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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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REPUBLIC OF ECUADOR

COUNTRY STRATEGIC OPPORTUNITIES PAPER

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CURRENCY EQUIVALENTS

Currency Unit = United States dollar (USD)

WEIGHTS AND MEASURES

1 kilogram (kg) = 2.204 pounds (lb)
 1 000 kg = 1 metric tonne (t)
 1 kilometre (km) = 0.62 miles (mi)
 1 metre (m) = 1.09 yards (yd)
 1 square metre (m²) = 10.76 square feet (ft²)
 1 acre (ac) = 0.405 ha
 1 hectare (ha) = 2.47 acres

ABBREVIATIONS AND ACRONYMS

CAF	Andean Development Corporation
CAS	Country Assistance Strategy
CCA	Common Country Assessment
COSOP	Country Strategic Opportunities Paper
FECD	Ecuadorian-Canadian Development Fund
IDB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
LAC	Latin America and the Caribbean Division of IFAD
NGO	Non-Governmental Organization
PRODEPINE	Indigenous and Afro-Ecuadorian Peoples' Development Project
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme

GOVERNMENT OF THE REPUBLIC OF ECUADOR**Fiscal Year**

1 January – 31 December

COUNTRY MAP



Source: IFAD.

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

IFAD PORTFOLIO OVERVIEW

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
Fishery Development Project	IDB	IDB	I	24 Oct 78	1 Feb 80	1 Dec 83	L-I-006-ECU	USD	5 800 000	5%
Sur de Loja Integrated Rural Development Project	IFAD	IDB	I	13 Dec 83	11 Oct 85	31 Dec 91	L-I-135-EC	SDR	5 150 000	58%
Upper Basin of the Cañar River Rural Development Project	IFAD	CAF	I	12 Dec 90	6 May 92	30 Jun 01	L-I-275-EC	SDR	4 850 000	100%
Saraguro-Yacuambi Rural Development Project	IFAD	CAF	I	3 Dec 92	24 May 94	30 Jun 02	L-I-321-EC	SDR	8 150 000	100%
Indigenous and Afro-Ecuadorian Peoples' Development Project	World Bank-IBRD	World Bank-IBRD	I	4 Dec 97	2 Nov 98	30 Jun 04	L-I-464-EC	SDR	10 850 000	84%

Note: CAF = Andean Development Corporation.
 I = Intermediate.
 IBRD = International Bank for Reconstruction and Development.
 IDB = Inter-American Development Bank.

EXECUTIVE SUMMARY

1. This is the first Country Strategic Opportunities Paper (COSOP) for Ecuador since the introduction of this instrument in 1995 as part of IFAD's re-engineering of the project cycle. The preparation of this COSOP began in February 2003 shortly after President Lucio Gutiérrez took office on 15 January 2003. Following extensive consultations with the Government and civil society,¹ initial findings were presented during a workshop in May 2003 in which high-level government officials, representatives of multilateral and bilateral agencies, and non-governmental organizations (NGOs) participated.

2. Ecuador borders Peru and Colombia on the Pacific coast of the South American continent. It has a land mass of 256 369 square kilometres, including the Galapagos Islands in the Pacific Ocean. Ecuador has a total population of 12 157 000. An estimated 4 725 000 inhabitants (39%) are considered rural. The country has a multi-ethnic and multicultural society encompassing numerous indigenous groups, estimated to represent 15-25% of the population. These groups are mainly located in the *Sierra* (highland) and Amazonian regions. Ecuador also has a significant Afro-Ecuadorian population, accounting for about 5% of the total population, who mostly live in the northern provinces and in the cities of Quito and Guayaquil.

3. Ecuador is classified as a low-income country with a gross national income (GNI) of USD 1 080 for 2001. The new Administration (under President Gutiérrez) has taken bold measures to redress the fiscal balance, implement ambitious structural reforms, resolve continuing problems with closed banks and modernize state enterprises. In March 2003, the International Monetary Fund approved a 13-month USD 205 million Stand-By Arrangement for Ecuador to support the country's economic and financial programme through March 2004.

4. The new Administration is developing a fresh approach to rural development based on the need to understand rural development processes and strategies in a territorial multisectoral context, which supports existing rural-urban linkages. Developing rural areas is considered a multidimensional process involving local capacity-building, service provision (such as technology transfer, information, training and financial services) among other measures destined to build social and economic capital, and natural resources.

5. Recent poverty measurements undertaken by the United Nations Development Programme as part of its annual Human Development Report show that poverty increased between 1995 and 1999 by 27.5% in the *Costa* (coastal) region, 16.1% in the *Sierra* and 6.8% in the Amazonian region. Poverty among the many indigenous people, who live predominantly in the *Sierra* and Amazonian regions, is much higher than for the non-indigenous population. Women are particularly vulnerable having lower educational completion rates, higher illiteracy rates, fewer employment opportunities and earn salaries that are one third lower than men.

6. Rural poverty is associated with lack of education, land fragmentation and a low degree of market integration. Rural indigenous and Afro-Ecuadorian communities face restrictions in their assets ranging from slight to severe. In particular, lack of secure access to land and water resources limits investment opportunities and creates conditions for social unrest. The situation varies according to region and social group. In the Amazon, indigenous groups struggle to obtain clear titles for communal lands that are under increased pressure from oil exploration and production. In the highlands, peasant communities face shortages of land and increasing degradation due to agricultural intensification and unregulated expansion into the upper reaches of water basins (*páramos*). Gender is

¹ For further details on participatory consultations, please see Appendix VI.

also an important variable in household coping strategies, with more women joining the labour force during downturns, but taking on poorly paid and precarious work in the informal sector. Similarly, children are withdrawn from schools during economic downturns both to contribute to family income and to avoid education-related expenses.

7. Although existing constraints are complex and difficult to overcome in the short term, Ecuador and the donor community have an opportunity to reduce poverty. The participation of indigenous and other social groups in the Administration and the strengths of the different indigenous communities open the way to pursuing pro-poor development policies. Significant potential exists in recognizing and improving the assets of the poor, including social, natural and financial assets. Expanding the provision of services, such as technical assistance and financial services could have a major impact.

8. Broad policies for poverty reduction were announced shortly after President Gutiérrez took office. These policies are contained in an Economic and Human Development Programme, which includes provision of credit for the productive sector with emphasis on medium-scale enterprises and agriculture, modernizing public services, promoting exports, targeting subsidies and providing incentives to foreign investment. The programme intends to reduce poverty conditions and raise health and education expenditure to address illiteracy and malnutrition.

9. Crucial lessons have emerged concerning management of natural resources and provision of technical assistance services. Experience has demonstrated that the use of farmer-to-farmer methodologies has proved highly successful. In terms of provision of incentives for contracting technical assistance, it has been underlined that incentives should not be limited to on-farm activities and that service providers tend to remain in the area once they engage in productive joint ventures with those contracting their services.

10. As regards intervention opportunities, the Latin America and the Caribbean Division has outlined a number of potential areas for IFAD interventions in the region, which include: (i) supporting ethnic native communities and ethnic minorities; (ii) eliminating inequalities between women and men in rural areas; (iii) protecting and strengthening social capital; (iv) developing technologies suitable for small farmers and entrepreneurs; (v) providing innovative rural financial services; (vi) developing microenterprises and expanding the rural labour market; and (vii) providing access to land and property rights.

11. There are two main innovations to be introduced in the context of the new country strategic framework. The first innovative approach would include the implementation of the 'corridor'² development concept linking rural areas with small and medium-sized towns, thus strengthening the possibility of off-farm employment and income-generating activities. The second innovation would consist of testing implementation of development projects under different modalities by agreeing with government authorities on the use of bilateral funds as national counterpart funds, and devising a mechanism by which both the bilateral donor and the Government would have an equal say in the way the funds are used and disbursed. This mechanism has been initially discussed with the Government and representatives of the Ecuadorian-Canadian Development Fund. No major difficulties are foreseen although it will be necessary to review the appropriate legislation and agree on new implementation structures, if needed.

12. The proposed new interventions would address both dimensions of culture as now understood by the international donor community. The **first** dimension is seen as encompassing shared values, beliefs, knowledge, skills and practices of the members of a social group; the **second** as the creative

² Corridor is a geographic area extending along a continuous line, which contains a variety of businesses linking rural areas, towns and intermediate cities. It is a geographic/territorial space with dynamic economic activity often stemming from a history of hundreds of years of economic and cultural exchanges in the Andean communities' traditional trade routes.

expressions, traditional knowledge and cultural resources that form part of the lives of peoples and societies, potentially the basis for social engagement and enterprise development. Consequently, activities to be supported include crafts and design, oral and written history and literature, music, drama, dance, visual arts, celebrations, indigenous knowledge of botanical properties and medicinal applications, architectural forms, historic sites and traditional technologies.

13. During the timeframe of the COSOP, policy dialogue will centre on the introduction by the Government of Ecuador of the ‘territorial development approach’.³ This approach should be at the cornerstone of a new policy dialogue by analysing with government authorities inter alia: (i) what is needed to build capacities of civil society organizations and local governments; (ii) which existing forms of production are present in the proposed territories for intervention, including a value chain analysis; (iii) which culturally-based patterns of discrimination conspire against development efforts; and (iv) how indigenous cultural heritage can be recovered and developed to increase income-generation of local communities. It is understood at the outset that furthering territorial development implies supporting family and community strategies based on existing economic circuits. IFAD’s experience in this domain can greatly contribute to the development of the approach by sharing knowledge gained in developing markets for local services, deepening product value chains, funding local initiatives and small businesses and supporting democratic processes at the local and territorial level.

14. Discussions were held with Ministry of Agriculture authorities and other government officials on a number of proposals for project interventions within the proposed territorial development framework. It was proposed to integrate the territorial development approach with the corridor development notion. This would not only develop a given area but underscore the need to strengthen rural/urban connections in a continuum providing for expanding opportunities to link rural areas and their inhabitants with small and medium-sized cities, thus generating greater possibilities for off-farm employment and income-generating alternatives. Three possible interventions were discussed.

15. A **first** option would consist of the development of the Puyo-Portoviejo corridor in central Ecuador, which would include from east to west, the provinces of Pastaza, Tungurahua, Cotopaxi, Los Ríos and Manabi. This corridor encompasses the Amazonian, *Sierra* and *Costa* regions and includes the principal city of Puyo in the Amazonian region. The purpose of this option would be to reinforce territorial development, strengthen local authorities, increase incomes, improve living conditions and contribute to the reduction of conditions of poverty.

16. The **second** option would be the development of the Ibarra-San Lorenzo corridor in northern Ecuador. This would include parts of Carchi and Imbabura provinces in the *Sierra* region, and the province of Esmeraldas in the *Costa* region.

17. The **third** option would be implementation of a territorial development project along the Loja-Zumba highway being improved within the context of the road network programme financed by the Andean Development Corporation, which corresponds to the Fourth Axis network of the Government. The project would cover the southern part of Zamora province and its area of influence towards the southern central part of Loja province.

18. Bearing in mind the adoption of the territorial approach by the Government of Ecuador, IFAD operations in the country could be conceived as programme-oriented, and the IFAD lending portfolio for 2004-09, amounting to approximately USD 30 million, would support the implementation of the three options presented. It would be possible to initiate design of the first option along the central corridor project and then move on to implementation of the other two projects. The formulation of the first option would be accompanied by the establishment of ‘triggers’ in order to proceed with the

³ The territorial development approach is a process that simultaneously tackles productive transformation and institutional change within a defined rural area, with the final goal of reducing poverty.

detailed definition of the second and third options. These triggers could include a set of indicators relevant to strengthening local development, proper functioning of community contracting and effectiveness of implementation arrangements, among others. The new lending programme would also involve the phased participation of institutions.

REPUBLIC OF ECUADOR
COUNTRY STRATEGIC OPPORTUNITIES PAPER

I. INTRODUCTION

1. This is the first country strategic opportunities paper (COSOP) for Ecuador since the introduction of this instrument in 1995 as part of IFAD's re-engineering of the project cycle.

2. COSOP preparation began in February 2003 shortly after President Lucio Gutiérrez took office (on 15 January 2003). Meetings were held with the newly appointed authorities including the Ministers for Economy and Finance, Agriculture, Social Welfare, the Council of Nationalities and Peoples of Ecuador, and the Planning and Policies Secretariat. Meetings were also held with representatives of multilateral and bilateral donors including the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB), the Andean Development Corporation (CAF), the United Nations Development Programme (UNDP) and development agencies of the Governments of Canada, Germany, Spain, Switzerland and The Netherlands. National and international non-governmental organizations (NGOs) were also consulted in addition to a number of existing project implementation units.¹ In May 2003, a workshop to present initial findings and to discuss policy directions of the new Administration was held with participation by high government officials, representatives of multilateral and bilateral agencies and NGOs.

3. As it is not included in the Debt Initiative for Heavily Indebted Poor Countries, Ecuador has not prepared a poverty reduction strategy paper and firm poverty reduction strategies are still being developed. IBRD has completed the preparation of a new Country Assistance Strategy (CAS) for Ecuador with the participation of civil society. The CAS aims to: (i) consolidate the macro-framework and lay the foundations for growth; (ii) broaden access to resources and ensure reforms are socially sustainable; and (iii) strengthen governance to ensure accountable, efficient and accessible public services. United Nations system agencies in Ecuador prepared a Common Country Assessment (CCA) in 2002 and are in the process of finalizing a United Nations Development Assistance Framework (UNDAF) for the country.

II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

A. Country Economic Background²

4. **The country.** Ecuador borders Peru and Colombia on the Pacific coast of the South American continent. It has a land mass of 256 369 square kilometres, including the Galapagos Islands in the Pacific Ocean. Mainland Ecuador presents three distinct geographic areas: the costal region or *Costa*, the highlands or *Sierra* and the Amazonian rainforest region. It is divided administratively into 22 provinces, 219 cantons and 1 149 parishes or *parroquias*.

5. Ecuador has a total population of 12 157 000 inhabitants. An estimated 4 725 000 inhabitants (39%) are considered rural, with a 7% reduction since 1990.

¹ See Appendix VI on participatory consultations, for further information.

² See Appendix I for additional information.

6. The country has a multi-ethnic and multicultural society encompassing numerous indigenous groups estimated at 15-25% of the population, mainly in the *Sierra* and Amazonian regions. The definition of indigenous depends on self-identification. The use of native languages, such as Quechua or Shuar, has also been used to estimate the number of indigenous people. Notwithstanding, this is still an imprecise measurement. Ecuador also has a significant Afro-Ecuadorian population, estimated at 5% of the total population, who mainly live in northern provinces and the cities of Quito and Guayaquil.

7. **Remittances.** The last decade has seen a considerable increase in migration to the United States and Europe. It is estimated that more than 500 000 Ecuadorians migrated between 1996 and 2001. Recent figures show that migrants contribute more than USD 1.5 billion a year to the national economy.

8. **The economy.** Ecuador is classified as a low-income country with a gross national income (GNI) of USD 1 080 for 2001. The country experienced severe economic problems in 1999 involving accelerating inflation, severe public debt default, and a currency and banking crisis. Following a number of stabilization measures including the adoption of the United States dollar (USD) as legal tender in January 2000, expectations steadied, confidence in the banking system returned and economic activity began to turn around. However, economic growth slowed again in 2002 due to policy slippages and faltering confidence. Fiscal discipline weakened with large increases in the public wage bill. In September 2002, the Ecuadorian Congress approved a Fiscal Responsibility and Transparency Law, which set medium-term fiscal rules. The new Gutiérrez Administration has taken bold measures to strengthen the fiscal balance, implement ambitious structural reforms, resolve remaining problems with closed banks and modernize state enterprises.

9. In March 2003, the International Monetary Fund (IMF) approved a 13-month USD 205 million Stand-By Arrangement for Ecuador to support the country's economic and financial programme through March 2004. In its Letter of Intent, the Government of Ecuador has committed itself to: (i) limiting spending growth by imposing a budgetary freeze on wages; (ii) implementing customs, civil service and tax reform; (iii) reviewing the operations of the social security system; and (iv) improving public sector disclosure and transparency. The agreed programme with the IMF projects real gross domestic product (GDP) growth of 3.5% in 2003 and a decline in consumer price inflation to a rate of 6-7%. The external account deficit is projected at just over 5% of GDP in 2003.

B. Agricultural Sector

10. Agriculture accounted for 10% of the national GDP in 2002 while oil and gas represented 19%, services 17% and manufacturing 6%. Agricultural exports in recent years have constituted nearly 40% of all exports; however traditional exports such as bananas, coffee and cacao have declined due to price fluctuations in the international market and low growth of export volumes.

11. **Institutional framework.** The lead agency is the Ministry of Agriculture, which includes agencies and projects responsible for agricultural training and extension, animal and plant health, research, land-titling and irrigation. The Ministry of Social Welfare includes the Undersecretariat for Rural Development under whose aegis IFAD has implemented most of its projects in the country. A complete Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis has been prepared and can be found in Appendix III. The analysis includes a review of the Ministry of Agriculture.

12. **Agricultural sector policies.** Agricultural policies in the last decade have in general been supportive of a more modern and competitive segment mainly for export, disregarding the sector's heterogeneity, which includes traditional small farmers with low productivity levels and limited access to land, irrigation, technology transfer and financial services.

13. Agricultural and rural development policies, and the sector's institutional framework are being reassessed at the present time. The workshop convened by the COSOP mission provided an indication of future directions. Ministry of Agriculture authorities underlined the need to change the rural development paradigm and redefine strategies and policies based on economic well-being, democratic participation, respect for cultural diversity and social equity. The new approach would be founded on the need to understand rural development processes and strategies in a territorial multisectoral context furthering existing rural-urban linkages. *Developing rural territories considered as multidimensional, and living social constructs would depend on building local capacities and providing access to services including technology transfer, information, training and financial services among other measures destined to build social, natural and economic capital.*

C. Rural Poverty, Gender and Rural Women

14. Recent poverty measurements carried out by UNDP as part of its annual Human Development Report show that poverty increased between 1995 and 1999 by 27.5% in the *Costa* region, 16.1% in the *Sierra* and 6.8% in the Amazonian region. The seven poorest provinces are Bolívar, Chimborazo, Amazonia, Esmeraldas, Cotopaxi, Los Ríos and Manabí.

15. A review of poverty and social conditions based on the Living Standards Measurement Survey for 1999 indicates that poverty conditions affect 77% of rural inhabitants and 90% of members of indigenous rural communities. The analysis points out that one third of the rural population in Ecuador in 1999 was characterized as extremely poor. More recent figures indicate that one third of urban dwellers and 60% of rural inhabitants in Ecuador lived on less than USD 2 per person per day in 2000. Other poverty measurements such as the Unmet Basic Needs approach show that in rural areas only 25% of the population are covered by public health insurance and about 30% have no access to basic health care services. One third of rural households do not have access to safe water or electricity. Women are particularly vulnerable having lower educational completion rates, higher illiteracy rates, fewer employment opportunities, and earn salaries that are one third lower than men.

16. Rural poverty is associated with lack of education, land fragmentation and a low degree of market integration. Rural indigenous and Afro-Ecuadorian communities face restrictions in their assets ranging from slight to severe. In particular, lack of secure access to land and water resources limits investment opportunities and creates conditions for social unrest. The situation varies according to region and social group. In the Amazon, indigenous groups struggle to obtain clear titles for communal lands that are under increased pressure from oil exploration and production. In the highlands, peasant communities face shortages of land and increasing degradation due to agricultural intensification and unregulated expansion into the upper reaches of water basins (*páramos*). In the coastal regions, communities face growing encroachment on their lands by large landholdings, in addition to degradation of mangrove forests due to unsustainable exploitation. Gender is also an important variable in household coping strategies, with more women joining the labour force during downturns, but taking on poorly paid and precarious work in the informal sector. Similarly, children are withdrawn from schools during economic downturns both to contribute to family income and to avoid education-related expenses.

17. **Gender dynamics in the rural sector.** In 2000, IBRD completed a Gender Review, which includes a specific chapter on gender dynamics and roles in the rural sector. Earlier studies had shown that woman-headed households make up 10-20% of all households in the *Sierra* region. De facto female household heads, whose husbands have migrated, are among the poorest in the population.

18. The report points out that there are three gender-related phenomena that characterize contemporary rural Ecuador: (i) high rates of temporary male migration in the *Sierra* and *Costa* regions; (ii) increasing feminization of agricultural production and marketing in the *Sierra* and *Costa* regions; and (iii) population pressure and land scarcity undermining equitable land inheritance customs in the *Sierra* and *Costa* regions. The report indicates that households in the *Sierra* region

show high levels of participation by women in all phases of production and natural resource management. It estimates that women work an average of 47 hours a week in agriculture and are active participants in community labour efforts. Women interviewed during a survey commissioned for preparation of the report indicated that decision-making and labour is egalitarian in nature, with women participating in control over land, financial management and technology selection.

19. The report recommends: (i) providing technical assistance services; (ii) addressing gender differences with regard to land-titling; and (iii) promoting off-farm employment.

Indigenous Rural Women in Ecuador

Compared to other rural women, indigenous women have more children, are younger, live under common law, maintain their native language, preserve cultural traditions and customs, and migrate less. High migration of men from rural areas has a significant impact among women, who must take charge of subsistence farming and retail marketing. Most indigenous women are involved in agricultural activities. It is estimated that eight out of ten women are engaged in this activity as opposed to six out of ten men. Agricultural activities in which indigenous women are involved are much more labour-intensive and demand considerable physical effort. With regard to access to medical care, inhabitants of four out of five communities have no access to medical assistance. For indigenous women this problem is compounded by racial discrimination, and one in three indigenous women prefer not to consult a physician or nurse due to social and cultural barriers.

D. Constraints on and Opportunities for Rural Poverty Reduction

20. The CCA has identified inequality and exclusion as the main causes of poverty conditions, pointing out that: (i) a concentrated productive structure; (ii) precarious labour conditions; (iii) unsustainable use of natural resources; (iv) limited basic social services in education and health; (v) weak democratic governance; (vi) lack of public transparency; and (vii) gender and ethnic discrimination are at the root of poverty. Earlier poverty assessments have indicated that: (i) unequal distribution of land; (ii) limited access to markets; (iii) scarce financial and technology transfer services; and (iv) lack of off-farm employment opportunities are also determining factors.

21. Although existing constraints are complex and difficult to overcome in the short term, Ecuador and the donor community have the possibility of making inroads into poverty reduction. The participation of indigenous and other social groups in the Administration, combined with the strengths of the various indigenous groups, can open the way to pursuing pro-poor development policies. A major opportunity exists in recognizing and expanding the assets of the poor including their social, natural and financial assets. Improving the provision of services, such as technical assistance and financial services, could also have a significant impact. Community-based tourism represents a significant area of potential development once the full range of cultural and natural assets have been established, and financial and non-financial services are provided to local communities.

- **Increasing community participation and empowerment.** Communities play an important role in fostering their own market integration and means should be found to assist them in this process through the provision of incentives for community contracting of the services they require.
- **Building social capital** through training and exchanges of experiences among different social groups. Raising self-esteem and improving access to justice and security are also crucial in the struggle against poverty.
- **Providing for off-farm employment and income-generation opportunities.** The recognition that the off-farm rural sector offers regular and sizeable income indicates that supporting these activities can have a significant impact on reducing poverty conditions.

- **Strengthening and expanding technical assistance and rural financial services.** Experience gained in Ecuador and elsewhere in Latin America demonstrates that providing all-encompassing incentives for contracting technical assistance services in the open market has empowered communities and had an impact on household incomes.
- **Addressing gender issues and providing opportunities for employment and income-generating opportunities for woman-headed households.** In rural areas women have made proposals for investment and training entailing the possibility for them to enter the informal off-farm sector. Targeted provision of financial services for women in Ecuador has proved successful.
- **Facilitating access to financial and non-financial services.** These services can greatly contribute to developing local markets in response to the needs of the rural poor.
- **Supporting income-generating activities of the rural population with a view to diversifying their sources of income.** Providing assistance in support of income-generation and diversification activities has proved successful in assisting the rural poor in selling their goods and services in surrounding small and medium-sized villages and towns. It has also helped link them with families and relatives who have migrated to larger urban centres in the *Costa* and *Sierra* regions.

E. National Strategy for Rural Poverty Reduction

22. Broad policies for poverty reduction were announced shortly after President Gutiérrez took office. These policies are contained in an Economic and Human Development Programme, which includes provision of credit for the productive sector with emphasis on medium-scale enterprises and agriculture, modernizing public services, promoting exports, targeting subsidies and providing incentives to foreign investment. The programme intends to improve poverty conditions, and increase health and education expenditure to address illiteracy and malnutrition. Through the Ministry of Social Welfare, the present Government is continuing to subsidize gas consumption, a solidarity bonus, school scholarships in order to maintain children between six and 15 years of age in school, and subsidized productive credit.

23. In January 2003, the Secretariat for Social Dialogue and Planning convened a National Dialogue for Unity and Development in the *Sierra* region to discuss and suggest measures in relation to the struggle against corruption, competitiveness and productivity, institution-strengthening, insertion in the international context, and food, environmental, social and judicial security. Although it is difficult to determine consensus in a number of the issues raised, the exercise provides some basis on which to chart a national action programme to combat poverty.

24. A number of the proposed measures are of particular interest to IFAD. Among them, listed in no order of priority are: (i) strengthening rural financial services including microfinance; (ii) improving irrigation infrastructure and watershed management; (iii) implementing local economic development agencies; (iv) supporting small and medium-scale enterprises; (v) developing enterprise incubators; (vi) instituting mechanisms for citizen participation and social auditing; (vii) addressing the digital divide, furthering connectivity; (viii) supporting land registration and titling; (ix) enhancing community participation in development planning; (x) furthering the formation of community enterprises for the construction and maintenance of rural roads; (xi) strengthening local governments; (xii) including gender dimensions in development planning and implementation; and (xiii) introducing payment for small farmers and peasant organizations for environmental services provided.

25. With regard to efforts by international donors, the National Dialogue participants stressed the need for donors to consider support to different social and cultural groups, and the promotion of self-managed community groups and cooperatives. In relation to the environment, participants suggested

decentralizing environmental management, reviewing and promoting the adoption of a biodiversity law and fostering the sustainable use of flora and fauna in indigenous territories and local communities. This initiative is of crucial importance for indigenous communities in the Amazonian region, assisting them in both improving poverty conditions and developing ecological tourism. This last initiative could be of significance to rural communities in all regions, as community-based tourism can provide economic, environmental and cultural benefits.

III. LESSONS FROM IFAD'S EXPERIENCE IN THE COUNTRY

26. During the eighties and nineties IFAD has funded the implementation of the Sur de Loja Integrated Rural Development Project (Loan 135-EC) for a total of USD 19 million, the Upper Basin of the Cañar River Rural Development Project (Loan 275-EC) for USD 16 million and the Saraguro-Yacuambi Rural Development Project (Loan 321-EC) for USD 17 million. The Sur de Loja project was cofinanced with IDB and the Cañar River project included the participation of The Netherlands, which provided a USD 4 million grant. The ongoing Indigenous and Afro-Ecuadorian Peoples' Development Project (PRODEPINE), is cofinanced with the World Bank and is due to close operations in 2004.

27. A significant number of lessons learned from previous projects and from the implementation of the Saraguro-Yacuambi project and PRODEPINE are relevant for the design of future IFAD interventions in the country. In particular these relate to: (i) organizational strengthening, building local capacities and cultural identity; (ii) provision of rural financial services; (iii) funding for local initiatives including social and public infrastructure; (iv) land acquisition, registration and titling; and (v) monitoring and evaluation.

28. Crucial lessons have emerged concerning management of natural resources. Experience has demonstrated that use of farmer-to farmer methodologies is highly successful. In terms of provision of incentives for contracting technical assistance services, the evaluation of the Saraguro-Yacuambi project points out that incentives should not be limited to on-farm activities and that service providers tend to remain in the area when they engage in productive joint ventures with those contracting their services.

- **Organizational strengthening, building local capacities and cultural identity.** Project design should consider distinct operational modalities and procedures to address different cultures and types of organizational settings. Participatory planning can increase the capacity of beneficiaries to define and implement their own view of development and such plans can provide communities with a key instrument for negotiating priorities with government departments and donors. Implementation of PRODEPINE demonstrated that an ethnic vision of development, which builds on the positive qualities of indigenous cultures, including a sense of ethnic identity, to mobilize labour and capital, could be an effective vehicle for promoting local employment and growth.
- **Provision of rural financial services.** PRODEPINE has had a significant impact among women members of solidarity community banks (*Cajas Solidarias*), which have shown great creativity in using funds provided, promoting savings among women and their organizations. The project strengthened local financial intermediaries in a time in which the formal financial sector was going through a severe crisis. Through the participation of the Rural Financial Network, local financial intermediaries are contributing greatly to the provision of better and expanded services.
- **Funding for local initiatives and public infrastructure.** Implementation of this component was highly regarded by project beneficiaries. Construction of social infrastructure requires establishing agreements early on with education and health

agencies in order to ensure long-term sustainability. Attention must be paid to operation and maintenance issues at start-up. The use of direct community contracting has proved successful and should be considered of paramount importance in instituting ownership of community initiatives.

- **Land acquisition, registration and titling.** Communities consider access to land as the most important component in combating poverty. Land adjudication is believed to improve family well-being and increase food security. However, the transfer of land in environmentally fragile, protected areas requires accommodating the legal framework to conform with the unique access to those lands by indigenous communities based on ancestral rights. Some progress was made in this regard during implementation of PRODEPINE; however, it was not possible to advance in collective or common property lands and/or indigenous or forestry lands.
- **Monitoring, evaluation and information dissemination.** A number of specific studies were conducted on organizational strengthening, environmental auditing and impact evaluation investment subprojects. The lack of baseline information on each component makes it difficult to measure improvement in beneficiary incomes and living conditions. There is a need to consider undertaking a baseline survey at the outset and widely disseminating information on lessons learned and best practices acquired.

IV. STRATEGIC FRAMEWORK FOR IFAD

A. IFAD's Strategic Niche and Proposed Thrusts

29. The main strategy and thrusts proposed herein are consistent with: (i) IFAD's overall strategic framework and thrusts; and (ii) the regional strategy outlined by the Latin America and the Caribbean (LAC) Division .

30. IFAD's Strategic Framework 2002-06 is built on three main pillars:

- strengthening the capacity of the rural poor and their organizations;
- improving equitable access to productive natural resources and technologies; and
- increasing access to financial services and markets.

31. The LAC strategy includes the following elements:

- furthering the capacity of the rural poor to act on their own development;
- taking advantage of market opportunities;
- seeking alliances and joint interventions;
- benefiting from experience gained elsewhere;
- recognizing the need to include gender dimensions in development; and
- furthering sustainable use of natural resources.

32. The LAC Division has outlined a number of opportunities for IFAD's interventions in the region which include:

- supporting ethnic native communities and ethnic minorities;
- eliminating inequalities between the sexes in rural areas;
- protecting and strengthening social capital;
- developing technologies suitable for small farmers and entrepreneurs;
- providing innovative rural financial services;

- developing microenterprises and expanding the rural labour market; and
- providing access to land and property rights.

33. In Ecuador, IFAD has gradually established a niche in terms of supporting participatory planning, recognizing cultural identities, supporting local initiatives, targeting financial services for rural women, but above all, ascertaining the merits of demand-driven approaches to development. The main thrusts would thus include all of the opportunities identified by the LAC Division with particular reference to building social, natural and financial capital. The links among corporate, regional and programme thrusts are described in Appendix IV.

34. Main areas of intervention would include:

- programme intervention areas with high levels of indigenous and Afro-Ecuadorian populations;
- gender mainstreaming and provision of assistance in obtaining legal documents, land-titling, support for small-scale enterprises, technical assistance, financial services and rural employment;
- training and capacity-building for community contracting and decision-making;
- assistance in regularizing land tenure, cadastral surveys and registration;
- assistance for contracting the required technologies in the open market and participation in other technology generation demand-driven initiatives funded by other donors;
- technical assistance for financial intermediaries;
- support to microfinance mechanisms and community banks; and
- technical assistance and funding for on and off-farm initiatives.

B. Main Opportunities for Innovations and Project Interventions

35. There are several opportunities for the introduction of innovations within the context of new project interventions. It is by no means coincidental that this strategic document is being prepared at the dawn of a new Administration, which provides IFAD with the opportunity to initiate a policy dialogue with the new authorities, the international donor community and representatives of civil society.

36. In the past IFAD has indeed introduced a number of innovations, which have proved successful and can be further pursued. These include: (i) participation in acquisition of land; (ii) targeted financial services for rural women; (iii) support to culture-based initiatives; (iv) community contracting; and (v) competitive fund transfers. The proposed new interventions would address both dimensions of culture as now understood by the international donor community. The **first** dimension encompasses shared values, beliefs, knowledge, skills and practices of the members of a social group; **the second** relates to creative expressions, traditional knowledge and cultural resources that form part of the lives of peoples and societies and can be the basis for social engagement and enterprise development. Activities to be supported include crafts and design, oral and written history and literature, music, drama, dance, visual arts, celebrations, indigenous knowledge of botanical properties and medicinal applications, architectural forms, historic sites and traditional technologies. In Latin

America, IFAD is pursuing a ‘corridor’³ development approach as demonstrated by the implementation of the Development of the Puno-Cusco Corridor Project in Peru, which could be replicated in Ecuador.

37. There are two main innovations to be introduced. One innovative approach would be entirely new to Ecuador and would include the implementation of the corridor development concept linking rural areas with small and medium-size towns, promoting the possibility of off-farm employment and income-generating activities. A second innovative approach would consist of testing execution of development projects under different implementation modalities. This would involve reaching agreement with government authorities on the use of bilateral funds as national counterpart funds, and devising a mechanism by which both the bilateral donor and the Government would have an equal say in the way the funds are used and disbursed. This approach has been initially discussed with the Government and representatives of the Ecuadorian-Canadian Development Fund (FECD)⁴ and no major difficulties are foreseen, although it will be necessary to review the appropriate legislation and agree on new implementation structures, if needed.

C. Outreach and Partnership Possibilities with NGOs and the Private Sector

38. **Non-governmental organizations.** A recent study on short and medium-term prospects for agricultural and rural development in Ecuador points out that reduction of the state apparatus and disjointed sectoral policies have led NGOs to assume larger roles, taking on responsibilities otherwise in the Government’s sphere. However, this process has been spontaneous and chaotic especially at the local level, where NGO interventions have multiplied with little or no coordination with local authorities. Other factors, such as fierce competition between international and national NGOs and the lack of any rules of play by the Government limit the impact NGOs can have in furthering rural development and reducing poverty conditions. The possibility of instituting cofinancing mechanisms between Government and NGOs is hampered by the lack of a policy framework and a set of clear rules. It has been pointed out that the resources mobilized by NGOs should serve to consolidate the role of civil society in the implementation of poverty reduction programmes; however, the fragmented nature of NGO involvement conspires against implementation of a coherent and comprehensive programme to reduce poverty conditions.

39. Efforts are being made to correct this situation. Establishment of regional or thematic networks may contribute to addressing the lack of coordination and involvement. Among the newly established networks are the Rural Financial Network, the Ecuador NGO Platform and the Ecuadorian Agro-Ecological Coordinating Network.

40. **The Rural Financial Network.** The network is a non-profit private organization established in 2000. Its mission is promoting the establishment of mechanisms and processes to address poverty levels and social inequalities. It supports rural and marginalized urban dwellers through the provision of financial support to small and medium-size enterprises of rural and urban inhabitants.

41. Among the national NGOs are the Ecuadorian Centre for Agricultural Services (CESA), the Popular Ecuadorian Progress Fund (FEPP) and the Ecology and Development Institute of Andean Communities (IEDECA) and the National Secretariat for Administrative Development (SENDA). International NGOs present in the country include Oxfam International, the Cooperative for

³ Corridor is a geographic area extending along a continuous line containing a variety of businesses linking rural areas, towns and intermediate cities. It is a geographic/territorial space with a dynamic economic activity often stemming from a history of hundreds of years of economic and cultural exchanges in the Andean communities’ traditional trade routes.

⁴ FECD is based on a Canadian cooperation model, the only one of its kind in Ecuador. Resources are obtained through lines of contribution from the purchase of petroleum equipment and technology, telecommunications equipment, goods and food aid. Ecuadorian companies acquiring these goods, equipment and services from Canadian companies pay the respective amounts to FECD.

Assistance and Relief Everywhere (CARE), CARITAS, and ACTION AID. IFAD has worked with FEPP, CESA, IEDECA and SENDA in supporting development of rural financial and non-financial services, developing strategies to incorporate gender dimensions, fostering environmental considerations and developing small-scale irrigation systems. During the implementation of PRODEPINE, IFAD collaborated with FEPP in the acquisition, registration, and titling of individual and community land parcels.

42. **The Popular Ecuadorian Progress Fund.** FEPP is a private non-profit foundation sponsored by the Ecuadorian Episcopal Conference. It has been operating in the country since 1970 to support the organized poor through the: (i) provision of financial services, training and technical assistance; (ii) promotion of integrated and sustainable development; and (iii) transformation of society in a just and peaceful environment.

43. **Private sector organizations.** The principal private organizations in the rural sector are medium and large-scale producer associations with little bearing on the rural poor. Other private sector companies such as multinational oil exploration and production companies have an impact on indigenous groups and the rural poor as they are affected by the construction of several pipelines, with the consequent impact on the environment. Such companies could contribute towards poverty reduction efforts. Limited international assistance has been provided to assist indigenous groups in conflict resolution or in devising ways for them to benefit from additional revenues resulting from the economic expansion and contributions by the oil industry to the national economy. The issues are highly complex involving numerous stakeholders including the private sector, the Government and local communities and groups and would therefore require a concerted effort.

D. Opportunities for Linkages with Other Donors and Institutions

44. Preparation of the COSOP included extensive discussions with other multilateral donors and UNDP.

45. **World Bank.** IFAD is working jointly with IBRD in the implementation of PRODEPINE. At the time of preparation of the COSOP, discussions were being held between the two institutions concerning the need to address the issue of non-disbursed funds under the rural financial services component of this project cofinanced by IFAD. It is foreseeable that the IFAD-funded part of the original project could serve to implement further activities for an extra two-year period. Although slow in implementation, the World Bank's Poverty Reduction and Local Rural Development Project (PROLOCAL) has a bearing on future IFAD interventions in that it promotes social capital formation by supporting planning for local development at the community level, assisting providers of technical assistance through training (including the formation of local network of technical assistance providers) and improving access to public goods. The World Bank is cofinancing a technology-generation and transfer project with IDB and is totally funding an agricultural census project. The recently approved CAS also foresees implementation of three relevant new projects: Agricultural Productivity and Sustainability (2006), Financial Services for the Poor, and Natural Resource Management (2007).

46. **Inter-American Development Bank.** IDB's strategy for 2003-06 includes: strengthening governance; supporting structural reforms and increasing competitiveness; and reducing poverty. Its investment portfolio in agricultural and rural development activities includes four new operations for: (i) consolidating the national animal and plant health system; (ii) enhancing competitiveness and combating rural poverty; (iii) strengthening irrigation management; and (iv) reinforcing rural associations. IDB is planning a programmatic mission for later this year to discuss the formulation of these projects with national authorities. Of particular relevance to IFAD is the PROLAC project, which includes three main components: (i) promotion of rural business; (ii) information services for rural development; and (iii) management of rural development policies. IDB is currently funding a component of the technology generation and transfer project including providing support to the

animal and plant health institute. Other support is provided for rural roads, land registration and financial services.

47. **Andean Development Corporation.** Over the next four years, CAF will address: (i) development of sustainable infrastructure to support growth and regional integration; (ii) support for the productive sector including small and medium-sized enterprises; and (iii) poverty reduction and environmental protection. CAF has programmed USD 5 million for non-reimbursable technical assistance grants to Ecuador for the coming four years, which could well serve to support IFAD operations.

48. **United Nations system of organizations.** Nine agencies represent the United Nations system in Ecuador. Having completed a CCA in 2002, they are preparing a UNDAF, which should allow agencies to address poverty reduction while ensuring adequate social services, reducing environmental deterioration and strengthening democratic governance. The Global Environment Facility Small Grants Programme administered by UNDP could present some potential areas of interest.

49. **Other bilateral donors.** There are linkages with bilateral programmes of the governments of Belgium, Canada, Denmark, Germany, Italy, Spain, and Switzerland. Most countries are contributing towards the development of rural financial services. The Government of Denmark is funding the strengthening of institutions involved in the promotion of indigenous rights. In the Amazonian region, the Spanish Technical Cooperation Office is involved in projects on both of Ecuador's borders with Colombia and Peru. The Government of Germany funds rural development, sustainable management of natural resources, organic agriculture and agricultural research. The Canadian Government through FECD operates in areas with severe poverty conditions or affected by natural disasters and social insecurity. It is involved in the promotion and establishment of microenterprises of the rural poor, recognition of ancestral technologies, productive recovery on degraded lands, food security and rural financial services.

50. **The Ecuadorian-Canadian Development Fund.** Established in 1990, the FECD is based on a Canadian development model and uses a system in which Ecuadorian companies who purchase petroleum and telecommunications equipment, other goods and foodstuffs from Canadian companies provide FECD with the value of those goods. The Canadian International Development Agency then pays the Canadian providers directly. Between 1991 and 2001, FECD funded 129 projects for a total value of nearly USD 40 million. FECD's Executive Board is composed of two Ecuadorian government representatives, an independent Ecuadorian board member from the private sector and two representatives, including the Canadian Ambassador who chairs the Board.

E. Areas for Policy Dialogue

51. The newly elected Administration is interested in opening up discussions on future actions to combat poverty, amply demonstrated by the large gatherings within the framework of the National Dialogue. Undersecretaries of Planning and Public Investment have demonstrated a keen interest in rural development issues through their active participation in the workshop convened by the COSOP preparation mission. Ministry of Agriculture authorities are convening a series of workshops to discuss future policy directions in the coming months, to which IFAD has been invited to attend.

52. The main areas for policy dialogue are centred on experiences gained by IFAD in Latin America, some of which are slowly taking hold. IFAD could play a significant role by establishing an open dialogue with the new authorities to explain the merits of such approaches. Furthermore, the intent to introduce territorial development should be at the cornerstone of this dialogue.

53. **Territorial development.** Since the Government of Ecuador is pursuing a new approach to rural development, it is of paramount importance that IFAD participate in the endeavour by

contributing to the policy dialogue on alternatives. This approach will require analysing with government authorities inter alia: (i) what is needed to build the capacities of civil society organizations and local governments; (ii) which existing forms of production are present in the proposed territories for intervention, including a value chain analysis; (iii) which culturally-based patterns of discrimination conspire against development efforts; and (iv) how indigenous cultural heritage can be recovered and developed to increase income-generation of local communities. It is understood at the outset that furthering territorial development implies supporting family and community strategies based on existing economic circuits. IFAD's experience in this domain can greatly contribute to promoting this approach by sharing knowledge gained in developing markets for local services, deepening product value chains, funding local initiatives and small businesses, and instilling democratic processes at the local and territorial level.

54. There are also two ideas embedded in the overall process of development, which have resulted in significant ownership of local initiatives elsewhere in Latin America:

- **Direct transfer of funds for communities to engage in the procurement of goods and services.** Implementation of demand-driven approaches must be accompanied by empowering communities to contract directly the goods and services they require to undertake their initiatives.
- **Allocation of resources on a competitive basis.** Local and community initiatives must be funded on a competitive basis, ensuring transparency, accountability and evaluation of the results obtained.

F. Action Areas for Improving Portfolio Management

55. At present IFAD is implementing PRODEPINE, which is to be closed in 2004. Initially, performance of this project was negatively affected by the severe financial and banking crisis in Ecuador at project start up. It is estimated that at the time of COSOP preparation there were approximately USD 4.9 million of undisbursed funds from the IFAD loan in the credit component.

56. An IFAD supervision mission made a number of suggestions to be adopted prior to loan closing. In 2002, this mission proposed inter-alia the preparation of a complete listing of community investments, an analytical report on difficulties found in implementation of land-titling in forest and protected areas, a technical assistance plan and a set of activities to strengthen community identity and culture before loan closing. Discussions are being held among IFAD, the World Bank and the Government to determine the need for extension of the loan and reallocation of undisbursed amounts among categories of expenditure.

G. Tentative Lending Framework and Rolling Programme of Work

57. The proposed lending programme described herein is consistent with the rural development approach of the new Administration. It takes into account the proposed operations of IBRD and IDB for the next four years. During COSOP preparation, the Government through Ministry of Agriculture authorities submitted a comprehensive territorial development programme, which they expect to be funded by IFAD and IDB resources.

58. The COSOP was discussed with Ministry of Agriculture authorities and other government officials and includes a number of ideas for project interventions within the proposed territorial development framework. It is proposed to integrate the territorial development approach with the corridor development notion. This would not only develop a given area but would underscore the need to strengthen rural-urban linkages in a continuum providing for expanding opportunities to link rural areas and their inhabitants with small and medium-size towns, thus generating greater possibilities for off-farm employment and income-generating alternatives. This approach was

considered of importance in the new rural development context and three geographical areas of intervention were identified. There is ample evidence in Ecuador of the relevancy of regional horizontal integration. Agricultural produce from the highlands not only reaches Quito but also moves across to the *Costa* region and the populous city of Guayaquil. Traditionally, indigenous and *mestizo* populations have migrated from the highlands to the coast and regular contacts and exchanges occur among the different groups in the central corridor.

59. A **first** option would consist of the development of the Puyo-Portoviejo corridor in central Ecuador, which would include from east to west the provinces of Pastaza, Tungurahua, Cotopaxi, Los Ríos and Manabí. This corridor encompasses the Amazonian, *Sierra* and *Costa* regions and includes the principal cities of Puyo in the Amazonian region, Latacunga in the *Sierra* and Portoviejo in the *Costa*. The area is connected by a good to moderate road network and longitudinally by numerous rural roads. The total population is approximately 450 000 inhabitants of whom 16% classified themselves as indigenous. In the *Sierra*, communities are poor or extremely poor and are the source of major migration flows due to lack of employment. Rural women are severely affected by these migration flows. The purpose of this project would be to promote territorial development, reinforce local capacity, improve incomes and living conditions and contribute to the reduction of poverty conditions.

60. **Environment.** Considering the significant conditions of biodiversity in Ecuador and the proposed corridor development approach encompassing the Amazonian, highland and coastal regions of the country, particular attention will be paid during formulation to the environmental conditions in each relevant area. A further focus under this option would be the synergy between the environment and indigenous groups, which could benefit from the development of tourism and other activities.

61. The **second** option would be the development of the Ibarra-San Lorenzo corridor in northern Ecuador. This would include parts of the Carchi and Imbabura provinces in the *Sierra* region, and the province of Esmeraldas in the *Costa* region. A total of ten cantons and 71 parishes (*parroquias*) would be included. The total rural population amounts to 220 781 inhabitants of which 17% are considered Afro-Ecuadorian. The area is characterized by being integrated by a main recently built highway and a railway line. There is an important market of produce from small-scale producers along the corridor. As the population is composed mainly of Afro-Ecuadorians, the project would need to address the regularizing of land tenure and access to land, management of natural resources, and strengthening of local culture and self-esteem. The project would benefit approximately 15 000 families with an estimated loan of approximately USD 8 million.

62. The **third** option would be implementation of a territorial development project along the Loja-Zumba highway being improved within the context of the road network programme financed by CAF, which corresponds to the Fourth Axis network of the Government. The project would cover the southern part of Zamora province and its area of influence towards the southern central part of Loja province. The total population of the area amounts to 66 218 inhabitants. The large part of the population is composed of *mestizo* small farmers who originally came to the area as colonizers. The parishes are considered poor although they are now recovering from the economic downturn as peace with Peru has been achieved. Additional activities, such as watershed management and management of natural resources would be required. The creation of off-farm opportunities and employment generation should be considered. Linkages with northern Peruvian cities could be sought. Approximately 12 000 families would benefit from the project, which would have an estimated loan of approximately USD 6 million.

63. Bearing in mind the adoption of the territorial approach by the Government, IFAD operations in the country could be conceived as programme-oriented, and the IFAD lending portfolio for 2004-09, amounting to approximately USD 30 million, would support the implementation of the three options presented in this document. It would be possible then to initiate design of the first option of the programme along the central corridor project and then move on to implementation of the two other

projects. The formulation of the first option would be accompanied by the establishment of ‘triggers’ in order to proceed in the detailed definition of the second and third options. These triggers could include a set of indicators relevant to strengthening local development, proper functioning of community contracting, effectiveness of implementation arrangements, among others. The new lending programme would also involve the phased participation of institutions.

64. Additionally, IFAD could support the Government in several areas, particularly in: (i) deepening gender dimensions and off-farm employment opportunities for rural women; (ii) the use of innovations in the provision of rural financial services including savings mobilization; (iii) creation and sustainability of mechanisms for small and medium-scale enterprises; (iv) limiting political intervention in project staff appointments; (v) reducing the digital divide and furthering connectivity; and; (vi) result-based monitoring and evaluation including the preparation of baseline surveys and tracking mechanisms for impact monitoring. This assistance can be provided by the several technical assistance grants funded by IFAD in the region, mainly by the Regional Programme to Consolidate Gender-Mainstreaming Strategies in IFAD-Financed Projects of Latin America and the Caribbean (PROGENDER) for gender issues, the Regional Rural Development Training Programme (PROCASUR) for appropriate and transparent selection of project staff, the Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty-Alleviation Projects in Latin America and the Caribbean (PREVAL) and the FIDAMERICA⁵ technical assistance grant for connectivity.

⁵ Internet-based network of organizations and projects working with the rural poor in Latin America and the Caribbean.

APPENDIX I

COUNTRY DATA

ECUADOR

Land area (km² thousand) 2001 1/	276	GNI per capita (USD) 2001 1/	1 080
Total population (million) 2001 1/	12.88	GDP per capita growth (annual %) 2000 1/	3.7
Population density (people per km²) 2001 1/	47	Inflation, consumer prices (annual %) 2001 1/	38
Local currency	United States dollar (USD)		
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1995-2001 1/	1.9	GDP (USD million) 2001 1/	17 982
Crude birth rate (per thousand people) 2001 1/	24	Average annual rate of growth of GDP 1/ 1981-1991	2.2
Crude death rate (per thousand people) 2001 1/	6	1991-2001	1.5
Infant mortality rate (per thousand live births) 2001 1/	24	Sectoral distribution of GDP 2001 1/	
Life expectancy at birth (years) 2001 1/	70	% agriculture	11
Number of rural poor (million) (approximate) 1/	6.1 a/	% industry	33
Poor as % of total rural population 1/	47.0 a/	% manufacturing	18
Total labour force (million) 2001 1/	5.10	% services	56
Female labour force as % of total 2001 1/	28	Consumption 2001 1/	
Education		General government final consumption expenditure (as % of GDP)	10
School enrolment, primary (% gross) 2001 1/	115 a/	Household final consumption expenditure, etc. (as % of GDP)	68
Adult illiteracy rate (% age 15 and above) 2001 1/	8	Gross domestic savings (as % of GDP)	22
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 2/	2 562	Merchandise exports 2001 1/	4 495
Malnutrition prevalence, height for age (% of children under 5) 2001 3/	27 a/	Merchandise imports 2001 1/	5 299
Malnutrition prevalence, weight for age (% of children under 5) 2001 3/	15 a/	Balance of merchandise trade	-804
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2001 1/	2 a/	before official transfers 2001 1/	-2350 a/
Physicians (per thousand people) 2001 1/	n/a	after official transfers 2001 1/	-800 a/
Population using improved water sources (%) 2001 3/	85	Foreign direct investment, net 2001 1/	n/a
Population with access to essential drugs (%) 1999 3/	0-49	Government Finance	
Population using adequate sanitation facilities (%) 2001 3/	86	Overall budget deficit (including grants) (as % of GDP) 2001 1/	n/a
Agriculture and Food		Total expenditure (% of GDP) 2001 1/	n/a
Food imports (% of merchandise imports) 2000 1/	8	Total external debt (USD million) 2001 1/	13 909
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	1 045	Present value of debt (as % of GNI) 2001 1/	90
Food production index (1989-91=100) 2001 1/	162	Total debt service (% of exports of goods and services) 2000 1/	21
Cereal yield (kg per ha) 2001 1/	2 257	Lending interest rate (%) 2001 1/	16
Land Use		Deposit interest rate (%) 2001 1/	7
Arable land as % of land area 2000 1/	6		
Forest area as % of total land area 2000 1/	38		
Irrigated land as % of cropland 2000 1/	29		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD ROM 2003

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2003

APPENDIX II

LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Critical Assumptions
Goal			
Further in a sustainable manner territorial development, reinforcing local power, increasing population's incomes and living conditions, contributing to the reduction of poverty conditions	<ul style="list-style-type: none"> • Poverty headcount indices • Gender development and potentiality indices 	<ul style="list-style-type: none"> • Living Standards Measurement Surveys (LSMS) • Gender Assessments • Poverty Assessments 	<ul style="list-style-type: none"> • External risks in a dollarized economy • Political and social risks
Purpose			
<ul style="list-style-type: none"> • Strengthen local capacities and those of communities to identify, plan, implement and evaluate integrated development initiatives • Further the development of local initiatives and on and off-farm business development in a rural-urban continuum • Deepen in a sustainable manner provision of financial services including savings mobilization • Recognize, recover and systematize local knowledge and cultural representation and establish information services to assist business development. 	<ul style="list-style-type: none"> • # of local governments strengthened and operating efficiently and effectively • # of initiatives and business plans funded and evaluated successfully • # of viable financial intermediaries and introduction of new products • Expanded connectivity and increased services 	<ul style="list-style-type: none"> • Municipal government decisions and by-laws • Business registrations, patents and permits • Balance sheets • Communications traffic, cultural events and other supportive information materials 	<ul style="list-style-type: none"> • Coherent decentralization efforts • Supportive and enabling environment • Passage of supportive legislation • Adequate telecommunications infrastructure

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Institution	Strengths	Weaknesses	Opportunities	Threats
Ministry of Agriculture				
National Institute of Farmer Training (INCCA)	<ul style="list-style-type: none"> • Relative autonomy • Adequate technological base for training • Donor support 	<ul style="list-style-type: none"> • Limited services for small farmers 	<ul style="list-style-type: none"> • Outsourcing of training and extension 	<ul style="list-style-type: none"> • Institutional re-engineering
National Agricultural Research Institute (INIAP)	<ul style="list-style-type: none"> • Species conservation in highlands and Amazonian region, which can be economically subject to commercial use. • Donor support 	<ul style="list-style-type: none"> • Limited outsourcing of research services 	<ul style="list-style-type: none"> • Expand and consolidate Germoplasm banks 	<ul style="list-style-type: none"> • Institutional re-engineering
Ecuadorian Animal and Plant Health Service (SESA)	<ul style="list-style-type: none"> • Provides needed support to larger-scale farmers • Donor support 	<ul style="list-style-type: none"> • Weak institutional support 	<ul style="list-style-type: none"> • Providing support for reaching international markets • Reducing levels of post-harvest losses 	<ul style="list-style-type: none"> • Dependency on donor support
Ministry of the Environment	<ul style="list-style-type: none"> • International donor support in management of protected areas and Andean watersheds • Enhanced environmental protection 	<ul style="list-style-type: none"> • Limited institutional and implementation capacity 	<ul style="list-style-type: none"> • Possibility to influence national policy on the environment • Possibility to contribute to improving living conditions of indigenous groups within protected areas 	<ul style="list-style-type: none"> • Limited enforcement capacity
Ministry of Tourism	<ul style="list-style-type: none"> • Promotion of community tourism • Furthering ancestral customs and traditions in favour of local indigenous communities 	<ul style="list-style-type: none"> • Lacks major funding 	<ul style="list-style-type: none"> • Marketing of local community products • Community participation and development in furthering local cultures and fostering community tourism initiatives 	<ul style="list-style-type: none"> • Lack of institutional definition and clear mandate

Institution	Strengths	Weaknesses	Opportunities	Threats
Ministry of Welfare Rural Development Undersecretariat	<ul style="list-style-type: none"> • Experience gained in implementation of rural development projects 	<ul style="list-style-type: none"> • Limited institutional and implementation capacities 	<ul style="list-style-type: none"> • Possibility to influence rural development debate 	<ul style="list-style-type: none"> • Politically motivated interventions may limit actions
National Planning Office (ODEPLAN)	<ul style="list-style-type: none"> • Experience gained in setting planning priorities 	<ul style="list-style-type: none"> • Not an executing agency 	<ul style="list-style-type: none"> • Possibility to further struggle against poverty programmes and projects 	<ul style="list-style-type: none"> • Lack of influence in decision-making and policy formulation
Social Dialogue and Planning Secretariat	<ul style="list-style-type: none"> • Holding of National Dialogue • Joint establishment by Government and civil society of priorities in: (a) food security; (b) poverty reduction; (c) productivity; (d) international policies and competitiveness; and (e) struggle against corruption 	<ul style="list-style-type: none"> • Dependency on international donor support 	<ul style="list-style-type: none"> • Facilitates adoption of a national agenda for poverty reduction 	<ul style="list-style-type: none"> • Difficulties in transforming policies and suggestions into concrete action plans
Council of Nations and Peoples of Ecuador (CODENPE)	<ul style="list-style-type: none"> • Strengthens management capacity of indigenous organizations • Includes its vision in development initiatives 	<ul style="list-style-type: none"> • Difficulties in moving communities out of dependency 	<ul style="list-style-type: none"> • Further participate in PRODEPINE II and deepen participation of less represented nations 	<ul style="list-style-type: none"> • Danger of being taken over by political interests
Association of Municipalities (AME)	<ul style="list-style-type: none"> • Updating of urban cadastral surveys • Provides management modules • Prioritizes local development 	<ul style="list-style-type: none"> • Limited coverage, does not reach small municipalities 	<ul style="list-style-type: none"> • Supporting territorial development, productivity and competitiveness 	<ul style="list-style-type: none"> • Important migratory movements with impact on revenues, and situation of rural women
Consortium of Provincial Councils (CONCOPE)	<ul style="list-style-type: none"> • Nationwide coverage. • Promotes decentralization and strengthening of member councils 	<ul style="list-style-type: none"> • Possibility to act in a coordinated manner and may constitute a counterpart for development initiatives 	<ul style="list-style-type: none"> • Lack of technical capacity to develop province-wide proposals or to implement them adequately. 	<ul style="list-style-type: none"> • Use of consortium as political tool for regional interests.

Institution	Strengths	Weaknesses	Opportunities	Threats
Non-Governmental Organizations (NGOs)	<ul style="list-style-type: none"> • Coordinated efforts through establishment of national and/or thematic networks • Considerable experience in (i) local organizational strengthening; (ii) provision of financial services; (iii) marketing and organic agricultural production; and (iv) provision of technical assistance 	<ul style="list-style-type: none"> • Providing financial and non-financial services in a competitive manner • Supporting implementation of projects in a decentralized manner • Establishing consortia can expand their potential in support of regional projects • Covering for lack of government presence. 	<ul style="list-style-type: none"> • Limited capacity to act as partners and in joint ventures • Limited financial resources • Dependence on outside funding 	<ul style="list-style-type: none"> • Small farmer and indigenous organizations view NGOs as their competitors.

IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME

Corporate	Regional	Actions in Proposed Country Programme
<ul style="list-style-type: none"> • Strengthening the capacity of the rural poor and their organizations 	<ul style="list-style-type: none"> • Supporting ethnic native communities and ethnic minorities • Eliminating inequalities between sexes in rural areas • Protecting and strengthening social capital 	<ul style="list-style-type: none"> • Programme intervention areas with high levels of indigenous and Afro-Ecuadorian populations • Gender mainstreaming and provision of assistance in obtaining legal documents, land-titling, support for small-scale enterprises, technical assistance, financial services and rural employment • Training and capacity-building for community contracting and decision-making
<ul style="list-style-type: none"> • Ensuring equitable access to productive natural resources and technologies 	<ul style="list-style-type: none"> • Providing access to land and property rights • Developing technologies suitable for small farmers and entrepreneurs 	<ul style="list-style-type: none"> • Assistance in regularizing land tenure, cadastral surveys and registration • Assistance for contracting required technologies in the open market and participation in other technology-generation demand-driven initiatives funded by other donors
<ul style="list-style-type: none"> • Increasing access to financial services and markets 	<ul style="list-style-type: none"> • Providing innovative rural financial services • Developing microenterprises and expanding the rural labour markets 	<ul style="list-style-type: none"> • Technical assistance for financial intermediaries • Support for establishing community banks • Technical assistance and funding for on and off-farm initiatives

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED

Donor	Programme/Project	Coverage	Status	Synergy
IBRD	<ul style="list-style-type: none"> • Indigenous and Afro-Ecuadorian People's Development Project (PRODEPINE) • Poverty Reduction and Local Rural Development Project (PROLOCAL) • Integrated Information Systems (SICA) • Modernization of Agricultural Services. (PROMSA) • PRODEPINE II • Rural roads • Agricultural Productivity and Sustainability • Financial Services for the Poor • Natural Resource Management 	<ul style="list-style-type: none"> • National • National • National • National • National • National • National • National • National 	<ul style="list-style-type: none"> • Closed • Ongoing • Ongoing • Ongoing • Being prepared • Being prepared • In pipeline • In pipeline 	<ul style="list-style-type: none"> • High • Moderate • Moderate • Moderate • High • Moderate • High • High
IDB	<ul style="list-style-type: none"> • Modernization of Agricultural Services (PROMSA) • Land regularization and titling • Consolidation of PROMSA • Competitiveness and struggle against poverty • Irrigation management • Rural associations 	<ul style="list-style-type: none"> • National • National • National 	<ul style="list-style-type: none"> • Ongoing • Ongoing • In pipeline • In pipeline • In pipeline • In pipeline 	<ul style="list-style-type: none"> • Moderate • Moderate • Moderate • High • Moderate • High

Donor	Programme/Project	Coverage	Status	Synergy
UNDP	<ul style="list-style-type: none"> • Business Development Agencies (ADE) • GEF Small Grants Programme 	<ul style="list-style-type: none"> • National • National 	<ul style="list-style-type: none"> • Ongoing • Ongoing 	<ul style="list-style-type: none"> • Moderate
UNICEF	<ul style="list-style-type: none"> • Andean Subregional Struggle Against Poverty Programme (PROANDES III) 	<ul style="list-style-type: none"> • National 	<ul style="list-style-type: none"> • Ongoing 	<ul style="list-style-type: none"> • Moderate
EU	<ul style="list-style-type: none"> • Food Security Programme • Conservation of Andean Natural Forests 	<ul style="list-style-type: none"> • National • <i>Sierra</i> 	<ul style="list-style-type: none"> • Ongoing • Ongoing 	<ul style="list-style-type: none"> • High • Moderate
Belgium	<ul style="list-style-type: none"> • Rural financial services 	<ul style="list-style-type: none"> • National 	<ul style="list-style-type: none"> • Ongoing 	<ul style="list-style-type: none"> • High
Canada	<ul style="list-style-type: none"> • Frontier and central territorial Development 	<ul style="list-style-type: none"> • Northern, central and southern Ecuador 	<ul style="list-style-type: none"> • Ongoing 	<ul style="list-style-type: none"> • High
Denmark	<ul style="list-style-type: none"> • Institutional strengthening to promote indigenous rights 	<ul style="list-style-type: none"> • Amazonian region 	<ul style="list-style-type: none"> • Ongoing 	<ul style="list-style-type: none"> • Moderate
Germany	<ul style="list-style-type: none"> • Agricultural research • Forestry in the Economic Reconversion Centre (CREA) area • Sustainable management of natural resources (GESOREN) • Management of natural resources and environmental policy advice • Community forestry management in Esmeraldas • Watershed management programme • Decentralization support and development strategies • Municipal government strengthening 	<ul style="list-style-type: none"> • National • Southern <i>Sierra</i> • National • National • <i>Costa</i> • <i>Sierra</i> • <i>Sierra</i> • National 	<ul style="list-style-type: none"> • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing 	<ul style="list-style-type: none"> • Low • Low • High • Low • Low • Moderate • High • High

Donor	Programme/Project	Coverage	Status	Synergy
Italy	<ul style="list-style-type: none"> Promotion of rural financial services 	<ul style="list-style-type: none"> National 	<ul style="list-style-type: none"> Ongoing 	<ul style="list-style-type: none"> High
Netherlands	<ul style="list-style-type: none"> Strengthening of the Ministry of the Environment in management of protected areas system (SNAP) Green vigilance project Community and local conservation of biological diversity Integrated management of tropical dry forests in Loja Peasant forestry development in the Andes Phase II 	<ul style="list-style-type: none"> National National Amazonian region <i>Sierra</i> <i>Sierra</i> 	<ul style="list-style-type: none"> Ongoing Ongoing Ongoing Ongoing Ongoing 	<ul style="list-style-type: none"> Moderate Low Moderate Low High
Spain	<ul style="list-style-type: none"> Ecuador- Peru Border project Municipal development support 	<ul style="list-style-type: none"> Southern <i>Sierra</i> and Amazonian regions 	<ul style="list-style-type: none"> Ongoing 	<ul style="list-style-type: none"> Low
Switzerland	<ul style="list-style-type: none"> Strengthening credit and savings services Training in natural resource management (CAMAREN) Management of native Andean Forests (PROBONA (Phase V)) 	<ul style="list-style-type: none"> National <i>Sierra</i> <i>Sierra</i> 	<ul style="list-style-type: none"> Ongoing Ongoing Ongoing 	<ul style="list-style-type: none"> High Moderate Moderate

PARTICIPATORY CONSULTATIONS

In designing this COSOP, civil society organizations, beneficiary associations and municipalities were consulted, and actively participated in the exercise, as follows:

Beneficiaries:

Consejo de Oroganizaciones Afroecuatorianas (CODAE)
Consejo de Nacionalidades y Pueblos del Ecuador (CODENPE)
Confederación de Nacionalidades Indígenas del Ecuador (CONFENIAE)
Federación de Desarrollo Campesino de Pastaza (FEDECAP)
Allí Causa – Movimiento Indígena y Campesino (AC)
Corporación de Organizaciones Indígenas de Pilahuin (COCAP)
Federación Provincial de Trabajadores Campesinos de Cotopaxi.

Municipalities:

Consejo Provincia de Loja
Consejo Provincial de Zamora-Cinchipe
Consortio de Consejos Provinciales del Ecuador
Asociación de Municipios del Ecuador

Non-Governmental Organizations

Ayuda en Acción
Red Financiera Rural
Instituto de Ecología y Desarrollo de las Comunidades Andinas (IEDECA)
Unità e Cooperazione per lo Sviluppo dei Popoli (UCODEP)
FORMRENA
CIPS
Cámara Artesanal de Tungurahua
Asociación de Productores Campesinos de Babahoyo
Fundación de Acción Solidaria
Formación y Capacitación de la Mujer

