

INTER-AMERICAN DEVELOPMENT BANK
TECHNICAL COOPERATION PROGRAM (TRUST FUND FINANCING)

TC/FUNDS BRIEF

I. GENERAL INFORMATION

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| 1. Name of the T.C. Project | Indigenous Peoples and Public and Private Economic Governance ¹ in Latin America |
| 2. TC Number | RS-T1368 |
| 3. Name of the Trust Fund | Markets and Governance for Poverty Reduction Trust Fund (KMG) |
| 4. Beneficiary Countries | Regional |
| 5. Estimated Total Amount to be financed | US\$ 130,800 |
| 6. Executing Agency | IDB through its Indigenous Peoples and Community Development Unit of SDS (SDS/IND) |
| 7. Execution and Disbursement Deadlines | 12 months execution, 16 months disbursement. |
| 8. Team Members | Carlos Perafán (Team Leader), Fernando Carrillo (SOE), Dianna Moyer (SDS/IND), Lesley O'Connell (COF/CHO), Fernando Balcazar (COF/CCO), Marco Macias (COF/CEC), Dana Martin (BOM); Carlos Miranda (RE2/FI2); Martin Chrisney (RE2/FI2); Diego Buchará (LEG/OPR) and Carmen Albertos (RE1/SO1). |

II. BACKGROUND AND JUSTIFICATION

- 2.1 Indigenous peoples in Latin America possess not only rich cultural traditions and knowledge, but also manage approximately 22% of the Region's land within which some of the world's most diverse bio-systems and rich natural resources exist. Significant advances in both the international and national legal frameworks in Latin America have created a platform upon which indigenous peoples have gained rights and recognition over their traditional lands, cultural identity and customary practices as well as guarantees regarding consultation and benefit sharing from projects developed within their lands. Although this legal framework is far from being systematically implemented, it has laid the foundation for the current discourse and demands of indigenous peoples in the region related to development with identity. In the economic sphere, this discourse is focused on generating economic opportunities within the productive chains of the market economy, while at the same time preserving traditional economies, systems, practices, and safety nets.

¹ Indigenous economic governance is defined as the generation and management of economic resources for indigenous peoples' territorial administration, the supply of social services and the development of productive activities through their own forms of social organization, authorities, and institutions or other organs, businesses and traditional economy mechanisms, with the end of achieving their own self-determined development priorities in a way that is economically sustainable and culturally adequate.

- 2.2 When indigenous peoples have attempted to integrate into market economies, their participation has mostly been limited to low-income sectors characterized by segmentation in the form of raw material production in the supply chains, informal businesses or low-skilled labor with subsistence wages and little opportunity to break the cycle of poverty. Monetary revenues earned from low-wage labor, informal entrepreneurial activities, remittances and public transfers have often had counter-productive effects on indigenous communities. These affects include the disintegration of traditional structures, safety nets and social cohesion. Introduction of monetary resources or greater integration with markets often sparks internal conflict and in many cases generates incentives for migration, leading to the loss of culture, language and the collective land base that serves as a foundation for the traditional ways of organizing and subsisting.
- 2.3 In the case of indigenous entrepreneurial activities, many challenges exist in ensuring both their commercial and socio-cultural viability. Financial sustainability of indigenous enterprises (public and private) is a paramount challenge as the concept of capital accumulation and reinvestment often contradicts the reciprocity and redistributive nature of traditional economies. Reciprocity and redistribution also explains the lack of utilization of remittances for productive investments, where it is common to see exuberant expenses instead of more sustainable productive investments.
- 2.4 In order to enhance indigenous participation in the market economy and ensure that the benefits of this participation are sustainable and do not create the negative impacts described above, external obstacles and internal challenges need to be overcome. External obstacles that are most common include explicit and implicit discrimination in accessing capital, investment partners, and markets. Internal challenges relate primarily to indigenous entrepreneurs' capacity to produce and commercialize goods and services demanded by the market and economic governance of the monetary resources generated. The economic governance challenge lays primarily in obtaining consensus and cultural adequacy (in terms of indigenous traditional economies' constraints, such as the cultural principle of non-accumulation) for managing the revenues generated as to ensure financial sustainability (reinvestment and capital accumulation) of the enterprise while maximizing positive social impacts and meeting cultural, social and political expectations and priorities of the indigenous communities.
- 2.5 IDB support for indigenous productive activities is a flagship area within the recently approved IDB Policy (OP 765) and Strategy on Indigenous Peoples and indigenous peoples, the governments of the region, and the Banks are anxious for innovative and proactive approaches to reduce poverty among these populations. Operations supporting these activities will most likely increase in number and value with the IDB initiative to promote opportunities for the majority and the requirements of the Indigenous Peoples Policy to mainstream indigenous priorities throughout the Bank portfolio. Several operations are in execution or pipeline to support and foment indigenous productive activities through both the IDB's public and private sector windows. For example, two loans (GU-L1006, CH-L1014) were recently approved with components for indigenous entrepreneurial development and another is in the pipeline (PN-L1014). In addition, several IDB technical cooperations, including one supported by DFID (RS-X1045, RG-1128, PN-T1026, EC-M1027, AR-T1024, among others) are underway (or in the pipeline) to identify and support indigenous entrepreneurial activities.
- 2.6 In general these operations offer support for: greater access to capital and markets; the elaboration of business plans, market studies and commercialization programs; initial capital investments to leverage additional partners; institutional strengthening; and capacity building in product and service design and production to enhance competitiveness. Although many of these programs

highlight the need for enhanced economic governance and they include components to provide training or legal support in this area- information, lessons learned, and good practices regarding alternative models for indigenous economic governance are lacking. If these projects are to be sustainable and are going to ensure that socio-economic benefits are maximized and potential negative impacts caused are prevented or minimized, it is necessary to advance the knowledge base of these enterprises and identify effective models and tools for enhanced indigenous economic governance.

- 2.7 Different indigenous economic cases exist with varying success rates or constraints related to economic governance in both the public (market related) and private spheres within the region. For this technical cooperation the cases to be studied, all of them related to IDB's projects or interventions, are: (i) Education and Health outsourcing to indigenous organizations in Colombia (Education coverage contracts² and indigenous Health Financing Companies -EPS³); (ii) savings and investment dysfunctions of indigenous remittances⁴, to be studied in a comparative assessment between Guatemala and Ecuador; (iii) tourism development (hotel construction experiences) in Kuna Yala⁵, Panama; and (iv) economic governance arrangements in indigenous entrepreneurship experiences in Ecuador (Amazoná Gas⁶) and Honduras (PAPIN's Lenca community entrepreneurship⁷).
- 2.8 By learning from these experiences and generating dialogue among policy makers and relevant stakeholders, the aim is to identify indigenous economic governance models that can be replicated and enhanced and introduce these models within the design and support for indigenous businesses and the capacity building activities financed under the programs previously mentioned (especially those in pipeline or early execution periods), for the design of new programs, and for Country strategy discussions.
- 2.9 The advancement of knowledge and identification of mechanisms and capacity needs to enhance economic governance capacity of indigenous peoples is consistent with both the Operational Policy and Strategy on Indigenous Peoples (OP-765) and the IDB's Strategy on Modernization of the State. This technical cooperation is in line with the priorities of the Fund for Markets and Governance to promote pro-poor market access. In line with the criteria of the Markets and Governance Fund, this technical operation proposes to advance information, knowledge and dialogue in a cutting-edge topic area, that is extremely relevant for the sustainability and impact of Bank development programs where indigenous peoples are involved. Finally, despite their great natural, social, cultural wealth, indigenous peoples, are among the poorest and most disadvantaged populations in the Region, and among the Fund's intended beneficiaries

² Currently COG has 12 contracts with indigenous organizations to increase basic education coverage. IDB supported the Ministry of Education on model design. Revenues are dedicated to bilingual educator's professionalization.

³ In Colombia there exist 6 indigenous EPS with more than 400,000 affiliates. Business revenues are dedicated to promote food security programs and traditional medicine. IDB has been assessing the intercultural health merit of this experience.

⁴ Remittances savings tend to be primarily directed to non productive consumption and not to investment. In the case of Ecuador, FOMIN found that from a saving window of 39% of the value of remittances, only 8% are tackled to productive investments and 17% go to luxury goods expenditures.

⁵ Lack of models to articulate collective land rights to foreign investments have collapsed investor's initiatives in Kuna Yala. PPP's FONEMA initiative tried to tackle this problem, without success.

⁶ IDB's supported Amazonia Gas initiative in Ecuador has a series of lessons learned on arrangements with foreign investors, subordinate credits, separation of political and economic realms of the business and social revenue investment arrangements.

⁷ IDB supported the Lenca community to build up a construction indigenous company through the Bank's ethnoengineering guidelines to directly execute infrastructure works financed by PAPIN program.

III. OBJECTIVES

- 3.1 The general objective of this technical cooperation is to enhance the capacity of indigenous peoples to generate, manage, and utilize economic resources for development with identity while promoting socio-culturally viable bridges between traditional and market economies.
- 3.2 Specifically, the technical cooperation aims to:
- Identify constraints and alternative models applied by indigenous entrepreneurs in the region to manage resources generated by productive activities and maximize the socio-cultural and economic positive impacts of these activities, prevent internal conflicts and other negative impacts, and bridge traditional economies with market opportunities.
 - Identify priority capacity building needs for Bank operations to enhance indigenous peoples economic governance capacity within entrepreneurial development projects and larger private sector programs, and thus the viability, sustainability and impact of these programs.
 - Contribute to the dialogue and knowledge base among indigenous peoples, academic institutions, civil society, governments and development institutions related to indigenous peoples economic governance in the private sector.
 - Design new mechanisms for enhanced indigenous economic governance that respond to the needs identified and the nature of Bank-financed projects.

IV. DESCRIPTION

4.1 Case Studies and Action Plan on Indigenous Peoples and Economic Governance

- 4.1.1 In order to advance the knowledge base regarding indigenous peoples' economic governance, four case studies will be carried out that evaluate the issues, challenges, good practices, and lessons learned in the region. Four existing cases have been selected (see 4.7). The criteria utilized to select these cases include: (i) their relevance for IDB operations or to fields where the Bank has special interests (such as remittances); (ii) their relation to private sector activities, marked-orientation, or public service outsourcing when contracts are executed by indigenous governed entities or organizations; (iii) the relevance of economic governance factors as key to their level of performance, either with identified governance constraints or with innovative economic governance arrangements; and (iv) their potential impact on poverty reduction.
- 4.1.2 Economic governance issues to be assessed in each case should be evaluated as they relate to: (i) managing resources generated by public out-sourcing, private businesses, productive activities and remittances, (ii) establishing clear rules of the game for financial partners and investment, (iii) separating the political and administrative management of business enterprises, (iv) maximizing community investments in social, economic and cultural priorities, and (v) articulating alternative mechanisms for indigenous enterprises to meet eligibility criteria regarding counter-part financing, the provision of guarantees, among others that are required by financing institutions and potential investment partners (taking into special account the case of indigenous peoples living in collective lands). Based on the results of the case studies, an action plan will be developed that proposes alternative models for enhanced indigenous economic governance. This action plan should take into account the current Bank's lending and grant portfolio and highlight specific operational actions that could be incorporated into recently approved, pipeline or future operations to build indigenous economic governance capacity and enhance the sustainability and impacts of development programs with indigenous peoples. These

recommendations will be used to design components and mechanisms within relevant Bank operations for: (i) training components in economic governance for indigenous producers and traditional authorities; (ii) the establishment of clear rules of the game for investors and interested non-indigenous partners for working within traditional and/or collective territories; (iii) the design of indigenous business plans and support for indigenous enterprises; and (iv) designing specific facilities within funds for financial and non-financial services that will support indigenous enterprises.

4.1.3 Activities:

- Define work plan and methodology to carry out four case studies.
- Carry-out literature review related to the cases and the outstanding economic governance issues of each case.
- Carry-out field work in countries to interview pertinent actors about constraints and good practices for each case study.
- Identify potential new mechanisms that could be utilized that are culturally appropriate but ensure the financial viability of indigenous economic activities.
- Review the IDB Country strategies, portfolio and pipeline to focus the recommendations made for capacity building and alternative economic governance mechanisms on operational needs and demands, including recommendations for Country strategies.
- Systematize results into a diagnostic and action plan, making concrete operational recommendations to governments, development agencies and indigenous peoples on areas of opportunities and next steps.
- Present case study results (diagnostic) and action plan at the International Workshop on Indigenous Peoples and Economic Governance with policy makers, indigenous peoples and development institutions.
- Incorporate results and feedback of Workshop into Final Action Plan on Indigenous Peoples Economic Governance.
- Publish case studies and the Action Plan.

4.1.4 The Bank will finance the contracting of a highly specialized firm to carry out the four case studies, with the participation of PhD candidates as researchers for each one of the case studies.

4.2 Learning Workshop on Indigenous Peoples and Economic Governance

4.2.1 Given the innovative nature of the issue, it is important to generate dialogue and awareness among a wide range of actors to articulate challenges and obstacles and identify out-of-the box solutions. An international training workshop will be financed, that will be the first of its kind in which indigenous leaders, international development institutions, academia, policy makers, private sector representatives, and civil society will be invited to participate and learn the issue of indigenous economic governance in relation to current development strategies, support for indigenous productive activities, and the articulation of traditional indigenous governance institutions to the political-administrative structure of the state and the demands of the market economy. The draft case studies and action plan will serve as the base for the learning exercise and will be disseminated to workshop participants previous to workshop activities in order to allow for time for thoughtful comments, ideas, and counter or complimentary proposals, so they will be able to exchange different views of the issue of indigenous economic governance as a tool for their training. Researchers in charge of each one of the case studies will serve as trainers during the workshop and will coordinate their training agenda with the event facilitator.

4.2.2 For this component the Bank will finance an individual consultancy for an event coordinator (facilitator) and will pay travel expenses of 15 indigenous leaders that will participate in the training workshop

4.2.3 Activities:

- Identify pertinent actors from indigenous organizations, cooperatives and businesses, civil society, government institutions, the private sector, financing institutions, academia and development agencies. The selection of indigenous representatives that will be invited to the training workshop should meet the following criteria: (i) represent a diverse range of ethnicities and geographic locations (countries, rural/urban/ level of isolation), (ii) have been or currently are actively involved in entrepreneurial activities (possibly through participation in one of the many IDB indigenous productive related projects), (iii) include a proportional number of indigenous women, and (iv) include representatives from the four case studies carried out under this project.
- Organize and carryout the Training Workshop on Indigenous Peoples and Economic Governance.
- Systematize comments and results and consult with Workshop participants.
- Incorporate comments and results into the Diagnostic and Action Plan.

4.3 Dissemination

Dissemination of the results of this technical cooperation is important to generate broad dialogue and catalyze policy and investment interventions into enhancing indigenous economic governance capacity. In order to do this, the studies and action plan will be published and distributed on both the IDB website and through the network of participants who attended the International Workshop. The Bank will finance an individual consultancy for editorial services and costs involving the publication process.

4.3.1. Activities:

- Publish Diagnostic and Action Plan on Indigenous Peoples Economic Governance

V. ORGANIZATION

5.1 **Timeframe** The preliminary timeframe for project execution will be 13 months. The timeline below presents an estimated submission dates for each product from the date of contract signature.

[illegible]

Systematize results into draft case studies and action plan								→							
Organize International Workshop								→							
International Workshop									x						
Send report of results and recommendations from workshop for consultation to participants									x						
Incorporate final consulted results into diagnostic and action plan										→					
Submit final diagnostic and action plan to SDS/IND and IDB project team for review and comment											x				
Incorporate SDS/IND and IDB Project Team's comments														→	
Publish final diagnostic and action plan.															x

VI. SUPERVISION AND SUPPORT

- 6.1 SDS/IND will supervise the work of the international consultants and organize the IDB dissemination event with the support of SOE. The project team will review the draft case studies and action plan, provide feedback, and assist the consultants in identifying contacts, pertinent actors, and international good practice. IDB country offices will also provide support in identifying actors and stakeholders, information sources, and establishing in-country meetings in the countries selected for site-visits.

VII. OUTPUTS

- 7.1 This TC should produce the following outputs:

- A diagnostic and action plan on Indigenous Peoples Economic Governance in the private sector (including market oriented public outsourcing) that includes the results of the four case studies and the results of an international workshop with pertinent actors from the region. This diagnostic and action plan should make specific recommendations for economic governance related to indigenous peoples participation in productive-entrepreneurial activities in the market economy that are aimed at enhancing the financial and governing design of indigenous businesses and influencing customary and national policies and development programs throughout the Region. The case studies and action plan will be consolidated and published through IDB's web site and other external publications (specialized magazine or academic series publication).

- An international workshop on indigenous economic governance will be carried out with the participation of indigenous leaders, international development institutions, academia, policy makers, private sector and financing representatives, and civil society.

VIII. BUDGET

Type of expense	TRUST FUND (KMG)
Honorarium	
International Consultants (4) (\$10,000 per month x 2 months x 4 consultants)	\$80,000
Event Coordinator (\$3,000 per month x 1.5 months)	\$4,500
Total Honorarium	\$84,500
Travel and Per Diem	
International Consultants, in-country site visits, Travel (6 trips x \$1,000 per trip)	\$6,000
International Consultants, In-country site visits, Per Diem (\$150 per day x 7 days per country x 6 countries)	\$6,300
Indigenous Participants (15), International Workshop, Travel (\$1000 x 15)	\$15,000
Indigenous Participants (15), International Workshop, Per Diem (\$200 per day x 3 days x 15 people)	\$9,000
Total Travel and Per Diem	\$36,300
Administrative Costs	
Publication of Study and Action Plan	\$10,000
Total Administrative Costs	\$10,000
Total	\$130,800

IX. RESPONSIBILITY IN THE BANK

9.1 Technical Responsibility

Carlos Perafán, from the Indigenous Peoples and Community Development Unit (SDS/IND), [Tel: (202) 623-1962, fax: (202) 623-1463, email: carlospe@iadb.org] will have the technical responsibility of the project.

9.2 Responsibility for Disbursements

The Contract & Budget Officer of the Sustainable Development Department will be responsible for processing the disbursements.

9.3 Procurement

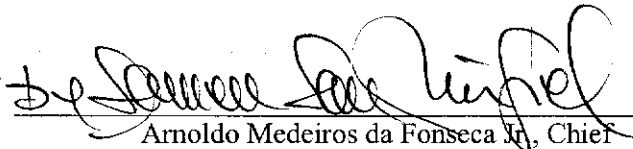
The selection and contracting of consulting services as well as the acquisition of goods to be financed under the Program will be carried out in accordance with Bank's policies and procedures. Given the small amount of the consulting services for component 1 (US\$92,300) and the highly specialized research field of the issues to be assessed, a single source selection (SSS) method has been chosen to contract a highly specialized firm to carry out this task.

X. RECOMMENDATION

- 10.1 Anne Deruyttere, Chief of the Indigenous Peoples and Community Development Unit (SDS/IND), recommends the approval of this operation and the use of resources from the Markets and Governance for Poverty Reduction Trust Fund (KMG) totaling up to US\$130,800 in order to finance the corresponding project.

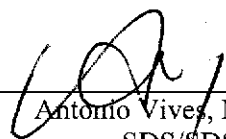
XI. CERTIFICATION

- 11.1 I certify that this operation was approved for financing by a Management Review Committee on May 4, 2007. Also, I certify that resources from the Markets and Governance for Poverty Reduction Trust Fund (KMG) are available for up to US\$130,800 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of ten and a half (10.5) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US Dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this Plan of Operations. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.


Arnaldo Medeiros da Fonseca Jr., Chief
RE2/TEC

6/28/07
Date

XII. APPROVAL


Antonio Vives, Manager
SDS/SDS

6/29/07
Date