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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-Fourth Session
Rome, 18-20 April 2005

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF PARAGUAY

FOR THE

**EMPOWERMENT OF RURAL POOR ORGANIZATIONS AND HARMONIZATION OF
INVESTMENTS (*PARAGUAY RURAL*) PROJECT**

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CURRENCY EQUIVALENTS

Currency unit	=	Guarani (PYG)
USD 1.00	=	PYG 6 000
PYG 1.00	=	USD 0.00016

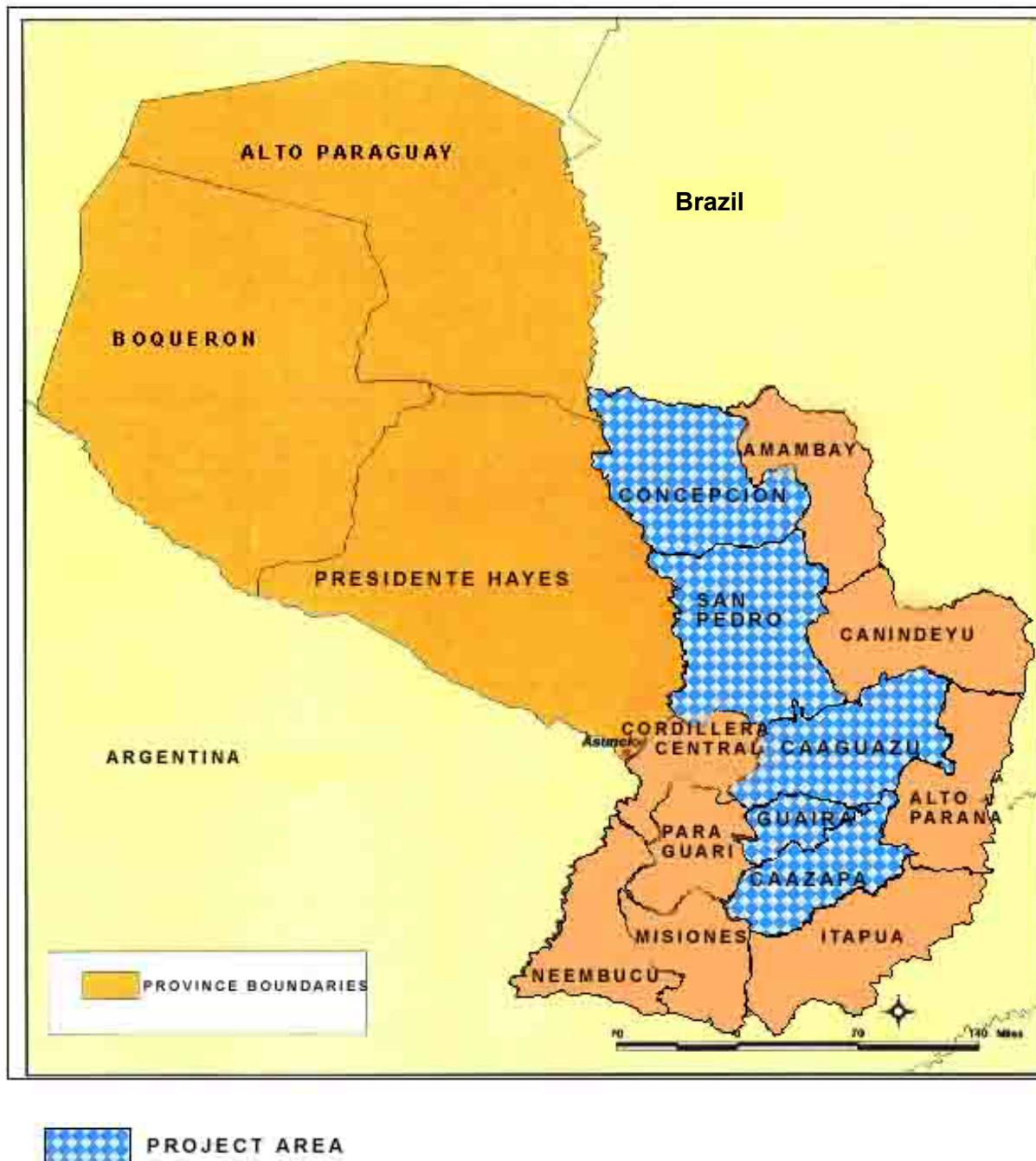
WEIGHTS AND MEASURES

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

GOVERNMENT OF THE REPUBLIC OF PARAGUAY
Fiscal Year

1 January – 31 December

MAP OF THE PROJECT AREA



Source: IFAD mission.

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.

REPUBLIC OF PARAGUAY

**EMPOWERMENT OF RURAL POOR ORGANIZATIONS AND HARMONIZATION OF
INVESTMENTS (*PARAGUAY RURAL*) PROJECT**

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Paraguay
EXECUTING AGENCY:	Ministry of Agriculture – through the National Directorate for Project Coordination and Administration
TOTAL PROJECT COST:	USD 14.4 million
AMOUNT OF IFAD LOAN:	SDR 7.85 million (equivalent to approximately USD 12.0 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	None
CONTRIBUTION OF BORROWER:	USD 2.2 million
CONTRIBUTION OF BENEFICIARIES:	USD 251 200
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROJECT BRIEF

Who are the beneficiaries? The direct project beneficiaries will be 19 000 rural poor families representing approximately 120 000 individuals. The group will include: (a) small-scale producers whose production units have been affected by 10 years of declining success of traditional cotton production models and who lack the financial or technical capacity to adopt new technologies or diversify production activities; and (b) small-scale farmers whose production units have very low productivity and limited potential. These two subgroups will account for 60% of all direct project beneficiaries. The rest of the target group will be made up of indigenous groups, rural women who are heads of household and rural workers. The project will strongly support vulnerable groups, including indigenous people and rural youth. The prospective project beneficiaries are generally organized in cooperatives, producer associations, committees and neighbourhood groups or associations. The project will directly address the needs of organizations of rural peasants and their families.

Why are they poor? An institutional and sectoral assessment carried out by IFAD indicated that the principal causes of rural poverty in the project area were: (a) weak economic and social organizations of smallholders; (b) inefficient delivery of public services; (c) weak rural financial services; (d) limited access to land and land-tenure insecurity; and (e) subsidized monocropping of cotton. The persistence of rural poverty is directly linked to inefficient policies and activities aimed at combating these causes. Aside from being driven by supply-side and top-down approaches, these policies and activities did not address the destruction of the social fabric from 30 years of dictatorship. The result is a lack of social capital among the rural poor and uncoordinated activities and investments that have not been able to lead to a coherent rural development process.

What will the project do for them? The project will essentially: (a) support the strengthening and creation of social capital through training for beneficiaries and their organizations; (b) harmonize ongoing poverty-reduction investments financed by other organizations – using a demand-driven approach based on direct participation and selection of initiatives by beneficiary organizations; and (c) establish a forum for policy dialogue between the Government and the donor community for supporting rural development and poverty reduction processes and coordinating activities. The project's main outcome would be to 'graduate' poor smallholders' organizations through the accumulation of social capital so that they can participate in project activities and access the services of other investment projects (mainly those funded by the Inter-American Development Bank and the World Bank).

How will beneficiaries participate in the project? Beneficiaries will participate directly through their organizations in a demand-generation process that includes self-diagnosis and formulating a vision for the future. To do so, beneficiary organizations will be assisted by other farmers who have already been trained and who are members of the same beneficiary organization. Beneficiaries will be involved directly since they will be responsible for identifying possible new business ventures. They will develop their own business plans in order to access project funds; the project will provide them with the necessary technical assistance and training for this task. Beneficiaries will not only identify possible business ventures but their representatives will sit on the selection committees that will evaluate proposals and decide on funding for initiatives in a competitive manner. When possible, the project will provide funds directly to the organizations in order to implement proposed business ventures. Beneficiaries will also sit on the project's steering committee and attend meetings of the policy dialogue forum. Many features of the project design are based on the successful results of the IFAD-funded Management of Natural Resources in the Southern Highlands Project in Peru.

The project. The *Paraguay Rural* Project will be implemented over a six-year period. The total project cost has been estimated at USD 14.4 million. IFAD is expected to finance USD 12.0 million, while the Government will provide USD 2.2 million and the beneficiaries will contribute approximately USD 251 200. The United Nations Office for Project Services will be the cooperating institution. World Bank figures for Paraguay set gross national income per capita at USD 1 100 (Atlas method, current USD). Loan charges would be set on highly concessional terms.

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INVESTMENTS (*PARAGUAY RURAL*) PROJECT

I submit the following report and recommendation on a proposed loan to the Republic of Paraguay for SDR 7.85 million (equivalent to approximately USD 12.0 million) on highly concessional terms to help finance the Empowerment of Rural Poor Organizations and Harmonization of Investments (*Paraguay Rural*) Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. **The country.** Paraguay is a landlocked country located at the centre of South America; it borders Argentina to the south, Brazil to the east and north-east, and Bolivia to the west. The country is divided into two regions. The Eastern Region has abundant rainfall and water resources, while the Western Region is dry and semi-arid (known as the Chaco). Paraguay has a surface area of 397 000 km² and had an estimated population in 2003 of 5.5 million.

2. **Economic performance.** Over the past decade, the Paraguayan economy has undergone several economic crises. Between 1994 and 2003, per capita gross national income (GNI) fell by 6% while the population grew at 2.6% per annum. By the end of 2002, the Inter-American Development Bank estimated per capita GDP to be on the order of USD 940, while the World Bank reported GNI at USD 1 100 (Atlas 2003). Agriculture accounts for 29% of GDP, industry 19% and services 52%. An important feature of the Paraguayan economy is the large share contributed by the services sector (52%) and within that sector, electric power generation. The new administration of President Duarte, which took office in August 2003, has reached an agreement on repayment of the external debt and has renegotiated domestic borrowings. The fiscal situation is improving and a 0.6% deficit is expected for 2004, compared with 1.2% in 2003.

3. **The agricultural sector.** Agriculture is a cornerstone of the Paraguayan economy. The sector generates 40% of exports (energy accounts for a further 50%), 33% of employment and 27% of GDP. The country has an estimated 30 million hectares (ha) of arable land, only 3 million of which are used for crop-raising. Approximately 20 million ha are dedicated to livestock and between 15 and 20 million ha to forestry. Agriculture maintained a GDP share of 27% over the period 1992-2001. The area under genetically modified soybean, concentrated in large-scale farms, is expanding at a rate of 10% per year and has been the engine of agricultural growth. In 2003 and 2004, the aggressive expansion of soybean farming resulted in vigorous peasant protests and social conflict.

4. Agricultural development in Paraguay has historically been linked to cotton, the traditional cash crop of Paraguay's peasant farmers and one of the principal sources of rural income and employment (involving 180 000 small family farmers). Cotton made a crucial contribution to the country's

¹ See Appendix I for additional information.

economy between the 1960s and 1990s, when it was the first or second source of foreign exchange earnings for Paraguay and accounted for 43% of total exports. However, the sector is characterized by low technology, rudimentary tools, inappropriate agricultural practices, low productivity and low net income for producers. In the last decade, cotton has lost its economic importance, and now represents only 10% of exports.

B. Lessons Learned from Previous IFAD Experience

5. A number of lessons have been learned through the implementation of the Peasant Development Fund Project – North-Eastern Region of Paraguay, partially financed by two IFAD loans. An evaluation carried out by IFAD's Office of Evaluation indicated that the project had introduced significant changes in the institutional setting of public financing for the rural and peasant sectors. The project was implemented in the midst of a severe institutional and economic crisis, however, and as a result the project reached its objectives only partially. Funds mobilized by the project represented at most 10% of available rural financing and the target group was only partly reached. The evaluation concluded that the supply of financial and technical services was limited due to the inability to develop intermediary financial institutions and the limited capacity of organizations of the rural poor to manage their own businesses. The existing organizations of the rural poor did not possess the minimum requirements to access project resources; they need considerable strengthening through training and capacity-building in order to qualify for financial support. Technical support services provided by the project were found to be more efficient than the centralized services provided by the Ministry of Agriculture. Participating cooperatives were not strengthened as efficiently as they could have been. Strengthening of the administrative and accounting aspects of the organizations was prominent, while their representation and legitimization was neglected. The project's impact on empowerment and the building of social capital was modest.

C. IFAD's Strategy for Collaboration with Paraguay

6. **Paraguay's policy for poverty eradication.** The present administration, which took office in August 2003, launched a National Strategy for Poverty Reduction and Development (ENREP) with support from the World Bank, the European Commission and the Inter-American Development Bank (IDB), and IFAD (through its technical assistance grant to the Southern Cone Common Market – MERCOSUR). The Government's strategy seeks to address the problem of equal opportunity and social injustice and to combat the high incidence of poverty in the rural sector and among marginalized groups such as women, children and members of indigenous groups. Proposed measures will tackle the root causes of social and political instability, generate confidence in the country, and favour foreign investment and trade. The strategy's main thrusts are: (a) create new job opportunities for the poor; (b) provide access to basic services for the poor; (c) improve the quality of education, ongoing training for workers, supply of adequate housing and investment in social infrastructure; (d) promote local participatory development in urban and rural communities; (e) strengthen the identity and culture of indigenous populations; and (f) deepen decentralization and State reform with the coordinated participation of local governments. Three cross-cutting themes are also included: (a) ensuring gender equity; (b) furthering environmental sustainability; and (c) deepening cooperation with municipalities.

7. **The poverty eradication activities of other major donors.** International cooperation has intensified in Paraguay since the democratic elections in 2003. At the beginning of 2005, Paraguay was added to the list of countries eligible to receive resources from the Millennium Fund. The IDB is the main financing institution cooperating with the Government. In the agricultural and rural development sectors, three projects are currently under implementation: (a) the Support Programme for the Development of Small Cotton Farms – second phase, USD 25.5 million; (b) the Peasant Technology and Diversification Programme, USD 12.5 million; and (c) the Cadastre and Property Registry Programme, USD 10.0 million. The IDB is also a main actor in reform of the public banking

system and structural reform of the public sector by way of a loan for USD 50.0 million and non-reimbursable technical-cooperation funding for USD 1.5 million. World Bank projects for rural development include: (a) the Education Reform Programme; (b) the Community Development Pilot Project; (c) the Potable Water Project; and (d) the Natural Resources Management Project. The European Union is supporting the process of State reform, improvement of public administration, the fight against corruption, and implementation of the ENREP. The United States Agency for International Development (USAID) is implementing the Paraguay Vende [Paraguay Sells] project to foster economic growth and rural commercialization. The German Agency for Technical Cooperation (GTZ) is concentrating its efforts on programmes for political and administrative decentralization, the fight against poverty, modernization of public administration, and natural resource management. The NGO Swedish Cooperative Centre is supporting the development of cooperatives and associations of small producers. The United Nations Development Programme has been a main actor in the support, definition and implementation of the ENREP.

8. **IFAD's strategy in Paraguay.** As set forth in the country strategic opportunities paper, IFAD seeks to support government efforts to combat poverty and strengthen the capacity of smallholder organizations in the social and economic spheres. The strategy suggests assisting the Government in instituting new and improved instruments to develop local capacities and consolidate poor smallholder associations, groups and cooperatives, scaling up their activities in terms of participation and social representation. The institutional and policy framework analysis carried out as part of the performance-based allocation system (PBAS) evidenced the need for public-sector reform, adoption of anti-corruption measures, democratization processes, participation and strengthening of local capacities. Addressing macro issues inherited from the past has become an urgent policy task. Instruments aimed at harmonizing public- and private-sector investments should figure prominently in solving poverty issues. IFAD would assist the Government in developing mechanisms to improve generation and consolidation of demand, reverse long-standing top-down approaches and generate favourable conditions for improved disbursement mechanisms for existing operations targeting the rural poor. The strategy also highlights the need to intervene in areas where rural poverty conditions are most severe. The strategy has a two-pronged approach: (a) empower rural poor organizations so that they can engage in economic activities to increase peasants' incomes; and (b) enhance and increase the number of appropriate financial and non-financial services offered by other projects.

9. **Project rationale.** The Government is currently implementing programmes for poverty reduction and rural development. Paraguay is making an exceptional effort to overcome economic difficulties, reconstruct and re-engineer State institutions, and consolidate a democratic and participatory system for eliminating corruption. Within this context, the Government has attached priority to the fight against poverty, which plagues 50% of the total population and an even higher percentage of the rural population. Notwithstanding the significant financial resources allocated for poverty reduction by the Government and international donors, a number of institutional and structural constraints need to be overcome in order to make poverty reduction efforts effective. Chief among these is the weakness of small rural producer organizations, which limits their possibility to access markets, diversify production and appropriately utilize the technical and financial services at their disposal.

10. An analysis of the country's rural development process has shown that – despite the numerous projects and plans with sufficient financing and the clear analysis of rural poverty and its causes – rural organizations are not sufficiently empowered to participate fully in the development process. Local capabilities are extremely limited, and there is a lack of institutional harmonization among poverty reduction investments.

11. The low level of accumulation of social capital among the rural poor is reflected in their limited institutional presence, lack of leadership and weak rural cooperatives, both productive and savings and credit cooperatives. This limited social capital hinders their appropriate use of financial and technical services and perpetuates a supply-driven system for those services; this underscores the need to design a system based on the allocation of services through a demand-driven approach. Furthermore, the lack of coordination and harmonization among projects and other investment activities creates overlapping and impedes efforts to address constraints on rural poor economies.

12. Potential exists for strengthening and empowering organizations of the rural poor, increasing local capabilities and enlarging and reinforcing economic networks that constitute an important part of social capital accumulation. Stronger, empowered organizations would have the capacity to access available services and credit funds of the public banking system. The project's rationale is based on the above-identified issues, and its objectives include facilitating access to productive resources and services already present in the project area by having rural poor organizations prepare development plans – with support from the project – that could be accepted for third-party funding. The catalytic role of IFAD's action would be evaluated through its impact on the investment levels of other projects financed by international institutions.

PART II – THE PROJECT

A. Project Area and Target Group

13. **Project area.** The area prioritized for IFAD's intervention in Paraguay comprises the Departments of Caazapá, Caaguazú, San Pedro, Concepción and Guairá in the Eastern Region of the country. The area lies in the southern part of the Paraná River basin at an altitude between 300 and 600 metres above sea level. The topography includes rolling hills with fertile soils and thick forests; the climate is humid with moderate temperature changes. The poverty level in these departments (which are home to over 50% of the country's total population) is above the national average. The main crops are cotton, sugar cane, maize, groundnuts and beans. Commodities such as cotton and sugar cane are cultivated mainly for industry, while other crops are generally for self-consumption. Other production activities include fruit-and-vegetable-raising and contract agriculture of sesame and the natural sweetener *ka'a he'ê*. Opportunities exist for producing honey and raising swine and poultry.

14. **Target group.** The total population of the project area in 2003 was estimated at 862 145 inhabitants, equivalent to 168 000 families. The target group was defined based on government priorities and studies and information available from different institutions involved in rural development. The direct project beneficiaries will be 19 000 rural poor families representing approximately 120 000 individuals. The group will include: (a) small-scale producers whose production units have been affected by 10 years of declining success of traditional cotton production models and who lack the financial or technical capacity to adopt new technologies or diversify production activities; and (b) small-scale farmers whose production units have very low productivity and limited potential. These two subgroups will account for 60% of all direct project beneficiaries. The rest of the target group will be made up of indigenous groups, rural women who are heads of household and rural workers. The project will provide strong support to vulnerable groups. Over the last decade, farms of less than 5 ha (known as *minifundios*) have grown from 40% to 66% of the total production units located on degraded land with tenancy problems. In rural areas, small independent cotton farmers working on subsistence farms constitute the poorest segment of the population. The prospective project beneficiaries are generally organized in cooperatives, producer associations, committees and neighbourhood groups or associations. It is expected that the project will directly incorporate at least 19 000 families grouped into 55 consolidated organizations, 110 transitional organizations and 200 emerging groups. The project will directly assist these organizations in

improving the economic and social conditions of their members – both men and women. At least a third of the project beneficiaries will be women.

15. **Gender issues and vulnerable groups.** The project will assist rural families by adopting an integrated household approach in which all family members are considered. The project's gender approach will involve actions and methods that cut across all project components. Woman-headed households are characterized by limited access to education, land, financial services and other public-sector services. In the project area, more than 90% of these households are poor and 20% are very poor. In addition, rural youth have extremely limited employment opportunities, and the situation of rural women – who are excluded from the social and economic spheres – has worsened noticeably in recent years. Data from the 2001-02 Integrated Household Survey show a high percentage of landless woman-headed households (40.7%, as against 24.1% for male-headed households). The project's gender approach will include: (a) analysing the family's division of labour within existing productive and marketing chains; (b) taking specific measures to include women and young people in democratic decision-making processes on matters concerning productive activities and include them in smallholder organizations; (c) designing specific measures for developing appropriate businesses to be run by women and young people; and (d) establishing a percentage for women's participation in projects (as staff) and in project benefits and resources. Another important vulnerable group is the largely young indigenous population. An estimated 72.2% of the indigenous population is under the age of 30. The last census showed that the project area included 15 473 indigenous people belonging to three major ethnic groups. Access to land, services, and opportunities to participate in the development process are limited. Only 55% of indigenous communities own land, highlighting the current state of poverty and marginalization in which they live.

B. Objectives and Scope

16. The project's overall goal is to greatly reduce rural poverty in the five poorest departments of the Eastern Region of Paraguay. The main objective is to ensure that the rural poor in these five departments and their strengthened organizations have access to productive and financial resources and services already available in the project area and are mainstreamed into the national development process. The project's specific objectives include:

- (a) empowerment of rural poor organizations and accumulation of their social capital in order to generate an appropriate demand-driven system for productive and financial resources in the project area;
- (b) promotion of sustainable agricultural and non-agricultural business opportunities based on the diversification and modernization of productive and commercial activities;
- (c) harmonization of investments and project activities already present in the project area; and
- (d) implementation of ongoing policy dialogue between the Government and international donors to strengthen a much needed partnership for poverty reduction.

C. Components

17. The project will be implemented over a six-year period and organized under three main components: (a) accumulation of social capital, including two subcomponents: (i) empowerment of social and economic organizations of the rural poor; and (ii) pre-investment activities to promote agricultural and non-agricultural business opportunities; (b) harmonization of productive investments; and (c) policy dialogue and partnerships.

Accumulation of Social Capital

18. **Empowerment of social and economic organizations of the rural poor.** This subcomponent will seek to strengthen organizations of the rural poor so that they can identify suitable requests for financial and technical services and represent the interests of their members. Proposed activities include: (a) **training of rural representatives elected by peasant communities** in the procedures and steps for formulating requests for peasant organizations and in competition rules for obtaining seed capital, gender equity and inclusion of vulnerable groups; and (b) **basic training of beneficiaries and peasant leaders** in participatory diagnosis, development of the organization's vision, identification of business plans and rules for participating in the preparation of business and strengthening plans.

19. **Pre-investment activities to promote agricultural and non-agricultural business opportunities.** The objective of this subcomponent is to design the tools for organizations of the rural poor to identify business opportunities within an approach based on modernization and diversification, including both agricultural and non-agricultural activities. All efforts will be focused on the design and implementation of business plans. This subcomponent includes the following activities: (a) training of project staff and promoters in project vision, organizational and administrative activities, analysis of the potential of agricultural and non-agricultural businesses, and preparation of business plans – promoters will accompany the process from the beginning until organizations have 'graduated' and plans are implemented; and (b) training for service providers, which could be delivered by professionals, NGOs and other private-sector service providers. Beneficiaries would benefit from project training courses.

20. Organizations will submit finalized plans to a competitive selection process within six months of their preparation. Plans will be judged by a specially appointed selection committee.

Harmonization of Productive Investments

21. The project will foster access for strengthened organizations to services provided by other nationally and internationally financed projects (especially the Inter-American Development Bank and the World Bank). The following main activities will be performed under this component: (a) **implementation of business plans** – when the selection committee approves an organization's business plan, an implementation agreement will be signed between the project and the organization; (b) **a capitalization fund** (seed capital) will be created to support development activities included in business plans. For each organization, the project will allocate a limited budget. The organization will have to demonstrate that the requested capitalization funds will not replace available resources or credit. In order to protect vulnerable groups, 20% of the capitalization fund will be reserved to support young people, members of indigenous communities, women and other vulnerable groups; and (c) **a pilot plan for regularization of land tenure will be launched** to regularize land parcels where investments would be carried out, since the lack of ownership and land titles could limit beneficiaries' participation in business and strengthening plans, both as individuals and as organizations. The project will also support the preparation of environmental compliance studies for those business plans that require them.

Policy Dialogue and Partnerships

22. This component aims to strengthen partnerships between national and international development institutions in order to implement the country's poverty reduction strategy in a rural development context. The component includes resources to establish and operate a national forum to be convened and chaired by the Deputy Minister of Agriculture. The forum will be supported by IFAD's MERCOSUR technical assistance grant. Priority topics to be discussed will include: (a) smallholder access to investment and financial resources; (b) harmonization of investments and

coordination of rural development actions; (c) coordination of rural development investments; (d) access to public goods and services by the most vulnerable sectors of the rural population; (e) implementation of local and regional rural development boards; and (f) land tenure and titling. The forum, which will meet at least once a year, will establish committees to analyse priority topics and other issues related to rural development and poverty reduction that may be considered relevant. The forum will be the appropriate setting for monitoring advances made in 'graduating' organizations of the poor to access new resources. The forum will organize an annual event to analyse this process and the consolidation of beneficiary organizations. It is expected that, as a result of this activity, a process of harmonization and investment in poverty reduction and rural development will be instituted. It is further expected that this activity will improve disbursements by other projects and programmes.

D. Costs and Financing

23. **Costs.** The total project cost including contingencies is estimated at USD 14.4 million. Physical and price contingencies have been established in terms of categories of expenditures. Price contingencies for all categories assumed an annual domestic inflation rate of 7% and international inflation of 2%. Physical contingencies were calculated based on the characteristics and degree of complexity of each category of expenditure.

24. **Financing.** The project will be financed as follows: (a) IFAD will provide USD 12.0 million, equivalent to 83% of total costs; (b) the Government of Paraguay will provide USD 2.2 million (15%); and (c) beneficiaries will provide USD 251 200 (2%).

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

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Accumulation of social capital					
Empowerment of social and economic organizations of the rural poor	3 047.4	839.2	3 886.7	22	29
Pre-investment activities to promote agricultural and non-agricultural business opportunities	468.5	199.1	667.6	30	5
Subtotal	3 516.0	1 038.3	4 554.3	23	34
Harmonization of productive investments	6 585.6	98.3	6 683.9	1	50
Policy dialogue and partnerships	180.0	-	180.0	-	1
Project implementation unit	1 669.2	321.2	1 990.4	16	15
Total base costs	11 950.8	1 457.8	13 408.5	11	100
Physical contingencies	328.0	66.2	394.2	17	3
Price contingencies	549.0	90.6	639.5	14	5
Total project costs	12 827.7	1 614.5	14 442.2	11	108

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	IFAD		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
Accumulation of social capital											
Empowerment of social and economic organizations of the rural poor	3 482.5	80.0	870.6	20.0	-	-	4 353.1	30.1	945.6	2 972.1	435.3
Pre-investment activities to promote agricultural and non-agricultural business opportunities	589.0	80.0	147.3	20.0	-	-	736.3	5.1	219.6	443.1	73.6
Subtotal	4 071.5	80.0	1 017.9	20.0	-	-	5 089.4	35.2	1 165.2	3 415.2	508.9
Harmonization of productive investments	6 368.2	90.5	415.6	5.9	251.2	3.6	7 035.0	48.7	109.6	6 619.4	306.0
Policy dialogue and partnerships	131.1	70.0	56.2	30.0	-	-	187.3	1.3	-	187.3	-
Project implementation unit	1 444.6	67.8	685.9	32.2	-	-	2 130.6	14.8	339.8	1 716.6	74.2
Total disbursement	12 015.5	83.2	2 175.5	15.1	251.2	1.7	14 442.2	100.0	1 614.5	11 938.6	889.1

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

25. **Procurement.** Procurement to be financed from loan resources will be carried out in accordance with IFAD's procurement guidelines. Contracts valued at more than USD 30 000 will be procured through local competitive bidding. Contracts below USD 30 000 will be procured through local shopping. Technical assistance will be acquired on terms and conditions satisfactory to IFAD.

26. **Disbursements.** A special account – to be maintained in United States dollars – will be set up at a bank acceptable to IFAD to facilitate the regular flow of funds. Upon loan effectiveness, IFAD will make an initial deposit of USD 1 million, corresponding to about six months' requirements. The account will be replenished in accordance with established IFAD guidelines. A project account in local currency will be opened and managed by the project implementation unit for day-to-day activities. The Government will deposit its contribution into this account according to the agreed schedule; it will allocate USD 200 000 for the first year of project implementation. Two sub-accounts will be opened and managed at the local level; the managers of the local offices will have signature authority over these accounts. During the first six months of implementation, the project implementation unit will design, to IFAD's satisfaction, a project accounting system. This system will establish the necessary procedures for management and budgetary control based on: (a) the Government's accounting system; (b) accounting control of expenditures for mechanisms by project component; and (c) the accounting control mechanism by categories of expenditures, in accordance with the loan agreement. Mechanisms for the disbursement of loan proceeds will be established in the loan agreement.

27. **Accounts and audit.** For the duration of the project, the project accounts – including IFAD's and the Government's contribution to the project – will be audited in accordance with international standards on auditing and IFAD's project audit guidelines. The audited accounts and financial statements will be submitted to IFAD – no later than six months after the close of each fiscal year of the Government until the loan closes – in a format agreed upon at project start-up; this information will include opinions on the statements of expenditure and the operation of the special account and project accounts. The audit report will be in long form and will contain a separate management letter. The project's response to the management letter will be submitted to IFAD within one month of the receipt of the audited accounts. If the audit report is not received within 30 days of the due date, or if the audit report is unacceptable, IFAD may hire an independent auditor of its choice to carry out the project audit. An audit report overdue for 180 days will trigger the process of suspension of loan disbursements.

F. Organization and Management²

28. The project will be implemented under the aegis of the Ministry of Agriculture; specifically, responsibility for implementation and administration will lie with the National Directorate for Project Coordination and Administration (DINCAP). A project implementation unit (PIU) will be established in the capital city of Asunción and will be staffed by a director, an international senior technical adviser, a gender specialist, a marketing and business opportunities specialist, and a financial intermediary specialist. It will include as well an administrative unit and a monitoring and evaluation unit. Two local offices – operating as branches of the PIU – will be located in the departments of Guairá and San Pedro. These offices will be staffed by a local manager, an expert in social organizations, and three promoters. The PIU and the local offices will establish the criteria for a competitive system for accessing business start-up funds and strengthening organizational plans, which are the cornerstones of the project's economic and productive activities. A committee to evaluate and select business plans will be set up in each of the local offices. These committees will be

² See Appendix IV for additional information.

composed of representatives of poor smallholder organizations, promoters, the local office manager, and an expert in social organizations.

29. A project steering committee will be established to provide overall guidance for project implementation. Its terms of reference will include: (a) steering project actions in accordance with rural development policies of the Government and the Ministry; (b) analysis and approval of the project's annual workplans and budgets; and (c) participation in the policy dialogue forum. The representative of the Minister of Agriculture, the Director of DINCAP, the Director of the Planning Directorate, the representative of the Technical Secretariat of Planning, the representative of the Social Action Secretariat, the project director and two representatives of the project beneficiaries will sit as permanent members of the committee with the specific task of revising and approving the annual workplans and budgets.

30. The project will establish a policy dialogue forum to be chaired by the Deputy Minister of Agriculture and composed of a representative of the Ministry of Finance, a representative of the Secretariat of Social Action, a representative of the Technical Planning Secretariat, the Director of DINCAP, and representatives of democratically elected beneficiaries through a process outlined in the loan agreement. The forum will also invite representatives of rural social organizations, NGOs and representatives of members of the international donor community, including the United Nations system. Specific commissions of the forum will organize policies and dialogue on knowledge management and sharing; representatives of IFAD MERCOSUR and other IFAD-supported grants will participate. Another forum commission will discuss and support the effective reorganization and 'graduation' process of organizations to become effective socio-economic entities.

G. Economic Justification

31. **Beneficiaries.** The project is expected to directly benefit 19 000 families (120 000 individuals) having a per capita income below USD 1 per day. These families will benefit from strengthened organizations and will be in a position to access training, technical assistance services and seed capital to implement business and institutional strengthening plans. The main benefit will be increased social capital, to be measured and evaluated by the effective use of resources already present in the project area. It is estimated that the project will indirectly benefit an additional 30 000 families, who will enjoy better employment opportunities.

32. The direct beneficiaries will be members of poor smallholder organizations, including rural poor families that are part of production units in severe decline – estimated to be 50% of project beneficiaries – and who are gradually becoming landless. A second subgroup of beneficiaries includes people engaged in faltering production units, which represent 10% of all beneficiary families, many of whom are part of very weak organizations and cooperatives operating under serious difficulties. Another important group of beneficiaries, representing 40% of the total, is made up of families and individuals belonging to vulnerable groups. For this group, the project will design specific support measures in order to include them in the process of organizational strengthening and the preparation of business plans. This last group is formed of woman-headed households, temporary rural labourers and indigenous peoples who are slipping deeper into poverty. Women will represent approximately 30% of project beneficiaries.

33. **Benefits.** In order to estimate production and increased income, four business models were developed on the basis of different assumptions about organization size, type of business and market potential. It is expected that after project year 4 the additional value of net income generated by the implementation of business plans will amount to USD 4 million. This will represent an average income increment of USD 240 per year for each family supported by the project.

34. **Financial and economic analysis.**³ The project is supported by specific financial and economic analyses of the investments it proposes. A case-study analysis has demonstrated the economic and financial viability of the project proposal. These analyses are based on the experience of IFAD's Technical Assistance Services Unit and those of other donors such as the German Agency for Technical Cooperation and the Inter-American Development Bank.

H. Risks

35. The project's overall risk is considered moderate since there will be limited institutional changes in terms of poverty reduction policies. It is expected that macroeconomic policies will remain constant in the near future, based on the expressed will of the Government and other political forces to continue to pursue policies of economic stabilization and rural poverty reduction. International donors are expected to maintain the flow of funding for rural poverty reduction and to support the investment harmonization process. There is a moderate risk in relation to limited national experience in implementing projects of this nature and harmonizing investments. The most important risks, however, are those associated with market fluctuations and the diversification of output from rural entrepreneurial initiatives. Market risks include possible difficulties in penetrating local and MERCOSUR markets, low competitiveness of products, quality and volume. The project will receive support from IFAD's MERCOSUR grant and MERCOSUR's Specialized Meeting on Family Agriculture.

I. Environmental Impact

36. Soil use is becoming increasingly intensive in areas that are already at their capacity, namely in areas having high concentrations of small poor farmers growing traditional crops such as cotton. In some parts of the project area, farmers are aggressively pursuing industrial cultivation of soybeans thanks to the introduction of new genetically modified varieties and high international prices in recent years. The region's environmental vulnerability calls for developing appropriate policies and actions to ensure sustainable soil use and to recover lost soil fertility due to cotton monocropping. The project will mitigate possible environmental impacts by promoting business plans that take into account diversified production based on crop rotation or zero tilling. The successful experiences of the German Agency for Technical Cooperation in Caaguazú demonstrate that, with the use of appropriate practices, it is possible to control soil erosion and recover soil fertility. The project will give due consideration to the ecological limitations of existing ecosystems to ensure that natural resources are preserved or improved. No plans that involve deforestation practices will be approved.

J. Innovative Features

37. The project presents three innovative features in the rural development process in Paraguay. First, it will innovate in the country's development process by creating and building the social capital of the rural poor in order to generate a demand-driven system that will allow the organizations of the rural poor to use the financial and technical resources already present in the project area. Second, the project will innovate by furthering harmonization of the investments of governmental organizations and international donors, which currently suffer from overlapping and limited impact. Third, by establishing a policy dialogue forum, the project will address relevant subjects such as land tenure; financing and rural credit; privatization of technical assistance and marketing services; and harmonizing investments to reduce rural poverty.

³ See Appendix V for additional information.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

38. A loan agreement between the Republic of Paraguay 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.
39. The Republic of Paraguay is empowered under its laws to borrow from IFAD.
40. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

41. 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 the Republic of Paraguay in various currencies in an amount equivalent to seven million eight hundred and fifty thousand special drawing rights (SDR 7 850 000) to mature on or prior to 1 December 2044 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be 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

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan negotiations concluded on 22 March 2005)

1. **Project account.** The Government, through the project implementation unit, will open and maintain, at a bank agreed upon by the Government and IFAD, a current account in local currency for project activities and two sub-accounts, one in each local office. The project account will receive the Government's counterpart funds. The project director and the administrative/financial officer will be fully authorized to jointly administer and use this account.

2. **Counterpart funds.** During project implementation, the Government will make counterpart funds available to the project parties out of its own resources in a total amount of USD 2 175 500, as set forth in the annual workplans (AWPs) and customary national procedures for development assistance. As soon as possible but in any event prior to the first disbursement, the Government will make budgetary allocations for an initial amount of USD 200 000 to cover the costs of the first year of the project. This sum will be made available to the project in partial amounts and in accordance with the needs of the project and in compliance with the AWP. In subsequent years, the Government will make budgetary allocations equivalent to the amount of counterpart funds called for in the respective AWP and will make such allocations available to the project each year.

3. **Additional events of suspension**

- (a) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if the audit has not been performed satisfactorily within the six months following the date stipulated for such purpose.
- (b) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account upon the occurrence of any of the following events:
 - (i) the project director or principal technical adviser has been removed from the project without IFAD's prior consent;
 - (ii) IFAD has determined that the material benefits of the project are accruing to persons outside the target group, and the Government has not taken adequate measures to remedy that situation;
 - (iii) the implementation manual or any of its provisions have been transferred, waived, suspended, revoked, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such transfer, waiver, suspension, revocation, amendment or modification has had or is likely to have a material adverse impact on the project;
 - (iv) the Government has failed to honour any commitment and IFAD has determined that such non-compliance has harmed or is likely to harm the project; or
 - (v) procurement has not been performed in accordance with the loan agreement.

4. **Project implementation manual.** The National Directorate for Project Coordination and Administration, through the project implementation unit, will prepare a draft implementation manual as well as bylaws for the committees that will evaluate and select the business plans and the regulations for ranking the business and strengthening plans and accessing the capitalization fund; it will submit

them to IFAD for its no objection and subsequently will forward the draft to the project steering committee for approval.

5. **Participation by indigenous populations who are the beneficiaries of the project.** The executing agency will ensure that women and members of indigenous communities fully participate in and benefit from all project activities and that the interests of the indigenous populations who are the beneficiaries of the project are respected during implementation. To this end, it will ensure that: (i) the project is implemented in compliance with applicable national legislation and international agreements ratified by the Government with regard to the indigenous populations who are the beneficiaries of the project, and (ii) indigenous communities are adequately and fairly represented in project activities in which they take part and they are involved in dialogue policy and local government.

6. **Gender.** The project will have resources available for the purpose of strengthening women's participation in the development process and facilitating inclusion of the vulnerable population. The local officers and promoters may ask the project implementation unit to channel funds to activities that foster inclusion of women, young people and the vulnerable population in the development process.

7. **Protection of resources.** The Government is to take reasonable measures to ensure that applicable legislation is respected in terms of safeguarding water, forests and wildlife resources in the project area. Similarly, the Government is to take measures within its power to ensure the sustainability of the project without detriment to the environment.

8. **Conditions precedent to disbursement.** No withdrawal may be made until such time as the Government has opened the project account and has made the initial contribution of counterpart funds available to the project parties.

9. **Conditions for effectiveness.** The loan agreement will become effective upon fulfilment of the following conditions precedent:

- (a) the project director has been duly appointed with the prior no objection of IFAD;
- (b) the principal technical adviser has been hired;
- (c) the project implementation unit has been duly established;
- (d) the special account and project account have been duly opened;
- (e) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary governmental action; and
- (f) the Government has presented to IFAD a legal opinion issued by the Treasury Attorney Office of the Ministry of Finance [*Abogacía del Tesoro del Ministerio de Hacienda*].

APPENDIX I

COUNTRY DATA

PARAGUAY

Land area (km² thousand) 2002 1/	397	GNI per capita (USD) 2002 1/	1 170
Total population (million) 2002 1/	5.51	GDP per capita growth (annual %) 2002 1/	-4.4
Population density (people per km²) 2002 1/	14	Inflation, consumer prices (annual %) 2002 1/	11
Local currency	Guarani (PYG)	Exchange rate: USD 1 =	PYG 6 000
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	2.3	GDP (USD million) 2002 1/	5 508
Crude birth rate (per thousand people) 2002 1/	30	Average annual rate of growth of GDP 1/ 1982-1992	3.3
Crude death rate (per thousand people) 2002 1/	5	1992-2002	1.5
Infant mortality rate (per thousand live births) 2002 1/	26	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	71	% agriculture	22
Number of rural poor (million) (approximate) 1/	n/a	% industry	29
Poor as % of total rural population 1/	n/a	% manufacturing	15
Total labour force (million) 2002 1/	2.11	% services	49
Female labour force as % of total 2002 1/	30	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	8
School enrolment, primary (% gross) 2002 1/	112 a/	Household final consumption expenditure, etc. (as % of GDP)	84
Adult illiteracy rate (% age 15 and above) 2002 1/	8 a/	Gross domestic savings (as % of GDP)	8
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports 2002 1/	1 030
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	11 a/	Merchandise imports 2002 1/	1 770
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	5 a/	Balance of merchandise trade	-740
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	8 a/	before official transfers 2002 1/	176
Physicians (per thousand people) 2002 1/	n/a	after official transfers 2002 1/	294
Population using improved water sources (%) 2002 3/	78 a/	Foreign direct investment, net 2002 1/	-20
Population with access to essential drugs (%) 1999 3/	0-49	Government Finance	
Population using adequate sanitation facilities (%) 2002 3/	94 a/	Overall budget balance (including grants) (as % of GDP) 2002 1/	-1 a/
Agriculture and Food		Total expenditure (% of GDP) 2002 1/	19 a/
Food imports (% of merchandise imports) 2002 1/	12	Total external debt (USD million) 2002 1/	2 967
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	221 a/	Present value of debt (as % of GNI) 2002 1/	52
Food production index (1989-91=100) 2002 1/	143	Total debt service (% of exports of goods and services) 2002 1/	11
Cereal yield (kg per ha) 2002 1/	2 030	Lending interest rate (%) 2002 1/	39
Land Use		Deposit interest rate (%) 2002 1/	23
Arable land as % of land area 2002 1/	8 a/		
Forest area as % of total land area 2002 1/	59 a/		
Irrigated land as % of cropland 2002 1/	2 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2004

3/ UNDP, *Human Development Report*, 2004

PREVIOUS IFAD FINANCING IN PARAGUAY

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Acronym	Currency	Approved Loan Amount	Disbursement (as % of approved amount)
Programme for Agricultural and Livestock Expansion	IDB	IDB	I	27 Jun 79	10 Jun 80	09 Jun 84	L - 1 - 19 - PG	SDR	5,900,000	100.00%
Integrated Rural Development Project in the Department of Paraguari	IDB	IDB	I	08 Sep 81	26 Jul 82	30 Apr 89	L - 1 - 72 - PG	SDR	3,500,000	94.37%
Agricultural Credit Project	IDB	IDB	O	12 Dec 84	20 Jun 86	30 Jun 90	L - 1 - 164 - PG	SDR	7,100,000	99.35%
Peasant Development Fund Project - North-eastern Region of Paraguay	IFAD	UNOPS	O	09 Sep 92	10 Aug 93	30 Jun 01	L - 1 - 310 - PG	SDR	8,500,000	75.64%
Peasant Development Fund Credit Project - Eastern Region of Paraguay	IFAD	UNOPS	O	07 Dec 95	03 Dec 96	30 Jun 05	L - 1 - 407 - PY	SDR	6,650,000	84.75%

LOGICAL FRAMEWORK

Summary	Verifiable indicators ⁴⁵ (disaggregated by sex)	Means of Verification ⁶ (Responsibilities)	Assumptions
<p>Development objective</p> <p>Rural poverty in 5 departments of the Eastern Region of Paraguay is significantly reduced</p>	<ul style="list-style-type: none"> • RIMS Anchor 1: Reduction in child malnutrition. • RIMS Anchor 2: Increase of assets of the beneficiaries. • <i>Rural population (by gender) brought over the Paraguayan poverty benchmark in 5 project departments</i> 	<ul style="list-style-type: none"> • Statistical asset and child malnutrition data at department level (MAG, SAS) • Project benchmark and impact assessment survey (PMU/IFAD/PREVAL) • Monitoring data of DINPLAN of ENREP (DINPLAN) • Regular sectoral policy and institutional assessments as part of PBAS (IFAD) 	
<p>Objective of the Project</p> <p>Rural poor and their organizations in 5 selected Departments have access productive resources and services already present in the project area and are mainstreamed into socio-economic development processes.</p>	<ul style="list-style-type: none"> • <i>100 project development plans accepted for 3rd party funding</i> • 9 000 households have improved food security • 150 enterprises operating after three years • 10 000 persons (especially farmers) adopting technology recommended by project (around 3 000 women) • 260 organizations/groups operational/ functional • 60 women active on management committees • <i>Sales revenues increase gradually by economic organizations from 3rd year</i> • <i>20% of the extreme poor covered by social and productive harmonized projects</i> 	<ul style="list-style-type: none"> • Project benchmark and effect assessment survey. (PMU/IFAD/PREVAL) • Monitoring data of DINPLAN of ENREP(DINPLAN) • Monitoring data of the M+E Unit (Mid term review and project completion) (OT, PMU) • Self assessment reports of organizations (COSAPLAN) 	<p>National objectives and mechanisms for application of the ENREP are maintained.</p>

⁴ References to annual targets are available in Working Document 5.

⁵ Indicators in *italics* refer to *project management indicators*, the other indicators refer to RIMS (also see RIMS reporting table).

⁶ A Monitoring and Evaluation matrix which details the information needs, data gathering and responsibilities will be elaborated as part of the participatory start-up workshop.

Summary Components/ outputs	Verifiable indicators (disaggregated by sex)	Means of Verification (Responsibilities)	Assumptions
<p>Component 1: Building up and strengthening social capital</p> <p>Sub-component 1.1: Empowerment of rural poor social and economic organizations with gender approach</p> <p>Output 1: Organizations of the rural poor strengthened to express and defend the economic and social needs and interests of their members</p> <p>Sub-component 1.2: Pre-investment activities for promoting business (agricultural and non agricultural) opportunities</p> <p>Output 2: (Pre)investment tools and opportunities for diversification and modernization of on and off farm business development promoted for social and economic organizations and their members</p>	<ul style="list-style-type: none"> • 365 community groups formed/strengthened (economic organizations) • 19 000 persons belonging to organizations of 3 different type⁷ • 90 organizations formed with women in leadership positions • <i>Degree (30%)of social inclusion of special vulnerable population in economic organizations</i> • 19 000 persons receiving direct project services (6 000 women) • 365 community projects implemented • 260 enterprises established/ strengthened • 10 000 ha of land improved through soil and water conservation measures • 3 000 persons trained in natural resource management (1 000 women) • 15 000 persons trained in smallholder agriculture (5 000 women) • 500 viable business plans presented • 110 organizations transformed from a decline process to “capitalized” economic organizations 	<ul style="list-style-type: none"> • M+E reports of the local project offices (OT, Community Worker, Facilitators) • Annual monitoring review (PMU) • Monitoring reports/data of organizations (Facilitators, Community Worker, Representative of organizations) • Monitoring reports/data of organizations(Facilitators, Community Worker, Representative of organizations) • Review/Qualification score of business plans (COSAPLAN) • Data on results of training (Service Provider, OT) • Mapping of improved land (DINPLAN, contractors) • Periodic M+E reports of the local project offices(OT, Community Worker, Facilitators) • Annual monitoring review (PMU) • Documentation of case studies/innovations (M+E Unit) 	<p>In order to achieve the project objective:</p> <p>Business volume and terms of trade are sufficiently interesting to attract agricultural production and rural finance service providers.</p> <p>MERCOSUR continue its integration and market policy.</p> <p>Solving land tenure problems and agrarian reform remain national political priorities.</p> <p>Third party investors maintain their demand-oriented service offer to rural poor (organizations) in Region.</p>

⁷ The project differentiates 3 types of organizations: emerging organizations, in transition and already economically active, see Working Paper 5.

Summary Components/ outputs	Verifiable indicators (disaggregated by sex)	Means of Verification (Responsibilities)	Assumptions
<p>Component 2: Harmonization of productive investments financed by other IFIs⁸</p> <p>Output 3: Demand-driven technical, economic and financial services present in the project area fostered, including land regulation</p>	<ul style="list-style-type: none"> • 47 600 persons accessing technical advisory services • 420 facilitators (community workers) trained • 90 service providers trained in demand-led services and methodologies • Disbursement levels of competitive capitalization fund (by year) • 2nd :14%, 3rd :33%, 4th :34, 5th:15%, 6th : 4% • 365 groups with secure communal land titles 	<ul style="list-style-type: none"> • Periodic M+E reports of the local project offices(OT, Community Worker, Facilitators) • Documentation of experience of organizations with service providers (M+E unit, contractors) • M+E reports of service provider (Service providers, community workers) • Annual monitoring review (PMU) • Data on results of training (service Provider, OT) • Land registration data (MAG) • Accounting data of the fund (Admin.Unit) 	
<p>Component 3:Policy Dialogue and Partnerships</p> <p>Output 4: Partnerships for social and economic purposes and implementation of the national poverty reduction strategy (ENREP) strengthened</p>	<ul style="list-style-type: none"> • 80% of M&E data from Paraguay Rural used by DINPLAN • Project innovations/instruments documented and cited by GOP/DINPLAN • Joint/supplementary projects agreed, e.g., BID GTZ, BM, UNICEF • Poverty reduction instruments harmonized between SAS and MAG 	<ul style="list-style-type: none"> • DINPLAN M+E reports (M+E Unit, DINPLAN) • GOP/DINPLAN references(M+E Unit, DINPLAN) • Project agreements(M+E Unit, DINPLAN) 	

⁸ IFIs means International Financial Institutions.

Main activities	Baseline costs per Output (USD '000)
<p>Component 1: Building and strengthening of social capital Sub-component 1.1: <u>Gender balanced empowerment of social and economic organizations</u> Output 1:</p> <ul style="list-style-type: none"> • Promotion of objectives, strategy and instruments of the project to organizations • Training of facilitators • Training of members and leader of organizations • Training and TA in management (pacification, administration, M&E, accountability, etc. of organization) • Training of women in leadership, self-esteem • Promotion of social inclusion of vulnerable population and special TA <p>Sub-component 1.2: <u>Promotion of sustainable agricultural and non-agricultural business opportunities</u> Output 2:</p> <ul style="list-style-type: none"> • Promotion of competitions for presenting business plans to organizations • TA and training in the elaboration of business plans for members of organizations • Creation of conditions for implementation of business plans • Implementation of pre-investment activities for organizations and their members <p>Component 2: Harmonization of productive investments financed by other IFIs Output 3:</p> <ul style="list-style-type: none"> • TA for implementation of business plans • Training of service providers in formulation of business plans • TA in institutional capacity building of service provider with special orientation on participatory techniques • Management of the capitalization fund • Provision of support in land-titling and environment activities <p>Component 3: Policy Dialogue and Partnerships Output 4:</p> <ul style="list-style-type: none"> • Organization of seminars and events on policy instruments for poverty reduction • Provision of instruments and mechanism for poverty reduction projects • Provision of instruments and mechanism for M&E of poverty reduction projects • Identification and promotion of joint projects with other IFIs 	<p>Output 1: USD 3.886,7</p> <p>Output 2: USD 666,6</p> <p>Output 3: USD 6.6683,9</p> <p>Output 4: USD 180,0</p>

RIMS INDICATORS

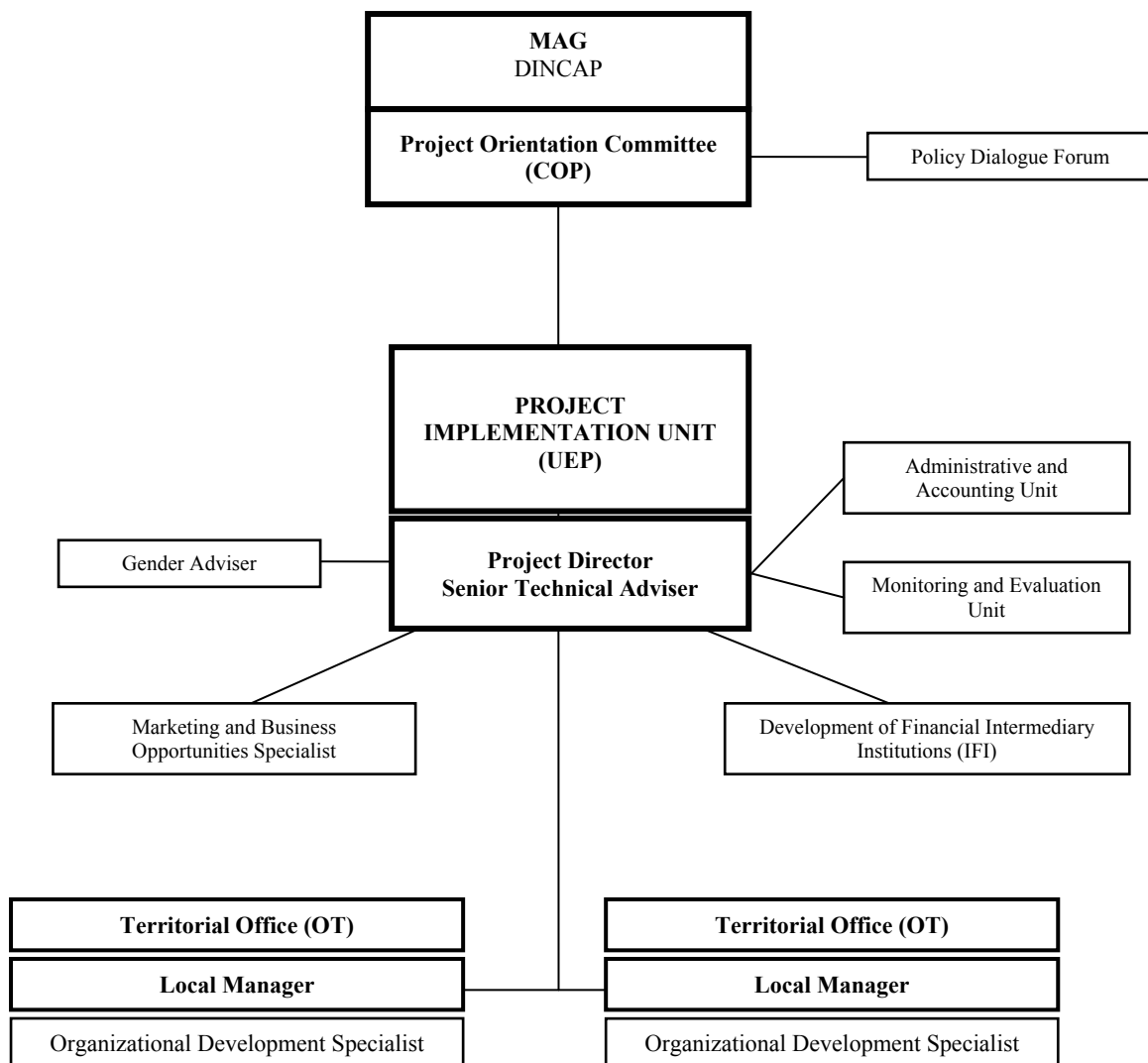
Results and Impact System:

Component/ Output/	Indicator	Unit	Period: First Year			Cumulative		
			AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appraisal
Impact indicators	Households that have improved food security	number	0			19000		
	Households with improvement in household assets ownership index	number	0			6000		
	Prevalence of child malnutrition (weight for age)	percentage	0			150		
	Weight for age (girls/boys)	percentage	0			10000		
	Height for age (girls/boys)	percentage				3000		
	Weight for height (girls/boys)	percentage				260		
General: 1st level indicator	Persons receiving direct project services	number						
		number/women						
2nd level indicators	Enterprises operating after three years	number						
	Persons (esp. farmers) adopting technology recommended by project	number						
	Women (working on farms) adopting technology recommended by project	number						
	Organizations/groups operational/functional	number						
	Women active on management committees	number						
C1: Strengthening Social Capital								
Output 1:	Community Management groups (economic organizations) formed/strengthened	number				365		
	Persons belonging to organizations	number				19000		
	Organizations formed with women in leadership positions	number				90		

Component/ Output/	Indicator	Unit	Period: First Year			Cumulative		
			AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appraisal
Output 2:	Number of community action plans (business plans) prepared	number				500		
	Community projects implemented	number				365		
	Enterprises established/strengthened	number				260		
	Land improved through soil and water conservation measures	ha				10 000		
	Persons trained in natural resource management	number				3 000		
	Women trained in natural resource management	number				1000		
	Persons trained in smallholder agriculture	number				15000		
	Women trained in smallholder agriculture	number				5000		
C2: Harmonization of productive investments								
Output 3:	Persons accessing technical advisory services	number				47000		
	Community workers (facilitators) trained	number				420		
General	Value of gross loan portfolio	USD				14 000 000		

ORGANIZATION AND IMPLEMENTATION

ORGANIGRAMME



ECONOMIC AND FINANCIAL ANALYSIS

1. The Paraguay Rural project has as main objective the accumulation of social capital and the empowerment of the rural poor organizations. The empowered organizations will identify and implement profitable sustainable businesses financing investment and services costs with resources provided by other ongoing projects financed mainly by the IDB and the World Bank. The project has no credit component and practically will not finance investments. For this reason it is not possible to have a traditional global financial and economic analysis. However, the project justification is supported by the economic and financial analysis on case studies based in the experience of USAT/IFAD and international donors' projects like GTZ and IDB. These case studies are in line with the economic proposals of the project.
2. The project includes four real and representative cases of business plans based on strengthened rural organizations and two farm models which introduce improvements in beneficiaries' incomes through land fertility recovery. These cases and the two farm models represent the large range of "business plans" of smallholders' organizations of different sizes and degrees of consolidation. These cases reflect the reality of the project area and its economic potentiality.
3. The selected cases are: (i) the CEPACOOOP, (ii) the committees of Carpa Cué (OCC), (iii) the precooperative San Miguel, (iv) the cooperative Guayaibí Potí; and (v) two farm models addressing soil recovery. The business plans models show their economic and financial viability. Considering an income increase between 30% and 50% of the net income real average set at USD 600 per family per year, this result in a family increase of USD 180/300. Analysing this result for the 19 000 families of potential beneficiaries the total increase produced by the project will be between USD 3.4 million and USD 5.7 millions per year. In the case of CEPACOOOP it is to be added the aggregated value of hand work incremental value for a total of USD 15 000 per year corresponding to 3 000 daily wages (equivalent to 10 permanent employments). Project calculations estimate that 700 direct new jobs will be created thanks to the business plans and other 1 000 due to the increased agricultural production.
4. **Results of cases and models:** a) **CEPACOOOP:** total value of this central of cooperatives is in the order of USD 400 000/450 000 per year (figures of 2004). Three hundred and fifty small producers sold their products through CEPACOOOP. Main results obtained are: (i) all the products were sold at prices that were 5% to 30% superior to the MAG average, (ii) all transactions were transparent and registered, and (iii) an international export market was open for these small producers. Net incremental income was in the order of USD 123 per family representing a 20% increase in family income. If we add the result of increased marketing, the improvement in family income of CEPACOOOP partners was about 30% to 40%; b) **OCC:** through the organized work of OCC family income increased by USD 47. Considering the increased income due to better market prices the total result is in the order of 20% to 25% average increase per family per year. c) **Precooperative San Miguel:** during 2004 the precooperative was able to sell 29 tons of *ka'a he'ê* and 57 tons of sesame for a total of USD 35 000. Net income increase for the partners of the precooperative was set at USD 200 per family per year plus USD 29 per family for an additional profit of the precooperative. d) **cooperative Guayaibi Potí:** the cooperative was able to sell 60 000 boxes of banana and 4 000 boxes of pineapple to the international market (Argentina and Uruguay). Total sales value reached USD 60 000 in 2002, net income per family increased USD 250 per year; e) **Farm model A:** in its fifth year (stabilization year) the model shows an incremental income of USD 1 130 and **farm model B,** in the same period, shows an increase of USD 1 350. Both models doubled the initial income of the beneficiaries. However with these profits beneficiaries are only able to overcome the USD 1 poverty line per person per day.

