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Enabling poor rural people
to overcome poverty

President's report

Proposed supplementary loan to the Republic of El Salvador for the

Rural Development and Modernization Project for the Central and Paracentral Regions (PRODEMOR-Central) – Expansion

Note to Executive Board representatives

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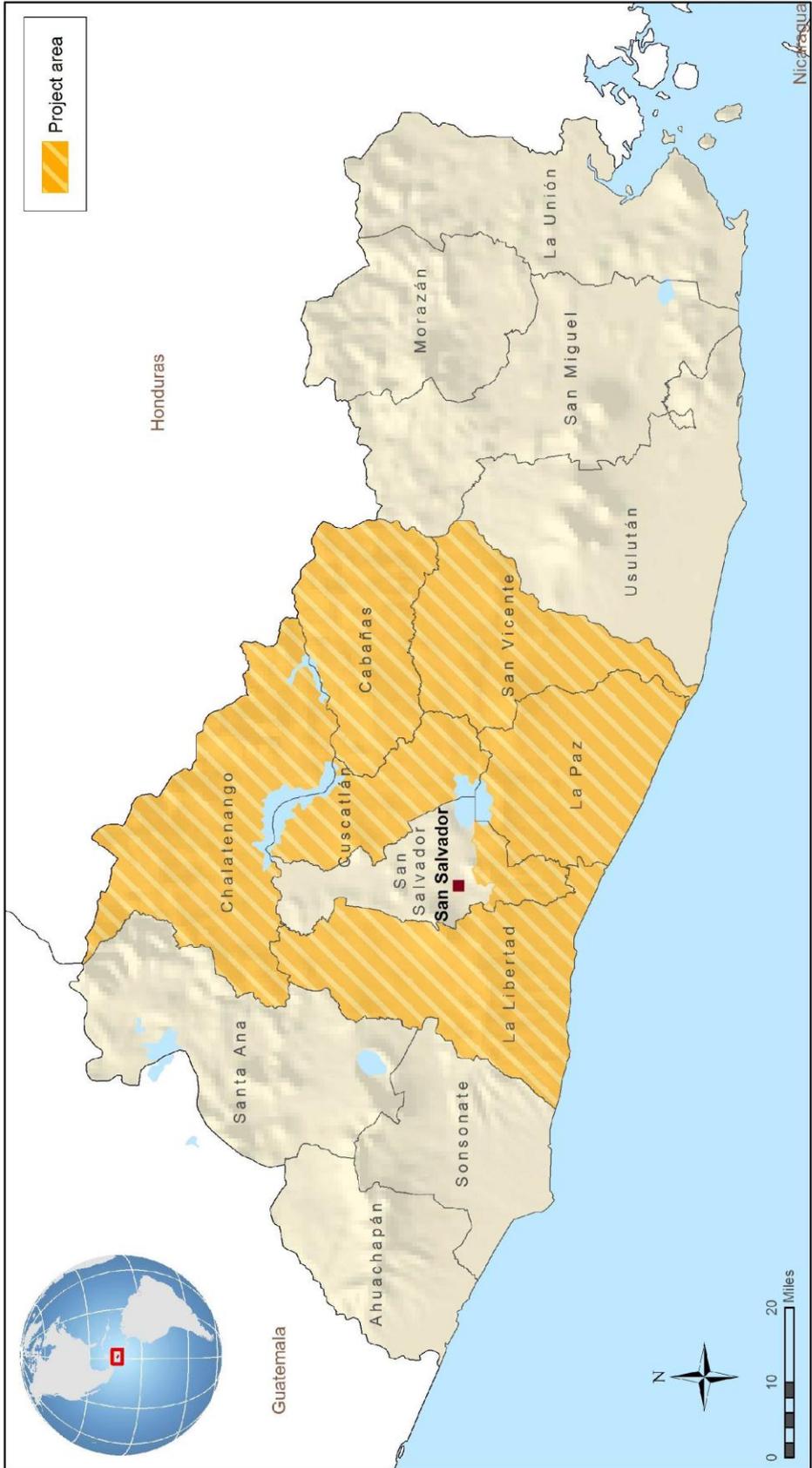
Abbreviations and acronyms

| | |
|------------------|---|
| M&E | monitoring and evaluation |
| PCU | project coordination unit |
| PRODEMOR-Central | Rural Development and Modernization Project for the Central and Paracentral Regions |
| RIMS | results and impact management system |
| UNDP | United Nations Development Programme |

Map of the project area

Republic of El Salvador Rural Development and Modernization Project for the Central and Paracentral Regions

President's report



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.

IFAD Map compiled by IFAD

Republic of El Salvador

Rural Development and Modernization Project for the Central and Paracentral Regions (PRODEMOR-Central) – Expansion

Financing summary

| | |
|---|--|
| Initiating institution: | IFAD |
| Borrower: | Republic of El Salvador |
| Executing agency: | Ministry of Agriculture |
| Total project cost: | US\$38.40 million |
| Amount of Spanish Food Security Cofinancing Facility Trust Fund loan: | EUR 11.15 million (equivalent to approximately US\$15.0 million) |
| Terms of Spanish Food Security Cofinancing Facility Trust Fund loan: | 18 years, including a grace period of five years, with an interest rate equal to the reference interest rate per annum, as determined by the Fund annually |
| Amount of IFAD loan (as approved by the IFAD Executive Board in September 2007): | SDR 9.5 million (equivalent to approximately US\$14.56 million) |
| Contribution of borrower: | US\$5.40 million |
| Contribution of beneficiaries: | US\$3.40 million |
| Appraising institution: | IFAD |
| Cooperating institution: | Directly supervised by IFAD |

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Republic of El Salvador for the Rural Development and Modernization Project for the Central and Paracentral Regions (PRODEMOR-Central) – Expansion, as contained in paragraph 48.

Proposed supplementary loan to the Republic of El Salvador for the Rural Development and Modernization Project for the Central and Paracentral Regions (PRODEMOR-Central) – Expansion

I. Strategic context and rationale

A. Rural development and poverty context

1. El Salvador continues to have a high incidence of rural poverty and its rural sector faces increasing vulnerability. The financial, energy and food price crises have had a considerable impact on the population. At the same time, the country is confronted with steep challenges in promoting traditional export crops (sugar, coffee), diversifying production and reducing food imports. The food value chains (staple and commercial crops) of relevance to the IFAD target groups are undermined by limitations in: production-related assets and value-adding infrastructure; financial resources and services; public sector technical assistance; and, principally, access to markets. Constraints such as these lead to low productivity, decreased consumption and incomes, and poverty.
2. El Salvador is a small, densely populated, lower middle-income country in Central America with a population of 6.9 million (40 per cent rural) and a GNI per capita of US\$3,360 (Atlas Method, 2010). The United Nations Development Programme's (UNDP) human development index for El Salvador is 0.659 (with a ranking of 90 out of 169 countries) (2010). El Salvador was the first country to implement the Central America Free Trade Agreement with the United States of America (in March 2006), having diversified its exports accordingly. The country's agricultural/rural sector contributes 13 per cent of GDP, but employs 44 per cent of its economically active population. El Salvador has a ranking of 82 (3.99) in the World Economic Forum's competitiveness index for 2010–2011.
3. El Salvador is also a country with wide social and economic disparities (income Gini coefficient of 0.46) within regions and municipalities, which affect women and vulnerable groups in particular. The poorest people in El Salvador depend on agriculture for subsistence and have limited access to land, often of lesser quality. The country is characterized by a high concentration of productive land in the hands of a few owners. About 80 per cent of agricultural producers cultivate plots of less than 1.4 hectares, many on steep slopes; a large proportion of land renters engage in subsistence farming. El Salvador does not meet its domestic demand for grains and other foods, and its food and nutritional security is thus permanently at risk. The degradation of natural resources is severe and exposure to climate-related disasters is ongoing. This increased vulnerability to erratic rainfall, prolonged droughts and recurrent plagues – arising from notable changes in climate – has a significant adverse impact on the livelihoods of the IFAD target groups. The recurrent crisis in oil and food prices has led to thousands of job losses, especially in the *maquila* or export assembly sector, and a drop in remittances.

4. While it is estimated that poverty affects 49 per cent of the rural population, rural women in El Salvador are at the lowest end of the social and economic scale. Women's access to education, salaried work, fair wages, basic services and productive and social development programmes is widely restricted. Similarly, rural young people face an acute lack of educational and employment opportunities. The populations of indigenous origin (Nahua-Pipil, Lenca and Cacaotera), who are located in 63 of the country's 262 municipalities and represent at least 10 per cent of the total population, survive under conditions of extreme marginality and sociocultural neglect.

B. Rationale and alignment with Government priorities and IFAD country strategy

5. In response to the constraints outlined above, the new Government of El Salvador (June 2009) identified a series of key national and sectoral development issues in its strategic development document that sets out a vision for El Salvador in 2024 (*Apuestas Estratégicas para el Año 2024*); it also defined the priority development areas for 2010-2014 (*Áreas Prioritarias del Quinquenio 2010-2014 de El Salvador*).
6. Accordingly, the Government is committed to investing further in rural development and poverty reduction, while seeking to: (i) increase food and nutritional security, and thus contribute to achieving the Millennium Development Goals; (ii) establish a platform for the diversification/intensification of agriculture and generation of rural business/employment; (iii) promote access to internal, intraregional and external markets; and (iv) consolidate a national rural development programme in the context of strengthened sectoral institutions.
7. The Government's new strategic sectoral plan for 2010-2014 (*Modernización y Ampliación de la Base Productiva Agroalimentaria*) focuses on the following priorities: (i) generation of income and employment; (ii) expansion and diversification of the country's productive base; (iii) strengthening of productive/agro-entrepreneurial linkages, commercialization and access to external markets; (iv) technological innovation and rural modernization; (v) promotion of economic and production associations and development of entrepreneurial capacities; (vi) construction of new rural leaderships focusing on rural women and young people; (vii) expansion of productive infrastructure and food security; and (viii) environmental sustainability and territorial integration, including the identification of micro-regions with productive potential.
8. **Strategic objectives.** While earlier IFAD-financed projects addressed earthquake and war-related reconstruction, the Fund's 2001 country strategic opportunities paper for El Salvador focused on four strategic areas to promote rural modernization and create the foundations for IFAD involvement on a national scale: (i) agricultural innovation/transformation; (ii) microenterprises; (iii) market linkages; and (iv) vocational skills training. The main thrusts of IFAD's country strategy for El Salvador were redefined in the process of formulating the Rural Development and Modernization Project for the Central and Paracentral Regions (PRODEMOR-Central) to take account of the country's new institutional context and changing constraints/opportunities. The strategy centres on generating income and employment for the Fund's target groups, through the following lines of action: (i) development of entrepreneurial linkages and promotion of market access for rural businesses and microenterprises; and (ii) human and social capital building, including strengthening of organizational, entrepreneurial and rural territorial planning capacities, according to the country's development priorities.
9. The original PRODEMOR-Central was approved by the IFAD Executive Board in September 2007. The project loan (no. 728-SV) became effective on 18 December 2009. The original completion date of the project is 31 December 2015; and the closing date of the loan is 30 June 2016. The original total project cost set originally, for a six-year period, is US\$20.07 million, to be financed through an

IFAD loan of US\$14.56 million (intermediate terms), in addition to Government and beneficiaries contributions.

10. The proposed expansion of the project – to be financed through a supplementary loan in the amount of US\$15.0 million from the Spanish Food Security Cofinancing Facility Trust Fund – is justified on the basis of the stated objective of expanding smallholder coverage (*agricultura familiar*) and intensifying development action to coincide with the new Government strategies. At the same time, project expansion will facilitate consolidation of the productive initiatives and value chains resulting from previous IFAD operations. The additional financing will increase the impact of the project on access to markets, through the funding of further sub-projects. It will also allow the provision of specialized technical assistance and financing support to the rural associative enterprises already created in Chalatenango and La Libertad under the Reconstruction and Rural Modernization Programme (PREMODER).

II. Project description

A. Project area and target group

11. The expanded project area comprises the rural zones of 121 municipalities in the Central and Paracentral regions, including all those of the departments of: Cabañas (9 municipalities); Chalatenango (33); Cuscatlán (16); La Libertad (22); La Paz (22); San Vicente (13); and San Salvador (6 municipalities selected on the basis of socio-economic indicators: Guazapa, Panchimalco, Rosario de Mora, San Martín, Santiago Texacuangos, Tonacatepeque). These municipalities are all predominantly rural with poor and extremely poor populations. The project will provide crucial support to the Family Agriculture Plan, primarily through two key programmes addressing: (i) national food and nutritional security; and (ii) productive linkages.
12. The target group comprises: inhabitants of poor communities involved in small-scale family agriculture for consumption and/or local markets; landless farmers and agricultural labourers; owners of small businesses and microentrepreneurs (agricultural and non-agricultural); rural women and young people; and marginalized populations with pronounced indigenous cultural traditions. The original project targets 33,000 families as direct beneficiaries in 66 municipalities of five out of the seven departments in the Central and Paracentral regions. The expanded project will increase assistance to reach 40,000 beneficiary families from all 121 municipalities of the seven departments in the Central and Paracentral regions. Of these, 15,000 families will benefit from technical assistance, business plans, access to non-reimbursable asset-building funds and market-based rural financial services; and 25,000 families will benefit from social infrastructure, training, affirmative action for rural women and young people, scholarships for technical education, and enhanced municipal and territorial planning.

B. Project development objective

13. The project aims to achieve a significant reduction in poverty among the rural population in the communities and municipalities of the Central and Paracentral regions. Maintaining its original objectives, the project will seek to enable the rural poor in the identified project area to build their human and social capital and increase their production, employment and income, while rehabilitating and managing natural resources rationally, in the context of consolidated structures capable of implementing rural development.
14. The project has three major thrusts: (i) development of human and social capital through strengthening of the organizational, managerial and decision-making capacities of rural communities, producer associations, associations for community development, cooperatives and sectoral service providers; (ii) transformation of subsistence agricultural and non-agricultural activities into profitable, market-

oriented rural businesses and microenterprises for local and external markets, supported by specialized technical and business-related assistance, resources of key competitive asset-building co-investment funds and access to financial services; and (iii) rehabilitation of environmentally deteriorated areas through rational management of natural resources and the institutionalization of territorial planning.

15. The project also seeks to facilitate the enhanced coordination of rural development and the harmonization of strategies to reduce poverty, limit vulnerability to climate change and improve food security. This will be achieved through: (i) strengthening the institutional and operational capacities for rural development, starting with the Ministry of Agriculture's General Directorate for Rural Development; (ii) supporting participatory territorial planning in municipalities; and (iii) consolidating strategic alliances with partner development agencies and key entities of the private sector.

C. Components and outcomes

16. **Components.** The project retains the initial five components: (i) human and social capital development; (ii) sustainable production and the rehabilitation and management of natural resources; (iii) rural business and microenterprise development; (iv) rural financial services; and (v) project coordination and institutional strengthening for rural development.
17. **Outcomes.** It is expected that, through its activities and investments, the project will achieve the following six main outcomes: (i) human and social capital development: the participation, decision-making and managerial capacities of rural/indigenous communities, producer associations and service providers are strengthened, thus triggering a community-centred and self-managed development process aimed at inclusive development and rural modernization; (ii) sustainable agricultural production: the sustainable and competitive production capacities of associations for community development (ADESCOS), family production units and producer organizations are effectively supported and enhanced; (iii) rehabilitation and management of natural resources: the beneficiary rural/indigenous populations take on improved sustainable production and rehabilitation technologies, contributing to a reversal in deforestation, soil erosion and overall natural resource degradation at the farm, micro-watershed and municipal levels; (iv) rural business and microenterprise development: organized beneficiaries develop and strengthen their entrepreneurial capacities, establishing and modernizing competitive rural businesses and microenterprises (agricultural and otherwise) for both local and external markets, from a value chain perspective; (v) rural financial services: access to credit and financial services by project beneficiaries is facilitated for the purposes of production, transformation, commercialization and export; and (vi) project coordination and institutional strengthening for rural development: the technical, operational and inter-institutional coordination capacities of the Ministry of Agriculture are strengthened and consolidated.

III. Project implementation

A. Approach

18. The implementation strategy will be: demand-driven and participatory, with the active participation of target groups; based on a transparent targeting mechanism that directly transfers resources and responsibilities to the organized economic entities; designed to lay the foundations for long-term development action at the local, municipal and microwatershed levels, and within the indigenous communities; and committed to establishing a new coordination platform for rural development within the Ministry of Agriculture. Special attention will be given to promoting the elimination of discrimination against rural women and defining specific action aimed at facilitating women's full exercise of their rights and their capabilities in areas such as leadership and entrepreneurial development.

19. Market signals and market demand will constitute the driving force of the project, while the business plan will be the key instrument for business design, investment, production/transformation, and follow-up. Competitive asset-building funds will be developed along the various links (production/processing/commercialization) of the value chains that are of concern to the IFAD target groups.
20. The project will be executed through the following mechanisms: entrepreneurial linkages along the various links of identified value chains; municipal planning and territorial management and development in rural areas that both use and support existing municipal associations (*mancomunidades*); and practical alliances at the commercial level with entities of the private sector. In addition, food security is addressed specifically through: support to improve the productivity of traditional food grains and higher value crops; incomes derived from non-agricultural activities; and the expansion of access to rural savings and other financial services. The planning capacity of local and municipal government structures will be strengthened to support territorial development in rural areas.

B. Organizational framework

21. The project will be implemented by the Ministry of Agriculture, as the executing agency, through a project coordination unit (PCU) located in the field, and contracted co-executing entities and specialized providers of technical and other services. The PCU will exercise financial and administrative autonomy through delegated authority from the Ministry, in line with similar arrangements of other IFAD-financed projects in the country. The PCU will be composed of a directorate and three support units: (i) administration; (ii) development with gender perspective; and (iii) planning, monitoring and evaluation (M&E), and learning. The project components will be implemented through the coordination of specialists for human and social development; sustainable production and natural resources management; rural businesses and microenterprises; and fund and credit management.
22. The primary implementing partners of the Ministry of Agriculture comprise: municipalities and their associations, involved in local/territorial planning and development promotion; community development associations; producer associations providing technical services; financial and microfinance institutions offering rural financial services and training; and contracted private technical/entrepreneurial service providers and commercial partners participating in the formulation of business plans and promotion of exports. In an everyday "learning-by-doing" context, beneficiaries will acquire the organizational and implementation capacities needed to take advantage of opportunities offered by the project. The project will provide the necessary technical assistance and support. It will foster strategic alliances with development agencies and the private sector, given the importance of the latter in the provision of technical, business management, export promotion and other services. A project advisory council and an evaluation committee for project financing will also be engaged in project implementation.
23. To guarantee expeditious implementation of the project and proper administration of funds, the Government will enter into a funds administration support agreement with UNDP in El Salvador, following the example of other ongoing IFAD projects in the country.

C. Planning, monitoring and evaluation, and learning and knowledge management

24. Project implementation will be guided by a results management framework, similar to the framework of the results based-country strategic opportunities programme, and by the project's logical framework. These participatory instruments for planning, M&E, learning and knowledge management will be aligned with the

results and impact indicators used by the Technical Secretariat of the President's Office and the M&E system of the Ministry of Agriculture. Examples of key performance indicators and targets, which will take into account the needs of the diverse target groups and the cross-cutting concerns addressed by the project (such as gender, youth, food security, vulnerability reduction) include:

- (i) percentage of households that increase their household asset ownership index (anchor indicator of the IFAD results and impact management system (RIMS));
- (ii) percentage reduction of children malnutrition (RIMS anchor indicator);
- (iii) human development index by municipality and department; (iv) number of rural microenterprises (cooperatives, producer associations, other organized enterprises, agricultural and otherwise) that access local, national and/or external markets; (v) number of jobs created through newly established, expanded and consolidated rural business and microenterprises; and (vi) number of project beneficiaries that access rural financial services.

To ensure that the project results can be measured – and that implementation experiences are properly captured and disseminated – suitable systems will be established for M&E and knowledge management, RIMS and subproject-specific implementation monitoring.

25. The project will seek to build on IFAD's experience, while drawing and disseminating its own lessons in the Central American subregion. Accordingly, PRODEMOR-Central – Expansion will be an integral part of the IFAD-sponsored rural development learning networks, such as FIDAMERICA and RUTA. Knowledge management arrangements will also include deepening collaboration with universities and rural development think tanks. Special emphasis will be given to exchanging experience in market access and microenterprise development.

D. Financial management, procurement and governance

26. Financial management and procurement of goods and services will be carried out by the PCU in full compliance with national norms and procedures. A project account will be opened with a commercial bank acceptable to the Fund. Governance of the IFAD loan will be enhanced through: (i) participation of beneficiaries in the project's review/approval committee; (ii) improved municipal and territorial planning; (iii) annual independent audits in accordance with IFAD guidelines; (iv) involvement of UNDP in administration support; (v) a consistent operational manual; and (vi) an active in-country programme management team. In addition to the financing agreement, the project will be governed by: (i) operational by-laws of the asset-building investment funds for rural development and modernization; (ii) operational agreements with private entities for export promotion and specialized business technical assistance; (iii) collaboration agreements with municipalities and government institutions; and (iv) the service administration agreement with UNDP-El Salvador (see paragraph 23).

E. Supervision

27. The project will be directly supervised by IFAD out of the Fund's office in Guatemala. This arrangement will facilitate the undertaking of at least two supervision missions per year. Continuous support will be provided in implementation and problem-solving, initially along the lines of the procurement plan for goods and services over the first 18 months. Under the responsibility of the Country Programme Manager, IFAD will support the launch of the project and the training of project staff in financial loan management and M&E. Special attention will be given to strengthening the executing agency and to the gender-related and learning/knowledge management aspects of the project, including the baseline study and RIMS exercises.

IV. Project costs, financing, benefits

A. Project costs

28. The new total project cost is US\$38.4 million for a period of five years, including price and physical contingencies. The distribution of project costs among components is as follows: (i) human and social capital development, US\$6.7 million (17 per cent); (ii) sustainable production and the rehabilitation and management of natural resources, US\$11.1 million (29 per cent); (iii) rural business and microenterprise development, US\$11.0 million (29 per cent); (iv) rural financial services, US\$5.1 million (13 per cent); and (v) project coordination and institutional strengthening for rural development, US\$4.5 million (12 per cent).
29. There are eight expenditure categories: (i) infrastructure (7 per cent of base cost); (ii) equipment and vehicles (1 per cent); (iii) training (7 per cent); (iv) service agreements and contracts (19 per cent); (v) rural development and modernization asset-building funds (41 per cent); (vi) rural financial intermediation trust fund (10 per cent); (vii) salaries (10 per cent); and (viii) operating costs (5 per cent).

B. Project financing

30. The sources of financing are: (i) an IFAD loan of US\$14.6 million (38 per cent); (ii) a loan from the Spanish Food Security Cofinancing Facility Trust Fund of US\$15.0 million equivalent (39 per cent); (iii) Government counterpart funding of US\$5.4 million (14 per cent), which includes US\$3.5 million from the credit trust fund of the Rural Development Project for the Central Region (PRODAP II) that is to be transferred to the new project; and (iv) a contribution by beneficiaries of US\$3.4 million (9 per cent).

C. Summary benefit and economic analysis

31. Most of the resources will be invested in productive projects, rehabilitated plots, local productive/value-aggregation initiatives, rural businesses, and capacity-building for the direct benefit of targeted users. Benefits will also take the form of expanded social infrastructure, specialized technical assistance, and larger capitalization funds for sustainable agricultural production; development of rural businesses and microenterprises; and rehabilitation and conservation of natural resources.
32. Principal benefits include: (i) transformation of traditional subsistence activities into sustainable commercial businesses that have access to investment resources, credit and markets; (ii) association strengthening, community empowerment and social capitalization; (iii) increased employment and incomes, and enhanced food security; (iv) reduced land degradation and environmental vulnerability to natural disasters; (v) expanded infrastructure and markets for rural financial services; and (vi) strengthened sectoral coordination and broader policy dialogue.
33. A systematic analysis was conducted to evaluate the impact of inserting primary production units and model microenterprises into value chains. The findings indicate that investments made in such income-generating models are profitable. The resulting net present value of the aggregated investments is positive, with an internal rate of return of 19.4 per cent.

D. Sustainability

34. The project's sustainability strategy includes a series of activities aimed at ensuring beneficiaries have a sense of ownership of the initiatives funded during the investment cycle, including social and economic infrastructures. The strategy covers the sustainability of human capital generated, and pursues the consolidation of producer associations and value-aggregating, processing and marketing enterprises. Project sustainability will depend on: (i) the capacity of producer associations to manage their business initiatives and to establish effective links with the markets and the public and private sectors; (ii) the institutionalization of

participatory municipal planning and the social and economic empowerment of target groups; and (iii) the reinforcement of the institutional and operational capabilities of the Ministry of Agriculture.

E. Risk identification and mitigation

35. The following risks for project implementation have been identified: (i) difficulty in launching the project as a result of delays in the approval and ratification of the loan by El Salvador's national assembly; (ii) political interference in resource allocation processes at the municipal and local levels; and (iii) economic turbulence as a result of competition among countries in the region for the same markets (e.g, the United States market), which would ultimately affect the enterprises of target groups under the project.
36. The following action will contribute to preventing or mitigating these risks: (i) circulation of information on the project directly to those concerned, such as members of parliament and other representatives of the project area, national representatives, other decision-makers and representatives of Salvadoran society at large; (ii) strengthening of municipal institutions through the promotion of local development plans; social communication campaigns on the project's procedures and requirements; social audits and similar exercises; and (iii) actively seeking alternative markets for specific products, in addition to promoting trade fairs for agricultural products.
37. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation, in that it is not likely to have any significant environmental impact.

V. Corporate considerations

A. Compliance with IFAD policies

38. The project responds to the IFAD Strategic Framework 2011-2015, which promotes market-oriented smallholder agriculture as a profitable business. The project will be executed in compliance with IFAD policies on climate change, environment and natural resource management, and engagement with indigenous peoples (notably the principle of free, prior and informed consent). It will also comply with the main guidelines of the Master Plan of Spanish Cooperation 2009-12.

B. Alignment and harmonization

39. The proposed PRODEMOR-Central – Expansion project is: (i) based on the strategic objectives of the Government's national development plan for 2010-2014, which aim to achieve a substantial and verifiable reduction in poverty; and (ii) consistent with the country's strategic sectoral plan. Consequently, the project addresses some of the priority areas of the national development plan, such as mitigating environmental risks related to climate change and reconstructing productive infrastructure. It also addresses some of the key objectives of the development plan, such as reducing dependency on food and agricultural imports, creating rural employment, expanding social and economic infrastructure, and providing specific support to smallholders, microentrepreneurs, and rural women and young people.
40. **Harmonization with development partners.** The overall intervention strategy is based on: (i) partnership-building with the private sector in order to expand market access networks and technical assistance services; (ii) cooperation with United Nations agencies and other development associates (e.g. Cooperative for Assistance and Relief Everywhere, German Agency for International Cooperation, Inter-American Institute for Cooperation on Agriculture, Spanish Agency for International Development Cooperation, United States Agency for International Development); and (iii) overall adherence to the principles of the Paris Declaration on Aid Effectiveness.

C. Innovations and scaling up

41. The project introduces the following innovations: (i) the focus on building agro-entrepreneurial and community associations and on market access and entrepreneurial linkages; (ii) the strengthening of strategic alliances with the private sector; (iii) the approach to sustainable production (food and commercial value chains) oriented towards adaptation to climate change, coupled with territorial and municipal planning; (iv) agreements between land owners and renters for mutually beneficial investments in land rehabilitation at the farm level; (v) the development of specific rural financial services products, according to the needs of the project target groups; and (vi) the focus on the development potential of rural young people and on the training of young women and men in the skills required by changing labour markets, in order to enhance their ability to initiate their own business ventures.
42. **Scaling up approach.** The project's territorial intervention and targeting strategies and the instruments it makes available to improve entrepreneurial linkages and market access will respond to the constraints of the diverse regions in the country. The knowledge gained of the methods of establishing entrepreneurial linkages and private partnerships for market access can be used to replicate and scale up the project's activities in other countries of Central America.

D. Policy engagement

43. Dialogue with the Government, international development agencies and sectoral stakeholders has been enhanced through the country's creation of a Rural Dialogue Group and its involvement in the Knowledge and Change in Rural Poverty and Development initiative of the Latin American Center for Rural Development (RIMISP). El Salvador has formulated a national food security and nutritional policy, which is based on the constitutional right to food. The First Lady of El Salvador is the Minister for Social Inclusion and the coordinator of the national council on food and nutritional security (CONASAN).
44. Key areas of policy dialogue include: the development and consolidation of local (participatory) development planning at the municipal and microwatershed levels; access to markets and the facilitating environment for business and microenterprise creation, with special attention dedicated to the entrepreneurial capacity of rural women and young people.

VI. Legal instruments and authority

45. A project financing agreement between the Republic of El Salvador and the Spanish Food Security Cofinancing Facility Trust Fund will constitute the legal instrument for extending the proposed supplementary financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.
46. The Republic of El Salvador is empowered under its laws to receive financing from the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as Trustee.
47. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

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

RESOLVED: that the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as Trustee, shall make a loan on ordinary terms to the Republic of El Salvador in an amount equivalent to eleven million one hundred and fifty thousand euros (EUR 11,150,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Convenio de financiación negociado: "Proyecto de Desarrollo y Modernización Rural para las Regiones Central y Paracentral (PRODEMOR-Central) - Ampliación"

(Negociaciones concluidas el 14 de octubre de 2011)

Número del Préstamo del Fondo Fiduciario: [insertar número]

Proyecto de Desarrollo y Modernización Rural para las Regiones Central y Paracentral (PRODEMOR-Central)-Ampliación (en adelante el "Proyecto-ampliación")

La Facilidad Financiera de España para la Cofinanciación de la Seguridad Alimentaria (el "Fondo Fiduciario")

Y

La República de El Salvador (el "Prestatario")

(Cada uno de ellos por separado la "Parte" y los dos colectivamente las "Partes")

Acuerdan lo siguiente:

Preámbulo

CONSIDERANDO que la Junta Ejecutiva del Fondo Internacional de Desarrollo Agrícola (el "FIDA") en su 100º período de sesiones aprobó el instrumento por el que se crea la Facilidad Financiera de España para la Cofinanciación de la Seguridad Alimentaria ("Fondo Fiduciario") y asimismo autorizó que el Fondo Fiduciario, actuando mediante el Fondo Internacional de Desarrollo Agrícola ("FIDA") en su capacidad de Fideicomisario del Fondo Fiduciario, contrajera un convenio de préstamo con el Reino de España (España);

CONSIDERANDO que España y el FIDA, en su capacidad de Fideicomisario del Fondo Fiduciario, han contraído un convenio de préstamo con fecha 28 diciembre 2010;

CONSIDERANDO que el FIDA concedió un préstamo al Prestatario ("Financiamiento FIDA") por el importe de DEG 9 500 000 para asistir en la financiación del Proyecto PRODEMOR CENTRAL de acuerdo con los términos y condiciones establecidos en el Convenio de Préstamo del FIDA Número 728-SV de fecha 8 de abril 2009 ("Convenio de Préstamo 728-SV");

CONSIDERANDO que el Prestatario ha solicitado recursos adicionales mediante un préstamo del Fondo Fiduciario con el propósito de incrementar el financiamiento y cobertura geográfica del Proyecto PRODEMOR-Central FIDA 728-SV con el Proyecto-ampliación, tal y como se describe en el Anexo 1 del presente Convenio de Financiación.

Por lo tanto, las Partes acuerdan lo siguiente:

Sección A

1. Los siguientes documentos en su conjunto conforman colectivamente este Convenio: el presente documento, la Descripción del Proyecto-ampliación y Disposiciones de ejecución del presente Convenio (Anexo 1 del presente Convenio) y el Cuadro de asignaciones (Anexo 2 del presente Convenio).

2. Se adjuntan al presente convenio las *Condiciones Generales para la Financiación del Desarrollo Agrícola* de fecha 29 de abril de 2009, en sus sucesivas versiones enmendadas, (las "Condiciones Generales") y cualquiera de las disposiciones en ellas contempladas serán aplicables al presente Convenio. A los efectos de este Convenio, los términos definidos en las Condiciones Generales tendrán el significado en ellas indicado.

3. El Fondo Fiduciario proporcionará un Préstamo del Fondo Fiduciario al Prestatario (la "Financiación del Fondo Fiduciario"), que el Prestatario utilizará para ejecutar el Proyecto-ampliación de conformidad con los términos y condiciones del presente Convenio.

Sección B

1. El monto del Préstamo del Fondo Fiduciario es de 11 150 000 Euros.

2. El Préstamo del Fondo Fiduciario se concede en condiciones ordinarias por un plazo de 18 años incluyendo un período de gracia de tres (3) a partir de la fecha en que el Fondo Fiduciario haya determinado que se han cumplido todas las condiciones generales previas para el retiro de fondos. La tasa de interés será el Tipo de Interés de Referencia del Fondo aplicable a los Préstamos del Fondo Fiduciario, que es la tasa de interés EURIBOR más el diferencial variable aplicado por el Banco Internacional de Reconstrucción y Fomento para sus préstamos en Euro.

3. La Moneda de Pago del Servicio del Préstamo del Fondo Fiduciarios será el dólar de los Estados Unidos de América.

4. El primer día del Ejercicio Financiero aplicable será el 1º de enero.

5. Los pagos del capital y los intereses serán pagaderos cada 15 de mayo y 15 de noviembre.

6. El Prestatario proporcionará financiación de contrapartida para el Proyecto-ampliación por un importe de hasta USD 1 732 000 para cubrir impuestos, en caso de ser necesario.

Sección C

1. El Organismo Responsable del Proyecto-ampliación será el Ministerio de Agricultura y Ganadería, el mismo que el indicado en el Convenio de Préstamo 728-SV.

2. La Fecha de Terminación del Proyecto-ampliación será el quinto aniversario de la fecha de entrada en vigor del Préstamo del Fondo Fiduciario.

Sección D

El Préstamo del Fondo Fiduciario será administrado y el Proyecto-ampliación será supervisado por el Fondo Internacional de Desarrollo Agrícola.

Sección E

1. El presente Convenio está sujeto a la aprobación legislativa del Prestatario.

2. Se indican a continuación los representantes designados y las direcciones que han de utilizarse para cualquier intercambio de comunicaciones relacionadas con el presente Convenio:

Por la Facilidad Financiera de España para
la Cofinanciación de la Seguridad Alimentaria:

Presidente del Fondo Internacional de
Desarrollo Agrícola en su capacidad de
Fideicomisario de la Facilidad Financiera
de España para la Cofinanciación
Fondo Internacional de Desarrollo Agrícola
Via Paolo di Dono 44
00142 Roma, Italia

Por el Prestatario:

Ministerio de Hacienda
Boulevard de los Héroes,
1231
San Salvador, El Salvador, C.A.

Por el Organismo responsable
del Proyecto:

Ministerio de Agricultura y
Ganadería
Final 1a Avenida Norte y Avenida
Manuel Gallardo,
Santa Tecla, La Libertad,
El Salvador, C.A

El presente Convenio, de fecha [insertar fecha], se ha preparado en idioma español en seis (6) copias originales, tres (3) de las cuales son para el Fondo Fiduciario y las otras tres (3) para el Prestatario.

Por la Facilidad Financiera de España para
la Cofinanciación de la
Seguridad Alimentaria
[insertar nombre y cargo]

Por el Prestatario
Ministro Hacienda

Anexo 1

Descripción del Proyecto-ampliación y Disposiciones de ejecución

El Apéndice 1 (Descripción del Proyecto) y Apéndice 3 (Ejecución del Proyecto y disposiciones complementarias) del Convenio de Préstamo FIDA 728-SV se aplicará mutatis mutandis a este Convenio, excepto en lo que respecta a la Sección 1 del Apéndice 1, cuyo contenido será reemplazado como sigue, para considerar el aumento de la cobertura geográfica del proyecto PRODEMOR CENTRAL originada por el Proyecto-ampliación:

“Apéndice 1 Sección 1.- Área del Proyecto. El área del Proyecto PRODEMOR CENTRAL y el proyecto-ampliación comprende las áreas rurales de ciento veintiún (121) municipios de las regiones Central y Paracentral, situados en los departamentos de: Chalatenango (treinta y tres municipios); La Libertad (veintidós); Cabañas (nueve); Cuscatlán (dieciséis); La Paz (veintidós); San Vicente (trece); y San Salvador (seis: Rosario de Mora, Panchimalco, Guazapa, San Martín, Santiago Texacuangos, Tonacatepeque). Estos municipios están clasificados como zonas predominantemente rurales y de pobreza extrema.”

El Apéndice 3 Sección 5.1. del Convenio de Préstamo FIDA 728-SV quedará de la siguiente manera: - “Documento de Proyecto. A) El Prestatario, por intermedio del Ministerio de Agricultura y Ganadería como Representante para la ejecución del Proyecto, previa no objeción del Fondo, firmará un Documento de Proyecto con un Organismo Internacional, con el objeto que este administre los recursos financieros y servicios tales como: a) Procesos de adquisiciones y contrataciones; b) pagos de bienes y servicios, entre otros, garantizando el uso de mecanismos competitivos y transparentes, que determine las condiciones, responsabilidades y atribuciones, que regularán los términos en que el Organismo Internacional administrará los recursos financieros, así como sus relaciones con el Ministerio de Agricultura y Ganadería.

B) Para respaldar las operaciones financieras que se deriven de la administración de servicios por parte del Organismo Internacional, el Documento de Proyecto hará las veces de un Contrato de Servicios, para efectos de documentar principalmente la transferencia de recursos financieros públicos en administración al Organismo Internacional, y además para justificar el pago al Organismo Internacional del porcentaje sobre el monto total ejecutado del préstamo, el cual deberá ser estipulado claramente en el Documento de Proyecto.”

Anexo 2*Cuadro de asignaciones*

1. *Asignación de los recursos del Préstamo del Fondo Fiduciario.* En el cuadro que figura a continuación se presentan las Categorías de Gastos Admisibles que se financiarán con cargo al Préstamo del Fondo Fiduciario y la asignación de los montos del Préstamo del Fondo Fiduciario a cada Categoría, así como los porcentajes de los gastos correspondientes a los rubros que se financiarán en cada Categoría:

| <i>Categoría</i> | <i>Monto del Préstamo Fiduciario asignado (expresado en Euro)</i> | <i>Porcentaje de financiación</i> |
|---|---|--|
| I. Infraestructura | 1 560 000 | 100% sin impuestos |
| II. Vehículos y equipos | 70 000 | 100% sin impuestos |
| III. Capacitación | 900 000 | 100% sin impuestos |
| IV. Convenios y contratos de servicio | 1 730 000 | 100% sin impuestos |
| V. Fondos de Coinversión para el Desarrollo y la Modernización Rural | 5 940 000 | |
| a) Fondo de coinversiones de inducción a la producción sustentable | 2 110 000 | 100% de transferencias a beneficiarios |
| b) Fondos de coinversiones de rehabilitación y conservación de los recursos naturales | 790 000 | 100% de transferencias a beneficiarios |
| c) Fondos de coinversiones de apoyo al desarrollo de negocios y microempresas rurales | 3 040 000 | 100% de transferencias a beneficiarios |
| VI. Salarios | 340 000 | 100% sin impuestos |
| VII. Gastos de Operación | 60 000 | 100% sin impuestos |
| Sin asignación | 550 000 | |
| TOTAL | 11 150 000 | |

Logical framework

| OBJECTIVE HIERARCHY | KEY PERFORMANCE INDICATORS AND TARGETS | MONITORING MECHANISMS AND INFORMATION SOURCES | ASSUMPTIONS/ (RISKS) |
|--|---|---|--|
| <p>Goal Poverty among the rural population in communities and municipalities of the Central and Paracentral Region is significantly reduced</p> | <ul style="list-style-type: none"> Percentage of households that increase their index of household assets ownership (RIMS anchor indicator) Percentage reduction of children malnutrition (RIMS anchor indicator) Increase in the Human Development Index (national and departmental levels) | <ul style="list-style-type: none"> Baseline, midterm and completion surveys El Salvador's Human Development Report (UNDP) | |
| <p>Project Purpose The rural poor in the Central and Paracentral Region build their human and social capital and increase their production, employment and income, while rehabilitate and manage natural resources rationally, in the context of consolidated rural development implementation structures.</p> | <ul style="list-style-type: none"> 40 000 direct beneficiaries take part of project's integral development processes and investments, including at least 30% rural women; 500 groups, organizations and association for community development (Adescos) improve their organizational and self-management capacities; 65% of agricultural producers apply improved technologies for seasonal and perennial crops; and for natural resources rehabilitation/ conservation 200 women in management committees; 195 enterprises/ rural businesses operating at end of 3th year; All projects under MAG coordination harmonize planning, M&E/L and reporting instruments by end of 3th year. | <ul style="list-style-type: none"> RIMS impact survey implemented at 1st year, before mid-term and before completion Mid-term and final evaluations Regular M&E reports | <p>The GOES's agenda for rural development/ poverty reduction maintains its stated high priority</p> |
| <p>Output by Component: Human and Social Capital Development Output 1 The participation, decision-making and managerial capacities of rural/indigenous communities, producer associations and service providers are all strengthened, triggering off an integral community-centred and self-managed development process aimed both at inclusive development and rural modernization.</p> | <ul style="list-style-type: none"> 50 community groups trained on integral community development management; 100 organizations consolidated in community development and/ or economic-activities by type; 50 Rural Municipal Promoters, trained on rural development promotion; 50 cantones count with integral microwatershed development plans; 3 000 rural women and youth trained in personal growth/ self esteem; 40% of the 600 technical-scholarship recipients (50% women), access the labour market and 10% initiate rural businesses. 10 500 families improved their overall sanitation and living conditions through basic infrastructure (e.g., improved stoves, latrines, etc.) | <ul style="list-style-type: none"> Baseline study report Regular M&E reports Social audit reports Mid-term and final evaluations Municipal records/ archives Documents and records of organizations | <p>Resources from central government are properly budgeted and channelled to municipalities in a timely manner. Resources allocated to development-triggering investments generate concurrent action</p> |
| <p>Sustainable Production and the Rehabilitation and Management of Natural Resources Output 2: The sustainable and competitive production capacities of associations for community development (ADESCOS), family production units and producer organizations are effectively supported and enhanced.</p> <p>Output 3: The beneficiary rural/indigenous populations take on improved sustainable production and rehabilitation technologies, contributing to reverse deforestation, soil erosion and overall natural resource degradation at the farm, micro-watershed and municipal levels.</p> | <ul style="list-style-type: none"> 15 000 beneficiaries access project-promoted technical assistance services; 150 organised producer groups, Adescos, implementing projects under agro-ecologically and sound business plans; 50 producer organizations involved as (co-implementing) technical service providers; 120 community technical agents (Productores inductores comunitarios – PICs) providing assistance to organised groups. <ul style="list-style-type: none"> 6 000 beneficiaries access technical assistance on sustainable production and NR rehabilitation (at least 1 300 women); 100 land rehabilitation agreements between sharecroppers/renters and landowners; 10 microenterprises producing/ commercialising planting material/ seedlings; 4 140 hectares of rehabilitated land through soil and water conservation. 10 environmental service payment projects in execution. | <ul style="list-style-type: none"> Baseline study report Regular M&E reports Social audit reports Mid-term and final evaluations Documents and records of organizations / service providers Municipal records/ archives GIS mapping | <p>Prolonged adverse climatic conditions, i.e., erratic and/or heavy rainfall or extended dry season do not harm extensively project results</p> |
| <p>Business and Rural Micro-Enterprise Development Output 4: Organized beneficiaries develop and strengthen their entrepreneurial capacities, establishing and modernizing competitive rural businesses and microenterprises (agricultural and otherwise) both for local and external markets, from a value chain perspective.</p> | <ul style="list-style-type: none"> 450 rural microenterprises (agricultural and otherwise) created and operating through business plans, (at least 30% by women/ youth); 5,600 beneficiaries trained on production/ transformation-related abilities; 25 rural enterprises created by rural women and youth, consolidated. | <ul style="list-style-type: none"> Baseline study report Regular M&E reports Mid-term and final evaluations Business plans documents Documents and records of businesses and microenterprises | <p>Comparative advantage for export products, maintained</p> |
| <p>Rural Financial Services Output 5: Access to credit and financial services by project beneficiaries is facilitated for production, transformation, commercialization and export.</p> | <ul style="list-style-type: none"> US\$3.5 million channelled through the Rural Financial Intermediation Trust Fund; 10 financial intermediaries with 20 new local branches, expanding financial services to 20 thousand people from 40 municipalities; 6 000 active savers at project completion; 6 000 active credits at project completion. At least 45% to women, and 10% to youth; 200 microenterprises with access to credit; 300 rural communities financially organised to facilitate access to basic financial services (local organizational models, geared to RFI branches and/or new cooperatives). | <ul style="list-style-type: none"> Baseline study report Regular M&E reports Mid-term and final evaluations Trust Fund documents | <p>The legal framework exists to transform the existing PRODAP II trust fund into a rural financial intermediation trust fund. Rural financial intermediaries, committed to rural poor development, do exist in the project area</p> |
| <p>Project Coordination and Institutional Strengthening for Rural Development Output 6: The technical, operational and inter-institutional coordination capacities of the Ministry of Agriculture and Livestock (MAG), strengthened and consolidated.</p> | <ul style="list-style-type: none"> The Rural Development Directorate at the Ministry of Agriculture (MAG), established and consolidated; 100 technical and management staff sensitised and trained on key rural development-related themes (from IFAD-financed and other projects); MAG's knowledge management and communication strategy, established; IFAD-financed and other rural development projects harmonize their P/M&E systems/processes under a results management framework in the context of a consistent country programme. | <ul style="list-style-type: none"> Baseline study report Regular M&E reports IFAD project portfolio review Social audit reports Mid-term and final evaluations Minutes of Rural Development Round Table meetings PCU follow-up reports | <p>MAG implements organizational changes to adapt to new project requirements</p> |