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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eightieth Session
Rome, 17-18 December 2003

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

BOLIVARIAN REPUBLIC OF VENEZUELA

FOR THE

**SUSTAINABLE RURAL DEVELOPMENT PROJECT FOR THE
SEMI-ARID ZONES OF FALCON AND LARA STATES
(PROSALAFI II)**

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CURRENCY EQUIVALENTS

Currency Unit	=	Bolivar (VEB)
USD 1.00	=	VEB 1 600
VEB 1.00	=	USD 0.0006

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	=	0.405 hectare (ha)
1 ha	=	2.47 acres

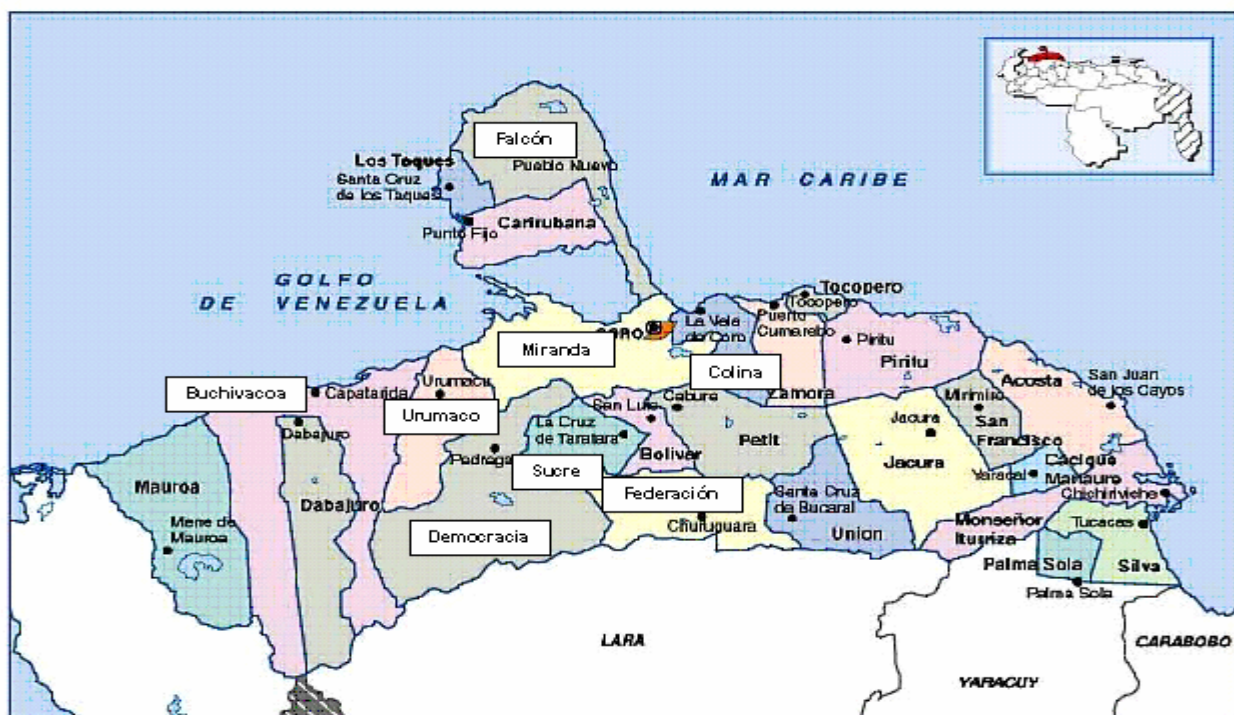
ABBREVIATIONS AND ACRONYMS

CAF	Andean Development Corporation
CIARA	Foundation for Training and Innovation for Rural Development
CLPP	Local Councils for Public Planning
PMU	Project Management Unit
PROSALAFA	Support Project for Small Producers in the Semi-Arid Zones of Falcon and Lara States

GOVERNMENT OF THE BOLIVARIAN REPUBLIC OF VENEZUELA
Fiscal Year

1 January – 31 December

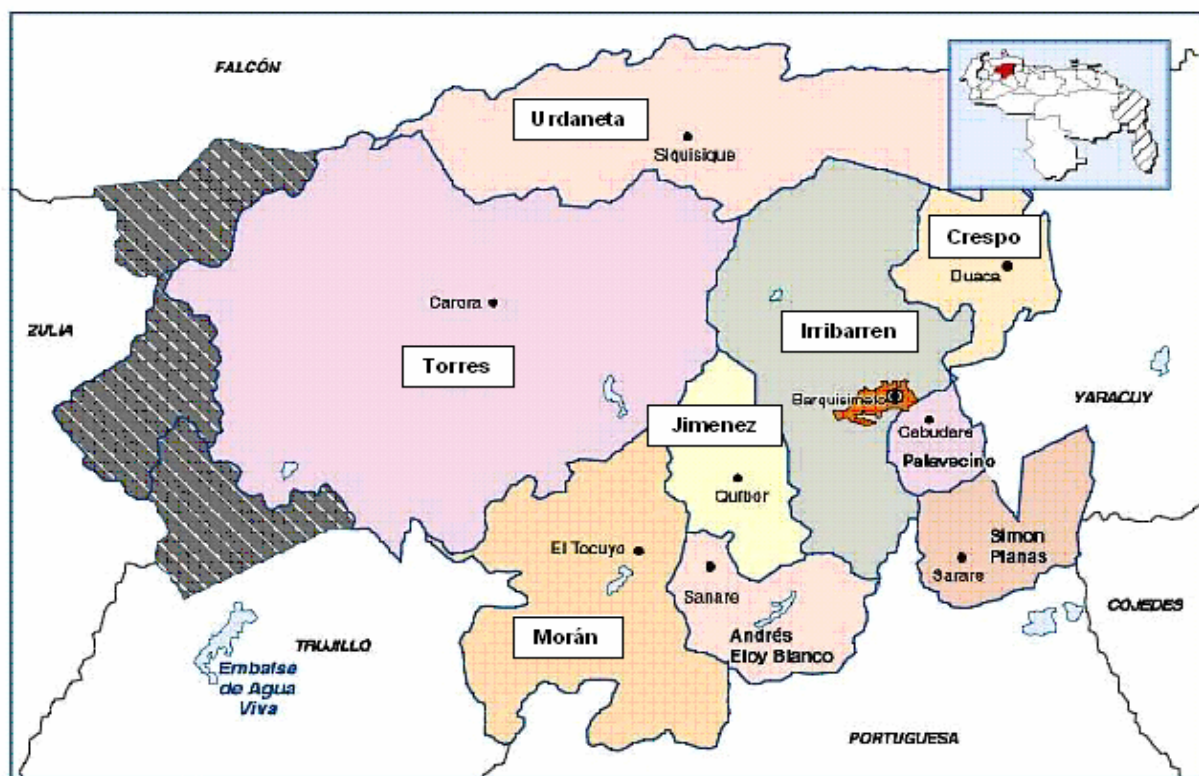
MAP OF THE PROJECT AREA
FALCÓN STATE



Source: Government of Venezuela. Instituto Nacional de Estadística e Informática. 2003.

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

MAP OF THE PROJECT AREA
LARA STATE



Source: Government of Venezuela. Instituto Nacional de Estadística e Informática. 2003.

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BOLIVARIAN REPUBLIC OF VENEZUELA

**SUSTAINABLE RURAL DEVELOPMENT PROJECT FOR THE SEMI-ARID
ZONES OF FALCON AND LARA STATES (PROSALAF II)**

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Bolivarian Republic of Venezuela
EXECUTING AGENCY:	Foundation for Training and Innovation for Rural Development
TOTAL PROJECT COST:	USD 23.0 million
AMOUNT OF IFAD LOAN:	SDR 10.4 million (equivalent to approximately USD 15.0 million)
TERMS OF IFAD LOAN:	15 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum, as determined by the Fund annually
COFINANCIER:	Andean Development Corporation (CAF)
AMOUNT OF COFINANCING:	USD 4.0 million
TERMS OF COFINANCING:	Loan. Standard terms
CONTRIBUTION OF BORROWER:	USD 3.0 million
CONTRIBUTION OF BENEFICIARIES:	USD 1.0 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	CAF

PROJECT BRIEF

Who are the beneficiaries? The semi-arid areas of the states of Falcon and Lara are home to some of the country's poorest rural communities. The total beneficiary population, which has been selected according to poverty and extreme poverty levels, has been estimated at 50 000 persons. It is composed of poor men, women and children from small farming and wage-worker families settled in 28 micro-watersheds located in the semi-arid zones of Falcon and Lara states. The direct beneficiaries will be 20 000 poor men and women who will gain direct access to training, social funds and environmental rehabilitation works, including 4 400 poor small farmers, 5 600 rural microentrepreneurs, 4 200 village bank members and 1 800 young men and women receiving job training; there will also be 30 000 indirect beneficiaries.

Why are they poor? The major current cause of poverty in Venezuela is the country's two decades of systematic economic decline, a condition that has added a particular force to the historical factors influencing poverty (isolation, lack of productive assets, lack of access to social and productive services) by restricting poverty-reduction and social programmes. Poverty in Falcon and Lara states affects 52.4% and 63.0% of the total population, respectively. The incidence of poverty is much higher in rural areas, reaching 71% and 79%, respectively. In the rural areas of both states, the number of rural poor rose from 345 000 to 642 000 between 1995 and 2002. The living conditions of the rural poor have been systematically declining over the years. The access of these people to schooling, health care and markets is very limited or non-existent, particularly in the semi-arid areas. Schooling becomes a very serious problem because almost half of the extremely poor are children aged 0 to 14.

What do they expect from the project? Local development planning using the micro-watershed as a territorial unit will facilitate the active participation of rural communities. The project will strengthen the human and social capital, the conservation of the natural resource base, and the sustainable social and economic development of the target population. The project will focus 27% of its resources on actions directly related to semi-arid micro-watershed rehabilitation and conservation, thereby helping to generate a sustainable use of natural resources. Public awareness, training and environmental education programmes will be launched in order to build consensus among community residents on the importance of the sustainable use of natural resources in semi-arid areas. Incremental supplies of water for human and productive use, more efficient use of semi-arid rangelands for goat-raising, and soil and natural resource conservation are among the benefits that will accrue from project actions.

How will the beneficiaries participate in the project? Pursuant to the Law on Local Councils for Public Planning enacted in 2002, rural communities will be able – with project support – to mobilize existing municipal, state and national support programmes for social and rural development. Thus, participation is a tool for strengthening rural civil society and, particularly, isolated semi-arid communities. This process is to be supported by training, management and assistance services. Feedback mechanisms will be established among small farmers, project-contracted private support organizations and the technical staff of the project management unit. The project aims at supporting representative groups among the beneficiaries (and organizing them where needed), including small farmers, small entrepreneurs and rural youth. These groups will then be able to express their views and negotiate their demands within state, municipal and microregional development programmes. Beneficiaries will also participate in project monitoring and evaluation.

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SUSTAINABLE RURAL DEVELOPMENT PROJECT FOR THE SEMI-ARID
ZONES OF FALCON AND LARA STATES (PROSALAFI II)**

I submit the following Report and Recommendation on a proposed loan to the Bolivarian Republic of Venezuela for SDR 10.4 million (equivalent to approximately USD 15.0 million) on ordinary terms to help finance the Sustainable Rural Development Project for the Semi-Arid Zones of Falcon and Lara States (PROSALAFI II). The loan will have a term of 15 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually. It will be administered by the Andean Development Corporation as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Venezuela is located at the extreme north of South America and has a total land area of 916 000 square kilometers. It borders to the west with Colombia, to the east with Guyana, to the south with Brazil and to the north with the Caribbean Sea. Venezuela is divided into 22 states, the Federal District and the Federal Dependencies (islands). The country had 24.6 million inhabitants in 2001, with an annual population growth rate of 1.9%. Twelve per cent of the population was located in rural areas.

2. The government of President Hugo Chavez, in office since early 1999, inherited an economy heavily dependent on the oil sector and exhibiting major structural imbalances, including a growing fiscal deficit, a deficit in the external current account and high unemployment. The Government adopted a set of economic policies that sought to pare back public expenditures and public enterprises and increase public-sector revenues. During 2002 and early 2003, long strikes by economic and social organizations almost paralysed the country's economic activities, although a weak truce has been achieved with the support of the Organization of American States, the 'Friends of Venezuela' Group and international organizations. Political, social and economic unrest has been a recent feature of the country. As a result of these crises, the country is facing the progressive impoverishment of its population, as manifested in rising unemployment, depressed wages and inflation. Consequently, the population is suffering from lower nutritional standards, low educational levels and declining labour productivity.

3. The agricultural sector in Venezuela generates approximately 5% of the gross domestic product and satisfies about 40% of the internal demand for agricultural products. Agricultural production has been dependent on state decisions over the past 30 years. Through policies and subsidies, the Government has usually decided what to produce and where to invest in the sector. Venezuela has 2.65 million ha of arable land. Of this total, only 250 000 ha is irrigated, and it is in the hands of large farm owners. Most of the country's agricultural production is concentrated in dryland areas farmed by small producers who are very vulnerable to cyclical variations in climatic conditions. Data from the

¹ See Appendix I for additional information.

1997 agricultural census show that smallholdings use between 0.4 and 1.6 ha for annual crops, which are devoted mainly to family subsistence, and 0.5 to 2.3 ha for cash crops. These areas are not sufficient to generate adequate family incomes. The small plots suffer from limited access to land property titles, irrigation, technical assistance and markets. Given the area's soil quality and climatic conditions, the productive and economic potential would be great within this socio-economic category if adequate support services and productive inputs were provided.

B. Lessons Learned from Previous IFAD Experience

4. IFAD has approved four loans to Venezuela, for a total amount of USD 51.0 million on ordinary terms. The three ongoing projects under the responsibility of the Ministry of Agriculture and Lands are being directly executed by the Foundation for Training and Innovation for Rural Development (CIARA). These are the Support Project for Small Producers in the Semi-Arid Zones of Falcon and Lara States (PROSALAFSA), the Economic Development of Poor Rural Communities Project, and the Agro-Productive-Chains Development Project in the Barlovento Region. The main lessons learned from IFAD projects include the following: (a) during the project design process, efficient and operative coordination between government institutions has to be included as a means to avoid duplication of activities and wastage of financial resources; (b) IFAD projects should promote and support decentralization within their design, operational schemes and systematic training of local community organizations, municipal officials and technical staff; (c) it is essential for IFAD projects to address gender issues not only at the project level but also at the country policy-making level; and (d) written and visual documentation of project experiences could be viewed as a specific objective of all IFAD field projects since this would create a tangible legacy that could be shared with other projects in the country and in the Latin American and the Caribbean region. Lessons learned from the interim evaluation of the first phase of the PROSALAFSA project are presented in Appendix IV.

C. IFAD's Strategy for Collaboration with Venezuela

5. **Venezuela's policy for poverty eradication.** Since 1999, the Government of Venezuela has been redefining its agricultural, rural development and poverty alleviation policies so as to play a more efficient and active role. This strategy aims at reinforcing state institutions so they may support and enhance the participation of social actors in the definition and execution of policies and programmes oriented towards rural development and poverty alleviation. The Government has moved forward with decentralization, including the transfer of many centralized functions to the states and municipalities and an increase in the transfer of resources from the central government to the state and municipal governments, as well as the decentralization of administrative and budgetary planning. The recent enactment (2002) of the law establishing local councils for public planning (CLPPs) has given grass-roots organizations the capacity to participate in local planning and budget preparation. This law gives municipalities and communities responsibility and authority over the management of their own fiscal resources, allowing them to play a much greater role in identifying their needs and priorities and in finding their own solutions. To date, at least 85% of rural municipalities have established CLPPs with the aim of including rural investment proposals in the 2004 budget of the Government. Current IFAD projects are actively training rural communities so they can take a more active and informed part in CLPPs.

6. **The poverty eradication activities of other major donors.** The World Bank portfolio in Venezuela totals USD 396 million and comprises nine projects. The only operation related to agriculture, the Agricultural Extension Programme (USD 39.0 million), closed this year without a clear commitment for a second phase. Current World Bank operations include projects for environmental management, natural parks administration, and slum upgrading and improvement in metropolitan Caracas. The portfolio of the Inter-American Development Bank (IDB) in Venezuela consists of 28 operations valued at just over USD 1.3 billion. Some 60.2% of IDB financing has been allocated to boosting economic productivity and diversifying the electricity and transportation sectors;

7.7% is being used for tax administration, justice and the penal system; 22.9% is allocated to social sector projects (education, health care, housing and childcare); and 9.2% to science and technology. The lending programme of the Andean Development Corporation (CAF) totals just under USD 1.4 billion, with loans oriented towards multisectoral public investment, water supply, electric energy, irrigation (CAF is currently financing the large Yacambú-Quibor irrigation project located in a municipality in the project area) and urban transportation. A CAF operation for USD 41.7 million has been approved for the financing of 46 rural school mini-farms to support basic education. CAF has decided to cofinance this new phase of the PROSALAFa project.

7. **IFAD's strategy in Venezuela.** Based on the current rural poverty situation in Venezuela, the 1999 Country Strategic Opportunities Paper outlines four main thrusts for IFAD intervention: (a) increase the family income of smallholders through technical assistance and financial and market services for agricultural and non-agricultural production; (b) promote and strengthen active grass-roots organizations among small farmers, women and communities as a means to enhance local community-driven development and to include the rural poor in the local and national economies; (c) incorporate natural resource rehabilitation, management and use in semi-arid zones as a foundation of environmentally sustainable economic development; and (d) maintain an active and systematic policy dialogue on rural poverty reduction and rural development in order to stimulate coherent programmes based on the successful project experiences of IFAD.

8. **Project rationale.** The general strategy and rationale of the project are framed within the Government's current rural development and poverty reduction policies and priorities and within Strategic Framework for IFAD 2002-2006 and country strategy and operational guidelines.² Thus, the general approach of the project is to support the building of local human and social capital, the conservation and management of natural resources, and the enhancement of income-generating activities among the target population through a holistic and comprehensive approach to rural development. Lessons from the first phase of PROSALAFa (Appendix IV) have been instrumental in the design of the second phase: strengths and weaknesses have been tapped so as to consolidate goals already achieved, while correcting those elements that had limited the progress of the development process. Efforts to reduce poverty among the rural poor and extremely poor in semi-arid areas will now focus on three strategic thrusts: (a) empowerment of the rural poor and their organizations; (b) rehabilitation, conservation and management of natural resources in semi-arid areas,³ and (c) integrated (agricultural, non-agricultural and labour) economic development. These three elements lie at the core of the project's operational framework (Appendix VI, Diagram).

9. The project's operational structure reflects the fact that PROSALAFa was designed in 1990 and implemented beginning in 1993. The focus was on production with a 'traditional' orientation towards agricultural extension and limited social and environmental action. The design of the second phase builds on the findings of the interim evaluation – with an eye to capitalizing on the lessons learned – and on the evolution of the Fund's rural development focus and strategy. Major differences between the first and second phases of PROSALAFa are presented in Appendix VI (Table 2).

10. Based on the proposed strategic framework and the launching of Venezuela's municipality-based CLPPs, the project will operate within an intensively participatory scheme. Beneficiaries will participate actively in the entire planning and implementation process for micro-watershed soil and water conservation and local development. All operational steps will be carried out with the participation of communal general assemblies (men, women and young people) or communal directive bodies. Communities located within a given micro-watershed will be organized into multi-community micro-watershed organizations to take responsibility for the diagnosis, development planning, and monitoring and evaluation of the whole geographical area.

² IFAD (1999), Country Strategic Opportunities Paper for Venezuela (Section IV).

³ IFAD, the United Nations Development Programme-Venezuela and CAF are seeking support through a Global Environment Facility grant so as to enhance the environment-related activities and investments of the project.

11. The second phase of the project will focus on value-added production chains and clusters to support more profitable agricultural and non-agricultural productive activities. Agricultural production clusters will include clusters for vegetables, pineapples, sisal (*Agave sisalana*), aloe vera (*Aloe barbadensis*), cocuy (*Agave cocui*) and goats. Non-agricultural production clusters are directly linked to 'traditional' semi-arid handicraft manufacturing and include clusters for hammocks, fabrics, stone-carving, carved wood and pottery (Appendix VI, Table 3). All economic activities will be based on a sensible and conservative use of natural resources, with special focus on soil and water management and conservation principles. The selection of micro-watersheds as the territorial planning unit has the advantage of encouraging the harmonization of natural resource use and the social and economic development of rural communities located within the confines of the micro-watersheds.

12. The gender strategies of the project aim to create the conditions for eliminating the gender inequities present in rural communities in the semi-arid zones. They will focus on three major thrusts: (a) equitable access of women to economic activities under the project; (b) actions to close the gap between rural men and women in education and training; and (c) support for the full participation of rural women in economic organizations. As a result of these actions, the project should bring about a significant improvement in the self-esteem of rural women, in their productive and entrepreneurial activities, and in their income-generating capacity.

PART II – THE PROJECT

A. Project Area and Target Group

13. The project will target poor rural communities in micro-watersheds located in the semi-arid regions of the states of Falcon and Lara. As in the first phase, the selection criteria for municipalities and communities, in order of priority, include: (a) the presence of a high concentration of rural poor and extremely poor; (b) the existence of limited access to public services (social and productive); (c) location in priority areas for natural resource conservation; and (d) the willingness of municipal governments and communities to participate actively in rural development efforts under the project. The project will continue to operate in eight municipalities covered during the first phase and will also cover three additional municipalities in each of the participating states for a total of 14 municipalities. (See the project area maps.)

14. The project will operate in 28 micro-watersheds, comprising nearly 140 rural communities that will be phased in over a five-year period; conservation and development activities will be consolidated during year six. Sixteen micro-watersheds will be selected to serve as pilot areas and models for participating municipalities. They will serve as a testing ground for methodological innovations in participatory planning, institutional coordination and micro-watershed natural resource rehabilitation, conservation and management techniques, as well as for social, economic and environmental impact evaluation.

15. The total beneficiary population is estimated at 50 000 persons, including 20 000 direct and 30 000 indirect beneficiaries. The direct beneficiaries correspond to the population in the 56 rural communities, two in each micro-watershed, selected for intensive project action.

B. Objectives and Scope

16. The overarching goal of the project is to improve the living conditions of poor rural communities located in the semi-arid zones of Falcon and Lara states. The general objective of the project – in accordance with the Millennium Development Goal – is to reduce poverty and extreme poverty significantly in rural communities in semi-arid zones by means of social and economic development that is environmentally sustainable and gender equitable. Specific objectives include: (a) the economic and political empowerment of the social and economic organizations of poor rural communities in semi-arid zones; (b) the rehabilitation, conservation and sustainable use of natural resources in semi-arid zones, with a special focus on soil and water conservation; (c) the transformation of agricultural and non-agricultural subsistence production into a market-oriented, profitable and sustainable business; and (d) greater access of poor rural communities in semi-arid zones to local rural financial services (*cajas rurales*), as well as to formal state and national financial services.

C. Components

17. The project has four components: human and social capital development; natural resource rehabilitation, management and conservation; production development; and rural financial services. The project management unit will include administration, monitoring and evaluation, communications, and gender strategy units.

18. The central aim of the **human and social capital development** component is to empower rural residents in semi-arid zones. To achieve this goal, the project will support and strengthen local participatory mechanisms for environmentally sustainable social and economic development by providing systematic training and fostering decision-making capabilities among community-based organizations. This component will focus on participatory social, productive and environmental assessments within communities and micro-watershed areas, the preparation of medium and long-term strategic development plans within communities and micro-watershed areas, and the strengthening of linkages between rural communities and municipal and state governments by supporting the national Government's decentralization plans.

19. The following activities will be conducted: (a) training and strengthening of community-based organizations; (b) support for the preparation of participatory social, economic and environmental assessments and strategic development plans in rural communities and micro-watershed areas, including involvement of local extension agents (*promotores campesinos*) who will ensure sustainability at the community level; (c) job skills training to help young men and women gain access to better paying rural and urban jobs; (d) building of participatory planning capacity and methodological instruments to enable municipal governments to formulate rural development plans; (e) training for private field-service providers; and (f) the establishment of a participatory social and cultural action fund to provide financial support for social development and cultural initiatives among communities in semi-arid zones.

20. The objective of the **natural resource rehabilitation, management and conservation** component is to improve soil, water and vegetation management and conservation, as well as biodiversity, based on the micro-watershed as a territorial unit and the basic intervention unit for social and economic development. The implementation strategies to achieve the component objectives involve: (a) the strengthening of participatory assessment and planning tools to focus in an integrated manner on the micro-watershed as an ecosystem; (b) integrated micro-watershed management training for service providers and local extension agents; and (c) the promotion of sustainable management, rehabilitation and use of micro-watersheds through the transfer of replicable models of soil and water conservation and management.

21. The following activities will be conducted: (a) awareness and capacity-building among the population through training and basic education; (b) capacity-building among project staff and service providers through systematic training in the rehabilitation, management and sustainable use of micro-watersheds, territorial zoning in micro-watersheds, rangeland and semi-arid forest evaluation, and participatory assessment and planning tools; (c) the adoption of best practices through systematic supervision of natural resource management and conservation interventions in micro-watershed areas, combined with the accurate recording of the gains achieved through conservation interventions in terms of the environment (soil and water retention, recovery of plant cover, reduction in erosion, etc.), local social culture (community attitudes towards natural resource conservation, solid and liquid waste disposal, etc.) and economics (agriculture); and (d) the establishment of a natural resource management and conservation fund to finance basic soil conservation infrastructure, soil and water conservation practices, and reforestation activities.

22. The objective of the **production development** component is to increase significantly the income-generation capacity of the beneficiary population. The proposed strategy is to help transform the agricultural and non-agricultural subsistence production system of the beneficiaries into a market-oriented, sustainable microentrepreneurial production system. The component will focus on value-added production clusters and chains in order to promote competitive advantages and identify entrepreneurial capacity and abilities in the target population. The project will strengthen this capacity through a systematic micro-management training programme and specialized agricultural and non-agricultural field support services. The following activities to be carried out include: (a) demand-led specialized technical support services for the agricultural and non-agricultural productive clusters and value-added chains of the beneficiaries; (b) market support services to strengthen the market penetration of local agricultural and non-agricultural products; and (c) the establishment of a water resource management fund.

23. The objective of the **rural financial services** component is to facilitate beneficiaries' access to rural financial services. The strategy pursues a multiple-focus, pragmatic approach aimed at supporting beneficiaries' access to the diverse sorts of rural financial services available in the project area that can satisfy the various demands and financial capacities of the target group. The following activities will be conducted: (a) support for existing *cajas rurales*, the creation and consolidation of new ones through training, ongoing assistance and specialized technical support services, and the expansion of the base coverage to include all communities in the micro-watersheds; (b) the provision of financing for fixed assets to new microenterprises, capitalizing the highest rated village banks; and (c) support for the access of the target population to the formal financial services available in the project area through the newly implemented regional mutual guarantee companies, which are designed to provide collateral to small farmers and microentrepreneurs.

D. Costs and Financing

24. The total cost of the project has been estimated at USD 23.0 million (see Tables 1 and 2), to be financed as follows: an IFAD loan of USD 15.0 million (65% of the total costs), a CAF loan of USD 4.0 million (17%), the in-kind contribution of the beneficiaries valued at USD 1.0 million (4%) and a Government counterpart contribution of USD 3.0 million (13%). The total cost of the human and social capital development component will be USD 5.2 million, representing 23% of the total project costs; the cost of the natural resource component will be USD 5.8 million (25%); the cost of the production development component, USD 6.6 million (29%); and the cost of the rural financial services component, USD 1.7 million (8%). The total cost of the project management unit will be USD 3.5 million (15%), including monitoring and evaluation (USD 0.6 million), gender strategic activities (USD 0.6 million) and communications (USD 0.2 million). The project will be executed over a period of six years.

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

Component	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Human and social capital development	4 369	577	4 946	12	23
1. Capacity-building	763	141	904	16	4
2. Participatory planning	2 237	381	2 617	15	12
3. Social, cultural and gender fund	1 369	55	1 424	4	7
B. Natural resource rehabilitation, management and conservation	5 437	321	5 758	6	27
1. Training in micro-watershed management	552	64	616	10	3
2. Natural resource conservation fund	4 885	257	5 142	5	24
C. Production development	5 453	755	6 208	12	29
1. Technical support services	2 146	387	2 534	15	12
2. Productive investment funds	3 307	367	3 674	10	17
D. Rural financial services	1 376	210	1 585	13	7
E. Project management unit	2 789	376	3 165	12	15
1. Management unit	1 541	210	1 751	12	8
2. Planning, Monitoring and evaluation unit	505		578		
3. Gender unit	555	72	627	12	3
4. Communications unit	188	20	208	10	1
Total base costs	19 423	2 238	21 661	10	100
Physical contingencies	327	70	397	18	2
Price contingencies	830	112	943	12	4
Total project costs	20 580	2 421	23 000	11	106

^a Discrepancies in totals are due to rounding.

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

Components	IFAD		CAF		Beneficiaries		Government		Total		Foreign Exchange	Local (excluding taxes)	Duties And Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Human and social capital development	4 758	91	–	–	141	3	360	7	5 259	23	623	4 419	218
1. Capacity-building	860	86	–	–	–	–	143	14	1 003	4	157	749	96
2. Participatory planning	2 626	93	–	–	–	–	207	7	2 833	12	410	2 312	111
3. Social, cultural and gender fund	1 272	89	–	–	141	10	11	1	1 424	6	55	1 358	11
B. Natural resource rehabilitation, management and conservation	3 338	57	1 541	27	649	11	287	5	5 815	25	325	5 325	164
1. Training in micro-watershed management	425	63	–	–	–	–	248	37	673	3	68	479	126
2. Natural resource conservation fund	2 914	57	1 541	30	649	13	39	1	5 142	22	257	4 846	39
C. Production development	3 330	50	2 459	67	146	2	726	11	6 661	29	822	5 230	608
1. Technical support services	2 761	92	–	–	–	–	226	8	2 987	13	455	2 424	108
2. Productive investment funds	569	16	2 459	67	146	4	500	14	3 674	16	367	2 806	500
D. Rural financial services	1 293	74	–	–	64	4	399	23	1 756	8	233	1 428	95
E. Project management unit	2 281	65	–	–	–	–	1 228	35	3 509	15	417	2 501	591
1. Management unit	1 155	59	–	–	–	–	811	41	1 967	9	237	1 378	351
2. Planning, monitoring and evaluation unit	447	71	–	–	–	–	186	29	633	3	80	445	108
3. Gender unit	518	76	–	–	–	–	164	24	628	3	78	515	89
4. Communications unit	161	71	–	–	–	–	67	29	228	1	23	163	43
Total project costs	15 000	65	4 000	17	1 000	4	3 000	13	23 000	100	2 421	18 904	1 676

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

25. All goods, works and consultancy services financed through the IFAD loan will be procured in accordance with the procurement guidelines of IFAD and the cooperating institution. Vehicles and equipment will be procured through national competitive bidding or local shopping, as stipulated in the loan agreement. Consultants and service providers will be contracted through procurement procedures acceptable to IFAD and the cooperating institution. Disbursements against training, extension services, investment funds and operating costs will be made against statements of expenditure. Natural resource rehabilitation interventions will be directly implemented by organized community and producer associations.

26. The Government will open a special account in United States dollars at a bank acceptable to IFAD; an initial deposit of USD 1.0 million will be made. Project accounting will be carried out by component, loan category and the Government's expenditure categories and will be integrated into the project information system. An auditing firm will be selected, subject to IFAD approval, to conduct annual financial and management audits, which will be financed through the loan. Contracted service providers will maintain separate accounts for their project-related expenditures.

F. Organization and Management

27. The Ministry of Agriculture and Lands will be the line agency responsible for the project, with direct execution delegated to the Foundation for Training and Innovation for Rural Development (CIARA). Project operations will be overseen by a steering committee, which will approve and supervise annual workplans and budgets, and exercise overall project supervision. The steering committee will be chaired by the Minister of Agriculture and Lands or his representative, and its members will include the General Director of CIARA, one representative each of the National Institute for Rural Development, and the Ministry of the Environment and Natural Resources; one representative each of the state governments of Falcon and Lara; two representatives of the mayors of each state; who will be elected under the basis of an annual rotation; and six representatives of the beneficiaries, three for each state, who will be elected on the basis of a biannual rotation. The election of at least one woman beneficiary-representative per state per biannual period will be sought.

28. The project management unit (PMU) – which will enjoy technical, financial and administrative autonomy within the parameters set by CIARA, as in the first phase of PROSALAFa – will be established in Barquisimeto in the project area. The PMU will have responsibility for management and supervision, planning, and monitoring and evaluation; all social, production and environmental fieldwork will be carried out under contract by non-governmental organizations, civil society organizations and public institutions. The organizations selected will have demonstrated social, productive and environmental outreach capabilities. The contracted organizations will work with the PROSALAFa local extension agents, who will provide a direct link with the rural communities for participatory assessment and planning and the implementation of social, productive and environmental initiatives. Systematic training for current and new local extension agents will be provided under the project.

29. The PMU will maintain a central office and two state-level offices. The central office will be staffed by the project director, a technical manager, four component coordinators and four support units. The two decentralized state offices in Falcon and Lara will each include a multidisciplinary team composed of four specialists, one for each project component. One of the four professionals will be responsible for management of the decentralized state office.

30. The project will organize three levels of beneficiary participation: (a) community organizations; (b) micro-watershed organizations; and (c) agricultural and microenterprise production organizations. All organizations will participate in the respective CLPP. Under the newly enacted law on the CLPPs,

rural communities will be able – with project support – to mobilize existing municipal, state and national support programmes for social and rural development.

G. Economic Justification

31. The project will strengthen human and social capital, conservation of the natural resource base, and sustainable social and economic development among a target population composed of 50 000 poor men, women and children from small farming and wage-worker families living in the 28 micro-watersheds located in the semi-arid zones of the States of Falcon and Lara. A total of 20 000 direct beneficiaries – the men, women, young people and children living in 56 rural communities – will receive support to consolidate community organizations, conserve their natural resource base in the micro-watersheds, and strengthen their capacity to participate in local development efforts. These beneficiaries include 4 400 small farmers and 5 600 rural microentrepreneurs who will receive technical assistance and training in technologies, management and marketing so as to consolidate their businesses; 4 200 village bank members who will receive training and technical support; and 1 800 young men and women who will receive job skills training. The project will also have 30 000 indirect beneficiaries. These people will gain access to investments in soil and water conservation, social services, water, sewage and electrical infrastructure and rural roads, among other benefits that will significantly improve living conditions and the transportation and communication network in the project area.

32. The project will focus 35% of its resources on actions directly related to micro-watershed rehabilitation and conservation in the semi-arid zones and aimed at fostering the sustainable use of natural resources. Public awareness, training and environmental education programmes will be launched in order to build consensus among community residents on the importance of the sustainable use of natural resources in semi-arid zones. More abundant supplies of water for human and productive use, more efficient use of semi-arid rangelands for goat-raising, and soil and natural resource conservation are among the benefits that will accrue from project actions. Local development planning, using the micro-watershed as the territorial unit, will facilitate participation by rural communities.

33. Family crop and livestock production systems and local rural microenterprises will be improved through an integrated approach focused on all annual and perennial cash and subsistence crops and implemented in combination with natural resource conservation and management practices. Particular attention will be paid to the management and improvement of natural rangeland and forests in the semi-arid zones so as to promote sustainable goat production, as well as environmental protection. The project will improve beneficiaries' links to local and national markets by identifying marketing opportunities, improving storage and handling infrastructure, and training beneficiaries.

34. By the end of the project, demand-led local and municipal rural development support services will be in place and staffed by personnel trained in participatory, demand-led practices for social, rural, agricultural, non-agricultural and natural resource extension activities. The training of local extension agents, which was initiated during the first phase of the project, will be consolidated during the second phase. The project will strengthen local capacity for integrated development processes by involving rural municipalities and building a strong group of local rural development service providers, including well-trained local extension agents.

H. Risks

35. The risks of the project are related to the political, social and economic instability that has been affecting the country recently. If it persists, this situation could affect: (a) the coherence and sustainability of effective pro-poor policies of the central government; and (b) the adequate provision of financial resources at the federal, state and municipal level. However, the performance of the IFAD-financed PROSALAFSA and Economic Development of Poor Rural Communities Project within a context of political instability suggest that, given the high priority assigned by the Government to rural and agricultural development and poverty alleviation, the effects on project actions will be limited. The possible participation of the Economic and Social Development Bank of Venezuela through the establishment of a trust fund in which the Government would deposit counterpart funds could simplify and facilitate annual counterpart disbursement procedures.

I. Environmental Impact

36. The project has been tentatively classified as a category B project in view of its natural resource conservation actions and the fact that the identified potential impacts will be addressed through environmentally sensitive interventions and investments. The activities under the soil and water conservation and agricultural and non-agricultural components of the project will help recover some of the semi-arid areas that are in danger of degradation and will also promote the rational use of natural resources in the micro-watersheds. In order to support and complement the natural resource rehabilitation and conservation interventions in the semi-arid zones, IFAD, the United Nations Development Programme-Venezuela and CAF are in the initial stages of preparing a concept note to be presented to the Global Environmental Facility in order to obtain additional financial resources.

J. Innovative Features

37. Three of the innovative features in the project design and operational scheme are: (a) the use of micro-watersheds as the territorial unit for medium and long-term planning of the social and economic development of rural communities, as well as for natural resource rehabilitation and management; (b) the support for consolidation of the Government's decentralization and rural development policies; and (c) the enhancement of IFAD's role as a catalyst through the support for flexible and integrated (federal, state, municipal, private sector, civil-society and grass-roots organizations) local planning within a long-term perspective on the development of the semi-arid regions.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

38. A loan agreement between the Bolivarian Republic of Venezuela 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.

39. The Bolivarian Republic of Venezuela is empowered under its laws to borrow from IFAD.

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

PART IV – RECOMMENDATION

41. 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 Bolivarian Republic of Venezuela in various currencies in an amount equivalent to ten million four hundred thousand Special Drawing Rights (SDR 10 400 000) to mature on or prior to 15 December 2018 and to bear an interest rate equal to the reference interest rate per annum as determined by the Fund annually, 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 4 December 2003)

1. **Cofinancing.** The Government of the Bolivarian Republic of Venezuela (the Government) intends to obtain from CAF a loan in the amount of USD 4 million to help finance the project in accordance with the terms and conditions set forth in an agreement to be entered into by the Government and CAF.
2. **Special account.** The Government will open and maintain at the Central Bank of Venezuela or another bank or financial institution a special account in United States dollars for financing the project on terms and conditions satisfactory to IFAD.
3. **Financing of project implementation.** The Government will make the loan proceeds available to the Ministry of Agriculture and Land (MAT) in accordance with the annual work plans and budgets of the project (AWP/Bs) and its customary national procedures for development assistance. The Government, through MAT, will transfer to CIARA the loan proceeds necessary to implement the project in accordance with the project implementation and loan administration agreement.
4. **Counterpart funds.** The Government, through MAT, will deposit in the project account counterpart funds in an initial amount equivalent to USD 500 000 to cover the implementation costs for the first year of the project and will replenish the account, each year and in advance, by depositing therein the counterpart funds as set forth in the respective AWP/B.
5. **Additional circumstances for suspension.** IFAD may suspend, in full or in part, the right of the Government to request withdrawals from the loan account in the event the project implementation manual or the project implementation and loan administration agreement, or any of their provisions, has been transferred, waived, suspended, revoked, amended or otherwise modified without the prior consent of IFAD, and the latter has determined that such transfer, waiver, suspension, revocation, amendment or other such modification has had, or is likely to have, a substantial negative impact on the project.
6. **Project implementation manual.** The PMU will prepare a draft implementation manual. CIARA will take all necessary steps to ensure the draft is approved by the steering committee. Subsequently, IFAD will give its no objection to the manual, which is to be adopted in the form approved by IFAD.
7. **Project implementation and loan administration agreement.** The Government, MAT and CIARA will sign an agreement stipulating the obligation of the Government to transfer to CIARA, through MAT, the necessary loan proceeds and to make available to it all such facilities, services and counterpart funds as may be necessary to implement the project, as well as the obligations of CIARA with regard to implementation of the project.
8. **Executing agency.** MAT will hold overall responsibility for project implementation, delegating direct implementation to CIARA through the project implementation and loan administration agreement.
9. **Gender approach.** CIARA will ensure that at least 30% of the project staff are women. In this connection, the project will seek to create conditions for equal access to all opportunities offered by the project and to close the gap in education and training between rural men and women.

10. **Conditions precedent to effectiveness.** Effectiveness of the loan agreement will be subject to fulfilment of the following conditions precedent:

- (a) the steering committee has been established to IFAD's satisfaction;
- (b) the PMU has been set up and the project director has been selected and appointed to IFAD's satisfaction;
- (c) the project account and the special account have been duly opened;
- (d) the Government has delivered to IFAD a signed copy of the project implementation and loan administration agreement, in form and substance satisfactory to IFAD;
- (e) the loan agreement has been duly signed, and such signature and performance by the Government of its obligations thereunder have been duly authorized and ratified by all necessary institutional, administrative and governmental procedures; and
- (f) the Government has delivered to IFAD a favourable opinion, in form and substance satisfactory to IFAD.

APPENDIX I

COUNTRY DATA

VENEZUELA

Land area (km² thousand) 2001 1/	882	GNI per capita (USD) 2001 1/	4 760
Total population (million) 2001 1/	24.63	GDP per capita growth (annual %) 2001 1/	0.7
Population density (people per km²) 2001 1/	28	Inflation, consumer prices (annual %) 2001 1/	13
Local currency	Bolivar (VEB)	Exchange rate: USD 1.00 =	VEB 1 600
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1995-2001 1/	2.0	GDP (USD million) 2001 1/	124 949
Crude birth rate (per thousand people) 2001 1/	23	Average annual rate of growth of GDP 1/ 1981-1991	1.8
Crude death rate (per thousand people) 2001 1/	5	1991-2001	1.1
Infant mortality rate (per thousand live births) 2001 1/	19	Sectoral distribution of GDP 2001 1/	
Life expectancy at birth (years) 2001 1/	74	% agriculture	5
Number of rural poor (million) (approximate) 1/	n/a	% industry	50
Poor as % of total rural population 1/	n/a	% manufacturing	20
Total labour force (million) 2001 1/	10.17	% services	45
Female labour force as % of total 2001 1/	35	Consumption 2000 1/	
Education		General government final consumption expenditure (as % of GDP)	8
School enrolment, primary (% gross) 2001 1/	102 a/	Household final consumption expenditure, etc. (as % of GDP)	68
Adult illiteracy rate (% age 15 and above) 2001 1/	7	Gross domestic savings (as % of GDP)	24
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 2/	2 484	Merchandise exports 2001 1/	27 409
Malnutrition prevalence, height for age (% of children under 5) 2001 3/	14 a/	Merchandise imports 2001 1/	18 022
Malnutrition prevalence, weight for age (% of children under 5) 2001 3/	5 a/	Balance of merchandise trade	9 387
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2001 1/	5 a/	before official transfers 2001 1/	3 735
Physicians (per thousand people) 2001 1/	n/a	after official transfers 2001 1/	3 931
Population using improved water sources (%) 2000 3/	83	Foreign direct investment, net 2001 1/	3 300
Population with access to essential drugs (%) 1999 3/	80-94	Government Finance	
Population using adequate sanitation facilities (%) 2000 3/	68	Overall budget deficit (including grants) (as % of GDP) 2001 1/	-4.4
Agriculture and Food		Total expenditure (% of GDP) 2001 1/	25
Food imports (% of merchandise imports) 2001 1/	12	Total external debt (USD million) 2001 1/	34 660
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	1 033	Present value of debt (as % of GNI) 2001 1/	30
Food production index (1989-91=100) 2001 1/	123	Total debt service (% of exports of goods and services) 2001 1/	25
Cereal yield (kg per ha) 2001 1/	3 035	Lending interest rate (%) 2001 1/	23
Land Use		Deposit interest rate (%) 2001 1/	16
Arable land as % of land area 2000 1/	3		
Forest area as % of total land area 2000 1/	56		
Irrigated land as % of cropland 2000 1/	17		

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

1/ World Bank, *World Development Indicators* CD ROM 2003

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2003

PREVIOUS IFAD FINANCING IN VENEZUELA

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)
Sucre Support Project for Small Producers	IFAD	CAF	O ¹	28 Apr 88	22 Feb 89	31 Dec 98	L - I - 222 - VE	SDR	7 800 000	99.9%
Support Project for Small Producers in the Semi-Arid Zones of Falcon and Lara States	IFAD	CAF	O	04 Apr 91	25 May 93	30 Dec 04	L - I - 279 - VE	SDR	11 350 000	78.9%
Economic Development of Poor Rural Communities Project	IFAD	CAF	O	11 Sep 96	25 Jun 98	31 Dec 04	L - I - 427 - VE	SDR	8 250 000	37.1%
Agro-Productive-Chain Development Project in the Barlovento Region	IFAD	CAF	O	13 Sep 00			L - I - 541 - VE	SDR	9 750 000	

¹ O = Ordinary

LOGICAL FRAMEWORK

Objectives	Indicators	Means of Verification	Assumptions
<p>GOAL OF THE PROJECT</p> <p>1. Contribute to improvements in the quality of life in poor rural communities by means of an integrated rural development strategy in micro-watersheds in accordance with the Millennium Development Goals</p>	<p>1. The quality of life¹ of 80% of the population in the communities has improved (health care, education, housing, drinking water, gender equity, environment and other aspects of human welfare)</p>	<p>Ex post project evaluation (survey and case study using the Q methodology;² a baseline study is used for purposes of comparison)</p>	
<p>GENERAL OBJECTIVE OF THE PROJECT</p> <p>2. The level of poverty among the population in the semi-arid zones of the states of Falcon and Lara is reduced by means of a social and economic process which is gender-focused and environmentally sustainable</p>	<p>2.1. 20 000 poor rural women and men benefit directly from project activities</p> <p>2.2. 30 000 poor rural women and men benefit indirectly from project activities</p> <p>2.3. Rural poverty levels are reduced by 50% among the people in the 56 target communities</p>	<p>Completion evaluation (survey and case studies using the Q methodology; a baseline study is used for comparison)</p> <p>Systematic approach; direct observation</p>	<p>Climatic conditions are normal</p> <p>Socio-political situation is stable</p> <p>The PMU implements the project according to the strategy outlined during project formulation</p>

¹ During the formulation mission, participatory exercises were conducted in the communities in order to understand the long-term vision of the population. In this way, it emerged that the people wished to improve the quality of their lives. Specifically, this meant not only improvement in productive aspects, but also (and as a result) health, education, gender equality, drinking water, housing, sports facilities, culture, environment and so on.

² The Q methodology is an innovative, participatory methodology that combines quantitative and qualitative approaches.

<p>SPECIFIC OBJECTIVE OF THE HUMAN AND SOCIAL CAPITAL DEVELOPMENT COMPONENT</p> <p>3. The rural poor and their organizations in the semi-arid zones are empowered to participate in and coordinate their own efforts to achieve local development</p>	<p>3.1 360 youth develop profitable and sustainable businesses</p> <p>3.2 650 youth participate in the labour force on a permanent basis</p> <p>3.3 14 municipal governments are strengthened so that they can manage and foster rural development</p> <p>3.4 14 municipal technical services (<i>salas técnicas</i>) are strengthened in their technical initiatives aimed at rural development</p> <p>3.5 14 civil associations are strengthened so that they can facilitate rural development in their communities</p> <p>3.6 At least 56 formal organizations have the capacity to identify and manage the rural development process</p> <p>3.7 84 social and service infrastructure projects are carried out</p> <p>3.8 120 sports and socio-cultural projects are carried out in the communities</p> <p>3.9 70% of economic and financial organizations have at least 35% women members</p> <p>3.10 70% of economic and financial organizations have at least 30 women presidents or vice-presidents</p> <p>3.11 60% of the couples who took part in the reproductive health programme have assumed the responsibilities of parenthood</p> <p>3.12 At least 60% of the couples who took part in this programme and have more than four children have adopted family planning methods</p> <p>3.13 The population of the 56 target communities has been empowered to achieve development</p>	<p>Monitoring and evaluation unit and component reports</p> <p>Case studies using the Q methodology, the systematic approach and direct observation</p> <p>Midterm evaluation (a baseline study used for comparison)</p>	<p>The communities are motivated and committed to the project, and the municipal governments are willing to take part in it.</p> <p>Conditions on local, regional and national markets favour the absorption of the young people who have been trained</p>
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<p>SPECIFIC OBJETIVE OF THE NATURAL RESOURCE MANAGEMENT COMPONENT</p> <p>4. Processes for the rehabilitation, conservation and protection of natural resources are launched in the micro-watersheds</p>	<p>4.1 14 target micro-watersheds carry out an integral programme for the rational and efficient use and management of natural resources</p> <p>4.2 14 micro-watersheds establish integrated systems for the efficient use and management of natural resources</p> <p>4.3 160 establishments in 16 micro-watersheds implement production and conservation plans</p> <p>4.4 Indicators to evaluate environmental services are used by the project for the benefit of the population</p> <p>4.5 At least 20 primary schools in the micro-watersheds provide environmental education activities at different stages in the education of students</p> <p>4.6 40% of adult women who live in the 56 target communities use natural resource conservation techniques</p>	<p>Monitoring and evaluation unit and component reports</p> <p>Case studies using the Q methodology, a systematic approach and direct observation</p> <p>Midterm evaluation (a baseline study used for comparison)</p>	<p>Activities are implemented in coordination with other components of the project and other institutions</p> <p>Institutions develop a long term vision</p> <p>The people in the communities become sensitive about the proper care of the environment</p>
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<p>SPECIFIC OBJETIVE OF THE PRODUCTION DEVELOPMENT COMPONENT</p> <p>5. Facilitate the transformation of subsistence production into market-oriented, profitable and sustainable business production</p>	<p>5.1 780 microenterprises are active in the market at various levels of development³</p> <p>5.2 320 (40%) of the microenterprises are owned by women</p> <p>5.3 116 microenterprises owned by young men and women are created through the entrepreneurship programme</p>	<p>Monitoring and evaluation unit and component reports</p> <p>Case studies, a systematic approach and direct observation</p> <p>Mid-term evaluation (baseline studies used for comparison)</p>	<p>The context favours economic development</p>
<p>SPECIFIC OBJETIVE OF THE RURAL FINANCIAL SERVICES COMPONENT</p> <p>6. Facilitate the access of the rural poor to financial services</p>	<p>6.1 At least 28 <i>cajas rurales</i> facilitate the access to financial services among communities at different levels of development</p> <p>6.2 22 Organized groups reach agreements to facilitate the access to formal credit</p>	<p>Monitoring and evaluation unit and component reports</p> <p>Case studies, a systematic approach and direct observation</p> <p>Mid-term evaluation (a baseline study used for comparison)</p>	<p>The context favours economic development</p>

³ A typology of the various possible development situations will be used (for this case and for indicator 6.1), taking into account the experience gained by IFAD through the Economic Development of Poor Rural Communities Project in Venezuela.

ACTIVITIES OF THE HUMAN AND SOCIAL CAPITAL DEVELOPMENT COMPONENT	ACTIVITIES OF THE NATURAL RESOURCE MANAGEMENT COMPONENT	ACTIVITIES OF THE PRODUCTION DEVELOPMENT COMPONENT	ACTIVITIES OF THE RURAL FINANCIAL SERVICES COMPONENT	ACTIVITIES OF THE MONITORING AND EVALUATION UNIT
<p>1. To establish cooperation agreements with the municipal governments and the communities in 28 micro-watersheds</p> <p>2. To undertake participatory community assessments and develop strategic plans for the micro-watersheds (SPM)</p> <p>3. To identify interest groups and formal and informal organizations</p> <p>4. To coordinate and articulate the SPM with the municipal development plan</p> <p>5. To plan and carry out support programmes among different organizations, including community organizations, committees, municipal governments, service providers, businesses, etc.</p> <p>6. To plan and carry out two labour market and business or service development studies</p> <p>7. To plan and carry out the youth job training programme (1 800 youth, 50% of whom are women)</p> <p>8. To manage the co-responsibility fund for social action and community services (USD 750 000)</p> <p>9. To implement cultural and sports projects in the target communities</p>	<p>1. To identify the micro-watersheds in coordination with municipal governments</p> <p>2. To assist in the formulation of the SPM in the areas relevant to the component</p> <p>3. To plan and carry out environmental education activities at different levels in schools in the micro-watersheds</p> <p>4. To provide infrastructure for the rehabilitation, management and conservation of natural resources in the micro-watersheds according to the SPM</p> <p>5. To reach institutional agreements for the development of indicators to evaluate environmental services</p> <p>6. To draw up legal norms that enable communities to organize the protection of their natural resources</p>	<p>1. To assist in the formulation of the SPM in those areas relevant to the component</p> <p>2. To plan and carry out support activities for production systems according to the SPM</p> <p>3. To develop support services for the microenterprises</p> <p>4. To create and implement the entrepreneurship programme to provide entrepreneurs with training and technical assistance</p> <p>5. To plan and carry out support activities for marketing the products of microenterprises</p> <p>6. To coordinate activities with the Rural Microenterprise Support Programme in Latin America and the Caribbean (PROMER) and other regional programmes of IFAD</p>	<p>1. To assist in the formulation of the SPM in those areas relevant to the component</p> <p>2. To plan and carry out training and technical assistance activities for the 32 <i>cajas rurales</i> of PROSALAF A I</p> <p>3. To set up 12 <i>cajas rurales</i> in the new target areas</p> <p>4. To work in coordination with the production development component in the provision of financial assistance to entrepreneurs through the <i>cajas rurales</i></p> <p>5. To develop agreements to participate in the mutual guarantee companies</p> <p>6. To plan and carry out training programmes for financial agents and the PMU</p> <p>7. To hold an annual meeting among the <i>cajas rurales</i> involved in the project</p>	<p>1. To appoint a coordinator and recruit an assistant (affirmative action)</p> <p>2. To provide support for other recruitments carried out by the PMU</p> <p>3. To provide the staff of the PMU and other actors with training in monitoring and evaluation</p> <p>4. To draft terms of reference, recruit and implement the consultancies proposed at the beginning of the project</p> <p>5. To coordinate activities with IFAD regional programmes (such as the Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty-Alleviation Projects in Latin America and the Caribbean - PREVAL)</p> <p>6. To support proposed external evaluation studies (such as baseline studies)</p> <p>7. To implement the monitoring and evaluation strategy in the various components and among related actors</p> <p>8. To create and implement the computerized information programme and the electronic communication web</p> <p>9. To organize an annual seminar in monitoring and evaluation</p> <p>ACTIVITIES OF THE GENDER UNIT</p> <p>1. To appoint a coordinator (affirmative action)</p> <p>2. To provide support for other recruitments by the PMU</p> <p>3. To provide gender training to the staff of the PMU and other actors</p> <p>4. To draft terms of reference, recruit and implement the consultancies and studies proposed</p> <p>5. To coordinate activities with the Regional Programme to Consolidate Gender-Mainstreaming Strategies in IFAD-Financed Projects in Latin America and the Caribbean (PROGENERO) and other IFAD regional programmes</p> <p>6. To support the proposed external evaluation studies in gender-related areas</p> <p>7. To implement the gender strategy in the various components of the project and among actors</p> <p>8. To coordinate activities with the monitoring and evaluation unit so as to provide the monitoring and evaluation system with a gender perspective</p>

LESSONS LEARNED FROM PHASE I OF THE PROSALAF A PROJECT¹

A. Performance of the Project Management

1. The project executing unit's management performance was more than satisfactory. The project maintained continuity in management and among the majority of professional and technical staff for almost eight years. This continuity, truly praiseworthy given the institutional instability of the period, allowed lines of activity to be maintained and fostered consistent approaches and ongoing actions for the benefit of the target group, albeit with material resources significantly below those budgeted. The monitoring and evaluation functions were adequately performed, *although with some operational weaknesses.*

B. Exploitation and Management of Water Resources

2. After almost ten years of operation in a difficult institutional and economic environment, PROSALAF A succeeded in overcoming the main obstacle identified during formulation, namely, the scarcity of water for human consumption, irrigation and animal drinking sites. This outcome was achieved through efficient and effective management and the great success in the efforts at motivation and grass-roots organization hitherto non-existent in the zone. *However, the achievements are not yet sufficient to satisfy the initial demand or the demand generated during the years of implementation.*

C. Natural Resources and Environmental Management

3. *PROSALAF A demonstrates the need to introduce integrated approaches towards environmental management in projects to combat rural poverty* in the fragile ecological conditions of tropical semi-arid areas. The objective of achieving the 'rational management of natural resources' was only marginally achieved by the project because of weaknesses in implementation and the approach set out during project design.

D. Training

4. PROSALAF A has reached almost 6 500 families in the area through various services, albeit primarily through activities to promote organization and training. These results are a remarkable achievement given the initial situation. *The training of producers is considered one of the most significant achievements of the project and a key factor in the increase not only in the population's technical capacity, but also fundamentally in its self-confidence and organization.*

E. Generation and Transfer of Technology

5. Given the competitive advantages of the region in the production of fruit and vegetables under irrigation, both irrigation schemes and the adoption of appropriate technologies to ensure viable productivity are an essential requirement if production is to be increased. *PROSALAF A has contributed successfully to the provision of irrigable areas and the necessary technologies project beneficiaries even though coverage has been limited thus far.*

F. Marketing of Inputs and Products

6. *The marketing of agricultural inputs and products is still an obstacle to the achievement of higher agricultural incomes among the beneficiaries.* While there are stable, expanding markets for most market garden products, marketing channels are still imperfect and allow intermediaries to make extraordinary profits. Non-traditional agricultural products and artisan products still require support so that markets and more effective marketing channels can be developed.

¹ Agricultural census, Ministry of Agriculture, 1997.

APPENDIX IV

G. Rural Financial Services

7. *The credit and financial services component was executed in a way that was substantially different from the original design, which contained serious weaknesses both in the estimates of the demand for financing and in the supply and channeling of credit. In financial terms, implementation achieved only 18% of the amount originally programmed. PROSALAFAs continued to reformulate the component throughout project execution so that there are now three coexisting modalities of credit (that is, rural banks, the revolving fund for rural activities, and agreements with state funds). Analysis of experience and careful formulation of a sustainable rural financing strategy are critical for the future.*

H. Organizations and the Formation of Social Capital

8. *The effort to establish grass-roots organizations, virtually non-existent at the start of the project, has been extremely successful. There are now over 900 organized groups based around water sources and some 270 settlements organized around other services. The consolidation of the more highly developed organizations (for example, the formation of a second level of organizations in municipalities or regions) is at an embryonic stage thus far. Certainly, the sustainability of the efforts and achievements to date will depend on the establishment of such organizations.*

I. Gender

9. *The gender approach was successfully adopted through PROSALAFAs despite the persistence of some conceptual and operational shortcomings. Although the project design addressed the gender theme through the 'women in development' approach current at the time of formulation, the project aligned itself with the new gender-in-development approach. This demonstrates the ability of PROSALAFAs to adjust to progress in this area.*

THE POVERTY AND GENDER SITUATION IN VENEZUELA

1. Based on preliminary information from Venezuela's 2001 population census, about 45% of the total population lives in poverty, and almost half of these people (20% of the population) are living in extreme poverty. According to the census, by 1990 there were 10 to 11 million people who fell under the poverty line, and 4 to 5 million people fell under the extreme poverty line. Due to the systematic economic decline, the incidence of rural poverty in Venezuela has risen over the last two decades. The incidence of poverty is much higher among the rural population (71%) than it is among the urban population (41%). In 1990, there were 81 rural municipalities in which more than 60% of the households were poor, but, by 2000, this figure had increased to 121 rural municipalities. During this period, the number of poor households grew from 223 000 to 542 000.¹

2. The causes of poverty in Venezuela can be traced to historical, economic and political factors. The general economic recession of the last two decades has contributed significantly to the rise in rural poverty. The short periods of economic growth have not been sufficient to achieve any impact on poverty because of the high income inequality in Venezuela. At the rural household level, the determinants of poverty include: (a) the lack of access to productive resources (land, quality soils, irrigation); (b) the limited access to basic services, particularly education, as level of education has been identified as a significant factor in household poverty; (c) the lack or limited number of social organizations; (d) the lack of access to markets; (e) the lack of access to appropriate technical and financial services; and (f) the lack of job training and support for access to formal employment.

3. Due to the ongoing economic crisis of the last decade, the living conditions of the rural poor have been declining in recent years. The majority of rural homes are made of adobe and are not well maintained; 49% have earthen floors, and 66% do not have running water or electricity. The extremely poor households have an average of 5.8 family members and only one room. The access of these households to schooling, health care and markets is very limited or non-existent. Schooling is a very serious problem because almost half of the extremely poor are children aged 0 to 14.

4. The rural poor can be divided into two main categories according to economic activity: peasant farmers (about 169 000) and agricultural and non-agricultural wage-workers (about 233 000). About one third of the economically active poor population is employed in non-agricultural activities. Additionally, rural women and indigenous and black people represent important segments among poor vulnerable groups in rural areas.

- (a) **Peasant farmers:** producers who belong to the lowest social strata among the peasantry. They have access to small pieces of land (which they own or rent) from which they obtain part of the products they require for subsistence, but they have to sell their labour to satisfy basic needs. Generally, the dependence of these producers on external employment is such that they could also be considered as members of the second category (below). The main difference between categories (a) and (b) lies in the fact that small farmers have access to land. The incidence of poverty is relatively high among this category: 76% are poor and 52% are extremely poor.
- (b) **Agricultural and non-agricultural wage-workers:** landless producers, both men and women, who do not have access to the basic means of production and employment. To ensure their subsistence, they depend totally on the sale of their own labour and the labour of their families and on small family enterprises. This category of people could benefit from land reform in terms of access to land and to services.

¹ Agricultural census, Ministry of Agriculture and Lands, 1997.

5. **Rural Women.** The situation of women in Venezuela is quite particular in that only 1.6% of economically active women are working in agriculture. The majority of these women are working in the informal sector in agriculture, as well as in the industrial and service sectors. Women who work in rural areas remain behind professionally and are isolated.² According to statistical figures, women represent 14.2% of the labour force in rural areas in Venezuela. They are typically landless workers who have to sell their labour to mid-size and large farms and industrial enterprises. Women are hired in large numbers during the harvest season for traditional crops (coffee and cocoa) in the Andes and the Central and Eastern regions, for fruits and vegetables in the Central and Western regions and as tobacco graders and dryers during the tobacco harvest. They also participate in livestock production, mainly in herding, and milking activities (42%) and in processing and marketing (37%). In spite of the efforts of many development projects that have focused on income-generation activities among women, planners have not paid adequate attention to the daily burden of household chores among women. This burden tends to increase women's work and the tasks they must accomplish. These projects include productive activities with very low returns and at a very low scale. Thus, rural women generally do not obtain sufficient incomes to advance beyond the subsistence level.

6. **Indigenous people.** This represents an important population group, which generally lives in conditions of severe poverty. Some ethnic groups are already involved in IFAD projects (Warao, Kariña). The IFAD-financed Poor Rural Communities Support Project and many non-governmental organizations (through public and private projects) are providing them with assistance.

7. **Black and mixed-race populations.** This category includes early migrants from Africa who settled along Venezuela's Caribbean coast and who show high levels of poverty and exclusion. Many are currently involved in the IFAD-financed Barlovento Project.

8. Rural poverty is widely distributed throughout Venezuela and exists even in slums located near urban areas. Almost 5% of the rural poor live close to Caracas, the capital city. About half the rural poor live in the Centro Occidental and the Andes regions, and almost 70% of the rural poor are concentrated in these two regions and the Nororiental region. These regions have, respectively, 74%, 65% and 72% of their populations living under the poverty line. The Llanos and Zuliana regions are home to 19% of all rural poor, but have, respectively, 80% and 75% of their total populations living under the poverty line (see table below).

INCIDENCE OF RURAL POVERTY BY REGION (%)

Region	Incidence	Distribution
Capital	64.59	4.54
Central	61.85	4.41
Centro Occidental	74.44	27.12
Zuliana	75.52	9.53
Andes	65.20	23.19
Llanos	80.36	9.67
Nororiental	71.54	15.45
Sur	77.85	6.08
Total	71.31	100.00

Source: IFAD (1999), Country Strategic Opportunities Paper for Venezuela.

² Agricultural census, Ministry of Agriculture and Lands, 1997.

PROJECT STRATEGY AND DESIGN

Project Conceptual Framework

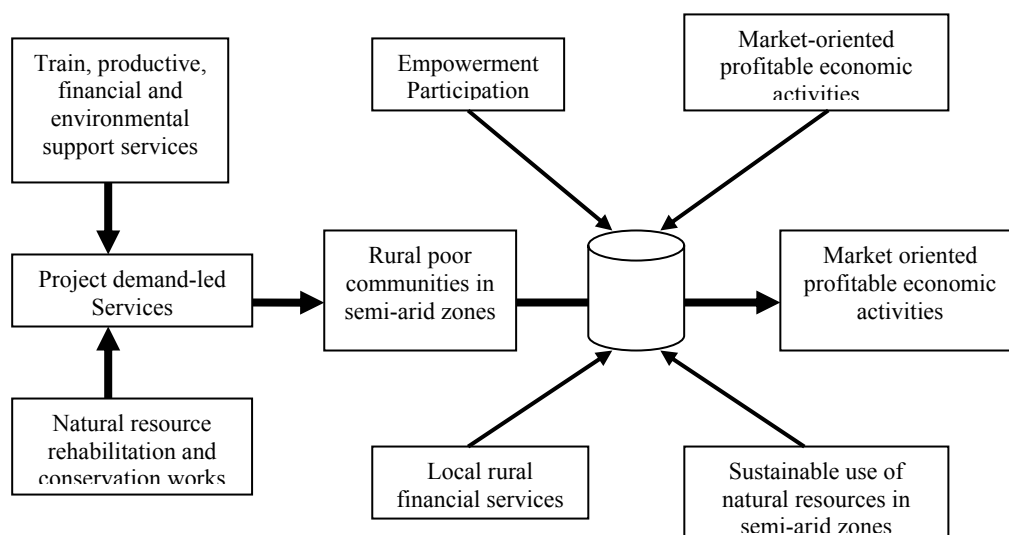


TABLE 1: PROJECT DESIGN MATRIX

Project Strategic Operational Axes	Strategic Framework for IFAD 2002–2006			Outputs
	Human and Social Assets	Productive Assets and Technology	Financial Assets and Markets	
Human and Social Capital Development	Strengthening the participatory capacity of the rural poor and their organizations	Participation in planning of local investments in productive infrastructure	The development of local markets	Empowerment, better living conditions, better educational levels
Rehabilitation, Conservation and Management of Natural Resources in Semi-Arid Zones	Training and consciousness-raising on natural resource conservation issues	Environmentally sustainable agricultural and non-agricultural productive practices	Access to higher price markets through higher quality agricultural and non-agricultural products	Rehabilitation of natural resources in semi-arid zones, access to water, and improved soils
Production Development	Strengthening the income-generating capacity of the poor	Access to local rural technical support services for production and marketing	Access to local rural marketing support services and financial services	Higher incomes
Rural Financial Services	The organization of local rural financial services (<i>cajas rurales</i>)	Access to financial services to enhance the capacity to use improved and innovative technologies	Access to savings, credit and other financial services	Empowerment, higher incomes

APPENDIX VI

TABLE 2: CONCEPTUAL AND OPERATIONAL DIFFERENCES BETWEEN PHASES I AND II OF PROSALAF A

	1st Phase	2nd Phase
1.	The project focused on the semi-arid zones of the states of Falcon and Lara, with the family productive system as the basic unit for agricultural extension planning	Micro-watersheds have been selected as the basic territorial unit for rural development in the semi-arid zones
2.	Emphasis on water conservation for human, agriculture and livestock use. Pilot actions related to natural resource conservation	Priority actions and investments in the integrated rehabilitation, use and management of natural resources in the semi-arid zones
3.	Main focus on productive and credit services and the strengthening of community organizations	Integral approach to rural development, involving social, economic, productive and environmental aspects, along with gender equity
4.	PROSALAF A evolved over the years to a more participatory approach. The term 'empowerment' was coined several years after the design of the project	Participation and empowerment among rural communities in the semi-arid zones
5.	Annual planning based on annual workplans	Strategic planning using participatory methodologies; communities and micro-watersheds as planning units
6.	Extension services based within the project offer technologies for agriculture and goat production, without any market or microenterprise focus	Microenterprise and market-oriented economic activities; a priority on competitive clusters and value-added chains
7.	PROSALAF A was designed as a self-sustained project, with limited institutional coordination, but evolved over the years to seek interinstitutional coordination	Public and private intra and interinstitutional coordination, particularly with municipal and state governments
8.	Large management units and many field staff, but no external service contractors	Small management units and fewer field staff, with all services contracted to private service providers

TABLE 3: ECONOMIC DEVELOPMENT OPPORTUNITIES AMONG THE TARGET POPULATION

Clusters	Project, Phase II Actions	
	Production	Marketing
Vegetables	Water storage and management Soil conservation and management Cost efficient productive technologies	Training Price information Market intelligence
Pineapples	Water storage and management Soil conservation and management Contour planting Cost efficient productive technologies	Associative marketing Storage facilities Local wholesale fairs Distilling technologies for liquor production
Cocuy (<i>Agave cocui</i>)	Water management	Contract production
Aloe vera (<i>Aloe barbadensis</i>)	Soil conservation and management Contour planting	Processing technologies for artisan shampoo and soap production
Sisal (<i>Agave sisalana</i>)	Cost efficient productive technologies	
Goats	Water storage and management Soil and vegetation conservation and management Supplementary feeding Breed improvement Better sanitation and herd management	Milk and kid price information Associative marketing Processing technologies for artisan cheese, milk candies and hide production Training
Hammocks	Associative purchasing of inputs Improved design and quality control	Price and market information Associative marketing
Fabrics	Organization of family labour	The development of market points
Wood carving	Creation and consolidation of productive organizations	Contract production with traders and exporters
Pottery	Improved processing technologies for artisan production	Training Participation in local and national fairs

ORGANIZATION AND MANAGEMENT

