

Document: EB 2012/LOT/P.7
Date: 2 November 2012
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

President's memorandum

Proposed supplementary financing to the Republic of Lebanon for the

Hilly Areas Sustainable Agricultural Development Project

Note to Executive Board representatives

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For: Approval

Republic of Lebanon

Hilly Areas Sustainable Agricultural Development Project

Supplementary financing summary

Initiating institution:	IFAD
Borrower:	Republic of Lebanon
Executing agency:	Ministry of Agriculture – The Green Plan
Total project cost:	US\$36.6 million
Amount of IFAD supplementary loan:	Approximately SDR 2.79 million (equivalent to US\$4.3 million)
Amount of IFAD supplementary grant:	Approximately SDR 0.32 million (equivalent to US\$0.5 million)
Total amount of IFAD loan:	Approximately SDR 5.39 million (equivalent to US\$8.3 million)
Total amount of IFAD grant:	Approximately SDR 0.72 million (equivalent to US\$1.1 million)
Amount of Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund) loan:	EUR 7.51 million (equivalent to approximately US\$9.71 million)
Terms of IFAD loan:	18 years, including a grace period of 3 years, with an interest rate equal to the reference interest per annum as determined by the Fund semi-annually
Terms of Spanish Trust Fund loan:	18 years, including a grace period of 3 years, with an interest rate equal to the reference interest per annum as determined by the Fund semi-annually
Cofinancier:	OPEC Fund for International Development (OFID)
Amount of cofinancing:	US\$8.4 million
Terms of cofinancier:	Ordinary, 20 years including a grace period of 8 years, with an interest rate of 5 per cent per annum.
Contribution of borrower:	US\$5.7 million
Contribution of beneficiaries:	US\$3.6 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Republic of Lebanon for the Hilly Areas Sustainable Agricultural Development Project, as contained in paragraph 14, and the modifications to the financing agreement presented in paragraph 11.

President's memorandum

Proposed supplementary financing to the Republic of Lebanon for the Hilly Areas Sustainable Agricultural Development Project

I. Background

1. This memorandum seeks approval for supplementary financing in the form of a supplementary loan in the amount of approximately SDR 2.79 million (equivalent to US\$4.3 million), a supplementary grant in the amount of approximately SDR 0.32 million (equivalent to US\$0.5 million) and a loan of EUR 7.51 million from the Spanish Trust Fund for the Hilly Areas Sustainable Agricultural Development Project (HASAD), which was approved by the Executive Board in September 2009. The supplementary financing will be used to cofinance, together with the Government of Lebanon and project beneficiaries, the cost of expanding HASAD project coverage to more rural poor communities in the hilly areas, while at the same time maintaining the same geographic coverage as the initial intervention.
2. The HASAD project is currently financed by IFAD through a loan of SDR 2.6 million (approximately US\$4.0 million), and a grant of SDR 0.4 million (approximately US\$0.6 million); a loan from OFID of US\$8.4 million; a government contribution of US\$1.75 million; and a beneficiary contribution of US\$1.88 million. IFAD and the Government have agreed that the remaining resources under the 2010-2012 performance-based allocation system (PBAS) cycle should be used to fund the scaling up of the project.

II. Justification and rationale

3. The ongoing HASAD project adopts a proven two-tiered development model aimed at mobilizing more water resources and improving agricultural productivity and marketability in rural poor hilly areas. The two tiers of the model involve: (i) construction of small and medium-sized hill lakes for water harvesting, accompanied by the related micro-irrigation schemes downstream and terraces for soil and water conservation upstream; and (ii) establishment of farmers' service centres (FSCs) based on public-private partnerships to provide extension and marketing support, including for post-harvest and agro-processing activities, to farmers in rural areas. Although the entire PBAS allocation for 2007-2009 was used to finance the ongoing HASAD project, the demand for project activities remains high. Since project start-up in June 2010, the Government has officially promoted HASAD as a national programme for integrated hill lake development in rural poor areas. The Government has now doubled its allocation and calls for additional donor support in order to meet the planned target of setting up 120 hill lake schemes before 2015.

4. Together with the HASAD project and the IFAD-supported Pilot Programme on Micro-Schemes of Sustainable Water Management in the Hilly Areas funded by the Spanish Trust Fund, the Ministry of Agriculture has developed the institutional framework and modalities to scale up the integrated hill lake development model. In this context, the Government has requested supplementary financing for HASAD under the 2010-2012 PBAS cycle and the Spanish Trust Fund to establish around 20 additional hill lakes and four more FSCs to expand outreach in marginal hilly areas.
5. The project goal is to reduce rural poverty by substantially increasing the agricultural productivity and incomes of the targeted households in the project area. The development objective of the project is to improve the livelihoods and incomes of the targeted farm households by increasing the quantity, quality and marketing of agricultural production. This will be achieved through: (i) improvements in soil and water management and development of small- and medium-scale water harvesting, and soil and water conservation measures; (ii) improvements in agricultural productivity and market linkages for small farmers through provision of technical support services; and (iii) capacity-building of project implementing agencies and farmers' organizations. The project is expected to directly benefit 14,540 rural households: 6,280 under the original project and 8,260 under the proposed supplementary financing.
6. This request for supplementary financing does not imply any change to the project objectives, duration, area, components or target groups as approved by the IFAD Executive Board in September 2009, nor does it alter the implementation approach.

III. Project costs

7. The total project costs related to the supplementary financing including physical and price contingencies are estimated at US\$19.95 million. These will be financed by an IFAD supplementary loan of US\$4.3 million, an IFAD supplementary grant of US\$0.5 million, and the IFAD-administered Spanish Trust Fund loan of EUR 7.51 million. The Government will contribute US\$4.0 million, and municipalities and direct beneficiaries will contribute US\$1.73 million.
8. The total revised project cost is US\$36.6 million. The sources of financing are: (i) IFAD, with an original loan of SDR 2.6 million (approximately US\$4.0 million) or 11.2 per cent of total costs, a supplementary loan of approximately SDR 2.79 million (US\$4.3 million) or 12.1 per cent, an original grant of SDR 0.4 million (approximately US\$0.6 million) or 1.7 per cent and a supplementary grant of approximately SDR 0.32 million (US\$0.5 million) or 1.4 per cent; (ii) OFID, through a loan of US\$8.41 million or 23 per cent; (iii) the Spanish Trust Fund loan of approximately US\$9.71 million, equivalent to EUR 7.51 million or 26 per cent; (iv) the Government (US\$5.7 million or 16 per cent); and (v) municipalities and direct beneficiaries (US\$3.6 million or 10 per cent).
9. The total project cost, including the supplementary financing, is distributed among the three components as follows: (i) water and soil conservation development (70 per cent); (ii) technical support to farmers (19 per cent); and (iii) project coordination and management (11 per cent).
10. The IFAD supplementary loan and the Spanish Trust Fund loan will be extended to the Republic of Lebanon on ordinary terms. It is proposed that the additional IFAD funds in the form of the supplementary loan, the supplementary grant and the Spanish Trust Fund loan be allocated to existing expenditure categories.

IV. Proposed modifications to the financing agreement

11. Upon approval of the Executive Board, the financing agreement will be amended to reflect the proposed changes as described herein, to incorporate the Spanish Trust Fund loan and the supplementary IFAD financing into the HASAD project budget. This supplementary financing complements the financing plan initially agreed at design.
12. The Republic of Lebanon is empowered under its laws to receive financing from IFAD and from the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as Trustee.
13. I am satisfied that the proposed supplementary financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

V. Recommendation

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

RESOLVED: that the Fund shall provide a supplementary loan on ordinary terms to the Republic of Lebanon, in an amount equivalent to approximately two million seven hundred ninety three thousand special drawing rights (SDR 2,793,000), 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 supplementary grant to the Republic of Lebanon, in an amount equivalent to approximately three hundred twenty four thousand special drawing rights (SDR 324,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as Trustee, shall provide a loan on ordinary terms to the Republic of Lebanon, in an amount equivalent to seven million five hundred ten thousand euros (EUR 7,510,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President