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President's memorandum

**Proposed supplementary financing to
the Republic of Paraguay for the**

**Empowerment of Rural Poor
Organizations and Harmonization of
Investments (*Paraguay Rural*) Project**

Executive Board — Ninety-seventh Session
Rome, 14-15 September 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Republic of Paraguay for the Empowerment of Rural Poor Organizations and Harmonization of Investments (*Paraguay Rural*) Project, as contained in paragraph 9.

President's memorandum

Proposed supplementary financing to the Republic of Paraguay for the

Empowerment of Rural Poor Organizations and Harmonization of Investments (*Paraguay Rural*) Project

I. Background

1. This Memorandum seeks approval for supplementary financing for the Empowerment of Rural Poor Organizations and Harmonization of Investments (*Paraguay Rural*) Project approved by the Executive Board¹ in April 2005, and declared effective in August 2007 for an estimated US\$12.0 million (equivalent to SDR 7.85 million). The supplementary financing was requested on behalf of the borrower by the Minister for Finance of the Republic of Paraguay in a letter dated 21 May 2009; and in a letter dated 7 July 2009, the Minister for Finance agreed to supplementary financing on intermediate terms. The requested additional resources fall within the allocation for Paraguay under the 2007-2009 period of the performance-based allocation system (PBAS).

II. Justification and rationale

2. Government authorities have requested additional resources based on their commitment to intensify their efforts in reducing rural poverty and to address the present circumstances related to the world financial crisis and severe climatic conditions that are affecting the agricultural sector in the country. The Government is implementing a number of measures to alleviate the present situation, including the opening of special lines of credit for the harvesting of export crops, which will assist medium- and large-scale producers. For the community of small-scale farmers in the project area, the Government intends to expedite implementation of the *Paraguay Rural* project, increasing resources available for investment and working capital, and addressing constraints to policy measures by strengthening public-sector institutions in the agricultural and rural development sector.
3. The new President Lugo administration is firmly committed to improving the performance of public-sector institutions working in rural development and to expediting disbursements of several loans and grants in favour of the rural poor, including the IFAD-funded *Paraguay Rural* project. Support to be provided with supplementary funding under the project's policy dialogue and partnership component will contribute towards better harmonization of public action and more expeditious execution of public policies, programmes and projects for rural development. Direct supervision of this project under the direct supervision policy will further address difficulties encountered in the past. Risks associated with supplementary financing relate mainly to institutional and organizational performance and can be mitigated with the continuous support that is provided under direct supervision.

III. Proposed modifications to the loan agreement

4. The Government of Paraguay's formal request for a supplementary loan in the amount of US\$3.1 million would enable the number of beneficiaries to be increased from 19,000 to 21,000 farm families, and promote an improvement in the

¹ EB 2005/84/R.24/Rev.1

responsiveness and efficiency of government agencies involved in agriculture and rural development.

5. The proposed increased loan amount would be borrowed by Paraguay on intermediate terms. The project's objectives, strategy, geographic coverage, components and organization and management would remain unchanged. However, the following changes are foreseen:
 - (a) An additional allocation of about US\$2,554,000 for the harmonization of productive investments component to increase the number of beneficiary families, address the financing needs of smaller-scale farmers in recovering their lost assets; expand the use of technologies that are increasingly critical in lowering the vulnerability of production systems; and consider additional guarantees being demanded by the formal financial system to pursue their business plans. Additional financing would allow an increase in the number of rural families benefiting from the project, which would rise to 21,000 families in the selected area of project intervention in the departments of Caazapá, Caaguazú, San Pedro, Concepción and Guairá in the eastern region of the country.
 - (b) An additional allocation of US\$545,700 for the policy dialogue and partnerships component to support activities of the Social Economy Unit (*Unidad de Economía Social*) (UES) within the Ministry of Finance; the Integrated Management System for Agricultural and Rural Development (*Sistema Integrado de Gestión para el Desarrollo Agropecuario y Rural*) (SIGEST), the National Institute of Rural and Land Development (*Instituto Nacional de Desarrollo Rural y de la Tierra*) (INDERT) and the Executive Agrarian Reform Coordinating Body (*Coordinadora Ejecutiva para la Reforma Agraria*) (CEPRA). Additional resources would be dedicated to: (i) carrying out studies on the outcome of the policies for rural poverty reduction that have been implemented, designing new policies and instruments, and conducting situational analysis; (ii) implementing a monitoring and evaluation system to assess the impact of various programmes/projects implemented by the Government to benefit the rural poor; and (iii) providing computer hardware and software to support the government agencies mentioned above. Activities under this component will benefit family farmers, indigenous groups and rural women organized in cooperatives, producer associations, committees and neighbourhood groups or associations. It is expected that the project will directly support beneficiaries grouped into 55 consolidated organizations, 110 transitional organizations and 200 emerging groups, as originally envisaged at appraisal. Better functioning agriculture and rural development public-sector entities will result in improved services to the rural poor and in their needs being more efficiently addressed, especially in terms of land tenure issues, which are of paramount importance in Paraguay.

A. Project costs

6. Total project costs would increase from US\$14.4 million to US\$17.8 million. The allocation for the accumulation of social capital component, would be unchanged at US\$5.1 million, while the harmonization of productive investments component, would rise to a total of US\$9.7 million and the policy dialogue and partnerships component, to US\$881,000. The project implementation unit costs remain unchanged at US\$2.1 million.

B. Project financing

7. The IFAD loan would increase from SDR 7.85 million, or approximately US\$12.0 million, to the SDR equivalent of an estimated US\$15.1 million. The first loan was borrowed on highly concessional terms while the supplementary loan would be borrowed on intermediate terms.

8. The contribution of the Government would increase from US\$2.2 million to US\$2.4 million and the contribution of the beneficiaries would increase from US\$251,200 to US\$275,100, bringing the total project cost to US\$17.8 million.

IV. Recommendation

9. I recommend that the Executive Board approve the proposed supplementary financing in terms of the following resolution:

RESOLVED: that the Fund shall make a supplementary loan on intermediate terms to the Republic of Paraguay in an amount equivalent to two million special drawing rights (SDR 2,000,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President