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Enabling poor rural people
to overcome poverty

President's memorandum

Proposed supplementary financing to the Republic of Haiti for the third cycle of the

Productive Initiatives Support Programme in Rural Areas

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Republic of Haiti, as contained in paragraph 16, and the modification to the financing agreement, as contained in paragraph 15.

President's memorandum

Proposed supplementary financing to the Republic of Haiti for the third cycle of the Productive Initiatives Support Programme in Rural Areas

I. Background

1. In April 2002, the Executive Board approved a loan of SDR 17.4 million (equivalent to approximately US\$21.7 million) on highly concessional terms to help finance the Productive Initiatives Support Programme in Rural Areas. The Fund for Economic and Social Assistance (FAES) under the Ministry of Economy and Finance has overall responsibility for the execution of the programme.
2. **Programme area, key objectives and components.** The programme focuses its interventions on three departments (Centre, Northeast and Northwest). Specific programme objectives are to: (i) strengthen local and national capacities for grass-roots-level planning, social and economic development management, microproject conception and implementation; and absorption of rural financing; (ii) support productive initiatives identified and prioritized by the communities, as well as cross-sectoral activities adding value to these initiatives through reduction of commercial transaction costs, better access to market information, appropriate technologies and promotion of the development of rural microenterprises; and (iii) facilitate sustainable access to financial services for poor rural households, particularly women, the landless and young people. To achieve these objectives, the programme has three operational components: (i) strengthening of local capacities; (ii) support to productive initiatives and agricultural development and (iii) support to microfinance institutions in rural area).
3. **Flexible Lending Mechanism.** The programme was designed under the Flexible Lending Mechanism (FLM) to be implemented in three cycles over a period of ten years: (i) a first cycle to test programme strategy; (ii) a second cycle for extension of activities; and (iii) a third cycle for consolidation. In accordance with FLM guidelines, the passage to subsequent cycles is decided by IFAD Management prior to the end of each cycle, based on an end-of-cycle review of programme performance and the achievement of institutional, technical, economic and financial triggers. The first cycle was completed in 2006 and, based on the results attained, IFAD Management decided to proceed to the second cycle and duly informed the Executive Board (EB 2007/90/INF.3).

II. End-of-second cycle review

4. Programme implementation during the second cycle (1 January 2007 to 31 December 2010) was marked by: (i) the 2008 food price crisis and the reallocation of US\$5.9 million of the loan proceeds for the purchase of seeds and fertilizers to address the crisis (Short-term Action Plan to Support Food Crop Production [PACT-PV]); (ii) the 2010 earthquake and cholera epidemics, which delayed completion of the second cycle; and (iii) financing gaps hindering completion of the second cycle, mainly due to the above-mentioned reallocation of funds. As a result, at the request of the Government, IFAD approved a one-year extension of the second cycle to 31 December 2011 and the reallocation of all the

funds originally allocated to the third cycle to finance the second cycle, in order to adequately complete activities by the end of 2011.

5. In spite of the extremely difficult country context, the end-of-cycle review mission (May 2011) evaluated programme performance as satisfactory and determined that all second-cycle triggers had been achieved. Based on recommendations of the mission, IFAD Management decided to proceed to the third cycle as of 1 January 2012 and is duly informing the Executive Board at this session (EB 2011/104/INF.3).

III. Action plan and budget for the third cycle (1 January 2012 to 31 December 2014)

6. Based on the findings and recommendations of the review mission, a three-year action plan and budget for the third cycle have been prepared by the FAES and programme coordination staff in cooperation with the IFAD top-up design mission (May-July 2011). The programme goal, specific objectives and components will not be modified.
7. **Strategy for the third cycle.** During the third cycle, the programme will focus on successful activities to consolidate results and maximize sustainability. The main strategic thrusts will therefore be: (i) consolidation of the local development management capacities of local stakeholders and hand-over of local development planning and steering responsibilities to communes and commune section councils (as foreseen by the participatory planning approach of the programme); (ii) consolidation of the capacities of grass-roots organizations (GROs) for the development of community initiative projects (*projets d'initiative communautaire* – [PICs]) and additional support to ongoing PICs to improve targeting of the poorest and economic performance; (iii) direct management of funds by PIC beneficiaries through the signing of tripartite contracts (programme, beneficiaries, service providers); and (iv) consolidation of a network of local microfinance institutions (the *caisses rurales d'épargne et de prêt* [CREPs]), designed for the rural poor in isolated areas and of FAES as a key public sector player in the sustainable development of the rural finance sector, particularly the CREP network.
8. **Component 1: Strengthening of local capacities.** This component aims at strengthening local management capacities for rural development to ensure sustainable self-managed and decentralized development processes. Key activities include: (i) capacity-building of elected representatives of communes and commune sections, and assemblies, administration councils and development councils of commune sections, to develop skills in specific areas (local governance, steering of development plans, bookkeeping, conflict management); (ii) a specific training programme for selected GROs involved in direct management of PIC funds; (iii) preparation of five commune development plans and ten commune section development plans in the first year of third cycle, and updating of commune section development plans in the Northeast department in coordination with the United Nations Capital Development Fund; (iv) knowledge-sharing events in each department in which the programme operates, with particular attention given to communication aspects by supporting the preparation and diffusion of various types of publications and rural radio broadcasting in Creole; (v) continuation and intensification of literacy activities by opening 75 new literacy training centres over the three-year period and training community teachers to lead literacy sessions for an estimated 17,000 people; and (vi) tailored institutional and organizational strengthening of GROs (based on self-assessment) involved in the implementation of PICs.

9. **Component 2: Support to productive initiatives and agricultural development.** The overall objective of this component is to support productive initiatives identified and selected by the beneficiaries, in the framework of participatory diagnosis and planning and community development plans, thus contributing to the self-development of rural communities. During the third cycle, the component will focus on: (i) completion of the pilot initiative of direct management of PIC funds by the beneficiaries and decentralization of PIC approval mechanisms; (ii) consolidation of the most successful PICs by providing technical, financial and organizational support to beneficiary GROs, in order to improve ownership and ensure sustainability; and (iii) stocktaking of results achieved in the field through programme targeting methodologies, with subsequent fine-tuning where necessary, and continuing field work already under way.
10. Activities include: (i) pre-investment studies of PICs; (ii) self-evaluation of ongoing PICs by beneficiaries; (iii) start-up of about 45 new PICs in the first year of the third cycle, of which 30 are locally approved and directly managed by beneficiaries; (iv) additional support to the best-performing PICs (based on the self-evaluation) in order to maximize benefits and impact, particularly for the poorest.
11. **Component 3: Support to microfinance institutions in rural area.** The main objective of this component is to facilitate sustainable access of the target group to financial services (savings, credit and microinsurance) appropriate to their needs. The strategy for the third cycle is based on the following elements: (i) consolidating financially and institutionally viable CREPs; (ii) strengthening the role of the specialized national technical assistance provider in the follow-up of activities; (iii) strengthening the network of local service providers according to performance-based criteria. Partnership opportunities with formal financial service providers will be explored where they could contribute to promoting the sustainability of the CREP network and offer a wider range of financial products. The possibility of engaging with international professional organizations will also be considered.
12. Operations and financing will be concentrated on the following core activities: (i) strategic studies to design and test new financial products in the field of microinsurance; (ii) consolidation of the last stage of development of 40 rural solidarity groups into CREPs; (iii) provision of support in the development of 10 CREPs promoted by the other IFAD-financed project in the country (Small-scale Irrigation Development Project); and (iv) strengthening of specialized service providers at the national and local levels.
13. **Coordination and management.** Programme coordination and management is fully integrated into the FAES structure: the Economic Initiatives Unit is directly responsible for the programme and works jointly with other central management units (administration and finance, monitoring and evaluation) and three regional sub-branches in the Centre, Northeast and Northwest departments.
14. **Costs and financing of the third cycle.** Costs have been calculated taking into account updated prices and a preliminary work plan for the third cycle agreed with the FAES. Costs including contingencies are estimated at US\$9.9 million. IFAD financing will be approximately US\$7.5 million, with the remainder coming from the FAES, the Government and beneficiaries. Programme expenditure is divided among the four components as follows: (i) strengthening of local capacities (18 per cent of total programme costs and 22 per cent of IFAD financing); (ii) support to productive initiatives (21 per cent of total programme costs and 22 per cent of IFAD financing); (iii) support to rural microfinance (29 per cent of total programme costs and 34 per cent of IFAD financing); and (iv) programme management (32 per cent of total programme costs and 22 per cent of IFAD financing).

IV. Proposed modification to the financing agreement

15. Upon approval by the Executive Board, the existing financing agreement will be amended to reflect the supplementary financing.

V. Recommendation

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

RESOLVED: that the Fund shall provide supplementary financing in the form of a grant to the Republic of Haiti in an amount equivalent to four million eight hundred and fifty thousand special drawing rights (SDR 4,850,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President