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Investing in rural people

President's memorandum

Proposal for additional financing to the Republic of Paraguay for the Inclusion of Family Farming in Value Chains Project

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for proposed additional financing in the form of a loan and a grant to the Republic of Paraguay for the Inclusion of Family Farming in Value Chains Project, as contained in paragraph 21.

President's memorandum

Proposed additional financing to the Republic of Paraguay for the Inclusion of Family Farming in Value Chains Project

I. Background

1. The Inclusion of Family Farming in Value Chains Project (Paraguay Inclusivo [PPI]) was approved by the Executive Board in April 2012. The total project cost was US$25.8 million. IFAD financing consisted of a loan of SDR 6.5 million (equivalent to approximately US$10 million at the time of approval) on ordinary terms. The Government committed financing of US$3.5 million, which was subsequently reduced to US$2.5 million. Financing was also to be provided by the beneficiaries (US$3.3 million), the private sector (US$3.9 million) and financial institutions (US$5.2 million). In May 2015, IFAD added a grant of US$730,000, which was provided by the Government of New Zealand, to the project financing. The PPI completion date is 31 March 2018 and the closing date is 30 September 2018.

2. The present memorandum seeks the approval of the Executive Board for additional financing in the form of a loan of US$10 million and a loan component grant of US$0.5 million. This will be supplemented by cofinancing of approximately US$4.3 million, to be contributed by the beneficiaries (US$0.7 million), the private sector (US$1.8 million) and financial institutions (US$1.9 million). The proposed additional financing, which has been approved within the Government's public investment system under the name of the Project to Improve Indigenous and Family Farming in Value Chains in the Eastern Region (PPI Phase II), will be implemented over a period of five years to scale up the ongoing activities and increase the number of beneficiaries.

II. Justification for the additional financing

3. The scope of the project – integrating smallholder farmers into value chains – continues to be highly relevant in Paraguay, and the demand for project services greatly exceeds the funds available. The potential for scaling up project activities was confirmed during the midterm review undertaken in September 2016 and by the supervision mission of March 2017. The request meets all eligibility criteria for additional financing set forth in President's Bulletin PB/2014/01/Rev.1. Specifically: (i) in the last portfolio review, the PPI was not found to be a problem project, and this continues to be the case; (ii) the disbursement of the original financing is satisfactory; (iii) the loan disbursement rate is 84 per cent, well above the 50 per cent required by IFAD rules; (iv) financial management was rated moderately satisfactory during the midterm review mission; and (v) Paraguay complies with the project's legal covenants, including the timely submission of audit reports and an unqualified audit opinion for the preceding fiscal year.

4. The success of the project is demonstrated by positive feedback from beneficiaries and demand for continuing and expanding project activities. The midterm review confirmed the project's overall sound implementation progress. The Government considers the project to be a key tool in the portfolio of the Ministry of Agriculture

and Livestock. In light of the Government's esteem for the project, its good progress and the inclusion of its concept in the 2015 country strategic opportunities programme, the Ministry of Finance has requested IFAD to provide additional financing for the PPI under the performance-based allocation system cycle for IFAD10.

III. Description of the proposal for additional financing

5. The additional financing will retain the goal, objectives and activities of the original IFAD financing. The goal of the project is to contribute to increasing the incomes and quality of life of small family farmers and the poor rural population. This is being realized through their sustainable inclusion in value chains, and working with representative organizations to ensure due attention is paid to gender and environmental concerns. With the additional financing, the project will be scaled up to include a further 13,200 beneficiary families – about 66,000 persons – who are involved directly in some 70 business plans and 115 microcapitalization plans. Of the additional beneficiaries, about 2,700 families will be from indigenous communities. The project area continues to be the eastern region of Paraguay, where 97 per cent of the country's population and almost all smallholder farmers are concentrated, in addition to the western region, subject to a "no objection" from IFAD.

6. The PPI Phase II consists of two technical components and a component for project management and administration. No new activities have been added. Enhancements have been made based on implementation experience. These include: (i) training for project staff, including institutional strengthening of the farmers' groups and commercial arrangements; (ii) increased involvement of indigenous communities to extend the project's outreach to the poorest groups; (iii) management tools developed for the Project for Improved Family and Indigenous Production in Departments of Eastern Paraguay will be applied in the additional financing phase, including the computerized monitoring and evaluation (M&E) system and the system to assess the institutional maturity of participating organizations; and (iv) an IFAD grant has been integrated to finance knowledge management activities – including environmental and impact-related studies – and technical assistance contracts to provide additional support to the farmers' groups in designing and implementing the business plans.

7. Component 1: Pre-investment. This aims to strengthen the capacity of smallholder organizations to develop, negotiate and implement business plans in conjunction with agro-industrial and commercial enterprises, and to take rational financing decisions. This component includes training of beneficiaries and technicians in: (i) the development of inclusive value chains, with a focus on environment, gender and youth; (ii) the technical management of production and specialization in specific value chains; (iii) environmental and climate change issues; (iv) participatory rural diagnosis of rural organizations and indigenous communities, including analysing the situation of women and young people and identifying steps for their inclusion in group activities, strengthening plans to build the rural organizations' institutional capacity and the design of investment activities.

8. Component 2: Investment. This component will support producers in increasing their assets and agricultural production, improving the quality and sale of their products and becoming creditworthy for financial institutions. The component's main investment tool is the capitalization fund for the linkage of inclusive chains, which aims to overcome the production, marketing and credit limitations faced by small-scale producers. It partly finances the business plan investments, together with the participating companies and beneficiaries. In the case of the business plans, the participating companies will also cofinance the investments, while the working capital will be financed mainly by financial institutions on the basis of loan

guarantees deposited by the rural organizations. The business plans will make provisions for further institutional strengthening in such areas as the sustainable use of credit within the organizations.

9. Component 3: Project management and enabling environment for business development. This component is concerned with the activities necessary for the proper functioning of the project. The project implementation unit will continue with its current responsibilities. The component also includes baseline and impact surveys, audits, workshops, M&E, and gender training.

IV. Project costs and financing

10. The total amount of additional financing is estimated at US$14.8 million and consists of: (i) an IFAD loan of approximately US$10 million (about 67.4 per cent of the additional financing) and an IFAD grant of US$0.5 million (3.4 per cent); (ii) cofinancing by the beneficiaries of approximately US$0.7 million (4.7 per cent); (iii) a contribution from the private sector of US$1.8 million (11.8 per cent); and (iv) a contribution from the financial institutions of approximately US$1.876 million (12.7 per cent). In line with operations funded by the World Bank and Inter-American Development Bank in the country, where applicable, IFAD's resources will be used to finance taxes. The arrangements related to this additional financing are summarized in the tables below.

Table 1
Project cost by component and financier
(Thousands of United States dollars)

	IFAD loan		*IFAD grant*		*Beneficiaries*		*Private sector*		*Financial institutions*		*Total*	
Component	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Pre-investment	2 561	91.9	227	8.1	-	-	-	-	-	-	2 788	18.8
2. Investment	5 961	57.1	144	1.4	700	6.7	1 750	16.8	1 876	18	10 430	70.4
3. Project management and enabling environment for business development	1 478	91.9	130	8.1	-	-	-	-	-	-	1 608	10.8
Total	**10 000**	**67.4**	**500**	**3.4**	**700**	**4.7**	**1 750**	**11.8**	**1 876**	**12.7**	**14 826**	**100**

Table 2
Project cost by expenditure category and financier
(Thousands of United States dollars)

	IFAD loan		*IFAD grant*		*Beneficiaries*		*Private sector*		*Financial institutions*		*Total*	
Category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Equipment and materials	228	100	-	-	-	-	-	-	-	-	228	1.5
2. Grants and subsidies	6 339	59.4	-	-	700	6.6	1 750	16.4	1 876	17.6	10 665	71.9
3. Goods, services and inputs	902	64.3	500	35.7	-	-	-	-	-	-	1 402	9.5
4. Salaries and allowances	1 904	100	-	-	-	-	-	-	-	-	1 904	12.8
5. Operation costs	627	100	-	-	-	-	-	-	-	-	627	4.2
Total	**10 000**	**67.4**	**500**	**3.4**	**700**	**4.7**	**1 750**	**11.8**	**1 876**	**12.7**	**14 826**	**100**

V. Financial management, procurement and governance

11. The executing agency will be the Ministry of Agriculture and Livestock through the National Office of Project Coordination and Administration, which is currently in charge of implementing the PPI and other projects. Implementation arrangements will continue to be based on the same operational manual, which however will be updated to reflect the stronger review process for the business plans, especially in terms of the participation of women and youth in their design and implementation, and of the environmental risks and mitigation measures. Additional promoters will be engaged to ensure closer interaction between participating rural organizations and the project implementation unit.

12. Financial management will be under the responsibility of the project administrator and the project accountant. Staff performance will be evaluated at the end of the PPI implementation period, and re-engagement for the additional financing period will depend on this evaluation. The project guidance committee will continue overseeing the project and the Inter-ministerial Technical Committee will continue approving the business plans.

13. The IFAD financial management assessment rated fiduciary risk as medium. Although the project team has complied with IFAD financial management requirements, they still require close monitoring and capacity-building. The financial management arrangements will continue using the current set-up, including the accounting system, which is in line with IFAD requirements.

14. The Ministry of Finance will open two designated accounts in United States dollars at the Central Bank of Paraguay exclusively for the loan and grant. In addition, operating accounts (project accounts) in local currency will be opened at the National Development Bank.

15. Procurement of goods, works and consulting services financed by IFAD will be carried out in compliance with IFAD's Project Procurement Guidelines. National procurement procedures, processes and regulations will be applied to the extent that they are consistent with those guidelines.

16. An external audit of the project's consolidated financial statements will be carried out in compliance with the International Standards on Auditing and the IFAD Guidelines on Project Audits. The audit reports will be submitted to IFAD within six months of the end of each fiscal year.

VI. Legal instruments and authority

17. Upon the approval of the Executive Board, a new financing agreement with the Republic of Paraguay will be concluded, which will enter into force upon ratification but in no case earlier than the PPI completion date, which is currently set for 31 March 2018. The new financing agreement will reflect: (i) the name of the project as approved by the Government's public investment system, namely "Project to Improve Indigenous and Family Farming in Value Chains in the Eastern Region (PPI Phase II)"; (ii) the implementation period of five years for the additional financing; (iii) the increased number of beneficiaries; and (iv) the requirement of opening two new designated accounts.

18. The additional financing will not involve any changes to the PPI objectives, project area and target group. No new activities – apart from scaling-up support at the national level – or expenditure categories will be created.

19. The Republic of Paraguay is empowered under its laws to borrow from IFAD.

20. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

> RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of Paraguay for an amount of ten million United States dollars (US$10,000,000) 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 Paraguay for an amount of five hundred thousand United States dollars (US$500,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President