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**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Eighty-eighth Session**  
Rome, 13-14 September 2006

**REPUBLIC OF ECUADOR**

**PRESIDENT'S MEMORANDUM**

**DEVELOPMENT OF THE CENTRAL CORRIDOR PROJECT**  
**(LOAN NO. 650-EC)**

**MODIFICATIONS TO THE PROJECT**

**For: Approval**

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## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session.

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**RECOMMENDATION FOR APPROVAL**

The Executive Board is invited to approve the recommendation on modifications to the Development of the Central Corridor Project (Loan No. 650-EC) in Ecuador as contained in paragraph 7.



**PRESIDENT'S MEMORANDUM**  
**DEVELOPMENT OF THE CENTRAL CORRIDOR PROJECT**  
**(LOAN NO. 650-EC)**  
**MODIFICATIONS TO THE PROJECT**

**I. BACKGROUND**

1. At its Eighty-third Session in December 2004, the Executive Board approved a loan of SDR 9.9 million (equivalent to approximately US\$14.8 million) to the Republic of Ecuador on highly concessional terms, to help finance the Development of the Central Corridor Project. The aim of this project is to link the Amazon with the coastal areas in the central northern area of the country. It is estimated that the project will benefit 36,000 small-scale farmers, indigenous and peasant communities, women and small-scale entrepreneurs living along a road network running from Puyo in the Amazonian region to Portoviejo on the coast.

2. The total cost of the Development of the Central Corridor Project was estimated at US\$24.3 million to be financed by: (i) an IFAD loan of SDR 9.9 million (equivalent to approximately US\$14.8 million); (ii) a grant from the Ecuadorian-Canadian Development Fund (FECD) of US\$5.0 million; (iii) a government contribution of US\$1.2 million; and (iv) a contribution by beneficiaries through cost-sharing mechanisms, totalling US\$3.3 million.

3. The delay in loan signing was caused by an unstable political period and social unrest in Ecuador. A new president took office in April 2005 and, subsequently, administrative reforms were introduced. Originally, the FECD – the cofinancier providing US\$5.0 million – was selected as the project's executing agency.

4. The Attorney General determined through a legal opinion dated 5 July 2005 that FECD could not implement the project due to the fact that it is a private entity. The legal opinion was discussed in 2006 by the Ministry of Economy and Finance, the Ministry of Agriculture, IFAD and the FECD. During these negotiations, it was agreed that the project would be implemented by the Ministry of Agriculture. Following the legal opinion by the Attorney General, the Ministry of Agriculture communicated in a letter dated 29 May 2006 that FECD would no longer cofinance the project. On 2 June 2006, the Ministry of Economy and Finance informed IFAD that the Government would commit to financing the gap left by the FECD and formally requested that the necessary adjustments be made to the project documents to reflect the new institutional and financial arrangements.

**II. RESTRUCTURED PROJECT FINANCING AND NEW INSTITUTIONAL ARRANGEMENTS**

5. As a consequence of the changes referred to in paragraphs 3 and 4 above, and in order to guarantee full financing of the project, the Government formally advised IFAD that: (i) FECD had withdrawn from the project; (ii) the Ministry of Agriculture would be the lead project agency with overall responsibility for project implementation; and (iii) the Government would bridge the financing gap left by the FECD, with a contribution of approximately US\$5.0 million and would pursue the same objectives and use the same mechanisms as were agreed at appraisal.

6. The estimated total project cost remains at US\$24.3 million, as originally approved. Financing of project costs will be as follows: an IFAD loan of SDR 9.9 million (equivalent to approximately US\$14.8 million or 61% of total project costs), as approved in December 2004; a Government counterpart contribution of US\$6.2 million equivalent (26%), of which US\$5.0 million represents the

cofinancing share in real terms and US\$1.2 million represents duties and taxes; and a cost-sharing contribution by beneficiaries, mainly in cash, of US\$3.3 million equivalent (13%). The summary of project costs table (unchanged) and the revised project financing plan table are presented on pages 3 and 4.

### III. RECOMMENDATION

7. In its national strategy to reduce rural poverty, the Government shows particular commitment to increasing local funding. As the project has a critical role to play in this context, it is recommended that the Executive Board approve the new implementation and financing arrangements, which will be reflected in the loan agreement, as follows:

- (i) The executing agency for the project will be the Ministry of Agriculture.
- (ii) The Government of Ecuador will commit to financing the gap left by FECD of an amount estimated at US\$5.0 million. The resources will entirely finance the integrated municipal development subprojects subcomponent under the rural business development component.

Lennart Båge  
President

**TABLE 1: SUMMARY OF PROJECT COSTS**  
(US\$'000)

Component	Local	Foreign	Total	% of Foreign Exchange	% of Total Base Cost
<b>A. Participatory planning and capacity-building</b>					
Instituting rural poverty reduction programmes	312	-	312	-	1
Strengthening of local government	127	-	127	-	1
Development of innovative business initiatives	654	-	654	-	3
<b>Subtotal</b>	<b>1 093</b>	<b>-</b>	<b>1 093</b>	<b>-</b>	<b>5</b>
<b>B. Rural business development</b>					
Integrated municipal development subprojects	5 940	-	5 940	-	26
Incentives for contracting technical assistance	5 131	-	5 131	-	22
Investment in public goods and services	945	-	945	-	4
<b>Subtotal</b>	<b>12 016</b>	<b>-</b>	<b>12 016</b>	<b>-</b>	<b>52</b>
<b>C. Management of natural resources</b>					
Training in management of natural resources	281	-	281	-	1
Natural resource management subprojects	3 374	-	3 374	-	15
Environmental management subprojects	402	-	402	-	2
<b>Subtotal</b>	<b>4 057</b>	<b>-</b>	<b>4 057</b>	<b>-</b>	<b>18</b>
<b>D. Local knowledge and cultural diversity</b>					
Heritage sites	1 330	-	1 330	-	6
Identity products	847	-	847	-	4
Cultural products	1 080	-	1 080	-	5
<b>Subtotal</b>	<b>3 257</b>	<b>-</b>	<b>3 257</b>	<b>-</b>	<b>14</b>
<b>E. Project management and administration</b>	<b>2 499</b>	<b>-</b>	<b>2 499</b>	<b>-</b>	<b>11</b>
<b>Total base costs</b>	<b>22 922</b>	<b>-</b>	<b>22 922</b>	<b>-</b>	<b>100</b>
Physical contingencies	-	-	-	-	-
Price contingencies	1 372	-	1 372	-	6
<b>Total project costs</b>	<b>24 295</b>	<b>-</b>	<b>24 295</b>	<b>-</b>	<b>106</b>

**TABLE 2: REVISED FINANCING PLAN**  
(US\$'000)

Component	IFAD		Government		Beneficiaries		Government Contribution (taxes)		Total		Foreign Exchange	Local (excl. taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Participatory planning and capacity-building</b>													
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
<b>Subtotal</b>	<b>988</b>	<b>88.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>135</b>	<b>12.0</b>	<b>1 122</b>	<b>4.6</b>	<b>-</b>	<b>988</b>	<b>135</b>
<b>B. Rural business development</b>													
Integrated municipal development subprojects	-	-	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	-
<b>Subtotal</b>	<b>4 883</b>	<b>38.2</b>	<b>4 992</b>	<b>39.1</b>	<b>2 138</b>	<b>16.7</b>	<b>757</b>	<b>5.9</b>	<b>12 769</b>	<b>52.6</b>	<b>-</b>	<b>12 013</b>	<b>757</b>
<b>C. Management of natural resources</b>													
Training in management of natural resources	269	90.9	-	-	27	9.1	-	-	296	1.2	-	296	-
Natural resource management subprojects	3 535	98.5	-	-	55	1.5	-	-	3 589	14.8	-	3 589	-
Environmental management subprojects	351	81.0	-	-	82	19.0	-	-	433	1.8	-	433	-
<b>Subtotal</b>	<b>4 154</b>	<b>96.2</b>	<b>-</b>	<b>-</b>	<b>163</b>	<b>3.8</b>	<b>-</b>	<b>-</b>	<b>4 318</b>	<b>17.8</b>	<b>-</b>	<b>4 318</b>	<b>-</b>
<b>D. Local knowledge and cultural diversity</b>													
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	-
<b>Subtotal</b>	<b>2 483</b>	<b>72.3</b>	<b>-</b>	<b>-</b>	<b>949</b>	<b>27.7</b>	<b>-</b>	<b>-</b>	<b>3 432</b>	<b>14.1</b>	<b>-</b>	<b>3 432</b>	<b>-</b>
<b>E. Project management and administration</b>	<b>2 334</b>	<b>88.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>318</b>	<b>12.0</b>	<b>2 653</b>	<b>10.9</b>	<b>-</b>	<b>2 334</b>	<b>318</b>
<b>Total project costs</b>	<b>14 842</b>	<b>61.1</b>	<b>4 992</b>	<b>20.5</b>	<b>3 250</b>	<b>13.4</b>	<b>1 210</b>	<b>5.0</b>	<b>24 295</b>	<b>100.0</b>	<b>-</b>	<b>23 085</b>	<b>1 210</b>



