

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR, GUATEMALA, HONDURAS

**TRINATIONAL PROGRAM FOR SUSTAINABLE DEVELOPMENT IN
THE UPPER LEMPA RIVER BASIN**

(CA-0034)

LOAN PROPOSAL

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GU-0
HO-0

BASIC SOCIOECONOMIC DATA

The basic socioeconomic data for El Salvador, Guatemala, Honduras **are** available on the Internet at the following address:

English:

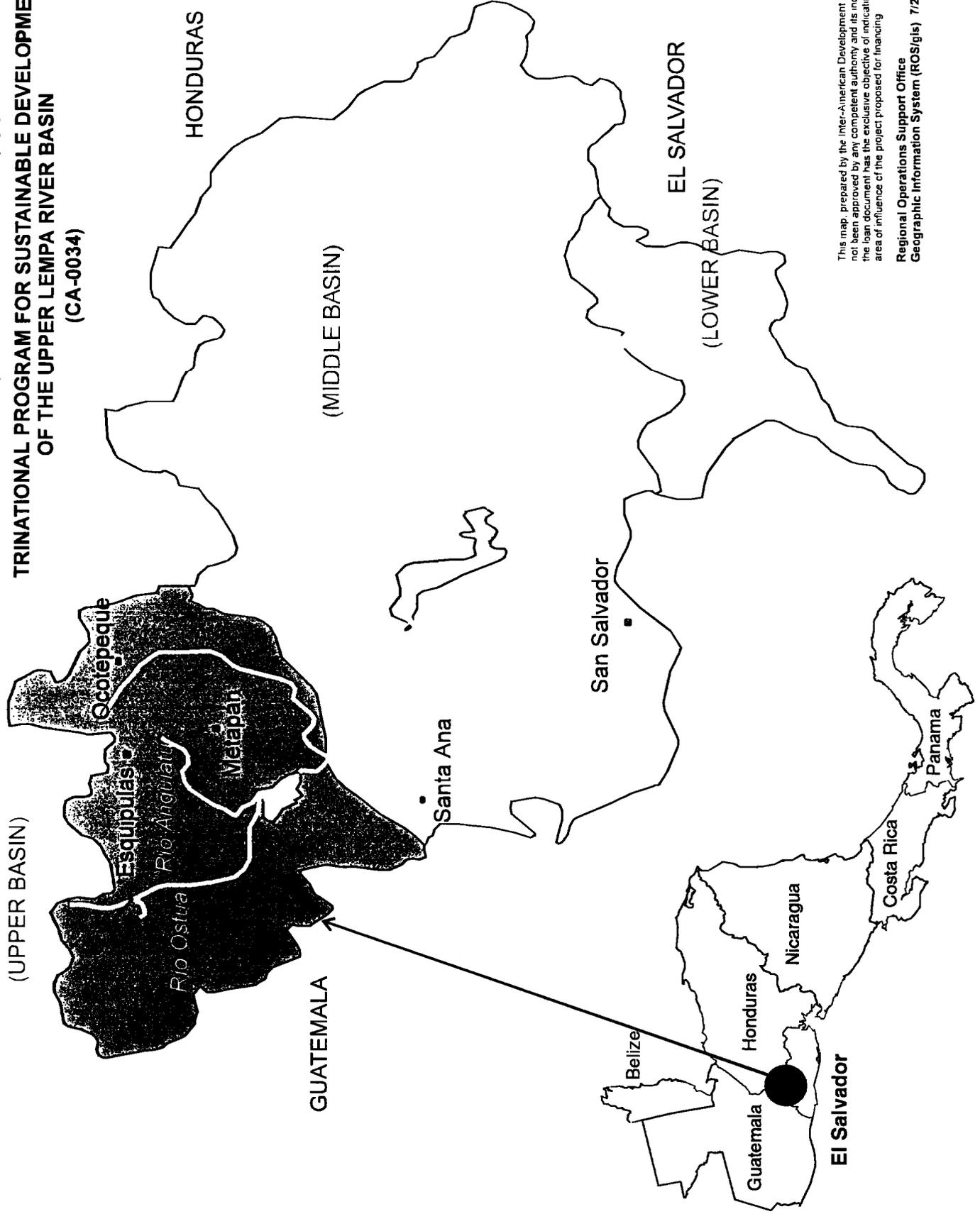
<http://www.iadb.org/int/sta/english/staweb/>

Spanish:

<http://www.iadb.org/int/sta/spanish/staweb/>

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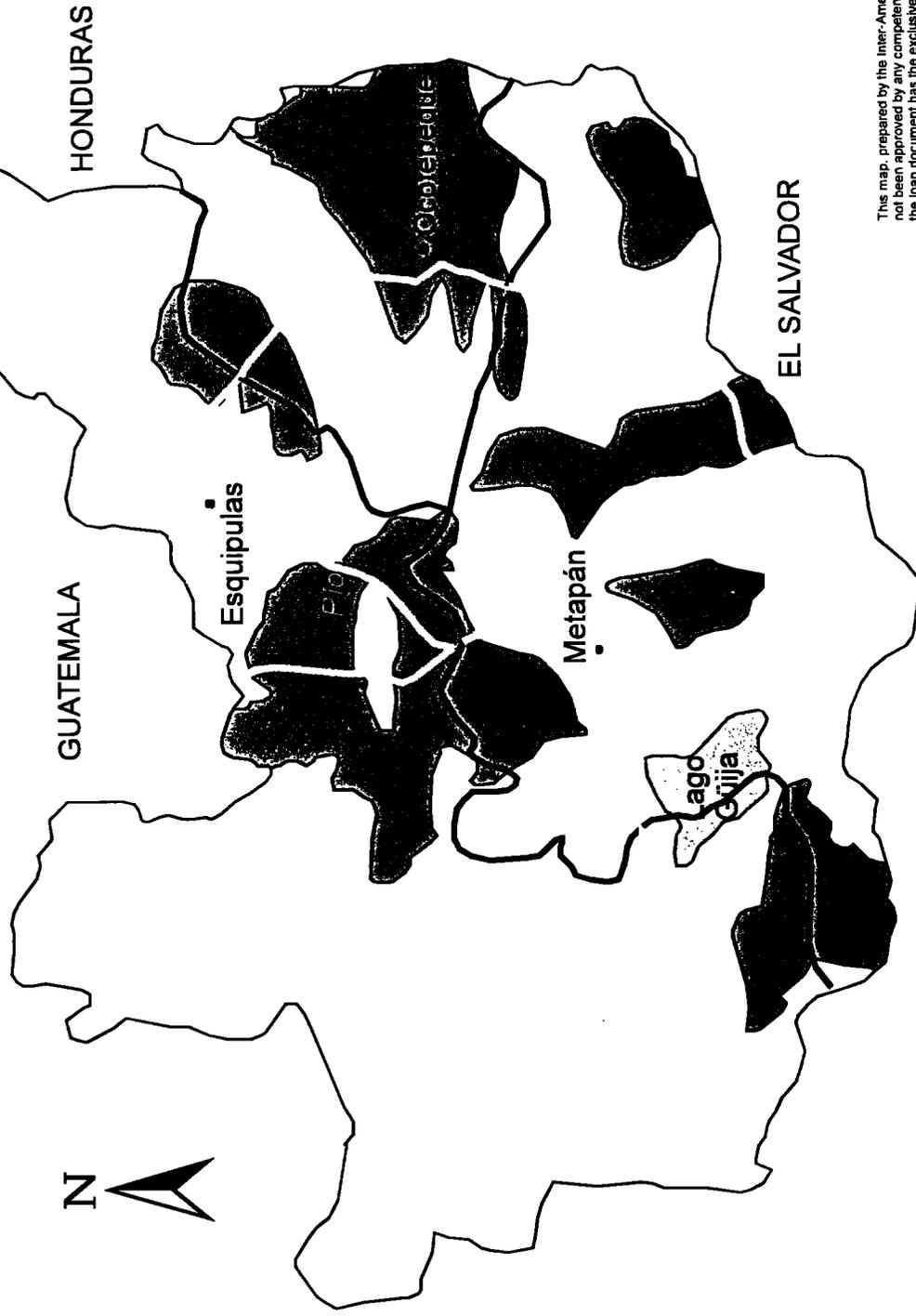


This map, prepared by the Inter-American Development Bank, has not been approved by any competent authority and its inclusion in the loan document has the exclusive objective of indicating the area of influence of the project proposed for financing.
Regional Operations Support Office
Geographic Information System (ROS/igs) 7/2/01

EL SALVADOR, GUATEMALA, HONDURAS

TRINATIONAL PROGRAM FOR SUSTAINABLE DEVELOPMENT OF THE UPPER LEMPA RIVER BASIN

(CA-0034)



AREA OF THE PROGRAM

SELECTED SUB-BASINS

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Regional Operations Support Office
Geographic Information System (ROS/gis) 7/2/01



EL SALVADOR

IDB LOANS

APPROVED AS OF MAY 31, 2001

	<i>US\$ Thousand</i>	<i>Percent</i>
TOTAL APPROVED	2,596,654	
DISBURSED	2,090,831	80.5%
UNDISBURSED BALANCE	505,823	19.5%
CANCELLATIONS	184,638	7.1%
PRINCIPAL COLLECTED	663,509	25.6%
APPROVED BY FUND		
ORDINARY CAPITAL	1,712,645	66.0%
FUND FOR SPECIAL OPERATIONS	745,934	28.7%
OTHER FUNDS	134,206	5.2%
OUTSTANDING DEBT BALANCE	1,427,322	
ORDINARY CAPITAL	854,648	59.9%
FUND FOR SPECIAL OPERATIONS	558,101	39.1%
OTHER FUNDS	10,704	0.7%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	173,397	6.7%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	128,163	4.9%
ENERGY	454,521	17.5%
TRANSPORTATION AND COMMUNICATIONS	480,638	18.5%
EDUCATION	205,009	7.9%
HEALTH AND SANITATION	353,355	13.6%
ENVIRONMENT	59,847	2.3%
URBAN DEVELOPMENT	31,208	1.2%
SOCIAL INVESTMENT AND MICROENTERPRISE	244,056	9.4%
REFORM PUBLIC SECTOR MODERNIZATION	268,956	10.4%
EXPORT FINANCING	79,823	3.1%
PREINVESTMENT AND OTHER	117,681	4.5%

*Net of cancellations with monetary adjustments and export financing loan collections.



EL SALVADOR

TENTATIVE LENDING PROGRAM

		US\$ Millions	
2001			
ESO148	EMERGENCY PROYECT FOR EL SALVADOR	20.0	APPROVED
ESO 129	MULTIPHASE SUSTAINABLE RURAL ROADS PROG.	58.0	APPROVED
ESO 150	EMERGENGY PROYECT EL SALVADOR II	20.0	APPROVED
ES0119	RETOOLING AGRO-ENTERPRISE	25.0	
ES0087	HOUSING PROGRAM	90.0	
ESO125	MODERNIZATION OF BANKING SECTOR SUPPORT	100.0	
	TOTAL A	313.0	
ESO 120	LOCAL DEVELOPMENT PROGRAM II	70.0	
ES0116	SUPPORT SOCIAL PEACE PROGRAM I	30.0	
ESO 130	MULTISECTOR CREDIT PROGRAM	100.0	
	TOTAL B	200.0	
	TOTAL 2001	513.0	
2002			
ESO133	LOWER LEMPA RIVER INTEGRAL SOLUTION MNGT	10.0	
ESO140	ALLOWANCE REFORM SECOND GENERATION	100.0	
ES0138	PUBLIC MANAGEMENT BY RESULTS	2.5	
ESO127	FISCAL ADMINISTRATION II (SAFI)	12.0	
	TOTAL A	124.5	
ESO114	TECHNOLOGICAL KNOWLEDGE DEVELOPMENT	6.0	
ES0139	STATE MODERNIZATION STAGE II	20.0	
ESO149	POBERTY REDUCTION PROGRAM	30.0	
	TOTAL B	56.0	
	TOTAL 2002	180.5	



EL SALVADOR

STATUS OF LOANS IN EXECUTION AS MAY 31, 2001

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1995	3	476,277	390,694	82.03%
1995 - 1996	4	109,210	74,422	68.15%
1997 - 1998	6	312,605	77,449	24.78%
1999 - 2000	5	48,040	0	0.00%
2001	3	98,000	4,000	4.08%
TOTAL	21	\$1,044,132	\$546,564	52.35%

* Net of Cancellations . Excluding export financing loans.



GUATEMALA

IDB LOANS

APPROVED AS OF MAY 31, 2001

	<i>US\$ Thousand</i>	<i>Percent</i>
TOTAL APPROVED	2,152,327	
DISBURSED	1,676,883	77.9%
UNDISBURSED BALANCE	475,445	22.1%
CANCELLATIONS	219,514	10.2%
PRINCIPAL COLLECTED	695,745	32.3%
APPROVED BY FUND		
ORDINARY CAPITAL	1,461,698	67.9%
FUND FOR SPECIAL OPERATIONS	627,424	29.2%
OTHER FUNDS	60,107	2.8%
OUTSTANDING DEBT BALANCE	981,138	
ORDINARY CAPITAL	573,242	58.4%
FUND FOR SPECIAL OPERATIONS	398,166	40.6%
OTHER FUNDS	6,997	0.7%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	179,414	8.3%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	206,806	9.6%
ENERGY	273,858	12.7%
TRANSPORTATION AND COMMUNICATIONS	435,848	20.3%
EDUCATION	43,628	2.0%
HEALTH AND SANITATION	301,220	14.0%
ENVIRONMENT	54,600	2.5%
URBAN DEVELOPMENT	176,950	8.2%
SOCIAL INVESTMENT AND MICROENTERPRISE	243,572	11.3%
REFORM PUBLIC SECTOR MODERNIZATION	234,668	10.9%
EXPORT FINANCING	1,764	0.1%
PREINVESTMENT AND OTHER	0	0.0%

* Net of cancellations with monetary adjustments and export financing loan collections.



GUATEMALA

TENTATIVE LENDING PROGRAM

US\$ Millions

2001

GUO 160	PEF:GU0155 URBAN POBERTY COMBAT PROGRAM	0.4	APPROVED
GUO161	PEF:GU0152 SUPPORT INTERNATIONAL TRADE	0.3	APPROVED
GUO 152	FOREIGN TRADE SUPPORT PROGRAM	5.0	APPROVED
GUO131	SUPPORT TO EDUCATION REFORM II	22.0	APPROVED
GU0066	SANITATION & SUST.MGMNT.AMATITLAN BASIN	21.0	
GU0151	CAPITAL EXPEN. ELECTRICITY DISTRIBUTION	35.0	
GU0119	FINANCIAL SECTORAL PROGRAM II	100.0	

TOTAL A **183.7**

TOTAL 2001 **183.7**

2002

GU0159	TRAINING AND LITERACY WORKSHOPS	10.0	
GUO 150	RURAL WATER INVESTMENT PROGRAM	50.0	
GUO158	JOB MARKET PROGRAM	10.0	
GUO155	INTEGR. PROGR. AGAINST URBAN POVERTY	30.0	
GUO 133	PRIORITY BASIN NATURAL RESOURCES	40.0	
GUO 126	TRANSMISSION AND RURAL ELECTRIFICATION	95.0	
GUO 162	INDIGENOUS CULTURE PROMOTION	5.0	
GU0156	SOCIAL PROTECTION	30.0	

TOTAL A **270.0**

GUO 154	MICROCREDIT GLOBAL PROGRAM	20.0	
GUO157	SUPPORT POV. RED. STRAT IMPLEMENTATION	30.0	
GUO 153	SUPPLEMENT HOUSING PROGRAM	20.0	
GUO 143	MODERNIZATION OF NATIONAL CONGRESS	12.0	
GUO 163	CITIZEN SECURITY	30.0	
GUO 164	NAC. SYS. SERVICES AND GOODS CONTR. SUPP	6.5	
GUO 165	ELECTORAL SUPREME TRIBUNAL MODERNIZATION	6.0	

TOTAL B **124.5**

TOTAL 2002 **394.5**



GUATEMALA

STATUS OF LOANS IN EXECUTION AS MAY 31, 2001

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1995	5	99,100	86,177	86.96%
1995 - 1996	6	310,455	243,340	78.38%
1997 - 1998	8	279,010	125,969	45.15%
1999 - 2000	4	235,672	0	0.00%
2001	1	5,000	0	0.00%
TOTAL	24	\$929,237	\$455,485	49.02%

* Net of Cancellations. Excluding export financing loans.



HONDURAS

IDB LOANS

APPROVED AS OF MAY 31, 2001

	<i>US\$ Thousand</i>	<i>Percent</i>
TOTAL APPROVED	2,100,366	
DISBURSED	1,694,057	80.7%
UNDISBURSED BALANCE	406,309	19.3%
CANCELLATIONS	162,313	7.7%
PRINCIPAL COLLECTED	582,797	27.7%
APPROVED BY FUND		
ORDINARY CAPITAL	489,966	23.3%
FUND FOR SPECIAL OPERATIONS	1,554,623	74.0%
OTHER FUNDS	50,486	2.4%
OUTSTANDING DEBT BALANCE	1,111,260	
ORDINARY CAPITAL	203,408	18.3%
FUND FOR SPECIAL OPERATIONS	902,568	81.2%
OTHER FUNDS	543	0.0%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	289,112	13.8%
INDUSTRY; TOURISM, SCIENCE TECHNOLOGY	69,977	3.3%
ENERGY	355,578	16.9%
TRANSPORTATION AND COMMUNICATIONS	380,314	18.1%
EDUCATION	71,293	3.4%
HEALTH AND SANITATION	241,377	11.5%
ENVIRONMENT	64,504	3.1%
URBAN DEVELOPMENT	142,235	6.8%
SOCIAL INVESTMENT AND MICROENTERPRISE	264,031	12.6%
REFORM PUBLIC SECTOR MODERNIZATION	188,565	9.0%
EXPORT FINANCING	6,908	0.3%
PREINVESTMENT AND OTHER	26,473	1.3%

* Net of cancellations with monetary adjustments and export financing loan collections.



HONDURAS

TENTATIVE LENDING PROGRAM

US\$ Millions

2001

H00179	NAT. RESOURCES MNGMT. PRIORITY BASIN	25.0	APPROVED
H00206	SUPPORT CENSUS 2001	3.0	APPROVED
H00186	STRENGTHENING & MODERN PROBITY DIRECTION	2.0	
H00174	SANITATION AND WATER INVESTMENT COMPLEM.	14.0	
H00175	SAN PEDRO SULA MUNICIPAL DEV II	9.0	
H00185	INSTIT. FRAMEWORK TRANSFORMATION AND	30.0	
H00192	MICROENTERPRISE GLOBAL PROGRAM	25.0	
H00116	SUSTAINABLE ROADS REHAB MULTIFASE PROG I	20.0	
H00211	SAN PEDRO SULA WATER AND SEWERAGE PROJEC	12.8	

TOTAL A 140.8

H00193	INDIGENOUS ZONES INFRASTRUCTURE DEVELOP	1.5	
H00209	SIEPAC PROGRAM	35.0	
H00201	PRIVATIZATION FOUR INTERNATIONAL AIRPORT	22.0	

TOTAL B 58.5

TOTAL 2001 199.3

2002

H00203	EXPANDING TECH CAPABILITIES IN COMMUNIT	5.0	
H00189	SUPPORT TRADE NEGOTIATIONS	5.0	
H00197	MOSQUITIA DEVELOPMENT PROGRAM	10.0	
H00210	JUDICIAL SYSTEM PROJECT	20.0	
H00212	SOCIAL SECTORAL SUPPORT PROGRAM	30.0	
H00208	DISASTER RISK MGMT. AND INSURANCE	5.0	
H00198	ENVIRONMENTAL MANAGEMENT BAY ISLANDS II	10.0	
H00195	COAST MARINES ENVIROMENTAL SYSTEMS MANA	50.0	

TOTAL A 135.0

H00202	SECONDARY EDUCATION PROGRAM	20.0	
H00191	MARGINAL AREAS IMPROVEMENT	20.0	
H00140	HEALTH SECTOR REFORM	30.0	
H00199	YOJOA LAKE ENVIROMENTAL AND TOURIST DEV.	20.0	
H00181	REFORM OF THE HONDUREAN FAMILY INSTITUTE	3.0	
H00200	JAMASTRAN VALLEY AGRICULTURE DEVELOPMEN	20.0	
H00194	BASIC EDUCATION SECOND STAGE	20.0	
H00207	ROADS REHAB AND SUSTAINABILITY FASE II	60.0	
H00205	SULA VLLEY CITIZENSHIP SECURITY	20.0	

TOTAL B 213.0

TOTAL 2002 348.0



HONDURAS

STATUS OF LOANS IN EXECUTION AS MAY 31, 2001

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1995	5	111,280	89,704	80.61%
1995 - 1996	3	182,200	140,556	77.14%
1997 - 1998	7	217,576	82,591	37.96%
1999 - 2000	11	197,274	16,180	8.20%
2001	1	25,000	0	0.00%
TOTAL	27	\$733,330	\$329,030	44.87%

* Net of Cancellations . Excluding export financing loans.

**TRINATIONAL PROGRAM FOR SUSTAINABLE DEVELOPMENT
IN THE UPPER LEMPA RIVER BASIN**

(CA-0034)

EXECUTIVE SUMMARY

Data by country:	El Salvador	Guatemala	Honduras
Borrower:	Republic of El Salvador	Republic of Guatemala	Republic of Honduras
Amount and source:	IDB: (OC) US\$14,000,000 Parallel financ. ¹ : US\$ 750,000 Local: US\$ 2,750,000 Total: US\$17,500,000	IDB: (OC) US\$4,500,000 Parallel financ. ² : US\$ 500,000 Local: US\$2,000,000 Total: US\$7,000,000	IDB: (FSO) US\$3,300,000 Parallel financ. ² : US\$3,000,000 Local: US\$ 495,000 Total: US\$6,795,000
Financial terms and conditions:	Amortization period: 25 years Grace period: 5 years Disbursement: 5 years Interest rate: variable Inspection and supervision: 1% Credit fee: 0.75%	Amortization period: 25 years Grace period: 5 years Disbursement: 5 years Interest rate: variable Inspection and supervision: 1% Credit fee: 0.75%	Amortization period: 40 years Grace period: 10 years Disbursement: 5 years Interest rate: 1% first 10 years 2% subsequent years Inspection and supervision: 1% Credit fee: 0.5%
	Currency: U.S. dollar under the Single Currency Facility of the Ordinary Capital		FSO resources
Executing agency:	Trinational Commission of the Trifinio Plan (CTPT).		

Objectives: The general objective is to improve the quality of life of the inhabitants of the upper Lempa River basin, **through** actions that promote sustainable development in the target area and that seek to break the cycle of poverty and destruction of natural resources. The specific objectives are: (i) to achieve sustainable management of the region's renewable natural resources; (ii) to decrease vulnerability to natural hazards; (iii) to promote productive activities and economic diversification; and (iv) to strengthen local governments and improve the organizational capacity of communities, in the context of trinational integration.

Description: The operation is designed as a single program at the trinational level, with local, municipal, and regional activities within each **country** and

¹ GTZ grant.

² Concessional loan from the Nordic Development Fund.

among the three countries. The program will have the flexibility needed for separate execution if any of the countries should encounter delays in starting up the operation. Additionally, the program is organized **so** that the beneficiaries and the investments can be identified by component and subcomponent for each country, to facilitate monitoring and evaluation by the respective governments. The target area covers approximately **1,000 km²** in **23** priority subbasins, where some **77,000** individuals live. Eighty-seven percent of this population is living in poverty, including **53%** in extreme poverty. Approximately **72%** of the area has been the object of some form of activity, resulting in the deterioration of water, soil, and forest resources.

In light of the geophysical, socioeconomic, and environmental conditions of the area, the involvement of three countries, and the different needs identified in each of the three countries, the program has adopted a flexible approach in response to these requirements, and program execution will be highly participative. Categories of activities and projects eligible for program financing have been identified in each component, in accordance with demand in each of the three countries and in keeping with the specific criteria identified in the program's operating regulations. To respond to these objectives, the program **has** been structured around the following components:

1. Management of renewable natural resources (US\$13.9 million)

The objective of **this** component is to achieve sustainable management of water, soil, and forest resources in order to set in motion a positive change in the quality of life of the communities in priority intervention areas, particularly in rural communities, by improving their general conditions of widespread poverty and extreme poverty through actions of social benefit, and introducing improvements in agricultural practices to ensure the sustainability and profitability of production. Technical assistance activities and specific investments will be financed in the following subcomponents: (i) **Development, management, and protection of natural resources**, to introduce financially sustainable agricultural practices, including soil and vegetation protection activities; and (ii) **Infrastructure and basic sanitation**, which will support communities and local governments in activities and designs for small-scale construction projects relating to drinking water, sanitation, and improving local roads to aid production.

The goals are: (i) to increase the income of small-scale farmers in the region, particularly those working on hillsides, while reducing environmental degradation indicators in terms of soil and forest resources; (ii) to improve the overall coverage of basic sanitation services; and (iii) to reduce the contamination rates and degradation **of** water sources.

2. Disaster prevention and mitigation (US\$3.9 million)

The objectives of **this** component **are** to reduce the region's vulnerability to such natural hazards **as** floods and landslides, and to develop local capacity to prevent these phenomena from becoming disasters when they occur. This component includes **two** subcomponents: (i) **Interventions at the subbasin level**, which seek to restore degraded areas and to protect vulnerable areas; and (ii) **Prevention, early warning, and monitoring systems for natural phenomena**, including organizing and preparing communities to respond well when these phenomena do occur, preparing risk maps, and setting up early warning systems.

The goals are: to prevent loss of life and to reduce material damage that has a negative impact on the population's health, well-being, and production, and damage to housing and basic services and communications infrastructure.

3. Support for economic diversification (US\$3.8 million)

The objectives of this component **are:** to expand income-producing options for area families, facilitate the marketing of agricultural and forestry products and promote the development of microenterprises and small businesses that **are** not necessarily related to natural resource management, and provide additional income for families. **This** component comprises **two** subcomponents: (i) **Business development**, including training and business organization activities, market studies, and technological processes; and (ii) **Productive diversification**, including improvements in forest, agricultural, and non-agricultural production, marketing and certification of organic coffee, promoting ecotourism and related projects, and training to improve the services that ecotourism requires.

The goals are: (i) to increase the incomes of beneficiary families that own land, and of those that do not, in order to contribute to family income; and (ii) to promote the involvement of women in economic activities.

4. Institutional strengthening (US\$1.9 million)

The objectives of **this** component are to strengthen functional trilateral integration in the region, and within this context to strengthen local governments and community organizations to ensure their participation and coordination in carrying out the activities. The component includes the following subcomponents: (i) **Strengthening the institutionality of trilateral integration** by developing a

trilateral strategic plan and training existing institutions to implement and monitor that plan; (ii) **Strengthening local governments** in terms of financial administration, environmental management, and community organizing; and (iii) **Strengthening gender-oriented social organizations** to promote citizen involvement in decision making.

The goals are: (i) to strengthen the capacity of the institutional trilateral system set up by the three governments to coordinate actions necessary for sustainable development in the region; (ii) to strengthen the capacity of local governments (municipalities) to present and execute actions and projects within their jurisdictions; and (iii) to strengthen the capacity of existing social organizations, particularly those involving youth and women, in making decisions about prioritizing and solving problems.

**The Bank's
country and
sector strategy:**

The governments' strategy is expressed in the Treaty for Execution of the Trifinio Plan. The treaty is an acknowledgment of the interdependence of the border economies of the three countries in terms of the region's development, and of externalities in each country's economic activities that have an impact on the other two nations. **This** is the case of the Lempa River, which has its source in Guatemala and Honduras and is vital to the Salvadorian economy. As part of this initiative and to consolidate the still fragile gains achieved in the Trifinio pilot project, the Governments of El Salvador, Guatemala, and Honduras have sought the **Bank's** support for the preparation and execution of **this** trilateral program for sustainable development in the upper Lempa River basin.

This is consistent with the **Bank's** strategies for El Salvador, Guatemala, and Honduras, which emphasize rural development and the protection of natural resources, agricultural productivity, and sustainable economic development that gives priority to fighting poverty and reducing the risks associated with natural phenomena. It is also consistent with the **Bank's** regional integration strategy for Central America and sustainable development in the Mesoamerican biological corridor.

**Environmental
and social
review:**

The operation would have a positive environmental and social impact inasmuch as it is designed specifically to support sustainable development in the basin. The social and environmental criteria were incorporated in the process of prioritizing the subbasins and the effects of the proposed activities were evaluated. Activities considered representative of each of the four components (models of farming, prevention and mitigation of natural risks, ecotourism, etc.) were compared with environmental and social factors (water, soil, air, socioeconomic factors, cultural considerations, etc.) and the possible

effects were analyzed from the perspective of their certainty to occur, the level of disruption, and their scope, duration, development, and reversibility. To attenuate the negative effects of certain specific projects and thus increase positive outcomes, the program's Operating Regulations include specific requirements with regard to environmental and social factors, which the projects must fulfill in order to receive financing.

Additionally, the program's actions will make it possible to strengthen sustainable production systems and to conserve the upper Lempa River basin, located at the center of the Mesoamerican region. The program's actions will help transfer genetic material and contribute to the survival of plant and animal species in the Mesoamerican biological corridor.

The modality of program execution includes National Commissions of Involved Parties in each country, to ensure broad community involvement in formulating the **annual** operating plans. The program includes activities to reduce poverty and, in the institutional strengthening component, the participative focus is enhanced by involving the communities in project selection and execution. The region does not include affected ethnic groups, the activities do not include any relocation of the population, and no land disputes have been reported. The equity and gender focus is integrated into all activities. The institutional strengthening component includes support for setting up municipal environmental units and the preparation of a trinational strategic plan to articulate the principles and basic guidelines for the use and protection of water, soil, and forest resources, improvement of strategic infrastructure to mitigate natural disasters, pollution control, and promoting trinational economic and social improvement activities.

Benefits:

The program's benefits may be grouped into two categories: (i) private benefits, obtained by farmers through the diversification and improvement in crop yields by incorporating farming techniques and soil conservation practices and increasing the useful life of their lands, and by other members of the population **through** the economic diversification component, which seeks to increase the population's income by supporting profitable agricultural and non-agricultural activities; and (ii) public benefits, which will be enjoyed by the region's entire population, even by those not directly involved in the operation. The preservation of natural resources in the targeted basins will be **of** benefit to all the region's inhabitants and to those located immediately downstream from the intervention areas in the upper Lempa River basin. There will also be benefits associated with avoiding the social costs of the health effects resulting from water pollution and limited access to drinking water, and the social costs of people moving from rural areas to the city.

The risks of loss of life and property will **also** be reduced **through** actions to prevent and mitigate damage caused by natural disasters. Additionally, benefits will accrue from reductions in risks associated with deteriorating rural infrastructure (particularly local roads), and efforts to protect and restore degraded ~~areas~~ ~~areas~~. Moreover, strengthening local governments and coordinating actions to solve shared problems in the area of the three countries will be of benefit to the region's economies.

Risks:

The program's main features are rooted in its trilateral nature, its flexibility, and its participative focus. While these are strengths of the program, they also involve risks:

Trilaterality: Actions to promote rational management of natural resources and to promote economic diversification in the border region of the three countries will be required, although the institutions nationally responsible for the program's areas of activity are not well represented in the region. To limit **this** risk, the existing structure of the Trilateral Commission of the Trifinio Plan (CTPT) will be used and strengthened. The plan enjoys the solid support of the respective governments, and has valuable experience in projects of **this** kind in the region.

There is the **further** risk that one of the countries may encounter problems that result in delays in program **start up** and execution. Therefore, the program has been designed with sufficient flexibility in execution, supported by technical cooperation operations and parallel concessional financing, to enable certain basic activities to go forward simultaneously in the three countries. The risk of conflicts arising from the different interests of the three countries is attenuated by the flexibility that the program introduces to address activities and projects according to the demands of the communities in each country.

Fragmentation of investments: However, **this** flexibility introduces the risk that the program's actions may become fragmented and will not have a significant overall impact. **This** risk is diminished by the trilateral strategic plan and the subbasin focus based on natural factors (water, soil, and forest) and social factors (population, family socioeconomic situation, and their communities and organizations) used to prioritize the area of intervention and which will be followed throughout program execution. In **this** way, without limiting the local communities' initiative and involvement, economies of scale and the synergistic effect of the program's actions will be maintained in terms of their contribution to achieving the program's goals.

Weakness of local institutions: The program's highly participative focus requires strong local institutions and considerable institutional

coordination, conditions that are weak at present. However, owing to a number of international aid projects that have been and continue to be implemented in the area, this **kind** of focus is not new, and will not have to be built from the ground up. Institutionality and local organizations will be strengthened, **as** will the communication and coordination links among the various parties involved. Additionally, these coordination and communication links will be strengthened by using the CTPT scheme with national offices in the three countries, supported by ATRIDEST and the National Commissions of Involved Parties at the local level and the Steering Committee at the central level.

**Special
contractual
clauses:**

Conditions precedent to the first disbursement:

- a. **as a condition precedent to the first disbursement of the loans**, the CTPT must have: (i) selected, at a minimum, the trinational program coordinator, in accordance with the profile of responsibilities agreed upon with the Bank (paragraph **3.11**); (ii) selected the administrative officer to support the trinational administrative unit (TAU) (paragraph **3.12**); (iii) set up the program's steering committee (paragraph **3.9**); and (iv) submitted evidence that it **has** adopted the Operating Regulations agreed upon by the Bank and the Trinational Executive Secretariat (paragraph **3.18**); and
- b. **additionally, as a condition precedent to the first disbursement of each loan**, the CTPT must have: (i) selected, at a minimum, the respective national coordinators in accordance with the profile of responsibilities agreed upon with the Bank (paragraph **3.16**); (ii) **set** up the National Commissions of Involved Parties (paragraph **3.13**); and (iii) submitted evidence that the respective agreements for the transfer of loan and counterpart resources have been signed with the Trinational Executive Secretariat, **as well as** its responsibilities **as** executing agency of the program (paragraph **3.29**).

Other contractual conditions:

- a. **as** part of the continuous monitoring provided in the program, the CTPT will meet with the Bank and the donors no later than **30** April of each year of program execution, starting with the first year of execution for the launch of the program, to analyze its progress and to reach agreement on any changes to the program that may become necessary, and to define the actions planned for its start-up in the following year (paragraphs **3.34** to **3.36**); and

- b. in the second half of the third year of execution, a midterm evaluation and ex post evaluation will be performed by an independent consultant (paragraph 3.40).
- c. annual consolidated financial statements of the program and by country will be required (paragraph 3.45).

Poverty-targeting and social sector classification:

This operation qualifies **as** a social equity enhancing project, as described in the indicative targets mandated by the **Bank's** Eighth Replenishment (document **AB-1704**). Furthermore, **this** operation qualifies **as** a poverty-targeted investment (PTI, see paragraphs 4.18 and 4.19). According to official figures, extreme poverty is on the order of 53% and relative poverty 34%, for a total of 87% of the population. The borrowing countries will be using the 10 percentage points in additional financing.

Exceptions to Bank policy:

None.

Procurement:

Procurement of goods and services and contracting for construction and consulting services will be handled in accordance with the **Bank's** procurement policy and **as** agreed among the countries through the Trifinio Plan treaty. International competitive bidding will be used for the procurement of goods and services for amounts greater than **US\$350,000** and for construction contracting for amounts greater than **US\$1.5 million**. International competitive bidding will be used for consulting services for amounts greater than **US\$200,000**, using the lowest cost principle.

Procurement and contracting for amounts under these limits will be handled in accordance with a simplified procedure included **as** Annex D to the loan contract (paragraphs 3.41, 3.42 and Annex V).

I. BACKGROUND

A. The Upper Lempa River Basin

- 1.1 The program area is the upper Lempa River basin, the watershed above the confluence of the Lempa River and the Desagiie River. The area is shared by El Salvador, Honduras, and Guatemala, and comprises 3,587 km², 54% of which is in Guatemala, 32% in El Salvador, and 14% in Honduras. The area constitutes approximately 50% of the area **known** as the Trifinio Region, or binational border region, since it is shared by the three countries in the context of an international treaty for the integrated development of the area. Most of the soil in the region is of volcanic origin, with poorly cohesive formations, and 70% of the land slopes at a grade of over 30%. This combination of factors makes for fairly unstable land that is extremely vulnerable to unsuitable farming practices.
- 1.2 According to the census projections of the countries, the region's population is estimated at 305,000, 67% of whom live in rural areas. Based on recent surveys of family income and expenses in the three countries, 87% of the program area's population is estimated to be living in poverty, and 53% in extreme poverty. Illiteracy and malnutrition rates are also high.
- 1.3 The region's climate is affected by the **annual** variation in precipitation, ranging from 1,100 to 2,200 mm, with frequent rains in mountainous areas. The temperature ranges from hot to temperate, depending on altitude. Temperatures are higher in March, April, and May, and lower in December and January. These characteristics produce a *dry* season for part of the year (November to April), which is shorter and less intense to the east **of** the basin's headwaters.
- 1.4 According to the analysis undertaken, environmental deterioration is continuing, reflected by a loss of forest cover, unsustainable land use and production systems that require better conservation techniques, and sanitation problems that affect water quality and the inhabitants' health, which is one indicator of the scope of the problems. Twenty-three percent of the upper basin is under permanent and annual cultivation, 40% are pasturelands, most of which are managed scrublands and bush in areas largely abandoned by farmers because of decreasing productivity, 3% are bodies of water, barren lands, roads, and urban areas, and 34% retain their forest cover. The analysis indicates that approximately 72% of the area **has** experienced some form of agricultural activity.
- 1.5 Forest cover varies by country. Honduras has the most forested area at 59%, followed by El Salvador at 34% and Guatemala at 29%. The density of the forest varies by soil **type** and degree **of** intervention, with conifers, hardwoods, and combinations of the two at elevations up to 1,600 meters above sea-level. At higher elevations, there are significant cloud forest formations, particularly on the Cerro Montecristo and the El Merendón mountain range.

- 1.6 As in many other parts of the three countries, the familiar relationship between poverty and environmental degradation is evident in this region. There are significant levels of extreme poverty in the sub-basins in the three countries, and smallholdings, illiteracy, and a lack of economic alternatives to increase incomes complete the depiction of the current situation in the upper basin (see paragraphs 4.18 and 4.19).
- 1.7 The Trifinio region is unique, as it is the headwaters of the three largest water systems in Central America (Lempa, Motagua, and Ulúa) and the location of significant biological reserves (La Fraternidad Biosphere Reserve), a focal point of regional tourism (Esquipulas), commercial exchange (Ocotepeque), industry and financial services (Metapán). This has made the area a strategic location for intra-regional trade. The region has considerable potential to contribute to the subregional integration process, promoting sustainable economic development in the area while simultaneously addressing the decline in its natural resources and the ensuing consequences.
- 1.8 The upper Lempa River basin is the largest of the shared watersheds in the Trifinio region. Accordingly, coordinated management of its natural resources is a priority for the three governments, with equal emphasis placed on productive activities and actions that yield social benefits, improving the quality of life of the inhabitants as well as their organizational capacity. The three governments have demonstrated their interest in working together to resolve shared problems and to offset existing and future negative externalities caused by the inappropriate use of natural resources.

B. Institutional framework

- 1.9 Recognizing the importance of the Trifinio region where the upper Lempa River basin is located, the Governments of the Republics of El Salvador, Guatemala, and Honduras signed the treaty for implementation of the Trifinio Plan, with a view to the economic and social development of the region, and sensitivity to environmental concerns. The agreements reached under this treaty were ratified by the Congresses of the three countries in 1998 and 1999. To implement the plan, the Trifinio Commission of the Trifinio Plan (CTPT) composed of the Vice Presidents of the three countries was set up, along with a trinational executive secretariat, which is headquartered in San Salvador and includes a main office responsible for coordination; three national executive offices (one per country) were also created. The CTPT also has a trinational technical unit (TTU) headquartered in Esquipulas. The CTPT has legal status, administrative, technical, and financial autonomy, and is the entity responsible for overseeing implementation of the Trifinio Plan. The CTPT receives annual contributions from the countries to cover its operations and may receive nonreimbursable funds and donations for its activities. The institution reaches its decisions by consensus, and has administrative and supervision systems that are suitable for monitoring its operations.

- 1.10 The upper Lempa River basin is located in two departments in Guatemala (Chiquimula and Jutiapa), two in El Salvador (Santa Ana and Chalatenango), and one in Honduras (Ocotepeque). The official presence of the State in the region is channeled through the departmental governments, headquartered in the respective administrative centers, and through the respective Ministries or Secretariats of Agriculture and Environment, which are responsible for management and conservation of natural resources, and the Ministries of Communications and Transport, Education, Health, etc., with responsibility for local roads, schools, health centers, and other basic services. Some of these ministries and secretariats have departmental or regional delegates.
- 1.11 The local governments are autonomous and are located in the municipalities, whose authorities are elected by popular vote. They collect assessments and municipal taxes and receive a percentage of the national budget by constitutional mandate, which varies from country to country. The basin area encompasses 19 municipalities, eight in El Salvador, six in Guatemala, and five in Honduras. According to respective municipal legislation, each municipality is to have an environmental committee or unit to see to the protection of the environment and to introduce environmental considerations into municipal activities.
- 1.12 A number of local organizations are present in the basin region, most of which are initiatives from outside the area that receive passive support from the communities. These organizations include the Associations for Sustainable Development in the Trifinio Region (ATRIDEST) set up through the Trifinio Pilot Project (TPP) in 1995. In each country, these associations are made up of organizations of small- and medium-sized growers, savings and loan cooperatives, associations of integration-promoting groups, associations of environmental groups, and associations of environmental educators. The ATRIDEST associations are part of the consultative committee created under the treaty for implementation of the Trifinio Plan.

C. Problems affecting the upper basin

- 1.13 The issues facing the region clearly relate to the vicious circle of poverty and deterioration of renewable natural resources. However, in these three countries, and thus also in the program area, poverty is a complex structural problem, since the economies have not created conditions and opportunities so that the general population may have access to resources with the quality, quantity, and sufficient continuity to lay an economic foundation to promote their development. The most significant problems to be resolved are rooted in:

1. Fragility of natural resources and low quality of life indices

- 1.14 The fragility of the area's natural resources, and the manner in which the inhabitants use them, pose real environmental problems that are the effect and the cause of

poverty. Although the ways in which the resources are used have not resulted in irreversible environmental impacts, a process of deterioration has clearly begun that could lead to permanent changes with grave social and ecosystemic consequences.'

- 1.15** In addition to inappropriate land use through technically unsuitable agricultural practices, the use of agrochemical products, water processing of coffee, and the increasing erosion that results from growing crops on open slopes, other factors affect the environment such as the construction of roads and paths with limited technical specifications, the effects of which may be as bad, or even worse, than crops in terms of soil deterioration.
- 1.16** **This** trend is evident in the sedimentation and contamination of the river banks and a loss of farmland fertility, with high costs for local agricultural owing to its effects on soil productivity. This contributes to the deterioration of infrastructure in the area and adds to rural poverty. The poverty of the population, in turn, leads to the exploitation of more land on steep slopes, which accentuates degradation of the land, completing a vicious circle of poverty and natural resource degradation.
- 1.17** There are also significant shortcomings in terms of education, access to basic services, and communications facilities. The lack of these services, and the inadequate intervention of the national and municipal governments in providing goods and public services, are other factors that perpetuate the vicious circle of poverty and natural resource degradation. **This** also leads to significant health risks for the inhabitants, because of inadequate management of solid waste in urban areas and low percentages of basic sanitation services in rural areas (drinking water and waste disposal), which produces high levels of fecal coliform bacteria contamination in bodies of water in the region.
- 1.18** Continual expansion of the land area under cultivation, land clearing, intentional forest fires, and wood extraction contribute to a reduction in overall wooded area. This reduction in wooded areas and minimal or nonexistent use of land conservation measures for farming on hillsides are causing land erosion and promoting the formation of gullies in fragile land areas, contributing to an increase in the upper Lempa River basin's vulnerability to natural risks. Owing to the basin's geological formation, it is highly vulnerable to landslides and tremors. One example of **this** is the landslides in the gullies five kilometers upstream from the town of La Palma in El Salvador, located on a river of the same name, which pose a risk for the town's inhabitants.
- 1.19** Other natural risks for inhabitants of the program area derive from the rain pattern, with clearly defined *dry* seasons (November to April) and wet seasons (May to October). The rains are short-lived but very intense, resulting in drought and

¹ Subbasins in El Salvador, such as that of the San Miguel Ingenio River, now have less than 1% of their original wooded areas.

torrents, with the ensuing effects on agriculture and infrastructure in the area. However, while the seismic risk cannot be entirely dismissed, it remains relatively low in the upper basin region, increasing toward the central part of the basin and to its south.

2. Limited economic alternatives

- 1.20 The lack of information flow and entrepreneurial and commercial opportunities limit the region's development. For this reason, and despite the comparative advantages in the region for attaining a greater level of socioeconomic development (e.g. favorable conditions for trilateral cooperation created through the Trifinio Pilot Project and supported by the actions of the CTPT, a lack of significant land disputes, a lack of cultural or ethnic limiting factors in terms of natural resource management, major regional centers of religious tourism, significant centers of intra-regional trade, and major biological reserves), most of the population has no alternative than to engage in economic subsistence activities on hillsides, resulting in a decline in water, soil, and forest resources while imposing strict limits on their incomes.
- 1.21 Moreover, the distribution of land in the upper basin is marked by a large number of small-scale farming operations on less than **5** hectares (the average size in areas sloping at more than **30%** is 2 hectares), severely limiting the possibility that such farming activities will be profitable for smaller family groups of farmers, who need new income options. There are no significant conflicts relating to land ownership.

3. Institutional and organizational capacity at the trilateral, national, municipal, and local levels

- 1.22 State institutions, though they do exist officially, **are** poorly represented because of uncertain public financing, arising **from** structural shortcomings in the national economies. However, except **as** provided in the treaty for implementation of the Trifinio Plan and the actions initiated by the TPP that are being continued by the CTPT with support from international aid as described below, coordination among the authorities in the three countries is insufficient. There is no trilateral strategic plan for adequate natural-resources management, disaster prevention, or achieving incremental gains through the promotion of efforts to integrate the local economies. **This** would entail coordination of policy, legislation, technology, and natural risk mitigation strategies, natural-resources management, and education issues.
- 1.23 The mayors' offices in the area, even the best-equipped such **as** Metapán in El Salvador, Ocotepeque in Honduras, and Esquipulas in Guatemala, lack the resources and training to meet the population's basic services needs, let alone to engage in the integration activities and environmental management functions imposed by the municipal codes in the three countries.

- 1.24 Except for some municipalities in Chalatenango in El Salvador, local community organization is equally weak. Presently, some local committees and the ATRIDEST associations are engaging in certain joint activities, but these are of limited scope mainly because of a lack of resources for promotion and planning. Several NGOs in the three countries are capable of carrying out activities such as those provided for in the program, but few of them have an effective presence in the area. Despite the efforts of international projects, in general a local organizational structure has not been fostered that would be able to generate initiatives, clearly identify immediate local problems, and participate actively in resolving them.

D. Strategy of the governments and of the Bank

- 1.25 The governments' strategy is expressed in the treaty for implementation of the Trifinio Plan. Thanks to the treaty, various activities have been undertaken to promote regional integration under the banner of "sustainable development" of the area, and administration of the Trifinio Commission of the Trifinio Plan. One of the main activities was the Trifinio Pilot Project (TPP), executed by the support of the European Union in 17 municipalities in the region between 1992 and 1999.²
- 1.26 The treaty is a recognition of the interdependence of the three nations' economies where regional development is concerned, and an acknowledgment of externalities in each country's economic activities that have an impact on the other two nations. This is the case of the Lempa River, which has its source in Guatemala and Honduras and is vital to the Salvadorian economy. As part of this initiative and to consolidate the still fragile gains of the TPP, the Governments of El Salvador, Guatemala, and Honduras have sought the Bank's support for preparation and execution of this trinational program for sustainable development in the upper Lempa River basin.
- 1.27 In Honduras, the Bank's strategy places emphasis on rural development and natural-resources protection in the context of repairing the damage caused by Hurricane Mitch in 1998, and in the new context of the National Sustainable Rural Development Program. The proposed operation's emphasis on rural development through productive projects relating to natural-resources management is in keeping with the strategic principles of the National Sustainable Rural Development Program.
- 1.28 The Bank's strategy in El Salvador advocates the integral development of the rural economy through social, economic, and financial services, infrastructure to support production, and the promotion of agricultural productivity as instruments of poverty reduction. The strategy also emphasizes environmental sustainability to rekindle economic growth and competitiveness, with the current emphasis on reconstruction

² Trifinio Pilot Project, 1999 Report and Final Report (Goals Achieved 1992-1999) Esquipulas, December 1999.

efforts following the recent earthquakes. Sustainable management of natural resources in the Lempa River basin is also emphasized. The proposed operation complements the activities already undertaken in the upper basin, and those being considered by the Bank for the middle and lower basins.

- 1.29 The Bank's strategy for Guatemala is to support the government as it faces the challenges of sustainable economic development, with priority on the fight against poverty through specific actions. To implement the agreed strategy, the Bank's actions have been grouped around three main axes: (i) economic growth, stability, and competitiveness; (ii) equity, social protection, and the development of human capital; and (iii) modernization of the state and good governance. The proposed operation complements the actions contemplated by the Bank in priority national watersheds (GU-0133), with priority watershed actions at the trinational level.

E. Lessons learned in the region

- 1.30 The Trifinio Pilot Project (TPP) has yielded valuable lessons in this region. Among these is the fact that natural-resources management and agricultural activities by themselves are insufficient to attain a greater degree of socioeconomic development in the area unless they are accompanied by other actions of social support, environmental education, economic diversification, and support for microbusinesses. The project also helped consolidate the CTPT and create the Trinational Associations for Sustainable Development in the Trifinio Region (ATRIDEST), which carry out the activities at the local level and coordinate the activities among the three countries.
- 1.31 The Environmental Program of El Salvador (PAES), financed by the Bank, is gaining relevant experience in implementing land conservation and agroforestry practices in the middle Lempa River basin, downstream near the program area. Significant advances have been made in accomplishing these objectives, through contracting private consortia to introduce new productive practices. Three different models are now being tested for transferring conservation technology. Additionally, the communities and beneficiary groups have a very positive attitude with regard to the program, and interesting achievements have been reported concerning the local organization processes that are being promoted, such as community empowerment and the involvement of women. The innovative community-incentive recovery mechanisms being implemented may be a model for this type of project, which also shows that producers are receiving real benefits from the program, and are committed to their communities.
- 1.32 The Bank and El Salvador's Ministry of Environment and Natural Resources have also begun preparation of an Innovation and Learning loan (ES-0133) to decrease the vulnerability of inhabitants of the lower Lempa River basin to natural phenomena, particularly flooding. This operation emphasizes community involvement and organization to promote socioeconomic development in the area

based on principles of risk management, such as a mechanism to decrease vulnerability to floods along the coastal region of the delta.

- 1.33 In Honduras, the **Bank** approved the Multiphase Program for Natural-Resources Management in Priority Watersheds (HO-0179), which will be executed in the context of the National Sustainable Rural Development Program. The program introduces a new focus in rural vision, acknowledging that productive and socioeconomic aspects in the rural setting cannot be isolated from the context of the sustainability and interdependence of natural resources. Novel approaches in this program include an emphasis on bottom-up participatory processes through regional consultative and coordination councils that represent the main players in each sub-basin. It also introduces flexibility by supporting investment initiatives for sustainable natural-resources management and management of the vulnerability in selected subbasins, deriving from participatory processes that address needs at the regional, municipal, and community level, particularly among small-scale rural producers. Several other programs are being implemented in the three countries with similar objectives of promoting improved productive practices to increase income levels among the rural population.
- 1.34 Experience gained in the region during preparation of the multiphase program and during implementation of the TPP and the PAES, and other regional experiences of the Coordination Center for Prevention of Natural Disasters in Central America, the regional project of the German technical cooperation agency GTZ, "Strengthening Local Structures to Mitigate Disasters in Central America", and the Project for the Sustainable Rural Development of Ecologically Fragile Zones in the Trifinio Region, have been used in the design of the proposed operation.

F. Conceptualization of the operation

- 1.35 The operation responds to the integration objectives of the three countries and the priority needs of the area's population. These needs are closely tied to natural-resources management in the various economic activities, particularly those relating to agricultural production processes, opening up new income opportunities relating to non-agricultural activities, meeting the population's needs for basic services, and with better capacity to face the risks of natural phenomena, and an organizational structure that the communities can identify with, enabling them to make the decisions needed to distribute resources to identify and resolve their most pressing problems.
- 1.36 The proposed operation focuses on resolving the main problems identified and that stand in the way of meeting the basic needs outlined above. These problems relate to: (i) physical and socioeconomic factors that lead to the vicious circle of poverty and degradation of renewable natural resources and that make it impossible to break free of that circle; (ii) conditions that cause natural risks to turn into disasters; (iii) factors that limit the income options of the region's inhabitants; and (iv) the

fragility of the trinational process and the institutional weaknesses of State and municipal governments and community organizations.

- 1.37 In order to respond to these challenges, the proposed program has been structured around the following components: (i) **Management of Renewable Natural Resources**, introducing improvements in agricultural practices and providing basic services of social benefit to improve the quality of life; (ii) **Disaster Prevention and Mitigation**, to decrease vulnerability to natural threats; (iii) **Support for Economic Diversification**, to expand income options by diversifying agricultural production, supporting new non-agricultural activities and facilitating product marketing; and (iv) **Institutional Strengthening**, to ensure coordination and implementation of a trinational agenda, strengthen municipal governments to make decentralization of State activities effective, and support the organization and involvement of citizens, particularly women, in decision-making processes, in carrying out the actions and enjoying the benefits of the program.
- 1.38 The program will focus its attention initially on priority subbasins, but will introduce flexibility by meeting needs and demands in other areas, attempting to maintain economies of scale and the synergistic effects of these actions in terms of their contribution toward achieving their objectives. The program will emphasize the establishment of participatory processes in each country, where needs and demands arise from local and municipal circles.

G. State of preparation and activities in progress

- 1.39 Project preparation was supported by consultants financed by the Norwegian Fund, the offices of the CTPT, and the Ministries or Secretariats of Agriculture and Natural Resources involved in each country, which designed the project. The initial identification of eligible activities and projects began with research and consulting done in the field by consultants and offices of the CTPT. At a workshop of involved parties, the main parameters of the program's logical framework were defined, and typical designs were developed for activities and projects. To determine the scale of the respective components, a preliminary operating plan was devised for the first year, along with a **draft** of the program's Operating Regulations.
- 1.40 The United States Agency for International Development is financing a monitoring project for water resources throughout the entire Lempa River watershed, including the upper basin, through the Central American Integration System. These activities include capacity for flow meters and hydrometric and meteorological stations, which provide useful information for natural disaster prevention. Therefore, these activities are not included in the program.
- 1.41 To support the participatory process of identifying and selecting the disaster prevention and mitigation activities and projects that will form the operating plan for the program's first year, the Spanish Trust Fund is financing a regional

nonreimbursable technical-cooperation operation for the equivalent of **US\$150,000 (ATN/SI-7452-RS)**. These resources will also be used to design small-scale recovery operations in degraded areas and to protect vulnerable areas at imminent risk with regard to transportation **infrastructure**, community installations such as schools and health centers, and **farm** production, which are priorities in the first year.

- 1.42 Similarly, the Japan Special Fund is financing a regional nonreimbursable technical-cooperation operation for the equivalent of **US\$700,000 (TC-0105010)**, for the institutional strengthening and renewable natural-resources management components. These resources will support preparation **of** the trinational strategic agenda and plan, strengthen the national offices of the CTPT in the three countries and the municipal governments in terms **of** financial administration and environmental management, and establish the National Commissions of Involved Parties, which are key to the participatory processes that the program supports. The national offices will also be supported in the preparation **of** priority infrastructure and basic sanitation projects demanded by the communities, and with their participation, to incorporate those projects into the annual operating plan (**AOP**) for the first year in each country.

II. THE PROGRAM

A. Objectives

- 2.1 The program's general objective is to improve the quality of life for inhabitants of the upper Lempa River basin, **through** actions that promote the sustainable development of the intervention area that **aim** to break the cycle of poverty and degradation of natural resources. Specific objectives include: (i) achieving sustainable management **of** renewable natural resources in the region; (ii) decreasing vulnerability to natural risks; (iii) promoting productive activities and economic diversification; and (iv) strengthening local governments and improving the organizational capacity of communities within a framework of trilateral integration.

B. Program strategy

- 2.2 The size of the upper Lempa River basin, its trilateral nature, and the variations that it exhibits in terms of physical, cultural, and socioeconomic characteristics make the available resources insufficient to accomplish the stated objectives. Therefore, it was deemed appropriate to define a strategy for intervention in the region so that the program would have a greater impact.
- 2.3 To that end, it was agreed that critical areas would be selected for program intervention, following a recurrent stage-by-stage process. The factors taken into account in prioritizing these actions include: population and population problems, water potential, crops and agriculture, forestry, forest cover and deforestation, farm size, present use and overuse of the soil, slopes, and susceptibility to erosion. Based on the analysis made, it was concluded that the priority area of agriculture and forestry intervention for a program **of** this type would have its greatest impact in 23 subbasins identified in Annex I, of the **47** subbasins that form the upper basin. The selected areas are not widely scattered, and are conveniently grouped in the three countries, covering approximately 1,000 km² with an estimated population of 77,000.
- 2.4 Although this pre-selection of priority areas done during program preparation is technically sustained and backed by the CTPT, flexibility must be introduced within the program to respond to the needs and demands of the communities during program execution, to maintain the synergistic effect of the program's activities. **This** program strategy is consistent with the set of policies under the Trifinio Plan, which in turn corresponds to the policies of the governments.

C. Program description

2.5 The operation is designed **as** a single program at the binational level, with activities at the local, municipal, and regional levels **within** each country and among the three countries. Therefore, it will have the flexibility needed for separate execution if any of the countries should encounter delays in starting up the operation. Additionally, the program is organized **so** that the beneficiaries and the investments can be identified by component and subcomponent for each country, to facilitate monitoring and evaluation by the respective governments.

2.6 In light of the geophysical, socioeconomic, and environmental conditions of the area, the involvement of three countries, and the different needs identified in each of the three countries, the program has adopted a flexible approach in response to these requirements, and program execution will be highly participatory, with emphasis on the gender approach in development processes in the basin. Therefore, instead of defining specific projects and activities and pre-established physical targets, categories of activities and projects eligible for program financing have been identified in each component, in accordance with demand in each of the three countries and in keeping with the specific criteria identified in the program's Operating Regulations. To respond to these objectives, the program has been structured around the following four components:

1. Management of renewable natural resources (US\$13.9 million)

2.7 **Objectives:** To achieve sustainable management of water, soil, and forest resources in order to set in motion a positive change in the quality of life of the communities in priority intervention areas, particularly in rural communities, by improving their general conditions of widespread poverty and extreme poverty through actions of social benefit, and introducing improvements in agricultural practices to ensure the sustainability and profitability of production.

2.8 **Goals:** The goals are: (i) to increase the income of small-scale farmers in the region, particularly those working on hillsides, while reducing environmental degradation indicators in terms of land and forest resources; (ii) to improve the overall coverage of basic sanitation services; and (iii) to reduce the contamination rates and degradation of water sources.

2.9 **Description:** This component will offer solutions for the environmental problems reflected in a **loss** of forest cover and the unsustainable use of land by means of conservation techniques, schemes that create viable economic alternatives, and basic infrastructure construction to improve incomes and the quality of life, including activities that will free up women **so** they may engage in productive processes (stoves that save on wood consumption, water supply, latrines). The productive units of the selected sub-basins are categorized in 11 production systems. It is estimated that approximately 11,700 farms of various sizes, most

averaging 5 hectares, could be served. The basic work will be the responsibility of farm extension/intervention services, which will be contracted.

- 2.10 Support mechanisms will also be included for organizing the producers, to provide technical support for them, and to channel incentives in kind and in vouchers for conservation construction projects, support for marketing and sales, etc. A total of **2,500** producing units are expected to be included in this way. Subbasins have also been selected that could be the object of forest management, for approximately **7,400** hectares and commercial reforestation projects at the community or municipal level, for approximately 6,800 hectares.
- 2.11 Additionally, the refilling of 19 subbasins that produce or will produce water for the communities is expected to be protected and improved. Nineteen studies will be prepared for drinking water projects demanded by the communities, and assistance will be provided in submitting the respective projects to the appropriate entities in each country, for financing. In accordance with demand, up to 10 low-cost small-scale rural aqueducts are expected to be financed, with the communities' participation under financially sustainable schemes.
- 2.12 To reduce the contamination of sources of water with solid and liquid waste, 19 solid-waste management studies and 6 waste-water treatment systems studies will be financed at the municipal level, in keeping with demand. The communities are to submit these studies to the appropriate institutions for financing. Up to **2,400** latrines will be financed, along with three pilot projects for treating **run-off** water and coffee-bean hulls, while some 210 kilometers of rural roads in critical areas will be improved to reduce erosion.
- 2.13 **Activities:** Activities eligible for financing have been grouped into the following sub components: (i) **Development, management, and protection of natural resources**, including: agroforestry and agrosilvopastoral systems, agricultural diversification (vegetables, fruit, sheep, pigs, and goats, dual-purpose cattle, small-scale irrigation), land titling, land management and conservation, management and conservation of natural woods and reforestation, prevention and control of forest fires and protection of water sources. It also includes offering temporary incentives (supplying plants, seed, inputs, improved stoves that save on wood consumption, financing part of the technical assistance provided, and a bonus for labor used in conservation works, if applicable, so that cash available for family use is in no case less than in the without-project scenario, while obtaining the higher income levels estimated in the farm plan), to help producers during the initial phase when their net flow will be negative, bearing in mind that the equivalent value of these incentives would have to be returned to the community; and (ii) **Infrastructure and basic sanitation**, including: activities and studies for small projects that the municipalities and community organizations are demanding for drinking water, latrines, and the disposal of waste water, mitigation of agroindustrial waste, solid waste management, and improving local roads.

2. Disaster prevention and mitigation (US\$3.9 million)

- 2.14 **Objectives:** To decrease the region's vulnerability to natural risks such as floods and landslides, and to develop local capacities that will prevent the occurrence of these phenomena from turning into disasters.
- 2.15 **Goals:** The goals are to prevent loss of life and to minimize material damage that negatively impacts the population's health, well-being, and productivity, such as damage to housing and infrastructure for basic services and communications.
- 2.16 **Description:** This component will offer solutions to the problems of water quantity and quality, land erosion, and the formation of gullies, which increase the risk to the area's inhabitants, infrastructure, and housing from rain-related natural phenomena. Torrent control projects will be financed in at least one of the seven critical subbasins identified (binational watershed between El Salvador and Honduras), as well as small-scale protection projects and soil conservation measures covering 1,000 hectares.
- 2.17 Local capacity will also be increased to anticipate, mitigate, monitor, address, and manage risks related to natural phenomena with the participation of women and young people as an integral part of the community development process. To that end, local risk management capacity will be developed in 76 communities in the region by setting up 76 local committees and preparing 76 early warning plans, including prevention and monitoring of natural threats. Plans also call for local participation in drawing up 19 risk maps, and with the involvement of communities and local governments, 19 local warning systems will be created that will operate with links to national and regional systems in the Lempa River basin.
- 2.18 **Activities:** This component comprises two subcomponents: (i) **Interventions at the sub-basin level**, which seek to restore degraded areas and protect vulnerable areas and will finance eligible small-scale construction projects that aim to solve specific problems of riverbank deterioration, such as torrent control and slope stabilization, activities and small-scale construction to protect public-benefit infrastructure, and studies to identify and prepare the relevant projects; and (ii) **Prevention, early warning, and monitoring systems for natural phenomena**, which will finance eligible forecasting, prevention, and mitigation activities, organizing and preparing the communities to deal successfully with these phenomena when they occur.

3. Promoting economic diversification (US\$3.8 million)

- 2.19 **Objectives:** To broaden families' income options in the region, facilitating the marketing of agricultural and forestry products and fostering the development of micro- and small businesses that are not necessarily tied to natural-resource management, and that provide families with additional income.

- 2.20 Goals:** The goals are: (i) to increase the incomes of beneficiary families that own land, and of those that do not, in order to contribute to family income; and (ii) to promote the involvement of women in economic activities.
- 2.21 Description:** This component seeks to provide technical support that will complement improvements in farming and forest production while conserving natural resources. Technical support will be provided to promote the establishment and growth of microenterprises and small businesses which provide additional income for rural families, whether or not they own productive lots, and specifically involving women in the productive process. A series of actions is planned to identify specific non-agricultural projects to foster microenterprises and small businesses, and to provide training for potential business owners, giving financing and support for potential project identified through a participatory process.
- 2.22** Plans are to train microentrepreneurs owners so that **960** microenterprises are operating, to the benefit of at least 6,500 individuals. The opportunities for rural farmers to add value to their products will also be increased, by helping them to organize to gain more direct access to buyers and by providing the information they need to promote joint marketing efforts (prices and other data), through an information system within their associations. In this way, at least 250 producers will be involved. Help will be provided to create a trinational committee for the support and development of ecotourism.
- 2.23 Activities:** This component comprises two subcomponents: (i) **Business development**, including training and business organization activities, market studies, and technological processes; and (ii) **Productive diversification**, including improvements in forest, agricultural, and non-agricultural productivity, or activities that aim to add value to such products (improving dairy processing, jelly production, wood-based crafts, marketing of nursery products and ornamental plants, etc.), the development, marketing, and certification of organic coffee, promoting ecotourism and related projects, and training to improve the services that ecotourism requires.

4. Institutional strengthening (US\$1.9 million)

- 2.24 Objectives:** To strengthen functional trinational integration in the region and within this framework, and to strengthen local governments and community organizations to ensure their participation and coordination in carrying out the activities.
- 2.25 Goals:** The goals of this component are: (i) to strengthen the institutional trinational system set up by the three governments to coordinate the actions necessary for sustainable development in the region, by preparing a trinational agenda and helping existing institutions to develop the capacity to implement and monitor it; (ii) to strengthen local governments (municipalities) in terms of financial administration, environmental management, and community organization, to

present and execute actions and projects within their jurisdictions; and (iii) to strengthen existing social organizations, maintaining a gender focus, to promote citizen involvement, particularly by women and young people, and to empower them in making decisions about prioritizing and solving their most urgent and most long-term problems.

- 2.26 **Description:** This component will strengthen the institutional framework of local governments and communities in the three countries that is needed for program execution and sustainability. **This** includes preparing a trinational strategic plan for program execution and specific studies on three basic topics: the economy and local trade; the environment and issues relating to the trinational Montecristo Park; and technical issues relating to the control and monitoring of the region's natural resources (hydrometric information and animal and plant health standards that affect local trade).
- 2.27 At the local government level, the municipalities' capacity to carry out the functions allocated to them by law in terms of control and monitoring of natural resources will be increased, and an administrative and financial model will be devised to improve the collection of income established under existing laws, in order to ensure the sustainability of municipal management. These actions will be implemented in 19 of the **45** municipalities in the upper Lempa River basin, in priority watersheds.
- 2.28 At the local level, the main activity will be to form, train and organize National Commissions of Involved Parties in each country (for a total of three) and to define administrative and operational regulations for all issues relating to the review and approval of AOPs in each country, and of the trinational AOP. The ATRIDEST associations in each country will also be strengthened, to ensure appropriate representation in the committees and greater involvement by the three counties' community organizations in the region.
- 2.29 **Activities:** This component comprises the following subcomponents: **(i) strengthening the institutionality of trinational integration;** **(ii) strengthening local governments;** and **(iii) strengthening gender-oriented social organizations.** Activities and projects eligible for financing include: studies, consultancies, support for institutional modernization (creation and start-up of municipal environmental units and strengthening municipal financial management), manuals and regulations, events (meetings, workshops, seminars), technical assistance, training, social, environmental, and gender education, participatory diagnostic studies, and support for the creation of groups and committees.

D. Expected program benefits

- 2.30 Through these elements, the proposed program will respond to the need to support the relationship between rural producers and natural resources in the intervention area, in order to bring about long-term sustainability reflected in appropriate

natural-resources management and greater agricultural sector productivity, without needing to expand the total area under cultivation. The direct beneficiaries will be mainly the low-income rural population with small lots of land, the size of which will ensure potential for financially viable exploitation under agricultural, cattle-raising, or forestry production. These farms account for approximately 70% of the total, and cover more than 90% of the land area under agricultural exploitation in the program's area of intervention.

- 2.31 The program also includes equally important interventions intended to: improve product marketing and lower transaction costs; facilitate the population's access to basic services; promote activities aimed at reducing the risk of natural threats; support regional integration by strengthening trinational institutionality and fostering the capacity of municipalities to design and implement development projects; support communities' organizational and participatory capacities; and diversify opportunities for employment and non-agricultural income for the region's population, particularly for those without land or whose parcels are extremely small. In this case, the beneficiaries will be the entire population of the intervention area.

E. Cost and financing

- 2.32 The total cost of the program is US\$31,295,000 equivalent, according to the program cost by country, investment category, and source of financing information presented in Table 11.1. Details for each country are presented in Annexes II-1, II-2, and 11-3.
- 2.33 The amounts indicated in the table under Administration and Supervision represent the minimum amount necessary for program operation, and are incremental with respect to existing amounts at the trinational and national levels. At the trinational level the program will cover the costs of the trinational program coordinator, technical consulting, and administrative support; hardware and vehicles; the monitoring and evaluation system; two program evaluations, and auditing. At the national level, the program will cover the costs of the national coordinators, their technical support, hardware and vehicles.

F. Program financing

1. The Bank

- 2.34 The **Bank** financing proposed for the program includes cash from Ordinary Capital resources for El Salvador and Guatemala totaling US\$18.5 million. Of that amount, US\$14.0 million is intended for El Salvador and US\$4.5 million for Guatemala. **FSO** resources in the amount of US\$3.3 million will be used to finance the activities planned in Honduras.

2. Local counterpart

- 2.35 The local counterpart for the proposed program will be US\$9.495 million. Of that amount, US\$3.49 million are for El Salvador, US\$3.5 million for Honduras, and US\$2.5 million for Guatemala. The governments will provide these funds **through** budget allocations (US\$2.75 million from El Salvador; US\$500,000 from Guatemala, and US\$495,000 from Honduras) and resources from other donors and financing sources, which include: (i) the Nordic Development Fund, which is processing a concessional loan of US\$3.0 million to finance part **of** the activities planned for program implementation in Honduras; and (ii) German Cooperation, which has indicated that it will donate, **through** the GTZ, US\$500,000 for Guatemala and US\$750,000 for El Salvador, to finance activities relating to disaster prevention and mitigation.
- 2.36 Local **staff** and operating expenses of the TTU, the Trinational Administrative Unit (TAU), and the national program offices will be financed by the local counterpart, **as** will some of the activities of the four program components, part of escalation and contingencies, and the credit fee.

3. Other financing

- 2.37 To support financing of the local counterpart contribution, the governments are negotiating with the Swedish International Development Agency regarding a grant for Guatemala in the amount of US\$1.5 million and for Honduras in the amount of US\$2.0 million. Moreover, the Norwegian Agency for Development Cooperation has indicated its interest in supporting program execution with a US\$1.2 million grant during the five years of program execution.

TABLE II.1

PROGRAM COST BY COUNTRY AND SOURCE FINANCING														
Investment categories	El Salvador				Guatemala				Honduras				Program totals	
	Bank	Local	Other	Total	Bank	Local	Other	Total	Bank	Local	Other	Total	Costs	%
I. Admin. and sup.	592	431		1,023	517	255		772	517	255		772	2,567	8.0
A. Trinational level	342	131		473	342	131		473	342	131		473	1,419	
B. National level	250	300		550	175	124		299	175	124		299	1,148	
11. Direct costs	10,445	1,705	750	12,900	2,948	5	2,000	4,953	2,384	110	³ 3,000	5,494	23,347	75.0
A. Renewable nat. resources	6,440	1,260		7,700	1,857	5	980	2,842	1,639		1,717	3,356	13,898	
B. Disaster prevention and mitigation	1,665	185	¹ 750	2,600	200		² 500	700	200		388	588	3,888	
C. Promoting diversification	1,530	170		1,700	420		410	830	415		805	1,220	3,750	
D. Inst. strengthening	810	90		900	471		110	581	130	110	90	330	1,811	
III. Unallocated	861	335		1,196	317	157		474	286	91		377	2,047	6.5
A. Escalation	373	100		473	110	70		180	93	50		143	796	
B. Contingencies	488	235		723	207	87		294	193	41		234	1,251	
IV. costs	2,102	279		2,381	718	83		801	113	39		152	3,334	10.5
A. Interest				1,962	673			673	80			80	2,715	
B. Credit fee		279		279		83		83		39		39	401	
C. Inspection and supervision (1%)	140			140	45			45	33			33	218	
Program Totals	14,000	2,750	750	17,500	4,500	500	2,000	7,000	3,300	495	3,000	6,795	31,295	100.0

1/ German cooperation grants for El Salvador and Guatemala (GTZ).

2/ German cooperation grants for El Salvador and Guatemala (GTZ).

3/ Concessional loan from the Nordic Development Fund for Honduras.

III. BORROWERS, EXECUTING AGENCIES, AND PROGRAM EXECUTION

A. Frame of reference of the program

- 3.1 The program will adopt a demand-based integrated management scheme to address the wide range of problems facing the upper Lempa River basin. Decisions regarding the projects and activities to be financed (investment plan), **as** well as preparation of the annual operating plans (AOPs) in each country, will emphasize citizen involvement and a bottom-up approach to decision making. The AOPs will include the initiatives for projects, studies, and activities that are identified during preparation of the investment plan. The frame of reference for program execution will be a trilateral strategic plan, which will identify the governments' priorities. **This** plan will also set the guidelines for preparing the annual operating plans in each country, drawn up with the participation of communities and local authorities. The basis for those plans will be the concept, definition and objectives of the program and its components, **as** well as its Operating Regulations. The proposed components and activities will have performance indicators for objectives and quantifiable goals, which will be verified through a system of monitoring and evaluation established for the program (logical framework, Annex 11).

B. Institutional framework of the program

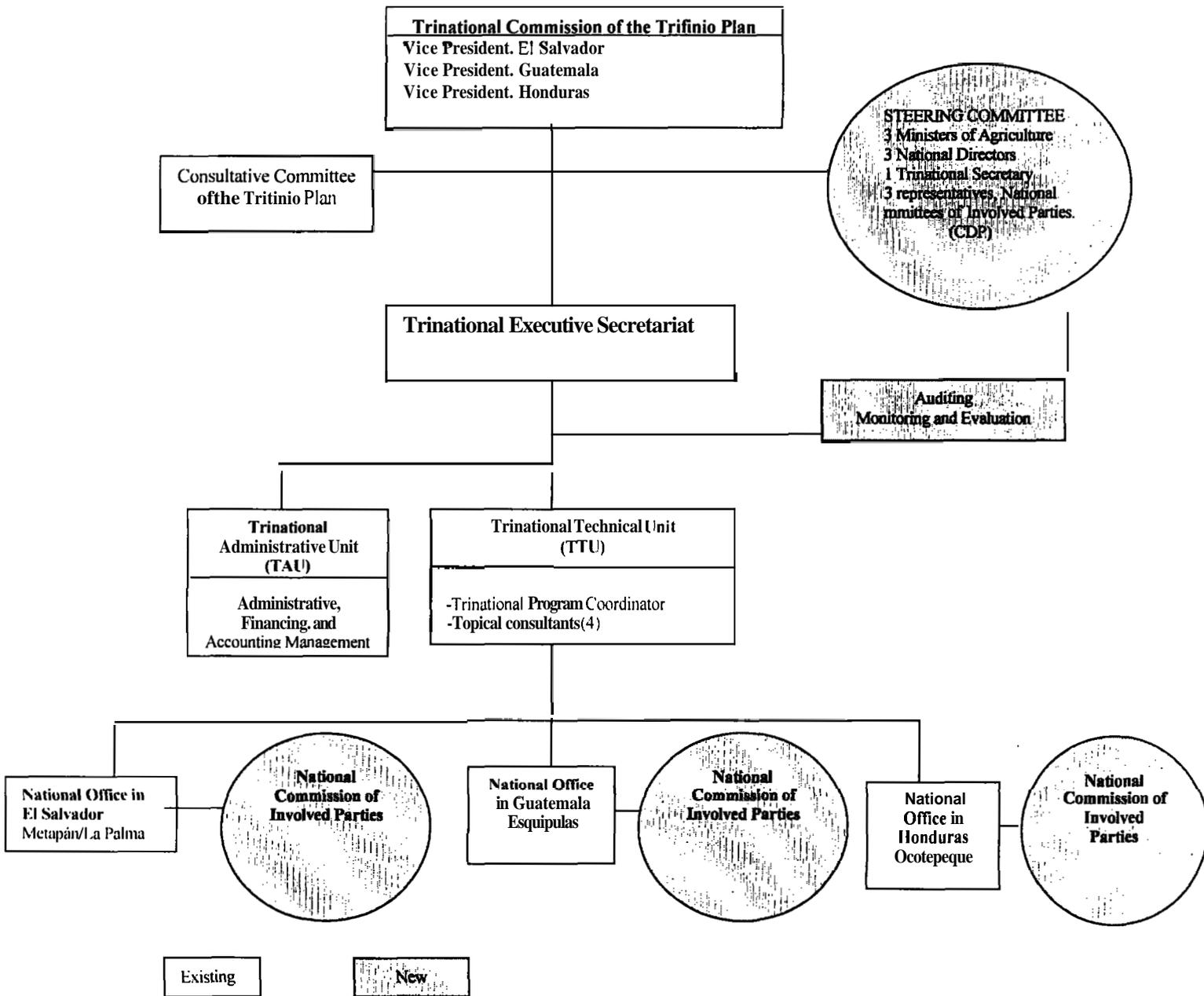
- 3.2 The program is a trilateral operation to promote development in the Trifinio region. Therefore, its implementation requires a coordinating mechanism that takes the central role of the CTPT **as** the program's executing agency into consideration while also coordinating program activities with national institutions in each of the countries involved. The principles on which **this** mechanism is based are: (i) promotion of integration; (ii) transparency in execution; (iii) achieving the goals and objectives that the program sets for each country; (iv) transparent mechanisms for physical and financial monitoring and evaluation; (v) flexible execution under contract by entities with experience and knowledge of the region; and (vi) promotion of local participation. Additionally, the proposed mechanism **has** been agreed upon by the three governments, and has the legal instruments and foundations to ensure its execution.

1. Borrowers and program executing agency

- 3.3 The borrowers will be the Governments of El Salvador, Guatemala, and Honduras, through individual loan contracts. The program's executing agency will be the Trilateral Commission of the Trifinio Plan (CTPT), pursuant to the resolution of 4 November 2000 signed by the Vice Presidents of the three countries, through the Trilateral Executive Secretariat and its administrative and technical units. The existing and proposed structure of the Commission, including the units to be set up for program implementation, are presented in Figure III-1.

Figure III-1

ORGANIZATIONAL STRUCTURE FOR EXECUTION



2. Trinational Commission of the Trifinio Plan (CTPT)

3.4 The CTPT is the highest authority of the Trifinio plan, and is composed of the Vice Presidents of the Republics of El Salvador and Guatemala, and one of the Vice Presidents of the Republic of Honduras. The CTPT was created in 1986 by mandate

of the presidents of the three countries, and was recognized and regulated by the treaty signed by the Republics of El Salvador, Guatemala, and Honduras in 1997.

- 3.5 The CTPT has the legal status to perform its functions and accomplish its objectives and may, among other things, procure goods, enter into contracts, **and** manage funds in any currency. The CTPT also **has** a georeferenced database and suitable regulations and operating manuals, particularly with regard to managing funds and disbursements. The senior operational authority is the Trinational Executive Secretariat of the Trifinio Plan.

3. Trinational Executive Secretariat

- 3.6 **This** Secretariat is composed of three national executive directors, one per country, appointed directly by the respective country's Vice President, and a Trinational Executive Secretary appointed by the **CTPT**. The Trinational Executive Secretary is the legal representative of the Commission and coordinates its actions with the national executive directors.
- 3.7 The program will be under the direct responsibility of the Commission's Trinational Executive Secretariat, and will use its existing structure, though strengthened with additional steering and monitoring mechanisms that allow for greater transparency in execution. The administrative and technical units will be improved to increase the Secretariat's operational capacity. The strengthening measures will provide the capacity to make contracts, support technical and operational execution, implement the monitoring and evaluation system, and achieve program accountability.

4. Consultative Committee of the Trifinio Plan

- 3.8 As part of the treaty, a consultative committee was created, made up of representatives of local governments (governors of departments and mayors of municipalities), representatives of the Trinational Associations for Sustainable Development in the Trifinio Region in the three countries, and representatives of cooperatives and civil society organizations in the Trifinio region. Representatives of public or private institutions representing the interests of the region's communities may attend meetings **as** guests and observers.

5. Program Steering Committee (CDP)

- 3.9 The Program Steering Committee will be created to support program execution. It will be made up of the directors of portfolios at the Ministries or Secretariats of Agriculture of the three countries that make up the Commission; the national executive directors of the Trifinio plan from the three countries; the Trinational Executive Secretary of the CTPT, who will serve **as** secretary of the committee; and three representatives of the National Commissions of Involved Parties (one per country). The committee's decisions will be made by consensus. The committee will carry out its responsibilities taking the recommendations of the Consultative

Committee into account. **The Program Steering Committee will be created as a condition precedent to the first disbursement of the loans.**

- 3.10 The main functions of the Steering Committee are to approve the program's AOPs at the trinational level, incorporating the national AOPs to ensure that the proposed activities incorporate the guidelines of each country's sector policies. The committee will establish the general guidelines for program execution, monitor its execution, and set policies that help resolve any problems that may be identified.

6. Technical and Administrative Units of the Trifinio Plan

- 3.11 **The Trinational Technical Unit (TTU)**, based in Esquipulas, is responsible for carrying out execution activities and for monitoring other projects in execution by the CTPT. The TTU will be responsible for the operational implementation of the program and its monitoring and evaluation system, with support from the relevant Ministries and Secretariats. Conduct of the program at the trinational level will be the responsibility of a Trinational Program Coordinator, who will be assisted by four advisers by topic area: management of renewable natural resources, disaster prevention and mitigation, economic diversification, and institutional strengthening. **As a condition precedent to the first disbursement of the loans, the CTPT must have selected, at a minimum, the Trinational Program Coordinator, in accordance with the profile of responsibilities agreed upon with the Bank.**
- 3.12 **The Trinational Administrative Unit (TAU)**, based in San Salvador, will be responsible for preparing contracts and for keeping separate accounts for each of them. It will also be responsible for financial monitoring of disbursements and coordinating communications with the **Bank's** Country Offices in each country. The TAU is also responsible for administration and accounting for operations at the main offices of the Trinational Executive Secretariat and the Trinational Technical Unit. For purposes of the program, the TAU will hire a procurement expert, an administrative officer, an accountant, and a secretary. **As a condition precedent to the first disbursement of the loans, the CTPT must have selected, at a minimum, the administrative officer to support the trinational administrative unit.**

7. National Commission of Involved Parties

- 3.13 The National Commissions of Involved Parties will be composed of representatives of the Consultative Committee of the Trifinio Plan, representatives **of** local organizations **of** producers and communities, and public and private institutions representing the interests of the beneficiary communities, **as** indicated in the Operating Regulations. The CTPT will authorize the Consultative Committee to set up the National Commissions of Involved Parties based on lists of candidates submitted by the local organizations and to appoint its representatives **as** members of these committees. The National Executive Director or his representative will

attend the meetings of the National Commission of Involved Parties, along with the respective national coordinator, who will act **as** secretary of the committee in his respective country. **The establishment of these committees will be a condition precedent to the first disbursement of each loan.**

- 3.14 The functions of the National Commission of Involved Parties are: (i) to approve the projects and activities to be financed in each country and the corresponding national AOP, **as** provided in the Operating Regulations; (ii) to ensure that local initiatives are incorporated in the annual operating plans; and (iii) to make recommendations concerning program execution.

8. National Execution Offices in the countries

- 3.15 The program's national offices **are** the program's presence in the field. They **are** located in the cities of Metapán/La Palma (El Salvador), Esquipulas (Guatemala), and Ocotepeque (Honduras). Each national office is responsible for monitoring activities in its country in accordance with the AOPs. They will maintain an open channel of communications with the relevant ministries and secretariats, the municipalities, civil society organizations, and the National Commissions of Involved Parties. Each national office will have a national coordinator who reports to the trinational coordinator at the TTU headquarters in Esquipulas. The national coordinator will keep the national director adequately informed of the progress of the program, and will receive from him the support needed to ensure the participation of the experts appointed by the relevant ministries, in terms of program monitoring.

- 3.16 The national office will support the National Commissions of Involved Parties and the communities in stimulating demand, identifying activities and projects, integrating the AOPs, and supervising projects and activities implemented with program resources in its respective country. The national coordinator will be supported by a project supervision and management expert, an expert in the sustainable development of renewable natural resources, and a secretary. **As a condition precedent to the first disbursement of each loan, the CTPT must have selected, at a minimum, the respective national coordinator in accordance with the profile of responsibilities agreed upon with the Bank.**

C. Modality of execution of the program and its components

- 3.17 Program execution and resource allocation will respond to the demands of the communities, and will be governed by the AOPs and the Operating Regulations, within the framework of the Commission's trinational strategic plan.

1. Operating Regulations of the program

- 3.18 The Operating Regulations set the standards and procedures for executing each program component, including eligibility, viability, and project selection criteria,

procedures for preparing and evaluating the AOPs, procedures for procurement and contracting for goods and services, and the methodology for evaluation and supervision of the AOPs, and the limit amounts for each project. The Operating Regulations may be changed by the CTPT (which makes its decisions by consensus), with the nonobjection of the **Bank** (Annex IV–Draft Operating Regulations). **As a condition precedent to the first disbursement of the loans, the CTPT will submit evidence that the Trinational Executive Secretariat has adopted the Operating Regulations agreed upon with the Bank.** The main aspects of the Operating Regulations include: (i) project eligibility criteria; (ii) project evaluation criteria; (iii) activities not financed; and (iv) recovery of costs. A *summary* of the main aspects of the Operating Regulations is presented below.

- 3.19 **Eligibility criteria.** The eligibility of projects and activities will be defined, among other things, by the following criteria: contribution to environmental improvements; generation of income; community participation and organization, including gender concerns; reduction of vulnerability factors; improvement in the communities' quality of life; contribution to trinational integration; and that the project or activity falls within the framework defined by the trinational strategic plan. In addition to these criteria, the Operating Regulations state that in order to be eligible, projects must meet the evaluation criteria outlined in the following paragraph.
- 3.20 **Evaluation criteria.** All projects to be approved will comply with the requirements of technical, environmental, institutional, and economic feasibility and financial sustainability, which include: that the net environmental impact is positive; that the projects include activities that promote rural social development and help reduce poverty; that project implementation requires institutional management processes that are adapted to local needs and conditions; that farm-level production investments are economically viable, showing an internal rate of return of at least 12%; that social-benefit projects meet the least-cost criterion; that farm and community projects are financially sustainable; and that municipal projects promote an increase in municipal revenues.
- 3.21 **Financial sustainability.** With regard to farm-level production projects, various positive and negative experiences were analyzed from eight projects in the region, especially the PAES (see paragraphs 1.31 and 2.13). The analysis found that the best way to ensure the projects' financial sustainability was for producers to cover part of the costs in their **farm** plans and to play an important role in the management and redistribution of incentives (see paragraph 2.13) through their farm plans, initially with support from technical assistance under the program. It was decided that the following criteria would be applied: (i) producers would contribute at least 50% of project costs, according to their farm plans; and (ii) producers receiving incentives would agree to return them to the community so they could be redistributed to other beneficiaries.

- 3.22 With regard to public-benefit projects, the basic criterion will be that beneficiary municipalities and community organizations are to adopt administrative and financial models to ensure inflows of revenue to guarantee project operation and maintenance (see paragraph 2.27).
- 3.23 **Cost recovery.** Financing will be provided under cost sharing conditions, according to project type. For public-benefit projects, up to **90%** will be financed for studies and viable projects, and their sustainability will be supported by strengthening the local governments. **No** cost recovery mechanism is established with respect to the program itself, but repayment mechanisms are being explored with respect to the communities, following the example of positive experience with other projects in the region, especially the PAES in El Salvador.
- 3.24 **Activities not eligible for financing.** Activities and inputs will not be financed if they have significant negative environmental or social impacts or if land purchases are involved, nor will financing be provided for current expenditures or other expenditures not allowed under **Bank** policy. Given the program's trinational nature and the externalities being generated in the area, payment schemes for environmental services will be studied.

2. Operational execution of the program

- 3.25 Program execution begins with the communities identifying and prioritizing problems and activities, with support from the national offices. Assisted by the relevant ministries or secretariats and the Trinational Executive Secretariat, and based on the eligibility criteria specified in the Operating Regulations, these offices will perform an initial cost analysis of the construction work and activities, and will prepare an overall investment plan. All of **this** will be consolidated in an **annual** operating plan for the approval of the National Commissions of Involved Parties. Once the National Commissions of Involved Parties have approved them, the Trinational Executive Secretariat will send the national **AOPs** to the Steering Committee for integration into the trinational AOP.
- 3.26 The program will be implemented based on the demand for activities and projects generated through participatory processes of promotion and dissemination in the intervention area, which the CTPT will engage in with the support of the national offices. To that end, promotional campaigns will be contracted out, using site visits, field days, meetings, workshops, and other means, providing information about the program and the way in which communities may organize and participate in order to present their initiatives, which constitute the demand and in turn form the basis for the AOPs in each country. The cost estimates by component and country **as drawn up** during program design and dimensioning may vary during program execution, since implementation is a dynamic process. During program execution and based on demand and the results of the **annual** evaluations, the amounts may be revised in consultation with the **Bank**.

3.27 This demand is expressed **through** project proposals submitted by farmers, their community organizations, or NGOs representing them, or by the municipalities themselves. The proposals will be evaluated by the Commission's experts, who will also assess the proponent's capacity to execute the proposed project before such projects are included in the annual AOP to be submitted for the approval of the National Commissions of Involved Parties. The criteria for participation, selection, evaluation, and approval of these proposals are specified in the Operating Regulations.

3. Flow and channeling of funds

3.28 Funds for program execution will be budgeted by the Ministries of Finance for the corresponding Ministries or Secretariats of Agriculture in each country. The Bank will deposit the loan funds in an account at the central bank of each country. Each Ministry of Finance will transfer the loan resources and counterpart contributions to separate accounts in the program's name, which the CTPT will open in each country. In **this** way, the Commission will be able to prepare separate accounts and financial statements for each country, and in a consolidated form for the program **as** a whole. Figure 111-2 shows the flow of the program's financing resources.

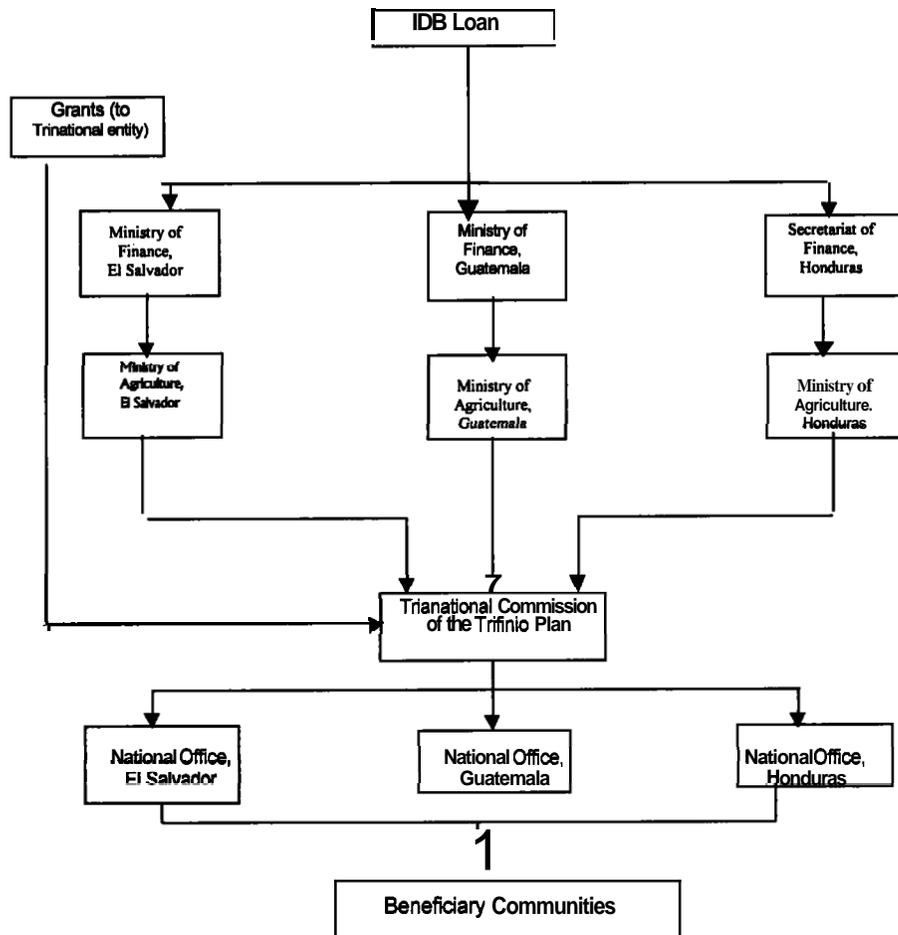
3.29 This execution scheme was agreed upon by the offices of the Vice Presidents and the Ministries or Secretariats of Agriculture, including the Ministries **of** Finance in each country. The legal instrument that backs **this** transfer of funds to the executive secretariat will be **an** agreement signed among the Ministries or Secretariats of Agriculture or Finance of each country and the CTPT. **This** document will establish the general guidelines for these transactions, and will be approved by the office of the attorney general or the audit office of each country. **As a condition precedent to the first disbursement of each loan, the CTPT will present evidence that it has signed the respective agreements.**

3.30 The executive secretary, **as** the legal representative and administrator of the CTPT, will make payments to contractors in accordance with the procedures specified in the Operating Regulations. Payments for contracts relating to national activities will be made directly **from** the accounts of each country. Payments for contracts relating to trinational activities and the operations of the executing agency will be made in two stages: in the first stage, transfers will be made from each of the national accounts to the CTPT account in San Salvador; in a second stage, payments will be made from the CTPT account.

3.31 The request for replenishment of the resources of the three loans was delegated by the Vice Presidents of El Salvador, Guatemala, and Honduras to the national executive directors of each country. With the approval of the respective national director, the Trinational Administrative Unit will process these requests before the Bank's Country Office in each country, through the corresponding Ministries or Secretariat, in coordination with the Trinational Executive Secretariat.

Figure 111-2

Flow of Financial Resources for Execution



- 3.32 Each national office will monitor program activities in that country, **as** established in the respective Operating Regulations and **AOPs**. The national offices **are** also responsible for remaining in contact with mayors, to **inform** them first of the scope **of** the program, and then of its progress in their municipalities. They will also keep the national executive directors informed about program execution.
- 3.33 The Executive Secretariat's administrative unit will keep separate accounts for the loan contract signed for each country, **as** well as consolidated accounting records for the program. The accounts will be submitted in detail, pursuant to the chart of accounts approved by the **Bank**. **Through** the Commission, each country will keep separate accounts of its use of program resources, with separate files for supporting documentation. Additionally, it will prepare other reports as required **as** part of the operational monitoring of the program. For purposes of monitoring and control, the

financial statements of each loan will be submitted monthly, for the information of the coordinators of the national offices and the national directors.

D. Program evaluation and monitoring system

3.34 The TTU will run the evaluation and monitoring system of the Trinational Program for Sustainable Development in the Upper Lempa River Basin, which will comprise two subsystems: program project and activity monitoring, and program evaluation. The TTU will issue a quarterly monitoring report and an annual evaluation report, in addition to the reports required by the Bank as described in this chapter; it will also set up a Web page for the program, showing its status and results produced.

3.35 As part of the continuous monitoring provided for in the program, the CTPT will meet with the Bank and the donors no later than **30** April of each year of program execution, starting in the first year of execution for the launch of the program, to analyze program progress and to agree upon the actions scheduled to begin in the following year. The indicators to be established, based on the agreements between the CTPT and the Bank, will make it possible to monitor the attainment of the objectives and goals set in the agreed work plan. The progress of each component will be compared with the quantifiable objectives and goals of the component as previously established. These reports are to be prepared by the TTU, and must include the following information, among other things: (i) a summary of what was accomplished during the previous year, in comparison to the AOP; (ii) an analysis of achievements in comparison to what was agreed in the contract and the Operating Regulations; (iii) lists of the activities for each component and evaluations of those activities, procurement, and contracting of consultants for the period; and (iv) an evaluation of the indicators of performance and progress set for each component.

3.36 If adjustments in the program should prove necessary as a result of these meetings, the CTPT will take the appropriate steps to correct any shortcomings that may be identified. To that end, the CTPT will submit to the bank the corrective measures to be implemented, along with a schedule for their implementation.

E. Reports and midterm evaluation

3.37 The CTPT will be responsible for systematically evaluating the program and for preparing the respective reports to be analyzed at the monitoring meetings. The reports will be forwarded to the Bank in accordance with the agreed work plan. The Bank's Country Offices in each country will be responsible for program administration with support from headquarters, and will conduct the periodic reviews. In this regard, the Bank will ensure proper coordination among its Country Offices in pursuit of the trinational strategy and the program's objectives. The Executive Secretariat of the CTPT will send the reports and financial statements for each contract to the borrowers of each country and to the ~~Bank's~~ respective Country

Offices, along with the consolidated financial statements. In **this** way, the governments and Country Offices will be in a position to monitor the loans and the program in each country. The CTPT will submit the reports described below.

1. Initial report (work plan for the program)

- 3.38 As a condition precedent to the first disbursement of the loans, the executing agency will submit the work plan of the program, with an implementation schedule for each component and activity of the program. The plan will include the indicators, means of verification, and assumptions for each instance.

2. Progress reports and monitoring meetings

- 3.39 The CTPT will generate half-yearly reports per contract per component, with details on the activities carried out by **NGOs**, businesses, and institutions participating in the program; and individual financial statements for each contract, along with an **annual** consolidated statement. The CTPT will send the reports and financial statements per contract to the borrowers in each country and to the **Bank's** respective Country Offices, along with the consolidated financial statements.

3. Midterm and ex post evaluation

- 3.40 A midterm evaluation will be done in the second half of the third year of execution. **This** evaluation will be made by an independent consultant and will be charged to the resources of the **Bank's** financing. During the evaluation, special attention will be given to the program's sustainability, and recommendations will be made with regard to continuing program activities; the donors and other sources of cofinancing will be invited to take part. The evaluation will use all the half-yearly reports, mission reports, and evaluations submitted during program execution. Additionally, the governments have agreed to an ex post evaluation of the program, to be performed by an independent consultant, on the basis of terms of reference approved by the **Bank** and using CTPT resources.

F. Procurement of goods and services

- 3.41 Procurement of goods and services, construction projects, and the hiring of consultants will be performed in accordance with the **Bank's** procurement policy and **as** agreed among the countries **through** the Trifinio Plan treaty. International competitive bidding will be used for procurement of goods and services for amounts greater than US\$350,000 and for construction contracting for amounts greater than US\$1.5 million. International competitive bidding will be used for contracting for consulting services for amounts greater than US\$200,000, using the lowest cost principle.
- 3.42 Procurement and contracting in amounts under these limits will be handled in accordance with a simplified procedure included as Annex D to each loan contract.

Under these special procedures, trinational competitive bidding will be required for goods and services equal to or greater than US\$50,000 and less than US\$350,000; for construction work equal to or greater than US\$500,000 and less than US\$1,500,000; and for consulting equal to or greater than US\$100,000 and less than US\$200,000. Local competitive bidding or direct contracting will be used for lesser amounts. The procurement plan for goods and services is presented in Annex V.

- 3.43** In order to achieve economies of scale and to promote a bi- or trinational focus to address problems that, by their nature, **are** of bi- or trinational significance, the CTPT will place program activities up for bidding in an integrated manner. However, if any country encounters delays in initiating the program, the CTPT may continue with execution in the other countries, in accordance with the established work plan. This would result in a lag in program execution, and in lost time for integration efforts which would have to be made up in the course of later ongoing execution. The **only** activities that require the approval of the three countries in order to begin implementation **are** joint activities, such **as** consulting and studies that affect the three countries. These activities, however, account for a small percentage of the program's overall cost.

G. Execution period and schedule of disbursements

- 3.44** The proposed disbursement period is 5 years starting with the entry into force of each country's respective loan contract with the **Bank**. The tentative disbursement schedule for the loans and the counterpart contributions of each country are presented in Table III- 1.

Table III-1: Estimated Disbursement Schedule (in US\$ thousands)							
Country/ Source of Funds	Program Year					TOTAL US\$	%
	Year 1	Year 2	Year3	Year4	Year5		
El Salvador							
IDB	730	2,560	4,464	4,174	2,072	14,000	80
Government	287	716	962	952	583	3,500	20
Total, Country	1,017	3,276	5,426	5,126	2,655	17,500	100
% per year, Cumulative	5.8	18.7	31.0	29.3	15.2	100%	
Guatemala							
IDB	433	1,073	1,154	1,071	769	4,500	64
Government	290	707	706	477	320	2,500	36
Total, Country	723	1,780	1,860	1,548	1,089	7,000	100
% per year, Cumulative	10.3	25.4	26.6	22.1	15.6	100%	
Honduras							
IDB	256	848	974	789	433	3,300	47
Government	185	1,099	1,103	671	437	3,495	53
Total, Country	441	1,947	2,077	1,460	870	6,795	100%
% per year, Cumulative	6.5	28.7	30.6	21.5	12.8	100%	
Program Totals, year	2,181	7,003	9,363	8,134	4,614	31,500	100%
% Program Totals, year	7%	22%	30%	26%	15%	100%	

H. Program auditing

3.45 The consolidated financial statements of the program and at the level of each loan contract (per country) will be submitted after being audited by an independent public accounting firm acceptable to the Bank (the statements will be submitted by each borrower within 120 days after the close of the fiscal year), and will continue to be submitted throughout the period of program execution. The executing agency will submit to the Bank the annual consolidated financial statements of the program, and the financial statements concerning the use of resources by each country. In accordance with the requirements of the Bank, it will also submit half-yearly reports on the status of the revolving funds and of the bank accounts used to manage the loan funds and local counterpart contribution. The costs of the external

auditing will be financed by loan resources. The **Bank** will review and approve in advance the process of selecting and contracting the independent auditing firm, including the terms of reference for the proposed work. The purpose of these audits is to assess the degree of compliance with the established goals and activities, and to provide the countries and the executing agency with the groundwork they need to make changes during program execution.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 The institutional scheme and execution mechanism proposed for the program is viable in that it: (i) upholds the principle of trinational integration; (ii) uses the existing institutional structure, with its knowledge and understanding of the region, avoiding the creation of new entities, and adding only the minimum elements needed for execution of the program components; (iii) provides for implementation to be coordinated among the three countries, and allowing for adjustments to implementation as the program advances; (iv) allows for the participation of and political support from the relevant ministers and by the national executive directors of the Trifinio Plan; (v) facilitates the monitoring and participation of the municipalities in the implementation process; and (vi) promotes community involvement in the execution of activities, and empowers them to make important decisions concerning the prioritization of problems to be addressed and preparing the AOPs for activities to be undertaken.
- 4.2 The proposed execution mechanism was also agreed upon with the three countries, and is sufficiently flexible to respond to the complex nature of the program. It is backed by the previously agreed Operating Regulations which set forth in detail the standards, criteria, and procedures that govern the eligibility and selection of investments and their implementation.

B. Technical viability

- 4.3 Studies of soil conservation practices undertaken in several Latin American countries have shown their effectiveness in reducing the rate of runoff, reducing erosion, and increasing the productivity of the soil. There are agricultural practices in Central America that avoid soil degradation associated with erosion, the loss of fertility owing to removal of arable topsoil and the displacement of nutrients, compacting, loss of porosity, and a reduction in root depth and moisture retention capacity.
- 4.4 The CTPT has gained significant experience through the execution of the Trifinio Pilot Project, which was implemented from 1992 to 1999 with support from the European Union. Soil conservation sub-basin protection practices are producing positive results in the region's major sub-basins. The combination of appropriate productive practices and increasing awareness among farmers of the importance of conserving natural resources have resulted in improved soil fertility, reforestation, and conservation of wooded areas.
- 4.5 The activities included in the other components of the program will use technologies and procedures that are widely known in the three countries. The

planned construction work is not large-scale or complex, and each construction project will have its own feasibility study, as specified in the Operating Regulations. National or international firms with recognized capacity will be hired to conduct the training activities, implement institutional strengthening, and prepare studies.

C. Socioeconomic viability

4.6 The program's benefit may be grouped into two categories. First, there are private benefits obtained by farmers through crop diversification and improvement in crop yields by incorporating farming techniques and soil conservation practices and increasing the useful life of their lands. These benefits have been estimated, making it possible to calculate the economic profitability of the activities in support of agricultural and forest production, and the financial profitability of the new practices, from the perspective of the individual producer. Additionally, the economic diversification component specifically seeks to increase the population's income by promoting economically and financially profitable activities.

4.7 Secondly there are public benefits, which are more difficult to estimate and will be enjoyed by the region's entire population and by the three countries, even by those not directly involved in the operation. The preservation of natural resources in the targeted basins will be of benefit to all the region's inhabitants and to those located immediately downstream from the intervention areas in the upper Lempa River basin. There will also be benefits associated with avoiding the social costs of the health effects resulting from water pollution and limited access to drinking water, and the social costs of people moving from rural areas to the city. Such relocation is promoted by soil depletion and serious erosion problems, phenomena that are beginning to occur in the region.

4.8 The risks of loss of life and property will also be reduced through actions to prevent and mitigate damage caused by natural disasters. Additionally, benefits will accrue from reductions in risks associated with deteriorating rural infrastructure (particularly local roads), and efforts to protect and restore degraded areas. Moreover, strengthening local governments and coordinating actions to solve shared problems in the area of the three countries, within the framework of the Trifinio treaty, will be of benefit to the region and to the economies of the three countries.

1. Renewable natural-resources management component

4.9 To evaluate the projects of the subcomponent relating to the development, management, and protection of natural resources, various models of agricultural and forest exploitation proposed for the study area were analyzed. For each model, the additional benefits to the producer were estimated in terms of making farm investments for conservation and management, resulting in higher yields and a

significant extension of the useful life of the land. Essentially, the technical assistance applied to the farm would enable the farmer to increase his productivity and extend the useful life of his land, whereas without this investment the land would lose its productive capacity within a few years, owing to the loss of fertile soil. The land would have to be allowed to lie fallow for a number of years, and in many cases indefinitely. Moreover, during the period of exploitation, the crops would suffer an annual reduction in average yields. In addition to these "private" benefits, improved soil use has outside benefits in terms of conservation of natural resources, reflected in the control of erosive processes within the watershed.

- 4.10 Analyses of the farm models show the financial profitability of these new proposed practices and crops, not taking into account the additional external benefits owing to the difficulty of quantifying such benefits, as mentioned above. These benefits have been estimated for standard-type projects, with internal rates of return ranging from 35% to 54%. Financial profitability analyses from the perspective of the individual producer for the standard-type projects analyzed indicate that although the producer will have negative net flows for the first year, the recovery in the second, third, and fourth years is on the order of 138% of the negative flows in the first year. The program calls for providing plants, seed, inputs, and financing for part of the technical assistance, so that in no case is the availability of cash for family consumption less than the levels that would exist without the project, while the higher income levels that are one of the program's main goals are being achieved.
- 4.11 For the projects and activities in the infrastructure and basic sanitation subcomponent, the socioeconomic benefits are improvement in the coverage rates for basic sanitation services, and a reduction in the contamination and degradation rates of water sources. These benefits have not been quantified, since their financing will depend on local demand. Given the size of the eligible projects, which are intended to respond to social needs associated with the program's general objectives, they will be evaluated in accordance with appropriate technical standards and the least-cost criterion. The Operating Regulations include applicable viability criteria.
- 4.12 With respect to land ownership, there is no evidence of significant conflicts and experience with other projects in the area indicates that the lack of title has not necessarily been an obstacle to introducing improvements in the land, because these improvements provide immediate benefits to the farmers, and the risk is therefore minimal. Nevertheless, titling activities are eligible for financing in order to solve specific problems, in cases where lack of title is a limiting factor in terms of achieving the program's objectives.

2. Disaster prevention and mitigation component

- 4.13** Construction work prioritized by the communities will include the necessary studies to evaluate technical, socioeconomic, financial, and environmental aspects, in accordance with the Operating Regulations. For example, the restoration of the Zompopero and El Honniguero gullies in La Palma, El Salvador, **as** a typical project of this kind, has feasibility studies supporting the viability of the proposed construction work, with an estimated internal rate of return of approximately **20%**.
- 4.14** However, there **are** a number of projects and local initiatives relating to studies, education and training projects, early warning systems and community organization to mitigate natural dangers that the communities have requested, but the benefits of which cannot be quantified *ex ante*. These and other proposals that arise from the participatory processes will be evaluated in accordance with the criteria set forth in the Operating Regulations, to verify their contribution toward achieving the program's objectives.

3. Support for economic diversification component

- 4.15** **This** component derives from the fact that, along with improvements in agricultural production and exploitation of the forests, technical and financial support will also be needed to facilitate and streamline the marketing of agricultural products and the development of micro- and small businesses, which will provide additional income to farmers who **own** land and to those who do not. These projects will also contribute to family income through the involvement of women.
- 4.16** **As** typical projects, studies were made of organic coffee growing and marketing, and ecotourism projects on the Cerro Montecristo and in La Palma. It was difficult to quantify the resulting benefits. **This** is a new type of activity in the region. However, in light of the area's socioeconomic conditions, the initial activities are likely to focus on identifying opportunities, fostering activities, and improving service infrastructure. The projects prioritized by the communities will undergo the necessary studies to evaluate technical, socioeconomic, financial, and environmental aspects in accordance with the Operating Regulations. Similarly, supporting actions such **as** studies, sales, and marketing will be evaluated for their contribution toward achieving the program's objectives, in accordance with the program's Operating Regulations.

4. Institutional strengthening component

- 4.17** The activities of this component were designed to meet the planned objectives while incurring minimal costs. Moreover, many experiences in the area have **shown** that institutions imposed without adequate consultation among the users themselves have a high probability of failure, whereas basic organizations generated by the initiative of the members **are** generally solid and sustainable. Therefore, the

program will give preference to supporting local institutionality, using existing entities **as** much **as** possible, while appropriately strengthening those entities and creating the necessary capacity **so** that the communities may indicate their preferences and have the decision-making power concerning priority activities and projects.

D. Distributive impact and poverty considerations

4.18 According to census projections from the countries, the population in the upper Lempa River basin area is estimated at **305,000** inhabitants, **67%** of whom live in rural areas. Of the total population, **50%** lives in Guatemala, **41%** in El Salvador, and the remaining **9%** in Honduras. Based on recent surveys of family income and expenses in the three countries, it is estimated that **87%** of the population in the program area lives in poverty, and **53%** in extreme poverty. Additionally, illiteracy and malnutrition rates are high.

4.19 This operation qualifies **as** a social equity enhancing project, **as** described in the indicative targets mandated by the Bank's Eighth Replenishment (document **AB-1704**). Furthermore, **this** operation qualifies **as** a poverty-targeted investment according to the geographic classification criteria established by the Bank, for the following reasons: (i) the region's population has the characteristics of the poorest rural population of the three countries, reflected in the poverty indicators and levels of illiteracy, health, and access to public services; (ii) the conditions of women represent the typical characteristics of rural women in the respective countries, with lower levels of education and employment than among the men; (iii) the population of the municipalities of the upper Lempa River basin is **305,000**, **two** thirds of whom live in rural **areas**, thus accounting for **74%** of the economically active population; (iv) according to official figures, extreme poverty is on the order of **53%**, and relative poverty on the order or **34%**, totaling **87%** of the population; (v) illiteracy rates are at **38%**; and (vi) no more than **30%** of the population lives in adequate housing. Therefore the borrowing countries will be using the 10 percentage points in additional financing.

E. Financial viability

4.20 The governments have indicated the high priority they place on development of the program area, and have backed up their commitments from the perspective of the counterpart contribution; moreover, significant resources **are** available from grants and concessional lending for cofinancing, which will lighten the burden on the national budgets.

4.21 The program also promotes financial sustainability in its various components. At the level of producers and the local communities, the Operating Regulations limit support to financially sustainable practices and activities, which is one of the program's purposes. The program's key elements have been designed to facilitate

their continuation beyond the period planned for completing all program actions. It is expected, therefore, that once new productive practices have been introduced, the producers will continue to implement these practices, mainly because they are financially attractive.

- 4.22 At the municipal, national/regional, and binational levels, where the benefits **are** public, institutional strengthening will be promoted along with an increase in the capacity to generate greater municipal revenues. The search for viable mechanisms to pay for environmental services will also be promoted. **This** will make it easier for municipal entities and community organizations to assume real commitments to maintain works built, by improving municipal finances and increasing their environmental management capacity through their environmental units (see paragraphs 3.21 and 3.22).

F. Environmental and social viability

1. Environmental viability

- 4.23 The operation will have a positive social and environmental impact, inasmuch **as** it is designed specifically to support sustainable development in the basin. Environmental and social criteria have been incorporated in the process of prioritizing the subbasins, and the effects of the proposed activities have been carefully evaluated. Activities considered representative of each of the four components (models of farming, prevention and mitigation of natural risks, ecotourism, etc.) were compared with environmental and social factors (water, soil, air, socioeconomic factors, cultural considerations, etc.) and the possible effects were analyzed from the perspective of their certainty to occur, the level of disruption, scope, duration, development, and reversibility. **To** attenuate the negative effects of certain specific projects and thus increase positive outcomes, the Operating Regulations include specific requirements with regard to environmental and social factors, which the projects must fulfill in order to receive financing.
- 4.24 Additionally, the program's actions will make it possible to strengthen sustainable production systems and to conserve the upper Lempa River basin, located at the center of the Mesoamerican region. The program's actions will help create swaths to enable access for genetic material of the ecosystems of the Mesoamerican biological corridor from the Atlantic Coast to the ecosystems of the Pacific Coast. Such access is important to avoid isolation of gene pools of species that are in the process of becoming extinct. The program's actions will facilitate the transfer of genetic material, and will contribute to the survival of plant and animal species in the region that are presently undergoing accelerated processes of environmental degradation.

2. Social viability

- 4.25 The modality of program execution includes National Commissions of Involved Parties in each country, to ensure broad community involvement in formulating the **annual** operating plans. The program's emphasis is on promoting the socioeconomic development of the region. To that end, the program includes activities to reduce poverty in its renewable natural-resources management and support for economic diversification components. The institutional strengthening component has a participatory focus that emphasizes community and local organization, involving the communities, and especially women, in project selection and execution. Moreover, the equity and gender focus is integrated into all activities. The percentage of the population that is indigenous is very low, and there are no significant ethnic groups in the intervention area, since the ethnic groups that did live in the area prior to colonization underwent a process of miscegenation.
- 4.26 The institutional strengthening component includes support for setting up municipal environmental units and the preparation of a trinational strategic plan or agenda to articulate the principles and basic guidelines for the use and protection of water, soil, and forest resources, improvement of strategic infrastructure to mitigate natural disasters, pollution control, and promoting trinational economic and social improvement activities. It will also include recommendations concerning coordination of activities among projects that affect the environment in a positive or negative way, and the socioeconomic development of the area. Plans do not call for any relocation of the population, but the Operating Regulations provide that, should any such relocation take place, the individuals affected are to be cared for in accordance with **Bank** policy.

G. Program risks

- 4.27 The program's main features are rooted in its trinational nature, its flexibility, and its participatory focus. While these are strengths of the program, they also involve risks.
- 4.28 **Trinationality:** Actions will have to be coordinated to promote rational management of natural resources and to promote economic diversification in a traditionally poor region far from the centers of political decision-making in the three countries, and where the ministries and secretariats nationally responsible for the program's areas of activity are not well represented and are poorly articulated. To limit this risk, the existing structure of the Trinational Commission of the Trifinio Plan (CTPT) will be used and strengthened. The plan enjoys the solid support of the respective governments, and **has** valuable experience in projects of this kind in the region.
- 4.29 There **is** the further risk that one of the countries may encounter problems resulting in delays in program startup and execution. Therefore, the program has been

designed with sufficient flexibility in execution to enable execution to go forward in each country without being held back by delays and problems that may arise in the others. **This** flexibility is supported by technical cooperation operations and parallel concessional financing, which enable certain basic activities to be carried out simultaneously in the three countries. The risk of conflicts arising from the different interests of the three countries is attenuated by the flexibility that the program introduces to address activities and projects according to the demands of the communities in each country.

- 4.30 **Fragmentation of investments:** However, **this** flexibility introduces the risk that the program's actions may become fragmented and will not have a significant overall impact. **This** risk is diminished by the trinational strategic plan and the sub-basin focus based on natural factors (water, soil, and forest) and social factors (population, family socioeconomic situation, and their communities and organizations) used to prioritize the area of intervention and which will be followed throughout program execution. In this way, without limiting the local communities' initiative and involvement, economies of scale and the synergistic effect of the program's actions will be maintained in terms of their contribution to achieving the program's goals.
- 4.31 **Weakness of local institutions:** The program's highly participatory focus requires strong local institutions and considerable institutional coordination, conditions that are weak at present. However, owing to a number of international aid projects that have been and continue to be implemented in the area, this kind of focus is not new, and will not have to be built from the ground up. Institutional and local organizations will be strengthened, **as** will the communication and coordination links among the various parties involved. The program specifically seeks to do just that, through the institutional strengthening component directed toward municipal governments and local organizations. Moreover, coordination and communication links among the parties will be strengthened by using the CTPT scheme with national offices in the three countries, supported by the ATRIDEST associations and National Commissions **of** Involved Parties at the local level and the Steering Committee at the central level.
- 4.32 Finally, programs of this kind generally have certain inherent risks, including: (i) limited sustainable adoption of the practices recommended for conservation-oriented agriculture; (ii) difficulty in attaining the financial sustainability of farming models and other non-agricultural productive activities; and (iii) an inadequate supply of extension and training services. The program's strategic design includes measures to counteract the first two risks, offering participants temporary incentives until higher income levels are achieved, which is one of the program's goals. Similarly, the financial viability and sustainability requirements are included in the Operating Regulations for agricultural and non-agricultural activities alike.

- 4.33 With regard to the extension and training services, governmental, nongovernmental, and private groups have been operating in the area through various projects that receive international financing. These groups form a critical mass that the program will use and expand by organizing and training demonstration farmers in the area.**

EL SALVADOR (ES-0132)					
Table of Costs and Financing Scheme					
(IN US\$ THOUSANDS)					
Investment Categories	Bank	Government		Total	%
		Local	Other		
I. Administration and supervision	592	431		1,023	5.8
1. Trinational	342	131		473	
2. National	250	300		550	
11. Direct costs	10,445	1,705	750	12,900	73.8
1. Management of renewable natural resources	6,440	1,260		7,700	
2. Disaster prevention and mitigation	1,665	185	750 ¹	2,600	
3. Support for economic diversification	1,530	170		1,700	
4. Institutional strengthening	810	90		900	
111. Unallocated	861	335		1,196	6.8
Escalation	373	100		473	
Contingencies	488	235		723	
IV Financial costs	2,102	279		2,381	13.6
Interest	1,962			1,962	
Credit fee		279		279	
Inspection and supervision	140			140	
TOTAL	14,000	2,750	750	17,500	100%
% of total	80	15.8	4.2	100%	100%

¹ German cooperation grant to the program, through GTZ.

GUATEMALA (GU-0149)					
Table of Costs and Financing Scheme					
(IN US\$ THOUSANDS)					
Investment Categories	Bank	Government		Total	%
		Local	Other ^o		
I. Administration and supervision	517	255		772	11.0
1. Trinational	342	131		473	
2. National	175	124		299	
11. Direct costs	2,948	5	2,000	4,953	71.0
1. <i>Management of renewable natural resources</i>	1,857	5	980 ²	2,842	
2. <i>Disaster prevention and mitigation</i>	200		500 ¹	700	
3. <i>Support for economic diversification</i>	420		410 ²	830	
4. <i>Institutional strengthening</i>	471		110 ²	581	
III. Unallocated	317	157		474	6.6
Escalation	110	70		180	
Contingencies	207	87		294	
IV Financial costs	718	83		801	11.4
Interest	673			673	
Credit fee		83		83	
Inspection and supervision	45			45	
TOTAL	4,500	500	2,000	7,000	100%
% of total	64	7	29	100%	100

^o Grant funds received by Guatemala:

¹ German cooperation grant, through GTZ (confirmed)

² Other sources, (to be confirmed)

HONDURAS (EO-0182)					
Table of Costs and Financing Scheme					
(IN US\$ THOUSANDS)					
Investment Categories	Bank	Government		Total	%
		Local	Other		
I. Administration and supervision	517	255		772	11.0
1. Trinational	342	131		473	
2. National	175	124		299	
11. Direct costs	2,384	110	3,000 ¹	5,494	81.0
<i>1. Management of renewable natural resources</i>	1,639		1,717	3,356	
<i>2. Disaster prevention and mitigation</i>	200		388	588	
<i>3. Support for economic diversification</i>	415		805	1,220	
<i>4. Institutional strengthening</i>	130	110	90	330	
111. Unallocated	286	91		377	6.0
Escalation	93	50		143	
Contingencies	193	41		234	
Financial costs	113	39		152	2.0
Interest	80			80	
Credit fee		39		39	
Inspection and supervision	33			33	
TOTAL	3,300	495	3,000	6,795	100%
% of total	47	7	44	100%	100

¹ Norwegian Development fund grant.

**TRINATIONAL PROGRA FOR SUSTAINABLE DEVELOPMENT IN THE UPPER LEMPA RIVER BASIN
EL SALVADOR-GUATEMALA-HONDURAS
(CA-0034)**

LOGICAL FRAMEWORK

OBJECTIVE	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>GOAL: To reduce environmental degradation and to fight the poverty of residents of the upper Lempa River basin.</p>	<ul style="list-style-type: none"> ● Renewable natural resources in the basin are managed in a sustainable manner upon program conclusion. ● Local income is generated that is comparable to the average rural incomes of the countries, reflected in improvement in the population's quality of life upon program completion. 	<ul style="list-style-type: none"> ○ Program database. Ex post evaluation. ○ Base study and annual comparisons of implementation statistics. Ex post evaluation. 	<ul style="list-style-type: none"> ○ Adoption of management plans by local governments and communities. ○ Producers become involved in agricultural and non-agricultural economic diversification processes.
<p>PURPOSE: (i) To promote sustainable management of natural resources and to ensure the sustainability and profitability of production; to improve basic services for the population.</p>	<ul style="list-style-type: none"> ○ 2,500 rural producers involved, engaging in productive agroforestry projects (ES 1,200, GU 500, HO 800). ○ 14,200 hectares under sustainable management of natural resources and reforestation (ES 5,600, GU 5,500, HO 3,100). ○ Annual deforestation rate reduced with respect to baseline. ○ Erosion rates reduced with respect to baseline. ○ Contribution to reducing concentrations of fecal coliform bacteria to the standard for human contact (bathing) in 19 bodies of water (ES 8, GU 6, HO 5). ○ 50% increase in drinking water coverage with respect to the baseline in each country. 	<ul style="list-style-type: none"> ○ Annual reports of the Ministries of Agriculture and local governments in the countries. ○ Annual reports of the CTPT. ○ Supervision reports. ○ Midterm evaluation. ○ Annual evaluations. ○ Ex post evaluation. 	<ul style="list-style-type: none"> ○ The three governments are committed to continue supporting the treaty for implementation of the Trifinio Plan. ○ The three governments continue to place priority on the program.

OBJECTIVE	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>(ii) To prevent and mitigate the impact of natural disasters, through the active and ongoing participation of civil society and local governments, by rehabilitating and protecting areas and infrastructure that have been degraded or are extremely vulnerable, or that become deteriorated or degraded.</p>	<ul style="list-style-type: none"> Effective measures to reduce the negative impacts of natural phenomena in 1 sub-basin upon program completion (ES 1). Communities organized and natural disaster mitigation plans operating in each country. 	<ul style="list-style-type: none"> As above. Monitoring of natural phenomena. 	<ul style="list-style-type: none"> As above. No extraordinary natural phenomena occur. Mitigation plans are adopted by the communities and local governments.
<p>(iii) To promote productive activities and economic diversification by improving business activities.</p>	<ul style="list-style-type: none"> 960 micro-businesses created (ES 480, GU 180, HO 300). Marketing and commercialization of products increasing sales. Aggregate value of agribusiness and services increased. 	<ul style="list-style-type: none"> Annual reports of the Ministries of Agriculture and local governments in the countries. Annual reports of the CTPT. Supervision reports. Midterm evaluations. Annual evaluations. Ex post evaluation. 	<ul style="list-style-type: none"> Producers and micro-business owners adopt technology. The governments create a favorable economic environment. CTPT is supported by the new committee create to promote ecotourism.
<p>(iv) To strengthen the institutional framework of local governments and to improve the organizational capacity of communities, within a context of trinational integration.</p>	<ul style="list-style-type: none"> TTU strengthened. Trinational administrative unit strengthened. 19 local governments strengthened with regard to managing sustainable development (ES 8, GU 6, HO 5). 	<ul style="list-style-type: none"> Annual reports of the CTPT. Supervision reports. Midterm evaluation. Annual evaluations. Ex post evaluation. 	<ul style="list-style-type: none"> The three governments are committed to continue supporting the treaty for implementation of the Trifinio Plan. The three governments continue to place priority on the program. Availability of resources.
<p>COMPONENT 1: Management of Renewable Natural Resources: US\$13.9 million (ES, US\$7.7 million; GU, US\$2.8 million; HO US\$3.4 million)</p>			
<p>Subcomponent 1. Development, management, and protection of renewable natural resources</p>			
<p>(i) To increase the income of small-scale farmers in the area, particularly among farmers working slope land.</p>	<ul style="list-style-type: none"> 2,500 producers served (ES 1,200, GU 500, HO 800) 	<ul style="list-style-type: none"> Half-yearly report and program monitoring. Aerial photographs. 	<ul style="list-style-type: none"> Natural-resources management and poverty relief continue to be a priority for the governments of the three countries.

OBJECTIVE	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>(ii) To reduce current environmental degradation indicators for water, soil, and forest resources.</p>	<ul style="list-style-type: none"> • 2,500 producers have adopted at least one conservation-enhancing method of sustainable agriculture (ES 1,200, GU 500, HO 800). • 6,800 hectares reforested (ES 2,700, GU 2,800, HO 1,300). • 7,400 hectares under agroforestry management (ES 2,900, GU 2,700, HO 1,800) on 750 farms. • 19 subbasins producing protected water (ES 8, GU 6, HO 5). 	<ul style="list-style-type: none"> • Concentrations of suspended sediments in rivers in the area. 	<ul style="list-style-type: none"> • No natural disasters comparable to or greater than Hurricane Mitch occur. • Timely availability of resources.
<p>Subcomponent 2. Infrastructure and basic sanitation</p> <p>(i) To improve coverage rates of basic sanitation services.</p> <p>(ii) To reduce rates of contamination and degradation of water sources.</p> <p>(iii) To improve supporting infrastructure for production.</p>	<ul style="list-style-type: none"> • 19 studies (ES 8, GU 6, HO 5) for drinking water projects to benefit at least 16,000 persons (ES 4,000, GU 4,000, HO 8,000). • Latrines for 2,400 families (ES 800, GU 800, HO 800). • 19 solid waste management studies (ES 8, GU 6, HO 5). • 6 studies for wastewater treatment systems (ES 2, GU 2, HO 2). • 3 pilot projects for treating run-off water and coffee-bean hulls (ES 1, GU 1, HO 1). • 210 km of rural roads improved (leveling, ballast, curbing, drainage, and protection of banks) (ES 70, GU 70, HO 70). 	<ul style="list-style-type: none"> • Half-yearly report and program monitoring. • Midterm report. 	

OBJECTIVE	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENT 2: Disaster Prevention and Mitigation: US\$3.9 million (ES, US\$2.6 million; GU, US\$0.7 million; HO, US\$0.6 million)			
Subcomponent 1. Intervention in subbasins (i) Recovery of degraded areas	<ul style="list-style-type: none"> o 1,000 hectares treated with construction work and soil protection measures (ES 1,000). 	<ul style="list-style-type: none"> o Half-yearly program reports. 	<ul style="list-style-type: none"> o Natural resources management and poverty alleviation continue to be priorities for the governments of the three countries.
(ii) Protection of vulnerable areas	<ul style="list-style-type: none"> o Torrent control projects completed in one subbasin (ES 1). 		<ul style="list-style-type: none"> o No natural disasters comparable to or greater than Hurricane Mitch occur. o Timely availability of resources.
Subcomponent 2. Prevention, early warning, and monitoring systems for natural phenomena			
(i) Prediction, prevention, and management of the effects of natural phenomena.	<ul style="list-style-type: none"> o 19 local risk maps prepared (ES 8, GU 6, HO 5). o 19 warning systems installed and operating (ES 8, GU 6, HO 5). 	<ul style="list-style-type: none"> o Reports from COEN (El Salvador), CONRED (Guatemala), and COPECO (Honduras). o Half-yearly program reports. 	
(ii) Organization of communities to deal with natural phenomena.	<ul style="list-style-type: none"> o 76 communities organized and trained to deal with natural disasters (ES 32, GU 24, HO 20) o 76 early warning plans organized, and equipment provided (ES 32, GU 24, HO 20). 		
COMPONENT 3. Support for Economic Diversification: US\$3.7 million (ES, US\$1.7 million; GU, US\$0.8 million; HO, US\$1.2 million)			
Subcomponent 1. Business development			
Entrepreneurial capacity created and organized.	<ul style="list-style-type: none"> o Trinational committee to support and promote ecotourism created. o 960 micro-business owners trained (ES 480, GU 180, HO 300). 	<ul style="list-style-type: none"> o Half-yearly program reports o Evaluation reports. 	<ul style="list-style-type: none"> o The governments create a favorable environment.

OBJECTIVE	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Subcomponent 2. Productive diversification Productive diversification achieved.</p>	<ul style="list-style-type: none"> ■ 960 micro- or small business operating (ES 480, GU 180, HO 300), benefiting 6,500 inhabitants (ES 3250, GU 1220, HO 2030) and creating 3,000 jobs (ES 1,500, GU 560, HO 940). ○ 250 producers involved in producing organic coffee (ES 50, GU 135, HO 65). 	<ul style="list-style-type: none"> ● Half-yearly program reports. ● Evaluation reports. 	<ul style="list-style-type: none"> ■ The governments create a favorable environment.
<p>COMPONENT 4: Institutional Strengthening: US\$1.9 million (ES, US\$0.9 million; GU, US\$0.6 million; HO, US\$0.4 million)</p>			
<p>Subcomponent 1. Strengthening the institutionality of trinational integration Trinational system strengthened.</p>	<ul style="list-style-type: none"> ● Trinational strategic plan completed. ● Monitoring and evaluation system set up and operating in the TTU. ● CTPT implementing the program successfully. ● Consultative committee operating effectively. 	<ul style="list-style-type: none"> ● Half-yearly program reports. ● Evaluation reports. 	<ul style="list-style-type: none"> ■ Political support from the three governments continues. ○ Integration system operating. ● Timely availability of resources.
<p>Subcomponent 2. Strengthening local governments Local governments strengthened.</p>	<ul style="list-style-type: none"> ○ Modern administrative and hardware systems set up in 19 municipalities in the region (ES 8, GU 6, HO 5). ■ Environmental units set up in 19 municipalities in the region (ES 8, GU 6, HO 5). 	<ul style="list-style-type: none"> ● Half-yearly program reports. ● Evaluation reports. 	<ul style="list-style-type: none"> ● Political support from the three governments continues. ● Timely availability of resources.
<p>Subcomponent 3. Strengthening local gender-oriented organizations Local base organizations strengthened.</p>	<ul style="list-style-type: none"> ○ 3 Committees of Interested Parties established and operating. ● 3 ATRIDEST associations operating effectively. ○ 76 community development associations functioning (ES 32, GU 24, HO 20). 	<ul style="list-style-type: none"> ● Half-yearly program reports. ● Evaluation reports. 	<ul style="list-style-type: none"> ○ Political support from the three governments and local governments continues. ■ Timely availability of resources.

PROCUREMENT OF GOODS AND SERVICES
(IN US\$ THOUSANDS)

Categories	Total Amounts 1/	Type of Contracting (*)	Year 1	Year 2	Year 3	Year 4
1. Consulting and Services						
National studies	1,000	National and international	200	300	300	200
Trinational studies, plans	300	National and international	300			
Technical assistance (3 teams)	6,000	International	1,500	1,500	1,500	1,500
International evaluation	80	International		40		40
Auditing and ex post evaluation	40	National	40			
Monitoring and evaluation	350	International	150	50	100	50
Institutional strengthening (20 municipalities)	1,600	International	400	400	400	400
Trinational, municipal, and community forums	150	National	30	30	30	60
Subtotal	9,520		2,620	2,320	2,330	2,250
2. Goods						
Equipment (trinational, national)	130	International	130			
Vehicles (trinational, national)	140	International	140			
Subtotal	270		270			
3. Construction						
(I) Management of renewable natural resources		National and international				
1. Infrastructure and basic sanitation	2,200		200	500	1,000	500
a) Drinking water	2,000	National		1,000	500	500
b) Waste water	1,000	National		300	400	300
c) Roads	500	National		200	200	100
d) Pilot plants	150	National		150		
(II) Disaster prevention and mitigation	1,800	International and national		500	1,000	300
(III) Support for diversification		International and national				
a) Business training	200	National		50	100	50
b) Micro-/small business	3,000	National	200	1,000	1,000	800
Subtotal	10,850		200	3,700	4,200	2,550
Total	20,640		3,090	6,020	6,530	

• NOTES:

- a) All contracting for construction, procurement of goods and services, and consulting services financed by program resources will be governed by the procedures agreed upon with the Bank under the terms of the loan contract.
- b) International competitive bidding will be used to contract for goods and services for amounts of US\$350,000 and higher, and for construction for amounts of US\$1,500,000 and higher. International competitive bidding will be used for consulting services in the amount of US\$200,000 and higher. Procurement and contracting for amount less than those indicated will be called "smaller amounts", and will be governed by the following standards:
- (1) Unrestricted National Competitive Bidding: (i) Construction: equal to or greater than US\$500,000 and less than US\$1,500,000; (ii) Goods and services: equal to or greater than US\$50,000 and less than US\$350,000; and (iii) Consulting: equal to or greater than US\$100,000 and less than US\$200,000
- (2) Limited National Bidding: (i) Construction: equal to or greater than US\$20,000 and less than US\$500,000; (ii) Goods and services: equal to or greater than US\$10,000 and less than US\$50,000; and (iii) Consulting: equal to or greater than US\$10,000 and less than US\$100,000
- (3) Direct Contracting: (i) Construction: less than US\$20,000; (ii) Goods and services: less than US\$10,000

1/ 80% of the investments will be financed by loan resources.