourable legal opinion, acceptable in form and substance, issued by the Office of the Attorney General of the Republic and covering the points set forth in the loan agreement.

Key reference documents

Country reference documents

Constitución Política de La República de Costa Rica
Plan Nacional de Desarrollo Jorge Manuel Dengo, 2006-2010
Censo de Población, INEC, 2000
Proyecciones de Estadísticas de Población, INEC, 2006
Características de los hogares y personas, INEC, 2006
Ley de Promoción de la Igualdad Social de la Mujer
Ley de Asociaciones de la República de Costa Rica
Ley Orgánica del Ambiente, N° 7554
Consejo de Gobierno, acta de la sesión ordinaria n° 38 (21 de marzo de 2007)
Proyecto de Ley N° 16480 - Banca de Desarrollo
Informe de Terminación del Proyecto de Desarrollo Agrícola de la Península de Nicoya

IFAD reference documents

Programme design document (PDD) and key files - Country Strategic Opportunities Paper - Administrative Procedures on Environmental Assessment IFAD – Rural Finance Policy IFAD – Rural Microenterprise Policy IFAD – Targeting Policy – Gender Action Plan IFAD

Logical framework

OBJECTIVES	INDICATORS	VERIFICATION/ LEARNING SYSTEM	ASSUMPTIONS/ RISKS
<p>Development Goal The levels of poverty and marginality of the poor rural population, small producers and indigenous peoples from communities and <i>cantones</i> of the Chorotega, Central Pacific and Brunca regions are reduced.</p>	<ul style="list-style-type: none"> Percentage of households that increase their index of household assets ownership (RIMS anchor indicator) Percentage reduction of children malnutrition (RIMS anchor indicator) 	<ul style="list-style-type: none"> Baseline study report RIMS impact survey reports 	
<p>Programme Objective: Six years Improve the living conditions and increase the income-generating activities of small-scale producers, rural women (including heads of households), rural youth, indigenous peoples and all poor and/or vulnerable populations by broadening their access to competitive markets through entrepreneurial management of their businesses, in the context of gender equity, youth promotion and environmental protection.</p>	<ul style="list-style-type: none"> 6 500 beneficiary families participate in Programme development processes (28% women, 10% youth, and 19% indigenous people) 110 rural gross organizations improve their organizational and management capacities, developing business plans 19 Business Plans are implemented and managed by women and young people (RIMS indicator) At least 20 service providers strengthen their technical capacities offering rural development services 3 500 new employment posts generated by microenterprises (RIMS indicator) 13 800 hectares under agricultural good practices (RIMS indicator) 	<ul style="list-style-type: none"> Baseline study report Mid-term and final evaluations M&E reports Technical file from each organization 	<ul style="list-style-type: none"> Poverty reduction and rural development are high priority for the Government GOCR allocates and disburses the required resources, opportunely
<p>Output 1: Local Capacity Strengthening Identified beneficiaries and their organizations strengthen their organizational, management and entrepreneurial capacities towards the development of local (economic and social) enterprises.</p>	<ul style="list-style-type: none"> At least 110 beneficiary organizations participate in induction and selection processes to become involved with the Programme 3 CSRA, 3 CREAPYME, 21 COSEL, 21 ASA y 10 GAT participate in the Programme promotion and in the Business Plans prioritization Beneficiaries from 110 organizations participate in events for organizational and management strengthening 250 beneficiaries (150 male; 100 female), who are members of the organizations' directive bodies; participate of a specific training plan 	<ul style="list-style-type: none"> M&E reports Baseline study report Mid-term and final evaluation Technical file from each organization 	<ul style="list-style-type: none"> Local political power favors the organizational and entrepreneurial organizational process
<p>Output 2: Sustainable Rural Businesses Producer organizations strengthen their productive and entrepreneurial capacities, and establish and develop sustainable and competitive (agricultural and non-agricultural) agribusinesses.</p>	<ul style="list-style-type: none"> 110 beneficiary organizations formulate and implement Business Plans 102 marketing, storage and transformation units, operative (RIMS indicator) 79 enterprises, operative by the 3rd year (RIMS indicator) 6 500 people trained in productive abilities (RIMS indicator) 10 km of new rural roads constructed, 315 km of existing rural roads rehabilitated, in support to business plans implementation 	<ul style="list-style-type: none"> M&E reports Baseline study report Mid-term and final evaluations Social audit reports 	<ul style="list-style-type: none"> Technical assistance services are delivered on time and cost as required by the Programme
<p>Output 3: Local Service Markets Local technical and financial service markets are established and strengthened to support business plan implementation.</p>	<ul style="list-style-type: none"> 110 producer organizations demand technical assistance services 10 public entities involved on Programme implementation are strengthened 8 public institutions provide training and technical assistance 20 services providers (public and private) provide technical services At least 15 financial services' providers access strengthening tools 45 beneficiary organizations establish and operate "Revolving Funds" 	<ul style="list-style-type: none"> M&E reports Baseline study report Mid-term and final evaluations 	<ul style="list-style-type: none"> Service providers align themselves with the Programme strategy and costs
<p>Output 4: Institutional Strengthening Support for the transformation of IDA into a national rural development institute.</p>	<ul style="list-style-type: none"> 10 technical papers and operation manuals are prepared 400 executives and technicians of IDA participate in rural development training events 	<ul style="list-style-type: none"> M&E reports Mid-term and final evaluation 	<ul style="list-style-type: none"> The policy decisions of MAG and GOCR are favorable

