

PROPOSAL FOR FINANCING AND TECHNICAL COOPERATION FOR:
FEDERACIÓN INTERPROVINCIAL DE CENTROS SHUAR-ACHUAR (FICSHA)

EXECUTIVE SUMMARY

AMOUNT AND SOURCE:	IDB: Financing:	US\$500,000
	Technical-cooperation funding:	US\$175,000
	Total:	US\$675,000

The amounts shown will be drawn on the Swedish Trust Fund for the Financing of Small Projects.

FINANCIAL TERMS AND CONDITIONS:	Execution period:	36 months
	Disbursement period:	42 months
	Financial terms:	Nonreimbursable

PARALLEL TECHNICAL COOPERATION: A nonreimbursable technical-cooperation operation will be carried out to strengthen the executing agency as an institution and in the areas of operations and administration. It is also designed to increase productivity and improve marketing mechanisms for families and organizations that are members of the Federación Interprovincial de Centros Shuar-Achuar [Interprovincial Federation of Shuar-Achuar Centers] (FICSHA).

OBJECTIVES: The general objective is to raise the income level of indigenous people, family groups, and organizations that belong to FICSHA and to create opportunities for economic advancement in the areas served by the program. The specific objectives are to establish financing alternatives for promoting or carrying out farming, agroindustrial, and craft activities and to create a mechanism for marketing goods produced by indigenous people in the Ecuadorian Amazon region.

DESCRIPTION: The program resources will be used to fund two subprograms: subprogram A, which consists of (i) a credit component to finance working capital and fixed assets for livestock and traditional and nontraditional crop farming and the purchase of inputs and implements for farming and craft-making, and (ii) a centrally-managed investment component that includes a training farm, expansion and upgrading of centers for processing meat, sausage, farm commodities, and crafts; and subprogram B to finance a technical-cooperation program for the institutional strengthening of FICSHA.

ENVIRONMENTAL CLASSIFICATION: The Environment Committee, at its meeting of February 21, 1995, classified this as a Category III operation.

POVERTY TARGETING: The program will target 5,700 low-income families, or about 50,000 people, who are members of FICSHA. Nearly 800 families are expected to benefit during the first three years of the program. Most of the beneficiaries qualify as poor according to the Bank's established criteria.

RISKS: The main risks associated with this program are: (i) FICSHA's limited experience in administering loans; (ii) the weak productive base and the limited experience and success with processing and marketing products; and (iii) the relatively limited experience that FICSHA and member families have had in combining projects with loan commitments at market interest rates. To offset these weaknesses, comprehensive advisory assistance in administrative, financial, and technical matters will be provided through the consulting services supplied as part of the technical-cooperation operation. With those consulting services, technology will be passed on, thus enabling FICSHA to manage and sustain the program on its own.

THE BANK'S COUNTRY STRATEGY: The Bank's strategy for Ecuador targets, among other things, poverty reduction, private sector development, and the strengthening of civil society. The Report on the Eighth General Increase in the Bank's Resources reiterated the Bank's mandate to continue to support the socioeconomic development of indigenous groups in the region. In the farming sector, the Bank supports, *inter alia*, activities geared to creating jobs and generating new opportunities for economic advancement for low-income groups in rural areas, in order to increase family income and raise their standard of living. The proposed operation fits into this strategy.

SPECIAL CONTRACTUAL CONDITIONS: It is recommended that, in addition to the general contractual conditions, the following special conditions be included in the financing and technical-cooperation agreement:

Prior to the first disbursement, FICSHA shall submit to the Bank's satisfaction:

- a. The organization's duly audited 1994 and 1995 financial statements (see paragraph 1.22);
- b. Evidence that the planning and institution-building consultant and the financial, portfolio-management, and accounting consultant have been hired (see paragraphs 2.4, 2.21, and 2.24); and

- c. The executing unit's structure and evidence that it is in place and functioning (see paragraph 2.21).

Prior to the first disbursement of the financing for the credit component, FICSHA shall have submitted, to the Bank's satisfaction, the applicable Credit Regulations (see paragraphs 2.32 to 2.34).

Prior to the first disbursement of the financing for the investment component, FICSHA shall have submitted, to the Bank's satisfaction:

- a. The applicable Operating Regulations (see paragraphs 2.27 to 2.29);
- b. Economic feasibility studies for FICSHA's centrally executed investment projects (see paragraphs 2.11 and 2.23); and
- c. The investment timetable (see paragraph 2.23).

**EXCEPTIONS TO
BANK POLICY:**

None.

I. FRAME OF REFERENCE

A. Principal problems

- 1.1 The farm sector accounts for 11% of Ecuador's gross domestic product, 50% of export-generated foreign exchange earnings, and, when agroindustrial activities are factored in, employs 42% of the economically active population. The country's 520,000 farm holdings account for approximately 30% of the country's total surface area, but 70% are less than five hectares in size. And although these small holdings produce some two-thirds of the food-stuffs consumed in the country, most of their owners live either in poverty or extreme poverty. The 1990 census estimates that around 53% of the population is either poor (30%) or indigent (23%).
- 1.2 The indigenous nations of the Amazon region have been hit hard as the size of their territory shrinks. The shrinkage can be blamed on a number of factors, chief of which are: creation of ecological and wildlife reserves; tapping of raw materials like quinine and rubber and gold mining; a land squeeze that is forcing people to look elsewhere to settle; heavy prospecting and mining of minerals and hydrocarbons; and agroindustrial uses.
- 1.3 These factors threaten not just the indigenous people's hold on their land, their way of life and culture, but also their very chances of survival. Deforestation and destruction of virgin forests, degradation of biodiversity, inadequate and destructive settlement of the environment and the loss of hunting and fishing resources are upsetting the dynamics of the relationship between the indigenous people and their land and spoiling the communities' natural habitat.
- 1.4 The productive base of indigenous farming in the Amazon region is weak because the appropriate technology that diversifies and optimizes production has not been applied. The quantity, quality, and variety of the marketable farm commodities are limited. The indigenous peoples of the region know nothing about how to handle, store, and process agricultural commodities. Sound practices that preserve resources have been ignored in cattle raising, and an approach based on principles of range management, agroforestry and preservation and optimization of the rain forest's biodiversity has not been introduced. The forest resources, which could be used in a variety of ways, are being underutilized.
- 1.5 The indigenous peoples of the Amazon region have decided to look for organizational schemes whose principal goals propose new mechanisms of socioeconomic advancement that do not alter the balance among the natural resources with which the indigenous people coexist. One of the basic problems for indigenous communities is that they find themselves being forced to become part of a society whose mercantile system is alien to their indigenous

culture. Their organizations look, therefore, for strategies to achieve socioeconomic improvements without upsetting the balance of the natural habitat in which the indigenous people live, and to secure recognition of their ownership of the land; these strategies, in short, should combine sustainable management of natural resources with the kind of economic, productive, and organizational management that will enable them to participate in and profit by the market economy.

- 1.6 With more and more settlers moving in and development programs under way, contempt for ethnic groups and their lifestyles has taken a heavy toll on the many cultural expressions that have traditionally adorned ceramics, cotton textiles, wood carvings, musical instruments, and hunting and fishing tools. These peoples' traditions have suffered even more. Traditional techniques of preparing and using crafts have been lost, resulting in identity problems.
- 1.7 Some 80% of the indigenous communities of the Amazon region are without overland access routes, sufficient means of transportation or facilities for storing agricultural commodities. The cost of shipping products puts farmers at a complete disadvantage and is prohibitive for the individual farmer, forcing the indigenous farmer to sell his agricultural commodities and crafts to a chain of middlemen at the latter's asking price. That asking price is obviously disadvantageous to the Indian, who may have to wait anywhere from eight to 15 days to get paid. Merchants with the operating capital and infrastructure to store the products until the price goes even higher make the profit. In the case of perishables, the indigenous farmer's choice is a simple one: use the middleman or lose everything.
- 1.8 The resource that Amazonian indigenous peoples have in greatest abundance is nature itself: the subtropical forest, the biodiversity, its rich flora and fauna, navigable rivers and glorious scenery. These are the very elements peddled by the tour companies, whose owners are not always indigenous people or members of their organizations.
- 1.9 The indigenous producers in the region have historically had little access to formal credit. The few loans granted by Banco Nacional do Fomento (only 4% of the total agricultural and livestock portfolio went to peasants and Indians) were not designed to fit the indigenous producer's needs and did not come with technical assistance. The loan applicants were unable to meet some of the banking community's requirements, among them that they submit property titles. Illiteracy made loan approval a long, complicated, and costly process for indigenous applicants, because of a subsidized farm-sector lending policy. Loan programs have blatantly discriminated against indigenous people. This and problems associated with qualifying for loans have made it impossible to meet the overriding need for working capital to develop the

depressed productive base and to set marketing mechanisms in motion and provide the infrastructure needed to market one's products efficiently and profitably.

- 1.10 A shrinking habitat, a weak agricultural and agroindustrial productive base, no means to market their products, restricted use of the natural resources vital to the tourism industry and no access to government lending programs have limited the opportunities of these people for economic development.
- 1.11 To overcome these obstacles, the Federación Interprovincial de Centros Shuar-Achuar [Interprovincial Federation of Shuar-Achuar Centers] (FICSHA) has submitted a request to the Bank for financing and technical-cooperation funding for an investment, credit, and training program. In preparing the definitive version of the project, the Federation received guidance from the Bank's Country Office in Ecuador; in 1993, it was assisted by an international consultant hired by the then Microenterprise Division.
- 1.12 The Government of Ecuador, through the Secretaría Técnica de Planificación [Technical Planning Secretariat] of the Consejo Nacional de Desarrollo [National Development Council] indicated to the Bank its nonobjection to the financing requested by FICSHA. The Swedish International Development Authority informed the Bank that it had approved the profile presented for the proposed operation.
- 1.13 The Bank's strategy targets, *inter alia*, poverty-reduction in Ecuador, private sector development and a stronger civil society. The Report on the Eighth Replenishment reiterated the Bank's mandate to continue supporting the socioeconomic development of indigenous groups in the region. In the farm sector, the Bank supports, *inter alia*, activities to create new opportunities for economic advancement for low-income, disadvantaged people in rural areas in order to raise family incomes and the standard of living. The proposed operation is consistent with this strategy.

B. Executing agency

- 1.14 FICSHA was created by a decision reached at the first provincial convention of leaders of Shuar-Achuar centers, held in Sucúa, in Morona Santiago province, in January 1964. FICSHA is a private-law development agency whose legal status was recognized by the Ecuadorian State under Resolution 2568 of October 22, 1964, signed by the Minister of Labor and Social Security. FICSHA now has 30 associations and 380 centers in the provinces of Morona Santiago, Napo, Pastaza, Sucumbíos, and Zamora Chinchipe, and a Shuar-Achuar membership of over 50,000, i.e., approximately 5,700 families.
- 1.15 Its basic objectives are to: (i) direct the work of the Shuar-Achuar associations and centers through joint efforts in social, economic, and moral advancement; and (ii) plan and channel projects

in physical infrastructure, education, health, land tenure, work, and marketing, and work with state agencies in charge of these matters.

- 1.16 FICSHA engaged in activities to defend land tenure, education, labor, cooperativism and health, among others, and succeeded in establishing the Shuar-Achuar's legal title to 90% of their territory. It created a mass education system for the Shuar-Achuar people (which has made the Shuar-Achuar illiteracy rate the lowest of all indigenous peoples in Ecuador). It also supplies and manages loans to its members. The main projects carried out are the Shuar-Achuar Bicultural Radiophonic Education System, Trans-Kutukú Cacao Project, Upano River Valley Reforestation Project, Marketing, the Shuar Air Service, the Chiguaza Association Pilot Health Plan, and the IAF Project, Phase II, to establish legal title to and defend Shuar-Achuar territory.
- 1.17 FICSHA has worked with a number of different government institutions and with such international agencies as the Inter-American Foundation, the International Volunteer Service, the Netherlands Technical and Social Cooperation Service, the Embassy of Great Britain, the Lay Movement for Latin America, the Canadian Center for International Studies and Cooperation, the German Agency for Technical Cooperation, the German Technical Social Assistance Service, and SWISSAID.
- 1.18 The agreements that FICSHA administers are flawed in that the agencies that finance these programs have not attached sufficient importance to strengthening FICSHA in the administrative and technical areas and to finding ways of making the services it provides financially self-sustaining. This explains why FICSHA has always been thrust in the role of "dispenser of funds" and has prevented it from supplying its affiliates with anything more than limited technical support. Once the funds made available under an agreement have been exhausted, FICSHA has had to either suspend the services or find another donor to provide additional funds. The proposed operation will correct this situation.
- 1.19 Apart from having been placed in a *de facto* institutional-financial role of "dispenser of funds" for its members, FICSHA has other institutional and administrative problems. These include no adequate accounting system to keep a technically accurate and current record of its financial transactions and no management information system for properly monitoring its activities. At the present time, it does not have the divisional structure it needs to organize supply efficiently and monitor its support services. The result is that there is no clear division of functions and responsibilities within the FICSHA. The latter is aware of these problems, which have impaired its institutional growth in the past. To cope successfully with the new challenges that the program will pose (efficient management of the loan fund, economic and technical analysis of investment projects which must be technically and

economically feasible if the investment fund is to become self-sustaining, if technical services to increase members' productive capacity are to be provided on time, etc.), FICSHA's technical, operational, and administrative capacity in these areas will have to be strengthened.

- 1.20 The financial analysis of FICSHA, based on its unaudited financial statements, shows that the organization is not yet financially self-sufficient. As noted earlier, this is basically because FICSHA has always been cast in the role of "spending agency" in development projects financed by other donors. In late 1994, its reported assets totaled US\$180,000, mainly because its fixed assets (US\$160,000) increased as assets (land especially) appreciated in value in 1993. Current liabilities totaled some US\$18,000. Up-to-date figures on this portfolio are not available. In late 1994, the FICSHA was virtually without funds, triggering a critical liquidity problem. Total liabilities were US\$33,000 in 1994, mostly in accounts payable. The organization does not have problems honoring its payments to creditors. Equity totalled US\$146,000, owing mainly to the appreciation of fixed assets. At year end 1994, FICSHA reported a surplus of US\$7,000, after having sustained small losses in previous fiscal periods. FICSHA's total income in 1994 (US\$148,000) illustrates how heavily it relies on grants, which totaled US\$103,000. Although the air service's earnings (US\$21,000) were higher than in previous years, FICSHA has yet to take full advantage of the possibilities this service could offer. The same may be said of any future increase in proceeds from members' contributions, which came to US\$8,000. As for total expenditures (US\$141,000), the major items were salaries and wages (US\$55,000), per diems and travel (US\$22,000), training (US\$17,000), and maintenance (US\$11,000).
- 1.21 To sum up, the FICSHA has still not developed the capacity to generate sufficient income by, for example, providing services (community marketing, credit, technical services to develop the productive capacity of its members and their families, air transport services to ship produce to market and carry tourists, etc.). The proposed operation will reverse this situation by setting the stage for FICSHA to become financially self-sufficient.
- 1.22 Prior to the first disbursement of the financing, FICSHA must submit to the Bank the duly audited financial statements for 1994 and 1995, to support or encourage the standard of financial transparency already practiced at the institutional level.
- 1.23 The institutional and administrative limitations and a lack of means to make sufficient income to maintain the support services it offers underscore the importance of the technical support that FICSHA will receive with the proposed technical-cooperation project. The Credit and Operating Regulations will contain the necessary safeguards to ensure that only those projects and productive activities that are technically and financially feasible

will be financed. They will also stipulate that the fees that FICSHA charges its members must be sufficient to cover the costs incurred in delivering support services.

- 1.24 A detailed institutional and financial analysis of FICSHA and the original proposal is available in the Bank's files.

II. THE PROGRAM

A. Objectives

- 2.1 The overall objective of the program is to raise the income level of the indigenous people, family groups, and organizations that belong to FICSHA, and to create opportunities for economic advancement in the project areas. The specific objectives are to create a financing alternative aimed at promoting productive farming, agroindustrial, and cottage industry activities and to devise a mechanism for marketing what is produced that will benefit the indigenous people of the Ecuadorian Amazon region.

B. Description

- 2.2 The funds from the nonreimbursable financing (subprogram A) will be used to finance two components: (i) creation of a credit fund; and (ii) an investment program. A technical-cooperation program (subprogram B) for FICSHA will also be funded.

1. Financing (subprogram A)

a. Credit component

- 2.3 The proceeds of the financing will go toward a FICSHA-administered loan program targeted at its member families, groups of families, and organizations. The areas and activities tentatively suggested to be funded will be: (i) purchase of a better breed of cattle, (ii) cultivation of cacao, yucca, peanuts, and small livestock, (iii) cultivation of nontraditional products with good market potential such as medicinal and ornamental plants, heart of palm, cinnamon, and annatto, and (iv) purchase of farm and craft inputs and tools.
- 2.4 The FICSHA-administered loan program will address the specific needs of indigenous people in terms of loans for working capital and fixed assets; take their culture into account in the conditions and evaluations; be responsive in nature; and earn enough to replenish and add to the original fund so that it can be used to make new loans to indigenous organizations, groups of families, and families. As a condition precedent to the first disbursement, the planning and institution-building specialist and the finance

specialist must be hired for the technical-cooperation program. These two consultants will help FICSHA upgrade the lending program and improve the Credit Regulations.

- 2.5 The funds for the credit component will be channeled through FICSHA, which will onlend them directly to its member families, groups of families, and organizations. FICSHA will control the funds and be responsible for financial intermediation and management of the funds. However, investment projects financed with the loans will be carried out by the beneficiaries (families, groups of families, and organizations) with the help of the member federations and FICSHA technical assistance. A condition precedent to FICSHA's approval of a loan is that the federations submit an economic feasibility study of each project identified by their member organizations or families. The experts provided as part of the parallel technical-cooperation project with the Bank will help prepare that study.
- 2.6 Before loans are awarded and for their duration, loan beneficiaries will, with support provided under the technical-cooperation operation, receive training and technical assistance that emphasizes appropriate technologies and the principles of management that will increase the beneficiaries' returns.
- 2.7 FICSHA has tentatively selected a target population for an idea of the scope, the amounts that will be requested, and the existing demand. It found that:
 - a. The amount of a loan will be based on the need and capacity to pay of the applicant organization, family and/or individual. In principle, it has been agreed that families with more than five head of cattle may qualify for an individual loan of up to US\$2,500 per family. Families with fewer than five head of cattle may qualify for community (cooperative) loans of up to the equivalent of US\$5,000 per community.
 - b. Priority will be given to extending loans to women and young people who help support their families.
 - c. The program will begin at those centers (of the 30 affiliated associations) that, for one reason or another, are more likely to ensure the program's initial success.
- 2.8 Preliminary figures show that some 700 families will receive cooperative loans (US\$200,000) and some 85 families individual loans (US\$150,000).
 - b. Investment component
- 2.9 The funds will be used for FICSHA-administered projects to ensure that they are properly managed and well distributed in terms of both target population and geography. The idea is to invigorate

the productive base that can yield the fastest results (cattle raising) in order then to branch out into other areas of production and achieve the volume and quality that justify agroindustrial and marketing projects.

- 2.10 The plan is to support marketing activities aimed at creating a mechanism for marketing farm, agroindustrial, and cottage industry products; bringing indigenous farmers into a market economy; promoting the purchase and sale and shipment of products to a regionally integrated market system that draws on the combined experience of the various organizations; supplying communities with essential goods not produced in the region, at reasonable prices and on suitable terms; penetrating international market niches with produce grown by the indigenous peoples of the Amazon region.
- 2.11 The investment component will consist of the following centrally managed projects. The specialists supplied as part of the technical-cooperation operation will review the prefeasibility studies done for these projects to make certain of their technical and economic feasibility.

(i) Project I: Production and training farm

- 2.12 This activity consists of the following: (a) development of a beef cattle testing center (with corrals, chutes, and scales) to improve cattle, and (b) a nursery of seeds and plants (heart of palm) on unused, Federation-owned land (50 hectares). This center will serve as a pilot project for adapting farming technologies. The center's activities will be matched by training courses in animal and plant improvement and health.

(ii) Project II: Centers for processing meat, sausage, and agricultural and craft products

- 2.13 This activity includes: (a) upgrading and expansion of a butcher shop in Sucúa, (b) purchase of a site and upgrading of a butcher shop in Quito, (c) installation of a sausage packing plant, and (d) outfitting of outlets for selling agricultural products and handicrafts in Sucúa. This project will make it possible to supply the local population and ship the surplus to other consumer centers, thereby making use of the idle capacity of the Federation's three trucks and two small planes.

(iii) Project III: marketing (working capital fund)

- 2.14 This initial working capital fund will be used for the facilities planned for project II: purchase of beef and pork from the training farm (project I) to supply the butcher shops, purchase of casings for the sausage plant, purchase of produce, medicinal plants, and handicrafts.

- 2.15 Either directly or indirectly, the investment component will benefit all FICSHA's members. These investment projects are: (a) to increase the FICSHA's operating and financial self-sufficiency; (b) to expand the agricultural base so that production can be marketed in the future and eventually agroindustrialized; (c) to get higher value added on certain farm commodities, meaning more favorable prices; (d) to conduct a multiple productive activity that, while preserving natural resources, develops cattle raising, the cultivation of fruit and vegetables, and the raising of smaller animals, thereby giving women a prominent role in the productive process and improving the diet of the indigenous family; and (e) to reduce environmental contamination and preserve natural resources through the proper use of insecticides and biological fungicides and erosion control.

2. Technical-cooperation project (subprogram B)

- 2.16 The technical-cooperation program is crucial to the project's success as it will strengthen FICSHA's institutional capacity and serve as technical support for the credit and investment components and for the beneficiaries' administrative and financial (business) skills.
- 2.17 Advisory assistance, training and technical assistance in the following seven areas will be funded (the figures refer to the number of months; for further details see the plan of operations in Annex I): (i) planning and interinstitutional development (24); (ii) finances, portfolio management, and accounting (18); (iii) marketing of farm products and crafts (18); (iv) agronomy (12); (v) natural resources and environmental protection (4); (vi) animal husbandry/veterinary medicine (12); and (vii) data processing systems (6).
- 2.18 Short-term consulting services to meet needs that arise from time to time during the program will also be funded, in such areas as agroindustrial processing, research, and extension work. The experts hired will be called upon to train their counterparts so that by the end of their consulting contracts, the functions performed by the experts can be assumed by the local personnel. Finally, equipment (computers, audiovisual equipment, typewriters, calculators, mimeograph machines, etc.), future auditing services, consulting services for midterm reviews, local official travel, publications, and vehicles will also be procured.

C. The program's cost and financing

- 2.19 To finance the proposed operation, the Bank will provide up to US\$675,000 drawn on the Swedish Trust Fund for the Financing of Small Projects, according to the following breakdown:

SUBPROGRAMS AND COMPONENTS	US\$
SUBPROGRAM A	500,000
1. <u>CREDIT COMPONENT</u>	<u>350,000</u>
2. <u>INVESTMENT COMPONENT</u>	<u>150,000</u>
2.1 Training farm	65,800
2.2 Meat processing centers	44,600
2.3 Marketing	39,600
SUBPROGRAM B	175,000
<u>TECHNICAL COOPERATION</u>	<u>175,000</u>
Consulting services	122,000
Travel on official mission	6,000
Teaching materials	2,000
General support	40,000
Evaluations	5,000
TOTAL	675,000

- 2.20 Basically, the local contribution will be in the form of materials and labor provided by the target families and organizations and the support personnel that FICSHA will supply.

D. Program execution

1. Responsibility for execution

- 2.21 FICSHA will report to the Bank on execution, management, and supervision of the program, advised by the planning and institution-building consultant and the financial consultant, both of whom must be hired as a condition precedent to the first disbursement. It will form an executing unit (EU) that meets the administrative, financial, and technical requirements for carrying out and monitoring the program, keeps activities coordinated and maintains the proper line of authority in the FICSHA organizational structure, and includes a team to perform counterpart functions necessary to ensure the program's technical sustainability. In principle, FICSHA has placed the EU under the Committee for Economic Affairs. It will be formed by a manager; a financial unit with a treasurer and an accountant; a credit unit consisting of a loan officer; a loan committee consisting of a loan officer, a technical expert, and an area extension worker; a technical unit consisting of an agricultural specialist, a livestock specialist and agricultural extension workers; and a marketing unit consisting

of a sales officer. As a condition precedent to the first disbursement, FICSHA will have to submit the EU's planned structure and also show that it is up and operating.

- 2.22 To carry out the credit component: (i) FICSHA will open an independent account in a local bank; (ii) FICSHA will advertise the loans, select applications (the EU manager and his assistants will be in charge of the selection process), and report its findings to the beneficiaries; (iii) the EU, through its finance and loan specialist, will process authorizations for disbursements to beneficiaries; and (iv) beneficiaries will make their payments directly to FICSHA, which will keep a record and monitor the status of the portfolios.
- 2.23 The investments component will be centrally administered by the EU with the assistance of the other experts supplied under the technical-cooperation project and the corresponding FICSHA staff. As a condition precedent to the first disbursement, FICSHA, with the help of the consultants, must submit, to the Bank's satisfaction, the economic feasibility studies for the investment projects and the investment timetable.
- 2.24 FICSHA will hire the consultants and supervise their work. The consultants must have recognized experience in their respective areas of expertise and will be retained in accordance with the terms of reference in the appendix to the plan of operations (Annex I) and with the Bank's procedures, rules, and policies on that subject. As for the selection of experts, FICSHA may also hire professionals from NGOs with the necessary experience in the subject matter. As a condition precedent to the first disbursement of the resources for subprogram A, FICSHA shall submit evidence to the Bank that it has hired the planning and institution-building consultant and the financial, portfolio-management, and accounting consultant, in order to hasten fulfillment of the conditions precedent and the startup of the program.
- 2.25 FICSHA shall be responsible for procuring the equipment and other goods needed to accomplish the program objectives, in accordance with the Bank's procedures, norms, and policies in this area. Since program resources are limited, FICSHA may recommend to the Bank that used vehicles be purchased, provided they are in good working order.
- 2.26 During the program and within 60 days of the close of every six-month calendar period, the EU must submit, to the Bank's satisfaction, a program progress report that will include, *inter alia*, detailed information on the status of the loan portfolio. The last of these reports will be the final report, describing the results of the program and the extent to which the original objectives were achieved.

2. Operating Regulations

- 2.27 The investments made by FICSHA will be subject to the Operating Regulations that the FICSHA will draft with the help of the consultants.
- 2.28 The Operating Regulations will identify the beneficiaries and define their responsibilities for the operation and maintenance of investments, methods for setting prices (purchase, sale, and service), and stipulate the income, costs, and administrative expenses that are to be factored in in determining the net return on each investment.
- 2.29 Prior to the first disbursement, FICSHA shall have submitted, to the Bank's satisfaction, the program's Operating Regulations.

3. Use of the investment proceeds

- 2.30 Pursuant to the above-described Operating Regulations, the net proceeds of projects carried out by FICSHA will be placed in the investment fund.
- 2.31 The investment fund will be administered by FICSHA using mechanisms to ensure maintenance of value. These funds can be used to finance investments in the same projects or in new FICSHA projects that are similar in nature.

4. Credit Regulations

- 2.32 The Credit Regulations will set out the conditions necessary to manage the loan fund properly. These regulations will, among other things, define policies on deadlines, time periods, and manner of payment, how interest and principal may be used, and how the loan fund is to be administered.
- 2.33 The interest charged to FICSHA borrowers shall not be less than the weighted average benchmark deposit rate, in sucres or dollars, published by the Central Bank of Ecuador, depending on the currency in which the loans are denominated, plus a spread to cover the credit program's administrative costs and bad debts.
- 2.34 As a condition precedent to the first disbursement, FICSHA shall submit the Credit Regulations that meet with the Bank's approval.

5. Use of interest and principal

- 2.35 The base rate equivalent to the aforementioned benchmark rate in sucres or dollars shall be deducted from the lending rate charged by FICSHA and capitalized to the loan fund. Recoveries of principal will also be capitalized to the fund.

- 2.36 FICSHA will administer the loan fund, using mechanisms to ensure maintenance of value. These resources may be used for loans to families and organizations, similar in nature to the loans originally financed.

6. Midterm review

- 2.37 To determine the extent to which the results of the program compare with the objectives proposed, and to guarantee proper execution of the program, the Bank itself will hire the consultants to perform the midterm reviews of the investment program and the technical-cooperation project. The terms of reference and the consultant selected must be approved by FICSHA. These services will be charged to the technical-cooperation funding. The evaluations will be done six and 18 months after the first disbursement.

7. Period for execution and disbursement and advance of funds

- 2.38 Subprogram A will be carried out over 36 months, with the proceeds of the financing being disbursed over a period of 42 months from the effective date of the agreement.
- 2.39 Subprogram B will be carried out over 36 months, with the proceeds of the technical-cooperation funding being disbursed over a period of 42 months from the effective date of the agreement.
- 2.40 Given the program's nature, FICSHA will need sufficient funds to initiate the activities planned under the operation. Accordingly, it is proposed that an advance of up to 10% of the financing be authorized for each subprogram.

8. Environmental aspects

- 2.41 The Bank's Environment Committee, at its meeting of February 21, 1995, classified this as a category III operation.
- 2.42 As part of the technical-cooperation operation, a natural-resource management and environmental protection consultant will be hired to determine what measures will be needed to mitigate potentially adverse effects on the environment. Also planned are educational activities and practices that employ environmentally friendly technologies. Specifically, the indigenous farmers will receive assistance in the following areas: (i) reduction of deforestation by means of the agroforestry project; (ii) erosion control through terracing and adequate plant cover; (iii) gradual replacement of chemical fertilizers with sheep and pig manure; and (iv) judicious use of agrochemicals and biological pest controls. Experts in agroindustrial technologies will also be available, thereby guaranteeing the sustainability of the process.

III. BENEFICIARIES

A. Socioeconomic characteristics

- 3.1 The target population are low-income farmers and members of associations and centers. In all there are approximately 50,000 members (5,700 families grouped into 380 centers, which in turn form 30 associations). Every family has approximate 70 hectares of land. The household is the basic socioeconomic unit and on average consists of seven people. Shuar or Achuar is spoken in some 71% of these households, with Spanish being spoken in the rest. The illiteracy rate is 8% (5% among men and 11% among women) in the 15-to-45 age group, and 62% (47% among men and 67% among women) among those over the age of 45. Almost 55% of the households have no indoor plumbing.

B. The role of women

- 3.2 Indigenous women in the eastern part of the country engage in household chores, tend the family garden and small animals, and make crafts. Whenever new products are introduced into the family craft line, changes in the division of labor occur, with men and women helping one another more in the farm activities, even though the burden is somewhat excessive.
- 3.3 The project proposed here will offer good opportunities for more women to become beneficiaries. In fact, an estimated 30% of the beneficiaries will be women.

C. Estimated number of beneficiaries

- 3.4 It is estimated that almost 800 FICSHA-affiliated families will benefit in the first three years of the program.

IV. VIABILITY AND RISKS

A. Socioeconomic viability

- 4.1 As explained earlier, problems with financing, technical advisory assistance, marketing, and management have hampered the target population's ability to improve their socioeconomic lot. The proposed subprograms will help improve the living conditions of low-income indigenous families. By supporting various productive activities such as direct product marketing, crop diversification, and higher crop yield, the project will increase the income of the target population and their families, thereby helping to reduce the rural exodus to towns and cities. Strengthening FICSHA will heighten the organization's positive impact on the population it

serves by helping to create jobs, distribute earnings, and preserve natural resources.

- 4.2 The combination of loans and technical assistance is intended to improve production and yield of traditional and nontraditional crops produced in the region, for the producer and his family and for market; to consolidate and improve large livestock raising practices and yields, while introducing the agroforestry concept of producer-protector; to encourage the raising of smaller livestock that improve the local population's diet and engage women more fully in these activities; and to help farmers learn new farming methods that make rational use of natural resources, preserve biodiversity, and promote cottage industry as a means of enhancing appreciation of their culture and generating income.

B. Institutional viability

- 4.3 FICSHA has a professional staff with a reasonable base of experience in project management, which will make it easier to accomplish the project objectives and carry out the activities planned. However, it does have limitations, especially in terms of its capacity to manage the proposed credit projects. The institutional analysis and a list of preliminary recommendations have been made available to FICSHA so that it will be institutionally ready to carry out these projects by the time the program begins.

C. Financial viability

- 4.4 FICSHA is to use the proceeds of the financing for economically feasible investment projects and farm loans at unsubsidized rates for feasible family and association investment projects. Accordingly, FICSHA will be able to recover the loans it makes and the interest charged.
- 4.5 Then, too, promoting agribusiness and integration through marketing mechanisms to get products to market for local consumption and perhaps even for export will increase the projects' returns. The prices beneficiaries get may be as much as 30% higher than they now are, thus enabling those beneficiaries to accumulate capital. Better prices and higher productivity at farm level through the use of appropriate technologies and diversification will ensure a more stable source of income and make the beneficiaries more financially solvent.

D. Risks

- 4.6 The program's chief risks will be: (i) FICSHA's lack of lending experience; (ii) a weak productive base and limited experience or results with product processing and marketing; and (iii) the relatively little experience that FICSHA and its member families have with combining productive projects with loan commitments at commercial rates. To offset for these weaknesses, complete

advisory assistance will be provided in administrative, financial, and technical matters through the consulting services. The transfer of technology that the advisory assistance will accomplish will eventually enable the FICSHA to operate and sustain the program on its own.

E. Justification and recommendation

- 4.7 The proposed financing and technical-cooperation funding meet the eligibility criteria of the Small Projects Financing Program, set forth in the Operations Policy Manual (OP-706), and the Bank's Policy on Women and Development, set forth in the aforesaid document, as they directly benefit low-income groups in society, generate opportunities for economic advancement and their future development, and facilitate participation by women in economic activities.
- 4.8 The program capitalizes on the experience that the FICSHA has gained in development programs, participatory community action, and education programs in rural areas of the Ecuadorian Amazon region.
- 4.9 The institutional and financial analysis of FICSHA and the required operating and financial conditions indicate that the program is viable. Management therefore recommends to the Board of Executive Directors that the financing be approved. Accordingly, Management hereby submits to the Board the corresponding proposed resolution for nonreimbursable financing and technical-cooperation funding.

**PLAN OF OPERATIONS
INSTITUTIONAL STRENGTHENING FOR
FEDERACIÓN INTERPROVINCIAL DE CENTROS SHUAR-ACHUAR
(FICSHA)**

(TC-93-02-36-6)

I. BACKGROUND

- 1.1 To supplement the financing requested under the Small Projects Financing Program, the Federación Interprovincial de Centros Shuar-Achuar [Interprovincial Federation of Shuar-Achuar Communities] (FICSHA) has asked the Bank for nonreimbursable technical-cooperation funding for an institution-building program to prepare FICSHA for the proposed investment program.

II. OBJECTIVES

- 2.1 The technical cooperation's objectives are to strengthen the executing agency institutionally, technically, operationally, and administratively and to develop mechanisms to increase and improve the beneficiaries' productive capacity, as either a family unit or a member association.

III. DESCRIPTION

- 3.1 The institutional and operational study of FICSHA found that the technical cooperation should focus on activities to: (i) improve, increase, and diversify farm production; (ii) improve and increase raising of cattle and small livestock; (iii) further the introduction of agroindustries and productive activities that benefit the community as a whole; (iv) create a mechanism for marketing agricultural products, livestock, agroindustrial products, and crafts; and (v) supply technical advisory services to FICSHA's member organizations, as part of the activities supported with the technical-cooperation operation. FICSHA also needs to strengthen its present administrative, technical, and financial structure to be able to carry out, administer, and monitor the credit and investment program effectively.

3.2 To that end, FICSHA will be assisted by a group of seven experts:

- a. a planning, institution-building, and development project-management expert, who will help strengthen the administrative and operational systems and internal controls, help organize the executing unit within FICSHA, and help FICSHA coordinate the credit and investment components and the technical cooperation (up to 24 months at US\$1,200/month);
- b. a financial, portfolio-management, and accounting expert, who will help improve and design the accounting and financial system and the procedures for monitoring, controlling, and evaluating loans and investments (up to 18 months at US\$1,200/month);
- c. an agricultural/agroindustrial products and crafts marketing expert, who will help design, implement, and monitor the marketing system and set up product and sales outlets and input storage depots (up to 18 months at US\$1,200/month);
- d. an agronomist specializing in farm-technology transfer, who will support the technical assistance and training activities targeted at indigenous and rural farmers to teach them better farming practices and the fundamentals of agroindustrial processing and marketing; the expert will also provide specialized instruction to the counterpart extension workers, who will promote the loan program (up to 12 months at US\$1,200/month);
- e. a natural resource management and environmental protection expert, who will evaluate conditions in the program impact area and determine the measures needed to avoid the activities' potentially adverse effects (up to 4 months at US\$2,000/month);
- f. an animal-husbandry or veterinary medicine expert experienced in the husbandry of local animals, to assist with the activities associated with the raising of cattle and small livestock. This expert will also help evaluate and monitor loans awarded for husbandry and will advise on any purchases made with the loan (up to 12 months at US\$1,200/month); and
- g. an information-systems expert, who will define, design, and implement a data system for computerization of administrative reports, assist with computer equipment and programs, and advise on their purchase (up to 6 months at US\$1,000/month).

3.3 Short-term consulting services will be hired to meet specific needs that arise during program execution in, for example, agroindustrial processing, research, and extension (up to US\$7,200).

- 3.4 The resources will also be used to purchase a vehicle, computer equipment, office space, teaching materials, publications, office supplies, travel by FICSHA personnel and consultants, and the auditing and consulting services needed for the midterm reviews of program execution.
- 3.5 To serve as the consulting team's counterparts, FICSHA will assign competent technical staff for technology transfer and supply the resources needed to ensure the continuity of the program.

IV. COST AND FINANCING

- 4.1 The total cost of the technical-cooperation project is an estimated US\$175,000, to be provided on a nonreimbursable basis from the Swedish Trust Fund for the Financing of Small Projects. Following is an itemized budget of the operation:

(US\$)		
Category	Subtotal	Total
2. Individual consultants		128,000
2.1 Fees	122,000	122,000
2.1.1 Institutional development expert (up to 24 months @ US\$1,200/month)	28,800	
2.1.2 Financial expert (up to 18 months @ US\$1,200/month)	21,600	
2.1.3 Marketing expert (up to 18 months @ US\$1,200/month)	21,600	
2.1.4 Agronomy expert (up to 12 months @ US\$1,200/month)	14,400	
2.1.5 Natural resources expert (up to 4 months @ US\$2,000/month)	8,000	
2.1.6 Animal husbandry expert (up to 12 months @ US\$1,200/month)	14,400	
2.1.7 Expert in information systems (up to 6 months @ US\$1,000/month)	6,000	
2.1.8 Short-term consultancies	7,200	
2.5 Official mission travel	6,000	6,000
3. Study grants, charges, and allowances		
3.5 Teaching materials	2,000	2,000
6. General support	40,000	40,000
6.2 Furniture and supplies	2,000	
6.3 Vehicles, computers, office equipment	32,000	
6.7 Auditing services	6,000	
8. Evaluations		
8.2 Remuneration	5,000	5,000
Total	175,000	175,000

V. EXECUTION

- 5.1 The proposed technical-cooperation operation will parallel the credit and investment program approved at the same time. FICSHA will report to the Bank on the technical-cooperation operation and conclude a technical-cooperation agreement with the Bank.
- 5.2 Implementation of the proposed program is to begin with FICSHA's present organizational structure. FICSHA will assign the counterpart staff to the consultants hired. With the consultants' assistance, FICSHA will create and start up the executing unit, which is to execute and monitor this and similar programs that FICSHA will administer in the future.
- 5.3 The organization will hire the consultants and supervise their work. They must have recognized experience in their respective areas of specialization and be hired in accordance with the terms of reference in Appendix 1 to this plan of operations and in accordance with the Bank's procedures, norms, and policies on the subject. NGO staff with the necessary experience in the subject matter may be hired.
- 5.4 FICSHA will be responsible for procuring the equipment and other goods needed to accomplish the program objectives, and will do so in accordance with the Bank's procedures, norms, and policies on procurement. FICSHA may propose to the Bank that used vehicles be purchased, provided they are in satisfactory working order.
- 5.5 To determine the extent to which the original goals have been achieved and to ensure the program's proper execution, the Bank itself will hire the consulting services required for the midterm review of the credit and investment program (subprogram A) and technical-cooperation program (subprogram B) (up to three nonconsecutive months). The terms of reference and the consultant selected must be approved by FICSHA. These consulting services will be financed with resources proposed for that purpose under the technical-cooperation project. The evaluations will be done six and 18 months after disbursements begin.
- 5.6 Overall, FICSHA will help by supplying the necessary office space/premises, support personnel, counterpart professionals, and equipment and supplies.
- 5.7 The technical cooperation will be executed over a 36-month period, from the effective date of the financing and technical-cooperation agreement.

VI. SUPERVISION AND RESPONSIBILITY

- 6.1 FICSHA will supervise the consultants' activities. The Bank, through its Country Office in Ecuador, will oversee the technical-cooperation program.
- 6.2 The Bank's Country Office in Ecuador will have basic and technical responsibility for the proposed operation.

VII. DISBURSEMENTS AND ADVANCE OF FUNDS

- 7.1 The technical-cooperation funding will be disbursed over a 42-month period, from the effective date of the agreement.
- 7.2 It is recommended that 10% of the funds available for the technical cooperation be advanced to guarantee that the necessary liquidity is available to carry out the program.

VIII. JUSTIFICATION AND RECOMMENDATION

- 8.1 The proposed technical cooperation meets the Bank's established requirements for nonreimbursable technical-cooperation operations, since it will go toward the institutional strengthening of an executing agency dedicated to the economic and social development of a low-income population in Ecuador's Amazon region.
- 8.2 FICSHA does not have the resources to finance the planned activities. The resources provided through the technical cooperation will make FICSHA an institutionally stronger executing agency and increase its capacity to run its development programs.
- 8.3 For the proposed program to achieve its goals of improving and increasing farm production, creating marketing services, and supplying community services through productive activities conducted by FICSHA, technical assistance measures are needed to teach the beneficiaries how to use appropriate farming techniques and to endow FICSHA with a technical team that, thanks to the technology transfer, is able to sustain FICSHA's technical assistance to its member families and organizations and to maintain and improve an equally sustainable marketing system and services.
- 8.4 Accordingly, Management recommends that the Board of Executive Directors approve the nonreimbursable technical-cooperation operation proposed in this plan of operations.

ITEMIZED BUDGET

**SUBPROGRAM A
(US\$)**

1. Credit component	350,000
2. Investment component	150,000
2.1 Training farm	65,800
2.1.1 <u>Livestock</u>	45,600
2.1.1.1 Clearing of pastureland	2,600
2.1.1.2 Improvement of pastureland	2,100
2.1.1.3 Fencing	11,200
2.1.1.4 Cowshed and chute	2,300
2.1.1.5 Dipping facilities	600
2.1.1.6 Hog feed	600
2.1.1.7 Tools and instruments	1,300
2.1.1.8 Veterinary products	2,000
2.1.1.9 Purchase of cattle	22,900
2.1.2 <u>Agriculture</u>	20,200
2.1.2.1 Equipment	13,100
2.1.2.2 Skilled labor	4,300
2.1.2.3 Seeds and agrochemicals	1,000
2.1.2.4 Materials	1,800
2.2 Processing centers	44,600
2.2.1 <u>Livestock and processed products</u>	42,300
2.2.1.1 Enlargement Sucúa butcher shop	3,800
2.2.1.2 Purchase and outfitting of Quito facility	29,700
2.2.1.3 Sausage plant	8,800
2.2.2 <u>Agricultural and craft products</u>	2,300
2.2.2.1 Outfitting of sales facilities	2,300
2.3 Marketing of products	39,600
2.3.1 <u>Livestock and processed products</u>	32,300
2.3.1.1 Cattle purchase	30,800
2.3.1.2 Purchase of processed products	1,500
2.3.2 <u>Agricultural and craft products</u>	7,300
2.3.2.1 Purchase of farm products	3,300
2.3.2.2 Medicinal plants	2,500
2.3.2.3 Craft products	1,500
TOTAL SUBPROGRAM A	500,000

PROPOSED RESOLUTION

ECUADOR. NONREIMBURSABLE FINANCING AND TECHNICAL COOPERATION TO
THE FEDERACION INTERPROVINCIAL DE CENTROS SHUAR-ACHUAR
WITHIN THE PROGRAM FOR FINANCING SMALL PROJECTS

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as Administrator of the Swedish Trust Fund for the Financing of Small Projects, to enter into such agreement or agreements as may be necessary with the Federación Interprovincial de Centros Shuar-Achuar, of the República del Ecuador, to grant it, within the Program for Financing Small Projects, approved by Resolutions DE-85/78 and DE-147/79: (a) nonreimbursable financing for the execution of the program referred to in Document PR- ; and (b) nonreimbursable technical cooperation for the execution of the program, in accordance with Annex I of said document.

2. That up to the sum of US\$500,000, is authorized for the purposes indicated in paragraph 1(a), and up to the sum of US\$175,000, for the purposes indicated in paragraph 1(b), both chargeable to the resources of the Swedish Trust Fund for the Financing of Small Projects.