

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA20024

Project Name	Ecuador - Sustainable Family Farming Modernization Project (P151963)
Region	LATIN AMERICA AND CARIBBEAN
Country	Ecuador
Sector(s)	General agriculture, fishing and forestry sector (56%), Irrigation and drainage (37%), Agricultural extension and research (4%), Agro-industry, marketing, and trade (3%)
Theme(s)	Rural services and infrastructure (50%), Water resource management (20%), Rural markets (20%), Climate change (10%)
Lending Instrument	Investment Project Financing
Project ID	P151963
Borrower(s)	REPUBLIC OF ECUADOR
Implementing Agency	Ministry of Agriculture, Livestock, Aquaculture and Fisheries
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	19-Mar-2015
Date PID Approved/Disclosed	20-Mar-2015
Estimated Date of Appraisal Completion	27-Mar-2015
Estimated Date of Board Approval	02-Jul-2015
Appraisal Review Decision (from Decision Note)	<p>The main decisions taken during the decision meeting were:</p> <p>(a) The chair authorized the team to appraise, conditioned to the prior disclosure of the safeguard instruments, the PID and ISDS.</p> <p>(b) The review discussed the risk rating of the project and agreed to rate the project Substantial, as proposed by the Task Team.</p> <p>(c) The review confirmed the proposed PDO, Result Framework and Components Design of the Project.</p> <p>(d) The review asked the Task Team to review the strategy of staffing particularly at the Zonal level. This review will aim at identifying potential reduction and optimization of decentralized staff according to actual needs (related to the quantity of subprojects to be developed per Zonal offices) and current installed capacities.</p> <p>(e) The Review agreed that the existence of a secure land tenure should be one of the key criteria for selection of the potential beneficiaries. The possession of a land title should be considered as the default option as evidence of secure land tenure.</p>

	<p>However, as national and international experiences demonstrated, this is not always possible due to practical limitations to actual issuing of land titles in some areas. Therefore, considering that a large proportion of existing farmers in the area of intervention should also be given the opportunity to benefit from the project, the Review Meeting advised the Task Team to explore during appraisal, in close collaboration with the Legal Department, alternative legal options acceptable to the Bank and the Borrower to recognize land ownership in absence of legal title. In particular, the Task Team will analyze the alternative options used by the MAGAP in the last years, as well as the support offered by MAGAP to support land titling.</p> <p>(f) The Review asked the Task Team to strengthen the dimension on the Access to Markets and Support to Commercialization of the Project by networking with: (i) in Ecuador, the Ministerio Coordinador de Producción, Empleo y Competitividad or the Secretaría Nacional de Planificación y Desarrollo and; (ii) within the Bank with the team of Trade and Competitiveness.</p> <p>(g) The review asked the Task team to describe in the project cycle the nature of formal agreements (before subproject implementation and during final phase of transfer of assets), between the Implementing Agency and the Farmers' Organizations.</p>
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I. Project Context

Country Context

During the last decade, Ecuador has seen a period of relative political stability. The Government of Ecuador (GoE) has invested heavily in infrastructure and social sectors in an effort to stimulate growth, reduce inequality and promote inclusion for a total population of slightly more than 15.7 million inhabitants.

The Ecuadorian external sector relies largely on the extraction and export of oil, and on the export of natural resource-based products and services. Some strategic economic sectors for Ecuador's development are agriculture, fishing, forestry and tourism. The agricultural sector accounted for 7.3 percent of the GDP in 2013 in real terms. With more than 30 percent of its agricultural production destined for export in average for the period 2010-2013, Ecuador could benefit significantly from stimulating productivity through integrated rural development approaches (source: World Bank Development Indicators).

Growth combined with falling inequality has led to important gains in reducing poverty and promoting shared prosperity. Over the last decade (2003-13), GDP per capita growth in Ecuador was above regional average levels (2.7 percent vs. 2.5 percent), while progress in reducing inequality has exceeded regional trends. Income distribution was significantly improved, as expressed by the Gini coefficient, declining from 0.54 in December 2006 to 0.47 in December 2014. Likewise, between 2006 and December 2014, income poverty at the national poverty line fell from 37.6 percent to 22.5 percent, while extreme poverty fell from 16.9 percent to 7.7 percent.

Despite the significant reduction in poverty and growth of the middle class, more than half of the population in Ecuador remains poor or vulnerable to falling back into poverty, particularly in rural areas. In September 2014, 4.2 percent of the urban population lived in extreme poverty compared to the 17.8 percent for the rural population. The difference was less pronounced at the moderate poverty line, but even in this case the rural headcount was more than twice the urban headcount (43.6 percent versus 15.8 percent).

The World Bank Group's Interim Strategy Note (ISN) for Ecuador approved on April 9, 2013, identified agriculture and rural development as key priorities for the Government and the Bank to contribute to the country's goal for inclusive and sustainable growth.

Sectoral and institutional Context

Ecuador has 1.1 million agricultural households with land size between 1 ha and 20 ha, regarded as small and medium producers, who own about 1.6 million hectares (25% of total area at national level). This segment of farmers is crucial for many value chains such as rice (49% of national production), potatoes (64%), maize (76%) and onions (80%). Nevertheless, the development of this segment of farmers and its capacity to contribute to the diversification of productive matrix at national level are limited by the size of land, the access to market, and by the poor access to efficient water management in agriculture. Out of the 338,000ha irrigated by small and medium producers, 315,000ha (93%) are still under traditional irrigation methods with very low water efficiency and limited water storage capacity. The proposed project aims at supporting MAGAP's initiative to strengthen this category of farmers in their effort for intensification and modernization of agriculture.

The 2008 Constitution of the Republic of Ecuador defined the decentralization framework recognizing the political, administrative, and financial autonomy of the Decentralized Provincial Autonomous Governments (GADPs) at their different levels (canton, province, and parish). This decentralization grants each province jurisdiction to plan, build, and maintain the infrastructure (transportation, water, and sanitation) under its competencies and to promote the development of the productive sector.

Within the competences of Provincial Governments under the current Constitution are: (i) planning, building and maintaining the road system at provincial level; (ii) planning, constructing, operating and maintaining irrigation systems and; (iii) promoting agricultural activity. Therefore, the implementation of new development projects and the sustainable operation of existing irrigation projects are limited by the level of capacity for project preparation, implementation and financing by the Provincial Governments.

The SENPLADES (National Secretariat of Planning and Development) approved in early 2014 a program called "Promotion of agricultural production through the implementation of systems of use and utilization of water resources for rural development and food sovereignty". This program will be implemented by the Undersecretary of Irrigation and Drainage of MAGAP. The program has an estimated budget of US\$ 205 M. for the 2014-2017 period with expected impacts on 66,400 ha and 31,800 families budget. The proposed project to be financed by the World Bank and the AECID (Spanish Agency for International Development Cooperation) will support the aforementioned Program except the component focused on irrigation technology of multipurpose projects, since

there is no information on the scope, productive approach and implementation timelines of these multipurpose projects.

II. Proposed Development Objectives

The project development objective is to enhance incomes of small and medium sized farm households by supporting more productive and climate-smart use for land and water.

III. Project Description

Component Name

Component 1: Investments for climate-smart sub-projects

Comments (optional)

It comprises 2 sub-components:

Subcomponent 1.1: Productive Investments (US\$ 93.7 million; US\$ 59.5 million from WB) that will finance subprojects aligned with the project objective and provincial priorities related to the following investments: (i) individual and/or collective small water storages (ponds); (ii) on-farm investments for modernization of irrigation techniques (drip, sprinkler or modern gravity) and; (iii) complementary works aiming at improving off-farm irrigation and drainage networks.

Subcomponent 1.2: Improvement of Agricultural Practices, Water and Soil Management (US\$ 6.8 million; US\$ 4.3 million from WB Loan) that will finance small investments linked to the productive investments, and will support the implementation of climate smart agriculture activities.

Component Name

Component 2: Capacity building for institutional stakeholders and beneficiaries' organizations

Comments (optional)

The component (US\$5.9 million; US\$ 5.3 million from World Bank loan) will support the Water Users' Organizations, Farmers' Organizations, and producers by providing technical assistance and training, amongst others, on: (i) management and optimization of off- and on-farm irrigation systems and water ponds, (ii) adoption of good agricultural practices to improve production and productivity, value-addition and post-harvest management, (iii) improvement of market linkages and access of small-size producers to agricultural value chains, organizational development and legal advice, and (iv) environmental management at community or farm levels (connected to investments under sub-component 1.2).

Component Name

Component 3: Project Management

Comments (optional)

This component (USD 16.9 million; US\$ 6.9 million from World Bank loan) will support: (i) the functioning of the Project Implementation Unit (PIU) to be installed within the Sub-Secretary of Irrigation and Drainage in the MAGAP in Quito and; (ii) eligible costs and staffing related to the Project on decentralized offices of MAGAP (Zonales) . The component will also finance Monitoring and Evaluation, impact evaluations, progress reports, and audits.

Component Name

Unallocated expenses (US\$ 5.8 million; US\$ 4 million from World Bank loan)

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	129.10	Total Bank Financing:	80.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			20.50
International Bank for Reconstruction and Development			80.00
SPAIN, Govt. of			20.00
LOCAL BENEFICIARIES			8.60
Total			129.10

V. Implementation

The Project supports a framework program to strengthen sustainable modernization and intensification of agriculture systems with an emphasis on beneficiary and community participation. The Project will support: (i) demand-based investment productive subprojects in irrigated agriculture; (ii) small investments to enhance agricultural, soil and water management and environmental protection linked to the productive subprojects; (iii) capacity-building activities that strengthen national and local institutions and farmers' organizations; and, (vi) training and technical assistance to enhance productivity, increase value-added and improve market access.

While the project is national in scope, the Sierra Central and the Coastal regions are the main target areas for investment subprojects where climatological conditions justify investments in water storage and irrigation to foster diversification and intensification of agriculture. It is expected to benefit 14,150 families in a total area of 12,400ha in 17 Provinces for the whole project including the co-financing from Spanish Cooperation.

Beneficiaries will receive an integrated and coordinated support including:

- a. Investments in irrigation modernization on and off-farm (Subcomponent 1.1);
- b. Small investments supporting sustainable management of natural resources (Subcomponent 1.2) and;
- c. Training and Technical assistance in: (i) Administration, Operation and Maintenance of irrigation schemes; (ii) Use of modern on-farm irrigation techniques and; (iii) agricultural productive aspects and access to market (Component 2).

In order to maximize the impacts and sustainability of activities, the project will seek to coordinate its actions with existing government programs aimed at agricultural development such as the MAGAP's Hombro a Hombro Program (national extension program for family farming), the agricultural component of the Plan Nacional Buen Vivir 2013-2017, the Proyecto de Innovación Tecnológica Participativa y Producción Agrícola (PITPPA); as well as programs developed by Provincial Governments in thematic support agricultural production and marketing.

The proposed project (US\$80 million in IBRD financing and US\$20 million of co-financing from the Spanish Cooperation/AECID) will be implemented over a period of five years.

A. Institutional and Implementation Arrangements

Proposed implementing agency. The Project will be implemented by the Subsecretaría de Riego y Drenaje under the Vice Ministerio de Desarrollo Rural of the Ministerio de Agricultura, Ganadería, Acuacultura y Pesca (MAGAP). The co-financed WB/AECID project will be inserted under a broader Program of the MAGAP called "Promotion of agricultural production through the implementation of systems of use and utilization of water resources for rural development and food sovereignty ". The Program has an estimated budget of US\$ 205 million for the 2014-2017 period with expected impacts on 66,400 ha and 31,800 families.

Project Management. For the project management, MAGAP will create a dedicated Project Implementation Unit (PIU) under the responsibility of its Subsecretaría de Riego y Drenaje in Quito and reinforce the team of the Zonales offices. By legal ministerial decision , the PIU shall acquire the status of a Decentralized Operational Entity (Entidad Operativa Desconcentrada or EOD). The MAGAP will hire for the EOD and the Zonales offices, under local and international financing, a team of fully dedicated professionals to ensure the proper implementation of project activities and be responsible for technical and financial management, procurement, environmental and social safeguards, and overall monitoring and evaluation activities (M&E).

Participation of MAGAP Zonal Offices. Under supervision of the PIU in Quito and after an intense process of fiduciary capacity building, the MAGAP regional offices (Zonales) may be responsible, after completion of Year 1, of the procurement processes for individual and specific consultancies, works and goods below a ceiling to be determined in the Operation Manual and when the PIU will determine that there are comparative advantages to procure locally (e.g. language-specific consultancy, extension services to be provided frequently).

Participation of GADPs and other stakeholders. The MAGAP will establish, at provincial or lower level, formal Articulation Roundtables with main institutional key players in rural development (GADPs, Non-Governmental Organizations - NGOs, other MAGAP's projects and programs, etc.). Minutes of meetings will record all the comments, agreements and commitments regarding the profiles. The final technical studies (including economic, environmental and social dimensions) will need to be validated by the beneficiaries' organization and the Articulation Roundtables before the procurement of works.

B. Results Monitoring and Evaluation

Component 3 will support the activities of Monitoring & Evaluation of the Project. An M&E specialist will be hired on a full-time basis and will be part of the PIU team. He will develop a specific M&E system to support the implementation of project. This specialist will work in close coordination with the staff in charge of M&E within the headquarters of MAGAP in Quito for the ministry in general and/or for other projects (Hombro a Hombro, Buen Vivir, etc.).

The M&E system will collect data to measure project results and outcomes. Under Component 3, the PIU will be responsible for hiring/commissioning and supervising the following tasks: (a) project baseline (to be completed by August 2015) using the results of the first 30 feasibility studies to be under prepared for the broader SENPLADES program in 2015); (b) technical and other studies needed to understand project performance and its comparison with other similar initiatives; (c) Mid-Term Review; (d) final independent impact evaluation and (e) the preparation of project reports.

A Beneficiary Monitoring System (BMS) will be developed by MAGAP as a simple, effective and participatory instrument to monitor project progress with all relevant stakeholders (beneficiaries, technicians of co-implementing agencies, and others). Two intermediate-level Result Indicators reflects citizen engagement (i. e., Sub-projects with post-project community engagement or Operation and Maintenance - O&M arrangements, in number and in percentage).

C. Sustainability

The proposed Project will incorporate several mechanisms to achieve sustainable impacts, such as:

a) The participation and consultation of beneficiaries throughout the identification, design, preparation, implementation, and supervision of subproject activities will enhance their ownership. This coupled with the beneficiaries' financial participation to the investments will increase the likelihood of sustainable impacts. Through training, the Component 2 will aim at setting up a sustainable cost recovery system for irrigation and drainage services that will take into account the local practices such as community labor (mingas) in the Central Sierra Provinces.

b) The participation of local stakeholders and national / provincial programs will also contribute to leverage the continuous support to beneficiaries' organizations after completion of subprojects and to ensure sustainable impacts. This will also contribute to promote private investments alongside public investments to foster sustainable impacts.

c) Eligibility criteria applied to the selection of subprojects across provincial and subproject levels will promote and favor comprehensive, high quality subproject designs. The inclusion of integrated Technical Assistance (on administration, operation, maintenance of irrigation investments, on agricultural sustainable production and commercialization) and strict targeting mechanisms will further promote subproject sustainability.

d) The Project will implement rigorous screening procedures that encourage low environmental risk and will promote in Sub-component 1.2 complementary activities that will improve agricultural and natural resources management practices and foster environmental sustainability.

e) The M&E Unit in Quito will also create and manage a Project-level grievance redress mechanisms (GRMs) to raise and address project-related grievances during all the steps of subproject cycle. The GRMs will be implemented by the MAGAP Zonal Offices to ensure that these are at reach for the local people.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36		x
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10	x	

Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

National consultations were held at national level during a meeting of the Consejo Ciudadano Campesino on March 11, 2015. The results of this process were incorporated to the disclosed version of the safeguards instruments.

VII. Contact point**World Bank**

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