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ECUADOR

SOCIAL ENTREPRENEURSHIP PROGRAM

**PROPOSAL FOR FINANCING AND TECHNICAL-COOPERATION
FUNDING FOR THE DEVELOPMENT OF RURAL INDIGENOUS
COMMUNITIES IN CAYAMBE**

(TC/SP-99-12-02-0)

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DEVELOPMENT OF RURAL INDIGENOUS COMMUNITIES IN CAYAMBE

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EXECUTIVE SUMMARY

Executing agency: Fundación Casa Campesina de Cayambe [Cayambe Campesina Casa Foundation] (FCCC)

Amount and source:	IDB (US\$)	Local (US\$)	Total (US\$)
Financing:	320,000	77,400	397,400
Technical-coop. funding:	<u>120,000</u>	<u>22,600</u>	<u>142,600</u>
Total:	440,000	100,000	540,000

The IDB funding will be drawn on the net income of the Fund for Special Operations.

Terms and conditions:

Amortization period:	15 years
Grace period:	5 years
Disbursement period:	42 months
Execution period:	36 months
Interest rate:	2%

The grace period will apply to amortization of principal only, not to interest. The credit will be denominated in United States dollars. The local counterpart funding from the FCCC will be in cash.

Objectives: The objective of the project is to convert rural subsistence farming operations into livestock microenterprises through the use of business methods and criteria that will raise, on a sustainable basis, the incomes of indigenous communities in the cantons of Cayambe and Pedro Moncayo.

The specific objectives are: (i) to increase the income of indigenous rural communities through treatment of pastures, the use of greenhouses, and other investments in livestock infrastructure and methods; (ii) to increase the productivity of the land through the expansion of an agricultural services center; (iii) to raise incomes of indigenous farmers through the managed adoption and monitoring of crops and methods making it possible to diversify production; (iv) to

foster the establishment of marketing networks to make production more profitable; and (v) to encourage the dissemination of livestock technology within indigenous communities by training young indigenous people as agronomists.

Description: The purpose of the **financing component (IDB US\$320,000; local counterpart US\$77,400)** is twofold:

- a) *The credit program (IDB US\$240,000; local counterpart US\$25,200). Under this program, over 1,133 credits will be disbursed over the three-year duration of the project, for 719 active credits by year three, with an average balance of US\$377. The credits will be granted for working capital and fixed assets to improve livestock productivity.*
- b) *The agricultural services center (IDB US\$80,000; local counterpart US\$52,500). The resources will be used to expand and modernize the agricultural services center. Casa Cayambe will purchase another tractor and other equipment for use by producers, and three reservoirs with sprinkler irrigation systems will be built. The users will be charged for these services.*

The proceeds of the nonreimbursable technical-cooperation funding component (IDB US\$120,000; local counterpart US\$22,600) will be used for training and impact assessments:

- a) Open training, with observation tours and visits to model production units (IDB US\$21,000; local counterpart US\$7,000),
- b) Personalized on-farm technical assistance (IDB US\$44,000; local counterpart US\$12,600),
- c) Program of systematic technical training courses in livestock farming for young people in indigenous communities (IDB US\$35,000; local counterpart US\$3,000),
- d) Initial data collection, and a midterm and final evaluation (IDB US\$20,000).

**Environmental
and social
review:**

The Committee on Environment and Social Impact reviewed this operation on 28 July 2000, and made a number of recommendations on environmental practices to be followed for crops and irrigation systems. It was also recommended that a simple environmental management plan be included. These recommendations were taken into account in preparing the present document and plan of operations.

Beneficiaries: The indigenous communities in the cantons of Cayambe and Pedro Moncayo will benefit directly from the project. Some 2,000 indigenous families in both cantons will receive one or more of the services to be offered under this project, which will reach about 23.5% of the 8,490 families in the project area.

In addition to the direct beneficiaries, a large proportion of the community of 50,000 people will benefit from this project since 80 young people from the area will be studying and working in their communities to become agricultural experts.

Risks: The main risk associated with the project is that the communities do not properly assimilate the knowledge transferred under the technical-cooperation component, so that their income does not rise to the projected level and credits are not repaid as agreed. To minimize this risk, the FCCC technical experts that provide training and technical assistance will rely on experiences validated by Casa Cayambe and encourage the beneficiaries to diversify their sources of income. The Credit Committee will give priority to requests for viable projects to increase livestock productivity.

Another risk that could prevent the project objectives from being attained is that producers invest their credits in activities not related to their rural operations that do not enable them to raise their incomes. Given the subsistence level of many of these rural operations, this is a major risk that could lead to the diversion of credit for purposes of consumption. To counter this risk, the FCCC will continue to use a credit methodology whereby Casa Cayambe Credit Committee will evaluate the viability of the investment projects and the background of the applicants. The nonobjection of the applicant's community will also be requested.

The third risk has to do with a possible return to a period of political and economic instability and specifically the country's possible readoption of local currency. Such a situation could affect the sustainability of the credit program and jeopardize repayment of funds reimbursable in dollars. To alleviate this risk, although only partially, the FCCC will keep down its operating costs so that it can continue denominating its dollar portfolio at low rates.

The Bank's and the government's strategy:

The Bank's strategy in Ecuador has included reducing poverty, particularly amongst rural indigenous groups, a segment of the population that stands to benefit directly from the project.

Specifically, in the agricultural sector and in natural resource usage, the Bank has proposed, amongst other strategies, that rural microenterprises be encouraged to become more competitive and technologically developed. This projects fits in with both strategies.

Justification:

The project is justified because: (i) the development of a self-sustainable financing model for indigenous producers will contribute to economic growth in the area; (ii) the modernization and diversification in livestock production will make it possible to raise the incomes of indigenous communities sustainably, with the production and sale of agricultural products their main source of support; (iii) it seeks to capitalize on and standardize tangible and validated experiences in converting subsistence farms to microenterprises managed according to business principles; and (iv) it will be carried out by an institution and a group of professionals who have demonstrated their capacity to implement credit and production development services.

Special contractual clauses:

Once the general contractual conditions have been satisfied, the FCCC will be required to fulfill the following conditions precedent to the release of the reimbursable financing: (i) amend the Credit Regulations to accord priority in the use of Bank resources to projects to increase the productivity of livestock microenterprises; (ii) demonstrate that it has possession of the land where the reservoirs are to be built; and (iii) submit a report containing initial background information on the clients as well as a group that will not benefit from the project.

As conditions precedent to the release of the technical-cooperation component, the FCCC will be required to present: (i) a business plan for the duration of the project activities, and (ii) a letter of commitment signed by the Head of FCCC undertaking to continue with, and to support, the activities financed under the technical cooperation component after completion of this project.

The FCCC will carry out simultaneously the reimbursable financing and technical-cooperation components. The two components will be linked within the project, although the Bank resources could be disbursed separately if the project performance indicators are met.

As a contractual obligation, the executing agency will be required to fulfill the performance indicators for disbursements to continue under the project. If it is found that three or more indicators deviate by a margin of over 20% from their targets, the Bank will reach agreement with the FCCC on steps to be taken to correct the situation, with a possible suspension of disbursement.

As part of the reimbursable financing and technical-cooperation agreement, a clause will be included to ensure that the Bank funding is not used to pay commitments to other donors.

Reports and evaluations:

Casa Cayambe will submit progress reports to the Country Office 60 days after the close of each semiannual period, and a final report 60 days after the close of the disbursement period.

These reports will contain an analysis of the extent to which the performance indicators have been met and the rate of advance of the business plan, including (i) the number of loans in the project area and the interest rates charged; (ii) consolidated financial statements and performance indicators of Casa Cayambe; (iii) development of programs in open training, direct on-farm technical assistance, and technical training in agricultural methods; (iv) functioning of the agricultural services center; (v) information on the number of beneficiaries and their characteristics; and (vi) a summary of Casa Cayambe's contribution in cash to the budgetary categories.

Additionally, the Bank will use the technical-cooperation funding to finance the collection of initial background information on clients before the startup of activities, a midterm evaluation, and a final evaluation of the project. The information on clients will be collected before the Bank financing is disbursed and will evaluate the incomes, of agricultural producers who are potential beneficiaries of the project, and another group not receiving project services.

When 50% of the financing component has been disbursed, a midterm evaluation commissioned by the Bank will be conducted to determine: (i) the progress made in adopting methods and crops compared to the performance indicators targets; (ii) how working capital and fixed asset credits were applied; (iii) financial performance indicators for the credit program; (iv) advances in productivity and marketing of livestock production; (v) lessons learned and recommendations for improving the project.

Lastly, the Bank will use the technical-cooperation funding to engage consulting services to conduct a final evaluation. This evaluation will be performed when the financing component has been fully disbursed, and will serve to gauge the impact of the project on the groups researched in the initial evaluation to determine the extent to which the program objectives have been fulfilled, and to document the lessons learned from the project.