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The World Bank

Report No:ICR0000255

IMPLEMENTATION COMPLETION AND RESULTS REPORT  
(EECT-54542 EECT-57175 IBRD-70670 JPN-26674 JPN-54226)

ON A

LOAN

IN THE AMOUNT OF US\$25.2 MILLION

TO THE

REPUBLIC OF ECUADOR

FOR A

POVERTY REDUCTION AND LOCAL RURAL DEVELOPMENT (PROLOCAL)  
PROJECT

February 25, 2008

Sustainable Development  
Bolivia, Ecuador, Peru and Venezuela Country Department  
Latin America and the Caribbean Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective February 2008)

Currency Unit = US Dollar

FISCAL YEAR:

January 1-December 31

## ABBREVIATIONS AND ACRONYMS

<i>Cantón</i>	Municipal territory formed by group of <i>parroquias</i>
CAS	Country Assistance Strategy
CDD	Community-Driven Development
CESA	Ecuadorian Centre for Agricultural Services
EC	European Commission
EFLs	Local financial institutions
FEPP	Fondo Ecuatoriano Populorum Progressio
FAO	Food and Agricultural Organization
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IFAD	International Fund for Agricultural Development
INIAP	National Institute for Agriculture and Livestock Research
IRR	Internal Rate of Return
<i>Junta Parroquial</i>	Sub-municipal government
LCR	Latin America and the Caribbean Region of the World Bank
MAG	Ministry of Agriculture and Livestock
MBS	Ministry of Social Welfare
MOSTA	Modernization of the State Project
M&E	Monitoring and Evaluation
NPV	Net Present Value
UCN	National Coordination Unit
NGO	Nongovernmental Organization
ODEPLAN	Office of Planning of the Presidency
OP/BP	Operational Policy/Bank Policy
OSG	Second-tier Organization
OB	Community based Organization ( <i>Organizacion de Base</i> )
PDLs	Local Development Plans
PDM	Municipal Development Program
PDO	Project Development Objective
PFI	Institutional Strengthening Plans
PRODEPINE	Afro-Ecuadorian Development Project
PRODER	<i>Programa Nacional de Desarrollo Rural Territorial</i>
PROLOCAL	Poverty Reduction and Local Rural Development Project
PROMSA	Agricultural Research Project
PRONADER	Rural Development Project
UTRs	Regional Coordination Units

Vice President: Pamela Cox  
Country Director: Carlos Felipe Jaramillo  
Sector Manager: Ethel Sennhauser  
Project Team Leader: Francisco J. Pichon  
ICR Team Leader: Dino Francescutti (FAO)

**ECUADOR**  
**Poverty Reduction and Local Rural Development (PROLOCAL) Project**

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**A. Basic Information**

Country:	Ecuador	Project Name:	Poverty Reduction and Local Rural
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			Development (PROLOCAL)
Project ID:	P039437	L/C/TF Number(s):	EECT-54542,EECT-57175,IBRD-70670,JPN-26674,JPN-54226
ICR Date:	01/27/2008	ICR Type:	Intensive Learning ICR
Lending Instrument:	SIL	Borrower:	GOVERNMENT OF ECUADOR
Original Total Commitment:	USD 25.2M	Disbursed Amount:	USD 25.2M
<b>Environmental Category: B</b>			
<b>Implementing Agencies:</b> Ministry of Social Welfare. Following implementation completion of PROLOCAL, the name of the implementing agency was changed to Ministry of Economic and Social Inclusion.			
<b>Cofinanciers and Other External Partners:</b> European Commission			

## B. Key Dates

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	11/11/1999	Effectiveness:	09/21/2001	05/13/2002
Appraisal:	02/14/2001	Restructuring(s):		
Approval:	07/05/2001	Mid-term Review:	02/28/2005	02/28/2005
		Closing:	12/31/2006	08/31/2007

## C. Ratings Summary

### C.1 Performance Rating by ICR

Outcomes:	Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Satisfactory
Borrower Performance:	Satisfactory

### C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Satisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Satisfactory
<b>Overall Bank</b>	Satisfactory	<b>Overall Borrower</b>	Satisfactory

<b>Performance:</b>		<b>Performance:</b>	
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<b>C.3 Quality at Entry and Implementation Performance Indicators</b>			
<b>Implementation Performance</b>	<b>Indicators</b>	<b>QAG Assessments (if any)</b>	<b>Rating</b>
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Satisfactory		

	<b>Original</b>	<b>Actual</b>
<b>D. Sector and Theme Codes</b>		
<b>Sector Code (as % of total Bank financing)</b>		
Crops		15
Forestry		15
General agriculture, fishing and forestry sector	40	40
General public administration sector	40	20
General transportation sector	6	
General water, sanitation and flood protection sector	6	
Other social services	8	10
<b>Theme Code (Primary/Secondary)</b>		
Improving labor markets	Primary	Primary
Poverty Reduction	Primary	Secondary
Municipal governance and institution building	Primary	Primary
Participation and civic engagement	Primary	Primary
Rural policies and institutions	Primary	Primary

<b>E. Bank Staff</b>		
<b>Positions</b>	<b>At ICR</b>	<b>At Approval</b>
Vice President:	Pamela Cox	David de Ferranti
Country Director:	Carlos Felipe Jaramillo	Isabel Guerrero
Sector Manager:	Ethel Sennhauser	Mark Cackler
Project Team Leader:	Francisco Pichon	Norman Piccioni
ICR Team Leaders:	Dino Francescutti (FAO)/	

	Mario Castejon (FAO)	
ICR Primary Authors:	Mario Castejon (FAO)/ Dino Francescutti (FAO)	

## F. Results Framework Analysis

### Project Development Objective (from Project Appraisal Document):

PROLOCAL's development objective was to support local empowerment, improve quality of local services, and increase access to productive assets by the rural poor in six poor micro-regions of the country. To address these issues, PROLOCAL emphasized the importance of (i) social capital development based on local organization, (ii) human capital formation based on education and services, and (iii) access to productive assets based on sustainable use of natural resources, value-added chains, and off-farm economic opportunities linked to peri-urban activity.

Benchmark indicators of project performance included: (i) 60,000 households take active role in elaborating own local development plans; (ii) 150 local governments collaborate with beneficiaries in generating development plans at the *parroquia* (sub-municipal government) and *cantón* (municipal territory, formed by group of *parroquias*) levels; (iii) 80% of expected counterpart contributions are made available by local organizations; (iv) 30% of individuals participating in community development planning process are women; (v) 80% of beneficiaries are poor; (vi) beneficiary households improve access to productive assets; (vii) beneficiary households improve access to quality rural development services; (viii) income level of subproject beneficiaries improves by 15%; and (ix) under-employment among beneficiaries households decreases by 20%.

### Revised Project Development Objective (as approved by original approving authority):

Not applicable.

### (a) PDO Indicator(s) — from Project Appraisal Document (*Indicators entered from the ISR*)

Baseline Values from Project Outcome Indicators/Date of Value (from approval documents)

	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Values Achieved at Completion or Target Years
<b>PDO Indicator 1:</b>	60,000 households take active role in elaborating own local development plans.			

Value (quantitative or Qualitative)	Few	60,000	-	84,000
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	Actual value achieved was 140% of the target value. Since the level of participation is a partial indicator of local empowerment, this PDO element was successfully achieved.			
<b>PDO Indicator 2:</b>	150 local governments collaborate with beneficiaries in generating development plans at the <i>parroquia</i> and <i>cantón</i> levels.			
Value (quantitative or Qualitative)	10	150	-	126
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	Achievement of less than the originally planned number of development plans (84%) does not reflect reduced project efficiency but the fact that some local governments decided to elaborate or update their development plans at the <i>cantón</i> level which covered several <i>parroquias</i> within their jurisdictions. Indeed, 84,000 households participated in local planning processes which surpassed the component target of 60,000. Given current levels of institutionalization reached by local development plans and their demonstrated effectiveness and likely sustainability as partnership agreements between local governments and civil society in setting development priorities, this PDO indicator was largely achieved.			
<b>PDO Indicator 3:</b>	80% of expected counterpart contributions made available by local organizations.			
Value (quantitative or Qualitative)	-	80%	-	360%
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	Counterpart contribution by local organizations totaled US \$17.35 million (or 360% of the target indicator of US \$4.80 million). This is an indicator of local empowerment and beneficiary ownership of project investments, which significantly surpassed original expectations.			
<b>PDO Indicator 4:</b>	30% of individuals participating in community development planning process are women.			
Value (quantitative or Qualitative)	-	30%	-	51%
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	The actual value achieved was 170% of the target value. This is indicator of gender equality and of ownership of project investments, which was achieved.			
<b>PDO Indicator 5:</b>	80% of subproject beneficiaries are poor.			
Value (quantitative or Qualitative)	In most cases productive assets are restricted to small land parcels without access to basic	80%	-	Not measured.

	infrastructure.			
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	The actual value should be close to target value, since: (i) poverty was a basic subproject design-eligibility criterion; and (ii) rural poverty in the covered micro-regions was above 80%.			
<b>PDO Indicator 6:</b>	Beneficiary households improve access to productive assets.			
Value (quantitative or Qualitative)	In most cases productive assets are restricted to small land parcels without access to basic infrastructure.	Beneficiary households improve access to productive assets.	-	38,000 participating households accessed productive assets.
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	The achievement of this indicator is reflected by the value of household productive assets that was increased by an average of US \$370 per family for around 38,000 families.			
<b>PDO Indicator 7:</b>	Beneficiary households improve access to quality rural development services.			
Value (quantitative or Qualitative)	-	Beneficiary households improve access to quality rural development services.	-	27,000 beneficiary households improve access to quality services.
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	The achievement of this indicator is reflected by subproject investments on technical assistance (around US \$50/family for 38,000 families) and the beneficiaries' perception of practical application of training and technical assistance provided (favorable perception of 72% of beneficiaries).			
<b>PDO Indicator 8:</b>	Income level of subproject beneficiaries improves by 15%.			
Value (quantitative or Qualitative)	-	15%	-	13%
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	The financial analysis (Annex 3) estimated that average financial income of subproject beneficiary households increased by US \$370 annually for 38,000 families. Since average annual household income in the project areas or micro-regions was US \$2,820 according to baseline data, the achieved financial annual net income increase represented a 13% increase or 88% of the original target value. This is an indicator of improved wellbeing of poor households, which is likely to increase further in the next few years as productive investments generate their full potential. The original target value is thus likely to be achieved within a longer time-frame.			
<b>PDO Indicator 9:</b>	Under-employment among beneficiary households decreases by 20%.			
Value (quantitative or	-	20%	-	20%

Qualitative)				
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	The average increase in productive employment per participating family was 0.2 person/years equivalent. This represents a 20% reduction of unemployment or under-employment (equal to target value) and is an additional indicator of improved wellbeing among beneficiary poor households.			

**(b) Intermediate Outcome Indicator(s) - from Project Appraisal Document**

Baseline Values from Project Outcome Indicators/Date of Value (from approval documents)

	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Values Achieved at Completion or Target Years
<b>IO Indicator 1:</b>	A total of 150 local development plans, with 2,250 subproject profiles formulated.			
Value (quantitative or Qualitative)	10 development plans at local level, identifying 50 subprojects.	150 local development plans identifying 2,250 subproject profiles (1800, 360 and 90 at community, <i>parroquia</i> and <i>inter-parroquia</i> levels, respectively).	-	126 local development plans executed and 757 subprojects formulated as validated profiles or feasibility studies.
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	The formulation of less than the originally planned number of subproject profiles is not an indication of reduced project efficiency or increased costs per beneficiary. Instead, the average subproject scale that was co-financed by PROLOCAL was larger than expected at project appraisal, and the actual number of beneficiary families (38,000) surpassed original targets. The adjustment in project scale was justified in order to avoid internal conflicts within communities, as community cost ceilings were found to excessively constrain the number families able to participate in the subprojects. In light of this, the concept of community subprojects was changed to subprojects involving one or more communities and groups organized around the same objectives, while maintaining the cost ceiling per beneficiary family within the levels estimated at appraisal. Overall project investment in subprojects was also much greater: US \$37.2 million instead of the expected US \$20.2 million due to larger beneficiary contributions that surpassed appraisal expectations providing 46% of total investments (target was 20%).			
<b>IO Indicator 2:</b>	400 local experts trained in subproject preparation and implementation.			
Value (quantitative or Qualitative)	10	400	-	1065
Date achieved	06/15/2002	06/30/2006	-	08/31/2007

Comments (incl. % achievement)	The actual value achieved was 266% of the target value.			
<b>IO Indicator 3:</b>	Six local inter-sectoral networks certify 120 project technicians; 750 promoters; 1,440 male and 720 female leaders at the community level.			
Value (quantitative or Qualitative)	None	6 local networks strengthened and in route to consolidation.	-	17
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	Actual value achieved was 283% of target value in terms of local networks. Networks strengthened included 6 technical assistance service providers networks, 7 local financial institutions networks, and 4 local communicators networks. In addition, 4,207 promoters were trained, and 18,503 persons were alphabetized.			
<b>IO Indicator 4:</b>	720 local organizations or institutions receive US \$1.2 million in support for institutional strengthening.			
Value (quantitative or Qualitative)	None	720	-	840
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	Actual value achieved was 116% of target value. US \$4.5 million were disbursed for institutional strengthening of local organizations which also included related human development and capacity building investments as well as 28 tailor-made institutional communication products.			
<b>IO Indicator 5:</b>	At least 70% of subprojects externally audited each year rated satisfactory.			
Value (quantitative or Qualitative)	-	70%	-	98%
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	98% of subprojects externally audited and rated satisfactory.			
<b>IO Indicator 6:</b>	At least 25% of beneficiaries of subprojects are women.			
Value (Quantitative or Qualitative)	-	25%	-	42%
Date achieved	06/15/2002	06/30/2006	-	08/31/2007
Comments (incl. % achievement)	The actual value achieved was 168% of the original target value.			

### G. Ratings of Project Performance in ISRs

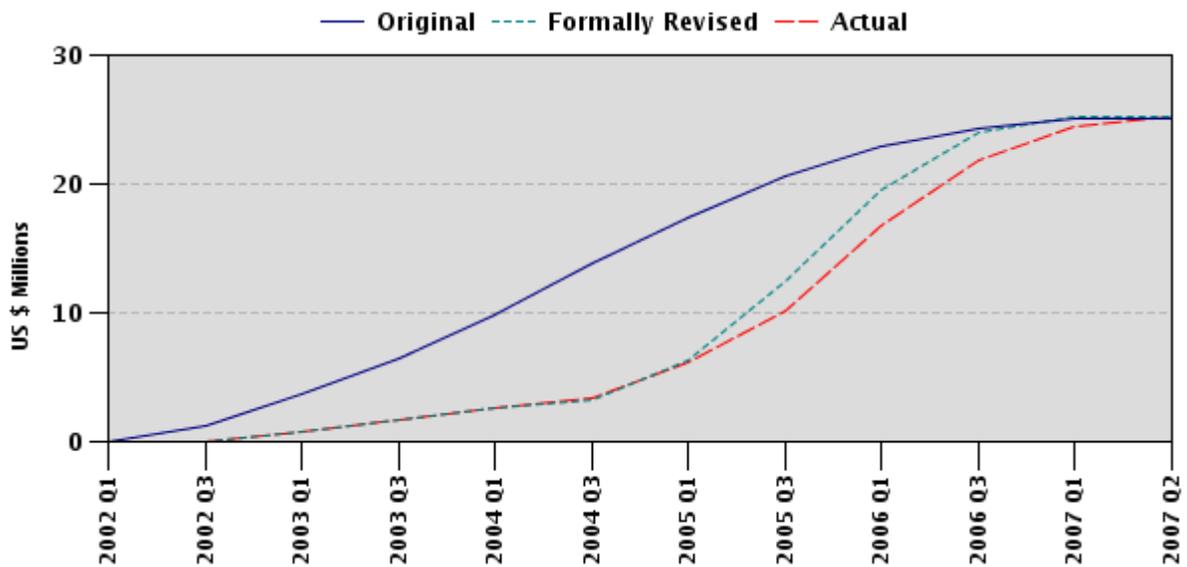
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	12/21/2001	Satisfactory	Satisfactory	0.00

2	06/16/2002	Satisfactory	Satisfactory	0.54
3	09/23/2002	Satisfactory	Satisfactory	0.79
4	03/26/2003	Satisfactory	Satisfactory	1.62
5	07/10/2003	Satisfactory	Satisfactory	1.89
6	12/03/2003	Satisfactory	Satisfactory	2.66
7	04/12/2004	Satisfactory	Satisfactory	3.52
8	12/17/2004	Satisfactory	Satisfactory	8.11
9	04/30/2005	Satisfactory	Satisfactory	10.46
10	04/28/2006	Satisfactory	Satisfactory	23.13
11	11/21/2006	Satisfactory	Satisfactory	25.20
12	07/10/2007	Satisfactory	Satisfactory	25.20
13	08/30/2007	Satisfactory	Satisfactory	25.20

## H. Restructuring (if any)

Not Applicable

## I. Disbursement Profile



## **1. Project Context, Development Objectives and Design**

### **1.1 Context at Appraisal**

At project appraisal, poverty in Ecuador was widespread and income inequality was pronounced. In 1998, the incidence of poverty in the country was estimated at almost 63%, up from 56% in 1995. Similarly, extreme poverty during the same period increased by more than 30%, from 20 to 27%. Poverty was higher in rural areas, characterized by lack of education, lack of access to land by the poor, and few non-agricultural employment opportunities. The poor, but particularly women, had more limited access to the formal labor, land, and credit markets and lacked effective political participation.

Institutional instability in Ecuador, reflected by high leadership turnover, was a serious problem. Regional jealousies and fragmented political parties made any consensus reached hard to sustain. Public regulatory and administrative institutions were weak and inefficient. At the same time, the economic crisis had severely reduced government resources to finance public services, and the shrinking banking system was unable to provide formal credit to finance an expansion in economic activity.

Growth of most rural activities had been based on increased agricultural land expansion, but this trend required the poor to cultivate less productive land in forested and mountainous terrain, with negative impacts on the country's biodiversity and environment. As a result, Ecuador was losing rainforests and coastal wetlands at an alarming rate. Soil and water resources were poorly managed, especially in the Sierra, the central region of the Country.

To address these issues, in August 2000 the Government released a comprehensive policy document *Plan de Gobierno 2000-2003*, which emphasized the importance of: (i) social capital development based on organizations; (ii) human capital formation based on education and services; and (iii) access to productive assets based on the sustainable use of the productive potential of the natural resources of the country. The Poverty Reduction and Local Rural Development (PROLOCAL) Project was built on these three pillars.

Rationale for Bank Assistance: The Bank has a long history in rural and non-rural development in Ecuador. In addition, the Bank's extensive experience in rural development across the world and particularly in Latin America meant that successful methodologies and approaches were accessible to the Ecuadorian project team during the preparation of the project. During the design of the project, the Bank and the International Fund for Agricultural Development (IFAD) were co-financing the Afro-Ecuadorian Development Project (PRODEPINE), a local rural development project based on ethnic targeting whose experiences and lessons, for instance in local participation techniques, were utilized in designing PROLOCAL. In addition, the former Ecuador Rural Development Project (PRONADER), the Modernization of the State Project

(MOSTA) and the Municipal Development Program (PDM) provided important lessons to the design and preparation of PROLOCAL.

## **1.2 Original Project Development Objectives (PDO) and Key Indicators (as approved)**

The PDO of PROLOCAL is to support local empowerment, improve quality of local services, and increase access to productive assets to improve the well being of poor households in six micro-regions of the country.

To measure the level of achievement of the PDO, the Results Framework of the PAD developed nine benchmark indicators. These were:

- 60,000 households take active role in elaborating own local development plans;
- 150 local governments collaborate with beneficiaries in generating development plans at the *parroquia* (sub-municipal government) level, the smallest territorial administrative level, and *cantón* (municipal territory, formed by group of *parroquias*) level;
- 80% of expected counterpart contributions are made available by local organizations;
- 30% of individuals participating in community development planning process are women;
- 80% of beneficiaries are poor;
- Beneficiary households improve access to productive assets;
- Beneficiary households improve access to quality rural development services;
- Income level of beneficiaries of productive subprojects improves by 15%; and
- Under-employment among beneficiary households decreases by 20%.

## **1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification**

The objective of the project remained the same throughout the project implementation due to its relevance in improving the wellbeing of the rural poor in under-developed geographical regions of Ecuador.

## **1.4 Main Beneficiaries**

The PDO captured adequately and clearly stated its target beneficiaries. The targeted project beneficiaries were the rural poor living in poor regions. Geographic targeting was envisaged – a total of 120 of the poorest *parroquias* in 31 *cantones*, grouped in six micro-regions in the coastal and Andean foothill areas of the country were targeted. The six micro-regions were defined according to geographical boundaries but reflecting groupings with strong economic, cultural and social links. They included: *Zona Sur de Manabí*, *Zona Occidental de Los Ríos*, *Estribaciones Centrales de Los Andes*, *Zona Oriental de Loja*, *Cuenca Alta del Río Jubones* and *Cuenca del Río El Ángel*. The total area covered was 19,000 squared kilometers, or 8% of the national territory, and included more than 800,000 people. The poor living in these micro-regions, estimated at

approximately 600,000 people, or 120,000 households, were PROLOCAL's target population.

Major benefits expected from the project included: (i) social capital development based on the strengthening of local organizational capacity and empowerment of local-level institutions, (ii) human capital formation based on promotion of local networks of local service providers and certification of capabilities to support local development planning processes and services, and (iii) access to productive assets based on investments intended to create employment, diversify production, and increase income.

### **1.5 Original Components** (*as approved*)

PROLOCAL had three technical components and project coordination:

**Component A: Planning for local development** (US \$2.80 million or 6.4 % of the total project cost). The component was designed to promote social capital formation by supporting planning for local development at community, *junta parroquial* and *cantón* levels. Through this planning process, rural communities identified priority subproject proposals, a subset of which was selected for preparation and financing by PROLOCAL. Participating communities were expected to mobilize other funding sources to finance other identified subproject investments, which may not be financed with PROLOCAL resources. Component A was expected to facilitate identification of approximately 2250 subproject profiles: 1800 subprojects in at least 600 participating communities, 360 subprojects in 120 *parroquias* and 90 subprojects in 30 *cantones*. It had three sub-components: (i) coordination and participation, to fully familiarize the target group with the project objectives and procedures through communication activities; (ii) planning and project preparation, to support local actors to prepare participatory local development plans and subprojects; and (iii) information sharing, to systematically organize and disseminate relevant information in a timely manner at the local and national level.

**Component B: Improved supply of local development related services** (US \$6.97 million or 15.6% of the total project cost). This component was designed to promote human capital formation by offering in-service training for providers of local development services, such as grass-root organizations, NGOs, second-tier organizations, associations, *juntas parroquiales* and *concejos cantonales*. It aimed at providing a tiered sequence of activities beginning with "training of trainers" in phase I. In phase II, the component was to train the leadership and technicians of the local organizations that would identify and implement subprojects. In phase III, certified local consulting services providers were expected to provide technical assistance to local governments that were interested in promoting democratic participation and transparent management and administration. Component B included four sub-components: (i) strengthening local networks of service providers; (ii) strengthening human capital of grass-root and second/third-tier organizations; (iii) strengthening human capital of local governments and promotion of democratic processes; and (iv) establishing an information system on prices, technologies and market opportunities (ECUALOCAL). The latter was to be composed of two sub-systems: (a) ECUAGRO, to be ran by Ministry of Agriculture and Livestock (MAG) and NGOs, to contain information on agricultural production and

competitiveness; and (b) INFOPLAN, to be ran by the Office of Planning of the Presidency (*Oficina de Planificación de la Presidencia*, ODEPLAN), and to include basic territorial information for decision-making of governments and local development institutions.

**Component C: Subprojects** (US \$24.07 million or 54.0% of total project cost). Component C, by far the major component of the project, was aimed at improving access to productive assets by establishing a demand-driven matching grant fund for productive and environmental investments. It would co-finance community and inter-community subprojects within the targeted micro-regions. A total of 930 subprojects, 750 at community level, 150 at *parroquia* level and 30 at *inter-parroquia* level were to be supported under this component. It had three subcomponents: (i) subproject preparation; (ii) subproject implementation; and (iii) subproject monitoring and evaluation. In terms of process, the technical screening of identified subprojects was to be undertaken by the project's technical personnel at regional level, according to the criteria defined in the Operational Manual. The subprojects were to be implemented on the basis of contracts between the Regional Coordination Units (UTRs) and the beneficiary groups. When the beneficiary groups lacked proper legal status, the subproject execution was to be carried out by third parties, selected by the beneficiaries, through tripartite contracts with the beneficiaries and UTRs. The project's administration staff at the regional level was expected to follow and monitor closely the subproject expenditure accounts.

**Component D: Project Coordination Unit** (US \$5.11 million or 11.5% of the total project cost). This component was to carry out the traditional PIU tasks, including managerial, financial and technical coordination at national and regional levels. The National Coordination Unit (UCN) and the six Regional Coordination Units (UTRs) were to be responsible for overall project planning; including financial, procurement and personnel management; monitoring of inputs, outputs, effects and impacts at various levels; risk management; implementation of a communication strategy; implementation of project activities according to the project implementation plan and the Operational Manual; coordination among institutional actors at national and regional levels; and support to the national institutions in deriving lessons and formulating policies for human development. The component was to finance the costs associated with consultant services and equipment.

## **1.6 Revised Components**

There were no formal revisions to the four project components financed under the IBRD loan (i.e. those described in Section 1.5 above). However, a fifth component, "Improved Rural Financial Systems" (US \$5.6 million or 12.5% of the project cost), financed by the European Commission (EC), was incorporated and implemented as an integral and critical part of the project (see Section 1.7 below).

## **1.7 Other significant changes**

### ***Design issues***

The original design of PROLOCAL, as proposed by the Government of Ecuador preparation team, included four technical components and Project Coordination. These were described in Section 1.5 above. However, the fifth component (Improved Rural Financial Systems) was not financed under the IBRD loan. The component was designed to provide micro-financial services in the six micro-regions targeted by PROLOCAL, mostly through 64 unregulated local financial institutions (EFLs) that were identified during the preparation phase. In addition, the component was to execute technical assistance activities with the identified EFLs, and provide implementation support through PROLOCAL UCN and UTRs.

The fifth component was not included in the IBRD loan as Bank's management considered that providing micro-financial services in the country's prevailing context at the time of preparation was highly risky. However, at a later stage during the pre-implementation phase, it was reinstated in the project as per the original design after the Government of Ecuador managed to secure parallel grant financing from the EC to fully finance the component. Therefore, the IBRD loan financed four technical components, but in actual terms PROLOCAL had five components. In addition to (parallel) financing the fifth component, the EC co-financed with grant resources the other four components of PROLOCAL.

The European Commission's total contribution to PROLOCAL was US \$17.5 million (14.27 million Euros) with nearly half of these grant funds going to co-finance subproject investments: Component A received US \$0.75 million, Component B was allocated US \$2.82 million, Component C received US \$8.00 million, Component D had US \$0.38 million, and Component E was allocated US \$5.6 million. Originally the EC grant was executed as parallel financing, but in order to better coordinate implementation and on grounds of efficiency, at the EC's request, a co-financing arrangement was signed with the Bank to administer EC funds (US \$10.28 million). The co-financing arrangement with the EC did not include support for the activities under the fifth component (E). These were always managed and funded through a separate legal agreement between the EC and the Government of Ecuador, but coordinated through the same PIU.

### ***Implementation***

Under Component B (Local Development Services), ECUAGRO was not implemented due to the establishment of a system under the Bank-financed Agricultural Research Project (PROMSA) that provided similar information. ECUALOCAL was initially conceived as an activity under Component B, but it was later incorporated as part of PROLOCAL Communication Strategy (see Annex 7) – financed under components A and D. In addition, due to demand by the local actors in the regions, ECUALOCAL changed its initial focus in order to better support local planning (*Cuenca Alta del Río Jubones*) and the preparation of subprojects in the coastal micro-regions (*Los Ríos, Estribaciones de los Andes* and *Sur de Manabí*).

Under Component C (Subprojects), identification of subprojects and their co-financing was initially dependent on the inclusion of the proposed subprojects in the local

development plans. However, this requirement resulted in project implementation delays as the consensus building and local government approval of the local development plans took longer than originally expected. Therefore, the UCN opted to approve and co-finance subprojects as long as they complied with the established selection criteria and reflected potential priorities in local development plans.

The ceiling for subproject funding was initially set for community (US \$12,600/subproject), *parroquia* (US \$63,000/subproject) and for inter-*parroquia* or *cantón* levels (US \$252,000/subproject). However, there was a need to increase the level of financing for community subprojects but the cost ceiling per beneficiary family was maintained within the levels estimated during appraisal. This adjustment was justified in order to avoid internal conflicts within communities, as community ceilings were found to excessively constrain the number families able to participate in the subprojects. In light of this, the concept of community subprojects was changed to subprojects involving one or more communities and groups organized around the same objectives. The average subproject scale was therefore larger than expected at project appraisal.

PROLOCAL's institutional communication strategy sought to help build a supportive political environment for PROLOCAL, by stimulating dialogue on development among local and national stakeholders and clarifying the project role among agencies working on related issues. Management of the communication strategy was to be executed by the UCN, but it was later decentralized to the micro-regions to aid stakeholders to better cooperate with each other and to strengthen their participation in all aspects of project implementation, monitoring and evaluation. This change served to stimulate local project teams, local government structures, and communities to discuss, reflect, and act on their pressing local development needs and constraints such as poor integration to local and regional markets, lack of access to credit, and deficient provision of basic services. It was also instrumental to empower communities to form collective identities that facilitated follow through actions based on information and feedback regarding project activities to the UCN and UTRs (see Annex 7).

During implementation, one additional *cantón* containing three *parroquias* in the *Cuenca Alta del Río Jubones* micro-region was added to those originally covered by the project. Although initially targeted by PRODEPINE, this geographic area was excluded from the project due to its demographic characteristics which more closely complied with the targeting criteria supported by PROLOCAL. In addition, another *parroquia* (Carolina) in the *Cuenca del Río El Angel* was added as part of this micro-region. Carolina had been eligible for support under PRODEPINE, but with the completion of PRODEPINE it became evident that its exclusion would have triggered unnecessary social friction with the communities supported by PROLOCAL in the larger watershed.

In anticipation of the January 2007 government transition in Ecuador, PROLOCAL closing date was extended from December 31<sup>st</sup>, 2006 to August 31, 2007. It was the only extension of the project and allowed the time to educate the new authorities about the achievements of the first phase while building official support for a new phase with the new government. After its first four months in office the new Government officially

established the *Programa Nacional de Desarrollo Rural Territorial* (PRODER) to scale-up PROLOCAL's development impact by rapidly extending the geographical scope of the project to cover additional areas. EC co-financing was the main source of funding for project activities during the extension as the IBRD loan was almost fully disbursed by the time the extension request was processed.

## **2. Key Factors Affecting Implementation and Outcomes**

### **2.1 Project Preparation, Design and Quality at Entry**

Within the Bank, PROLOCAL was considered to be part of the CDD (community-driven development) family of new-type projects that have become fashionable during the past 15 years, roughly coincident with the interest of the Bank in operationalizing the concept of social capital. CDD is viewed as a mechanism that can (i) elicit development priorities directly from target communities; (ii) expand the resources available to the poor; and (iii) strengthen the civic capabilities of communities, nurture representative organizations and the ability for collective action. Actually, PROLOCAL was conceived as a hybrid – an amalgam of what is left of the once predominant model of integrated rural development and the new CDD, but also incorporating elements of municipal-led development (a variant of the administratively decentralized development model stressing local governance) and territorially-based regional development, stressing resource and market linkages.

PROLOCAL design also reflected the requirements of a poverty-targeted intervention, by targeting poor households in addition to geographic regions. The components of the project were well aligned to the achievement of the PDO. The design of the operation addressed the lessons learned from the implementation of other rural development projects both nationally and internationally. The design options were influenced by the failure of the more prevalent top-down approach, which in the case of Ecuador was showcased by the former PRONADER that closed with an unsatisfactory rating, and also by the emerging success of the Bank/IFAD-financed PRODEPINE, a bottom-up rural development project targeting indigenous and Afro-descendant populations that helped setting the trend in Ecuador towards favoring grassroots led development.

PROLOCAL emphasized a strategy of participation and inclusion of communities and of their territorial or second-tier organizations to identify and take advantage of value added chains, access to markets and complementary off-farm activities which would benefit socio-territorial organizations and their membership. Investments on human capital formation and empowerment of local actors were to contribute to the proper execution of subproject investments in the short to medium term, and to the sustainability of local development in the longer term by ensuring that strengthened local organizations were capable of mobilizing new financial resources with a wider range of partners for their own development. PROLOCAL reflected well the Bank's three main principles in pro-poor growth – promoting opportunity, facilitating empowerment and enhancing security – as articulated in WDR 2000/1 published around the time the project was designed.

The main challenge for the preparation team was the need to establish efficient and effective mechanisms for the identification, execution and management of the subprojects at the local level, and the need for effective coordination at all levels – local, regional and national. The design recognized the importance of empowering the beneficiaries to be the main actors in the selection of their own priorities, while at the same time strengthening local institutions and supporting local governments in the formulation of local development plans. Local participation mechanisms were embodied in the project design to ensure that project components truly reflected the priorities of the beneficiaries and responded to their needs. These mechanisms greatly benefited from the integration of the communication strategy, which put a major emphasis on building consensus and trust among various stakeholders, as well as promote the concept of local development.

The project design also reflected some weakness, which may be inherent in a project of this nature. The design was overoptimistic in determining the length of time needed to develop the local development plans. As a reflection of this weakness, the estimated flow of disbursements was also overly optimistic, since it did not take into account the time needed for the participatory planning process, the institutional strengthening and subproject preparation, before a full project implementation momentum was established. Adding to the complexity of the project was the fact that second-tier organizations had either a thematic or a regional focus (or a combination of the two), and thus there was a need to undertake an inventory of organizations, review their capacity and provide them with the necessary technical assistance to bring them “up-to-speed” and level.

Overall quality at entry can be considered moderately satisfactory given the project’s ambitious original design. Still, project preparation was supported by several studies, which, *inter alia*, examined lessons learned, identified priority areas and defined intervention approaches. PROLOCAL approach of working with communities and their territorial or second-tier organizations followed the arrangements being carried out by PRODEPINE. While PRODEPINE depended on ethnic affinity groups to channel resources, PROLOCAL worked with non-indigenous peasant communities, and its intervention focused on different geographical areas. To ensure a high level of implementation preparedness, the task team put in place effectiveness conditions, including the approval of an Operational Manual with detailed implementation arrangements and business processes outlined for all project components.

## **2.2 Implementation**

The mid-term review (MTR) was conducted in early 2005 (32 months after project effectiveness) after the participatory planning process and other initial capacity building investments were well established. Sufficient time to undertake these actions was not well accounted for in project design. At the onset of implementation there was insufficient time contemplated to gain the trust of the beneficiaries and their organizations, to create a forum for their participation with the local authorities, to build capacity and strengthen their local institutions, to establish the process of preparation of local development plans, and to generate the demand necessary for the identification and selection of subprojects. Once the necessary start-up activities were set in motion, the

project gained the necessary momentum as reflected in its disbursement profile (Section I of Data Sheet).

The project was not restructured, but some adjustments to the scope and implementation arrangements were made at the MTR. These are described below:

There was also need to revisit the original Logical Framework to visualize where the project wanted to go during the final years of implementation based on the local team's practical sense and experience and on a more rigorous thinking about what sustainable impacts could be realistically achieved in each targeted micro-region by project closing. PROLOCAL's original design included several parallel objectives not properly explained and specified. The project also assumed a causal relationship between project inputs and poverty/employment improvements of the target population, measurable within five years. Even in the case of subproject beneficiaries, income flows are a long-term expectation made uncertain by many external factors.

The MTR also helped establish a more clear linkage or synergy between components by articulating more explicitly across project activities the cross-cutting goal of organizational capacity-building as this was not really well expressed in the original PAD. The most immediate action was the translation of the *Estrategias de Fortalecimiento Micro-regional* into the 2005 POA, including establishing more relevant indicators to monitor and evaluate performance and output in each specific micro-region. This clarified a more logical sequence of products --> outcomes --> impacts that could be adequately monitored and evaluated over time, including identification of joint products resulting from the interaction between components.

The MTR also worked with local teams to propose indicators of sustainability of processes and benefits largely missing in the original PAD or which showed unrealistic assumptions about the capacity of the Ministry of Social Welfare (MBS) and the Government of Ecuador to continue and extend local development processes after the external financing would be spent. To this end, the MTR reviewed the key aspects of the local planning processes started under PROLOCAL that could become institutionalized and sustained beyond the project timeframe, ensuring greater transfer and delegation of responsibilities to local government entities, alliances between local institutions and national NGOs, continuity of productive investments, and a minimum of human and social capital enabling local organizations to mobilize new financial resources with a wider range of partners for their own development.

Notwithstanding the early delays in project implementation, the project was never at risk status. Later during implementation, the project appeared as a potential problem project due to portfolio system flags (two flags for country environment and record) but not related to project performance.

### **2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization**

#### ***Design***

The project identified sufficient indicators and included a discussion on the M&E arrangements in Annex 12 of the PAD. The M&E system included: (i) the establishment of a computerized information system – almost real time; (ii) a periodic beneficiary assessment; (iii) an impact evaluation study; and (iv) annual audits and Bank supervision missions. To benchmark progress in the achievement of the PDO, a baseline study was planned early during project implementation. The institutions responsible for the M&E system and the flow of information were identified, and the need to integrate the financial and physical monitoring components of the M&E system was recognized. With this proposed system in place and with evaluation of the control group, the PAD considered that the impact attributable to the project would be easily made explicit.

### ***Implementation and utilization of the M&E system***

The project established M&E subsystems that were not consolidated into a single system. There were separate subsystems for monitoring financial aspects, subprojects, administrative and output/impact indicators, among others. Also, the project established an M&E system in each micro-region but these systems were not fully integrated in real time with the system at the center (UCN) as initially planned, mainly due the high cost of internet connections. The existing system functioned through monthly updates – the UTRs sent weekly reports to be integrated by the UCN. The reports included available relevant data for monitoring.

The M&E system, particularly the financial monitoring system, provided the required information to the Bank’s supervision team when assessing project’s progress in terms of rate of disbursement. However, the UCN demonstrated limited capacity to systematically capture relevant information/experiences in the micro-regions and their significance towards achievement of the PDO, and displayed modest performance at coordinating and systematizing activities across the six micro-regions. Consequently, valuable information relevant to support social and institutional learning objectives may have gone unnoticed. The Bank’s missions learned much more on the advance and impact of the project from field visits than from available information through the M&E systems. However, at both UCN and UCR levels, the existing system was used to monitor progress and the delivery of products as scheduled. Thus, the M&E system supported the management and implementation of the project, but perhaps not in the most efficient and effective manner.

M&E was rated moderately satisfactory by the Bank’s supervision missions (see ISRs 9 to 10), but despite having identified this weakness, the supervision team was unable to spark the required corrective measures to ensure that the system captured information on the transformation of people’s knowledge, attitude and behavioral changes, as well as properly monitor and quantify some of the less tangible accomplishment of the project. The system was not streamlined to government institutions both at national and local level and therefore its continuity after project closure is uncertain.

## **2.4 Safeguard and Fiduciary Compliance**

***Safeguards Compliance*** (Satisfactory): Safeguard issues were rated satisfactory throughout project implementation. PROLOCAL was not involved in land acquisition, involuntary resettlements or cultural heritage issues. Environmental Assessment (OP 4.01, BP 4.01, GP 4.01) was the only safeguard policy triggered as the nature of subproject investments, to be identified on a demand driven basis during implementation, was unknown at the time of appraisal. To ensure full compliance with this safeguard, the design foresaw the preparation of a simple standardized questionnaire to identify the need for mitigation measures which were integrated and costed as part of subproject design. In addition, since the project included a wide range of interventions and investments, the Operational Manual and institutional arrangements for subproject implementation were designed to ensure that adequate attention was given to the monitoring of unintended negative environmental and social impacts that could arise. Finally, subprojects which used agricultural inputs (e.g. synthetic fertilizers and pesticides) adopted the standards recommended by Ecuador's National Institute for Agricultural and Livestock Research (INIAP) as part of the enforced mitigating measures.

***Procurement Compliance*** (Satisfactory): Procurement was carried out satisfactory throughout project implementation. The PIU was staffed with a team of experienced procurement specialists. Procurement post reviews were carried out on an annual basis.

***Audit and Financial Management Compliance*** (Satisfactory): Overall, financial management arrangements have been implemented adequately by the PIU. Although the project experienced at the beginning some delays submitting timely withdrawal applications and supporting documentation, there were no material issues and corrective actions were promptly incorporated. Project financial management staff experience and qualifications and minor turnover of personnel, despite the highly unstable political environment in Ecuador, led to a continuous and committed implementation. Audit reports, with unqualified opinions and non material internal control recommendations, were always submitted on time. Quarterly interim un-audited reports were also generated on a timely basis for Bank's review and contributed to decision making during project implementation. Currently there are no pending actions, since the last audit report for the period January to August 2007 was recently submitted for Bank's review and the Designated Account does not show any outstanding balance or pending reimbursement.

## **2.5 Post-completion Operation/Next Phase**

The present government has evidenced its commitment to the program by allocating US \$ 8 million in 2008 from the national budget to support continuation of PROLOCAL. In August 2007, the Correa administration signed a "*Decreto Ejecutivo*" officially establishing the *Programa Nacional de Desarrollo Rural Territorial* (PRODER). PRODER will build on PROLOCAL's development impact by rapidly extending the geographical scope of the project to cover additional areas. The program is thus expected to guarantee follow-up on all investments made in subproject and capacity building investments during the first phase; keep the current project team intact so as not to sacrifice the institutional learning that has been attained over the past 5 years; and

maintain the partnerships developed with local actors and their organizations, service providers, local governments and financial institutions.

Although this initial commitment reflects the expectation that government hopes to expand operations on a national level in the subsequent phase, it still needs to provide adequate financial resources over the long-run to the program for the type and scale of rural productive investments which were the backbone of PROLOCAL's work. Options for institutionalizing PRODER are also being explored with TA and support from the Bank. However, future Bank's financing for PRODER is yet to be determined by President Correa who has said that such programs should in the future be financed from the state's own resources. See also Section 4, Assessment of Risk to Development Outcome.

### **3. Assessment of Outcomes**

#### **3.1 Relevance of Objectives, Design and Implementation**

*(to current country and global priorities, and Bank assistance strategy)*

The experience of PROLOCAL has made possible a convergence of vision, approach and commitment between the Bank team and the borrower that is rarely found these days in the Andean region. PROLOCAL supported all three key pillars of the Ecuador's CAS (Report No. 25817), namely growth, equity and governance as it sought to reinforce and expand the impact of Bank assistance in achieving diversified and sustainable economic growth and poverty reduction based on the key assets of the country. The project objective to improve the living standard of poor families in poor micro-regions of Ecuador remained relevant throughout the implementation period, reflected the priorities of the government, and was well aligned with the CAS.

The dichotomy of an unstable political system at the national level and more responsive and stable local governments in Ecuador has given rise to broad recognition of the strategic importance of promoting local development as an instrument to reduce rural poverty and stimulate economic growth in Ecuador's diverse territorial settings. Against this background, PROLOCAL became a critical component of the government's Poverty Reduction Strategy in the targeted micro-regions. It has also been instrumental for President Correa administration's renewed efforts to strengthen governance and inclusion by helping local government structures (municipal governments and *juntas parroquiales*) and local organizations to build and participate in more accountable and efficient local administration.

#### **3.2 Achievement of Project Development Objectives**

*(including brief discussion of causal linkages between outputs and outcomes, with details on outputs in Annex 2)*

Results from an external evaluation and three other separate assessments confirm that PROLOCAL has achieved its development objective, and in some cases even surpassed its original targets. The evaluations included: (i) an external evaluation carried out with financial support from the EC (Annex 5); (ii) an economic and financial analysis of a

sample of 40 productive subprojects to determine the impact of PROLOCAL on household income (Annex 3); (iii) an assessment of the quantitative and qualitative impacts of PROLOCAL's investments on institutional capacity building (Annex 6); and (iv) an analysis of the current levels of institutionalization reached by local development plans, and their effectiveness and likely sustainability as participatory planning tools. These studies confirm that PROLOCAL has generated independently-verified economic and social development benefits in terms of local empowerment, improved quality of local services, and increased access to productive assets among poor households in six regions of the country.

The PAD identified nine indicators to measure the achievement of the PDO. These capture the main project outcomes and impacts which are summarized as follows:

1) A total of 84,000 households (or 140% of the 60,000 target indicator) took active role in the elaboration of their own local development plans. The project's external evaluation concluded that PROLOCAL has significantly contributed to the incorporation of rural populations in the local planning process and the formulation of their development plans. Given current levels of institutionalization reached by local development plans and their demonstrated effectiveness and likely sustainability as partnership agreements between local governments and civil society in setting development priorities, this PDO indicator was largely achieved.

2) 126 local governments (or 84% of the 150 target indicator) collaborated with beneficiaries in generating development plans at the *parroquia* and *cantón* levels. Achievement of less than the originally planned number of development plans does not reflect reduced project efficiency, but the fact that some local governments decided to elaborate or update their development plans at the *cantón* level which covered several *parroquias* within their jurisdictions. Indeed, 84,000 households participated in local planning processes which surpassed the component target of 60,000. Other component outcomes were reached in terms of (i) increased capacity and voice of the rural poor in local decision making processes; (ii) increased attention of rural areas by local governments; (iii) renewed and strengthened functions and effectiveness of local governments; and (iv) strategic partnerships and alliances for local rural development. Evidence of such achievements is presented in Annex 2.

3) Counterpart contribution by local organizations totaled US \$17.35 million (or 360% of the target indicator of US \$4.80 million). This is an indicator of local empowerment and beneficiary ownership of project investments, which surpassed all expectations with respect to level of achievement.

4) Around 51% of individuals participating in community development planning process were women (compared to the 30% target indicator).

5) To estimate the project outreach of poor population, there was not a systematic baseline assessment of subproject participant income levels. However, it is evident that the outreach target of 80% of subproject beneficiaries under the poverty line was

achieved, since: (i) a basic subproject eligibility criterion was that beneficiaries were poor; and (ii) the poverty level in participating *cantones* and *parroquias* at project start-up was around 80% and even higher in rural areas. Annex 2 discusses PROLOCAL's impacts in terms of outreach of poor and vulnerable population groups and their increased access to productive assets and support services based on the findings from the external evaluation.

6) Around 38,000 families in 1,600 rural communities or 190,000 people in six micro-regions benefited from improved access to productive assets through subproject investments. A total of 930 subprojects (750 at community level, 150 at *parroquia* level and 30 at inter-*parroquia* level) were to be co-financed under this component with an overall investment of US \$20.2 million. In aggregate terms, 757 subprojects were prepared (as validated profiles or feasibility studies) and 525 were financed. The achievement of less than the originally planned number of subprojects is not an indication of reduced project efficiency or increased costs per beneficiary. The average subproject scale that was co-financed by PROLOCAL was larger than expected at project appraisal, and the actual number of beneficiary rural communities and families (1,600 and 38,000 respectively) surpassed original targets. The adjustment in project scale was justified in order to avoid internal conflicts within communities, as community cost ceilings were found to excessively constrain the number families able to participate in the subprojects. In light of this, the concept of community subprojects was changed to subprojects involving one or more communities and groups organized around the same objectives, but the cost ceiling per beneficiary family was maintained within the levels estimated at appraisal. Overall project investment in subprojects was also much greater: US \$37.2 million instead of the expected US \$20.2 million due to larger beneficiary contributions that surpassed appraisal expectations providing 46% of total investments (target was 20%). In terms of gender, 42% of all subproject participants were women (target was 25% target).

7) Beneficiary households improved access to quality rural development services.<sup>1</sup> This is reflected by subproject investments on technical assistance and beneficiary perceptions assessed by the external evaluation. Based on the economic and financial analysis, subproject investments on technical assistance averaged around 12% of total subproject costs (around US \$50/family for 38,000 families). The project's external evaluation suggests that the development impact of PROLOCAL was significant in terms of strengthening the capacities of local service providers and subproject beneficiaries and facilitating interaction of local organizations such as grass-root organizations, second-tier organizations, and local government institutions such as *juntas parroquiales* and *concejos cantonales* (see Annex 2). In addition, 77% of beneficiaries perceived that subprojects were sustainable in terms of practical application of training and technical assistance provided, among other factors.

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<sup>1</sup> There were not quantitative targets set at appraisal for increase access to quality support services.

8) The project's goal was to improve the income level of beneficiaries of productive subprojects by 15%. In this regard, the financial analysis (Annex 3) estimated that average financial income of subproject beneficiary households increased by US \$370 annually for 38,000 families. There were not sufficient data available on the baseline household income level of families participating in subprojects in order to have a robust estimate of income growth. However, based on the baseline evaluation survey, it was known that the average annual household income in the project areas or micro-regions was US \$2,820. Thus, the achieved financial annual net income increase represented a 13% increase or 88% of the original target value. This is an indicator of improved wellbeing of poor households, which is likely to increase further in the next few years as productive investments generate their full potential. The original target value is thus likely to be achieved within a longer time-frame.

9) Under-employment among beneficiary households was reduced by 20% (equal to target value). This estimation is based on the economic and financial analysis, which found that the average increase in productive employment per participating family is 0.2 person/years equivalent. This is an additional indicator of wellbeing of poor households.

### **3.3 Efficiency**

Within the context of an external evaluation, a random sample of 40 subprojects was selected and evaluated. The analysis performed and results obtained are described in Annex 3. Due to the relatively small selection universe, the results obtained from the random sample provided rough unbiased estimations of feasibility at the aggregate level, but not at micro-regional level or any other subdivision. In line with the results obtained during the first year of operations, the incremental annual net income was around US\$250/family in the economic analysis and US \$370/family in the financial analysis.

Considering only subproject investments and returns, the average Economic NPV would be US \$510/family and the Economic IRR would be 30%. Similarly, the average Financial NPV would be US \$1,070/family and the Financial IRR would be 46%. Under a pessimistic scenario, where the estimated annual benefits would be reduced in half (considering a zero annual net income every other year), the Economic IRR would be 6% and the Financial IRR would be 15%.

Based on the financial results obtained, 19 out of 40 subprojects (or 47%) showed financial IRR lower than 10% (including those with negative returns). Based on the economic results obtained, 24 out of 40 subprojects (or 60%) showed economic IRR lower than 10% (including those with negative returns). However as shown below, both financial and economic returns in aggregate terms are substantially good.

Given that development planning activities and local support services activities promoted by the project contributed to the identification and implementation of subprojects, the latter results represent to a large extent the impacts of the whole process. Therefore, if costs of other project components were considered (around US \$19 million) and the average results of this sample were extrapolated to the actual beneficiary population (around 38,000 families): the overall economic NPV would be US \$5 million or US

\$130/family, and the overall economic IRR would be 15%; the financial NPV would be US \$24 million or US \$625/family, and the overall financial IRR 25% (similar to appraisal estimates).

The average PROLOCAL investment per family was US \$440, very close to the figure estimated at appraisal. Similarly, the counterpart contribution of subproject participants was US\$ 330/family or 43% of total subproject investments.

### **3.4 Justification of Overall Outcome Rating**

Rating: Satisfactory

The overall outcome of the project was satisfactory. Even with an ambitious original design, PROLOCAL performed creditably, especially in comparison with previous rural development projects in Ecuador. It disbursed almost all its funds (unusual in the Bank's recent Ecuador portfolio) and has received good marks from independent evaluations. It met or surpassed all its target outputs, injected hard and soft resources into areas of extreme poverty and initiated important processes of participatory decision-making and governance. Project outputs are impressive; 38,000 families (190,000 people) benefited by productive investments, about one quarter of all poor rural households in six micro-regions, increasing their annual financial income on average by US \$370 per family. Some 4200 field promoters were trained, and over 800 local organizations strengthened. The volume of rural loans doubled and the number of women borrowers rose three-fold.

Many lessons can of course be drawn from various perspectives (see Section 6), but the project leaves behind an unusual amount of good will and respect, seldom accorded to "official" programs in Ecuador. Considering that the project was implemented in the midst of a permanent state of political crisis at the central level (continuing changes in the MBS leadership), it managed to successfully execute available resources while building a strong constituency and support from a wide range of local actors and their organizations, including local governments. This support continued to grow until the end of the project to the point that numerous local leaders requested their provincial authorities for the replication of PROLOCAL in other regions of the country. The fact that PROLOCAL managed to realize the above level of achievement of the PDO under the highly unstable institutional environment of Ecuador is nothing short of remarkable.

### **3.5 Overarching Themes, Other Outcomes and Impacts**

*(if any, where not previously covered or to amplify discussion above)*

#### **(a) Poverty Impacts, Gender Aspects, and Social Development**

##### ***Poverty Impacts***

The financial analysis in Annex 3 estimated that average financial income of subproject beneficiary households increased by US \$370 annually for 38,000 families. Since the average annual household income in the project areas or micro-regions was US \$2,820 according to the baseline data, the achieved financial annual net income increase represented a 13% increase or 88% of the original target value. This is an indicator of

improved wellbeing of poor households, which is likely to increase further in the next few years as productive investments generate their full potential. The original target value is thus likely to be achieved within a longer time-frame. Income increases come essentially from increased land and labor productivity, production value added, and increased rural employment. There were not sufficient data available on the baseline household income level of families participating in subprojects in order to have a robust estimate of income growth. In addition, under-employment among beneficiary households was reduced by 20% according to the same economic and financial analysis which found that the average increase in productive employment per participating family was 0.2 person/years equivalent.

### ***Gender Aspects***

The indicators for participation of women and youth in the formulation of local development plans show significant achievement. Women made up more than 51% of the participants to local development plans, widely exceeding the target of ensuring a participation of 30%. In addition, 42% of all subproject participants were women. This compares favorably to the 25% target. PROLOCAL also managed to reach a high engagement of youth groups, some of which identified and implemented subproject investments.

### ***Social Development***

PROLOCAL generated a strong constituency and support from sector agencies, local government structures, and a wide range of local actors and their grassroots and second-tier organizations. This was in part due to the decentralization of program operations which facilitated the formation of strong, inter-institutional alliances on a local level and were key to providing social accountability regarding all aspects of the program. These networks of local actors constitute the main pillars for institutionalization of the future program PRODER.

#### **(b) Institutional Change/Strengthening**

*(particularly with reference to impacts on longer-term capacity and institutional development)*

Under Component A, PROLOCAL supported participatory planning processes for local development at *parroquia* and *cantón* levels. Major component targets were reached: 84,000 households participated in the local development planning processes (target was 60,000); 51% of those individuals who participated in the local development planning process were women (target was 30%), and 126 local governments prepared and/or updated their respective local development plans (target was 150).

The project's external evaluation suggests that the potential impact of this component is significant in terms of: (i) increased capacity and voice of the rural poor in local decision making processes; (ii) increased attention of rural areas by local governments; (iii) renewed and strengthened functions and effectiveness of local governments; and (iv) strategic partnerships and alliances for local rural development. These are briefly reviewed below:

### ***Engagement of the rural poor in local decision-making process***

PROLOCAL has significantly contributed to the incorporation of rural populations in the local decision making process. As stated before, more than 84,000 households directly participated in the elaboration or updating of the 126 local development plans co-financed by the project. This is particularly relevant considering: (a) the conventional top-down character of most local government practices in Ecuador which has often led to an antagonist relationship between local governments and citizens; and (b) the lack of tradition in engaging the rural poor and their organizations in participatory processes which in the past has excluded them to work with local governments in the prioritization of possible interventions to overcome their socio-economic constraints.

### ***Increased attention of rural areas by local governments***

PROLOCAL has made an effective contribution to set up a participatory development planning structure that has brought municipalities closer to their rural populations, enabling a fundamental shift on the country's decentralization implementation focus. As a result of this local development planning approach, municipal budget allocation to rural areas in participating municipalities increased from 36% without the project to 52% with the project<sup>2</sup>. Such a budget re-allocation is an achievement in itself considering the limited resources available to most municipalities involved with the project.

### ***Renewed and strengthened functions and effectiveness of local governments***

PROLOCAL has also been effective in promoting a process of renovation and administrative change within 73 out of 126 local governments involved in the project, moving from previous sector-oriented structures to more integrated and accountable planning approaches. Fifteen municipalities promoted significant changes in their structure and normative planning framework through: (i) creation of new strategic planning and coordination bureaus; (ii) incorporation of cross-sectoral approaches and mechanisms for local economic development; and (iii) establishment of participatory accountability mechanisms from budget elaboration to expenditure tracking and citizen oversight. This is a relevant achievement of the project since there was no municipal strengthening strategy as such in the project design, and impact on the local government structure was not an explicit component objective. Actions were developed and applied during the project implementation to respond to the emerging demands from the municipalities themselves. Furthermore, all *juntas parroquiales* assisted by the project improved their role as facilitators of local development by better mobilizing and articulating their rural populations and organizations with the municipalities.

### ***Strategic partnerships and alliances for local rural development***

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<sup>2</sup> Based on financial information of municipalities in four micro-regions.

The preparation process of the local development plans has also contributed to promotion of strategic alliances for local rural development. This has been instrumental in changing the management style of local governments, which used to operate in isolation from community-based organizations and other local structures. In addition, this planning process has improved the capacity of the local governments to negotiate their vision and priorities with provincial authorities. Noteworthy evidence includes: (a) the negotiation between the Association of *Juntas Parroquiales* of *Jipijapa* in Southern *Manabí* and the provincial government regarding the 2007 provincial budget; and (b) the preparation of the Provincial Development Plan of *Loja* based on all four *cantón* and 24 *parroquia* development plans, supported by PROLOCAL. Finally, this planning process brought together municipalities for the design and implementation of innovative territorial-based projects as in the case of the Association of Municipalities of the *Cuenca Alta del Jubones*.

Under Component B, PROLOCAL supported: (i) human capital formation, specifically by strengthening capacities of local service providers and subproject beneficiaries; and (ii) social and institutional capital formation, specifically by strengthening capacities and facilitating interaction of local organizations such as grassroots organizations (communities, water-user associations and other associations), second-tier organizations, and local government institutions such as *juntas parroquiales* and *concejos cantonales*. A total of 33 *cantones*, 123 *juntas parroquiales*, one *mancomunidad* (i.e. an association of *cantones*), 56 second-tier organizations and 252 grassroots organizations (*organizaciones de base*), and 125 local financial institutions benefited from institutional strengthening and improved their human resource capacity.

The project's external evaluation suggests that the potential development impact of this component is significant in terms of: (i) strategic alliances developed; (ii) opportunities generated for human and institutional development; and (iii) communication and information systems developed and operated locally. These are reviewed below:

### ***Strategic alliances developed***

Within the framework of this component, one of the project objectives was to strengthen at least six networks or associations of service providers (NGOs and individual professionals) in the targeted micro-regions. A total of 17 local networks were strengthened by the project. Of these, six were technical assistance service providers, seven local financial institutions, and four local communicators.

### ***Opportunities generated for human and institutional development***

Regarding human development, 115 technicians were trained on project formulation and evaluation, and 950 on project implementation. This compares favorably to the original target of 400. In addition, the project held several in-service training workshops to formulate and evaluate projects, and sponsored 35 technicians from the micro-regions to participate in the Diploma program on Project Formulation and Management offered by the *Escuela Politécnica del Litoral*. Most of these professionals were later hired by

farmer organizations to design and evaluate subprojects, achieving a high level of quality in their preparation. Furthermore 4,207 promoters were trained in areas such as: agro-ecology, agro-industry and communications. Alphabetization subprojects turned out to be of particular importance since they reached around 18,000 individuals. Regarding institutional development, 252 new social organizations acquired legal status, a basic government requirement to access capacity building and subproject support from PROLOCAL. In total, 840 local organizations and institutions were equipped, compared to the expected 720.

### ***Communication and information systems developed and operated locally***

The *Universidad del Austro* (a regional university) developed a regional node of the local development information system (ECUALOCAL) for the *Cuenca Alta del Río Jubones* micro-region. The system was later adjusted and implemented in other three micro-regions. Today, ECUALOCAL is in operation. In addition to this initiative, the project supported the establishment of 23 telecenters in various localities. Regarding local communication systems, 28 tailor-made communication products were developed; 189 local communicators were trained; and *Diálogo* Magazine was created – to date, eight editions have been published and distributed.

### **(c) Other Unintended Outcomes and Impacts (positive or negative)**

When examining now at what project funds were spent on and where the time and effort of the field teams went, it is evident that PROLOCAL focused on two major goals: (i) income enhancement and (ii) organizational strengthening. In keeping with the territorial focus, the latter included not only attempts to improve the performance of specific organizations, but to build inter-organizational linkages and networks within the regions. However, the first goal, through the mechanism of productive subprojects, remained dominant throughout. It is fair to say that the very high demand for scarce grant financing overshadowed the interest in capacity building. This may explain why, in PROLOCAL's case, there was only modest original demand for capacity development and why this has changed when resources for improved livelihood became available. Nonetheless, there was a catalytic effect on the incentives for cooperation and collective action. Productive subprojects energized the demand for capacity enhancement and in the case of existing but stagnant organizations, provided them with a renewed purpose. The indirect stimulus of productive resource transfers on capacity development is an interesting and unforeseen outcome. The significant lesson is that a well-integrated amalgam of “hard” and “soft” resources is needed for effective capacity building.

The external assessment confirmed evidence of the generally low degree of utilization of the Institutional Strengthening Plans (PFIs) which was one of PROLOCAL's instruments in this component (426 local organizations completed PFIs, see Annex 6). The formulation of the PFI was contracted out to an NGO or to a single consultant from a list of local service providers, who with some exceptions had limited experience in organizational analysis or capacity building. While some of the PFIs were good at organizational diagnosis, the recommendations tended to focus more on formal matters such as rules and procedures, holding assemblies or preparing project proposals (“hard

skills”). More fundamentally, the relatively low level of demand for and appreciation of capacity building by the organizations (in contrast to the high interest in obtaining subprojects grant money) and above all, the lack of steady follow-up have contributed to the limited impact of the PFIs.

The external assessment (Annex 6) provides strong evidence that on the issues of participation, representation, internal communication and accountability, there was the much larger progress perceived among the community groups and the *juntas parroquiales* in comparison to their respective higher level second-level and municipal entities. This clearly reflects the project’s strategy of grassroots development. Consistently very high scores were achieved for advances in legitimacy and member representation. The surveyed second-tier organizations (OSGs) reported increased adherence of their base groups, although there were cases in which the project may have created tensions by dealing directly with the bases and bypassing their umbrella OSGs. But there was evidence that the campesino organizations acquired a greater voice in their relations with the municipalities and that their greater access to information about projects and budgets has contributed to empowerment.

As discussed earlier, the original design of PROLOCAL included four technical components and Project Coordination. However, a fifth component (Improved Rural Financial Systems), financed by the European Commission, was later incorporated and implemented as an integral and critical part of the project. While modest, the component generated considerable results: 86 non-regulated financial entities and seven financial institutions networks were strengthened both in terms of human capital and equipment, 270 EFL staff and 680 EFL members received training in the six micro-regions, and a trust fund was established and is operating to support operations of EFLs in the participating micro-regions. To date, 19 local financial entities have access to the trust fund resources and 13 new financial products are offered in the six micro-regions. In addition to progress in credit volumes and efficiency, the various credit cooperatives and savings & loan associations formed coordinating networks among each other and started to develop useful linkages to the micro-enterprises promoted by the project. These facilitated greater integration of financial institutions in the co-financing of sub-projects by taking advantage of markets for local investments generated through the project to extend coverage, design adequate credit products, and expand membership and involvement in local development (see Annexes 2 and 6).

Although neither planned nor expected, PROLOCAL responded to demand by local organizations to provide support to alphabetization programs. More than 18,000 individuals were alphabetized by PROLOCAL. Only in the *Manabí* region nearly 7,000 individuals (or around 19.5% of the illiterate population of the micro-regions) benefited from this initiative. At the end of the project, illiteracy was fully eradicated in the *Cantones* of *Pueblo Viejo* and *Girón*.

In *Cuenca del Río El Angel* and *Zona Oriental de Loja*, PROLOCAL pro-actively involved persons with physical disabilities, which became important actors in the local development planning process as well as subproject beneficiaries in these micro-regions.

In *Loja*, for example, the municipality created a rehabilitation centre and awareness campaign on physical disability.

Finally, the project also contributed to strengthen the culture of democracy and the practice of social accountability in the use of public funds. Some social accountability initiatives developed spontaneously and outside the direct control of the project, such as in the case of the Cantonal Children Council in *Echeandía*, which began to work independently to monitor subprojects funded by PROLOCAL.

### **3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops**

*(required for ILI, details in annexes)*

PROLOCAL analyzed beneficiary and other actor's perceptions based on results from in-depth assessments conducted by the EC in the second half of 2006 (Annex 5); an internal evaluation carried out by the project team at mid-term level; and an external evaluation carried out in the *Cuenca del Río Angel* micro-region, which was the last region incorporated to PROLOCAL. Beneficiary perceptions were assessed considering those who were direct beneficiaries of subproject investments, as well as more indirect beneficiaries linked to the social and service providers networks on which PROLOCAL had influence.

Beneficiary assessments reflected very favorable perceptions from local actors regarding project performance. The overall successes in the implementation of PROLOCAL was attributed to the following aspects: (i) ownership by the beneficiaries and their active involvement in decision-making that prevented political intervention in the implementation of project activities; (ii) close presence of the implementation unit at micro-region to monitor the progress and support beneficiaries in resolving implementation problems; (iii) creation of institutional alliances among the different organizations involved at local level that made it possible to complement each other in areas where necessary skills were lacking; (iv) flexibility to introduce modifications in the implementation arrangements when needed based on continuous monitoring and evaluation feedback and at the MTR; (v) strong stakeholder involvement that facilitated learning and adaptation and enriched the project's Operational Manual; (vi) emphasis on clusters of subprojects with high impact in improving the living-standard of poor households; (vii) institutional strengthening of local institutions that supported all project activities and provided social accountability for the use of public funds; (viii) government leadership to include EC as a co-financer of the project when the Bank showed reluctance to support micro-finance activities; and (ix) a flexible and locally imbedded communication strategy, which successfully contributed to motivate participating communities and build alliances across local actors.

More detailed information regarding the results of the evaluations can be found in Annexes 5 and 6.

## **4. Assessment of Risk to Development Outcome**

Rating: Moderate

In August 2007, the new Government of Ecuador officially established the *Programa Nacional de Desarrollo Rural Territorial* (PRODER). It is intended that PRODER will build on PROLOCAL's development impact by rapidly extending the geographical scope of the project to cover additional areas. The best way to scale-up the impact and operational knowledge accumulated during the first phase is to use it again, as soon as possible, using implementation structures of accountable management that are already in place to reinforce and replicate the benefits of the original project over additional geographical regions, while encouraging its institutionalization as part of a national policy framework for sustainable and inclusive local development.

While PRODER objectives and components would not be substantially different from the current PROLOCAL design, modifications to improve the program based on the lessons learned are currently being analyzed under specifically commissioned consultant studies supported by TA from the Bank. These cover the following areas:

### ***Improved institutional sustainability***

One of the main objectives of PRODER would be to gradually transfer the innovating approaches and development support roles developed under PROLOCAL to ongoing public and civic entities so as to increase sustainability of these initiatives beyond the project scope. This modification directly responds to the government request for more institutionalization in project management. The institutional sustainability of PROLOCAL would be twofold: (i) at the national level the Government of Ecuador has positioned PROLOCAL as a national program for implementing the country's new rural development policy within the National Development Plan issued in September 2007, and to which PRODER contributes to objective 11 (*establecer un sistema económico solidario y sostenible*); and (ii) at the sub-national level the provincial councils, associations of local governments, and organized civil society would assume greater responsibility for the execution of the activities and the selection of instruments, which would contribute to the social accountability and decentralization agendas.

### ***Project management***

The mainstreaming of PROLOCAL in macro and local level organizations would require revised institutional arrangements for project management. At the national level, the installation of the new PRODER as a scaled-up program would require the establishment of formal agreements with other governmental agencies, such as the Ministries of Agriculture and Planning, to ensure a cohesive approach. At the sub-national level, fiduciary arrangements would need to be revised to address issues of capacity in local organizations, specifically with respect to procurement and flow of funds. The organizational structure and functions of the UCN and UTRs would be revised as well to allow for greater decentralization in the implementation of project activities. This implies gradually mainstreaming PROLOCAL in local government structures and reflecting this objective in program management institutional arrangements.

### ***Better articulation between components***

The experience in PROLOCAL has shown that organizational capacity-building is the cross-cutting goal that links and synergizes project activities across components. Specifically, two actions would be emphasized: (i) restructure the institutional strengthening and capacity building activities of the project to ensure greater focus and selectivity and a clearer vision of the desired and realistic results and impact at end of project; and (ii) identify a more logical sequence of products --> outcomes --> impacts that can be adequately monitored and evaluated over time, including identification of joint products resulting from the interaction between components.

### ***Policy framework to address structural problems***

The external evaluation of PROLOCAL shows that in carrying out a regional development strategy the project encountered a number of structural/policy obstacles that exceeded the framework and intervention instruments of the project, such as conflicts over water and land rights, legal limitations in rural finance and contracts, and, above all, lack of national rural development policies for low resource/income producers. The new design will make provisions to support analysis on such policy/structural challenges and foster dialogue on the implications in the area of rural local development beyond the local sphere (see Section 6).

### ***Results-based monitoring and evaluation***

The lack of accountability in Ecuador stems in part from the failure to measure results. In most instances, there are no systems to track the results of the operations or projects, starting with the absence of base line information on existing conditions. The focus on the MDGs, which establishes fairly explicit targets, is raising the conscience on the need to begin measuring results and tracking performance. While some of the MDGs are broad, many local governments in Ecuador are beginning to articulate their activities in terms of their contribution to the reaching the MDGs. PRODER's design would include progress indicators for effective monitoring and provision of feedback, and results/outcome indicators for ex post and impact evaluations, based on the hierarchy of goals. The methodology of monitoring and evaluation would include qualitative as well as objectively verifiable indicators. The participatory M&E system used in PROLOCAL would be revised to ensure that it delivers timely and constant feedback to support social and institutional learning objectives and more transparency and social auditing of project activities. The possibility of generating base line information for many programs will be enhanced with the information being obtained through the comprehensive Living Standards Measurement Survey that is being carried out by the Government. This sample of over 10,000 households should provide a wealth of information that will allow some comparisons over time in many areas of welfare and service delivery.

### ***Subprojects***

PRODER would improve the subproject component to ensure greater impacts on enabling households to access productive assets, diversify production, and increase income. These modifications would result in the following: (i) emphasis on human capital formation and strengthening the management and technical capacity within existing local and second/third-tier organizations in order to support longer term

development process that extend beyond the project's life; (ii) mainstreaming of environmental investments within productive subprojects focusing on marketing, value-added production chains, and non-farm enterprises like tourism; and (iii) increasing the share of co-financing by integrating existing local financial institutions with entrepreneurial farmers' organizations (*empresas asociativas campesinas*). To better identify and design potential subprojects, the methodology of the local development plans would be improved to include a realistic assessment of the area's productive and competitive potential as well as regional market and financial leakages to capture some of the surplus generated by large commercial producers in the regions.

### ***Developing permanent partnerships for local development***

PRODER would continue the successful principle of facilitating linkages among local actors developed under the current project with some modifications to achieve a greater impact in developing permanent public and private partnerships for local development that go beyond the project scope. Local organizations in rural Ecuador are important actors in building necessary social consensus for economic reforms and long term development, in promoting effective governance by fostering transparency and accountability of local administration and decentralization, and in efforts to fight inequality and exclusion. They also have an increasingly critical role in the direct delivery of social and economic services, and in improving natural resource management and environmental protection through collective action. This objective would be achieved by providing more intensive and long term technical assistance to local organizations, such as in-service training. Support, however, should be oriented to enhance the functions for which territorial organizations are well suited (representation and dialogue with public institutions, management of local public goods, improving local governance and public sector transparency and accountability, influencing public decision-making and monitoring local government actions, including the enforcement of procurement processes and the quality of public services and public expenditures, and bridging to other similar organizations) not those for which they are not well suited, like managing economic enterprises related to productive projects.

### ***Targeted geographical areas***

Several options are being considered for geographical coverage and expansion. One option is to expand/connect existing micro-regions and intensify work with existing local governments willing to increase their own counterpart financing and adopt PROLOCAL local development instruments. Another option is to restructure the geographical coverage to avoid an artificial combination of municipalities that do not make sense agro-ecologically or administratively. This second approach would favor working more closely with the provincial councils and locating UTRs in the provincial capitals.

### ***Bank's financing for PRODER***

Even though the Bank team remains closely involved with the recently renamed Ministry of Social and Economic Inclusion (formerly Social Welfare, MBS), and continues to

support the institutionalization of PROLOCAL, future Bank's financing for PRODER is yet to be determined by the Government of Ecuador. President Correa has said that such programs should in the future be financed from the state's own resources and should not add to the national debt. But, as of this writing, limited new resources had been assigned to the MBS for scaling-up PRODER in the long run. Thus, PROLOCAL's expansion remains uncertain despite strong demand from local constituencies for the program to be scaled-up.

## **5. Assessment of Bank and Borrower Performance**

*(relating to design, implementation and outcome issues)*

### **5.1 Bank Performance**

#### **(a) Bank Performance in Ensuring Quality at Entry**

*(i.e., performance through lending phase)*

Rating: Moderately Satisfactory

Overall Bank performance in ensuring quality at entry was deemed moderately satisfactory given the project's ambitious design as reflected by PROLOCAL's several parallel and competing objectives. These were revisited at the MTR which helped create more clear synergies between components and articulate more explicitly across project activities the cross-cutting goal of organizational capacity-building.

PROLOCAL's designers were influenced by two concepts that have been relied upon as justification for CDD-type projects: participation and social capital. Both of these concepts incorporate elements of capacity (i.e., participation as a requirement for collective action or "bonding and bridging relations" as social capital). The design options were rightly influenced by the failure of the more prevalent top-down approach, which in the case of Ecuador, was showcased by the former Rural Development Project (PRONADER) that closed with an unsatisfactory rating.

Notwithstanding the limitations of the legal framework for decentralization, PROLOCAL was also critical to support promising experiences with municipal governments and build alliances with second-tier organizations and local territorial associations taking pro-active roles in participatory processes of local development. This orientation was a step forward towards the construction of a more inclusive type of local development that the project promoted in six micro-regions. PROLOCAL approach of working with communities and their territorial or second-tier organizations intelligently replicated the arrangements being carried out by the successful implementation of PRODEPINE. Just as in PRODEPINE, where the CDD design of community participation and welfare was overlaid by the ethno-cultural issues of indigenous identity, in PROLOCAL CDD was inserted into a territorial or local development framework.

To ensure a high level of preparedness, the Bank team negotiated important effectiveness conditions such as an approved Operational Manual, appointment of core project staff, and establishment of a financial management system. The Project Implementation Plan and procurement documents for the first year of implementation were also completed during preparation. Finally, the team insisted in M&E arrangements and the contracting

of a qualified consultant for preparation of the baseline survey to be programmed soon after the project initiated implementation.

**(b) Quality of Supervision**

(including of fiduciary and safeguards policies)

Rating: Satisfactory

PROLOCAL's implementation proceeded successfully because of the learning capacity that was built into it from the start. Since the project opens a new path in the development of the rural areas of Ecuador, it was clear that the Bank and European Commission supervision teams needed to take a very systematic approach to learning from the earliest stages of implementation. Both the Bank and the EC coordinated well together as one supervision team conducting regular implementation support missions, preparing joint Aide Memoires, and providing consolidated feedback to government regarding project performance and areas of improvement. In addition, the EC conducted four annual missions for external monitoring using a result-oriented monitoring (ROM) methodology.

But the main challenge faced in project implementation was the threat of political and institutional instability that has characterized Ecuador during the past six years (seven ministers of Social Welfare, eight ministers of Agriculture, and four Presidents of the country). To minimize disruption in the implementation of project activities, the Bank and EC's supervision teams took the following steps:

- implemented a supervision model based on participatory planning, monitoring and evaluation to assure transparency, enable community-based organizations to take a primary role in problem solving, and facilitate an institutional learning process;
- supported greater decentralization of program operations and the formation of strong, inter-institutional alliances on a local level that were key to provide social accountability regarding all aspects of the project and also became the main pillars for institutionalization of the program; and
- facilitated continuous learning and adaptation which became an important means to articulate a broader group of organizations, donors and agencies where lack of coordination had previously undermined the benefits that might otherwise have accrued from the substantial resources channeled into rural areas in Ecuador.

Supervision missions enabled interactions among actors, including local governance structures, second-tier organizations, and networks of service providers to identify issues of common concern, establish alliances and set up a transparent scheme of incentives and sanctions designed to prevent political interference from having an effect on project implementation. The role of local actors in supervision strengthened the project's policies and procedures, enriched its norms and operational manual, and provided a social accountability for the use of public funds. Furthermore, these actors and their networks are providing the regional constituencies supporting the evolution of PROLOCAL from a modest WB-financed project to the *Programa Nacional de Desarrollo Territorial* (PRODER) currently under preparation by the Government of Ecuador.

### **(c) Justification of Rating for Overall Bank Performance**

Rating: Satisfactory

The reasonable quality at entry of the project, as described above, combined with the participatory supervision approach adopted by the task team to support project implementation, and ensure achievement of PDOs despite the challenging institutional environment in the country, constitutes strong basis for a satisfactory rating.

## **5.2 Borrower Performance**

### **(a) Government Performance**

Rating: Moderately Satisfactory

The Government of Ecuador, through the Ministry of Social Welfare, fully supported the project preparation process. It assigned staff with extensive experience in rural development to work with the task team and provided clear directions from the Under-Secretary of the Ministry of Social Welfare regarding project objectives and intended beneficiaries. In addition, the Government prepared the Project Implementation Plan and other documents necessary for initiating implementation such as the identification of the micro-regions targeted by the project. Government's performance was hindered, however, by the intense political and institutional instability both at the central government level and in the Ministry of Social Welfare throughout the period of implementation. This instability did not prevent the project from achieving its PDO but required a tremendous and continuous effort from the PIU staff throughout implementation to save the project from political intervention.

### **(b) Implementing Agency or Agencies Performance**

Rating: Satisfactory

The PIU demonstrated full commitment to achieving the PDO. It adequately engaged and sought input from the beneficiaries and other stakeholders as per the project design, and proved to have a high level of readiness for implementation and for the opportune resolution of implementation issues. It used development communication tools to establish open channels of communication with communities and their territorial or second-tier organizations while encouraging a process of social learning and mutual accountability. The national and local teams were also effective at promoting functional implementation arrangements on a local level including how local governance structures (municipal governments and *juntas parroquiales*) could interact more effectively with community-based organizations and private business initiatives the project was promoting. Project management was also instrumental to strengthen governance by helping local government structures and local organizations to build and participate in more accountable and efficient local government processes.

### **(c) Justification of Rating for Overall Borrower Performance**

Rating: Satisfactory

As described above, Government's performance was moderately satisfactory due to the continuous threat of political and institutional instability that affected the project throughout implementation. On the other hand, the PIU performed satisfactorily in the

most relevant aspects. It managed to achieve or surpass the targets set out at appraisal exceeding all expectations despite the complex political and institutional environment of Ecuador. The project was also managed with the utmost transparency by very capable national and regional teams subject to external annual performance evaluations. Staff performance evaluation results were used to validate decisions regarding staff contract renewals and to identify weak areas that could be improved through training and learning activities. Overall borrower performance can therefore be considered satisfactory.

## **6. Lessons Learned**

*(both project-specific and of wide general application)*

The device of probing PROLOCAL's design and performance through the lens of previous analyses and evaluations is useful not only to draw further lessons for development practice but also to reflect on the realities facing Ecuador's prospects for establishing a consistent policy framework for sustainable and inclusive development in the country's rural territories. The moment to define a more coherent policy framework for local development is appropriate for two reasons. The first one is that local development experiences have matured sufficiently to allow a big step forward. In the present environment of macroeconomic stability and restarting growth a big leap forward in rural development is entirely possible. However, it is the lack of an adequate policy framework and institutional architecture that hold back rural development. The second reason is the change in the conditions of competitiveness taking place in the country. Thus, dollarization brings new rules of the game, for it is no longer possible to cushion competitive disadvantages with monetary and exchange rate policies. Finally, Ecuador's improving debt position and a horizon of favorable oil prices allow envisaging higher availability of public investment resources for rural areas in the medium term.

The lessons learned from PROLOCAL are presented in the following segments:

**Sharper definition of concepts and strategy** - Beginning with the PAD, PROLOCAL suffered from the imprecision of the concept of Institutional Capacity Building and from the difficulty of formulating an operational strategy about whose capacity, for what, and how PROLOCAL would strengthen or build. In the future, clearer definitions and terms/language understood by all stakeholders is required. Short time frames, the routinization of processes, pressures to meet output targets all conspire against a proper capacity-building strategy that is based on incremental and often indeterminate processes, slow, gradual, persistent learning-by-doing. Future logical frameworks must articulate a clear and realistic sequence (goals, inputs, outputs, result/impact) and also the likely linkages and complementarities of the more direct capacity-building activities to other aspects of project strategy.

**Greater recognition of the long-term nature of the capacity-building process** - This lesson has several implications based on PROLOCAL's experience: (1) Focus initially on narrower objectives more reachable within the project's timeframe (such as subproject-related skills). (2) In the case of more complicated and long-term aspects, establish intermediate targets, instruments and benchmarks to achieve desired and sustainable levels of competency. (3) Provide for staff skilled in organizational management and socio-organizational promotion to work alongside technical specialists. (4) Reform the

monitoring & evaluation system (M&E) to provide feedback information during execution. This is valid for the project as a whole, but especially for the capacity building components. (5) Maximize the complementarity with the previous work of other development organizations working in the area, where some level of capacity has already been created. (6) Start some activities early and do not stagger implementation by regions as implemented in PROLOCAL. By delaying the start of two of the six micro-regions by 2 years and one by 3 years overall progress has been reduced. At the very least, some diagnostic work and training could have been usefully initiated much sooner everywhere. Studies have indicated that in the case of larger organizations, the enhancement process has taken between six and ten years, even when at the outset, some capacity has existed and when full-time advisory teams were fielded on a long-term basis.

**Catalytic role of subprojects** - The unexpected lesson was that the productive subprojects dealing with production/marketing chains, irrigation and resource conservation, which were on a completely separate track from the other components, turned out to have important catalytic effects for capacity building. The very high demand for scarce grant financing overshadowed the interest in capacity building. Nonetheless, there was a catalytic effect on the incentives for cooperation and collective action. Productive subprojects energized the demand for capacity enhancement and in the case of existing but stagnant organizations, provided them with a renewed purpose. The significant lesson is that a well-integrated amalgam of “hard” and “soft” resources is needed for effective capacity building.

**Complexities of “community” structure** - As in other similar CDD type projects, it was assumed that in the project areas a more-or-less representative “village” or “community” existed. The PAD envisages the enhancement of social capital in such localities. This notion under-estimated the nature and diversity of “base” groups in the coastal and Andean foothill areas where PROLOCAL was to work and the very low level of inclusive organization, in contrast with the indigenous “*cabildos*” of the Sierra. As a result, PROLOCAL’s portfolio of “communities” consisted mostly of groupings of families of common interest, constituting a fraction of the residents of a given locality. While this exclusiveness is a logical consequence of the project’s focus on micro-enterprises rather than social services which tend to benefit all households, efforts were made to link these specialized groupings organically to the broader territorially determined inclusive “community”. In the case of the second-tier organizations this potentially conflictive situation is resolved as the inclusive territorially representative second-level associations create an organic umbrella for the specialized groupings within their membership. Perhaps in the future the *juntas parroquiales* that are increasingly assuming a representation role of their micro-territories can also perform this integrating function.

The lesson here is that a thorough understanding of the local organizational fabric is necessary to design proper grassroots promotional strategies, which can result in different combinations of cohesion and conflict. When projects do not understand the complexities of the local “community” structure and culture and are eager to find any group thought suitable for a subproject, the danger is not only the potential for conflict, but instability,

as has happened elsewhere, when members view their association as a means of accessing short-term individual benefits, rather than as a mechanism of cooperation for long-term shared gains. In most cases, *ad hoc* exclusive groupings formed opportunistically to access project resources have weak linkages to more inclusive organizational forms.

**The importance of sustainable service structures** - The experience of PROLOCAL calls for a rethinking of how best to provide ongoing technical and institutional support for the organizations that have been launched by a given project intervention toward more solid high performing entities, but need continuous and affordable support. For the future, this points to the creation of central service centers, linked to existing second-level or umbrella associations. Such centers could be financed initially by the project but on a declining share, as the proportion of national and local co-financing increases. In the case of productive enterprise development, as the income of the members grows, the capacity of payment for services increases. The public subsidy portion can be justified as “software” investments, necessary to ensure the success of the supply of productive infrastructure and inputs.

Some logical locations for such support structures are the larger second level associations and the *cantones*, but sponsorship is also desirable by the emerging consortia of second-tier organizations and by the *mancomunidades* and *juntas parroquiales*. There are several alternative models. Based on the experience of other countries (e.g. Costa Rica, Chile) such service centers could also be based on a triangular cooperation by the government, the farmers associations and NGOs. A first step in this direction is a concerted effort to strengthen the technical capabilities of the second-tier organizations, overcoming the bias against higher level campesino associations prevalent in CDD-type programs, also manifest in PRODEPINE as “not sufficiently grassroots.” The next step would be to reinforce the fledgling planning/development office of the municipal governments. No real planning can be undertaken by the *cantón* without a minimal professional staff, different from those responsible for infrastructure services. Until the endogenous capacity of such centers is achieved, the project teams should count on sufficient resources to incorporate outside professionals on a sustained rather than ad-hoc basis.

**Project management roles** - It was already concluded that the promotional and advisory functions of the PIU were understaffed. The external evaluation suggested that future projects should separate the “financial” from the “facilitator” roles and might even divide them into different projects. The ICR team disagrees, however. First, it is precisely the “facilitator” role of placing the responsibility for action on the local institutions and organizations that distinguished PROLOCAL from its predecessors and this way of operation is the essence of its financing function. Secondly, it was concluded previously that the subproject portfolio (the “hard” element) has directly contributed to the “soft” part of capacity building – and that, properly re-directed, it could do even more.

The lesson here points not to a separation but an integration of the two main roles of future project teams. Above all, more time and effort must be devoted to creative interaction with the local actors beyond the necessary routine contract management and

financial control. It is clear that PROLOCAL's reliance on short-term assistance contracts for specific products and services did not sufficiently allow for the deployment of the kind of change agents that has functioned in small-scale NGO-sponsored projects with long-term international financing. And yet, there are some positive experiences with this realm:

- PROLOCAL took advantage of field teams already working in the project areas. The efforts of such teams fielded by German, Belgian, Swiss or Canadian assistance programs were incorporated and reinforced by project resources.
- The project was also able to tap into the strength of some of the large national NGOs that have experience in community capacity development (e.g. the Fondo Ecuatoriano Populorum Progressio, FEPP, and the *Central Ecuatoriana de Servicios Agrícolas*, CESA, etc.). A consortium of these NGOs won the contract to implement the project in the *Cuenca del Río El Ángel*, the last micro-region activated (because of security problems at the nearby Colombian border), but they arrived almost too late to have a significant influence on the overall project strategy.
- A great effort was made to train campesino promoters or sub-professionals, generally younger community members working for OSGs, sometimes as volunteers, sometimes as remunerated staff.
- Finally, most of the field staff of PROLOCAL in the regional offices gradually assumed roles of change agents, although their official function was to "facilitate" the making of *convenios* or contracts which were the project's principal instrument for engaging service providers. Although the staff selection criteria did not include "social commitment" as such, a large portion of the field staff was highly motivated and inspired with the mission of the project, especially as the majority came from the same region where they worked. Even in a small country like Ecuador, there are strong regional and cultural differences and identities.

**Broad vs. concentrated scope of projects** - PROLOCAL was a hybrid of various previous models, Integrated Rural Development, Community-driven Development, Local Government-led Development, and as a Social Fund. PROLOCAL's implementation experience gave expression to another term: Rural-Territorial Development. While the results of the multi-dimensional approach are generally positive, this experience indicates that future projects should be more clearly and more narrowly focused (even though they may be designed to contribute to broader objectives). Especially important is to choose an economic or a social focus. If the goal is to dynamize the regional economy one must concentrate on productivity, markets and on both agriculture and non-farm income opportunities. If the goal is to supplement and make more effective the government's social welfare services, this calls for a different strategy.

**Productive investments vs. social infrastructure** - The decision to focus on directly productive investments was wise, as the cumulative impact of many small income-producing investments is likely to be high. But even so, in the micro-region of *Loja*, for example, half of the subprojects went for social infrastructure (potable water, garbage disposal). While there is clearly a great demand for such services, the mixing of goals

causes dispersion and detracts from the impact of a single project. More particularly, it dilutes the capacity building efforts.

**Private sector** - The project progressively recognized the importance to address new market opportunities and the need to create stronger linkages with the private sector. The experience of subprojects in the micro-region of *Estribaciones de los Andes* is indicative in this regard, as demand evolved from productive subprojects to initiatives based on expanding organizational capacity and expanding market opportunities. In the same micro-region, partnering with cocoa and corn companies proved to be very useful to speed up poverty reduction efforts.

**Communication strategy** - CDD project like PROLOCAL involve several shifts in mentality. Having a fully funded and well designed communication strategy has proved to be critical to stimulate and accompany such changes, by creating the necessary support by the beneficiaries as well as serve as a tool to inspire trust and build confidence in local institutions. Having a communication strategy on day one from project implementation also proved to be important to gain immediate and broad based understanding and support to the innovative CDD approach, as well as contribute to projects efforts to build capacity al local level (see Annex 7)

**CDD, empowerment and structural transformation** - Several evaluations have observed that the CDD-type projects are not suitable for dealing with fundamental structural reforms in asset or income distribution and power.<sup>3</sup> This issue is of particular relevance to Ecuador. In spite of the land reforms of the 1970s, most of the cultivable and best quality land is still in the hands of private estates. Large and medium commercial producers have privileged access to technology, credit and markets and hold near monopolies of water resources. Little of their income circulates locally. In *Los Rios* province, one of the micro-regions targeted by PROLOCAL, 35% of the farm units only account for 3% of the total acreage, while about 2% of the largest units occupy almost 50% of the land area. Irrigated banana and coconut plantations of over 100 hectares dominate the rural landscape, many of which are owned by or are subsidiaries of Dole and other multi-national corporations. These may use some local wage labor, but buy no local inputs and do not invest locally. In fact, local capital is frequently siphoned off. In the municipality of *Girón* in the *Jubones* micro-region, which has a lively cooperative banking system, 35% of deposits are invested in *Cuenca*, the provincial capital and the country's third largest city. Because the main sources of basic accumulation are not at all local, the local rural spaces are likely to remain poor.

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<sup>3</sup> Mansuri and Rao (2004) report that social capital development sidesteps discussions of class and political economy and does not, *per se*, raise the themes of income redistribution or the links between asset base and power. (This has led to a number of attacks on social capital as a “de-politicizing” force). Moreover, it is asserted that in settings of extreme inequalities and clientelistic cultures, CDD approaches may have little influence on empowerment (World Bank, 2005).

What does all this mean for PROLOCAL? Structural conditions of very unequal land distribution, quasi-monopolies over water and often of markets in the targeted micro-regions acted as constraints both for income enhancement and for community capacity development, exacerbated by clientelistic practices and pervasive party politics. The project did not tackle these issues head-on, but rather tried to bypass them. Since it was not financing large infrastructure subprojects but many scattered small ones, it could minimize the power constraints and had the flexibility to offer something for every organization. This cut both ways: it allowed the project to be seen as “non-threatening” to local and regional elites, but it also restricted its potential influence over issues of region-wide problems, such as disputes over water rights. CDD-type projects such as PROLOCAL are confronted by a significant policy constraint. The country does not have a campesino-supportive rural development policy or national program with budgetary allocations from its oil revenues to the campesino sector. Such programs could not only extend technical services down to the grassroots, for which PROLOCAL’s experience provides a good model (see the previous section on service centers), but also facilitate campesino access to rights in water, land, credit and markets and promote a real decentralization, making more dynamic regional economics via more attractive local investments. PROLOCAL, in such a favorable “enabling environment,” would have made much greater sense. Such projects cannot substitute for national pro-poor policies and measures.

## **7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners**

*(see Annex 9)*

### **(a) Borrower/implementing agencies**

The Ministry of Economic and Social Inclusion (formerly the Ministry of Social Welfare) fully endorsed the ICR in the attached letter, dated 21/02/2008 (Annex 9). The letter highlights the project's achievements in terms of increased household incomes and rural employment; facilitated alliances between local level institutions and local governments; beneficiary communities contributions to local investments; support to local development processes their institutionalization; and human and social capital formation to enable local organizations to mobilize new financial resources with a wider range of partners for their own development. The role of project supervision is stressed by the Ministry in terms of facilitating continuous learning and adaptation which became the means to strengthen the project's policies and procedures from the earliest stages of implementation.

### **(b) Cofinanciers**

The European Commission provided the attached letter, dated 20/02/2008 (Annex 9), with helpful comments on the draft ICR which have been addressed in the final version of the document.

## Annex 1. Project Costs and Financing

### (a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
LOCAL DEVELOPMENT PLANNING	2.80	4.15	148
LOCAL DEVELOPMENT SERVICES	6.97	10.28	147
SUBPROJECTS	24.07	37.76	156
PROJECT COORDINATION U.	5.11	13.40 <sup>4</sup>	262
<b>Total Baseline Cost</b>	<b>38.95</b>	<b>65.59</b>	<b>168</b>
Physical Contingencies	0.68	0.00	0.00
Price Contingencies	2.08	0.00	0.00
<b>Total Project Costs</b>	<b>41.71</b>	<b>65.59</b>	<b>157</b>
Project Preparation Fund	1.27	0.00	.00
Front-end fee IBRD	0.25	0.00	.00
<b>Total Financing Required</b>	<b>41.96</b>	<b>65.59</b>	<b>156</b>

### (b) Financing

Source of Funds	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Borrower	2.87	1.86	64
Local Communities	4.80	17.35 <sup>5</sup>	360
International Bank for Reconstruction and Development	25.20	25.20	100
Local Sources of Borrowing Country and Co-financing from the EC <sup>6</sup>	9.09	21.19	233

<sup>4</sup> At the request of the Government of Ecuador, the Loan Agreement was amended in 2002 to re-classify certain operating costs (including salaries of PCU staff), specialized local advisory services required for preparation and implementation of subprojects (preparation of diagnoses, pre-investment studies, subproject proposals, administration and monitoring, TA for beneficiaries), and training (for technical staff, promoters and leaders, workshops for subproject preparation and implementation) under the Project Coordination Unit category. Hence, its total expenditure increased substantially during implementation.

<sup>5</sup> Counterpart contributions to subprojects by local actors significantly surpassed original expectations.

<sup>6</sup> The Government of Ecuador secured US \$17.5 million (14.27 million Euros) from the European Commission to co-finance all components of PROLOCAL, and the fifth component (Improved Rural Financing Systems) which was not financed under the IBRD loan.

## **Annex 2. Outputs by Component**

### **Component A - Planning for Local Development**

PROLOCAL supported participatory planning processes for local development at *parroquia* and *cantón* levels. Major component targets were reached: 84,000 households participated in the local development planning processes (target was 60,000); 51% of those individuals who participated in the local planning decision making process were women (target was 30%), and 126 local governments prepared and/or updated their respective local development plans (target was 150).<sup>7</sup>

The project's external evaluation suggests that the potential development impact of this component is significant in terms of: (i) increased capacity and voice of the rural poor in local decision making processes; (ii) increased attention to rural areas by local governments; (iii) renewed and strengthened functions and effectiveness of local governments; and (iv) strategic partnerships and alliances for rural development. These are briefly reviewed below:

#### ***Engagement of the rural poor in local decision-making process***

PROLOCAL has significantly contributed to the incorporation of rural populations in the local decision making process. As stated before, more than 84,000 households directly participated in the elaboration or updating of the 126 local development plans co-financed by the project. This is particularly relevant considering: (a) the conventional top-down character of most local government practices in Ecuador which has often led to an antagonist relationship between local governments and citizens; and (b) the lack of tradition in engaging the rural poor and their organizations in participatory processes which in the past has excluded them to work with local governments in the prioritization of possible interventions to overcome their socio-economic constraints.

#### ***Increased attention of rural areas by local governments***

PROLOCAL has made an effective contribution to set up a participatory development planning structure that has brought municipalities closer to their rural populations, enabling a fundamental shift on the country's decentralization implementation focus. As a result of this local development planning approach, municipal budget allocation to rural areas in participating municipalities increased from 36% without the project to 52% with the project<sup>8</sup>. Such a budget re-allocation is an achievement in itself considering the limited resources available to most municipalities involved with the project.

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<sup>7</sup> Achievement of less than the originally planned number of development plans does not reflect reduced efficiency but the fact that some local governments decided to elaborate or update their development plans at the *cantón* level which covered several *parroquias* within their jurisdictions. The component target that 84,000 households participate in local planning processes was surpassed (target was 60,000).

<sup>8</sup> Based on financial information of municipalities in four micro-regions.

### ***Renewed and strengthened functions and effectiveness of local governments***

PROLOCAL has also been effective in promoting a process of renovation and administrative change within 73 out of 126 local governments involved in the project, moving from previous sector-oriented structures to more integrated and accountable planning approaches. Fifteen municipalities promoted significant changes in their structure and normative planning framework through: (i) creation of new strategic planning and coordination bureaus; (ii) incorporation of cross-sectoral approaches and mechanisms for local economic development; and (iii) establishment of participatory accountability mechanisms from budget elaboration to expenditure tracking and citizens' oversight. This is a relevant achievement of the project since there was no municipal strengthening strategy as such in the project design, and impact on the local government structure was not an explicit component objective. Actions were developed and applied during the project implementation to respond to the emerging demands from the municipalities themselves. Furthermore, all *juntas parroquiales* assisted by the project improved their role as facilitators of local development by better mobilizing and articulating their rural populations and organizations with the municipalities.

### ***Strategic partnerships and alliances for local rural development***

The preparation process of the local development plans has also contributed to promotion of strategic alliances for local rural development. This has been instrumental in changing the management style of local governments, which used to operate in isolation from community-based organizations and other local structures. In addition, this planning process has improved the capacity of the local governments to negotiate their vision and priorities with provincial authorities. Noteworthy evidence includes: (a) the negotiation between the Association of *Juntas Parroquiales* of *Jipijapa* in Southern *Manabí* and the provincial government regarding the 2007 provincial budget; and (b) the preparation of the Provincial Development Plan of *Loja* based on all four *cantón* and 24 *parroquia* development plans, supported by PROLOCAL. Finally, this planning process brought together municipalities for the design and implementation of innovative territorial-based projects as in the case of the Association of Municipalities of the *Cuenca Alta del Jubones*.

## **Component B - Improved Supply of Local Development Related Services**

Under this component, PROLOCAL supported: (i) human capital formation, specifically by strengthening capacities of local service providers and subproject beneficiaries; and (ii) social and institutional capital formation, specifically by strengthening capacities and facilitating interaction of local organizations such as grassroots organizations (communities, water-user associations and other associations) and second-tier organizations, and local institutions such as *juntas parroquiales* and *concejos cantonales*. A total of 33 *cantones*, 123 *juntas parroquiales*, one *mancomunidad* (i.e. an association of *cantones*), 56 second-tier organizations and 252 grassroots organizations

(*organizaciones de base*), and 125 local financial institutions benefited from institutional strengthening and improved their human resource capacity.

The project's external evaluation suggests that the potential development impact of this component is significant in terms of: (i) strategic alliances developed; (ii) opportunities generated for human and institutional development; and (iii) communication and information systems developed and operated locally. These are reviewed below:

### ***Strategic alliances developed***

Within the framework of this component, one of the project objectives was to strengthen at least six networks or associations of service providers (NGOs and individual professionals) in the targeted micro-regions. A total of 17 local networks were strengthened by the project. Of these, six were technical assistance service providers, seven local financial institutions, and four local communicators.

### ***Opportunities generated for human and institutional development***

Regarding human development, 115 technicians were trained on project formulation and evaluation, and 950 on project implementation. This compares favorably to the original target of 400. In addition, the project held several in-service training workshops to formulate and evaluate projects, and sponsored 35 technicians from the micro-regions to participate in the Diploma program on Project Formulation and Management offered by the *Escuela Politécnica del Litoral*. Most of these professionals were later hired by farmer organizations to design and evaluate subprojects, achieving a high level of quality in their preparation. Furthermore 4,207 promoters were trained in areas such as agro-ecology, agro-industry and communications. Alphabetization subprojects turned out to be of particular importance since they reached around 18,000 individuals. Regarding institutional development, 252 new social organizations acquired legal status, a basic government requirement to access capacity building and subproject support from PROLOCAL. In total, 840 local organizations and institutions were equipped, compared to the expected 720.

### ***Communication and information systems developed and operated locally***

The *Universidad del Austro* (a regional university) developed a regional node of the local development information system (ECUALOCAL) for the *Cuenca Alta del Río Jubones* micro-region. The system was later adjusted and implemented in other three micro-regions. Today, ECUALOCAL is in operation. In addition to this initiative, the project supported the establishment of 23 telecenters in various localities. Regarding local communication systems, 28 tailor-made communication products were developed; 189 local communicators were trained; and *Diálogo Magazine* was created – to date, eight editions have been published and distributed.

### **Impact of PROLOCAL's organizational capacity building interventions**

It is evident that evaluating the impact of organizational capacity building is inherently difficult and even in the most sophisticated international and academic circles it remains an evolving science (especially in the case of civil society organizations). There is consensus that this is a long-term process. As proven in many Bank projects, tangible and sustainable outcomes of capacity building efforts only materialize much later than the project period.

In mid-2007, the fifth year of the project, a survey was conducted as a preliminary ex-post assessment of the results attributable to PROLOCAL's capacity building interventions (see main results in Annex 6). The questions focused on four sets of indicators of capacity to which PROLOCAL's work was likely to be most relevant: (i) human resources/leadership; (ii) management capacity; (iii) organizational culture and (iv) linkages and negotiation.

In addition to highlighting project achievements in the above areas, the assessment made the following observations that point to areas of improvement in PROLOCAL's capacity building approach:

First, improving individual competencies by heavy investment in training courses, as pursued under PROLOCAL, is only weakly connected to organizational learning and building collective skills. The risk is that training can become instead a vehicle for individual careers and self-promotion. (Such a motivation seems logical when peasant leaders and even Junta council members are not paid.) This tendency could be exacerbated by the demand for diplomas and by academic institutions' general lack of capacity to teach organizational or management skills in a civil society context. Even business management programs are not usually appropriate to the needs of small cooperative-style enterprises of water users associations such as those promoted by the project.

Second, the assessment confirmed evidence of the generally low degree of utilization of the Institutional Strengthening Plans (PFIs) which was one of PROLOCAL's instruments in this component (426 local organizations completed PFIs). The formulation of the PFI was contracted out to an NGO or to a single consultant from a list of local service providers, who with some exceptions had limited experience in organizational analysis or capacity building. While some of the PFIs were good at organizational diagnosis, the recommendations tended to focus more on formal matters such as rules and procedures, holding assemblies or preparing project proposals ("hard skills"). More fundamentally, the relatively low level of demand for and appreciation of capacity building by the organizations (in contrast to the high interest in obtaining subprojects grant money) and above all, the lack of steady follow-up have contributed to the limited impact of the PFIs.

Third, in retrospect, capacity building mainly focused on strengthening the process of "bottom-up" subproject identification, formulation and execution within the context of the various local institutions. Demand-driven "projectization" also dominated the efforts to improve the planning process (local development plans were essentially a compilation of local project priorities and demands as contributions to a future vision of territorial

development). The incentive that motivated an organization to commission PFIs was most probably the last section which summarized project priorities and the technical assistance requirements for subproject execution. It was assumed that all organizations needed to know how to formulate proposals, plan participatively and keep up to date financial books. As a consequence of the above, there was limited in-service training or longer-term advisory work, nor sufficient attention to key issues such as user fees and other aspects of putting organizations on the path toward relative self-sufficiency.

Fourth, remarkable on the issues of participation, representation, internal communication and accountability, there was the much larger progress perceived among the communities and the *juntas* in comparison to their respective higher level second-level and municipal entities. This clearly reflects the project's strategy of grassroots development. Consistently very high scores were achieved for advances in legitimacy and member representation. The OSGs reported increased adherence of their base groups, although there were cases in which the project may have created tensions by dealing directly with the bases and bypassing their umbrella OSG. But there was evidence that the campesino organizations have acquired a greater voice in their relations with the municipalities and that their greater access to information about projects and budgets has contributed to empowerment.

### **Component C - Subprojects**

Under this component, PROLOCAL financed subproject investments aimed at improving access to productive assets, in line with approved technical, social and environmental eligibility criteria. A total of 930 subprojects (750 at community level, 150 at *parroquia* level and 30 at inter-*parroquia* level) were to be co-financed under this component with an overall investment of US \$20.2 million. In aggregate terms, 757 subprojects were prepared (as validated profiles or feasibility studies) and 525 were financed. The achievement of less than the originally planned number of subprojects is not an indication of reduced project efficiency or increased costs per beneficiary. The average subproject scale that was co-financed by PROLOCAL was larger than expected at project appraisal, and the actual number of beneficiary rural communities and families (1,600 and 38,000 respectively) surpassed original targets. The adjustment in project scale was justified in order to avoid internal conflicts within communities, as community cost ceilings were found to excessively constrain the number families able to participate in the subprojects. In light of this, the concept of community subprojects was changed to subprojects involving one or more communities and groups organized around the same objectives, while maintaining the cost ceiling per beneficiary family within the levels estimated at appraisal. Overall project investment in subprojects was also much greater: US \$37.2 million instead of the expected US \$20.2 million due to larger beneficiary contributions that surpassed appraisal expectations. Finally, 98% of subprojects were externally audited and rated satisfactory (target was 70%).

Component results can be summarized in terms of: (i) beneficiaries' satisfaction with subproject investments; (ii) outreach of poor and vulnerable population groups; and (iii) increased access to productive assets and support services.

### ***Beneficiaries' satisfaction with subproject investments***

One dimension of beneficiaries' appreciation of subproject investments is their revealed ownership in terms of counterpart contributions. In aggregate terms, they provided almost 46% of total investments (target was 20%). Moreover, beneficiaries' perceptions of subproject investments were assessed by the EC-funded external evaluation described in Annex 5. Subprojects were perceived as: relevant to their reality by 77% of beneficiaries; effective in achieving stated goals by 74% of beneficiaries; and sustainable by 72% of beneficiaries – very close to the target for beneficiaries' satisfaction of 80%.

### ***Outreach of poor and vulnerable population***

In terms of gender, 42% of all subproject participants were women. This compares favorably to the 25% target. To estimate the outreach of poor population, there was not a systematic base-line assessment of subproject participant income levels. However, it is evident that the outreach target of 80% of subproject beneficiaries under the poverty line was achieved, since: (i) a basic subproject eligibility criterion was that beneficiaries were poor; and (ii) the poverty level in participating *cantones* and *parroquias* at project start-up was around 80% and even higher in rural areas.

### ***Increased access to productive assets and support services***

There were not quantitative targets for increase access to assets and support services. However, in line with the economic and financial analysis in Annex 3, the value of productive assets increased on average by US \$370 per family for around 38,000 families. Similarly, technical assistance services were made available to beneficiaries by covering an average cost of US \$50 per family. Quality of productive assets and support services were not systematically assessed. However, as mentioned earlier, 72% of beneficiaries perceived that subprojects were sustainable in terms of practical application of training and technical assistance provided and profitability of investments, among other factors.

### **Component D - Project Coordination**

Under this component, PROLOCAL financed essentially the implementation and operation of the project coordination structure, the communication strategy and the monitoring and evaluation system. In line with original targets, PROLOCAL's Board of Directors was established prior to the implementation of the project. During project implementation, two staff performance evaluations were undertaken. In 2003, the project communication strategy was made operational. In 2004, the management information system was implemented and made operational. This system comprised the following sub-systems: accounting and administration, monitoring and evaluation of subprojects, human capital, procurement, monitoring of annual operating plans and results framework, monitoring and execution of agreements, and the digital library.

## Component E - Improved Rural Financial Systems

As discussed earlier, the original design of PROLOCAL included four technical components and Project Coordination. However, a fifth component (Improved Rural Financial Systems), financed by the European Commission, was later incorporated and implemented as an integral and critical part of the project. Under this component, PROLOCAL financed the strengthening of local financial entities (EFLs) and the establishment of a trust fund to support operations of EFLs in the participating micro-regions.

While modest, the component generated considerable results: 86 non-regulated financial entities and seven financial institutions networks were strengthened both in terms of human capital and equipment, 270 EFL staff and 680 EFL members received training in the six micro-regions, and the trust fund to support EFLs was constituted and is operational. To date, 19 local financial entities have access to the trust fund resources and 13 new financial products are offered in the six micro-regions. Here, outputs more closely indicate increased capacity. In addition to progress in credit volumes and efficiency, the various credit cooperatives and savings & loan associations formed coordinating networks among each other and started to develop useful linkages to the micro-enterprises promoted by the project.

The external evaluation documented the following advances (see Annex 6):

No. of members/clients	Increase of 14%
Total deposits	Increase of 26%
Share of delinquency	Decrease of 66%
No. of rural savings accounts	Increase of 46%
No. of women borrowers	Increase of 247%
Volume of rural loans	Increase of 96%

Some of this progress has been due to the upgrading of large urban-based credit coops and to the long-term concurrent assistance of European donor agencies. Potentially, the project's work is most promising in the case of the smaller savings and loan associations, which are generally run by women. In PROLOCAL, these facilitated greater integration of financial institutions in the co-financing of sub-projects by taking advantage of markets for local investments generated through the project to extend coverage, design adequate credit products, and expand membership and involvement in local development.

### **Annex 3. Economic and Financial Analysis** *(including assumptions in the analysis)*

During appraisal, a cost-benefit analysis was conducted based on a sample of 30 potential subprojects using a methodology similar to the one used during project implementation. Within the context of an external evaluation, a random sample of 40 subprojects was selected and evaluated. This sample was obtained from a universe of around 100 subprojects that had completed execution of subproject investments and had at least one year of operation. The evaluation exercise conducted by the external firm was complemented with further feasibility analyses with subproject participants since the financial/economic data were incomplete in twelve subprojects at the time of the external evaluation.

Due to the relatively small selection universe, the results obtained from the random sample provide rough unbiased estimations of feasibility at the aggregate level, but not at micro-regional level or any other subdivision.

During appraisal, economic and financial NPV and IRR were calculated for potential subprojects and on average terms for selected micro-regions. Together with the financial analysis, a fiscal impact analysis was performed.

The final evaluation used similar analytical parameters to those used during the ex-ante evaluation, essentially: a 12% annual discount rate; a 10-year evaluation period (the 20-year period considered at appraisal was optimistic); and for the economic analysis, a shadow price (or conversion factor) for labor costs of 70%. Table 1 provides a brief description of the analyzed subprojects. Table 2 provides a summary of the financial analysis. Lastly, Table 3 provides a summary of the economic analysis.

Based only on subproject investments and returns, the average Economic NPV would be US \$510/family and the Economic IRR would be 30%. Similarly, the average Financial NPV would be US \$1,070/family and the Financial IRR would be 46%. Under a pessimistic scenario where the estimated annual benefits would be reduced in half (considering a zero annual net income every other year), the Economic IRR would be 6% and the Financial IRR would be 15%. In terms of fiscal impact, the average NPV of fiscal revenues (basically Value-added Tax) over a 10-year period from subproject investments and operations would be US \$3,600/subproject or US \$40/family.

Regarding the financial results, 19 out of 40 subprojects (or 47%) showed financial IRR lower than 10% (including those with negative returns). Moreover, 5 of 40 (12%) have not generated returns yet since they involve medium term cattle improvements or renovation of perennial plantations. Despite the negative returns of 47% of the analyzed subprojects, the aggregated results revealed significant net financial benefits.

Regarding the economic results, 24 out of 40 subprojects (or 60%) showed economic IRR lower than 10% (including those with negative returns). As stated earlier, 5 of 40 (12%) have not generated returns yet since they involve investments, which generate returns in

the medium term. Similarly, despite the negative returns of some analyzed subprojects, the aggregated results revealed significant net economic benefits.

In terms of employment generated, the analyzed subprojects would annually generate on average around 13 person/years equivalent (530 person/years among 40 subprojects) or 0.2 person/years per participating family. From the total employment generated, around 89% would be family labor (470 person/years equivalent among 40 subprojects).

Given that development planning and local support services activities promoted by the project contributed to the identification and implementation of subprojects, the results of the later represent to a large extent the impacts of the whole process. Therefore, if costs of other project components were considered (around US \$19 million) and the average results of this sample were extrapolated to the actual beneficiary population (around 38,000 families): the overall economic NPV would be US \$5 million or US \$130/family, and the overall economic IRR would be 15%; the financial NPV would be US \$24 million or US \$625/family, and the overall financial IRR 25% (similar to appraisal estimates).

In line with the above, the incremental annual net income was around US \$250/family in the economic analysis and US \$370/family in the financial analysis. Greater average returns were obtained in the micro-regions of *Zona Sur de Manabí* and *Estribaciones Centrales de Los Andes*. As an indicator of income multiplier effect, the ratio between incremental annual net income and the project investment was calculated. This ratio is around 0.6 in the economic analysis and 0.8 in the financial analysis – with wide variation across the various subprojects and micro-regions. This implies that, one dollar invested by the Government of Ecuador in PROLOCAL subprojects generated 0.6 dollars of net economic benefits and 0.8 dollar of net financial benefits – benefits captured by rural families.

The average PROLOCAL investment per family was US\$440 – US\$390 in productive assets and US\$50 in technical assistance. Such an average investment per family is very close to the figure estimated at appraisal. Similarly, the counterpart contribution of subproject participants was US \$330 or 43% of total subproject investments.

Even though the sample is only representative at the project level, some hypotheses can be formulated when comparing results across micro-regions and support services provided. Potential differences among subproject executing organizations were analyzed but little evidence was found in this regard.

*Zona Sur de Manabí* and *Estribaciones Centrales de Los Andes* revealed greater financial and economic returns than the other three micro-regions. This is consistent with the ex-ante analysis. Such a situation may reveal greater potentialities in certain micro-regions, both in terms of natural and human resources. However, as the analyzed sample is not fully representative care should be exercised when drawing conclusions.

Subprojects which received in-site technical support revealed on average greater financial and economic returns than those subprojects, which did not receive it. However, there was considerable variation across the various subprojects. In-site technical support was more frequent among subprojects in *Zona Sur de Manabí* and secondly in *Zona Occidental de Los Ríos*.

In terms of subproject type or activity, the economic/financial results are substantially different from those obtained at the time of appraisal. Agricultural production activities seem to generate greater returns than non-agricultural activities, value adding activities, agricultural services and combined agricultural production and value adding activities. These differences are opposite to those perceived during appraisal (ex-ante cost-benefit analysis). Subproject types were mixed across micro-regions. There were not significant differences in terms of relative proportions of subproject types across micro-regions.

Finally, in terms of poverty focus, the analyzed subprojects generated benefits among rural families living in 22 municipalities with average income level below the poverty line (US \$2/day/person) and 18 municipalities slightly above that level. The poorest municipalities were located in *Zona Sur de Manabí* and *Cuenca Alta del Río Jubones*, whereas the better off municipalities were located in *Estribaciones Centrales de Los Andes*, *Zona Oriental de Loja*, **and** *Zona Occidental de Los Ríos*. Nevertheless in light of the norms established the project for funding subprojects, it is likely that the majority of subproject participants were under the poverty line even in those better-off municipalities.

**Table 1** Brief Description of Subprojects

Micro-Region	Subproject	Type	Executing Entity	Description
Southern Manabi	Marketing of agro-ecologic products (Watermelon and others)	Value added	Producers' Association	The purpose is to improve farm production and product marketing of subproject participants, through a processing centre (value addition).
Southern Manabi	Improved production and marketing of short-cycle crops (Maize and others)	Agricultural Production	Peasant Association	The purpose is improve production and marketing, though enhanced product quality, producers' training and a collection/storage centre.
Southern Manabi	Strengthening of productive units with organic horticulture	Agricultural Production	Community Group	The purpose is to improve living conditions of families in the community, by incorporating organic horticulture into family and community production units.
Southern Manabi	Rise productivity increase	Agricultural Production	Second-Tier Organization	The purpose is to improve living conditions of farmers in the <i>parroquia</i> , through increased production of peeled rice.
Southern Manabi	Improved production and marketing of strategic crops (Maize and others)	Agricultural Production	Peasant Association	The purpose is improve production and marketing of associated crops, though enhanced producers' management, a small collection/storage centre and producers' training on good marketing and production practices.
Southern Manabi	Improved agricultural production (Maize, Peanuts and others)	Agricultural Production	Community Group	The purpose is to: diversify production, reforest river-banks and promote associated marketing.
Southern Manabi	Improvement of artisanal fisheries	Non Agricultural Activities	Cooperative	The purpose is to establish a community retail store, where artisanal fishing items would be supplied at competitive prices.
Southern Manabi	Improved productivity of double-purpose cattle and marketing of production	Agricultural Production + Value added	Peasant Association + Community Group	The purpose is to improve meat and milk production in the <i>parroquia</i> , though improved grassland management and breeding.
Southern Manabi	Improved productivity and value added of Coffee and diversification with fruit trees and forest plants	Agricultural Production + Value added	Producers' Association	The purpose is to: improve productivity of coffee plantations; facilitate coffee value addition; and establish nurseries for forest plants and fruit trees for coffee farm diversification and reforestation.
Southern Manabi	Improved productivity, post-harvest and marketing of Maize and Peanuts	Agricultural Production + Value added	Peasant Association	The purpose is to increase yields and production returns of maize and peanuts with: promotion of technologies which reduce use of agro-chemicals and thus associated costs; establishment of a small-scale collection/storage centre; and promotion of associated marketing.
Southern Manabi	Improved sustainable production of traditional crops (Maize and others)	Agricultural Production	Peasant Association	The purpose is to improve: sustainable production, product quality, storage facilities, marketing and management of participants.
Southern Manabi	Horticulture with drip irrigation in seven communities	Agricultural Production	Peasant Association	The purpose is to better utilize available land and water with the establishment of a drip irrigation system. This would allow crop production during the dry season and thus improved farmers' returns and living conditions.
Southern Manabi	Improved health and nutrition with community pharmacies and grocery stores	Non Agricultural Activities	Second-Tier Organization	The purpose is to establish community retail stores in the <i>parroquia</i> to facilitate food purchases at affordable prices.
Central Andean Foothills	Micro-Entrepreneurial Fund to support production and marketing of organic compost	Non Agricultural Activities	Association	The purpose is to utilize solid wastes in the <i>Cantón</i> to produce organic compost and commercialize it preferably among banana producers. Compost production would essentially involve earthworm-culture.
Central Andean Foothills	Fund to support expansion and marketing of a small-scale agro-industry	Value added	Cooperative	The purpose is to reactivate an agro-industry managed by the cooperative. Processed products essentially involve: fruit jams, dressings, banana flour, ground coffee, cocoa bars and <i>achote</i> . Sanitary permits would be obtained for main products in terms of sales.
Central Andean Foothills	Participative fund to improve Maize production and marketing	Agricultural Production + Value added	Peasant Association	Since maize is the main food source of poor families in the area, the purpose is to increase maize production through certified seeds and decentralized marketing and distribution.
Central Andean Foothills	Improved territorial management and production (Rice, Maize and others)	Agricultural Production	Peasant Association	The purpose is to increase production of maize, rice and cocoa, through technical assistance and strengthening of the association's management capacity. Moreover, to expand trade and exchange, a major access road to the community would be improved.
Central Andean Foothills	Improved production and marketing of Yellow Maize	Agricultural Production + Value added	Second-Tier Organization	The purpose is to: increase maize yields from 100qq/ha to 165qq/ha, through the utilization of 5005 hybrid maize; and promote harvest, post-harvest and associated marketing practices.
Central Andean Foothills	Improved Maize production with irrigation	Agricultural Production	Peasant Association	The purpose is to rehabilitate a small section of an irrigation canal to as to allow for two yearly crops of maize and rice.
Central Andean Foothills	Productive reactivation and diversification with Cocoa, Peanuts and horticulture	Agricultural Production	Community Group	The purpose is to consolidate production of cocoa, maize and horticulture to improve family food consumption and complementary income.
Eastern Loja	Poultry production support	Agricultural Production	Peasant Association	The purpose is to organize and formalize a small-scale association for poultry production. A revolving fund would be created and managed by the community so as to facilitate sanitary supplies and to purchase balanced feed.
Eastern Loja	Community productive development	Agricultural Production	Community	The purpose is to increase agricultural production to ensure food security, through an efficient irrigation system, improved distribution and use of water.
Eastern Loja	Associated processing and marketing of organic Coffee	Value added	Association	The purpose is to generate value added to a traditional product such as coffee, through farm/plantation improvements, physical infrastructure modifications, establishment of adequate equipment, all these with active involvement of subproject participants.
Eastern Loja	Integral management of solid waste materials	Non Agricultural Activities	Junta Parroquial	The purpose is to improve the sanitary conditions in the <i>parroquia</i> , through an integrated management of solid wastes and strengthening the management capacity of the <i>Junta parroquial</i> in this endeavour.
Eastern Loja	Establishment of community carpentry	Non Agricultural Activities	Producers' Association	The purpose is to increase family income and employment though: an adequate and sustainable management of <i>Pinus Patula</i> forests, and processing of wood into modern and rustic furniture.
Eastern Loja	Irrigation infrastructure improvement	Agricultural Production	Peasant Association	The purpose is to improve an irrigation system so as to use more efficiently water resources available and increase production cycles of participant families
Eastern Loja	Irrigated agriculture with construction of reservoir	Agricultural Production	Community	The purpose is to improve the living conditions in the area by expanding irrigated agricultural production with the construction of a reservoir and the establishment of farm irrigation systems and cattle watering places, along distribution infrastructure.
Eastern Loja	Improved food security with farm gardening	Agricultural Production	Second-Tier Organization	The purpose is to enhance diversified production of family farms and processing of certain products, so as to ensure food supply for faro animals and food security of participants.
Upper Jubones Watershed	Construction and furnishing a community agro-center for product marketing	Non Agricultural Activities	Peasant Association	The purpose is to establish a community agro-center for marketing and sales administration of: processed dairy products such as cheese, pasteurized milk, yogurt, butter, cream and sweet products; and meat products such as bovine meat, swine meat, poultry meat, cuy meat and processed products such as ham and salami.
Upper Jubones Watershed	Improved production of double-purpose cattle	Agricultural Production	Peasant Association	The purpose is to increase income of families within the community by improving animal production and organizational strengthening. Increased milk and meta production would be achieved by introducing animal stocks of better genetic quality and improving grazing capacity through improved pastures.
Upper Jubones Watershed	Improved swine production in family farms	Agricultural Production	Community Group	The purpose is to improve the living conditions of participating community families though increased income obtained from enhanced swine production in family farms.
Upper Jubones Watershed	Improved production, quality and presentation of dairy products	Value added	Peasant Association	The purpose is to: improve preparation, presentation and marketing of dairy products (cheese and yogurt); and strengthening the organizational capacity of the association.
Upper Jubones Watershed	Improved food security with new technologies for family farms	Agricultural Production	Junta Parroquial	The purpose is to Benefit families in various communities, though the establishment of greenhouses so as to ensure food availability throughout the year.
Upper Jubones Watershed	Irrigation system for thirty horticultural gardens	Agricultural Production	Peasant Association	The purpose is to improve the quality of life among participating families through greater food/nutritional security. This would result from horticulture production in light of the establishment of an irrigation system.
Western Los Rios	Rise processing industry	Value added	Cooperative	The purpose is to increase income of producers, members of an association aimed to industrialize and market cereal grains. This would result from infrastructure and equipment improvements.
Western Los Rios	Improved post-harvest activities	Value added	Cooperative	The purpose is to build storage and sun-drying facilities within a cereal peeling compound, in order to increase capacity to serve members in processing and marketing their produce.
Western Los Rios	Improved Cocoa production	Agricultural Production	Peasant Association	The purpose is to increase income of associated families through: renovation and improved management of cocoa plantations; production training; and associated marketing.
Western Los Rios	Improved Maize and Rise productivity with new irrigation system	Agricultural Production	Peasant Association	The purpose is to establish and operate an irrigation system to improve production and family income of producers, members of the association.
Western Los Rios	Reactivation of agricultural machinery	Agricultural Services	Association	The purpose is to increase income of familias within the community, through: the reactivation of available farm machinery; improved business management capacities; proper management and maintenance of investments; and increased sales of machinery services.
Western Los Rios	Improved technology for agricultural production	Agricultural Services	Association	The purpose is to facilitate supply to associated families of basic/essential goods, agricultural inputs and machinery services. Available resources are mainly allocated for acquisition of agricultural machinery to serve associated producers.

Table 2		Financial Analysis															
Micro-Region	Subproject	Families Involved	Annual Labor (p/yrs)	Incremental Net Annual Income on First Year		PROLOCAL Investment per Family			PROLOCAL Investment per Subproject			Counterpart Contributions		In-site TA Support	Subproject NPV of Net Benefits over 10 Years (US\$)	NPV of Fiscal Revenues over 10 Years (US\$)	IRR
				Per Family	Per Subproject	Total	Assets	TA	Total	Assets	TA	Per Subpr.	Per Family				
Southern Manabi	Marketing of agro-ecologic products (Watermelon and others)	79	3.0	153	12,070	800	445	355	63,198	35,175	28,023	10,535	133	No	(8,412)	3,960	9%
Southern Manabi	Improved production and marketing of short-cycle crops (Maize and others)	35	8.2	364	12,733	587	510	77	20,545	17,845	2,700	18,975	542	No	25,290	1,706	29%
Southern Manabi	Strengthening of productive units with organic horticulture	22	0.3	182	3,994	1,068	882	186	23,503	19,412	4,091	3,247	148	Yes	(4,884)	1,449	6%
Southern Manabi	Rise productivity increase	223	21.1	86	19,242	319	306	14	71,241	68,195	3,046	115,190	517	No	(74,915)	4,732	Negative
Southern Manabi	Improved production and marketing of strategic crops (Maize and others)	75	17.6	500	37,485	463	362	101	34,727	27,138	7,589	35,116	468	No	115,970	3,644	52%
Southern Manabi	Improved agricultural production (Maize, Peanuts and others)	390	113.5	600	234,188	216	202	14	84,282	78,782	5,500	5,420	14	Yes	1,034,025	15,656	261%
Southern Manabi	Improvement of artisanal fisheries	65	3.0	41	2,637	344	310	34	22,336	20,136	2,200	6,574	101	Yes	(13,265)	1,322	(4%)
Southern Manabi	Improved productivity of double-purpose cattle and marketing of production	38	0.2	16	620	633	568	65	24,064	21,600	2,464	2,295	60	Yes	(20,585)	1,319	Negative
Southern Manabi	Improved productivity and value added of Coffee and diversification with fruit trees	200	1.5	1	223	621	598	23	124,156	119,556	4,600	15,443	77	Yes	(123,584)	6,662	Negative
Southern Manabi	Improved productivity, post-harvest and marketing of Maize and Peanuts	56	13.1	214	11,973	727	666	62	40,719	37,269	3,450	35,044	626	No	(10,687)	2,751	8%
Southern Manabi	Improved sustainable production of traditional crops (Maize and others)	65	15.3	401	26,085	498	491	6	32,363	31,941	422	28,180	434	Yes	70,038	2,975	41%
Southern Manabi	Horticulture with drip irrigation in seven communities	151	57.8	1,950	294,449	733	727	7	110,715	109,715	1,000	107,368	711	Yes	1,206,084	19,939	135%
Southern Manabi	Improved health and nutrition with community pharmacies and grocery	49	3.0	173	8,501	447	401	47	21,917	19,638	2,279	7,880	161	Yes	13,836	1,579	25%
Central Andean Foothills	Micro-Entrepreneurial Fund to support production and marketing of organic	40	0.3	26	1,050	301	220	81	12,047	8,807	3,240	2,200	55	Yes	(7,725)	695	(8%)
Central Andean Foothills	Fund to support expansion and marketing of a small-scale agro-industry	22	0.2	51	1,132	573	316	257	12,600	6,950	5,650	1,680	76	No	(7,367)	729	(6%)
Central Andean Foothills	Participative fund to improve Maize production and marketing	83	17.9	231	19,161	349	254	96	28,999	21,059	7,940	37,948	457	No	31,382	2,465	25%
Central Andean Foothills	Improved territorial management and production (Rice, Maize and others)	35	7.5	14	491	687	463	223	24,030	16,213	7,817	28,990	828	No	(45,004)	1,311	Negative
Central Andean Foothills	Improved production and marketing of Yellow Maize	450	136.7	755	339,624	334	321	13	150,231	144,391	5,840	274,505	610	No	1,236,487	24,205	80%
Central Andean Foothills	Improved Maize production with irrigation	23	3.6	415	9,555	458	458	0	10,537	10,537	0	6,302	274	No	30,422	1,019	56%
Central Andean Foothills	Productive reactivation and diversification with Cocoa, Peanuts and horticulture	23	6.5	598	13,762	674	456	218	15,497	10,494	5,003	18,909	822	No	34,750	1,485	38%
Eastern Loja	Poultry production support	12	5.3	2,286	27,432	790	538	252	9,480	6,461	3,019	3,748	312	No	118,693	1,813	207%
Eastern Loja	Community productive development	30	5.8	3,576	107,267	795	761	34	23,851	22,837	1,014	36,801	1,227	No	456,155	6,381	177%
Eastern Loja	Associated processing and marketing of organic Coffee	62	5.4	377	23,359	353	260	93	21,869	16,119	5,750	8,557	138	No	83,963	2,283	76%
Eastern Loja	Integral management of solid waste materials	150	0.4	(5)	(768)	171	153	17	25,612	22,996	2,616	4,254	28	Yes	(30,320)	1,372	Negative
Eastern Loja	Establishment of community carpentry	20	4.3	6	121	734	410	324	14,684	8,202	6,482	6,869	343	No	(18,668)	792	Negative
Eastern Loja	Irrigation infrastructure improvement	29	3.1	456	13,214	833	721	112	24,150	20,900	3,250	7,225	249	No	34,850	1,922	40%
Eastern Loja	Irrigated agriculture with construction of reservoir	31	3.1	193	5,983	504	349	155	15,627	10,813	4,814	5,870	189	Yes	9,270	1,122	24%
Eastern Loja	Improved food security with farm gardening	130	3.9	62	8,028	570	570	0	74,118	74,118	0	43,008	331	No	(66,385)	4,353	Negative
Upper Jubones Watershed	Construction and furnishing a community agro-center for product marketing	223	9.0	(26)	(5,726)	308	284	24	68,705	63,281	5,424	28,763	129	No	(114,267)	3,681	Negative
Upper Jubones Watershed	Improved production of double-purpose cattle	28	2.8	143	3,998	687	655	32	19,240	18,340	900	30,555	1,091	No	(25,441)	1,221	Negative
Upper Jubones Watershed	Improved swine production in family farms	20	9.2	208	4,160	518	488	30	10,369	9,769	600	10,292	515	No	1,343	753	14%
Upper Jubones Watershed	Improved production, quality and presentation of dairy products	18	-	4	73	472	381	91	8,500	6,858	1,642	10,480	582	No	(16,599)	459	Negative
Upper Jubones Watershed	Improved food security with new technologies for family farms	80	19.4	152	12,160	377	212	165	30,178	16,939	13,239	17,076	213	No	15,658	2,195	21%
Upper Jubones Watershed	Irrigation system for thirty horticultural gardens	30	8.3	231	6,920	420	409	11	12,600	12,261	339	15,762	525	No	7,598	1,004	19%
Western Los Rios	Rise processing industry	125	4.0	71	8,895	504	457	47	62,966	57,130	5,836	34,742	278	No	(44,922)	3,796	Negative
Western Los Rios	Improved post-harvest activities	40	1.7	(1,152)	(46,062)	429	313	116	17,160	12,510	4,650	5,128	128	No	(239,034)	919	Negative
Western Los Rios	Improved Cocoa production	35	-	0	0	800	689	111	27,996	24,126	3,870	31,092	888	Yes	(52,757)	1,500	Negative
Western Los Rios	Improved Maize and Rise productivity with new irrigation system	48	7.6	446	21,408	762	621	140	36,552	29,830	6,722	29,491	614	Yes	42,879	2,977	29%
Western Los Rios	Reactivation of agricultural machinery	32	4.0	575	18,393	666	484	182	21,327	15,491	5,836	8,214	257	Yes	61,126	2,018	61%
Western Los Rios	Improved technology for agricultural production	130	2.0	37	4,836	475	442	33	61,695	57,420	4,275	38,355	295	No	(66,324)	3,535	Negative
<b>Aggregate Figures</b>		<b>3,397</b>	<b>529.4</b>		<b>1,262,662</b>				<b>1,514,385</b>	<b>1,331,253</b>	<b>183,132</b>	<b>1,138,083</b>		<b>335</b>	<b>3,638,672</b>	<b>143,698</b>	<b>46%</b>
<b>Average Family Figures</b>			<b>0.2</b>		<b>372</b>		<b>446</b>	<b>392</b>	<b>54</b>						<b>1,071</b>	<b>42</b>	

Table 3		Economic Analysis														
Micro-Region	Subproject	Families Involved	Annual Labor (PYears equivalent)		Incremental Net Annual Income on First Year		PROLOCAL Investment per Family			PROLOCAL Investment per Subproject			Counterpart Contribution	In-site TA Support	Subproject NPV of Net Benefits over 10 Years (US\$)	IRR
			Family Labor	Total Labor	Per Family	Per Subproject	Total	Assets	TA	Total	Assets	TA				
Southern Manabi	Marketing of agro-ecologic products (Watermelon and others)	79	-	3.0	156	12,311	730	376	355	57,698	29,675	28,023	10,535	No	(2,354)	11%
Southern Manabi	Improved production and marketing of short-cycle crops (Maize and others)	35	8.2	8.2	196	6,868	558	481	77	19,531	16,831	2,700	18,975	No	(1,708)	11%
Southern Manabi	Strengthening of productive units with organic horticulture	22	0.3	0.3	172	3,778	1,021	835	186	22,456	18,365	4,091	3,247	Yes	(4,974)	6%
Southern Manabi	Rise productivity increase	223	21.1	21.1	19	4,160	318	305	14	70,987	67,941	3,046	115,190	No	(146,438)	Negative
Southern Manabi	Improved production and marketing of strategic crops (Maize and others)	75	17.6	17.6	333	24,938	422	321	101	31,679	24,090	7,589	35,116	No	59,000	35%
Southern Manabi	Improved agricultural production (Maize, Peanuts and others)	390	113.5	113.5	486	189,569	205	191	14	80,055	74,555	5,500	5,420	Yes	825,534	222%
Southern Manabi	Improvement of artisanal fisheries	65	-	3.0	44	2,875	332	298	34	21,598	19,398	2,200	6,574	Yes	(11,477)	(2%)
Southern Manabi	Improved productivity of double-purpose cattle and marketing of production	38	0.2	0.2	14	522	609	544	65	23,124	20,660	2,464	2,295	Yes	(20,214)	Negative
Southern Manabi	Improved productivity and value added of Coffee and diversification with fruit trees	200	1.5	1.5	1	223	591	568	23	118,132	113,532	4,600	15,443	Yes	(118,205)	Negative
Southern Manabi	Improved productivity, post-harvest and marketing of Maize and Peanuts	56	13.1	13.1	94	5,243	593	532	62	33,229	29,779	3,450	35,044	No	(36,017)	Negative
Southern Manabi	Improved sustainable production of traditional crops (Maize and others)	65	15.3	15.3	234	15,192	453	446	6	29,418	28,996	422	28,180	Yes	20,848	22%
Southern Manabi	Horticulture with drip irrigation in seven communities	151	40.9	57.8	1,859	280,758	584	577	7	88,187	87,187	1,000	107,368	Yes	1,161,066	144%
Southern Manabi	Improved health and nutrition with community pharmacies and grocery	49	-	3.0	174	8,510	381	334	47	18,653	16,374	2,279	7,880	Yes	16,796	29%
Central Andean Foothills	Micro-Entrepreneurial Fund to support production and marketing of organic	40	0.3	0.3	20	786	258	177	81	10,309	7,069	3,240	2,200	Yes	(7,429)	(10%)
Central Andean Foothills	Fund to support expansion and marketing of a small-scale agro-industry	22	0.2	0.2	47	1,040	545	288	257	11,982	6,332	5,650	1,680	No	(7,248)	(7%)
Central Andean Foothills	Participative fund to improve Maize production and marketing	83	17.9	17.9	39	3,199	322	226	96	26,708	18,768	7,940	37,948	No	(42,508)	Negative
Central Andean Foothills	Improved territorial management and production (Rice, Maize and others)	35	7.5	7.5	9	298	654	431	223	22,907	15,090	7,817	28,990	No	(44,917)	Negative
Central Andean Foothills	Improved production and marketing of Yellow Maize	450	136.7	136.7	484	217,857	324	311	13	145,698	139,858	5,840	274,505	No	661,242	51%
Central Andean Foothills	Improved Maize production with irrigation	23	3.6	3.6	274	6,311	410	410	0	9,427	9,427	0	6,302	No	15,982	38%
Central Andean Foothills	Productive reactivation and diversification with Cocoa, Peanuts and horticulture	23	6.5	6.5	344	7,916	601	384	218	13,825	8,822	5,003	18,909	No	8,432	19%
Eastern Loja	Poultry production support	12	5.3	5.3	1,079	12,944	760	508	252	9,118	6,099	3,019	3,748	No	50,093	100%
Eastern Loja	Community productive development	30	5.8	5.8	1,123	33,697	779	745	34	23,355	22,341	1,014	36,801	No	106,599	55%
Eastern Loja	Associated processing and marketing of organic Coffee	62	0.5	5.4	247	15,334	331	238	93	20,532	14,782	5,750	8,557	No	46,975	51%
Eastern Loja	Integral management of solid waste materials	150	-	0.4	(5)	(768)	162	145	17	24,353	21,737	2,616	4,254	Yes	(29,196)	Negative
Eastern Loja	Establishment of community carpentry	20	-	4.3	13	262	692	368	324	13,832	7,350	6,482	6,869	No	(17,238)	Negative
Eastern Loja	Irrigation infrastructure improvement	29	3.1	3.1	303	8,789	819	707	112	23,760	20,510	3,250	7,225	No	14,150	24%
Eastern Loja	Irrigated agriculture with construction of reservoir	31	3.1	3.1	51	1,594	479	324	155	14,853	10,039	4,814	5,870	Yes	(10,917)	(7%)
Eastern Loja	Improved food security with farm gardening	130	3.9	3.9	23	3,031	509	509	0	66,121	66,121	0	43,008	No	(83,016)	Negative
Upper Jubones Watershed	Construction and furnishing a community agro-center for product marketing	223	-	9.0	(23)	(5,199)	271	246	24	60,383	54,959	5,424	28,763	No	(104,329)	Negative
Upper Jubones Watershed	Improved production of double-purpose cattle	28	2.8	2.8	25	713	683	651	32	19,132	18,232	900	30,555	No	(40,971)	Negative
Upper Jubones Watershed	Improved swine production in family farms	20	9.2	9.2	(456)	(9,119)	490	460	30	9,793	9,193	600	10,292	No	(61,316)	Negative
Upper Jubones Watershed	Improved production, quality and presentation of dairy products	18	-	-	9	166	454	363	91	8,179	6,537	1,642	10,480	No	(15,868)	Negative
Upper Jubones Watershed	Improved food security with new technologies for family farms	80	19.4	19.4	(196)	(15,674)	356	190	165	28,459	15,220	13,239	17,076	No	(115,221)	Negative
Upper Jubones Watershed	Irrigation system for thirty horticultural gardens	30	8.3	8.3	(20)	(604)	377	365	11	11,296	10,957	339	15,762	No	(27,030)	Negative
Western Los Rios	Rise processing industry	125	-	4.0	79	9,877	410	363	47	51,238	45,402	5,836	34,742	No	(29,780)	1%
Western Los Rios	Improved post-harvest activities	40	-	1.7	(1,127)	(45,080)	374	258	116	14,962	10,312	4,650	5,128	No	(232,401)	Negative
Western Los Rios	Improved Cocoa production	35	-	-	0	0	786	675	111	27,498	23,628	3,870	31,092	Yes	(52,313)	Negative
Western Los Rios	Improved Maize and Rise productivity with new irrigation system	48	7.6	7.6	283	13,588	665	525	140	31,901	25,179	6,722	29,491	Yes	9,828	17%
Western Los Rios	Reactivation of agricultural machinery	32	-	4.0	584	18,683	573	391	182	18,351	12,515	5,836	8,214	Yes	65,163	70%
Western Los Rios	Improved technology for agricultural production	130	-	2.0	38	4,902	386	353	33	50,211	45,936	4,275	38,355	No	(55,754)	Negative
<b>Aggregate Figures</b>		<b>3,397</b>	<b>473.5</b>	<b>529.4</b>		<b>839,492</b>	<b>407</b>	<b>353</b>	<b>54</b>	<b>1,382,927</b>	<b>1,199,795</b>	<b>183,132</b>	<b>1,138,083</b>		<b>1,742,868</b>	<b>30%</b>
<b>Average Family Figures</b>			<b>0.1</b>	<b>0.2</b>		<b>247</b>							<b>335</b>		<b>513</b>	

## Annex 4. Bank Lending and Implementation Support/Supervision Processes

### (a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
<b>Lending</b>			
<b>Supervision/ICR</b>			
Francisco Pichon	Senior Natural Resource Management Specialist	LCSAR	TTL
Stefania Blotta Abakerli Baptista	Social Development Spec.	LCSSO	Local Development/Participatory Budgeting
Mark A. Austin	Senior Operations Officer	LCSAR	Institutional Development/Project Management
Thomas F. Carroll	Consultant	LCSAR	Social Capital/Organizational Strengthening
Maria Donoso Clark	Lead Social Development	ECSSD	Sector Leader/Social Accountability
Emanuel Santi	Communications Officer	SDCOV	Communications
Fernando Galeana	Junior Professional Associate	LCSAR	Economist
Ana Lucia Jimenez Nieto	Financial Management Analyst	LCSFM	Financial Management
Fausto Jordan Bucheli	Consultant	LCSAR	Rural Financing
Pilar Larreamendy	Senior Social Development Econ	LCSSO	Social Development
Isabella Micali Drossos	Sr Counsel	LEGLA	Country Lawyer
Marcelo Amador Osorio	Consultant	LCSPT	Procurement
Diana P. Rebolledo	Language Program Assistant	LCSAR	Team Assistant
Teresa M. Roncal	Operations Analyst	LCSAR	Procurement/Disbursements/Project Management
Jorge E. Uquillas Rodas	Sr Sociologist	AFTS1	Safeguards
Samuel Taffesse	Operations Officer	LCSAR	ICR
Jean Marie Abbes	Economist	European Commission (EC)	Rural Financing
Marco Venegas	Economist	EC	Supervision
Roberto Canessa	Economist	EC	Supervision
Dino Francescutti	Economist	FAO/CP	ICR
Mario Castejon	Economist	FAO/CP	ICR

**(b) Staff Time and Cost**

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
<b>Lending</b>		
FY98	4	18.67
FY99	--	0.00
FY00	13	56.87
FY01	30	100.47
FY02	27	88.27
<b>Total:</b>	74	264.37
<b>Supervision/ICR</b>		
FY03	25	100.25
FY04	31	122.63
FY05	26	112.97
FY06	35	130.64
FY07	23	75.57
FY08	5	15.65
<b>Total:</b>	145	557.71

## **Annex 5. External Evaluation**

This Annex reports on results from various evaluations: one external evaluation carried out by external experts of the European Commission (EC); an internal evaluation carried out by the project team at mid-term level; and an assessment carried out in the *Cuenca del Rio Angel* micro-region, which was the last region incorporated to PROLOCAL and thus was not included in the previous evaluations.

### **Introduction**

From the outset, PROLOCAL sought to improve the livelihoods and the surroundings of a key group of people that became the main and most relevant actors for the success of the project. Consequently it was deemed necessary to obtain feedback from the beneficiaries to evaluate project impact and performance and examine whether this was in line with local actors' expectations.

In PROLOCAL, beneficiaries were those individuals who participated directly in the sub-projects; the organizations linked to the sub-projects and other capacity building investments; the local actors and the organizational network on which PROLOCAL acted upon or had an influence. More specifically the direct beneficiaries of the subprojects are the individuals, families and organizations directly linked to them. The beneficiaries and participants of the institutional strengthening activities are the local legal or de facto organizations and institutions: local governments, civil society organizations, including local financial institutions, cooperatives and savings and loans institutions, communal banks, etc.

To assess PROLOCAL impacts on project beneficiaries, achievements must be analyzed, to determine how participatory was the process yielding such achievements, and how much influence on reaching these achievements had on the training and the organizational strengthening provided by the project. Against this context, the ex-post evaluation carried out by the EC worked with a sample of 40 subprojects, which was analyzed under two lenses; first, analyzing the perceptions of the direct beneficiaries of subprojects; and secondly, analyzing the perceptions of the beneficiaries of the institutional strengthening component on how this component influenced the structure and management of their organizations. The institutional strengthening component was analyzed considering three main areas: formulation of local development plans; capacity strengthening of local service providers; and strengthening of the local financial systems.

The methodology used by the external evaluation at their beneficiary interviews and workshops has taken into account five criteria to judge the effects of institutional strengthening and of subprojects. The main results are presented below according to the same criteria: (i) relevance; (ii) efficiency; (iii) efficacy; (iv) impact; and (v) sustainability.

### **Relevance**

To evaluate beneficiaries' perceptions about the relevance of subprojects the following indicators were considered: (i) inclusion of subproject in local development plans; adequacy of their design; and whether the subproject was designed in a participatory manner.

Survey results suggest that the vast majority (98%) of the implemented subprojects were part of the local development plans. Their design was considered adequate, although 47% required some level of reformulation.

Regarding institutional strengthening, relevance was analyzed in terms of the level of stakeholder participation in the design, the design itself, the need or not for reformulation, and whether it has not or it is being implemented. The majority of beneficiaries perceived that institutional strengthening activities had an adequate design, that the process was participatory and that the needs and opportunities of the participants were adequately identified: 70 % of those interviewed said that there was no need for reformulating proposals, and a large share of the activities (81%) continue to be implemented. Beneficiaries indicated that the project-provided training improved the participatory decision making process and the access to information, which in turn improved the management of the organizations. Nonetheless, due to the relatively short time elapsed, it is not yet possible to assert that the local development plans have been adopted/institutionalized by the local governments as a management tool.

With respect to relevance, the internal evaluation undertaken by the project team concluded that the local actors considered the project to be highly relevant and highlighted the adaptability of project instruments to the needs of the population and their educational, social and cultural situation.

### **Efficiency**

Efficiency was assessed based on beneficiary perceptions about the time and cost involved in assessing subprojects. Nearly 75% of those interviewed thought that in terms of costs subprojects were implemented according to the initial plans. However, in terms of timing, 60% of beneficiaries thought that there were delays with respect to the original plans, and thus efficiency was less robust. The delays were reported to be partly due to the difficulties faced by the counterparts to meet the co-financing and other requirements expected by PROLOCAL (i.e. organizations with formal legal status, cash counterpart financing, etc.).

Efficiency perceptions for institutional strengthening could be summarized as “mid-high”, although they varied widely amongst the various capacity building subcomponents. For instance, the institutional strengthening for local development was rated as efficient in terms of implementation time by 47% of beneficiaries, and in terms of budget by 86% of those interviewed. In contrast, the development of local services, both in terms of time and cost, were considered efficient by 90% of those interviewed. The perception of efficiency with respect to local financial systems had the more favorable rating in terms of budget adequacy (80 % of those interviewed) than in terms of

implementation time (40% of those interviewed).

Those who responded that efficiency was not adequate in terms of time reported that this was largely due to the many requirements involved in assessing PROLOCAL services. The difficulties to gather the cash counterpart contributions were highlighted.

According to the internal evaluation, efficiency of the project was “good”, highlighting the success of its management, largely as a result of good coordinating mechanisms. However, it was recognized that preparation of agreements and *convenios* with beneficiaries took more time than expected, and thus delayed implementation.

### **Efficacy**

Efficacy of subprojects was rated as “high”, meaning that the initiatives implemented with the support of PROLOCAL met their goals and the participants are aware and have benefited from the results. A significant share (38%) of those interviewed perceived that the results were better than expected.

The efficacy of the institutional strengthening component was measured by: level of achievement of the expected results; whether the participants knew and had benefited from the results; and whether the number of beneficiaries was higher than those expected. With respect to the management of the local plans the perception of full achievement of results was reported by 79% of the respondents, and the perception of knowledge and benefit of the results by 89% of those being interviewed. Results from the development of local services subcomponent were perceived by 100% of those interviewed to have been fully achieved with full participation and knowledge of the beneficiaries. With respect to results from the local financial services subcomponent, 90% of those interviewed thought that were achieved and the participants were fully aware and benefited from the benefits.

Efficacy was rated as “very good” by the internal evaluation, highlighting that a participatory culture and a sense of ownership had been strengthened. The initial mistrust of the local inhabitants to the outlook offered by PROLOCAL contrasts with the continued stream of new demands at the end of the project.

### **Impact**

In reviewing beneficiary perceptions about subproject impacts, it should be considered that productive subprojects had, in the best of cases, just finished their first productive cycle or were still under implementation. Taking this into account, 61% of those interviewed perceived that their income had increased, and 88% perceived that the rate of unemployment had been reduced as a result of the subproject. On average 72% perceived positive changes in attitudes, such as increased savings and reinvestment capacity and propensity, entrepreneurial spirit, willingness to participate in the management and control of their grassroots organizations, interest in production diversification and marketing, and in organizational strengthening.

The impact of the institutional strengthening component focused on the following criteria: community participation in monitoring and control; appropriate social and cultural focus; women and youth participation; knowledge of the plan; and organizational strengthening. The results gathered showed a positive response by all (100%) of those interviewed with respect to impact of investments. For local development it was also high, between 76-89%.

The impact of the rural financial services component was also considered to be significant. Over 93% of those interviewed considered that the Local Financial Institutions (LFIs) were in better position to implement policies to improve access to credit; 90% considered that there was greater propensity to save by members; 100% that LFIs had improved human resources; and 60% that relationships with other LFIs were improving towards the consolidation of networks. In summary there was a perception that the LFIs had been strengthened by the project.

The internal evaluation considered that the project's impact was significant, even when it was not possible to assert that PROLOCAL could substantially reduce poverty that had been built over so many years and generations. The acquired capacity to foster new partnerships with other institutions and funding sources to support new investments outside PROLOCAL was also identified as a noteworthy impact.

## **Sustainability**

Although too early to have a clear forecast of subproject sustainability, the beneficiary surveys and workshops covered several aspects, including: the practical application of the training provided; whether strategic alliances had been formed so far; the profitability level of the investments; whether marketing systems were established; the use of agro-ecological practices; and whether an appropriate gender and social approach had been implemented.

Over 72% of the respondents indicated that the basis for the sustainability of the subprojects had been established. To measure the sustainability of the institutional strengthening component, beneficiaries were asked about their newly acquired organizational capacities, the increment of self-worth amongst the relevant actors, the increase in trust towards local governments and organizations, and the increment of strategic alliances, among others. Generally speaking perceptions of sustainability were encouraging: 82% saw an increase in their organizational capacity, 92% perceived an increase in self-worth, and 100% of those interviewed said to have recuperated their trust on social organizations.

The internal evaluation considered the sustainability of the project to be "very good". However the continued support of the government was deemed indispensable for the long-term success of the project. This included support from the Provincial Directorates (*Direcciones Provinciales*) of the Ministry of Social Welfare which must be involved particularly in the legalization process of the organizations.

## **Evaluation of the Cuenca del Rio Angel micro-region**

The previous evaluations did not include in their analysis the micro-region *Cuenca del Rio Angel*, which was incorporated into the project at a later stage. An external evaluation of this micro-region was undertaken in July 2006. The main conclusions of this evaluation were the following: (i) implementation of PROLOCAL through a consortium of NGOs with significant experience in the region resulted in very high efficiency in terms of subproject implementation; (ii) even though PROLOCAL was an invigorating force for rural development initiatives in the micro-region, the short period of execution reduced the possibilities to achieve sustainable processes; (iii) the areas where PROLOCAL achieved highest impact concentrated around the dynamic initiatives started by other organizations that had left the necessary infrastructure to propel the tools offered by PROLOCAL.

Finally, it should be pointed out that although the above evaluations based on direct interviews with beneficiaries have gathered valuable stakeholder impressions, opinions, and suggestions regarding PROLOCAL, they are nonetheless perceptions. For this reason in the fifth year of the project, a survey was conducted as an ex-post assessment of the results attributable to PROLOCAL capacity building interventions. The findings of this study and related beneficiary workshops are described in Annex 6.

## **Annex 6. Field Evaluation of Capacity-Building Interventions and Beneficiary Workshop Results**

### **1. Field Evaluation of Capacity-Building Interventions**

In mid-2007, the fifth year of the project, a stakeholder survey was conducted as a preliminary ex-post assessment of the results attributable to PROLOCAL capacity building interventions.

One *cantón* was selected in each of the six-micro-regions, where the interventions of PROLOCAL were earliest and most intense. The sample consisted of six municipal and 11 *junta parroquial*-level local governments, 15 second-level and 17 community-level campesino organizations. The questions focused on four sets of indicators of capacity to which PROLOCAL's work was likely to be most relevant: (i) human resources/leadership; (ii) management capacity; (iii) organizational culture; and (iv) linkages and negotiation. Forty-two indicators were used, grouped into 12 variables.

#### ***Progress and impact***

It is evident that to evaluate the impact of organizational capacity building is inherently difficult and even in the most sophisticated international and academic circles it remains an evolving science (especially in the case of civil society organizations). There is consensus that this is a long-term process. As has been proven in many World Bank projects, tangible and sustainable outcomes of capacity building efforts only materialize much later than the project period. Therefore, the evidence that follows represents more progress than impact. In PROLOCAL's case the difficulty is compounded by the fact that three of the six micro-regions have operated only three years and one over two years.

A further complication is the existence of six target groups: two types of campesino organizations (second level and community based), two types of local government (*cantones* and *juntas parroquiales*), local financial entities and networks of local professionals with their NGOs. More information is available on the first four types, so we begin by showing the summary table of a recent survey of a sample of 49 organizations, selected from the cohort having had the longest project interventions.

The figures in the table below were derived from a scoring system expressed as a share of the maximum possible scores of 100%. Thus 50% or less indicates low progress/impact, above 80% high impact, and between 50% and 80% medium or moderate results.

### Impact indicators of PROLOCAL's Organizational Capacity Building (percentages)

Dimension of Capacity	OSGs (Second Level-organizations)	OBs (Community-based organizations)	Municipios (Cantón-level)	Juntas Parroquiales	Averages
Human Resources and Leadership	71.7	71.2	58.3	68.2	67.3
Management Capacity	71.6	57.8	61.4	68.4	64.8
Organizational Culture	76.4	80.6	59.0	88.1	76.0
Linkages and Negotiation	57.2	39.5	56.8	61.9	53.9
<b>Totals</b>	69.2	62.3	58.9	71.6	65.5

Overall, the results, with all the caveats of little time elapsed and possible respondent bias, are positive. Only one of the scores fell below 50 and 6 of the 16 summary scores are above 70. The lowest score of 39.5% was in the community-based organizations (OB)'s capacity for linkages and negotiations. This is partly explained by the fact that community-based groups tend to have fewer and weaker linkages than the other organizations. Comparatively, the most robust results are in organizational culture. Next in importance is progress in leadership and human resources. It is interesting to note that, comparing progress by type of organizations, the newly created *juntas parroquiales* were rated highest, that is, they took advantage of the opportunities the project offered to advance from an initially very low level of organization. The impact on the municipal governments was the lowest.

Below, we disaggregate the four dimensions shown in the table for a better understanding of progress in specific aspects of capacity.

#### ***Human Resources and Leadership***

In this dimension, the peasant associations indicated the most progress in their technical and supervisory capacities, and in the formation of potential new leaders and field promoters. But the scores for entry of women and younger persons into leadership positions were quite modest. The very consistent advances shown by the community level organizations in leadership and organizational skills in such aspects as participation rates and decision making, is confirmed by other data and observations. This reflects, in part, the initial very low level of organization among the peasant communities and the catalytic effects of subprojects.

In the case of local governments, respondents rated very highly the impacts of PROLOCAL's training programs. However, less progress is acknowledged in local

government capacity to acquire technical staffs, which has been mainly a function of low budgets.

### ***Management***

The greatest advances are reported in accounting, financial control and in the preparation of financial reports. All the organizations reported advances in the skills for preparation of subprojects and have increased their capacity to access outside resources.

The survey confirmed other evidence of the limited degree of utilization of the Institutional Strengthening Plans (PFIs) which was one of PROLOCAL's instruments in this component. Of the six relevant indicators only two are rated highly (preparation of annual plans and identification of priority projects). Most of the PFIs were good diagnostic tools. But the relatively low level of demand for capacity building by the organizations (in contrast to the high interest in obtaining subprojects grant money) and above all, the lack of skilled follow-up have contributed to the modest impact of the PFIs.

### ***Organizational culture***

The variables in this dimension were: Participation, Representation, Internal Communication and Accountability. Remarkable here was the much larger progress perceived among the communities and the *juntas parroquiales* in comparison to their respective higher level second-level and municipal entities. This clearly reflects the project's strategy of grassroots development. Consistently very high scores were achieved for advances in legitimacy and member representation. The OSGs reported increased adherence of their base groups, although there were cases in which the project created tensions by dealing directly with the bases and bypassing their umbrella OSG.

### ***Participation***

The consistently high scores for the peasant associations signal important gains in raising their external representativeness and in cementing internal relations between the OSG and their member groups. This appears to apply particularly to the older OSG which over the years have lost their legitimacy and capacity to deliver services valued by their bases. The *juntas parroquiales* have benefited especially in recognition of their capacity of representation at the community level.

### ***Communication***

Advances are reported in accountability through better internal communication. Communication strategies were prepared for many organizations but there is insufficient evidence on their implementation. However investments in ECUALOCAL to provide an electronic information system on development topics to the local organizations have had limited demand from them, as the actual use has been poor .

### ***Linkages and negotiation***

With the exception of high scores for increases in the ability to negotiate (to form alliances and networks), the impact in this variable was lower than expected. This may be explained by the limited relevance of these indicators to the base level organizations (that have few linkages) and by the fact that the different networks formed are yet to demonstrate concrete benefits.

It is especially difficult to find evidence on empowerment in the directionality of linkages, especially vis-à-vis local power holders. But there is some evidence that the campesino organizations have acquired a greater voice in their relations with the municipalities and that their greater access to information about projects and budgets has contributed to empowerment.

In a few municipalities two potentially important changes have occurred: first the establishment of some planning or rural affairs offices, which could become focal points in the evolution of the municipal government toward a greater developmental role, and second, a shift of municipal budgets in favor of rural services.

PROLOCAL has wisely supported the emergence of some larger federation of organizations that could act on a wider scale and also assume capacity-building functions for their members. Thus, the newly created association of *juntas parroquiales* will most likely continue to reinforce the capacity of its constituents. It is also to be expected of the few third tier campesino associations.

***Local financial entities***

This component, while modest, generated considerable results. Here, outputs more closely indicate capacity. In addition to progress in credit volumes and efficiency, the various credit cooperatives and savings & loan associations formed coordinating networks among each other and started to develop useful linkages to the micro-enterprises promoted by the project.

The external evaluation shows the following advances:

No. of members/clients	Increase of 14%
Total deposits	Increase of 26%
Share of delinquency	Decrease of 66%
No. of rural savings accounts	Increase of 46%
No. of women borrowers	Increase of 247%
Volume of rural loans	Increase of 96%

Some of this progress has been due to the upgrading of large urban-based credit coops and to the long-term concurrent assistance of European donor agencies. Potentially, PROLOCAL’s work is most promising in the case of the smaller savings and loan associations, which are generally run by women.

## ***Training***

The most important instrument (and input) of PROLOCAL for capacity enhancement was training. This was mostly delivered through short-term courses and workshops. The ex-post survey included special interviews with a sample of 123 participants in training courses: 69 were leaders; 42 were technical staff, 9 were sub-professional promoters and 3 were community members.

The survey compared the utility of the training expressed by the participants in their function within their respective organizations with the benefits derived for their individual careers. The following table summarizes the results:

**Reported Usefulness of Training Programs (percentages)**

	Utility for Organizational Development		Utility for Personal Advancement	
	Highly useful	Moderately useful	Highly useful	Moderately useful
Second level campesino orgs	69.6	30.4	83.3	16.7
Community-based organizations	96.4	3.6	86.2	13.8
Municipalities	100.0	0.0	100.0	0.0
Juntas Parroquiales	90.0	10.0	89.5	10.5
Averages	86.8	13.2	87.0	13.0

Overall, the participants rated the usefulness of the training programs highly, but also equally useful for organizational and personal benefits. None of the informants said that the programs were of little or no utility. The exception to the near perfect scores in both institutional and personal dimensions was the ratings of the second level campesino federations, where the personal career utility (83.3%) exceeded the collective utility (69.6%). This finding may have two explanations: on one hand, it indicates the abundant external assistance provided by other donors to federations; and on the other hand, it indicates the natural motivation of federation leaders and staff to have more remunerative employment rather than being perpetual organizational volunteers with only prestige and sometimes power as benefits. The failure by OSGs of assessing membership fees and other measures for achieving financial self-sufficiency are the root cause of this situation, which PROLOCAL did not address. When asked to rate the usefulness of training by subject matter, leadership courses were considered by far the most useful (41.5%) followed by technical (28.5%) and administrative/legal (22.8%) subjects.

The replies to the questionnaire on training confirm other parts of the survey in highlighting the *juntas parroquiales* as the major beneficiaries of PROLOCAL's

capacity-building efforts. *Junta* members were the most articulate in identifying the highest useful training subjects (lowest rate of response for “unspecified general subjects”) and had the highest scores for appreciating the usefulness of leadership and administrative/legal courses.

## **2. Stakeholder Workshops and Results**

At the beginning of 2007, an independent consultancy was contracted to conduct a qualitative assessment of stakeholders and their acquired capacities. For this work, workshops were undertaken in six selected municipalities (one from each micro-region, namely: *Paltas, Jipijapa, Echeandía, Pueblo Viejo* and *Mira*) to analyze in a participatory manner the results achieved in terms of the capacity strengthening of territorial stakeholders (local governments, second-tier organizations and grassroots organizations), their relationships and their strategies for the sustainability of local development actions. Based on the conclusions of this consultancy, PROLOCAL has had incidence on three broad areas: (i) economic dynamism - production; (ii) policy - institutions; and (iii) social dimensions – organizations. These are discussed below:

### ***Economic dynamism - production***

The support and promotion of alternative production related subprojects such as, tourism, micro-enterprises and non-traditional crops, was considered by organizations as a contribution of PROLOCAL with high incidence, since these activities have improved peasant economies. In terms of productivity, the support and promotion of irrigation systems improvements is highlighted. It is noteworthy the recognition given by local people and organizations to training activities, and their positive effect on production and peasant economic dynamism. Generally, training processes lose momentum as programs and projects advance during execution. In this regard, the project developed a very pertinent training strategy with technical and social dimensions. Successful training areas include: informatics, management, accounting, social control and monitoring of financial management. Provision of adequate equipment for telecommunications and computer processing, together with practical training for their use, was appreciated.

### ***Policy - institutions***

The perception of the majority of beneficiaries is that PROLOCAL had incidence in people’s participation especially when dealing with local governments. This is a positive sign of the strengthening of grassroots and second-tier organizations. PROLOCAL was able to bring closer municipal governments and their population. Through local development plans, local governments had notoriously improved their relationships with organizations at various levels and *juntas parroquiales*. The execution of local development plans has recovered the trust of local organizations in local development initiatives – these organizations severely criticized institutions which only prepared documents and do not contribute to execution of plans conceived. Second-tier organizations and local governments recognize the support provided by the project and how they improved their presence with their constituencies and their management

capacities. Municipal governments have improved governance through participative budgeting, ordinances to support local development, and planning and monitoring commissions for local development plans.

### ***Social dimensions – organizations***

There is high recognition to efforts undertaken by organizations, with the support of PROLOCAL, to improve relationships across organizations, associating local actors so as to undertake cooperation agreements which go beyond financing only. There was resource optimization by municipal governments and *juntas parroquiales*. Resources provided by the project always reached both local government levels and involved communities through social accountability and monitoring of funds. There was capacity building on subproject preparation, local development management and leadership development among local actors. Legal registration of organization was in most cases an important instrument to access funds available in various institutions. However, some informal organizations perceived this legalization as a constraint for their development, since they could not enter into agreements and obtain funds.

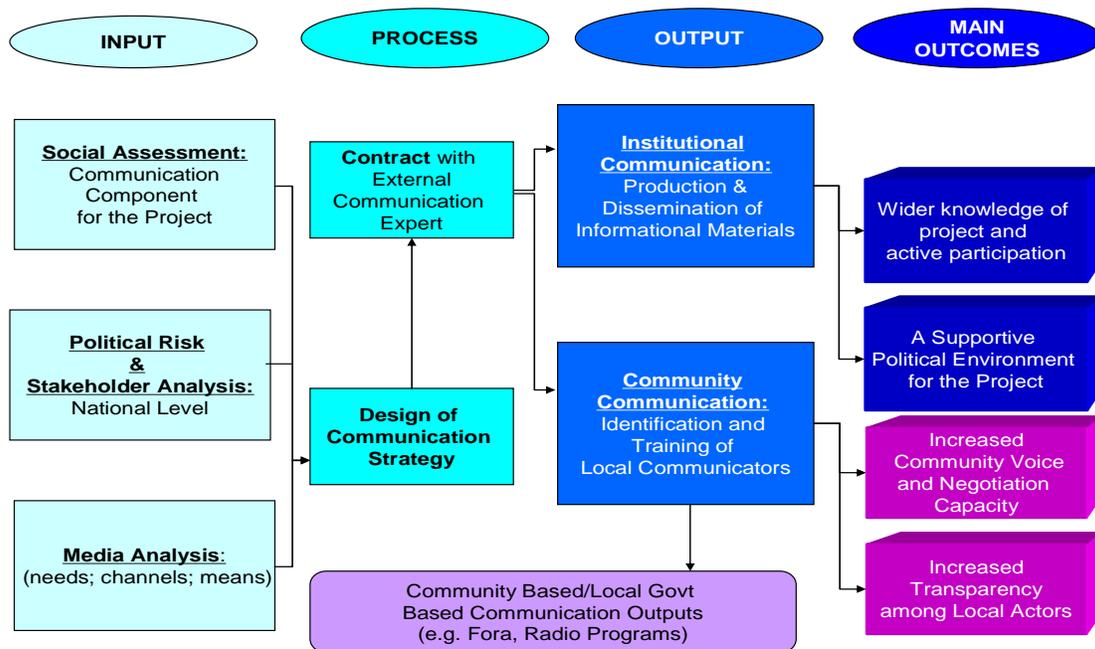
### ***Positioning of stakeholders in local development***

Stakeholders were positioned within a network of interactions or socio-grams, according to their level of incidence in policy aspects, management and vision of local development. In this context, PROLOCAL is perceived with high incidence. Municipal governments are also perceived with high incidence, with one exception. The project was able to strengthen *juntas parroquiales*, and they are also perceived with high incidence. Second-tier organizations are favorably perceived in terms of participation and local development promotion. However, their incidence in policy matters is low. The perception about NGOs is variable, particularly because their presence is not stable in local territories. Provincial Councils are perceived to have high incidence in policy matters, but their participation in local development is low, with one exception. The resources invested by PROLOCAL in development of strategic development plans, institutional strengthening proposals, ordinances, and micro-regional coordination units allowed that the project and local governments would increase their incidence, so as to be perceived as the pillars of local development.

## Annex 7. Assessment of PROLOCAL Communication Strategy

### Background and objectives

The original objectives aims of the communication strategy were ambitious: it was expected to: (i) familiarize potential participants of the project’s aims and activities and give these greater visibility; (ii) facilitate information exchange among the various stakeholders and hence promote participation and collaboration; and (iii) provide basic information useful for planning and projects to local entities, especially on technological and marketing topics. The third objective was expected to be reached within a larger framework, involving the Ministry of Agriculture and ODEPLAN (*Oficina de Planificación de la Presidencia*). However, these national linkages did not materialize well, and as a result, the communication strategy re-focused on two components: (i) the so-called institutional activities and (b) community-type communication. While the former was aimed at building a supportive political environment for PROLOCAL by stimulating dialogues on development among local and national stakeholders, the latter was geared towards empowering communities to form collective identities and to facilitate information flows to the grassroots (see figure below).



### Activities and output

The first component included the development of an institutional website, the publication of a magazine on local development (*Diálogo*), the organization of national fora and fairs, an institutional newsletter (*Notilocal*), institutional and lessons sharing videos, press releases, and the support to a national campaign to disseminate results called “This is Ecuador we want and we build”.

The second component featured training of community-level communicators, but also included the provision of technical and financial support to local actors, ranging from the participatory development of radio programs to communication strategies of local institutions. The project also supported the establishment of infocenters and of an information management system called ECUALOCAL.

## **Main results**

There is no systematic evaluation of the impact of the various communication processes. As in other components, the monitoring system focused on quantitative outputs, i.e. so many events held, number of people trained, articles published, etc. Nevertheless, from beneficiary surveys on the level of client satisfaction and field observations, a generally positive picture emerges. This appears to be the case for both the public relations and media-type aspects and the “information as empowerment” aspects. Several aspects are highlighted below:

- In general, a good understanding and appreciation of the project was created, as proven by the large share of the target population, which became familiar with its overall approach (82% according to an external evaluation) and the high number of articles in the national press (73% according to the 2006 press review), expressing a positive view of the project.
- The communication strategy also contributed to position the concept of local development in the public debate, as demonstrated by the annual press review carried by the project. Media attention to local development issues increased, from an average of three appearances per month to more than 20 during the last year of implementation.
- The strategy expanded the variety of opportunities for local population to provide feedback to the project and local governments, as shown by the high number of spontaneous initiatives of social accountability generated by PROLOCAL, the numerous letters, calls and visits received in the regional offices from persons not directly benefited or targeted by the project.
- Community-based organizations became aware of the importance of this tool to channel their demands, create transparency, and foster a culture of social accountability. At least half of the executing agencies and 47 local governments included some version of a communication program in their management plans as a result of the project.
- Overall, the communication strategy helped in building a favorable image of PROLOCAL and greater trust among the local institutions. According to the external evaluation conducted by the EC, the target population increased their confidence in their own local governments (63%), and the local financial

institutions (55%). At the end of the project 90% of *juntas parroquiales* and 80% of municipalities improved the perception of their external accountability.

### **Some lessons learned from implementing the Communication Strategy**

- Having a flexible and decentralized communication strategy was helpful in addressing the micro-regions' socio-cultural complexity in an adequate manner.
- Some aspects of communication had a promise of sustainability because they relied on local structures. In particular, the decision to select and train local reporters and communicators from local organizations ensured that capacity was successfully transferred to such organizations as a whole. A good example has been the involvement and training of local communicators from *Radio Alfaró*, a local community radio which contributed to project activities, but also found a way to sustain such activities after project closure by acquiring licenses for a wider coverage, thereby increasing the financial capacity of the radio. The project also contributed to build ownership of its activities by the government, by strategically anchoring some of its products to the communication strategy of the Ministry of Social Welfare. Some of its products, such as the magazine *Dialogo* have become official communication tools of the MBS.
- The use of locally rooted communication channels and media proved to be more effective than those with advanced technology, as shown by the successful involvement of the project in locally owned events (e.g. local fairs, sport events, etc.), while more modest results achieved by the institutional website and the ECUALOCAL information system.
- An important lesson for the future is that the goal of providing useful information to local organizations must be demand-driven, rather than supply-driven, as has frequently happened with donor projects. In PROLOCAL, significant resources were spent on supporting a computerized system of development data at the *Universidad del Austro* (a regional university), without sufficiently ascertaining the type of information municipal governments and campesino organizations actually needed and were capable of processing.

## **Annex 8. Summary of Borrower's ICR**

This Annex summarizes the salient points of the Borrower's ICR. Several sections describing the project as conceived in the PAD and other information easily observable from tables in the full Borrower's ICR have not been included in this summary.

### **1. Quality at the Beginning of Project Implementation**

Probably the most important aspect influencing the impact and the results of PROLOCAL was putting together a competent managerial, technical and administrative team with high degree of professionalism and interpersonal skills, as well as commitment towards PROLOCAL development objectives. On the one hand, the quality of the team contributed to lessen the permanent attempts of political interference, and thus the hiring of personnel unqualified to face the challenges implicit in the implementation of this innovative project. On the other, the transparency of the actions in favor of the poorest generated confidence among the local actors.

The facilitating approach of the intervention, in addition to supporting the genuine demands of the local actors, were decisive in reaching the objectives of PROLOCAL, to promote local development processes, and to constitute itself in an adequate instrument to reduce poverty and include the poor and the extreme poor in the gathering of the benefits generated by the social development, economic and environmental sustainable approaches.

### **2. Economic Analysis**

The implementation of 473 productive initiatives, in six micro-regions and with participation of 37,633 families, generated the following impacts:

**Permanent employment generation:** For each participating family 0.33 permanent jobs were created per year, with a total of 12,481 jobs during the four years of implementation. For that, PROLOCAL invested US \$16.9 million, or US \$1,353 per permanent job.

According to project design, it was estimated that agricultural, agro forestry, agri-commercial/services subprojects would employ 7,900 person/years. The implementation of the subprojects generated 9,794 jobs/year, or 24% more than expected.

Environmental investments reached US \$5.2 million, which also allowed for the hiring of an important number of people each year. They represent 20% of the jobs generated by PROLOCAL. The institutional strengthening projects generated 217 jobs.

From the standpoint of project size, the *parroquia* and *cantón* level subprojects generated an average of 0.35 permanent jobs per year per family, while families participating in community subprojects benefited with 0.1 jobs per year. Additionally, it is worth noting that community level projects required higher investment to employ one person for a year.

In fact, for this size of projects US \$2,765 were invested to create one job, while for *cantón* level subprojects it was US \$1,479 and at *parroquia* level US \$1,263.

**Increases in family income:** The 473 implemented subprojects with 37,633 participating families increased the annual family income by around US\$11.9 million, or US \$316 per family per year. When comparing the total investment by PROLOCAL during implementation (US \$16.9 million) and the total incremental income, it shows that for each dollar invested the families benefited 0.7 dollars per year. If we compare with the families participating in productive subprojects (24,158) and the total increase in income (US \$10.8 million), it shows that each family increased its income by US \$446 per year. These indicators would tend to continue going up until the subprojects are fully implemented.

From the point of view of the size of the subprojects the increase in family income does not show high dispersion. In fact, families participating in community level subprojects increased their incomes by US \$376 on average, while those taking part in *parroquia* level subprojects by US \$247 and *cantón* level subprojects US \$477.

**Increases in family assets:** PROLOCAL allowed the capitalization of families through productive assets (US \$10.9 million), or US \$290 per family.

**Increase in technical capital:** PROLOCAL invested US \$3.5 million in the improvement of the technical and productive capacities of the families, as a result of technical assistance and training provided. .

**Net present value/Economic Rate of Return:** The NPV and the IRR were calculated for the 40 subprojects selected for the impact evaluation. From these, 16 projects yielded rates lower to the opportunity cost of 12%. However the results from all the evaluated subprojects are positive, yielding a NPV of US \$9.8 million and a IRR of 58%.

### 3. Factors affecting the implementation and the results

#### Exogenous

- Accounting for the low of credibility and effectiveness of projects and programs implemented by previous governments, the local actors had a negative perception against PROLOCAL at the start of implementation. Changing this perception and achieving effective participation from all local actors demanded great efforts from the technical teams. This unfavorable environment delayed the initiation of project activities as time was invested to build trust and constructive relationships with local and regional stakeholders.
- The political instability that reigned during the implementation of PROLOCAL was a factor that had a negative effect in execution. In four years the project saw three Presidents, eight Ministers of Social Welfare, six of which due to their short tenure could not internalize the project and thus

could not bring the necessary political support to bring an environment conducive for reaching project objectives. Only the last three Ministers (Dr. Alberto Rigail, Dr. Rubén Barberán and Economist, Jeannett Sánchez), by recognizing that the project was a pro-poor instrument through income and employment generation, endorsed the process that started in 2002 and propelled it for its consolidation.

- The participation of the various social organizations and local governments in the local development proposal required meeting a series of legal and fiscal requirements which were not demanded by the organizations to have access to government resources. To establish this culture in the various actors required effort and time, in many cases extremely a long time. Nonetheless these types of inconveniences were overcome as the project was implemented. To obtain a RUC, open accounts after a long process of bidding by financial entities, to comply with the rigorous norms of the procurement process according to the source of the resources (World Bank, European Commission), legalizing grassroots social organizations, among others, were factors that delayed the utilization of project resources.
- During the implementation of PROLOCAL there were several attempts of political interference in the hiring of the managerial, technical and administrative teams. Fortunately, transparent and rigorous selection and hiring processes in place as well as the regular performance evaluations of the project staff constrained the attempts to introduce staff that did not have the competencies to successfully undertake the activities inherent to each position.
- The incompatibility in the application of established legal norms and national laws (*Ley Orgánica de la Contraloría del Estado, Ley de Contratación Pública, Ley de Consultoría*) and the normative framework applied to execute international credit agreements resulted in procurement delays for goods and services for the implementation of the subprojects.
- The project had as an objective to strengthen local capacities, particularly for the provision of formulation, monitoring and evaluation. It was expected that there would be a minimum installed capacity to start the strengthening process. Unfortunately this was not the case. The project first had to strengthen the capacities of the service providers in the use of the technical and methodological instruments, so that they could later facilitate the processes.
- Implementation of the local development plans implies medium to long term processes, if it is desired that they become adopted institutionally, and that they become means to break the social inequalities to benefit the poor. PROLOCAL implemented interventions for as long as four years or as short as 18 months, which suggests that the implementation period of PROLOCAL was too short to fully achieve the proposed objectives with the project's new and innovative intervention approach.

- In summary it could be argued that the context in which PROLOCAL was developed was difficult, as it had to undertake actions in geographical areas with highly depressed populations, with high levels of illiteracy, without access to basic services, and without government policies to tackle rural development, without government investment in support small agricultural producers, and facing the weakening of the organizations and their internal leadership, amongst others.

## **Endogenous**

The dynamism in the implementation of the project, especially during the first one and half years, was constrained by the following:

- The methodological instruments required to jump-start PROLOCAL were incomplete and required to be adjusted according to the reality. Methodologies to move forward with the Local Development Planning and Subproject components had to be adjusted and in some cases reformulated, as well as a new institutional strengthening strategy. Also, the communication strategy and the procurement norms had to be adjusted to the capacities of the implementing entities.
- The defined sequencing of the components in the original design of PROLOCAL was key at the time of disbursement, particularly for the implementation of the productive initiatives and for the organizational strengthening of the implementing entities, as it was required to wait for the *cantón* and parish development plans to be ready. In some micro-regions it was evident which productive areas should be supported with subprojects and or institutional strengthening plans.
- The new management model adopted at the *Cuenca del Rio Angel* also affected the process of implementation of PROLOCAL due to the lengthy and cumbersome administrative process it required to contract a NGO consortium. Obtaining favorable reports from the *Procuraduría General del Estado*, the *Contraloría General del Estado*, the World Bank and the European Commission so the Consortium could start managing this Regional Technical Unit took eight months of negotiations.
- The original document of PROLOCAL was subject to several adjustments. For instance, the goal was to have 600 community level projects and to support the same number of communities. This had to be changed as, from the operational and financial standpoint, it was not the most effective and efficient way to reach the establish goal.
- The low weak administrative capacity of the social organizations was a factor limiting their rapid adjustment to the dynamics and intervention model of

PROLOCAL. The strong support given by the project to the institutional strengthening strategy designed during the implementation of PROLOCAL, allowed the active participation of grassroots organizations, and second and third tier organizations during the second year of implementation.

- PROLOCAL focused in the development and strengthening of productive chains, particularly of export products such as cocoa, corn, coffee, rice, beans, and watermelon, among others. Notwithstanding, the implementation period of the project was too short for these product chains to fully consolidate and generate financial gains to the participants. Also, working with the concept of agri-food chains implied a higher requirement of funds, and these were not available due to limitations of the Local Investment Fund (FIL).
- The intervention proposal of PROLOCAL was somewhat new, different and innovative, and it took some time until the technical teams of the project were able to internalize it and transfer it to the various local actors, particularly with respect to their facilitating function of a process that depended from their own demand.

#### **4. Sustainability of the Model**

There is a series of factors dealing with the sustainability of the development model started with PROLOCAL. The following are the most relevant:

- The political support of the municipal governments and the *Consejo Nacional de Juntas Parroquiales* (CONAJUPARE), that were involved in the implementation of the development proposals, was a clear sign that those local actors considered that the intervention model was efficient and effective to achieve a fair and equitable, as well as socially, economically and environmentally sustainable territorial development. Also that it allowed them to strengthen their organizations, in particular their administrative capacity and internal controls.
- The actions of PROLOCAL resulted in improving the administrative local capacities of the executing entities, which ensures that in the future they will be equipped to start their own their own social, economical and business processes. The evaluation mission confirmed this when it established that local actors were empowered, that there was a renewed trust in Government and international cooperation programs, more trust in local governments and in rural financial entities, a higher level of self-worth, higher levels of propositive and negotiating capacity, more openness towards the outside of the organization to search for alternatives and alliances, a stronger grass-roots demand from for account-rendering and control, and increased propensity for savings and productive re-investment.
- In some micro-regions, PROLOCAL favored the allocation of resources to those productive proposals where the economic infrastructure component demanded

- more resources, particularly in the case of irrigation systems, marketing infrastructure (gathering centers, processing), equipment for agri-transformation, among others. Without a doubt these community investments allowed the productive processes initiated with project support to become sustainable with a much lower risk than the one normally associated with rural economic activities.
- Rescuing the knowledge and productive practices of rural families, together with the innovations brought forward by PROLOCAL resulted in the adjustment of the productive practices to the socioeconomic conditions of the participating families. This combination ensured the use of lower cost and easily applicable productive technologies for the improvement of yields and the income of poor families.
  - The productive largely successful activities financed with project resources recovered their initial investment and as a result allowed for the widened participation of other families from the participating organizations, for the diversification of production to establish better conditions for the development of the productive activity, and for investing in infrastructure to support production. The evaluation mission of PROLOCAL stated, “There are sufficient indications to positively grade the operational-financial sustainability of the subprojects supported by PROLOCAL”.
  - Almost the totality of economic activities supported by PROLOCAL have been implemented with an environmental sustainability approach, that is, using agricultural practices that do not destroy the natural resources (soil, water, biodiversity).
  - The medium and long-term programs to strengthen the social fabric and human capital allowed for the strengthening to continue over time, widening the number of organizations and the base for human capital development, and thus for constructing a more appropriate social fabric to implement local development actions in benefit of the great majorities. Those interviewed by the evaluation mission agreed, “Those who received training are applying the knowledge acquired, have improved their practices, their organizations are using their capabilities and consequently and thus they have been strengthened”. Also, the training has allowed “several qualitative changes in the administration of their organizations and the implementation of productive projects”.
  - During the implementation of PROLOCAL solid relationships were developed amongst the various development actors, and strategic alliances to steer the efforts towards social, economic and environmental sustainability were also developed. Furthermore, these development entities have been able to insert themselves in long-term processes.
  - The ample participation of women in the development planning processes, in the implementation of productive initiatives, and in the strengthening processes, is

noteworthy. The above should allow for the consolidation of these groups of women and their continued support of those activities started by PROLOCAL.

- Lastly, as stated by the evaluation mission: “the route and development model put in practice by PROLOCAL and many projects of its type, are appropriate instruments to fight poverty and achieve more and better inclusion, and could be used successfully as strategy for a serious government policy for rural development with inclusion and poverty reduction”.

## **5. Financial Execution**

The implementation plan of the project established an original budget of US \$49.3 million, of which US \$25.2 came from the World Bank loan, US \$11.04 from a grant by the European Commission, US \$5.2 from the participating actors in the implementation of the project, and US \$8.6 million as the contribution of the Government of Ecuador. With respect to these contributions it is noteworthy that the Government of Ecuador’s commitment was effectively reduced to US \$2.7 million, and thus the real global budget of PROLOCAL was US \$43.4 million. By June 2007, PROLOCAL had invested US \$68.4 million, that is 31.5% more than anticipated, due to the higher contribution of the participants (US \$20.8 million instead of US \$5.2 million) and to the difference of the effective Euro and US dollar exchange rate that was assumed in the budget.

## **6. Lessons Learned**

The PROLOCAL experience leaves a series of lessons that could be organized in three different stages: i) the formulation process; ii) the negotiation process, y iii) the project execution.

### **Formulation of the Proposal**

Although the implementation team of PROLOCAL did not participate in the first two moments of the history of the project; their point of view with respect to the products it received for the implementation of the project (e.g. the project document) can be put forward. From this standpoint the following lessons are noteworthy:

#### **i) The PAD is a guiding framework**

Being PROLOCAL a demand driven project its formulation should not have had a high degree of detailed specific actions, but general guidelines that would establish intervention limits; for instance: strengthening administrative capacity; strengthening local organizations; supporting individual capacity building; promoting agricultural and non-agricultural activities; implementing small works in support of production; strengthening the administrative capacity of local financial entities, among others. The details do not become known precisely until during implementation when the technical teams start gathering the local demands.

## **ii) A development approach is required**

The formulating team, together with the potential implementation participants must discuss the development approach to be considered; for instance, is the project is going to promote “unrestrictive economic growth” or will it try to promote “growth with equity” or the “human development” approach or a combination of these?

## **iii) The results framework indicators**

Starting from the development approach and adjusting the broad lines of action of the agreed approach, it is easier to define global indicators to measure the performance of the projects; indicators such as the number of families that adopt new productive activities or improve their current ones, the number of organizations that join the strengthening processes, etc. It is important to define indicators of products, effects of potential impacts, as well as some indicators that allow measuring the advancement of the processes.

## **iv) The appraisal**

It is common to undertake ex-ante financial, economic and social evaluations with budgets that are estimated due to the demand-driven nature of the project. It is important however that in social projects other types of indicators are identified to anticipate the success or risks of the project during implementation. For instance other indicators for efficiency, effectiveness, sustainability, employment generation, income generation, etc, could be sought. Forecasted internal rates of return or net present values based on assumed specific productive activities is barely a challenge to the creativity of the team.

## **v) The investment plan**

In a project of this nature, as the reaction of the local actors during the implementation is not known, to develop detailed investment plan is also inadequate. The plan should only provide global allocations (by components) so that it becomes a guide of broad allocations that, above all, reflect the adopted objectives; for example: 50% of global budget for productive investments, 20% for environmental proposals, 20% for organizational strengthening and 10% for operating costs. With this type of allocations the implementing teams would know the amounts they can use and would know how to distribute them over time.

## **vi) Complementary instruments**

It would be valuable to prepare, together with the project document, other support instruments, such as, in the case of PROLOCAL, the operation manual, the manual for the local investment fund, the performance guides for the local actors, among others.

In any case, for projects of this nature, it could be established during formulation that after six months of activities the implementing team should present a series of details that

would approximate better to reality, as per the initial implementation experience; it would be required, for instance, the results framework indicators, the investment plan, the amounts of funds allocated to each component, and others that allow for the implementation of a real monitoring and evaluation system closer to the realities of the territories focused by the project.

### **The Negotiation of the Proposal**

For the case of projects financed by credit, a series of conditions for effectiveness need to be met before the signing of the credit agreements. By experience, these conditions should also be required for project fully financed by national resources. It is important to consider the following issues:

#### **i) Selection of the implementing team**

To guarantee the technical adequacy and ethics of the project implementation team, the team selection process must be competitive and shall be entrusted to an entity external to the one in charge of the implementation. The selection process is to be framed within the terms of reference prepared during project formulation, and shall incorporate a mechanism that guarantees the transparency of the exercise.

#### **ii) The baseline**

In the experience of PROLOCAL, an effectiveness condition was the establishment of a baseline. This execution of this work was technically sound, but its usefulness has been questioned. The problem is that, even when its technical quality is unquestionable, the intervention areas of the project were not precisely determined; the selected sample never guaranteed that the families participating in the survey were going to participate in the subprojects and, for the purpose of a future impact evaluation, the results, can barely be useful as witnesses to changes produced in comparison with the families that actually participated in the implementation of the project. It would be a “with and without project” comparison.

To this respect, it would be better to construct the base line during the first few months of the implementation, when there is at least a preliminary identification of the territories and the actors with whom the project will work. It is probable that, due to the urgency at that point in time, the technical quality of the exercise would be sacrificed somewhat, but its usefulness would be much more significant. “This is how they were before.... This is how they are now”.

### **The Implementation**

For this phase the relevant lessons are the following:

#### **i) Induction**

As the people involved in the formulation and those in charge of the implementation were different, it is absolutely necessary to implement well-structured induction exercises at different levels, or with different actors. The first exercise must be implemented with the implementation team to clarify the conceptualization, the development approach, the methodological issues, the established goals in terms of indicators, and the immediate actions required, among others. Something similar must be implemented with the representatives of the local actors. The objective is that the ‘rules of the game’ are clear from the beginning. This would facilitate future consensus building and the subscription of agreements.

## **ii) Building local capacities**

It is clear that the implementation of initiatives by the local actors will be successful only if their capacities are built-up in a parallel manner. This brings up the need to better direct the organizational strengthening plans. Strengthening could mean to analyze and, if it was the case, reconfigure the structure and functionality of the organizations, to incorporate schemes that differentiate management from administration, to train promoters and “*campesinos técnicos*”, to train entrepreneurial leaders, among other actors.

In any case, it is not about denying the aspirations of the local actors and their organizations. The project should support the participatory formulation of their institutional strengthening plans, that would consider issues such as those previously mentioned, and others such as, the strengthening of the local social fabric, the generation of resources of their own, the rescue of their cultural identity, etc.

## **iii) Facilitation**

In an intervention approach such as that of PROLOCAL, the technical team does not implement but facilitates, but this requires understanding the following:

- Facilitation as a process
- Facilitation as intermediation
- Facilitation as negotiation
- Facilitation as induction
- Facilitation as organization
- Facilitation as orientation
- Facilitation as evaluation
- Facilitation as training
- Facilitation as human capital development
- Facilitation as team work
- Facilitation as research
- Facilitation as collective learning
- Facilitation as example
- Facilitation as sharing

## **iv) Building capacity in local governments**

From experience, in order to build curricular plans for training processes for development, particularly with the *Juntas Parroquiales*, it is necessary to call upon the Law. This is the instrument that by defining the obligations, responsibilities, and rights of those who are part of the local governments leads us to the question of how well prepared are the local actors to perform the mandate of their Law. For example, if the Law assigns them the responsibility to steer local development planning processes (PDL), it is necessary that those who guide the local governments at least know what a PDL is and how it is formulated in a participatory manner.

#### **v) Valuing non-formal training**

If process management is being incorporated, the local leaders are facing a situation of “learning by doing”; however, the skills they develop are not usually valued as true learning. In the case of PROLOCAL they have learned, for instance, to manage funds within the framework of formal regulations, to manage bank accounts, to direct competitive bidding processes for the selection of service providers or the procurement of goods, to regularize their relations with the Internal Revenue Service, among others. In the case of the families that adopt new productive practices or improve the ones they had, probably, the new technologies improve their linkages with markets locally and nationally, and may be in some cases even international markets. This type of learning is precisely the product of the “facilitation” efforts.

#### **vi) Co-financing amounts as guidelines**

While it is necessary to establish a ceiling or indicators of amounts to be financed by the project and by the local actors as their counterpart, it is necessary to establish exceptions. Of course, exceptions have to be managed with utmost rigor to avoid that they become the general rule. There are cases of families in extreme poverty that cannot contribute with cash, for instance, to cover 40% of the cost of a capital good (a policy of the FIL) and that run the risk of staying out of the processes. In such cases, with a valid justification this percentage could be negotiated and other forms of retribution could be established, such as contribution of community labor and local building materials to fix the town’s school. The important issue is to promote a sense of responsibility for the good management of the project resources.

A similar case is when, for example, the project allocates reference investment amounts per family (US \$800) and turns out that the subproject is so complex that the reference amount is insufficient. The important thing is to incorporate mechanisms that guarantee, as previously stated, that the exceptions don’t become the general rule.

#### **vii) The understanding and respect of the “campesino” logic**

Even as facilitators, the members of the technical teams have the tendency to induce solutions, sometimes foreign to the reality of the area of intervention. From this perspective it is important to motivate the creativity of the peasants and facilitate the

expression of their knowledge, skills and proven practices. One must not forget, however, to undertake joint feasibility analysis of the proposals and of the new practices. It must also not be forgotten that they are those who “demand” and “propose” their solutions.

#### **viii) The need to incorporate transversal strategies**

Possibly this is a formulation issue, however, during implementation, heterogeneous territorial dynamics could force the incorporation of strategies that cut across the whole proposal, such as:

- A clear communication/information strategy.
- A strategy to promote the establishments of alliances between the local actors and other institutional or business partners.
- A strategy to support the recovery of traditional technologies and the development of new ones.
- A strategy to facilitate the implementation of a value chain approach.

#### **ix) The consideration of higher vulnerability groups**

Experience shows that groups of people who are physically challenged generally have remained outside the influence of development projects. This is an important population sector which has all the rights to be served. Solutions coming from them have proved that their participation is feasible, even in productive matters.

This could also be said about young people. They need opportunities to begin to act as actors capable of undertake productive activities, cultural, etc.

Special attention should also be given to women head of households.

#### **x) Understanding the roles of the various actors**

It is not uncommon to find conflict between, for example, political organizations and civil organizations. The origin of these is the poor definition of roles; much of which are legislated and other can be concerted. This requires better management of conflict resolution guidelines.

A stronger dissemination effort is required for the intervention approach in which the most important actors, the implementing entities, are peasant organizations and local governments, and they are, not the project, the ones that steer their processes. It is a matter of changing attitudes towards local development.

### **7. Performance of the World Bank and the European Commission**

During the four and half years of implementation of PROLOCAL, the World Bank and the European Commission undertook 13 Joint Evaluation Missions. All of these could be considered satisfactory as they contributed towards the good management of the project

and consequently to the achievement of its objectives. In each mission it was possible to reach a consensus with the Managerial Technical and Administrative/Financial team of PROLOCAL in issues such as management, operational and support strategies.

## **Annex 9. Comments of Borrower, Cofinanciers and Other Partners on ICR**

### ***Comments of Borrower***

The Ministry of Economic and Social Inclusion (formerly the Ministry of Social Welfare) fully endorsed the ICR in the enclosed letter, dated 21/02/2008. The letter highlights the project's achievements in terms of increased household incomes and rural employment; facilitated alliances between local level institutions and local governments; beneficiary communities contributions to local investments; support to local development processes their institutionalization; and human and social capital formation to enable local organizations to mobilize new financial resources with a wider range of partners for their own development. The role of project supervision is stressed by the Ministry in terms of facilitating continuous learning and adaptation which became the means to strengthen the project's policies and procedures from the earliest stages of implementation.

### ***Comments of the European Commission (Cofinancier)***

The EC provided the enclosed letter, dated 20/02/2008, with helpful comments on the draft ICR which have been addressed in the final version of the document.



Oficio PROL- 047 -CS

Quito, 21 de febrero de 2008.

Señor  
Francisco Fichón  
Gerente del Proyecto  
Departamento de Desarrollo Sostenible  
Oficina Regional para América Latina y el Caribe  
Banco Mundial  
Washington

Estimado Francisco:

Me es grato dirigirme a usted, para a más de expresarle un cordial saludo, hacerle llegar los siguientes comentarios en torno al Informe de Cierre del Proyecto Reducción de la Pobreza y Desarrollo Rural Local cofinanciado con crédito No. 7067-EC del Banco Mundial:

1. Los resultados obtenidos con la implementación del proyecto, especialmente los relacionados con la generación de empleo, incremento de los activos productivos y el mejoramiento de los niveles de ingreso familiar de la población pobre que intervino en la operación del proyecto, permiten evidenciar un eficiente y eficaz uso de los recursos administrados por PROLOCAL en los cinco años de ejecución del proyecto cuyas fuentes fueron: 25 millones de dólares del crédito del Banco Mundial; 17,3 millones de dólares de una donación de la Comisión Europea; 1,9 millones del Gobierno Nacional y 21,2 millones de los participantes.
2. Merece especial atención la respuesta de los actores locales a la propuesta de desarrollo implementada por el PROLOCAL, quienes lograron aportar un 368% más de lo previsto, producto de la confianza, transparencia, y oportunidad con la que se administraron los recursos, y por efectos de su alto nivel de participación en el proceso de planificación, ejecución, seguimiento y operación de las iniciativas de inversión financiadas.
3. La gestión realizada por el Gobierno del Ecuador, a través de la Gerencia del Proyecto, con el apoyo de los funcionarios del Banco Mundial y la Comisión Europea, fue particularmente importante para la consecución de los objetivos del PROLOCAL. En efecto, la puesta en práctica de un modelo de gestión, basado en la demanda de los participantes, un equipo técnico con un rol de facilitador del desarrollo y con el involucramiento permanente de los beneficiarios, da cuenta que es posible invertir y administrar recursos con altos

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niveles de efectividad para mitigar la pobreza de esa población rural objeto del Proyecto.

Por último, debo apreciar en alto grado, el apoyo brindado por el staff del Banco Mundial durante la implementación del PROLOCAL, tiempo durante el cual se pudieron compartir experiencias de desarrollo, las mismas que a la postre ayudaron a la consecución de los resultados que hoy se presentan en el Informe de Cierre del PROLOCAL, sobre el cual el equipo directivo y técnico del proyecto expresa su conformidad.

Reitero a usted mis sentimientos de consideración y estima.



Ing. Miguel Andrade  
COORDINADOR NACIONAL  
PRODER



**UNION EUROPEA**  
 DELEGACION DE LA COMISION EUROPEA  
 EN ECUADOR



Quito, February 20th, 2008  
 DELECUUHO/2008/D/MV/sr/ECU-0079

Doctor  
**Francisco Pichón**  
 Task Manager for PROLOCAL Project  
 World Bank  
 Washington

**Subject:** Revision of the Implementation Completion and Results Report for PROLOCAL Project.

**Ref:** E-mail dated February 5, 2008

Dear Sir,

Regarding the revision of the document in reference, I propose the following comments for your consideration and/or inclusion in the final document

Without any doubt, at the end of the Project Implementation, its execution level is satisfactory, achieving and over fulfilling many of the results and indicators previewed. In this sense, we consider convenient that the table related to the Project Development Objective Indicators, include the verification sources of these Indicators achieved. In the same way, we recommend to show the exact data according to the final reports of PROLOCAL. For example: **PDO Indicator 6** should mention that 37.633 participating households accessed to productive assets. We also consider that in the IO indicators the total number of sub-projects previewed and achieved should be mentioned as well as the modifications made in this component and its indicators.

In **numeral 1.6 Revised Components**, related to the contribution of the European Commission in the fifth component "Improved Rural Financial Systems", it is 5,6 million, according to the Project Implementation Plan (PIP). In **numeral 1.7 Other significant changes**, the global amount by financing source according to the PIP should be expressed. In the same way, in the European Commission contribution, its contribution in Euros should be showed according to the funding agreements signed with the Ecuadorian Government that are attached

In **numeral 4 Assessment of Risk to development outcome** (improved institutional sustainability), it should be appropriate to mention that in the present context it is urgent to have the definition of a rural development policy, to be included in the Development National Plan, presented in September 2007 by the present government, and in which the PRODER Programme is considered as part of the public management instruments that will contribute to achieve *Objective 11 "establecer un sistema económico solidario y sostenible"*.

**Annex 1** should mention the amount of the contribution of the European Commission in Euros among its observations

**Annex 5, External evaluation**, should mention that the European Commission performed four annual missions for external monitoring, applying the methodology of Results Oriented

Monitoring (ROM), basing its analyses in criteria of: i) design quality, ii) effectivity, iii) efficiency, iv) impact possibilities, and v) potential sustainability. Additionally, other external evaluation was carried out with the purpose of "facilitating and coordinating the sub-projects and processes of institutional strengthening impact evaluation developed by PROLOCAL"

Among the *lessons learnt*, it might be interesting to adhere that in the building local capacities, besides of the local actors appropriation of their initiatives, their management was also strengthened by accessing to other public and private financing funds, through: more active participation in planning processes and management with local and regional governments; partnership with private enterprises (in productive chains), and access to other donors

**Annex 10** - in the list of the European Commission external monitoring, all the external monitoring missions done should be indicated: four by the European Commission: October 28th, 2003 with Roberto Canessa; October 11-14<sup>th</sup>, 2004 with Oscar Avila; October 17-21st, 2005 with Massimo Canessa, and October 18-25<sup>th</sup>, 2006 with Roberto Canessa. In addition, one revision by the European Commission Audit Section was made on January 18<sup>th</sup>, 2007 by Joaquín López Madrugá

It is worth to mention that the pertinence of the design and approach of PROLOCAL is ratified, considering the current poverty levels in the rural areas of the country and the deficient Government support to social policies and inclusion of vulnerable people in development processes. The second part of PROLOCAL through the PRODER Programme should promote the institutionalization of the management instruments and processes developed. A higher institutionalization may contribute to improve the present capacities of the MIES to manage investment in rural/local development to strengthen labour and cooperation relations with other public institutions (sector, agriculture, and environment ministries; local governments, etc.), support the formulation of policies, and move technical resources in support to the initial work of PROLOCAL

The coordination and complementation developed through the credit funds of the World Bank and the grant given by the European Commission was successful in contributing to the implementation and development of the project. It is still pending the reception of the reports (half-yearly and final) by the World Bank, as it is established in the administrative agreements. We trust these reports will be sent as soon as possible to allowing their contractual closure

Yours Sincerely,

  
José Luis MARTÍNEZ PRADA  
Chargé d'Affaires a.i

**Annex:** Financial European Commission to PROLOCAL Project

Annex 1.

European Commission Financing to PROLOCAL Project (Euros)

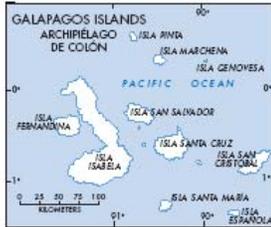
Financing Decision	Contract Numbers	Financing Amounts / Euros	Contracts /Euros	Paid/ Euros
3480	2000/53 833	1er Protocolo de Acuerdo 700.000	700.000	700.000
2348	2003/ 73546	2do. Protocolo de Acuerdo 6.000.000 (5 M Inversión : 1M Asist.Téc)	5.075.000	5.047.838
5982	2005/100899	6.000.000 (4 M Trust Fund 1) (1 M Addendum)	5.000.000	4.000.000 1.000.000
6176	2006/ 121364	3.500.000 Trust Fund 2	3.500.000	3.500.000
		TOTAL	14.275.000	14.247.838

## Annex 10. List of Supporting Documents

<b>Evaluations</b>	
<b>Date</b>	<b>Documents</b>
June 2001	Documento de aprobación del Proyecto-PAD
May – August 2006	Misión Evaluación PROLOCAL: Evaluación de Impacto
May 19, 2007	Fortalecimiento Organizacional y Redes para el Desarrollo Local
<b>World Bank-European Commission Supervision Missions</b>	
July 22-26, 2002	Pilar Larreamendy, Mark Austin, Norman Piccioni, Emanuele Santi, Francisco Pichón, Teresa Roncal, Diana Rebolledo, Patricia Mc Kenzie y Ana Lucía Jiménez
January 20-31, 2003	Pilar Larreamendy, Emanuele Santi, Diana Rebolledo, Tom Carroll, Francisco Pichón, Fausto Jordán, Jean Marie Abbes y Teresa Roncal
May 12-21, 2003	Tom Carroll
May 26-29, 2003	Pilar Larreamendy, Mark Austin, Dino Francescutti, Francisco Pichón, Fausto Jordán, Jean Marie Abbes, Teresa Roncal y Diana Rebolledo
October 20-30, 2003	Mark Austin, Dino Francescutti, María Carmen Tene, Pilar Larreamendy, Tom Carroll, Emanuele Santi, Teresa Roncal, Fausto Jordán, Francisco Pichón, Jean Marie Abbes y Roberto Canessa
March 2-5, 2004	Marcelo Osorio
March 9-12, 2004	Dino Francescutti, María Carmen Tene, Tom Carroll, Fausto Jordán, Francisco Pichón, Jean Marie Abbes
May 14-20, 2004	Dino Francescutti, María Carmen Tene, Tom Carroll, Fausto Jordán, Francisco Pichón, Jean Marie Abbes, Marianela Cevallos
September 7-11, 2004	Dino Francescutti, Fausto Jordán, Mark Austin, Pilar Larreamendy, Ana Lucía Jiménez, Francisco Pichón, Jean Marie Abbes, Marco Venegas
February 28-March 11, 2005	Dino Francescutti, Thomas Carroll, Stefanía Abakerli, Fausto Jordán, Francisco Pichón, Fernando Galeana, Jean Marie Abbes, Marco Venegas
November 28-Diciembre 2, 2005	Francisco Pichón, Dino Francescutti, Thomas Carroll, Fausto Jordán, Fernando Galeana, Pilar Larreamendy, Gregorio Etesse, Marco Venegas
March 13-17, 2006	Dino Francescutti, Thomas Carroll, Pilar Larreamendy, Jorge Uquillas, Fausto Jordán, Fernando Galeana y Francisco Pichón
October 23-27, 2006	Francisco Pichón, Dino Francescutti, Thomas Carroll, Fernando Galeana, Pilar Larreamendy, Marco Venegas, Stefania Abarkerly, Samuel Taffesse, Roberto Cogno, Nicola Bertolini, Marco Venegas y Roberto Cogno
August 6-9, 2007	Francisco Pichón, Pilar Larreamendy, Ana Lucia Jiménez Nieto, Emanuele Santi, Tom Carroll, Mario Castejón, Marco Venegas, Roberto Cogno.
<b>European Commission External Monitoring</b>	
October 28, 2003	Monitoreo Externo (Roberto Canessa)
October 11-14, 2004	Monitoreo Externo (Oscar Avila)
August 31-7 September, 2005	Auditoria Financiera
October 17-21, 2005	Monitoreo Externo (Massimo Canossa)
October 18-25, 2006	Monitoreo Externo (Roberto Canessa)

January 18, 2007	Auditoria Financiera
<b>Internal Reports</b>	
<b>Date</b>	<b>Documents</b>
September 9, 2004	Informe Final Línea Base de las Micro regiones: Cuenca del Río Ángel, Estribaciones Centrales de los Andes, Zona Occidental de los Ríos, Zona Oriental de Loja
January 1-December 31, 2005	Avances Y Logros Del Proyecto De Reducción De La Pobreza Y Desarrollo Rural Local – Prolocal
November 20, 2007	Ayuda Memoria Misión Conjunta Banco Mundial - Comisión Europea
November 2006	Informe De Cierre Del Proyecto Reducción de la Pobreza y Desarrollo Rural Local (documento de trabajo)
April 8, 2007	Fortalecimiento Organizacional y Desarrollo del las Capacidades de Gestión de los Actores Locales – Echeandía
April 19, 2007	Fortalecimiento Organizacional y Desarrollo del las Capacidades de Gestión de los Actores Locales – Jipijapa
April 18, 2007	Fortalecimiento Organizacional y Desarrollo del las Capacidades de Gestión de los Actores Locales – Pueblo Viejo
April- 18, 2007	Fortalecimiento Organizacional y Desarrollo del las Capacidades de Gestión de los Actores Locales – Mira
April 18, 2007	Fortalecimiento Organizacional y Desarrollo del las Capacidades de Gestión de los Actores Locales - Sta. Isabel
April 18, 2007	Fortalecimiento Organizacional y Desarrollo del las Capacidades de Gestión de los Actores Locales – Paltas
April 27, 2007	Fortalecimiento Organizacional y Desarrollo del las Capacidades de Gestión de los Actores Locales Informe Final
<b>Key Consultancies</b>	
<b>CY 2002</b>	Consultoría para la elaboración de índice de fortaleza de las entidades ejecutoras y de las entidades presentadoras de servicios en seis micro regiones
	Consultoría para la implementación del componente de comunicación organizacional
	Consultoría para la implementación del componente de comunicación comunitaria .- IMAGCOM
	Consultoría para la selección de una firma consultora para la Selección de Personal del Proyecto. IICA
	Consultoría para el Diseño e Implementación de la Línea de Base para la Evaluación de Impacto del Proyecto CELA PUCE.
	Consultoría para el diseño de una base de datos de costos unitarios para la formulación y evaluación de subproyectos
	Consultoría implementación del sistema para el centro de información bibliográfica documental sobre el tema de desarrollo
<b>CY 2003</b>	Evaluación de Desempeño del Personal de PROLOCAL
	Diseño e Implementación del Sistema de Información ECUALOCAL (PYDLOS)
	Levantamiento de la Línea de Base en las 4 Micro regiones.- CELA -PUCE.
	Diseño e Implementación del Subsistema de Recursos Humanos
	Desarrollo e Implementación del Subsistema de Monitoreo y Evaluación del proyecto
	Caracterización y selección de Entidades Financieras Rurales en nuevas UTRs.
<b>CY 2004</b>	Edición, publicación, difusión de la revista trimestral DIALOGOS SOBRE EL DESARROLLO
	Evaluación de Desempeño.
	Ajuste a la Metodología de Construcción de PALS
	Subsistema de Adquisiciones
	Sistematización Participativa de Experiencias Relevantes del Desarrollo Local
	Actualización del Manual Operativo

	Estructuración de un Fondo de Segundo Piso para el Desarrollo de las Micro finanzas Rurales en las zonas de Intervención
<b>CY 2005</b>	Diseño Gráfico e Impresión de Pauta Metodológica Planeamiento Local Participativo
	Diseño Gráfico e Impresión de Pauta Metodológica para Planificación, Seguimiento y Sistematización de Iniciativas de Desarrollo Local
	Contratación de Video Institucional
	Facilitación y Sistematización del Taller de definición Ejes de formulación Segunda fase PROLOCAL
<b>CY 2006</b>	Realización de cuñas radiales para difusión de resultados del Proyecto
	Coordinación de Estudios Preparativos y de Diseño del Proyecto de la Segunda Fase de PROLOCAL
	Identificación de la áreas de Intervención de PROLOCAL II
	Evaluación de la Realidad Social Ambiental de territorios Micro regionales para PROLOCAL II
	Propuesta de Fortalecimiento de los Gobiernos Locales y Profundización del Proceso de Descentralización
	Sistematización del Encuentro Nacional de Evidencias del Desarrollo
	Sistematización de Experiencias CARJ Formulación de talentos Humanos AJUPA-
	Sistematización de Experiencias Zona Oriental de Loja Conservación Ambiental con Enfoque Cultural Sembrando Agua
	Sistematización de Experiencias ECA- Iniciativas productivas cacao y maíz
	Sistematización de Experiencias Sur de Manabí, Fortalecimiento de Capacidades Locales Promotores Socioculturales
	Sistematización de Experiencias Zona Occidental de los Ríos-Producción y Conservación Ambiental Abras de mantequilla
	Sistematización de experiencias en la Cuenca del Río el Angel Propuesta de desarrollo Ejes de Intervención, territorio
	Coordinación de Estudios Preparativos y de diseño del Proyecto de la Segunda Fase de PROLOCAL
	Institucionalización de la Propuesta de PROLOCAL II
	Edición, Publicación y Difusión de la Serie, Este es el Ecuador que Queremos y Hacemos
<b>M&amp;E System</b>	
Sistema de Información Gerencial - Seguimiento POA	
Sistema de monitoreo y seguimiento de proyectos	
sistema de monitoreo de convenios	
sistema de adquisiciones	
sistema de talentos humanos	
sistema financiero	
Pagina web	



## ECUADOR POVERTY REDUCTION AND LOCAL RURAL DEVELOPMENT (PROLOCAL) PROJECT

- MICROREGIONS TARGETED BY PROLOCAL
- PARROQUIAS IN MICROREGIONS
- PROVINCE CAPITALS
- NATIONAL CAPITAL

- SELECTED PARROQUIA BOUNDARIES
- CANTON BOUNDARIES
- PROVINCE BOUNDARIES
- INTERNATIONAL BOUNDARIES

