

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC13820

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	30-Oct-2014
Date PID Approved/ Disclosed	03-Nov-2014
Estimated Date of Appraisal Completion	18-Feb-2015
Estimated Date of Board Approval	02-Jul-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. 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.

2. The Ecuadorian economy relies largely on the extraction and export of oil, and on the export of natural resource-based products and services. The agricultural sector accounted for 7.8 percent of the GDP in 2013. With more than 60 percent of its agricultural production destined for export, Ecuador could benefit significantly from stimulating productivity through integrated rural development approaches.

3. 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 0.49 in June 2014. Likewise, between 2006 and 2014, income poverty at the national poverty line fell from 37.6 percent to 24.5 percent, while extreme poverty fell from 16.9 percent to 8 percent.

4. 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 2014, 4.2 percent of the urban population lived in extreme poverty compared to the 16 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 (41.7 percent versus 16.3 percent).

Sectoral and Institutional Context

5. The proposed project is fully aligned to the National Development Plan for 2013-2017, the National Strategy for Diversification of the Productive Matrix, the institutional objectives of Ministry of Agriculture, Livestock, Aquaculture and Fisheries (MAGAP) and with the Irrigation National 2012-2027 Plan, which are: (i) to improve the lives of farmers and rural communities through the strategies: social inclusion of small and medium producers; (ii) to promote the modernization of agriculture; and (iii) to strengthen capacity of the Autonomous Decentralized Provincial Governments (GADPs) to assume the transferred competencies of constructing, operating and maintaining irrigation systems and promoting agricultural activity.

6. 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 304,000ha irrigated by small and medium producers, 284,000ha 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.

7. 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 its territory.

8. 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.

Relationship to CAS

9. 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.

10. The proposed Project is fully consistent with the World Bank's ISN for Ecuador for the period 2014-2015, which focuses on investment project financing in three strategic areas: (i) Pillar I - Sustainable and Inclusive Growth; (ii) Pillar II - Access to Social Protection and Quality Services for All, and (iii) with the country's Plan Nacional para el Buen Vivir, where five out of twelve key objectives outline the importance of enhancing the productive water access in a sustainable manner as key intermediate priorities to ensure quality of life and social cohesion for its farmers and rural communities.

11. It is expected that the proposed Project will contribute to the reduction of extreme poverty, to the increase of shared prosperity and equality of access to opportunities in targeted provinces across the country by increasing agricultural revenues and resilience of Ecuador's family farming sector, promoting diversification and increase of agricultural production, and improving access to markets for smallholders and their organizations.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

12. The project development objective is to enhance the profitability and sustainable production of small and medium farmers in targeted areas by improving productivity and by supporting more efficient and climate-smart uses for land and water.

13. To reach its objective, the project will support technical assistance, capacity-building activities, on-farm and complementary off-farm investments geared toward a more efficient use of natural resources, especially water, an increased adaptation to climate change, improvement in productivity and market access. On-farm investments are made within the farmer's plot. Off-farm investments are referring to interventions on irrigation and drainage networks upstream of the intake of the farmer's plot.

14. Project beneficiaries. The project beneficiaries are small and medium-sized family farmers, including indigenous communities. Small and Medium farmers are established by MAGAP according agroclimatological regions:

- Sierra: 0 - 5 ha. (small farmers) – 5 to 20 ha. (medium farmers)
- Costa: 0-20 ha. (small farmers) - 20 to 40 ha (medium farmers)

15. Project areas. 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.

Key Results (From PCN)

16. The key indicators at the beneficiary level would measure changes in: (i) profitability of

agricultural activities and; (ii) climate-resilience and sustainability of the improved production systems.

17. Intermediate outcome indicators would include: (i) Profitability (margin) by unit of land (hectare), by unit of water (cubic meters) and by household (family); (ii) Reduced volatility of yield from year to year for main crops; (iii) Hectares of areas and number of beneficiaries with new/ improved irrigation and drainage services like drip or sprinkler (core indicator); (iv) Number of clients who have adopted an improved agricultural technology promoted by the project (core indicator); (v) Number of Operational Water User Associations created and/or strengthened (core indicator); (vi) Sub-projects for which arrangements for community engagement in post-project sustainability and/or operation and maintenance are established (core indicator) and; (vii) Hectares of area with change in land use (increase of cropping intensity and diversification of crops).

III. Preliminary Description

Concept Description

18. 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 subprojects; (ii) capacity-building activities that strengthen national and local institutions (MAGAP, GADP, mainly) and farmers' organizations; (ii) climate-smart project planning; (iii) training and technical assistance to enhance productivity, increase value-added and improve market access; and, (iv) small investments to protect natural resources linked to the subprojects (see details of Project Concept in Annex 3).

19. In order to maximize the positive impact 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) and the agricultural component of the Plan Nacional Buen Vivir 2013-2107; as well as programs developed by Provincial Governments in thematic support agricultural production and marketing. The project should also ensure that rural credit programs and/or micro-credit (Cooperative Savings) will be accessible to project beneficiaries.

20. The proposed Project will build on the successful model of the PIDD (see details of project description and main lessons learned in Annex 3). The PIDD or Proyecto de Inversiones de Desarrollo Productivo (P094784), which closed in June 2014, financed subprojects of modernization works for 55 small and medium scale collective irrigation systems, benefiting 4,685 ha and 7,900 families. The most important lessons learned from the PIDD, taken into account in the proposed project's design are the following (details in Annex 4):

- a) Combining physical investments with capacity building. The PIDD followed an integrated approach with rehabilitation and modernization of irrigation systems and strengthening of the capacity of Water Users Association and improving farmers' irrigation and agricultural practices and the commercialization of agricultural produce.
- b) Frontloading technical assistance and training to the institutional stakeholders. This capacity building needs to be done in technical screening, design, supervision of sub-projects), and fiduciary aspects (procurement, in financial management and safeguards).
- c) Increasing ownership and sustainability. Irrigation component follows a demand-driven and participatory approach in which WUAs/farmers' groups participate in subproject design, financing, execution and supervision and are fully responsible for Operation & Maintenance. This approach,

by ensuring subproject ownership, increases subproject sustainability and effective use and will be used for the new operation.

d) Thinking scalability. The project cycle developed by the PIDD, especially the effective participation of beneficiaries from the design to the construction, has been adopted by the Provincial Government of Chimborazo as a public policy to develop any investment intervention in the future.

e) Building Partnerships. Several partnerships between different organizations and institutions at local, national and international level have been developed during the preparation and implementation of the PIDD, and will be replicated in the new operation.

21. The proposed project will also be designed taking into account some lessons learned from other similar operations in the region such as, for example, the PSI Sierra in Peru (P104760), which has very similar scope, activities and target group, or the PROSAP (P106684) in Argentina, which can bring experience on the construction of the project framework and the progressive process of delegating responsibilities to the sub-national level (Provinces).

22. The proposed project (US\$60 million in IBRD financing) will be implemented over a period of five years and comprises four components: (1) Investments for productive sub-projects; (2) Capacity building for institutional stakeholders and beneficiaries' organizations; (3) Natural Resources Management Enhancement and; (4) Project Management.

23. Component 1: Investments for productive sub-projects (estimated amount US\$ 50M.). This component 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) collective and/or individual on-farm investments for modernization of irrigation techniques (drip, sprinkler or modern gravity techniques) and; (iii) complementary works aiming at improving off-farm irrigation and drainage networks.

24. Subproject proposals will be reviewed against a set of objective criteria in order to be eligible for financing, including consistency with project objectives and scope. To ensure the balanced and equitable allocation of public funding, subproject preparation will include specific selection criteria to be applied early on in the selection and approval process, which will include: (i) demand expressed by the potential beneficiaries, which should have sufficient organizational capacity to manage sustainable infrastructure; (ii) formal prioritization by the relevant Provincial Government preferentially in their Provincial Irrigation Plan; (iii) compliance with the requirements of beneficiaries' profile (small and medium farmers); (iv) valid water use concession granted by SENAGUA; (v) financial profitability presented in the project profile and validated by the Project Implementation Unit (PIU) of the Project; (vi) social and environmental sustainability justified in the project profile and validated by the PIU; (viii) compliance with investment criteria (e.g. - investment ceiling per beneficiary family, per hectare, per sub-project, etc.); (ix) financial contribution of beneficiaries to investment costs and; (x) subproject activities that may affect International Waterways will not be eligible. Details will be elaborated in the implementation manual.

25. Component 1 will finance works, consulting and non-consulting services, training and workshops and goods and equipment. Retroactive Financing may be provided for this Component under BP 10.00 for a selection of subprojects. The selection will be done during appraisal stage within the current MAGAP's pipeline of subprojects and will be subject to the criteria identified in the operation manual.

26. Component 2: Capacity building for institutional stakeholders and beneficiaries' organizations (estimated amount US\$ 5 M.). This component will support a range of services that provide support for: (i) agricultural modernization and intensification to the beneficiaries and their organizations (Water Users Organizations and Farmers Organizations) and; (ii) institutional strengthening to the main institutional stakeholders (MAGAP central and regional offices, Provincial Governments / GADPs).

27. Component 2 will finance consulting and non-consulting services, training and workshops and goods and equipment. Activities will include: (i) Extension services, training and Technical Assistance and; (ii) Institutional and organizational capacity building (see details in Annex 3). This training will be focused on improving and supporting the outcomes r elated with the subproject investments.

28. Component 3: Natural Resources Management Enhancement (estimated amount US\$ 1.5 M.). This component aims at laying the foundations for conservation and sustainable management of watersheds and natural resources, in areas where investments on irrigation sub-projects will be developed.

29. Component 3 will finance small investment and management subprojects of natural resources protection (reforestation, protection of páramos, and conservation of watersheds) linked to the subprojects of Component 1. The component will adopt an integrated and participatory approach to watershed management intended to make rural populations more accountable and encourage them to manage their land and natural resources in a more sustainable manner. Thus, the component would contribute to: (i) protect watersheds by reducing or preventing erosion and sedimentation; (ii) increase the productivity and sustainability of agricultural production based on agroecological and agroforestry technologies; and (iii) strengthen the management of natural resources to improve the environment and living conditions.

30. Component 3 will finance small works, consulting and non-consulting services, training and workshops and goods and equipment (see details in Annex 3). This component will be placed under the responsibility of the regional offices of MAGAP who, depending on the local capacities and the existence of services, will enter into agreements with the GADPs, consulting firms, local ONGs or community organizations for the preparation and implementation of subprojects. The procedures will be detailed in the operation manual.

31. Component 4: Project Management (estimated amount US\$ 3.5 M.). This component will support 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 some eligible costs related to the Project on the regional offices of MAGAP and Provincial Governments/GADPs. The component will also finance Monitoring and Evaluation, impact evaluations, progress reports, and audits.

32. The Project Implementation Unit (PIU) will be responsible for the overall administration of the Project, within the MAGAP in Quito. Component 4 will finance: consulting and non-consulting services, training and workshops, small works, goods and equipment and operating costs.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

Total Project Cost:	77.30	Total Bank Financing:	60.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			6.00
International Bank for Reconstruction and Development			60.00
Local Govts. (Prov., District, City) of Borrowing Country			6.15
LOCAL BENEFICIARIES			5.15
Total			77.30

VI. Contact point

World Bank

Contact: Remi Charles Andre Trier
Title: Sr Water Resources Spec.
Tel: 473-5572
Email: rtrier@worldbank.org

Borrower/Client/Recipient

Name: REPUBLIC OF ECUADOR
Contact:
Title:
Tel:
Email:

Implementing Agencies

Name: Ministry of Agriculture, Livestock, Aquaculture and Fisheries
Contact: Dennis Garcia
Title: Sub-secretary of Irrigation and Drainage

Tel:

Email: dgarcia@magap.gob.ec

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VII. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>

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