

Document: EB 2009/96/R.14
Agenda: 10(a)(iv)
Date: 18 March 2009
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

Republic of Guinea

President's memorandum

Village Communities Support Project – Phase II: Request for a waiver of the policy on taxes

Amendment to the grant agreement

Executive Board — Ninety-Sixth Session
Rome, 29–30 April 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

Mr. Ulaş Demirag

Country Programme Manager
telephone: +39 06 5459 2616
e-mail: u.demirag@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer
telephone: +39 06 5459 2374
e-mail: d.mcgrenra@ifad.org

Recommendation for approval

The Executive Board is invited to approve the proposed amendment to the grant agreement for the Village Communities Support Project – Phase II as contained in paragraph 8.

President's Memorandum

Village Communities Support Project – Phase II: Request for a waiver of the policy on the taxes

I. Amendment to the grant agreement

1. The Village Communities Support Project – Phase II (VCSP II) was approved by the Executive Board on 12 September 2007. The grant agreement was signed on 4 October 2007 and became effective on 28 March 2008. The International Development Association (IDA) was appointed as IFAD's cooperating institution for this cofinanced project.
2. The project is a flagship operation in terms of donor harmonization and coordination in Guinea. Total project cost was estimated at US\$56.0 million, of which the IFAD grant amounted to about US\$10.0 million (equivalent to SDR 6.6 million). Cofinanciers include the IDA – initiator of the project – which has committed US\$17.0 million, and the Global Environment Facility, which has committed US\$10.0 million. Agence Française de Développement (AFD) is also interested in cofinancing the project once the country has reached completion point under the Debt Initiative for Heavily Indebted Poor Countries. The beneficiaries' contribution was estimated at US\$5.5 million, and the Government's contribution at US\$1.5 million.
3. The project is being cofinanced with the World Bank through a *pari passu* arrangement with a ratio of 62:38. Accordingly, IFAD and World Bank resources are pooled in common special accounts and administered by the same project coordination unit.
4. In an effort to address recurrent budget constraints and avoid project implementation delays due to the unavailability of counterpart funds, IDA has agreed with the Government of Guinea to finance all eligible expenses, including taxes, from its grant proceeds. As a result, the ineligibility of taxes under IFAD grant proceeds represents a constraint to full harmonization of disbursement procedures and implementation of the cofinancing arrangement.
5. It is to be recalled that an amendment to IFAD's General Conditions for Agricultural Development Financing is being submitted to the ninety-sixth session of the Executive Board for approval. This amendment includes, *inter alia*, a revision of the tax policy that would allow for financing of taxes under IFAD loans and grants proceeds, subject to established eligibility criteria. While the revised General Conditions are expected to apply to new projects, it is essential that the financing arrangements for the ongoing VCSP are harmonized with the World Bank's arrangements in order to facilitate smooth grants administration, financial management and accounting.

II. Justification for the amendment request

6. In order to comply with the harmonization principles embodied in the Paris Declaration on Aid Effectiveness, an exception is being requested with respect to IFAD's General Conditions for Agricultural Development Financing and its standard policies and procedures, to permit the VCSP financing proceeds to be used to finance taxes and duties **to the same extent as the proceeds of World Bank grant**.
7. Following the approval of the Executive Board, reference to this waiver will be reflected in the grant agreement between IFAD and the Republic of Guinea.

III. Recommendation

8. I recommend that the Executive Board approve the proposed waiver in terms of the following resolution:

RESOLVED: that the Fund shall approve the waiver of the policy on taxes as contained in sections 4.10 (a)(i) and 11.01 of the General Conditions for Agricultural Development Financing for the Village Communities Support Project – Phase II grant agreement with effect from the effective date thereof, upon such terms and conditions presented herein.

