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President's report

Proposed loan and grant to the Republic of Guatemala for the

Sustainable Rural Development Programme in El Quiché

Executive Board — Ninety-ninth Session
Rome, 21-22 April 2010

For: **Approval**

Note to Executive Board members

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Abbreviations and acronyms

AGEXPORT	Guatemalan Exporters' Association
FONADES	National Development Fund
M&E	monitoring and evaluation
OFID	OPEC Fund for International Development
OPEC	Organization of the Petroleum Exporting Countries
PRODERQUI	Programme for Rural Development and Reconstruction in El Quiché Department
ProRural	National Rural Development Programme

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Guatemala for the Sustainable Rural Development Programme in El Quiché, as contained in paragraph 35.

Map of the programme area

The Republic of Guatemala

Sustainable Rural Development Programme in El Quiché (QUICHE)



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

Republic of Guatemala

Sustainable Rural Development Programme in El Quiché

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Guatemala
Executing agency:	National Development Fund (FONADES)
Total programme cost:	US\$41.1 million
Amount of IFAD loan:	SDR 10.90 million (equivalent to approximately US\$16.5 million)
Amount of IFAD grant:	SDR 0.33 million (equivalent to approximately US\$0.5 million)
Terms of IFAD loan:	18 years, including a grace period of 3 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
Cofinancier:	OPEC Fund for International Development (OFID)
Amount of cofinancing:	US\$15.0 million
Terms of cofinancing:	Parallel
Contribution of borrower:	US\$4.0 million
Contribution of beneficiaries:	US\$5.1 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan and grant to the Republic of Guatemala for the Sustainable Rural Development Programme in El Quiché

I. The programme

A. Main development opportunity addressed by the programme

1. The programme expands IFAD's presence in the country, consolidating the productive initiatives, value chains and market linkages established under the Programme for Rural Development and Reconstruction in El Quiché Department (PRODERQUI), which concluded in 2007. It also facilitates local and territorial planning, thus strengthening the Government of Guatemala's national rural development programme (ProRural). The operation centres on market access and agricultural and non-agricultural rural business generation for smallholders and microentrepreneurs, seeking to achieve increased production, employment and incomes. This will be accomplished through private-sector entrepreneurial linkages as the engine of sustainable quality production, commercialization/export and technological development chain.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the Republic of Guatemala in the amount of SDR 10.90 million (equivalent to approximately US\$16.5 million) on ordinary terms, and a grant in the amount of SDR 0.33 million (equivalent to approximately US\$0.5 million) to help finance the Sustainable Rural Development Programme in El Quiché. The loan will have a term of 18 years, including a grace period of 3 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for the Republic of Guatemala under the PBAS is US\$17.9 million over the three-year allocation cycle (2010-2012).

Country debt burden and absorptive capacity of the State

4. Guatemala's external debt is managed under a strict financial policy, thus the country has adequate capacity to absorb the proposed loan. The Government's capacity to service the country's debt is also satisfactory. Guatemala has received eight IFAD loans, approved between 1984 and 2008, for a total of SDR 82.1 million (average loan size, SDR 10.3 million). Three loans are ongoing, while the Sustainable Rural Development Programme for the Northern Region, approved in December 2008, is expected to be ratified by the National Assembly. The country's repayment history is satisfactory.

Flow of funds

5. IFAD loan and grant proceeds will be channelled through the National Treasury's External Loans Account (*Cuenta Única*) and from there to a secondary account to be opened in the name of the executing agency, the National Development Fund (FONADES). Resources will be channelled to a programme account for day-to-day activities, in accordance with the annual workplan and budget.

Supervision arrangements

6. The programme will be directly supervised by IFAD.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions are foreseen.

Governance

8. The following planned measures are intended to enhance governance of the IFAD loan: (i) programme-strengthened social audit by community and municipal development councils, and enhanced municipal planning; (ii) annual independent audits in accordance with IFAD's audit guidelines; (iii) a consistent operational manual for the allocation of co-investment funds for enterprise development, value aggregation and other initiatives; and (iv) an active in-country programme management team together with a stronger IFAD presence in Guatemala.

C. Target group and participation

Target group

9. The target group of indigenous and rural populations comprises subsistence agricultural producers; emerging small-scale, commercial agricultural producers; landless rural families/wage labourers; small business operators and microentrepreneurs (agricultural and non-agricultural); handicraft workers; and women and young people. The programme's direct beneficiaries have been estimated at 37,000 households and its indirect beneficiaries at 40,000 households, including those benefiting from enhanced territorial planning, social infrastructure and rural access roads.

Targeting approach

10. The distinct needs of indigenous populations and other target groups will be addressed in accordance with IFAD's Policy on Targeting. Thus, the programme will expand investments in selected priority communities and municipalities that are currently not served by any development project (inclusion in development). It will also consolidate activities in the more advanced zones that were covered by PRODERQUI, under a strategy of business consolidation and market access of rural microenterprises (rural modernization and competitiveness). Targeting also involves: (i) securing the participation of representative community and municipal councils in determining intervention areas and social groups; (ii) empowering beneficiaries, including women, to actively participate in programme decisions; and (iii) facilitating access of producer associations to production and business development support.

Participation

11. Beneficiaries will be involved in: (i) strengthened community and municipal councils; (ii) participatory diagnosis and strategic planning at the community, municipal and departmental levels; (iii) programme monitoring and evaluation (M&E), seeking to achieve targets differentiated by gender; and (iv) the programme's steering committee and other decision-making bodies. Community social infrastructure will reduce the workload of women, thus enabling them to participate in the programme.

D. Development objectives

Key programme objectives

12. The programme will contribute to increasing incomes and employment among indigenous and rural target groups of El Quiché Department. Its specific objectives are: (i) support wider access to national and external markets, strengthening the effective productive, commercialization and entrepreneurial capacities of organized economic groups, creating and modernizing rural businesses (agricultural and non-agricultural) through an entrepreneurial linkages approach. Additional support will be provided through improved rural access roads, expanded productive and value aggregation infrastructure, and market-based rural financial services; and (ii) contribute to enhanced social and human capital, strengthening the

organizational and decision-making capacities of communities and their development councils, and improving municipal planning and natural resource management. Social infrastructure and women's labour-saving devices will also be promoted.

Policy and institutional objectives

13. From a country programme perspective, the proposed investments seek to facilitate enhanced implementation and coordination of rural development programmes and the harmonization of poverty and food security strategies. This will be achieved through: (i) expansion and consolidation of the Government's national rural development programme, ProRural, under the Ministry of Agriculture, Livestock and Food; (ii) reactivation of the policy dialogue round tables; and (iii) consolidation of key strategic alliances with international development agencies, Government, civil society, and key entities of the private sector such as the Guatemalan Exporters' Association (AGEXPORT).

IFAD policy and strategy alignment

14. Through the programme – and in line with the IFAD results-based country strategic opportunities programme (COSOP) 2008-2012 and the IFAD Strategic Framework 2007-2010 – target groups will gain wider access to, inter alia: (i) national and regional markets in the context of the opportunities and threats presented by trade liberalization; (ii) employment opportunities, rural financial services and mechanisms for establishing rural businesses and enterprises; (iii) rural roads and social infrastructure; and (iv) technologies for sustainable agriculture.

E. Harmonization and alignment

Alignment with national priorities

15. Rural development, increased food security and poverty reduction are stated priorities of the Government, as outlined in the country's Government Plan 2008-2011. Accomplishing the Millennium Development Goals is also a primary concern. Major objectives are: (i) eradicating hunger and extreme poverty in rural and indigenous communities; (ii) developing an export-oriented, diversified, competitive and profitable agricultural sector; and (iii) reversing the degradation of natural resources and reducing the country's vulnerability to natural disasters.

Harmonization with development partners

16. The proposed programme is fully aligned with the Government's international cooperation agenda regarding rural development, food security, gender awareness, intercultural equity and environmental management. The overall IFAD intervention strategy in Guatemala is based on partnership-building with the private sector, cooperation with donors, and adherence to the principles of the Paris Declaration on Aid Effectiveness. The OPEC Fund for International Development (OFID) is a continuing partner and cofinancier of IFAD in Guatemala. Important experiences are expected to be drawn from the Rural Economic Development Program (World Bank/Inter-American Development Bank) and the partnership among the Danish International Development Assistance, the United States Agency for International Development, AGEXPORT and IFAD, in support of the entrepreneurial linkages approach to market access and rural business development. Similarly, there is potential for sharing experience in local and municipal governance with the Spanish Agency for International Cooperation and the European Union.

F. Components and expenditure categories

Main components

17. The programme has three components: (i) access to markets (72 per cent of base cost); (ii) organizational strengthening and territorial development (21 per cent); and (iii) programme management (7 per cent).

Expenditure categories

18. There are seven expenditure categories: (i) infrastructure (28 per cent of base cost); (ii) vehicles and equipment (1 per cent); (iii) training and dissemination (9 per cent); (iv) service agreements and contracts (15 per cent); (v) co-investment funds (35 per cent); (vi) salaries (8 per cent); and (vii) operating costs (4 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. Primary implementing partners include: municipalities involved in local/territorial planning and development promotion; social and economic organizations of the target population, such as those participating in specific tasks and providing field technical services; community, municipal and departmental councils involved in targeting and social audit; rural microfinance institutions offering rural financial services and training; traditional ethnic authorities and peasant indigenous institutions, guaranteeing transparent implementation; Government agencies, such as the Ministry of the Environment, involved in environmental education; and private-sector entities taking part in business-plan formulation, export promotion and other activities.

Implementation responsibilities

20. Programme implementation will be undertaken by a programme management unit, under the responsibility of FONADES, which will provide policy, strategy and management guidance. Implementation will also be closely coordinated with the field operations of ProRural. The programme will engage coexecuting entities and specialized technical, business and other service providers.

Role of technical assistance

21. The development of human and social capital is at the core of the programme. Beneficiaries will acquire the organizational and implementation capacities needed to take full advantage of the programme's opportunities, in the context of day-to-day learning-by-doing. The programme will provide the necessary technical support for this implementation and empowerment approach.

Status of key implementation agreements

22. In addition to the financing agreement, the programme will be governed by the following implementation arrangements: (i) operational by-laws of the co-investment funds for market access, rural financial service innovation, etc.; (ii) operational agreements with private entities for export promotion and rural business development and support; and (iii) collaboration agreements with development councils and municipalities.

Key financing partners and amounts committed

23. The total programme cost is US\$41.1 million over six years. The sources of financing are IFAD (41 per cent), OFID (37 per cent), the Government (10 per cent) and beneficiaries (12 per cent). IFAD will make a loan of approximately US\$16.5 million and provide a grant of about US\$0.5 million; OFID will make a loan of US\$15.0 million; the Government will provide US\$4.0 million; and the beneficiaries will make contributions estimated at US\$5.1 million, to be channelled into their productive projects and business consolidation.

H. Benefits and economic and financial justification

Main categories of benefits generated

24. Principal benefits include: (i) transformation of existing low-output activities into sustainable rural businesses with access to markets, investment resources and

technical assistance along the value chain; (ii) increased employment and incomes and enhanced food security; (iii) reduced land degradation and environmental vulnerability to climate change; (iv) expanded social infrastructure and rural road network; and (v) strengthened municipal planning with broader country dialogue.

Economic and financial viability

25. Most of the resources will be invested in irrigated plots, productive/value-aggregation projects, rural businesses, and capacity-building, for the direct benefit of targeted beneficiaries. A systematic analysis was conducted that considered the insertion of production units and model microenterprises into value chains (with and without project investment). These income-generating models demonstrate that the investments to be funded are profitable. The resulting net present value of the aggregated investments is positive, with an internal rate of return of 27.9 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

26. The programme calls for the acquisition and dissemination of implementation experience and knowledge management. Baseline and case studies will be carried out, and institutional links will be established with ongoing IFAD projects and regional learning networks. Special emphasis will be placed on exchanging experiences in market access/business development and on innovative rural financial services. Training and M&E materials will be made available in printed and digital form and internet-based web pages, in both indigenous languages and Spanish according to targeted audiences. Bilingual radio broadcasting will be supported.

Development innovations that the programme will promote

27. The programme introduces the following innovations: (i) a two-pronged strategy that fosters inclusion in development and rural modernization among communities and regions, using intervention approaches geared to their specific levels of development; (ii) the focus on entrepreneurial linkages, market access and rural business creation; (iii) the strengthening of strategic alliances with the private sector; and (iv) the promotion of indigenous entrepreneurial associations.

Scaling-up approach

28. The programme's dual intervention strategy and new intervention modalities respond to the wider developmental constraints of other regions in the country. The increased knowledge of the entrepreneurial linkages methodology and of how private-sector partnerships can promote market access will permit replication and scaling up elsewhere within Guatemala and in other countries of Central America.

J. Main risks

Main risks and mitigation measures

29. The programme faces one main risk: loan effectiveness of previous programmes has been hampered by delayed ratification of loans by the National Assembly. The planned mitigation measures include providing information on the programme objectives continuously to the key legislative and decision-making entities, in the context of an enhanced country dialogue and direct supervision.

Environmental classification

30. Pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

31. The sustainability of the programme's services will depend mainly on: (i) the capacity of beneficiaries' organizations and economic associations to manage their

initiatives and to link effectively with the markets and the public and private sectors; (ii) the institutionalization of participatory municipal planning; and (iii) the consolidation of ProRural.

II. Legal instruments and authority

32. A programme financing agreement between the Republic of Guatemala and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is not tabled at this session. The Board is requested to approve the programme proposal for the Republic of Guatemala subject to the completion of the negotiations of the financing agreement within six months of the Executive Board's approval. A copy of the negotiated financing agreement will be tabled at a future session, as well as any substantive changes to the terms presented to the Board.
33. The Republic of Guatemala is empowered under its laws to receive financing from IFAD.
34. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

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

RESOLVED: that the Fund shall make a loan on ordinary terms to the Republic of Guatemala in an amount equivalent to ten million nine hundred thousand special drawing rights (SDR 10,900,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Guatemala in an amount equivalent to three hundred and thirty thousand special drawing rights (SDR 330,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Key reference documents

Country reference documents

Plan de Gobierno, Plan de la Esperanza 2008-2011, Guatemala 2008

Política Nacional de Desarrollo Rural Integral, Guatemala, mayo de 2009

Ley del Sistema Nacional de Desarrollo Rural Integral, Guatemala, octubre de 2009

Vulnerabilidad de los Municipios y Calidad de Vida de sus Habitantes, Secretaría de Planificación y Programación de la Presidencia, Guatemala, junio de 2008

Informe Nacional de Desarrollo Humano 2005 – Guatemala: Diversidad Étnico-Cultural, Programa de la Naciones Unidas para el Desarrollo

IFAD reference documents

Programme design document (PDD) and key files

Country Strategic Opportunities Programme (2008)

IFAD – Rural Finance Policy

IFAD – Rural Microenterprise Policy

IFAD – Targeting Policy

IFAD – Innovation Policy

Logical framework

OBJECTIVE HIERARCHY	KEY PERFORMANCE INDICATORS AND TARGETS	MONITORING MECHANISMS AND INFORMATION SOURCES	ASSUMPTIONS
GOAL Contribute to overcoming poverty and improving the livelihoods of the rural and indigenous populations of Guatemala's El Quiché Department.	<ul style="list-style-type: none"> Percentage of households that increase their index of household assets ownership (RIMS anchor indicator). Percentage reduction of children malnutrition (RIMS anchor indicator). The Human Development Index in El Quiché increases from low to medium level. 	<ul style="list-style-type: none"> RIMS surveys. Guatemala's Human Development Report (UNDP). National social development reports 	The Government's agenda for rural development/ poverty reduction maintains its stated high priority.
PROJECT PURPOSE (Six-year investment) The rural producer associations improve their income and employment generation opportunities through better linkages to production chains and greater access to competitive national and external markets.	<ul style="list-style-type: none"> 36 800 families take part of the project's integral development processes and investments –including at least 30% women-led (RIMS indicator); 35% of producer associations' enterprises generate at least 2 000 jobs, of which 50% for women; 10% of organized producers diversify their production and introduce better primary production practices; At least, 300 community-based organizations formulate and execute investment plans for local development with gender perspective; 30% of women's producer organizations consolidate their production and commercial operations, integrating them to entrepreneurial-linkage support and local and external markets. 	<ul style="list-style-type: none"> RIMS impact survey implemented at 1st year, before mid-term and before programme completion Mid-term and completion evaluations Regular P/M&E reports National social and economic development reports 	Market conditions favour productive agricultural growth and exports. Government allocates the expected counterpart funding.
COMPONENT: ACCESS TO MARKETS			
Output 1: Market Access and Rural Business and Microenterprise Development The organized producers and rural entrepreneurs develop and strengthen their organizational, productive, entrepreneurial and commercialization capacities, establishing and modernizing rural businesses and microenterprises (agricultural and otherwise) and competitively accessing national and external markets.	<ul style="list-style-type: none"> 137 producer organizations/ microenterprises (agricultural/non-agricultural) strengthen their operational capacities, of which 35% are women-run initiatives; 37 producer organizations/microenterprises participate of the integrated entrepreneurial-linkage business development process; At least 9 500 producers, involved in producer groups/associations, are trained in best agricultural (manufacturing practices (BAMP), achieving 35% of producers certified in such practices; Organized agricultural producers increase their production aimed at the market (horticulture, organic coffee, etc.); 30 environmental enterprises (energy forestry and water conservation) established. 	<ul style="list-style-type: none"> Baseline study report Regular Planning/M&E reports Mid-term and completion evaluations Documents and records of economic organizations and technical and business-support service providers 	Comparative advantage for export products, maintained.
Output 2: Productive and Value-Aggregation Infrastructure The rural access road network in the programme area is improved and the production and value-aggregation infrastructure is expanded.	<ul style="list-style-type: none"> 220 km of rural access roads, rehabilitated in Programme's strategic zones; 28 km of rural access roads, improved in Programme's strategic zones; 2 400 producers install drip-irrigation systems for 550 hectares (58% reconversion; 42% new investments); 4 medium-size value-aggregation plants built, facilitating the storage, processing/packaging and commercialization of produce. 	<ul style="list-style-type: none"> Baseline study report Regular Planning/M&E reports Mid-term and completion evaluations Documents and records of economic organizations and technical and business-support service providers 	Municipalities and communities participate in rural roads programme. Comparative advantage for export products, maintained.
Output 3: Rural Financial Services Access to credit and financial services by programme beneficiaries is facilitated in the programme area for production, transformation, commercialization and export.	<ul style="list-style-type: none"> 70% of programme-supported producer organizations, improve their financial management capabilities; 20 producer organizations apply their revolving financial-intermediation funds; 9 local rural financial intermediaries, strengthened according to sectoral standards; At least 5 000 agricultural producers (30% women and young people) and 1 300 microentrepreneurs access local financing services (savings, credit); 4 new financial products developed by the third year, with financial innovation support. 	<ul style="list-style-type: none"> Baseline study report Regular Planning/M&E reports Mid-term and completion evaluations RFS studies Documents and records of organizations/RFS service providers 	The country's legal framework, favourable to the establishment/ consolidation of rural microfinancing systems.
COMPONENT: ORGANIZATIONAL STRENGTHENING AND TERRITORIAL DEVELOPMENT			
Output 4: Organizational Strengthening and Territorial Development The communities, their local and municipal development councils, and the municipalities strengthen their organizational, planning and managerial capacities aimed at social and economic development.	<ul style="list-style-type: none"> 400 young people receive study and technical education support (scholarships); 75% of local organizations involved; and 90% of El Quiché's municipalities (20) strengthen their planning/management capacities for social and economic development; 65% of supported groups/associations achieve legal status for productive/commercial purposes; 4 000 people involved in literacy programme, of which 60% rural and indigenous women; 30% of economic organization's members are women; and their representative and directive bodies include effective women representation (30%); 15 municipal women's development offices, strengthened (training; equipment & materials). 	<ul style="list-style-type: none"> Baseline study report Territorial/municipal development plans Regular Planning/M&E reports Mid-term and completion evaluations Municipal records/archives Documents and records of COCODES/other organizations 	Concurrent action by municipalities and public/private entities operating in the programme area, generated
Output 5: Basic Social Infrastructure The poor rural and indigenous populations increase their access to basic social infrastructure and labour-saving devices.	<ul style="list-style-type: none"> 16% of target-group families reduce in 40 the firewood consumption through 6 000 improved stoves; 14 000 families benefit from basic social infrastructure, i.e. 2 500 water harvesting/storing devices; 4 600 latrines; 1 000 water connections through new irrigation systems. 	<ul style="list-style-type: none"> Baseline study report Regular Planning/ M&E reports Mid-term and completion evaluations Municipal records/archives Documents and records of organizations/service providers 	Actions and investments harmonized at local level.

