

Document:	<u>EB 2009/97/R.24/Rev.1</u>
Agenda:	<u>11(d)(ii)</u>
Date:	<u>15 September 2009</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

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President's report

Proposed loan to the Republic of Ecuador for the

Ibarra-San Lorenzo Development Project

Executive Board — Ninety-seventh Session
Rome, 14-15 September 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Abbreviations and acronyms

COSOP	country strategic opportunities programme
GEF	Global Environment Facility
M&E	monitoring and evaluation
NRM	natural resource management
SENPLADES	National Secretariat of Planning and Development

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Ecuador for the Ibarra-San Lorenzo Development Project, as contained in paragraph 36.

Map of the project area

Ecuador

Ibarra-San Lorenzo Development Project



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

Ibarra-San Lorenzo Development Project

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Ecuador
Executing agency:	Technical Secretariat of Plan Ecuador
Total project cost:	US\$13.68 million
Amount of IFAD loan:	SDR 5.55 million (equivalent to approximately US\$8.63 million)
Terms of IFAD loan:	18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually
Cofinancier:	Global Environment Facility – proposed cofinancing
Amount of cofinancing:	US\$2.70 million
Terms of cofinancing:	Grant
Contribution of borrower:	Central Government of Ecuador: US\$1.41 million; municipalities: US\$198,000
Contribution of beneficiaries:	US\$755,000
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan to the Republic of Ecuador for the Ibarra-San Lorenzo Development project

I. The project

A. Main development opportunity addressed by the project

1. The project area falls within the northern border region, which has been defined as a strategic area for intervention by the Government and donor community. Some of the region's specific characteristics include: (i) high poverty levels and a historical deficit of services and basic social infrastructure; (ii) high levels of exclusion and social inequity; (iii) deteriorating conditions for competitiveness and productive employment; (iv) strong pressures on natural resources; (v) institutional weaknesses; and (vi) high levels of violence due to the conflict in Colombia. The project aims at providing access to markets, improving natural resource management and building up social capital, while valuing cultural identities.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the Republic of Ecuador in the amount of SDR 5.55 million (equivalent to approximately US\$8.63 million) on ordinary terms to help finance the Ibarra-San Lorenzo Development project. The loan will have a term of 18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by the Fund annually.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The IFAD loan for this project falls within the three-year allocation (2007-2009) of US\$12,269,776.

Relationship to national medium-term expenditure framework criteria

4. The Government of Ecuador will include the project in the pipeline of the National Secretariat of Planning and Development (SENPLADES), and the Ministry of Finance will budget this project within its annual planning and budgeting exercise.

Country debt burden and absorptive capacity of the State

5. Although the administration of President Correa has indicated that the State will prioritize social spending over public debt servicing, the Government has continued to honour its debt obligations.

Flow of funds

6. There shall be an account in the Central Bank of Ecuador for the implementation of project activities.

Supervision arrangements

7. The project will be directly supervised by IFAD.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

8. No exceptions are foreseen.

Governance

9. The following measures are planned to enhance the governance aspects: (i) use of private auditing firms and full adherence to IFAD's guidelines for audit reporting; (ii) capacity-building for the project implementation unit in financial management and procurement, in conjunction with other donors; (iii) regular meetings of the project steering committee to ensure that project progress is satisfactory; (iv) performance-based contracting of staff with yearly evaluations on the basis of clear performance indicators; (v) joint IFAD-Global Environment Facility (GEF)

supervision missions; and (vi) use of a competitive and transparent system to allocate resources through local resource allocation committees.

C. Target group and participation

Target group

10. The target group will include the population of the poorest areas in the selected cantons in the area of influence of the Ibarra-San Lorenzo highway within the northern region. The project's target population consists of families living in rural or peri-urban canton capitals classified as poor using the unmet basic needs methodology. The area is characterized by the cultural diversity of the population, which includes Afro-Ecuadorian, indigenous and mestizo settlers and dwellers.

Targeting approach

11. In accordance with the IFAD Policy on Targeting, the project will adopt an inclusive and comprehensive approach. The area was selected by using poverty estimations based on the unmet basic needs method and a small area estimation methodology. The project will use self-targeting based on demand-driven implementation mechanisms: (i) appropriate funding levels; (ii) appropriate instruments for project formulation by the poor; (iii) provision of technical assistance based on the potential of beneficiary groups; and (iv) support in valuing assets and assistance to the most vulnerable in fulfilling project requirements. Direct targeting will be proposed for vulnerable groups: (i) Afro and indigenous ethnic groups, based on poverty levels; and (ii) women, based on income level and access to social services.

Participation

12. The project will build on participatory approaches already implemented in previous IFAD projects in Ecuador and the Andean region, which are at the core of all interventions. Beneficiaries will identify their assets and those of their communities. Then they will identify, formulate and implement their projects. The project will assist them in contracting the services they require for implementation.

D. Development objectives

Key project objectives

13. The goal of the project is to contribute towards reducing conditions of poverty among Afro-Ecuadorian, indigenous and mestizo settlers and dwellers in canton capitals in the area of influence of the Ibarra-San Lorenzo highway within the northern region. Its main objective is to increase and strengthen the natural, social and cultural assets of families and beneficiary communities while facilitating access to markets and furthering cultural identities.

Policy and institutional objectives

14. The project will further three main policy and institutional objectives: (i) protecting and enhancing the natural and cultural heritage; (ii) increasing opportunities for rural growth; and (iii) consolidating and improving strategic partnerships under the framework of Plan Ecuador.

IFAD policy and strategy alignment

15. The project is fully aligned with the IFAD Strategic Framework 2007-2010 and with the country strategic opportunities programme (COSOP) for Ecuador, which promotes territorial development. The COSOP prescribes, among others: (i) concentrating interventions in areas with high levels of indigenous and Afro-Ecuadorian populations; (ii) furthering gender mainstreaming and assistance to rural women; (iii) deepening training and capacity-building for community contracting and decision-making; and (iv) providing assistance for contracting technical and managerial assistance in the market and funding for on- and off-farm initiatives.

E. Harmonization and alignment

Alignment with national priorities

16. The project is in line with the main thrusts of the National Development Plan 2007-2010 and with Plan Ecuador, the Government's integrated development approach for the northern region. The 10-year Plan Ecuador has set the following priorities: (i) furthering economic development and employment generation; (ii) improving basic social infrastructure; (iii) managing natural resources in a sustainable manner; (iv) strengthening the administration of justice and control of illegal substances; (v) ensuring human rights and providing humanitarian assistance and asylum; and (vi) ensuring national sovereignty and State integrity.

Harmonization with development partners

17. The project will be implemented in a high-priority geographic setting where Government efforts are being concentrated through Plan Ecuador. The following donors are involved in the project area: the European Union (EU), the United Nations, and the aid agencies of the governments of Belgium, Canada, Germany, the Netherlands, Spain and the United States of America. In addition to other donors' activities, the Government has agreed with the Government of Spain to use funds from an existing debt swap agreement to promote investment in the northern region.

F. Components and expenditure categories

Main components

18. The project has four components: (i) capacity-building, citizens' rights and institutional strengthening; (ii) management of natural and environmental resources; (iii) development of business ventures and value chains; and (iv) recovery of ancestral knowledge and reaffirmation of cultural identities.

Expenditure categories

19. There are eight expenditure categories: (i) technical assistance and training (14 per cent); (ii) incentives (19 per cent); (iii) capitalization fund (29.2 per cent); (iv) matching grant (7.2 per cent); (v) GEF grant (19.7 per cent); (vi) equipment and vehicles (1.2 per cent); (vii) salaries and allowances (7.5 per cent); and (viii) operation and maintenance (2.1 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

20. The project will collaborate with the Ministry of Agriculture, Livestock, Aquaculture and Fisheries (MAGAP) and the Ministry of the Environment. Experience gained by the Heritage Institute and the Cultural Affairs Department of the Central Bank of Ecuador in development of cultural issues will contribute to implementing the recovery of ancestral knowledge and reaffirmation of cultural identity component. Experience gained by the German Agency for Technical Cooperation and the Export and Investment Promotion Corporation in value chain development will be taken into account, and a partnership in this area could be developed.

Implementation responsibilities

21. The Technical Secretariat of Plan Ecuador (TSPE) will be responsible for overall project implementation. A project implementation unit will be established in Ibarra with two local project offices in Lita and San Lorenzo. Overall guidance for project implementation will be provided by a project steering committee composed of representatives of the Ministry of Finance, the Ministry of Agriculture, Livestock, Aquaculture and Fisheries, the Ministry of the Environment, and the Secretariat of Peoples, Social Movements and Citizens' Participation, with an IFAD/GEF representative as an observer.

Role of technical assistance

22. Technical assistance contracted by beneficiaries themselves in the open market has proven successful in Ecuador and other Andean countries, and will be geographically scaled up to the northern region. Technical support is also being considered for harmonization of efforts in the northern region, to enhance the impact of rural development interventions.

Status of key implementation agreements

23. A subsidiary agreement will be signed between the Ministry of Finance and TPSE.

Key financing partners and amounts committed

24. The total project cost is US\$13.68 million over six years. The sources of financing are IFAD (63 per cent), GEF (19.7 per cent), the Government (10.3 per cent), municipalities (1.4 per cent) and beneficiaries (5.5 per cent).

H. Benefits and economic and financial justification**Main categories of benefits generated**

25. The project will bring a number of benefits to target groups, including: (i) increased production and productivity in the highland areas; (ii) recovery of mangrove areas through improved coastal management; (iii) better living conditions in hamlets and small-scale human settlements, with less pollution and greater opportunities for setting up small-scale ventures for environmental improvements; (iv) farmer organizations able to identify and be supported in establishing productive strategic alliances to develop business ventures and further value chain approaches; (v) increased self-esteem among indigenous and Afro-Ecuadorian communities; and (vi) enhanced cultural values, recovered cultural traditions and heritage sites, as well as recognition of identity products.

Economic and financial viability

26. Cost-benefit analysis was carried out separately for each component: (i) managing environmental and natural resources: the cost-benefit ratio is 2.12; net present value is positive; and the internal rate of return (IRR) is 24 per cent by the end of a 10-year period; (ii) facilitating business ventures and value chains: the cost-benefit ratio is an outstanding 5.9; net present value is highly positive; and the IRR is 30 per cent over a 10-year period; and (iii) recovering ancestral knowledge and cultural identity: the cost-benefit ratio is 2.14; net present value is positive; and the IRR is 27.3 over a 10-year period. The result of the simulations indicates that the project is financially and economically sound. These amounts are subject to change when the project cost and financing estimates are reviewed during the first year of implementation.

I. Knowledge management, innovation and scaling up**Knowledge management arrangements**

27. The project will establish alliances with IFAD-funded regional programmes and other national and international research institutions for knowledge management purposes. Project experience will be closely documented and results disseminated.

Development innovations that the project will promote

28. The project will further the following innovations: (i) introduce the economic corridor development approach linking rural areas with small and medium-size towns, while promoting the possibility of off-farm employment and income-generating activities in the context of territorial development; (ii) support culture-based initiatives by contributing to deepening shared values, beliefs, knowledge, skills and practices of members of social groups and supporting creative expressions, traditional knowledge and cultural resources that form part of the lives of peoples; (iii) community contracting of technical assistance; and (iv) competitive fund transfer mechanisms. Through the GEF grant, a further innovation will be introduced in the form of payments for environmental services.

Scaling-up approach

29. It is expected that lessons learned from implementing activities in the ongoing Central Corridor Project and in other Andean countries will be scaled up to the northern region, and that by project midterm a comprehensive approach to development in the northern border area will have been developed.

J. Main risks**Main risks and mitigation measures**

30. The project faces three main risks: (i) deteriorating security and increased violence in the northern region; (ii) degradation of natural resource productive capacity through intensified agricultural production and forest exploitation; and (iii) weak implementation capacity of TSPE. These risks can be mitigated by means of strong stakeholder participation, adequate field presence and capacity-building, and by instilling a sense of ownership of initiatives and demonstrating the benefits to be accrued. The implementation of Plan Ecuador can mitigate violence in the project area and foster rural development.

Environmental classification

31. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is unlikely to have any significant negative environmental impact.

K. Sustainability

32. Dialogue between national, provincial and local authorities on aligning investments in favour of the rural poor will be of key importance for sustainable development. As communities acquire the knowledge to improve their physical assets and continue to do so, the sustainable management of natural resources will become a reality.

II. Legal instruments and authority

33. A project financing agreement between the Republic of Ecuador and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financial agreement will not be tabled at this session. The Board will be requested to approve the proposal for the Ibarra-San Lorenzo Development Project subject to the completion of the negotiations of the financing agreement within six months of the Executive Board's approval. A copy of the negotiated financing agreement will be tabled at a future session, as well as any substantive changes to the terms presented to the Board.
34. The Republic of Ecuador is empowered under its laws to receive financing from IFAD.
35. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

36. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on ordinary terms to the Republic of Ecuador in an amount equivalent to five million five hundred fifty thousand special drawing rights (SDR 5,550,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Key reference documents

Country reference documents

National Development Plan (NDP) 2007 – 2010.

Plan Ecuador.

UNDP, SENPLADES, "II National Report on MDG", Quito –Ecuador. 2008.

IFAD reference documents

Project design document (PDD) and key files

COSOP

Administrative Procedures on Environmental Assessment

Other miscellaneous reference documents

Simoni, P., "Lessons learned in IFAD Projects in Peru", IFAD, June 2007, Rome.

World Bank, "Poverty Reduction and Local Rural Development (PROLOCAL) Project" Implementation Completion and Results Report, February 2008.

Logical framework

Narrative	Indicators (RIMS indicators in italics)	Means of Verification	Assumptions and Risks
<p>Goal Poverty levels of communities and localities in the project area decreased</p>	<ul style="list-style-type: none"> At project completion, poverty and extreme poverty levels by consumption in the project area have been reduced by 10 per cent according to the National Living Conditions Household Survey. Reduction in chronic malnutrition to 45 per cent according to the National Development Plan 	<ul style="list-style-type: none"> Baseline Survey, midterm and completion surveys 	
<p>Objective Beneficiary families and communities have increased their natural, social, productive and cultural assets and enhanced their citizens' rights, and the institutional framework has been strengthened</p>	<ul style="list-style-type: none"> <i>Direct beneficiaries 9000 households (1000 indigenous. 5800 Afro- Ecuadorian, 2200 mestizos, 20 per cent women-headed households).</i> 9000 households increase the value of their assets by 10 per cent (35 per cent managed by women) <i>3500 hectares improved through soil and water conservation methods</i> <i>40 per cent of households have adopted at least two technological practices for national resource management (NRM)</i> 70 per cent organizations and associations participate in commercial economic flows <i>80 per cent of agricultural enterprises operate profitably after three years</i> 80 per cent of cultural indigenous and Afro-Ecuadorian initiatives contribute to increased incomes by 20 per cent 	<ul style="list-style-type: none"> Baseline study, midterm review and end of project evaluation; Specific monitoring and evaluation (M&E); community participatory mapping exercises. Participatory video recordings Systematizations of experiences 	<ul style="list-style-type: none"> Government maintains its policies on poverty reduction and territorial development Inherent risks derived from the conflict in Colombia reduced
<p>Output 1. Rural poor families have valued their natural and cultural assets, enhanced their citizens' rights, and the institutional framework has been strengthened</p>	<p><u>Component 1. Capacity-building, enhanced citizens' rights and institutional strengthening</u></p> <ul style="list-style-type: none"> Communities in 35 parishes identify their assets and assess physical vulnerabilities Number of individuals with identity documents and access to social benefit programs Number of beneficiary organizations and associations with legal recognition Number of operational local resource allocation committees (LRACs) with gender representation Enhanced capacity of TSPE to address gender, M&E and conflict mediation 	<ul style="list-style-type: none"> Mapping reports Civil Registry/SELBEN Registries Business ventures registration Notarized documents Records of LARC meetings 	<p>Continued Government support for Plan Ecuador strategies and activities</p>
<p>Output 2. Poor families, their organizations and rural promoters are familiar with and apply appropriate practices and technologies for improving the management of natural and environmental resources and their human settlements</p>	<p><u>Component 2 Improvement of natural and environmental resources</u></p> <ul style="list-style-type: none"> 7000 families (20 per cent women-headed households) participating in competitions are familiar with better soil and water management practices and vegetation coverage 360 agricultural technicians (254 women) trained in NRM and climate change 400 women and 1500 young people with improved knowledge on conservation and NRM 24 human settlements have improved their environmental conditions 90 groups of house occupants in villages and hamlets representing 1350 families with 900 improved homes in the project area 16 projects for 3000 families for improving solid waste disposal implemented 	<ul style="list-style-type: none"> Evaluations on NRM; health, housing and living conditions Focus group discussions; Participatory maps Training provision and performance evaluation. Social auditing; focus group discussions; gender studies M&E studies, annual reports 	<p>Intensified agricultural production does not have a negative impact on natural resources</p>
<p>Output 3. Small-scale producers have at their disposal methodologies and instruments for undertaking business ventures Output 4. Small –scale producer organizations are able to administer, negotiate and participate in value chains in accordance with dynamic and demanding markets</p>	<p><u>Component 3 Development of business ventures and value chains</u></p> <ul style="list-style-type: none"> 50 productive initiatives or groups with a total of 4000 members involved in at least one transformation process implemented 4000 individuals (35 per cent women) trained in within the value chain concept 50 producer groups strengthened for market insertion (18 enterprises in which women hold leadership roles) 50 producer groups integrated entrepreneurially in production and marketing circuits 4000 families inserted in markets with 2 or more linkages in value chains resulting in increased income 	<ul style="list-style-type: none"> Producer surveys; focus group discussions; evaluation studies on training activities Marketing studies Registry of commercial ventures and enterprises Systematization of experiences Producer surveys 	<ul style="list-style-type: none"> Implementation not endangered by adverse Government decisions There is market demand and prices are adequate
<p>Output 5. Knowledge of cultural values, traditions and heritage recognized, valued and disseminated, and profitable cultural initiatives promoted. Output 6. Formal and informal educational models for revitalizing indigenous and Afro-Ecuadorian culture promoted and adopted</p>	<p><u>Component 4. Recovery of ancestral knowledge and reaffirmation of cultural identities</u></p> <ul style="list-style-type: none"> 25 cultural initiatives contribute towards increased incomes; 50 organizations with increased self-esteem (<i>20 per cent of groups led by women</i>); traditional indigenous and Afro-Ecuadorian knowledge valued, published and disseminated 10 heritage, cultural and tourism centres rehabilitated for income generation; 30 educational centres established as models for cultural education and strengthened; <i>60 teachers and cultural promoters trained</i>; teaching materials distributed and used in 30 educational centres 	<ul style="list-style-type: none"> Evaluation of cultural initiatives; Focus group discussions Economic studies of heritage sites Evaluations on educational centres; teacher interviews; assessment of use of teaching materials Documents produced and distributed 	<p>Ministry of Education willing to consider inclusion of cultural studies in the curricula</p>

