

**PROJECT INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No : AB445

<b>Project Name</b>	Ecuador Urban Poverty Reduction
<b>Region</b>	Latin America and Caribbean
<b>Sector</b>	General water, sanitation and flood protection sector (75%), solid waste management (25%)
<b>Project ID</b>	P083010
<b>Borrower(s)</b>	Government of Ecuador
<b>Implementation Agency</b>	Ministry of Urban Development and Housing
<b>Environment Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD
<b>Safeguard Classification</b>	<input type="checkbox"/> S <sub>1</sub> <input type="checkbox"/> S <sub>2</sub> <input type="checkbox"/> S <sub>3</sub> <input type="checkbox"/> S <sub>F</sub> <input type="checkbox"/> TBD
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### 1. Key development issues and rationale for Bank involvement

Ecuador has gone through years of political instability and turmoil that have contributed to the deterioration of its macroeconomic situation and lack of continuity of government policies. Tensions between Guayaquil, in the Costa Region, the most important commercial center in the country, and Quito, in the Sierra Region, the center of political and administrative power, have resulted in the weakening of central political power and a very unequal urban and regional development.

Ecuador's urban population is growing at a very high rate of 3.6% per year. The largest cities<sup>1</sup>, are growing at an average of 2.3%, while the rate for secondary cities is 8% and most of the tertiary cities are losing population. High population growth in most urban areas coupled with an overall deterioration of the country's macroeconomic situation, has resulted in an impressive increase in the urban share of national poverty<sup>2</sup> from 33% in 1995 to 48% in 1999. Squatter settlements, where living conditions are harsh, have become common in large and medium-sized cities, in some cases housing more than 50% of the population.

The Bank's most recent analytical piece on urban development is a chapter of the Ecuador Policy Notes prepared in December 2002. According to the Note one of the problems explaining the proliferation of squatter settlements is the unaffordability of serviced urban land in Ecuadorian cities, particularly the largest ones. According to analyses by the Ministry of Urban Development and Housing (MIDUVI), in order to reach the lowest population quintile, serviced or partially serviced lots should cost between \$6 to \$11 per m<sup>2</sup>. In Quito land for middle income housing costs \$50-\$60 per m<sup>2</sup>, while partially serviced land in informal -but established- settlements costs \$15 to \$25 per m<sup>2</sup>. Raw land in illegal subdivisions costs \$4 per m<sup>2</sup>, clearly the only price affordable to the poor. With no other option available, poor households opt for illegal

<sup>1</sup> Large cities are defined as those having more than one million inhabitants (2), secondary cities have between 100,000 and 300,000 inhabitants (12) and tertiary cities have between 30,000 and 100,000 inhabitants (57).

<sup>2</sup> Poverty is measured by consumption indicators in Ecuador. The poverty line is the monetary equivalent of one basic basket of goods and services to be consumed in two weeks.

subdivisions where location conditions are adverse from an environmental point of view, access to city services and jobs is difficult, basic services are inexistent, and there is no planning for subdivision consolidation and growth.

The coverage of in-house water and sanitation connections, in these urban areas is very low. Deficits are similar in drainage and solid waste collection services. These shortages translate in considerable additional time and money needed to get water from alternative sources and to dispose of gray and waste waters and solid waste, in alternative sites. The combination of housing and basic services deficiencies also translate in hygiene, health, and environmental problems, as well as high vulnerability to natural disasters. Another important problem in urban squatter settlements is the lack of economic opportunities that force households and individuals to adopt a series of survival strategies involving working in one or more informal jobs, adding young children to the work force, and extended household arrangements for cooking and child care. The Voices of the Poor report in its Ecuador chapter underlines that in the perception of the urban poor, the lack of employment is at the root of their problems: “lack of jobs drives people to crime, limits the educational prospects of children, and denies us proper care at the hospital” (Voices of the Poor, Ecuador chapter, pg 400).

In response to this situation, the GOE, through MIDUVI has prepared a five-year plan (2003-2007) to establish clear strategies in territorial planning<sup>3</sup>, basic sanitation and potable water, and housing. These strategies are supported by two main policy directions: (i) promotion of a harmonious system of cities, with a menu of distinct interventions for each level of urbanization; and (ii) investment in basic infrastructure geared at improving the quality of life of the poorest urban households on one hand, and on the other, at increasing overall local economic opportunities.

MIDUVI’s commitment to these policies is evidenced by: (i) its increased attention to territorial planning, a subject that had been overlooked in previous administrations, but is now considered as the coordinating mechanism for comprehensive spatial interventions; (ii) important efforts to coordinate actions with various ministries, including Public Works, Agriculture, Commerce, Development, Economy and Finance, and Tourism, to avoid duplications and ensure comprehensive development plans; and (iii) MIDUVI’s request to the Cities Alliance Program for possible funding to assist MIDUVI and the Economic Development Bank (BEDE) to coordinate a country-wide series of programs aiming at urban poverty reduction as well as, in parallel, the promotion of sustainable urban development. Finally, IDB and GTZ are supporting various programs and initiatives to help consolidating MIDUVI’s approach.

The proposed operation will support MIDUVI’s policies through comprehensive upgrading of basic infrastructure in the poorest neighborhoods of cities with at least 30,000 inhabitants, as well as technical assistance at the national and local levels in urban land management, municipal finance, urban upgrading project management, and local economic development. The Bank has extensive experience in urban upgrading projects. In the Latin America Region the most recent urban upgrading projects include Guatemala (closed in 1997), Caracas, Bogotá, and Recife (the last three on-going). The lessons learned from these and other similar projects in other regions include: (i) this type of intervention should be integrated in a geographical area to allow complementarities of investments and an overall significant improvement in quality of life; (ii) project ownership by the beneficiary community is an essential pre-requisite that can only be achieved through political, economic, and social empowerment; (iii) appropriate technologies are

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<sup>3</sup> Territorial planning refers to planning in a spatial dimension. Territorial plans include neighborhood plans, city plans, and regional plans.

key to increase coverage with limited resources; and (iv) operations and maintenance are critical to investment sustainability. These lessons will be incorporated in project design.

The operation is in line with the CAS objective to start focusing on urban poverty reduction issues. It also incorporates the recommendations of the Urban Policy Note, using both preventive and remedial approaches. On the preventive side, the Note emphasizes the importance of increasing the supply of affordable land for the very poor through improving the property rights systems, simplifying regulations and building permit processes, and monitoring key land variables in space and time. On the remedial side, comprehensive urban upgrading is the recommended approach, with cost-effective solutions that preserve existing communities. Finally, the proposed project will also directly contribute to target 11 of the Millennium Development Goals<sup>4</sup>.

## **2. Proposed project development objective(s)**

The project aims at improving the quality of life of urban Ecuadorians who live presently in marginal conditions. Specific objectives are to: (i) increase access to affordable land by poor urban households; (ii) increase access to basic urban services by poor urban households; (iii) increase citizen participation in urban development processes; (iv) enhance local economic opportunities at neighborhood level; and (v) strengthen the country's territorial planning system.

## **3. Preliminary project description**

The project would be a specific investment loan with three components:

### **(a) Urban land management**

This component addresses the objective of increasing access to affordable land by the poor. It would finance technical assistance, geographical information systems and technological equipment to: (i) develop and implement a geo-referenced land information system to allow MIDUVI and large to medium municipalities to monitor key land variables such as prices, uses, densities, and building permits, among others; (ii) strengthen the property rights system by simplifying and streamlining titling, cadastre, and registry procedures; and (iii) simplify urban regulations and streamline urban development processes. A fourth sub-component, which will include technical assistance and investments will be an innovative pilot to develop low cost urban settlements through partnerships among organized communities, MIDUVI, and private sector developers. This pilot will cover approximately five large to medium cities.

### **(b) Comprehensive urban upgrading**

This component addresses objectives (ii), (iii), and (iv) through an integrated social and infrastructure intervention in which community participation is a key success factor. It would finance comprehensive investments in poor urban neighborhoods, including: (i) water and sewer connections; (ii) improvement of drainages; (ii) improvement of existing interior roads; (iii) provision of lighting; (iv) construction of community centers and public spaces; (v) environmental mitigation measures; (vi) land titling; (vii) community strengthening; (viii) resettlement in cases of location in risk-prone areas; and (ix) support to local economic development initiatives. This component will complement IDB's Neighborhood Comprehensive Improvement (PROMIB). PROMIB is a \$50 million loan to benefit 45,000 families in cities with more than 30,000

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<sup>4</sup> Target 11: By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

inhabitants. It is estimated that at least 600,000 families live in marginal conditions in urban Ecuador and this component will assist in scaling up MIDUVI's experience so far. The project will work with those municipalities that express interest and fulfill key conditions, including assignment of resources for co-financing, and willingness to simplify municipal ordinances.

(c) Institutional strengthening

This component would finance technical assistance, equipment, and capacity building for improved territorial planning, at all levels, and assist in the development of a national urban strategy. This includes background studies and detailed economic and poverty analyses as well as capacity building for municipalities in financial, administrative and planning methods. It will also finance the start-up and operational costs of the Project Management Unit.

The responsible agency for the project will be MIDUVI, with municipalities taking an active role in the implementation of component (b) and being recipients of technical assistance and capacity building. Another institution was considered as a possible implementing agency, but rejected after careful review of the facts: the Ecuadorian Development Bank (BEDE). BEDE is in charge of promoting municipal development through lending for municipal development projects and technical assistance. BEDE has received support from IDB and the World Bank through the Municipal Development Project, which closed in 1999. Since then, BEDE has become highly politicized and ineffective, all of which translate in low demand of its services by municipalities. Another factor considered in rejecting BEDE as implementing agency is the proposal by the GOE to restructure and fusion various public banks, including BEDE, in one single entity.

BEDE will receive technical assistance in this project to improve its municipal development role. This aspect is crucial for long-term sustainability since it is expected that municipalities will take leadership in urban upgrading projects in the future.

#### **4. Safeguards policies that might apply**

Environmental assessment (OP/BP 4.01)  
Involuntary resettlement (OP/BP 4.12)  
Indigenous Peoples Policy (OD 4.20)  
Natural Habitats (OP 4.04), to be determined

#### **5. Tentative financing**

Source:	(\$m)
MIDUVI	\$5
Municipalities	\$15
Others (contribution by beneficiaries)	\$2
IBRD	\$60
<b>TOTAL</b>	<b>\$82</b>

#### **6. Contact point**

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