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Enabling the rural poor
to overcome poverty

President's memorandum

Republic of Ecuador

Development of the Central Corridor Project (Loan No. 650-EC)

Extension of time limit for signature of the loan agreement

Executive Board — Eighty-ninth Session
Rome, 12-14 December 2006

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Recommendation for approval

Given the role of this project in the national strategy to reduce rural poverty as expressed by the Government's commitment to increase local funding, the Executive Board is invited to approve an extension of six months – to 14 June 2007 – of the period for signature of the loan agreement for the Development of the Central Corridor Project.

President's memorandum

Development of the Central Corridor Project (Loan No. 650-EC)

Extension of the time limit for signature of the loan agreement

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), on highly concessional terms, to the Republic of Ecuador to help finance the Development of the Central Corridor Project. The time limit for signature of the loan agreement expires two years after Executive Board approval (i.e. on 14 December 2006). In this connection, it is noted that the loan agreement has not yet been signed.
2. The delay has been due to a period of political instability and social unrest in Ecuador. A new president took office in April 2005 and, subsequently, administrative reforms were introduced.
3. The Ecuadorian Canadian Development Fund (FECD), participating as cofinancier with US\$5.0 million, was originally indicated as the project's executing agency. In a legal opinion dated 5 July 2005, the Attorney General determined that FECD could not implement the project in view of 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 FECD. During these negotiations, it was agreed that the project would be implemented by the Ministry of Agriculture. On 2 June 2006, the Ministry of Economy and Finance informed IFAD that the Government had committed to financing the gap left by FECD and formally requested that the necessary adjustments be made to the project documents to reflect the new institutional and financial arrangements.
4. At the request of the Government, the Executive Board approved – at its eighty-eighth session, held in September 2006 – modifications to the project in the negotiated loan agreement. These modifications refer to (i) a change in the executing agency, with the Ministry of Agriculture now to implement the project, and (ii) the Government's commitment to finance the gap left by FECD in an amount estimated at US\$5.0 million. The estimated total project cost remains as originally approved at US\$24.3 million.

II. Status of loan effectiveness

5. Since September 2006, the Latin America and the Caribbean Division has been following up closely and continuously with the country authorities in view of the urgent need for loan signing, loan effectiveness and project start-up. Internal approval procedures leading to the formalization of loan signing are well under way in the country, but additional time is necessary in order to obtain the signature of the President of the Republic and the respective decree.