



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Seventy-Eighth Session
Rome, 9-10 April 2003

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED

TECHNICAL ASSISTANCE GRANT

TO THE

SOUTHERN CONE COMMON MARKET (MERCOSUR)

FOR THE

**INSTITUTIONAL AND POLICY SUPPORT PROGRAMME TO REDUCE
RURAL POVERTY IN THE MERCOSUR AREA**



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I submit the following Report and Recommendation on a proposed technical assistance grant (TAG) to the Southern Cone Common Market (MERCOSUR) to support the Institutional and Policy Support Programme to Reduce Rural Poverty in the MERCOSUR Area, in the amount of USD 800 000 for a three-year period.

I. BACKGROUND

1. At the workshop on “Combating Rural Poverty under Market Rules within the Context of MERCOSUR”, organized by IFAD and held in Montevideo, Uruguay, in 1997, it was recommended that MERCOSUR countries establish the Regional Coordination Unit (RCU). The Unit’s purpose would be to (i) create converging ministerial agendas on rural poverty per se, and (ii) support the definition and coordination of political strategies for combating rural poverty inside a framework compatible with the commercial and economic agreements established by the Treaty of Asunción.

2. In this context, IFAD decided that in addition to its project and programme loans to individual MERCOSUR countries, it would support the institutionalization of rural development and poverty-reduction policies within and among governments, making these convergent and consistent with the emerging commitments of integration.

3. In 1999 IFAD approved a TAG to the four MERCOSUR member countries (Argentina, Brazil, Paraguay and Uruguay) plus the common market’s two associate members (Chile and Bolivia) for the Institutional and Policy Support Programme to Alleviate Rural Poverty in the MERCOSUR Area. The TAG specified that to implement the programme, a RCU should be established within the institutional framework of the MERCOSUR Secretariat in Montevideo. The Common Market Council, MERCOSUR’s highest executive organ, officially accepted this cooperation.

4. In August 2000, the agriculture ministries and secretariats of the countries concerned created the RCU and appointed its board of directors. As of September 2000, with the RCU’s technical committee established, and based on the IFAD TAG, country contributions and complementary financial support from other agencies (in particular the Inter-American Development Bank), the programme, known as the IFAD/MERCOSUR programme, became operative.

II. RATIONALE

5. MERCOSUR is a customs union that is evolving towards a common market and an extended economic zone. Its 18 secretaries establish policies, some of which are mandatory for its members. This creates an opportunity to make subregional policies more favourable to the poor smallholder sector. However, because of the economic, financial, fiscal and, subsequently, institutional crisis in the MERCOSUR area, the pace of regional and MERCOSUR consolidation has slowed during the last two years.



6. Despite this context, the agricultural sector has recently started to show signs of recovery. Furthermore, the new president of Brazil, Mr Lula Da Silva, has called on his subregional partners to take decisive action to revitalize the MERCOSUR alliance, stressing the importance of policies and programmes aimed at combating hunger and poverty.

7. However, for MERCOSUR's rural development and poverty-reduction policies to be effective, its institutional framework needs to be strengthened. Communication within and among governments is still weak. Opportunities for the rural poor to sustainably improve their livelihoods need to be identified or created, and then supported by appropriate policies. With IFAD support, the RCU has created a proactive platform for policy dialogue on rural development and poverty reduction, which could take advantage of the renewed political will and commitment of governments in the subregion.

III. RELEVANCE TO IFAD

8. There is clearly a need in the MERCOSUR area for policies to be designed and implemented and resources allocated in such a way as to increase their effectiveness and obtain greater results from rural development activities. The report of the Consultation on the Sixth Replenishment of IFAD's Resources¹, together with the *Strategic Framework for IFAD 2002-2006*, affirms that IFAD's mission is to enable the rural poor to overcome their poverty. It also stresses the need to **expand the influence that the poor exert over public policy and institutions (including policies, laws and regulations) of relevance to rural poverty reduction.**² IFAD's strategy in Latin America and the Caribbean underscores the importance of influencing national and regional anti-poverty policies and programmes in order to reduce rural poverty.³

9. Phase I of the TAG programme has helped place rural development high on ministerial agendas. It has also promoted the creation of communication mechanisms among MERCOSUR member countries, enabling them to share their rural development experiences.

10. In addition, the TAG has provided support to IFAD-financed projects in the region, helping them to reach their objectives. In Argentina, the Secretary of Agriculture received technical assistance to develop a national rural development system that facilitates the coordination of all rural development programmes and projects. In Paraguay, an apex organization was created with TAG support, comprising the five most important smallholder cooperatives. Thanks to this organization, microenterprises run by poor smallholders are now linked to the main value-added commercial chains. In Uruguay, the TAG helped the country's rural programme set up a loan guarantee scheme that encourages financing of the smallholder sector. In Brazil, new initiatives are being developed with TAG support that will help poor smallholders produce and market medicinal herbs. Activities under the TAG in support of smallholder production and marketing systems in the regions of Chapare y Las Yungas in Bolivia also point to the increasing importance and recognition that the IFAD/MERCOSUR programme is gaining in the subregion.

IV. THE PROPOSED PROGRAMME

11. Phase II of the IFAD/MERCOSUR programme will have four main objectives:

- (a) **consolidate the RCU** as a policy dialogue forum that will focus on reducing rural poverty and identifying economic opportunities for the smallholders sector. Main deliverable policies in this context will be those that help smallholder national sectors

¹ IFAD (2002). "Enabling the Rural Poor to Overcome their Poverty: Report of the Consultation on the Sixth Replenishment of IFAD's Resource (2004-2006). Rome: IFAD.

² Ibid., page 7, paragraph 28f.

³ Ibid., page 8, paragraph 33.



reorient and diversify their production outputs and improve their technologies in order to be more profitable and efficient and to take greater advantage of the opportunities created by the enlarged common market. Given today's globalized economy, it is essential that national policies are coordinated in order to make real room for the incorporation of peasant economies in the development activities of MERCOSUR countries.

- (b) **strengthen partnerships with the main international donor organizations** in the subregion in order to build an inclusive development model that incorporates the rural poor in the mainstream of the economy and supports their social aspirations;
- (c) promote optimal convergence between general economic, commercial and agricultural sectoral policies and the social and economic interests of the rural poor. In this regard, the TAG will propose that **specific pro-poor policies**, for both the private- and public-sector, be included in the MERCOSUR agenda;
- (d) **continue to support main IFAD-financed programmes** in the subregion by developing trade and market opportunities for the smallholder sector and by improving access to knowledge gained by MERCOSUR countries and their partners. In this connection, the experience and lessons learned during Phase I of the TAG will guide its new activities and will be shared with other IFAD-supported programmes both in and outside the subregion. FIDAMERICA, the Internet-based network of organizations and projects working with the rural poor in Latin America and the Caribbean, will play an important role in facilitating the exchange of experience and knowledge relevant to rural poverty reduction.

12. To fulfil the above objectives, Phase II of the TAG will contribute to the design of pro-poor policies and the strengthening of mechanisms for rural development and poverty reduction. It will also support relevant projects and programmes of particular interest to MERCOSUR member countries at the request of their governments. Measures supporting ongoing rural development projects cofinanced by IFAD helped open internal and intergovernmental channels during Phase I. The IFAD/MERCOSUR programme will now promote greater negotiation and dialogue between governments and main rural poor organizations, with a view to fine-tuning laws and regulations relevant to rural development.

V. EXPECTED OUTPUTS AND BENEFITS

13. Phase II of the TAG will be implemented over a three-year period and will have the following main objectives:

- (a) recognition of the RCU as a forum for discussing rural development and poverty-reduction issues in the MERCOSUR area;
- (b) implementation of pro-poor policies within MERCOSUR (e.g. appropriate decentralization policies, market regulations, legal microcredit schemes, etc.);
- (c) establishment of dialogue mechanisms among government representatives of the six countries concerned, the main rural poor organizations and representatives of the private sector, and full documentation of this process; and
- (d) dissemination of lessons learned relating to pro-poor policies and sharing of relevant information.

14. Phase II will benefit all participating stakeholders: (i) farmers' organizations and more generally the rural poor community by addressing their needs and incorporating their initiatives in

MERCOSUR's policies and strategies; (ii) governments and the relevant agencies by establishing and fine-tuning their sectoral policies; and (iii) international donor agencies by collaborating to improve joint rural poverty-reduction programmes.

VI. IMPLEMENTATION ARRANGEMENTS

15. The RCU will implement the TAG. Three highly qualified professionals will be responsible for the activities of this small technical unit.

16. The TAG will be supported by three committees:

- (a) **A management committee** composed of representatives of the agriculture secretariats/ministries of the six member countries. It will define an annual workplan based on member country needs.
- (b) **A technical committee** based in the MERCOSUR headquarters in Montevideo and consisting of a coordinator, a senior technical adviser and a programme assistant. This permanent team, which reports to the management committee, will implement all activities under the TAG and will be responsible for monitoring and evaluation.
- (c) **An advisory committee** comprising prominent academics, governmental consultants, experts and representatives of rural organizations. It will help develop studies, identify themes and finance new rural development and poverty-reduction activities. It will also provide the technical committee with periodic reality checks.

VII. INDICATIVE PROGRAMME COSTS AND FINANCING

Source of Funds for the Programme's Second Phase
(USD '000)

Description	IFAD	Agriculture Ministries	MERCOSUR Secretariat	Total	% ^a
ACTIVITIES	375	300	-	675	50%
Policy design	130	75	-	205	15%
Direct support for activities	80	100	-	180	13%
Regional knowledge dissemination	80	55	-	135	10%
Training of leaders	60	30	-	90	7%
Regional and international activities	25	40	-	65	5%
MANAGEMENT COMMITTEE	33	153	48	234	17%
TECHNICAL COMMITTEE	365	-	36	401	30%
Human resources ^b	315	-	36	351	26%
Equipment	15	-	-	35	1%
Operation	35	-	-	35	3%
CONTINGENCY COSTS	27	8	-	35	3%
TOTAL	800	461	84	1 345	100%
PERCENTAGE	59%	35%	6%	100%	

^a Discrepancies are due to rounding.

^b Includes an overhead of 4% to hire programme staff and other administrative and technical costs specifically identified by the RCU. It also includes the salaries of the coordinator, senior technical adviser and programme assistant.



VIII. RECOMMENDATION

17. I recommend that the Executive Board approve the proposed technical assistance grant in terms of the following resolution:

RESOLVED: that the Fund, in order to finance, in part, the Institutional and Policy Support Programme to Reduce Rural Poverty in the MERCOSUR Area, for three years, commencing in September 2003, shall make a grant not exceeding eight hundred thousand United States dollars (USD 800 000) to the Southern Cone Common Market (MERCOSUR) upon such 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.

Lennart Båge
President

LOGICAL FRAMEWORK

Description	Objectively Verifiable Indicators	Means of Verification	Critical Assumptions
<p>Reaching the Millennium Development Goals (MDGs) and compliance with IFAD's Strategic Framework¹</p> <p>Rural poor have greater influence over public policy and relevant institutions, leading to halving of the proportion of extreme poor in rural areas by 2015 and the attainment of other MDGs.</p>	<ul style="list-style-type: none"> • Proportion of rural population with an income below USD 1 a day • Poverty gap ratio • Prevalence of underweight rural children • Proportion of land area used in environmentally sustainable ways • Proportion of public and private funding allocated to rural and agricultural development 	<ul style="list-style-type: none"> • MERCOSUR studies and publications • Data of multilateral and United Nations organizations • Field studies • Impact evaluations 	
<p>Development Objective (Goal)</p> <p>Rural poverty-reduction programmes of MERCOSUR member countries provide more continuous and equitable coverage and achieve greater impact.</p>	<ul style="list-style-type: none"> • Proportion of rural population with an income below MERCOSUR and national poverty benchmarks (desegregated by age group and gender, with special attention to disparities between indigenous and non-indigenous populations) • Poverty gap ratio (at MERCOSUR and individual country levels), with special attention to gender and indigenous inequalities • Prevalence of underweight among rural children (disaggregated by gender and indigenous/non-indigenous populations (at MERCOSUR and individual country levels) • Proportion of land under environmental sustainable use (at MERCOSUR and individual country levels) • proportion of public and private funding (new and reflows) disbursed to rural and agricultural development (at MERCOSUR and individual country levels) 	<ul style="list-style-type: none"> • MERCOSUR studies and publications • National statistics bureaux' data and publications • National banks' data and publications • Private-sector associations/ federations' data • Multilateral and United Nations organizations' data. • Field studies • Impact evaluations 	<ul style="list-style-type: none"> • International donors and governments provide adequate financial support to rural poverty-reduction programmes. • Coordination and efficiency of subregional rural development activities are improved. • Rural development organizations have increased decision-making capabilities over development policies and investment plans.

¹ Reaching the MDGs requires the joint efforts of all the programmes and projects of all national and international donors/institutions involved in MERCOSUR country development processes.

Logic Order	Indicators	Means of Verification	Assumptions
<p>Main TAG Objective (Purpose)</p> <p>MERCOSUR and national governments have a strengthened capacity to design and implement pro-poor policies in cooperation with the private and smallholder sector through consolidated rural and agriculture development and poverty-reduction mechanisms.</p>	<ul style="list-style-type: none"> • Subsectoral policies jointly designed and approved in consultative mechanisms • Subsectoral policies fully cover stakeholders' self-articulated needs • Stakeholders rate positively guidelines for policy implementation • Resources allocated to pro-poor development opportunities • Coverage and scope of public-private partnerships (PPPs). • Degree of mobilization and participation of smallholder and private sector in consultative mechanisms 	<ul style="list-style-type: none"> • Minutes and agenda of consultative groups, round tables, etc. • Databases (to be) installed • Guideline ratings, score cards, key files • Central banks and private-sector data • PPPs in active/non active status 	<ul style="list-style-type: none"> • Investments (relative and absolute) in the agricultural sector are increased • Smallholder sector has corresponding increase in uptake capacities for investments
Expected Outputs	Indicators	Means of Verification	Assumptions
<p>1. Pro-poor policy dialogue</p> <p>MERCOSUR's RCU is recognized as an important forum for discussing rural poverty-reduction agendas and identifying economic opportunities for the smallholder sector.</p>	<ul style="list-style-type: none"> • References made to RCU in public statements and policy documents of participating entities, and the smallholder and private sector • Number of representatives on RCU committees remains at the intended level (or higher) 	<ul style="list-style-type: none"> • Tracking and tracing databases • Attendance records of meetings and committee secretariats 	<ul style="list-style-type: none"> • Policy dialogue is followed up by investments that create economic opportunities for the smallholder sectors.
<p>2. Convergence of civil-society, private- and public-sector pro-poor policies</p> <p>Optimal convergence between economic, commercial and agricultural sector policies and self-articulated social and economic interests of the rural poor is promoted through periodical consultative mechanisms that facilitate negotiation and dialogue among representatives of MERCOSUR member governments, main rural poor organizations and representatives of the public sector.</p>	<ul style="list-style-type: none"> • Venues, quality of participation and scope of biannual national and regional consultative mechanisms • Number and scope of mutual cross-references on convergence • Degree of stakeholder satisfaction on perceived convergence • Number and scope of (joint or individual) stakeholder position papers and press releases 	<ul style="list-style-type: none"> • Minutes of meetings • Tracing and tracking of databases • Interviews • Position papers, statements, press releases 	<ul style="list-style-type: none"> • Suggested consultative mechanisms contribute to MERCOSUR's democratization and decentralization thrusts.



Expected Outputs	Indicators	Means of Verification	Assumptions
<p>3. Mainstreaming of rural poor into the economy</p> <p>Government partnerships with main donor organizations are strengthened in order to build jointly an inclusive development model that aims at mainstreaming the rural poor into the economy.</p>	<ul style="list-style-type: none"> • Number and scope of formal partnership agreements with main donor organizations • Degree of satisfaction of formerly excluded smallholders and the private sector with the inclusive model • Number and scope of joint publications 	<ul style="list-style-type: none"> • Partnership agreements • Periodical interviews 	<ul style="list-style-type: none"> • Government and international donor partners continue to have the political will to support rural development processes.
<p>4. Identification and promotion of trade and developing market opportunities for the smallholder sector</p> <p>Accrued knowledge within MERCOSUR and its partners, specifically on lessons learned and innovative opportunities in pro-poor development, is systematically documented and easily accessed through continued support to main IFAD cofinanced programmes in and outside the subregion.</p>	<ul style="list-style-type: none"> • Timely availability for all stakeholders and committee members of periodically updated policy and portfolio profiles, both of MERCOSUR and its partners • Links established with support networks in the region, especially with FIDAMERICA • Number of trade and market opportunities for the smallholder sector identified, promoted and followed up. 	<ul style="list-style-type: none"> • Reality checks • Agreements and website inventories hits • Bulletins, radio, television and Internet publicity • Follow-up documentation 	<ul style="list-style-type: none"> • Agreements among stakeholders are operational.
Main Groups of Activities²	Budget³	Means of Verification	Assumptions
<p>Formulation of policies</p> <p>Formulation of tools and direct support for activities</p> <p>Exchange of regional experiences and development of interinstitutional links</p> <p>Training of corporate and government management</p> <p>Regional and interagency experiences</p> <p>Human resources, equipment, operations and contingencies</p>	<p style="text-align: right;">USD 200 000</p> <p style="text-align: right;">USD 350 000</p> <p style="text-align: right;">USD 125 000</p> <p style="text-align: right;">USD 100 000</p> <p style="text-align: right;">USD 75 000</p> <p style="text-align: right;">USD 670 000</p>	<ul style="list-style-type: none"> • IFAD supervision • External audit 	<ul style="list-style-type: none"> • The use of financial resources is efficient and follows agreed annual workplans.

² Organized under expenditure categories as agreed with the RCU and following suggestions made by IFAD's review committees.

³ Budget reflects total contributions, of which IFAD is financing USD 800 000 (59%).