

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

REHABILITATION OF DOWNTOWN AREAS AND LAND MANAGEMENT SUPPORT IN CUENCA

(EC-L1021)

LOAN PROPOSAL

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Electronic Links and References

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| Basic socioeconomic data | http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata |
| Status of loans in execution and loans approved | http://ops/approvals/pdfs/ECen.pdf |
| Tentative lending program | http://opsgs1/ABSPRJ/tentativelending.ASP?S=EC&L=EN |
| Information available in the RE3/SC3 technical files | Información disponible en archivos de RE3/SC3 |
| Procurement plan | http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=763853 |
| Environmental analysis | HTTP://IDBDOCS.IADB.ORG/WSDOCS/GETDOCUMENT.ASPX?DOCNUM=716954 |
| Environmental and social management report | HTTP://IDBDOCS.IADB.ORG/WSDOCS/GETDOCUMENT.ASPX?DOCNUM=717047 |
| Project's negotiated detailed cost table | HTTP://IDBDOCS.IADB.ORG/WSDOCS/GETDOCUMENT.ASPX?DOCNUM=758562 |
| Operating Regulations of the Fund to Strengthen Microenterprises | HTTP://IDBDOCS.IADB.ORG/WSDOCS/GETDOCUMENT.ASPX?DOCNUM=716515 |
| Economic analysis | HTTP://IDBDOCS.IADB.ORG/WSDOCS/GETDOCUMENT.ASPX?DOCNUM=724250 |

ABBREVIATIONS

| | |
|------|---|
| AWP | Annual Work Plan |
| CIDA | Canadian International Development Agency |
| EAP | Economically active population |
| INEC | Instituto Nacional de Estadísticas del Ecuador [Ecuadorian National Statistics Institute] |
| IRR | Internal rate of return |
| MC | Municipality of Cuenca |
| NGOs | Nongovernmental organizations |
| NPV | Net present value |
| OC | Ordinary Capital |
| PCR | Project Completion Report |
| PEU | Project executing unit |
| PPMR | Project Performance Monitoring Report |
| RCCP | Red de Centros Comerciales Populares [network of public market centers] |
| UNDP | United Nations Development Programme |

PROJECT SUMMARY

ECUADOR

REHABILITATION OF DOWNTOWN AREAS AND LAND MANAGEMENT SUPPORT IN CUENCA (EC-L1021)

| Financial Terms and Conditions ¹ | | | | |
|--|----------------|----------|---------------------------------|--|
| Borrower: Municipality of Cuenca | | | Amortization period: | 25 years |
| Guarantor: Republic of Ecuador | | | Grace period: | 3 years |
| Executing agency: Municipality of Cuenca | | | Disbursement period: | 3 years |
| Source | Amount | % | Interest rate: | LIBOR-based interest rate |
| IDB (Ordinary Capital) | US\$6,588,000 | 52 | Inspection and supervision fee: | 0% |
| Local | US\$6,035,000 | 48 | Credit fee: | 0.25% |
| Other cofinancing | | | Currency: | U.S. dollars from the Single Currency Facility |
| Total | US\$12,623,000 | 100 | | |
| Project at a glance | | | | |
| <p>Project objective: The project's objective is to contribute to maintaining the vitality of the city's Historic Center by improving the quality of life of the population in the downtown areas with the most significant physical, social, and economic deterioration.</p> <p>Special contractual conditions: Conditions precedent to the first disbursement: (i) the project's executing unit has been established and its technical personnel hired (3.4); (ii) the methodology for the project's midterm and final evaluations has been submitted to the Bank's satisfaction (3.18); and (iii) the firm to perform the monitoring, supervision, and midterm and final evaluations for the project hired (3.17 and 3.18). Prior to disbursement of the resources for component I of the project: the plans and bid documents for the parking lot and the restoration of the 9 de Octubre market building will be finalized (paragraph 3.9). Prior to disbursement of the resources for component II of the project: the Operating Regulations for the competitive Fund to Strengthen Competitiveness will be approved and in effect (paragraph 2.46). Special disbursement: once the loan contract is in effect and the general conditions precedent to the first disbursement have been met, the Bank may disburse up to the amount of US\$96,500 to the borrower from the proceeds of the loan to hire staff for the executing unit and up to US\$24,000 to hire the firm to perform the project evaluations (paragraph 3.30). Special condition for execution: within the first six months of project execution, the borrower will present evidence to the Bank that it has the local counterpart resources needed for execution of the activities scheduled for years two and three of the project (paragraph 2.7).</p> <p>Exceptions to Bank policies: None</p> | | | | |
| <p>Project consistent with country strategy: Yes [X] No []</p> <p>Project qualifies as: SEQ [X] PTI [] Sector [] Geographic [] Headcount []</p> <p>Procurement: See paragraph 3.21</p> <p>Goods and related services will be procured in accordance with the Bank's new policies and procedures on such matters. If necessary, international competitive bidding will be required for contracts with values exceeding: (i) US\$3 million for construction works; (ii) US\$250,000 for goods and related services; and (iii) US\$200,000 for consulting services. Bid processes for amounts below these thresholds will proceed according to the <i>Ad Hoc</i> Annex to the loan contract.</p> | | | | |
| <p>Verified by CESI on: 21 April 2006</p> | | | | |

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge 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. FRAME OF REFERENCE

- 1.1 The city of Cuenca, capital of the Province of Azuay and the Canton of Cuenca, is located in the south-central region of the Republic of Ecuador, with an average altitude of 2,560 meters above sea level. The canton covers an area of nearly 313,000 hectares (87% rural and 13% urban). It has a population of 434,736,¹ of which 292,225 (67.2%) live in the city of Cuenca, and 142,511 (32.8%) in the rural area. The canton's population growth rate has been 255% over the last 50 years, with very high urban pressure: in the last 25 years, the urban population has nearly doubled (+92% with respect to the 1982 census), while the rural population has grown just 16%.
- 1.2 Historically, the city of Cuenca is the administrative center and the focal point for the exchange of goods and services within its microregion, and both its geographic location (physical-geographic isolation) and the limited agricultural capacity of a significant portion of the canton's territory have contributed to the development of the secondary (industry) and tertiary (services) sectors in its economic structure. The city of Cuenca is currently home to 99% of the province's economic activity and a significant number of businesses in the areas of trade, transport, services, manufacturing, personal services, and construction.
- 1.3 According to a 1999 study conducted by the United Nations Development Programme (UNDP), 80.5% of the rural population in the Canton of Cuenca, and 32% of its urban population were living below the poverty line. Indigence affects 34.4% in the rural area and 6.9% in the city. However, the expression of poverty in the Canton of Cuenca is slightly lower than in the rest of the country's major cantons. One of the most significant problems is the lack of employment: the local economy is in a critical phase, since there are more enterprises eliminating jobs than creating them. This leads to a negative balance in this category, considering that in the last year alone, approximately 11,000 jobs were lost in the province.
- 1.4 The economically active population (EAP) represents nearly 49%, with an unemployment rate of 9%, among the lowest in Ecuador. In addition to unemployment, underemployment is characteristic of Cuenca's economic reality. In the last two years, it has grown from 23.2% to 42.1%, which is cause for concern, since it shows a greater level of inactivity among the workforce and a gradual shut-down of the system of production. The informal sector has the highest number of workers, accounting for approximately 47% of the EAP, followed by the trade sector, with 42% of the EAP.
- 1.5 The urban area benefits from relatively high public utilities coverage. Water and sewage service coverage is estimated at 97.8% and 93.4%, respectively. The housing deficit is below the national average (deficit in Ecuador: 18.2%; deficit in

¹ 2001 Census. Ecuadorian National Statistics Institute (INEC).

Azuay: 14.07%) and the city has a total of 130,620 homes (INEC 2001 Housing Census). The quality of the basic services in the homes is acceptable, and accessibility and connectivity to the city's downtown area are generally good. However, with a total of 63,069 vehicles in 2004, Cuenca's vehicular traffic has grown 320% in 22 years. This situation has given rise to traffic congestion and a limited parking supply, primarily in the city's urban area.

- 1.6 Within the urban area is the city of Cuenca's traditional downtown, with a population of 44,959 covering a total area of 254 hectares (214 built over hectares and 40 hectares of natural areas). This part of the city is where most of the canton's economic activity is concentrated and it is characterized by the presence of economic sectors that have grown rapidly in recent years, particularly the crafts and tourism sectors. This part of the city is home to most of the 3,103 crafts workshops, primarily producing clothing, jewelry, woodwork, *paja toquilla* items, ceramics, and footwear, employing 15,907 people,² and drawing approximately 310,000 tourists annually, generating revenues of approximately US\$125 million. The tourism industry has great potential, not only as an independent economic sector, but also as a promoter of other directly or indirectly related sectors such as trade, crafts, microindustry, and agriculture. It is also important to note the presence of a high number of microenterprises: 17,700 individual microentrepreneurs and 1,600 microenterprises, of which 74% are established with initial capital of under US\$2,000.³
- 1.7 The conditions and characteristics that support this economic base are basically the city's cultural and natural attractions, first among them being the heritage and cultural value of the city's downtown area, the location of 100% of its heritage buildings and monuments (churches, convents, museums, and other public buildings), most of its public offices, and a significant number of recreational services. It has invaluable cultural and architectural riches, which led the United Nations Educational, Scientific, and Cultural Organization (UNESCO) to declare it a "World Heritage Site" in 1999. The traditional center is made up of two well-differentiated areas (see Map I-1): the Historic Center proper, and the area surrounding it. Activities related to government, business, production, and services are conducted in the Historic Center; it is the primary focus of tourists, and it is a privileged location for residential and commercial rezoning. The surrounding area is characterized by residential and commercial areas that provide basic services.
- 1.8 Despite its strengths in sociocultural, microentrepreneurial, and infrastructure maintenance terms, the downtown area suffers from a series of problems that affect

² Azuay Chamber of Small Industry, 2005.

³ On average, each microenterprise has three workers, with 29% self-employed or working independently, while approximately 68% have a family member working for them and 30% employ uncompensated family members (idem).

the various sectors comprising the city in different ways. In particular, there remain some pockets with a high level of physical, social, and economic deterioration, where the presence of informal activities has a serious impact on the use and potential valuation of these areas. It is also important to note that this deterioration not only affects the living conditions of the resident families, but also generates tension with the rest of the city, particularly with those sectors with the greatest potential for development through the rational pursuit of advantages stemming from the existence of valuable cultural assets and heritage, as is the case with the city's Historic Center.

- 1.9 The above-mentioned problems are primarily focused in two parts of the downtown area, the 9 de Octubre and San Francisco sectors, where the main social problems coincide with problems of physical deterioration. In particular, the 9 de Octubre sector, with a population of 3,077,⁴ characterized by the presence of the 9 de Octubre food market, is traditionally considered the most important sector in the downtown area for street trade, with nearly 660 informal vendors, the majority of whom are established in the sector's public space. The sector's economic situation is also characterized by a business community of approximately 1,500 microenterprises (94.5% individual microentrepreneurs and 5.5% microenterprises). This situation of relative economic vitality contrasts with the physical and social deterioration characterized by vehicular traffic problems, insufficient parking,⁵ decay of heritage buildings, unsanitary conditions, and primarily social conflicts, with high crime rates, domestic violence, and abandoned children, a situation made worse by the lack of adequate support from local institutions.
- 1.10 The sector's problems are centered around the presence of the market, which is in disrepair, underused, with an average occupancy of 80%, and poorly managed. It belongs to Cuenca's Red de Centros Comerciales Populares [Network of Public Market Centers] (RCCP).⁶ This network is characterized by a marked institutional weakness, which prevents the city's markets from being properly operated and managed. Although some of the markets it owns have been renovated, they all experience difficulties in their administration and in the marketing of their products, and are weak organizations lacking control systems. Moreover, the RCCP is the responsibility of the Municipality's Administrative Department, which has a wide range of duties, among others the formulation of policies facilitating the

⁴ According to the 2001 census, the total population of the area, including the sector's area of influence, is 5,702. The area itself currently has a population of 3,077.

⁵ Around the 9 de Octubre market, the streets Mariscal Lamar, Hermano Miguel, Gaspar Sangurima, and Marrano Cueva have the heaviest average traffic per hour in Cuenca.

⁶ The RCCP includes six markets (three located in the Historic Center—including the 9 de Octubre market), weekly open street fairs (the Arenal fair being the most significant for the Historic Center), and five private markets located in the city.

Municipality's administration, oversight of compliance with rules and ordinances regulating the operation of public services, and the administration of the Municipality's fixed assets, including the markets. In other words, there is no direct administration of the operation of the community markets and street fairs. The control and permitting process is the responsibility of the Municipal Control Department, which is also overloaded with duties. In general, the Municipality is efficient, with a high technical capacity, but in a period of growth and change, its organizational and functional structure needs to be strengthened and modernized.

- 1.11 As noted above, other factors affecting the area's development are the vehicular traffic situation and the limited parking supply. The city has a plan for a traffic system, developed with Bank support,⁷ which includes a description of the situation in the downtown area and its impact on the project area. In general, the city's system of roadways is made up of expressways, arterial roads, collector roads, and local roads. The network of roads covering the traditional center is surrounded by arterial roads and made up primarily of collector roads, two of which cross the 9 de Octubre market's area of influence, and are heavily used by public transportation services. These are Gaspar Sangurima, which serves 29% of the bus routes, and Gran Colombia, serving 22.6%, representing two of the city's three most congested arteries at the time the plan was developed.⁸ It is important to note that traffic incidents peak on Thursdays, the main market day in Cuenca.
- 1.12 With respect to the parking deficit, the Municipal Traffic and Transportation Unit indicates that there is currently a deficit of 250 parking places in the area surrounding the 9 de Octubre market. This deficit exists despite the misuse of the following areas for parking: streets, with the resulting congestion this causes; private property, primarily in internal courtyards, resulting in damage to architectural heritage; and public spaces, such as Plaza Cívica, where an average of 50 vehicles park daily, causing physical deterioration and representing an eyesore. In conclusion, a substantive solution is required for the downtown's traffic problems and parking deficit, and the Municipality is addressing the issue through various actions. Nevertheless, by taking a focused approach to the problems in the project area, positive effects will be achieved that will contribute to improving the current situation in the city's downtown area.
- 1.13 The sector's social situation is characterized by the presence of families who have migrated to the sector for work. Most of these families live in a state of poverty, and

⁷ Development of a Traffic System Plan for a Pilot City, Cuenca, Ecuador, 1999. Padeco in association with Chodai Co., Ltd.

⁸ Av. Huayna Capac has the highest level, with 1,465 buses/day, followed by Av. Gran Colombia with 936 buses/day and Gaspar Sangurima with 796, representing 64% and 54% of the maximum level, respectively. This demonstrates the relative significance of these roads for public transportation. Municipal Traffic and Transportation Unit, 2005.

they have brought many problems to the area, most of which are related to children's services. These children are required to work for the survival of the family, and in many cases are malnourished and subject to sexual exploitation. The sector is home to approximately 188 working children: 9% between 7 and 9 years old; 26% between 10 and 12, 40% between 13 and 15, and 22% between 15 and 17. Approximately 250 complaints of domestic violence are filed annually, 20% of the city's total number of complaints are filed in the sector, of which 11% involve sexual violence, and the remaining 89%, physical violence. The sector is also particularly affected by security issues—84% of criminal activity (thefts, etc.) occur in the area, and the prevention and intervention activities undertaken by local institutions are insufficient to mitigate the problem. There are also other less severe problems, such as prostitution and drugs. According to surveys conducted, local perception confirms the statistics presented and shows a significant concern regarding the issue of alcoholism, a problem that extends beyond the limits of the area considered and therefore, has not been diagnosed in depth.

- 1.14 Plaza de San Francisco is a public space with significant cultural heritage value, and is occupied by approximately 145 informal vendors of nonperishable goods. Although the conditions of the surrounding area have not reached the critical social situation of the 9 de Octubre area, this zone is decaying, congested, and underused, in addition to representing the occupation of a public space to which all Cuenca residents are entitled, and whose recovery would represent the reclamation of the entire surrounding area, with the concomitant economic benefits for the residents and the city in general.
- 1.15 The conditions described not only affect the quality of life of the area's residents, but also, if they continue to worsen, a point may be reached where negative effects begin to spread to other parts of the downtown area, particularly to the Historic Center, which, as indicated above, is a key asset for Cuenca's development and growth. It is important to note, however, that unlike most of the traditional downtown areas in the region's cities, Cuenca's center is active, its decline and disuse have been limited, and the circumstances like the ones described above have not been allowed to reach levels that are difficult to control. On the contrary, it has remained vital in social, economic, and cultural terms. The Municipality has invested in its maintenance and has promoted economic activity, primarily in the tourism, business, and craft sectors, while it continues to maintain public spaces through major investments in this area (for example, the El Barranco megaproject). The most critical situations are localized and could be subject to improvements, so that their deterioration is contained and they become a development model for the rest of the city.
- 1.16 The Municipality of Cuenca has expressed its desire to the Bank for financing to support the urban renewal of this strategic area in the city, as part of a broader project outlined in the territorial development plan for the Municipality, which sets out the priority intervention projects for the city (see paragraph 1.24). The request

also received the support of Ecuador's Ministry of the Economy and Finance, through a memorandum addressed to the Bank. The Municipality of Cuenca also requested technical cooperation funding from the Bank to support the territorial development plan for the municipality of Cuenca (ATN/IC-9294-EC), with resources from the Italian Trust Fund for Cultural Heritage and Sustainable Development, with which the preparation of this project was financed.

A. Coordination with other donors

- 1.17 The Municipality of Cuenca is undertaking various activities with multilateral banks and bilateral donors. It is preparing a transportation operation with the World Bank that will have a partial impact on the downtown area, including the area covered by this project. The teams have held coordination meetings and the existing baseline diagnostic assessments have been studied for the preparation of this operation. The Municipality is also arranging for technical cooperation funding with the Canadian International Development Agency (CIDA) in order to finance a feasibility study for the purpose of recommending and structuring a management information system for the territory of the Municipality and the updating of the Municipal Land Registry. Given the importance of this issue for the Municipality's development and its impact on its finances, during preparation missions, the Bank's team met with the Director of the Land Registry and is aware of the advances in the process as well as its terms.

B. Lessons learned

- 1.18 The project has considered the lessons learned from international experience and, in particular, the Bank's experience in the country and region. The Bank is supporting the work of the Municipality of Bogotá in its downtown area, through a technical cooperation operation for the master plan for downtown Bogotá (ATN/FG-8494-CO). The Bank has also financed the São Paulo downtown renewal program (PROCENTRO) (loan 1479/OC-BR), the Montevideo urban renewal project (loan 1094/OC-UR), and the program for the revitalization and urban development of La Paz (loan 1557/SF-BO). The lessons learned from the Quito Historic Center rehabilitation program (Stages 1 and 2) were particularly significant.
- 1.19 The above-mentioned operations generated lessons that have informed, to a greater or lesser extent, the various considerations involved in the design of this project. Some of the lessons most relevant to this operation can be summarized as follows: (i) actions contributing to the project's social sustainability, getting citizens to take ownership of the process and defend its continuity, are key; (ii) political commitment to the continuity of key actions is important; (iii) the relocation of informal merchants must be peaceful and agreed by consensus, and efforts must be made to avoid mechanisms of pressure and dependence over the medium term, since the fiscal cost is high; (iv) the executing agency must be flexible and must adequately coordinate the efforts of the various institutions working in the area;

(v) the formation of public-private partnerships stimulates investment and generates a self-sustaining development process over the long term; (vi) these projects must be designed considering existing demands; a supply-based focus may lead to investment decisions with low private and/or social returns; (vii) special attention must be paid to the possibility that higher land prices may displace low-income families from the downtown area, whenever this is detrimental to their general welfare; (viii) improvements to isolated properties contribute marginally to improving the immediate surrounding area; the opposite occurs in cases of multiple improvements; (ix) it is important to note that as the renewal process advances, new demands may arise that require the strengthening and modernization of the executing agency; and (x) it is key to have an adequate communications strategy that informs the inhabitants about the primary aspects of the project and involves them in it.

C. The Bank's strategy with the country, the Municipality, and the sector

- 1.20 The country strategy approved by the Bank's Board of Executive Directors in November 2004⁹ for the 2004-2006 period establishes the following priority objectives: (i) to help lay the foundations for energizing the productive structure; (ii) to promote social development and the protection of the most vulnerable groups; and (iii) to improve the effectiveness of public administration.
- 1.21 The actions planned under the project are consistent with these objectives. Cuenca's economic activity is based primarily on trade and craft production, sectors on which the project will act directly by energizing an area of downtown Cuenca where there is a concentration of these types of activities and by providing an incentive for private investment, thus contributing to achieving the strategy's first objective. In accordance with the second objective and as a priority, efforts will be made to improve the quality of life and social inclusion of low-income families and the most vulnerable groups of Cuenca's urban population. In this regard, improvements are expected in the working conditions of the informal vendors with their relocation to existing markets and new areas designed especially for this purpose, as well as their training in various subjects. Social programs aimed at prevention, children's services, and conflict resolution will also be supported. Lastly, coordination among the activities undertaken by the various public and private institutions involved in the sector will be improved, and the municipal agencies involved in matters of administration and management of informal trade and markets and public space management—activities related to the strategy's third objective—will be strengthened.
- 1.22 The Bank is currently supporting the Municipality of Cuenca in the preparation of two loan operations: (i) the water supply and sanitation project for Cuenca, Stage II

⁹ Document GN-2338-1, 9 November 2004.

(EC-L1009), whose executing agency is Empresa Pública Municipal de Telecomunicaciones, Agua Potable, Alcantarillado y Saneamiento de Cuenca [Municipal Telecommunications, Water Supply, Sewerage and Sanitation Company of Cuenca] (ETAPA); and (ii) the renewal of downtown areas and Land Management Support (EC-L1021). These operations, in addition to contributing to meeting the objectives of the city's master plan and responding to the guidelines established in the strategy agreed upon with the country, are consistent with a Region 3 strategy defined by the following elements: (i) the Bank's desire to support the growing trend in Latin America toward greater participation by subnational governments in the execution of public investment; (ii) detection of the Municipality's management and administrative capacity in projects such as those mentioned above, (iii) the generation of alternatives ensuring long-term sustainability, consistent with the Municipality's financial constraints, for which purpose the necessary analyses have been conducted, demonstrating the Municipality's solvency to execute the operations, and (iv) the definition of plans for recovery of the costs incurred by the respective projects. The purpose of the above is to ensure that these projects do not represent a future financial burden for the federal government.

- 1.23 The project is also consistent with the Bank's strategy established for the "Urban and Housing Development" policy (OP-751), since it establishes the following objectives: (i) to improve the socioeconomic conditions of the urban population; (ii) to strengthen the national urban system and improve the internal functioning of the cities; and (iii) to increase the effectiveness of the institutions responsible for the formulation and administration of urban development policies and projects.

D. Municipal strategy in the sector

- 1.24 The Municipality of Cuenca is developing a comprehensive local and territorial development strategy (for the 2005-2010 period) based on four elements: (i) planned and orderly territorial development reflected in an agreement-program between the Municipality and the Parish Councils in Cuenca's area of influence, integrating economic, physical-territorial and environmental, institutional, and fiscal considerations; with respect to fiscal considerations, it is important to note that the Municipality is working with the CIDA to improve and modernize its land registry; (ii) the renewal of the historic areas in the city of Cuenca, and their rezoning for uses and activities to convert these historic areas or neighborhoods into one of the most significant engines of endogenous local development; (iii) the modernization of municipal administration and the institutional strengthening of the Parish Councils so they can assume the new challenges posed as a result of this new integrated local development strategy; and (iv) the implementation of a communications and consensus-building methodology to promote transparency and citizen participation in public decisions.

- 1.25 The project activities to be financed by the Bank support the municipal strategy, primarily its last three elements, through the physical and social renewal of a sector of the city's traditional center, the strengthening and creation of agencies responsible for executing and sustaining the proposed activities, and the negotiation and participation process used in the operation's preparation, which is to be maintained throughout the execution process and represents the primary element for achieving the long-term sustainability of the activities undertaken by the project.

E. Project strategy

- 1.26 As indicated in paragraph 1.24, the Municipality is preparing a social, economic, and territorial development plan, giving rise to actions on several levels. The policy of revitalizing the city's historic and traditional downtown area is particularly important to this operation, and it includes strategic priority projects. The development of one of these projects will be the specific objective of this project.
- 1.27 The project's strategy is based on focusing the project's primary actions on the area surrounding the Historic Center, where the city's greatest physical and social deterioration is found. This will make it possible to eliminate the barriers affecting the comprehensive development of the targeted area and threatening the socioeconomic vitality of the downtown area and Historic Center, in particular. This strategy will be implemented using an integrated approach, that is, addressing *physical* aspects, such as the construction of infrastructure to house community traditional markets and the recovery of public space; *social* aspects, such as improving the quality of life and working conditions of the area's residents and informal vendors; and *economic* aspects, supporting formal and informal vendors to improve their businesses and providing an incentive for greater demand in the area, among other things. In addition, and in order to make the process permanent and sustainable over time, instruments will be generated to modernize and coordinate the various activities and stakeholders in the area, and to strengthen the municipal agencies responsible for executing and maintaining the proposed activities over time. It is important to note that the scale of the city of Cuenca and the magnitude of its problems will allow a comprehensive, focused approach like the one proposed to have an impact far beyond the area of intervention, primarily with respect to the socioeconomic and institutional considerations.
- 1.28 The operation's design and execution strategy is structured around a process of participation and negotiation among all stakeholders, with emphasis on the informal vendors to be relocated. This process began in September 2005 with the identification of the stakeholders¹⁰ and the training of municipal officials (15) on negotiation strategies in three workshops conducted with the support of specialized international consultants, provided by the Bank. Those who attended the courses,

¹⁰ Of the 660 vendors identified as stakeholders, 90% have already been contacted.

with the support of the external consultants, have taken charge of starting negotiations with the six associations of vendors and representatives of the unaffiliated vendors. The activities proposed as part of the project are the result of this process of participation and consensus-building (see General Diagnostic Assessment), which is being undertaken in two stages: the first focused on the area immediately surrounding the 9 de Octubre market, where the problems are more severe and the number of vendors is larger; and the second focused on Plaza San Francisco, where the problem is limited, the zone's social situation is not as severe, and the number of direct beneficiaries is lower.¹¹ This process of negotiation and consultation is ongoing throughout preparation and execution of the operation.

- 1.29 The specific conditions of each sector and the political and social sensitivity of the issue require separate, special treatment for each project. The first project, in the 9 de Octubre market area, will culminate in the relocation of the food vendors to the existing market's renovated structure and the transfer of the vendors selling nonperishable merchandise to the public market center, as well as the implementation of the project's general socioeconomic activities. The start of the second project, in the Plaza San Francisco area, will be subject to the preliminary results of the first project and the specific negotiation process for the zone. It will culminate with the transfer of the vendors to a public market center located adjacent to the plaza and the recovery of the plaza itself as a public plaza for the city.

¹¹ Of 100% of the beneficiary vendors, 80% are located in the 9 de Octubre sector, distributed among different lines of business, in permanent or temporary stalls and pushcarts, while the remaining 20% are located in San Francisco, all in permanent stalls selling nonperishable products within the plaza's perimeter.

II. THE PROJECT

A. Objective

- 2.1 The project's **objective** is to contribute to maintaining the vitality of the Historic Center by improving the quality of life of the population in the downtown areas with the most significant physical, social, and economic deterioration.
- 2.2 The objective will be achieved by containing and rehabilitating these areas, with emphasis on the 9 de Octubre and San Francisco sectors, through the following actions: (i) rehabilitation and construction of the urban infrastructure necessary to empower and complement the city's RCCP and the reclamation of the recovered public space, improving the environment, security, and habitability in the area; (ii) support for formal and informal vendors so they can improve their businesses, with incentives for private investment and emphasis on microenterprises and greater demand in the area; and (iii) institutional strengthening of the Municipality in aspects related to the project's actions, with emphasis on the management and administration of the RCCP and public space in general.

B. Project components

1. Urban infrastructure component (US\$9,400,000)

- 2.3 This component's objective is to provide adequate physical infrastructure for the area's informal vendors, by improving existing structures and building new ones, which will complement the urban plant and facilities of the RCCP, as well as the development of the public space recovered in the targeted area. In accordance with the project strategy, this component will finance two sets of activities or projects:
 - a. The first will be the *9 de Octubre market* sector project, which includes resources for: (i) rehabilitation and adaptation of the existing 9 de Octubre market building, which will have a capacity for approximately 260 food vendors; (ii) purchase of the property where the public market center will be located (see paragraph 3.22); (iii) construction and renewal of existing buildings for the creation of a public market center for the relocation of approximately 215 vendors of nonperishable products¹² and the social development center; (iv) construction of a parking facility for 120 vehicles to meet the demand generated by the market and the public market center, as

¹² The market and its surrounding area combine the sale of food products with nonperishable goods (402 food vendors and 156 vendors of nonperishable goods). The diagnostic assessment determined that the requirements for each type of product vary in terms of: level of required sanitary conditions, handling of food vs. goods, type of waste and storage, among other factors. For this reason they are being separated in different buildings.

well as the study for its outsourced administration; (v) renewal of the craft market, with approximately 100 sales stalls, located in Plaza Rotary, with sanitary facilities in a separate building; and (vi) the recovery of the plazas, roadways, and sidewalks in the targeted area, currently occupied by street vendors, as public spaces.

- b. The second project, in the *Plaza San Francisco* sector, includes resources for: (i) the construction and recovery of buildings to house a public market center for approximately 144 vendors of nonperishable goods, currently located in the plaza; (ii) renewal of the plaza; and (iii) a parking facility for approximately 130 vehicles.

2. Socioeconomic development component (US\$1,116,000)

- 2.4 This component's objective is to support the stakeholder population in the targeted area, including 1,816 formal vendors, 804 informal vendors, and the 3,077 residents of the area of influence. The activities to be financed were developed as a response to a process of consultation, negotiation, and diagnostic assessment of the sector (see paragraph 1.28), and they are structured in two sets of activities: social activities and local economic development activities.

- a. **Social support activities (US\$615,000):** Financing will be provided for: (i) actions aiming to support the continuation of the negotiation process with the area's informal vendors, such as workshops and information and training materials on conflict resolution; (ii) prevention activities and services for at-risk minors, such as a child development center for 100 children ages 0 to 5, the sons and daughters of vendors and residents of the sector, a library with room for 50, a dining hall for 150 minors, and a multipurpose room, whose direct beneficiaries are approximately 3,500 resident and vendor families in the area;¹³ (iii) conflict resolution and prevention activities related primarily to domestic and sexual violence; prevention workshops for 420 adults and minors, support groups for 90 women victims of violence, and personalized care for 200 at-risk women, among others; (iv) development of cultural activities aiming to promote the cultural identity of the targeted area; (v) implementation of a security plan by the Security Council, using civic coexistence activities; and (vi) strengthening of the community organization with the establishment and development of social networks, the training of 20 community leaders, and activities to establish relations between vendors and residents in the area.

¹³ The population of children of vendors in the 9 de Octubre area is: 137 children ages 0 to 5, 446 school-age children, and 8 special children, for a total 591 minors.

- b. **Local economic development activities (US\$500,000):** In order to generate alternatives to working in the informal sector, the predominant source of income for the project's target population, support will be provided to strengthening microenterprises, the number two source of income. This will be done by improving the quality of their products and services. Financing will be provided for activities aimed at optimizing the limited financial, human, and technological resources available to existing enterprises. These enterprises have three employees on average, and 74% are established with capital of less than US\$2,000 (see paragraph 1.6). They face a series of constraints (e.g., scale, information, access to credit, difficulties diversifying risk, among others) that do not allow them individual access to certain services and markets. Incentives will be provided for the creation and development of new forms of association, networks, clubs, or clusters among individual and/or associated actors operating in the traditional downtown area, with an emphasis on the project's targeted area,¹⁴ in the tourism, crafts, business, and cultural sectors. The main activity is the creation of a competitive fund to strengthen the competitiveness of microenterprises and small businesses.¹⁵ The direct applicants will be institutions that already operate projects supporting microenterprises and small businesses such as: the Chamber of Tourism, the Chamber of Craft Workers, and the Chamber of Small Industry. Approximately 300 businesses, private and public-private associations promoting economic development, and foundations and corporations will benefit, with an average of three projects per year, for a total of nine projects. The total amount of the Fund's contribution for each project may not exceed US\$60,000, for a minimum number of 20 members, of which 70% must be considered microenterprises. Thus, the maximum benefit per enterprise will be US\$3,000. A tourism product club will be developed as a pilot project (see General Diagnostic Assessment). The fund's resources will be administered by the project's executing unit, and its operations will be the responsibility of the Fundación Turismo para Cuenca [Cuenca Tourism Foundation]. The evaluation and selection of projects will be the responsibility of a technical committee, made up of one financial specialist from the executing unit, one representative of the Municipality, one representative of Fundación Turismo para Cuenca, and two private-sector representatives appointed by the above-mentioned chambers, one of whom must be in the academic sector. The Fund's operations are detailed in its **Operating Regulations agreed upon with the Municipality, the approval of which will be a condition precedent to the disbursement for this**

¹⁴ 40% of the fund's resources will be used for enterprises in the targeted area.

¹⁵ **Microenterprise** is understood as an enterprise with the following characteristics: (i) it has existed in the traditional downtown area for at least five years; (ii) its sales of products/services are limited to US\$10,000/month; and (iii) it has no more than 10 employees. A **small business**: (i) has existed in the traditional downtown area for at least five years; (ii) has sales of products/services of up to US\$25,000/month; and (iii) has no more than 25 employees.

subcomponent. A summary of the main characteristics appears below in Table II-1.

Table II-1. Selection criteria – Fund to strengthen microenterprise

| Eligibility criteria for direct applicants (organizations of local enterprises) |
|---|
| <ol style="list-style-type: none"> 1. Five years of operation in the economic development of microenterprises and small businesses 2. Corporate purpose to support microenterprises and small businesses 3. Experience in the creation of product clubs, networks, or clusters 4. Economic and financial capacity to cofinance the project (50% of the total) 5. Representation of at least 20 enterprises per project, 70% of which must be microenterprises |
| Project eligibility criteria |
| <p>Projects may be financed/subsidized by the Fund provided they demonstrate that by working together:</p> <ol style="list-style-type: none"> 1. Individual revenues are increased (e.g., through access to new or larger markets) 2. Duplication of costs is avoided (e.g., advertising campaigns for the city's Historic Center) and/or 3. None of the members acting alone has an incentive and/or sufficient scale to assume the costs required to undertake the actions resulting in the above-mentioned benefits |
| Activities and expenses subject to financing |
| <p>Strengthening the technical and institutional capacities of entrepreneurs and employees: (i) training, conferences, and workshops, (ii) institutionalization of partnerships.</p> <p>Assistance for access to commercial credit: development of the project's business plan for organizing the partnership.</p> <p>Marketing activities to build market share: (i) design of campaigns to promote and market the partnership (advertising, etc.); (ii) creation and distribution of informational materials, catalogues, brochures, etc.</p> <p>Qualitative enhancement of the supply: (i) development of new products and services; (ii) technical support for quality improvement (best practices models, use of new production techniques, incorporation of new materials, etc.); and (iii) technical assistance.</p> |
| Project selection criteria |
| <ol style="list-style-type: none"> 1. Financial rate of return 2. Counterpart contribution (percentage of total) 3. Project execution period (number of months) 4. Number of beneficiary enterprises 5. Demonstrable positive externalities <p>The weighting system and relative weight of each variable is defined in the Fund's Operating Regulations</p> |

3. Institutional strengthening and communications component (US\$190,000)

- 2.5 So that the activities included in the project are implemented effectively, and to develop a new institutional and regulatory framework in the future to improve operations of the city's RCCP and sustain the activities financed by the project, this component's resources will finance: (i) the strengthening of the existing section in the Administrative Department responsible for the administration and management of the city's markets, by providing two professionals, who may be part of the staff of the new entity to be created as a result of the activity described below; (ii) the commissioning of a study for the creation of a new line entity to manage public market centers and markets, including the definition of the new entity's functions and legal and organizational framework; (iii) the commissioning of a study to update regulations and design a public space management and administration plan, primarily on issues of public markets and sales, including proposals to improve public space control mechanisms; and (iv) the aspects of environmental restoration recommended by the Environmental Analysis, primarily the aspect of sanitary control, training workshops on hygienic practices for vendors of perishable food products, benefiting approximately 300 vendors. This component will also finance the planning and execution of the project's communications strategy targeting both the project's direct beneficiaries and the general public, on aspects of marketing, educational campaigns, and the development of a strategic long-term communications plan. Except for the hygienic practices training activities, the institutional strengthening component will be executed primarily during the first year of project execution. Thus, the institutional and management framework for the project's various activities may enter into effect prior to completion of the 9 de Octubre market works.

C. Cost and financing

- 2.6 Considering the nature of the project, that is, its specific investments over a fixed period, after exploring all available financing instruments, the Bank and city hall teams agreed that an investment loan is most appropriate for this operation.
- 2.7 The total cost of the project will be US\$12,623,000, with the following breakdown proposed for financing purposes: (i) US\$6,588,000 in the form of a loan from the Bank's Ordinary Capital (OC); and (ii) US\$6,035,000 in local counterpart funding, which may come from a loan from Banco del Estado to the Municipality of Cuenca. As a special condition for execution, within the first six months of project execution, the borrower will present evidence to the Bank that it has the local counterpart resources needed to implement the project activities for years two and three of execution fully and without interruption. During preparation of the project, the Municipality's borrowing capacity was studied, and the project amounts are within the limits established in the analysis (see paragraphs 4.7 to 4.9). The amounts to be contributed by the municipal government are reflected in its

respective annual budgets for the years of project execution. The approximate costs of the project are broken down as indicated in the following table:

Table II-2: Cost table
(thousands of U.S. dollars)

| ITEM | IDB | | LOCAL CONTRIBUTION | | TOTAL | |
|---|--------------|------------|--------------------|------------|----------------|-------------|
| | US\$ | % | US\$ | % | US\$ | % |
| I. ADMINISTRATION | 694 | | | | 694 | |
| 1.1 Project executing unit | 494 | | | | 494 | |
| 1.2 Project audit | 120 | | | | 120 | |
| 1.3 Midterm and final evaluations | 80 | | | | 80 | |
| II. DIRECT COSTS | 5,894 | | 4,812 | | 10,706 | |
| 2.1 Urban infrastructure component | 5,894 | | 3,505 | | 9,400 | |
| 2.2 Socioeconomic development component | 0 | | 1,116 | | 1,116 | |
| 2.3 Institutional strengthening component | 0 | | 190 | | 190 | |
| SUBTOTAL | 6,588 | | 4,812 | | 11,4009 | |
| III. CONTINGENCIES | | | 262 | | 262 | |
| IV. FINANCIAL COSTS | | | 961 | | 961 | |
| TOTAL | 6,588 | | 6,035 | | 12,263 | |
| % | | 52% | | 48% | | 100% |

III. PROJECT EXECUTION

A. Borrower, guarantor, and executing agency

- 3.1 The borrower will be the Municipality of Cuenca (MC). The guarantor will be the Republic of Ecuador, through a partial guarantee related to the financial obligations arising from the loan contract. The executing agency will be the Municipality of Cuenca, which has the legal, administrative, and financial capacity to carry out the project's activities.
- 3.2 **As a condition precedent to the first disbursement, the borrower and the Republic of Ecuador will have entered into the agreements referred to in Articles 30 and 31 of the Regulations to the Republic of Ecuador's Fiscal Responsibility, Stabilization, and Transparency Act, whereby the borrower expressly and irrevocably authorizes the Central Bank of Ecuador to proceed to withhold, at the necessary intervals, the moneys necessary to service the respective debt, from the resources it maintains in said bank, and establishing the mechanism whereby the borrower will repay to the Republic of Ecuador the amount which it, in its capacity as guarantor, must pay to the Bank in the event of nonperformance of said obligation by the borrower.**

B. Project execution and administration

1. The executing agency

- 3.3 The Municipality of Cuenca will be responsible for the execution of project activities with the support of a project executing unit (PEU) reporting directly to the Office of the Mayor. This executing unit will focus exclusively on the execution and monitoring of project activities and will have the following primary duties: (i) technical coordination with municipal agencies and organizations participating in the project; (ii) monitoring of compliance with the targets established in the project and in the annual work plans (AWPs); (iii) financial control and administration; (iv) preparation of bid documents and procurement of works and consulting services required for the execution of project activities; (v) project promotion and information; (vi) in coordination with the Department of Social Development, maintenance of a unified database of all nongovernmental organizations (NGOs) providing social services under the project; and (vii) maintenance of support documentation for project operations after the discharge of the PEU upon completion of the project.
- 3.4 The PEU will be comprised of a general coordinator, responsible for project monitoring and compliance with the AWPs, coordination with municipal line units involved in the project, and management of the PEU's personnel. The terms of reference for hiring the coordinator require the Bank's no objection. The PEU will

also have at least: one technical specialist, engineer, or architect; one financial and accounting specialist; and one social and institutional specialist. The Municipality will have one specialist in negotiation and participation, and one procurement specialist throughout execution of the project. If necessary, the Municipality will complement the PEU team with line staff devoted exclusively to project execution. **The establishment of the executing unit and the hiring of its staff are a condition precedent to the first disbursement.** Once the PEU is established, its members will be trained on financial matters and project procurement with the support of the Country Office. The Bank has also prepared and agreed with the executing agency on a project operating manual to be used as a guide for the execution of the activities.

- 3.5 As the party responsible for the project's financial administration, the PEU must also perform the following duties: (i) prepare and submit to the Bank: (a) disbursement requests and support documentation for eligible project expenses; (b) semiannual reports on revolving fund activity; and (c) audited project financial statements, as well as other reports required by the Bank; (ii) establish an adequate filing system for support documentation for eligible expenses for verification by Bank personnel and external auditors; (iii) maintain adequate information systems for accounting and financial administration of project expenses, integrated with the Municipality's official accounting process, as well as a contracts administration and project control system and the corresponding internal control structure for handling IDB and local counterpart resources in accordance with Bank requirements; and (iv) maintain separate, specific bank accounts for handling the financing and local counterpart funds.

C. Evaluation of the executing agency's capacity

- 3.6 During project preparation, an analysis of the Municipality's strengths and weaknesses was performed on aspects relevant to the operation. During the identification process, the existing regulatory framework was analyzed, based on the existing municipal ordinances regulating institutional management, as well as organizational characteristics, primarily those related to the nature of the project. This analysis provided institutional and legal context and determined that although the project's scope is normal, it is highly complex, since it combines the execution of physical works with social actions having to do with relocating informal enterprises, coordinating with private actors for economic development, and actions to improve institutional performance. The Municipality has limited experience in the execution of projects involving: (i) socioeconomic and institutional components associated with works; (ii) involvement of various sectors, including the private sector and the tourism sector; (iii) IDB procedures; and (iv) the involvement of various municipal agencies (planning, social, economic, urban, Historic Center, among others). A centralized execution mechanism that provides for reinforcing the municipal capacity in these areas is therefore warranted.

- 3.7 A risk analysis was also performed during project preparation, and it provided a detailed evaluation of the Municipality's institutional capacity, the conclusions of which reinforced the results of the analysis referred to in the previous paragraph. Basically, it was possible to establish that one of the main risks facing the operation is the institutional weakness of the Municipality, with emphasis on the nonexistence of an organization that would allow it to administer and manage the city's network of public market centers. For this reason, the primary activity of the proposed institutional strengthening component is the creation of this entity.

D. Execution by component

1. Urban infrastructure component

- 3.8 This component will be executed by the PEU. The designs for the first set of activities—those in the 9 de Octubre sector—are in the feasibility stage, the development of the technical and bid plans is being procured by the Municipality, contracts for the works will be prepared by the PEU, and all contracts will be executed under Bank procedures. Appropriate technical works supervision will also be procured for each of the works projects. The second set of works, for the Plaza San Francisco sector, is in the feasibility stage and final designs will only be prepared upon completion of negotiations with the sector's vendors. Nevertheless, the same procedures as for the first group of works will be used.
- 3.9 The technical counterpart for the execution of this component will be the responsibility of Fundación Barranco,¹⁶ which has proven technical capacity and has been directly involved in project preparation. By agreement with the PEU, the foundation will have the following duties: (i) to produce architectural plans and designs; (ii) to coordinate execution of the technical projects; and (iii) to provide architectural management of the projects, as part of the technical works supervision of the works. Other activities for this component may be performed by line units or agencies attached to the Municipality, as in the case of budgets, works supervision, etc. **The condition for the first disbursement of resources for this component is to have plans and bidding documents for the parking facility and the restoration of the 9 de Octubre market building.**

2. Socioeconomic development component

- 3.10 The *social development* activities of this component will be executed by the PEU in direct coordination with the Department of Social Development. The execution of any activity involving the social aspects of this component requires approval by this

¹⁶ Fundación Barranco is a nonprofit organization under private law, created by a ministerial resolution dated 17 July 2003; it has proven capacity in executing community participation, building restoration, and urban development programs, for which it develops planning and design documents, issues calls for proposals, and coordinates execution of municipal plans.

Department. The physical works to house the activities are financed and executed within the physical infrastructure component. The Social Development Center's staff will be paid out of the resources for this component and the respective procurement to be undertaken by the PEU. Services will be the responsibility of NGOs with experience working with vulnerable groups. During project preparation, the NGOs currently providing social services in the area were evaluated and their quality and competence demonstrated. Their hiring will be governed by the Bank's rules on procurement of consulting services (see paragraph 3.23).

- 3.11 The *local economic development* activities will also be executed by the PEU in coordination with Fundación Turismo para Cuenca,¹⁷ which, under an agreement with the PEU, will manage project activities and act as the Fund's technical coordinator. Its duties include: (i) coordinating with the Chamber of Tourism, the Corporación de Turismo [Tourism Corporation], and the Chamber of Craft Workers; (ii) maintaining contact with the Fund's applicants and beneficiaries; and (iii) actively participating in the establishment, monitoring, and evaluation of the technical committee. This committee will be responsible for reviewing the eligibility of applicants, beneficiaries, and projects for participation in the project. Its composition is set out in the Fund's Operating Regulations. The activities established in the environmental management plan will also be executed by the PEU. The PEU may hire the foundation to manage the Fund, in accordance with the Bank's procurement guidelines for consulting services (see paragraph 3.24).

3. Institutional strengthening and communications component

- 3.12 This component will be executed by the PEU; the activities primarily involve consulting contracts and, depending on the issues being addressed, they must be closely coordinated with the corresponding line unit or agency. The security plan will involve working in coordination with the Security Council; the creation and implementation of the prevention and child services programs will involve the Department of Social Development; the creation of the institutional framework responsible for the administration and management of the markets will involve the Administrative Department and the Office of the Municipality's Secretary General, among others. For the activities aimed at strengthening the Municipality (public spaces and markets), it was agreed that the Municipality would assign staff to the applicable units.

¹⁷ Fundación Turismo para Cuenca is a nonprofit organization under private law, overseen by the Office of the Comptroller General of the Nation, created by Executive Decree 3055 dated 11 September 2002. Its purpose is the comprehensive development of the tourism sector, tourism promotion, and the conservation and protection of the canton of Cuenca's natural, cultural, archeological, and environmental heritage. This foundation has the capacity necessary to administer the resources for the management of the Fund, equivalent to US\$25,000.

E. Operation and maintenance

- 3.13 The operation and maintenance of the primary services and facilities to be provided with the project's resources will, for the most part, be the responsibility of the Municipality's line units. Thus, the markets and public market centers will be the responsibility of the new agency charged with the administration of the Municipality's RCCP. The specific administrative system will be identified in the studies to be conducted for the creation and definition of the new agency's functions. Nevertheless, it is anticipated that this operation will initially be based on a system of stall rentals with systems of direct administration shared among users and the Municipality, through the creation of a fund for administration, maintenance, and operation of the market (see paragraph 4.11). For the operation of the parking facilities, project resources will be used to prepare a study determining the most favorable concession system for their operation and maintenance. The works on public spaces, roadways, plazas, etc., will be the responsibility of the Public Works Office. Activities of a social nature will operate with project resources during the operation's three-year execution period, after which they will be run by the Department of Social Development. Likewise, the operation of the institutional strengthening activities will become the responsibility of the applicable agencies upon termination of the consulting contracts provided by the project.

F. Monitoring and evaluation

- 3.14 **Monitoring system:** Every six months, the borrower will submit a report to the Bank on progress made in each of the following aspects: (i) evaluation of the progress of each of the activities set out in the annual work plans (AWPs)—the AWP for the first year of execution has been prepared and agreed upon by the parties; (ii) collection of the information necessary for monitoring the indicators in the logical framework, in addition to others that the counterpart and the Bank may deem appropriate; (iii) monitoring of the primary risk factors identified in the operation's preparation stage; and (iv) identification of potential problems that may arise during execution and place achieving the project's objectives at risk.
- 3.15 As a result of the risk identification, monitoring of the following aspects is considered key: (i) the negotiation process with informal vendors; (ii) the level of satisfaction of informal vendors after their relocation; (iii) compliance with ordinances related to the use of public space; (iv) progress in the implementation of the institutional mechanisms for control and administration of public markets; and (v) transparency in the allocation of funds for financing undertakings by enterprise networks/clubs, and of social projects to be executed by various NGOs. All reports must be accompanied by the recommendations deemed appropriate for reaching the indicated objectives.
- 3.16 The monitoring system has been designed, and it will be implemented by an independent consulting firm hired by the Municipality with project resources and

the Bank's no objection. This firm will define the methods for measuring and collecting data. It will also conduct the project's midterm and final evaluations. In addition to specifically setting out the methodologies to be used, it will complete the information necessary for the baseline, using either direct sources or surveys. This firm will issue semiannual reports for City Hall, the PEU, and the Bank, within 60 days after the end of the six-month period. The firm will also store the information and methodologies used so they may be used and evaluated by other stakeholders. The Bank, together with the counterpart, will evaluate the proper implementation of the schedules, indicative targets established in the respective AWP's and logical framework, and the evolution of the risks identified during the operation's preparation.

- 3.17 **Midterm evaluation.** Six months after having temporarily relocated the informal vendors from the 9 de Octubre market (approximately 19 months into project execution), a midterm evaluation will be conducted by the consulting firm referred to in paragraph 3.16. This firm must present a detailed methodological proposal for evaluation of the following considerations: (i) progress in reaching the midterm targets established in the logical framework, for each of the project's components and specific objectives; (ii) a description of any potential problems identified during execution, together with the details of the actions planned to resolve them; (iii) a detailed analysis of the process of negotiations and relocation of the informal vendors; (iv) changes in direction of the primary aspects impacting the sector's deterioration; and (v) the financial situation of the borrower, approved in advance by the guarantor.
- 3.18 **Final evaluation.** Once 90% of the resources have been disbursed, the consulting firm hired will conduct a final evaluation. This evaluation must: (i) verify compliance and/or deviations with respect to the proposed targets for the logical framework's purpose and goal; (ii) analyze the effect that the rehabilitation of the sector has had on the most vulnerable groups; (iii) study the success/failure of the private and social projects promoted by the operation; (iv) make inquiries into the general satisfaction of Cuenca's population with the changes than have taken place; (v) analyze the sustainability of the investments made; and (vi) identify the main lessons learned. This evaluation will be a basic input for the Project Completion Report (PCR). **The hiring of the firm to conduct project monitoring, supervision, and midterm and final evaluations, and the submission, to the Bank's satisfaction, of the methodology for these evaluations will be conditions precedent to the first disbursement.**
- 3.19 **Ex post evaluation.** The PEU will collect, store, and maintain all information, indicators, and parameters, including annual plans, and midterm and final evaluations, necessary to help the Bank prepare the Project Completion Report.
- 3.20 The project's external audit will be performed by a firm of independent auditors acceptable to the Bank, in accordance with its policies and requirements

(documents AF-100 and AF-300), and based on terms of reference approved by the Bank in advance (documents AF-400 and AF-500). During project execution, audited financial statements will be filed within 120 days following the end of the fiscal year, and at the end of the project, within 120 days following the final disbursement. The selection and hiring of the firm of auditors will be undertaken according to Bank procedures (document AF-200). The costs of the project's external audit will be financed with resources from the Bank's loan.

G. Procurement

- 3.21 Goods, works, and services will be procured in accordance with Bank policies (documents GN-2349-6 and GN-2350-6). Although international bidding is not anticipated due to the limited size of the projects, if necessary, international competitive bidding will be required for contracts whose values exceed: (i) US\$3 million for construction works; (ii) US\$250,000 for goods and related services; and (iii) US\$200,000 for consulting services. Bidding processes for amounts below these limits will be undertaken in accordance with the ad hoc Annex to the loan contract. It has been agreed with the Bank's Country Office in Ecuador that the Bank will perform a prior review of the procurement processes for goods, works, and consulting services to be carried out by the borrower.
- 3.22 For purposes of financing the real property where the 9 de Octubre public market center will be built, the Municipality provided the Bank with documents demonstrating compliance with the requirements established in the Guidelines for the application of the policy on eligibility of expenditures (document CC-6004-1) described below. The technical and economic rationale for the purchase of the property was completed in the project preparation stage with the support of the technical cooperation funding for the territorial development plan for the Municipality of Cuenca (EC-T1040). The property description, location, and price are detailed in the minutes of the special meeting of the Cuenca Canton Council held 9 March 2006, whereby this Council resolved to declare for a public purpose the property where the above-mentioned market is to be built subject to immediate occupation. The Municipality undertook the acquisition of the property by means of an expropriation process, in accordance with the provisions of the Municipal Administration Act (Articles 251 to 260) and Articles 41 and 42 of the General Regulations to the Public Procurement Act.¹⁸ The local counterpart was used for the procurement of property, in accordance with the appraisal mechanism described as follows: *"urban properties shall be appraised by means of the application of the value of the land, the value of the structures, and the replacement value established in the Law; to this end, the Council shall approve, by ordinance, the land appraisal*

¹⁸ Property 1 (registry code 02-02-004-021) is located at Gaspar Sangurima 4-50 and covers an area of 783.64 m². Its appraised value is US\$141,615.20. Property 2 (registry code 02-02-004-022) is located at Gaspar Sangurima n/n and covers an area of 570.30 m². Its appraised value is US\$120,288.

plan, the factors increasing the value of the land due to considerations of geometry, topography, accessibility to specific services, such as water, sanitation, and other services, as well as factors for the appraisal of the structure.” (Article 313 of the Municipal Administration Act.) Any difference will be covered by borrower resources that are not part of the project’s resources.

- 3.23 The selection and hiring of NGOs for the execution of social development activities will be undertaken by direct contracting, in accordance with the single source selection criteria established in Bank policy (document GN-2350-6, page 23). These criteria include: (i) the need to maintain continuity in experience acquired and the approach of the NGOs experienced in working with the area’s vulnerable population (children, adolescents, and women victims of domestic violence); and (ii) the advantages—technical (proven care techniques, staff in the targeted area) and institutional advantages—trust earned over years of presence in the area, links to the activities granted priority by the Department of Social Development—of using NGOs that have been satisfactorily evaluated by the Municipality’s Department of Social Development using local monitoring systems. The NGOs that will execute the projects are: PAES, Casa María Amor, Pájara Pinta, Corporación Mujer a Mujer, and Centro de Estudios y Defensoría.¹⁹ Any NGO that fails to satisfactorily perform its duties may be replaced by another NGO whose selection will be determined by regular Bank procedures.
- 3.24 For the execution of the local economic development subcomponent, Fundación de Turismo will be contracted directly to administer the organization of the competitive project selection processes throughout project execution. In accordance with Bank policy (document GN-2350-6, page 23), single source selection is justified due to: (i) the small amount of the contract (US\$25,000) and (ii) the institutional advantage of the foundation which, given its corporate purpose, knows and has regular contact with the Fund’s beneficiaries.²⁰
- 3.25 **Procurement plan.** The procurement plan for the project has been agreed upon and is in the project files. The procurement schedule will be reviewed annually as required, or whenever substantial changes arise, and must be approved by the Bank.
- 3.26 **Procurement review.** Supervision of procurement of works, goods, and related services will be performed by prior review, and in accordance with Annex I to document GN-2349-6. Supervision of the process of selecting and hiring consultants will also be performed by prior review, as established in Annex I to document GN-2350-6.

¹⁹ The budgets for the projects are: US\$200,000 (PAES), US\$200,000 (among Casa María Amor, Pájara Pinta, and Corporación Mujer a Mujer), and US\$37,800 (Centro de Estudios y Defensoría).

²⁰ The purpose of the Foundation is the integrated development of the tourism sector and tourism promotion (Article 6 of its bylaws).

H. Revolving fund

- 3.27 A revolving fund equivalent to 5% of the loan resources has been established. The executing agency must file semiannual reports on the status of the revolving fund within 60 days after the close of each six-month period.
- 3.28 All allocations of funds from the loan will be made in accordance with the Fiscal Responsibility, Stabilization, and Transparency Act, with respect to the use of external debt resources. Local contributions will come from the budget of the Municipality of Cuenca.

I. Retroactive financing and advances

- 3.29 It is recommended that the Bank's Board of Executive Directors approve retroactive financing charged to the resources of the loan for up to the equivalent of US\$200,000 for expenses incurred by the borrower in the drafting of the project's technical designs and plans, provided that these expenses were incurred after 1 January 2006, involve the activities established in the project's detailed cost table (project's technical files), and comply with requirements substantially analogous to those established in the loan contract.
- 3.30 Once the loan contract is in effect and the general conditions precedent to the first disbursement have been met, the Bank may disburse to the borrower, against financing resources, up to US\$96,500 to hire the executing unit staff, and up to the amount of US\$24,000 to hire the firm to perform the project evaluations.
- 3.31 Up to US\$400,000 equivalent may be recognized as part of the local counterpart resources for: (i) project design studies for the urban infrastructure component; (ii) tracking of the negotiation process; and (iii) procurement of property. Similarly, the expenses will be recognized provided they are related to defined and budgeted activities included in the project cost table, were incurred by the borrower after 1 January 2006, and comply with requirements substantially analogous to those established in the loan contract.

J. Execution and disbursement periods

- 3.32 The project's disbursement period will be 36 months, counted from the effective date of the loan contract. The disbursement schedule is provided below.

**Table III-1. Tentative disbursement schedule
(thousands of U.S. dollars)**

| SOURCE | YEAR I | YEAR II | YEAR III | TOTAL |
|-------------------|---------------|----------------|-----------------|---------------|
| IDB | 4,500 | 1,588 | 500 | 6,588 |
| Local counterpart | 3,500 | 1,535 | 1,000 | 6,035 |
| TOTAL | 8,000 | 3,123 | 1,500 | 12,623 |
| % per year | 63% | 25% | 12% | 100% |

- 3.33 A prior review will be performed of the procedures to justify disbursements. However, based on the results of the reviews of these processes and procurement processes, the Bank may decide to employ post reviews for procurement and/or disbursements.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 After performing the respective institutional analysis (see paragraph 3.7), and becoming familiar with the execution systems for the programs currently being executed by Cuenca with multilateral bank support, it was concluded that the most appropriate form of execution is to have an independent executing unit. However, during execution, line units in the Municipality are expected to be strengthened or created to be responsible for taking permanent control of the respective activities. It is important to note that there are no new activities; all project activities are currently being executed, in one way or another, by the Municipality. The project will strengthen the institutional framework for the management and administration of the RCCP, currently administered by the Municipality's Administrative Department, with the creation of a specialized entity. For social issues, the project has been prepared with the support of the Department of Social Development, which has agreed to assume the duties financed by the project. In this case, the activities will continue to be executed in the same way the Department is currently executing them: agreements with NGOs, an NGO registration system, and continuous monitoring of their work. These guidelines and work method are being adopted by the project. The remainder of the activities will have the support of the current institutional framework, which will be strengthened by project execution and in the case of market administration, modernized. Therefore, the project's institutional viability is ensured throughout its execution, and the elements necessary for the Municipality to continue performing the activities will have been incorporated into its permanent operations upon completion of the process.

B. Socioeconomic viability

- 4.2 The economic analysis supported the design of the operation, in an effort to contribute to the process of selecting and determining the scope of the works. First, for the largest scale physical works, technical alternatives were compared in order to select the most economical ones. Secondly, specific benefits attributable to the operation were identified; available information allowed the assessment of part of these benefits, explaining an internal rate of return (IRR) of close to 11% (sensitive to changes in key parameters).²¹ Thirdly, given the limitations of the foregoing analysis, a survey was conducted among Cuenca's leading real estate agents in order to gauge how real estate prices in the targeted area would evolve; these prices should reflect "all" social, physical, and economic changes to take place in the area, and this

²¹ Most of the benefits impact the 9 de Octubre market sector, since the actions in San Francisco will be defined as negotiations with vendors progress.

approach resulted in an IRR of over 40%. Lastly, the private appeal of the tourism product club and the parking facilities was analyzed.

- 4.3 **The analysis of (least cost) alternatives** had to consider the technical specifications derived from ordinances specific to historic areas; for example, the façade of the structure selected for the remodeling of the market cannot be changed, and the streets must be paved with cobblestones. Nevertheless, in this latter case, the possibility of a single level, versus the difference in level between the streets and sidewalks, was considered. When no restrictions apply, material or construction alternatives were considered for the most significant components of the investment; for example, in the case of the public market center structures for the San Francisco passageway and the new 9 de Octubre public market center, savings of 5% and 30%, respectively, were estimated by selecting the metal option rather than concrete. At the same time, the option of constructing the parking facility beneath the Plaza Cívica would be one third more economical than building it on the surface; in this case, the lack of land and the demolition activities had a significant impact on costs.²²
- 4.4 **Economic cost-benefit analysis based on specific benefits.** The primary benefits would be provided by:²³ (i) freeing public space for recreation (US\$2.2 million), and making better use of underused areas in public plazas and markets (US\$16,000); (ii) reduction of cleaning (US\$29,000) and maintenance (US\$41,000) expenses for public spaces; (iii) less property damage from criminal acts and traffic accidents (US\$17,000); (iv) enhanced welfare due to improvements in perception of security; (v) savings in costs of operating and maintaining vehicles (US\$1 million), and drivers' time (US\$290,000); (vi) profit on parking services (US\$230,000) and childcare facility-dining hall (US\$245,000); (vii) minor losses due to improper handling and storage of merchandise (US\$146,000); (viii) reassignment of police personnel to prevention duties (US\$18,000); (ix) improvement in public welfare by reducing disease associated with improper sanitary handling of food products; (x) cultivation of knowledge by facilitating access to information; (xi) establishment of baselines for the development of statistics to improve the efficiency and effectiveness of social policies; (xii) lower municipal expenses by avoiding actions to penalize improper use of public space; (xiii) higher productivity of vendors, as well as increased welfare by improving their working conditions; (xiv) lower incidence of respiratory disease by reducing environmental pollution; and (xv) increased productivity of tourism resources. Over a ten-year period, these benefits would allow the recovery of approximately 95% of the costs associated with the project.
- 4.5 **Economic cost-benefit analysis based on real estate prices.** After the major decline in 2002, real estate prices in the 9 de Octubre market and Plaza San

²² These results would also apply to the Plaza San Francisco parking facility.

²³ The average annual benefit is specified in parentheses, except for the freeing of space.

Francisco sectors recovered quickly, unlike the rest of the Historic Center. This is largely due to the fact that these areas remain very attractive for business activities; 80% of properties sold were for commercial purposes. In the San Francisco area, the increase in prices can also be explained by the actions taken with respect to the 10 de Agosto market (bordering the plaza), which relocated informal vendors into a new public market center. In this context, real estate agents indicate that the physical, social, and economic improvements to be provided with the implementation of the project (primarily security, availability of parking, cleanliness, and order) would drive an increase in real estate prices of 30% in the 9 de Octubre market area, and in excess of 20% in the Plaza San Francisco area; thus, the approximately 680,000 m² affected (directly and indirectly) by the project would undergo an appreciation of US\$23.2 million, providing strong justification for the project, while increases of approximately 22% and 15% would ensure the profitability of the operation. As an additional frame of reference, in the 10 Agosto market area, where the 2004 intervention was much more limited than those planned for the 9 de Octubre market and San Francisco, prices increased more than 6% over the Cuenca average (2003-2005 period); moreover, when only considering 2004-2005, the differences are much greater.

- 4.6 **Financial analysis of private projects.** Even in a pessimistic scenario, the receipts generated by the **parking facilities** exceed their operating expenses. Nevertheless, in a low-end conservative scenario (full capacity between 6 and 7 hours per day, at the lowest market rate) the IRR is nearly 9%.²⁴ Expectations upon entry into operation of the **product club** include: (i) increasing revenues by at least 10%; (ii) reducing marketing expenses by 30%. This would imply an annual benefit of approximately US\$30,000,²⁵ which greatly exceeds the fee required to participate in the club.

C. Financial viability and sustainability

- 4.7 The financial viability analysis covered the following: (i) the Municipality's creditworthiness and borrowing capacity; (ii) the capacity to make the local contributions; and (iii) the recovery of the investments and the sustainability of the investments financed by the project. The sources identified in the analysis for the recovery of the investments and operating and maintenance expenses are: (i) the special betterment levies; (ii) the leases for the market stalls; (iii) the incremental collection of the business license tax; and (iv) the rates to be applied in the new parking facilities.

²⁴ Over a ten-year period, full occupancy would be required during approximately eight hours per day to obtain an IRR in excess of 12% (as an alternative, the hourly rate must be increased US\$0.05).

²⁵ Average of tour operators, hotels, and restaurants.

- 4.8 The Municipality's borrowing capacity has been calculated with ten-year projections, using the net present value (NPV) of the Municipality's flow of net resources, resulting in a positive borrowing capacity of US\$9.5 million. The borrowing capacity analysis was conducted using conservative revenue projections, excluding revenues generated by the project, once completed. It was also confirmed that the Municipality is below the maximum debt limits permitted under the Fiscal Responsibility, Stabilization, and Transparency Act throughout the entire projected period, thus meeting the conditions established by the Act for the approval of external debt and the granting of guarantees by the central government to the local governments. Service of the debt assumed by the Municipality in recent years, primarily with private banks, is currently covered by recovery through betterment levies from beneficiaries, under a system where these levies are paid off in the creditor banks themselves. This has made it possible to pay the debt obligations in advance and to use the Municipality's primary savings to finance other investments for which no additional borrowing has been requested.
- 4.9 The requirements to cover the local contribution of US\$3 million in three years were specifically examined with respect to the financial requirements specific to the project, as well as together with all requests for resources for all investment projects scheduled by the municipal government during the period of the Bank project's execution. The Municipality was deemed to have the capacity to make these contributions. In order to guarantee the flow of resources for the contributions that the Municipality of Cuenca must make in the context of the project, the Municipality requested a loan from Banco del Estado in the amount of US\$6 million to cover counterpart expenses. The application has been pre-approved and is expected to be approved shortly. Given the positive results of these analyses, the Nation's guarantee will cover repayment only of the financial obligations arising from the loan.
- 4.10 The analysis of the recovery of the project's investments in infrastructure and urban plant and facilities through the collection of betterment levies concluded that a total of US\$7 million, equivalent to 80% of the cost of the investments in physical works would be recovered. According to the prorating methodology used for similar cases, the levies on frontage properties would reach an average of US\$49/year, those on nonfrontage properties in the Historic Center would be US\$14/year, and those on the city's remaining urban properties would total US\$3/year.²⁶ The amount per property is indicative and must be approved by municipal ordinance; it may also vary, but such variation would not affect the total amount recovered.

²⁶ The values of the betterment levies for properties were obtained based on the distributions usually made by municipalities in Ecuador to recover investments on road systems and urban plants and facilities. These values may be modified by the Municipal Councils by taking the social impact into account.

- 4.11 The collection of rent and the application of the business license tax to vendors, with a hypothetical minimum collection of US\$10/year, would adequately defray the costs of maintaining and operating these new facilities. The rent for market stalls will be updated progressively until average values of US\$20/month are reached in the 9 de Octubre market and US\$14/month in the Rotary market. Since these represent significant percentage increases over the current rents, their adjustment will take place progressively over five years beginning with project completion. A fund for the administration, maintenance, and operation of the market will be established and the Municipality will make diminishing contributions to it as the stall lessees' contributions increase. The fund's regulations will be drafted and approved by municipal ordinance during the first year of execution.
- 4.12 The Municipality of Cuenca is arranging for technical cooperation funding from the Canadian government to update its real property registry, in accordance with the new Municipal Administration Act. Once this new registry takes effect, increases in tax collections due to new appraisals on properties will generate additional revenues that will significantly strengthen the Municipality's current capacity to operate and maintain these services. The new registry will also strengthen the Municipality's planning and land management processes.

D. Environmental impact

- 4.13 The operation will give rise to numerous highly positive environmental and social impacts on the traditional downtown area of Cuenca, such as the improvement of living conditions for more than 1,000 formal and informal vendors and residents of neighborhoods adjacent to the 9 de Octubre market area; earthquake engineering standards will be applied to the design of buildings; sanitation conditions will be improved with respect to the handling of food and waste, with the resulting reduction in risks to the health of buyers and consumers; social accompaniment will be provided to vendors and their families, particularly the children, aimed at addressing domestic violence; the buildings will include a child development center, childcare center, library, dining hall, and a multipurpose room; public space, roadways and sidewalks will be recovered inside the more than 40,000m² of the project area, with positive effects on the living conditions and property values in the traditional downtown area; sources of pollution (noise, waste, posters) will be reduced; personal safety levels will improve; the market's business activity will be stimulated with the attraction of new customers; the institutional capacity for sanitary and environmental control will be increased. Specifically, women heads of household, accounting for the majority of vendors, will benefit from social services for their children and the prevention and care for victims of domestic and sexual violence, who are predominantly women.
- 4.14 During execution, there will also be some minor negative environmental and social impacts associated with the infrastructure works. They will be caused by

demolition, excavation, and construction, generating some problems such as those caused by air pollution (particles, machinery emissions), noise, restrictions on pedestrian and vehicular traffic, handling of construction waste and the displacement of rodents at the start of the works. Such impacts are temporary, and are not cumulative, some are indirect, and in general, all can be mitigated with the adoption of good engineering practices and the timely, social accompaniment provided for. To control the impacts, an environmental management guide has been prepared, and compliance with it will be a contractual requirement for the builders. In the event of archeological discoveries, the works must be suspended and the Institute of Cultural Heritage will take immediate official action, defining the steps to be followed. The Historic Center Commission will also be informed.

- 4.15 Given the need to move the vendors temporarily in order to perform the works, minimize environmental impacts, and recover the public space, a Resettlement Plan has been prepared based on the guidelines of OP-710, which is part of the Environmental and Social Management Plan. The Resettlement Plan, already agreed upon by the Bank, the Municipality, and the affected parties, is the result of the negotiation process than began in December 2005 with the area's vendors and with the support of the Municipality (see paragraph 1.28).
- 4.16 Given the identified impacts, the operation is classified as Category B, pursuant to the Bank's environment and safeguards compliance policy, and for this reason an environmental analysis and the resulting Environmental and Social Management Report were prepared. The operation also qualifies as a social equity enhancing project, as described in the indicative targets for the Bank's activity mandated by the Bank's Eighth Replenishment (document AB-1704).

E. Expected benefits

- 4.17 To varying degrees, all residents of Cuenca's traditional downtown area, the citizens of Cuenca, and the tourists who visit the Historic Center will benefit from the improvements made in the project area, in terms of security, hygiene, availability of better services and commercial facilities, urban infrastructure, and environmental quality. These improvements are the results of the project's activities, primarily with the freeing of public space for recreation, better conditions of cleanliness in the area, lighting, reduction of vehicular congestion by facilitating vehicular and pedestrian traffic in the sector, and the involvement of the beneficiaries by improving their economic and social conditions, and the creation of mechanisms for participation and negotiation, which will have an impact on the sustainability of the activities over the long term.
- 4.18 The total number of direct beneficiaries of the project has been calculated as 15,000, including residents, formal and informal vendors, and their families. Working conditions will be improved, as will, potentially, the revenue-generating capacity of the more than 800 informal vendors working in the area, who will be relocated into

buildings appropriate for such purposes or into the existing market once it has been improved for better operation. The families of the low-income residents and vendors will benefit from the social services generated by the project, primarily children's services. This social aspect also involves the participation of NGOs providing social services in the sector, using installed capacity, cumulative experience, and generating the potential to replicate the activities for users in other parts of the city.

- 4.19 Furthermore, use of the Competitive Fund to Strengthen the Competitiveness of Microenterprises and Small Businesses will benefit 300 entrepreneurs located primarily in the target area. And through the institutional strengthening component, personnel of the Municipality of Cuenca will be trained and provided with greater technical resources in the areas related to the project's objective. This will provide the Municipality with departments and instruments to continue leading the process of effectively and efficiently rehabilitating and maintaining the entire downtown area of Cuenca.
- 4.20 Lastly, the most significant general benefits of this operation are: stopping the deterioration of a zone that is part of the city's heritage and a primary source of revenues, its historic and traditional downtown area, and the implementation of a model of integrated investment that may be replicated in any part of the city.

F. Risks

- 4.21 During preparation of the operation, an analysis was conducted of the project's potential risks. With the participation of the main stakeholders, 24 interviews were conducted with representatives of the political sector, municipal officials, NGOs working in the area, vendor leaders, and vendors and residents of the area as direct beneficiaries of the project. The results of this process are detailed in the risk analysis available in the project files. The primary risks most likely to occur, to be granted priority under the operation's monitoring and tracking system during execution, are described below.
- a. **The collective consensus reached to date between the vendors and the authorities may not be maintained.** This is the greatest risk in this type of project, and for this reason this operation started with a process of engagement with the stakeholders, allowing them to decide the best options to solve their problems. The Municipality initiated the process with the Bank's support and the hiring of specialized personnel experienced in these types of processes, who will guide and monitor the stages of negotiation, execution, and implementation of the project. However, special care must be taken during execution so that this process remains continuous. Although it represents a small part of the project resources, the project's success depends on maintaining the agreements and continuous communications between the parties. The project executing unit will have a permanent specialist in negotiations.

- b. **Institutional weakness of the Municipality.** Although this problem has been diagnosed and the project's activities in the institutional strengthening component seek to resolve this deficiency in matters related directly to project activities, there is still a risk that other entities within the municipality will fail to work in a coordinated, efficient manner. The municipality is already taking actions in this regard, including one with the support of the Bank, the MIF project, one-stop window for private sector services (ATN/MT-9591-EC), which includes the improvement of institutional aspects of the Municipality. Institutional weaknesses include the limited capacity to manage markets and parking facilities. In order to mitigate this weakness, the project plans to perform studies to identify new administration systems, and if these activities are not performed within the established periods, they will jeopardize the project's sustainability. This situation is mitigated by the advance provided for commissioning the studies so that its results are obtained prior to completing the physical works and initiating the operation of these facilities (see paragraph 3.30).
- c. **Clarity and continuity in policies on the management and use of public space and urban plants and facilities, primarily markets and informal sales.** The use of public space is determined by the customs and culture of a city's residents. Changing or reorienting behavior is a long-term undertaking requiring perseverance, clear rules, leadership, and continuous application. Changes in policy and administration jeopardize the actions undertaken. The project attempts to mitigate this risk with support for the creation of a policy and regulations for the use of public space in the traditional center of Cuenca, and a communications campaign on the project and the support required from citizens in order to achieve the desired changes and maintain them over time. If the local population takes ownership of the issue, it will be difficult for it to be abandoned by future administrations. In this regard, local authorities must pay particular attention to the issue of control and enforcement of current rules and the new ones that will arise as a result of the project. The Municipality has committed to this endeavor and, as mentioned above, continuous monitoring of this aspect is required.
- d. **Counterpart contribution.** Because the share of the local counterpart is almost 50% of the operation, satisfactory execution of the project would depend on the timely availability of counterpart resources. Although the analysis of municipal finances shows that the anticipated resources could be contributed by within the scheduled timeframes, the flow of funds within the municipal budget could get into a tight situation. To ensure execution of the project within the scheduled timeframes and to minimize the risk of noncompliance, the Municipality has applied for a loan from Banco del Estado, which at this point has been pre-approved. In addition, the monitoring and supervision system for the operation will consider this point as one of the key aspects of the project execution plan. Lastly, and in order to ensure the

timely flow of counterpart resources for years two and three of project execution (the borrower has local counterpart resources for the first year of project execution), the Municipality of Cuenca will submit evidence, to the Bank's satisfaction, that it has those resources, as indicated in paragraph 2.7 of this loan proposal.

LOGICAL FRAMEWORK

REHABILITATION OF DOWNTOWN AREAS AND LAND MANAGEMENT SUPPORT IN CUENCA (EC-L1021)

| Narrative Summary | Indicators | Means of Verification | Assumptions |
|---|--|--|---|
| Goal | | | |
| G. To contribute to maintaining the vitality of the city's Historic Center by improving the quality of life of the population in the traditional downtown areas with the most significant physical, social, and economic deterioration | <p>By the end of the program and in the two years thereafter, the following must occur:</p> <p>Ga. Improve the average price of real estate in the Historic Center with respect to the average for the rest of the city. Baseline 2005: average US\$404.3/m² for new homes and US\$331.4/m² for old homes in the Historic Center; 256.29/m² old and US\$354.1/m² new in all of Cuenca. Relative price of homes in Historic Center versus rest of city: 1.3 old homes; 1.1 new homes.</p> <p>Gb. At least maintain the number of tourists visiting the city's Historic Center. Baseline 2005: 310,687 domestic and foreign tourists.</p> <p>Gc. At least 70% of the targeted area's population believes security conditions, cleanliness, order, and availability of social services have improved in the neighborhood.</p> | <p>Survey of real estate agents, similar to the one conducted during program preparation. Final evaluation of program.</p> <p>Records of the City Hall Tourism Bureau. Final evaluation of program.</p> <p>Survey based on a representative sample of residents of the targeted area. Final evaluation of program.</p> | Sociopolitical and economic stability in the country. |

| Narrative Summary | Indicators | Means of Verification | Assumptions |
|--|---|--|--|
| Purpose | | | |
| <p>P. Contain and rehabilitate the areas with the greatest physical, social, and economic deterioration, with an emphasis on the 9 de Octubre and Plaza San Francisco sectors</p> | <p>By the end of the program and in the two years thereafter, the following must occur:</p> <p>Pa. Improve the average price of real estate in the 9 de Octubre market and Plaza San Francisco area, with respect to the average for the Historic Center. Baseline 2005: average US\$353/m² for new homes and US\$240/m² for old homes in the 9 de Octubre market sector; US\$340/m² for new homes and US\$239/m² for old homes in the Plaza San Francisco sector; average US\$331.1/m² old; and US\$404.3/m² new for the Historic Center. Relative price of homes in 9 Octubre vs. historic center: 0.72 old homes; 0.87 new homes. Relative price of homes in San Francisco versus Historic Center: 0.72 old homes; 0.84 new homes.</p> <p>Pb. Public spaces in the targeted area remain free of informal vendors. Baseline 2005: 8,805 m² of public space occupied by informal vendors (695 m² for the 9 de Octubre market, 3,700 m² in Plaza Cívica, 3,604 m² in Plaza San Francisco, 558 m² in Plaza Rotary, 249 m² in Plaza Hermano Miguel).</p> <p>Pc. At least 80% of informal vendors consider that the physical, social, sanitary, and economic conditions in which they work have improved since relocation.</p> <p>Pd. At least 60% of formal merchants consider that their businesses have improved since the intervention.</p> | <p>Survey of real estate agents, similar to the one conducted during program preparation. Final evaluation of program.</p> <p>Cuenca City Hall Planning Department. Final evaluation of program.</p> <p>Survey based on a representative sample of formal merchants. Final evaluation of program.</p> <p>Survey based on a representative sample of formal merchants. Final evaluation of the program.</p> | <p>Strong political and community support for the relocation of the informal vendors.</p> <p>Continuity of municipal policies with respect to management of informal businesses and the use of public space.</p> <p>Adequate collaboration and coordination among the various public and private actors operating in the sector.</p> <p>Effective public control on issues of food handling, presence of animals, parking facilities, and use of public space.</p> |

| Narrative Summary | Indicators | Means of Verification | Assumptions |
|-------------------|--|---|-------------|
| | <p>Pe. The vendors finance at least 35% of administrative and operating expenses of the public market centers (50% two years after the end of the program). Baseline 2005: 20% of administrative and operating expenses at the 9 de Octubre market are financed by the vendors.</p> <p>Pf. A decrease of at least 50% in the number of crimes can be seen on the streets in the targeted area (a reduction maintained over the next two years). Baseline 2005: 181 crimes.</p> <p>Pg. At least 65% of garbage collection expenses are cut in the targeted areas (a reduction maintained over the next two years). Baseline 2005: 9 de Octubre market sector, US\$45,395 per year.</p> <p>Ph. Traffic and parking conditions improve in the targeted area: (i) vehicular accidents are cut by 50% (29 collisions and five injuries to pedestrians, 2005); and (ii) parking facilities are used fully, at least seven hours per day.</p> <p>Six months after having temporarily relocated the informal vendors from the 9 de Octubre market sector (approximately 19 months into the project) the following must occur:</p> <p>Pi. Informal vendors actively participate in neighborhood committee decisions. Baseline 2005: informal vendors are not part of neighborhood committee.</p> <p>Pj. The mechanism/regulations through which vendors manage and finance the operation of the public market centers have been agreed upon.</p> <p>Pk. The number of primarily nocturnal crimes, petty street crimes, and crimes specific to crowded areas begins to fall. Baseline 2005: see item P.f.</p> | <p>City Hall Administrative Department. Final evaluation of the program.</p> <p>Judicial Police. Final evaluation of the program.</p> <p>Empresa Municipal de Aseo de Cuenca [Cuenca Municipal Sanitation Company] (EMAC). Final evaluation of the program.</p> <p>Cuenca Traffic and Transportation Department. Final evaluation of the program.</p> <p>Midterm evaluation of the program.</p> <p>Midterm evaluation of the program.</p> <p>Midterm evaluation of the program.</p> | |

| Narrative Summary | Indicators | Means of Verification | Assumptions |
|--|---|--|--|
| | Pl. No vehicles are found parked in public spaces not intended for such purposes. Baseline 2005: Plaza Cívica is illegally used as a permanent parking facility by a total of approximately 50 vehicles. | Midterm evaluation of the program. | |
| Components | | | |
| C1. Urban infrastructure rehabilitated and improved | <p>C1.a. 22 months into the program, the 9 de Octubre market has been remodeled, expanded, outfitted, and its façades have lighting.</p> <p>C1.b. 22 months into the program, a public market center has been built in the 9 de Octubre sector.</p> <p>C1.c. 23 months into the program, 660 merchants from the 9 de Octubre market, Plaza Cívica, and Plaza Rotary have been relocated.</p> <p>C1.d. During the program, in the 9 de Octubre market sector: (i) approx. 21,213 m² of streets and sidewalks have been improved and lighting installed (18 months into the program (IP)); (ii) 18 trees are planted (18 months IP); (iii) 1,825 lm of electrical infrastructure, 380 lm of telephone infrastructure, and 44,450 m² of water and sanitary infrastructure (32 months IP); (iv) 42 benches and 23 garbage cans are installed (20 months IP); (v) a 120-space parking facility is built (11 months IP).</p> <p>C1.e. During the program, the following plazas have been rehabilitated and improved (ground surface treatment, decorative elements, lighting, vegetation, etc.): (i) Cívica (26 months IP); (ii) Hermano Miguel (26 months IP); (iii) Rotary (eight months IP); and (iv) San Francisco (36 months IP).</p> <p>C2.f. During the program, two internal video-surveillance circuits are installed in the 9 de Octubre market sector.</p> | Works contract and delivery of works, Monitoring system reports. | <p>The negotiation process for the relocation of the informal vendors from Plaza San Francisco is successful.</p> <p>City Hall contributes the real property necessary for the relocation of the vendors from Plaza San Francisco.</p> |

| Narrative Summary | Indicators | Means of Verification | Assumptions |
|--|--|---|------------------------------------|
| | <p>C1.g. 26 months into the program, three buildings have been refurbished to house 144 vendors from Plaza San Francisco.</p> <p>C1.h. 27 months into the program, 144 informal vendors from Plaza San Francisco have been relocated.</p> <p>C1.i. During the program, in the Plaza San Francisco sector: (i) approx. 5,974.25 m² of streets and sidewalks are improved and lights installed (32 months IP); (ii) three trees are planted (32 months IP); (iii) 823 lm of electrical infrastructure, 160 lm of telephone infrastructure, and 800 m² of water and sanitary infrastructure (32 months IP); (iv) eight benches and six garbage cans are installed; and (v) a 120-space parking facility is built (36 months IP).</p> | | |
| <p>C2. Social and economic aspects supported and strengthened</p> | <p>C2.a. At the start of the program, 15 municipal officials are trained in negotiation and conflict management.</p> <p>C2.b. During the program: (i) 20 negotiation workshops have been held with informal vendors (18 months IP, 660 merchants); and (ii) 30 awareness and training workshops have been held with formal and informal vendors on issues of: (a) knowledge of the traditional downtown area (1,200 people) (18 months IP); and (b) negotiation, motivation, and self-esteem (900 people) (18 months IP).</p> <p>C2.c. During the program three workshops have been held on civic coexistence for residents and vendors in the targeted area.</p> <p>C2.d. Six months into the program, a fund has been designed for microenterprises to finance networking, training, and technical assistance. During the program, financing is provided to at least four pilot projects (approximately 200 microenterprises).</p> | <p>Manuals for workshops, with invitations. Contract for trainers. Monitoring system reports.</p> <p>Manuals for workshops, with invitations. Contract for trainers. Monitoring system reports.</p> <p>Manuals for workshops, with invitations. Contract for trainers. Monitoring system reports.</p> <p>Fund Regulations. Design of pilot projects. Monitoring system reports.</p> | <p>Security Plan in execution.</p> |

| Narrative Summary | Indicators | Means of Verification | Assumptions |
|---|--|---|---|
| | <p>C2.e. 25 months into the program, the Social Development Center is operating, providing services such as: (i) childcare (100 children); (ii) library (50-patron capacity); and (iii) dining hall (150 children and young people).</p> <p>C2.f. 20 months into the program, the participatory management mechanism has been established for the Social Development Center.</p> <p>C2.g. 30 months into the program, three projects have been executed with NGOs specialized in social problems: (i) 15 workshops on domestic violence (420 adults); (ii) creation of a support group for 90 women victims of domestic violence; and (iii) legal and psychological services for 200 at-risk women.</p> <p>C2.h. Six months into the program, a Permanent Social Observatory has been designed.</p> <p>C2.i. During the program, four training workshops are held on sanitary practices and food handling, benefiting 550 vendors.</p> | <p>Monitoring system reports.</p> <p>Administrative regulations for the Social Development Center. Monitoring system reports.</p> <p>Design of projects. Monitoring system reports.</p> <p>Database with statistics on key social variables. Monitoring system.</p> <p>Manuals for workshops, with invitations. Contract for trainers. Monitoring system reports.</p> | |
| <p>C3. Municipal departments are strengthened and channels of communication with local population are improved</p> | <p>C3.a. The communications strategy has been executed for the 9 de Octubre market (10 months IP) and the Plaza San Francisco (14 months IP) projects.</p> <p>C3.b. Ten months into the program, the studies necessary for the design and creation of the administration and management network for public market centers are complete and the network will begin operating at 16 months.</p> <p>C3.c. During the program, municipal policies are formulated and begin to be implemented related to: (i) management of public space; (ii) management of business activities (primarily public markets).</p> | <p>Strategy. Monitoring system reports.</p> <p>Monitoring system reports.</p> <p>Policies approved by the applicable municipal agency. Monitoring system reports.</p> | <p>Political support.</p> <p>City Hall institutionalizes the program's recommendations.</p> |

| Narrative Summary | Indicators | Means of Verification | Assumptions |
|-------------------|--|----------------------------|-------------|
| | C3.d. Eight months into the program, a series of measures have been identified (e.g., update of current regulations and enforcement protocols in sanitary control) aimed at improving sanitary control of perishable products, which start to be applied during the program. | Monitoring system reports. | |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/06

Ecuador. Loan ____/OC-EC to the Municipalidad de Cuenca
Rehabilitation of Downtown Areas and Land Management Support in Cuenca

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Municipalidad de Cuenca, as Borrower, and with the Republic of Ecuador, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of a project for rehabilitation of downtown areas and land management support in Cuenca. Such financing will be for an amount of up to US\$6,588,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

LEGIII/EC-740512-06
EC-L1021