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Implementation of the first cycle of the Rural Development Programme for Las Verapaces financed under the flexible lending mechanism

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Note to Executive Board Directors

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1. The purpose of this information note is to comply with paragraph 13 of the flexible lending mechanism (FLM) guidelines (EB 98/64/R.9/Rev.1), which stipulates that "...for each FLM loan and prior to the end of each cycle, IFAD Management will decide whether to proceed to, cancel, or delay subsequent cycles. Management will inform the Board accordingly."

I. Introduction

2. The overall objective of the FLM is to introduce greater flexibility into the Fund's project design and implementation in order to: match project time frames with the pursuit of long-term development objectives when it is judged that a longer implementation period will be required to meet those objectives; maximize demand-driven beneficiary participation; and reinforce the development of grass-roots capacities. The specifics of an FLM loan include: (i) longer loan periods (10-12 years) to allow for the achievement of sustainable development objectives; (ii) a continuous and evolving design process through implementation of distinct, three- to four-year cycles; and (iii) clearly defined preconditions – or "triggers" – for proceeding to subsequent cycles.
3. This information note reports on the progress of the Rural Development Programme for Las Verapaces (PRODEVER) in achieving its first-cycle triggers. The note's contents are based on the findings of an IFAD mission fielded in June 2006.

II. Background

IFAD strategy for collaboration with Guatemala

4. Over the last ten years, the Fund's country strategy in Guatemala has aimed at poverty reduction while supporting the pacification and reconstruction of war-torn areas and their development. Since 1995, from the onset of peace negotiations, IFAD and the Government have been operating in war-affected areas. The National Fund for Peace (FONAPAZ), created by the peace accords, is responsible for implementing IFAD projects in the war-affected departments. In the current, more democratic political scenario, efforts have been redirected towards a programmatic, nationwide and comprehensive approach to rural poverty and rural development. IFAD's strategy in the country has evolved from a project to a programme approach in an effort to: (i) focus poverty-reduction efforts on indigenous and other vulnerable rural populations; and (ii) strengthen the operational capacity of the Ministry of Agriculture, Livestock and Food (MAGA) for rural development and poverty reduction through creation of a nationwide rural development programme, while drawing on the field experience of FONAPAZ interventions.
5. PRODEVER, approved in December 1999, is a pioneer in this nationwide rural development effort. In reviewing the country strategic opportunities paper (COSOP) for Guatemala at its April 2003 session, the Executive Board endorsed the programme's approach, and recommended, inter alia, that the peace accords be used as a vehicle for continuous support to the Fund's poverty reduction activities. In line with this approach and with the Strategic Framework for IFAD 2002-2006, the Board approved the National Rural Development Programme – Phase I: The Western Region in September 2003 and the National Rural Development Programme: Central and Eastern Regions in December 2004. Together with PRODEVER, these programmes provide essential support to the National Government Plan 2004-2008, which includes a comprehensive strategic agenda for integral rural development. High priority is attached in this plan to reducing poverty and extreme poverty, and furthering the social and economic development of rural areas. Similarly, the

Government's strategic rural agenda comprises the key thrusts of integral rural development, which is to be equitable and sensitive to gender and cultural concerns; decentralized territorial management; and the articulation of urban and rural sectors.

The PRODEVER programme

6. The Executive Board approved financing for PRODEVER on 8 December 1999, and the programme became effective on 6 September 2001. The total programme cost is estimated at US\$26.0 million. Sources of financing are IFAD (about US\$15.0 million), the OPEC Fund for International Development (US\$5.0 million), the Government (US\$3.7 million) and beneficiaries (US\$2.3 million). FONAPAZ has overall responsibility for the programme; the programme coordinating unit (PCU) is responsible for its implementation; and the United Nations Office for Project Services acts as the cooperating institution. IFAD's President approved an extension of the first cycle until 6 September 2006.
7. The programme's general objective is to reduce rural poverty among peasants who live in very fragile natural resource environments in the poorest municipalities of the Las Verapaces Department. Its specific objectives are to: (a) increase indigenous peasant incomes through the promotion and support of agricultural and non-agricultural income-generating activities; (b) promote and consolidate peasant organizations and strengthen local institutions; (c) improve access by the rural population to rural financial services; (d) introduce and implement a gender-sensitive approach in all programme activities; (e) preserve the natural resource base for future generations by implementing sustainable natural resource conservation practices; and (f) foster the integration of rural communities into the mainstream of the local and national economy.
8. The programme's intervention area of approximately 63,000 km², comprises nine municipalities of the Alta Verapaz Department (Cahabón, Chahal, Fray Bartolomé de las Casas, Lanquín, La Tinta¹, Panzós, Senahú, Tamahú and Tukurú) and four municipalities of the Baja Verapaz Department (Cubulco, Purulhá, Rabinal and San Miguel Chicaj). The area's population is about 356,000 people – of whom 90 per cent are rural and comprise *ladino* (non-indian peasants) and the populations of various local ethnic groups, among which the Q'eqchí, Achí, and Pocomchí predominate. The programme's coordination office is located in Cobán, the capital of the Alta Verapaz Department; the programme also has three regional offices located in the towns of Rabinal (dry highland of the Baja Verapaz), San Agustín Lanquín (intermediate zone of Alta Verapaz) and Santa Catalina La Tinta (lowland of Alta Verapaz).
9. The programme was designed and approved under an FLM, and is, therefore, being implemented in two main cycles (i.e. a launching/establishment cycle and an intensification cycle) complemented by a consolidation and transfer stage. At approval, the programme was expected to last 10 years. The first cycle originally set at four years was extended one year and completed in September 2006.
10. In accordance with operational procedures for the FLM, a review mission was fielded in June 2006 to assess the programme's first-cycle activities and to ascertain their results and initial impact. To this end, mission members undertook field visits to the programme area and held key meetings with beneficiaries, technical staff and management of the PCU, local authorities, service providers and other partners and stakeholders. It also met with representatives of FONAPAZ and the Public Credit Directorate of the Ministry of Finance. The mission concluded that the targets under the selected triggers (indicators) for moving from the first to the second programme cycle had largely been met.

¹ La Tinta municipality was created recently; its territory used to be part of the Panzós municipality

III. Programme performance during the first cycle

First-cycle triggers

11. In conformity with the stated overall development objective, PRODEVER has targeted the poorest communities in the programme area and is supporting their development efforts. While the programme has met the triggers for proceeding to the second cycle, as shown in the table in the annex, it should be highlighted that:
 - (a) Results in 11 out of the 15 indicators exceed the first-cycle targets with outstanding results in the following: (i) 45 per cent of targeted women are now members of beneficiary groups, (representing 225 per cent of the target); (ii) 258 organizations (40 plus 218) receive capacity-building support, (400 per cent and 872 per cent respectively); and (iii) 31 groups with productive projects are already generating income increases among their associates through production processing and commercialization, (310 per cent); and 1,892 households benefit from the programme's productive projects (270 per cent);
 - (b) The programme has met the expected target in the key poverty indicator, which shows that progress is being made in improving the target group's living conditions. In fact, (i) 40 per cent of the members of the supported groups (instead of the 30 per cent expected, at the time of appraisal) are no longer below the extreme poverty line; and (ii) these members have been involved in programme-promoted income-generation activities (133 per cent of appraisal targets)²; and
 - (c) Two indicators related to the sustainable management of natural resources, fall below the expected target, while two other indicators related to rural financial services activities show no progress at all. These particular cases are assessed below.

Natural resources management

12. Activities already undertaken under this subcomponent include zone-based natural resource management and reforestation, forest-fire prevention and control, promotion of energy-saving stoves, and localized environmental assessments. However, given the slow rate of progress, the appraisal targets cannot be met. The main issue is the inadequate and overly optimistic project design with respect to, inter alia, the limited land available for reforestation within some communities and within individual smallholder farms.
13. It has therefore been recognized that the second cycle of PRODEVER will need to focus on promoting and establishing suitable agroforestry systems, involving fruit and other perennial plants associated with annual crops. It will also need to encourage activities related to: (i) fast-growing tree plantations as a source of firewood for coffee driers and other uses; (ii) soil and water conservation and natural forest protection, with activities undertaken in partnership with municipalities; and (iii) the protection of steep-sloped lands as prevention for storm-related natural disasters. These might be made part of training and technical assistance activities, and of the expansion of organic agriculture and other agricultural practices, all contemplated in the appraisal design.

Rural financial services

14. As originally designed, this component includes various and interrelated activities under two main subcomponents: (i) the strengthening of intermediate financial institutions while fostering a savings culture and savings mobilization; and (ii) the provision of credit funds, together with the financing of microcredit and medium- and

² While no comprehensive poverty study has as yet been conducted in the programme area, this indicator was estimated indirectly, based on specific studies and comparisons made with the baseline study.

long-term agricultural loans, and the supply of resources for first and second-tier operations carried out by the country's national Rural Development Bank (BANRURAL). It was also expected, at the time of appraisal, that in its second cycle the programme would use part of the resources of the reserve fund to expand credit operations. The credit fund was to be managed by BANRURAL as a second-tier financial institution according to a special trust fund agreement between FONAPAZ and the Bank.

15. Activities under this component have not begun due to a delay in the carrying out of a baseline diagnostic study. This study was completed in May 2006 by the programme coordination unit (PCU) with the support of the IFAD-grant funded regional Rural Financial Services Support Programme. The study concluded that a new credit fund was no longer needed in the region. However, it also identified some specific constraints faced by local agroprocessors and beneficiary organizations in their access to credit, and recommended using IFAD loan resources under the credit category to activate a new type of rural financial services in the programme area. A new and specific study, therefore, will need to be carried out – at the earliest possible time in the programme's second cycle – to define the appropriate financial tools and mechanisms to apply.

Logical framework indicators

16. In addition to the principal achievements summarized in the table in the annex, other detailed results include:
- (a) 92 beneficiaries (62 men and 30 women) from 64 community organizations graduated from three phases (about 1½ years) of programme-promoted training. Additional 232 beneficiaries (168 men and 64 women) from 126 community organizations have participated or are currently participating in this programme;
 - (b) 1,054 women have become literate (90 per cent of participants);
 - (c) 63 mobile day-care centres for children were started. These have proved instrumental in facilitating the active participation of targeted rural women in programme activities. This, in turn, is an example of the high effectiveness of the programme's gender approach;
 - (d) representatives of 52 community organizations with productive projects participated in various types of training and promotion activities. These included experience-exchanges, commercialization events (trading tours, business meetings, commercial fairs), business plan formulation, and the use and application of information technology and telecommunication tools (Internet-based telecommunication, access to specialized websites);
 - (e) 1,892 (59 per cent men and 41 per cent women) improved their incomes through their production, processing and commercialization activities. Some beneficiaries' incomes reached US\$380 per year;
 - (f) 40 producers from 27 organizations (e.g. coffee, cardamomo, cacao, handicrafts and others) and 30 technical staff members of the programme and co-executing entities are being trained in organic agriculture; and
 - (g) the programme promoted the formulation of natural resource management plans (water, forestry and soil resources) in all 13 municipalities involved.

IV. Strategy and operation of the programme

17. The Government is highly committed to the programme's development objectives and to meeting the specific needs of beneficiaries in diverse agroecological zones. However, it has recently encountered severe difficulties in meeting its financial commitments to the programme due to the social and economic impact of Hurricane Stan in neighbouring municipalities and the drain on its resources for the

reconstruction effort. In response, IFAD agreed to amend the loan agreement, eliminating the required *pari passu* of government investments with IFAD loan disbursements. The Fund also approved in December 2005 a US\$500,000 grant to finance a special programme for the reactivation of agricultural production in the Sololá Department.

18. Similarly, the PCU technical team has shown high dedication in performing their professional functions, resulting in the satisfactory achievement of the programme's objectives. A key aspect to be underlined in this regard is the involvement of technical staff who are from the programme area and are fluent in at least one of the three predominating indigenous languages, i.e. Q'eqchí, Achí and Pocomchí.

Innovation

19. PRODEVER has put into practice an effective and innovative intervention strategy, consisting of: (a) targeting of potential beneficiaries through a systematic classification of rural communities by poverty level, with the objective of supporting the poorest segments of the population; (b) accreditation of community organizations from the programme's onset (community committees); (c) strengthening of organizations through training of community representatives and the formulation of participatory community development diagnostics and development plans; (d) incorporation of a cross-cutting gender approach in all programme activities; (e) promotion of sustainable agricultural production and of increases in beneficiary incomes through processing and commercialization of present commercial crops (e.g. coffee, cacao), prior to promoting further production and productivity, or crop diversification; and (f) construction, rehabilitation and improvement of rural access roads, in order to meet transport and communication needs while facilitating production expansion and the growth of local economies.
20. Programme activities were implemented following the norms and procedures of FONAPAZ, which requires projects to have a maximum duration of one year, but whose approval cycle takes between 6 and 8½ months. This lengthy cycle has affected the programme's efficiency since many of the agricultural production projects have been approved late and out of timing with natural crop cycles. Most projects requiring normal implementation periods of over one year (alphabetization, formation of community representatives, productive development) have faced a lack of continuity in activities, provoking beneficiary mistrust, frustration and desertion.

Results and Impact Management System (RIMS)

21. RIMS has been properly applied since 2005, and a baseline has been established for all key anchor (e.g. family assets, nutrition, food security) and logframe indicators. The baseline studies undertaken by PRODEVER confirmed the poverty and vulnerability conditions of the target population and also provided the necessary key information and data to guide the programme's execution. However, the indicators selected at the time of the appraisal exercise have not been revised in light of RIMS requirements. This has generated some confusion about the proper follow-up, monitoring and evaluation of programme's results, but the problem is now being addressed.

V. Main conclusions

22. The programme has made significant progress during its first cycle with regard to its specific development objectives and the expected outcomes/results as outlined in the Executive Board documents. This clearly shows that it is in a solid position to achieve its overall development objectives and to obtain the social and economic returns envisaged for the investments involved.
23. The 2006 review mission found that the programme's components continue to be relevant in addressing the development constraints faced by the target group. These components have been implemented satisfactorily vis-à-vis expected results. Therefore, while there is no need to change components and subcomponents during

the second cycle, operationally some technical adjustments are required in key areas to improve actual field results and impact. The following elements need to be modified and will require special attention and close follow-up:

- (a) Local institutional strengthening, particularly with regard to: (i) the evaluation methodology and grading system applied by PCU in its work related to the strengthening of grass-roots organizations, which is essentially subjective and does not allow a clear definition of the key aspects requiring improvement; and (ii) the training of community representatives which currently does not include management themes.
- (b) Sustainable productive development, which requires greater emphasis on projects promoting food production and household food security while maintaining attention to the local culture and needs. This change of focus responds to the RIMS base survey of May 2006, which found considerable levels of food insecurity and child malnutrition in the programme area.
- (c) Natural resources management, where greater attention needs to be paid to the promotion and establishment of suitable agroforestry systems and soil and water conservation, while activities that meet the identified needs of smallholder beneficiaries and conform to community- and municipal-level forest management and protection standards need to be encouraged.
- (d) Rural financial services, a component that has not been started despite the clear need and demand for the services — as expressed by 50 credit-worthy organizations with proposals in hand for agroindustrial and commercialization projects. The appropriate financial tools and mechanisms to apply will need to be determined as early as possible in the programme's second cycle through a specific study.

Loan disbursements

24. The programme's financial implementation has been satisfactory. IFAD-financed project expenditure during the first cycle (up to 30 September 2006) is estimated at SDR 4.6 million, equivalent to about 43 per cent of the total SDR 10.85 million approved loan. Similarly, the Government's contribution reached 42 per cent of stated commitments. Overall, these results are in line with appraisal estimates, which foresaw that 38 per cent of overall investments would have been made by the end of the first cycle.
25. Like the programme's components, the disbursement categories for the IFAD loan are properly defined and operational, and as such they will not need to be amended. Loan funds will be reallocated from the reserve fund and unallocated categories towards the contract services, training, incremental costs and operational costs categories.

VI. Towards the second cycle

Available investment funds

26. IFAD funds available for the second cycle, which became effective on 1 October 2006, amount to SDR 6.2 million. Additional funding available includes US\$2.4 million from the OPEC Fund for International Development, and US\$0.3 million from the Government. The expected beneficiary contribution is not considered in these calculations as it will mostly be in kind and allocated to social and economic infrastructure.

Key lessons to be considered

27. The review of the programme's achievements and performance during the first cycle highlights some lessons that will be taken into account during the programme's second cycle. These are:

- (a) **RIMS survey.** A specific response was formulated during the first cycle to the household food insecurity and child malnutrition uncovered by the survey in the programme area. Monitoring and follow-up of related investments and activities will be particularly important during the second cycle.
- (b) **Targeting.** Groundwork by the PCU to systematically classify communities according to their poverty characteristics, their potential for development and the constraints they face, facilitated the targeting of beneficiaries and the identification of the community organizations to participate in programme activities. This information will help accelerate implementation during the programme's second cycle.
- (c) **Production strategy.** The programme's production strategy focused on linking small producer organizations to the commercial outlets for their cash crops and to suitable value-added chains within clearly defined markets. The strategy was more effective than the alternative of solely seeking production and productivity increases. It also proved to be particularly relevant in the context of the commercial uncertainty in the programme area, since it allowed for income gains in the short term. While a detailed analysis might also demonstrate higher efficiency of the overall investments involved, the approach will be applied and consolidated during the second cycle.
- (d) **Rural infrastructure.** The expansion and improvement of rural roads and the programme's social and economic infrastructure investments have had a strong initial impact on the communities involved and their commercial activities. Thus, the partnership with the OPEC Fund for International Development has not only brought additional resources, but has also enabled funds to be allocated intelligently among different components.
- (e) **Technical staff.** The involvement of indigenous technical staff specialized in rural development and able to speak the local languages contributed to a sense of community ownership of programme activities and is expected to be a key element throughout the programme's implementation.
- (f) **Local capacity-strengthening.** Combining training programmes with practical opportunities for applying the concepts learned (i.e. in trainees' own production-related pilot projects), has proved to be a valuable approach and will therefore be continued in subsequent cycles.
- (g) **Women's participation.** Specific action taken during the first cycle to enable rural women to participate fully in the development processes of their communities and organizations – under conditions of extreme poverty and social marginality included setting up day care centres, introducing labour-saving initiatives, and offering literacy courses. This tested approach will be continued in the second cycle.

Second cycle action

28. The programme will maintain the necessary continuity and pace of activities in components and subcomponents that have made good progress, incorporating, as required, the lessons learned from implementation experience. During the second cycle, the PCU will also:
- (a) Define specific additional activities needed to improve results in components where progress has been lower than expected; and revise and adjust logframe and programme indicators and targets accordingly. Particular attention will be placed on:
 - (i) local institutional strengthening: establish a suitable evaluation methodology and grading system as the basis for strengthening and

consolidating beneficiary organizations; and expand and enhance the content of the community training programme;

- (ii) sustainable production development: replicate and scale up successful household and community food security and child nutrition activities;
 - (iii) natural resources management: redefine the scope of the subcomponent – with realistic criteria – and as a consequence, adjust targets for activities and investments in soil and water conservation, agroforestry, and natural forest protection at the farm, community and municipal level, as appropriate; and
 - (iv) rural financial services: carry out a special study on constraints to rural financial services in the programme area, and thereafter redefine the component's strategy, activities and specific targets. In this regard, undertake a detailed study outlining the concrete steps and timetable to be followed with regard to the disbursement of funds under this category.
- (b) Negotiate with FONAPAZ in order to establish a suitable project cycle for the design and approval of PRODEVER projects, which experience has shown generally require an implementation period of more than a year.
 - (c) Reallocate loan funds, as required, within disbursement categories to cover the proposed second-cycle investments and expenditures.

Overall recommendation

29. IFAD Management considers that there is a firm basis for proceeding to the second cycle. The programme's design remains relevant in terms of community-level impact and its contribution to national and sectoral development objectives. Most of the operational changes foreseen for second-cycle activities do not require amendment of the loan agreement, which may, however, be required after the aforementioned special study on rural financial services is completed, and will be made a condition for the release of funds under this component.

Programme progress, first-cycle triggers

Objective	Trigger Indicators PY4	Achievements PY4	
		Amount	Percentage
Specific Objective			
Effectiveness of the programme in achieving its principal objective	30% of the target group members are no longer living in extreme poverty, and are involved in income-generating activities	40%	133
	20% of programme-assisted groups are women living in extreme poverty	45% women	225
Result 1			
Peasants and social organizations, trained and consolidated	10 organizations receive training and reach a stage of consolidation	40 organizations	400
	25 organizations receive strengthening support	218 organizations	872
Result 2			
Production support services, guarantee production volume and productivity increases	10 formal groups receive support towards production and productivity increases	31 groups	310
	10 informal groups receive support towards production and productivity increases	27 groups	180
Result 3			
The role of rural women strengthened in production and social activities; and microenterprises created and strengthened	15 rural women's groups created and receiving training and other support	54 groups	360
Result 4			
Reduction of natural resource degradation, generation of forest resources, and increases and diversification of tree protection in peasant farms	150 ha of natural forest, under sustainable management	41.4 ha	27
	50 ha established under agro-forestry	12.9 ha	26
	100 ha reforested	245.7 ha	246
Result 5			
Improved rural financial services, with an increased number of smallholders participating in credit and saving activities	2 financial intermediaries receiving institutional strengthening	None	0
	60 producer groups, established, functioning, receiving credit and generating savings	None	0
Result 6			
Community-based productive and social activities, supported; improvement in living conditions and in the production and marketing infrastructure	20 productive or social projects, implemented and completed	85 projects ^a	425
	700 families, benefited by projects	1 892	270
	20% of beneficiary families, headed by women	45% of beneficiary women ^b	225

^a The 85 projects implemented or under implementation, comprise: 52 projects related to sustainable production, 2 related to food security and 31 related to socioeconomic investments. Taken together, these projects have benefited 258 (formal and informal) organizations from 309 communities.

^b In the programme area, only about 4 per cent of households are headed by women. The indicator is not properly stated, and thus the reported progress refers to the proportion of women directly benefiting from social and productive investments.