

Document:	<u>EB 2008/95/R.36/Rev.1</u>
Agenda:	<u>11(e)(i)</u>
Date:	<u>17 December 2008</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

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Enabling poor rural people
to overcome poverty

President's report

Proposed loan to Bosnia and Herzegovina for the

Rural Livelihoods Development Project

Executive Board — Ninety-fifth Session
Rome, 15-17 December 2008

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:

Abdelaziz Merzouk

Country Programme Manager
telephone: +39 06 5459 2634
e-mail: a.merzouk@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

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Abbreviations and acronyms

APCU	Agriculture Projects Coordination Unit (of Republika Srpska)
LRFDP	Livestock and Rural Finance Development Project
OFID	OPEC Fund for International Development
PCU	project coordination unit
PSC	project steering committee
SME	small and medium-sized enterprise

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to Bosnia and Herzegovina for the Rural Livelihoods Development Project, as contained in paragraph 37.

Map of the project area



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.

Bosnia and Herzegovina

Rural Livelihoods Development Project

Loan summary

Initiating institution:	IFAD
Borrower:	Bosnia and Herzegovina
Executing agency:	Ministry of Agriculture, Forestry and Water Management of the Republika Srpska and Ministry of Agriculture, Water Management and Forestry of the Federation of Bosnia and Herzegovina
Total project cost:	US\$25.6 million
Amount of IFAD loan:	SDR 7.5 million (equivalent to approximately US\$11.1 million)
Terms of IFAD loan:	20 years, including a grace period of five years, with an interest rate of one half of the reference interest rate per annum as determined by the Fund annually
Cofinancier(s):	OPEC Fund for International Development (OFID) Participating financial institutions
Amount of cofinancing:	OFID: US\$6.0 million Participating financial institutions: US\$2.1 million
Terms of cofinancing:	To be determined
Contribution of borrower:	US\$2.5 million
Contribution of beneficiaries:	US\$3.9 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan to Bosnia and Herzegovina for the Rural Livelihoods Development project

I. The project

A. Main development opportunity addressed by the project

1. Despite the country's steady rate of economic growth, some 20 per cent of the population live below the poverty line and about 80 per cent of the poor live in rural areas. As Bosnia and Herzegovina gets closer to integration into the European Union, donors have increasingly focused on providing policy and institutional support to facilitate the transition. But unemployment (29 per cent) and underemployment persist, which has caused many people to return to rural areas to seek opportunities for improving livelihoods.
2. Building on lessons learned from previously successful poverty-reducing strategies in Bosnia and Herzegovina, the main thrust of the Rural Livelihoods Development Project will be an emphasis on raising cash incomes and increasing job opportunities. This will be achieved through increased value added and farm productivity, and by fostering the participation of smallholder producer organizations in value chains; improving opportunities for wage employment and self-employment in off-farm rural microenterprises and small and medium-sized enterprises (SMEs); increasing investment in small-scale rural market-linking infrastructure; and enhancing access to financial services in rural areas.

B. Proposed financing

Terms and conditions

3. It is proposed that IFAD provide a loan to Bosnia and Herzegovina in the amount of SDR 7.5 million (equivalent to approximately US\$11.1 million) on intermediate terms to help finance the Rural Livelihoods Development Project. The loan will have a term of 20 years, including a grace period of five years, with an interest rate of one half of the reference interest rate per annum as determined by the Fund annually.

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

4. The allocation defined for Bosnia and Herzegovina under the PBAS is US\$11.118 million over the three-year allocation cycle (2007-2009).

Relationship to national medium-term expenditure framework criteria

5. The project, like all IFAD-financed country projects in the country, is fully integrated into the Government's medium-term development strategy and expenditure framework, as revised in 2006 (also known as its poverty reduction strategy paper).

Country debt burden and absorptive capacity of the State

6. Bosnia and Herzegovina is at low-to-medium risk of debt distress, with the main indicators below the relevant country-specific burden threshold. Macroeconomic management is sound and annual real GDP growth is about 6 per cent. The implementation record of IFAD-financed projects in the country is satisfactory: all loans have been fully disbursed before closing.

Flow of funds

7. The proceeds of the IFAD loan will be channelled as per modalities detailed in a standard financing agreement between IFAD and the Government. A special account in United States dollars will be opened by the Republika Srpska and the Federation of Bosnia and Herzegovina. In addition, the Federation will open a second special account for loan financing from the OPEC Fund for International Development (OFID). Each Entity will also open project accounts in local currency.

Supervision arrangements

8. IFAD will supervise the project, administer the loan and provide implementation support as required.

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

9. No exceptions are foreseen.

Governance

10. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) an annual independent audit of accounts and financial statements in accordance with international standards; (ii) frequent supervision and implementation support; and (iii) clauses in the financing agreement concerning the operation and maintenance of project-financed infrastructure.

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

11. The project will benefit some 29,000 poor or nearly poor rural households in 29 municipalities with high rural poverty levels and low development levels. Most of the rural population are engaged in livestock raising and small-scale farming. The target group will include: (i) very poor rural people, who are landless, have leased out their land or are producing the bare minimum for subsistence; (ii) subsistence or semi-subsistence farmers, in particular those willing to shift to more commercial farming; (iii) rural microentrepreneurs; and (iv) unemployed, underemployed and self-employed rural people. Within these groups, the project will place emphasis on reaching poor rural women.

Targeting approach

12. In accordance with the IFAD Policy on Targeting and the Framework for Gender Mainstreaming in Operations, the project will adopt a targeting approach based on geographic and gender targeting as overriding concerns, with self-targeting, direct targeting, value chain targeting, enabling and empowerment measures and capacity-building mechanisms adopted, as feasible, in the various project components and activities.

Participation

13. All project-supported components and activities supported by the project require the active participation and contribution of clients and beneficiaries in terms of initiatives, and cash and in-kind contributions. The project is based on a participatory and systematic identification of investment opportunities in the selected municipalities, prioritized with respect to their potential poverty impact, return on investment, sustainability, institutional viability and capacity to generate rural employment.

D. Development objectives**Key project objectives**

14. The project's goal is to achieve sustained improvements in livelihoods, particularly the income and employment levels in the rural communities in the project area. The main supporting objectives are to (i) increase output, cost-effectiveness and the quality of farm and natural products; (ii) empower and build the capability of groups and producer associations; (iii) promote business development, provide enterprise support and foster the participation of producers in value chains; (iv) construct or rehabilitate crucial facilities for production and marketing; and (v) make credit available and accessible to poor rural communities for priority value chain investments.

Policy and institutional objectives

15. The project will support pro-poor organizations (producer associations and cooperatives) in advancing the interests of primary producers, enabling them to articulate local constraints and needs, and advocate for improvements at administrative and policymaking levels. More specifically, it will provide training on a range of advocacy, networking, organizational development, financial management and marketing issues.

IFAD policy and strategy alignment

16. The project is fully aligned with IFAD's strategic objectives and its 2005 country strategic opportunities paper for Bosnia and Herzegovina. It will support income diversification and rural livelihoods in the dual context of economic transition from post-conflict situations and European Union accession. It will promote the commercialization of smallholder production, commercial rural businesses and off-farm income-generating activities through the supply chain approach, which provides the best opportunity for developing stronger commercial linkages among small-scale producers, the private commercial sector and markets.

E. Harmonization and alignment

Alignment with national priorities

17. The project is consistent with the Government's medium-term development strategy, and specifically with its agricultural policies to (i) develop natural and human potential and increase employment in rural areas; (ii) strengthen the competitiveness of domestic agriculture; and (iii) foster the development of rural areas.

Harmonization with development partners

18. In addition to the partnership with OFID, the project will pursue a collaborative framework for implementation, which will comprise the national coordination arrangements for inter-donor and donor-Government dialogue with relevant local government authorities/institutions in order to better harmonize external development assistance. Through this framework, the project will synergize project activities with the efforts of pertinent international and bilateral donor players in regional and rural development.

F. Components and expenditure categories

Main components

19. The project has four components: (i) agricultural production and farmer organization (25 per cent of total resources); (ii) rural enterprise development (31 per cent); (iii) rural finance (33 per cent); and (iv) project coordination and management (11 per cent).

Expenditure categories

20. The main expenditure categories foreseen are: (i) project funds; (ii) civil works; (iii) technical assistance, training and studies; (iv) contracted services; (v) vehicles and equipment; and (vi) incremental operating costs.

G. Management, implementation responsibilities and partnerships

Key implementing partners

21. The project will be implemented under the same arrangements as the Livestock and Rural Finance Development Project (LRFDP) and the Rural Enterprise Enhancement Project (REEP). The main actors at the top level will be the state Ministry of Finance and Treasury, and the Entity Ministries of Finance and Agriculture and the respective banking agency. Senior nominees from these latter three will form the core of the project steering committee (PSC) in each Entity. The project director will be the secretary of the PSC. Under the project, the PSC will be urged to involve representatives of other stakeholders (such as NGOs, the private sector, producer

associations and cooperatives or other farmer and community organizations) in its work.

Implementation responsibilities

22. The Ministries of Agriculture in each Entity will assume overall responsibility for project implementation. The project coordination unit (PCU) and the Agriculture Projects Coordination Unit (of Republika Srpska) (APCU) will use the current systems and operating procedures and the same staff as is now engaged in managing, with only minor adjustments in staffing or consultant contracting – mainly to meet the demands of the two-year overlap between the project and REEP and to satisfy the need for an intensive presence in the cluster of south-eastern municipalities that make up the Republika Srpska project area. Delivery of project services and activities will be through private service providers and contractors.

Role of technical assistance

23. The capacity of the country to implement IFAD-financed projects is satisfactory, which minimizes the need for international technical assistance. This type of support will be provided strategically in such areas as innovative financial products and the achievement of national standards. Local experts will support other project elements, including support to farmers' cooperatives and associations, the introduction of modern agricultural technologies, and support to agribusinesses, rural SMEs and rural finance services.

Status of key implementation agreements

24. Most arrangements for project implementation are in place in both Entities in terms of governing bodies (respective Ministry of Agriculture and its PSC and PCU), which have proven implementation capacity. Implementation manuals for major activities have been finalized.

Key financing partners and amounts committed

25. The total project cost is US\$25.6 million over five years. The sources of financing are IFAD, US\$11.1 million (43 per cent); OFID, US\$6.0 million (24 per cent); the Government of Bosnia and Herzegovina, US\$2.5 million (10 per cent); project beneficiaries, US\$3.9 million (15 per cent); and participating financial institutions, US\$2.1 million (8 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

26. Benefits will accrue from (i) increased crop yield and livestock productivity; (ii) an increased proportion of marketed farm produce; (iii) reduced losses during production, processing and transportation of produce through innovative technology and improved rural infrastructure; (iv) improved product quality; (v) enhanced access to longer-term credit together with guaranteed market outlets; and (vi) increased employment opportunities

Economic and financial viability

27. A series of representative enterprise and farm models were developed for investments by smallholders in livestock and the production of strategic and high-values crops, SMEs in dairy and fruit production and in microenterprises in on- and off-farm activities. The financial results show that the incremental returns are attractive and that the net annual farm or SME household benefit after financing will increase substantially, ranging between 35 and 66 per cent. The economic analysis shows an overall project internal rate of return of 24 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

28. Responsibility for project knowledge management and communication will lie with the monitoring and evaluation officers in the PCU and the APCU, who will ensure that information is compiled, presented and efficiently disseminated to the project

target groups. The country project management team and IFAD will also facilitate the compilation of project information and its dissemination to all other in-country stakeholders.

Development innovations that the project will promote

29. The project's main innovative features as compared with the Fund's previous operation in the country (LRFDP) are (i) the wider coverage (in terms of type and number) of rural enterprises to be assisted; (ii) the explicit and more purposeful and focused support for the new cooperatives to be established and strengthened as a major element of providing the necessary environment for improved farm productivity and more effective presentation and marketing of produce; and (iii) the enhanced support for the savings and credit movement in the Republika Srpska.

Scaling-up approach

30. This experience of the Fund and the relevant agencies in pro-poor value chain development will be documented and tested for applicability in other countries in the region.

J. Main risks

Main risks and mitigation measures

31. The project design is based on the sound experience of the LRFDP and on reasonable assumptions of potential uptake and performance; there are therefore no inordinate risks involved. Risks that may be encountered principally relate to possible changes in the Government's policy and strategy framework, and to the willingness of local government and other stakeholders to participate in the project. These risks can be mitigated by positive action by the PCU and APCU, or by the PSC.

Environmental classification

32. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation. It is unlikely to have any significant negative environmental impact.

K. Sustainability

33. Post-project sustainability will be built on the involvement of municipalities, private-sector value chain actors, banks, microcredit organizations, savings and credit organizations, and service providers and contractors. It is expected that project activities will become embedded in local government development and commercial structures and systems.

II. Legal instruments and authority

34. A project loan agreement between Bosnia and Herzegovina and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. Important assurances included in the negotiated agreement are attached as an annex.
35. Bosnia and Herzegovina is empowered under its laws to borrow from IFAD.
36. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

III. Recommendation

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

RESOLVED: that the Fund shall make a loan to Bosnia and Herzegovina in various currencies in an amount equivalent to seven million five hundred thousand special drawing rights (SDR 7,500,000) to mature on or prior to 15 March 2029 and to bear an interest rate of one half of the reference interest rate per annum as determined by the Fund annually, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Lennart Båge
President

Important assurances included in the negotiated project loan agreement

(Negotiations concluded on 21 November 2008)

Monitoring

1. The Lead Project Agencies will monitor the Project in accordance with Section 8.02 (Monitoring of Project Implementation) of the General Conditions using the system in place for the Rural Enterprise Enhancement Project.

Suspension

2. (a) IFAD may suspend, in whole or in part, the right of the Government of Bosnia and Herzegovina (hereinafter the "Government") to request withdrawals from the Loan Account in accordance with Section 12.01 (Suspension by IFAD) of the General Conditions upon the occurrence of any of the events set forth therein, or if:
 - (i) IFAD, after consultation with the Government, has determined that the material benefits of the Project are not adequately reaching the Target Group, as defined in Schedule 1, or are benefiting persons outside the Target Group to the detriment of Target Group members; or
 - (ii) 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; or
 - (iii) Procurement has not been or is not being carried out in accordance with Schedule 3 of this Agreement.
- (b) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the Loan Account if the audit required by Section 5.02(b) has not been satisfactorily concluded within twelve (12) months of the financial reporting date.

Conditions precedent to withdrawal

3. No withdrawals from the Loan Account will be made in respect of Category IV for Part B of the Project until an appropriate Agreement between the responsible ministry and the Savings and Credit Organization ("SCO") has been accepted by IFAD and a signed version received by IFAD.

Conditions precedent to effectiveness

4. This Agreement will become effective in accordance with Article XIII of the General Conditions (Effectiveness and Termination) subject to the fulfilment of the following conditions precedent:
 - (a) The Federation Project Agreement and the RS Project Agreement have been duly signed, and the signature and performance thereof by the Federation and the RS, respectively, have been duly authorised or ratified by all necessary administrative and governmental action;
 - (b) The Federation and RS Subsidiary Agreements will have been approved by Fund in draft; a copy of the signed Subsidiary Agreements, substantially in the form so approved and certified as true and complete by a competent officer of the Federation and the RS, respectively, will have been delivered to IFAD; the signature and performance thereof by the Government, the Federation and the RS respectively, will have been duly authorised or ratified by all necessary administrative and governmental action; and all conditions precedent to the effectiveness thereof will have been fulfilled;

- (c) This Agreement will have been duly signed, and the signature and performance thereof by the Government will have been duly authorised and ratified by all necessary administrative and governmental action; and
- (d) A favourable legal opinion, issued by the Ministry of Justice of the Government or other competent authority approved by IFAD in respect of the matters set forth in Section 7.02 hereof and in form and substance acceptable to IFAD, will have been delivered by the Government to IFAD.

Key reference documents

Country reference documents

Medium-Term Development Strategy – PRSP for Bosnia and Herzegovina 2004-2007 as revised in 2006.

Gender Action Plan of Bosnia and Herzegovina 2006

Report on Poverty in Bosnia and Herzegovina 2001-2004

Early Warning System report UNDP-Bosnia and Herzegovina, 2002-2008

Donor Mapping Report 2007, UNDP/Donor Coordination Forum, August 2008. (*Unpublished draft*).

Assessment of Sustainable Development in Bosnia and Herzegovina, the report to the World Summit (WSSD), June 2002.

IFAD reference documents

Project design document (PDD) and key files, March 2008

Administrative Procedures on Environmental Assessment

Bosnia and Herzegovina COSOP (2005)

IFAD Strategic Framework 2007-2010

REEP Appraisal Report (2006)

IFAD Decision Tools for Rural Finance (2003)

IFAD Policy on Rural Finance (2000)

IFAD Policy on Targeting

Various Learning Notes (Gender; Project targeting; Rural finance; Designing for Implementation; Monitoring and evaluation; and Sustainability)

Other miscellaneous reference documents

World Bank, Bosnia and Herzegovina Country Partnership Strategy, November 2007. Report 41330-BA.

World Bank. Agricultural and Rural Development Project, Appraisal Document 2007, World Bank/SIDA.

The Delegation of the European Commission to Bosnia and Herzegovina: The Instrument for Pre-Accession Assistance (IPA), Strengthening and Harmonisation of the Bosnia and Herzegovina agriculture and rural sectors Information System.

Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
<p>Development Goal</p> <p>Sustained improvement in the livelihoods, particularly the incomes and employment, of Project area rural communities.</p>	<ul style="list-style-type: none"> Increase in gender-disaggregated per capita, and overall household (HH) incomes, assets and of Project beneficiaries (RIMS anchor indicator) Number of jobs created for unemployed and underemployed rural people. <p>Target: 29000 Households</p>	<ul style="list-style-type: none"> -National HH expenditure income, nutrition, health surveys from BHAS and MTDS/PRSP M&E system. - Baseline, periodic and impact evaluation surveys. -Project MTR and PCR. 	<ul style="list-style-type: none"> -Social, political and economic environments remain liberal, market-based, and conducive to economic development.
<p>Purpose/ Objectives</p> <p>Sustainable rural poverty reduction by improving the opportunities of the rural poor for participation and employment in commercially competitive rural supply chains through increased access to technical know-how finance and markets.</p>	<ul style="list-style-type: none"> Majority (% increase or number) of participating HHs achieve higher outputs and prices, food security and increased incomes. Increase of # public and private productive and commercial investments in poorest Municipalities of Project. Number or % of enterprises, groups, PAs, Cooperatives and SCOs assisted, operational and self-reliant. Number of enterprises established/strengthened and value chain linkages/contracts made, jobs created. Increase in volume and efficiency of marketing. Number and gender share of new jobs created in enterprises assisted by the Project. 	<p>As above, plus:</p> <ul style="list-style-type: none"> - Component, Project progress reports, surveys and studies. - Local Government Budgets. - Baseline, periodic and impact evaluation surveys. - Project, Municipality records and company accounts/reports. - Service provider feedback. - Project M&E and PFIs records. - Case/panel studies - Supervision reports. 	<p>As above, plus:</p> <ul style="list-style-type: none"> - Service provider and contractor availability and calibre assured. - Potential beneficiary interest sufficient, risk aversion overcome. - Municipality, Community, and private sector value chain actor collaboration forthcoming. - Entity Government microfinance regulation and activities create positive credit environment.
<p>Key Outputs</p> <p>A. Agricultural Production and Farmer Organisation</p> <ul style="list-style-type: none"> Better-off, more food secure and commercialised farming and primary producer HHs. Produce quality, presentation - and prices realised - improved. Local groups, PAs and Cooperatives empowered and business-capable. <p>B. Rural Enterprise Development</p> <ul style="list-style-type: none"> Profitable, sustainable businesses set up, market-linking infrastructure constructed/rehabilitated and well managed. <p>C. Rural Finance</p> <ul style="list-style-type: none"> Target group/s make priority value chain investments with appropriate, pro-poor loans and repay as required. PFIs expand sustainable outreach in rural areas. <p>D. Project Coordination and Management</p> <ul style="list-style-type: none"> Project efficiently and effectively implemented. 	<ul style="list-style-type: none"> Number or % of targeted farmers/primary producers receiving demand-driven extension services, demonstrations. Number or % of farmer/primary producer groups engaged in commercial enterprises with quality produce. Number (or %) of groups, PAs, Cooperatives established, improved and self-reliant. Gender balance of local organisation members/managers. Increase in range of products/services provided by PAs, Cooperatives to members. Number and types of enterprises assisted or set up Number of new jobs created (/6000 new jobs) Number and type of value chain linkages attained. Number of communities reached and participating and % contribution. Number, type of rural infrastructure schemes implemented (/42 sub-projects are funded). Number of infrastructure beneficiaries. Number of enterprises financed and credit (in FBIH /3106 for individuals and 252 to SMEs) Number, types of farm and SME loans made and repayment performance. Proportion of male/female applicants and awardees (>30% of recipients are women) Number (or %) of banks, MCOs and SCOs participating in targeted rural areas (in RS membership of 6 SCOs reach 2140 persons) PFIs Repayment rate and portfolio at risk for PFIs RLDP funds allocation, fund flows assured. Number of Municipality/Community interactions. AWPB progress/disbursement targets attained in smooth and efficient manner. Service provider systems operating and performance supervised. Gender balance in service provider contracts, numbers/%. M&E system correctly operating and used. Number of technical/PR documents published. 	<p>As above, plus:</p> <ul style="list-style-type: none"> - Component and service provider records/reports. - Project disbursement data for services provision. -Municipality and registration records. <p>M&E and case study data.</p> <p>As above, plus:</p> <ul style="list-style-type: none"> - PA, Cooperative, service provider and Municipality monitoring, progress reports. - Contractor/contract records - Evaluation by clientele panel. <p>As above, plus:</p> <ul style="list-style-type: none"> - Component and PFI records. - PFI accounts and reports. - Specialist Consultant reports. <p>As above, plus:</p> <ul style="list-style-type: none"> - Supervision, progress reports. - Project accounts and records. - Records/minutes of meetings. - Periodic M&E outputs. 	<p>As above, plus:</p> <ul style="list-style-type: none"> • Collaboration of lead farmers obtained. • Linkage, contract arrangements fulfilled with private sector. • PAs, Cooperatives have sound management, strong business plans and financial controls. <p>As above, plus:</p> <ul style="list-style-type: none"> • Beneficiary obligations for contribution and O&M responsibilities realised <p>As above, plus:</p> <ul style="list-style-type: none"> • Sufficient interest of borrowers and good opportunities. • No major change in financial climate, lending terms. <p>Continued stability of A/PCU staffing and operations.</p> <ul style="list-style-type: none"> •Community/ beneficiary group participatory M&E in effect. •Gender factors included in staff, service provider conditions.

