

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**EL SALVADOR**

**SOCIAL ENTREPRENEURSHIP PROGRAM**

**EXECUTIVE SUMMARY**

**EXPANSION OF COMMUNITY CREDIT AND BUILDING LOCAL  
CAPACITIES IN RURAL ORGANIZATIONS**

**(ES-S1014)**

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## I. PROJECT OVERVIEW

### A. Executing agency

1.1 Fundación CAMPO (FC)

### B. Amount and source of financing

	<u>IDB US\$</u>	<u>FC US\$</u>	<u>Total US\$</u>
Reimbursable financing:	600,000	250,000	850,000
Technical cooperation:	<u>155,000</u>	<u>70,000</u>	<u>225,000</u>
Total:	755,000	320,000	1,075,000

Source: Net income of the Fund for Special Operations

### C. Terms and conditions

Amortization period:	10 years
Grace period:	4 years for principal
Interest rate:	8% annual
Currency:	U.S. dollar
Execution period:	36 months
Disbursement period:	42 months

### D. Statement of nonobjection

1.2 The Secretaría Técnica de la Presidencia [Technical Secretariat of the Office of the President] of the Republic of El Salvador has indicated its no objection to the Bank's financing the project, through an unnumbered note dated 13 March 2007.

### E. Problem to be addressed

1.3 **Poverty in the rural sector:** Poverty in El Salvador is much more acute in rural areas. According to official statistics for 2005, more than 35% of the country's overall population was below the poverty line, whereas the figure for the rural sector was 42%. This high level of poverty is the result of a series of unresolved deficiencies in providing basic social services<sup>1</sup> and generating income, that limit the development potential of the rural population.

1.4 **Financing in the rural sector:** As recognized in several studies in recent years, one of the most important deficiencies for this population is the difficulty that rural microentrepreneurs and small businesspersons have in obtaining sufficient, timely financing for their businesses. Although in recent years levels of microenterprise-

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<sup>1</sup> According to the 2005 Multipurpose Household Survey, 39.3% of households in rural areas lack electric lighting service, 66.3% lack indoor or outdoor piped water, 97.6% lack sewerage service, and 91.1% have no access to solid waste collection services. In addition, the illiteracy rate in rural areas is approximately 23% compared with 9.7% in urban areas.

market penetration in El Salvador have improved,<sup>2</sup> some areas in the country, especially rural ones, continue to lack services.

- 1.5 Expanding the credit supply in these areas is a challenge for financial institutions for three main reasons: (i) **high fixed transaction costs** (regardless of the loan amount) and other costs stemming from the higher risk of doing business in rural areas (climatic conditions, product prices) and the possibility of geographic mobility (emigration); (ii) **small loan amounts** to finance small-scale commercialization or production; and (iii) **credit technologies ill-suited** to rural clients (i.e., collateral requirements, bureaucratic procedures). These obstacles, coupled with the lack of a regulatory framework to promote the development of rural finance, make the vast majority of microfinance institutions in El Salvador reluctant to do business in these areas. They also mean that public entities intended to facilitate rural financing offer financial services with excessive bureaucratic requirements and under nonmarket conditions (subsidized interest rates; very low ceilings<sup>3</sup>) that do not meet the needs of rural inhabitants and therefore are not perceived as a viable alternative for obtaining financing.
- 1.6 **Development, financial services, and community participation in eastern El Salvador:** In rural eastern El Salvador (the departments of Usulután, San Miguel, Morazán, and La Unión), this problem is even more apparent. This was one of the regions most adversely affected by the armed conflict in the 1980s. Despite international assistance and strong government support, it continues to lag behind in providing economic and social services. For example, these four departments have the highest levels of illiteracy,<sup>4</sup> and two are among those with the highest poverty rates (Morazán, with 47% of its residents living below the poverty line, and Usulután, with 48%) while the other two are only slightly above the national average (La Unión, with 35.2%, and San Miguel, with 38.9%). Regarding financial services, fewer than 50% of the 87 municipios in the four eastern departments have lending institutions. Most of these institutions are concentrated in the department capitals (i.e., urban and periurban areas). Moreover, according to CONAMYPE data, in 2003<sup>5</sup> Morazán and La Unión were two of the four departments with the lowest penetration of financial services, and only 2% of the potential clients there (both urban and rural) had received lending services of any type.
- 1.7 As a consequence of the Peace Accords and a series of subsequent actions to encourage popular participation in solving rural development problems, the concept

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<sup>2</sup> According to data from the Comisión Nacional de la Micro y Pequeña Empresa [National Microenterprise and Small Business Commission] (CONAMYPE), as of March 2004, credit coverage for urban microenterprises was 40%.

<sup>3</sup> For example, the Banco de Fomento Agrícola lends a maximum of US\$200 per client.

<sup>4</sup> According to the 2005 Multipurpose Household Survey, the illiteracy rates are 22.3% in Usulután, 23.2% in San Miguel, 23.7% in La Unión, and 28.4% in Morazán.

<sup>5</sup> "Distribución geográfica de los clientes y penetración por departamento." *Revista Microenfoque*, April 2004, CONAMYPE.

of Asociaciones de Desarrollo Comunal [Community Development Associations] (ADESCOs) emerged. ADESCOs—organizations with their own legal status, made up by community members—focus on strengthening their members' social capital. Over time, they have demonstrated their potential to avail themselves of participatory methods and improve their members' living conditions. However, their impact is limited by the following problems:

- 1.8 ***Lack of financing to support the production activities of their members:*** ADESCO members are generally small producers engaged in small-scale cultivation of basic grains and small business owners who deal in agricultural and livestock products and whose small working capital generates only a modest income. To make the transition from subsistence to a situation in which they have a surplus, ADESCO members need to increase their investment and/or working capital in order to raise output, enter the market, or expand the installed capacity of their production units. Currently, however, neither the ADESCOs nor their members have access to sufficient credit resources to achieve this objective.
- 1.9 ***ADESCOs' limited capacity to manage local development projects:*** In addition to economic resources, ADESCOs (especially at managerial levels) lack skills to identify initiatives that will mobilize the community and to efficiently and efficaciously manage local development projects (i.e., small-scale infrastructure work such as building and equipping classrooms, repairing rural roads, installing household potable-water systems) to help improve the living conditions of their members and of the community in general.
- 1.10 ***Support from Fundación CAMPO:*** To take advantage of the potential capacities of community organizations and at the same time mitigate some of the structural obstacles to rural financing,<sup>6</sup> the Foundation has developed a community, participatory lending methodology by which ADESCOs participate in analyzing and managing credits. In exchange, the FC supports them in managing community development projects. The Foundation emerged in 1992 as a project supported by the Cooperative for Assistance and Relief Everywhere (CARE) and the United States Agency for International Development (USAID). In 1998, it was established as a legal entity by 50 ADESCOs that formed its general assembly. In 2004, it received some US\$1.8 million in lending resources from its funders as a grant. Through the use of its proven methodology, the Foundation now benefits 86 communities whose ADESCOs<sup>7</sup> are its members, extending loans to more than 2,900 clients in the rural areas of 41 municipios in three of the four eastern departments (Usulután, Morazán, and San Miguel). The FC's gross portfolio is US\$2.9 million, of which 1.8% is at risk. Insufficient funds have recently prevented the FC from responding to requests from several ADESCOs in the eastern

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<sup>6</sup> For example, bringing down transaction costs and pooling small loan amounts.

<sup>7</sup> The ADESCOs have an average of 35 members (small growers and/or rural microentrepreneurs) and the FC helps approximately 90% of their members.

department of La Unión. Hence, the FC submitted this project to the Bank in order to expand in La Unión and consolidate its lending in areas where it is already present.

- 1.11 **Beneficiaries.** With the proposed project, the Foundation aims to benefit at least 1,000 new clients (small producers or rural microentrepreneurs) belonging to ADESCOs, primarily in the department of La Unión, as well as in the other three eastern departments (Usulután, Morazán, and San Miguel). Through the provision of community credit, support will be given to small farmers who grow corn, millet, beans, fruits and vegetables on plots of 1.4 hectares on average or who are engaged in other activities complementary to agriculture; small-scale cattle and pig farmers; and small business owners who buy and sell livestock and other products on a small scale. Similarly, the project's technical-cooperation activities will benefit leaders, managers, and members of the ADESCOs' lending committees by ensuring that they have sufficient skills to manage the financing and execution of local development projects (health, education, and rural infrastructure) and help their communities.
- 1.12 **Rationale:** The project meets Social Entrepreneurship Program criteria, because it will provide financial and social services to improve the wellbeing and quality of life of poor rural populations. The project is justified because it will help expand financial services to rural communities of low-income families that currently have no access to such services due to the insufficient supply of credit in the area. The project will also strengthen the administrative and managerial capacity of these families' grassroots organizations—the ADESCOs—in order for them to realize their potential to generate and draft proposals and execute social projects that will benefit their communities so the latter have access to more and better social services than they do today. The FC has sufficient experience to provide the lending services as well as to support the ADESCOs.

## II. THE PROJECT

### A. Objectives

- 2.1 The goal of the project is to help improve the living conditions of rural low-income microentrepreneurs or small producers in eastern area El Salvador, especially in the department of La Unión. The project's purpose is to expand economic and social-management opportunities for rural microentrepreneurs or small producers who belong to ADESCOs by providing rural community credit for production and commercial activities and by strengthening the associations' management and administrative capabilities for local development projects.

## **B. Description**

- 2.2 To this end, two components will be financed: a US\$850,000 reimbursable-financing component (IDB: \$600,000 and Fundación CAMPO: US\$250,000) and a US\$225,000 nonreimbursable technical-cooperation component (IDB: \$155,000 and Fundación CAMPO: US\$70,000). The Foundation will execute both components.
- 2.3 The **reimbursable-financing component** will be used to finance investment and working capital for agricultural or complementary activities, livestock raising, commerce, and services for rural microentrepreneurs and/or small producers who belong to ADESCOs affiliated with the FC. These funds will be granted using rural community lending technology, which is based on creating Community Credit Committees (CCCs) within the associations to support credit analysis and management in their own communities.<sup>8</sup> Rural community lending will be governed by Credit Regulations to be approved by the FC's board of directors and will be subject to the Bank's nonobjection as a condition precedent to the first disbursement of the reimbursable financing. The main conditions of the Regulations establish a ceiling of US\$1,500 per client; terms of 12 to 36 months; and a benchmark annual interest rate of 25% in dollars. The (fresh) counterpart resources will come from financing from other donors (CARE, US\$160,000—already contracted—and Alterfin, US\$90,000).
- 2.4 Currently nine ADESCOs in La Unión have applied for lending resources from the FC for their members. Having resources from this project will enable the FC to meet the needs of the associations that have been identified, increase the credit resources of a similar number of other ADESCOs with which the FC now conducts operations and that are requesting more credit, and serve a similar number of additional ADESCOs to be identified in the first year of execution. Accordingly, based on this demand for credit and the average amount of credit required by the ADESCOs for their members, it was determined that the project will make it possible to serve some 30 ADESCOs (including 20 new ones) and, through them, 1,000 new rural clients.
- 2.5 The **technical-cooperation component** will mainly support strengthening ADESCOs' managerial and administrative capabilities to access financing and execute local development projects. The focus of the actions taken through it will be (i) training in administrative management and project management for leaders, managers, and members of the CCCs of participating ADESCOs and for the FC's credit advisors, through designing a modular training program, printing training material, and delivering some 160 courses for 300 participants; (ii) developing and

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<sup>8</sup> The associations' CCCs play a role as moral guarantors for credit analysis and support loan administration. The final decision on granting a loan lies with the agency heads and advisors of the FC, and loan agreements are signed between the FC and the individual client and are backed by the client's guarantee.

delivering, to at least 100 ADESCOs, four documentary tools prepared through short-term consulting assignments for project preparation and management and for securing financing; and (iii) FC support in managing and monitoring the execution of the ADESCOs' projects through hiring additional personnel, the cost of which will be covered with counterpart resources, to support identifying and managing financing as well as monitoring project execution.

- 2.6 This component will also finance activities to further expand rural community credit services in the new intervention areas (principally the department of La Unión) by hiring two credit advisors for 12 months (with 5 months of the costs to be defrayed by the Bank and 7 months with the local contribution), a study on the viability and the location of a new FC branch in La Unión, and a consulting assignment to systematize community-lending technology. Lastly, technical-cooperation resources will be used to defray the expense of formulating and validating the baseline and conducting the project audits and evaluation. The Technical-cooperation Plan of Operations is contained in Annex V.

### **C. Sustainability and findings of the financial analysis**

- 2.7 The design of the financial services that will be provided through the project is predicated on the existence of conditions that ensure its sustainability during project execution and over the life of the financing. There is a favorable outlook for the sustainability of these services once Bank financing has concluded—because, first, the FC has proven experience in implementing rural community lending technology in sustainable conditions and, second, the entity's strategy calls for it to expand and to consolidate its share of the rural microfinance market in the eastern part of the country by securing funds from international and national donors. The Bank project will help the Foundation strengthen this strategic line and be in a better position to leverage these and other types of funds over the medium and long term.
- 2.8 Regarding support services for managing local development projects, the FC's credit advisors have been included in the modular training to be provided to the ADESCOs. This will allow them to be in charge of expanding and replicating the expertise acquired among all the ADESCOs belonging to the FC and among others to be supported in the future. It is also expected that the credit advisers will provide effective ongoing guidance service that will encourage execution of more social local-development projects to benefit the communities.
- 2.9 Financial projections for the financing component show the project generating a surplus starting in the second year of execution. Although expected to be modest, this surplus should permit operational and financial sustainability during the life of the financing. These projections are based on the Foundation's experience in making inroads in new areas, the growth potential for the services because of inadequate supply, and the costs associated with ADESCOs' participation in credit management and support for local capacities.

#### D. Credit risk for the Bank

- 2.10 The credit risk of this operation for the Bank is considered low. The Foundation is a financially sound, stable institution with experience in rural microfinance. As of December 2006, it had some US\$3.3 million in assets and a US\$2.6 million portfolio funded principally with its US\$2.3 million in equity. In managing its business, it has generated recurrent profits, including US\$78,844 in 2006. Starting in 2004, FC embarked on an organizational development process<sup>9</sup> focused on specializing in providing rural microfinance services while maintaining a participatory, community-based work methodology with its members. Hence, it has substantially improved its efficiency, productivity, and financial performance. And although needed adjustments to its levels of risk coverage are expected to keep its profitability indicators low for the next two years, once these adjustments have been made, the institution should return to reasonable levels (return on assets of 6% to 9% per year).
- 2.11 However, considering its financial nature, the FC has a low leverage ratio.<sup>10</sup> According to the project's financial projections, the IDB loan would represent no more than 19% of its total liabilities during the life of the financing, since the FC has sufficient financial capacity and has begun to secure funds from external sources. To maintain its institutional solvency, the entity must gain experience to achieve a proper balance between the expansion of services and the institutional capabilities to manage that expansion. The probability of this occurring is considered high under the current administration but will need to be borne out in the long term.

#### E. Expected outcomes and capture of benefits

- 2.12 The direct benefits of the Bank loan will accrue to (i) **rural microentrepreneurs and/or small producers**, principally in the eastern department of La Unión, who will have better access to financing with which to increase and complement their agricultural activities, introduce modern technology for livestock production, increase the working capital of their commercial activity through rural community lending, and, consequently, increase their income; (ii) **ADESCOs**—grassroots organizations representing rural microentrepreneurs and/or small producers—at least 50 of which are to be trained through a modular training program in project and administrative management, and at least 100 of which are to receive documentary tools to help them identify and manage social projects to the benefit of their communities (61% of the technical-cooperation resources); and (iii) **Fundación CAMPO**, which will receive Bank financing for its operations, a

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<sup>9</sup> An important part of this process was indirectly supported through a MIF Line of Activity executed by the Asociación de Organizaciones de Microfinanzas de El Salvador [Association of Microfinance Organizations of El Salvador] (ATN/ME-8608-ES).

<sup>10</sup> As of December 2006, its debt/equity ratio was 45%.



small amount of support for startup costs (two credit advisors for five months), and two discrete studies to identify a new branch and systematize its credit technology (14% of the technical-cooperation resources).

- 2.13 The main expected outcomes upon project completion are that (i) at least 70% of rural microentrepreneurs and small producers that belong to ADESCOs and that have benefited from the project's rural community lending will have seen an increase in family income of no less than 20% over the baseline; (ii) the number of families of rural microentrepreneurs and small producers benefiting from rural infrastructure, health, and education projects will have increased to at least 150 per year; (iii) 300 members of boards of directors, CCCs, and leaders from 50 ADESCOs will have gained expertise in applying for financing and executing social projects for their communities; and (iv) 100 ADESCOs will have received documentary tools for that purpose.

#### **F. The Bank's strategy**

- 2.14 The project's objectives are in keeping with the priorities set forth in the Bank's new country strategy with El Salvador for 2005-2009 (document GN-2384-1), which emphasizes the strategic guidelines intended to (i) promote sustainable economic growth by increasing competitiveness; and (ii) strengthen human capital and improve opportunities for the poorest segments of the population. Hence, the aim of the project is to expand economic growth opportunities for low-income rural microentrepreneurs and/or small producers in the eastern portion of the country. In addition, it is intended to support the development of their community organizations' ability to locally manage and execute projects that help provide their members greater access to basic services such as rural infrastructure, education, and health. Moreover, the project dovetails with the Guidelines for Strategic Partnerships with the Private Sector in El Salvador, which also are part of the Bank's country strategy and include support for micro, small, and medium-sized enterprises, especially in the country's rural areas.
- 2.15 The project's activities may support and be complemented by other Bank projects, specifically (i) through the FC's coordination with the Usulután Agribusiness Center, financed by the Agribusiness Reengineering Project (ES0119, loan 1327/OC-ES), which is carried out at the FC's main offices through a partnership with the Center's administrator (CARE) to refer rural clients to the Center; and (ii) with FIDEMYPE-executed SEP project ES-S1009, Expanding Access to Microfinance for the Poor in El Salvador, which channels funding to rural microfinance institutions. If the FC complies with the selection criteria and other project requirements, it will have access to a maximum of US\$130,000; although this is a small amount for the FC's projected expansion needs, it could complement the project and help the FC meet future demand.

## **G. Cooperation with other donors**

- 2.16 During project preparation, the FC and the project team, in conjunction with some of the FC's donor agencies, coordinated the intervention areas and the possibilities for complementing the Bank's efforts. Given that the objectives of CARE's financing for the FC are similar to those of this project, no obstacles for complementing the funds are foreseen. Moreover, in support for local development activities, the FC has worked with entities including the Inter-American Foundation and USAID. To reinforce this experience and promote greater access by ADESCOs to local development funding, the project includes a consulting assignment to compile a directory of domestic and international institutions that grant financing for initiatives such as this. The directory will be delivered to all ADESCOs affiliated with the FC.

## **H. Summary of the environmental and social review**

- 2.17 The Committee on Environment and Social Impact (CESI) reviewed this operation on 16 March 2007 (meeting 10-07) and recommended including the relevant environmental considerations in the Credit Regulations and/or Plan of Operations in accordance with the Guidelines for Environmental and Social Analysis of IDB Microenterprise Operations. Hence, as is explained in detail in Annex VI, the Credit Regulations include a list of activities not eligible to be financed with project resources as well as loan portfolio ratings by environmental risk. The purpose of both is to prevent financing illegal or medium- or high-risk activities that harm the environment in the project's area of influence or have an adverse social impact on populations in that area. Another complementary action that will benefit the ADESCOs is the inclusion of an environmental training module within the modular program planned using technical-cooperation funds.

## **I. Special contractual clauses**

- 2.18 As a condition precedent to the first disbursement of the **reimbursable financing**, Fundación CAMPO will submit (i) evidence that it has implemented the project Credit Regulations, once they are approved by its board of directors.
- 2.19 As a condition precedent to the first disbursement of the **technical-cooperation** funds, Fundación CAMPO will present (i) evidence that it has selected the project coordinator.
- 2.20 As a special condition for execution, the Bank may not disburse more than 50% of the reimbursable financing until at least 40% of the technical-cooperation funding has been disbursed and used.

## **J. Reports, evaluations, audits, etc.**

- 2.21 **Indicators and baseline:** The indicators in the Logical Framework and performance indicator table will be used to measure project progress and to prepare the Bank's evaluations. The FC will use technical-cooperation resources to hire a consultant to update and validate the baseline for those indicators. Once the baseline has been updated, the consultant will define the monitoring system, simply and precisely establishing the calculation method, means, persons in charge, and deadlines for compiling data for the indicators and outcomes. The FC will coordinate with the Bank's Country Office in El Salvador on the methodology to be employed and the measuring periods, which must coincide with the submission of the project's semiannual progress reports and final report.
- 2.22 **Reports:** The FC will deliver progress reports to the Bank's Country Office within 60 days after the end of each six-month period. These reports will include an analysis of the extent to which the performance indicators have been met, any problems encountered during project execution, the steps taken to correct them, and activities planned for the following six-month period. The reports will also include, at a minimum: (a) **for the reimbursable financing:** (i) the component's financial status and financial indicators of scale, financial performance, efficiency, productivity, and risk; (ii) the interest rates paid by the project's clients and a comparison with other benchmark rates from the area; (iii) the geographic and percentage distribution of portfolio lending, by department; (iv) a portfolio breakdown by activities financed; (v) the number of ADESCOs incorporated into the Foundation; and (b) **for the technical cooperation:** (i) a summary of work done by consultants; (ii) a summary of the development of the modular training program, including the number of courses delivered and the persons trained and in what areas; (iii) information on the development and delivery of the search, management, and project-execution documentary tools; and (iv) the number, category, and amount of local development projects approved for the ADESCOs.
- 2.23 **Evaluations.** The project calls for two evaluations, to be conducted with technical-cooperation resources by individual consultants selected and hired by the Bank's Country Office in El Salvador. One midterm evaluation will be conducted 18 months after the project's first disbursement or after 50% of the resources have been disbursed, whichever occurs first, and another, 36 months after the first disbursement. The first evaluation will measure, at least: (i) the project's response to the problems originally identified that gave rise to it; (ii) the progress in improving clients' income; (iii) the degree to which project performance targets have been met and the outcomes of the support granted to the ADESCOs in a representative sample of these entities; (iv) compliance, in a reasonable sampling of the loans granted, with the provisions of the Credit Regulations regarding the environmental issues to address CESI recommendations; (v) lessons learned and recommendations for improving project execution; and (vi) the performance of the executing agency, its financial indicators, and the results of its process of improving risk coverage.

- 2.24 In addition to the issues specified for the first evaluation, the final evaluation will gauge and document (i) the project's effects on the groups examined for the initial evaluation, (ii) the extent to which the project objectives have been met, (iii) the lessons learned, and (iv) the project's sustainability.
- 2.25 **Audits.** Annual audits for the financing component will adhere to the Bank's auditing policies and will be paid for with technical-cooperation funds. In addition, these funds will be used to cover the cost of preparing a final financial report audited by independent auditors acceptable to the Bank, showing how technical-cooperation funding was used and verifying the contribution of the counterpart funds. The incremental cost of the yearly institutional audits of the FC to be submitted to the Bank as a contractual condition will be accepted as part of the local counterpart contribution.
- 2.26 **Revolving fund:** Given the need for liquidity for the reimbursable financing and the planned sequence of the consulting assignments to be financed with the technical-cooperation operation, the ceiling for the revolving fund established to make disbursements for project components will be 20% for each.
- 2.27 **Procurement:** Project-related procurement will be carried out in accordance with documents GN-2349-7 (Policies for the procurement of works and goods financed by the IDB) and GN-2350-7 (Policies for the selection and contracting of consultants financed by the IDB). Before procuring any goods or services under the project, the FC will submit the Procurement Plan to the Bank for consideration; this plan will be reviewed and updated annually. In principle, procurements will be reviewed ex ante, but the Bank may decide during project execution to review procurements on an ex post basis.

#### **K. Project-related risks and mitigating factors**

- 2.28 The project faces three main risks: **Risk 1: Willingness of ADESCOs to participate in the project.** The ADESCOs have demonstrated their potential to properly recognize the social- and economic-development opportunities afforded to them by the FC and they appear willing to participate in the project. Nonetheless, with general and municipal elections scheduled for 2009, there is a risk that these opportunities might be undermined by political interference, causing distortions in the use of the credit technology or in clients honoring their debts. Still, it is hoped that the training for the ADESCOs in good governance and leadership included in the project's modular training program, the close involvement and the guidance of the FC's credit advisors, and the ADESCOs' sense of ownership regarding the FC will help mitigate this risk. **Risk 2: Information on and supply of financing for local development projects:** Since investment for local development projects comes largely from projects whose approval, execution, modalities, and strategic guidelines vary over time and since ADESCOs have little information on these projects, there is the possibility that once the ADESCOs are trained they will be

unable to access funds for these purposes. To partially mitigate this risk, the project calls for providing the ADESCOs with information through a consulting assignment to compile a directory of institutions that grant financing for initiatives such as this. The directory will include modalities, requirements, available amounts, etc., and will be updated once a year during project execution. **Risk 3: Economic conditions in the eastern area:** The economic outlook in the area (i.e., agricultural growth in recent years, progress in processing dairy products, and the expected economic reactivation due to the construction of a new seaport in the department of La Unión, scheduled to be completed in 2008) is positive. Nevertheless, it is difficult to predict the future behavior of these factors and the degree to which they will affect the clients included in the project. Although this risk is unlikely to be mitigated by a direct action taken through the project, the participatory credit technology is expected to help prevent clients from becoming overindebted or involved in unprofitable activities.

**L. Exceptions to Bank policy**

2.29 None.