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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED

GRANT UNDER THE COUNTRY-SPECIFIC GRANTS WINDOW

TO THE

NATIONAL PEACE FUND

FOR THE

SMALLHOLDER AGRICULTURAL PRODUCTION REACTIVATION AND

INFRASTRUCTURE RECONSTRUCTION PROGRAMME

IN RESPONSE TO HURRICANE STAN

IN THE DEPARTMENT OF SOLOLÁ, GUATEMALA

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ABBREVIATIONS AND ACRONYMS

CEP	Programme Coordination Executive
FONAPAZ	National Peace Fund (<i>Fondo Nacional para la Paz</i>)
MAGA	Ministry of Agriculture, Livestock and Food (<i>Ministerio de Agricultura, Ganadería y Alimentación</i>)
UNDP	United Nations Development Programme

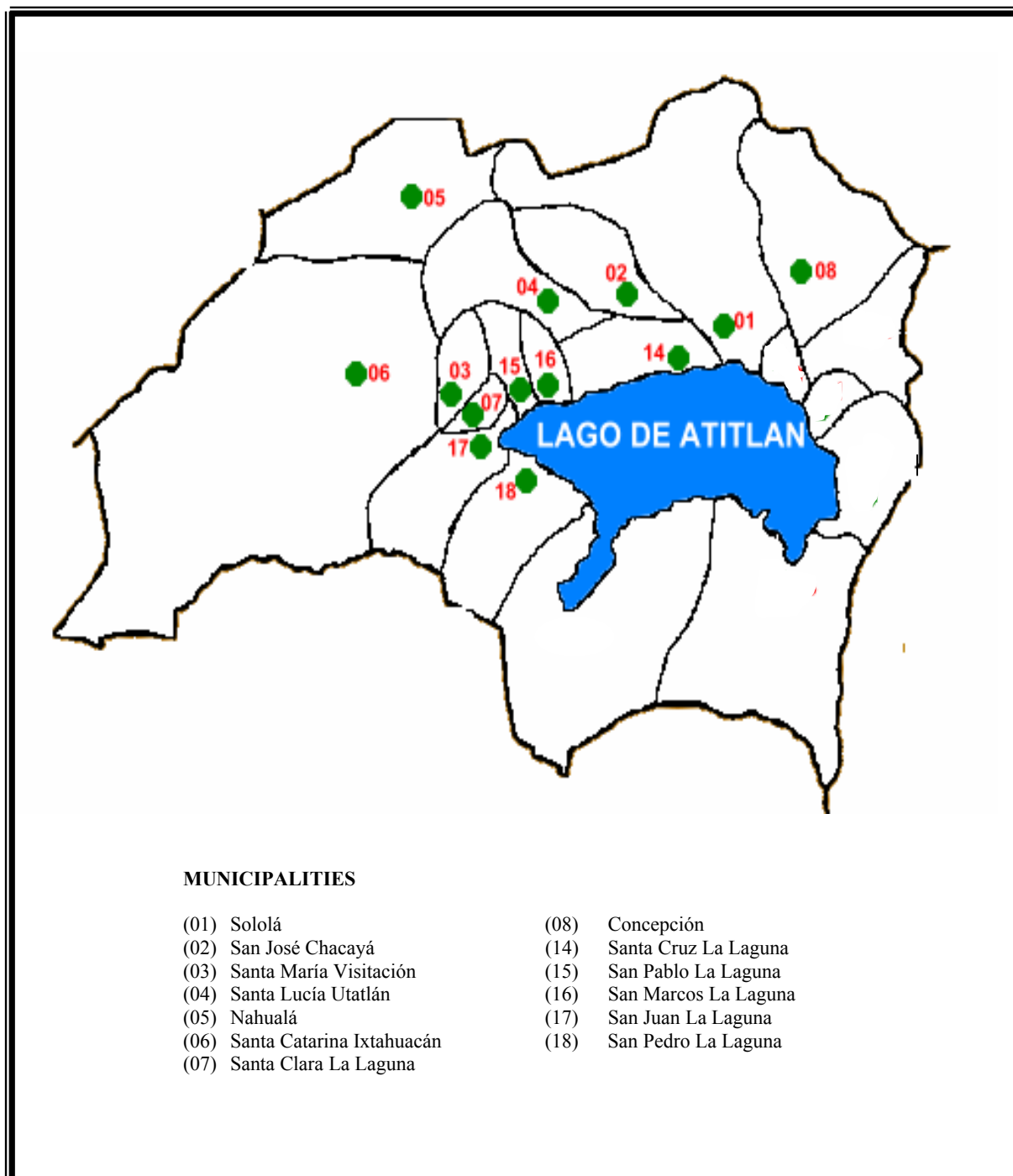
MAP OF THE COUNTRY



Source: IFAD

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

MAP OF THE PROGRAMME AREA



Source: FONAPAZ

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I submit the following report and recommendation on a proposed grant to the National Peace Fund to support the Smallholder Agricultural Production Reactivation and Infrastructure Reconstruction Programme in Response to Hurricane Stan in the Department of Sololá, Guatemala, in the amount of USD 500 000 for a 12-month period.

I. BACKGROUND

1. In October 2005, Hurricane Stan devastated several regions of Guatemala and other Central American countries, as well as various states of south-eastern Mexico. Although the detailed estimation of the damage caused to economic and social infrastructure is under way, it has already been acknowledged that the hurricane hit very densely populated areas, as well as zones with high agricultural production potential. This disaster, which encompasses severe losses in agricultural lands and production inputs and tools, took place at a crucial time for many of the beneficiaries of IFAD-financed projects in the area because the planting season in Central America was approaching, especially for important food crops such as beans and corn. Coffee production, which is an important cash crop for smallholders and a generator of foreign currency in these countries, has been devastated as well. The Sololá Department, inhabited largely by the *Tzutuhil*, *Cakchiquel* and *Quiché* indigenous populations, suffered dramatic floods and landslides in several valleys and watersheds to the point that entire villages were covered by mud and rocks, with the consequent loss of human life and the destruction of rural housing, agricultural lands, roads, bridges and irrigation facilities. The National Commission for Disaster Reduction reported that 670 people had died and 900 were missing, in addition to around 25 000 houses damaged or destroyed.

2. **Country and sectoral context.** After 35 years of civil war, the Government of Guatemala and the Guatemalan National Revolutionary Union signed a peace accord in December 1996, opening a new era of political and social stability, as well as creating an adequate framework for economic development. The country has maintained a stable macroeconomic course, but the Government faces considerable challenges in the effort to substantially reduce the extremely high levels of rural poverty. The agricultural sector accounts for 24% of the country's GDP, employs 53% of the labour force and accounts for over half the country's total export earnings. Land ownership, on the other hand, shows a markedly skewed distribution: 2.5% of the country's farms control 65% of the agricultural land, while 88% of all farms, with an average size of 1.5 hectares (ha), occupy 16% of the land. Approximately 40% of the economically active rural population does not own land, while the country faces severe

deforestation resulting from commercial timber exploitation and the conversion of forested lands to agriculture. This situation has contributed to the severe vulnerability of some regions to natural disasters.

3. **IFAD's strategy in the country.** IFAD has been involved in Guatemala since 1986. The Fund's loan portfolio in the country totals close to USD 100 million, covering seven projects and loans. Over the last ten years, IFAD's country strategy has aimed at poverty reduction, while supporting the pacification, reconstruction and development of war-torn areas. The National Peace Fund (FONAPAZ), created as a result of the peace accord, is the institution responsible for implementing ongoing IFAD projects in war-affected departments. Now, under the more democratic political environment fostered by the peace accord, efforts have been redirected towards a programmatic, nationwide and comprehensive approach to rural poverty and rural development with the involvement of the Ministry of Agriculture, Livestock and Food (MAGA). In line with the country strategic opportunities paper, the Fund has recently approved two components of a three-phase National Rural Development Programme (Appendix I).

II. RATIONALE, RELEVANCE TO IFAD

4. The damage caused by Hurricane Stan to agricultural lands and productive and marketing infrastructure has placed agricultural production for the forthcoming season at serious risk, jeopardizing as well the minimum survival requirements of the populations in the affected zones. This situation is particularly dramatic in view of the material and financial limitations faced by the rural and indigenous target groups and by the local and national economies overall. Moreover, IFAD's efforts to eradicate rural poverty in the country have been undermined. As in the case of similar natural disasters in the region, some observers believe that the impacted areas may have lost economic progress for a generation or more. Accordingly, the proposed programme will promote the immediate reactivation of overall economic activity in the selected region by rehabilitating key infrastructure. The contemplated investments are expected to restore production activity to pre-Hurricane Stan levels, while facilitating a rapid transition from emergency to reconstruction and to continued development. Specifically and for increased thrust and impact, the IFAD-funded initiative will add new and targeted sectoral resources, while parallel and complementary efforts are exerted by the Government in food aid and temporary housing and in the restoration of health, water and sanitation, and education services with the support of other development partners.

III. THE PROPOSED PROGRAMME

5. The **overall objective** of the programme is to contribute, in the most immediate manner, to the reconstruction of agricultural production infrastructure in the targeted area in order to reactivate sustainable economic production for the benefit of the smallholder rural and indigenous producers in 13 municipalities in Sololá Department. The **specific objectives** of the programme comprise: (a) the reconstruction and rehabilitation of six bridges and the clean-up of rockslides and landslides in small sections of rural roads (33 km); (b) the rehabilitation of three micro-irrigation systems with direct impact on the reactivation of production in smallholder agriculture for self-consumption (beans and potatoes) and the supply of produce to local and departmental markets (onions and tomatoes); (c) the reforestation of selected steep-sloped areas facing particular risk and other areas that are urgently required in order to protect selected infrastructure facilities and communities; and (d) the supply of producers with agricultural inputs and tools through microbanks and outlets managed by community associations or municipal authorities so that the producers can face the forthcoming agricultural season.

6. **Programme area and target groups.** The selected programme area comprises 13 municipalities in Sololá Department that were among those hit most seriously by Hurricane Stan. Altogether, The municipalities account for an area of 697 km² and a population of

220 010 inhabitants. With the exception of the population of the capital city of Sololá, the large majority of the affected populations are indigenous small producers and community-based subsistence farmers residing in small rural communities without good access to the necessary social services. They are devoted to agriculture-related activities and live under conditions of poverty and extreme poverty. In this region, rural poverty is chiefly associated with the lack of access to land, the extreme fragmentation of landholdings, inefficient marketing systems and a lack of access to financial services and productive resources, particularly water and productive technologies. As in the rest of the country's rural areas, women are generally more liable to fall into poverty due to the effects of the armed conflict, which left 100 000 women widowed and 250 000 orphans.

7. **Components.** Programme activities have been organized into four components: (a) rehabilitation of bridges and rural roads; (b) rehabilitation of smallholder micro-irrigation; (c) reforestation of risk and protection zones; and (d) establishment of banks and outlets for agricultural inputs and tools.

8. **Rehabilitation of bridges and rural roads.** The programme will focus on the clean-up of rockslides and landslides on the affected rural roads (33 km) and on the reconstruction and rehabilitation of: (a) two road bridges located between the municipalities of Santa María Visitación (the principal municipal town) and Santa Catarina Ixtahuacán that will allow the flow of vehicles over the Yatza and Palá rivers; and (b) four small bridges located on an internal feeder road of the municipality of Concepción. The road is located in a critical micro-irrigation area and also links with the principal departmental road.

9. **Rehabilitation of smallholder micro-irrigation.** The fallen rocks and trees and the landslides and mudslides have severely damaged existing micro-irrigation infrastructure, including conductors and flow-regulation facilities. The rehabilitation to pre-Hurricane Stan conditions will require critical materials; non-specialist labour will be supplied by the beneficiaries. The micro-irrigation systems that will be rehabilitated consist of: (a) systems of seven irrigation committees of Concepción municipality, which covers 34 ha of irrigated area and 120 beneficiary families; (b) Tzolojya "El Panca" Association in Sololá municipality, which covers 13 ha of irrigated area and 45 beneficiary families; and (c) Xibalbay Irrigation Association in Sololá municipality, which covers 47 ha of irrigated area and 250 beneficiary families.

10. **Reforestation of risk and protection zones.** One of the principal causes of the severe landslides is the generalized deforestation of steep-sloped areas along the river watersheds. On the basis of ongoing evaluations, municipal authorities have identified the risk areas that most urgently require reforestation. Three municipalities (Sololá, Santa Clara La Laguna and Nahualá) have already initiated reforestation, although with very minimal resources, while others have manifested their needs in this regard. These three municipalities are being assisted by forestry technicians and have established facilities for the production of planting material. They have also acquired experience in sensitization and promotion among the region's population. In addition to reforestation, soil conservation works will also be undertaken through this component, with the technical assistance of MAGA personnel. The aggregated area to be reforested has been estimated at 300 ha, distributed over five municipalities. This component will finance both the production of plants at the municipal level and reforestation activities in high risk and priority zones; the financing will include the acquisition of tools and inputs for expanded production within existing facilities (seeds, agrochemicals and fertilizers), payment for basic personnel and local technicians and the promotion of reforestation. The cost of the field reforestation will be shared equally through paid labour and voluntary work by the communities. The remuneration of days of temporary labour is also critical at the household and local levels, since no other employment is contemplated during the current period of transition from emergency to reconstruction.

11. **Establishment of banks and outlets for agricultural inputs and tools.** The hurricane has damaged the agricultural lands of small producers in the affected area, and the basic production assets of these producers have been diminished. Most importantly, the potential production from the 2006 agricultural season is at great risk. This affects food and vegetable crops, as well as coffee, for which producers will need to start replacing the lost plants (i.e. less than 0.3 ha per farmer). In response to these critical constraints, microbanks and outlets for agricultural inputs and tools will be established in ten municipalities; they are to be managed by producer cooperatives or associations or by the municipal authorities. The responsible associations will survey and document the specific demands for the relevant services and will communicate this information to the Programme Coordination Executive (CEP). The CEP will supply the materials to the entity in charge of the local outlets (e.g. seeds, agrochemicals, tools). As an intrinsic and deliberate element of continuity, production expansion and capitalization, the outlets will operate, whenever possible, as local “micro-banks”, through which the associations will seek to recover, in subsequent seasons, the inputs provided now. The component will seek to support 2 280 producers, covering 570 ha. In coordination with MAGA, the system will guarantee that targeted beneficiaries will not receive duplicated support services through the programme and the ministry.

IV. EXPECTED OUTPUTS, EXPECTED BENEFITS

12. **Programme beneficiaries.** Albeit limited in resource requirements, the proposed programme expects to benefit, directly, 220 000 inhabitants of 13 municipalities. The identified potential beneficiaries consist of 7 300 families of poor rural and indigenous smallholders in the selected programme area who are producers of basic grains, primarily for self-consumption (60% of the beneficiaries), small coffee producers with plantations of less than 0.3 ha (35% of the beneficiaries) and smallholders with access to irrigation (0.3 ha) (5% of the beneficiaries). The expected results will materialize through: (a) the rehabilitation of selected bridges and the clean-up of sections of rural roads, benefiting 5 300 rural families; (b) the rehabilitation of damaged micro-irrigation facilities, benefiting approximately 415 of the selected families; (c) the reforestation of 300 ha in steep-sloped areas, benefiting the 220 000 inhabitants of all 13 municipalities and aimed at the protection of five municipalities at higher risk; and (d) the restoration of the minimum agricultural production of 570 ha by providing, in a locally organized manner, the tools and inputs required by 2 280 producers in ten municipalities.

13. **Economic benefits.** The rehabilitated bridges and feeder roads and other infrastructure will foster increased incomes and restore dynamic commercial linkages among the local economies, while the restored production and productivity will, in turn, have a positive impact on food security and income. The programme will also deliver a positive environmental impact through reforestation, impacting as well through the overall improvement in living conditions. The risks associated with programme implementation have been classified as low due to the high commitment of beneficiaries and local authorities and to the execution experience and coordinated involvement of FONAPAZ and MAGA.

14. **Innovation.** Based on the emerging implementation experience of the national programme in the country, the proposed programme will operate through a local, flexible and participatory approach towards needs assessment, priority setting and resource allocation. While it will also be gender sensitive in implementation, the programme design calls for dedicated monitoring and evaluation in order to capture key lessons that will be relevant for natural disaster prevention and mitigation and for reconstruction.

V. IMPLEMENTATION ARRANGEMENTS

15. The responsibility for programme execution will fall on FONAPAZ, an entity under the Secretariat of the Presidency, while field actions will be executed with the direct involvement of MAGA, i.e. the reforestation component, and the participation of municipalities and producer associations. The financial administration of the programme will be conducted by the country office of the United Nations Development Programme (UNDP). Within FONAPAZ, the programme will be implemented by the project management section (Appendix III). Implementation of this programme will be supervised by IFAD's country programme manager.

16. **Financing administration.** To guarantee implementation and operational transparency, as well as the correct application of the resources expected under the proposed grant, account management will fall under FONAPAZ's deputy directorate for administration. Supplementing this arrangement, financial administration will be the responsibility of UNDP. The latter entity is assisting in the administration of other emergency and reconstruction programmes; its collaboration will thus add coherence to the overall development efforts. The UNDP office will receive the funds from IFAD and will disburse them according to FONAPAZ instructions based on actual programme execution. The procurement of goods, services and human resources will be carried out in accordance with country procedures and the revised IFAD Procurement Guidelines. FONAPAZ and UNDP will maintain separate records and financial accounts with regard to the grant. The audit report will be submitted no later than six months after the end of the financial year. A subsidiary agreement between FONAPAZ and UNDP will be signed subject to IFAD approval.

17. **Monitoring and evaluation** will be undertaken by the corresponding unit in the project management section. The unit will follow up on programme implementation based on the workplan and the set of monitoring and evaluation indicators (Appendix II), while also being responsible for the preparation of quarterly reports on activities and results and the programme completion report. Monitoring and evaluation will be carried out from the outset with a view to drawing on and compiling key lessons from the reconstruction and economic reactivation activities. These experiences will be disseminated to the ongoing projects in Guatemala and other countries of Central America and will serve as a critical input in the design of the contemplated third phase of the National Rural Development Programme.

VI. INDICATIVE PROGRAMME COSTS AND FINANCING

18. The programme investments will be executed over a period of 12 months, with IFAD grant resources estimated at USD 500 000. The grant will be disbursed in three instalments: an initial disbursement of USD 206 325, a second disbursement of USD 137 575 and the last disbursement of USD 156 100, at intervals to be determined by IFAD and FONAPAZ and as a function of the actual implementation. The allocation of grant funds by component will be as follows: (a) rehabilitation of bridges and rural roads: USD 110 000 (22%); (b) rehabilitation of smallholder micro-irrigation: USD 69 750 (14%); (c) reforestation of risk and protection zones: USD 135 000 (27%); and (d) establishment of banks and outlets for agricultural inputs and tools: USD 185 250 (37%) (Appendix V).

19. **Cofinancing.** In addition to local labour to be provided by the direct beneficiaries, the salaries of technical and managerial personnel involved will be paid by FONAPAZ, a budgetary decision to be considered as a financial contribution of the federal Government to the programme. Similarly, technical assistance to the municipalities and producer associations for the execution of reforestation and soil conservation activities will be provided by MAGA, as a complementary financial contribution. This will be made formal under an agreement to be established among FONAPAZ,

MAGA and the municipalities. This agreement will also permit the setting up of a joint databank of individual and community beneficiaries, with information on the assistance provided.

VII. RECOMMENDATION

20. I recommend that the Executive Board approve the proposed grant in terms of the following resolution:

RESOLVED: that the Fund, in order to finance the Smallholder Agricultural Production Reactivation and Infrastructure Reconstruction Programme in Response to Hurricane Stan in the Department of Sololá, Guatemala, shall make a grant not exceeding five hundred thousand United States dollars (USD 500 000), for a twelve-month period, to the National Peace Fund 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

THE NATIONAL RURAL DEVELOPMENT PROGRAMME

1. During the last seven years, IFAD country strategy has aimed at poverty reduction while supporting the pacification, reconstruction and development of war torn areas. Thus, since 1995, from the onset of the peace negotiations, IFAD and the Government started operations in war affected areas. The National Peace Fund (FONAPAZ), created as a result of the peace accord is the institution responsible for implementing current ongoing IFAD projects. Under the more democratic political scenario created by the peace accord, efforts have been re-directed toward a programmatic nationwide comprehensive approach to rural poverty and rural development. The Government Plan 2004-2008 includes as high priority items: (i) the reduction of poverty and extreme poverty; and (ii) social and economic development of rural areas. Thus the current strategic framework for IFAD operations in Guatemala is oriented to the improvement of the social, political and economic conditions of vulnerable rural populations (Guatemala: country strategic opportunities paper – COSOP. January, 2003).

2. Thus IFAD country strategies based on government policies and the preliminary conclusions of the Intersectoral Dialogue Table for Rural Development, implemented under the peace accord it was agreed that IFAD lending programme should be directed toward the creation and consolidation of the *National Rural Development Programme* under MAGA responsibility and with a phased approach. The first operation already approved by IFAD Board in December, 2003 the “*National Rural Development Programme - Phase I: Western Region*” covers the departments with the poorest municipalities of Guatemala (Huehuetenango, San Marcos, Quetzaltenango, Totonicapan and Sololá), which also concentrate over 60% of the country’s indigenous population. The second operation “*National Rural Development Programme: Central and Eastern Regions*” covers poor municipalities and departments (El Progreso, Jalapa, Zacapa, Jutiapa and selected poor municipalities of Santa Rosa) that include an important (30%) segment of the country’s rural poor. The third operation, “*National Rural Development Programme: The Country*” will complete the coverage of the country’s most important areas concentrating indigenous communities and rural poor. The *National Rural Development Programme* will be an integral part of MAGA institutional structure with budgetary and operational sustainability.

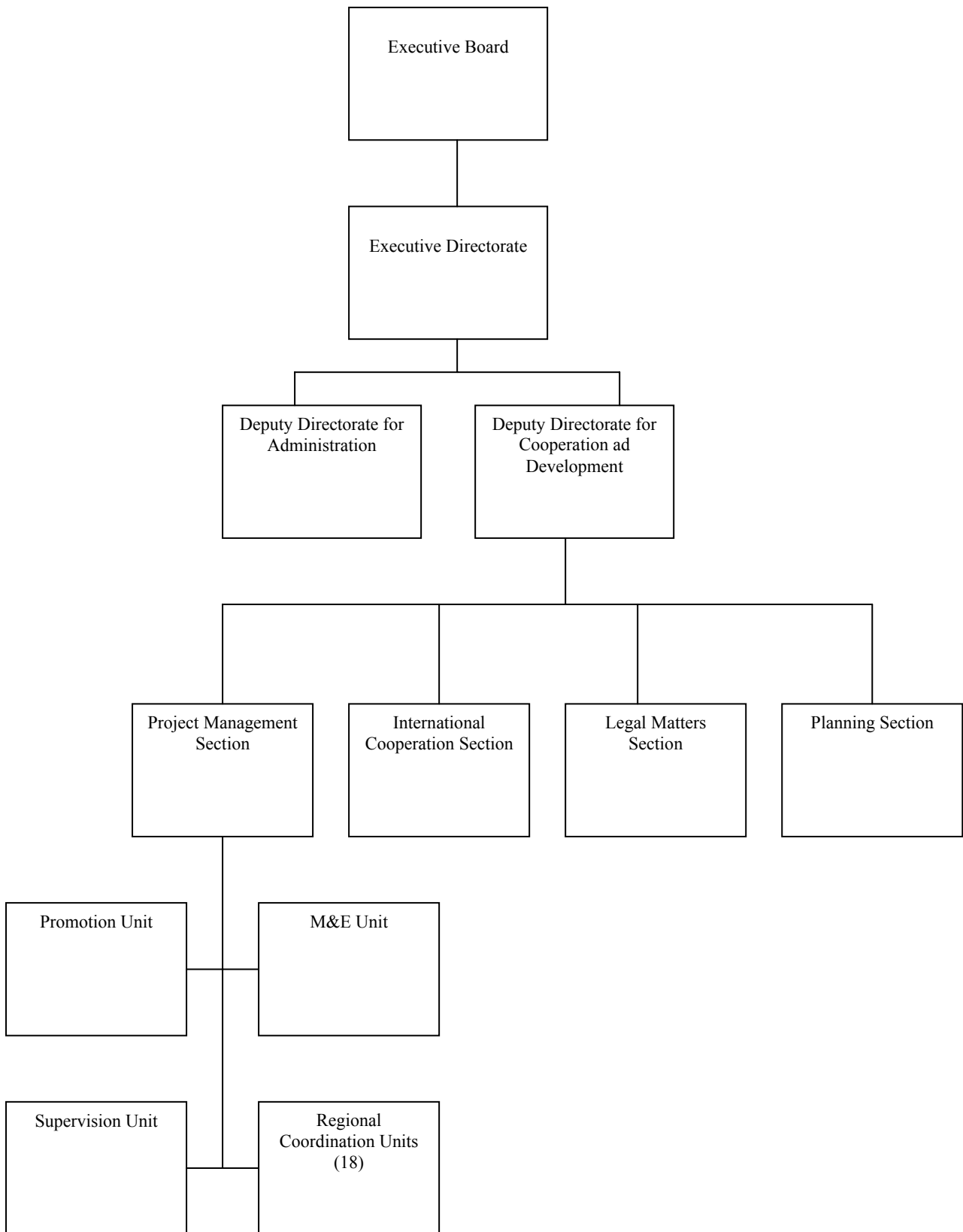
3. Proposed efforts require the construction and strengthening of strategic institutional partnerships within the government public sector and other multilateral and bilateral donors but particularly with grass root civil and society organizations. IFAD country operations are seeking the cooperation and active participation of beneficiary groups, as well as from local and national public and private organizations working with vulnerable populations. The decentralization efforts of the Government provide an adequate vehicle to establish a more democratic demand-led participatory approach to rural poverty reduction.

INDICATIVE LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
OBJECTIVES			
To contribute to the reconstruction of infrastructure for sustainable agricultural production in 13 municipalities of the Sololá Department, affected by Hurricane Stan.	<ul style="list-style-type: none"> ▪ The area cultivated and production harvested during the 2006 season is restored to average pre-Hurricane Stan levels in each of the municipalities 	<ul style="list-style-type: none"> ▪ Work plan; quarterly reports; programme completion report ▪ Surveys among beneficiaries ▪ Regional agricultural production reports ▪ M&E report on lessons learnt 	<ul style="list-style-type: none"> ▪ No other disasters or events prevent the launching of the reconstruction efforts/works and agricultural working seasons
OUTPUTS			
Six bridges and sections of rural feeder roads, reconstructed/rehabilitated	<ul style="list-style-type: none"> ▪ No. of bridges rebuilt/rehabilitated ▪ Vehicle traffic flow restored (no. of vehicles circulating) 	<ul style="list-style-type: none"> ▪ Field supervision reports of works by Programme Executive Coordination (CEP) ▪ Technical reports and photographs of completed work 	
Three key micro-irrigation systems with direct impact on the production reactivation of smallholder agriculture, rehabilitated	<ul style="list-style-type: none"> ▪ Irrigated area under restored operation ▪ No. of families reincorporated to agricultural production 	<ul style="list-style-type: none"> ▪ Field supervision reports by CEP ▪ Technical reports and photographs of each completed work 	
Selected steep-sloped areas under particular risk and others that are urgently required as protection for identified communities, reforested	<ul style="list-style-type: none"> ▪ Planting material produced ▪ Reforested area ▪ Volume of plants ▪ Area under soil conservation treatment 	<ul style="list-style-type: none"> ▪ Field supervision reports of works by CEP ▪ Technical reports and photographs of each completed work 	
Community-run banks/supply outlets for agricultural inputs and tools, established to meet the needs of small producers for the approaching agricultural working season	<ul style="list-style-type: none"> ▪ No. of associations/organizations and municipalities participating in programme ▪ No. of producers benefiting from programme ▪ Volume and value of inputs/tools supplied ▪ Delivery date of inputs supplied ▪ Volume and value of inputs/tools recovered for fund capitalization 	<ul style="list-style-type: none"> ▪ Agreements established between CEP and associations or municipalities ▪ Contracts between individual producers and associations ▪ Minutes of producer associations meetings/assemblies 	

APPENDIX III

FONAPAZ ORGANIGRAMME



APPENDIX IV

DETAILED PROGRAMME BUDGET – IFAD GRANT

Component / Project	Units	Beneficiaries (families)	Cost (USD)	
			Project	Component
Rehabilitation of Bridges/Rural Roads				110 000
. Sta. María Visitación-Guineales Road	2 bridges	5 000	75 000	
. Cleanup/Repair of Road Sections	33 km	5 300	10 000	
. Bridge Rehabilitation of Concepción Road	4 bridges	300	25 000	
Rehabilitation of Smallholder Micro-Irrigation				69 750
. Seven Committes - Concepción Irrigation	34 ha	120	24 750	
. Micro-Irrigation Association - Xibalbay	47 ha	250	32 000	
. Micro-Irrigation Association - Tzolojya 'El Pancá'	13 ha	45	13 000	
Reforestation of Risk and Protection Zones				135 000
. Municipality Sta. Clara La Laguna (Watershed Jacala Rive	100 000 plants	n/a	45 000	
. Municipality Nahualá (Smallholder Lands)	100 000 pl	n/a	45 000	
. Municipality S. Juan La Laguna (Municipal Lands)	40 000 pl	n/a	18 000	
. Municipality S. Marcos La Laguna (River Watershed)	40 000 pl	n/a	18 000	
. Municipio Concepción (Panajachel River Watershed)	20 000 pl	n/a	9 000	
Banks/Outlets for Agricultural Inputs/Tools				185 250
. Municipality Santa Clara La Laguna	30 ha	120	9 750	
. Municipality San Juan La Laguna	120 ha	480	39 000	
. Municipality San Pedro La Laguna	80 ha	320	26 000	
. Municipality San Pablo La Laguna	30 ha	120	9 750	
. Municipality San Marcos La Laguna	30 ha	120	9 750	
. Municipality San José Chacaya	40 ha	160	13 000	
. Municipality Santa Lucía Utatlán	40 ha	160	13 000	
. Municipality Santa María Visitación	30 ha	120	9 750	
. Municipality Santa Cruz La Laguna	20 ha	80	6 500	
. Municipality Santa Catarina Ixtahuacan	150 ha	600	48 750	
TOTAL COST				500 000

costo total de reforestación 0.45 USD/pl
monto unitario de insumos 325 USD/ha

Table 3: Disbursement Table

COMPONENTS	DISBURSEMENTS						TOTAL	
	First		Second		Third		% USD	USD
	%	USD	%	USD	%	USD		
Rehabitaion of Bridges and Rural Roads	33%	36 000	34%	37 000	33%	37 000	100%	110 000
Rehabilitation of Smallholder Micro-Irrigation	100%	69 750	0%	0	0%	0	100%	69 750
Reforestation of Risk and Protection Zones	34%	45 000	33%	45 000	33%	45 000	100%	135 000
Banks for Agricultural Inputs and Tools	30%	55 575	30%	55 575	40%	74 100	100%	185 250
TOTAL	41%	206 325	28%	137 575	31%	156 100	100%	500 000