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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
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Rome, 18-20 April 2005

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO THE

REPUBLIC OF EL SALVADOR

FOR THE

RURAL DEVELOPMENT AND MODERNIZATION PROJECT
FOR THE EASTERN REGION

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CURRENCY EQUIVALENTS

Currency Unit = United States dollar (USD)

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

PMU	project management unit
PROCHALATE	Rehabilitation and Development Project for War-Torn Areas in the Department of Chalatenango
PRODERNOR	Rural Development Project for the North-Eastern Region
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services

GOVERNMENT OF THE REPUBLIC OF EL SALVADOR**Fiscal Year**

1 January – 31 December

MAP OF THE PROJECT AREA



Source: Geographic Information System, Ministry of Agriculture.

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 EL SALVADOR

**RURAL DEVELOPMENT AND MODERNIZATION PROJECT
FOR THE EASTERN REGION**

FINANCING SUMMARY

INITIATING INSTITUTION:	IFAD
RECEPIENT:	Republic of El Salvador
EXECUTING AGENCY:	Ministry of Agriculture
TOTAL PROJECT COST:	USD 22.2 million
AMOUNT OF IFAD FINANCING:	Loan: SDR 9.95 million (equivalent to approximately USD 15.0 million) Grant: SDR 670 000 (equivalent to approximately USD 1.0 million)
TERMS OF IFAD LOAN:	18 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
CONTRIBUTION OF RECIPIENT:	USD 5.2 million
CONTRIBUTION OF BENEFICIARIES:	USD 1.0 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROJECT BRIEF

Who are the beneficiaries? The project target group includes 73 000 men and women living under the poverty line, comprising 33 000 direct and 40 000 indirect beneficiaries. The composition of the target group includes poor small farmers (75%), microentrepreneurs and artisans (10%), and young men and women (15%). The project will support the latter with training in labour skills. A total of 10 000 women heads of household, wives and life companions are direct beneficiaries.

Why are they poor? El Salvador is among the poorest countries in Latin America. From 1980 to 1992, the country endured 12 continuous years of civil war, causing deep social and infrastructural damage and a marked economic decline. The effects of Hurricane Mitch in 1998, two earthquakes in 2001 and the global decline of coffee prices further weakened the economy and increased poverty. Widespread rural poverty and a lack of economic opportunities were major causes of the internal conflict and the intensive migration of the Salvadoran population. In spite of some economic progress, the majority of the population faces low levels of social and human capital, limited access to productive assets, low income-generating capacity and a deteriorated natural resource base.

What they expect from the project? The project includes three major thrusts designed to overcome historical causes of poverty: (i) strengthening the human and capital resource base; (ii) transformation of current subsistence agricultural and non-agricultural activities into profitable, market-oriented rural business; and (iii) rehabilitation of deteriorated areas and establishment of a permanent pattern of sustainable natural resource use. The project will build beneficiaries capacity to participate in the process of developing profitable agricultural and non-agricultural rural business. To increase beneficiaries' income levels in a sustainable manner, the project will be organization, market and business oriented. It will evaluate the market competitiveness of both agricultural and non-agricultural productive activities to bring about a shift from subsistence production to income-oriented market production. In an interactive process, farmers' and micro-entrepreneurs' organizations will evaluate the marketing potential of selected products prior to receiving financial or technical support. To reduce transaction costs and promote more efficient management of production and marketing, the project will promote, strengthen and modernize smallholder and microenterprise economic organizations. The project will also support beneficiaries to reverse the deforestation, soil erosion, desertification, environmental deterioration and loss of water prevalent in the eastern region through training, education and investment.

How will the beneficiaries participate in the project? Beneficiaries will be involved in planning, management and supervision of community development activities, through participatory diagnosis and strategic planning. This will contribute to the empowerment of rural civil society, particularly the rural poor and their economic organizations. The project aims to support representative groups among beneficiaries in strengthening their capacity to express their views and negotiate their demands with local development programmes. Feedback mechanisms will be established with small farmers, contracted support organizations, the project management unit and technical staff. The participation of beneficiaries' representatives in local environmental councils will be supported; these councils will be part of the project's operational and decision-making structure. Beneficiaries will also participate in the project monitoring and evaluation system as part of systematic social audit practices.

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RURAL DEVELOPMENT AND MODERNIZATION PROJECT
FOR THE EASTERN REGION**

I submit the following report and recommendation on proposed financial assistance to the Republic of El Salvador, comprising a loan of SDR 9.95 million (equivalent to approximately USD 15.0 million) on ordinary terms and a grant of SDR 670 000 (equivalent to approximately USD 1.0 million) to help finance the Rural Development and Modernization Project for the Eastern Region. The loan will have a term of 18 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 United Nations Office for Project Services as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. The Republic of El Salvador is located on the Central American isthmus. With a total area of 21 040 km², it is the smallest and the most densely populated country in Central America. It borders Honduras to the north and east, Guatemala to the west and the Pacific Ocean to the south. The country's population was estimated at 6.4 million in 2002; it has an annual growth rate of 1.7%. It has also been estimated that over 1.3 million Salvadorans live in the United States of America as legal or illegal residents. Approximately 40% of the population is settled in rural areas and over half of the inhabitants are younger than 20 years.

2. In the past 30 years, El Salvador's economy has been transformed from an agricultural economy centred on coffee production to a largely service-based economy focusing on commerce and financial services. In 1985, agriculture made up 19% of GDP and services contributed 54%; in 2002, agriculture accounted for just 9% of GDP and services for 61%. The country has made remarkable economic, social, and political progress since it emerged from a 12-year civil war in 1992, but the earthquakes of 2001 brought new challenges to the national economy. The earthquakes affected 20% of the Salvadoran population, caused an estimated USD 1.6 billion in damage to physical assets, increased the poverty level by 3% to 4% and forced the Government to refocus its investment priorities. El Salvador's largest source of foreign exchange is remittances from Salvadorans working abroad, representing 15.1% of GDP and more than half the value of the country's exports. With a limited natural resource base, environmental problems and high population density, El Salvador must improve its competitiveness in order to accelerate economic growth and reduce poverty. A low tax base and national savings render the country vulnerable to fluctuations in remittances from Salvadorans living abroad.

3. Although agriculture registered very limited growth between 1998 and 2003, and its relative weight in the country's GDP has been steadily reduced, it remains important in terms of employment and valued added. The agricultural sector still employs nearly one quarter of the labour

¹ See Appendix I for additional information.

force, provides one third of export earnings and meets 70% of domestic food needs. Currently, 39% of the planted area is devoted to basic grains (such as maize, beans, rice and sorghum), 37% is devoted to pastures, 12% to coffee and 4% to sugar plantations; coffee and sugar are the main export crops. The country has been unable to meet domestic demand for basic grains in recent years.

4. The earthquakes of early 2001 devastated both domestic and export agriculture. The coffee industry suffered from damaged crops and processing facilities while the sugar industry suffered from damage to some small refineries. The devastation to export agriculture was exacerbated by falling international commodity prices and drought in the eastern rural areas of the country. With producers still highly indebted and access to new credit restricted, output has yet to recover despite a 2003 upturn in international prices. Apart from the immediate problems of malnutrition and inability to re-pay credit, the decline in agriculture is likely to induce further rural migration, both internally and to the United States.

B. Lessons Learned from Previous IFAD Experience

5. The implementation of IFAD's projects in El Salvador has produced a set of general and project-specific lessons and experiences. Following the political, economic, social and institutional changes in the country over the last decades, the primary lesson learned is the need for flexible project design and the capacity to adjust to changing conditions. With the implementation of the Rehabilitation and Development Project for War-Torn Areas in the Department of Chalatenango (PROCHALATE) in 1994, IFAD encouraged the participation of private rural development service providers in El Salvador by contracting NGOs, government institutions, local development groups and agricultural consulting enterprises. The gender strategy of the Rural Development Project for the Central Region (PRODAP-II) has been considered the most successful model of gender mainstreaming and institutional partnership in Latin America. As a direct result of its gender-oriented actions, the project pioneered: (i) inter-sectoral relationships establishing successful cooperation agreements with the Ministries of Education and Health to promote gender equity; and (ii) policy dialogue in coordination with the Salvadoran Institute for the Development of Women for the drafting and approval of pro-woman legislation. Gender training was provided to rural teachers and schoolchildren, while improved reproductive and general health services were brought to the project area. The Rural Development Project for the North-Eastern Region (PRODERNOR) pioneered a new rural development model for transforming subsistence agriculture into market-oriented rural activities.

C. IFAD's Strategy for Collaboration with El Salvador

6. The poverty and social conditions of El Salvador's rural population confirmed the need to continue targeting on small and landless farmers, and rural women as high priorities for joint IFAD-Government operations. Past IFAD interventions have also aimed at post-conflict reconstruction of war-torn departments. Under the current democratic Government, a nationwide programmatic approach has been taken to rural development. IFAD's long-term strategy aims to reduce poverty and promote rural development while strengthening government capacity, through an active policy dialogue agenda and budgetary resources, to implement sustainable and efficient rural-development and poverty-reduction activities.

7. As stated in the country strategic opportunities paper for El Salvador, IFAD's poverty-reduction strategies will address four important areas to improve the income-generating capacity of the rural poor: (i) agricultural innovation and transformation; (ii) microenterprise development; (iii) market linkages; and (iv) labour skills training. Experience from PROCHALATE and PRODAP-II has shown that substantial gains in income levels can be achieved only when beneficiaries cultivate market-linked crops, receive integral extension services and marketing

support, and participate in economic-oriented farmers' organizations. Environmental management and conservation, and gender equity were included as cross-cutting thrusts of the country strategy.

8. **El Salvador's policy for poverty eradication.** The political platform of the administration elected in 2004 outlined a set of policies to promote social integration, end exclusion of marginalized groups and significantly reduce poverty. To this end, the Government initiated a social welfare network, offering incentives to economically disadvantaged and socially excluded groups to foster productive activities. While giving high priority to social issues, the Government continues to work towards economic stability and sustainable growth. Government poverty reduction and rural development policies are implemented in four major institutional areas: (i) the multi-sector Extreme Poverty Eradication Plan and Compliance with the Millennium Development Goals; (ii) social investment programmes in education and health supported by the Ministries of Education and Health; (iii) social infrastructure investment operations included in the Social Protection and Local Development Project; and (iv) Ministry of Agriculture activities in poverty reduction and rural development, with the support of three on-going IFAD-financed projects. Another area of interest concerns relations with migrant communities abroad. The use of family and home town associations' remittances for more efficient social and economic activities is among the Government's goals. The new Deputy-Minister of Foreign Relations has the specific task of strengthening links between the Government and the Salvadoran diaspora.

9. The Ministry of Agriculture's new strategic policies are expressed in the documents El Salvador: Actions for Agricultural and Agro-industrial Development 2004–2009 and El Salvador: Strategies for Economic Growth and Poverty Reduction, presented by the President at a national event on 26 January 2005, and prepared by the Ministry with the support of IFAD, the Regional Unit for Technical Assistance, The United Kingdom's Department for International Development, the Inter-American Institute for Cooperation on Agriculture and the International Food Policy Research Institute. At a series of consultations and workshops with the private sector, trade unions and peasant organizations, a set of sectoral strategies were agreed upon and will be implemented during the next four years. The Ministry's major objectives are: (i) eradication of hunger and extreme poverty from rural areas; (ii) development of an export-oriented, diversified, competitive and profitable agricultural sector; and (iii) reversing the degradation of natural resources.

10. **Poverty eradication activities of other major donors.** The Inter-American Development Bank (IDB) portfolio comprises 19 projects amounting to USD 973.3 million that focus on economic reactivation, poverty reduction, human capital improvement and modernization of the State. The Agribusiness Reengineering Project, approved in 2001 and financed with a USD 35 million loan from the IDB, is the only ongoing IDB operation in the agricultural sector. The project focuses on reconstruction of irrigation systems damaged by the 2001 earthquake, technological innovation, substitution crops, agro-industry development and modernization of agricultural marketing systems. The World Bank's current portfolio contains USD 483.6 million in loans, focusing on rural and urban basic and secondary education.

11. The European Union maintains a portfolio of EUR 60 million, financing: state modernization; democratization and security; social and economic development of the rural sector; sustainability of watersheds; the health sector; and private-sector development. The Government of Japan, through the Japan International Cooperation Agency has supported El Salvador's Government in the preparation of the Eastern Region Economic Development Project, which includes the construction of a deep-water port in La Unión, road and irrigation infrastructure, industries, tourism, agriculture, watersheds and environmental management. Project financing is still under investigation. Other important bilateral donors include the United States Agency for International Development and the Agencia Española de Cooperación Internacional, with a focus on rural finance and environmental conservation.

12. **Project rationale.** The rationale for poverty alleviation in El Salvador is framed within the Government's commitment to reduce extreme poverty and comply with the Millennium Development Goals, the Ministry of Agriculture's rural and agricultural development policies, and the Strategic Framework for IFAD 2002-2006. The project has been designed using a matrix analysis of poverty determinants and rural development issues affecting the target group.² Low levels of social and human capital, limited access to productive assets, low income-generating capacity and a deteriorated natural resource base are the main determinants affecting small and landless farmers, and rural young people. The project includes three major thrusts: (i) strengthening the human and capital resource base; (ii) transformation of subsistence activities into profitable market-oriented rural businesses; and (iii) rehabilitation of deteriorated areas and establishment of a systematic pattern of sustainable natural resource use.

13. To increase beneficiaries' income levels in a sustainable manner, the project will be organization, market and business oriented. It will evaluate the market competitiveness of agricultural and non-agricultural activities to bring about a shift from subsistence production to income-oriented market production. The project's marketing support service will be the axis of its productive activities. In an interactive process, farmers' and microentrepreneurs' organizations will evaluate the marketing potential of selected products prior to receiving financial or technical support. To reduce transaction costs and promote more efficient management of production and marketing, the project will promote, strengthen and modernize smallholder and microenterprise economic organizations. Formal organizations, informally organized producers and interest groups will all have access to the project's services and investment funds, provided they engage in a formal organization process.

14. Given the importance of migration and remittances as coping strategies for the rural poor in the target region, the project will establish working relations with IFAD and IDB's Multilateral Investment Fund-financed Remittances and Rural Development Programme in order to consolidate relations with the Salvadoran diaspora in the United States. Efforts to develop effective mechanisms to channel the diaspora's human and financial resources towards rural development will be promoted.

PART II - THE PROJECT

A. Project Area and Target Group

15. The project area comprises the rural municipalities in the departments of La Unión, Morazán, San Miguel and Usulután. The project will focus on a total of 33 municipalities (16 in Morazán, 3 in La Unión, 6 in San Miguel and 8 in Usulután), identified by the Government's Extreme Poverty Eradication Plan and Compliance with the Millennium Development Goals as the poorest in the country.³ In these municipalities, the project and the Government's Extreme Poverty Eradication Plan actions will be combined to promote social and economic activities. Small farmer's production systems in the project area are predominantly oriented towards basic grains (such as maize, sorghum, rice and beans) for family consumption, with only surplus production marketed. In areas from 800 to 1 000 metres above sea level, small farmers are involved in coffee production. Other major small-scale crops include citrus (lemons and oranges), cashew nuts (*marañón*), mangoes and agave (*henequén*). In some irrigated areas, fruit-and-vegetable raising, including tomatoes, onions, hot and sweet peppers, watermelons and cantaloupes, has been introduced. In the coastal mangrove areas of Usulután and La Unión, shrimp-farming cooperatives produce fresh and refrigerated shrimp for local and export markets. Most small farmers are engaged in seasonal wage labor during the sugar cane and coffee harvesting season. Rural poor families raise small herds of native swine,

² See Appendix VI.

³ See Appendix VII.

poultry and criollo cattle using steep slopes as grazing areas. In La Unión and Morazán, manufacturing of traditional varieties of cheese for local markets and for Salvadoran migrants through informal routes in the United States is common. Local microenterprises also engage in services, eco-tourism and traditional wood, fabric and ceramic handicrafts.

16. The project target group has been estimated at 73 000 women and men, comprising 33 000 direct and 40 000 indirect beneficiaries. The target group includes poor small horticultural, livestock and shrimp farmers (75%), microentrepreneurs and artisans (10%), and young women and men (15%). The project will support young people with training in labour skills. A total of 10 000 woman heads of household, wives and life companions are direct beneficiaries.

B. Objectives and Scope

17. The project's goal is the reduction of poverty among the rural population – men, women and young people – in the departments of La Unión, Morazán, San Miguel and Usulután through social and productive investments, promotion of gender equity and environmental sustainability. The primary objective of the project is to improve the income levels and living conditions of small farmers, microentrepreneurs and wage workers in the eastern region of El Salvador.

C. Components

18. Based on the project strategic framework and design matrix, activities have been organized into three components: (i) human and social capital development; (ii) development of rural business; and (iii) rehabilitation and management of natural resources. A project management unit (PMU) will also be established and will include administrative, gender equity, monitoring and evaluation, and component coordination units.

19. The **human and social capital development** component's objective is the strengthening of beneficiaries' capacity to develop profitable agricultural and non-agricultural rural business. The component will strengthen human and capital resources through: (i) participative diagnosis and strategic development plans; (ii) training programmes for men and women beneficiaries; (iii) specific training for women in agricultural and non-agricultural production, organization and management to close gender gaps; (iv) leadership training for women and men; (v) training programmes for contracted service providers; and (vi) labour skills training for 5 000 young women and men. This component will also implement a rural communication programme to promote project activities and disseminate experiences and lessons learned with the aim of gaining support for a national poverty eradication campaign to reach the Millennium Development Goals.

20. The **development of rural business** component's objective is to support the target population in improving its income-generating capacity by transforming subsistence economic activities into small profitable rural agricultural and non-agricultural businesses. This component will strengthen market performance and the target population's ability to identify and profit from marketing opportunities, including evaluating risks. The component includes an information network, marketing contacts, links to the private entrepreneurial sector, management skills and infrastructure. The component's strategy is to provide beneficiaries' economic organizations with systematic access to rural technical support services in crop-raising, livestock, forestry, microenterprise and artisanal activities through a demand-led, participatory and market-oriented operative strategy. This component will track trade regulatory measures included in the Central America Free Trade Agreement (CAFTA) and Free Trade Area of the Americas (ALCA) and will keep target organizations informed about processing and sanitary requirements.

21. In a demand-led strategy, small farmers' formal and informal organizations, cooperatives and small rural enterprises will have access to technical services and financial support to strengthen

production, transformation and marketing capacities. Three lines of action will be implemented: (i) identification of agricultural and non-agricultural market opportunities; (ii) technical assistance services; and (iii) rural business financing. The latter will be implemented through: (i) provision of financial services by local multilateral finance institutions through PRODERNOR trust funds, under agreement with the Agricultural Development Bank and the Federación de Cajas de Crédito y de Bancos de los Trabajadores; (ii) establishment of a competitive non-reimbursable productive capitalization fund; and (iii) the use of remittances for rural business in cooperation with the IFAD/IDB Multilateral Investment Fund remittance programme. The productive capitalization fund will finance productive investments not currently financed by credit lines, such as small irrigation projects, marketing infrastructure (storage and classification sheds, and marketing facilities), agricultural and processing equipment, and repair and maintenance of rural feeder roads.

22. The **rehabilitation and management of natural resources** component's objective is to reverse deforestation, soil erosion, desertification, deterioration of the environment and loss of water quantity and quality in selected pilot areas. The strategy focuses on enhancing sub-soil water infiltration and conservation by increasing the vegetative cover, appropriate use of crop residues, soil and water management and conservation of biodiversity. Micro-watersheds will be the basic unit for interventions. Four major lines of action have been considered: (i) technical assistance to rural microenterprises on environmental issues, supported by the development of rural business component; (ii) an environmental education programme targeting rural schools; (iii) strengthening of departmental environmental committees; and (iv) two non-reimbursable environmental investment funds – one oriented to finance farmer organizations' environmental conservation works and the other to strengthen municipal governments' capacities for environmental planning, cofinancing water capturing and conservation, and watershed management. The environmental investments fund will operate in selected areas prioritized by their hydrological potential and environmental vulnerability, particularly their risk of mud slides,⁴ soil erosion and desertification. The environmental education programme will support rural teachers in selected municipalities to include environmental and natural resource management in their teaching activities.

23. The project's gender-equity actions are oriented to systematically reduce gender gaps in the eastern region. The gender operational strategy will focus on addressing discrimination and marginalization of rural women, particularly women heads of household. Gender equity strategies include: (i) creating the conditions for the equitable participation of rural women in economic organizations; (ii) better gender relations as a consequence of human and social capital-strengthening actions; (iii) equitable access to the project's technical assistance activities, including business and natural resource management technical assistance and funds; (iv) investments in reducing the time needed for women's domestic activities; and (v) attention to the specific needs of women and young people through strategic alliances between public- and private-sector organizations.

D. Costs, Financing and Loan Repayment

24. The total project cost is estimated at USD 22.2 million. The project will be financed as follows: IFAD loan, USD 15.0 million (67.6% of total costs); IFAD grant, USD 1.0 million (4.5%); government counterpart contribution, USD 5.2 million (23.4%); and beneficiary in-kind contribution, USD 1.0 million (4.5%). The base cost of each component is as follows: human and social capital development, USD 3.6 million (representing 18% of base project costs); development of rural business, USD 9.7 million (48%); and rehabilitation and management of natural resources, USD 3.8 million (19%). Project administration and management has a total base cost of USD 3.0 million, including: USD 1.6 million assigned to the PMU (8% of project costs);

⁴ Mud slide protection is a high-priority issue in Central American countries after the devastating effects, in human lives and property, brought by Hurricane Mitch in environmentally deteriorated watersheds.

USD 746 700 for monitoring and evaluation (4%); and USD 567 800 for gender equity (3%). Physical and price contingencies total USD 242 500 and USD 1.9 million respectively.

25. The IFAD grant will help cofinance municipal and departmental environmental plans, micro-watershed management, solid and liquid waste disposal plan; and activities to improve the living and producing conditions of the target population. This will enable economic organizations to achieve the sanitary conditions required to access export markets. An estimated 70% of project funds will flow directly to the target group in the form of technical assistance, training programmes, financial resources and productive and environmental investment funds. The project will be implemented over a period of eight years.

26. The loan is granted under ordinary terms with a repayment period of 18 years, including a grace period of three years. In accordance with IFAD's loans and grants operational manual, the amortization schedule is determined on the basis of the date the loan is approved by the Executive Board. However, El Salvador's national laws prohibit commitment of funds, either for project implementation or repayment, until the loan has been approved, signed and ratified by the National Assembly. Given that the budgeting process begins one year in advance, the three-year grace period starting from Board approval may be insufficient to include necessary funds for loan repayment in the national budget. Therefore, in accordance with Section IV, paragraph 32(f), of IFAD's Lending Policies and Criteria, the beginning of the grace period will be established in relation to the effectiveness date instead of the approval date. This will have no impact on the maturity date. The amount and number of instalments and the due dates will be adjusted accordingly and communicated to the Government once the loan has been declared effective.

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

Components	Local	Foreign Exchange	Total	% of Foreign Exchange	% of Base Cost
Human and social capital development	2 935.3	641.9	3 577.2	18	18
Participative diagnosis and planning	793.6	198.4	992.0	20	5
Adult training	536.6	134.2	670.8	20	3
Training of young entrepreneurs	1 003.0	250.8	1 253.8	20	6
Administration ^b	602.0	58.6	660.6	9	3
Development of rural business	8 385.9	1 328.6	9 714.5	14	48
Identification of rural business	225.8	56.5	282.3	20	1
Technical assistance	2 064.8	516.2	2 581.0	20	13
Financing of rural business	4 870.3	655.1	5 525.5	12	28
Administration	1 225.0	100.8	1 325.8	8	7
Rehabilitation and management of natural resources	3 578.4	241.0	3 819.5	6	19
Technical assistance	485.6	121.4	607.0	20	3
Environmental education programme	240.0	60.0	300.0	20	1
Environmental investment fund	2 000.0	---	2 000.0	---	10
Administration	852.8	59.6	912.5	7	5
Project management unit	2 773.1	192.7	2 965.8	6	15
Project administration ^c	1 587.6	63.8	1 651.4	4	8
Gender equity	495.3	72.5	567.8	13	3
Monitoring and evaluation	690.3	56.4	746.7	8	4
Total base costs	17 672.8	2 404.2	20 076.9	12	100
Physical contingencies	197.4	45.1	242.5	19	1
Price contingencies	1 697.1	183.4	1 880.5	10	9
Total project costs	19 567.3	2 632.6	22 200.0	12	111

^a Discrepancies in totals are due to rounding.

^b Includes social communication strategies and costs required to reach the Millennium Development Goals.

^c Includes publications and policy-dialog costs.

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

Components	IFAD Loan		IFAD Grant		Government		Beneficiaries		Total		Foreign Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
Human and social capital development	3 331.7	81.3	116.7	15.8	651.5	15.9	-	-	4 099.9	18.5	716.1	2 850.8	533.0
Participative diagnosis and planning	968.1	87.0	-	-	144.7	13.0	-	-	1 112.8	5.0	218.5	749.6	144.7
Adult training	665.9	87.0	-	-	99.5	13.0	-	-	765.4	3.4	149.6	516.4	99.5
Training of young entrepreneurs	1 289.1	87.0	-	-	192.6	13.0	-	-	1 481.7	6.7	286.8	1 002.4	192.6
Administration	408.5	55.2	116.7	15.8	214.7	29.0	-	-	739.9	3.3	61.2	582.5	96.2
Development of rural business	6 722.2	63.0	-	-	3 155.0	29.5	800.0	7.5	10 677.3	48.1	1 443.9	8 582.0	651.4
Identification of rural business	280.0	87.0	-	-	41.8	13.0	-	-	321.8	1.4	62.9	217.1	41.8
Technical assistance	2 539.1	87.0	-	-	379.4	13.0	-	-	2 918.5	13.1	564.1	1 975.0	379.4
Financing of rural business	2 891.2	48.7	-	-	2 247.2	37.8	800.0	13.5	5 938.5	26.7	711.7	5 191.4	35.3
Administration	1 011.9	67.5	-	-	486.5	32.5	-	-	1 498.4	6.7	105.1	1 198.5	194.8
Rehabilitation and management of natural resources	2 523.4	62.2	883.3	21.8	449.3	11.1	200.0	4.9	4 056.0	18.3	261.6	3 527.7	266.7
Technical assistance	592.1	87.0	-	-	88.5	13.0	-	-	680.5	3.1	132.1	459.9	88.5
Environmental education programme	286.6	82.6	15.3	4.4	45.1	13.0	-	-	347.0	1.6	67.6	234.4	45.1
Environmental investment fund	932.0	46.6	868.0	43.4	-	-	200.0	10.0	2 000.0	9.0	-	2 000.0	-
Administration	712.7	69.3	-	-	315.7	30.7	-	-	1 028.4	4.6	61.9	833.4	133.1
Project management unit	2 421.8	71.9	-	-	945.1	28.1	-	-	3 366.9	15.2	211.1	2 718.1	437.7
Project administration	1312.7	70.0	-	-	563.8	30.0	-	-	1 876.4	8.5	69.2	1 563.3	243.9
Gender equity	489.3	76.2	-	-	153.0	23.8	-	-	642.3	2.9	79.1	479.7	83.5
Monitoring and evaluation	619.9	73.1	-	-	228.3	26.9	-	-	848.2	3.8	62.8	675.2	110.3
Total project costs	14 999.1	67.6	1 000.0	4.5	5 200.8	23.4	1 000.0	4.5	22 200.0	100.0	2 632.6	17 678.8	1 888.7

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

27. Procurement to be financed from loan and grant resources will be carried out in accordance with IFAD's procurement guidelines.

28. A special account for the loan and a separate account for the grant will be set up at the Central Bank of El Salvador to facilitate the regular flow of funds – to be maintained in United States dollars. IFAD will make an initial deposit of USD 850 000 into the special account and an initial advance into the grant account based on project needs for the first six months of implementation. Both accounts will be replenished in accordance with established IFAD guidelines. A project account will be opened and managed at the local level for day-to-day activities. Disbursements for operating costs, salaries, funds, training and technical assistance costing less than USD 10 000 will be made against statements of expenditure. The documentation justifying these expenditures will be retained by the PMU and will be available for inspection by supervision missions and external auditors. All other withdrawals from the loan account will be based on full supporting documentation.

29. Upon loan effectiveness and prior to making the second deposit into the special account from the loan proceeds, the project will set up accounting and internal control systems, satisfactory to IFAD, to be implemented by a specialized local accounting firm. Accounting will be by component and category, and according to government expense classification procedures.

30. For the duration of the project, programme accounts will be audited, in accordance with International Standards on Auditing and IFAD's project audit guidelines, including IFAD and government contributions to the project. The format of the audited accounts and financial statements will be agreed upon at project start-up and will include opinions on the statements of expenditure and the operations of the special account, grant account and project account. These will be submitted to IFAD and the cooperating institution within six months after the close of each Government fiscal year until closing the loan and grant. If the audit report is not received within 30 days of the due date, or the audit report is unacceptable, IFAD may hire an independent auditor of its choice to carry out the project audit. An overdue audit report will trigger suspension of loan disbursements.

F. Organization and Management⁵

31. By agreement with the Government of El Salvador, the project will be implemented by the Ministry of Agriculture, under the direct responsibility of the Office for Project Coordination, following the institutional and administrative model of ongoing IFAD projects. A steering committee will provide policy and administrative guidance throughout the life of the project. The Minister of Agriculture or his representative will chair the committee. Other committee members from the Government will include either the Director of the Ministry's Office for Project Coordination or the Ministry/IFAD project coordinator, two representatives from departmental governments and two from municipal governments (nominated by the Corporation of Municipalities of El Salvador), elected biannually on a rotating basis. Project beneficiaries will be represented by one committee member from each department that is democratically elected from among leaders of local organizations on a rotating basis; a gender balance should be maintained in this representation.⁶ The steering committee will be responsible for approval and supervision of annual operating plans and budgets and for overall project guidance; it will meet at least twice a year. The project coordination committee established by IFAD in El Salvador will be involved to share experiences and maintain a common rural development focus. Policy dialog on rural development, poverty reduction and local inter-institutional coordination will be provided by four departmental consultative committees, one for each participating department.

⁵ See Appendix VIII.

⁶ At least two of the four representatives from beneficiary organizations should be women.

32. The PMU will consist of the project director, a technical sub-director and four support units: administration, gender, monitoring and evaluation; and component coordination. The PMU will obtain legal services on a retainer-fee contract to support competitive bidding processes and service contracts, and to propose innovative organizational models for beneficiaries' economic organizations. The component coordination unit will retain specialists in human and social capital development, rural business and natural resource management. These specialists will provide technical and methodological support to each component, developing field instruments and procedures in addition to: (i) preparing technical terms of reference for service providers and private consultants; (ii) supervising contracts prepared by project legal services; (iii) monitoring contracted service providers; (iv) participating in project funds committees; and (v) continually monitoring each component. Two mobile units, composed of agricultural and non-agricultural rural business advisors, will support beneficiaries' economic organizations in developing business plans, establishing technical assistance requirements and providing market information. As needed, national, state and local consulting companies, professional groups, private and government foundations, and NGOs will participate as contracted agents to provide training and productive services to beneficiaries. All contracts will be awarded through competitive bidding.

G. Economic Justification

33. The project will strengthen the productive and infrastructure resource base of 33 000 direct beneficiaries. This stimulus to the social and economic development of the region will also impact 40 000 indirect beneficiaries, who will capitalize on productive and environmental investments at the community, municipal and departmental level. Investments in training and organization – in addition to productive, marketing and environmental infrastructure, and basic services – will improve the living conditions of rural poor communities. The human resource capacity of rural young people in the eastern region will be enhanced through labour skills training of 5 000 rural youths, who will have the opportunity to initiate their own business ventures. Strengthened human and capital resources in addition to strong local economic organizations will enhance the sustainability of technical assistance services.

34. Approximately 24 500 beneficiaries, including at least 8 000 woman heads of household, wives and companions, will directly benefit from business plans, marketing and technical assistance and investment programmes. They will also directly benefit from rural financial services, including credit, non-reimbursable investments on small irrigation projects, classification and marketing infrastructure, and improvements to the regional communications network. The proposed activities will substantially increment current family income and generate new employment opportunities.⁷ In addition, 3 500 adults and 1 000 young women and men will be trained in microenterprise production, management and marketing techniques.

H. Risks

35. Project risks stem from: (i) a lack of political support and financial resources for implementing the Government's Extreme Poverty Eradication Plan and Compliance with the Millennium Development Goals, which could limit intra-sectoral coordination and investment in the project area; and (ii) political differences between municipal, departmental and central government authorities, which could affect the stability of project activities. The project's strategy to overcome risks includes: (i) an active communication strategy in support of the Millennium Development Goals; policy dialogue with the Government, especially the Ministry of Agriculture, regarding pro-poor strategies and support of budgetary allocations to the Extreme Poverty Eradication Plan; and (ii) active dialogue through departmental consultative committees, with the participation of local authorities and beneficiary organizations, to establish an adequate forum for transparent coordination and evaluation of project activities.

⁷ See Appendix IX.

I. Environmental Impact

36. The project has been classified as category B because environmental impacts can be addressed through environmentally sensitive actions and interventions. Grant resources of USD 1.0 million will support municipal environmental plans and pilot natural resource management projects in selected micro-watersheds. The Ministry of Agriculture's reforestation subsidy programme, the Ministry of Environment and Natural Resources' ongoing environmental actions and municipalities' budgetary resources will complement investments in natural resource and micro-watershed management in the project area. Investments in soil and water and vegetation management, and crop technologies will help to recover some areas in danger of degradation and desertification. Agricultural and microenterprise technical assistance will be consistent with safe practices in soil and water, and vegetation conservation, and the regulated use of pesticides and chemicals. Project support through environmental investment funds to municipal and departmental environmental committees, environmental education and beneficiary organizations will increase water infiltration and conservation, reduce soil erosion, improve watershed management and increase environmental awareness among stakeholders.

J. Innovative Features

37. Four innovative features are included in the project design. They are: (i) empowerment of the rural poor by combining the improvement of human and social resources with a gender perspective and a market-oriented rural business approach; (ii) a specific focus on rural young people's development potential and training of young women and men in skills required by labour markets, in order to enhance their ability to initiate their own business ventures; (iii) strengthened links between local communities and the Salvadoran diaspora in the United States to encourage investment of remittances in rural communities; and (iv) promotion of natural resource management and environmental conservation at the farm, micro-watershed and municipal level, with a broad innovative perspective. The project will not only promote soil and water conservation works, but also small village and community water supplies, and solid and liquid waste management plans. Successful experiences will be scaled up.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

38. A financing agreement between the Republic of El Salvador and IFAD constitutes the legal instrument for extending the proposed financial assistance to the recipient. A summary of the important supplementary assurances included in the negotiated financing agreement is attached as an annex.

39. The Republic of El Salvador is empowered under its laws to borrow from IFAD.

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

PART IV - RECOMMENDATION

41. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of El Salvador in various currencies in an amount equivalent to nine million nine hundred and fifty thousand special drawing rights (SDR 9 950 000) to mature on or prior to 15 May 2023 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.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of El Salvador in various currencies in an amount equivalent to six hundred and seventy thousand special drawing rights (SDR 670 000) and 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 FINANCING AGREEMENT**

(Negotiations concluded on 14 April 2005)

1. **Project account.** The PMU will open and maintain a current account in United States dollars at a bank agreed by the Government and IFAD for project operations. The project manager and the administrative and financial officer will be fully authorized to jointly administer and use the account.
2. **Counterpart funds.** During project implementation, the Government will make counterpart funds available to the project parties out of its own resources in a total amount of USD 5 200 800, in accordance with the annual workplans and budgets (AWP/Bs) and its customary practices for development assistance. As early as possible and in any event prior to the initial disbursement, the Government will make an initial budgetary allocation of USD 280 000 to cover the costs of the first year of the project. This sum will be made available to the project in partial amounts, in accordance with the needs of the project and in compliance with the AWP/B. In subsequent years, the Government will make budgetary allocations for the amount of counterpart funds set forth in the respective AWP/B and will make the allocations available to the project each year.
3. **Additional events of suspension.** IFAD may suspend, in whole or in part, the Government's right to request withdrawals from the loan account if: (i) the project manager has been removed from the project without IFAD's prior consent; (ii) IFAD has determined that the material benefits of the projects are accruing to persons other than the target group; (iii) the project implementation manual or any of its provisions has been transferred, waived, suspended, revoked, amended or otherwise modified without IFAD's prior consent, and IFAD has determined that such transfer, waiver, suspension, revocation, amendment or modification has had, or is likely to have, a material adverse impact on the project; (iv) the Government has failed to honour any commitment and IFAD has determined that such failure has harmed or is likely to harm the project; or (v) procurements have not been performed in accordance with the loan agreement.
4. **Project implementation manual.** The PMU will prepare a draft implementation manual and will submit it to IFAD for its no objection. It will subsequently forward the draft to the Ministry of Agriculture for approval.
5. **By-laws of the competitive fund for productive capitalization and the environmental investment fund.** The PMU will prepare a draft set of by-laws for each of these two funds and will submit them to IFAD for its no objection. It will subsequently forward the drafts to the Ministry of Agriculture for approval.
6. **Service administration agreement.** The Government will sign a service administration agreement with an international organization in El Salvador with a view to ensuring an adequate flow of the loan proceeds. The agreement will be signed after approval by IFAD.
7. **Monitoring and evaluation.** The monitoring and evaluation (M&E) unit will be situated in the PMU and will design a baseline study (including indicators of the results and impact management system [RIMS]), which will be entrusted to an independent institution under the supervision of the PMU. The M&E unit will furnish the project manager and the project steering committee with an annual evaluation, including an analysis of each of the components. Monitoring will be done by the PMU, and the evaluation will be subcontracted. The social audit function will be an integral part of the project activities.

8. **Gender.** The Government will ensure that the project helps to reduce existing gender inequality in the project area. It will ensure that the operational gender activities of the project are carried out and that gender equity is maintained in all opportunities created by the project. The gender specialist will supervise gender training and/or awareness-raising activities offered to community organizations and beneficiary families, as well as all project activities in which it is necessary to maintain clear gender equity. At least 20% of the staff of the institutions hired to provide technical support should be women. The gender activities include: (a) gender equity in the development of human and social capital; (b) strengthening of the mainstreaming of rural men and women under equal conditions in economic initiatives; and (c) strengthening the participation of rural men and women under equal conditions in natural resource management. During project implementation it will be ensured that each component has a differentiated intervention strategy for traditional families and for women heads of household. The gender unit will have a unit coordinator.

9. **Protection of resources.** The Government will take reasonable measures to ensure that applicable legislation is observed in terms of safeguarding water, forests and wildlife resources in the project area. It will also take all measures within its power to ensure the sustainability of the project without detriment to the environment.

10. **Conditions precedent to disbursement.** No withdrawals of loan proceeds may be made until such time as: (i) the Government has opened the project account and has made the initial contribution of counterpart funds available to the project parties; (ii) the service administration agreement has been duly signed with an international agency; and (iii) the by-laws of the competitive fund for productive capitalization and for the environmental investment fund have been approved by IFAD.

11. **Conditions precedent to effectiveness of the loan agreement.** The following are specified as conditions precedent to the effectiveness of the loan agreement:

- (a) the PMU has been established and the project manager has been selected and duly appointed with the prior no objection of IFAD;
- (b) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary governmental action; and
- (c) the Government has submitted to IFAD a legal opinion issued by the Legal Affairs Office of the General Directorate for Investment and Public Credit.

APPENDIX I

COUNTRY DATA

EL SALVADOR

Land area (km² thousand) 2002 1/	21	GNI per capita (USD) 2002 1/	2 110
Total population (million) 2002 1/	6.42	GDP per capita growth (annual %) 2002 1/	0.4
Population density (people per km²) 2002 1/	310	Inflation, consumer prices (annual %) 2002 1/	2
Local currency	USD	Exchange rate: USD 1 =	
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	1.7	GDP (USD million) 2002 1/	14 284
Crude birth rate (per thousand people) 2002 1/	26	Average annual rate of growth of GDP 1/ 1982-1992	2.1
Crude death rate (per thousand people) 2002 1/	6	1992-2002	3.7
Infant mortality rate (per thousand live births) 2002 1/	33	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	70	% agriculture	9
Number of rural poor (million) (approximate) 1/	n/a	% industry	30
Poor as % of total rural population 1/	n/a	% manufacturing	24
Total labour force (million) 2002 1/	2.84	% services	61
Female labour force as % of total 2002 1/	37	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	8
School enrolment, primary (% gross) 2002 1/	112 a/	Household final consumption expenditure, etc. (as % of GDP)	90
Adult illiteracy rate (% age 15 and above) 2002 1/	20	Gross domestic savings (as % of GDP)	2
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita 2/	n/a	Merchandise exports 2002 1/	2 992
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	23 a/	Merchandise imports 2002 1/	5 190
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	12 a/	Balance of merchandise trade	-2 198
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	8 a/	before official transfers 2002 1/	-2 464
Physicians (per thousand people) 2002 1/	n/a	after official transfers 2002 1/	-384
Population using improved water sources (%) 2002 3/	77 a/	Foreign direct investment, net 2002 1/	234
Population with access to essential drugs (%) 1999 3/	80-94	Government Finance	
Population using adequate sanitation facilities (%) 2002 3/	82 a/	Overall budget balance (including grants) (as % of GDP) 2002 1/	0 a/
Agriculture and Food		Total expenditure (% of GDP) 2002 1/	3 a/
Food imports (% of merchandise imports) 2002 1/	18	Total external debt (USD million) 2002 1/	5 828
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	1 109 a/	Present value of debt (as % of GNI) 2002 1/	44
Food production index (1989-91=100) 2002 1/	110	Total debt service (% of exports of goods and services) 2002 1/	8
Cereal yield (kg per ha) 2002 1/	2 477	Lending interest rate (%) 2002 1/	14 a/
Land Use		Deposit interest rate (%) 2002 1/	9 a/
Arable land as % of land area 2002 1/	32		
Forest area as % of total land area 2002 1/	6 a/		
Irrigated land as % of cropland 2002 1/	5 a/		

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

1/ World Bank, *World Development Indicators* database CD ROM 2004

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2004

PREVIOUS IFAD FINANCING IN EL SALVADOR

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
Agricultural Credit Project for Phase III of a Programme	IDB	IDB	I	12 Dec 84	26 Sep 85	30 Jun 90	L - I - 163 - ES	SDR	5 050 000	100%
Smallholders' Agricultural Development Project in the Paracentral Region	IFAD	BCIE	I	02 Oct 90	30 Nov 92	30 Jun 01	G - I - 502 - SV	USD	14 000	58%
Smallholders' Agricultural Development Project in the Paracentral Region	IFAD	BCIE	I	02 Oct 90	30 Nov 92	30 Jun 01	L - I - 267 - ES	SDR	6 500 000	97%
Rehabilitation and Development Project for War-Torn Areas in the Department of Chalatenango	IFAD	UNOPS	I	03 Dec 92	08 Mar 94	31 Dec 02	G - I - 576 - SV	USD	22 000	100%
Rehabilitation and Development Project for War-Torn Areas in the Department of Chalatenango	IFAD	UNOPS	I	03 Dec 92	08 Mar 94	31 Dec 02	L - I - 322 - ES	SDR	9 250 000	100%
Rural Development Project for the North-eastern Region	IFAD	UNOPS	I	04 Dec 97	21 May 99	30 Jun 05	L - I - 465 - SV	SDR	13 050 000	84%
Rural Development Project for the Central Region (PRODAP-II)	IFAD	UNOPS	I	29 Apr 99	05 Apr 01	31 Dec 07	L - I - 508 - SV	SDR	9 550 000	61%
Reconstruction and Rural Modernization Programme	IFAD	UNOPS	HC	06 Dec 01	23 Dec 02	30 Jun 09	L - I - 579 - SV	SDR	15 650 000	11%

LOGICAL FRAMEWORK

El Salvador: Rural Development and Modernization Project for the Eastern Region
Logical Framework and RIMS Reporting Format

OBJECTIVES	INDICATORS ⁸	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Development Goal Living conditions of men, women and young small farmers and micro-entrepreneurs of the Eastern Region are significantly improved</p>	<ul style="list-style-type: none"> • <i>5.000 households with improved assets ownership, disaggregated by sex</i> • <i>50 % of reduction of the prevalence of child malnutrition, disaggregated by sex</i> • <i>3.500 households with sustainable access to an improved source of water (drinking water)</i> 	<ul style="list-style-type: none"> • RIMS benchmark, mid-term and terminal survey 	
<p>Objective of the Programme Rural organizations and their members enhance their economic, social and environmental development options and opportunities for improved rural livelihoods in the Departments of La Unión, Morazán, San Miguel and Usulután</p>	<ul style="list-style-type: none"> • <i>7.750 households have improved their food security</i> • <i>500 enterprises operational/functional</i> • <i>1050 women on management committees</i> • <i>600 enterprises operating after three years</i> • <i>12.750 jobs generated by small and medium enterprises</i> • <i>50 % of young people inserted in the labor market, disaggregated by sex</i> 	<ul style="list-style-type: none"> • Terminal and mid-term surveys • M&E reports • Rural Appraisal Studies • Methodology of Pro-genero- – Closing the gender gap- • Business analysis of target group • GIS systems results 	<ul style="list-style-type: none"> • Poverty mitigation policies are fostered by the national government
<p>Human and Social Capital Strengthening Component Output 1 Economic organizations are strengthened and empowered in their management business and entrepreneurial capacities</p> <p>Output 2 Departmental Consultative Committees have strengthened their capacities for intervention in the rural development process through generating specific policies for poverty reduction and dialogue opportunities</p>	<p>Rural community development</p> <ul style="list-style-type: none"> • <i>840 economic groups formed/strengthened</i> • <i>28.000 people –men and women- belonging to groups</i> • <i>1.710 leaders –men and women- strengthened in their capacities to lead associative development processes</i> • <i>500 economic groups with women in leadership positions</i> • <i>500 projects implemented by economic groups.</i> • <i>5.000 young people –men and women- trained in technical skills</i> • <i>Poverty reduction policies generated are incorporated into a national strategy for poverty reduction of the GOES</i> 	<ul style="list-style-type: none"> • Annual Monitoring reports • Records of systematization • Diagnostic and participative plan of economic organizations • Reports of providers of services • Records of organizations • Records of local forums 	<ul style="list-style-type: none"> • Local political power does not interfere with the implementation of the project

⁸ RIMS indicators are in italics. Economic organizations (or groups) are equivalent to small and medium enterprises.

OBJECTIVES	INDICATORS ⁸	MEANS OF VERIFICATION	ASSUMPTIONS
with the main actors involved			
<p>Rural Business Development Component Output 3</p> <p>Rural technical market oriented and entrepreneurial support services are delivered to the rural poor beneficiaries and their economic organizations</p>	<p>Rural services</p> <ul style="list-style-type: none"> • 28 000 persons-men and women- receiving project services • 25 200 people –men and women- accessing technical advisory services • 60% of enterprises with improved procedures of business management <p>Rural enterprises development</p> <ul style="list-style-type: none"> • 17 000 persons –men and women- trained in productive skills • 60% of enterprises are integrated in the market information system • 60% of enterprises with profitable market channels for commercialization in the local and external market • 60% of enterprises having access to new markets <p>Rural financial Services (Funds)</p> <ul style="list-style-type: none"> • 3 750 active borrowers of local IFIs financed by the Trust Fund disaggregated by sex • 17 000 direct beneficiaries of Competitive fund • 10 projects identified and supported jointly with IFAD Remittances Grant 	<ul style="list-style-type: none"> • Annual Monitoring reports • Records of systematization • Diagnostic and participative plan of economic organizations • Reports of providers of services • Records of organizations 	<ul style="list-style-type: none"> • There is stability in the relative price of expenses, products and services
<p>Rehabilitation and Natural Resource Management Component * Output 4</p> <p>Beneficiaries are enabled to revert in the priority areas processes of soil erosion, desertification, and the deterioration of available water for productive activities.</p>	<p>Natural resource management</p> <ul style="list-style-type: none"> • 50 trainers trained in their capacities in environmental education, disaggregated by sex • 25 500 people trained in their capacities in environmental education, disaggregated by sex and type of student • 40 000 has with land improved through soil and water conservation measures • 10 environmental units and councils in Municipalities strengthened their capacities in management of environmental policies • 13 resource management plans enacted <p>Environmental fund</p> <ul style="list-style-type: none"> • 500 enterprises having access to environmental funds by type of investment • 13 Municipalities having access to environmental funds by type of investment 	<ul style="list-style-type: none"> • Annual Monitoring reports • Records of systematization • Diagnostic and participative plan of economic organizations • Reports of providers of services • Diagnostic and environmental plan of Municipality • GIS mapping • School curriculums 	<ul style="list-style-type: none"> • Organizations and Municipalities develop a long term vision about proper care of natural resources that are not significantly modified when authorities are changed

* Includes loan and grant financing activities.

RIMS REPORTING FORMAT EL SALVADOR

Results and Impact System:

			Benchmark	Mid-term	Completion	Target		
Impact indicators	Households that have improved food security	number				7750		
(2nd level indicators)	Households with improvement in household assets ownership index	number				5000		
	Prevalence of child malnutrition (height for age, girls/boys)	percentage				50% of reduction		
	Households with sustainable access to an improved source of water	number				3.500		
			Period: First Year		Cumulative			
Component/ Output/	Indicator	Unit	AWP&B	Actual	% of AWPB	Appraisal	Actual	% of Appraisal
General	Persons receiving direct project services	number				28.000		
		number/women				11.200		
	Enterprises operational/functional	number				500		
	Women on management committees	number				1050		
	Enterprises operating after three years	number				600		
	Jobs generated by small and medium enterprises	number				12.750		
C1: Human and Social Capital Strengthening								
Output 1:	Economic groups formed/strengthened	number				840		
	People belonging to groups	number				28.000		
	Groups with women in leadership positions	number				500		
	Projects implemented by small and medium enterprises	number				500		
C2: Rural Business Development								
Output 3:	Persons receiving project services	number				28.000		
	Persons accessing technical advisory services	number				25.200		
	Persons trained in productive skills	number				17.000		
	Active borrowers of local IFIs	number				3750		
C3: Rehabilitation and natural resource management								
Output 4:	Trainers trained in environmental education	number				50		
	Persons trained in environmental education by gender and type of student	number				25.500		
	Land improved through soil and water conservation measures	ha				40.000		
	Resource management plans enacted	number				13		

RURAL POVERTY IN EL SALVADOR

1. Over the last 10 years, poverty in El Salvador has shown a steady and significant reduction, evolving from 52,9 in 1995 to 42,9% in 2002 in the total country population. In rural areas, poverty levels still remain high with 55,8% of the population living under the poverty line. The proportion of people living under the extreme poverty line has remained almost constant over the period 1995 – 2002 (Table 1), an remains at 29,1% in rural areas.

Table 1: Evolution of Poverty and Extreme Poverty in El Salvador 1995 – 2002
(in % of the population)

		1995	1996	1997	1998	1999	2000	2001	2002
Poverty	Country	52,9	58,1	55,4	50,5	47,5	44,7	44,4	42,9
	Urban	43,9	47,6	44,3	40,6	37,6	34,3	35,3	34,0
	Rural	63,9	70,7	69,2	64,0	61,2	59,3	57,2	55,8
Extreme Poverty	Country	21,0	26,3	23,2	22,6	20,1	19,3	19,3	19,2
	Urban	14,1	17,4	14,7	14,8	12,2	10,8	11,9	12,2
	Rural	29,2	37,0	33,6	33,3	30,9	31,1	30,0	29,1

Source: PNUD. 2003. Informe sobre Desarrollo Humano en El Salvador. Compendio estadístico.

2. According to UNDP (2003), poverty reduction is explained by a series of factors: (i) sustained levels of economic growth; (ii) increments in the proportion of the national budget (and of the GDP) devoted to social investments; (iii) use of innovative social investment funds and programmes; and (iv) coping and development strategies of the poor population. Migration to the US and the correspondent flow of remittances has been one of the major factors of poverty reduction. Remittances' impact has been more significant than several GOES social programmes.

3. Educational level is an important determinant of poverty. The low levels of education that were prevalent during the 70's in Central America were aggravated by 12 years of internal conflict and the consequent economic crisis. While an important effort has been made during the 1990 – 2000 decade and a reduction of 13% in the incidence of illiteracy has been achieved, still 20% of the population older than 10 years of age are illiterate. Differences are significant by sex and location: while 34.6% of rural women are illiterate the corresponding figure for males is 28.7%.

4. A differential access to labour opportunities and education are part of the determinants of the urban-rural income gap. By 2001 the average urban income was 2.7 times the average for rural areas. The highest urban income segment earned more than 30 times the salary of the lowest rural segment. This difference is also important from a gender perspective (USD 126,8 for men vs USD 92,2for woman), showing a high degree of gender inequities in the rural sector.

5. Poverty in El Salvador has historical roots related to the inequities that generated the armed conflict during the 80's. Over the last decade the urban oriented manufacturing and services economic model, while improving the conditions of the urban poor, has been unable to solve social and economic differences affecting rural populations. The great dependency of the rural poor, particularly the extremely poor, on agriculture for a significant proportion of their income, either as producers or labourers, has further reduced their possibilities of improving their living conditions. The situation is aggravated by the inefficiencies and low performance showed by the agricultural sector over the last decade.

AREAS OF IFAD GOVERNMENT POLICY DIALOGUE

The GOES has established a set of national and sector policies that provide guidance to the country's poverty alleviation and social investment programmes for the period 2005 - 2009. El Salvador's institutional frame for an active IFAD/GOES policy dialogue involves the participation of the Ministry of Agriculture and Livestock (MAG), responsible for agricultural/rural development and poverty alleviation. Given the past harmonized approach to poverty alleviation between the Fund and MAG and the wealth of experiences and lessons learned derived from previous and on-going IFAD projects, policy dialogue will continue to concentrate on conceptual and operational issues. Areas for policy dialog include:

- **Institutional framework for poverty alleviation:** To effectively implement the Nation's Plan 2004 – 2009 as well as MAG's policy-framework for poverty alleviation, MAG's institutional framework for programme and project implementation needs to be strengthened. As stated, IFAD's operations have focused on an area-based project approach, directly related to the post-conflict pacification and reconstruction needs. Presently, with a more stable political and economic context the design and implementation of an institutional framework for long term poverty alleviation programme needs to be addressed. IFAD and GOES maintain an active dialog with regard to the nature, participants and operative schemes that could shape a poverty alleviation/rural development policies and strategies. IFAD, RUTA, IICA, DFID, GTZ and other local institutions have actively participated in the discussion of this issue, and as a result, a Sector Policies document has been prepared and presented to the Nation by the President of El Salvador, January 26, 2005. As the Extreme Poverty Eradication Plan and Compliance with the Millennium Development Goals initiative starts its operations in 2005, further interactions are foreseen to put in place adequate and innovative operational and institutional alternatives.
- **Rural Development and Decentralization:** The decentralization process that has been implemented over the last decade as part of GOES rural development strategy, has meant the mobilization of planning, decision making and implementation of state initiatives to local governments in the area of rural and social development. However, local lack of consensus among major political parties have prevented the full implementation of decentralization policies and actions. Thus, an open and broad policy dialogue should be promoted by IFAD to encourage GOES central institutions and policy decision makers to continue improving mechanisms for transferring decision power and resources to local governments. Given the political division of El Salvador in municipal districts (with elected officials) and departments (with appointed officials), studies and analysis should indicate what responsibilities, functions and financial resources should be place in each on them. The present project has established four Departmental Consultative Committees, one for each participating department in order to strengthen policy dialog on rural development, poverty reduction and decentralization, as well as local inter institutional coordination.
- **Rural Financial Services:** As previously stated, the design of PROCHALATE in 1992 proposed an innovation in rural financial services by including local financial service institutions (mostly local S&L cooperatives) as credit providers. However, due to political, operational and legal restrictions, its implementation faced problems that prevented the full achievement of the expected results. A new law regulating formal and informal financial institutions has recently been enacted, opening possibilities for the participation of rural organizations as providers of financial services. Given the importance of accessible rural financial services to poor rural populations, this area of policy dialog with MAG should continue in the present project, using inputs from PRODERNOR, PRODAP-II and PREMODER field operations.

APPENDIX VI

MATRIX OF POVERTY DETERMINANTS AND REQUIRED PROJECT ACTIONS

IFAD Target Group	Poverty Determinant	Effects	Required Project Actions
Men and women landless farmers and rural youth	Low level of human capital	Low self-esteem	<ul style="list-style-type: none"> • Education and training • Empowerment
		Illiteracy	<ul style="list-style-type: none"> • Basic Education
	Low level of social capital	Low organizational Capacity	<ul style="list-style-type: none"> • Training in organization & management
	Low labor skills	Low income generating capacity	<ul style="list-style-type: none"> • Labor skill training
Men and women subsistence, small poor farmers and small rural entrepreneurs	Low level of productive assets	Low income generating capacity	<ul style="list-style-type: none"> • Marketing support services • Market oriented agricultural & non-agricultural demand-led supporting services • Adapted technology
		High transaction costs	<ul style="list-style-type: none"> • Promotion of productive and marketing economic organizations
		Low level of access to financial resources	<ul style="list-style-type: none"> • Rural Modernization Fund • Support to access current and new rural financial services
	Degraded natural resources	Low productivity and limited sustainability	<ul style="list-style-type: none"> • Pro-active natural resource management support actions • Environmentally sensitive productive technologies • Strengthen organizations and municipal governments capacity to establish environmentally sound policies and actions • Environmental Funds

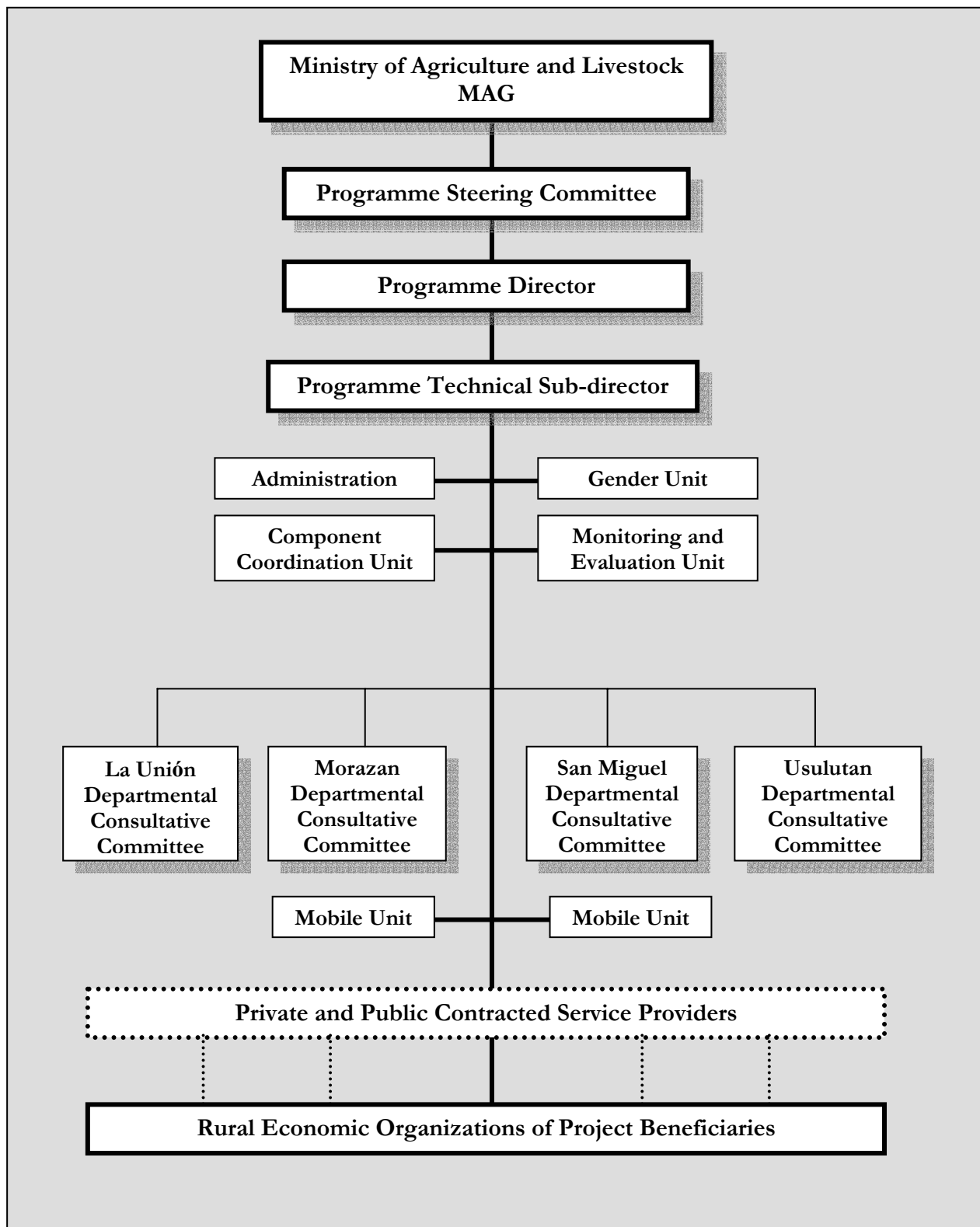
APPENDIX VII

PROJECT PRIORITY MUNICIPALITIES

(Based on poverty levels of municipalities as evaluated by GOES Extreme Poverty Eradication Plan and Compliance with the Millennium Development Goals)

Department	Municipalities	Population	Area (km ²)	Social Investment Budget (USD)	Poverty Index
Morazán	Torola	1 521	58,26	179 096	53,9
	Guatajiagua	10 842	70,77	468 591	47,0
	Gualococti	3 296	18,62	227 432	48,4
	San Isidro	3 320	11,51	223 461	46,7
	Joateca	3 844	66,27	261 548	40,7
	San Simón	9 317	39,14	408 625	40,2
	Cacaopera	10 484	135,70	482 192	35,9
	Corinto	17 384	95,00	666 747	35,2
	Yamabal	3 852	84,10	270 644	36,9
	Arambala	2 115	114,20	222 255	31,1
	Chilanga	9 014	34,30	408 685	34,8
	San Fernando	1 029	26,90	163 181	35,1
	Sensembra	3 335	22,00	238 102	36,9
	Lolotiquillo	4 837	22,60	283 287	33,2
	Tecapán	8 238	48,40	383 335	31,9
	El Rosario	1 286	19,10	166 416	30,5
Delicias de Concepción	4 956	20,20	277 611	30,2	
San Miguel	San Antonio	7 820	16,91	338 754	52,1
	Carolina	9 210	52,92	412 595	41,5
	Sesori	12 462	203,30	537 233	30,2
	San Gerardo	6 321	82,80	338 576	32,2
	Ciudad Barrios	32 534	68,10	811 939	31,3
	San Jorge	9 460	37,70	409 703	30,5
Usulután	Nueva Granada	8 179	89,73	394 457	50,1
	San Agustín	4 425	103,44	268 666	41,2
	San Francisco Javier	6 043	45,30	312 910	40,1
	Alegría	13 585	40,40	494 652	36,8
	Concepción Batres	12 379	119,10	506 417	29,0
	Ozatlan	12 109	50,20	463 956	29,5
Juacurán	12 777	239,70	539 224	32,8	
La Unión	Lislique	17 075	98,90	566 692	36,2
	Yayantique	5 925	41,90	310 022	30,4
	San Jose	4 528	45,20	261 885	29,6

ORGANIZATION AND MANAGEMENT



APPENDIX IX

FINANCIAL RESULTS OF AGRICULTURAL BUSINESSES

1. Proposed innovative agricultural and non-agricultural activities would substantially increment current family income, and will generate new labour positions (see table below). Five examples of economic activities found in the Project area, with potential for expanded production and marketing are the cultivation of “persico” lemon (*Citrus latifolia*), organic coffee, shrimp farming, the traditional family cheese manufacturing, small bakery and rural tourism.

2. All five activities show good economic indicators, with rural tourism and small bakery presenting an advantage in terms of generation of labour and daily wages (1 800 and 2 027 wages/years, respectively) and permanent yearly labour positions (5, 0 and 6,0, respectively). The rural tourism micro-enterprise generates the largest annual net income of USD 16 496. All agricultural and non-agricultural models are prevalent in the project area, with no-restrictions in the rate of up-take of the selected models; in many cases, Project actions will involve the improvement of production, transformation and marketing processes of current economic activities.

3. The rural tourism micro-enterprise is new in the Project area, however to date several small units have been established in the mountainous and pine forest areas of Morazán. The project strategy is focused on the improvement of and the introduction of a business approach to agricultural and non-agricultural activities that are already present in the area, while introducing innovative initiatives to a selected group of consolidated farmers or micro-entrepreneurs organizations.

Economic Indicators of Proposed Agricultural Activities

Activity	Unit of measurement	Generation of Employment		Net Income USD/season	Internal Rate of Return %
		Daily Wages wages/year	Labor Positions No. of positions		
Lemon	1 ha	232	1.0	4 355	43
Gourmet Coffee	1 ha	321	1.0	688	18
Shrimp farming	1 ha	540	1.0	6 225	46
Cheese manufacturing	Small 400 lt family processing y plant	765	3.0	8 950	NA
Small bakery	Micro-enterprise	1 800	5,0	10 785	39
Rural tourism	Micro-enterprise	2 027	6,0	16 496	185