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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-Sixth Session
Rome, 12-13 December 2005

REPUBLIC OF GUATEMALA

PRESIDENT’S MEMORANDUM

**NATIONAL RURAL DEVELOPMENT PROGRAMME – PHASE I:
THE WESTERN REGION (LOAN 614-GT)**

EXTENSION OF TIME LIMIT FOR SIGNATURE OF THE LOAN AGREEMENT

I. BACKGROUND

1. At its Seventy-Ninth Session in September 2003, the Executive Board approved a loan of SDR 21.5 million (equivalent to approximately USD 30.0 million) to the Republic of Guatemala on intermediate terms to help finance the National Rural Development Programme – Phase I: The Western Region. The time limit for signature of the loan agreement expired two years after the Executive Board approval (11 September 2005); the loan agreement has not been signed yet.

2. The programme will be financed over a six-year period and is structured around four components: local development participation and decentralization; marketing and rural business; rural technical services; and MAGA institutional strengthening. It introduces the following main innovative features: (i) use and consolidation of government decentralization processes and mechanisms as tools for empowering indigenous and non-indigenous rural poor; (ii) linking of policy dialogue and institutional strengthening to rural development instruments and field operations; (iii) use of market opportunities and information as the entry point for the programme's technical support services and investment resources; (iv) use of multicultural targeting instruments to identify the limitations and local requirements of each subgroup of beneficiaries (both for Mayan sub-ethnic groups and non-indigenous rural poor) and to generate a specific menu of programme activities, tailor-made to the characteristics and goals of each; and (v) specific attention to developing the potential of rural youth and their systematic training in labour skills relevant to the regional and national labour market.

3. **Status of loan effectiveness.** The Government of the Republic of Guatemala took office in January 2004, and immediately thereafter the Ministry of Agriculture, Livestock and Food (MAGA) undertook a thorough revision of all projects under negotiation with international financial institutions. Various projects involving considerable resources were put on hold. The country portfolio manager in the Latin America and the Caribbean Division followed up closely on a continuous basis with the country authorities given the urgent need for loan signing, loan effectiveness and project start-up. This process took over one year from the time of Executive Board approval. The authorities subsequently revised internal procedures leading to the formalization of loan signing.

4. The loan agreement is now about to be considered by the National Congress. In this regard, a formal letter was received on 15 November 2005 from the Ministry of Finance requesting an extension of six months, which the Government deems essential in order to fulfil all country requirements and thus maintain its privileges vis-à-vis the loan. IFAD financing of the programme is particularly critical at the current juncture since these investments and development action will be executed in the areas most severely damaged by Hurricane Stan, and thus will play a pivotal role in the reconstruction effort.

II. RECOMMENDATION

5. IFAD has received a formal request from the Government of Guatemala asking for an additional six-month period for signature of the loan agreement in the light of the reasons set forth in paragraph 3 above. Given the key role the programme will play in reducing rural poverty in Guatemala, it is recommended that the Executive Board extend by six months – to 11 March 2006 – the period for signature of the loan agreement for loan 614-GT for the National Rural Development Programme – Phase I: Western Region.

