

Document: EB 2011/104/R.30/Rev.1
Agenda: 10(d)(v)
Date: 13 December 2011
Distribution: Public
Original: Spanish

E



Enabling poor rural people
to overcome poverty

President's memorandum

Proposal for supplementary financing to the Republic of Nicaragua for the

Inclusion of Small-scale Producers in Value Chains and Market Access Project

Note to Executive Board representatives

Focal points:

Technical questions:

Ladislao Rubio
Country Programme Manager
Tel.: (+39) 06 5459 2575
e-mail: l.rubio@ifad.org

Dispatch of documentation:

Kelly Feenan
Head, Governing Bodies Office
Tel.: +39 06 5459 2058
e-mail: gb_office@ifad.org

Executive Board — 104th Session
Rome, 12-14 December 2011

For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary loan and grant to the Republic of Nicaragua for the Inclusion of Small-scale Producers in Value Chains and Market Access Project, as contained in paragraph 10.

President's memorandum

Proposal of supplementary financing to the Republic of Nicaragua for the Inclusion of Small-scale Producers in Value Chains and Market Access Project

I. Background

1. This memorandum seeks approval for supplementary financing in a total amount of SDR 7.35 million (approximately US\$11.30 million), including a loan for SDR 3.85 million (approximately US\$5.90 million) on highly concessional terms and a grant for SDR 3.50 million (approximately US\$5.40 million), for the Inclusion of Small-scale Producers in Value Chains and Market Access Project (PROCAVAL).
2. The Executive Board, at its 91st session in September 2007, approved a loan and grant to the Republic of Nicaragua, each in the amount of SDR 2,550,000, to finance PROCAVAL (EB 2007/91/R.28/Rev.1). The Executive Board, at its 94th session in September 2008, approved supplementary financing for the project in the form of a loan and grant for SDR 390,000. PROCAVAL has cofinancing from the Central Bank for Economic Integration (CABEI) in the amount of US\$8.0 million, a contribution from the Government of Nicaragua in the amount of US\$4.5 million, and a contribution from beneficiaries in the amount of US\$1.4 million. The financing agreement was signed on 22 January 2008 and entered into effect on 20 August the same year. The completion date is 30 September 2015 and the loan closing date is 31 March 2016.
3. In 2011, under the 2010-2012 cycle of the performance-based allocation system (PBAS), IFAD approved a grant in the amount of US\$500,000 to help finance the Agricultural Census of Nicaragua. IFAD financing for the Republic of Nicaragua during the Eighth Replenishment period is required to be provided on a pro rata basis, i.e. 50 per cent in the form of a loan and 50 per cent in the form of a grant. Accordingly, resources provided during that period – and corresponding to the 2010-2012 PBAS allocation cycle – are to be distributed in such a way as to maintain this ratio (50 per cent loan and 50 per cent grant financing). As a result, as indicated in paragraph 9 below, the ratio of loan to grant financing proposed for this supplementary financing is 52.2 per cent to 47.8 per cent, respectively.
4. In May 2011, at the request of the Republic of Nicaragua, a mission from IFAD visited the country to negotiate the plan to utilize the supplementary financing of US\$11.3 million under the 2010-2012 PBAS allocation cycle. The Government of Nicaragua requested that the supplementary resources be allocated to PROCAVAL in order to: (i) expand geographical coverage; (ii) strengthen the inclusion of small-scale producers in value chains through the strategic alliances component; and (iii) strengthen project management.

II. Rationale and background

5. The supplementary financing will enable organizations of small-scale producers to make use of opportunities to add value to their production, and will increase the incomes of young people and women replicating the positive experiences they have accumulated. A significant number of small-scale producers (both men and women) have successfully managed to add value to their production and gain access to

markets with support under PROCAVAL and other projects. The objective of this initiative is to expand the project area and consolidate PROCAVAL activities.

6. Although in recent years (2007-2009) the agriculture sector has posted annual growth of 7.8 per cent, the incidence of rural poverty, food security and vulnerability remains high in the wake of the food price spike and the effects of climate change. Accordingly, support for the government's efforts to promote a market access strategy for small-scale producers and their inclusion in value chains by expanding the PROCAVAL experience is fully justified. The political context, existing opportunities to increase agricultural production and productivity, the growing importance of the rural sector in the national economy, and higher demand for food both nationally and globally justify the geographical expansion of PROCAVAL.

III. Project costs

7. Total project cost is US\$37.96 million over a seven-year period. Sources of financing are as follows: (i) IFAD, with loans for SDR 2.94 million (equivalent to approximately US\$4.51 million) and grants for SDR 2.94 million (equivalent to approximately US\$4.51 million), plus the supplementary financing requested hereunder, i.e. a highly concessional loan for SDR 3.85 million (equivalent to approximately US\$5.90 million) and a grant for SDR 3.50 million (equivalent to approximately US\$5.40 million); (ii) CABEI, with a loan for US\$8.0 million; (iii) the Government of Nicaragua, with a contribution of US\$4.5 million in credit funding plus US\$0.96 million in counterpart funding, for a total of US\$4.46 million; and (iv) the beneficiaries, with a contribution of US\$4.17 million.
8. The changes in the amounts allocated to the expenditure categories of the IFAD loans and grants will be reflected in annex II of the amended financing agreement. The expenditure categories will be as follows: (i) vehicles and equipment; (ii) local initiatives fund; (iii) salaries; and (iv) operating costs.

IV. Proposed amendment to the financing agreement

9. Subject to Executive Board approval, the financing agreement will be amended as follows: (i) include supplementary IFAD financing (52.2 per cent in the form of a loan and 47.8 per cent in the form of a grant) in the project budget in the categories indicated in paragraph 8 above; (ii) expand the project area to include the departments of Nueva Segovia, Estelí, León, Chinandega, Madriz, Carazo, Granada, Rivas and Masaya, in addition to the departments of Boaco, Jinotega and Matagalpa, which were included in the original project; (iii) change the components and activities to be carried out to reflect the supplementary financing requested; (iv) strengthen the project management unit; and (v) update the use of IFAD guidelines on procurement and contracts for goods and services.

V. Recommendation

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

RESOLVED: that the Fund shall make a supplementary loan to the Republic of Nicaragua on highly concessional terms in an amount equivalent to three million eight hundred and fifty thousand special drawing rights (SDR 3,850,000) upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall make a supplementary grant to the Republic of Nicaragua in an amount equivalent to three million five hundred thousand special drawing rights (SDR 3,500,000) upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President