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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-seventh Session

Rome, 19-20 April 2006

REPUBLIC OF GUATEMALA

PRESIDENT'S MEMORANDUM

**NATIONAL RURAL DEVELOPMENT PROGRAMME:
CENTRAL AND EASTERN REGIONS
MODIFICATIONS TO THE PROGRAMME**

I. BACKGROUND

1. At its eighty-third session in December 2004, the Executive Board approved a loan of SDR 11.35 million (equivalent to approximately USD 17.0 million) to the Republic of Guatemala, on intermediate terms, to help finance the National Rural Development Programme: Central and Eastern Regions. In line with IFAD's intervention strategy, as outlined in its country strategic opportunities paper for Guatemala, this investment initiative is the second component approved, over the past two years, of a three-phase National Rural Development Programme, which will cover three main regions of the country.
2. Although the Government of Guatemala is finalizing procedures leading to the formal signing of the loan agreement and fulfilling the other conditions for loan effectiveness, the actual approved cofinancing from the Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development of USD 11.0 million is USD 4.0 million less than the expected amount of USD 15.0 million negotiated at the time of IFAD's loan approval in December 2004.
3. At the same time, the damage caused in October 2005 by Hurricane Stan to agricultural lands and productive and commercialization infrastructures in the country has placed agricultural production for the forthcoming seasons at serious risk, jeopardizing as well the minimum survival requirements of the populations in the affected zones. This situation is particularly dramatic in view of the material and financial limitations faced by the rural and indigenous target groups, and by the local and national economies overall. It has, moreover, undermined IFAD's efforts to reduce rural poverty

in the country. The contemplated investments under the National Rural Development Programme are expected to facilitate a rapid transition from emergency to reconstruction and continued development in the affected zones.

4. In addition, it should be noted that the recent adjustments to the country's regional divisions made by the Presidential Secretariat of Planning and Programming establish that the programme area should correspond to the central, north-eastern and south-eastern regions. This does not imply changes in the municipalities assisted or in the total of direct and indirect beneficiaries (30 000 and 70 000 respectively), but only a renaming of the regions in the programme area to conform with national regulations and to make it possible to record the programme's activities and impact in the national information system.

5. **Programme objectives.** The six-year programme aims to reduce poverty levels and to address the exclusion and discrimination suffered by the poorest rural groups in Guatemala. Its general objective is the active and gender-equitable participation of all stakeholders in the development and transparent implementation of pro-poor, national rural development policies and their institutional framework. Programme activities, to be implemented under the lead of the Ministry of Agriculture, Livestock and Nutrition as the executing agency, have been organized into three components: (i) land-use planning and decentralization; (ii) rural business and marketing; and (iii) rural services. A gender-oriented strategy will cut across all component activities; and a programme management unit (PMU) will be established, including gender, planning, monitoring and evaluation, and administrative units.

II. RESTRUCTURED PROGRAMME FINANCING

6. The total programme cost of USD 38.0 million was to be financed by: (i) an IFAD loan, under intermediate lending terms, of SDR 11.35 million (equivalent to approximately USD 17.0 million); (ii) a loan from the OPEC Fund of USD 15.0 million; (iii) a contribution by the Government of USD 4.0 million; and (iv) in-kind contributions by the beneficiaries totalling USD 2.0 million.

7. In view of the decreased overall programme financing resulting from the shortfall in the OPEC Fund loan, and considering as well the serious financing constraints faced by the country at the present time as a result of the social and economic infrastructure damaged by hurricane Stan, the contemplated programme investments have been downsized by the same reduced amount of USD 4.0 million. A revised financing plan has accordingly been drawn up by a technical team from the executing agency, with assistance from IFAD and the United Nations Development Programme in Guatemala. The plan redistributes programme financing in a proportional and rational manner, focusing on selected investments/activities that were expected to be financed out of the proceeds of the OPEC Fund loan. More specifically, this downsizing exercise has been carried out without substantially affecting the programme's overall objectives and scope or its specific components, while giving due consideration to the principal developmental constraints and opportunities faced by the originally identified target group.

8. The Government has provided IFAD with formal documentation relative to the joint technical opinion provided by the Presidential Secretariat of Planning and Programming and the Ministry of Public Finance on the downsized investment programme. It has also indicated that it is in agreement with the modifications proposed.

9. The revised total programme cost is estimated at USD 34.0 million (Tables 1 and 2). Financing of programme costs will be as follows: an IFAD loan of USD 17.0 million (50% of total costs); an OPEC Fund loan of USD 11.0 million (32%); a counterpart contribution by the Government of USD 4.0 million (12%); and an in-kind contribution by beneficiaries of USD 2.0 million (6%). These amendments will be reflected in the loan agreement.

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

Components and PMU	Local	Foreign	Total	% of Foreign Exchange	% of Base Cost
Land-use planning and decentralization					
Strengthen community organizations	1 566	118	1 684	7	5
Social and cultural development fund	2 472	-	2 472	-	8
Strengthen municipal governments	349	296	645	46	2
Communication and diffusion	253	27	280	10	1
Subtotal	4 640	441	5 081	9	16
Rural business and marketing					
Promotion and business contacts	2 339	123	2 462	5	8
Investment fund for public marketing infrastructure	3 671	193	3 864	-	12
Subtotal	6 010	316	6 326	5	20
Rural services					
Technical assistance services	6 540	344	6 884	5	21
Labour skills training	2 532	20	2 552	1	8
Strategic alliances with private sector	467	82	549	15	2
Productive development fund	4 763	-	4 763	-	15
Environmental conservation fund	897	-	897	-	3
Subtotal	15 199	446	15 645	3	48
Programme management unit					
Programme administration	2 384	276	2 660	10	8
Planning, monitoring and evaluation unit	1 030	103	1 133	9	4
Gender unit	1 282	175	1 457	12	5
Subtotal	4 696	554	5 250	11	16
Total base costs	30 545	1 757	32 302	5	100
Physical contingencies	296	13	309	4	1
Price contingencies	1 310	79	1 389	6	4
Total programme costs	32 151	1 849	34 000	5	105

^a Discrepancies in totals are due to rounding.

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

Components and PMU	IFAD		OPEC Fund		Beneficiaries		Government		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
Land-use planning and decentralization													
Strengthen community organizations	896	49	551	30	-	-	369	20	1 816	5	124	1 672	20
Social and cultural development fund	2 217	90	-	-	255	10	-	-	2 472	7	-	2 472	-
Strengthen municipal governments	617	90	72	10	-	-	-	-	689	2	309	380	-
Communication and diffusion	156	53	-	-	-	-	141	47	297	1	27	256	14
Subtotal	3 886	74	623	12	255	5	510	10	5 274	16	460	4 780	34
Rural business and marketing													
Promotion and business contacts	1 549	55	81	3	-	-	1 191	42	2 821	8	133	2 468	220
Investment fund for public marketing infrastructure	1 403	36	2 030	52	443	11	-	-	3 876	11	193	3 683	-
Subtotal	2 952	44	2 111	32	443	7	1 191	18	6 697	20	326	6 151	220
Rural services													
Technical assistance services	3 610	49	3 076	42	-	-	708	10	7 394	22	368	6 994	32
Labour skills training	867	31	1 907	69	-	-	-	-	2 774	8	20	2 754	-
Strategic alliances with private sector	429	74	112	19	-	-	42	7	583	2	87	496	-
Productive development fund	1 126	24	2 495	52	1 142	24	-	-	4 763	14	-	4 763	-
Environmental conservation fund	267	30	470	52	160	18	-	-	897	3	-	897	-
Subtotal	6 299	38	8 060	49	1 302	8	750	5	16 411	48	475	15 904	32
Programme management unit													
Programme administration	1 979	71	-	-	-	-	826	29	2 804	8	281	2 466	59
Planning, monitoring and evaluation unit	865	71	-	-	-	-	358	29	1 223	4	108	1 106	9
Gender unit	1 020	64	205	13	-	-	365	23	1 590	5	199	1 364	27
Subtotal	3 863	69	205	4	-	-	1 549	28	5 617	17	588	4 934	95
Total	17 000	50	11 000	32	2 000	6	4 000	12	34 000	100	1 849	31 770	381

^a Discrepancies in totals are due to rounding.

III. RECOMMENDATION

10. It is recommended that the Executive Board approve the new arrangements through the following modifications to the National Rural Development Programme: Central and Eastern Regions, Loan 651-GT, which will be reflected in the negotiated loan agreement:

- (i) reduce the OPEC Fund loan from USD 15.0 million to USD 11.0 million; and
- (ii) adapt loan categories and the percentage of expenditures eligible for IFAD financing and reallocate funds accordingly, as indicated in Tables 1 and 2 above.