President’s report

Proposed loan and grant to Burkina Faso for the

Rural Business Development Services Programme

For: Approval
Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

Directors are invited to contact the following focal point with any technical questions about this document:

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Abbreviations and acronyms

BDS  business development services
CREERS  rural enterprise resource centres
DGPER  General Directorate for the Promotion of the Rural Economy
DSF  Debt Sustainability Framework
MEBF  Burkina Faso business bureau
PAMER  Rural Microenterprise Support Project
RBDSP  Rural Business Development Services Programme
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and grant to Burkina Faso for the Rural Business Development Services Programme, as contained in paragraph 35.
Map of the programme area

Burkina Faso
Rural Business Development Services Programme

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
Burkina Faso

Rural Business Development Services Programme

Financing summary

Initiating institution: IFAD
Borrower: Burkina Faso
Executing agency: Ministry of Agriculture, Water and Fisheries
Total programme cost: US$25.2 million
Amount of IFAD loan: SDR 5.4 million (equivalent to approximately US$8.1 million)
Amount of IFAD Debt Sustainability Framework grant: SDR 5.4 million (equivalent to approximately US$8.1 million)
Terms of IFAD loan: 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier: West African Development Bank
Amount of cofinancing: US$5.1 million
Terms of cofinancing: Parallel
Contribution of borrower: US$3.9 million
Contribution of beneficiaries: US$0.1 million
Appraising institution: IFAD
Cooperating institution: Directly supervised by IFAD
Proposed loan and grant to Burkina Faso for the Rural Business Development Services Programme

I. The programme

A. Main development opportunity addressed by the programme

1. After a pilot phase and thorough mid-term review, the Rural Microenterprise Support Project (PAMER) – arguably the most successful IFAD-funded intervention in Burkina Faso to date – further expanded and adjusted its activities based on implementation experience, and closed at the end of 2008. The proposed Rural Business Development Services Programme (RBDSP) will continue to scale up PAMER’s achievements and consolidate its most successful elements, and in the process, align some of PAMER’s approaches with state-of-the-art practices for the subsector. Burkina Faso is one of the best placed countries in the region with regard to rural microenterprise development. Its population enjoys a near-legendary reputation of being composed of very hard workers, accustomed to eking out a livelihood from a meagre and fragile natural resource base, and often finding ingenious ways of doing so. In relative terms, the country is small and densely populated (which reduces transaction costs). Burkina Faso borders six neighbouring countries, which increases the range of interesting economic opportunities as well as the dynamism of the economy. Young people in rural areas are eager to take up off- and non-farm activities of the type promoted under this programme, including in the business development services (BDS) sector, a newly emerging development opportunity crucial for microenterprise development.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide to Burkina Faso a loan in the amount of SDR 5.4 million (equivalent to approximately US$8.1 million), on highly concessional terms, and a grant under the Debt Sustainability Framework (DSF) in the amount of SDR 5.4 million (equivalent to approximately US$8.1 million) to help finance the Rural Business Development Services Programme. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

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

3. The allocation defined for Burkina Faso under the PBAS is US$27.6 million over the 2007-2009 allocation cycle. The total loan and grant amount for this programme is US$16.2 million and falls within the three-year allocation.

Country debt burden and absorptive capacity of the State

4. The capacity of Burkina Faso to service external debt is acceptable. In 2004, debt value stood at 23 per cent of gross national income (GNI), and the total debt service ratio, as a percentage of GNI, was 1.2 per cent, which is lower than in most other countries in the region. The Government’s repayment record for IFAD loans is good. Under the DSF, Burkina Faso is considered a “yellow” country for 2009, making it eligible for 50 per cent grant financing.

Flow of funds

5. To facilitate loan and grant disbursements, two special accounts will be set up in Ouagadougou. Upon loan effectiveness and at the borrower’s request, IFAD will make an initial deposit into the special accounts and will thereafter replenish them in accordance with the IFAD General Conditions for Agricultural Development Financing. A programme account will be opened in CFA francs at a bank in Ouahigouya acceptable to IFAD and will be managed by a programme management unit, which is also responsible for the Agricultural Commodity Chain Support Project.
The Government will deposit its contributions into the programme account according to an agreed annual schedule.

**Supervision arrangements**

6. The programme will be supervised directly by IFAD.

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

7. No exceptions are foreseen.

**Governance**

8. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (i) the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations will be strictly applied; and (ii) service providers will be preselected and will be required to submit regular audit reports.

**C. Target group and participation**

**Target group**

9. The target group consists of 12,000 rural microenterprises. These cover a continuum from “champions of economic initiatives” (a term commonly used in Burkina Faso) to income-generating activities with real development potential that particularly target women and young people, to microenterprises and microenterprise organizations. Indirect target groups will consist of small and medium-sized enterprises that have a demonstrable positive impact on the direct target group, including proportionate economic benefits.

**Targeting approach**

10. Building on the experience of PAMER and in accordance with the IFAD Policy on Targeting, the programme’s targeting approach will be based on positive discrimination of IFAD target groups (including a minimum quota for women) and activity targeting (by selecting small-scale, pro-poor activities and technologies). Regarding the tension and potential trade-off between ensuring the viability of BDS providers and the objective of reaching mainly the poorer rural enterprises, the programme’s approach will consist of: (i) explicitly including targeting objectives in performance-based contracts with service providers so that their financial compensation depends on their contribution towards reaching these objectives; (ii) ensuring that expected client contributions to certain services are set at a minimum so that even very poor entrepreneurs are guaranteed access to programme benefits; (iii) selecting economic sectors that require low investment and are easily accessible to women and young people; (iv) reserving 50 per cent of the innovation fund for women; and (v) working with the gender units of professional organizations.

**Participation**

11. The programme will be demand-driven and will set up 60 BDS providers – rural enterprise resource centres (CREERS) – which will act as the main contact point for the direct target group and will facilitate their access to programme resources. The CREERS will receive support to strengthen their network and deepen outreach over time. They will regularly organize promotion campaigns to foster rural entrepreneurship and community-level awareness-raising sessions with a range of stakeholders including elected community representatives, opinion leaders and value chain organizations; these sessions will also be used to channel information on opportunities and needs back to the programme offices. Indirect target groups consist mainly of small and medium-sized enterprises wishing to partner with the programme; they will be asked to agree to specific conditions with respect to their engagement with the direct target groups.
D. Development objectives
   Key programme objectives
12. The programme aims to contribute to rural poverty reduction by developing the local private sector. This will be achieved by increasing the sustainable access of target groups to business development services, vocational training and technology; and enhancing the enabling environment for the development of the local rural private sector.

Policy and institutional objectives
13. The programme’s policy objectives are to contribute to policy dialogue on the sustainability of a pro-poor countrywide system of BDS provision, and on the role of the public sector and of public-private partnerships in microenterprise development. The rural finance sector policy objective is to favourably influence the sector to become more conducive to microenterprise development. The rural finance sector institutional objective is for microfinance institutions partnering with the programme to create their own, specialized microenterprise financing department. The programme will provide support to BDS providers as well as microenterprise organizations to engage in policy dialogue on issues that they have identified as relevant.

IFAD policy and strategy alignment
14. The programme is in line with the IFAD Strategic Framework 2007-2010, the regional strategy (including the regional rural finance strategy), and the first strategic objective set out in the country strategic opportunities programme: enhancing and diversifying sustainable livelihoods of rural poor and marginalized groups, especially women, through inclusive local private-sector development. Furthermore, the programme is aligned with the IFAD targeting policy, the gender strategy, and the IFAD Rural Finance Policy, and, in the context of the Burkina Faso country programme, it is also the strongest contribution thus far towards translating the IFAD Strategy for Knowledge Management into practice.

E. Harmonization and alignment
   Alignment with national priorities
15. The programme is aligned with Burkina Faso’s poverty reduction strategy framework, rural development strategy, rural productive sector policy, private sector development policy, national microfinance strategy, and national policy and strategy for technical and vocational teaching and training. Alignment with national priorities will be ensured by the General Directorate for the Promotion of the Rural Economy (DGPER), which will be associated with the coordination of the programme on a permanent basis.

   Harmonization with development partners
16. National and international technical assistance, through the DGPER and a knowledge management expert will foster harmonization and cooperation with development partners, in particular with the Swiss and Austrian bilateral cooperation agencies, both active in microenterprise development.

F. Components and expenditure categories
   Main components
17. The programme has four components: (i) facilitating the access of microenterprises to non-financial services, US$14.1 million; (ii) improving the enabling environment for microenterprise development, US$5.9 million; (iii) programme management, US$3.4 million; and (iv) IFAD country programme support, US$1.8 million.

   Expenditure categories
18. There are five expenditure categories: (i) vehicles, material and equipment (20 per cent); (ii) studies, technical assistance and training (40 per cent); (iii) development
funds (9 per cent); (iv) salaries and allowances (12 per cent); and (v) operating costs (19 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. The key partners in implementation will be the Ministry of Agriculture, Water and Fisheries; the Ministry of Commerce, Enterprise Promotion and Handicrafts; the Burkina Faso business bureau (MEBF), which is a private operator; six microfinance institutions; the vocational training and apprenticeship fund, which is a public operator for vocational training; and the IFAD-funded Agricultural Commodity Chain Support Project.

Implementation responsibilities

20. A programme management unit with administrative and financial autonomy (the programme management unit) will have overall responsibility for programme implementation and the use of programme funds. The programme will subcontract service providers.

Role of technical assistance

21. IFAD will provide national and international technical assistance; the latter will be destined in particular for microfinance-related activities.

Status of key implementation agreements

22. No agreement will be required other than the IFAD financing agreement.

Key financing partners and amounts committed

23. The total cost for the six-year programme is US$25.2 million. The sources of financing are IFAD (64.0 per cent), the West African Development Bank (20.2 per cent), the Government (15.3 per cent) and programme beneficiaries (0.4 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

24. The programme is expected to have the following benefits: (i) economic benefits – about 45 per cent of microenterprises will have evolved from income-generating activities to microenterprises, and 12,000 microenterprises and small businesses will increase their profits by an average of 5 per cent per year. Forty-five BDS providers will have achieved a rate of almost 50 per cent of financial self-sufficiency after the sixth programme year. The volume of medium-term loans is predicted to increase by approximately US$3 million. Two collective infrastructure projects are to be implemented in 25 per cent of the rural municipalities in the programme area; (ii) employment and social benefits – approximately 24,000 full-time jobs or equivalent will be created, and 300 community-based trainers will have improved their teaching skills; at least 35 per cent of enterprises will be managed by women and 10 per cent by young people, with the latter helping to stem rural-urban migration; and (iii) institutional development and governance benefits – microenterprise and trade organizations will receive support to improve service provision to their members as well as to strengthen their capacity for lobbying and policy dialogue; the enabling environment for microenterprises and microfinance institutions will improve as a result of the availability of at least 12 new microfinance products and greater accessibility of business information.

Economic and financial viability

25. The economic internal rate of return of the programme over a period of 20 years should be around 13 per cent (at an opportunity cost of capital of 12 per cent). The financial analysis shows an increase in the value of daily wage labour of about 40 per cent.
I. Knowledge management, innovation and scaling up

Knowledge management arrangements

26. Within the IFAD country programme, this is the first operation to treat knowledge management as a primary concern. It is also the first operation to feature a component to directly support the IFAD country programme in Burkina Faso, which will enable the programme to engage more rigorously and regularly in knowledge management and policy support in the microenterprise and BDS development domains. In collaboration with the DGPER, the Country Programme Management Team and its network will further broaden the outreach of knowledge management activities.

Development innovations that the programme will promote

27. The programme will promote technological, technical, commercial and organizational innovations through a demand-driven innovation fund, which will allow pilot testing and adoption on the part of microentrepreneurs. The programme will scout for and locate promising development innovations at the national and international level. The innovation fund will emphasize innovations that facilitate access to quality services, new markets, new production and processing technologies and, especially, environmentally friendly technologies. Microenterprise organizations, in particular, will be encouraged to make use of this fund and to help disseminate innovations.

Scaling-up approach

28. The programme’s scaling-up approach is a continuation of that used in PAMER, and is centred around the gradual roll-out of BDS providers (i.e. CREERS), at a pace of about 20 centres per year. By the time of the mid-term review, all 60 CREERS will be up and running and activities will be in full operation.

J. Main risks

Main risks and mitigation measures

29. The programme faces three main risks: (i) the risk related to the need for high quality performance by both programme staff and service providers. To mitigate this risk, programme staff will be selected by a private recruitment firm and service providers will be selected, trained, and will receive backstopping from MEBF, the pre-eminent private BDS provider in the country; (ii) the risk of some of the most successful microenterprises thriving on the exploitation of cheap labour under poor working conditions will be mitigated by a strong emphasis on monitoring and evaluation, and national and international technical assistance; (iii) the risk that the staff of the Agricultural Commodity Chain Support Project – the project with which the programme will in part be merged – may not give adequate attention to the new programme’s activities will be mitigated by adopting a gradual approach, to be finalized only at mid-term. Other risks beyond the remit of the programme include poor performance by microfinance institutions and economic downturn.

Environmental classification

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

K. Sustainability

31. Sustainability will be sought, first and foremost, in terms of the survival rate of the microenterprises supported by the programme; some of those already supported under PAMER will be further consolidated. With respect to BDS, five such providers (CREERS) have already been set up under PAMER and are already operating successfully, completely on their own. One of the programme’s objectives is to contribute to the building of a viable and sustainable BDS system. This will be achieved by minimizing the RBDSP’s role as far as the interactions between microenterprises and BDS providers are concerned. An important lesson learned
from PAMER, and reflected in the design of the RBDSP, relates to the necessity of working not only with microenterprises but also with small and medium-sized businesses and, especially, with microenterprise organizations, which will continue to provide certain BDS to their members. Also, public-sector institutions are part of the programme from the outset, in such areas as vocational training provision.

II. Legal instruments and authority

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

33. Burkina Faso is empowered under its laws to borrow from IFAD.

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

III. Recommendation

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

RESOLVED: that the Fund shall make a loan to Burkina Faso in various currencies in an amount equivalent to five million four hundred thousand special drawing rights (SDR 5,400,000) to mature on or prior to 15 November 2048 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant under the Debt Sustainability Framework to Burkina Faso in various currencies in an amount equivalent to five million four hundred thousand special drawing rights (SDR 5,400,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented therein.

Kanayo F. Nwanze
President
Important assurances included in the negotiated financing agreement

(Negotiations concluded on 16 April 2009)

Pest management practices
1. The Government of Burkina Faso 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 World Health Organization.

Monitoring and evaluation
2. The programme will set up a monitoring and evaluation (M&E) system based in part on the information system of the Rural Microenterprise Support Project (PAMER) and that is consistent with IFAD’s results and impact management system. M&E will be participatory and will be used as a management tool. Quarterly M&E reports will be delivered to IFAD and annual technical and financial implementation reports will be provided to the steering committee for approval prior to being delivered to IFAD. These reports will serve as an important element for certifying the work done by service providers and the programme team, evaluating their performance and deciding whether to renew their contracts. The M&E system will gather and analyse information as needed on:
   (a) Quantitative and qualitative performance;
   (b) The implementation of planned activities and responsiveness of proposed changes to annual workplans and budgets (AWPBs);
   (c) Financial analysis of the cost of investments and beneficiary participation; and
   (d) Data management and updating.
Reference surveys will be conducted, and M&E workshops will be organized annually and on the occasion of the midterm and completion evaluations. An evaluation study will be performed at year two of programme implementation, to assess the quality and effectiveness of services provided by rural business development services centres to target groups and to determine the relevance of quantitative objectives. The programme M&E officer will work with the operations officer responsible for programming and M&E for the IFAD-financed Agricultural Commodity Chain Support Project.

Insurance of programme personnel
3. The Government will insure programme personnel against health and accident risks to the extent consistent with customary practice in the country.

Use of programme vehicles and other equipment
4. The Government will ensure that:
   (a) All vehicles and other equipment transferred or procured under the programme are used exclusively for the programme and its implementation; and
   (b) The types of vehicles and other equipment transferred or procured under the programme are appropriate to the needs of the programme.

Recruitment
5. Programme staff will be recruited under national calls for offers published in the national press in accordance with current government procedures. Staff will be recruited on the basis of fixed-term, renewable contracts that will exclude all forms of discrimination. The recruitment of key programme staff – namely, the coordinator, the administrative and financial officer and the M&E officer of the
project management unit (PMU) – and any decision to terminate their contracts will be done in agreement with IFAD. Staff recruited by the programme will be subject to annual performance evaluations, and their contracts may be terminated on the basis of the findings of those evaluations. Management of staff will be subject to procedures in force within the Government's territory. The Government undertakes, all skills being equal, to give preference to women candidates, particularly for technical positions under the programme.

**Fraud and corruption**

6. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the project of which it has knowledge or becomes aware.

**Suspension by IFAD**

7. IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the grant account if:
   
   (a) The counterpart funds are not available under conditions satisfactory to IFAD;
   
   (b) The operations manual and the administrative, financial and accounting manual, 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 that such event has had, or is likely to have, a material adverse effect on the programme; or
   
   (c) 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.

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

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

**Conditions precedent to withdrawal**

9. No withdrawal will be made until such time as:
   
   (a) The draft administrative, financial and accounting procedures manual has been prepared and submitted to IFAD; and
   
   (b) The first AWPB, including a procurement plan, has been approved by the Ministry of Agriculture, Water and Fisheries (lead programme agency), the steering committee and IFAD.

**Conditions precedent to effectiveness**

10. The financing agreement will become effective upon the fulfilment of the following conditions precedent:
   
   (a) The financing agreement has been signed by a duly empowered representative of each of the parties;
   
   (b) The Government has delivered to IFAD a favourable legal opinion, acceptable in form and substance, issued by the Constitutional Council or another authority having competence within the territory of the Government;
   
   (c) The PMU and the steering committee have been created by ministerial decree according to the terms set forth in the financing agreement;
   
   (d) The coordinator and the administrative and financial officer of the PMU have been recruited;
(e) The special loan account, the special grant account and the programme account have been opened by the Government, and the amount of CFAF 35.3 million has been deposited in the programme account by way of an initial deposit of counterpart funds by the Government for year one of the programme; and

(f) The programme has been registered in the public investment programme for 2010/2011.
**Key reference documents**

**Country reference documents**

Poverty Reduction Strategy (CSLP), January 2004

Rural Development Strategy (SDR), January 2004

**IFAD reference documents**

Programme design report and key files, January 2009

Country strategic opportunities programme (COSOP), September 2007

**Other miscellaneous reference documents**

PAMER completion report

PROFIL appraisal report

PROFINDER design report
## Logical framework

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| Réduire la pauvreté rurale à travers le développement du secteur privé rural notamment des femmes et des jeunes | - Index des biens des ménages (SYGRI)  
- Indice de pauvreté au niveau régional | - Études et enquêtes de référence  
- Enquête prioritaire sur les niveaux de vie (EPNV)  
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- Rapport d’évaluation finale | - Aléas naturels  
- Instabilité politique |

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| 1. Améliorer l’accès durable des MER et MER groupés aux services de développement des entreprises (SDE) | - Nombre de MER rentables avec accès durable aux SDE (par genre)  
- Augmentation de * % du bénéfice réalisé par ces MER (et non chiffre d’affaires) en moyenne par an  
- Nombre d’emplois directs et indirects créés par les MER (par genre)  
- Nombre d’innovations techniques et commerciales mises en œuvre  
- Degré de participation des femmes et des jeunes en moyenne 30% | - Statistiques  
- Rapport du S-E du Programme  
- Revue à mi-parcours  
- Enquêtes d’impact | - Volonté des partenaires à orienter leurs activités vers le groupe cible des MER  
- Niveau de prix rémunérateurs pour les produits et services des MER  
- Le contexte des affaires est bon |

| 2. Contribuer à créer un environnement favorable au développement des MER | - Nombre de changements fondamentaux dans les politiques des IMF et banques commerciales par rapport à l’offre adapté aux MER  
- Au moins 75% de MER dans les communes bénéficiaires ont accès aux infrastructures structurantes réalisées  
- Au moins deux textes adoptés et/ou relus en faveur des MER (au niveau national | - Rapport du S-E du Programme  
- Revue à mi-parcours  
- Enquêtes d’impact  
- Rapports de l’Unité Technique Microfinance sur l’évolution du secteur | - Volonté du Gouvernement du Burkina Faso de favoriser la mise en place d’un cadre légal et réglementaire favorable aux MER  
- Volonté/dynamisme des organisations des MER |