

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

SUPPORT FOR A COASTAL ARTISANAL FISHING PROJECT

(EC-L1059)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Michele Lemay (INE/RND) and Duval Llaguno (RND/CEC), Project Team Co-Leaders; Sergio Ardila, Flavio Bazán, and Annette Killmer (INE/RND); Patricio Crausaz (PDP/CEC); Marco Alemán (FID/CEC); Diego Buchara (LEG/SGO); and Elizabeth Chávez (INE/RND), Project Assistant.

CONTENTS

PROJECT SUMMARY

I.	PROJECT DESCRIPTION AND MONITORING OF OUTCOMES	1
A.	Background	1
1.	The artisanal fishing sector	1
2.	Challenges in the artisanal fishing sector.....	1
3.	Strategy and rationale.....	2
B.	Objectives, components, and costs	3
1.	Component 1. Improvement of artisanal-fishing facilities	3
2.	Component 2: Artisanal-fishing management systems	4
C.	Cost and financing	5
D.	Key indicators in the Results Matrix	5
E.	Viability.....	6
II.	STRUCTURE OF FINANCING AND RISKS	8
A.	Financing instruments	8
B.	Environmental and social risks	8
C.	Fiduciary risks	9
D.	Other risks and special considerations	9
III.	PROJECT EXECUTION AND MANAGEMENT PLAN	10
A.	Execution plan.....	10
1.	Banco del Estado.....	10
2.	Department of Fishing Resources.....	11
3.	Municipios.....	11
4.	The project Operating Regulations	12
5.	Procurement	12
B.	Monitoring and evaluation.....	13

Annexes	
Annex I	Results matrix
Annex II	Summary procurement plan

Electronic links
REQUIRED
Annual work plan (18 months) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1717917
Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1713542
Environmental and social management of the project http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1719821
Complete procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1717924
Safeguards and classification review forms (SSF) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1719822
ADDITIONAL
Itemized budget http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1717923
Institutional and financial evaluation of Banco del Estado http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1717920
Operating Regulations http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1717918
Economic analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1718253
Methodology for non reimbursable financing estimates http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1733753

ABBREVIATIONS

ESR	Environmental and Social Review Secretariat
FSO	Fund for Special Operations
OC	Ordinary Capital
SRP	Subsecretaría de Recursos Pesqueros [Department of Fishing Resources]

PROJECT SUMMARY

ECUADOR SUPPORT FOR A COASTAL ARTISANAL FISHING PROJECT (EC-L1059)

Financial Terms and Conditions						
Borrower: Republic of Ecuador Executing agency: Banco del Estado				OC financing	Parallel financing from concessional framework	
					OC	FOE
Source	Amount (US\$ million)	%	Amortization period:	20 years	30 years	40 years
Financing (OC)	2.4	3.3%	Grace period:	4 years	5.5 years	40 years
Parallel financing – concessional framework	47.6	65.2%	Disbursement period:	4 years		
OC financing (80%)	38.08		Interest rate:	LIBOR	Variable	0.25%
FSO financing (20%)	9.52		Inspection and supervision:	*	*	N/A
Local	23.0	31.5%	Credit fee:	*	*	N/A
Total financing	73.0	100.0%	Currency:	U.S. dollar from the Single Currency Facility	US\$	US\$
Project at a glance						
<p>Project objective:</p> <p>The general objective of the project is to make artisanal fishing more competitive and sustainable, as a way of boosting the economic development of fishing communities along the Ecuadorian coast. The project includes two components: (i) improvement of artisanal-fishing facilities; and (ii) artisanal-fishing management systems.</p> <p>Special contractual conditions:</p> <p>Prior to the first disbursement: (i) Signing of a subsidiary agreement between the Ministry of Finance and Banco del Estado to execute and administer project resources (paragraph 3.1); (ii) signing of an agreement between Banco del Estado and the Subsecretaría de Recursos Pesqueros [Department of Fishing Resources] of the Ministry of Agriculture, Livestock, Aquaculture, and Fishing, establishing the parties' obligations in project execution (paragraph 3.1); (iii) formation of the project management team and designation of the team members (paragraph 3.4); (iv) entry into force of the Operating Regulations in accordance with the terms agreed upon with the Bank (paragraph 3.9).</p> <p>Special execution condition: Before the call for bids on the works to be financed, each municipio participating in the project must have signed a financing agreement with Banco del Estado, as previously agreed with the Bank (paragraph 3.8).</p> <p>Exceptions to Bank policies:</p> <p>It is proposed that a revolving fund be set up in an amount equivalent to 10% of the Bank financing (paragraph 2.1).</p> <p>Project consistent with country strategy: Yes [X] No []</p> <p>Project qualifies as: SEQ [X] PTI [X] Sector [] Geographic [X] Headcount []</p> <p>Procurement: Procurement activities will be in accordance with the Bank's policies as set forth in documents GN-2349-7 and GN-2350-7 (paragraph 3.10).</p> <p>Verified by ESG on: ESR 13-08 on 4 April 2008.</p>						

* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. PROJECT DESCRIPTION AND MONITORING OF OUTCOMES

A. Background

1. The artisanal fishing sector

- 1.1 In Ecuador fishing is of high social and economic significance because it directly provides some 120,000 jobs and generates more than US\$540 million a year in exports. Fishing accounted for about 1.5% of Ecuador's GDP from 2005 to 2007.
- 1.2 Fishing in Ecuador is of two main types: (i) industrial fishing; and (ii) artisanal or small-scale fishing, featuring the use of manual fishing methods and small boats. This traditional fishing occurs along the Ecuadorian coast at a total of 138 fishing ports where catches are sold. According to available data, an estimated 56,000 to 60,000 traditional fishermen work at these ports. The fishing sector is also an indirect source of jobs such as suppliers, boat repair and maintenance workers, provisioning workers, informal merchants, and restaurant workers. Some 300 marine species constitute the bulk of the artisanal fishing catch. The National Fishing Institute estimates that the yield for this subsector ranged from 8,200 to 16,800 metric tons annually from 2001 to 2007.

2. Challenges in the artisanal fishing sector

- 1.3 Artisanal fishing in Ecuador faces complex challenges due to marginalization and poverty in traditional fishing communities. Fishing is the sole source of income for most artisanal fishermen. According to surveys conducted during project preparation, their income levels range from US\$100 to US\$300 a month.¹ This issue is partly related to the following challenges, which the project is designed to address:
- 1.4 Lack of access to key services: A number of factors are compromising the competitiveness of the fishing sector, such as: (i) the precarious conditions in which catches are unloaded at traditional fishing ports, with fishing boats unprotected during storms; and (ii) artisanal fishing boats lack equipment for processing their catch and their products. The latter is reflected in the lack of space at the fishing ports, as well as deficiencies in water treatment and environmental sanitation, basic infrastructure, the supply of ice, boat maintenance facilities, etc. Also, consumers receive low quality in distribution, sale, and service. Traceability processes fall short of the standards of international markets. These conditions make it difficult for any artisanal fishing port to grow fast enough to stimulate job growth and provide a basis for fighting poverty and narrowing the gap with more developed sectors.
- 1.5 Sustainability of artisanal fishing: The economic and social sustainability of artisanal fishing depends on the state of the natural resource. It is therefore critical that fishing be managed and that agreements reached between fishermen to allow

¹ Support for the preparation of project EC-L1059 (PROPESCAR). Analysis of surveys conducted in fishing communities. Jorge Higinio Maldonado. September 2008.

for a catch rate consistent with natural rates of reproduction and growth of the stock. The population numbers of traditional fish stocks—such as mahi mahi, marlin, swordfish, mollusks, and crustaceans—are unknown, and allowable fishing levels that would ensure long-term sustainability have not been determined. Some species, such as shark, are protected by international agreements such as the Convention on International Trade in Endangered Species of Wild Flora and Fauna.

- 1.6 Current management methods in Ecuador (e.g., closed seasons, fishing restrictions) have been ineffective in this regard, especially for artisanal fishing. The 16,000-strong fleet of traditional fishing vessels is considered oversized in proportion to the availability of fishing resources. Fishing is a freely accessible activity, with few incentives for artisanal fishermen to participate in efforts to implement and monitor any form of management. For improved, more effective management, a number of actions must be designed and implemented to: (i) improve the information on resources that is used to make management decisions for each fishing season; (ii) develop co-management plans on an appropriate scale to identify actions to monitor, control, and recover resources, assign fishing rights in each fishing area and station, and identify the activities needed to maintain proper coordination with the authorities involved in resource management; and (iii) promote productive alternatives to help reduce pressure on resources in all areas facing significantly dwindling fish stocks

3. Strategy and rationale

- 1.7 To address these challenges, the Government of Ecuador has developed a National Plan for Development of the Fishing Subsector for 2007-2011. The objective of this plan is to strengthen the fishing sector and make it more competitive through export activity, employing collaborative and cooperative approaches to develop effective legal measures, physical infrastructure, standards and policies for quality control, and market intelligence. In addition, the Subsecretaría de Recursos Pesqueros [Department of Fishing Resources] (SRP) is implementing an Artisanal Fishing Action Plan setting out four strategic lines: (i) the regulation of fishing activity to ensure that it is sustainable and conserves marine resources and related ecosystems; (ii) control and monitoring that is effective, efficient, and transparent in reducing infractions of fishing laws and regulations; (iii) comprehensive fishing-related research to address specific needs in various coastal regions; and (iv) improvement of socioeconomic indicators in artisanal fishing communities.
- 1.8 The strategy of this project is to support the Ecuadorian government in making the artisanal fishing industry more competitive and sustainable in Ecuador by strengthening key factors of production in the artisanal fishing sector and the capacity to manage, conserve, and use fishing resources in marine and coastal ecosystems. This strategy is fully consistent with the government's strategy in the sector.
- 1.9 As for the subsector competitiveness, the project emphasizes improvements in productive infrastructure, the sustainability of services at fishing facilities through

participative management models adapted to local conditions, and the strengthening of capacities of fishing organizations and local governments. By collaborating with Banco del Estado, the project can channel financial resources to municipal governments under a local technical assistance framework that supports the effective and strategic implementation of individual projects. As to sustainability, the project fosters the use of systems for co-management, monitoring, research, and technical assistance. These measures will help bring about substantial improvements in small-scale fishing management and limit catches to rates consistent with natural fish stock growth and reproduction rates. Also, as they are consistent with the Artisanal Fishing Action Plan, they will support the SRP in fulfilling its institutional mission.

B. Objectives, components, and costs

- 1.10 The general objective of the project is to make artisanal fishing more competitive and sustainable, as a way of boosting the economic development of fishing communities along the Ecuadorian coast. The specific objectives of the operation are: (i) to improve the quality and sustainability of services needed for catching, unloading, and selling artisanal fish products in coastal ports; and (ii) to manage and conserve fishing resources in coastal marine ecosystems along the Ecuadorian coast, and to use them in a sustainable manner.

1. Component 1. Improvement of artisanal-fishing facilities

- 1.11 This component will finance the following activities:
- a. Preinvestment and investment in priority public works in coastal municipios, especially in small communities that depend on artisanal fishing.² They include, *inter alia*, breakwaters, fishing wharves, docking and unloading facilities, to reduce the risk of damage to vessels; equipment to ensure the hygiene and safety of catch products processed and sold, and construction of administrative offices for sector-specific and research-related entities and provision of related services. Initial eligibility of financing requests from municipios will be determined by Banco del Estado, in conjunction with the SRP, in accordance with the following criteria: (i) importance of the site to the artisanal fishing sector, in view of the number of fishermen or vessels and the volume of the catch; (ii) socioeconomic indicators; and (iii) whether the municipio has the proven financial capacity to borrow from Banco del Estado, and whether it has a as a management model—including a business plan—for effective operation and maintenance, including beneficiary artisanal fishing communities and fishermen. After the initial evaluation, the final projects will be subject to a detailed evaluation by Banco del Estado on the basis of

² A sample of five priority sites was analyzed in project preparation: (a) Santa Rosa (Salinas canton, Santa Elena province); (b) Anconcito (Salinas canton, Santa Elena province); (c) Jaramijó, (Jaramijó canton, Manabí province); (d) San Mateo (Manta canton, Manabí province); and Esmeraldas (Esmeraldas canton, Esmeraldas province).

technical, economic, institutional, financial, social, environmental, and legal eligibility criteria.

- b. Oversight, technical assistance, and training, including support for development and implementation of management models to operate and maintain fishing facilities, institutional strengthening for municipios and fishermen's associations, and public participation in determining infrastructure needs.

2. Component 2: Artisanal-fishing management systems

- 1.12 This component includes the following activities to enhance the sustainability of artisanal fishing and the corresponding institutional framework, management, and diversification, in a manner consistent with the Artisanal Fishing Action Plan.

- a. Regulation of artisanal fishing: Includes: (i) helping to establish and implement a comprehensive zoning plan in the coastal marine area, establishing areas devoted exclusively to artisanal fishing and resource conservation and recovery; (ii) implement a fishing co-management pilot plan by assigning rights to resource use in certain areas to fishermen's associations on the basis of participative management plans at the local level; and (iii) developing economic analysis capacity within the SRP and the National Fishing Institute as way of streamlining the sector and decision-making.
- b. Monitoring and control: Financing will be provided for: (i) recruitment, training, and mobilization of inspectors at fishing facilities to promote the decentralization of technical assistance activities (to support co-management approaches), and monitoring and supervision; (ii) design and establishment of a monitoring system to help collect and analyze statistical data on traditional fishing activity, in view of biological, economic, and social variables; and (iii) establishment of a network of service centers at fishing facilities and timely dissemination of information to users.
- c. Applied research: Includes the design and implementation of a comprehensive research plan to generate the information needed to manage artisanal fishing, including knowledge of habitats and interaction and connectivity of resources and social factors.
- d. Microentrepreneurial development: Includes technical assistance for starting microenterprises and developing projects to diversify production and fishing products in small coastal communities.

- 1.13 This component will also provide financing to support the implementation of the National Action Plan for Shark Conservation and Management. These lines of action are expected to be complemented by a marine and coastal biodiversity conservation project to be financed by the Global Environment Facility, which will support, *inter alia*, the system of protected marine areas.

C. Cost and financing

- 1.14 The total cost of the project is estimated at US\$73 million, of which the Bank will provide US\$50 million and the Ecuadorian government US\$23 million. The Bank will finance up to \$47.6 million in concessional funding (80%-20% blend), of which US\$38.08 million will come from the Ordinary Capital and US\$9.52 million from the Fund for Special Operations. The remainder (US\$2.4 million) will be drawn on the Single Currency Facility of the Bank's Ordinary Capital. The local counterpart of US\$23 million will come from the central government, through the Ministry of Finance, and will be charged to the Municipal Investment Fund (US\$15 million), from the operational budget of Banco del Estado (US\$900,000) and the SRP (US\$7.1 million).

Cost summary table (US\$ millions)

	IDB	Local	Total	%
Project administration	0	0.9	0.9	1.2
Component I: Artisanal-fishing facilities	50.0	11.4	61.4	84.1
Component II: Artisanal-fishing management	0	6.7	6.7	9.2
Monitoring, evaluation, and auditing	0	0.2	0.2	0.3
Contingencies	0	3.8	3.8	5.2
TOTAL	50.0	23.0	73.0	100.0
Percentage (%)	68%	32%	100%	

D. Key indicators in the Results Matrix

- 1.15 The indicators in the Results Matrix are specified in Annex I. Key indicators are as follows:

Indicator	Rationale
Volume (and percentage) of artisanal fishing catches in Ecuador that is unloaded, processed/cleaned, and loaded onto trucks for transport to consumer centers in sanitary conditions consistent with international sanitation standards	Indicator of improvement in quality of artisanal fishing production and sector competitiveness
Number (and percentage) of artisanal fishermen purchasing inputs and basic services from fishing facilities on "acceptable" safety conditions	Indicator of improvement in quality of services provided to fishermen at fishing ports
Facilities built by the project and covering their operating and maintenance costs out of fees paid by fishermen, merchants, and service providers who use the facilities	Indicator of financial sustainability of artisanal-fishing facilities
Coastal area managed in accordance with sustainability principles through co-management or special management methods for fish resources protection	Indicator of improvement in management of fishing resources on which artisanal fishing depends

E. Viability

- 1.16 The objective of the economic analysis was to develop a methodology and illustrate its use on a sample of the universe of projects that may be financed by the project, but which are currently only at the profile level. The analysis covered both project components, but was more qualitative in nature for the “Artisanal fishing management systems” component. The projects under consideration in the first component will affect three groups of beneficiaries: small-scale fishermen, merchants, and the local community. The benefits for each group are as follows:
- a. Fishermen: (i) easier access to inputs (shorter wait times and distances to obtain fuel, lubricants, and supplies, easier labor negotiations); (ii) greater availability of ice, gasoline, and other inputs; (iii) availability of services for unloading products and docking vessels, to reduce operating costs and losses due to accidents involving bodily injury and damage to vessels; and (iv) greater production/improved product quality due to a reduction in losses and improvements in product handling.
 - b. Marketers at port: improved product quality, increased volume of subproducts due to improvements in storage and marketing facilities, among others.
 - c. Residents of the municipio: (i) improved municipal laws and regulations and sanitary conditions, and less congestion and decrease in foul odors; and (ii) improved restaurant services and possibly increased tourism.
- 1.17 To estimate these benefits, 469 surveys were conducted at five fishing ports and information was gathered on payments currently made for various services. Information was also gathered to estimate the willingness of fishermen, merchants, and residents to pay for improved port facilities (for greater convenience, time savings, reduced risk of accidents, etc.), without including direct payments for ice, fuel, refrigeration, etc. This information is accessible through the electronic links. On the basis of this information, a model was developed to help evaluate the fishing ports, and Banco del Estado will be trained to use this tool as part of the economic analysis of component one investments.
- 1.18 The second component—artisanal-fishing management systems—will have an economic impact with successful regulation that: (i) increases the catch levels permitted while maintaining fish stocks steady; and/or (ii) reduces efforts to socially optimize fish catches. To verify the feasibility of alternative management methods, “experimental games” were carried out in the five municipios in the sample using experimental economic techniques. In particular, four alternative management methods were examined: (i) the status quo of virtually free access with controls in the form of closed seasons for certain species; (ii) external regulation through fines to encourage optimal catch levels; (iii) regulation through self-management, simulating a system fully regulated by the fishermen themselves; and (iv) co-management, simulated through an arrangement where, in addition to the

method described in (iii), fishermen receive information from the fishing authorities to encourage them to catch at optimal levels.

- 1.19 The outcomes of these experimental games in terms of day-to-day fishing decisions, average profit per fisherman, and fish stock sustainability were (see electronic links): (i) the lowest catch level, the greatest profits, and the highest stock levels were obtained through a co-management arrangement in almost all sites used in the sample; (ii) regulation through fines was less effective than self-management, though in one case there were similar outcomes in catch levels; (iii) in one case (Esmeraldas), the group regulated through self-management secured higher stock levels, the lowest catch levels, and the greatest profits; the co-management method did not work so well due to poor communication between the authorities and fishermen. These outcomes—though based on relatively small samples (approximately 50 fishermen per site) and on plausible costs and stock estimates not adjusted to the conditions at each port—clearly show the advantages of co-management methods. Although, estimating the economic profitability of investments in this effort requires information that does not exist for the specific conditions in Ecuadorian fishing ports. Experiences now under way along the Colombian coast show the economic advantages of co-management.
- 1.20 Financial and institutional viability. A financial evaluation of Banco del Estado shows its financial position is strong in terms of profitability, solvency, liquidity, and the quality of its loan portfolio and other risk assets. This strong financial position is reflected in an A+ rating from Fitch in recent years and in Banco del Estado's favorable track record with the Superintendency of Banks and Insurance with respect to compliance with national banking laws and regulations in the highly favorable performance of financial, regulatory, and operational indices.
- 1.21 From an operational standpoint, Banco del Estado is therefore in a highly favorable position to: (i) carry out an orderly, financially sound asset-growth process that effectively reflects the expected growth of the development project portfolio; (ii) initiate a process of gradual diversification of sources of liabilities, including access to new financing instruments and capital markets; (iii) continue maintaining a healthy operational cash flow to help generate the surpluses needed to carry out initiatives in institutional strengthening, and to leverage external financial resources that are available for this purpose; and (iv) incorporate ongoing training and institutional modernization programs into the institutional landscape to place Banco del Estado in a more competitive position in the domestic financial market, strengthening its work as a development bank and diversifying risk in its financial activity.
- 1.22 Banco del Estado's financial eligibility criteria for new loans include the capacity of projects to generate incremental cash flow and positive returns as a result of implementing a new infrastructure and management mechanisms, and the reflection of these benefits in properly maintained infrastructure, the distribution/increase in financial benefits for local communities, generation of surpluses to address sector growth and its future investment and working capital requirements.

II. STRUCTURE OF FINANCING AND RISKS

A. Financing instruments

- 2.1 The operation is being structured as an investment loan to be disbursed according to the disbursement timetable below. A revolving fund in an amount equivalent to 10% of the financing will be set up to cover advances to pay for activities being financed under the loan. This limit is based on the reference amount for works to be initiated in year one of the project at the five priority ports.

Table II.1
Disbursement timetable

Source	Year 1	Year 2	Year 3	Year 4
IDB/OC	15%	35%	30%	20%

B. Environmental and social risks

- 2.2 The project, which entails a low level of social risk and a medium level of environmental risk, received a “B” classification in accordance with the Bank’s environmental and safeguards compliance policy (OP-703). It does not entail risks to indigenous communities and will benefit the afro-descendent communities around Esmeraldas. The environmental risks stem from potentially negative localized impacts, mainly short-term, during construction of fishing facilities, and these impacts can be effectively managed through environmental impact assessments and environmental management plans as required under Ecuadorian law and indicated in the project Operating Regulations. These requirements will be monitored throughout the project by Banco del Estado in coordination with the SRP (see electronic links and references).
- 2.3 In February and March 2008, consultations were held in the municipios of Eloy Alfaro (Limonas), Muisne, Portoviejo, Río Verde, San Lorenzo, and Sucre (Bahía de Caráquez) to ensure that the projects planned were consistent with the needs of affected communities. These consultations were attended by representatives of Banco del Estado, the municipios, and artisanal fishing communities in the surrounding areas. Also, experimental games and interviews at five key ports on the Ecuadorian coast provided highly valuable information on the perceptions and decisions of fishing communities. The comments received during these consultations, games, and interviews were considered in project design.
- 2.4 The project is expected to have positive environmental and social impacts because it will: (i) improve management of marine and coastal resources (component 2); (ii) reduce the negative impacts of current practices, which are inconsistent with sanitation and environmental standards, due in turn to a lack of proper fishing facilities (component 1); and (iii) increase revenue from artisan fishing through enhanced product quality and more sustainable resources (the main objective of the project).

C. Fiduciary risks

- 2.5 The project entails a medium level of fiduciary risk. Banco del Estado executed the municipal development project, partially financed by the Bank, and completed satisfactorily in 1998. It is currently carrying out a program to provide water and sewer service, and solid waste treatment for 17 small cities, which is being financed in part by Kreditanstalt für Wiederaufbau (US\$24 million), and the Promadec project to provide basic sanitation infrastructure to small municipios, to which financing is being contributed by the Andean Development Corporation (US\$200 million).
- 2.6 The executing agency fiduciary capacity was evaluated during project preparation on the basis of the head office and branch locations that will be in charge of channeling the loans to the municipios to finance the fishing facilities. The institutional capacity analysis (simplified Institutional Capacity Assessment System) yielded an overall score of 78.3%, a medium level of institutional risk. The areas with the most room for improvement are internal control (52.2%) and personnel administration (68.8%). The areas with the greatest relative strength are the financial management system (97.9%) and the goods and services management system (95.2%). The Bank's support will be accompanied by a nonreimbursable technical-cooperation operation (ATN/SF-10734-EC) to boost Banco del Estado capacity in strategic planning, process-based management, risk management, and credit management.
- 2.7 Procurement activities related to fishing facilities will be carried out by the participating municipios, several of which have fiduciary weaknesses. These weaknesses will be mitigated through technical assistance and support from Banco del Estado through its Technical Assistance Department and regional branch offices from the precontract phase to completion of the fishing facilities.

D. Other risks and special considerations

- 2.8 The management capacity of the fishing facilities and their sustainability pose significant risks to the project. Experiences has shown that new fishing infrastructure does not necessarily guarantee it will be used properly, and in fact many facilities end up being abandoned or underutilized. To mitigate these risks, the following measures are proposed: (i) sizing the proposed infrastructure to a user's actual needs; (ii) implementing participative management models to operate the facilities; and (iii) payment-for-service arrangements to make the infrastructure financially sustainable.
- 2.9 Another significant risk is that the addition of new fishing facilities would put increased pressure on fish stocks. To mitigate this risk, a fish resource sustainability strategy (component 2) is being proposed that would include zoning for sustainable use and conservation of marine and coastal resources.

III. PROJECT EXECUTION AND MANAGEMENT PLAN

A. Execution plan

- 3.1 The borrower will be the Republic of Ecuador. The executing agency will be Banco del Estado. The Department of Fishing Resources (SRP) of the Ministry of Agriculture, Livestock, Aquaculture, and Fishing will help Banco del Estado to manage and monitor the activities envisaged for the “artisanal fishing management systems” component. **As a condition precedent to the first disbursement, a subsidiary agreement must be signed between the Ministry of Finance and Banco del Estado for executing and managing project resources. Another condition precedent to the first disbursement will be an agreement between Banco del Estado and the SRP setting out the obligations of the parties in project execution.**
- 3.2 Banco del Estado will allocate the proceeds of the financing to municipios eligible for financing for works under the “artisanal fishing facilities improvement” component. Eligible municipios will receive nonreimbursable financing in an amount ranging from 20% to 80% of the investment cost, according to the methodology agreed between Banco del Estado and the Bank (see electronic links and references), which considers the following criteria, among others, in determining the amount of financing: poverty levels in fishing communities, as measured by the residents’ unmet basic needs; the importance of fishing, as measured by the number of artisanal fishermen and/or fishing boats; an index of port infrastructure needs; and the level of municipal revenue. To cover the difference in the investment cost, Banco del Estado will extend reimbursable financing to eligible municipios. The rate charged by Banco del Estado (currently 7.42%) is higher than the borrowing rate in the financial market (4.5% a year) and higher than the Bank’s current lending rate (5% for OC).

1. Banco del Estado

- 3.3 As the executing agency, Banco del Estado will be responsible for project coordination, financial/accounting management, and monitoring and evaluation. Its specific duties include: (i) opening separate accounts to administer the loan and subloans; (ii) preparing and submitting disbursement requests to the Bank with the proper justification of eligible expenses and the project’s audited consolidated financial statements; (iii) ensuring that each subloan borrower meets the eligibility criteria for accessing project resources; (iv) allocating nonreimbursable resources to beneficiary municipios according to the criteria in the Operating Regulations; (v) evaluating and selecting, in conjunction with the SRP, component 1 projects according to the eligibility criteria in the Operating Regulations; (vi) verifying the quality of bidding processes before submitting them to the Bank for its no objection; (vii) making payments to contractors, pending the approval of the municipios, periodic inspections of works during execution, and subsequent monitoring of related operation and maintenance activities; (viii) preparing the required consolidated monitoring reports and evaluation reports, submitting them to

the Bank, and making them available to the public; and (ix) ensuring compliance with the contractual conditions of the loan contract and pertinent agreements.

- 3.4 Banco del Estado will perform its duties through its Management Department, with support from the Credit and Planning departments. The Management Department will have a management team headed by a general coordinator. It will be manned with Bank staff who will devote the necessary resources and time to the project as specified in the Operating Regulations, as well as specialists in administration/finance, procurement, law, municipal lending, and environmental evaluation. Banco del Estado will also hire for its branch offices a regional technical coordinator with extensive knowledge of coastal and fish resource management and experience with the administration of Bank-financed projects. **As a condition precedent to the first disbursement, Banco del Estado's management team must have been formed, with regular or contract staff designated to the team.**

2. Department of Fishing Resources

- 3.5 For the activities for which it is responsible, the Department of Fishing Resources (SRP) will handle procurement and related payments; calculate budgetary resources allocations of local counterpart funding needed for scheduled activities; and keep accounting and financial records and an internal control system for administration of project resources. The SRP will also prepare and submit to the executing agency documentation justifying expenses, bidding documents, and semiannual monitoring reports. Also, the SRP, as the regulatory body for fishing activity, will work closely with Banco del Estado to establish the technical criteria, general guidelines, and policies on project eligibility and inclusion in the "Artisanal-fishing facilities improvement" component, and assist with the project technical evaluation and selection process.
- 3.6 The SRP will discharge these functions through its Office for Projects and International Cooperation, with help from a management team supported by two regular staff members from the Financial Administration Office for financial and accounting and procurement management, as well as by technical experts from the General Fishing Office and the Office for Artisanal Fishing.

3. Municipios

- 3.7 The responsibilities of the municipios participating in the project include: awarding of contracts and technical supervision of projects in the "Artisanal-fishing facilities improvement" component, in accordance with Bank policies; requesting payments for contractors from Banco del Estado; allowing the executing agency, contractors, external auditors, and the Bank free, unrestricted access to construction areas for the duration of the project; and reporting annually to the executing agency on the status of the operation and maintenance of works for which it is responsible. The municipios will also submit to the executing agency a management model that will include a business plan for operation and maintenance of artisanal-fishing facilities

under its purview. Submittal of this management model will be among the eligibility criteria for receiving project resources (paragraph 1.12a).

- 3.8 Municipios participating in the project will sign financing agreements with the executing agency. In addition to each party's responsibilities in execution, these agreements will specify: (i) amounts and financial conditions of the reimbursable financing; (ii) complementary nonreimbursable resources; and (iii) general provisions applicable to Banco del Estado's operations along with a loan report. **Before the call for bids on the works to be financed, the municipios participating in the project must have signed with Banco del Estado a financing agreement previously approved by the Bank.**

4. The project Operating Regulations

- 3.9 Project management will be governed by the Operating Regulations, which set out the eligibility criteria for subloans and projects, and the financial conditions of subloans in accordance with Banco del Estado's general credit operation regulations and the criteria for allocation of nonreimbursable resources to municipios. The project Operating Regulations also indicate the responsibilities, standards, and procedures for these entities in activities programming, preparation of annual work plans; review and approval of component 1 projects; procurement and awarding of contracts; management and filing of bidding documentation; project financial and accounting management; auditing; and the project monitoring and evaluation system. **As a condition precedent to the first disbursement, the project Operating Regulations must have entered into force in accordance with the terms agreed upon with the Bank.**

5. Procurement

- 3.10 Procurement of works, goods, and related services with project resources will be carried out in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-7), and consulting services will be selected and hired in accordance with the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-7). The procurement methods and thresholds are summed up in Table III-2.

Table III-2
Thresholds for project procurement (US\$)

	ICB	NCB	Price comparison
Works	> 3,000,000	< 3,000,000	< 100,000
Goods	> 250,000	< 250,000	< 50,000
Consulting services	> 200,000	< 200,000	N/A

- 3.11 The Bank will perform ex ante reviews of procurement for the first 12 months of the project. The executing agency's procurement capacity and performance will

then be reevaluated and, if favorable, the Bank may at its discretion change subsequent supervision to ex post reviews, with the appropriate thresholds.

B. Monitoring and evaluation

- 3.12 Banco del Estado will present to the Bank semiannual reports on progress in reaching the project impact and status indicators, to be monitored by its Management Department. These reports will focus on attaining the indicators in the Results Matrix (Annex I) and include the results of environmental monitoring of the works, any problems encountered, and corrective measures adopted. The reports for the second six-month period will also include the activities scheduled for the next calendar year with adjusted disbursements and an updated procurement plan.
- 3.13 The project also calls a midterm evaluation report once 45% of the financing has been disbursed, and a final evaluation report when 90% of the financing has been disbursed. These reports will describe: (i) measurement of the outputs and outcomes attained, according to the indicators in the Results Matrix; (ii) effectiveness of project coordination mechanisms; (iii) extent to which the Operating Regulations have been complied with; (iv) effectiveness and efficiency in execution; and (v) financial sustainability of investments, including an evaluation of the management models implemented at the facilities. These reports will be based on the opinions of independent specialized firms or consultants. The evaluations will be commissioned by the executing agency working closely with the Bank, and financed with counterpart resources. An external audit will be performed each year by a firm acceptable to the Bank throughout the project.

SUPPORT FOR A COASTAL ARTISANAL FISHING PROJECT (EC-L1059) RESULTS FRAMEWORK / INDICATORS MATRIX							
Project objective	To make artisanal fishing along the Ecuadorian coast more competitive and sustainable						
Outcome indicators	Baseline			Target			
Volume (and percentage) of artisanal-fishing catches in Ecuador unloaded, processed/cleaned, and loaded onto trucks for transport to consumer centers in sanitary conditions consistent with international sanitation standards.	0 (0%)			10,000 ton (75% approx.)			
Number (and percentage) of artisanal fishermen purchasing inputs and basic services from fishing facilities in “acceptable” safety conditions	0 (0%)			8,000 (40% approx.)			
Project-built facilities that are able to cover operating and maintenance costs out of fees paid by fishermen, merchants, and service providers who use the facilities	0			10			
Coastal area (total of 3,170,400 hectares) managed according to sustainability principles through comanagement methods or special management for protecting fish resources	75,000 hectares			1,000,000 hectares			
Component 1	Baseline	Year 1	Year 2	Year 3	Year 4	Target	Comments
<u>Products</u>							
Total number of community facilities appropriate for local artisanal fishing under construction or already built	0	3	7	11	15	15	<u>Means of verification:</u> semiannual reports <u>Assumptions:</u> Municipal governments carry out the bid processes in accordance with appropriate terms and deadlines.
Total number of local community facilities built	0	0	3	7	11	11	
Total number of fishing ports with new facilities under construction with a management model developed	0	3	7	11	15	15	
Total number of fishing ports with new facilities built and with a management model implemented	0	0	3	7	11	11	

<u>Midterm outcomes</u>							
Of the fishing ports with facilities built, average percentage of catches processed by the new facilities	0	0	50%	75%	75%	75%	
Number of fishermen benefiting directly from the new facilities	0	0	3,500	6,000	8,000	8,000	
New facilities generating revenue through the collection of fees	0	0	3	7	10	10	
<u>Outcomes</u>							
Volume (and percentage) of artisanal-fishing catches in Ecuador handled in sanitary conditions consistent with international sanitary standards	0 (0%)	0 (0%)				10,000 tons (75% of total)	
Number (and percentage) of artisanal fishermen purchasing inputs and basic services on wharves in “acceptable” safety conditions	0 (0%)	0 (0%)				8,000 (40% of total)	
Project-built facilities that are able to cover operating and maintenance costs through the collection of fees	0	0	2	6	10	10	
Component 2	Baseline	Year 1	Year 2	Year 3	Year 4	Target	
<u>Products</u>							
Zoning plan for fishing activity for the entire Ecuadorian coastal area carried out (% complete)	0	40%	60%	100%	--	100%	<u>Means of verification:</u> semiannual reports <u>Assumptions:</u> The government supports and makes necessary adjustments to the legal framework to implement a comanagement approach in the appropriate terms and time periods.
Number of comanagement pilot plans developed	1	2	5	8	11	11	
Number of comanagement pilot plans implemented	1	1	2	5	8	8	
The Artisanal-Fishing Facility Monitoring System has been designed.	--	--	x	--	--	x	
Number of priority sites where the	--	--	--	5	8	8	

Artisanal-Fishing Facility Monitoring System is being implemented							
The Artisanal Coastal Fishing Research Plan has been approved by the SRP.	--	--	x	--	--	x	
Number of agreements signed to execute research programs in accordance with the approved research plan	--	--	--	2	4	4	
Number of microentrepreneurs receiving technical assistance to diversify their productive activities through the program	0	25	50	75	100	100	
Number of fishing ports with systematic monitoring of shark catches	5	9	13	17	20	20	
<u>Midterm outcomes</u>							
Based on the experiences and lessons learned during the project, a manual has been developed to facilitate replication of the comanagement method all along the Ecuadorian coast and its incorporation into the institutional structure.	--	--	--	--	x	x	
Number of priority sites where decision-making on fish resources takes into account information and analysis from the monitoring and research systems	--	--	--	4	7	7	
Number of fishing communities diversifying their current productive activities in favor of more sustainable activities	0	0	5	15	25	25	
Percent reduction in catches of endangered shark species from 2008 catch levels	0%	0%	2%	6%	10%	10%	
<u>Outcomes</u>							
Coastal area (in hectares) managed in accordance with comanagement methods or special management for protecting fishing resources.	75,000	100,000	250,000	500,000	1,000,000	1,000,000	

SUPPORT FOR A COASTAL ARTISANAL FISHING PROJECT (EC-L1059)

SUMMARY PROCUREMENT PLAN

Period covered by this procurement plan: From 01/09 to 06/10

Reference No. ¹	Description and type of the procurement contract	Estimated contract cost (US\$000)	Procurement method ²	Review (ex ante or ex post)	Source of financing and percentage		Prequalification ³ (Yes/No)	Estimated dates		Status ⁴ (Pending, in process, awarded, canceled)	Comments
					IDB %	Local / Other %		Publication of specific procurement notice	Completion of contract		
	WORKS										
	<i>Work 1 La Posa - Esmeraldas fishing facility</i>	3,400.00	ICB	Ex ante	100.00		No	Q3 2009	Q2 2011	PENDING	
	<i>Work 2 Santa Rosa - Santa Elena fishing facility</i>	4,200.00	ICB	Ex ante	100.00		No	Q3 2009	Q2 2011	PENDING	
	<i>Work 3 Anconcito - Santa Elena fishing facility</i>	6,840.00	ICB	Ex ante	100.00		No	Q3 2009	Q2 2011	PENDING	
	<i>Work 4 Jaramijó - Manabí fishing facility</i>	7,000.00	ICB	Ex ante	100.00		No	Q4 2009	Q2 2011	PENDING	
	<i>Work 5 San Mateo - Manabí fishing facility</i>	5,500.00	ICB	Ex ante	100.00		No	Q4 2009	Q2 2011	PENDING	

¹ If a number of similar individual contracts were to be executed in different places or at different times, these can be grouped together under a single heading, with an explanation in the comments column indicating the average individual contract amount and the period during which they would be executed. For example, an education project that includes school construction might include an item “school construction” for a total of US\$20 million, and an explanation in the comments column such as: “This encompasses some 200 contracts for school construction averaging US\$100,000 each, to be awarded individually by participating municipal governments over a three-year period between January 2006 and December 2008.”

² **GOODS AND WORKS:** **ICB:** international competitive bidding; **LIB:** limited international bidding; **NCB:** national competitive bidding; **PC:** price comparison; **DC:** direct contracting; **FA:** force account; **PSA:** procurement through Specialized Agencies; **PA:** procurement Agents; **IA:** inspection agents; **PLFI:** procurement in loans to financial intermediaries; **BOO/BOT/BOOT:** build, own, operate/build, operate, transfer/build, own, operate, transfer; **PBP:** performance-based procurement; **PLGB:** procurement under loans guaranteed by the Bank; **PCP:** community participation procurement. **CONSULTING FIRMS:** **QCBS:** quality- and cost-based selection **QBS:** quality-based selection **FBS:** selection under a fixed budget; **LCS:** least-cost selection; **CQS:** selection based on the consultants’ qualifications; **SSS:** single-source selection. **INDIVIDUAL CONSULTANTS:** **NICQ:** national individual consultant selection based on qualifications; **IICQ:** international individual consultant selection based on qualifications

³ In the case of new policies it applies only for goods and works. In the case of old procurement policies, it applies for goods, works and consulting services.

⁴ The “Status” column should be used for retroactive procurement and for procurement plan updates.

Reference No. ¹	Description and type of the procurement contract	Estimated contract cost (US\$000)	Procurement method ²	Review (ex ante or ex post)	Source of financing and percentage		Prequalification ³ (Yes/No)	Estimated dates		Status ⁴ (Pending, in process, awarded, canceled)	Comments
					IDB %	Local / Other %		Publication of specific procurement notice	Completion of contract		
	<i>Work 6 Various small-scale works, rehabilitation, adjustments</i>	3,000.00	NCB	Ex ante	77	23	No	Q3 2009	Q2 2011		Encompasses several works
	CONSULTING SERVICES										
	Consultancy 1 Complementary studies	300.00	NCB	Ex post		100	No	Q1 2009	Q3 2009	PENDING	There are different consulting contracts for different fishing facilities. As they are 100% financed by the local contribution, they are governed by local law.
	Consultancy 2 Preinvestment studies	300.00	NCB	Ex post		100.00	No	Q1 2009	Q3 2009	PENDING	There are different consulting contracts for different fishing facilities. As they are 100% financed by the local contribution, they are governed by local law.
	Consultancy 3 Final designs and studies	300.00	NCB	Ex post		100.00	No	Q1 2009	Q3 2009	PENDING	There are different consulting contracts for different fishing facilities. As they are 100% financed by the local contribution, they are governed by local law.
	<i>Consultancy 4 Oversight of La Posa - Esmeraldas fishing facility</i>	170.00	NCB	Ex post		100.00	No	Q3 2009	Q2 2011	PENDING	As they are 100% financed by the local contribution, they are governed by local law.
	<i>Consultancy 5 Oversight of Santa Rosa - Santa Elena fishing facility</i>	210.00	NCB	Ex post		100.00	No	Q3 2009	Q2 2011	PENDING	As they are 100% financed by the local contribution, they are governed by local law.

Reference No. ¹	Description and type of the procurement contract	Estimated contract cost (US\$000)	Procurement method ²	Review (ex ante or ex post)	Source of financing and percentage		Prequalification ³ (Yes/No)	Estimated dates		Status ⁴ (Pending, in process, awarded, canceled)	Comments
					IDB %	Local / Other %		Publication of specific procurement notice	Completion of contract		
	<i>Consultancy 6 Oversight of Anconcito - Santa Elena fishing facility</i>	342.00	NCB	Ex post		100.00	No	Q3 2009	Q2 2011	PENDING	As they are 100% financed by the local contribution, they are governed by local law.
	<i>Consultancy 7 Oversight of Jaramijo - Manabí fishing facility</i>	350.00	NCB	Ex post		100.00	No	Q3 2009	Q2 2011	PENDING	As they are 100% financed by the local contribution, they are governed by local law.
	<i>Consultancy 8 Oversight of San Mateo - Manabí fishing facility</i>	275.00	NCB	Ex post		100.00	No	Q3 2009	Q2 2011	PENDING	As they are 100% financed by the local contribution, they are governed by local law.
	Consultancy 9 Midterm evaluation	58.00	NCB	Ex post		100.00	No	Q3 2010	Q4 2010	PENDING	As they are 100% financed by the local contribution, they are governed by local law.
	<i>Consultancy 10 Final evaluation</i>	23.00	NCB	Ex post		100.00	No	Q3 2012	Q4 2012	PENDING	As they are 100% financed by the local contribution, they are governed by local law.
	NONCONSULTING SERVICES										
	External audit of the project	100.00	LCS	Ex ante		100%	No	Q3 2009	Q1 2010	PENDING	