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HASHEMITE KINGDOM OF JORDAN

PRESIDENT'S MEMORANDUM

**EXPANSION OF THE PROJECT AREA OF THE INCOME DIVERSIFICATION
PROJECT AND REALLOCATION OF LOAN PROCEEDS (LOAN No. 329-JO)**

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PRESIDENT'S MEMORANDUM

EXPANSION OF THE PROJECT AREA OF THE INCOME DIVERSIFICATION PROJECT AND REALLOCATION OF LOAN PROCEEDS (LOAN NO. 329-JO)

I. BACKGROUND

1. The Income Diversification Project was approved by IFAD in April 1993 and declared effective in June 1994, and is expected to close on 31 December 2001. The total cost of the project amounts to USD 19.7 million, of which IFAD provided a loan of SDR 7.3 million (approximately USD 10.0 million) and the Arab Fund for Economic and Social Development (AFESD) contributed KWD 2.5 million (USD 8.0 million). The remaining USD 1.7 million was provided jointly by the beneficiaries and the Agricultural Credit Corporation (ACC). The project is administered and supervised by AFESD as IFAD's cooperating institution.

2. The objective of the project is to diversify and increase the sources of income of disadvantaged, resource-poor rural men and women. This will be achieved through the provision of credit and technical assistance in managerial skills, techniques for raising small herds of goats/sheep or introducing genetic improvements, and for improving dairy produce processing, increasing fruit and crop production, and bee-keeping and honey production. Assistance is also foreseen in the production of medicinal plants and other small artisan activities that would allow families, especially women, to use their labour to more profit. The project, which is essentially a small ruminant project, is targeted both at the landless and at rural women as heads of households and as family members.

3. The Ministry of Agriculture (MOA) and ACC are the main organizations involved in implementing the project. MOA is responsible for the Shami goat and Awassi sheep breeding stations and is therefore in a position to offer good-quality animals for sale to project beneficiaries. Through its field offices, MOA also provides technical assistance with regard to the project beneficiaries' enterprises.

4. To date, the project has made a significant impact on the beneficiaries, despite the slow disbursement rate. A number of unexpected problems that have beset the project during implementation are discussed below in Section III below.

5. The IFAD mid-term evaluation (MTE) of November 1997 found that, by and large, the project was reaching the targeted beneficiaries. Nevertheless, a number of improvements were recommended in terms of project management/administration and increased beneficiary training and technical assistance. The MTE mission also stressed that the farmers should make greater efforts to integrate livestock and crops. In November 1998, the Government of Jordan undertook another review of the project, which in addition to validating the findings of the earlier MTE recommended raising the beneficiaries' present income ceilings; placing greater emphasis on beneficiary training; focusing more on rural women; providing more technical assistance; and expanding project activities to the Jordan Valley area.



II. JORDAN VALLEY

6. The Jordan Valley extends from Lake Tiberias in the north to Ghore El Safi in the south. The irrigated area - Ghore - covers about 300 000 dunums (30 000 ha) with potential for an additional 60 000 dunums. The availability of irrigation water and land and a climate favourable to agricultural production has made a significant contribution to the socio-economic development of the area, the population of which increased from 70 000 in 1973 to 200 000 in 1996. There are about 8 278 farm units and 14 400 landowners in the valley.

7. Favourable climatic conditions and the availability of pressurized drip irrigation make it possible to grow vegetables and fruit in the valley all year round. The importance of livestock to valley farmers' incomes has decreased as more land has been brought under irrigation and the production of vegetables and fruit intensified. Most families own some small livestock, a typical herd consisting of two dairy cows and 15 heads of crossbred Baladi/Shami goats or Awassi sheep. The animals are kept mainly for home consumption and any milk surplus is sold fresh or is processed into cheese or "jamid" for sale on local markets. The animals are not integrated into the farming systems and are fed mainly on farm residues, green grass from the farms stubble in the fields. On the basis of observations and field experience, it is evident that small-scale animal husbandry would provide to be an economically viable undertaking in the Jordan Valley.

8. Agriculture is the major source of income for the inhabitants of the Jordan Valley and there is a wide range of commercial activities to support the sector. Difficulties in fruit and vegetable marketing and the lifting of government subsidies on inputs have drastically reduced the producers' incomes and increased rural poverty. In such an environment, it is very difficult for anyone to find off-farm employment, especially rural women.

9. In view of the increasing demand for meat, milk and dairy products coupled with a favourable climate and growing conditions in the valley, small-scale livestock production would appear to be a viable option since it would enable the small farmers to increase their incomes both through diversification and the integration of livestock and crops.

III. RATIONALE FOR EXPANDING PROJECT ACTIVITIES TO THE JORDAN VALLEY

10. Expanding the activities of the project to the Jordan Valley area would be a logical response to a sequence of policy decisions that have been taken and the difficulties encountered during project implementation.

11. The Government's decision to lift subsidies on livestock feed rendered animal husbandry financially unattractive and led to greater demand for domestically produced forage crops. Imports of Shami goats were banned when it was discovered that the animals were affected by serious viral disease. As a result, the project has imported only 15% of the animals envisaged, which led to it opening a new breeding station for Shami goats (not foreseen at appraisal) and intensifying the breeding programme with the goats obtained thus far. The project also embarked on improving the local goat breed by crossing them with Shamis, a programme that has gained much popularity with farmers in Jordan.

12. Including the Jordan Valley in the area of intervention would make it possible to expand the benefits of the project while retaining its original objectives, rationale and approach. However, there is an urgent need to improve project management, to upgrade present stocks and increase their productivity. Farmers in the valley, especially those with land that is not under permanent crops, have the resources to integrate crop production and livestock into their farming system and thereby



diversify their incomes and improve the well-being of their families. In the highlands, many farmers produce fodder under irrigation and sell it to small-scale livestock keepers with two or three dairy cows. Increasing the demand for fodder in the Jordan Valley would have a positive impact on farmers' incomes.

13. While producing fodder for sale as a cash crop provides farmers with financial and other benefits, it would also encourage many of the landless to take up small-scale livestock production on a full-time basis in an area where off-farm employment opportunities are very scarce.

14. While the emphasis has been on extending the small ruminants livestock component of the project to the Jordan Valley area (crossbreeding local breeds with Shami goats; Awassi sheep; and upgrading local flocks), it is proposed to provide assistance to farmers with two or three dairy cows to compensate for the shortage of Shami goats. Besides providing full-time employment for their families, this activity would provide farmers with an alternative means of using their resources. Keeping two or three dairy cows would be an attractive prospect for landless farmers in the valley. This is already done in the highlands, where all animal feed is bought on local markets.

15. Rural women in the Jordan Valley are heavily involved as a labour force, either on the family farms or as day labourers elsewhere. Small-scale livestock operations for milk production at the farm level would keep women almost fully employed. The same applies to rural women from landless families. In rural Jordan, milk processing has been traditionally the responsibility of women. The project would support various milk processing activities by providing credit to rural women for use in improving domestic milk processing.

16. The Government has officially requested that project activities be expanded to the Jordan Valley area, as recommended in the November 1998 review and endorsed by AFESD, the cooperating institution and cofinancier of the project. The area offers good prospects for small producers to increase their income through the integration of crop and livestock in their farming systems and better trading of by-products. In fact, one of the findings of the above-mentioned review was that the project should look into the possibility of providing farmers with dairy cattle as an alternative to Shami goats.

17. Any such expansion of the project area would involve very little additional cost, as further technical support would be limited to the recruitment of two livestock officers to provide guidance to farmers in the valley. All government ministries and agencies concerned are well represented in the Jordan Valley.

IV. ACTIVITIES FOR FINANCING BY THE INCOME DIVERSIFICATION PROJECT IN THE JORDAN VALLEY

18. Almost all the activities supported by the project in other parts of the country are suitable for financing in the Jordan Valley area, although care would be taken to avoid over-extending the project's managerial capacity. Therefore, considering the area's natural resources and in order to retain the project's original objectives and rationale, it would be advisable to concentrate on improving the integration of crop-livestock enterprises. The main activities to be supported by the project in the Jordan Valley would be as follows:

- (a) **Shami/Baladi goats:** Credit would be provided to approximately 500 farmers for the purchase of some 20 heads of crossbred Shami/Baladi goats. The target beneficiaries would encompass families that own and operate farms in the valley, as well as the landless, sharecroppers and other persons living on rented land in the valley.



- (b) **Awassi sheep:** The project would provide credit to 270 individuals for the purchase of about 20 heads of sheep or five high-quality ewe-lambs and one ram, to start and/or improve the quality of the flocks. Target beneficiaries would be the farm families in the valley who own or operate farms, landless sharecroppers or other persons living on rented land in the area.
- (c) **Dairy cattle:** Approximately 230 persons would receive credit to purchase two heads of Friesian cattle. Typical target beneficiaries would be farm families in the valley who own or operate farms, as well as the landless sharecroppers or other persons living on rented land in the area.
- (d) **Forage production:** The project would provide credit to about 400 individuals engaged in producing forage crops. It is expected that beneficiaries of loans for dairy cattle and Shami goats would produce fodder crops to feed their animals. With the increased number of animals in the valley, a demand for fodder should be created and farmers in the area could produce forage for sale to livestock keepers.
- (e) **Milk processing:** The processing of milk at the farm level is carried out in kitchen-type facilities based on simple technology. The end products, including white cheese, yogurt and “jamid”, is sold to neighbours and/or on village markets. To help improve domestic processing of dairy products, the project would provide credit to 410 individuals to enable them to purchase simple processing facilities (vessels, gas burner and other utensils), provide hygienic kitchen areas and even refrigerators. The production of good-quality dairy products for sale at markets would enable farmers to make good profits from dairy produce. In addition, the project would provide six loans for the purchase of milk processing equipment to dairy producers wishing to purchase milk from neighbours for processing.
- (f) **Calf fattening:** This would represent a new activity for financing and support by the project. Credit would be provided to some 70 individuals to enable them each to purchase about 10 crossbred calves for fattening. The animals would be fed on farm residues and straw from cereal and legume crops.

V. REALLOCATION OF IFAD LOAN PROCEEDS TO FINANCING PROJECT ACTIVITIES DURING THE PERIOD UP TO THE LOAN CLOSING DATE

19. The proposed reallocation of loan proceeds takes account of the funds required to finance the new activities in the Jordan Valley, planned activities in the original project area and the needs of MOA and ACC in implementing the project as stipulated in the appraisal report. The table on page 6 shows the activities proposed for financing in the Jordan Valley, from which it will be seen that the average loan per beneficiary would amount to about JD 1 200. The previous reallocation of projects funds approved in December 1997 is shown in the Appendix.

20. It should be noted that savings under Categories III (c) (Credit for the processing of produce and income-generating activities) and VI (Incremental operating costs) would allow for the expansion of project activities to the Jordan Valley area, without jeopardizing activities planned in the original project area. Credit for produce processing was largely over-estimated at appraisal, and a large part of the incremental operating costs have been absorbed by the Government's contribution.

21. It was originally foreseen that the IFAD loan would finance only 25% of the sub-loans for livestock while AFESD would finance 65% of such sub-loans. However, since AFESD's contribution



has been fully committed for this category, IFAD would finance 90% of the additional sub-loans for livestock. The project should be able to disburse the reallocated funds by 31 December 2001.

22. I recommend that the Executive Board approve:

- (a) the use of savings of SDR 880 000 under Category III (c) (Credit for the processing of produce and for income-generating activities), of SDR 295 000 under Category V (Staff and beneficiary training) and of SDR 610 000 under Category VI (Incremental operating costs);
- (b) the reallocation of SDR 1 785 000 to finance, through credit to small farmers and rural women: (i) purchases of small ruminants (SDR 1 425 000); (ii) crop-livestock integration activities (SDR 29 000); and (iii) dairy processing (SDR 236 000) and training and technical assistance activities (SDR 95 000); and
- (c) expansion of project activities to the Jordan Valley area.



TABLE: PROPOSED ACTIVITIES IN THE JORDAN VALLEY PER CATEGORY

Category	No.	Average Cost/ Activity	Total
LIVESTOCK			
North Ghor			
Dairy cattle	70	2 000	140 000
Awassi sheep	70	2 000	140 000
Goats	50	1 500	75 000
DierAlla			
Dairy cattle	60	2 000	120 000
Awassi sheep	40	2 000	80 000
Goats	100	1 500	150 000
South Shuni			
Dairy cattle	50	2 000	100 000
Crossbreeding goats	100	1 500	150 000
Calf fattening	50	1 000	50 000
South Ghor			
Dairy cattle	50	2 000	100 000
Awassi sheep)	50	7 500	375 000
Total Livestock (JD)			1 480 000 (JD) 1 924 000 (USD)
CROP/FORAGE			
North Ghor			
Forage production	100	75	7 500
DierAlla			
Forage production	150	75	11 250
South Shuni			
Forage production	100	75	7 500
South Ghor			
Forage production	50	75	3 750
Total Crop/Forage (JD)			30 000 (JD) 39 000 (USD)
DAIRY PROCESSING			
North Ghor			
Milk processing	6	2 500	15 000
Milk processing (household)	80	1 000	80 000
DierAlla			
Milk processing (household)	80	1 000	80 000
South Shuni			
Milk processing	50	1 000	70 000
Total Dairy Processing (JD)			245 000 (JD) 318 500 (USD)
TOTAL (JD)			1 755 000 (JD)

REVISED ALLOCATION OF LOAN PROCEEDS AS APPROVED IN DECEMBER 1997^a

	Category	Amount of the Loan Allocated (SDR)	% of Expenditures to be Financed	New Allocation of Loan Proceeds (SDR)	% of Expenditures to be Financed	Available Balance: New Allocation Less Disbursement (SDR)
I.	Civil works	160 000	80%	268 000	80%	132 000
II.	Vehicles, equipment, material and supplies	590 000	100% of foreign expenditures, 100% ex-factory price of locally-manufactured items, or 90% of other local expenditures	770 000	100% of foreign expenditures, 100% ex-factory price of locally-manufactured items, or 90% of other local expenditures	370 000
III.	Credit					
	(a) Crop production	340 000	75% of sub-loans	350 000	75% of sub-loans	32 000
	(b) Livestock	1 700 000	25% of sub-loans	3 856 000	90% of sub-loans	2 468 000
	(c) Processing of produce and income-generating activities	1 460 000	100% of sub-loans	580 000	100% of sub-loans	425 000
	(d) Surveys and staff training (Parts A (3) and B (5))	80 000	100%	80 000	100%	69 000
IV.	Technical assistance, consultancy Services and M&E	230 000	100%	230 000	100%	195 000
V.	Staff and beneficiary training (Part B (4))	570 000	100%	275 000	100%	132 000
VI.	Incremental operating costs (including staff allowances but excluding staff salaries)	1 240 000	90%	630 000	90%	447 000
VII.	Unallocated	930 000		261 000		261 000
TOTAL		7 300 000		7 300 000		4 531 000

^a Discrepancies in totals are due to rounding.

