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**Social Entrepreneurship Program**

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**To:** The Board of Executive Directors

**From:** The Secretary

**Subject:** El Salvador. Executive summary of a proposal for nonreimbursable technical-cooperation funding for the operation to support the coffee processing program of Cooperativa La Palma de R.L. Social entrepreneurship program

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**Inquiries to:** Mr. Rafael J. Rivera (4844 Speed Dial Country Office in El Salvador)

**Remarks:** Attached for your information, as indicated in document GP-75-9, is the executive summary of a proposal for nonreimbursable technical-cooperation funding for the operation to support the coffee processing program of Cooperativa La Palma de R.L., in El Salvador.

On **5 June 2001\***, the date on which the five-day circulation period required for this document expires, the President, or such officer as he may designate, will approve this operation.

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**Reference:** GP-75-9 (11/98)

**Other distribution:** Managers, Division Chiefs, Representative in El Salvador

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**EL SALVADOR**

**SOCIAL ENTREPRENEURSHIP PROGRAM  
PROPOSAL FOR TECHNICAL-COOPERATION FUNDING**

**SUPPORT FOR THE COFFEE PROCESSING PROGRAM OF  
COOPERATIVA LA PALMA DE R.L.**

**(TC-98-07-46-5-ES)**

This document was prepared by the project team consisting of: Rafael Rivera (COF/CES), Project Team Leader; Alison Beck Yonas (SDS/MIC); Miguel Coronado (LEG/OPR); Leyda Fajardo (LEG/OPR); Cecilia Gálvez (consultant); and Alexandra Santillana (SDS/MIC), who assisted in the production of the document.

**EL SALVADOR**  
**SUPPORT FOR THE COFFEE PROCESSING PROGRAM OF**  
**COOPERATIVA LA PALMA DE R.L.**

(TC-98-07-46-5-ES)

**EXECUTIVE SUMMARY**

**Executing agency:** Cooperativa La Palma de R.L.

<b>Amount and source:</b>	<b>IDB (US\$)</b>	<b>Local (US\$)</b>	<b>Total (US\$)</b>
Technical cooperation:	<u>118,000</u>	<u>7,000</u>	<u>125,000</u>
Total:	118,000	7,000	125,000

The source of the Bank's resources will be the net income of the Fund for Special Operations (FSO) in foreign exchange.

**Terms:** Execution period: 18 months  
Disbursement period: 24 months

**Objectives:** The project's main objective is to promote the socioeconomic advancement of members of the cooperative and their families by implementing an improvement plan that will make it possible for them to continue to operate as sellers of "parchment" coffee rather than going back to selling unprocessed coffee.

The specific objectives are to: (i) support the adoption of coffee-processing technologies that are environmentally sound, by implementing the recommendations made by the Ministry of Environment and Natural Resources (MARN) as a requirement for issuing an environmental permit to the La Palma wet-process facility [*beneficio*]; and (ii) help raise the income of members by strengthening the cooperative's institutional capacity and thereby make it more competitive in the field of coffee growing.

**Description:** To achieve these objectives, the project provides for two components to be financed on a nonreimbursable basis:

The **environment component** (Bank: US\$87,400; local contribution: US\$3,500) involves execution of the activities

recommended by the MARN, including consulting services and investments in infrastructure and equipment, so that the coffee processing system that the cooperative has been operating since 1996 meets and maintains the required conditions, especially with respect to treatment of coffee processing effluents [*aguas mieles*] and other wastes. This infrastructure and equipment includes a trap, a stabilization tank, the reconditioning of existing infiltration wells, and the installation of necessary piping.

The cooperative will hire consultants to conduct studies for purposes of identifying improvements in infrastructure and equipment that the MARN has indicated as requirements for issuing the environmental permit for the wet process facility. In addition, after receipt of the MARN's concurrence with the findings of the aforementioned studies, supervision of the works to be undertaken will be contracted out.

The **institutional strengthening component (Bank: US\$30,600; local contribution: US\$3,500)** includes consulting services related to business management, procurement of equipment for support of administrative tasks, a midterm evaluation, and contingencies.

The activities related to business management include: (i) changes in financial management, to improve accounting, internal controls, and the management information system as well as lay the foundations for the cooperative's authorities to set up procedures to manage the risks faced in their business, including operating risk, credit risk, and price risk, and to operate the business on the basis of cost recovery; and (ii) preparation of a medium- and long-term business plan for purposes of updating the vision and mission, including strategic objectives of the institution, which will help establish procedures to guide its operations towards said objectives, and ways to leverage the competitive advantages inherent in the quality of the coffee harvested in the farms and in being the only processing plant in the Department of Chalatenango.

**Environmental  
and social  
review:**

The Committee on Environment and Social Impact (CESI) reviewed the project at its 28 March 2000 meeting and made recommendations that were taken into account in the design of this technical-cooperation operation. The design also took into account the provisions set forth in El Salvador's current legislation.

**Beneficiaries:**

The project's area of influence is the municipio of La Palma, in the Department of Chalatenango. This region is considered to have one of the highest deficits in terms of socioeconomic indicators and the worst environmental deterioration. The project is expected to benefit some 130 people, including the 32 members of the cooperative and their families, with estimated average monthly incomes of US\$500 per

family and farms averaging five manzanas [3.5 hectares].

The wet process plant is located eight kilometers from the center of the town of La Palma, which has a population of about 10,000, and 78 kilometers from the capital, in an area where there are no other coffee processing plants (the closest is 50 kilometers from La Palma). The project benefits relate to environmental protection and the possibility of enabling the members to continue to operate as sellers of processed coffee and of attracting additional producers whose coffee could be processed, thereby contributing to increased revenues for small coffee-growers in an economically depressed area of El Salvador.

**Risks:**

The main risk facing the project is the possibility that the Cooperativa La Palma's operations may not be profitable in the short run. To help minimize this possibility, the project includes an institutional strengthening component, which will be the responsibility of a working group appointed by the Board of Directors that will be set up prior to the first disbursement of the Bank's resources.

Another risk is that the Cooperative might not receive the environmental permit from the MARN. This risk will be offset by the sequence of project execution, which provides for the MARN to assess and rule in favor of the activities and investments, to safeguard against the permit not being granted after the studies and investments.

**The Bank's strategy:**

As this proposal is being prepared, the Bank's strategy for El Salvador is being updated. According to a draft of the document dated 24 July 2000, it is consistent with the priorities of the previous country paper (GN-1981) of 4 June 1998. The IDB recognizes the importance of supporting the country's agriculture sector, which includes strengthening the management capacity of small farmers and their businesses and expanding the sector's production infrastructure. The conclusions of both papers have been taken into account in the design of this operation.

**Justification:**

The proposal is justified inasmuch as the project seeks to: (i) help increase the income of small coffee-growers operating in an economically depressed area, for whom "wet processing" is the only opportunity to participate in stages that add value to coffee processing; (ii) help with the recovery of farms and conservation of natural resources in a geographical region of El Salvador with the greatest environmental degradation; (iii) promote the adoption of coffee processing systems that are environmentally sound; (iv) strengthen the decision-making capacity of an enterprise of micro- and small producers; and (v) remain consistent with national policies and the Bank's strategy.

**Special contractual clauses:**

Prior to the first disbursement of the resources under the environment component, the cooperative will submit, to the Bank's satisfaction: (i) the names of the members of the committee that will be in charge of overseeing project execution, along with their respective functions; (ii) the terms of reference of the consultants to be hired with Bank resources, including the MARN's concurrence with the environmental studies to be conducted, to ensure that the terms of reference cover the recommendations listed in the MARN's 8 September letter, which is the basis for the environmental component's design; (iii) the initial report containing: (a) an execution timetable, to make it possible to monitor and oversee project progress; and (b) a compilation of socioeconomic information on the target group prior to the start of project activities, to make it possible to compare changes in incomes after project execution; and (iv) legal evidence of ownership of the land on which the investments will be made.

Prior to the first disbursement of the resources for construction under the environmental component, La Palma will submit, to the Bank's satisfaction, the MARN's concurrence with the environmental improvement program, which will be designed by the consultant under the environment component.

**Evaluations and reports:**

During project execution and within 15 days following the end of each six-month period, the cooperative will present progress reports to the Bank with an update of the timetable from the initial report. The final report will contain a summary of the results obtained compared with the project's original objectives.

The Bank will use resources from the nonreimbursable technical-cooperation operation to directly hire the consulting services needed to conduct an interim evaluation of the project, when 50% of the resources have been disbursed. The purpose of the evaluation will be to verify that the cooperative is meeting the deadlines in the execution timetable and that it is executing the actions agreed upon with the MARN.