

Document:	<u>EB 2009/98/R.37/Rev.1</u>
Agenda:	<u>17(d)(ii)</u>
Date:	<u>17 December 2009</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

E



President's memorandum

Proposed supplementary loan to the Republic of Ecuador for the

Ibarra-San Lorenzo Development Project

Executive Board — Ninety-eighth Session
Rome, 15-17 December 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

Directors are invited to contact the following focal point with any technical questions about this document:

Francisco Pichon

Country Programme Manager
telephone: +39 06 5459 2128
e-mail: f.pichon@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer
telephone: +39 06 5459 2374
e-mail: d.mcgrenra@ifad.org

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing for the Ibarra-San Lorenzo Development Project in the Republic of Ecuador, as contained in paragraph 10.

President's memorandum

Proposed supplementary loan to the Republic of Ecuador for the

Ibarra-San Lorenzo Development Project

I. Background

1. This memorandum seeks approval for additional financing of US\$4.20 million, equivalent to SDR 2.65 million, for the Ibarra-San Lorenzo Development Project, approved by the Executive Board in September 2009.¹ This additional financing has been requested on behalf of the borrower by the Minister for Finance of the Republic of Ecuador in a letter dated 17 November 2009. The requested additional resources are within the allocation for the Republic of Ecuador under the performance-based allocation system for the 2007-2009 period.

II. Justification and rationale

2. Additional resources have been requested by government authorities based on their commitment to step up efforts to reduce extreme rural poverty and ensure food security among Afro-Ecuadorian, indigenous and mestizo settlers and dwellers living in the area of influence of the Ibarra-San Lorenzo highway in Ecuador's northern region. The northern border region has high levels of poverty, exclusion and economic inequality, and a historical deficit of services and basic social infrastructure. Natural resources are under pressure and there is increasing insecurity due to conflict in neighbouring Colombia.
3. Supplementary financing will be allocated to the project's "development of business ventures and value chains" and "recovery of ancestral knowledge and reaffirmation of cultural identities" components. Specifically, the funding will be used to increase investments to promote food security and rural businesses, while facilitating access to markets and furthering cultural identity.
4. The Government has strengthened the Technical Secretariat of Plan Ecuador (TSPE) by assigning it greater implementation power and adequate funding. The TSPE is under the responsibility of the Minister Coordinator for Internal and External Security, and has a specific mandate to coordinate external donor assistance targeted at the northern border region through its planning directorate and three units for (a) programming and projects, (b) coordination and concerted action, and (c) national and international cooperation. It has established mechanisms for coordination with the Ecuadorian Agency for International Cooperation of the National Secretariat of Planning and Development (SENPLADES) and the Ministry of Finance to target donor assistance under the general thrusts of Plan Ecuador in the northern border region. The TSPE is also part of the Financial Management System (SIGEF) of the public sector and its budget is included within the national financial system. The SIGEF allows for investment and recurrent costs to be registered and processed, and has adequate mechanisms for securing counterpart funds based on the presentation at the end of the fiscal year of financial requirements for the following year, which are considered by SENPLADES and then forwarded to the Ministry of Finance for inclusion in the national budget.

III. Proposed supplementary financing and activities

5. The Government of Ecuador's formal request for a supplementary loan in the amount of US\$4.20 million, equivalent to SDR 2.65 million, will allow for an increase in the number of project beneficiaries from 9,000 to 14,000 households

¹ EB 2009/97/R.24/Rev.1

living in rural and peri-urban cantons in the northern region, who are expected to improve their food security and the value of their economic, environmental and socio-cultural assets as a result of project investments.

6. The proposed increased loan amount will be borrowed by the Republic of Ecuador under ordinary terms. The project's objectives, strategy, geographic coverage, components, and organization and management will remain unchanged. However the following aspects are foreseen:
 - (a) An additional allocation of US\$3 million for the "development of business ventures and value chains" component will assist in furthering productive initiatives that will contribute to food security and the generation of surplus production and entrepreneurial development. It is expected that the additional financing will allow for an increase in the number of rural families benefiting from this component, which will now reach 14,000 families in the target area.
 - (b) An additional allocation of US\$1.20 million for the "recovery of ancestral knowledge and reaffirmation of cultural identities" component will support the identification and implementation of subprojects based on the promotion of ethno-crops and other community-based initiatives of strategic importance to the cultural reaffirmation and economic revitalization of this ethnically diverse territory. It is expected that the additional resources will lead to an increase in the number of subprojects supported under this component, which will now finance 45 subprojects.

Project costs

7. Total project costs will increase from US\$13.68 million to US\$18.72 million. Allocations for component 1 (capacity-building, enhanced citizens' rights and institutional strengthening) and component 2 (management of natural and environmental resources) will remain unchanged at US\$1.01 and US\$5.11 million, respectively. Component 3 (development of business ventures and value chains) and component 4 (recovery of ancestral knowledge and reaffirmation of cultural identities) will now total US\$7.13 million and US\$3.16 million, respectively. The project management costs have been increased to US\$2.31 million through additional national cofinancing agreed with the Government.
8. The IFAD loan will increase from SDR 5.55 million, or US\$8.63 million, to an amount of SDR 8.20 million, or US\$12.83 million. The IFAD loan and supplementary loan are being borrowed by the Republic of Ecuador on ordinary terms. Changes in the amounts allocated to the IFAD loan expenditure categories will be reflected in annex 2 of the financing agreement, which is yet to be finalized.
9. Contributions by the Global Environment Facility, beneficiaries and municipalities will be unchanged at US\$2.70 million, US\$755,000 and US\$198,000, respectively, while the Government's contribution has been increased from US\$1.41 million to US\$2.24 million, bringing the total project cost to US\$18.72 million.

IV. Recommendation

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

RESOLVED: that the Fund shall make a supplementary loan on ordinary terms to the Republic of Ecuador in an amount equivalent to two million six hundred and fifty thousand special drawing rights (SDR 2,650,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

