

a

IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-Third Session
Rome, 1-2 December 2004

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF ECUADOR

FOR THE

DEVELOPMENT OF THE CENTRAL CORRIDOR PROJECT

TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
MAP OF THE PROJECT AREA	iv
LOAN SUMMARY	v
PROJECT BRIEF	vi
PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY	1
A. The Economy and the Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	2
C. IFAD’s Strategy for Collaboration with Ecuador	2
PART II – THE PROJECT	3
A. Project Area and Target Group	3
B. Objectives and Scope	4
C. Components	5
D. Costs and Financing	7
E. Procurement, Disbursement, Accounts and Audit	9
F. Organization and Management	9
G. Economic Justification	10
H. Risks	10
I. Environmental Impact	11
J. Innovative Features	11
PART III – LEGAL INSTRUMENTS AND AUTHORITY	11
PART IV – RECOMMENDATION	12
ANNEX	
SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT	13

APPENDIXES

I. COUNTRY DATA	1
II. PREVIOUS IFAD FINANCING IN ECUADOR	2
III. LOGICAL FRAMEWORK	3
IV. ORGANIZATION AND IMPLEMENTATION	5
V. RESULTS AND IMPACT MANAGEMENT SYSTEM	9

CURRENCY EQUIVALENTS

Currency unit = United States dollar

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 (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 hectare (ha)
1 ha	=	2.47 ac

ABBREVIATIONS AND ACRONYMS

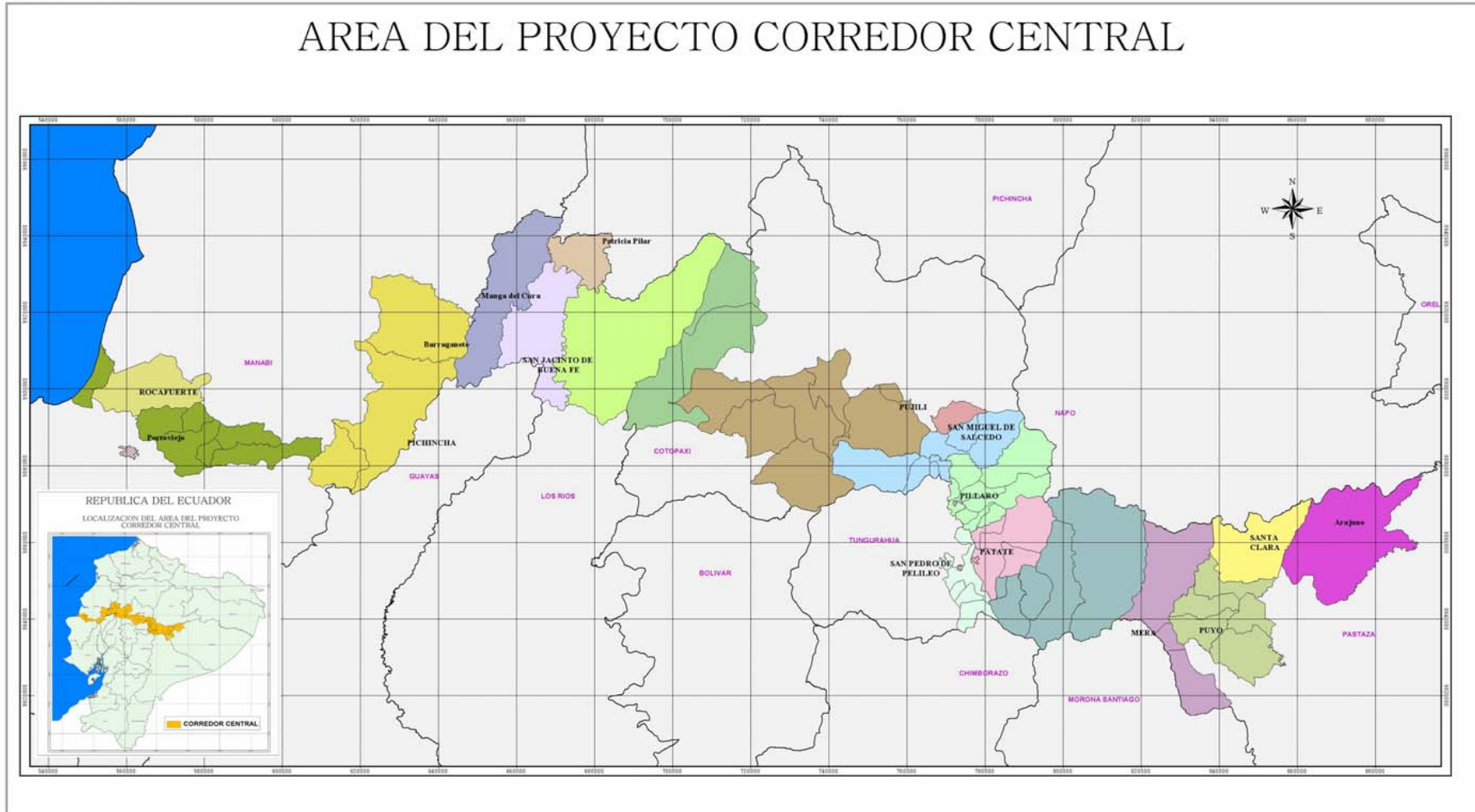
CAF	<i>Corporación Andina de Fomento</i> (Andean Development Corporation)
CIDA	Canadian International Development Agency
FECD	<i>Fondo Ecuatoriano Canadiense de Desarrollo</i> (Ecuadorian-Canadian Development Fund)
LRACs	Local Resource Allocation Committees
MAG	Ministry of Agriculture
MEF	Ministry of Economy and Finance
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organization
PIU	Project Implementation Unit
PSC	Project Steering Committee
RIMS	Results and Impact Management System
RPO	Regional Project Officer
TA	Technical Assistance

GOVERNMENT OF THE REPUBLIC OF ECUADOR
Fiscal Year

1 January – 31 December

MAP OF THE PROJECT AREA

AREA DEL PROYECTO CORREDOR CENTRAL



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.*

REPUBLIC OF ECUADOR
DEVELOPMENT OF THE CENTRAL CORRIDOR PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Ecuador
EXECUTING AGENCY:	Ecuadorian-Canadian Development Fund (FECD)
TOTAL PROJECT COST:	USD 24.3 million
AMOUNT OF IFAD LOAN:	SDR 9.9 million (equivalent to approximately USD 14.8 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	The Ecuadorian-Canadian Development Fund (FECD)
AMOUNT OF COFINANCING	USD 5.0 million
CONTRIBUTION OF BORROWER:	USD 1.2 million
CONTRIBUTION OF BENEFICIARIES:	USD 3.3 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	Andean Development Corporation (CAF)

PROJECT BRIEF

Who are the beneficiaries? The project will directly benefit 36 000 rural families and microentrepreneurs living in territories along a road network running from Puyo in the Amazonian region to Portoviejo on the coast. The area of intervention covers five provinces, 17 cantons and 63 parishes, for a total of nearly 10 214 square kilometres, and the rural population is estimated at 355 173 inhabitants, equivalent to 79 257 rural families. Based on the Unmet Basic Needs approach, it has been estimated that 66 437 families are to be considered poor. Project beneficiaries have been grouped into three main categories: subsistence farmers whose agricultural units are of less than one hectare (ha); small-scale producers who own 1-5 ha; and micro- and small-scale entrepreneurs living in small towns and villages along the road network.

Why are they poor? Lack of land and productive assets, limited access to markets, scarce financial and technology transfer services, and lack of off-farm employment opportunities determining factors in assessing poverty. In the project area, subsistence farmers, peasants and indigenous communities are particularly poor owing to the poor quality of the soil and land fragmentation, and they have limited access to education and health care, technical assistance (TA) and financial services. Their coping strategies include mutual assistance, use of indigenous flora and fauna, seasonal migration and petty commerce. Small-scale agricultural producers, who are mostly located in the highlands and coastal region, are poor mainly because they have no title to the land they work and limited access to TA and financial services, and due to severe extreme land fragmentation. Their coping strategies include off-farm employment and income diversification through handicraft production and tourism. Micro- and small-scale entrepreneurs, who largely operate in the informal sector, have limited access to technology and financial services and rely heavily on informal credit and family labour. These people find it difficult to obtain certification for their produce and need help to improve its presentation and marketing.

What will the project do for them? The project is structured around five main components, with the objective of increasing community participation and empowerment; building up social capital through training and exchanges of experience; strengthening and expanding TA services; increasing beneficiaries' physical assets; addressing gender issues and providing opportunities for woman-headed households to engage in income-generating activities; and helping rural people to diversify their sources of income.

How will the beneficiaries participate in the project? The project is consistent with the demand-driven development approach inasmuch as the beneficiaries will identify, formulate, contract for, implement and monitor sub-projects funded by the project. It will also introduce to Ecuador IFAD's approach to the management of natural resources, which has proved successful in other Andean countries. This approach, which consists of rewarding families and communities for improving their physical assets, is highly participatory: the beneficiaries identify the type of competition they wish to participate in and hire TA to support them during the period involved. Local organizations will be represented on juries that select the winners. In the same manner, farmers' groups, artisans and other cultural groups will be rewarded for their products and services. Under its participatory planning and capacity-building component, the project will work with local communities and civil-society organizations and help them to plan territorial development initiatives in cooperation with local government officials.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
REPUBLIC OF ECUADOR
FOR THE
DEVELOPMENT OF THE CENTRAL CORRIDOR PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Republic of Ecuador for SDR 9.9 million (equivalent to approximately USD 14.8 million) on highly concessional terms to help finance the Development of the Central Corridor Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the Andean Development Corporation (CAF) as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and the Agricultural Sector

1. **General.** Ecuador borders Peru and Colombia on the Pacific coast of the South American continent, and accounts for a land mass of 256 369 square kilometres (km²), including the Galapagos Archipelago in the Pacific Ocean. Mainland Ecuador comprises three distinct geographic areas: the *Costa* (coastal) region, the *Sierra* (highlands) region and the Amazonian rain forest. The country is divided administratively into 22 provinces, 219 cantons and 1 149 parishes.

2. The *Costa* region covers 27% of the country's land mass. Commercial agriculture prevails in this region, which has many large plantations and small cash-crop-oriented farms where bananas, rice, coffee and cocoa are grown. With almost 50% of the population, the *Costa* is the country's most densely populated region.

3. The *Sierra* region covers 25% of the land mass and is mainly inhabited by indigenous small-scale farmers involved in subsistence agriculture (maize, potatoes and beans). Some 45% of the country's population live in this region, which includes the capital city of Quito and several other medium-size cities.

4. The Amazonian region accounts for 45% of the country, and has a low population density of four inhabitants per square kilometre. Due to the fragility of soils, most of the region is unsuitable for agriculture. Principal economic activities are oil and gas extraction, ecological tourism and some subsistence agriculture.

5. **Economic performance.** With a gross national income of USD 1 080 (2001), Ecuador is classified as a low-income country. Severe economic problems were experienced in 1999: accelerating inflation, severe public debt default and a currency and banking crisis. Following a number of structural measures, including the adoption of the United States dollar as legal tender in January 2000, expectations stabilized, confidence returned to the banking system and economic activity began to turn around. However, economic growth slowed down again in 2002 as a result of policy slippages. Fiscal discipline weakened and there were large increases in the public wage bill. In September 2002, the Ecuadorian Congress approved a Fiscal Transparency, Stabilization and Responsibility Law, which set medium-term fiscal rules. The Administration of President Lucio Gutiérrez, which took office in

¹ See Appendix I for additional information.

January 2003, has taken bold measures to strengthen the fiscal balance, implement ambitious structural reforms, resolve outstanding problems with closed banks and modernize state enterprises. In March 2003, the International Monetary Fund approved a 13-month USD 205.0 million stand-by arrangement for Ecuador to support the country's economic and financial programme through March 2004.

6. **The agricultural sector.** In 2004, agriculture accounted for 10% of the country's gross domestic product, with industry (oil and gas), services, construction and manufacturing accounting for 23%, 55%, 7% and 5%, respectively. In recent years, agricultural exports have accounted for almost 40% of all exports; traditional exports, such as bananas, coffee and cocoa have, however, declined as a result of price fluctuations on the international market and poor growth of export volumes. The Agricultural Census of 2000 established that there were 843 000 agricultural production units in the country, covering an area of 12 356 000 hectares (ha); that 63% of all units were of less than 5 ha; that only 19% of the agricultural areas were irrigated; and that, in the *Sierra* region, one third of all land parcels lack legal title. It also indicated that only 7% of farmers had access to technical assistance (TA) and 7% to the formal credit system, and that 22% had no formal education. According to the World Bank, land reforms have not had any significant bearing on land distribution, as it is unequal in both the *Costa* and the *Sierra* regions.

B. Lessons Learned from Previous IFAD Experience

7. Several lessons emerged from implementation of the Saraguro-Yacuambi Rural Development Project and the Indigenous and Afro-Ecuadorian Peoples' Development Project. Some of these lessons are relevant to implementation of the new project, mainly in terms of the need to build up the organizational capacity of beneficiary organizations and local governments; strengthen cultural identity; include farmer-to-farmer training methods in natural resource management; give consideration to carrying out baseline studies at the initial stages of project implementation; and provide incentives for contracting TA, not only for on-farm activities but also for a wide range of services in administration and management, transformation and marketing, including valuable cultural goods and services.

8. IFAD's experience in others countries, such as Peru, shows that growth in the agricultural sector has a multiplier effect on the rural non-farm economy as it creates additional employment and new opportunities for generating income. The rural non-farm economy and the associated rural-urban linkages could be reinforced, as in the case of Peru, thereby furthering commercial links and facilitating the creation and/or improvement of micro- and small enterprises in villages and peri-urban areas. A recent study on innovations in IFAD-financed projects in Peru concluded that project success largely depends on consideration of activities that are of a rural nature but not limited to agricultural production.

9. Lessons of experience also indicate that IFAD's approach must go: beyond the individual household and focus on organizations and communities; from the simple management of natural resources to a broad range of economic activities with strong rural/urban linkages; from the project area to an entire region; from donor initiatives to governmental institutions; and from IFAD to other international donors.

C. IFAD's Strategy for Collaboration with Ecuador

10. **IFAD's strategy.** IFAD's policy framework for Ecuador takes account of the poverty alleviation approaches shared by the donor community. It is generally agreed that it would be possible to reduce poverty by: (i) developing rural areas in a participatory manner; (ii) diversifying the rural economy; (iii) creating non-farm employment; (iv) encouraging competition in the agricultural sector through provision of TA; and (v) improving the use of natural resources by territorial organizations. These strategic thrusts are reflected in IFAD's Country Strategy Opportunities Paper (COSOP)

approved by the Executive Board in April 2004, in proposals contained in the World Bank's recent Country Assistance Strategy and in policy notes contained in *Ecuador: An Economic and Social Agenda in the New Millennium*.²

11. The strategies proposed in the COSOP build on IFAD's established niche in Ecuador in terms of supporting participatory planning, recognizing cultural identities and supporting local initiatives, but above all, ascertaining the merits of demand-driven approaches to development. The project will therefore: (i) target indigenous and peasant communities; (ii) intensify gender mainstreaming; (iii) build up local capacities for development planning and identification of economic opportunities; and (iv) institute community contracting and decision-making mechanisms.

12. **Ecuador's policy for poverty reduction.** Broad policies for poverty reduction were announced shortly after President Gutiérrez took office. These are contained in an economic and human development programme that includes provision of credit for the productive sector with emphasis on medium-scale enterprises and agriculture, modernization of public services, promotion of exports, subsidy targeting and incentives for foreign investment. The above-mentioned programme aims at alleviating poverty and increasing health and education expenditures so as to reduce illiteracy and malnutrition. The Ministry of Economy and Finance (MEF) has initiated the preparation of a poverty reduction strategy to optimize short- and long-term investments by public and private institutions. An initial draft circulated among government agencies and the donor community, proposes structuring the strategy along five agenda items relating to macroeconomic, productive, social, environmental and judicial issues. It also recognizes the need to address two cross-cutting themes: governance, and natural resources and the environment.

13. **Project rationale.** The project is consistent with the Government's rural development strategy that integrates a territorial development approach³ with a corridor development notion,⁴ which not only develops a given area but underscores the need to strengthen rural-urban linkages in a continuum that provides for expanding opportunities to link agricultural areas and their inhabitants with small- and medium-sized town and villages, thus generating greater possibilities for off-farm employment and income-generating alternatives. This approach was considered of importance in the new rural development context, based on evidence within Ecuador of the relevancy of regional horizontal integration. The project is based on the Government's willingness to support small-scale farmers and entrepreneurs to develop their capacity for territorial development, to be understood as a social construct whereby a multidimensional approach is of paramount importance. Policies on rural territorial development recognize the importance of strengthening local capacities and of working in the context of a multiplicity of interventions that combine agricultural activities with support for the development of handicrafts, livestock, fisheries, tourism and the services sector in general. The project will aim at developing markets for goods and services relevant to the rural poor within a well-defined territory. Albeit imperfect, such markets have great potential and the project will have a direct impact on both these and local knowledge markets.

PART II – THE PROJECT

A. Project Area and Target Group

14. **Project area.** The project area is located in central Ecuador and encompasses the country's three distinct ecological regions: the Amazonian rain forest region, the *Sierra* region and the *Costa*

² World Bank.

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

⁴ "Corridor" is a geographic area expanding 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 which often dates back from hundreds of years of economic and cultural exchanges in the Andean communities' traditional trade routes.

region. The project area is highly heterogeneous and presents specific characteristics particular to each of the three ecological zones. Although the road network and commerce flows have led to the identification of a corridor development approach under a territorial development concept, this continuum can be broken down into three distinct territories with their corresponding rural-urban linkages. These include: the Portoviejo-La Mana segment on the coast; the Pujili-Pelileo segment in the highlands; and the Baños-Puyo segment in the Amazon region.

15. **Target group.** The total population of the project area is estimated at 355 173 inhabitants, equivalent to 79 257 rural families. Based on the Unmet Basic Needs approach, some 298 000 rural inhabitants, or 66 437 families, are considered to be poor. To define the typology of the target group, figures provided in the Agricultural Census of 2000 were used to define subsistence farmers as those with agricultural units of less than 1 ha (16 000 families), and small-scale producers as those with 1-5 ha (10 000 families). Estimates of microentrepreneurs were obtained by establishing the number of self-employed rural families: 7 000 men- and 3 000 women-headed households. The project beneficiaries thus amount to 36 000 rural families.

16. **Gender.** Through implementation of gender specific activities the project is expected to have a positive impact on the gender situation in the project area. The proposed project includes a targeted poverty reduction approach with a gender perspective. The project considers instilling a change of attitude by increasing participation as a process. Local governments will support the participation of different social groups and, in particular, of women and young people. Sensitization of local authorities and municipal staff on gender issues will be supported so as to establish and maintain good working relations with the population at large and with different social groups, especially women. TA will be funded to develop social planning and management instruments with a gender-equity perspective. The project will take account of the heterogeneity of the population and their gender and age differences. It will also further group initiatives and competitiveness, bearing in mind the specific characteristics of each social group, with a view to introducing equity dimensions. Gender diagnostics will be prepared for the three regions covered by the project area. Promoting an entrepreneurial vision will strengthen women's organizations, and support will be provided for establishing women's business ventures. Alliances will be sought with other institutions and agencies to support women in their domestic responsibilities and needs. Further activities will include: training in human and family relations to sensitize families to women's participation in productive activities; exchanges of experience among groups of women and young people; gender and human development sensitization among potential local trainers; strengthening of women's organizations to enable them to systematize their knowledge and practices; and sensitization of women with regard to their cultural knowledge and expressions.

B. Objectives and Scope

17. **Objectives and scope.** The overall objective of the project is to improve the livelihoods of 36 000 poor rural families, indigenous and peasant communities, women and small-scale entrepreneurs in three agro-ecological regions of Ecuador. This will be achieved by providing more opportunities for participatory planning and by developing entrepreneurial capacities, managing natural resources in a sustainable manner, and recognizing the value of cultural assets in a local dimension.

18. Main project objectives include:

- strengthening national, local and community capacities to identify, plan, implement and evaluate integrated development initiatives;
- supporting the development of local initiatives and of on- and off-farm businesses in a rural-urban continuum;
- sustainably managing natural resources; and
- recognizing, recovering and systematizing local knowledge and culture.

C. Components

19. The project is structured around five main components: participatory planning and capacity building; rural business development; management of natural resources; local knowledge and cultural diversity; and project management and administration.

Participatory Planning and Capacity Building

20. The objectives of the component are to: assist the Government, specifically the MEF and the Ministry of Agriculture (MAG), to establish a comprehensive rural development policy framework for poverty reduction strategies and align donor contributions for this purpose; assist local governments in preparing local development plans that include innovative ideas for furthering territorial developments and assist beneficiary groups to identify new income-generating opportunities based on diversification and development of natural and cultural potential in the three project regions.

21. Three sub-components will be involved:

- **Instituting rural poverty reduction programmes**, under which policy options for rural development and poverty reduction measures will be elaborated.
- **Strengthening of local governments** The project will support the introduction of planning instruments that take account of territorial dimensions; the development of economic corridors; and the furthering of rural-urban linkages. Special attention will be paid to parish organizations that play an important role in decentralized government. Participation of all local stakeholders will be encouraged, including government agencies, non-governmental organizations (NGOs) and civil society at large.
- **Development of innovative business initiatives.** Assistance will be provided to community organizations and other beneficiary groups to identify new business ventures and local identity products. Training will be provided in the operational modalities of the project, with special attention to gender-related issues.

Rural Business Development

22. The objective of the component is to enable beneficiaries to engage in economic diversification activities – with due account of the specific cultural and environmental conditions of the different regions of the project area. Emphasis will be placed on products and services that are unique to the localities where the beneficiaries live and carry on their businesses.

23. The component will include three distinct sets of activities, each with its own objectives, results and outcomes:

- **Integrated municipal development sub-projects.** This sub-component will embody the strategy and approach of the Ecuadorian-Canadian Development Fund (FECD), which encompass the human, social, environmental and economic dimensions of development, with gender and intercultural dimensions as cross-cutting themes.
- **Incentives for contracting technical assistance.** Incentives will be provided for beneficiary groups to contract technical assistance services for production, transformation, marketing and management assistance, including land titling, certification of products and fulfilment of other requirements for the marketing of food products. Funding will be based on beneficiary identification, formulation, implementation and monitoring of proposed initiatives.
- **Investment in public goods and services.** Here, the aim will be to improve the business environment in the project area. Two types of initiatives will be funded: improving

conditions in market places and in tourism circuits, and upgrading information services for tourists and entrepreneurs. It is estimated that 54 such sub-projects will be implemented.

Management of Natural Resources

24. The objective of the component is to ensure natural resources in the project area are managed in a sustainable manner and, by means of training, help local government, peasant and indigenous communities to improve their physical assets and implement pilot projects aimed both at conserving natural resources and limiting the over-exploitation of forest resources. The project will fund 64 exchanges of experience among participating communities and award 192 in-service training internships.

25. The component entails three distinct sub-components:

- **Training in management of natural resources.** Training will be provided to local communities in best practices for conservation and/or improvement of natural resources, and in activities that lead to a multiplier effect.
- **Natural resource management sub-projects.** This sub-component will replicate IFAD's successful experience in Ecuador whereby management of natural resources has been supported through the provision of awards to families and communities participating in competitions on better practices and improvements. This calls for communities to identify the areas in which they wish to compete after having identified solutions to natural resource problems using geographic mapping and wealth-ranking methods.
- **Environmental management sub-projects.** Beneficiary communities and local governments will be helped to implement innovative environmental management projects, including use of indigenous flora and fauna and more traditional reforestation projects. The sub-projects will also be funded on a competitive basis, with local governments and communities submitting innovative sub-projects for consideration.

Local Knowledge and Cultural Diversity

26. The objective of the component is to recognize the cultural dimension of development and the contribution that culture can make in generating economic well-being and increasing incomes. There is a growing understanding, both in Ecuador and among the international donor community, that, if supported, the cultural richness and diversity of many communities can enhance self-esteem and pride and help to increase incomes.

27. The component includes three sub-component or groups of activities:

- **Heritage sites.** This sub-component will involve the rehabilitation of heritage sites in project area municipalities. Implementation will be based on an Ecuadorian law that allows citizens to use 25% of the income tax they would pay in any year for rebuilding/improving heritage sites in municipalities that promote such ventures. The project will implement a matching grant mechanism to top up the contributions transferred to municipalities by the tax authorities.
- **Identity products.** Here, excellence in the production of local identity products will be rewarded. The project will organize and/or support market fairs where local producers and artisans will compete for the awards.
- **Cultural products.** Awards will be given for implementing culture-based sub-projects. There are many local artists and cultural organizations who, independently and or in cooperation with the Cultural Patrimony Institute, could undertake sub-projects in the wide-ranging field of cultural endeavours, thereby supporting local identities and increasing self-esteem among the inhabitants of project area localities.

D. Costs and Financing

28. **Project costs.** Total project costs, over a five-year implementation period, are estimated at USD 24.3 million. Local price contingencies are estimated at 6%. Physical contingencies do not apply as no physical capital investments are involved.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Total Base Cost
A. Participatory Planning and Capacity Building					
Instituting rural poverty reduction programmes	312	-	312	-	1
Strengthening of local governments	127	-	127	-	1
Development of innovative business initiatives	654	-	654	-	3
Subtotal	1 093	-	1 093	-	5
B. Rural Business Development					
Integrated municipal development sub-projects	5 940	-	5 940	-	26
Incentives for contracting technical assistance	5 131	-	5 131	-	22
Investment in public goods and services	945	-	945	-	4
Subtotal	12 016	-	12 016	-	52
C. Management of Natural Resources					
Training in management of natural resources	281	-	281	-	1
Natural resource management sub-projects	3 374	-	3 374	-	15
Environmental management sub-projects	402	-	402	-	2
Subtotal	4 057	-	4 057	-	18
D. Local Knowledge and Cultural Diversity					
Heritage sites	1 330	-	1 330	-	6
Identity products	847	-	847	-	4
Cultural products	1 080	-	1 080	-	5
Subtotal	3 257	-	3 257	-	14
E. Project Management and Administration	2 499	-	2 499	-	11
Total base costs	22 922	-	22 922		100
Physical contingencies	-	-	-	-	-
Price contingencies	1 372	-	1 372	-	6
Total project costs	24 295	-	24 295	-	106

^a Any discrepancies in totals are due to rounding up.

29. **Project financing.** IFAD will provide a loan of USD 14.8 million, equivalent to 61% of total project costs. The FECD will contribute USD 5.0 million, or 20%, while the Government will cover all duties and taxes for an estimated USD 1.2 million. The beneficiaries will contribute, by means of cost-sharing mechanisms, a total of USD 3.3 million or 13%.

TABLE 2: FINANCING PLAN^a
(USD '000)

Component	IFAD		FECD		Beneficiaries		Government		Total		Foreign Exchange	Local (excl. taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Participatory Planning and Capacity Building													
Instituting rural poverty reduction programmes	280	88.0	-	-	-	-	38	12.0	319	1.3	-	280	38
Strengthening of local government	115	88.0	-	-	-	-	16	12.0	130	0.5	-	115	16
Development of innovative business initiatives	593	88.0	-	-	-	-	81	12.0	673	2.8	-	593	81
Sub-total	988	88.0	-	-	-	-	135	12.0	1 122	4.6	-	988	135
B. Rural Business Development													
Integrated municipal development sub-projects	-	-	4 992	79.2	558	8.8	757	12.0	6 306	26.0	-	5 550	757
Incentives for contracting technical assistance	4 100	75.0	-	-	1 367	25.0	-	-	5 466	22.5	-	5 466	-
Investment in public goods and services	783	78.6	-	-	214	21.4	-	-	997	4.1	-	997	-
Sub-total	4 883	38.2	4 992	39.1	2 138	16.7	757	5.9	12 769	52.6	-	12 013	757
C. Management of Natural Resources													
Training in management of natural resources	269	90.9	-	-	27	9.1	-	-	296	1.2	-	296	-
Natural resource management sub-projects	3 535	98.5	-	-	55	1.5	-	-	3 589	14.8	-	3 589	-
Environmental management sub-projects	351	81.0	-	-	82	19.0	-	-	433	1.8	-	433	-
Sub-Total	4 154	96.2	-	-	163	3.8	-	-	4 318	17.8	-	4 318	-
D. Local Knowledge and Cultural Diversity													
Heritage sites	735	52.5	-	-	664	47.5	-	-	1 400	5.8	-	1 400	-
Identity products	893	100.0	-	-	-	-	-	-	893	3.7	-	893	-
Cultural products	854	75.0	-	-	285	25.0	-	-	1 139	4.7	-	1 139	-
Sub-total	2 483	72.3	-	-	949	27.7	-	-	3 432	14.1	-	3 432	-
E. Project Management and Administration	2 334	88.0	-	-	-	-	318	12.0	2 653	10.9	-	2 334	318
Total Project Costs	14 842	61.1	4 992	20.5	3 250	13.4	1 210	5.0	24 295	100.0	-	23 085	1 210

^a Any discrepancies in totals are due to rounding up.

E. Procurement, Disbursement, Accounts and Audit

30. **Procurement** will be carried out in accordance with IFAD procedures. Contracts of goods include purchase of vehicles, computer equipment and small office equipment. Vehicles will be procured by FECD through national competitive bidding. Services and goods other than vehicles costing less than USD 50 000 will be awarded based on price comparison or local shopping procedures of at least three quotations obtained from qualified domestic suppliers. Contracting for implementation of sub-projects included under the: (i) incentives for contracting technical assistance sub-component; (ii) cultural heritage and development sub-components; and (iii) public goods and services sub-component will follow procedures, as established in the loan agreement. Services contracts will be procured based on three quotations and awarded on the basis of best qualifications to provide the services required. Direct contracting for holding field workshops and consultations costing less than USD 1 000 will be undertaken by the PIU.

31. **Disbursements.** To facilitate disbursements, a Special Account in United States dollars will be opened by the borrower in the name of the project in the Central Bank of Ecuador. For this purpose, FECD will request the Ecuadorian Treasury to initiate the procedure with an authorized allocation of USD 1.25 million. Replenishment of the Special Account will be made in accordance with established IFAD procedures. FECD will open two project accounts in a commercial bank: one in which the proceeds of the IFAD loan will be deposited, and a second account in which FECD's contribution to project funding will be deposited.

32. **Accounts and auditing.** Project accounts will be kept in accordance with international accounting standards. A financial audit will be conducted every year by an internationally recognized auditing firm acceptable to IFAD. The fees of the auditing firm will be paid from the proceeds of the loan.

F. Organization and Management

33. **Project management.** The project will be implemented by FECD in accordance with the provisions of a subsidiary agreement signed by MAG. The integrated municipal development sub-projects funded by FECD will be implemented in accordance with its own procedures. Overall project management will be assured by a project director who will report to a project steering committee (PSC). The project director will be supported by an administrator, an accountant and support staff.

34. Three field offices will be established, one in each project region. These offices will be located in Puyo for the Amazonian region, Latacunga for the *Sierra* region and Portoviejo for the *Costa* region, and will be staffed by a regional project officer (RPO), an administrator and support staff.

35. Local resource allocation committees (LRACs) will be established in each project region to review proposals for sub-projects. These committees will assess the merits and demerits of sub-projects based on an analysis previously made by the RPO. The LRACs will include representatives of MAG, local government and beneficiary organizations. The RPO will act as the secretariat of the committee.

36. **Project coordination.** Implementation of the project by the FECD will require the setting up of a separate PSC composed of representatives of the MAG (chair), MEF, FECD and IFAD.

37. **Monitoring and evaluation.** The logical framework has been prepared on the basis of IFAD's Guide for Project Monitoring and Evaluation and FECD's Guidelines for Results-Based Management. The latter provides detailed information and a glossary of terms used in results-based management, together with a format for recording project results. Further to the Executive Board's decision in December 2003 to introduce IFAD's results and impact management system (RIMS), an annotated

matrix of results and impact indicators (attached as Appendix V) has been prepared to reflect the RIMS approach. This matrix should be read in conjunction with the logical framework. Given the need to reconcile the FECD/results-based management approach with IFAD's RIMS, funds have been allocated for setting up a comprehensive monitoring system at project start-up. Monitoring and evaluation (M&E) activities include parish baseline surveys, mid-term and project completion evaluations and a project completion report.

G. Economic Justification

38. **Beneficiaries.** The project will benefit different sets of beneficiaries by promoting diverse activities. Staff of the MEF and MAG will benefit from training and exposure to poverty reduction strategies being tried elsewhere. Municipal administrators in the project area, staff of local NGOs and other civil-society organizations will benefit from newly acquired knowledge on territorial development planning. Larger community groups, including women's groups, will benefit from the larger municipal investment projects to be implemented by FECD, and farmers and microentrepreneurs will benefit from the TA they contract. Businessmen, farmers and tourists will benefit from improved business conditions at the local level. Local providers of TA in production, transformation, marketing and natural resource management will benefit from training and exchanges of experience. Indigenous and farmers' groups and communities will benefit from training in the management of natural resources. Local governments and locally-based civil-society organizations will benefit from experience in implementing sound environmental conservation projects at the municipal level. Municipal governments will benefit from resources provided for rehabilitating heritage sites, while local producers of identity and cultural products will be rewarded for their efforts.

39. **Benefits.** The project is expected to produce benefits in terms of: enhancing the Government's capacity to design rural development policies consistent with poverty alleviation measures; strengthening local governments, thereby allowing them to introduce territorial planning involving all local stakeholders; improved capacity of beneficiary groups to identify and implement new economic activities; better management of community physical assets; increased market value of local products; and greater community/individual self-esteem.

40. **Financial analysis.** In order to establish the viability and profitability of a number of economic opportunities available to the target group, 14 case studies were prepared. Net present values ranged from USD 69 to USD 35 000. Internal rates of return for the case studies ranged from 4% to 64%. On average, the internal rates of return were 35% for all products.

41. **Economic analysis.** Assuming relative economic, social and political stability, project implementation shows an economic rate of return of 15% over a five-year period. This rate was calculated on the basis of incremental incomes of beneficiary families and appreciation of assets. The discount factor used was 12%. The net present value of the project is positive.

H. Risks

42. Implementation of the project will include a limited number of risks regarding the profitability of economic activities identified by beneficiary groups, based on market demand and adequate prices for products and services; the capacity of local governments to design and implement local development plans; and the ability of local municipalities to create a favourable environment for investment.

43. The first risk will be mitigated by increasing the use of sub-project formulation tools, developed by the FECD, that ensure that proper financial analysis has been undertaken before approval of beneficiary initiatives. The involvement of the LRACs will ensure transparency in the allocation of project resources. The second risk will be mitigated by training local authorities to use the financial resources at their disposal in a correct/transparent manner. New business ventures set up by project

beneficiaries are expected to contribute to the funds available to local governments through licenses and tax measures. Lastly, the project will assist municipalities to promote reconstruction projects for their heritage sites, thus enabling local governments to mobilize contributions from taxpayers. Preparation of suitable local development plans will also contribute to mobilizing resources from the Government and/or donors.

I. Environmental Impact

44. The project is classified as Category B. Given that the project area encompasses three distinct ecological regions (*Costa, Sierra* and Amazon) the degree of environmental vulnerability will differ according to the varied intensity of use of natural resources.

45. To ensure that the project has a beneficial environmental impact, operations will integrate environmental criteria for the selection, monitoring and evaluation of the initiatives to be funded, due account being taken of the ecological and cultural diversity of each project region. Care will be taken to ensure that environmental guidelines are followed when implementing sub-projects. Alliances with national and local environmental organizations and projects will be sought. In implementing the participatory planning and capacity building component, the information gathered will be linked to existing territorial planning instruments (i.e. protected area and forest management plans, conservation corridor land zoning, local municipal development plans). With local participation and based on information on the availability and status of natural resources, productive initiatives that promote sustainability will be identified. Furthermore, training of municipal government staff in sustainable land planning will encourage the development of environmentally sound practices. In implementing the rural business development component, emphasis will be placed on initiatives that add value to environmentally sound agricultural activities. Organic agriculture, agro-forestry and cropping associated with integrated pest control initiatives will be promoted. Implementation of the local knowledge and cultural diversity component will build on indigenous communities' knowledge of their environment and conditions, and care will be taken to ensure that identity products are rewarded and promoted and are not negatively impacted in terms of their availability and/or existence.

J. Innovative Features

46. The innovative features of the project involve the provision of incentives for contracting TA services on the open market; implementation of a competitive financial resource transfer mechanism for the management of natural resources; and rewarding excellence in the production and transformation of handicrafts and agricultural/cultural produce. A further innovative feature is specific to Ecuador, inasmuch as tax payers are allowed to use up to 25% of their income tax they pay in any year for the improvement of heritage sites, based on municipal development plans and programmes. The project will make use of this mechanism to rehabilitate heritage sites, thus helping to generate income from tourism.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

47. A loan agreement between the Republic of Ecuador and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

48. The Republic of Ecuador is empowered under its laws to borrow from IFAD.

49. I am satisfied that the proposed loan will comply with the *Agreement Establishing IFAD*.

PART IV – RECOMMENDATION

50. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Ecuador in various currencies in an amount equivalent to nine million and nine hundred thousand Special Drawing Rights (SDR 9 900 000) to mature on or prior to 15 November 2044 and to bear a service charge of three fourths of one per cent (0.75%) per annum and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan negotiations concluded in Quito, Ecuador, on 17 November 2004)

1. **Cofinancing.** The Government of the Republic of Ecuador (“the Government”) intends to obtain non-reimbursable cofinancing funds from the FECD in the amount of USD 4 992 000 to assist in financing the project in accordance with the conditions stipulated in a letter of commitment for cofinancing to be signed by the FECD and the Government.
2. **Special account.** The Government will open and maintain at the Central Bank of Ecuador, or such other bank as agreed upon by the Government and IFAD, a special account in United States dollars to be used for financing the project.
3. **Project technical agency.** The Ministry of Agriculture will hold general responsibility for project implementation, and it will delegate technical execution of the project to the FECD under a technical implementation agreement establishing the terms and conditions of the FECD’s participation. The Government undertakes to designate the project technical agency and to replace that agency in the event it is dismantled or relinquishes its obligations.
4. **Financing of project implementation.** The Government will make the loan proceeds available to the project technical agency and any other project party in accordance with the annual workplans and budgets (AWP/Bs), the loan agreement and the subsidiary agreement. Similarly, the Government will ensure that the project technical agency makes cofinancing funds available to the project in the amount of USD 4 992 000 in accordance with the loan agreement, and will deposit such funds in project account B in an initial amount of USD 100 000 to cover the costs of the first year of implementation and will thereafter replenish that account annually in advance by depositing therein the funds called for in the AWP/B.
5. **Counterpart funds.** The Government will make available to the project technical agency and any other project party, during the implementation period, counterpart funds from its own resources in a total amount equivalent to USD 1 210 000, in accordance with the national customary procedures of the Government for development cooperation. To this end, the Government will make budgetary allocations each fiscal year in an amount equivalent to the amount of the counterpart funds provided for in the AWP/B for the respective project year and will make such allocations available to the project technical agency in advance as soon as necessary in order to carry out the project. The contribution of the Government will cover all the contributions so required by national legislation and all duties and taxes on the importation of goods, public works and services procured under the project.
6. **Additional events of suspension**
 - (a) IFAD will suspend, totally or partially, the right of the Government to request withdrawals from the loan account in the event the audit is not conducted satisfactorily within the six months following the date set for such purpose.
 - (b) IFAD may suspend, totally or partially, the right of the Government to request withdrawals from the loan account in the event that: (i) the project director has been removed from the project without the prior consent of IFAD; (ii) IFAD has determined that the material benefits of the project are not adequately reaching the target group, or are benefiting persons outside the target group; (iii) the implementation manual, or any of its provisions, has been assigned, waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such assignment, waiver,

suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the project; (iv) a competent authority has taken steps to dismantle the project technical agency or suspend its operations, or has initiated any action or procedure to distribute any property of said agency among its creditors without the Government having proposed another institution as the project technical agency and replacement cofinancing funds are not available on conditions acceptable to IFAD, and said institution has not accepted the obligations incumbent upon the project technical agency on conditions acceptable to IFAD; and (v) the Government has failed to honour any covenant of the loan agreement and IFAD has determined that such failure has caused or is likely to cause detriment to the project.

7. **Project implementation manual.** The project technical agency will prepare a draft implementation manual and will submit it to IFAD for comment. Once IFAD has issued its no objection, the project technical agency will forward the draft to the project coordination committee for approval.

8. **Subsidiary agreement.** The Government and the Ministry of Agriculture will enter into an agreement, to the satisfaction of IFAD, whereby the Ministry of Economy and Finance will transfer to the Ministry of Agriculture the resources, rights and obligations needed to carry out the project.

9. **Technical implementation agreement.** The Ministry of Agriculture and the project technical agency will enter into an agreement, to the satisfaction of IFAD, whereby the Ministry will name the FECD as the project technical agency and will transfer to same the funds available and other resources, rights and obligations in order to carry out the project.

10. **Participation by women and beneficiary indigenous populations.** The Government undertakes to ensure that women and indigenous populations are fully involved in and benefit from all project activities and that the interests of the beneficiary indigenous populations are respected during project implementation. To that end, it will ensure that: (i) the project is carried out according to the provisions of national legislation pertaining to the beneficiary indigenous populations; (ii) the indigenous communities are adequately and equitably represented in project activities; (iii) the communities of beneficiary indigenous populations take part in policy dialogue and local government; (iv) the statements, agreements and/or conventions ratified by the Government with regard to protection of the beneficiary indigenous populations are respected; and (v) the project does not lead to any form of usurpation in lands traditionally occupied by indigenous communities.

11. **Conditions precedent to effectiveness.** The following are stipulated as conditions precedent to effectiveness:

- (a) the project director has been duly appointed with the prior no objection of IFAD;
- (b) the project coordination committee has been established to IFAD's satisfaction;
- (c) the project technical agency has been appointed in accordance with the provisions of the loan agreement and the technical implementation agreement;
- (d) the PIU has been duly established;
- (e) the letter of commitment for cofinancing between the project technical agency and the Government has been signed to IFAD's satisfaction;
- (f) the technical implementation agreement has been signed to IFAD's satisfaction;
- (g) the subsidiary agreement has been signed to IFAD's satisfaction;

ANNEX

- (h) the special account and the project accounts have been duly opened;
- (i) the project agreement has entered into force according to the terms contained therein;
- (j) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary governmental action;
and
- (k) the Government has presented to IFAD a legal opinion, issued by the General Under-Secretariat for Legal Affairs (*Subsecretaría General Jurídica*) of the Government, in form and substance acceptable to IFAD.

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
Legal tender – United States dollar			
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/ United Nations Development Programme (UNDP), *Human Development Report*, 2000.

3/ UNDP, *Human Development Report*, 2003.

PREVIOUS IFAD FINANCING IN ECUADOR

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan Amount	Disbursement (as % of Approved Amount)
Fishery Development Project	IDB	IDB	I	24 Oct. 78	1 Feb 80	1 Dec 83	L - I - 6 - EC	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	03 Dec 92	24 May 94	30 Jun 02	L-I-321-EC	SDR	8 150 000	100%
Indigenous & Afro-Ecuadorian Peoples' Development Project	World Bank/IBRD	World Bank/IBRD	I	04 Dec 97	2 Nov 98	31 Dec 04	L-I-464-EC	SDR	10 850 000	87%

IBRD: International Bank for Reconstruction and Development (World Bank Group)

IDB: Inter-American Development Bank

LOGICAL FRAMEWORK

NARRATIVE	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p style="text-align: center;">DEVELOPMENT GOAL</p> <p>Reduced poverty among targeted peasant and indigenous communities, subsistence farmers, small-scale entrepreneurs, both men and women</p>	<ul style="list-style-type: none"> Poverty levels reduced by 50% by 2015 (Millennium Development Goal) 	<ul style="list-style-type: none"> Project baseline reports Integrated System of Social Indicators database 	<ul style="list-style-type: none"> Sustained poverty reduction programmes implemented
<p style="text-align: center;">PURPOSE</p> <p>Improve the livelihoods of poor small-scale farmers, peasants, women and microentrepreneurs in three agro-ecological regions of Ecuador by:</p> <ul style="list-style-type: none"> Improving Government's capacity to address rural poverty Increasing opportunities for preparing local development plans Supporting efforts to engage in investment opportunities Properly managing natural resources Investing in culture-related activities 	<ul style="list-style-type: none"> 60% of families with access to project resources increase their annual incomes by 10-30% (RIMS) 60% of families with access to project resources increase the value of their assets (land and homes) by 10% (RIMS) 60% of families with access to project resources increase the value of their physical assets by 10% (RIMS) Between start-up and end of project, increased number of organizations do business in markets for at least two years 25% of profitable rural economic activities managed by women (RIMS) 30% of women have better access to rural services (TA services) 	<ul style="list-style-type: none"> Sample household surveys at the municipal level Review and analysis of secondary sources and statistics Analysis of local economic activities (baseline, mid term and end -of-project) 	<ul style="list-style-type: none"> Productive capacity of natural resources is not further degraded by intensification of agricultural production or natural disasters Economic production is not harmed by Government countermeasures Beneficiaries and institutions able to take advantage of project benefits
<p>Output 1: Participatory Planning and Capacity Building</p> <p>National and local governments, farmers' and women's groups are able to: (i) institute rural development policies in the context of poverty reduction strategy; (ii) prepare local development plans; and (iii) design business plans for new and diversified economic activities</p>	<ul style="list-style-type: none"> Three policy documents prepared Eighteen municipal plans developed effectively 640 beneficiary groups able to prioritize and identify economic development opportunities, of which 20% are initiatives identified by women's groups 	<ul style="list-style-type: none"> Assessments of local governments Training programme reports Publicity campaigns Assessments of farmers' and women's groups Cantonal baseline surveys Economic development priority lists 	<ul style="list-style-type: none"> Local governments have sufficient financial and human resources to lead the participatory process Farmers' and women's groups willing to participate
<p>Output 2: Rural Business Development</p> <p>Farmers' and women's groups and small-scale entrepreneurs increase their potential for furthering economic opportunities and diversification, taking account of cultural and natural conditions and/or advantages in the three project regions</p>	<ul style="list-style-type: none"> 60% of beneficiary households, including 20% of woman-headed households, benefit from at least a 20% increase in income (RIMS) 25% of recipients of TA incentives continue to contract services after project completion; public goods and services funded by project are adequately operated and maintained after project completion 	<ul style="list-style-type: none"> Analysis of local economic activity Sample household surveys (baseline, mid-term and end-of-project evaluations) Municipal records 	<ul style="list-style-type: none"> Increased economic diversity financially profitable Sufficient market demand and adequate prices for products and services Local organizations able to mobilize counterpart funds to implement new public goods and services
<p>Output 3: Management of Natural Resources</p> <p>Farmers' and women's groups, and small-scale entrepreneurs and their organizations manage their physical assets in a sustainable manner</p>	<ul style="list-style-type: none"> 75% of 420 participating communities adopt at least two sustainable practices 75% of 7 600 participating families, of which 20% are woman-headed households, adopt at least two sustainable practices 75% of environmental management sub-projects reduce land degradation/deforestation/environmental contamination by 10% 	<ul style="list-style-type: none"> Land surveys and environmental records Land-use maps and records Baseline surveys, mid-term and end-of-term project evaluations Environmental records 	<ul style="list-style-type: none"> Household heads willing to improve their physical assets A combination of command and control and incentives contributes to reduced deforestation and less soil fertility loss New practices easily adopted by target groups under difficult economic conditions Control mechanisms are depoliticized
<p>Output 4: Local Knowledge and Cultural Diversity</p> <p>Local communities enhance their self-esteem, better their economic well-being, and increase their incomes</p>	<ul style="list-style-type: none"> 25% of all potential heritage sites restored (RIMS) 25% of all product and services identified successfully marketed 25% of all culture-based sub-projects profitable At least one new product or service has been introduced per canton to diversify sources of incomes and markets 75% of potential practices and practitioners registered 	<ul style="list-style-type: none"> Cultural maps Entrepreneurship directories Sales records Baseline surveys, mid-term and end-of-project evaluations 	<ul style="list-style-type: none"> Municipalities able to generate interest among contributors with regard to rehabilitation of historical sites Cultural products of sufficient quality to generate interest and demand Strong market interest in products and services rewarded for excellence A regulatory body exists to issue Certificates of Origin

ACTIVITIES

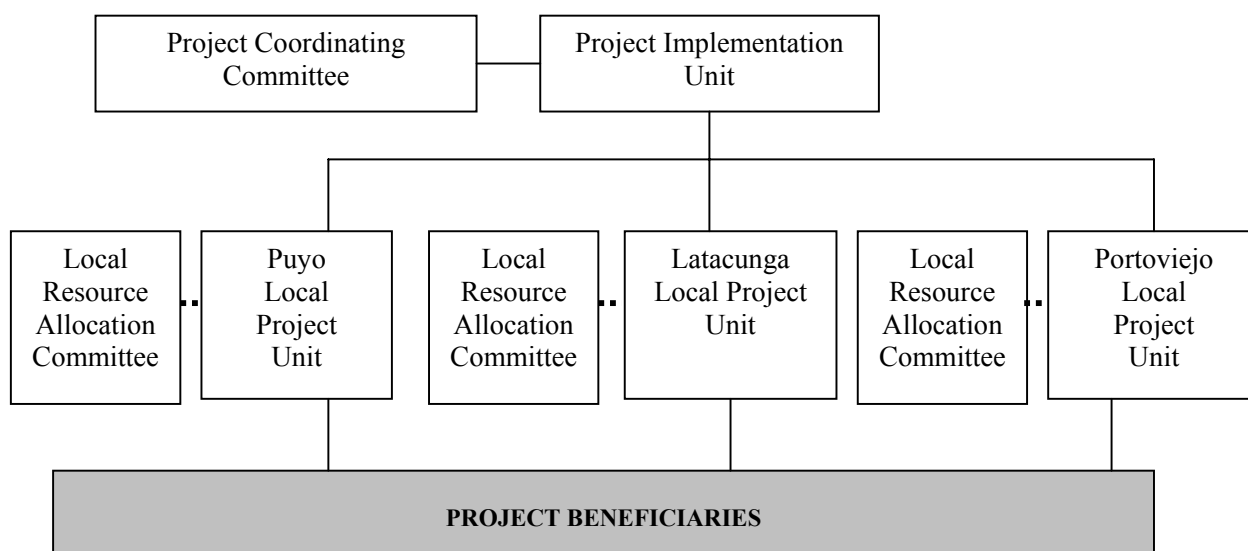
PARTICIPATORY PLANNING AND CAPACITY BUILDING	REAL BUSINESS DEVELOPMENT	MANAGEMENT OF NATURAL RESOURCES	LOCAL KNOWLEDGE AND CULTURAL DIVERSITY
<p>➤ Developing Government’s capacity to institute rural development policies in the context of poverty reduction strategies</p> <ul style="list-style-type: none"> • Inter-ministerial consultations • Study tours to successful experiences in Latin America • Technical studies on relevant subjects • Publication of results <p>➤ Strengthening local governments to develop and implement participatory planning and development processes</p> <ul style="list-style-type: none"> • Organizational assessment of local governments • Development and implementation of municipal programmes • Systematization and dissemination of results <p>➤ Strengthening capacity of farmers’ and women’s groups to identify different economic development opportunities</p> <ul style="list-style-type: none"> • Value chain analysis • Municipal baseline surveys • Focus-group discussions and stakeholder meetings • Identification of gender dimensions <p>GENDER ACTIONS</p> <ul style="list-style-type: none"> • Municipal staff sensitized to gender issues • Municipal staff trained to address needs of rural women • Women staff at municipalities are trained in gender issues and in participatory planning • Gender awareness sessions included in participatory planning 	<p>➤ Establishing demand-driven mechanisms for cofinancing economic and social initiatives</p> <ul style="list-style-type: none"> • Appraisals of integral municipal development sub-project proposals • Sub-project implementation <p>➤ Establishing demand-driven technical and management advisory services</p> <ul style="list-style-type: none"> • Identification and formulation of sub-projects • TA sub-project implementation, including signing of contracts and opening of bank accounts • Training of service providers • Supply-side support • Exchanges of experiences among producers and in-service training <p>➤ Implementing public goods and services sub-projects</p> <ul style="list-style-type: none"> • Assess and conduct situational analyses • Implement sub-projects: (i) improvement of environment and sanitary conditions of market places; (ii) improvement of tourism-related environmental conditions; and (iii) improvement of information services for tourists and entrepreneurs <p>GENDER ACTIONS</p> <ul style="list-style-type: none"> • Strengthening women’s involvement in rural business activities • Identification of women-led businesses • Impact studies 	<p>➤ Small-scale producers, farmers and indigenous communities identify their training requirements for managing physical assets</p> <ul style="list-style-type: none"> • Community exchanges • Farmer-to-farmer training • Information systematization and dissemination • Identification and hiring of community trainers <p>➤ Small-scale producers, farmers and indigenous communities manage their physical assets through competitive awards</p> <ul style="list-style-type: none"> • Promotion of activities • Situational diagnoses (transects and wealth-ranking exercises) • Sub-project implementation, including competitive awards <p>➤ Communities and local governments identify environmental management projects and successfully compete for project resources</p> <ul style="list-style-type: none"> • Provide preinvestment support • Calls for proposals • Sub-project implementation <p>GENDER ACTIONS</p> <ul style="list-style-type: none"> • Women-related issues considered in weighting of projects for implementation 	<p>➤ Identifying and recovering existing heritage sites</p> <ul style="list-style-type: none"> • Cultural mapping • Dissemination of information • Municipalities receive resources from tax returns • Sub-project implementation <p>➤ Identifying identity products and promoting excellency</p> <ul style="list-style-type: none"> • Organize fairs and negotiating venues <p>➤ Identifying and promoting local cultural products and manifestations</p> <ul style="list-style-type: none"> • Calls for proposals • Sub-project implementation <p>GENDER ACTIONS</p> <ul style="list-style-type: none"> • Women artists and artisans identified <p>Sub-projects weighted for inclusion of gender issues in cultural products</p>

ORGANIZATION AND IMPLEMENTATION

A. Coordination and Project Management

1. **Coordination.** Overall project guidance will be provided by a PSC composed of representatives of the MAG, MEF, IFAD and FECD. The project director will act as the secretariat of the PSC, which will meet every three months and be responsible for reviewing and approving the project's annual work programmes and budgets (AWP/Bs) prepared by the PIU.
2. The PSC will provide overall guidance on project implementation. More specifically, it will: (i) approve the appointment of the project director, who will be recruited in accordance with selection procedures acceptable to IFAD; (ii) review and approve the project AWP/Bs; (iii) review mid-term review and annual progress reports; and (iv) review/approve sub-project grants of more than USD 200 000 for environmental improvement projects and heritage site rehabilitation. The FEDC board of governors will approve projects costing more than USD 200 000 financed by FECD under the integrated municipal development sub-projects sub-component.
3. **Management.** A PIU will be established at Latacunga in Cotopaxi Province and staffed by a project director, recruited in accordance with selection procedures acceptable to IFAD, and an administrator, an accountant and support staff. The project director will be expected to: (i) provide overall leadership and oversee the implementation of project activities; (ii) prepare AWP/Bs; (iii) act as secretariat to the PSC; (iv) represent the project in dealings with government authorities, other donors and civil-society organizations; (v) review project evaluations; and (vi) submit progress reports and other documents for review by IFAD and the cooperating institution. The administrator will be responsible for preparing and maintaining proper records of all disbursements, procurement and accounts; supervising the work of an accountant and support staff; providing inputs for preparation of AWP/Bs; and preparing requests for replenishing the Special Account, in accordance with the provisions of IFAD and the cooperating institution.
4. Given the heterogeneity of the project area and since project activities will be undertaken in three distinct regions of the country, project field offices will be established in Puyo for the Amazonian region; in Latacunga for the *Sierra* region; and in Portoviejo for the *Costa* region. Staffing will include an RPO, an administrator and support staff for each region. The RPOs will be responsible for: (i) assessing beneficiary conditions at project start-up; (ii) maintaining a database on NGOs and beneficiary organizations in the project areas; (iii) preparing AWP/Bs for the respective offices; (iv) promoting project activities among beneficiary communities; (v) preparing quarterly project reports; (vi) liaising with the PSC as required; (vii) authorizing local disbursements in cooperation with the regional accountant; and (viii) assisting in project monitoring. The regional accountant will be responsible for local disbursements and procurement and for maintaining project accounts in accordance with sound accounting practices. The RPOs will act as the secretariats for the LRACs.
5. LRACs will be established on an ad hoc basis in each project area to review and approve TA sub-projects. These committees will assess the merits and demerits of sub-projects based on prior analysis carried out by the RPO. The committees will include representatives of the MAG, local government and beneficiary organizations.

PROJECT ORGANIZATIONAL STRUCTURE



B. Executing Agency: Ecuadorian-Canadian Development Fund

6. **Background.** The FECD was established in August 1990 by a Memorandum of Understanding (MOU) setting out the responsibilities of the Governments of Canada and Ecuador. The MOU, which supplements the economic, commercial and development agreement signed by Canada and Ecuador in October 1983, indicates the authorities responsible for implementing obligations under the MOU: the Canadian International Development Agency (CIDA) for Canada, and, for Ecuador, the Ministry of Foreign Affairs and the National Development Council (CONADE) (now the National Planning Office (ODEPLAN)). The termination date of the original agreement was extended until 2009 by an exchange of letters.

7. **Objectives.** The objectives of FECD are to contribute to reaching targets set out in Ecuadorian development plans and those of CIDA's technical and financial cooperation programme in Ecuador. The institution was established to finance the local costs of projects and of activities identified by the secretariat of FECD.

8. **Mandate, programmes and projects.** FECD resources are used to support organizations in the implementation of programmes and projects aimed at improving living conditions in rural areas, and to promote sustainable economic development in rural Ecuador. At the project level, FECD accords priority to viable associative productive projects that ensure self-sufficiency and self-management in the short term and have demonstrable multiplier effects. Priority is given to the following activities in rural areas: agricultural production; soil and water management and conservation; primary health care, basic education and social welfare; and small-scale agricultural infrastructure. Programmes and projects are expected to have a significant impact on the most vulnerable groups by increasing beneficiaries' social and economic well-being; improving basic health care, education and social welfare; increasing incomes and ensuring sustainable production; and supporting research directly linked to production activities.

9. **Institutional and organizational structure.** FECD's institutional and organizational structure includes a board of governors and a secretariat. The board of governors is composed of five members. These were originally the Secretary-General of CONADE, the General Manager of the Ecuadorian Central Bank, the Canadian Ambassador to Ecuador, the Director of CIDA's Andes Programme, and a fifth independent member appointed by mutual agreement between the other governors. Today, the Ecuadorian members on the board are representatives of ODEPLAN and the Ecuadorian Institute for International Cooperation. The Board nominates the Ecuadorian director of the Fund; ensures that all FECD operations are consistent with its overall objectives and principles; approves eligibility criteria for projects to be funded; draws up management policies; approves projects, programmes and budgets; contracts evaluators and independent auditors; meets twice-yearly to review activities, consider new programmes and projects and approve budgets; approves AWP/Bs; and authorizes individuals to manage and sign FECD bank accounts.

10. The secretariat of FECD is headed by one Ecuadorian and one Canadian director. Both are experts in rural development and are not officials of their respective governments. FECD has the following staff: (i) an administrator, sector specialists, support staff and short-term staff specialists as required. The secretariat is responsible for receiving, administering, managing and disbursing the funds generated by projects as agreed with CIDA; preparing regular activity reports; identifying and evaluating projects and programmes eligible for funding; establishing eligibility criteria for programmes and projects; providing technical and management assistance to implementing agencies of programmes and projects; ensuring proper M&E of approved programmes and projects, including reporting systems; and establishing the necessary procedures and documentation for approving programmes and projects. FECD disburses approximately USD 4.0 million a year, but this may vary depending on the amount of counterpart funding from different sources. Operations are undertaken by a senior project manager and five project officers.

IMPLEMENTATION RESPONSIBILITIES

IFAD	CAF	MEF	MAG	FECD*	Local Governments	Beneficiary organizations
Negotiate and sign loan agreement	Supervise project implementation	Negotiate and sign loan agreement	Subscribe supplementary agreement with FECD	Subscribe supplementary agreement with MAG	Participate fully in preparation of local development plans	Take lead in identifying, formulating, implementing and monitoring sub-projects
Review and approve selection of project director and other PIU staff	Channel requests for replenishment of the Special Account	Represent the borrower in PSC meetings	Chair meetings of PSC	Finalize project operations manual	Participate as members of LRAC	Participate in LRAC meetings to present and defend sub-project proposals
Review and approve revised project operations manual		Jointly with MAG, implement a training programme on rural development policies in the context of poverty reduction strategies	Participate in implementation of project activities and facilitate synergy between the project and other projects under its mandate	Establish PIU and execute the project	Cofinance municipal environmental sub-projects	Sign contractual obligations with project and with providers of technical assistance
Participate in PSC				Assume full responsibility for the funding, implementation and monitoring of the integrated municipal development sub-projects		Contract training services and trainers
Approve appointment of external auditors			Jointly with MEF, implement a training programme on rural development policies in the context of poverty reduction strategies			Open bank accounts to receive project funds
Approve disbursement						
Participate in joint supervision missions						

* FECD will be responsible for overall implementation of the project based on its appointment as executing agency by MAG in accordance with stipulations contained in a subsidiary agreement or other legal instrument signed between FECD and MAG. The FECD will be entirely responsible for implementation of the integrated municipal development sub-projects and follow FECD procedures for project identification, formulation, approval, implementation and M&E.

APPENDIX V

RESULTS AND IMPACT MANAGEMENT SYSTEM

Activity Clusters	First-Level Results	Second-Level Results
All clusters	<p>26 000 project-financed families increase the value of their private assets by at least 10% (land, livestock or workshops)</p> <p>Subsistence families will increase food production by at least 20% and some of this increase will help food security</p> <p>Additionally, 9 000 project-financed families increase their public assets by at least 10% (sanitary conditions in fairs, tourist circuits, and information services)</p>	<p>18 000 or 70% of targeted families use project increased assets (land, livestock, or workshops) profitably</p> <p>Food security coverage indexes improve by at least 15% for about 13 500 families</p> <p>Additionally, 4 500 families (or 50% of targeted families) have access to public goods and services one year after sub-project completion (sanitary conditions in fairs, tourist circuits and information services)</p>
Participatory planning and capacity building	<p>18 municipality plans are effective</p> <p>Each municipality plan includes a 10% increase in drinking water coverage</p> <p>640 business plans are formulated, 128 of which are for women's groups</p>	<p>32 local business plans are included in municipality plans, 20% of which are for women's groups</p> <p>10% of incremental drinking water systems are fully working</p> <p>64 women's groups' business plans have been financed and are fully working</p>
Integral municipal development sub-projects	<p>13 500 families increased their annual income by 20-30%, of which:</p> <p>(i) 1 300 families have access to reproductive health training courses</p> <p>(ii) 1 300 men have access to saving accounts</p> <p>(iii) 2 600 women have access to accounts</p> <p>(iv) 7 000 families have access to sub-project production facilities such as stockyards, workshops and improved farms</p>	<p>8 100 families (or 60% of targeted families) are using their assets profitably two years after sub-project completion; of these 2 600 are woman-headed households</p> <p>(i) 1 000 household heads (50% women) use the reproductive health training received</p> <p>(ii) 1 000 new saving accounts opened by men are fully operational</p> <p>(iii) 2 000 new saving accounts opened by women are fully operational</p> <p>(iv) 3 600 targeted families use their production facilities (stockyards, workshops, and improved farms) profitably</p>
Technical assistance sub-projects	<p>8 900 families increase their annual income by 20 to 30%, of which:</p> <p>(i) 1 800 families have access to agricultural technical assistance</p> <p>(ii) 1 800 families have access to livestock technical assistance</p> <p>(iii) 3 600 families have access to craft and microentrepreneurial technical assistance</p> <p>(iv) 1 800 families have access to land titling technical assistance</p> <p>(v) 400 beneficiaries have been trained to improve their productive skills</p> <p>(vi) Sanitary conditions at 18 fairs have improved</p> <p>(vii) 18 local products certified origin denominations have been obtained</p> <p>(viii) 18 pedestrian bridges, 30 km pedestrian trails and 15 tourist circuits have sign posts</p>	<p>5 300 families (or 60% of targeted families) are using their assets one year after project completion; of these 2 000 are woman-headed households</p> <p>(i) to (iii) 60% of families who accessed technical assistance report increased total revenue and/or sales one year after project completion</p> <p>(iv) 1 000 families finish their land titling one year after having started the procedure</p> <p>(v) 300 beneficiaries (men, women and youth) use their productive skills profitably one year after training completion</p> <p>(vi) 14 fairs have sanitary conditions fully working</p> <p>(vii) 14 local products certified origin denominations are operational one year after sub-project completion</p> <p>(viii) 12 project-financed infrastructures are operational one year after sub-project completion</p>

APPENDIX V

Activity Clusters	First-Level Results	Second-Level Results
Management of natural resources sub-projects	<p>3 500 families increase the value of their physical assets by 20% (land, irrigation systems, and housing), of which:</p> <ul style="list-style-type: none"> (i) 500 families replaced flooding irrigation by adequate environmental practices such as composts (ii) 500 families have access to improved firewood stoves (iii) 500 families use environmental skills for livestock management and/or forage, and build barns and sheds (iv) 500 families use environmental skills for forestry and biomass energy management (v) 3 200 ha are irrigated, with improved environmental skills such as aspersion or hosing <p>420 communities increase the value of their assets by 25% (land, and irrigation systems)</p> <ul style="list-style-type: none"> (vi) 6 400 ha are managed sustainably in previously degraded soils (vii) 18 km of irrigation ditches have been improved and are environmentally friendly <p>1 800 families increase the value of their assets by 20% (land and forestry resources)</p> <ul style="list-style-type: none"> (viii) 54 environmental sub-projects have been formulated and evaluated (ix) 6 400 ha have been reforested in secondary forests (x) 2 conservation fauna and flora sub-projects have been implemented 	<p>2 100 families who saw a value increase in their assets manage their natural resources sustainably one year after sub-project completion</p> <ul style="list-style-type: none"> (i) 400 families replaced flooding irrigation and their composts are operating (ii) 400 families report decreased respiratory illness (iii) 400 families report increase in total revenue and/or livestock sales, and their physical assets (iv) 400 families report optimization of biomass use (v) 2 600 ha are irrigated with improved environmental skills such as aspersion or hosing <p>300 communities report a 10% value increase in their physical assets</p> <ul style="list-style-type: none"> (vi) lands intervened by project are managed without conflict (vii) project-improved irrigation ditches are operational one year after project completion <p>1 000 families increase the value of their assets by 20% (land and forestry resources)</p> <ul style="list-style-type: none"> (viii) 18 environmental sub-projects have been successfully implemented (ix) 900 families report reforestation benefits (x) 80 families have access to conservation sub-project benefits with flora and fauna
Local knowledge and cultural diversity sub-projects	<p>18 cultural heritage sub-projects benefit 18 municipalities</p> <ul style="list-style-type: none"> (i) Six colonial churches, 6 archeological sites and 6 cultural sites rebuilt (ii) 18 cultural directories developed <p>216 cultural contests implemented</p>	<p>18 cultural heritage sub-projects have been cofinanced and are operating</p> <ul style="list-style-type: none"> (i) project cultural sites rebuilt are fully operating and maintenance is provided (ii) 18 cultural directories are bought mainly by tourists <p>151 cultural contests are cofinanced by municipality and report sales increase</p>

