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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board - Sixty-Third Session

Rome, 22-23 April 1998

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

BELIZE

FOR

THE COMMUNITY-INITIATED AGRICULTURE AND RESOURCE MANAGEMENT PROJECT

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CURRENCY EQUIVALENTS

Currency Unit	=	Belize dollar (BZD)
USD 1.00	=	BZD 2.00
BZD 1.00	=	USD 0.50

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

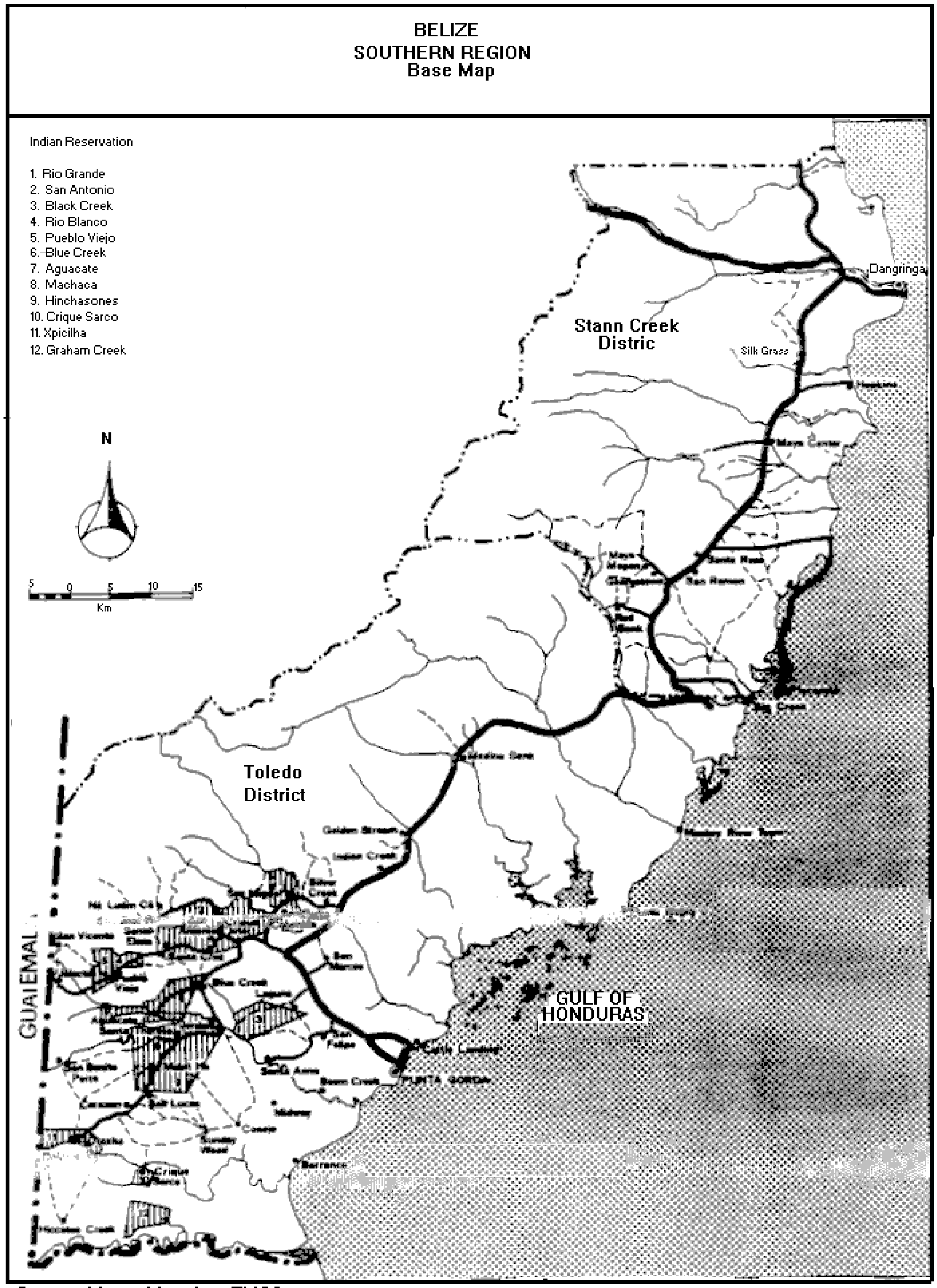
CDB	Caribbean Development Bank
ESTAP	Environmental and Social and Technical Assistance Project
IDB	Inter-American Development Bank
IFI	Intermediate Financial Institutions
LAC	Local Approval Committee
LAG	Local Advisory Group
MAF	Ministry of Agriculture and Fisheries
MOF	Ministry of Finance
NGO	Non-governmental organization
PCU	Project Coordination Unit
PMO	Planning and Monitoring Officer
PSC	Project Steering Committee
RRF	Rural Finance Fund
SIF	Social Investment Fund
TA	Technical assistance

GOVERNMENT OF BELIZE

Fiscal Year

1 April - 31 March

MAP OF THE PROJECT AREA



Source: Mava Mapping. TMCC.

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.

BELIZE

COMMUNITY-INITIATED AGRICULTURE AND RESOURCE MANAGEMENT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Belize
EXECUTING AGENCY:	Ministry of Agriculture and Fisheries (MAF)
TOTAL PROJECT COST:	USD 6.8 million
AMOUNT OF IFAD LOAN:	SDR 1.75 million (equivalent to approximately USD 2.3 million)
TERMS OF IFAD LOAN:	18 years, including a grace period of five years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually
COFINANCIERS:	Caribbean Development Bank (CDB)
AMOUNT OF COFINANCING:	CDB: USD 3.4 million
CONTRIBUTION OF BORROWER:	USD 1.1 million
APPRAISING INSTITUTION:	IFAD/CDB
COOPERATING INSTITUTION:	CDB

PROJECT BRIEF

The target group will be the 72 rural communities with some 24 000 poor rural people, or 3 900 households, living in Toledo district and the south of Stann Creek district. Project services will be available to about 2 600 rural households as direct beneficiaries who will be poor rural people whose net incomes are lower than the poverty line estimated at approximately USD 644 in 1996. Most small farmers are *milpa* [a] farmers who cultivate on a shifting basis some 20 acres of land for rice, beans and maize.

Major socio-economic constraints that impede social and economic development are: lack of access to financial resources and adequate support services, low productivity agricultural systems, geographical isolation from markets and marginality to national mainstream of economic development. The latter is especially true of many Mayan communities which adhere to traditional life-styles based on subsistence agriculture. All of these constraints are further confined by a complicated ethnic matrix (Mayans, Creoles, Garifunas, Mestizos and East Indians) which has shown, in Belize and in other countries in the Latin America and Caribbean region, to have profound implications for the design and performance of development interventions. Of particular importance to the southern region are far-reaching social and economic changes anticipated as a result of the upgrading of the Southern Highway. While the road is considered essential by the Government to regional economic growth and national integration, it will also accelerate the pace of development and could, as a result of more intense competition for resources (especially land), increase the vulnerability of poorer communities.

The project will be strongly oriented towards the direct involvement of beneficiaries in the design and implementation of project activities. It will provide communities, local organizations and groups of producers, women and youth, through information, training and technical assistance, the opportunity and means to express their needs and demands and to formulate them in terms of proposals. The project will strengthen the producer and community groups in order to enhance their capacity to organize and manage services to support income-generating activities, improve production technology, and facilitate access to new markets. The project will finance small-scale productive infrastructure investments proposed by communities or producer groups. A credit fund, administered by a second-tier institution will provide credit-lines to intermediate financial institutions (IFIs) such as non-governmental organizations and credit unions. Technical assistance and training will be provided to strengthen the IFIs. In the management structure of the project the target group will be represented on the Project Steering Committee and in the Local Approval Committee.

The project will receive support from IFAD-financed technical assistance grants, the Regional Unit for Technical Assistance (RUTA) and the Regional Programme in Support of Indigenous Peoples of the Amazon Basin. This support will be through technical assistance, training and exchange visits with other IFAD projects in such areas as rural financial services, privatization of services and indigenous knowledge systems.

The overall cost of the project over seven years will be approximately USD 6.8 million. The project will be financed by the Caribbean Development Bank (USD 3.4 million) and IFAD (USD 2.3 million). The Government will contribute USD 1.1 million.

[a] See Appendix V for additional information on *milpa* farming.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO BELIZE FOR THE COMMUNITY-INITIATED AGRICULTURE AND RESOURCE MANAGEMENT PROJECT

I submit the following Report and Recommendation on a proposed loan to Belize for SDR 1.75 million (equivalent to approximately USD 2.3 million) on ordinary terms to help finance the Community-Initiated Agriculture and Resource Management Project. The loan will have a term of 18 years, including a grace period of five years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually. It will be administered by the Caribbean Development Bank (CDB) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY[1]

A. The Economy and Agricultural Sector

1. Belize's total land area is 23 000 km² and lies on the Central American littoral . It is bounded to the north by Mexico, to the east by the Caribbean Sea and to the south and west by Guatemala. Belize's economy is predominately oriented towards agriculture, which contributed 21% of Gross Domestic Product (GDP) in 1995. As preferential markets for sugar, citrus and banana are likely to be phased out over the longer term, there are efforts to diversify into non-traditional crops. Belize has registered GDP growth of 6% per year and low inflation rates during the 1990s, with external factors accounting for most variations.

2. Previous Governments have followed a policy of encouraging investment in non-traditional areas of production, and achieved success in developing export-oriented production of bananas, citrus and marine products. However, Government scope is constrained by the economy's vulnerability to fluctuations in international commodity prices. In order to contain the present fiscal deficit, expenditure was cut sharply by a range of measures including a public sector wage freeze and compulsory redundancies of government employees. In the last few years the overall deficit rose which reflects a marked increase in capital spending. Belize is qualified as a middle-income country with a per capita Gross National Product (GNP) of USD 2 600 in 1996.

3. Agriculture is the leading economic sector, accounting for about 70% of export earnings and employing almost 25% of the labour force. Belize is largely self-sufficient in rice, beans and maize; however, cheaper imports from Mexico and Guatemala have created problems for both producers and the retail sector. Most farms in Belize are less than 20 ha in size. Small farmers have traditionally had difficulty in obtaining capital for improvements. The predominately Mayan farmers in the southern region still use the traditional *milpa*[2] methods of shifting cultivation, producing corn and beans principally for their own consumption, and rice and cacao for marketing.

1 See Appendix I for additional information.
2 See Appendix V for additional information on *milpa* farming.

B. Lessons Learned from Previous IFAD Experience[3]

4. IFAD has financed the Toledo Small Farmers Development Project, with a loan amount of SDR 2.1 million (USD 2.15 million). The project succeeded in introducing a relatively small number of farmers to sedentary farming, which especially facilitated the expansion of mechanized rice cultivation. Overall, support services such as extension, credit and marketing have not shown sustainable improvements. The project has also supported farmer organizations which have gained basic experiences in self-management of their development efforts.

5. The lessons learned are: any new project should make much greater use of the village's social structure to promote development activities; many more local organizations should be involved in delivering support services based on needs and demands of the target group; and credit for small farmers requires innovative, flexible approaches. It was also recommended that a new project should concentrate its activities towards the target group that lives in the foothills and hills, improving agricultural production based on conserving and sustaining its natural resources; and that activities in the lowland areas with the group of beneficiaries that benefited from the first phase should be oriented towards a further consolidation and optimization of market potential for their agricultural production.

C. IFAD's Strategy for Collaboration with Belize

6. **Belize's Policy for Poverty Eradication.** The poverty reduction strategy of the Government is to improve the social and economic infrastructure, increasing the quality of life of the targeted poor by enhancing the health and education services available to them, improving land tenure, productive systems and marketing as ways of enhancing livelihoods and assisting the poor to move out of poverty. The key strategies are centred around economic diversification, including the development and marketing of new products. To this end, efforts should be made to strengthen rural producers' organizations and other organizations which could enhance food security, income-generation and gainful employment while conserving and improving the natural environment. Priority attention is recommended for Toledo district where poverty assessments have revealed severe levels of social and economic deprivation.

7. **The Poverty Eradication Activities of Other Major Donors.** The Social Investment Fund (SIF) has only recently started operations. It is a four-year project (1997-2000) funded by the World Bank and the European Union with a total investment of USD 11.7 million of which about 33% is targeted for Toledo and Stann Creek. It has been carrying out pilot activities in Toledo district where it has initiated community participatory planning processes in some 10 villages. The SIF provides matching grants to communities to undertake social infrastructure projects including: clinics, schools, water supply schemes, sewage and feeder roads. Projects which are assigned the highest priority by the communities are those to be financed by SIF if the responsible line ministry or agency agrees to the proposal and is able to guarantee its sustainability in terms of operation and maintenance. SIF also provides financing for income-generating activities which will benefit the community.

8. The Environmental and Social and Technical Assistance Project (ESTAP) which covers all of the southern region is funded by the Inter-American Development Bank (IDB). It was developed to respond to potential social and environmental problems which could result from the rehabilitation of the Southern Highway. The project's *raison d'être* is social and environmental mitigation, but the mandate has been broadened to include the development of a land use plan for the region. In conjunction with the land use plan, it is also intended to make recommendations regarding land tenure. The project will adopt a participatory process, holding consultative sessions with the

[3] See Appendix II Previous IFAD Loans.

communities in order to determine the land use in each community. This information will be used to complement secondary information and data on the soils, vegetation, resource base and land use in the area.

9. **IFAD's Strategy in Belize.** Rural poverty in Belize, and especially in the southern region of Belize, presents a complex range of economic and social issues which impede the development of the region. Rural poverty is closely related to ethnicity and it is associated with lack of rural services, a low degree of market integration and geographical remoteness. All these constraints are further confined by a complicated ethnic matrix which has profound implications for the design and performance of development interventions.

10. IFAD's country strategy emphasizes its commitment to improving access and sustainability of rural services for the poorest rural populations in order to improve their income. IFAD's niche in Belize is to support the Government's national development strategy especially regarding its community development approach intended to strengthen community organizations and leadership, and to foster wider participation in decisions affecting community life. It aims to influence Government strategy to reduce poverty through improving agricultural productive sector efficiency and to diversify its productive base and income-generating opportunities taking into account the indigenous and gender dimensions of the region.

11. IFAD will complement investments undertaken by other donors in the southern region especially those of IDB with respect to ESTAP efforts to reconcile land use planning and tenure problems and of the World Bank through its SIF to complement its social infrastructure with productive infrastructure investments. In line with IFAD's corporate strategy, the initiatives to be supported will focus on institutional capacity-building, involvement of the private sector and active beneficiary participation in decision-making and implementation. The project will also receive support from IFAD-financed technical assistance grants, the Regional Unit for Technical Assistance (RUTA) and the Regional Programme in Support of Indigenous Peoples of the Amazon Basin. Support will be through technical assistance (TA), training and exchange visits with other IFAD projects in such areas as rural financial services, privatization of services and indigenous knowledge systems.

12. **Project Rationale.** Of primary importance for investing in a community development programme oriented towards self-management is that many changes are now taking place in the southern region which affect the agricultural and resource base of communities.

13. Enabling communities to grasp the impact of change on their lives and on the potential transformation of culture suggests a need to provide them tools to negotiate the transition from more traditional to more market-oriented, consumer life-styles. In the more traditional Mayan communities, the pace and direction of change causes concern. A significant feature of the project will be assisting these communities to address change by sustaining improved livelihoods from farming but, at the same time, safeguarding their cultural identity and increasing their involvement with national development. Other ethnic groups such as the East Indians and Garifunas are also economically disadvantaged but are less peripheral to the mainstream of national life than the Mayans. These are the major reasons underlining the importance of this programme and the critical timing of its implementation.

14. If dissipation of resources is to be attenuated, more creative approaches to development need to be devised. The proposed project will be strongly oriented towards the direct involvement of beneficiaries throughout their community organizations, in the design and implementation of project activities. Moreover, it supports the overall development strategy that local organizations should

participate in project implementation and decision-making, promoting that delivery of support services correspond to demands defined by target groups.

15. The proposed project aims to improve access and sustainability of rural services for the southern region. This process will involve a careful balancing of the supply and the demand of services in communities and local grass-roots organizations. At present, they have no access to the services or the support needed to undertake activities or solve problems. The project will follow the approach to gradually build in the communities/organizations the capacity to contract the services they need, initially with support from the project but later independently. In parallel, it will strengthen the ability of the service providers to meet these demands. The project will provide technical, administrative and financial support to improve and often expand operations of potential service providers. This applies particularly to the producer associations and financial intermediaries.

PART II - THE PROJECT

A. Project Area and Target Group

16. The project area is defined as the southern region of Belize which covers the area south of the Hummingbird Highway in Stann Creek district and all of Toledo district (Map). The total area of the southern region is about 2 500 square miles of which about half is national parks and forest reserves with a large part of the remainder under permanent or shifting cultivation.

17. The target group will be 72 rural communities with some 24 000 poor rural people, or 3 900 households, living in Toledo district and the southern part of Stann Creek district. Project services will be available to about 2 600 rural households as direct beneficiaries who will be poor rural people with net incomes lower than the poverty line estimated at USD 644 in 1996.

18. Ethnic diversity tends to segment patterns of settlement in the southern region. Toledo district exhibits sharp ethnic differences from Stann Creek district, being more homogeneous in composition. Toledo has the greatest concentration of indigenous people still largely devoted to traditional patterns of existence, which profoundly influence its economic and cultural life. The Kekchi and Mopan Mayans constitute 75% of its rural population. Other ethnic groups that will be beneficiaries of the project are the Garifunas, Creoles, Mestizos and East Indians.

B. Objectives and Scope

19. The overall objective of the project is to develop the productive potential of sustainable land use systems and ensure accessible support services to poor smallholders families in the southern region. The specific objectives of the project are to: (a) develop group management and leadership skills with a gender focus in communities and local organizations to generate, formulate and implement small-scale projects especially related with income-generating activities; (b) strengthen public and private institutions to deliver more effective non-financial services, respecting gender, ethnic diversities and incorporate indigenous knowledge; (c) ensure the provision of financial services and resources accessible for poor rural families for agricultural and micro-enterprises investments; and (d) improve agricultural production systems to make them economically viable and ecologically sustainable, and exploit the opportunities for production diversification, technology supply and market access.

C. Components

20. The project has four components: (a) community promotion and local organization strengthening; (b) rural financial services; (c) technical and marketing support services and small-scale infrastructure investments; and (d) project coordination.

21. **Community Promotion and Local Organization Strengthening.** Its purpose is to enable communities to better understand their current social, demographic and physical resource constraints and opportunities and to develop plans and priorities suitable for sustaining livelihoods and cultural and environmental continuity. The methodological approach will consist in participatory diagnosis and planning formulated by organizations and directed by the community development field workers. The output of the activity will be the formulation of community-based development project proposals for submission to the project's cost-sharing fund. The project will assist in proposal formulation through TA and preinvestment support. Through the implementation of the component activities, communities and local organizations will reinforce their capacities for expressing demands and formulate and implement small-scale projects. It is expected that the component will develop activities at the level of at least 50 out of the 72 communities in the project area. Priority will be given to the poorest communities. Training and education are envisaged as a major tool for reaching the objective of sustainable development through robust and efficient community organizations, non-governmental organizations (NGOs) and, where appropriate, public sector agencies.

22. **Rural Financial Services.** This component aims to allow the access of target population to financial services, introducing new savings and credit mechanisms. The overall component´s strategy focuses on small, short-term loans, based on group guarantee, savings and other forms of innovative collateral. The target group is not limited to the small farmer but extended to women and youth. As such, lending activities are not directed to specific crops but open to a variety of activities that will foster diversification. In this regard, the component focuses on access to financial services rather than on specific crops or farming systems/models.

23. The component will have two sub-components: (a) a Rural Finance Fund (RFF) in order to increase the financial resources available in the area. It is expected that 2 600 households will have access to saving and credit services organized under the microcredit mechanisms; and (b) institutional strengthening of intermediate financial institutions (IFIs). Based on institutional diagnosis and the establishment of a business plan with performance indicators, two or three IFIs will be selected who will have access to the RFF. It will finance the training and TA needs of the IFIs in the implementation of microfinance technologies (credit and savings), including management aspects. It will also finance visits to successful microfinance programmes in Latin America and Asia. The RFF will provide grants to participating IFIs for opening and operating small/basic branches in the target communities (staffing needs, basic equipment).

24. The implementation of the RFF will require a two-tier mechanism for maximizing results, achieving some scale and facilitating overall management and control of the sub-components. The Development Finance Cooperation (DFC), a banking institution, acting as a second-tier intermediary will open lines of credit to selected first-tier non-banking intermediaries (NGOs and credit unions). First-tier intermediaries, in turn, will provide credit and savings services to the target beneficiaries, grouped or individually. Participating IFIs will have to meet, or have the potential to meet, strict pre-defined criteria regarding portfolio quality and financial soundness. Given the objectives of improving access to savings services as well as credit, credit unions are currently the best positioned institutions to achieve both. Some NGOs, while institutionally weaker, are potential participants.

25. **Technical and Marketing Support Services and Small-Scale Infrastructure Investments.** The main objective is to support the capacity of community and local organizations for implementing small developing projects, specially related to income-generating activities. It will have two sub-components: (a) **Technical and marketing support services**. Extension services based on farmer-to-farmer methodologies as well as specialized TA will be provided to the communities/local producer organizations to promote adoption and reduce risks of new technologies, diversification to new agricultural or non-agricultural activities and reaching new markets; the component will also implement a strong training activity to improve the capacity of local professionals, and NGOs; and (b) small-scale community investments communities and organizations will have access to small-scale community investments in order to improve the opportunities and success of income-generating activities. Financing of sub-projects will be on a cost-sharing basis and in accordance with eligibility criteria, procedures and conditions established in the Operations Manual.

26. **Project Coordination.** A Project Coordination Unit (PCU) within the Ministry of Agriculture and Fisheries (MAF) will have the overall responsibility for project coordination and management, while the implementation will be entrusted to communities and local organizations and to service providers and agencies of the private and public sector. The PCU will be financed by the project and staffed according to IFAD and CDB requirements.

D. Costs and Financing[4]

27. **Costs.** Total project costs, including physical and price contingencies, are estimated at USD 6.8 million. The disbursement period is estimated at seven years. Project costs are summarized in Table 1.

[4] See Appendix IV for more information.

TABLE 1: SUMMARY OF PROJECT COSTS[a]
(USD '000)

Components	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. Community promotion and local organization					
Institutional strengthening	959	121	1 080	11	17
Preinvestment	200	-	200	-	3
Subtotal	**1 159**	**121**	**1 280**	**9**	**20**
B. Rural financial services					
Institutional strengthening	344	22	366	6	6
Credit	1 050	-	1 050	-	16
Subtotal	**1 394**	**22**	**1 416**	**2**	**22**
C. Technical and marketing services					
Agricultural development	1 611	51	1 662	3	26
Marketing services	250	-	250	-	4
Community investments	500	-	500	-	8
Subtotal	**2 361**	**51**	**2 412**	**2**	**37**
D. Project coordination					
Project Coordination Unit	902	99	1 001	10	16
Monitoring and evaluation	307	26	333	8	5
Subtotal	**1 209**	**125**	**1 333**	**9**	**21**
Total base costs	**6 123**	**320**	**6 443**	**5**	**100**
Physical contingencies	55	32	87	37	1
Price contingencies	214	17	231	7	4
Total project costs	**6 392**	**368**	**6 760**	**5**	**105**

[a] Discrepancies in totals are due to rounding.

28. **Financing.** IFAD will finance the equivalent of approximately USD 2.3 million (33.9%) of project costs and the CDB approximately USD 3.4 million (50.3%). The Government will contribute approximately USD 1.1 million (15.8%). The proposed financing plan is summarized in Table 2.

TABLE 2: FINANCING PLAN[a]
(USD '000)

Components	IFAD		CDB		Government		Total		Foreign	Local (Excl.	Duties and
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Exchange	Taxes)	Taxes
A. Community promotion and local organization											
Institutional strengthening	744	63.6	222	19.0	203	17.4	1 169	17.3	139	987	43
Preinvestment	-	-	200	100.0	-	-	200	3.0	-	200	-
Subtotal	**744**	**53.3**	**422**	**30.8**	**203**	**14.8**	**1 369**	**20.3**	**139**	**1 187**	**43**
B. Rural financial services											
Institutional strengthening	108	27.5	248	63.6	35	8.9	391	5.8	25	355	10
Credit	500	47.6	-	-	550	52.4	1 050	15.5	-	1 050	-
Subtotal	**608**	**42.2**	**248**	**17.2**	**585**	**40.6**	**1 441**	**21.3**	**25**	**1 405**	**10**
C. Technical and marketing services											
Agricultural development	190	11.1	1 460	85.0	68	4.0	1 718	25.4	60	1 639	19
Marketing services	250	100.0	-	-	-	-	250	3.7	-	250	-
Community investments	-	-	500	100.0	-	-	500	7.4	-	500	-
Subtotal	**440**	**17.8**	**1 960**	**79.4**	**68**	**2.8**	**2 468**	**36.5**	**60**	**2 389**	**19**
D. Project coordination											
Project Coordination Unit	376	33.8	595	53.4	143	12.9	1 115	16.5	115	964	36
Monitoring and evaluation	125	34.1	175	47.8	66	18.1	367	5.4	29	328	9
Subtotal	**501**	**33.8**	**771**	**52.0**	**210**	**14.2**	**1 482**	**21.9**	**144**	**1 292**	**45**
Total disbursement	**2 293**	**33.9**	**3 401**	**50.3**	**1 066**	**15.8**	**6 760**	**100.0**	**368**	**6 274**	**118**

[a] Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

29. **Procurement.** Procurement of goods and services shall be carried out in accordance with the procedures set forth in CDB's Guidelines for Procurement. All such goods and services shall be procured and engaged from such Member States of the Fund that have been specified by the Fund as eligible sources of procurement.

30. **Disbursement.** The proposed IFAD loan of USD 2.3 million equivalent will be disbursed over a seven-year period. Withdrawals from the loan account will be effected in accordance with procedures acceptable to IFAD. To facilitate project implementation, a special account will be established by the Government in the Central Bank of Belize into which IFAD will make an initial deposit of USD 200 000. The Government will open a project account into which it will deposit its counterpart funds. The Ministry of Finance (MOF) will establish a subsidiary agreement for the transfer of credit funds, rights and obligations with a second-tier institution. The second-tier institution will establish financing agreements with one or more IFIs who will manage the funds according to the provision of the credit-by-laws agreed upon by the Government and IFAD. The closing date of the loan is 30 June 2006.

31. **Accounts and Audit.** All institutions receiving IFAD project funds will maintain separate accounts. Auditing will be carried out yearly by independent external auditors acceptable to the cooperating institution (CI). The Government will send the annual audit report no later than six months after the end of the fiscal year. MAF will submit six-monthly progress reports and financial reports to IFAD and the CI. The project will adopt administrative, contracting, and purchasing procedures acceptable to the CI and IFAD.

F. Organization and Management

32. **Beneficiary Participation and Project Implementation.** The project will be implemented over a seven-year period. The duration is justified because of the project's innovative features for the country and the various indigenous communities involved and the need to build up the institutional capacity of mobilization and promotion of community participation. In addition, new mechanisms and methodologies of rural services delivery have to be adopted by NGOs and IFIs. The project will be implemented in three phases. An initial phase of 6-9 months to make the necessary preparations and organize the management bodies, draft the Operations Manual, select IFIs, and undertake a baseline study of the project area and intensive training of project staff. A second phase of two years when the main goals are the consolidation of the operation of the project mechanisms, through the Operations Manual and the involvement of the community organizations in project implementation. This phase will be evaluated in order to better assess the strategy for the third phase of consolidation of the project mechanisms and the expansion of its outreach.

33. According to the requirements and demands of the beneficiaries, the project will provide the community organizations, producers', women's or youth groups with funding on a cost-sharing basis to finance rural development services in order to implement small-scale production projects. The funds will be flexibly tailored to meet the diversity of the demands from the various organized groups. With project cooperation, communities and organizations will submit their investment and development proposals based on requirements spelled out in the Operations Manual.

34. **Project Management.** The MAF will be responsible for overall coordination of the project. However, given the particular approach of the project, based on the demands and proposals submitted by the communities and organizations, the project will be implemented under autonomy from the

normal activities of the MAF. In order to implement the project, a Project Coordination Unit (PCU) will be established. The characteristics of the project implies administrative autonomy within the PCU to make decisions on matters of financial management and accountability as specified in the Operations Manual. This will allow for a more efficient project implementation, and foster the local-ownership and the demand-driven approach of the project. The MAF will establish a system of control of the project compatible with the concepts of efficiency, decentralization and autonomy. The PCU will be responsible for the effective implementation of project activities in accordance with project strategy and the annual work plan and policies. The PCU will coordinate project activities and cooperate with other related projects and programmes implemented in the project area by the Government, especially SIF and ESTAP. The Project Steering Committee **(**PSC) will be constituted and headed by a representative of the MAF and made up of representatives of various Government agencies, representatives of the community and producer organizations in the area, and NGOs. The PSC's main function is to approve and supervise the implementation of the Annual Work Plan and Budget based on agreed project strategy and policies as reflected in the Operations Manual of the project, appoint and select project staff, approve project proposals above USD 25 000 and guarantee the coordination with the PSC of ESTAP and the Executive Board of SIF. The Local Approval Committee (LAC) is a small executive sub-committee of the PSC. The LAC will approve requests up to USD 25 000 submitted by communities or producer organizations or women's groups. Its decisions will be taken in accordance with eligibility criteria and conditions established in the Operations Manual. It will be integrated by three members appointed by the Government members of the PSC and three members appointed by community, producers or ethnic/cultural organizations through their Local Advisory Group (LAG). This LAG will also be a forum for dialogue between stakeholders regarding project policy, priorities and will provide feedback for decisions and planning of project activities and strategy.

35. **Operations Manual.** The project design is based on a participatory demand-driven approach, communities or local organizations submitting sub-projects which are partially financed through a project cost-sharing fund. The rules, criteria and procedures for operationalizing this approach will be established in an Operations Manual. The manual will set out the operational procedures to be used by project management for overall implementation of the project. A first draft of this manual will be prepared by IFAD and CDB . This draft should be refined by the PCU and the PSC and reviewed and approved by IFAD and CDB. The manual will cover the following: (a) project organization and management; (b) financial and administrative procedures; (c) procedures for approval of sub-projects to be financed on a cost-sharing basis; (d) eligibility criteria for beneficiaries and activities; and (e) monitoring and evaluation and reporting.

36. **Gender Considerations.** The project will incorporate specific participatory and gender-oriented mechanisms to ensure that women are encouraged to share the benefits and responsibilities of the project activities. In the decision-making bodies such as the PSC and LAC women's groups will be represented. Among the community field staff at least two will be women; and specific training is foreseen for project staff and service providers in gender aspects. The rural financial services component will aim to establish women's groups that will guarantee their involvement and access to credit and saving services.

37. **Monitoring and Evaluation.** These functions will be articulated at three levels: (a) the communities; (b) the PCU; and (c) the MAF and the project's financing and cooperating institution. The first will be the grass-roots level, at which very basic and simple information is collected. The second level will cover the overall responsibility of the PCU through its Planning and Monitoring Officer (PMO), who will visit each community on a quarterly basis and collect information on implementation progress, including the communities' problems. The third level or the evaluation function will be to undertake impact evaluation of the project-promoted activities. The Policy Unit of

the MAF will be in charge of this through its data analysis and impact evaluation studies. TA and training will be provided for both the PMO and the MAF. A baseline study will be undertaken during the first year of implementation on a sample group of no more than 150 households in order to establish the project monitoring and impact indicators. A mid-term review is foreseen at the end of the third year of project implementation. It will assess the usefulness of project mechanisms, the application of the Operations Manual and the performance of the rural financial services component.

G. Economic Justification

38. Direct beneficiaries of project investment and income-generating activities are estimated at about 2 600 smallholder families. Total beneficiaries of the components will be some 17 000 people.

39. Cropped land is reduced by 15%, so that total cultivated area decreases by 20%. It is the strategy of rationalization in the use of the resources, principally introducing the intercrop beans-and-maize which allows the cropped land to be "saved", bringing a further reduction in the total area involved in the *milpa* system production. Despite the decrease in cropped land, total production increases by 16%, thanks to an average expected yield increase of 35% in the cropped area. In value terms, at full project development, total farm production will increase by 1.32 times, which corresponds to an increment of USD 1.60 million and a total production of USD 8.1 million. On the average, the farm family will benefit by an yearly income increase of USD 500. That increment will result, in the target year, in a yearly average income of USD 1 700, representing a relative increase of 1.4 times.

40. The internal rate of return of the economic analysis has been estimated at 17.5%. The Net Present Value of the incremental benefits is estimated to amount to USD 15.5 million and the incremental cost to USD 12.9 million. That results in a benefit/cost relation of 1.21.

H. Risks

41. The following specific risks have been identified: (a) the participatory and demand-driven approach embodied by this project involves risks in terms of the pace of implementation. The involvement of local organizations and their weak institutional capacity could prevent the project from achieving desired self-management objectives; (b) the multi-layer type of project, vast geographical coverage and diversity of the target population might jeopardize efficient, timely and effective delivery and coordination mechanisms; (c) although first-tier financial intermediaries have the advantage of reaching the more isolated clientele, they sometimes lack the capability to effectively manage funds; and (d) sensitivity of the land tenure issue may hamper the resolution of the land conflicts and thus reduce the overall impact of project development. Risk mitigation has been incorporated into project design and should be achieved by: (a) involving local existing organizations and institutions working at community level, providing them with training and TA to acquire management and planning skills; (b) emphasizing the institutional strengthening and capacity-building of participating institutions; (c) institutional strengthening and external TA for the second- and first-tier financial intermediaries; and (d) implementation of the ESTAP which specifically focuses on mitigating measures to improve land use and land tenure.

I. Environmental Impact

42. The agricultural technologies to be supported under the project are aimed as much as making agriculture more sustainable as more productive, and therefore can be expected to have beneficial results on the environment. Technologies that reduce land degradation and improve soil fertility will be emphasized, rather than use of high input levels of inorganic fertilizers and chemicals. There is a risk that improved production possibilities in the form of new markets, better prices and better access

to services may lead to an expansion of the agricultural frontier into lands that are less suitable. The project aims to reduce this risk by the attention given to natural resource management at community and at producer level. Overall the project is expected to have beneficial effects on the environment.

J. Innovative Features

43. The innovative features of the project are concentrated towards: the strong emphasis on beneficiary participation in decision-making especially in determining their priority investments and their being directly involved in its design as well as the contracting of the service provider. The rural financial services will introduce credit technologies and methodologies that are based more on group collateral and savings. Credit will become accessible to the target group so far excluded from credit facilities as they could not provide hard collateral. It will also allow IFIs to provide credit based on analysis of the clients' character and repayment capacity, and not only based on their agricultural activity.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

44. A loan agreement between Belize and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

45. Belize is empowered under its laws to borrow from IFAD.

46. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

47. 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 Belize in various currencies in an amount equivalent to one million seven hundred and fifty thousand Special Drawing Rights (SDR 1 750 000) to mature on and prior to 1 April 2016 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 other terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President

ANNEX

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan Negotiations concluded on 21 April 1998)

1. The Government of Belize (the Government) shall make available to the Development Finance Corporation (DFC) such proceeds of the loan as are required for carrying out the RFF sub-component in accordance with a subsidiary agreement acceptable to IFAD (the DFC Subsidiary Agreement).

2. The Government shall cause DFC to make such proceeds of the loan available to the IFIs as required to carry out the RFF sub-component in accordance with subsidiary agreements acceptable to IFAD.

3. The Government shall cause the PCU to open and thereafter maintain in a commercial bank, satisfactory to IFAD, a project account in Belize dollars, into which the Government shall deposit an initial amount equivalent to USD 100 000 from its own resources and shall thereafter in advance replenish quarterly the project account by depositing the required local counterpart funds to be provided by the Government as estimated in the Annual Work Programme and Budget (AWP/B) for the project.

4. During the execution of the project, the Government and IFAD shall periodically review the interest rates to be applied to the credits to be made out of the proceeds of the loan. The Government, if necessary, shall take appropriate measures, consistent with its policies in order to harmonize the interest rates on credits with IFAD's policy on relending rates

5. In the implementation of paragraph 4 above, the Government shall ensure that the IFIs shall minimize their costs in executing Part B.1 of the project as it affects its margin of the interest spread.

6. The Government shall establish and maintain, or cause DFC to establish and maintain, a revolving fund for the project for keeping therein the principal and interest, net of operating and other expenses, received on the credits made to farmers from the proceeds of the loan. Amounts available in the revolving fund shall be used by DFC for the expansion of credit facilities by the IFIs to the beneficiaries consistent with the Loan Agreement or other development activities consistent with the objectives and policies of IFAD at least until such date as the principal of, and interest and other charges on, the loan shall have been paid in full.

7. The Government shall ensure that, within four months after the date of the Loan Agreement, the PSC shall have been established in accordance with paragraph 6 of the Schedule to the Loan Agreement.

8. The Government shall ensure that, within seven months after the date of the Loan Agreement, the PCU shall have been established in accordance with paragraph 8 of the Schedule to the Loan Agreement.

9. The Government shall ensure that, within nine months after the date of the Loan Agreement, the PCU and PSC shall have prepared a draft of the project operational manual and shall have submitted such draft to IFAD for approval.

10. In preparing the AWP/B, the PCU shall ensure that project resources are allocated in an equitable way to the marginal and poorest communities, women groups and, in general, the weaker and less consolidated organizations within the target population.

11. Project activities shall be coordinated with the activities of ESTAP and SIF in the project area. The Government shall ensure that ESTAP and SIF include an item related to the other two projects on the agenda of their respective project steering committee and board of directors meetings, and a joint annual meeting shall be held with members of the PSC and management staffs of ESTAP and SIF to share information on the programmes and budgets of the three projects.

12. The following are specified as additional conditions to the effectiveness of the Loan Agreement:

(a) a provisional PSC shall have been established; and

(b) a project director, satisfactory to IFAD, shall have been appointed.

13. No withdrawals from the loan account or payments out of the Special Account shall be made in respect of:

(a) the loan, until CDB shall have confirmed to IFAD that (i) CDB's loan agreement has been duly executed and has become legally binding upon the parties thereto in accordance with its terms, and (ii) unless IFAD otherwise agrees, all conditions precedent to the first disbursement of the CDB's loan have been satisfied by the Government;

(b) the loan, until the Government has made the initial deposit into the project account referred to in paragraph 3 above;

(c) the Community Development Fund, until a project operational manual has been approved in form and substance by IFAD and CDB and adopted by the Government; and

(d) the RFF, until IFAD shall have received (i) certified copies of the DFC Subsidiary Agreement, in form and substance satisfactory to IFAD, duly signed by the Government and DFC; and (ii) evidence that the Government has authorized DFC to make deposits into the RFF of up to USD 500 000 and that DFC has made the initial deposit into the RFF required by the DFC Subsidiary Agreement.

COUNTRY DATA
BELIZE

Land area (km^2 thousand) 1994 4/	**23**	**GNP per capita (USD) 1995 2/**	**2 630**
Population (million) 1995 4/	**0.22**	**Average annual real rate of growth of GNP per capita, 1985-95 2/**	**4.4**
Population density (population per km^2) 1995 1/	**9**	**Average annual rate of inflation, 1985-95 2/**	**3.5**
Local currency	Belize dollar (BDZ)	**Exchange rate: USD 1 =**	**BZD 2.00**

Social Indicators	
Population growth (annual %) 1995 4/	2.4
Crude birth rate (per thousand people) 1995 4/	32
Crude death rate (per thousand people) 1995 4/	4
Infant mortality rate (per thousand live births) 1995 1/	36
Life expectancy at birth (years) 1994 3/	74.0
Number of rural poor (million) 1/	n.a.
Poor as % of total rural population 1/	n.a.
Total labour force (million) 1995 4/	0.07
Female labour force as % of total, 1995 1/	22
Education	
Primary school enrolment (% of age group total) 1993 1/	n.a.
Adult literacy rate (% of total population) 1994 3/	70.0
Nutrition	
Daily calorie supply per capita, 1992 3/	2 670
Index of daily calorie supply per capita (industrial countries=100) 1992 3/	n.a.
Prevalence of child malnutrition (% of children under 5) 1989-95 1/	n.a.
Health	
People per physician, 1993 4/	2 028
People per nurse, 1993 4/	490
Access to safe water (% of population) 1990-96 3/	n.a.
Access to health service (% of population) 1990-95 3/	n.a.
Access to sanitation (% of population) 1990-96 3/	n.a.
Agriculture and Food	
Cereal imports (thousands of metric tonnes) 1994 4/	15
Food imports as percentage of total merchandise imports 1993 4/	18
Fertilizer consumption (hundred grams of plant nutrient per arable ha) 1994 4/	1 088
Food production index (1989-91=100) 1995 4/	134
Food aid in cereals (thousands of metric tonnes) 1994-95 1/	n.a.
Land Use	
Agricultural land as % of total land area, 1994 4/	5
Forest and woodland area (km^2 thousand) 1993 3/	21
Forest and woodland area as % of total land area, 1993 3/	92
Irrigated land as % of arable land, 1994 4/	3.5

Economic Indicators	
GDP (USD million) 1994 1/	578
Average annual rate of growth of GDP 1/	
1980-90	n.a.
1990-95	n.a.
Sectoral distribution of GDP, 1994 4/	
% agriculture	20
% industry	*28*
% manufacturing	15
% services	*53*
Consumption, 1994 4/	
Government consumption (as % of GDP)	17
Private consumption (as % of GDP)	63
Gross domestic savings (as % of GDP)	20
Balance of Payments (USD million)	
Merchandise exports, 1995 4/	143
Merchandise imports, 1995 4/	259
Balance of trade	- 116
Current account balances (USD million)	
before official transfers, 1995 4/	- 63
after official transfers, 1995 4/	- 30
Foreign direct investment, 1995 4/	21
Net workers' remittances, 1995 4/	13
Income terms of trade (1987=100) 1995 1/	n.a.
Government Finance	
Overall budget surplus/deficit (as % of GDP) 1994 4/	-10.5
Total expenditure (% of GDP) 1994 4/	31.1
Total external debt (USD million) 1995 4/	261
Total external debt (as % of GNP) 1995 4/	45.9
Total debt service (% of exports of goods and services) 1995 1/	n.a.
Nominal lending rate of banks, 1995 4/	15.7
Nominal deposit rate of banks, 1995 4/	9.4

n.a. not available.
Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1997
2/ World Bank, *Atlas*, 1997
3/ UNDP, *Human Development Report*, 1997

PREVIOUS IFAD LOANS IN BELIZE

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
Toledo Small Farmers Development Project	IFAD	UNOPS	I	05 Sep 85	24 Aug 88	31 Jul 95	L - I - 172 - BL	SDR	2 100	79.3%

Note: I = Intermediate

TENTATIVE LOGFRAME

Narrative summary	Objectively verifiable indicators	Means of verification	Assumptions **<u>Note</u>: Assumptions in italics are those beyond managerial influence.**
Main objective To contribute towards rural poverty reduction by competitively and sustainable raising production, employment and income of the rural poor.	The level of poverty among the poor rural families in Toledo and Stann Creek districts has decreased by PY 7 by ----%.	Poverty Study in PY 1, repeated in PY 7.	**For sustainability:** *Clear cut government policy is prevailing that is favourable to the indigenous population residing in reservation areas.*
Purpose To develop the productive potential of sustainable land-use systems and ensure accessible support services to poor smallholder families in the Southern region.	Milpa farmers perceive a sustainable improvement in their agricultural production yield as a result of project efforts.	Survey of WWs. PRA with men and women beneficiaries.	**Purpose to objective:** *Project duration and effort has brought about a sustainable process of self-management of the indigenous populations.*
Outputs 1. Group management and leadership skills have been developed in at least 50 communities. Technical, financial, microentrepenuerial, marketing and business services have been requested and used effectively for investment options. Support technical services have become customer-oriented and tailored by respecting ethnic differences/ethnic diversity and mixing indigenous knowledge systems with western scientific knowledge systems. 2. 2 600 men and women have received financing for on- and off-farm activities through IFIs (75% formal) with a repayment rate over 90%, transaction period max. 15 days for first loans, 5 days for repeat loans, drop-out rate below 20%, loan loss rate max. 3%. 3. Transfer of agricultural technology and non-agricultural production promotion by reinforced private/public services has reached 2 000 households by year 7. A number of 50 community investment projects will have been executed with matching grants. 4. PCU including M&E unit is installed and operational by year 0.5	1.1 No. of groups formed in no. of communities. 1.2 No. of services provided per category (marketing, technical, financial). 1.3 Farmers' perception of quality of services provided. 2.1 No. of financial services' recipients per year by gender and community. 2.2 Repayment Rates. 2.3 Average length of transaction period. 2.4 Dropout Rate. 3.1 New agricultural technology adoption rate. 3.2 Agricultural production increased by -%. 3.3 No. of community investments financed by matching grants.	Community Mobilizers Field Reports Marketing Coord. and Community Mobilisers Field Reports Beneficiaries' interviews. DFC financial statements. STI Reports. Community Mobilizers Field Reports. Monthly, quarterly and semi-annual reports.	**Results to purpose:** Economic prospects and *land tenure situation* are conducive to indigenous men and women farmers' willingness to invest in the improvement of their agricultural system. Weakness in information, proven methodologies of extension and professional experience and background.
Activities 1. Community Promotion and Strengthening: 2. Financial Services • Institutional strengthening • Credit Fund 3. Technical Services and Production Support • support services on demand driven basis for agricultural development, marketing; • community investments proposals 4. PCU and M&E	**Resources** 1. CD programme manager, 4 CD field-workers (at least 2 women) 2. Financial experts, Gov. organizations, credit unions and NGOs 3. Services provided by consultants, technicians, farmer-to-farmer trainers; civil works 4. Director, 2 Coordinators (technical services and community development), Accountant support staff	**Budget in USD million** 1. 1.28 2. 1.42 • 0.37 • 1.05 3. 2.41 • 1.91 • 0.50 4. 1.33	**Activities to output:** 1. Effective modalities are found to reach the least accessible indigenous men and women beneficiaries. 2. All services are supplied to men and women beneficiaries on a demand-driven basis. 3. *A clear and dynamic land tenure and administration policy is operational and accessible for men and women farmers while maintaining the communal aspects of the Mayan Indian cultures.* **Conditions prior to disbursement:** Signature of Loan Agreement; Recruitment of PCU Director; Opening of Special Account.

COSTS AND FINANCING

Expenditure Accounts by Components - Totals Including Contingencies (USD '000)

	Community Promotion & Local Organization		Rural Financial Services		Technical & Marketing Services			Project Management		
	Institutional Strengthening	PreInvestment	Institutional Strengthening	Credit	Agricultural Development	Marketing Services	Community Investments	Project Coordination Unit	Monitoring & Evaluation	Total
I. Investment costs										
A. Vehicles & equipment										
Vehicles	100	-	-	-	42	-	-	62	20	225
Equipment	9	-	22	-	11	-	-	54	6	102
Subtotal	110	-	22	-	53	-	-	116	26	327
B. Community development fund	250	200	-	-	1 200	250	500	-	-	2 400
C. Credit										
Credit fund	-	-	-	1 000	-	-	-	-	-	1 000
Administration fee	-	-	-	50	-	-	-	-	-	50
Subtotal	-	-	-	1 050	-	-	-	-	-	1 050
D. Training, studies & consultants	57	-	122	-	95	-	-	201	175	650
Total Investment costs	417	200	144	1 050	1 348	250	500	317	202	4 427
II. Recurrent costs										
A. Salaries (director & coordinator)	165	-	126	-	165	-	-	394	-	851
B. Salaries (excl. director & and coordinator)	319	-	48	-	99	-	-	214	115	796
C. Operation & maintenance	268	-	72	-	106	-	-	190	50	686
Total Recurrent costs	752	-	246	-	370	-	-	798	165	2 332
Total project costs	1 169	200	391	1 050	1 718	250	500	1 115	367	6 760
Taxes	43	-	10	-	19	-	-	36	9	118
Foreign exchange	139	-	25	-	60	-	-	115	29	368

Disbursements Accounts by Financiers
(USD' 000)

		IFAD		CDB		Government		Total		Foreign	Local	Duties &
		Amount	%	Amount	%	Amount	%	Amount	%	Exchange	(exc. taxes)	Taxes
A.	Vehicles & equipment	278	85.0	-	-	49	15.0	327	4.8	231	47	49
B.	Community development fund	500	20.8	1 900	79.2	-	-	2 400	35.5	-	2 400	-
C.	Credit											
	Credit fund	500	50.0	-	-	500	50.0	1 000	14.8	-	1 000	-
	Administration fee	-	-	-	-	50	100.0	50	0.7	-	50	-
	Subtotal	500	47.6	-	-	550	52.4	1 050	15.5	-	1 050	-
D.	Training, studies & consultants	-	-	650	100.0	-	-	650	9.6	-	650	-
E.	Salaries (director & coordinator)	-	-	851	100.0	-	-	851	12.6	-	851	-
F.	Salaries (excl. director & coordinator)	398	50.0	-	-	398	50.0	796	11.8	-	796	-
G.	Operation costs	617	90.0	-	-	69	10.0	686	10.1	137	480	69
	TOTAL	2 293	33.9	3 401	50.3	1 066	15.8	6 760	100.0	368	6 274	118

THE MILPA SYSTEM AND ETHNICITY AND CULTURE

1. **The *milpa* system.** Most of the project target group base their livelihood on the *milpa* system. The Mayans practise the *milpa* system of agriculture that is integral to a deep-rooted set of cultural patterns and beliefs. It consists in a shifting slash-and-burn system of cultivation. Its principal output is corn and beans as crops for home consumption, and *milpa rice* and cacao as cash crops. The system is combined with fruit trees, vegetables and small livestock production. They grow corn, beans and upland rice during the rainy season, and smaller areas of *matahambre* corn during December-April under continuous mulch-cropping on river levees.

2. Each farmer determines the size of his annual *milpa* in advance according to family needs and how much assistance at planting and harvesting time he can expect from relatives of his extended family, or how much cash reserve he has to hire labour. A typical *milpero* cultivates five acres of *milpa* per year with average bush fallow season reduced to 5-6 years. He also grows a *matahambre* crop of usually 1 acre, but this is cropped annually. Assuming a minimum of five years fallow, land requirements for a subsistence *milpero* farmer using traditional methods of production is 30 acres. Opportunities rising from Guatemala's demand for grains, especially rice, explain the intensification of land cultivation that has occured in the regions close to the border. In many communities, changes in the traditional *milpa* system are taking place in order to allow intensification driven from new market opportunities.

3. Toledo exhibits sharp ethnic differences from Stann Creek, being more homogeneous. The district has the greatest concentration of indigenous people, still largely devoted to traditional patterns of existence, which profoundly influences economic and cultural life. The Mayans constitute 63% of the population of the district: and 75% of rural population. They comprise two groups, the Mopans and the Kekchis and are concentrated in rural settlements, mainly in the uplands in the southwest of the district. In recent years, because of pressure on land, access to employment and amenities and rising expectations, Mayans are increasingly migrating to more accessible villages along the Southern Highway, and into Stann Creek.

4. Other significant ethnic groups in Toledo include Mestizos (12%), Garifunas (10%), East Indians (8%) and Creoles (6%). The Garifunas reside mainly in the district town of Punta Gorda and the village of Barranco, a coastal settlement in the extreme south of the district. Traditionally engaged in fishing and farming, the Garifunas now benefit from public service employment, many being employed as teachers. The East Indian population arrived in the mid-nineteen century as indentured labour and now pursue mixed occupations in farming, commerce and transportation. They are centred in a number of villages along the Southern Highway and at Mafredi along the San Antonio Road. There are also a few Mennonites in Toledo including a group which has recently purchased land for settlement and, eventually, may number up to 100 families.

5. Ethnic diversity tends to segment patterns of settlement in the southern region, with patterns of settlement differing in Stann Creek and Toledo depending on whether the community is predominately Maya or non-Maya. In Toledo especially this has implications for farming systems and land use, the latter factor depending in turn on whether farms are located on reservations, where the Mayans hold land communally, or is freehold, or leased from Government. Title to the reservations is ambiguous in the extreme, with the Mayans having only usufruct to land owned by the Government. About half the Mayans in Toledo reside in the reservations, while many others have migrated to villages along the Southern Highway, and into Stann Creek where they lease land or, in many cases

are settled on land to which they have no legal title. The two groups of Mayans, Mopans and Kekchis, have distinct preferences for settlement sites with the Mopans tending to prefer well-drained villages in the hills and the Kekchis opting for foothill settlements at lower elevations. Size of village and location along a road also affect settlement boundaries, possibilities for expansion and income opportunities.

ORGANIZATION AND MANAGEMENT

Organization

1. The project will be implemented over a seven-year period. The duration is justified because of the project's innovative features and the need to build up the institutional capacity of mobilization and promotion of community participation. In addition, new technologies and methodologies of rural services delivery and rural financial operations have to be adopted by NGOs, financial institutions, independent professionals and consultants. A new approach of implementation based on demands from communities and organizations is proposed and has to be consolidated.

2. The project will be implemented in **three phases.** One **initial phase** of nine months when the project starts and organizes the different management bodies to implement project activities. The main activities in this phase will be: to appoint the project staff and to install and equip the project office in Punta Gorda; to open the project special account and the project account; to train project staff; to train the community mobilizers; to complete and approve the Operations Manual; and to assist the community and local organizations to designate their representatives in the Project Steering Committee (PSC) and the Local Approval Committee (LAC).

3. A **second phase** of two years when the main goals are the consolidation of project operation mechanisms, through the Operations Manual and involvement of community organizations in project implementation. This phase will be evaluated in order to better assess the strategy for the **third phase** of consolidation of the project mechanisms and expansion of its outreach.

4. The MAF will be responsible for overall coordination and management of the project execution. For that purpose, a PSC will be established in charge of policy decision and control of operations, a LAC as a sub-committee of the PSC for decision-making at local level and a project coordination unit (PCU) who will assume day-to-day implementation duties.

5. **Project Steering Committee.** The PSC is the project's highest executive body. Its main responsibilities are to approve the project Operations Manual and the annual work plan and budget AWP/B, appoint the PCU staff and approve project contracts exceeding USD 25 000. The PSC will be formed by the Permanent Secretaries of the Ministries of Agriculture and Fisheries (chairman), Economic Development, Natural Resources, and Human Resources and the General Manager of Development Financial Corporation. There will be five representatives from community and local organizations.. The project will assist community and local organizations to agree on guidelines and criteria to select the beneficiaries' representatives. The Project Director will be the PSC Secretary without voting rights.

6. **Local Approval Committee.** The LAC is a small executive sub-committee of the PSC, composed of three Government representatives of the PSC and three representatives of community and local organizations. Its main responsibility is to approve applications for financing subprojects submitted by community and local organizations. Its decisions will be taken in accordance with the eligibility criteria established in the Operations Manual, and technical reports prepared by the PCU that have screened the applications submitted. A local advisory group will constitute a forum for dialogue between stakeholders regarding project policy, priorities and provide feedback information for planning and project strategy to its representatives on the LAC and PSC.

7. **Project Coordination Unit.** The PCU will be responsible for the effective implementation of project activities in accordance with project strategy and the AWP/B and policies approved by the PSC, IFAD and CDB. The PCU will coordinate project activities and cooperate with related projects and programmes implemented in the project area by the Government, especially SIF and ESTAP.

8. To empower the PCU to perform its functions and attain the project objectives and targets, the Operations Manual has incorporated certain criteria: **autonomy, decentralization, flexibility**. Given the nature of the project, based on a cost-sharing fund, disbursement authorizations must be decentralized and autonomous to make it possible to meet a wide range of applications submitted by the communities. Guarantees for a proper financial administration will not be based on ex ante and centralized controls but on: (i) appropriate administrative and internal control and rules established in the Operations Manual; (ii) wide dissemination of information about project operations and accountability and transparency on decision-making at all levels of project organization. (iii) periodical internal auditing and annual external auditing; and (iv) participation of the beneficiaries in project decision and control as direct beneficiaries but also as representatives on PSC and LAC.

9. **Targeting.** Imbalances in demand-driven projects are a major implementation risk. The targeting activity is crucial to obviate concentration of project support in the most capable and well organized communities and organizations. To avoid imbalances in project implementation, the community and local organizations promotion and strengthening component will promote and mobilize the more disadvantaged organizations, encouraging them to submit development subproject proposals to be financed by the project on a cost-sharing basis. The AWP/B prepared by the PCU and approved by the PSC will detail the planned promotion activities, the communities and local organizations where promotion activities will be implemented, expected results and terms for accomplishment of the activities. These promotion activities will be closely monitored and reported.

10. The targeting will take into account criteria to achieve an equitative distribution and allocation of the resources and activities among communities and organizations, including the following: levels of poverty; geographical isolation, ensuring that target communities or organizations are representative of different ecosystems and production systems within the project area: e.g., Stann Creek and Toledo, coast, mountains, plains and forest, ensure involvement of women's and youth groups and organizations, ensure the representation of producers, ethnic, gender organizations.

11. The PSC and PCU will ensure that these criteria are being applied during the planning and promotion of activities and that community mobilizers employ the proper methodologies for participatory needs assessment.

12. **PCU Composition**. The PCU will have a director, an accountant, two coordinators for technical and marketing services and for community promotion and local organizations strengthening. There will also be four community mobilizers, one technical and marketing services assistant and one accountant assistant. Staff will be based at Punta Gorda, the project headquarters.

13. **Appointment of PCU Staff.** The staff contracted by the project as long-term staff, will have the background, experience and training required for the posts they occupy. The project director and the Accountant will be appointed by the PSC. The rest of the staff will be selected with the participation of the Director. Appointment of project technical staff will be as follows:

- The PSC will designate a commission for selection and appointment of staff. IFAD/CDB will designate a representative in that commission.

- The terms of reference will be detailed and approved by the PSC.
- The commission will establish criteria for qualifying merits and experience.
- The commission will publicize an open invitation for candidates.
- Based on the qualification of merits, the commission will select a short list of candidates for interview.
- After the interview, the commission will propose candidate to be appointed by the PSC.
- IFAD/CDB approval will be needed for all professional staff appointments.

Implementation

14. **Operations Manual.** Project design is based on a participatory demand-driven approach where communities or local organizations submit sub-projects which are partially financed through a cost-sharing fund. The rules, criteria and procedures for operationalizing this approach will be established in an Operations Manual. The manual will set out the operational procedures to be used by project management for overall project implementation. A first draft will be prepared by IFAD and CDB, refined by the PCU and the PSC and reviewed and approved by IFAD and CDB. The manual will detail: (i) project organization and management, (ii) financial and administrative procedures, (iii) procedures for approval of sub-projects to be financed on a cost-sharing basis, (iv) eligibility criteria for beneficiaries and activities, and (v) monitoring and evaluation and reporting.

15. The main result of the promotional work under the **community promotion and local organization strengthening component** performed directly by the PCU will be the formulation of projects for income-generating or community development activities. These constitute the output of a process of identifying the problems and aspirations of the communities or groups within the communities, or between communities. Community projects will be designed, based on an analysis of the problems and opportunities. To simplify the formulation and approval formalities, the submission of these projects will follow a standard format which will ensure that the information required for analysis is complete. This information will mainly relate to the following: the project beneficiaries, rationale, costs and cost per beneficiary, feasibility, sustainability and community participation in the financing.

16. A promoter belonging to the PCU will be responsible for promoting, accompanying and advising the communities throughout the process of formulating community initiatives. In this, he will be supported by specialists to improve the quality of the presentation of the applications. The specialists will help the communities supply all the information and know-how needed to improve the diagnosis and community planning. In view of the features of the area, the main demands for enhancing the process will be in the following areas: marketing, production technology, land rights and the legal framework and project formulation and feasibility analysis. The PCU will have a small fund at its disposal to finance these community application formulation support requirements.

17. Proposals will be submitted by the communities, producer organizations, ethnic organizations, or groups (women, youth) to the PCU; during its checking process the PCU will ensure that the proposal submitted is compliant with the regulations in terms of project eligibility and applicant eligibility, and that the information required is completed in accordance with the Operations Manual. The PCU will present reports, pointing out the strengths and the weaknesses of

the proposal; this must be done quickly, e.g., within two or three weeks of submission to the PCU the decision of the TCU should be ready.

18. The LAC will meet at least once a month and the members will receive the reports of the PCU on to the applications submitted by the community, organizations or groups in advance of the meeting. The appraisal and approvals process must not take more than four weeks. The LAC will be empowered to approve requests for financing up to the equivalent of USD 25 000. Any figure in excess of this must be approved by the PSC. The project will supervise the implementation of the contracted activities, gathering information on them, and recording impacts and results. These records will be published regularly. The project can contract out supervision and control to complement the permanent staff.

19. **Rural Financial Services Component.** A second-tier institution will be responsible for the administration and implementation of both RFF and institutional strengthening. It should be a financially sound formal financial institution directly supervised by the CDB; it should have a mandate to work with the agriculture sector and the small farmer; and have successfully managed second-tier operations and provided TA in financial management and credit administration to IFIs.

20. The transfer of resources will take place through a subsidiary agreement between MOF and the second-tier institution for an amount equivalent to USD 1.1 million. The Government will contribute approximately USD 500 000 to the credit fund, from reflows of the revolving fund of the first IFAD financed project. As a condition to disbursement under the subsidiary agreement the second-tier institution will act as the Executing Agency responsible for the administration of the rural finance fund (RFF). Its responsibilities include the selection of IFIs, as well as loan approval, follow-up and recovery. It will be paid a fixed administration fee for the first two years of project implementation, to be determined by mutual agreement with the MOF, and an annual fee equivalent to 2.0% of the average outstanding portfolio thereafter.

21. The second-tier institution will use the RFF to open lines of credit to qualifying IFIs to be selected according to pre-defined criteria contained in the credit by-laws. Potential IFIs have limited experience with small rural loans. Initial amounts will not exceed 25% of the average portfolio for the past twelve months up to a maximum of USD 250 000. The amount will increase or decrease according to portfolio performance. The interest rate will be equal to the costs of IFAD funds (currently at 6.5%) plus a 1% loan loss reserve annually. The credit line will have two-years term including a six-month grace period during which the IFIs will make quarterly interest payments. Collateral will be based on portfolio performance history for the past two years. IFIs must provide counterpart funds for a minimum of 20% of the value of the credit line. They must agree to implement, or demonstrate that they implement a proven-effective technology to deliver loans to and mobilize savings from the target beneficiaries.

22. The selection of the participating IFIs will focus on two or three with the most potential to provide both **credit** and **savings** services to the target groups **on a sustainable and widespread basis**. Potential will be measured in terms of financial soundness, portfolio quality, and outreach capacity. The IFI's capacity to mobilize savings both as a source of self-financing and a service to the target beneficiaries will be a key aspect of final selection.

ECONOMIC AND FINANCIAL ANALYSIS

Beneficiaries

1. Direct beneficiaries of the project activities are estimated to be about 2 500 small family farms and 100 microenterprises.A slow incorporation sequence of the beneficiaries is expected. In the first two years only 31% will be incorporated; in the third year of the project the biggest percentage of incorporation will be observed, at 26%.

2. With regard to the agricultural development strategy, of the 2 500 small farms it is estimated that 74% are characterized by the traditional *milpa* system, 5% by the commercial *milpa*, 4% by the traditional *milpa* with cacao; 16% by the citrus with diversification and the remaining 2% by the mechanized rice.

Table 1
Incorporation Sequence of the Beneficiaries

Models	Years 1	2	3	4	5	6	7	Total
Traditional Milpa	140	400	480	400	280	140	0	1840
Commercial Milpa	15	30	30	15	15	15	0	120
Traditional Milpa/Cacao	30	30	40	0	0	0	0	100
Citrus/Diversification	32	64	80	112	80	32	0	400
Mechanized Rice	10	20	10	0	0	0	0	40
Microenterprises	8	16	32	28	16	0	0	100
Total	235	560	672	555	391	187	0	2600

Production Value and Benefits

3. The production strategy consists in a more efficient use of the existing resources and capacity of farmers. The approach will emphasize the improvement of the technical efficiency of small farmers that will allow a gradual change in the present allocation of mainly land. Specific attention will be given to improved natural resources management and the sustainibility of the *milpa* system.

4. Cropped land is reduced by 15% so that total cultivated area decreases by 20%. It is the strategy of rationalization in the use of the resources - principally introducing the intercrop beans-and-maize - which allows the cropped land to be saved - bringing to a further reduction in the total area involved in the *milpa* system production. Despite the decrease in cropped land, total production increases by 16%, thanks to an average expected yield increase of 35% in the cropped area. In value terms, at full project development, total farm production will increase 1.32 times. This corresponds to an increment of USD 1.60 million and a total production of USD 8.1 million. On average, the farm family will benefit by an yearly income increase of USD 500. That increment will bring in the target year a yearly average income of USD 1 700, representing a relative increase of 1.4.

Economic Analysis

5. The economic analysis is based on the following assumptions:

- prices used for calculation correspond to the period in which field research was carried out, that is January 1998. The currency rate of exchange is USD 1 = BZD 2.
- the analysis assumes a conversion factor of 0.66 for rice in view of the Government's rice pricing policy that sets the local price above its import parity value; the present producer price for cacao of USD 0.6/lb of dry beans, offered on contract by a foreign purchaser is considered the commodity's trade parity value. The analysis uses an economic wage of USD 7.50.
- other project costs included in the profitability analysis are net of taxes.

6. Profitability indicators considered are: Internal Return Rate (IRR); Net Present Value (NPV) and Cost-Benefit (C/B) relation. These indicators are calculated as incremental values; i.e. the relative situations "with" and "without" project are taken into account.

7. The applied actualization rate of 8% corresponds to the capital cost in Belize for a calculated period of 20 years.

8. Project incremental benefits are included according to the incorporation sequence of the beneficiaries.

General Economic Analysis

9. Incremental benefits are taken into account, resulting from the project execution, according to the beneficiaries' rate of incorporation to the project.

10. Costs included in the calculations are the following:

- farm production costs, inclusive of agricultural inputs cost, farm investments cost and estimated cost of family labour;
- microentrepreneurs inputs and investments costs;
- project costs corresponding to the estimated costs of each component;
- recurrent costs related to activities continuing even after disbursements.

11. According to the earlier specified criteria, the analysis concerning the project profitability for a period of 20 years gives the following results:

IRR = 17.5%
NPV = USD 2.68 million
C/B = 1.21

The critical values are the following:

Benefits -17.0%;
Production Costs +47.0%

12. The IRR is high, reaching 17.5%, significantly higher than capital opportunity cost, while the NPV reaches USD 2.68 million.

13. The lowest critical value accrues to the benefits: a decrease of 17%% in the benefits would compromise the project profitability in relation to a capital opportunity cost of 8% (see details in Table 2).

14. Costs present higher critical values. The lowest corresponds to an increase of the production inputs costs of 47%, which would equal the IRR at the actualization rate. For this to happen, the project costs would have to increase by 21%.

Table 2

Internal Return Rate Calculation (USD '000)

Years	Incremental Benefits Value	Investment Value	Imputs Costs	Family Labour Cost	Project Total Cost	Project operation costs PY 8-20	Net Incremental Benefits
1	118	78	51	22	834	0	-866
2	412	153	178	69	619	0	-606
3	950	238	376	136	838	0	-638
4	1 480	262	569	208	895	0	-453
5	1 856	172	696	272	852	0	-136
6	2 013	44	738	313	569	0	350
7	2 056	0	744	328	377	0	607
8	2 071	0	744	332	0	50	945
9	2 071	0	744	332	0	50	945
10	2 071	0	744	332	0	50	945
11	2 071	0	744	332	0	50	945
12	2 071	0	744	332	0	50	945
13	2 071	0	744	332	0	50	945
14	2 071	0	744	332	0	50	945
15	2 071	0	744	332	0	50	945
16	2 071	0	744	332	0	50	945
17	2 071	0	744	332	0	50	945
18	2 071	0	744	332	0	50	945
19	2 071	0	744	332	0	50	945
20	2 071	0	744	332	0	50	945

Internal Rate of Return	17.5%
Actualization Rate	8.0%
Net Present Value	2,678
Cost/Benefit Relation	1.21

Critical Value Analysis

	1	2	3	4	5	6	Total Costs
NPV	15,588	728	5,721	2,446	3,784	231	12,909
COEF	83%	468%	147%	209%	171%	1261%	121%
C-V	-17%	368%	47%	109%	71%	1161%	21%

Sensitivity Analysis

15. In order to analyse the project sensitivity, changes were simulated in the form of benefits reductions, costs increments or delays in the incorporation of beneficiaries. A benefits reduction of 10% determines an IRR reduction from 17.5% to 12.1% and an NPV reduction from USD 2.68 million to USD 1.2 million. A decrease of 20% would bring the IRR to 6.3%, below the capital opportunity cost, which determines a negative NPV (USD -0.4 million), and a C/B ratio of

0.97. An increase in costs produces more moderate changes. A cost increase of 10% determines an IRR reduction of 12.6% and an NPV reduction of USD 1 387. Likewise, a cost increase of 20% results in an IRR of 8.3% which is equal to the capital opportunity cost and a C/B ratio nearest to 1.0. Analysis of delay in beneficiaries' incorporation shows that the indicators are not very sensitive; considering a delay of three years, the IRR value remains higher than the capital opportunity cost (10.2%) and the NPV presents a value of USD 0.75 million.

16. Family labour sensibility has been analysed taking in account labour cost at regional salary, which is in average 30% below local salary. Results indicate that the IRR increases to 20.1% and C/B to 1.29.