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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF NICARAGUA

FOR THE

**PROGRAMME FOR THE ECONOMIC DEVELOPMENT OF THE DRY REGION IN
NICARAGUA**



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CURRENCY EQUIVALENTS

Currency Unit	=	Córdoba Oro (NIO)
USD 1.00	=	NIO 14.45
NIO 1.00	=	USD 0.07

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

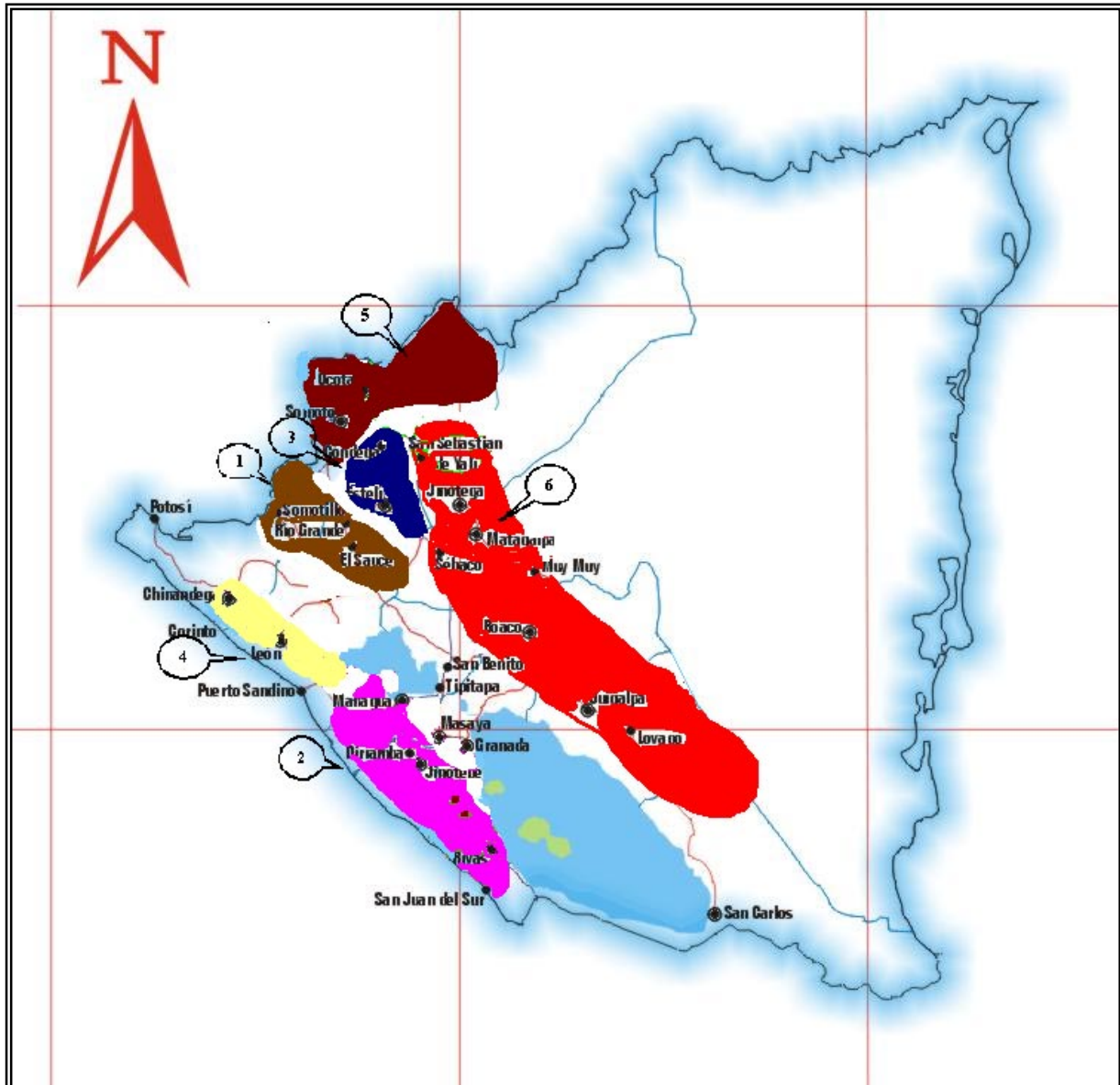
BCIE	Central American Bank for Economic Integration
DFID	Department for International Development (United Kingdom)
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FONDECA	<i>Fondo de Desarrollo Campesino</i> (Peasants' Development Fund)
FOPEN	<i>Fondo Competitivo de Empleo y Negocios</i> (Competitive Fund for Employment and Businesses)
IDB	Inter-American Development Bank
IDR	<i>Instituto de Desarrollo Rural</i> (Rural Development Institute)
MAGFOR	<i>Ministerio Agropecuario y Forestal</i> (Ministry of Agriculture and Forestry)
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
PME	Planning, Monitoring and Evaluation
PMU	Programme Management Unit
PROSESUR	Rural Development Project for the Southern Pacific Dry Region
RCU	Regional Coordinating Units
TROPISec	Project for the Capitalization of Small Farmers in the Tropisec Area of the Segovias – Region I
WFP	World Food Programme

GOVERNMENT OF THE REPUBLIC OF NICARAGUA

Fiscal Year

1 January - 31 December

MAP OF THE PROGRAMME AREA



Prioritized Focal Development Areas	
1	Western Area
2	Carazo/Managua Area
3	Northern Area
Other Focal Development Areas	
4	Chinandega/León
5	Las Segovias Norte
6	Jinote/Matagalpa/Boaco/Chontales

Source: Appraisal Mission

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.

REPUBLIC OF NICARAGUA
PROGRAMME FOR THE ECONOMIC DEVELOPMENT OF THE DRY REGION IN
NICARAGUA
LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Nicaragua
EXECUTING AGENCY:	Rural Development Institute (IDR)
TOTAL PROGRAMME COST:	USD 25.0 million
AMOUNT OF IFAD LOAN:	SDR 10.25 million (equivalent to approximately USD 14.0 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIER:	Central American Bank for Economic Integration (BCIE)
AMOUNT OF COFINANCING:	USD 4.0 million
TERMS OF COFINANCING:	Loan – highly concessional terms
CONTRIBUTION OF BORROWER:	USD 1.8 million
CONTRIBUTION OF THE PEASANTS’ DEVELOPMENT FUND (FONDECA):	USD 4.0 million
CONTRIBUTION OF BENEFICIARIES:	USD 1.2 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	BCIE



PROGRAMME BRIEF

Who are the beneficiaries? About 60% of the total rural population, including the largest proportion of the country's rural poor, live in the dry region of Nicaragua, which covers 34% of the national territory. The target group is comprised of 44 600 rural poor families with annual per capita incomes under the official poverty line of USD 430. They live in 33 of the 116 municipalities that form the dry region. The rural poor are generally: (i) seasonal and migrant workers; (ii) small subsistence peasants; (iii) small agricultural producers with linkages to markets; and (iv) non-agricultural microentrepreneurs. The population groups most affected by poverty are youths, woman-headed households and indigenous peoples. Some 12 000 households will benefit directly from the programme, 8 000 of which will receive support through business plans and 4 000 through employment plans. Some 5 400 of the former will also benefit from access to credit services. Around 40% of the beneficiaries will be women. The programme will ensure that woman-headed households, women and youths have priority access to programme opportunities. Since grass-roots organizations, cooperatives, producers' associations and municipalities comprise relevant social capital for the promotion of rural development, the programme will also target approximately 300 of these organizations as direct beneficiaries.

Why are they poor? According to the Government, poverty has its roots in the civil war of the 1980s, the ensuing economic collapse, insufficient basic social services and human capital weaknesses. Rural poverty is more severe than urban poverty is, and is mainly caused by: (i) lack of local human capital, education and knowledge; (ii) low productivity and poor natural resource management; (iii) obstacles to market access, falling international prices and high transaction costs; (iv) inadequate provision of rural financial and non-financial services; (v) lack of physical and social infrastructure; and (vi) limited employment opportunities. Most of the rural poor live in highly vulnerable regions, which aggravates their poverty.

What will the programme do for them? The programme will enable poor peasants and microentrepreneurs to participate in the planning and implementation of business and employment plans. In addition, it will ensure improved access to income-generating activities by: (i) strengthening the target group's capacity to access labour markets, with an emphasis on creating the right conditions for women and youths; and (ii) increasing the supply of financial and non-financial local services. All programme-supported business and employment plans will have to fulfil feasibility and sustainability criteria. The main concepts are human and social capital strengthening and empowerment in order to allow local stakeholders to benefit from programme opportunities.

How will beneficiaries participate in the programme? The target group and their organizations will participate in programme activities by: (i) proposing feasible agricultural and non-agricultural businesses and employment plans to be implemented in the existing market context; (ii) taking part in local committees responsible for approving the plans to be supported by the programme; (iii) implementing business and employment plans; and (iv) monitoring and evaluating the impact of their activities and learning from their experiences.



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NICARAGUA

I submit the following Report and Recommendation on a proposed loan to the Republic of Nicaragua for SDR 10.25 million (equivalent to approximately USD 14.0 million) on highly concessional terms to help finance the Programme for the Economic Development of the Dry Region in Nicaragua. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the Central American Bank for Economic Integration (BCIE) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. The Republic of Nicaragua, located in Central America, has a land area of 130 000 km². Its population, estimated at 5 million inhabitants in 2000, grew at an average rate of 2.9% in the 1990s. Nicaragua is the second poorest country in Latin America, with a gross national income per capita of USD 480 (2001). The country's rural population accounts for more than 42% of the total inhabitants. It is concentrated in the lowlands bordering the Pacific coast, an area covering only 15% of the national territory, but where 62% of all Nicaraguans live. Some 68% of rural people subsist on incomes under the poverty line.
2. Since 1991, following a decade of civil war, the Government has given priority to consolidating domestic peace and democracy, ensuring property rights and law enforcement, attaining macroeconomic stability, improving state management and reducing poverty. From 1993, Nicaragua's gross domestic product (GDP) increased an average 4.7% per year, but estimates show no growth for the present year. During the last three years, the decline in international coffee prices has severely damaged the country's economy.
3. The balance of payments and the fiscal deficit are the main constraints to economic development. External debt rose significantly during the 1980s and 1990s. The country currently devotes over 11% of its GDP to service a USD 6.3 million debt, i.e. almost three times the country's GDP. The current account deficit is equivalent to 40% of GDP. Lack of competitiveness, unsatisfactory diversification in export supply, and deterioration of the terms of exchange explain the stagnation of exports. Throughout the last decade, the Nicaraguan economy has had to deal with permanent fiscal deficit. The non-financial public sector unbalance reached 16.1% of GDP in 2001. External loans, donations and remittances from emigrants have financed the gap in both the balance of payments and the public budget.
4. The primary sector plays an essential role in the Nicaraguan economy. It contributes almost 30% to GDP, providing employment to almost half the economically active population and representing 67% of the country's exports. The agricultural sector led Nicaraguan growth during the

¹ See Appendix I for additional information.



1990s, showing an average 10% annual growth since 1993. The most important crops are basic grains (maize, sorghum, beans and rice) for internal consumption and coffee, the main export product.

5. The Government's agricultural development strategies are aimed at improving production competitiveness through a reduction in transaction costs, improvement of the quality and health of animals and crops, and the provision of more value added and agro-industrial integration. Nicaragua has a high per capita area of cultivatable land. As a result of the agrarian reform of the 1980s, it has in fact the largest area of land per rural inhabitant in all of Central America.

6. The existence of a negative protection for export products, based on taxation and exchange rate policies, has represented a disincentive toward exports. Furthermore, Nicaragua does not currently satisfy the food security needs of its population, which depend on imports of rice (33% is imported), beans (18%), vegetable oil (59%) and milk (15%).

7. Some 46% of the total Nicaraguan population live under the official poverty line of USD 430 per capita (2001), 68% in rural areas and 30% in urban areas. About 15% of the total population are extremely poor, 27% in rural areas and 6% in urban areas. According to the Government, poverty has its roots in the civil war of the 1980s, the ensuing economic collapse, insufficient basic social services and human capital weaknesses. Moreover, the country is highly vulnerable to natural disasters and to environmental deterioration. The population groups most affected by poverty are youths, woman-headed households and indigenous groups.

B. Lessons Learned from Previous IFAD Experience²

8. Since 1980, IFAD has financed five projects/programmes in Nicaragua for a total of SDR 46.1 million. All of these loans were provided on highly concessional terms. The Project for the Capitalization of Small Farmers in the Tropisec Area of the Segovias – Region I (TROPISSEC) began in 1995 and closed in December 2002. Currently there are two projects under implementation: the Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua, which initiated operations in June 2001, and the Rural Development Project for the Southern Pacific Dry Region (PROSESUR), which initiated operations in 1997 and is scheduled to close in September 2003.

9. IFAD has gained considerable experience in the dry region of Nicaragua, developing a sound and effective rural development approach. The proposed loan is based on an analysis of IFAD's strategy and builds on its accumulated project experience. In particular, the most recent projects have highlighted the need to: (i) implement projects in a decentralized manner enabling beneficiaries to take decisions and implement them and, by doing so, reinforcing social control; (ii) strengthen and develop sustainable technology transfer mechanisms, including the organizational capacities of technology providers, joint investments by service providers and clients, and emphasis on decision-making by small farmers in all the steps of the process; (iii) consider implementation in an integrated manner, including production and marketing support; (iv) reinforce positive experiences contributing to the sustainable development of rural poor areas; (v) improve the project implementation tools, and the management and institutional capacities of project administrators; (vi) identify financial mechanisms to address the needs of rural households; (vii) promote gender equity and reduce gender disparities in rural poor areas, applying successful innovative methodologies; and (viii) address natural resource management and conservation, either as part of the agricultural production process or as an independent component.

² See Appendix II for additional information.



C. IFAD's Strategy for Collaboration with Nicaragua

10. **Nicaragua's policy for poverty eradication.** At the World Summit for Social Development, held in Copenhagen, Denmark, in 1995, the Government agreed to implement a national strategy for poverty reduction within the framework of the Debt Initiative for Heavily Indebted Poor Countries. Nicaragua was declared eligible for support under the Initiative in 1999. In April 2001, IFAD's Executive Board approved debt relief for Nicaragua, and by mid-2001 the Government had presented its Reinforced Strategy for Economic Growth and Poverty Reduction (RSEGPR). The Secretariat of Strategy and Coordination is the governmental agency responsible for coordinating and monitoring RSEGPR implementation. The Initiative will permit the country to reduce its debt stock by 70%, representing an annual savings equivalent to 5% of GDP, which will be devoted to poverty reduction.

11. The Government considers that poverty and economic development should be addressed adequately and simultaneously. It also believes that rural poverty reduction must be based on the strengthening of internationally competitive production chains. Consequently, it proposed a programme to develop economic clusters that are competitive and respond rapidly to incentives. Opportunities have been identified for sectors such as dairy, beef, forestry products, tourism, energy, fisheries and the textiles industry, most of rural origin. The Ministry of Agriculture and Forestry (MAGFOR) and the Rural Development Institute (IDR) have defined complementary rural development priorities for the dry region of Nicaragua. In the past, there was no comprehensive rural development strategy, and interventions were mainly based on the implementation of isolated externally financed projects. Progress has been made in designing a national strategy, the basic features of which are already formulated.

12. **The poverty eradication activities of other major donors.** Following the Government's request for greater coordination of international cooperation activities, there is some evidence of progress in this area. Other major donors supporting rural and agricultural development are the World Bank, Inter-American Development Bank (IDB), European Union, Swiss Development Cooperation (SDC), Swedish International Development Cooperation Agency (SIDA), United States Agency for International Development (USAID), Department for International Development (DFID) (United Kingdom), Food and Agriculture Organization of the United Nations (FAO) and World Food Programme (WFP). It is important to highlight the initiatives of the Dutch, Swedish and Swiss cooperation supporting the development of non-banking financial services.

13. The World Bank is supporting MAGFOR in matters related to: (i) macroeconomic policies and incentives for growth and investments; (ii) land policies; and (iii) rural financial services. IDB has approved a USD 60 million programme for rural development and infrastructure and is also supporting the Government in the creation of a new institutional framework for rural development. In response to the Government's request, FAO is planning the expansion of the Food Security Programme (PESA) now being carried out as a pilot project in certain areas of the country, and a programme to develop rural financial markets. Both initiatives fit together in the strategy mentioned in this document. The European Union is formulating a development programme for the agricultural sector. IDR will coordinate rural development-related interventions financed by BCIE, the European Union, IDB and IFAD. It will also continue to work in the dry tropical region giving continuity to its efforts in the TROPISec project cofinanced by IFAD. WFP currently implements a food-for work programme, which promotes the improvement of productive systems and the generation of labour in impoverished areas. DFID has recently opened an office in Nicaragua and is looking forward to establishing relations with the international community for participating as cofinancier in initiatives that fit into its strategic lines for Central America. These include, among others, strengthening democratic mechanisms to enable the rural poor to participate in decision-making processes.



14. **IFAD's strategy in Nicaragua.** In the early 1990s, and during the peacekeeping process, the Government defined a strategy to support initiatives aimed at improving the situation of small farmers in impoverished areas, who had been adversely affected by civil war and structural problems. It assigned priority to the country's dry region where most rural poor families are settled. IFAD's activities at the time were oriented towards supporting capitalization and fostering a peasant economy, based on three main points: water management; small farmers' capitalization; and strengthening of production-oriented services. In 1998, IFAD prepared a new strategic framework, reaffirming the importance of maintaining its presence in the dry tropics, with a long-term vision of contributing to building a new local and national institutional framework that could ensure the sustainability of rural development support services. This was complemented by the development of flexible mechanisms and procedures to promote the target population's access to markets, and their participation in resource management and extension.

15. The strategy of the proposed programme is in line with IFAD and government strategies. Programme design is based on the *Strategic Framework for IFAD 2002-2006*, the regional strategy paper for Latin America and the Caribbean and the guidelines set out in the country strategic opportunities paper of May 2002. The programme also fits in well with the Government's poverty-reduction strategy – which emphasizes enabling the poor to access income-generating opportunities (either microenterprises or wage labour).

16. **Programme rationale.** The programme will build the capacity of rural men and women workers, microentrepreneurs and smallholders to participate actively in business clusters. Its innovative approach creates an opportunity for them to link their produce to the main chain of value added in the country, thus giving concrete form to government and IFAD strategies. The programme will assist in the participatory development and implementation of business and employment plans and improve the ability of rural workers to access labour markets. Therefore, improved opportunities for income-generation will be the result of: (i) fostering the capacity of the target group (including poor rural women and youths) to deal with products and labour markets; and (ii) strengthening local financial and non-financial services.

PART II - THE PROGRAMME

A. Programme Area and Target Group

17. **Programme area.** Government rural development priorities focus on the country's dry tropical region. IFAD has gained significant experience and learned valuable lessons from the implementation of five projects/programmes in different areas of the dry region, where most rural poor live. The match between government priorities and IFAD experience justifies the selection of the dry region as the programme area. Some 60% of the total population live in the dry region, which represents 34% of the national territory. They are the most impoverished people in the country and the most vulnerable to natural disasters. About 80% of the economically active population depend on agriculture or related activities. They have become increasingly vulnerable in recent years due to natural disasters that have deteriorated their living conditions. IFAD projects in Nicaragua have supported local and national institution-building; promoted privatization and sustainability of rural production services; assisted in validating dry tropic technologies, especially those related to water management; strengthened grass-roots organizations; contributed to decentralized decision-making; and helped improve the quality and coverage of rural financial services.

18. The programme area consists of 33 municipalities selected from the 116 municipalities comprising the dry region. The municipalities are distributed over three **focal development areas**, selected according to the following criteria: (i) previous IFAD experience, to consolidate or expand already initiated activities; (ii) agricultural potential and risk factors identified by MAGFOR;



(iii) logistical aspects in the area that facilitate programme implementation; (iv) potential for the development of rural businesses; (v) potential for assisting initiatives that enable rural workers (both men and women) to integrate more effectively in the labour market; and (vi) complementarity to areas identified by other agencies.

19. **Target group.** The target group consists of 44 600 rural poor households with annual incomes under the official poverty line of USD 430 per capita, of which 8 500 are woman-headed households, and their organizations. They are mainly seasonal and migrant workers, small subsistence peasants, small agricultural producers with linkages to markets and non-agricultural microentrepreneurs. The target group may include some medium-sized producers, entrepreneurs, agro-processors and exporters, since they may eventually be strategic partners for the poor target population. The programme will ensure that youths, women and woman-headed households are given priority in access to business and employment plans.

20. **Direct beneficiaries.** Taking into account both prioritization and eligibility criteria and resource availability, it has been estimated that programme activities will directly benefit 12 000 poor families: 3 000 rural workers; 3 000 peasants, 5 000 small and medium rural producers; and 1 000 entrepreneurs. Of these, 8 000 families will receive support through business plans and 4 000 families through employment plans. Some 5 400 of the former will also benefit from access to credit services. It is expected that 40% of these beneficiaries will be women, including approximately 19% of woman-headed households.

21. To achieve gender equity, the programme will ensure that: (i) woman-headed households have priority access to business and employment plans; and (ii) men and women, and particularly youths, have equitable access to these plans and to other services provided to nuclear families. Since grass-roots organizations, cooperatives, producers' associations and municipalities comprise relevant social capital for the promotion of rural development, the programme will also target approximately 300 of these organizations as direct beneficiaries.

22. To reach the most vulnerable groups, the programme will:

- differentiate promotion activities;
- specify targets for women and woman-headed households;
- monitor the results of targeting and adjust strategies if necessary;
- softer conditions for accessing the Competitive Fund for Employment and Businesses (FOPEN).

B. Objectives and Scope³

23. The programme's **overall development objective** is to contribute to the reduction of rural poverty by increasing the income of rural poor households. Its **specific objective** is to improve sustainably and equitably the access of poor rural households to assets that allow them to benefit from income-generating opportunities.

24. The programme is demand-driven. It will assist in the participatory planning and implementation of business and employment plans. In addition, it will ensure improved access to income-generating activities by: (i) strengthening the target group's capacity to access markets, with special emphasis on creating the right conditions for women and youth; and (ii) increasing the supply of local financial and non-financial services. All business and employment plans will have to fulfil feasibility and sustainability criteria.

³ See Appendix III for additional information.



25. **Strategy.** The programme will adopt a cross-cutting strategy and will establish mechanisms to document and learn lessons from its experiences. Main strategic thrusts are:

- ensuring gender equity by differentiating programme activities by population group and by gender, and improving access to opportunities by particularly disadvantaged groups: women in nuclear families, woman-headed households, youths, rural workers and landless farmers;
- guaranteeing that programme activities do not negatively affect the environment;
- enabling men and women beneficiaries and their organizations to take advantage of opportunities created by the programme and to participate in programme implementation and decision-making;
- decentralizing decisions to regional coordinating units (RCUs) in each specific focal development area. The purpose is to keep programme decision-making close to the beneficiaries in order to facilitate ownership and transparency;
- allocating programme financing on a competitive basis and exclusively to feasible business and employment plans presented by beneficiaries and their organizations. The concept of feasibility will take into account not only financial and technical feasibility, but also the beneficiary's aptitude to implement the proposed plan; and
- developing rural businesses, and improving the target group's capacities, and their access to information and better employment opportunities, either as temporary or permanent employees, or as independent or self-employed workers, both near or away from their residence.

C. Components

26. **Promotion of local employment and businesses.** Through this component, the programme will enable the target group to access sustainable employment and business opportunities in the market context. It will emphasize strengthening human and social capital and empowering stakeholders so that they can benefit from programme opportunities. It will strengthen the target group's capacities to identify and promote business and employment opportunities. To achieve these objectives, the programme will: (i) raise local awareness of its activities; (ii) identify local opportunities and stakeholders; (iii) assist beneficiary groups in formulating local business and employment plans; (iv) prepare feasibility studies for the more complex proposals; and (v) improve local capacities to support the implementation of income-generating activities.

27. All programme activities will be guided by the *Strategic Framework for IFAD 2002-2006*, and the Fund's regional strategy paper for Latin America and the Caribbean. There is a clear interface between IFAD's strategic framework, the thematic areas identified as most relevant for regional poverty reduction, and the programme's focus, and this forms the basis of programme priorities.⁴

28. **Financing of local employment and businesses.** The objective of this component is to finance the implementation of business and employment plans developed by beneficiaries through the previous component. The fund created for this purpose, FOPEN, is designed to complement the rural financial system. Capitalization will be transparent, transitory and focused on supporting the first stages of small business development in a fragile and inexperienced context. FOPEN will provide small businesses with start-up funds and facilitate access to better employment opportunities. Participatory and decentralized mechanisms will be established for the approval of proposals, which

⁴ See Appendix IV for additional information.



will be evaluated in terms of quality and feasibility and the client's capacity to implement the proposal. The programme management unit (PMU) will prepare relevant rules, which will then be approved by IFAD.

29. **Rural financial services.** Through this component, the programme will sustainably improve the rural poor's access to financial services. The component will be operationalized through the Peasants' Development Fund (FONDECA), a second-tier credit institution created by the former IFAD projects TROPISEC and PROSESUR. FONDECA has operated satisfactorily for five years, maintaining the value of the funds and expanding the outreach to rural clients. Rural microfinance institutions (MFIs) must qualify to receive resources from FONDECA. The programme will support the geographical expansion of financial services and improvements in the quality and suitability of services, reducing operating costs and developing new financial products tailored to rural clients.

30. **Strengthening of rural development policies and institutions.** The objective of the component is to support government efforts to establish a permanent rural development programme, consolidating and improving strategies, increasing resource allocation efficiency, and expanding its geographical coverage. The component consists of a competitive fund to strengthen strategies and policies, the *Fondo de Fortalecimiento de Políticas y Estrategias*. The programme will investigate and initiate policy dialogue on themes of interest to governmental organizations, such as rural finance, institution strengthening, decentralization processes, and policies and methods of a national rural development programme.

31. **Programme management unit.** The programme will be carried out in the context of the IDR, which will approve the rules and regulations for programme implementation, ensure the correct implementation of the Loan Agreement, approve annual workplans and budgets, establish policies and strategies, and contract audits. A financially and administratively autonomous PMU will be responsible for administrative and executive functions. Management will play a normative and a monitoring and evaluation (M&E) role, and will be responsible for the achievement of programme objectives. To ensure decentralization and enable local participation, three RCUs will be established, each serving a particular 'focal development area'. Local decisions will be taken at the RCU level.

D. Costs and Financing

32. Total programme costs, including physical and price contingencies, are estimated at USD 25.0 million, as summarized in Table 1. Of these costs, IFAD will provide a loan of USD 14.0 million (56.0% of the total cost); BCIE will provide a loan of USD 4.0 million (16.0%); the Government will provide USD 1.8 million (7.3%); FONDECA will allocate USD 4.0 million (16.0%) for the credit fund, and beneficiaries will provide USD 1.2 million (4.7%). The programme's financing plan is presented in Table 2. The programme will be implemented during a six-year period.

TABLE 1: SUMMARY OF PROGRAMME COSTS^a
(USD '000)

Components	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. Promotion of local employment and businesses	2 082	22	2 103	1	9
B. Financing of local employment and businesses	7 479	28	7 507	-	32
C. Rural Financial Services					
1. FONDECA	6 352	-	6 352	-	27
2. FONDECA coordination	1 428	12	1 440	1	6
Subtotal	7 779	12	7 791	-	33
D. Strengthening of rural development policies and institutions	500	-	500	-	2
E. Programme management unit					
1. Management	1 973	105	2 078	5	9
2. Regional coordinating units	3 379	295	3 674	8	16
Subtotal	5 352	400	5 752	7	24
Total baseline costs	23 192	462	23 654	2	100
Physical Contingencies	253	36	289	13	1
Price contingencies	1 035	22	1 057	2	4
Total programme costs	24 480	520	25 000	2	106

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	IFAD		BCIE		Government		FONDECA		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Promotion of Local Employment and	2 122	90.0	-	-	236	10.0	-	-	-	-	2 358	9.4	24	2 098	236
B. Financing of Local Employment and Businesses	3 419	43.0	2 496	31.4	861	10.8	-	-	1 184	14.9	7 959	31.8	33	7 903	23
C. Rural Financial Services															
1. FONDECA	852	13.4	1 500	23.6	-	-	4 000	63.0	-	-	6 352	25.4	-	6 352	-
2. FONDECA coordination	1 407	93.7	-	-	94	6.3	-	-	-	-	1 501	6.0	14	1 439	48
Subtotal	2 259	28.8	1 500	19.1	94	1.2	4 000	50.9	-	-	7 853	31.4	14	7 791	48
D. Strengthening of rural development policies and institutions	500	100.0	-	-	-	-	-	-	-	-	500	2.0	-	500	-
E. Programme management unit															
1. Management	2 098	91.7	-	-	191	8.3	-	-	-	-	2 289	9.2	118	2 031	140
2. Regional coordinating units	3 602	89.1	-	-	439	10.9	-	-	-	-	4 041	16.2	331	3 444	266
Subtotal	5 700	90.0	-	-	630	10.0	-	-	-	-	6 330	25.3	449	5 475	406
Total disbursement	14 000	56.0	3 995	16.0	1 821	7.3	4 000	16.0	1 184	4.7	25 000	100.0	520	23	713

^a Discrepancies in totals are due to rounding.





E. Procurement, Disbursement, Accounts and Audit

33. **Procurement.** Purchasing of goods and contracting of services will be carried out in accordance with procedures established by IFAD and the cooperating institution and specified in the Loan Agreement. The PMU will prepare an administrative and financial procedures manual, to be approved by IFAD and the cooperating institution, which will include all procedures for the procurement of goods and consulting services, and rules governing disbursement, accounting and auditing.

34. **Disbursements.** IFAD resources will be disbursed according to procedures to be established in the Loan Agreement. To ensure an adequate flow of funds, the Borrower should open a Special Account in the Central Bank of Nicaragua under IFAD terms and conditions with an authorized allocation of USD 800 000. An initial deposit of USD 500 000 will be made to the Special Account to cover anticipated expenses for IFAD-financed activities. Replenishment to the Special Account will be made in accordance with the procedures established in the General Conditions for the Special Account.

35. **Accounts and Auditing.** The PMU will maintain separate accounts and follow standard account procedures for IFAD resources. It will prepare financial statements on the basis of the disbursement categories contained in the withdrawal schedule of the Loan Agreement, and will ensure that the system is compatible with national regulations. Funds from the loan will be provided to set up a management information system. The PMU will carry out annual audits. The audit report will be sent to IFAD and the cooperating institution no later than six months after the end of the fiscal year.

F. Organization and Management⁵

36. IDR will be responsible for programme implementation. The programme will replicate the successful institutional arrangements of TROPISec and PROSESUR, which IDR has implemented in a decentralized manner. The IDR Board will be responsible for orienting and guiding programme implementation, approving rules and regulations and norms for programme implementation, ensuring the correct implementation of the Loan Agreement, approving annual workplans and budgets, establishing policies and strategies and contracting audits. The programme manager will participate in Board meetings related to programme implementation.

37. The programme's executive functions and administration will be the responsibility of the PMU, which will have the same financial and administrative autonomy as PMUs in previous IFAD projects. The PMU will be located in Managua, and will be headed by a programme manager with coordinators responsible for (i) planning, monitoring and evaluation (PME); (ii) gender equity; and (iii) administration and finance.

38. Field operations will be decentralized to enable the programme to be in closer contact with beneficiaries. Three RCUs will be formed, each servicing a particular 'focal development area'. Each RCU will have a coordinator, three programme officers, a PME officer, and an administrative and finance officer.

39. The PMU will plan activities and assign responsibilities ensuring adequate funding and lead time for their implementation. The PMU will also be responsible for overall programme implementation, the integration of gender equity objectives into programme activities, coordination between FONDECA and FOPEN. It will ensure that programme results coincide with: (i) national and government sector policies; (ii) programme strategies and objectives; (iii) annual workplans and budget approved by the Board; (iv) programme rules and regulations; and (v) the Loan Agreement. Furthermore, the PMU will ensure coordination with other government and private-sector

⁵ See Appendix V for additional information.



organizations. The implementation of most programme activities will be subcontracted to service providers (non-governmental organizations, consultants), beneficiary organizations with capacity to manage resources, MFIs, municipalities, universities, and other private-sector actors capable of supporting income-generating initiatives, according to the operations manual. The PMU will play a normative, M&E and knowledge-provision role, and will be responsible for the achievement of programme objectives.

40. Most programme activities will be demand-driven. An operations manual will clearly establish all steps and procedures for programme resource allocation. The funds (FOPEN and FONDECA) will have their own operational rules and regulations. The IDR Board will approve the programme's and funds' final operations manual in accordance with the outlines contained in the Loan Agreement.

41. The PMU will focus on improving some weaknesses observed in previous projects, particularly: (i) planning, M&E, systematization of experiences and knowledge generation; (ii) the operation of the capitalization fund related to the improvement of rural income; and (iii) selection and training of human resources involved in the programme.

42. **Monitoring and evaluation.** An M&E unit will provide PMU with regular information, disaggregated by gender, on implementation and impact, using M&E participatory methodologies. The programme will adjust analysis and procedures to fit programme area and beneficiary characteristics and requirements, thereby developing the basis for progress and evaluation indicators. The programme has been designed with an M&E unit located within the PMU, and programming and monitoring officers at the local level. While this unit will carry out monitoring directly, the programme will outsource evaluation activities to private or public institutions/organizations. At programme start-up, the M&E unit will prepare and present to IDR and IFAD the programme's evaluation proposal, which will include the proposed evaluation mechanisms to be implemented; the characteristics of periodical evaluation studies; and a training programme enabling beneficiaries to participate in M&E activities.

43. The M&E unit will design the baseline study for the programme area and a detailed survey of the situation of rural workers, small and medium farmers and rural microentrepreneurs, disaggregated by gender and type of household (e.g. nuclear families and woman-headed households). A gender-sensitive baseline study will be contracted to an independent institution and will be supervised by the PMU. To develop a formal frame of reference (especially for follow-up), the programme will establish a permanent process of knowledge management and training at management level. It will adopt a work method that integrates all actors in the programme. Standard M&E procedures will be applied to programme components and activities. Beneficiaries and staff will be trained in M&E, and will participate in programme evaluations. The M&E unit will provide the programme manager and IDR officials with a gender-sensitive annual evaluation, including assessment of individual components and suggested corrective measures.

44. **Gender strategies.** At programme level and within the programme's operational structure, the gender equity approach aims at: (i) creating the conditions for equitable access of rural men and women, from both nuclear families and woman-headed households, to all productive, business, employment, training and investment opportunities; (ii) implementing activities that seek to reduce the social limitations of the target group, by, for instance, reducing the educational/training gap between rural men and women, improving reproductive health and addressing workload-related problems; and (iii) supporting full participation of rural women in economic and productive organizations. As a result of these activities, the programme should significantly reduce the existing gender gap in productive/entrepreneurial capacities in rural areas, promote access to productive resources, strengthen income-generating capacity and improve women's self-esteem.



G. Economic Justification

45. **Economic analysis.** The economic analysis has been conducted over a 20-year period, with prices expressed in constant value as at October 2002. Programme costs included in the profitability analysis are net of taxes and the opportunity cost of capital in Nicaragua is defined at 8%. Incremental benefits resulting from programme implementation have been taken into account, according to the beneficiaries' rate of incorporation into the programme. All costs related to the incremental benefits have been included; these encompass on-farm investment, input costs and programme costs for each component, including recurrent costs.

46. The internal rate of return (IRR) is high, reaching 25.2%, significantly higher than capital opportunity cost, and the benefit cost ratio 1.27. Programme results were submitted to sensitivity analysis and results were as follows: (i) benefits reduction of 10% determines an IRR reduction to 16.4%; (ii) decrease to benefits of 20% brings the IRR to 7.2%, comparable with the capital opportunity cost; (iii) an increase in costs produces more moderate changes; and (iv) cost increase of 20% results in an IRR of 10.8% and a benefit/cost ratio of 1.04.

47. **Special Operations Facility (SOF).** Prior to programme implementation, a SOF grant will be made available to facilitate the completion of the necessary preparatory steps. The programme and its institutional setting are very innovative for Nicaragua. To expedite start-up, a grant of USD 100 000 is being requested to finance technical assistance activities⁶.

H. Risks

48. Identified risks are (i) the discontinuity of the poverty-reduction strategy that constitutes the programme's framework. However, the Government's commitment within the framework of the Debt Initiative and the influence of the International Monetary Fund represents a guarantee for this public policy; (ii) limitations in IDR's capacity to develop a national rural development programme requiring significant institutional changes. The programme has included a fourth component aimed at both institutional and policy strengthening and rural development processes; (iii) difficulties in promoting employment and business plans, which are critical to the programme. Programme activities have been foreseen to strengthen and monitor these capacities thus improving the quality of this process; and (iv) insufficient MFIs in some programme areas, which could limit access to financial services. The programme has made provision to support the geographical expansion of MFIs and to improve their management capacities.

I. Environmental Impact

49. The possible environmental impact will be related to the implementation of programme-supported business plans. To avoid a negative environmental impact, the programme will support environmental impact assessments on all proposed plans to be supported by financial or non-financial services and will take mitigation measures if necessary. The National System for Environmental Procedures for Rural Development will be used for these assessments. This system, developed by IDR with IDB support, evaluates all development projects, currently 17 for a total expenditure of USD 30 million per year.

J. Innovative Features

50. The programme has the following main features: (i) IFAD, together with IDB and the European Union, is supporting the implementation of a national rural development programme that is implemented within the framework of the national poverty-reduction policy. To strengthen the programme approach, a fund was created for institutional and policy strengthening. (ii) The programme aims to combat poverty, improve access of the rural poor to employment and competitive

⁶ See Appendix VI for a detailed description of the use of the SOF.



and sustainable businesses. (iii) A component will be implemented to bring the programme closer to the rural poor, promote opportunities among the most vulnerable rural poor groups, and foment local dynamics and synergies within businesses and other income-generating activities. (iv) The rural financial services system will be strengthened throughout the dry region through support to 25 MFIs and two-second tier banks. (v) A fund for the financing of business and employment initiatives, complementary to the formal financial system, will be established. (vi) Programme activities will be implemented in a participatory and decentralized manner with a cross-cutting gender-equity strategy.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

51. A Loan Agreement between the Republic of Nicaragua and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated Loan Agreement is attached as an annex.

52. The Republic of Nicaragua is empowered under its laws to borrow from IFAD.

53. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

54. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Nicaragua in various currencies in an amount equivalent to ten million two hundred and fifty thousand Special Drawing Rights (SDR 10 250 000) to mature on or prior to 1 February 2043 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 19 March 2003)

1. **Cofinancing.** The Government of the Republic of Nicaragua (the Government) intends to obtain from the Central American Bank for Economic Integration (BCIE) a loan in an amount equivalent to USD 4.0 million to cofinance the programme, pursuant to conditions established in an agreement to be signed by the Government and BCIE.
2. **Programme accounts and sub-accounts.** The Rural Development Institute (IDR) will open a bank account at a bank acceptable to IFAD to finance operations under the programme. IDR will also open and keep open bank accounts at commercial banks acceptable to IFAD in each of the regional coordination districts, to service operations in the respective area. In addition, it will open and keep open a bank account at a commercial bank acceptable to IFAD for the operations of the Peasants' Development Fund (FONDECA).
3. **Availability of loan proceeds.** To finance execution of the programme, the Government will make the loan proceeds available to IDR in accordance with the annual workplans (AWPs) and the agreement between the Government and IDR.
4. **Transfer of funds.** To finance execution of the programme in the western target area, IDR will transfer available funds and other resources provided for in the AWP to the Foundation for Agricultural and Forestry Technological Development of Nicaragua (FUNICA) in accordance with the agreement between IDR and FUNICA.
5. **Credit fund.** The Government will ensure that the capital and interest of credits granted and the remaining balances of the revolving funds established under IFAD loan agreements 346-NI (TROPISUR) and 406-NI (PROSESUR) are aggregated into a single fund (FONDECA) within the 12 months following the approval of the operating regulations of FONDECA.
6. **Counterpart funds.** The Government will make available to IDR counterpart funds from its own resources equivalent to approximately USD 1.8 million. To this end, the Government will allocate in the national budget the counterpart funds provided for in the AWP for the respective year and will make those funds available each month and in advance to IDR. The Government will deposit the counterpart funds in an initial amount of USD 40 000 in the programme operations account to cover the costs of the first year of the programme.
7. **Operating regulations.** IDR and the programme management unit (PMU) will jointly prepare a draft version of the operating regulations for the programme. They will also jointly prepare, together with the regional coordinators, a draft version of the operating regulations of the Competitive Fund for Employment and Businesses (FOPEN). Moreover, they will jointly prepare, in coordination with the coordinator of FONDECA and with the necessary technical support, proposed operating regulations for FONDECA. The Ministry of Agriculture and Forestry and IDR, together with the PMU, will prepare a draft version of the operating regulations of the Rural Development Strategy and Policy Fund (FONDEPOL).
8. **Other circumstances for suspension.** IFAD may suspend, in whole or in part, the right of the Government to request the withdrawal of funds from the loan account if:
 - (a) the operating regulations of the programme or of FOPEN, of FONDEPOL or of FONDECA, or their provisions, have been suspended, rescinded, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such

ANNEX

suspension, rescission, amendment or modification has had, or is likely to have, a substantial adverse impact on the programme;

- (b) a competent authority has taken steps to dissolve IDR or suspend its operations, or any action or procedure has been initiated to merge IDR with another legal entity or to distribute any of its assets among its creditors; or if the Government fails to propose another institution to be responsible for the programme that is acceptable to IFAD, or the proposed institution has not accepted the obligations incumbent upon the agency responsible for the programme in conditions acceptable to IFAD;
- (c) IFAD has determined that an action, or statement of intent to take action, by IDR is incompatible with the mandate or policies of IFAD.

9. **Conditions for effectiveness.** The loan agreement will become effective subject to the prior fulfilment of the following conditions:

- (a) the programme manager has been appointed;
- (b) IFAD has given its non-objection to the draft operating regulations for the programme;
- (c) the Government has duly opened the special account;
- (d) IDR has duly opened the programme operations account;
- (e) the Government has allocated the initial amount of counterpart funds for the first year;
- (f) the loan agreement has been duly signed, and its signature and compliance by the Government have been duly authorized and ratified by all the necessary administrative and governmental procedures;
- (g) the Government has forwarded to IFAD a favourable legal opinion, issued by the Office of the Attorney General of the Republic of Nicaragua or other judicial authority named by the Government and approved by IFAD, the form and content of which are acceptable to IFAD; and
- (h) the agreement between the Government and IDR has been duly signed, and its signature and compliance by the Government have been duly authorized and ratified by all the necessary administrative and governmental procedures.

10. **Conditions for disbursement.** No funds may be withdrawn for expenses related to:

- (a) vehicles and equipment, technical services engaged, salaries or operating costs, until IFAD has approved the programme's operating regulations;
- (b) credit or strengthening of financial intermediaries, until FONDECA's operating regulations have been approved;
- (c) FOPEN, until its operating regulations have been approved; and
- (d) FONDEPOL, until its operating regulations have been approved.



APPENDIX I

COUNTRY DATA

NICARAGUA

Land area (km² thousand) 2000 1/	130	GNI per capita (USD) 2000 1/	420
Total population (million) 2000 1/	5.0	GNP per capita growth (annual %) 2000 1/	-4.4
Population density (people per km²) 2000 1/	42	Inflation, consumer prices (annual %) 2000 1/	11.2 a/
Local currency	Cordoba Oro (NIO)	Exchange rate: USD 1.00 =	NIO 14.45
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-99 2/	2.7	GDP (USD million) 2000 1/	2 397
Crude birth rate (per thousand people) 2000 1/	30 a/	Average annual rate of growth of GDP 2/ 1980-90	-1.9
Crude death rate (per thousand people) 2000 1/	5 a/	1990-99	3.2
Infant mortality rate (per thousand live births) 2000 1/	34 a/	Sectoral distribution of GDP 2000 1/	
Life expectancy at birth (years) 2000 1/	69 a/	% agriculture	33
Number of rural poor (million) (approximate) 1/	1.7	% industry	23
Poor as % of total rural population 2/	76	% manufacturing	15
Total labour force (million) 2000 1/	2.0	% services	44
Female labour force as % of total 2000 1/	36	Consumption 2000 1/	
Education		General government final consumption expenditure (as % of GDP)	16
School enrolment, primary (% gross) 2000 1/	102 a/	Household final consumption expenditure, etc. (as % of GDP)	87
Adult illiteracy rate (% age 15 and above) 2000 1/	31	Gross domestic savings (as % of GDP)	-3
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 3/	2 186	Merchandise exports 2000 1/	625
Malnutrition prevalence, height for age (% of children under 5) 2000 1/	25 a/	Merchandise imports 2000 1/	1 792
Malnutrition prevalence, weight for age (% of children under 5) 2000 1/	12 a/	Balance of merchandise trade	-1 167
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2000 1/	12.2	before official transfers 1999 1/	-1 372
Physicians (per thousand people) 1999 1/	0.80 a/	after official transfers 1999 1/	-587
Population using improved water sources (%) 1999 4/	79	Foreign direct investment, net 1999 1/	n.a.
Population with access to essential drugs (%) 1999 4/	46	Government Finance	
Population using adequate sanitation facilities (%) 1999 4/	84	Overall budget deficit (including grants) (as % of GDP) 1999 1/	n.a.
Agriculture and Food		Total expenditure (% of GDP) 1999 1/	n.a.
Food imports (% of merchandise imports) 1999 1/	19	Total external debt (USD million) 1999 1/	6 986
Fertilizer consumption (hundreds of grams per ha of arable land) 1998 1/	214	Present value of debt (as % of GNI) 1999 1/	278
Food production index (1989-91=100) 2000 1/	135.6	Total debt service (% of exports of goods and services) 1999 1/	16.1
Cereal yield (kg per ha) 2000 1/	1 842	Lending interest rate (%) 2000 1/	21.4
Land Use		Deposit interest rate (%) 2000 1/	9.4
Arable land as % of land area 1998 1/	20.2		
Forest area (km ² thousand) 2000 2/	33		
Forest area as % of total land area 2000 2/	27.0		
Irrigated land as % of cropland 1998 1/	3.2		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database

2/ World Bank, *World Development Indicators*, 2001

3/ UNDP, *Human Development Report*, 2000

4/ UNDP, *Human Development Report*, 2001

PREVIOUS IFAD FINANCING

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Agricultural and Industrial Rehabilitation Programme	IDB	IDB	HC	19 Dec 79	23 Jan 80	14 Sep 83	G - I - 20 - NI	SDR	400 000	100.00
Agricultural and Industrial Rehabilitation Programme	IDB	IDB	HC	19 Dec 79	23 Jan 80	14 Sep 83	L - I - 30 - NI	SDR	9 300 000	100.00
Integrated Rural Development Project for the Pronorte Region	IFAD	BCIE	I	17 Dec 81	16 Nov 82	30 Apr 95	L - I - 89 - NI	SDR	9 600 000	100.00
Project for the Capitalization of Small Farmers in the Tropiseq Area of the Segovias - Region I (TROPISEC)	IFAD	CAF	HC	02 Dec 93	27 Feb 95	31 Dec 02	L - I - 346 - NI	SDR	8 250 000	96.66
Rural Development Project for the Southern Pacific Dry Region	IFAD	CAF	HC	07 Dec 95	21 Feb 97	30 Sep 03	G - I - 20 - NI	USD	55 000	100.00
Rural Development Project for the Southern Pacific Dry Region	IFAD	CAF	HC	07 Dec 95	21 Feb 97	30 Sep 03	L - I - 406 - NI	SDR	8 250 000	85.39
Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua	World Bank: IDA	World Bank: IDA	HC	09 Dec 99	20 Jun 01	31 Dec 13	G - I - 466 - NI	SDR	150 000	
Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua	World Bank: IDA	World Bank: IDA	HC	09 Dec 99	20 Jun 01	31 Dec 13	G - I - 92 - NI	USD	75 000	85.23
Technical Assistance Fund Programme for the Departments of León, Chinandega and Managua	World Bank: IDA	World Bank: IDA	HC	09 Dec 99	20 Jun 01	31 Dec 13	L - I - 529 - NI	SDR	10 150 000	4.39



LOGICAL FRAMEWORK

Programme Summary	Verifiable Indicators	Means of Verification	Assumptions and Risks
Development objective			
Contribute to the reduction of rural poverty by increasing the income of rural poor families	Increase in income of rural nuclear families and woman-headed households living in the programme area	<ul style="list-style-type: none"> • Census and surveys • Programme evaluation • Impact evaluation based on the baseline study 	Other factors negatively affecting the target population, such as illiteracy, illness, malnutrition and violence, are also reduced.
Programme objective			
Improve sustainably and equitably the access of 12 000 rural poor families living in the dry region to productive resources that will allow them to benefit from income-generating opportunities	<p>Number of new businesses (target: 8 000) competitive, working according to market rules and implemented by men (40%) and women (60%) small and medium producers or microentrepreneurs</p> <p>Number of rural workers (target: 4 000 of whom 70% men and 30% women) accessing better job opportunities in a sustainable way</p> <p>Number of small and medium producers or microentrepreneurs (target: 5 400 of whom 60% men and 40% women) accessing credit</p> <p>Number of local organizations implementing activities that help generate income for members (target: 300)</p> <p>Increase in the income of nuclear families and woman-headed households that receive financial assistance to improve and implement their rural businesses</p> <p>Increase in workers' income (both men and women), which improves their access to better/new jobs</p>	<ul style="list-style-type: none"> • Census and surveys • M&E reports and baseline survey of organizations • Organizations and government reports and evaluations • Case studies and gender-equity impact studies 	<p>Conditions for Debt Initiative are met.</p> <p>The implementation of the Poverty Reduction and Economic Growth (ERCERP) strategy will remain a government priority.</p> <p>Macroeconomic policies will be implemented that increase the country's competitiveness.</p> <p>Link of dry region economic activities with existing clusters will be encouraged.</p> <p>The institutional framework and policies for rural development and the development of the dry region will be strengthened.</p> <p>The programme will be implemented without political interference, and will be highly participatory.</p>



Programme Summary	Verifiable Indicators	Means of Verification	Assumptions and Risks
Results and activities			
<p>Component 1: Promotion of local employment and businesses</p> <p>Result: Local employment business and employment plans developed in a participatory, sustainable and gender-equitable manner.</p> <p>Activities:</p> <p>1.1 Promotion of programme strategies, eligibility and services offered</p> <p>1.2 Identification of employment and business opportunities and actors</p> <p>1.3 Support to the formulation of business and employment plans</p> <p>1.4 Feasibility studies and other pre-investment activities</p> <p>1.5 Strengthening the capacity of local actors and their organizations for the implementation of their plans.</p> <p>1.6 Assist in reducing limiting social factors (illiteracy, reproductive patterns, among other) of men and women of the target population enabling them to benefit from opportunities offered by the programme.</p>	<p>Services offered are known to men and women actors in the programme area</p> <p>Number and quality of employment and business opportunities, actors and their organizations identified</p> <p>Annual increase in the number and quality of proposals elaborated by beneficiary organizations</p> <p>Annual increase in the number and quality of employment and business plans that include activities to reduce limiting social factors</p> <p>Equity in number of men and women from nuclear families that participate in the formulation of local initiatives</p> <p>Number of woman-headed households that participate in the formulation of business and employment plans</p> <p>Annual increase in the number and quality of technical, financial and economic feasibility studies carried out on business plans</p> <p>Annual increase in the number and quality of local organizations and related development activities that have sufficient capacity to formulate and implement their rural development activities</p> <p>Number and type of strategic alliances formalized through signed agreements</p>	<ul style="list-style-type: none"> • Monitoring reports • Participatory monitoring reports • Evaluation reports 	<p>Beneficiary organizations, local governments, government agencies and the private sector in the programme area understand the concept of entrepreneurship and sustainable income-generation linked to market rules. The paternalistic focus, which has done so much harm by preventing poor farmers from accessing competitive economic opportunities, becomes neutralized.</p> <p>The traditional concept of division of work, which has prevented women from accessing competitive economic opportunities, will be neutralized.</p> <p>The promotion of programme services will emphasize the possibility of adding to business and employment plans activities to reduce social limitations.</p> <p>Programme promotion will reach men and women from nuclear families and woman-headed households.</p>





Programme Summary	Verifiable Indicators	Means of Verification	Assumptions and Risks
Results and activities (cont.)			
<p>Component 2: Financing of local employment and businesses</p> <p>Result: Beneficiaries' employment and business plans financed and feasible for implementation</p> <p>Activities:</p> <p>2.1 Establish a competitive fund for the promotion of business and employment plans</p> <p>2.2 Operation of the fund</p>	<p>Increase in the number of nuclear families and woman-headed households that receive financial assistance to improve and implement their rural businesses</p> <p>Increase in the number of men and women workers with improved capacity to access better/new jobs. Increase in the number of beneficiary organizations receiving financial assistance for additional activities that respond to strategic needs</p> <p>Reduction in women's workload increases their access to income-generating opportunities</p> <p>Increase in the number of local governments and other public-sector agencies and private enterprises involved in technical, business and commercial learning processes</p> <p>Increase in the number of local governments and other public-sector agencies and private enterprises involved in the preparation of business plans and employment generation</p> <p>Number of plans that are financed in a complementary manner between MFIs and FOPEN</p>	<ul style="list-style-type: none"> • FOPEN reports • Programme reports • Monitoring reports • Participatory monitoring reports • Evaluation reports of regulatory bodies • Specific gender studies 	<p>Sufficient capacity of the private and public sector to respond to the demand of services.</p> <p>The Government continues to give priority to rural and dry region infrastructure.</p> <p>The Government continues to give priority to technical and professional rural formation.</p>

Programme Summary	Verifiable Indicators	Means of Verification	Assumptions and Risks
Results and activities (cont.)			
<p>Component 3: Rural financial services</p> <p>Result: A strengthened and expanded rural financial services system</p> <p>Activities:</p> <p>3.1 Expansion of FONDECA</p> <p>3.2 Strengthening financial institutions (FIs) and expansion of their cover and services</p> <p>3.3 Management of the fund</p>	<p>FONDECA has new resources and operates efficiently</p> <p>Increase in the funds provided for investment in rural businesses</p> <p>The FIs' M&E system functions, and gender-disaggregated data are handled</p> <p>Increase in the number of FIs that increase their geographical coverage and produce new financial products</p> <p>Increase in the number of FIs that improve their management and operations</p> <p>Increase in the number of FIs integrating principles and programme values, such as gender equity, in their policies and operations</p> <p>Increase in the number and amount of operations in target population, by gender and family type (nuclear/woman-headed household)</p> <p>Increase in the number (by gender) of small farmers, small and medium producers and microentrepreneurs of the target population attended by FIs</p>	<ul style="list-style-type: none"> • FONDECA reports • Administrating bank and FI reports • Audit reports • Programme reports • M&E reports • Evaluation reports of regulatory bodies • Specific gender studies 	<p>The normative and legal framework for the microfinance sector will be approved.</p> <p>The Government will allow FONDECA to maintain its financial and administrative autonomy.</p> <p>FONDECA's growth will not harm its professional management style and efficiency.</p>



Programme Summary	Verifiable Indicators	Means of Verification	Assumptions and Risks
Results and activities (cont.)			
<p>Component 4: Strengthening of rural development policies and institutions</p> <p>Result: Rural development institutions and policy development strengthened and improved</p> <p>Activities:</p> <p>4.1 Support the design of policies and programmes</p> <p>4.2 Facilitate studies, workshops and consultancies about a national rural development programme, rural financial services, gender equity in rural development policies, etc.</p> <p>4.3 Improve methods and processes for the promotion of rural development</p> <p>4.4 Strengthen institutions</p>	<p>Rural development policies implemented in a coordinated manner</p> <p>A development programme for the dry region with participation of other donor agencies consolidated</p> <p>Gender equity an integral part of rural development policies</p> <p>Rural development institutions strengthened</p> <p>Human resource capacity for implementing rural development policies and programmes improved</p> <p>Links between the management of reimbursable and non-reimbursable funds consolidated</p>	<ul style="list-style-type: none"> • MAGFOR and IDR management reports • Monitoring reports • Participatory monitoring reports • Evaluation reports • Government information • Specific gender-equity studies • Studies carried out under this component 	<p>Policy priority remains ERCERP and rural development.</p> <p>Policies of MAGFOR, IDR and the Technical Secretariat of the Presidency (SETEC) are coordinated and coherent.</p> <p>International community policies and strategies are coordinated.</p>

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Programme Summary	Verifiable Indicators	Means of Verification	Assumptions and Risks
Results and activities (cont.)			
<p>Programme Management Unit</p> <p>Result: Efficient and participatory programme management</p> <p>Activities:</p> <ol style="list-style-type: none"> 1. Programme management 2. Ensure that programme activities are in line with the strategies related to programme: gender equity, participation, decentralization and the environment. 3. Strategic alliances with specialized institutions in order to reduce social limitations of the target population 4. M&E 5. Administration 		<ul style="list-style-type: none"> • Audit reports • Programme reports • M&E reports • FOPEN and FONDECA reports • IDR management reports • Specific gender studies 	

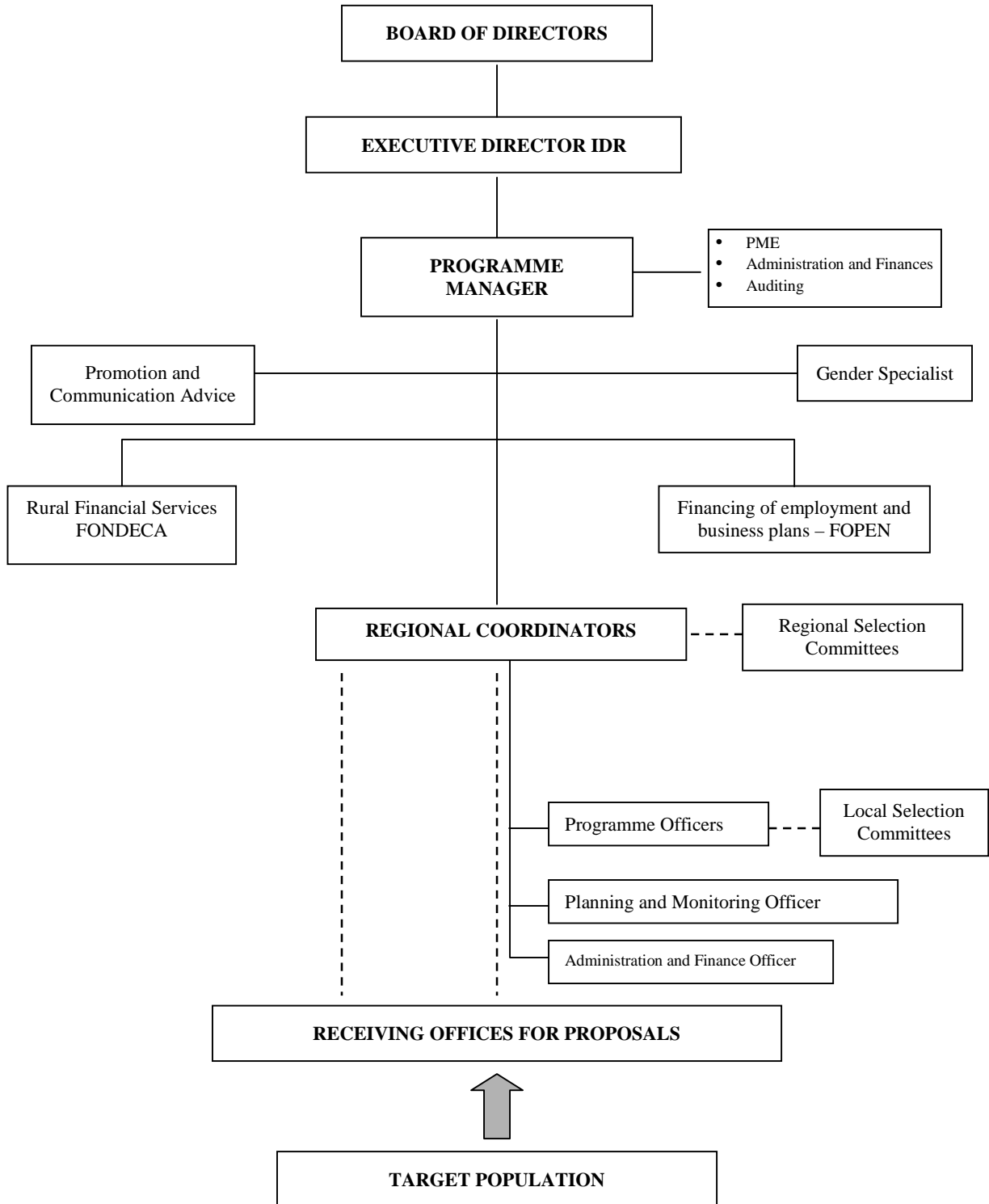


**PRIORITY AREAS OF PROGRAMME ACTIVITIES WITHIN THE
FRAMEWORK OF IFAD'S STRATEGIC OBJECTIVES**

Relevant Thematic Areas for Poverty Reduction in Latin America and the Caribbean	IFAD's Strategic Objectives 2002-2006		
	Strengthening the capacity of the rural poor and their organizations	Improving equitable access to productive natural resources and technology	Increasing access to financial assets and markets
<i>Strengthening the organizations of the most vulnerable rural groups (e.g. ethnic minorities, rural women)</i>	Promote and empower the rural poor by strengthening their organizations in business administration and marketing	Focus on and support rural youth, men and women from nuclear families and woman-headed households, providing equitable access to development opportunities	Increase the capacity of MFIs to provide better services to the rural poor
<i>Developing and transmitting new approaches, instruments, tools, and financing for business and marketing.</i>	Promote and empower the rural poor by strengthening their capacity to formulate business and employment plans	Supply a decentralized and differentiated set of training services to address the varying needs of the rural poor	Coordinate business plan development and implementation with beneficiary organizations and MFIs
<i>Taking advantage of market opportunities in a changeable socio-economic environment</i>	Design and implement new strategies and instruments to access new or better business and labour markets	Supply a differentiated and decentralized set of technical assistance, including for the most vulnerable rural groups	Promote a fund to finance business and employment plans to access better or new markets
<i>Improving knowledge management efforts and the search for a broad range of partnerships</i>	Create and implement innovative instruments to access knowledge and expand institutional networking	Develop innovative instruments to help the most vulnerable rural poor gain access to new knowledge	Strengthen innovative instruments that generate new knowledge on the complementarity of reimbursable and non-reimbursable funding



ORGANIGRAMME



PLAN DE IMPLEMENTACIÓN DEL PROGRAMA

Fases de la Ejecución del Programa

1. El programa se ejecutará en tres fases: (1) establecimiento del programa; (2) expansión y consolidación; (3) sostenibilidad. En este apéndice se describen las fases y se estima un presupuesto para la ejecución de la primera fase.

Primera fase: establecimiento del programa y consolidación de sus procedimientos para alcanzar resultados. (Años 1 y 2)

2. Esta primera fase se divide en dos sub fases: (a) cumplimiento de condiciones de efectividad y desembolso y creación de las condiciones para la puesta en marcha del programa. (b) inicio de la implementación del mismo.

a) Cumplimiento de las condiciones de efectividad y desembolso

3. Esta es una fase de preparación previa al inicio de la ejecución del programa, en la cual se deberán cumplir las condiciones de efectividad y de desembolso establecidas en el Contrato de Préstamo suscrito entre el GON y el FIDA, así como otras actividades que faciliten o aceleren la ejecución del programa. Se estima que esta etapa tendrá una duración de unos seis meses. El cumplimiento de estas condiciones es de responsabilidad del Gobierno. Para agilizar el cumplimiento de estos requisitos, se solicita la asistencia técnica y financiera del FIDA a través de la línea para el Servicio de Operaciones Especiales (SOE).

4. **Contratación de FUNICA.** Para la ejecución de estas actividades, el IDR y el programa, contarán con el apoyo de la *Fundación para el Desarrollo Tecnológico Agropecuario y Forestal de Nicaragua (FUNICA)*. La misma es una institución civil sin fines de lucro, en la cual participan 24 instituciones públicas y privadas, incluyendo al IDR. FUNICA, maneja el Fondo de Asistencia Técnica (FAT), proyecto financiado por FIDA que inició sus operaciones en el año 2001. La eficacia en la puesta en funcionamiento del FAT y el buen funcionamiento de la administración de FUNICA, determinan la conveniencia de apoyarse en esta institución y en su experiencia para poner en funcionamiento el programa.

5. A estos efectos, se firmaría un acuerdo subsidiario con FUNICA, para que brinde apoyo a la puesta en marcha del programa. En particular, se le atribuye especial significación al traslado de experiencias de FUNICA al programa en materia de: (i) administración de recursos, adquisiciones y contrataciones, apertura de cuentas y manejo de los recursos, rendiciones de cuentas y desembolsos, controles y auditorías, reglas para la administración de los fondos, etc. (ii) preparación de términos de referencia, selección y contratación de los recursos humanos de la UGP, (iii) preparación de manuales de ejecución del programa, de la administración y de la Gerencia; preparación del manual del FOPEN, (iv) preparación del sistema de seguimiento y evaluación del programa, (v) llamados a consultorías y licitaciones para la adquisición de bienes y contratación de servicios durante la primera fase de ejecución,

6. El proceso de ejecución del programa, se inicia con la firma del Contrato de Préstamo entre el FIDA y el GON. Para esto, el GON debe acreditar a un representante para firmar el préstamo una vez que ha sido aprobado por la Junta Directiva del FIDA. Después de haber firmado el Contrato de Préstamo se deberán cumplir una sucesión de actividades bajo la responsabilidad del Gobierno para poner en marcha el programa. Las principales actividades en esta etapa, son las siguientes:



7. El proceso se inicia con la firma del Contrato de Préstamo entre el FIDA y el GON. Para esto, el GON debe acreditar a un representante para firmar el préstamo una vez que ha sido aprobado por la Junta Directiva del FIDA. Después de haber firmado el Contrato de Préstamo se deberán cumplir una sucesión de actividades bajo la responsabilidad del Gobierno para poner en marcha el programa. Las principales actividades en esta etapa, son las siguientes:

- Gestión y ratificación del préstamo en la Asamblea Nacional, siendo esto responsabilidad del IDR.
- Creación de las estructuras de gerencia del programa por parte del IDR.
- Nombramiento del Gerente del programa, de acuerdo a las reglas previstas en los documentos de evaluación ex ante y el Contrato de Préstamo.
- Definición de términos de referencia, calificaciones y procedimientos a seguir para el nombramiento y contratación de los recursos humanos necesarios para ejecutar las primeras etapas del programa. Se seguirán las directivas del documento de evaluación ex ante y el Contrato de Préstamo.
- Apertura de cuentas bancarias, en correspondencia con lo establecido en el Contrato de Préstamo.

8. **Otras actividades preparatorias.** Existen asimismo algunas actividades no indispensables para alcanzar la efectividad y hacer posibles los desembolsos, pero que resultará conveniente ejecutarlas durante esta primera fase, ya que facilitarán o acelerarán la implementación de las sucesivas etapas. Entre estas, se mencionan las siguientes:

- Instalación de las oficinas del programa.
- Adquisición de equipos, mobiliario y material de trabajo,
- Diseño e incorporación de procesos administrativos –contabilidad, adquisiciones y contrataciones, auditoría y control interno, rendición de cuentas a las agencias financiadoras, solicitudes de reembolsos, etc. - de ejecución de actividades y de seguimiento y evaluación.
- Talleres de inducción con recursos humanos del programa y del IDR, para la asimilación de la estrategia del programa y su modalidad de ejecución.
- Elaboración de un plan de trabajo que contemple la preparación de una propuesta de: (a) metodología de promoción de empleo y negocios por parte de los beneficiarios y focalización hacia los grupos vulnerables incluyendo el ensayo al nivel de pruebas piloto y (b) de la capacitación de los promotores de empleo y negocios en la mencionada metodología.
- Elaboración de un plan de trabajo que contemple la preparación de una propuesta metodológica para las actividades de seguimiento y evaluación. Incluyendo especialmente: (a) seguimiento y evaluación de procesos y de resultados en las actividades de promoción y focalización y acompañamiento en la implementación de planes. (b) indicadores, fuentes de datos, registro y manejo de datos y difusión. (c) métodos de consulta y participación de los beneficiarios. (d) sistematización y aprendizaje a partir de las experiencias, formas de difundir e incorporar las lecciones aprendidas en los sucesivos ciclos de ejecución del programa.
- Preparación de los manuales de reglas para la ejecución del programa y sus respectivos componentes: (a) Manual de operaciones del programa, (b) Reglamento operativo del



FOPEN, (c) Reglamento Operativo del FONDEPOL, (d) Convalidación de reglamento para la unificación de FONDECA.

- Preparación de convenios Subsidiarios con coejecutores del programa.
- Definición detallada de la estrategia de cobertura del territorio.

b) Arranque del programa. Inicio de acciones

9. El arranque es propiamente el inicio de la ejecución del programa, el cual comienza una vez que se han cumplido las condiciones de efectividad y de desembolso. En esta fase se realizan entre otras, las siguientes actividades:

- Instalación de las oficinas receptoras de propuestas:
- Designación de sus miembros e instalación de los Comités de Selección y Aprobación de Planes.
- Inicio del Plan de Comunicación y Divulgación del programa en los municipios y comunidades priorizadas.
- Inicio del Plan de promoción.
- Convenios con organizaciones participantes.
- Formalización de contratos para ejecutar las actividades previstas.
- Inicio de la prestación de los servicios técnicos y financieros.
- Inicio de la ejecución de propuestas.

10. En este período se realizarán las acciones necesarias para que los actores conozcan el programa, se pondrá en marcha un amplio plan de difusión, diseñado por especialistas, a fin de que sea puesto al alcance de todos los actores y con la suficiente cobertura del área de intervención del programa. Se trata de llegar a todos los territorios posibles y con la más variada mezcla de medios disponibles. Una actividad relevante es la identificación, negociación con entidades participantes y capacitación a oficinas receptoras de propuestas, a fin de que en el menor tiempo posible estén dispuestas a recibir propuestas o brindar información. Asimismo, resulta estratégico para la instalación del programa, la formación de los Comités de Selección de Planes. Nuevamente aquí se podrá contar con la valiosa experiencia del FAT en la selección y montaje de las oficinas, capacitación de su personal, establecimiento de convenios. Igualmente importante es el proceso de selección de miembros y conformación de los comités para la aprobación de las propuestas. Particularmente delicado, considerando que de lo adecuado o no que estén estos comités, dependerán la aprobación de las propuestas que las organizaciones beneficiarias presentarán al FOPEN. Con las primeras propuestas que lleguen, funcionarán por primera vez los mecanismos establecidos, y se da por iniciada la puesta a prueba de los instrumentos. A partir de aquí se da por iniciado el proceso de revisión de propuestas y de contrataciones con las organizaciones. En este momento iniciaría también el seguimiento de contratos.

11. La implementación del programa se pone a prueba en este período, así como sus instrumentos operativos. Son realizadas las primeras acciones de prestación de servicios del programa. En este período se desarrollan las relaciones entre las coordinaciones regionales, las entidades proveedoras de servicios y las organizaciones de beneficiarios. Particularmente se pone a prueba el sistema de planificación, seguimiento y evaluación, sobre todo considerando la participación de múltiples actores. Al finalizar un período dado se realizan ajustes a las metodologías y propuestas para iniciar la fase de ampliación y consolidación del programa.

**Segunda fase: expansión y consolidación (años 3 al 5)**

12. En esta segunda fase se prevé que las acciones promovidas y financiadas por el programa, se expandan y consoliden en un grupo más amplio de organizaciones y grupos rurales, que una mayor cantidad de planes de negocios y empleos hayan sido desarrollados a partir de la intervención del programa. Se consolidarían los resultados con las organizaciones más desarrolladas que hayan participado en el programa desde su inicio, adquiriendo para ese momento una capacidad importante de gestionar, contratar y ejecutar sus propios proyectos, incluyendo una ampliación de la cobertura de las fuentes de financiamiento crediticias. Para los grupos con menos posibilidades, se espera que vayan adquiriendo las capacidades para plantear propuestas de negocios factibles y se vayan convirtiendo en sujetos con potencial para obtener financiamiento crediticio, con propuestas rentables.

13. Es de particular relevancia que se vaya midiendo como se han ido alcanzando los objetivos de complementar los fondos provenientes del FOPEN y del FONDECA o de cualquier intermediaria que actúe en el área de influencia del programa. Igualmente relevante será poner cuidado en como los fondos competitivos realmente han operado y si sus métodos de trabajo son ágiles, si los recursos aprobados son adecuados a las demandas de los grupos beneficiarios, y si las metodologías y mecanismos usados para el proceso de promoción y preinversión del programa se adecúan a las necesidades de los grupos de beneficiarios.

14. Entre los aspectos claves a analizar y ajustar durante esta fase, están: el proceso de institucionalización del FONDECA, los avances en la ampliación de la oferta y cartera crediticia, como producto de las acciones de promoción y fortalecimiento de capacidades de nuevos potenciales clientes, el incremento de los fondos para inversión; el seguimiento a resultados, a fin de analizar en forma detallada que impactos se van alcanzando; análisis de los aspectos innovativos del programa en lo que concierne a: como se han desarrollado las oportunidades de negocios y factores de éxito o limitaciones, el proceso de análisis y evaluación de propuestas con las intermediarias financieras y el desarrollo de mecanismos de participación de hombres y mujeres. Durante esta fase, también se debería medir los avances y resultados de los mecanismos y niveles de cofinanciamiento por parte de las organizaciones participantes.

Tercera fase: sostenibilidad (año 6)

15. Con los ajustes hechos en base en las experiencias de las fases previas, el programa deberá definir los aspectos sostenibles y los que requieren de mayor intervención, con el fin de que en esta última fase se atiendan para su posterior consolidación. En el año previo al cierre del programa se define un plan de sostenibilidad de acciones, a fin de priorizarlas y dedicar los esfuerzos finales a su consolidación. Igualmente se deberá iniciar el proceso de transferencia de bienes en caso que el programa y la entidad ejecutora lo consideren pertinente. Se considera una evaluación externa previa a su finalización.

16. Esta es la fase final de la ejecución, cuando se completan las acciones del programa, se realizan las inversiones y se prestan los servicios a los usuarios en su máximo nivel. Durante esta fase se desarrollan las condiciones para la transferencia y el cierre del programa. En este período se evalúa lo actuado, se pueden introducir cambios que permitan consolidar las acciones del programa.

17. Durante esta fase es cuando generalmente se realiza la “evaluación intermedia”, o “preterminal”, ambas bajo la responsabilidad del FIDA. Estas evaluaciones permiten introducir ajustes necesarios de acuerdo a los avances o problemas tenidos durante la ejecución.

**Servicio de Operaciones Especiales (SOE)**

18. A los efectos de cubrir el financiamiento de las actividades previstas en la fase I, se solicita la aprobación de una donación de carácter SOE por un monto de USD 100 000 (USD cien mil). En la tabla siguiente se presenta el presupuesto estimado para el SOE.

**Presupuesto a ser financiado por el SOE
(USD)**

ACTIVIDADES/MESES	1	2	3	4	5	6	Total
TOTAL SOE	5 500	5 500	25 500	30 500	24 000	9 000	100 000
CONSULTORÍAS	-	-	10 000	15 000	-	-	25 000
- Metodologías de promoción			5 000	10 000			15 000
- Metodología de seguimiento y evaluación			5 000	5 000			10 000
ASESORÍAS	-	-	10 000	10 000	10 000	-	30 000
- Asesorías externas de apoyo al arranque del programa			10 000	10 000	10 000		30 000
SERVICIOS CONTRATADOS	5 500	5 500	5 500	5 500	14 000	9 000	45 000
- Contratación a FUNICA para apoyar el arranque del programa	2 000	2 000	2 000	2 000	2 000	2 000	12 000
- Preparación del Plan de Difusión del programa					5 000		5 000
- Facilitador/a del proceso de cumplimiento de condicionalidades	2 500	2 500	2 500	2 500	2 500	2 500	15 000
- Salario gerente del programa					3 000	3 000	6 000
- Gastos operativos	1 000	1 000	1 000	1 000	1 500	1 500	7 000